KARADENİZ İHRACATÇI BİRLİKLERİ
GENEL SEKRETERLİĞİ

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E-POSTA

KARADENİZ İHRACATÇI BİRLİKLERİ ÜYELERİNE SİRKÜLER
2022/261

Sayın üyemiz,

Dışişleri Bakanlığının bir yazısına atfen, Türkiye İhracatçılar Meclisinden alınan 07/06/2022 tarih 133-1429 sayılı yazıda;

Katılım Öncesi Yardım Aracının (IPA) 2021-2027 yıllarını sair üçüncü döneminde, Avrupa Birliği'nin (AB) ortaklık içerisinde olduğu ülkelerdeki yatırım projeleri için Avrupa Sürdürülebilir Kalkınma Fonu Artı (EFSD+) kapsamında garanti desteği sağlayabileceği, EFSD+ mekanizmasından faydalanabilmenin ön koşulu doğrultusunda, Avrupa Komisyonu tarafından C(2022)1895 sayılı Kararla Türkiye Yatırım Platformunun (TYP) oluşturulduğu, anılan yazının devamında, IPA III döneminde ülkemizde kamu sektörü, belediyeler ve özel sektörün faydalanıcısı olacağı TYP'nin, söz konusu sektörlerde Uluslararası Finans Kuruluşlarıyla (IFI) yürütülen yatırım projelerine AB'nin garantilerle taraf olacağı bir mekanizma olduğu bildirilmektedir.

Aynı yazıda devamla, Avrupa Komisyonu tarafından Nisan ayı içerisinde AB'ye akredite tüm IFI'lar nezdinde TYP mekanizmasının ilk çağrısının yapıldığı, IFI'ların söz konusu cağrıya yönelik oluşturacakları proje portföylerini en geç 12 Temmuz 2022 tarihinde Komisyon'a iletmelerinin beklendiği, bu minvalde özel sektör kuruluşlarının IFI'larla birlikte oluşturacakları proje portföylerine dair akredite IFI'larla irtibatta olmalarının önem arz etmekte olduğu, söz konusu çağrının Avrupa Komisyonu tarafından açılan "TYP Yatırım Pencereleri"nin, *Bağlantısallık: Enerji, Ulaştırma ve Dijitalleşme, MSME Finansmanı: Kapsayıcı ve Yeşil Büyüme, İstihdam, Sürdürülebilir Tarım, Biyoçeşitlilik, Ormanlar, Su ve Doğal Sermaye, Sürdürülebilir Şehirler, Sürdürülebilir Finans, İnsani Gelişim* olduğu belirtilmekte olup, Avrupa Komisyonu tarafından iletilen EFSD+ Stratejik Yönelimler (2021-2027) Belgesi Ek-1'de ve söz konusu alt TYP Yatırım Penceresi'ne dair detaylar Ek-2'de yer almakta olup, Yatırım Pencereleri bazında yer alan tahsisatların endikatif olacağı ve tahsisat olmamasının proje yapılamayacağı anlamına gelmemekte olduğu ifade edilmektedir.

Bilgilerinize sunarız.

e-imzalıdır
Sertaç Ş. TORAMANOĞLU
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EKLER:
EkI: EFSD+ Stratejik Yönelimler (2021-2027) Belgesi (17 Sayfa)
EkII: TYP Yatırım Pencereleri (159 Sayfa)

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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

<u>Green Deal</u>

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+.

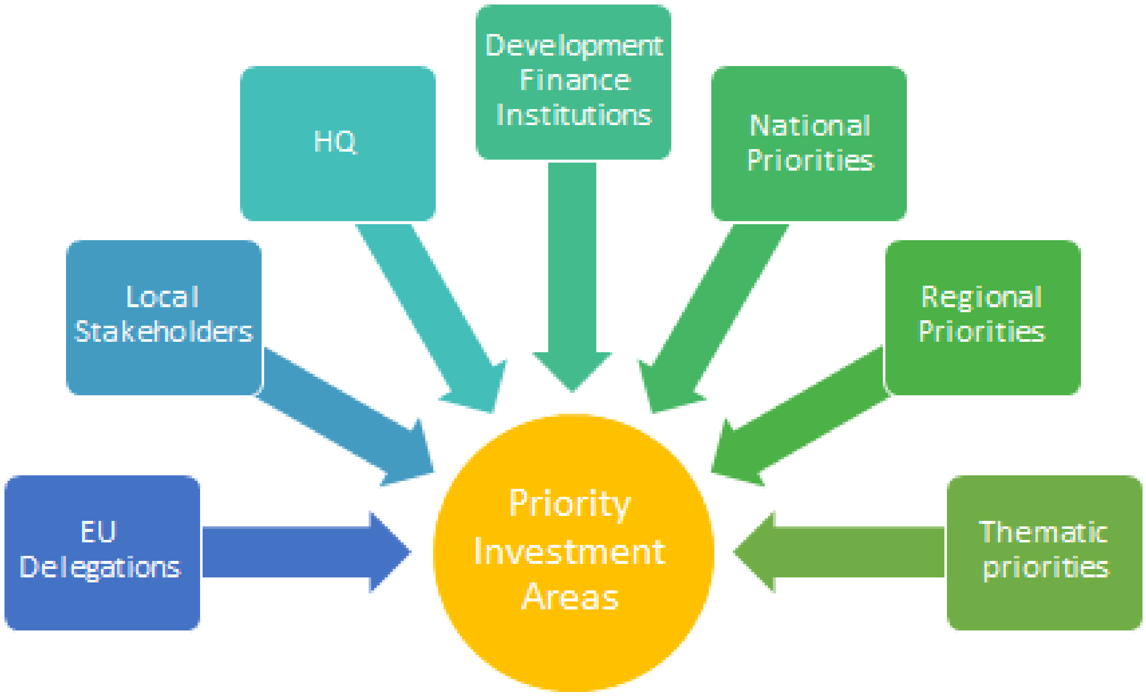
In order **to identify strategic areas for investment**, the Commission has combined the analysis of investment needs and the priorities with the programming process at country level, as conducted by the EU Delegations. **The market intelligence gathered through the extensive network of EU Delegations**,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

European Fund for Sustainable Development+ (EFSD+) Guarantee Investment Window – Human Development

POLICY RATIONALE

BACKGROUND ANALYSIS

1. Human development plays a key role in the sustainable development process.

This window will cater investments in human development, which are vital for delivering on people's human rights and for improving the wellbeing of individuals and societies. Inequalities in access to affordable health, care quality education (including TVET), and nutrition, early childhood and elderly development, coupled with persisting gender and natural resource access and resilience inequalities remain a major brake on human development. Investments in human development are vital for delivering on people's human rights[1][2] and for improving the wellbeing of individuals and societies. Human development should also care for the investments in science, research and innovation.

The rationale in supporting investment in human development is two-fold:

- Firstly, data shows that public investment in health and education has been a significant driver of inclusive and sustainable growth as it increases the human capital stock and decreases inequality in education and health outcomes while increasing productivity and growth and supporting a green transition, and reduces inequality of opportunity and income.
- Secondly, better human development outcomes 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.

2. Access to finance is a key bottle neck.

Spending in human development, however, needs to be efficient and sustainably financed, which requires effective public financial management (PFM) systems to ensure good governance through appropriate budget formulation, execution, and monitoring. Increased spending should therefore be supported (and ideally preceded) by measures for enhancing PFM systems and spending design.

Essential health care and education 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[3]. 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.

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[1] REGULATION (EU) No 235/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL - of 11 March 2014 - establishing a financing instrument for democracy and human rights worldwide (europa.eu)

[2] The EU Action Plan on Human Rights and Democracy 2020-24 - Online Discussion - European External Action Service (europa.eu)

3 With subregional variations: from 34% in Eastern Sub-Saharan Africa (SSA) to 71% in Western SSA. 2017 data by IHME (https://vizhub.healthdata.org/fgh/). Development Assistance for Health contributes a mean 13% across SSA, ranging from a low 4% in Southern SSA to a high 35% in Eastern SSA.

3. The challenges in Human Development are multiple and multi-dimensional.

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 providers and clients that can make users 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-competitive behaviour resulting in prohibitive prices.
- Informality, lack of decent working conditions, low social protection coverage, low-skilled populations, etc.

4. Action is needed.

Although governments play a central role in guaranteeing and also in the provision of basic social services, funding gaps for social and human development sectors 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 and green 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 investment in human development and ensure private and public investments complementarity.

EU POLICY OBJECTIVES

The Human development investment window is in line with the commitment made by the EU and the Member States to increase their official development assistance (ODA) for social inclusion and human development, commitments related to climate action and biodiversity financing, the thematic component of the Global Europe regulation[4], and the priorities from the EU programming process. In the European Neighbourhood, Guarantee proposals shall fit within the policy framework and Economic Investment Plans for the neighbourhood (Eastern[5] and the Southern[6]), the Western Balkans[7] and Turkey.

We refer to Annex 2 for further detail on policy frameworks relevant to the investment window.

Regional and Country MIPs are the translation of these objectives into programming documents, capturing the policy priorities and prioritising them in their specific subregional and country contexts.

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[4] Publications Office (europa.eu)

[5] Joint Communication: Eastern Partnership policy beyond 2020: Reinforcing Resilience – an Eastern Partnership that delivers for all - European External Action Service (europa.eu)

[6] Renewed partnership with the Southern Neighbourhood - A new agenda for the Mediterranean - European External Action Service (europa.eu)

[7] Western Balkans: An Economic and Investment Plan to support the economic recovery and convergence (europa.eu)

As such, they also define the priorities for EFSD+ supported investments and should therefore be the basis for ensuring the policy first principle for EFSD+ supported investments.

Specific attention should be paid to the Team Europe Initiatives (see annex 2). They are built around EU political priorities at country and regional level and provide direct guidance as to where the EU and the EU Member States will be focusing their cooperation efforts in a given context. This political prioritisation will also be reflected in the future choices of operationalising funds channelled via the EFSD+ windows. As Team Europe Initiatives provide a frame around which European funding instruments and modalities coalesce, project proposals that support TEIs have to be the preferred option to ensure we achieve our policy goals.

Furthermore, an overview of the relevant flagship initiatives is provided in annex 2.

OPERATIONAL CONCEPT

OVERALL WINDOW OBJECTIVES

General Objective

The objectives of the Human Development Window (HDW) are two-fold:

1. Boost support to human development by using ODA funds to leverage additional financing. The window will generate investment cases for human development, particularly when and where the market would fail to equitably fully deliver on its own and governments are unable to correct those failures through regulation or public provision (for instance because the potential beneficiaries lack purchasing power or the market is too small or not commercially viable, despite offering high social returns).
2. Spark the essential collaboration with the private sector and active IFIs in this space in order to deliver innovative and sustainable solutions.

The EFSD+ does not seek to replace services provided by governments and proposed guarantees should foresee suitable safeguards in this regard.

Investments addressing the effect of the war in Ukraine could also be covered within this investment window.

Specific objectives

A HDW will bring additional advantages:

- It will seek to align projects to the EU policy-first principle and obtain greater coherence of EU external operations on human development core challenges. For instance, support to investments under EFSD+ will be fully integrated in the programming of Global Europe and Instrument for Pre-accession Assistance III resources.
- It will open up opportunities for strengthening the *Team Europe* approach, e.g. by further coordinating the action of EU Development Finance Institutions involved in the financing of human development, and seeking greater brand recognition and visibility. One example of an incipient initiative could be the Sustainable Healthcare Industry for Resilience in Africa (SHIRA). Likewise, Sweden has experience in the use of guarantees for healthcare (notably in the context of reproductive health commodities).
- Projects under the HDW would contribute to increasing the knowledge base on public-private partnerships (PPPs). It could establish the EU as an innovation leader in this important field, aiming to foster and accelerate long-term systemic change, while strengthening partner government's capacity to engage with private actors and innovative funding mechanisms to

promote human rights-based approaches, mainstreaming of gender equality and ensuring equitable access to affordable services of quality.

- A shared risk approach adequately involving country sectoral (health, education…) and economic authorities will incentivise increased domestic funding.
- Investment under this window will seek to contribute to the EU climate and environment objectives, reflecting the ambition of the European Green Deal and sustainable finance agenda.

INDICATIVE SECTORS OF INTERVENTION

Based on the indications of the programming exercise, and in consultation with thematic and geographic units, the HDW is open to actions –primarily– in these main sectors: **health, education, nutrition and social protection, including social infrastructure**. Interactions among human development sector (**cross-sectorial** solutions) and support to **gender equality** will be encouraged within this window. Culture and creative industries will also be covered for areas not addressed in other windows.

Complementarities with other windows will be sought.

Health

Almost all countries have mixed health systems, with goods and services provided by the public and private sector, and health consumers and patients requesting these services from both sectors. Therefore, efforts towards UHC cannot ignore the private sector. *The private sector's involvement in health systems is significant in scale and scope and includes the provision of health-related services, medicines and medical products, financial products, training for the health workforce, information technology, infrastructure and support services* (Clarke, 2019). Private sector engagement needs to be seen in light of health systems strengthening (HSS) and UHC, two main policies pursued by INTPA.

With more than 5 million deaths worldwide by December 2021[8], the COVID-19 pandemic has revealed that prevention of and preparedness against health threats, local manufacturing of health products and technologies, and health systems resilience are of the utmost importance, combined with environmental resilience actions. Crucial investments in these specific areas by both governments and private actors have been insufficient, despite Resolution WHA63.27 urging WHO Member States to assess the advantages and disadvantages of private health care delivery, and map and strengthen where necessary the regulatory capacity of government departments and NGOs.

New approaches are thus needed particularly in the developing world, where government resources remain limited. In those countries, the quality of care provided is often poor with a health system that is deficient in material and human resources due to limited resources being allocated and/or low levels or inefficiency of public spending or use. It is recognized that public health functions (particularly primary health care functions) and regional health coordination require more investment as well as a multisectoral action to improve the efficiency of the health sector. By addressing these health care needs it will be possible to foster a healthier population who then will be able to participate in the country's economic development. Furthermore, disease prevention is essential in partner countries where new challenges brought by economic development such as pollution, climate change, nutrition, hygiene/WASH and wellbeing risk having a huge impact on non-communicable diseases. Building resilience is also needed when it comes to increasing environmental and climate issues such as floods and other extreme weather events, insects, rodents and other pests capable of transmitting diseases.

[8] WHO (2021), Coronavirus Dashboard.

Given the debilitating effect of corruption on the health sector, it is crucial that mitigating measures are taken, including but not limited to open information on health budgets, transparent procurement procedures, effective complaints mechanisms, and beneficial ownership data on companies receiving government contracts/investment.

