EFSD+

Strategic Orientations – 2021-2027

1. Global Europe and the External Action Guarantee

On June 14, 2021 the European Union adopted the Regulation establishing the **Global Europe - Neighbourhood, Development and International Cooperation Instrument (Global Europe)**, which is proposed to be the main financial tool of the EU's international cooperation for the period of 2021-2027. It consists of three pillars: geographic, thematic and rapid-response, complemented by an additional emerging challenges and priorities cushion.

Following the successful implementation of EFSD, which targeted investments in Sub Saharan Africa and the EU Southern and Eastern Neighbourhood countries, a **new European Fund for Sustainable Development Plus (EFSD+)** is set up under Global Europe and given a wider scope. It is an integrated financial package supplying financing capacity in the form of grants, technical assistance, financial instruments, budgetary guarantees and blending operations across Sub-Saharan Africa, the Neighbourhood and Enlargement countries, Asia and the Pacific, and the Americas and the Caribbean.

As regards the guarantees under the EFSD+, they are covered by the broader External Action Guarantee (EAG), for a maximum amount of EUR 53.4 billion, which supports mainly the EFSD+ guarantees, as well as MFA and Euratom.[1]

[2]

This paper addresses the **areas of investments which the EFSD+ will support**, including their legal framework, guiding principles and strategic orientations. These **Strategic Orientations** concern primarily the intended use of EFSD+ budgetary

[1] Numbers in figure represent indicative figures.

guarantees. More specific orientations may be developed for the EU's respective regional blending facilities. The latter shall be complementary and coherent with the former.

2. Legal framework and policy first

The Global Europe defines **the key guiding principles** that should be applied in the implementation of the initiative. According to **Art. 31 of the Regulation**, the EFSD+ shall*:*

- Foster sustainable and inclusive economic, environmental and social development, transition into sustainable value-added economy and a stable investment environment.
- Promote socio-economic and environmental resilience in partner countries with a particular focus on the eradication of poverty.
- Contribute to the reduction of socio-economic inequalities, sustainable and inclusive growth, climate change adaptation and mitigation, environmental protection and management, the creation of decent jobs on the basis of the core ILO labour standards, economic opportunities, skills and entrepreneurship, socio-economic sectors, including social enterprises and cooperatives, SMEs, sustainable connectivity, the support to vulnerable groups, the promotion of human rights, gender equality and the empowerment of women and young people, as well as addressing specific socio-economic root causes of irregular migration and root causes of forced displacement*.*
- Attributes special attention to countries identified as experiencing fragility or conflict, Least Developed Countries and heavily indebted poor countries, including by providing support for institutional capacity building, economic governance and technical assistance.

As defined in Global Europe, **the allocation of funds to be used for EFSD+ operations is based on the relevant programming documents**, in particular the priorities defined therein, and shall take into consideration, inter alia, the specific realities and needs of each partner country or region.

The 'policy first' principle implies that **EFSD+ guarantees will primarily be used to support flagship investments such as Team Europe Initiatives and the main priorities** identified in the policy dialogue with partner countries and reflected in key strategic documents, including:

- Geographic strategic documents for Africa, Latin America Caribbean and Asia-Pacific
- The EU New Agenda for the Mediterranean and the relevant Economic and Investment Plan
- Joint Communication on Eastern Partnership policy beyond 2020 and the relevant Economic and Investment Plan

- Economic and Investment Plan for the Western Balkans[3]

In addition, the Regulation requires the European Commission **to set up investment windows for the use of the EFSD+ budgetary guarantee**[4] and that the choice of investment windows shall be *duly justified by an analysis of the market failure or sub-optimal investment situations.*

The policy first principle will continue throughout the implementation of the programme through semi-annual pipeline review meetings, a mid-term review and continuous consultation between the various stakeholders involved.

3. Key guiding principles

a. Overarching Priorities

The EU programming process has identified a number of thematic priorities (described in section 4) to be included in the following overarching windows:

- Green Deal;
- Global Gateways; and
- Jobs and sustainable and inclusive Growth

Green Deal

Acknowledging that current international pledges and commitments of the Agenda 2030 and its sustainable development goals as well as the Paris objective to keep global warming to 1.5°C within reach, the European Union will deploy budgetary guarantees under **EFSD+ to contribute increasing capital flows towards climate investments** in both adaptation and mitigations in emerging and frontier markets, whilst following the "do no harm" principle for non-climate related investments.