Proposed areas of intervention in health include:

- Local **manufacturing of vaccines, medicines, and medical technologies**, combined with support to pharmaceutical systems in the context of UHC.
- Enhancing and strengthening **health services**, including public health workforce capacities on disability inclusive service delivery as well as primary healthcare (PHC) or diagnostic services (e.g. building on the experience of the African Health Diagnostics Platform and the European Health Platform), public health workforce capacities on disability inclusive service delivery as well as disease prevention.
- Healthcare infrastructures, provided that the sustainability of the projects and the reinforcement of the health system is duly justified.
- Tackling **non-communicable and communicable diseases** (COVID-19, malaria, HIV, TB, polio, NTDs, etc.) and supporting **preventive action** (through multisector interventions, e.g. on nutrition, water access and sanitation, environmental management, etc.)
- Strengthening support for global access and distribution of **COVID-19 tools**, e.g. through COVAX, AVAT, ACT-A, or similar initiatives.
- Enhancing health systems through **innovation (e.g. impact investment, social impact bonds,** etc.), **data and digitalisation** (i.e. telehealth and telemedicine).
- Production/innovation of **affordable assistive technologies** (e.g. for health and disability)
- Complementing product development and R&D efforts to tackle specific diseases to ensure the **uptake of promising innovations**
- Expanding coverage of inclusive healthcare programmes and strengthening insurance policies to increase market and consumer coverage.

Social protection

In the overall strategy of human development, inclusive social development, and equitable sustainable economic growth, social protection is a key element contributing to the fight against poverty, vulnerability, and social exclusion. The socio-economic challenge posed by the COVID-19 pandemic has highlighted the importance of social protection systems in the response to the crisis. The social protection coverage gap has widened with an increase by approximately 30%[9], particularly in developing countries, with a growing social protection financing gap requiring additional and more sustainable sources of funding.

For low-income countries, meeting financing needs to establish a social protection system is a challenge, because of the relative cost and relative fiscal and administrative capacity of the countries. In order to close these financing gaps, both domestic and external resources are needed, including the strengthening and expansion of contributory systems[10]. Various assistance mechanisms for financing social protection are used, such as concessional and regular loans, emergency assistance programs, lines of credit, debt service relief, and grants. Public financing and reallocating public expenditures should be increased as it can serve as an engine in social protection inclusivity through revising tax and income collection policies, replacing high-cost low-impact public expenditures, and strengthening domestic social protection resources.

[9] ILO (2020), Financing gaps in social protection, Global estimates and strategies for developing countries in light of the COVID-19 crisis and beyond.
[10] Ibid.

Proposed areas in social protection:

- Encouraging remittances as an innovative source of financing to extend social protection to workers in the informal economy[11].
- Providing guarantees on the use of local pension funds to finance local investments with high social value and contributing to a green economy.
- Investing in the specific needs of national institutions for monitoring and evaluation of social protection initiatives to build the capacity of government and non-government officials to monitor and evaluate social protection programs.
- Investing capital and technical assistance in unified social registries, information registries, and associated integrated management information systems (IMS) using digital technologies.
- Expansion of social protection coverage (cash transfers, pension coverage, social insurance, tax-funded social benefits, public works programs) to guarantee basic income security.
- Providing a social protection system through regular cash transfers to families living with Orphans and Vulnerable Children in order to promote the development of their human capital.
- Support to mutualistic schemes
- EU SURE-like type of operations (SURE | European Commission (europa.eu))
- Support to setup pension funds

Education

The COVID-19 pandemic has caused unprecedented disruptions in learning due to school closures affecting more than 1.6 billion students in 190 countries[12]. This exacerbated existing inequalities in education, disproportionately impacting the most vulnerable children. Investment strategies should aim to reduce barriers to access to quality education, particularly in relation to gender inequalities, the poorest children or children with disabilities, and skills development, particularly aimed at providing training to students in skills and knowledge that is in-demand in various sectors of the economy such as green and inclusive value chains, and whereby the benefitting companies cover the bulk of the costs so that low-income students are not left behind.

Investments are also required in information and management strengthening programs, infrastructure/facilities improvements, scholarship programs, access to quality pre-school services, and technical innovation. Optimizing the use of resources and investments within a business model that does not place the costs on learners will create an inclusive and equitable education system. The EFSD+ does not seek to replace services provided by governments and proposed guarantees should foresee suitable safeguards in this regard.

Proposed areas in education:

- Investing in access to learning through scholarships/vouchers (following a redistributive approach with grants for low-income groups and progressively own contributions from higher income groups) or conditional cash transfers (e.g., up-to-date vaccinations, regular visits to a health facility, etc.) to improve equity and inclusion.
- Investing in the provision of ancillary services to schools, VET centres and teacher training institutions (provision of schoolbook/learning materials, transport, sanitation, waste collection, or technology/IT solutions).
- Promoting the use of innovative financial instruments for vocational training and higher education where the private sector, through the development of public-private

[11] OECD (2021), Financing the extension of social insurance to informal economy workers: The role of remittances.

[12] United Nations (2020), Policy Brief: Education during COVID-19 and beyond.

partnerships, can contribute to the financing of sectors linked to the economic demand of countries (e.g. impact investment in through l instruments such as social bonds).

Culture

Investments in the area of culture offer very high social returns, related to social inclusion and reduction of inequalities, cultural diversity, democracy as well as economic benefits like innovation with spill-overs to other sectors. Culture and creative industries sectors are also a major source of employment, favouring jobs for women and youth. However, barriers like the perceived risks related to commercial values of interventions, reliance on non-tangible assets and intellectual property rights as well as limited skills to deal with the opportunities among both the cultural sector and the financial sector have hampered the development of the sector. Moreover, the COVID-19 crisis, has aggravated the situation due to major drops in revenues. Yet, public support is needed to de-risk investments into commercially viable areas of culture and creative industries. Investments can support local and regional culture and creative industries ecosystems, vocational training and professionalisation as well as investments in infrastructure and cultural heritage, notably in relation to urban revitalisation and tourism. Moreover, support to social entrepreneurship and promotion of impact investments that support access to culture, increase cultural diversity and support cultural entrepreneurs.

Proposed areas in culture:

- Cross-sectoral innovation, investment into knowledge and innovation communities.
- Vocational training and professionalization of culture and creative industries sectors.
- Support social entrepreneurship in the area of culture, e.g. promoting access to cultural goods (e.g. vouchers for cultural consumption) and increasing cultural diversity (supply and demand side)
- Impact investment in the culture space through instruments such as social bonds.
- Measures such as micro-credits and other financial support to cultural actors, notably youth and people from a vulnerable background

Nutrition

Many developing countries experience high levels of food insecurity and malnutrition that negatively impact the physical, social, and cognitive development of individuals and productivity of developing economies. Food security and equality are vital in alleviating social and financial isolation, acute and chronic health problems, malnourishment, and static human development in underdeveloped areas. As of 2019, 234 million individuals in Sub-Saharan Africa were chronically undernourished[13.] Climate change and environmental degradation are other sources of uncertainty with additional risks for agriculture and food systems. Increased climate variability and extreme weather events affect stability and price volatility. Climatic and environmental events that lead to production losses and infrastructure damage can result in significant increases in the price of food, which will affect millions of poor people. The growing population and unequal access to nutritious food sources call for public and private sector action in addressing the availability, access, and utilization issues regarding food security challenges.

The overarching takeaway from 2014-2020 programming is that what works best for improved nutrition is a sustained, multi-sectoral, gender transformative and rights-based approach. Areas of investment should include both support for inclusive, sustainable food systems, conservation and sustainable use of ecosystem services, and the public provision of universal health, WASH, education and social protection services including nutrition objectives as a transversal component. By ensuring a

[13] World Vision (2021), East Africa Hunger and Famine.

strong focus on achieving access to healthy diets for the most vulnerable, actions can serve the double duty of simultaneously tackling all forms of malnutrition.

Proposed areas in nutrition:

- Financing local research and extension, improving transportation and market infrastructure, and providing training and capacity-building to enforce and operate the agricultural support systems.
- Structuring financial arrangements involving blending for funding research on improved food (CGIAR system/World Food prize 21), improved seed varieties, and fertilizers that provide increased crop yields and a buffer against future droughts, while conserving and enhancing ecosystem services, and helping fight pollution and reduce waste.
- Agriculture-based interventions to improve nutrition security and Agricultural Risk Management can play an important role in building the resilience of stakeholders in the face of unpredictability and in the transition to climate-smart agriculture systems.
- Open and predictable trade policies have the potential to reduce the negative impacts on food security across diverse scenarios and represent a good risk management strategy to ensure the stability and transparency of markets.
- Facilitating cross-country supply of innovations and cross-border technology transfer to increase productivity growth and address transboundary issues such as contagious diseases, climate change mitigation and adaptation, pollution, land degradation, and the scarcity of water resources.
- Improving access to finance for SMEs. Direct investment in SMEs producing nutritious and fortified food and also farmers who produce nutrient enriched crops would contribute to positive nutrition outcomes, increasing the supply and consumption of safe, nutritious foods throughout Sub-Saharan Africa.
- Promoting inclusion of nutrition services in UHC and WASH services in schools and areas with high prevalence of malnutrition.

Cross-cutting:

Integral human development (children and adolescents)
Human development is a slow process; it takes two decades— 8,000 days—for a human to develop physically and mentally, so the world needs to invest widely, deeply, and effectively—across education, health, and all development sectors—during childhood and adolescence. Investment in health during the first 1,000 days is widely recognized as a high priority, but there is historical neglect of investments in the next 7,000 days of middle childhood and adolescence. To deliver sustainable results, this window will promote cross-sectoral investment and a focus on the bottom 40%.

Proposed areas for integrated human development support:

- Early childhood development (ECD) and support to children until age 5, including early childhood education and cross-sectoral interventions.
- Integrated support packages for middle childhood growth and consolidation phase (ages 5–9), when infection and malnutrition remain key constraints on development.
- Integrated support packages for adolescent growth spurt (ages 10–14), when there is a major increase in body mass, and significant physiological and behavioural changes associated with puberty.
- Adolescent growth and consolidation phase (ages 15 to early 20s) bring further brain restructuring, linked with exploration and experimentation, and initiation of behaviours that are life-long determinants of health.
- Reproductive, Maternal, Newborn, and Child Health (RMNCH) / Sexual and Reproductive Health and Rights (SRHR).
- Integrated management information systems (IMS)

Youth empowerment

Youth empowerment will be treated as a cross-cutting component for the above mentioned thematic areas. The EU is increasing the support to youth policy, youth participation and youth empowerment. Many programmes already target beneficiaries, such as young entrepreneurs or entities with a benefit for young people. However, it is important to foster financial inclusion of young people, supporting young entrepreneurs and support the economic empowerment of young people in general.

Proposed areas for youth empowerment:

- Financing of programs aiming at promoting youth empowerment
- Identifying demographic gaps in target countries and suggesting projects with mitigation measures to reduce these.
- Access for youth to decent work and reduction of youth unemployment, including transitions from education to work, vocational education and training opportunities
- Including improved access to youth entrepreneurship opportunities, including social entrepreneurship, alternative livelihoods and strengthened participation in the green and circular economy
- Increased access for youth to financial services and products, and productive resources

Gender equality and women's empowerment

COVID-19 has had a disproportionate effect on women unleashing a boomerang effect reversing the progress made towards gender equality. A decade of progress in reducing inequality has been wiped out in developing economies, according to the International Monetary Fund. Closing the global gender gap has increased by a generation from 99 years to more than 135 years, according to the World Economic Forum. Women are losing their jobs at a faster rate than men. This requires a response making use of all our tools and instruments.

Gender equality and women's empowerment is a core priority cutting across all EU external action as reconfirmed in the recently adopted Gender Action Plan 2021-25. Innovative finance frameworks, such as blending, guarantees and improvements in the investment climate and business environment are essential to make progress towards women's empowerment. Globally, women lack access to finance and the gender gap in access remains persistently at 9 percent for already a decade and one billion women are left out the formal financial system.

Gender equality is a cross-cutting priority for all above-mentioned thematic areas. It is now time to scale up promising practices of past and existing EU funded programmes already integrating a gender dimension, with a focus on improving women's access to financial markets. .

In addition, the HDW should promote Gender Lens Investing (GLI), which refers to investments made into companies, organizations, and funds with the explicit intent to create a positive impact on gender increasingly adopted by development finance institutions for instance through the 2X challenge This is not only about pursuing gender equality for its own sake; it is also a strategy for financial performance and sustainable economic growth. Women represent an outsized share of the unbanked people in the world and an untapped market opportunity for financial institutions and for the economies[14]. Recent studies show also the business case for gender equality within the financial institutions and investment teams; private equity and venture capital funds with gender-balanced senior investment teams have been found to generate 10 % to 20 % higher returns compared with funds with unbalanced teams.

Proposed areas for gender equality and women's empowerment:

- Financing of programs aiming at promoting gender equality as a fundamental aspect of a modern, well-functioning market economy and democratic society, and the commitment to preventing gender discrimination.
- Support women entrepreneurship and women led-business including social entrepreneurship, alternative livelihoods and strengthened participation in the green and circular economy
- Promote decent work, equal pay and labour rights and women transition to the formal economy.
- Contributing to an enabling environment for women economic activities in all sectors Investing in enterprises which promote gender equality hiring women in management positions oy, as well as supporting services which empower and develop capacity of women and girls.
- Access for women to decent work, including women's transition to the formal economy and coverage by non-discriminatory and inclusive social protection systems.
- Increased access for women to financial services and products, and productive resources

Social infrastructure

- Social Housing, if not better covered under the sustainable cities window
- Students Housing
- University premises (management of non-educational aspects)
- Early childhood facilities

GEOGRAPHIC coverage and regional specificities

Geographic coverage of the window

All countries in the scope of International Partnerships of the EU, the European Neighbourhood and Enlargement countries. While the geographic coverage of the EFSD+ Guarantee is global and encompasses all countries eligible under Global Europe, the Commission will allocate the available guarantee capacity in line with its geographic policy priorities. Investments within LDCs/fragile/landlocked and conflict affected countries will be given particular attention.

For already identified priority countries and/or specific regions an earmarked guarantee capacity is presented in annex 1. IFI partners are invited to submit proposals taking into account these geographic priorities

[14] Looking at country level, economies are experiencing GDP losses estimated between 4 percent (e.g. Japan, Canada) and 30 percent (Pakistan, Niger) due to limitations in gender equality (estimates from IMF studies). For comparison, this is similar or significantly exceeding the GDP losses experienced due to COVID (globally approximately around 5%).

POTENTIAL BENEFICIARIES OF THE GUARANTEE AND END RECIPIENTS OF SUPPORTED INVESTMENTS

In recognition that human development brings sectors that have different principles, actors and ways of working under the same umbrella, a **phased approach learning by doing is proposed** starting with the **health sector** in view of critical needs emerging from the pandemic, or emerging risks of future epidemics. Additional sectors to be covered in the future could include, e.g. education and TVET (technical and vocational training).