As mentioned in the State of the Union address of 15 September 2021, **tackling the climate crisis is a central focus of the European Commission**, the first major economy to present comprehensive legislation to turn climate goals into legal obligations. President von der Leyen mentioned that the EU will double its external funding for biodiversity, and that Team Europe already contributes 25 billion dollars per year to climate finance but will now propose an additional 4 billion euro until 2027.This commitment has been confirmed in the different Economic and Investment Plans of the Neighbourhood regions and through the developed green agenda for the Western Balkans.

[3] In accordance with IPA III Regulation, the Western Balkans Investment Framework will be responsible for the Strategic Orientations in relation to the Western Balkans.

[4] The Regulation also creates an EIB-dedicated investment window for operations with sovereign and non-commercial sub-sovereign counterparts.

Global Gateways

President von der Leyen laid a particular focus on the next generation of international partnerships, announcing **the new connectivity strategy called Global Gateway**. Recognising the importance of **increasing and improving connections** among Europe and partner countries around the globe, the EFSD+ will be a prominent vehicle for the EU to deliver investments in **infrastructure, exchanging goods and services, connecting people around the world.** This will also include investing in Africa for the establishment of a market for green hydrogen that connects the two shores of the Mediterranean[5]. Investments in **digital, energy, transport and people-to-people** connectivity are needed to support the EU's strategic interests around the world. EFSD+ financing across these sectors will seek to meet the development needs of our partners whilst strengthening their relations with the European Union and contributing also to our own long-term strategic position and resilience. The EU's aim with Global Gateways is to become smarter in its investments, ensuring that the EU's investments create links which make sense both for our partners and for the EU's own strategic positioning.

The Global Gateways strategy to enhance connectivity investments and services around the world lays a strong emphasis on adhering to the **EU's principles of a level playing field, transparency and sustainability**, offering good governance and creating links rather than dependencies. The approach is fully aligned with the UN's 2030 agenda and its Sustainable Development Goals.

Jobs and sustainable and inclusive Growth

The EU keeps a continuous central focus on sustainable and inclusive **economic growth and job creation**. Having a decent job is widely recognised as the best way out of poverty. The **private sector** provides some 90 per cent of jobs in developing countries, and is thus **an essential partner in the fight against poverty**. The European Commission works closely with governments outside the EU to help them develop and implement policies in support of private sector development. It provides substantial grant funding across a wide range of activities, including regulatory reforms, capacity-building and the provision of business development services, with a particular focus on strengthening local micro, small and medium-sized enterprises.

With regional blending facilities and innovative financial instruments such as guarantees, the Commission has been developing new tools for implementing private sector development objectives. The use of **guarantees makes it possible to boost MSME lending** by commercial banks, and risk capital to invest in funds that lend on or invest in small companies. Scaling up of blending in cooperation with development

[5] President of the European Commission Ursula von der Leyen State of the Union address on 15 September 2021 https://ec.europa.eu/info/sites/default/files/soteu_2021_address_en_0.pdf

finance institutions also facilitates the involvement of the private sector as a source of finance.

The European Commission is also working with governments to foster better access to education, health, social protection and inclusion. The use of blending and guarantees can enhance the investment capacity in these areas and thereby contribute to human development and inclusive growth.

b. European Financial Architecture for Development and the Team Europe Approach

These objectives are all consistent with the **European Council conclusions on enhancing the European financial architecture for development (EFAD)**, which stress the urgent need to increase development impact in partner countries and to address the development challenges reinforced by the COVID-19 pandemic. In order to deliver on this ambitious agenda, the Council conclusions encourage the entire European financial development ecosystem (including multilateral and bilateral development banks as well as public and private financial investors), to work together more effectively and efficiently and to strengthen their cooperation in a **Team Europe Approach,** increasing EU visibility. The European Commission intends to use EFSD+ as a prominent collaboration platform to deliver the objectives of the EFAD agenda.