Where and when possible, investments will maximise the potential distributional impact, including through the application of *ex ante* assessments to identify poorest and most vulnerable beneficiaries. This will, in turn, maximise the transformational impact of the investments, their inequality-reducing effects, and support the sustainability, inclusivity and economic growth of the investments and of the targeted area.

The gender component will also be important. As stated in the EU Gender action plan III, all actions under all EU blending operation funds and **guarantees will be gender-mainstreamed**. 85% of new actions (in number of projects) should be gender responsive. It is also key to ensure gender-specific or sex-disaggregated indicators are part of the monitoring and evaluation system of EU funded actions.

The EU **principles for engagement with the private sector**[15] in social sectors must be respected, such as **no support for profit-making provision of public services, technological neutrality, and ensuring that no-one is left behind nor potentially can be harmed**. Particular attention is also required to the fact that human development chiefly mobilises the service economy, while other sectors such as technology come in support. The sustainability and the continuity of social services (some of which are critical to the resilience of societies) depend on the capacity to secure sufficient funding to adequately cover the cost of maintaining functional, efficient systems. Particular attention is therefore required to the trade-off between the technology deployed, the coverage expected, and the ability by the systems –users and governments– to adequately fund the operation costs (affordability principle). Sound public finance management (PFM) and regulation are critical to ensure the equitable distribution of benefits and maintain the trust of the public in the institutions.

The **additionality** of the EU interventions through guarantees, including compared with the standard blending operations, will be linked to ensuring wide **population coverage** (with a preference for covering the bottom of the pyramid and minorities). The inclusion of LDCs/fragile and conflict affected countries within proposals for the use of EFSD+ guarantees supporting the health sector will be expected.

The guarantee will also be additional in **bringing in private capital** and **complement other risk-mitigation instruments** on the market. The additionality of operations should be measured in terms of actual capacity to mobilise both local and international private sector investment.

Also to take into account the **articulation with actions funded through other financing instruments** (e.g. budget support), the linkages with socially responsible business practices, and the use of the EFSD+ as catalyst to domestic revenue mobilisation (DRM).

COMPLEMENTARITYWITH OTHER INVESTMENT WINDOWS

There are complementarities with the following investment windows:

[15] COM(2014)263

- “Gateway – connectivity” (digital)
- “Sustainable finance”
- "Sustainable cities"
- ''MSME financing for inclusive and green growth and job creation''
- "Sustainable Agriculture, Biodiversity, Forests and Water Management”

FINANCIAL STRUCTURE

Potential guarantee mechanisms

By lowering the risk perceived by commercial banks (public and private) and investors (public and private), the EFSD+ guarantee will enable any public and private (with a public mandate) social actor to access long term and affordable financing. The list of actors encompasses municipalities, State owned entities, Special Purpose Vehicles (SPVs), micro, small and medium size enterprises (MSMEs), institutional investors, philanthropic organizations, non-for-profit organizations, social enterprises, etc.

The guarantees can also be provided to support infrastructure-focused operations in education (primary, secondary, higher education as well as TVET), health and social housing, bond market, global health initiatives (i.e COVAX). In all cases financial sustainability and equitable access should be guaranteed, as well as the reinforcement of national systems.

EFSD+ supports a wide variety of guarantee structures, including pari passu, first-, second- and third-loss guarantees. Generally, proposals in line with the average EFSD+ risk absorption capacity will be considered favourably. These typically include pari passu and second-loss financial structures. A range of operational guarantee structures in support of Human Development are supported under the EFSD Guarantee programme via the European Health Platform. IFI partners are invited to consider them when making proposals.

Sustainable Finance is a cross-sectoral priority under the EFSD+ as it is a key means to mobilise additional resources to achieve our policy objectives, including on human development hence acting as a multiplier. In this respect, the Human Development Window will very much welcome proposals aiming to support the development and use of **sustainability-related financial instruments and products issued on capital markets for the purpose of attracting private capital towards sustainable investments, in particular towards human development (energy, transport and digital) in partner countries.** These may include (but are not limited to) transferable securities (equity, bonds), investment funds and vehicle, units in collective undertakings, managed portfolios of instruments, or pension products[16].

Wherever possible, guarantee programmes targeted at mobilising private co-investors will be prioritised.

PRIVATE SECTOR INVOLVEMENT

The EFSD+ guarantee will be a factor of attraction for private investors in the framework of PPP arrangements in sectors where the role of private companies in the implementation of public social services is considered essential.

[16] As defined in Directive (EU) 2014/65 and Regulation (EU) 2019/2088

TYPE OF RISKS

Risks to be mitigated may include:

- **Commercial risks** (payment risk, performance risk, etc.)
- **Political and country risk** (expropriation, coup d'Etat, civil war, etc.)
- **Legal and regulatory risk** (change in law, cancellation of license, tariff adjustments, etc.)
- Under certain conditions, **currency risks** (e.g. exchange rate fluctuation, convertibility, transferability, etc.)
- **Climate change and environmental risks** (e.g. droughts, flooding, extreme weather events, temperature rises, etc.)

Indicative guarantee amount of the investment window, subject to assessment of the proposals received

The indicative target volume of guarantees envisaged under this window amounts to EUR 510 million, including the following distribution between NEAR and INTPA geographies:

INTPA : EUR 390 million NEAR : EUR 120 million

The Commission may allocate a higher or lower amount than the indicative target depending on the proposals finally submitted. An indicative earmarking of potential investments per region and sub-region is included in Annex 1.

For NEAR IFIs/DFIs are encouraged to submit regional proposals covering all NEAR regions and countries. For INTPA some priority countries have been identified as priorities and some guarantee capacity has been earmarked for specific countries and regions, as specified in annex 1.

IFIs/DFIs partners are invited to submit proposals specifying their alignment with priority countries, subregional earmarking and key TEIs. This will in turn be a key factor in evaluating and selecting PIPs submitted by DFIs

ENVISAGED IMPACT AND PERFORMANCE MEASUREMENT

The following SDGs are targeted through this window:

- SDG #1: “End poverty in all its forms everywhere”
- SDG #3: “Good health and welbeing”
- SDG #4: “Quality education”
- SDG #5: “Gender equality”
- SDG #8: “Decent work and economic growth”
- SDG #10 “Reduce inequalities”
- SDG #12 “Sustainable consumption and production”
- SDG #13: “Take urgent action to combat climate change and its impacts”

The impact of this window shall be measured through indicators included in Annex 3.

Additional indicators will be agreed at the level of specific proposals. Whenever possible, disaggregation by gender (when applicable and feasible) shall be pursued.

As key performance indicator, the proportion of Union funded cooperation promoting gender equality and women’s empowerment shall be measured.

Annexes

ANNEX 1: Priority countries and geographic earmarks

A. Priority Countries

Africa (Sub-Saharan)	Latin America and The Caribbean	Middle East, Asia and Pacific	NEAR
Bénin	*No priority countries for this window.*	Bangladesh	*In NEAR region there are no priority countries, please refer to earmarked allocation at regional/sub-regional level as indicated below.*
Botswana		Cambodia	
Burkina Faso		India	
Burundi		Indonesia	
Cabo Verde		Iraq	
Central African Republic		Kyrgyz Republic	
Côte d'Ivoire		Nepal	
Democratic Republic of the Congo		Pakistan	
Ethiopia		Vietnam	
The Gambia			
Ghana			
Guinée Conakry			
Guinea-Bissau			
Kenya			
Liberia			
Madagascar			
Malawi			
Mali			
Mauritanie			
Namibia			
Nigeria			
Niger			
Rwanda			
Senegal			
Sierra Leone			
South Africa			
Tanzania			
Tchad			
Togo			
Uganda			
Zambia			

B. Geographic earmarks

Africa (Sub-Saharan)		Latin America and The Caribbean		Middle East, Asia and Pacific		NEAR	
Sub-region	**%**	**Sub-region**	**%**	**Sub-region**	**%**	**Sub-region**	**€m**
The objective is to reach the following allocation overall for EFSD+:		*No subregional allocation for this window.*		Indicative subregional allocation for the window:		Indicative subregional allocation for the window:	
West Africa	36%			Southeast	41%	Neighbourhood South	30
East and Central Africa	42%			Unearmarked	59%	Neighbourhood East	40
Southern Africa and the Indian Ocean	22%					Western Balkans	40
						Turkey	10
Total envelope for the region	**347**	**Total envelope for the region**	**21**	**Total envelope for the region**	**22**	**Total envelope for the region**	**120**

Window total amount (€m)	**510**

ANNEX 2: TEIs, flagship initiatives, and policy frameworks relevant to the investment window

TEAM EUROPE APPROACH

The following Team Europe Initiatives are of particular relevance for this window and are to be considered when developing proposals. The list of TEIs is indicative and susceptible to evolve over time; regular updates on TEIs can be found in the following website: Consolidated Table - TEIs | Capacity4dev (europa.eu)

Proposals submitted for **West Africa** can support the following Team Europe Initiatives (TEIs:):

- Bénin: Croissance durable et emploi pour les jeunes
- Burkina Faso: Inclusion sociale pour la stabilité
- Gambia: Good Gambia - Governance
- Guinée Conakry: Stabilité et bonne gouvernance
- Guinea Bissau: Education & training towards an inclusive and green transition
- Mali: Faire de la jeunesse un acteur du changement et du développement du Mali
- Mali: Stabilisation du territoire au travers d'un meilleur fonctionnement de l'État
- Mauritania: Strengthening of human capital
- Niger: Gouvernance, Résilience, Paix
- Nigeria: A Partnership for Governance and Security
- Sénégal: Pour une meilleure gouvernance économique
- Tchad: Vive les villes secondaires
- Togo: Décentralisation et gouvernance locale

For **East and Central Africa**:

- Kenya : Human centred digitalisation
- Uganda : Demography and Social Services

For **Southern Africa & Indian Ocean**:

- Malawi : Green Growth
- South Africa: Jobs for the Future South Africa: joining forces!
- Zambia: Climate Action for Inclusive Green Growth in Zambia
- Zambia: Human Development

For the **Africa Region**:

- One Health: African health security and pandemic preparedness
- Manufacturing and Access to Vaccines, medicines and health technology products in Africa
- Digital Health
- Support to Public Health institutes in Sub-Saharan Africa
- Sexual and Reproductive Health and Rights in Africa
- Intra-Africa Youth Learning Mobility
- Education Platform

REGIONAL FLAGSHIP INITIATIVES

In the **European Neighbourhood**, Guarantee proposals shall fit within the policy framework and Economic Investment Plans for the neighbourhood (Eastern[17] and the Southern[18]), the Western Balkans[19] and Turkey.

In the **East**, priorities include: Moldova. Investing in human capital and preventing 'brain drain' — modernisation of school infrastructure and implementation of the national education strategy. As an indication in the East, the Commission already supports actions aiming at building training centres for teachers with the private sector.

In the **South**, the investment window will concentrate on the area of "Human Development, good governance and the rule of law" through a dedicated flagship action supporting social sectors, education, skills and health. The delivery of inclusive, efficient, and effective social services, notably in the fields of education, skills and health, contributes to economic and social development. In this regard, the EU will also support its partners through blending (investment grants) to reduce the burden on countries and guarantees to mitigate the risk for private investors.

In the **Western Balkans**, Reference to the Social Economy action plan and the Youth Guarantee.

POLICY FRAMEWORKS RELEVANT TO THE INVESTMENT WINDOW

Country MIPs are the key source of policy priorities for EFSD+ supported investments, as made explicit in the EFAD Action Plan. Following the launching of the programming in November 2020, 90 country and 3 regional Multiannual Indicative Programmes (MIPs) have been prepared by INTPA. Regarding the coverage of the Commission's priorities, human development has been prioritised in 93% of the revised country MIPs. In particular, education (from basic education to TVET) features in 75% of the country MIPs, social protection in 48%, and health in 25%. It is estimated that the country MIPs in Sub-Saharan Africa, Asia and the Pacific, and Americas and the Caribbean would contribute with around 28% of their total envelope to the human development spending target, representing at least half of the total to be reached under NDICI-Global Europe. With the addition of contributions from regional programmes (estimated at above 20% of their envelope) and Global Challenges programmes (estimated at 54% of its envelope), and also Neighbourhood MIPs, the spending target should be substantially exceeded.

A. Global Europe overall

The Human development investment window is in line with:

- The commitment made by the EU and the Member States to increase their official development assistance (ODA) to 0.7 % of gross domestic product (GDP) by 2030, including 20 % of the EU's ODA for social inclusion and human development., and commitments related to climate action and biodiversity financing
- The thematic component of the Global Europe regulation[20] covering matters such as health, education and training, women and children, decent work and social protection, culture.
- The EU programming process and the overarching window which promotes Jobs and sustainable and inclusive Growth.

[17] Joint Communication: Eastern Partnership policy beyond 2020: Reinforcing Resilience – an Eastern Partnership that delivers for all - European External Action Service (europa.eu)
[18] Renewed partnership with the Southern Neighbourhood - A new agenda for the Mediterranean - European External Action Service (europa.eu)
[19] Western Balkans: An Economic and Investment Plan to support the economic recovery and convergence (europa.eu)
[20] Global Europe regulation EUR-Lex - 52018PC0460 - EN - EUR-Lex (europa.eu)

When it comes to **spending targets**, recently, Commissioner Urpilainen decided to raise education spending to 10% of the EU ODA in the MFF to boost investment in human development.

The EFSD+ can contribute to achieving this spending target, as well as global objectives, by combining guarantees with blending and, more important, shall maximise the impact of EU actions in this realm by integrating key stakeholders like financing institutions and the private sector.

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 % 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 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. INTPA

DG INTPA has committed to make reducing inequalities as the overarching objective of its development cooperation, setting the objective of “Fighting Inequalities by Building Inclusive and Sustainable Societies”. Any investment that improves access to essential public services, in particular for the bottom 40% of the income distribution in sectors such as education, health, social protection for vulnerable and marginalized groups, develops their human capital, maximizes their employment outcomes, and addresses spatial inequalities. The EFSD+ Human Development Window will contribute to this objective, and support the Commission’s contribution to the 2030 Agenda.

C. NEAR

In the European Neighbourhood, Guarantee proposals shall fit within the policy framework, as well as the Communications Economic Investment Plans for the neighbourhood East, South, the Western Balkans and Turkey.

ANNEX 3: Results Monitoring Framework

This Annex is attached to each of the Investment Windows for Open Architecture. This Annex provides an overview of results chains and related indicators structured along the areas covered by the Investments Windows of the Open Architecture as crystallised by the EFSD+ Strategic Orientations. This is the basis for the design, monitoring, reporting, and evaluation of the individual interventions approved by the Commission and the Lead International Financial Institution (LFI).

At individual interventions level, the LFI can add additional results and indicators, if relevant and not deviating from the scope of the Investment Windows.