As part of the Commission's Team Europe Approach, **Team Europe Initiatives** are a key component of programming the Global Europe. The Team Europe Approach aims to combine the resources, modalities and tools of EU, its Member States, their agencies and development finance institutions, as well as the EIB and EBRD[6]. Team Europe Initiatives should draw on the full range of respective EU and Member States financing instruments, modalities and resources. The EU programming process is capitalising on this unprecedented cooperation among European actors through the design of Team Europe Initiatives at country, regional and global level, allowing the use of EU and EU Member States budgets under jointly-agreed policy priorities.

In the immediate neighbourhood of the EU (covered by the EU Enlargement and Neighbourhood policies) we will build on a long-established tradition of close collaboration with International Finance Institutions and national development banks that are, along with the Commission, key supporters of policy reforms and investments in our partner countries.

The **EFSD+ Guarantee will build on the Team Europe approach**, showing that the EU collectively is the largest international cooperation partner. On top of EU funds used for guarantee operations, European partners may add their own guarantee schemes or funds. The Team Europe implementing partners for the EFSD+ Guarantee include a

[6] Council Conclusions on Team Europe. April 2021. https://data.consilium.europa.eu/doc/document/ST-7894-2021-INIT/en/pdf

range of European development banks and financial institutions, with other non-European financial institutions that may also become implementing partner as appropriate.

Hence a **coordinated approach among EU DFIs** is actively sought, to maximize capacity to mobilize resources as well as impact in terms of accelerating/globalizing the mainstreaming of sustainable finance, and the use of its related financial products.

4. Strategic areas for investment to be supported by EFSD+ Guarantee

The EFSD+ Guarantee will cover an **ample spectrum of investments across different areas**, encompassing both EIB-dedicated guarantee cover as per Article 36 Global Europe as well as guarantees provided through an "open architecture" on the basis of calls for investment proposals. The EIB dedicated window for sovereign and non-commercial sub-sovereign counterparts will typically have the nature of public goods, often socio-economic infrastructure projects in one or more of the main areas of EFSD+.

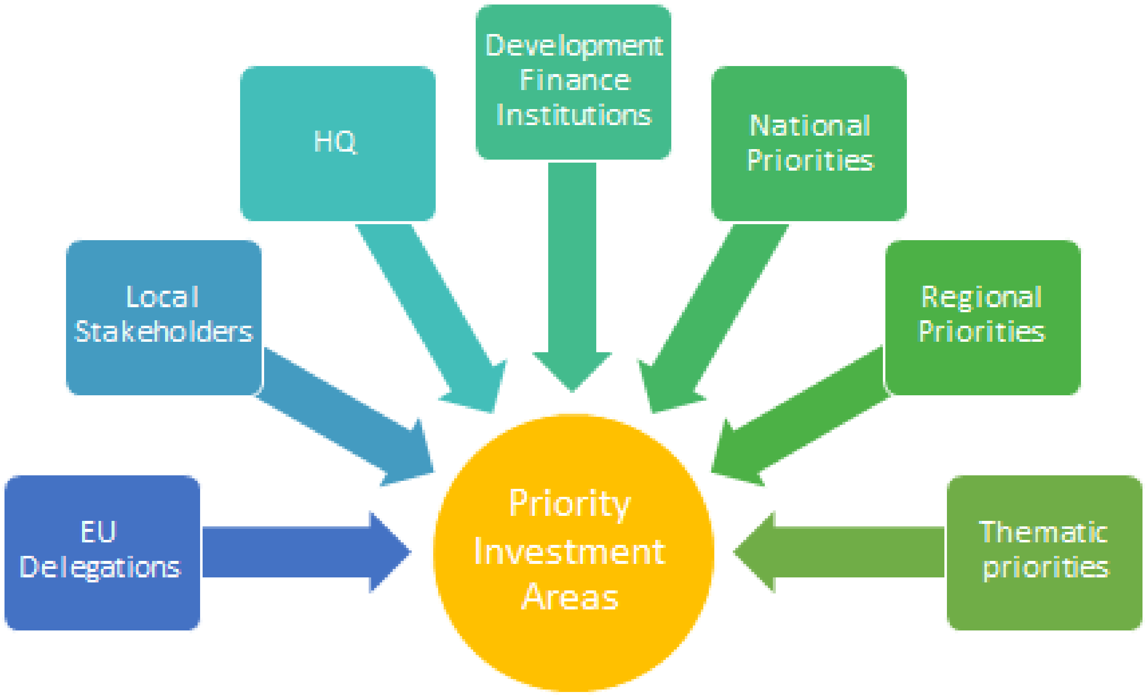
In order **to identify strategic areas for investment**, the Commission has combined the analysis of investment needs and the priorities with the programming process at country level, as conducted by the EU Delegations. **The market intelligence gathered through the extensive network of EU Delegations**, with the support of MS DFIs, has been instrumental in this process.

This approach has **resulted in the identification of Investment Matrices**, where the different priorities have been preliminarily matched with different type of investments to be supported under EFSD+ Guarantee (see below).

The assessment has been further refined and enriched through dedicated analyses of specific sectors and regions via various channels. For the EU Southern and Eastern Neighbourhood and Enlargement countries (Western Balkans and Turkey), an *Analysis of market failures in pre-identified areas and sectors* was conducted for the planning of EFSD+, which allowed to have a deeper understanding of key bottlenecks hampering investments in three areas and explore possible use of budgetary guarantees to address them.

The EFSD+ shall contribute to address identified market failures by calibrating the level of support provided at concessional terms, avoiding market distortion and contributing to create sustainable and inclusive market dynamics.

The outcomes of this analysis has been reflected in the strategic areas for investment to be supported by EFSD+ Guarantee.



Moreover, the EFSD+ will be a vital instrument towards the overall targets on **horizontal objectives of Global Europe**, mainstreaming them in all investments areas supported by the EFSD+. These targets include investment towards addressing climate change, addressing specific socio-economic root causes of irregular migration and root causes of forced displacement, gender equality and womens' and girls' rights and empowerment; the doubling of investments towards biodiversity, for human development, and other targets.

To pursue these objectives, the EFSD+ Guarantee is implemented through **"open architecture" investment windows, that respond to the strategic investment areas**. Eligible Financial Institutions are invited to submit Proposed Investment Programmes (PIPs) on which basis the Commission will select the most relevant ones taking into account the nature of the guarantee product and its envisaged geographical coverage.

It is to be noted that EFSD+ allows for multi-regional PIPs, particularly including regions covered under the Global Europe and IPA III instruments.

The investment areas that will be covered by the windows are below outlined.

(1) Micro, Small and Medium Enterprises (MSMEs)

Micro, small and medium-sized enterprises (MSMEs) play a key role in the development process and contribute to a substantial proportion of total employment and national income. In emerging and frontier markets, MSME generate on average 70% of formal employment and about 40% of value added.

Gaps and deficiencies in the economic structure influence both formal and informal MSMEs capacity to grow and their potential to further contribute to job creation.

Common challenges are:

(i) lack of access to affordable sources of debt and equity financing, tailored to the needs of different types of businesses.

(ii) lack of adequate technical, professional and/or managerial skills (an impediment also when trying to meet international environmental and social standards).

(iii) limited infrastructure and limited market access.

(iv) non-conducive investment climate and business environment framework and good governance standards.

Additionally, across all regions informality remains present (although varying from region to region) and poses extra barriers and difficulties for the development of enterprises and their access to financial services.

This investment window will support reconciling demand and supply of financial products by covering a wide spectrum of services for different unserved or underserved beneficiaries. It shall unlock opportunities to attract private investments into MSMEs as well as potentially de-risk local financial institutions portfolios, mobilise domestic savings and deposits, finance from the private sector, from foundations and/or remittances, into investments and lending that help reduce existing financing gaps.

EFSD+ guarantee will support access to affordable finance for MSMEs at their various stage of development, with a particular attention to most vulnerable groups of entrepreneurs, including women and young people. EFSD+ will also support the digitalization and greening of SMEs while supporting entrepreneur and development of Startup ecosystems.

EFSD+ will also support access to market, the objective being to foster integration of relevant local companies to European value chains, through compliance to EU standards, and helping them to meet Environmental, Social and Governance (ESG) standards, and the promotions of European Equity investment. This support will help companies to seize opportunities stemming from nearshoring trends and from the raising attention paid to ESG compliance in European value chains.