EFSD+ results and indicators

NDICI-GE and IPA III Regulations refer to **results** as per the OECD-DAC definition: "Results are defined as the outputs, outcomes or impacts of development interventions, with each element contributing to the next, as set out in the results chain below. The links between each element are as important as the results themselves, reflecting the theory of change and the roles of providers and other stakeholders." Along those lines, the EFSD+ Results Measurement Framework (RMF) covers the three levels of results as per NDICI-Global Europe and IPA III Regulations.

Each intervention proposed by the Lead IFI is to be coherent with the EFSD+ RMF and **must contain a results chain** composed by results (impact, outcome, output) **and** indicators (using the table as provided in the Application Form template).

In order to ensure consistency and harmonisation of approaches between the European Commission and the IFIs, **indicative results and indicators are proposed for each of the Investment Windows** for the Open Architecture - as part of the overall EFSD+ Results Measurement Framework. The latter is available in the Excel file provided.

EFSD+ RMF

Impact level

At impact level, the Investment Windows are consistent with NDICI-GE, IPA III and EFSD+ Strategic Orientations overarching priorities. Therefore the impact statements provided in the Excel file are common to the six Investment Windows.

At intervention level, the IFI will indicate the SDGs and related indicators the intervention contributes to. In turn, this allows the European Commission to ensure a link with Level 1 indicators of GERF (Global Europe Results Framework) and IPA PF (Instrument for Pre-accession Assistance Performance Framework). The IFIs do not have reporting obligations against those.

The tab 1 (**STEP 1**) of the attached excel file – to be used for relevant selection - is provided below in a simplified way:

EFSD+ Overarching priority	Impact statement	SDG	SDG Indicator	GERF 1	IPA PF 1
Global Gateway and/or **Green Deal** and or/ **Jobs and sustainable and inclusive Growth**	Effective climate resilient low-carbon economy and society *and/or* Eradication of poverty *and/or* Increased green and inclusive employment *and/or* Prevented and/or reduced environmental degradation *and/or* Smart (digital), sustainable and inclusive economic and social development and growth	#	#	#	#

Outcomes and Outputs, with related indicators

In order to ease the application process and ensure consistency with the EFSD+ Results Measurement Framework (RMF), the design of the outcomes and outputs (with related indicators) needs to incorporate elements that are cross-sector as well as sector/area/intervention specific.
The Lead Financial Institution is responsible to report against those throughout the implementation as per individual Agreements provisions.
Accordingly, the attached excel sets out the following two steps:

- **STEP 2 – Cross-sector outcomes and outputs** level, with related indicators. Cross-sectors are mandatory (or exceptionally mandatory if relevant) for all type of interventions.
- **STEP 3 – Investment window/area/sector outcomes and outputs** levels, with related indicators. Investment window specific/area/sector outcomes and outputs are mandatory (if relevant) as linked to the cross-sector ones, and recommended.
  In particular, the STEP 3 outcomes and outputs with related indicators are reflecting **the scope of each Investment Window** – which are **interrelated** one to another. Hence, depending on the intervention proposed by an IFI, outcomes and outputs with related indicators could be taken from the whole list, regardless of the Investment Window financing the intervention.

For interventions that qualify as **sustainability-related financial instruments and products** – regardless of the Investment Window financing them (hence not only the Investment Window Sustainable Finance):

- Sustainable finance specific outcomes and outputs with related indicators are available among the Cross-sector ones, as they are not sector specific, but instrument specific
- Sector outcomes and outputs with related indicators are to be selected from the overall EFSD+ RMF as per STEP 3

The tables provided in the excel file follow the structure below:

Area	Result	Indicator	Unit	Level	Definition and comments	Reference
Cross-sector MSMEs Energy Transport Etc.	The result statement	The indicator(s) that measure the related result	The unit of measure of the indicator	Impact Outcome Output	How to measure the indicator and other comments	GERF, IPA PF, EUBEC, HIPSO, EFSD, WBIF, Other

The design of the proposed interventions could include other outcomes and outputs (with related indicators) as proposed by the Lead IFI, as soon as they are relevant to the scope of the Investment Window and not already captured in the menu provided by the EFSD+ RMF (Excel file).

Remarks on indicators

Indicators are meaningful against a result (impact, outcomes, outputs) to be measured.

Preference is to be given to indicators (and the related outcomes and outputs statements) that belongs to **GERF/IPA Frameworks,** which are clearly marked in the relevant columns of the provided excel file.

Where relevant, indicators are to be disaggregated by sex, age, and disability.

Monitoring and reporting

The monitoring and reporting principles and requirements are to be in line with NDICI-GE (Articles 33 and 41.7) and IPA III (Articles 12 and 13) Regulations. Further specifications will be provided in a dedicated document on the EFSD+ Results Measurement Framework.

At individual intervention level each Guarantee Agreement will need to specify monitoring and reporting requirements against those same principles and the design agreed between the parties.

European Fund for Sustainable Development+ (EFSD+) Guarantee Investment Window – Sustainable Finance

1. Policy Rationale

1.1 BACKGROUND ANALYSIS

1. COVID-19 has widened the SDG financing gap

While 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[21] since 1998[22]. At the same time, **development finance is under extreme pressure** and at risk of decline[23]. The annual EUR 2.1 trillion SDG financing gap in partner countries has increased tremendously due to COVID-19, reaching EUR 3.6 trillion[24].

2. Sustainable finance is crucial to mobilise long-term funding to help close the SDG financing gap

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 are held by banks, institutional investors[25] and asset managers. Shifting 1.1% of these assets (USD 4.2 trillion) would be enough to fill the growing financing for sustainable development gap[26].

With the increasing interest of institutional investors and asset managers in impact investing in recent years, new thematic financial instruments have emerged - broadly defined as "Sustainability-related financial instruments". Among them, "Green, Social and Sustainability bonds" finance projects that are contributing towards the SDGs.

3. Sustainable finance remains underdeveloped in Partner countries

Indeed, private capital from institutional investors is not flowing towards our partner countries' sustainable infrastructure projects at the scale and speed required to meet the 2030 targets. **Therefore, scaling up sustainable finance in an *inclusive* way – leaving no one behind - is crucial** to enable us to collectively deliver on our commitments under the Paris Agreement and the SDGs. For that to happen, partner countries need to be supported to address the **specific challenges and constraints** they face to finance the transition to sustainable social and economic development, as called by the international community**,** in particular, within the G20 Development Working Group and the recent relaunch of the G20 Sustainable Finance Working Group by the Italian G20 Presidency. In the outcome document of the G20 Development Working Group[27], the G20 explicitly calls on donors "to use risk sharing strategies and technical assistance to maximize sustainable financial flows by crowding in all financial resources, public and private, available at international and local level".

As mentioned by the **G20,** sustainability-related financial instruments remain underdeveloped and even more in Partner countries, where SDGs investment needs are the greatest and where the COVID-19 crisis has magnified the scissor effect of SDG financing. When looking at green bonds, despite rapid growth in recent years, the green bond market, largely dominated by Europe, the US and China is still tiny, representing only 3.5% of the global bond market. The further uptake of those instruments could allow issuers to tap into new sources of finance.

4. Team Europe action is urgently needed

As a frontrunner in sustainable finance, the EU has since long recognised the importance of **mobilising private capital for sustainability**. It has taken major steps in order to "*green finance and finance green*"

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[21] As measured by the international poverty line

[22] World Bank. *Poverty and shared prosperity 2020. Reversals of fortune*. Poverty and Shared Prosperity 2020 (worldbank.org)

[23] ODI Report: *Development finance institutions: the need for bold action to invest better*. April 2021 ODI Report

[24] OECD. *Global Outlook on Financing for Sustainable Development 2021. Global Outlook on A NEW WAY TO INVEST FOR PEOPLE AND PLANET* e3c30a9a-en.pdf (oecd-ilibrary.org)

[25] Pension funds, insurers, sovereign wealth funds

[26] OECD. *Global Outlook on Financing for Sustainable Development 2021. Global Outlook on A NEW WAY TO INVEST FOR PEOPLE AND PLANET* e3c30a9a-en.pdf (oecd-ilibrary.org)

[27] G20 Development Working Group Outcome Document 2021: Financing for Sustainable Development: G20 Framework for voluntary support to INFFs, G20 High-Level principles on sustainability-related financial instruments and G20 common vision on SDG alignment: https://www.g20.org/wp-content/uploads/2021/11/Financing-for-Sustainable-Development.pdf

by building a credible EU sustainable finance ecosystem to incentivise the EU financial sector to play their role in financing the transition. The EU sustainable finance ecosystem relies on a set of diverse measures encompassing regulatory, non-regulatory initiatives and de-risking mechanisms, such as the InvestEU programme, all aiming at attracting private capital towards sustainable investments and scaling up sustainable finance instruments and products. For example, the Commission has proposed recently an EU Green Bond Standard and the InvestEU programme has a clear objective to promote further the development of the green bond market in the EU. The EU is the first worldwide green bond issuer and is financing a substantial part of its recovery programme through green and social bonds. The EU is therefore uniquely positioned to support sustainable finance policies and to promote sustainability-related financial instruments across the world and especially in partner countries building on and sharing its experience.

In this context, **Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs)** must continue to play an active role[28] in scaling up sustainable finance and catalysing private investors, given their role as market enablers, anchor investors, and standard setters. Furthermore, to leverage more and better finance at scale, MDBs/DFIs should 1) undertake activities in riskier, more fragile, and low income environment; 2) pursue opportunities for syndication, risk-sharing mechanisms, alliances and cooperation and 3) enhance the capacity for innovation to build project pipelines, in synergy with local actors and donors, partnering with other MDBs/DFIs[29].

1.2 EU POLICY OBJECTIVES

In line with the *European Green Deal*[30], the *EU Strategy for financing the transition to a sustainable economy*[31], the revised *European Neighbourhood Policy*[32] and the *New European Consensus on Development*[33], the Sustainable Finance window will contribute to scaling up sustainable finance globally and promote the use and development of sustainability-related financial instruments and products in Partner countries. This will contribute to the objective of a global sustainable recovery that leaves no one behind by. In doing so, the Sustainable Finance window will help to **promote EU sustainable finance frameworks and principles**, where applicable, while taking into account partner countries regional and national contexts.

In line with the EU Gender Action Plan III, the Sustainable Finance window will integrate gender considerations, including in the development of sustainability-related financial instrument such as green bonds, or when supporting green bond principles and frameworks. Integrating gender considerations is in alignment with EU values and commitments, and is in line with commitments from around the world to put gender equality at the forefront of climate action at COP26[34].

Under the *Global Europe* regulation, EFSD+ pursues to maximise additionality of funding, address market failures and sub-optimal investment situations, deliver innovative products and 'crowd-in' private sector funds, aiming to support micro enterprises and SMEs; promote decent job creation; strengthen public and private infrastructure; foster renewable energy, sustainable agriculture, nature-based solutions and a circular economy; support the digital economy and address the health

[28] *Mobilization of Private finance in 2019* by DFIs and MDBs. January 2021. Mobilization of Private Finance by Multilateral Development Banks and Development Finance Institutions 2019 (adb.org)
[29] Tri Hita Karana Statement on "*The Role of DFIs and shareholders in building back better in the wake of Covid-19". October 2020.* THK-Statement.pdf (oecd.org)
[30] https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en
[31] https://ec.europa.eu/info/publications/210706-sustainable-finance-strategy_en
[32] https://eeas.europa.eu/headquarters/headquarters-homepage/330/european-neighbourhood-policy-enp_en
[33] COM(2017) New European Consensus on Development
[34] See also the gender-smart climate finance toolkit launched by several DFIs at COP26.

and socio-economic consequences of the COVID-19 crisis.

Other key policies include the *Towards a comprehensive strategy with Africa Communication*[35]*, the Economic and Investment Plan for the Western Balkans*[36], the *Joint Staff Working Document - Recovery, resilience and reform: post 2020 Eastern Partnership priorities*[37], the *New Agenda for the Mediterranean 2021-2027*[38] and the *EU Gender Action Plan III*[39].

Regional and Country MIPs are the translation of these objectives into programming documents, capturing the policy priorities and prioritising them in their specific subregional and country contexts. As such, they also define the priorities for EFSD+ supported investments and should therefore be the basis for ensuring the policy first principle for EFSD+ supported investments.

Specific attention should be paid to the Team Europe Initiatives (see annex 2). They are built around EU political priorities at country and regional level and provide direct guidance as to where the EU and the EU Member States will be focusing their cooperation efforts in a given context. This political prioritisation will also be reflected in the future choices of operationalising funds channelled via the EFSD+ windows. As Team Europe Initiatives provide a frame around which European funding instruments and modalities coalesce, project proposals that support TEIs have to be the preferred option to ensure we achieve our policy goals.

Furthermore, an overview of the relevant flagship initiatives is provided in annex 2.

2 Operational Concept

2.1. OVERALL WINDOW OBJECTIVES

2.1.1 General objective

The General objective of this window is to increase partner countries' **access to international and domestic private capital for their sustainable investments** and **to scale up sustainable finance globally** in an inclusive and innovative way to enable us to collectively deliver on the objectives of the Sustainable Development Goals Agenda and the Paris Agreement. It will focus primarily on crowding in resources from private capital to close the huge financing gaps faced by Partner countries - scaling up sustainable finance to support the green, inclusive, low carbon transition of partner countries.

The window will foster sustainable and inclusive economic, environmental and social development transition into sustainable value-added economy and a stable investment environment, including

[35] https://ec.europa.eu/international-partnerships/system/files/communication-eu-africa-strategy-join-2020-4-final_en.pdf

[36] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. An Economic and Investment Plan for the Western Balkans. communication_on_wb_economic_and_investment_plan_october_2020_en.pdf (europa.eu)

[37] Joint communication to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions. Eastern Partnership policy beyond 2020 reinforcing resilience - An Eastern partnership that delivers for all. joint_communication_on_the_eap_policy_beyond_2020.pdf (europa.eu) and the Joint staff working document: Recovery, resilience and reform: post 2020 Eastern Partnership priorities. swd_2021_186_f1_joint_staff_working_paper_en_v2_p1_1356457_0.pdf (europa.eu)

[38] Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Renewed partnership with the Southern Neighbourhood. A new agenda for the Mediterranean. joint_communication_renewed_partnership_southern_neighbourhood.pdf (europa.eu)

[39] https://ec.europa.eu/international-partnerships/system/files/join-2020-17-final_en.pdf

promoting socio-economic and environmental resilience in partner countries with a particular focus on the eradication of poverty.

Investments addressing the effect of the war in Ukraine could also be covered within this investment window.

2.1.1 Specific objectives

The Sustainable Finance window will contribute to scaling up sustainable finance globally through supporting the development and use of sustainability-related financial instruments and products issued on capital markets for the purpose of attracting private capital towards sustainable investments in partner countries. This includes thematic bonds (e.g. green, social, blue bonds), impact investment funds and other investment vehicles, equity in corporates pursuing a sustainable objective.