As a result, it will be enhancing MSMEs financing to generate inclusive growth and stimulate sustainable job creation and develop circular economy in partner countries.

(2) Connectivity: Energy, Transport and Digital

2.1 Energy

EFSD+ will support green transition plans in partner countries, de-risking private and public investments that are required to meet National Determined Contributions (NDCs) targets, whilst addressing renewable energy, energy efficiency as well as energy transmission, distribution and storage systems harnessing the potential of the employing digital solution to improve transparency, efficiency and resilience.

A massive deployment of renewable energy generation capacities requires the development of grid interconnectors, in view of balancing intermittence challenges related to renewable energy. EFSD+ will therefore support electricity interconnections.

EFSD+ support would be required to stimulate the private sector investment and funding by reducing risks as well as to mobilise sub-sovereign investments in order to have a catalytic impact on low-emissions and climate-resilient inclusive economies as well as just energy transition with enhanced energy access and green job creation, leaving no one behind.

Investments supported by the EU guarantees shall respond to the specific situation and needs of a given country or region, respect social, fiscal, ethical and environmental internationally recognised principles, including gender equality and zero pollution approach, and ensure sustainability.

2.2 Transport

A reliable core network in roads, railways, waterways and other solutions to ensure efficient links within countries, regions and between them, and to further connect the EU with its neighbours, to support the improvement of logistics systems, include digital transport technologies, remove infrastructure and non-infrastructure bottlenecks, and promote greener transport modalities.

EFSD+ will help enhance transport by key air, road, rail and inland waterway and seaports connections and logistics centres to stimulate economic development, market integration and cross-border trade within regions.

Furthermore, the rehabilitation of airports, seaports and smart mobility concepts are measures to stimulate economic development, market integration and cross-border trade within a region and across regions, as well as with the European Union. Measures shall contribute to the greening of the connectivity sector, based on a sustainable transport model.

2.3 Digital for Development

Digital technologies have become indispensable for our societies and our economies. Approximately 4.5 billion people across the globe use the internet and more than half of the world's total population is using social media, with large "divides" between countries.

The European way to a digitalised economy and society is about solidarity, prosperity, and sustainability, anchored in the empowerment of its citizens and businesses, ensuring the security and resilience of its digital ecosystem and supply chains. To this end, closing the various digital divides will be key in unlocking the full potential of digitalisation to bring societies and economies closer together, while fostering an enabling environment for them to thrive in a digital world of the future. In recent times, the COVID-19 pandemic has had a catalysing effect on digital transformation across the globe, prompting its adoption in some parts of the world, but also deepening digital divides in others.

Digital transformation can be a catalyser for a sustainable recovery and development, fostering innovation while bringing economic growth and quality jobs. It can help close the gap between citizens and governments, while creating a digital bridge with the world; equip citizens with digital skills and provide digital services; it can support achieving the objectives of the Paris Agreement on climate change, as fundamental enabler of the green transition; it can promote a more responsible and human-centric digital governance.

The EU will also launch the Global Gateway to increase the connectivity links between Europe and the world, as well as broadband access in partner countries.

Through EFSD+, three key aspects of the digital transition will be addressed: support digital connectivity, foster the digital economy, and improve digital inclusion. On digital connectivity, priorities relate to investments to enhance the availability of ubiquitous and high bandwidth telecommunication infrastructure (and ensuring the take-up of the EU digital connectivity toolbox principles) in view of tackling the digital divide and enhancing digital connectivity between the EU and its partners. On the digital economy, priorities relate to supporting companies active in the digital sectors to realise their growth potential, and to support the digitisation of traditional companies, with a particular focus on e-commerce. On digital inclusion, a priority will be given to promote inclusive access to digital infrastructure domestically, education, access to e-services (ie reaching out underserved segments).

The EFSD+ shall also contribute to an ample spectrum of investments, including the improvement of ICT infrastructure, the development of digital services and support to innovative digital solutions for private businesses and start ups.

(3) Sustainable Agriculture, Biodiversity, Forests and Water

3.1 Sustainable Agriculture, Biodiversity and Forests

According to the UN, around 1.2 billion people are living in extreme poverty, which means that they are living on USD 1.25 or less per day. Three out of four of these people live in rural areas and the vast majority of them make a living from agriculture or occupations linked to agriculture.

The agriculture sector is coming under pressure from growing water scarcity, poor natural resource management and climate change impacts that can affect production. These pressures imply that agricultural production will increasingly need to adopt climate-smart production methods, which make more efficient use of resources and are more resilient to climate change.

Agriculture is not only affected by climate change but has a significant effect on it, as globally agriculture, land-use change and forestry are responsible for 19-29% of greenhouse gas emissions. Furthermore, agricultural expansion is often associated with natural resource depletion, which in some cases leads to desertification and ecosystems degradation. This is an urgent global issue, as more than 1 billion people in some 100 countries face risks related to the effects of desertification. Water scarcity does not only make it difficult for a population to ensure a sustainable food supply, but it is also a major burden for economic growth.

Agriculture is also a leading driver of biodiversity loss, which in turn negatively affects yields and the sustainability of food systems. Forests and woodlands can have a central role in climate change mitigation and adaptation.

Thus, investment seeking to increase production will need to reflect these concerns by focusing on sustainable, climate-smart production systems and methods – such as agro-ecology – as drivers of growth in the agriculture sector. This should include a focus on promoting circular business models within the value chains of agri-food systems.

Resilience to climate change and to adverse weather events also needs to be enhanced, both at the enterprise and country level. They need to take account not only of climate variability but also of the expected impacts from climate change.

EFSD+ will target the agriculture, fisheries, conservation, forestry and other land use sectors enhancing sustainable development. This will improve food security, address climate risks and contribute to halting and reversing the loss of biodiversity and ecosystem services. It will also help countries deliver on their commitments to implement the Paris Agreement on climate change, the post-2020 Global Biodiversity Framework1 and to achieve Land Degradation Neutrality.

It will contribute to ending hunger, achieving food security, improved nutrition and promoting sustainable agriculture whilst protecting, restoring and promoting the sustainable use of terrestrial and aquatic eco-systems. EFSD+ will help catalysing investment in sustainable agriculture, biodiversity and forests through the whole value chain, from production, to transformation and logistics, and contribute to addressing the growing issue of water scarcity, poor natural resource management and climate change impacts that can affect production and food security (Food-Water-Energy nexus).

3.2 Irrigation, Water and Sanitation

Combat climate change with investment addressing mitigation, supporting access to water and sanitation for all are fundamental in reducing poverty and foster the transformation to competitive low-carbon and climate-resilient inclusive green economies.

This has been confirmed at global level by the 2030 Agenda and the Paris Agreement, at EU policy level by the European Consensus on Development.

There is also growing recognition of the crucial contribution of water-related investments to climate resilience, to circular economy and to building-back-better in response to the global COVID-19 pandemic. The EFSD+ will enhance universal and equitable access to safe and affordable water, sanitation and hygiene in the main cities as well as peri-urban and rural areas including reducing water losses, strengthening resilience towards climate change as well as opening new renewable water source..

(4) Sustainable Cities

The choices made by municipal authorities about urban infrastructure in the coming decades, either in terms of urban planning, energy efficiency, energy production or transport, will have a decisive impact on poverty alleviation, economic growth and greenhouse gas emissions. The demographic challenge which concur to an effective poverty-aggravating factor as more than half of the world's population (3.9 billion people) currently lives in cities. UN estimates that in 2050 two thirds of people will live in cities.

The economic challenge generated by the concentration of GDP in urban areas (80% of global GDP, 88% by 2025 estimates). Most of the housing and infrastructure needed for an increasingly urbanised world has yet to be built. Supporting investments by municipal authorities in enabling infrastructures is key to economic growth and poverty alleviation. Climate and environmental change have significant collateral effect: whilst cities cover a small part of the world, their physical and ecological footprints are much larger. Research indicates that they consume more than two-thirds of energy production and account for up to 70% of energy use and 80% of Greenhouse Gas emissions, as well as being significant sources of air and water pollution and waste generation.