In doing so, the Sustainable Finance window – through its related Technical Assistance - will contribute to stronger pipelines of sustainable projects as well as credible sustainable finance frameworks building, where applicable, on the EU experience in order to provide confidence and transparency to investors. The latter is a key condition to avoid green washing and enhance partner countries' access to private finance.

In parallel, the Sustainable Finance window will aim to promote the development of domestic sustainable capital markets, and thereby also support issuances in local currencies. As this is a cross sectoral window, the related sectoral specific objectives will be retrieved from the sectoral windows (connectivity, MSMEs financing, sustainable agriculture, biodiversity, forest and water management, sustainable cities and human capital development) considering the main sectors tackled by the proposed investment programme (PIP).

Specific objectives to be considered for all PIPs under this window include:

- Increased mobilization of private sector capital invested
- Employment directly supported
- Energy saved, emissions-avoided, clean energy generated

2.2 INDICATIVE SECTORS OF INTERVENTION

Cross sectoral window – Impact focus – Product oriented approach

The following indicative sectors could be targeted amongst others: renewable energy; energy efficiency, energy and resource efficient buildings; clean transport and connectivity; sustainable waste management; sustainable water and sanitation; biodiversity conservation; green hydrogen; environmentally sustainable management of living natural resources and land use; sustainable agriculture, forestry and fisheries; sustainable manufacturing, sustainable cities; climate change adaptation, pollution prevention and control; eco-efficient and/or circular economy adapted products, production technologies and processes.

2.3 GEOGRAPHIC COVERAGE AND REGIONAL SPECIFICITIES

2.3.1 Geographic coverage of the window

While the geographic coverage of the EFSD+ Guarantee is global (Africa, Latin America and the Caribbean, Asia, Pacific and EU neighbourhood and enlargement countries) and encompasses all countries eligible under Global Europe, the Commission will allocate the available guarantee capacity in line with its geographic policy priorities. Investments within LDCs/fragile/landlocked and conflict affected countries will be given particular attention.

For already identified priority countries and/or specific regions an earmarked guarantee capacity is presented in annex 1. DFI partners are invited to submit proposals taking into account these geographic priorities

2.4 POTENTIAL BENEFICIARIES OF THE GUARANTEE AND END RECIPIENTS OF SUPPORTED INVESTMENTS

This window follows a product oriented cross-sectorial approach and therefore a very broad type of final beneficiaries can be potentially targeted: sovereign, sub-sovereign and state owned companies, private financial and non-financial corporates including MSMEs, women and young entrepreneurs, financial market intermediaries, local and international investors, populations in vulnerable situations (incl. women, children).

2.5 COMPLEMENTARITY WITH OTHER WINDOWS

By supporting innovations and mainstreaming of sustainable finance instruments and products, the Sustainable Finance window can act as a multiplier and complement other windows:

- Window 1 - Connectivity: Energy, transport, and Digital
- Window 2 - MSMEs Financing
- Window 3 - Sustainable Agriculture, Biodiversity, Forests and Water
- Window 4 - Sustainable Cities
- Window 5 - Human Development

While the Sustainable Finance window will cover mainly financial products and instruments with a cross-sectoral focus, sustainable finance proposals which will cover sustainability-related financial products and instruments with a specific thematic focus could also be featured under one of the five above-mentioned EFSD+ windows.

3. FINANCIAL STRUCTURE

3.1 POTENTIAL GUARANTEE MECHANISMS

The main operations under this window will aim to support the development and use of **sustainability-related financial instruments and products issued on capital markets for the purpose of attracting private capital towards sustainable investments in partner countries.** Such financial instruments and products may include (but are not limited to) transferable securities (equity, bonds), units in collective undertakings, managed portfolios of instruments, alternative investment funds and other investment vehicle, or pension products[40].

One of the key objectives will be on promoting the development of green, social – including gender, and sustainability-related bond markets, to the extent possible in local currency, as they hold the potential to play a key role in scaling up sustainable finance. Other financial mechanisms to catalyse private capital towards SDG investments in our partner countries will also be considered.

[40] As defined in Directive (EU) 2014/65 and Regulation (EU) 2019/2088

The window will contribute to scaling up sustainable finance in our partner's countries for a global sustainable recovery that leaves no one behind by. In doing so, the Sustainable Finance window will help to **promote EU sustainable finance frameworks and standards (such as the EU taxonomy)**, where applicable, while taking into account regional and national contexts.

The EFSD+ guarantee shall be structured in such a way as to lower actual and perceived risks, while harnessing opportunities from the transition towards sustainability, creating conditions for mobilizing private finance and attracting investment, especially institutional investors, thus contributing to the development of local capital markets.

<u>EU Global Green Bond Initiative</u>

With the aim of developing the green bond market in partner countries through a flagship Team Europe Initiative, the Sustainable Finance window will support an **EU Global Green Bond Initiative**.

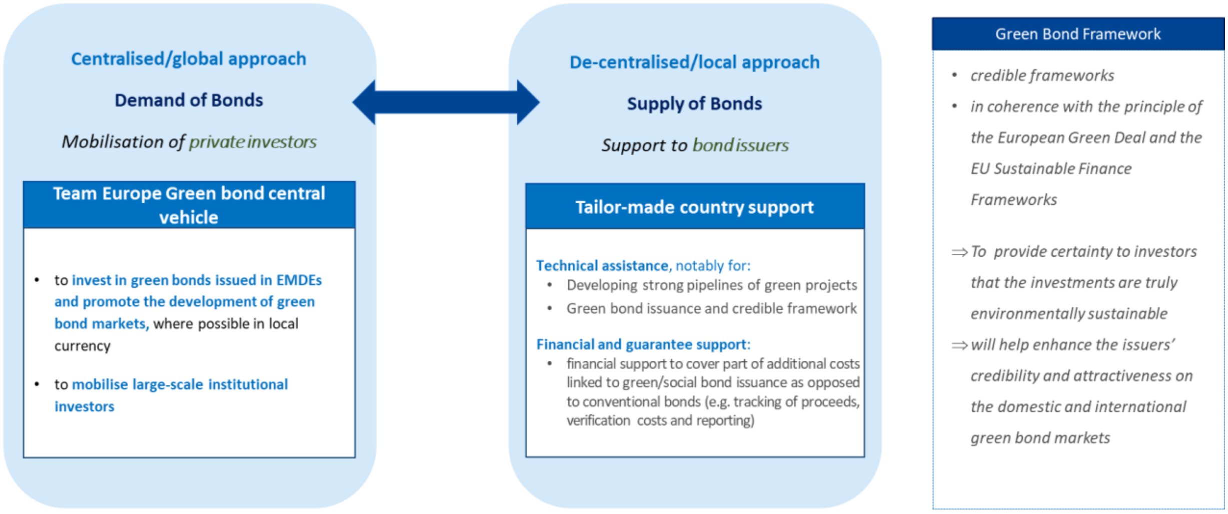
Experts recognise that public intervention can play a central role in addressing the barriers faced by partner countries in scaling up their green bond markets and identify notably the following types of intervention: i) building the issuers' capacity and know-how through technical assistance; ii) having DFIs act as anchor investors; iii) de-risking the operations for investors / enhancing the conditions of issuance of certain green bonds thanks to guarantees to cover for some of the risks; and iv) bearing some of the issuance costs. These interventions come at a limited cost for taxpayers.

The proposed initiative combine these different types of possible interventions to strengthen the green bond markets so as to deliver maximum impact, putting a strong emphasis on the most effective ways to intervene. Concretely, the initiative will aim to address the barriers and constraints in a holistic manner, both from the investors' and the issuers' side covering the entire investment chain. The initiative will integrate gender equality considerations as much as possible[41]. The interventions planned under this set-up are mutually reinforcing, enhancing the success and impact of one another.

It is proposed that the EU intervenes in a Team Europe approach with its implementing partners, notably:

a) **by building capacity and providing technical assistance** at country level to help partner countries develop credible green bond frameworks, identify and generate a pipeline of green bankable projects (including infrastructure projects) and carry out the issuance.
b) **by having DFIs acting as anchor investors and providing de-risking mechanisms to crowd-in private investors.** A central investment vehicle pooling resources together and allowing for a portfolio management will ensure coordination and synergies, increased volumes and higher development impact, resulting in an optimal use of financial resources to mobilise additional sustainable private sector financing. Additionally, credit enhancement mechanisms may be considered in specific cases for private or commercial sub-sovereign issuers.
c) **by covering (part of) the costs of issuance linked** specifically to green bonds (e.g. tracking of proceeds, verification costs and reporting).

[41] Examples are available in this recent International Institute for sustainable development policy brief: *Integrating Gender Considerations in Green Bonds (iisd.org)*



In order to attract investors towards green bonds issued in low and middle-income countries, mechanisms are needed to de-risk such investments and increase confidence. The Sustainable Finance Window will support the establishment of an investment vehicle investing in green bonds issued by sovereigns, sub-sovereigns and corporates in our partner countries. The supported vehicle should aim to have a catalytic effect on green bond markets in partner countries by providing confidence to the market and attracting private investors towards transactions that they would not identify or invest in otherwise. The vehicle will act as anchor investor by buying a fraction of individual green bond issuances, therefore sending a strong signal to other investors that these investments are viable and green.

The central vehicle should rely on capital entirely owned by participating EU DFIs, which would be pooled in a Team Europe consortium. The objective of the consortium approach is to ensure optimal coordination and optimal use of the capital of DFIs and the EU in order to increase investment volumes and mobilise private investors at scale towards climate and environmental projects (as called for in the Council Conclusions on the European Financial Architecture for Development[42]). Reaching a critical size at maturity would be an important factor to achieve greater development impact, globally and in our partner countries. The vehicle would start small and grow over time as the pipeline of credible green bankable projects increases. It would grow by calling gradually the capital committed by the DFIs and by issuing notes on the capital markets in order to attract private investors. This would ensure that the investments of the vehicle would be 100% green from the start. The central vehicle would therefore crowd in private investors in two different ways: (i) at the level of the vehicle through the issuance of notes by the vehicle; and (ii) at the level of each local issuance.

As part of the EU Global Green Bond Initiative, **the EFSD+ guarantee would therefore cover DFIs' participation in the central financial vehicle dedicated to support green bonds issued in partner countries.** The **EFSD+ guarantee will be provided to all DFIs in order to allow them to invest (*pari passu)* in the capital of the investment vehicle**. The EFSD+ guarantee would cover part of the credit and currency risk. It is foreseen that a substantial part of the available guarantee volume under the Sustainable Finance window would be reserved for the central vehicle. Up to EUR 600 million of EFSD+ guarantee are foreseen for the whole Multiannual Financial Framework period 2021-2027 for the central vehicle. Interested IFIs/DFIs partners are invited to submit a joint proposal for the whole

[42] Council conclusions on enhancing the European financial architecture for development. June 2021. https://data.consilium.europa.eu/doc/document/ST-9462-2021-REV-1/en/pdf

programming period.

Additionally, as part of the EU Global Green Bond Initiative, the EFSD+ guarantee would also cover for specific cases **credit enhancement mechanisms** for the issuance of green (and social) bonds on the domestic market by private or commercial sub-sovereign issuers placing bonds in the local market and attracting local institutional investors. These types of operations will be particularly relevant for EU Neighbourhood and Enlargement countries.

As the GGBI is a Team Europe flagship initiative, all DFIs are invited to consider submitting **joint proposals**, in a Team Europe approach, covering

1) a joint proposal for the GGBI central vehicle, as described above and;
2) joint proposals for credit enhancement for specific cases, in particular in EU Neighbourhood and Enlargement countries.

As the central vehicle will be the key component of the GGBI, proposals on credit enhancement will be assessed to ensure complementarity and additionality with the central vehicle in the overall context of the objectives pursued by the Global Green Bond Initiative. Proposals on credit enhancement accompanied by DFIs' investment in the central vehicle will be considered favourably by the Commission. The investment guidelines of the central vehicle will need to rely notably on robust/credible sustainability criteria.

Type of issuers:

As far as the central vehicle is concerned, the initiative aims to support through an investment vehicle the issuance of green bonds, in particular by **sovereigns, sub-sovereigns, and state-owned enterprises**. It is widely recognised that public authorities will have to play a greater role in catalysing high-quality investments in infrastructure that are needed to stimulate economic growth and create long-term job opportunities after the crisis. Furthermore, from a public sector perspective, green bonds can play an important strategic role in signalling a country's commitment to its sustainable, low-carbon growth strategies, which will in turn have a positive impact on the private sector's investment case for green sectors. National governments can play a key role in incentivising the growth of green bond markets, based on robust/credible sustainability standards, as they can kick start a national market and attract other issuers, including corporate.

Whilst the primary focus of the investment vehicle will be on sovereign bonds, the initiative will also include a certain proportion of **private sector bonds**, given the crucial role that the real economy plays in the inclusive and green recovery. Furthermore, a wide eligibility of issuers would obviously increase the potential size of the investment vehicle; however, the inclusion of private issuers (e.g. financial institutions, corporates) has to be calibrated depending on their risk profile, the amount of guarantee available and the leverage pursued.

Currency:

The initiative will also promote – to the extent possible – local currency denominated issuances, which should contribute to promoting debt sustainability and the participation of local investors. It is foreseen that the EFSD+ guarantee will cover part of the currency risk.

Nature of bonds / Indicative sectors:

Given the urgency of the climate crisis, and following President von der Leyen's commitment of providing an additional EUR 4 billion of climate finance as announced in her State of the Union speech of 15 September 2021, the initiative will promote primarily **green bonds** (i.e. with a positive environmental and/or climate benefit) issued in our partner countries, as a powerful tool to implement the green recovery and the external dimension of the Green Deal. Additionally, the initiative may be open to proposals focusing on **other types of bonds** and sustainability related-instruments aimed at mobilising private investment, when they are accompanied by well-established standards and frameworks (e.g., sustainability-linked bonds, blue bonds, gender bonds[43]).

The following indicative **sectors** could be targeted amongst others: renewable energy; energy efficiency, energy and resource efficient buildings; clean transport and connectivity; sustainable waste management; sustainable water and sanitation; biodiversity conservation; green hydrogen; environmentally sustainable management of living natural resources and land use; sustainable agriculture, forestry and fisheries; sustainable manufacturing, sustainable cities; climate change adaptation, pollution prevention and control; eco-efficient and/or circular economy adapted products, production technologies and processes.

Geographic scope: While the geographic scope of the initiative is global, the main focus will be on countries with high potential to issue bonds, including middle-income countries but also low-income ones, for instance those identified by the Sustainable Banking Network (SBN).

<u>Other sustainability-related instruments and products</u>

Designed to promote innovations for sustainable finance in partner countries, the Sustainable Finance window will also support, in a selective and targeted way, initiatives aimed at supporting the **mobilization of private capital at scale through sustainability-related financial instruments and products** to deliver development impact, based on robust/credible sustainability criteria. This may cover, but not be limited to:

- **Sustainability-related instruments and products** with a multi-sector approach pursuing a clear sustainability objective linked to the **Paris Agreement** and/or the **UN Sustainable Development Goals (SDGs**) and **Global Gateway**, including but not limited to **equity, and asset-backed securities (ABS), thematic bonds** (other than the ones mentioned under GGBI, e.g. catastrophe bonds in relation to climate mitigation), **investment funds and other investment vehicles**.
- **Innovative sustainability-related products** that can **address potential barriers preventing financial market participants** (either investors, issuers/promoters, or relevant intermediaries) **from tapping into capital markets for sustainable investments**. Such products may include mechanisms promoting **pooled investments** through **syndication platforms** that can ease access to pipelines of sustainable bankable projects to channel private investment into emerging markets to address sustainable development needs.

In particular, specific attention will be given to sustainability-related instruments and products launched for the first time by sustainable finance market participants (first-time issuers/first time fund managers, etc.).

As the objective of this window is the mobilisation of capital markets via the development of

[43] Gender bonds. They follow the principles for social bonds agreed by ICMA. The proceeds can finance companies that meet any of its three objectives: that the company is directed by women, that it offers products or services for women, or that it is committed to promoting equality.

sustainability-related financial instrument such as green bonds, the sustainable finance window has a horizontal nature. It can address multiple sector and cross-thematic proposals.

3.2. POLICY DIALOGUE AND TECHNICAL ASSISTANCE MEASURES

Implementation will be accompanied by policy dialogue with partner countries and by in-country reform processes, e.g. support to the definition of robust sustainability criteria, new regulatory legal frameworks, capacity building and preparatory activities for the deployment of the product, gender mainstreaming, etc.

Policy Dialogue. The Sustainable Finance window will feed in to the policy dialogue to provide a broader range of options to partner countries as well as EUD in addressing partner countries request. It will be framed by Regional and Country MIPs, and involve EUD, and partner DFIs.

Democratic and inclusive process in the country:

- Outreach events HQ+EUD+Partners Financial Institutions: Government, Private sector, Financial sector, Civil Society and local NGOs
- On-going policy dialogue by EUD, and by other partner DFIs with local representation.

Support to NDC – the Sustainable Finance window will support our partner countries in reaching their Nationally Determined Contributions (NDCs) and Paris Agreement commitments.

Technical Assistance. The technical assistance related to the actions under the Sustainable Finance window will contribute towards a **"Sustainable Finance Advisory Hub"**. It will be a Team Europe Initiative aimed at pooling and coordinating European technical assistance expertise and resources in order to support low- and middle-income countries in taking up and scaling up sustainable finance. In particular, the Hub aims to support partner countries and domestic financial market actors towards the design, set-up, issuance and management of sustainability-related financial instruments, and towards the development of credible sustainable finance frameworks and standards building, where applicable, on the principles and concepts of sustainable finance used in the EU (such as the EU Taxonomy, the EU Green Bond Standard and sustainability-related disclosure) and globally in order to provide confidence and transparency to investors. These are key conditions to scale up our partner countries' access to finance for their sustainable investments and to meet partner countries' demand for implementation support through a coordinated and nuanced approach. The Sustainable Finance Advisory Hub will be complemented by support from existing guarantee programmes as well as other TA funds.

For the **EU Global Green Bond Initiative** (see above), proposals should aim at improving the quality of the investments or portfolio of investments from partner country financial institutions, governments or private investors. It will mainly support 1) the identification and generation of green bankable project pipelines; 2) the development of strong and credible green bond frameworks/standards; and 3) green bonds' issuances (including covering the cost of issuance).

TA for the other operations under this window linked to EFSD+ guarantee can support changes to the policy and regulatory environment and to enable the development of frameworks conducive to scaling up sustainable finance, i.e., complementing the country existing reform program already supported by EU and other DFIs. (e.g., standards, taxonomies, disclosures and sustainability reporting etc.).

3.3 PRIVATE SECTOR INVOLVEMENT

Private sector's involvement is the primary purpose of the Sustainable finance window.

Mobilized amounts will depend on the financial contributions of EU/DFIs. EFSD experience suggest possible leverage of 10.

3.4 TYPE OF RISK

Risks to be mitigated may include:

i) Commercial risks (payment risk, performance risk, etc.);
ii) Political and country risk (expropriation, coup d'état, civil war, etc.) ;
iii) Legal/regulatory risk (change in law, cancellation of license, tariff adjustments, etc.);
iv) Currency risks (e.g. exchange rate fluctuation, convertibility, transferability, etc.);
v) Climate change and environmental risks (e.g. droughts, flooding, extreme weather events, temperature rises, etc.)

3.5 INDICATIVE GUARANTEE AMOUNT OF THE INVESTMENT WINDOW

The indicative target volume of guarantees envisaged under this window amounts to EUR 562 million, including the following distribution between NEAR and INTPA geographies:

INTPA : EUR 242 million NEAR : EUR 320 million

The Commission may allocate a higher or lower amount than the indicative target depending on the proposals finally submitted. As the objective of this window is the mobilisation of capital markets via the development of sustainability-related financial instrument such as green bonds, the sustainable finance window has a horizontal nature. It can address multiple sector and cross-thematic proposals.

The indicative target volume of the investment window is EUR 562 million guarantee for the first call until mid-term review. Despite the amount allocated, the Commission will consider a guarantee proposal for the central vehicle of GGBI for the entire 7-year programming period, this means a total amount of EUR 600 million (2/3 INTPA and 1/3 NEAR), in view of the EU ambition to set up a EUR 2 billion central vehicle. **Interested IFIs/DFIs partners are therefore invited to submit a joint proposal of up to EUR 600 million of guarantee for the EU Global Green Bond Initiative central vehicle regardless of the indicative guarantee amount of the investment window mentioned above.**

An indicative earmarking of potential investments per region and sub-region is included in Annex 1.

For NEAR IFIs/DFIs are encouraged to submit regional proposals covering all NEAR regions and countries. For INTPA some priority countries have been identified as priorities and some guarantee capacity has been earmarked for specific countries and regions, as specified in annex 1.

IFIs/DFIs partners are invited to submit proposals specifying their alignment with priority countries, subregional earmarking and key TEIs. This will in turn be a key factor in evaluating and selecting PIPs submitted by DFIs.

4. ENVISAGED IMPACT AND PERFORMANCE MEASUREMENT

<u>SDGs targeted:</u>

- SDG #1: “End poverty in all its forms everywhere”
- SDG #2: “End hunger, achieve food security and improved nutrition and promote sustainable agriculture
- SDG #5: “Achieve gender equality and empower all women and girls”

- SDG #6: “Ensure availability and sustainable management of water and sanitation for all”
- SDG #7: “Access to affordable, reliable, sustainable and modern energy”
- SDG #8: “Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”
- SDG #9: “Building sustainable and resilient infrastructure development”
- SDG #11: “Make cities and human settlements inclusive, safe, resilient and sustainable “
- SDG # 12: “Sustainable Consumption and Production”
- SDG #13: “Take urgent action to combat climate change and its impacts”
- SDG #14: “Conserve and sustainably use the oceans, seas and marine resources for sustainable development”
- SDG #15: “Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss”
- SDG #17: “Strengthen the means of implementation and revitalize the global partnership for sustainable development”

Annex 1: Priority Countries and geographic earmarks

A. Priority Countries

Africa (Sub-Saharan)	Latin America and The Caribbean	Middle East, Asia and Pacific	NEAR
Angola	Antigua and Barbuda	Fiji + SIDS	*In NEAR region there are no priority countries, please refer to earmarked allocation at regional/sub-regional level as indicated below.*
Bénin	Bahamas	India	
Cameroon	Barbados	Indonesia	
Côte d'Ivoire	Belize	Malaysia	
DRC	Costa Rica	Maldives	
Gabon	Dominica	Pakistan	
Ghana	El Salvador	Philippines	
Kenya	Grenada	Sri Lanka	
Malawi	Guatemala	Thailand	
Mauritanie	Guyana		
Mozambique	Honduras		
Namibia	Mexico		
Nigeria	Nicaragua		
Rwanda	Other Caribbean countries		
Senegal	Panama		
South Africa	Saint Kitts And Nevis		
Tanzania	Saint Lucia		
Uganda	St Vincent & The Grenadines		
Zambia	Suriname		
	Trinidad and Tobago		

B. Geographic/country earmarks

Africa (Sub-Saharan)		Latin America and The Caribbean		Middle East, Asia and Pacific		NEAR	
Sub-region	**%**	**Sub-region**	**%**	**Sub-region**	**%**	**Sub-region**	**€m**
The objective is to reach the following allocation overall for EFSD+:		Indicative subregional allocation for the window:		Indicative subregional allocation for the window:		Indicative subregional allocation for the window:	
West Africa	36%	Caribbean	22%	South	60%	Neighbourhood South	60
East and Central Africa	42%	Central America	63%	Unearmarked	40%	Neighbourhood East	120
Southern Africa and the Indian Ocean	22%	South America	15%			Western Balkans	60
						Turkey	80

Total envelope for the region	**100**	**Total envelope for the region**	**70**	**Total envelope for the region**	**72**	**Total envelope for the region**	**320**

Window total indicative amount (€m)	**562**

Annex 2: TEIs, flagship initiatives, and policy frameworks relevant to the investment window

The following Team Europe Initiatives are of particular relevance for this window and are to be considered when developing proposals. The list of TEIs is indicative and susceptible to evolve over time; regular updates on TEIs can be found in the following website: Consolidated Table - TEIs | Capacity4dev (europa.eu)

The **Team Europe Approach** aims to combine the resources, modalities and tools of the EU, its Member States, their agencies and development finance institutions, as well as the EIB and EBRD[44]. 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. Indeed, Team Europe initiatives should draw on the full range of respective EU and Member States financing instruments, modalities and resources.

Hence a joint/coordinated approach among EU DFIs is actively sought, to maximize our 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, as described further below.

Regional bonds, including multi-currency bonds, could be considered in case of special initiatives for Pacific islands, Caribbean, Small Island Developing States, Africa and Central America. Structures to replicate include Caribbean Regional CAT bonds, or West/Central Africa CFA Francs Bonds, among others.

In the Western Balkans, the Western Balkans Investment Framework (WBIF), where the European Commission, alongside bilateral donors and IFI pull together resources will be the main vehicle to support sustainable finance tools and standards across the different investment priorities emanating from the Economic and Investment Plan for the Western Balkans, including the Green Agenda for the Western Balkans. The objective is to crowd-in additional private investors to increase the availability of sustainable finance tools and standards across the different investment priorities emanating from the Economic and Investment Plan, including the Green Agenda for the Western Balkans. Support should be explored in particular in the areas of green and digital transition, job creation and social, labour and financial inclusion, and human capital along the lines of the EIP investment flagships listed below and with the GREEN AGENDA FOR THE WESTERN BALKANS:

- FLAGSHIP 4 – RENEWABLE ENERGY
- FLAGSHIP 5 - TRANSITION FROM COAL
- FLAGSHIP 8 – DIGITAL INFRASTRUCTURE
- FLAGSHIP 9 – INVESTING IN THE COMPETITIVENESS OF THE PRIVATE SECTOR
- FLAGSHIP 10 – YOUTH GUARANTEE

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

Neighbourhood South. In order to meet the scale of investment required in the Neighbourhood South, and help public authorities (central governments or local authorities) to raise the necessary capital from both national and international private investors, the EU will explore ways to invest in Green Bonds, in line with the EU taxonomy. The EU could support the regulatory framework at country level and support capital market development to create conducive conditions for green bond issuances".

Proposals submitted for **West Africa** can support the following Team Europe Initiatives (TEIs):

- Bénin: Investir dans l'énergie verte
- Côte d'Ivoire: Cacao durable
- Ghana: Smart green and digital recovery
- Mauritania: Transition towards Green and Blue Economy
- Nigeria: Green economy alliance
- Sénégal: Promouvoir une économie verte et digitale

For **East and Central Africa**, the following TEIs have been identified:

- Gabon : Green Economy and Sustainable Jobs
- Kenya: Green transition

For the **Africa Region**, the following TEIs have been identified:

- Combatting Transnational Organized Crime and Illicit Financial Flows (IFFs)
- TEI for sector and opportunity driven VET in Africa (deliverable of Africa Investment Initiative)

In **Latin America and the Caribbean**, notably for the Pan-American and Caribbean window under the current MIP, CAT bonds could potentially support the Caribbean via the CCRIF (Caribbean Catastrophic Risk Insurance Facility), the Amazon in particular Guyana/Suriname (e.g. via green bonds, as well as CAT bonds against floods and coastal erosion) leveraging the Caribbean capital market. This is in the context of EUROCLIMA+, in particular the Climate Financing line of action.

Proposals submitted for Latin America and the Caribbean can support the following Team Europe Initiatives (TEIs):

- **Regional TEI on Green Transition**: the regional TEI would aim at accompanying the transition of LAC countries to a decarbonised, environmentally friendly and inclusive economy. In line with the Green Transition priority areas, the TEI will be focused on the following focal sectors: 1) Climate policies and action, including a just and clean energy transition, 2) Biodiversity, marine and forest conservation, and 3) Circular economy.

  Regional TEI on the Amazon Basin: the multi-country TEI (Brazil, Colombia, Peru, Bolivia, Ecuador, Guyana and Suriname) aims at preserving the Amazon forest's contribution to climate change mitigation, to global biodiversity conservation and at improving its peoples' socio-economic development, through addressing root causes of key challenges affecting the region: i) mounting deforestation and forest degradation; ii) biodiversity loss, sustainable management and use of biodiversity and forest resources; iii) sustainable and inclusive development for its population; and iv) respect for human rights and enhanced citizen-security.

  To address those challenges, the suggested intervention pillars are 1) Protection of the Amazonian ecosystems, 2) Green and inclusive growth, sustainable livelihood, 3) environmental governance and indigenous peoples rights and 4) Sustainable finance

- **Regional TEI on the EU-LAC Digital Alliance**: The proposed regional digital TEI would provide a holistic framework for the EU to develop its digital cooperation with the LAC region. The TEI would respond to increased interest in the European human-centric digital model from LAC partners; it would support the building of a bi-regional digital partnership of mutual benefit and opportunities

  It will encompass various tracks that have been identified as central for EU intervention, such as: i) convergence of regulatory frameworks and standards, ii) regional digital connectivity and infrastructures, iii) private sector collaboration, competitiveness and innovation, iv) e-services and digital products. In a flexible approach, it would allow tackling other topics that respond to the joint of the Team Europe partners.