These impacts are set to rise over time as a result of pressure from increasing urbanisation and climate change. At the COP21 in Paris, more than 450 cities with a combined population of nearly 1bn people pledged to reduce emissions by more than 50% in around 15 years, but a small percentage of them have the financing, analytics or capacity for implementing policies fostering a transformative shift towards an effective climate-resilient low-carbon economy and society. Beyond public funds, which remain key to build on the concept of sustainable cities and properly address investment needs and maintenance of municipal infrastructure, the private sector must play a larger role as a technology provider but also as a co financier and municipalities partner.

Results do not meet expectations when it comes to developing Public Private Partnerships (PPP), due to regulatory and also risk related issues. Typically, municipal services tend to lack viability, lack investments and knowledge to optimise operations. On the one hand revenue streams are regularly affected by losses in/illegal connexions to the technical networks. On the other hand, economic models of municipal public services are not attractive for potential private partners as end user tariffs appear to be significantly below cost recovery levels.

There is a broad need to increase municipalities' currently limited capacities to access to sufficient, long-term financing and credit, and to improve its capacity to better operate municipal services. The market for long-term municipal borrowing has a relevant growth potential, banks need an enabling financial and economic environment to improve their potential to offer loans matching the economic life of assets and their acceptance to take sub-sovereign risks. Meanwhile, debt sustainability concerns need to be addressed.

EFSD+ will support sustainable and green urban development as a way of contributing to economic and social development, countering inequalities and promoting inclusivity. EFSD+ will combine support in different areas, from sustainable urban mobility to urban governance and smart cities; urban economic growth and decent work opportunities; broader quality of life for citizens increasing and improving access to basic urban services.

(5) Sustainable Finance and Impact Investing

The Addis Ababa Action Agenda on financing for development was already off track before the pandemic struck. COVID-19 has dramatically increased development needs, with 2020 marking the first increase in poverty since 1998.

At the same time, development finance is under extreme pressure and at risk of decline. The annual EUR 2.1 trillion SDG financing gap in Emerging Markets and Developing Economies (EMDEs) has increased tremendously due to COVID-19, reaching EUR 3.6 trillion.

Given the scale of the financing gap, there is a need to mobilise financing from all sources, including domestic and international private capital. Over EUR 322 trillion of total assets in the system are held by banks, institutional investors and asset managers, but they continue to fuel inequalities and unsustainable investments. Institutional investors (pension funds, insurers, sovereign wealth funds), asset managers, and others (philanthropic organizations, family offices) have nevertheless shown an increased interest in impact investing in recent years. IFC estimates the market size for total assets of impact investors in 2019 to be USD 505 billion. Adding in other funds and DFIs with impact objectives, the total market size could be slightly over USD 2 trillion.

Capital markets are crucial sources of long-term funding to help close SDG financing gaps and mobilise capital for sustainable development. Several thematic financial instruments have been developed to accelerate sustainable development - broadly defined as “Sustainability-related financial instruments”. Among them, “Green, Social and Sustainability bonds” finance projects that are contributing towards the SDGs, while “Sustainability-linked bonds” are performance-based products where finance raised is for general purposes but the interest rate varies based on the achievement of predetermined sustainability performance objectives.

The EU has become a frontrunner in that regard and the first worldwide green bond issuer and it is uniquely positioned to support sustainable finance and to promote sustainability-related financial instruments across the world and especially in EMDEs.

In this context, Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs) must continue to play an active role in scaling up sustainable finance and catalysing private investors, given their role as market enablers, anchor investors, and standard setters.

EFSD+ will contribute to fill the SDG financing gap by mobilising private investment at scale whilst delivering high quality and measurable impact (climate, environmental, economic and social). It will do so by supporting innovative financial instruments (such as green/blue/social/gender bonds, including other sustainability-related instruments / vehicles / funds such as syndication platforms, SDG structured funds, among others) generating significant flows of capital towards emerging and frontier markets.

(6) Human Development

Promote and support access to health, education, employment, social protection/inclusion and other social services for all, contributing to the eradication of poverty and tackling inequalities.

The notion of human development refers to the physical, cognitive and psychological evolution of human beings throughout their lifespans. It consists of the development from infancy, childhood, and adolescence to adulthood, which is condition sine qua non to achieving all the Sustainable Development Goals (SDGs) and unlocking the next stage of global growth and prosperity. Investments in human development are vital for delivering on people's human rights and for improving the wellbeing of individuals and societies. The European Pillar of Social Rights, in line with the SDGs, provide an inspiration and guidance for the EU external action, including EFSD+. The Addis Ababa Action Agenda opened new ways to foster additional investment and mobilise private sector energies in complement and synergy with public sectors. The EFSD+ Guarantee can contribute to these tools, based on strict additionality and non-displacement criteria in relation to services provided by governments.

During the COVID-19 crisis, the EFSD Guarantee made vital contributions to help accelerate the procurement of vaccines for low- and middle-income countries, notably through the COVAX guarantee programme (implemented by the EIB with a full EFSD guarantee). Going forward, it will be essential to enhance partner countries' preparedness for future pandemics, for example by enabling local diagnostic and vaccine manufacturing capacity. It is expected that the EFSD+ Guarantee can play an important role also in this effort.

Access to education, health, decent work and social protection are basic rights that the EU wants to promote in its external action. In addition, investment in education and health has been a significant driver of inclusive growth, as expanding access to quality basic education and health services increases the human capital stock and decreases inequality in education and health outcomes. This, in turn, increases productivity and growth and reduces inequality of opportunity and income. Similarly, social protection spending, by redistributing income from higher-income to lower-income groups, directly decreases income inequality, including by making lower-income groups better included in society and more resilient to economic shocks and promoting investments through addressing liquidity constraints. In addition, social protection can be instrumental in promoting growth, helping to build public support for macroeconomic and growth-enhancing structural reforms by protecting vulnerable groups from any adverse short-term impacts of such reforms.

Essential social services are currently delivered worldwide by pluralistic systems mixing formal providers in the government, private for- and not-for-profit sectors, as well as a number of informal providers. In Sub-Saharan Africa, for instance, 51% of health services on average are procured through market mechanisms. Contributing to human development involves a broad array of actors including micro, small and medium size enterprises (MSMEs), large corporations, philanthropic organizations, or global health initiatives. A high degree of inter-connection is observed between local, national and global market actors.

Social sectors experience market failures that crises exacerbate, including inter alia:

- Fragmented approaches and a focus on infrastructures (hospitals, schools, etc.) instead of systemic approaches (incentives to human resources, comprehensive policies, data, integrated supply chains, etc.)
- Limited access for less privileged populations to basic health, social protection, nutrition or education services as compared to other goods and services.
- Decisions based only on individual needs are likely to result in sub-optimal funding patterns, as some services – such as vaccination – have wider societal benefits.
- Information asymmetry between service providers and users that can make them vulnerable to abuse of provider power and/or reduce the level of trust that they have in providers.
- Unequal access to capital and business practices may facilitate anti-competititve behaviour resulting in prohibitive prices.
- Informality, lack of decent working conditions, low social protection coverage, low-skilled populations, etc.

Although governments play a central role in guaranteeing and also in the provision of human development sectors, they cannot realistically be filled in the short to medium term only through increased domestic public resource mobilisation, even if complemented with development assistance grants. Furthermore, addressing market failures will require significant investments by enterprises and actors in the social economy, combined with better planning, regulation capacity and public-private partnerships (PPPs). Combining the opportunities that programming offers, there is a need for a coherent use of all the EU financial instruments to secure adequate funding for human development and ensure private and public investments complementarity.

EFSD+ will support human capital in its partner countries following a three-pronged approach covering

1) Social infrastructure will focus on social housing, hospitals, education premises, etc.
2) Social services (including health, childcare, elderly care, employment, etc.)
3) Social protection (support to finance social protection schemes)

Mobilising impact finance, support to mutualistic organisations, credit unions, cooperatives, associations, CSOs involved in revenue-generating activities, diaspora finance will be considered as well as the support to social impact bonds.. This will support the wider involvement of the civil society and the private sector by encouraging innovative solutions, promoting social entrepreneurship to tackle social challenges. Financial instruments will be used to attract private funds that target social needs (impact finance), in close partnership with International Financial Institutions (IFIs).

Strategic Board opinion

The Strategic Board is invited to provide its opinion on the above strategic orientations, including the proposed areas for EFSD+ investment windows.