Other relevant bilateral TEIs include:

- Argentina: digitalisation. Over the past decade, Argentina has made efforts to improve digital access for all, and its agenda lays the foundation for governing the country's digital transformation. In this regard, the EU intends to help the country achieve full digital inclusion of all its citizens, improve the productivity of the economy and put the state at the service of its citizens.
- Argentina: Green Investment and Sustainable value chains. EU is proposed to support mainstreaming of climate action and environmental sustainability in Argentina’s socio-economic development model, aiming in particular at transformative changes and facilitating investments in agriculture, and waste management and support to the implementation of municipalities’ plans to fight against climate change.
- Brazil: Sustainable investments and recovery. The TEI will promote sustainable development with a focus on sustainable investment and at the same time contribute to an environmentally sustainable and socially inclusive economic recovery from the coronavirus crisis. It has two specific areas of work 1) Tropical Forests 2) Sustainable and Smart Cities. Under sustainable Cities the Initiative is targeting the largest portion of Brazil's population (in 2019, about 85 percent lived in cities). Numerous cities in Brazil have shown innovative potential and dedication to sustainable urban solutions, in the fields of mobility, housing, social inclusion, local economic development, climate relevant technology and innovation with a potential for scaling up.
- Brazil: digital transformation. Cooperation on digital transformation will focus on policies and standards, industrial and business partnerships, cooperation on research and innovation and on digital government and inclusion. Aligning technology advances with universal (and EU) values of human dignity, freedom, democracy, equality, rule of law and solidarity. The EU Delegation will engage also with the private sector. EU Chambers of Commerce and EU companies showed strong interest and support.
- Bolivia: Green and Resilient Development. The TEI combines a much needed green recovery and a durable development. The three focal areas are: Sustainable and climate change-resilient landscapes, Green energetic transition and Green economy in sustainable cities. It’s within these areas that the EU and Bolivia partnership can make a substantive and sustainable impact while providing an adequate socio-economic response to the challenging situation following the COVID crisis.
- Chile: Green hydrogen. The EU is deploying a Team Europe Initiative in Chile in support of green hydrogen development - a key enabling technology to transition to climate neutrality – piloting a hydrogen partnership that may be replicated with other countries in LAC, considering

their favourable conditions for the production of renewable energies, as demonstrated by the recent report of the International Energy agency "Hydrogen in Latin America, from near-term opportunities to large-scale deployment.

- Colombia: Environment. The TEI will aim to ensure the country's transition towards green development as a model in Latin America, given Colombia's strong commitment to climate change, biodiversity, SDGs and environment. The TEI will contain three pillars: (i) sustainable local development, (ii) sustainable cities and infrastructure and (iii) sustainable finance and institutions.
- Costa Rica: Green Recovery, Decarbonisation, and Sustainable Urban Mobility. The TEI will seek to support the country in pursuing its 3D 2050 national development vision (decarbonised, digitalised and decentralised) while also consolidating the country's status as a green hub and green economy.
- Ecuador: Sustainable Growth and Jobs and Green Deal. While Ecuador looks to the EU as a partner to trade with, from which to attract investments and receive assistance in terms of economic development, on the other hand the EU wants to strategically support this demand by promoting trade and foreign direct investment, facilitating private and public investment and stimulating innovation and productivity by using its expertise in fields such as the circular economy, research and innovation and digitization.
- Guatemala: Green Deal. In the short term the aim will be to support new businesses and self-employment opportunities, including where opportunities exist in the green, blue and circular economies, and improve productivity through the promotion of innovation in growing micro, small and medium enterprises, the execution of the Strategic Plan for Scientific and Technological Development and promoting the trade opportunities offered by the EU-CA Association Agreement for Guatemala. In the medium/long term, the aim will be to support partnerships focused on innovation, economic transformation (including the energy transition) and digitalisation in order to create highly qualified jobs, strengthening economic integration among Central American countries and the development of economies of scale, synergies and regional value chains.
- Honduras: Climate Change and Natural Resources Management. Through this TEI, the EU and Member States will work side by side with Honduras to meet its Paris Agreement targets by establishing a resilient low carbon economy, supporting implementation of the National Determined Contributions and climate strategy, supporting the restoration/preservation of forests and ecosystems, and creating green jobs. It will also seek to take full advantage of the VPA FLEGT that was recently signed between the EU and Honduras and support the country's decarbonisation strategy.
- Nicaragua: Green Recovery. This initiative will promote green recovery and circular economy, with cleaner production, biodiversity protection, and resource efficiency through three inextricable and mutually reinforcing building blocks: 1. climate change mitigation and adaptation; 2. water management and 3. resilient agriculture.
- Paraguay: Climate change and protection of the Environment. The EU and its partners are natural allies and have a common interest in sharing technology, best practices, know-how and bringing financial resources to achieve Paraguay's commitments in terms of climate change/environment. The proposed TEI is articulated around three main axes: (1) Building alliances with Paraguayan civil society, private sector, academia and media; (2) Raising awareness on environmental challenges and possible benefits a greener model can bring and

(3) Specific actions/programmes in (a) Biodiversity preservation/restoration and fight against deforestation and (b) Sustainable production and support to sustainable value chains.

- Peru: Circular economy and Sustainable Cities. Peru is EU key partner on several global challenges as climate change, environmental and Amazon preservation. Building on government commitment to transform the economy, the EU's effort is to achieve a greening of value chains and the transition to a circular production system.
- Uruguay: Environmental protection and sustainability. The TEI for Uruguay will help to ensure that the post-COVID recovery is based on an economic model that takes into account environmental protection and sustainability. This Initiative will include under a single umbrella policy dialogue, exchange of experience, investment, research and development, technical cooperation, cooperation with civil society, local authorities and the private sector. Two priorities have been set, aligned with the EU Green Deal: Smart cities (recycling, energy-efficient transport) and Sustainable agriculture and water protection.
- TEI Mexico: “Promoting the green transition as part of a sustainable and inclusive economic recovery in Mexico” : The overall objective is to support Mexico in pursuing a decarbonisation path and increase its ambition under the Paris Agreement. The Team Europe cooperation with Mexico on a green transition will focus in the following four priority areas of engagement inspired by the Green Deal: A. Sustainable transport/safe and smart mobility, particularly in the context of a smart and sustainable urban planning B. Transition to a low-pollution circular economy, with a focus on solid waste management, sustainable agriculture and sustainable water management C. Promoting energy efficiency and support to a low-carbon energy transition D. Strengthening ecosystem-based adaptation and mitigation of climate change, with a focus on ocean, biodiversity and forest conservation.

INTPA Directorate B will prioritise proposals covering several countries, particularly if the proposal includes countries from all sub-regions, Caribbean, Central and South America. Countries listed in Annex I will be preferential but others may be considered for financing from regional funds. Proposals are expected to be in line with the MIPs of the countries selected. Coherence with the ongoing LAGreen project will be searched. Preference will be given to proposals that promote European standards or involve European private sector operators.

For **Asia** this window could support the following bilateral TEIs:

- Sri Lanka: Green Recovery
- Pakistan: "Building Back Better through Green Jobs Creation"
- Indonesia: Green Agenda
- ASEAN/South East Asia (regional): “Green Team Europe Initiative in partnership with ASEAN/South East Asia”
- Iraq: “Sustainable and Inclusive Socio-economic Perspectives for Iraq”

ANNEX 3: Results Monitoring Framework

This Annex is attached to each of the Investment Windows for Open Architecture. This Annex provides an overview of results chains and related indicators structured along the areas covered by the Investments Windows of the Open Architecture as crystallised by the EFSD+ Strategic Orientations.

This is the basis for the design, monitoring, reporting, and evaluation of the individual interventions approved by the Commission and the Lead International Financial Institution (LFI).

At individual interventions level, the LFI can add additional results and indicators, if relevant and not deviating from the scope of the Investment Windows.

EFSD+ results and indicators

NDICI-GE and IPA III Regulations refer to **results** as per the OECD-DAC definition: "Results are defined as the outputs, outcomes or impacts of development interventions, with each element contributing to the next, as set out in the results chain below. The links between each element are as important as the results themselves, reflecting the theory of change and the roles of providers and other stakeholders." Along those lines, the EFSD+ Results Measurement Framework (RMF) covers the three levels of results as per NDICI-Global Europe and IPA III Regulations.

Each intervention proposed by the Lead IFI is to be coherent with the EFSD+ RMF and **must contain a results chain** composed by results (impact, outcome, output) **and** indicators (using the table as provided in the Application Form template).

In order to ensure consistency and harmonisation of approaches between the European Commission and the IFIs, **indicative results and indicators are proposed for each of the Investment Windows** for the Open Architecture - as part of the overall EFSD+ Results Measurement Framework. The latter is available in the Excel file provided.

EFSD+ RMF

Impact level

At impact level, the Investment Windows are consistent with NDICI-GE, IPA III and EFSD+ Strategic Orientations overarching priorities. Therefore the impact statements provided in the Excel file are common to the six Investment Windows.

At intervention level, the IFI will indicate the SDGs and related indicators the intervention contributes to. In turn, this allows the European Commission to ensure a link with Level 1 indicators of GERF (Global Europe Results Framework) and IPA PF (Instrument for Pre-accession Assistance Performance Framework). The IFIs do not have reporting obligations against those.

The tab 1 (**STEP 1**) of the attached excel file – to be used for relevant selection - is provided below in a simplified way:

EFSD+ Overarching priority	Impact statement	SDG	SDG Indicator	GERF 1	IPA PF 1
Global Gateway and/or	Effective climate resilient low-carbon economy and society *and/or* Eradication of poverty *and/or*	#	#	#	#

Green Deal and or/ **Jobs and sustainable and inclusive Growth**	Increased green and inclusive employment *and/or* Prevented and/or reduced environmental degradation *and/or* Smart (digital), sustainable and inclusive economic and social development and growth				

Outcomes and Outputs, with related indicators

In order to ease the application process and ensure consistency with the EFSD+ Results Measurement Framework (RMF), the design of the outcomes and outputs (with related indicators) needs to incorporate elements that are cross-sector as well as sector/area/intervention specific.
The Lead Financial Institution is responsible to report against those throughout the implementation as per individual Agreements provisions.
Accordingly, the attached excel sets out the following two steps:

- **STEP 2 – Cross-sector outcomes and outputs** level, with related indicators. Cross-sectors are <u>mandatory</u> (or exceptionally <u>mandatory if relevant</u>) for all type of interventions.
- **STEP 3 – Investment window/area/sector outcomes and outputs** levels, with related indicators. Investment window specific/area/sector outcomes and outputs are mandatory (if relevant) as linked to the cross-sector ones, and recommended.
  In particular, the STEP 3 outcomes and outputs with related indicators are reflecting **<u>the scope of each Investment Window</u>** – which are **<u>interrelated</u>** one to another. Hence, depending on the intervention proposed by an IFI, outcomes and outputs with related indicators could be taken from the whole list, regardless of the Investment Window financing the intervention.

For interventions that qualify as **<u>sustainability-related financial instruments and products</u>** – regardless of the Investment Window financing them (hence <u>not only the Investment Window Sustainable Finance</u>):

- Sustainable finance specific outcomes and outputs with related indicators are available among the Cross-sector ones, as they are not sector specific, but instrument specific
- Sector outcomes and outputs with related indicators are to be selected from the overall EFSD+ RMF as per STEP 3

The tables provided in the excel file follow the structure below:

Area	Result	Indicator	Unit	Level	Definition and comments	Reference
Cross-sector MSMEs Energy Transport Etc.	The result statement	The indicator(s) that measure the related result	The unit of measure of the indicator	Impact Outcome Output	How to measure the indicator and other comments	GERF, IPA PF, EUBEC, HIPSO, EFSD, WBIF, Other

The design of the proposed interventions could include other outcomes and outputs (with related indicators) as proposed by the Lead IFI, as soon as they are relevant to the scope of the Investment Window and not already captured in the menu provided by the EFSD+ RMF (Excel file).

Remarks on indicators
Indicators are meaningful against a result (impact, outcomes, outputs) to be measured. Preference is to be given to indicators (and the related outcomes and outputs statements) that belongs to **GERF/IPA Frameworks,** which are clearly marked in the relevant columns of the provided excel file. Where relevant, indicators are to be disaggregated by sex, age, and disability.

Monitoring and reporting

The monitoring and reporting principles and requirements are to be in line with NDICI-GE (Articles 33 and 41.7) and IPA III (Articles 12 and 13) Regulations. Further specifications will be provided in a dedicated document on the EFSD+ Results Measurement Framework.

At individual intervention level each Guarantee Agreement will need to specify monitoring and reporting requirements against those same principles and the design agreed between the parties.

European Fund for Sustainable Development Plus (EFSD+) Guarantee Investment Window – Sustainable Cities

POLICY RATIONALE

BACKGROUND ANALYSIS

1. Cities plays a key role in the sustainable development process.

The importance of cities and local authorities in the development process has been highlighted in recent international and EU policy documents. Sustainable Development Goal (SDG) number 11 of the UN 2030 Agenda aims to 'Make cities inclusive, safe, resilient and sustainable'. Many other sustainable development goals have clear urban dimensions. The Urban Agenda for the EU also reiterates the principles for sustainable urban development contained in the sustainable development goals.

The EU's external policy has supported urban development for many years, but mainly from a sectoral perspective (focusing on areas such as infrastructure, water and sanitation, waste management). The European Consensus on Development, between the EU and its Member States, stresses the need to focus more on cities and local authorities as important actors in achieving the sustainable development goals. This requires the EU to promote a more integrated approach to urban development, including by involving the private sector and by finding additional sources of funding for EU investments.

In 2018, the Staff Working Document on the EU's Cooperation with Cities and Local Authorities in Third Countries was drawn up, stressing the importance of support by the EU external cooperation policy to the planning, financing, and governance of cities be accompanied by an integrated and territorial approach to urban development, with a specific focus on the following four areas:

- Good urban governance at various levels of administration (local, regional, national) and between different actors (elected officials, civil servants, citizens' groups etc.). This fosters civic engagement and ensures inclusive participation in integrated planning and public finance management.
- The social dimension of urban development through inclusive and safe cities in order to better address urban poverty, inequalities, food insecurity, malnutrition, forced displacement, migration and social exclusion.
- Green and resilient cities through the sustainable use of natural resources and protection and enhancement of natural capital (energy efficiency and biodiversity in cities) and the transition towards a low-carbon, climate resilient and circular economy. This reduces the risk of and vulnerability to natural disasters and the ecological, economic and health impacts of pollution
- Prosperous and innovative cities with a focus on sustainable growth and job creation, fostering a responsible business environment and making it attractive to invest in the 'green economy' and in clean technology.

2. The rationale in supporting sustainable cities is three-fold, resulting from demographic, economic and climate challenges

This window will cover investments at municipal level for urban areas.

Firstly, **the demographic challenge** increases the need for effective poverty-reducing efforts especially in urban areas as more than half of the world's population (3.9 billion people) currently lives in cities. By 2050, two out of three people will live in cities, according to the UN. In this process of fast urbanization, any failure to fully mainstream gender equality into urban planning, legislation and economic development could hinder the inclusiveness of cities and preventing the full integration of women and girls in the economic, social, political and cultural life of cities.

Secondly, **the economic challenge generated by the concentration of GDP in urban areas** (80% of global GDP, 88% by 2025 estimates). In this context, most of the housing and infrastructure needed for an increasingly urbanised world has yet to be built. Supporting sustainable and future proof investments by municipal authorities in enabling infrastructures is key to economic growth and poverty alleviation.

Thirdly, **the climate challenge and the environmental degradation**: whilst cities cover a small part of the world, their physical and ecological footprints are large. Research indicates that they consume more than two-thirds of the energy production and account for up to 70% of energy use, 80% of Greenhouse Gas (GHG) emissions and 70 % of natural resource consumption as well as being significant sources of local air and water pollution and waste generation. Urban development may also fragment and atrophy natural habitats; limiting biodiversity and disrupting hydrological systems. These negative 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 only 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.

3. Action is needed and it will have a decisive impact

The choices made by municipal authorities about urban infrastructure in the coming decades, either in terms of urban planning, waste and water management, sanitation, energy efficiency, energy production or urban transport, **will have a decisive impact** on poverty alleviation, inclusiveness, economic growth, climate change (mitigation and adaptation), greenhouse gas emissions and natural resources. They will also shape future production and consumption patterns and our capacity to transition to inclusive and sustainable development pathways.

4. There are multi-dimensional challenges to face, including attracting private investors, questions of governance, and financing

Beyond public investment, which remain a key factor 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. On this front, it is to point out that results have been uneven when it comes to linking public and private investments e.g. via Public Private Partnerships (PPP) or Special Purpose Vehicles (SPV), due to regulatory and also risk related issues. Typically, municipal services tend to lack viability. 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 user tariffs appear to be significantly below cost recovery levels.

In parallel to these challenges and the capacity to attract private investors, cities must also adapt to a context of **progressive decentralisation** in the neighbourhood and in sub-Saharan Africa, which raises the question of the governance of cities as well as that of the long-term financing of local policies and territorial development. This is particularly relevant for small and medium-sized cities where local administrations have taken over competencies from the national governments, and now need to reinforce their human and financial resources to implement the related development policies.

There is in general a need to increase municipalities' currently limited capacities to access long-term finance matching their needs to develop sustainable infrastructures. **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. **At the same time, fiscal space and debt sustainability concerns at local level need to be addressed.**

5. The objectives of the window fit within a larger context of policy frameworks

The investment objectives should be seen in light of two overarching perspectives: (1) that proposed actions are aligned with EU policy objective and strategic orientations in the particular countries, including the promotion of a "Team Europe Approach", and (ii) that guarantees contribute to crowd in additional finance, private and public, as well as underpin the wider strengthening of the wider eco-systems for subnational finance.

Besides the policy framework, the Policy First approach should also be supported by several initiatives that are implemented in the various regions to help city tackle climate change challenges contributing to engage on policy dialogue and support decentralisation dynamics as well as enhancing urban planning capacities of municipalities as for instance the Covenant of Mayors initiative, whose signatory cities commit to the implementation of sustainable energy policies, as well as local climate change mitigation and adaptation activities. Concrete actions are to be eventually supported by sub sovereign guarantees, be on commercial or non-commercial basis.

EU POLICY OBJECTIVES

The Global Europe - Neighbourhood, Development and International Cooperation Instrument regulation[45] sets out the overarching objectives. The investment window is in line with the European **Green Deal and the Global Europe priorities**[46] and the New European Consensus on Development[47]. The guarantee proposals at the time of the application should be in line with the respective regional policy frameworks and national priorities. The Guarantee proposals shall be consistent with sectorial objectives promoted by the EU policy as for instance the sustainable and smart mobility strategy[48] and the Green deal[49] as well as with key EU policy documents of cross cutting nature such the EU Gender Action Plan 2021-2025 (GAP III)[50] and the EU Human Rights and Democracy Action Plan 2020-2024[51].

In the European Neighbourhood, Guarantee proposals shall fit within **the policy framework and Economic Investment Plans for the neighbourhood (Eastern[52] and the Southern[53]), the Western Balkans[54] and Turkey**.

Regional and Country MIPs are the translation of these objectives into programming documents, capturing the policy priorities and prioritising them in their specific subregional and country contexts. As such, they also define the priorities for EFSD+ supported investments and should therefore be the basis for ensuring the policy first principle for EFSD+ supported investments.

Specific attention should be paid to the **Team Europe Initiatives and flagship initiatives** (see annex 2). They are built around EU political priorities at country and regional level and provide direct guidance as to where the EU and the EU Member States will be focusing their cooperation efforts in a given context. This political prioritisation will also be reflected in the future choices of operationalising funds channelled via the EFSD+ windows. As Team Europe Initiatives provide a frame around which European funding instruments and modalities coalesce, project proposals that support TEIs have to be the preferred option to ensure we achieve our policy goals.

OPERATIONAL CONCEPT

OVERALL WINDOW OBJECTIVES

General Objective

The policy objective of the guarantees under this window is to contribute to the **mobilisation of additional finance** for investment in sustainable urban development/cities aiming at:

[45] Publications Office (europa.eu)
[46] The European Commission's priorities | European Commission (europa.eu)
[47] european-consensus-on-development-final-20170626_en.pdf (europa.eu)
[48] Mobility Strategy | Mobility and Transport (europa.eu)
[49] A European Green Deal | European Commission (europa.eu)
[50] Gender Action Plan – putting women and girls' rights at the heart of the global recovery for a gender-equal world | International Partnerships (europa.eu)
[51] The EU Action Plan on Human Rights and Democracy 2020-24 - Online Discussion - European External Action Service (europa.eu)
[52] Joint Communication: Eastern Partnership policy beyond 2020: Reinforcing Resilience – an Eastern Partnership that delivers for all - European External Action Service (europa.eu)
[53] Renewed partnership with the Southern Neighbourhood - A new agenda for the Mediterranean - European External Action Service (europa.eu)
[54] Western Balkans: An Economic and Investment Plan to support the economic recovery and convergence (europa.eu)

- Enhancing urban resilience to climate change (adaptation and mitigation)
- Contributing to sustainable economic development and job creation, countering inequalities and fostering inclusive urban development
- Improving the quality of life within cities
- Strengthening urban governance and effective decentralisation

Investments addressing the effects of the war in Ukraine could also be covered within this investment window.

Specific objectives

Arrangements for subnational finance constitute a major constraint for the effective use of guarantees in many of our partner countries. Hence, the implementation of this window will have to be **accompanied by sector policy dialogue with the partner countries and by in-country reform processes supported by the Commission**.

The most relevant policy actions and requirements may relate to (indicative and not exhaustive list):

- <u>National Urban Policies (NUPs)</u>: defining or reinforcing NUPs which outline intergovernmental arrangements and clarify roles at national and local level, including through the integration of climate change considerations, as NUPs are key instruments to coordinate national and local climate policies for the implementation of the Paris Agreement. Another example is the Sustainable Urban Mobility Plans (SUMPs), with special attention given to the linkage of urban transport infrastructure to national and regional priorities. Local gender action plans, in line with national and/or regional gender strategies are also of relevance.
- <u>Investment climate for private sector engagement</u>: defining or reinforcing sectoral policies providing a framework within which private sector can play a role (e.g. water, waste).
- <u>Legal and regulatory reforms</u> allowing private institutional investors to pursue long- term low-carbon and climate resilient investment strategies, including at sub sovereign level.
- <u>Promotion of transparent utility practices</u> as well as demonstrating the benefits of well-structured PPPs.
- <u>Utilities revenues support and reform</u> to achieve financial sustainability at the municipal level with due consideration to affordability issues, participatory processes and mechanisms to protect the people in the most vulnerable situations.

INDICATIVE AREAS OF INTERVENTION

The Sustainable cities' investment window promotes the following objectives:

- **Urban resilience**: gender sensitive, sustainable urban mobility, energy efficiency (buildings, public lighting, district heating), eco districts / eco cities, disaster risks reduction measures (e.g flood control mechanisms), urban planning fighting climate change.
- **Urban economic growth & employment opportunities**: economic investment areas, circular economy, urban food supply, heritage conservation (tourism), blue economy (coastal urban areas).
- **Urban quality of life for citizens**: water, sanitation and waste water management, solid waste management, air pollution and green urban areas, urban residential rehabilitation, district heating and lighting, affordable and green social housing.
- **Urban governance**: Municipal authorities' capacity, digital (smart cities, e-governance) inclusive participation (e.g. participative gender budgeting, young people involvement, etc.).
- Build cities' resilience to shocks and harness opportunities for an inclusive, low-emission and climate-resilient, resource efficient and circular economy.

- Promote a territorial approach through the empowerment of accountable and autonomous local authorities to deliver an integrated, multi-scalar and incremental development as well as to better address inequalities within countries, notably those impacted by high mobility rates.

The actions should create a catalytic impact on the environment, climate change adaptation and mitigation, balanced development with decent job creation (in particular for youth and women).

GEOGRAPHIC COVERAGE AND REGIONAL SPECIFICITIES

Geographic coverage of the window

All countries in the scope of International Partnerships of the EU, the European Neighbourhood and Enlargement countries. While the geographic coverage of the EFSD+ Guarantee is global and encompasses all countries eligible under Global Europe, the Commission will allocate the available guarantee capacity in line with its geographic policy priorities. Investments within LDCs/fragile/landlocked and conflict affected countries will be given particular attention.

For already identified priority countries and/or specific regions an earmarked guarantee capacity is presented in annex 1. IFI partners are invited to submit proposals taking into account these geographic priorities.

POTENTIAL BENEFICIARIES OF THE GUARANTEE AND END RECIPIENTS OF SUPPORTED INVESTMENTS

The EFSD+ guarantee will be structured in such a way as **to lower investment risks for long-term financing and create the right conditions to contribute to the provision of municipal services of appropriate quality**.

To do so, **the IFI will work jointly with municipalities, local banks, public utilities, special purpose vehicles (SPV) and public private partnerships (PPP)** to assess and prioritise their main climate, environmental and social challenges and mobilise corresponding investments (green investments that would generate a measurable, beneficial social and/or environmental impact) and respecting fiscal standards. The IFIs will also **propose innovative, feasible and well-structured financial products** in order to make the most of this investment window.

COMPLEMENTARITY/RISK OF POTENTIAL OVERLAPPING WITH OTHER INVESTMENT WINDOWS

There are complementarities with the following investment windows:

- ''MSME financing for inclusive and green growth and job creation''
- Connectivity, Sustainable Energy, Transport and Digital
- Agriculture, Biodiversity, Forestry and Water”
- Sustainable Finance

As a guiding principle and for all the potential overlap with other windows, **city centred interventions** shall be mainstreamed through a multisectoral approach.

Sustainable Finance is a cross-sectoral priority under the EFSD+ as it is a key means to mobilise additional resources to achieve our policy objectives, including on sustainable cities hence acting as a multiplier. In this respect, the Sustainable Cities Window will very much welcome proposals aiming to support the development and use of **sustainability-related financial instruments and products issued on capital markets for the purpose of attracting private capital towards sustainable investments, in particular towards inclusive and sustainable cities in partner countries.** These may include (but are not limited to) transferable securities (equity, bonds), investment funds and vehicle, units in collective undertakings, managed portfolios of instruments, or pension products[55].

FINANCIAL STRUCTURE

Potential guarantee mechanisms

By lowering the risk perceived by commercial banks (public and private) and investors (public and private), the EFSD+ guarantee will enable municipalities, State owned entities and Special Purpose Vehicles (SPVs) to access long term and affordable financing.

The guarantees will be provided to support mobility and **infrastructure-focused operations implementing gender-sensitive, low-carbon investment plans** (see 2.3 for a list of indicative sectors).

Different types of eligible operations may include (indicative and non-prescriptive/exhaustive list):

- Guarantees provided **to grant further access to private finance and expertise at city level** (targeting private institutional investors as a priority), for example:
    - Through municipal bond issuance via credit enhancement measures
    - Through SPVs covering several cities to mutualise risks via credit enhancement measures. The vehicles could in return issue bonds and attract equity investments
    - Through the creation of the right conditions for lending to the local public sector by commercial banks (longer loan terms matching infrastructure maturities).
- Guarantees provided **to grant further access to private finance and expertise to local utilities**, through bond issues/equity investments (directly or through SPVs bundling multiple investment projects or also using the local banking sector investing in equity shares to support PPPs)
- Guarantees provided **to private sector operators, public enterprises and municipal operators working with municipalities as an incentive to roll out gender and climate smart technologies and techniques** (grey-water recycling; rainwater harvesting, smart metering solutions, energy efficient street lighting, inclusive and sustainable urban transport systems, zero-emission urban transport, etc.)
- Guarantees provided **to specialized banks or dedicated companies** to promote financing of housing, slum upgrading programmes targeting populations in the most vulnerable situations such as women headed households. This could include mortgages, bank lending and micro-credit schemes.
- **Sustainability-related financial instruments and products issued on capital markets for the purpose of attracting private capital towards sustainable investments**, **for inclusive and sustainable cities in partner countries.** These may include (but are not limited to) transferable securities (equity, bonds), investment funds and vehicle, units in collective undertakings, managed portfolios of instruments, or pension products.

Priority will be given to inclusive initiatives offering high sustainable low-carbon development impact (including job creation, youth and women empowerment), optimising leverage and cost efficiency, and mobilising funding from multiple sources.

[55] As defined in Directive (EU) 2014/65 https://eur-lex.europa.eu/legal-content/FR/TXT/?uri=CELEX%3A32014L0065
and Regulation (EU) 2019/2088 https://eur-lex.europa.eu/eli/reg/2019/2088/oj

Measures for aligning the interests of the different stakeholders - including fund managers and investors - should be considered in line with relevant market practice. Such measures shall be transparent and will take into account the policy and financial objectives of the relevant instrument.

Generally, proposals in line with the average EFSD+ risk absorption capacity will be considered favourably. These typically include pari passu and second-loss financial structures. This does not exclude first loss financial structures where the risk is considered worth taking to initiate a transformative process with a high level of additionally.

A range of operational guarantee structures in support of Sustainable and Inclusive Cities exist from the EFSD Guarantee programme. IFI partners are invited to consider them when making proposals. Relevant guarantee structures include, inter alia, pari passu guarantees for intermediated lending, second-loss guarantees where local partners retain a layer of first-loss risk (e.g. via equity contributions), and guarantees targeting private co-investors in PPPs. Top ups of existing guarantees shall be accepted whenever it is justified.

Whenever possible, guarantee programmes targeted at mobilising private co-investors will be prioritised (mobilised both locally and internationally).

The EFSD+ will contribute to deepen the market of sub sovereign operations accompanying the transition from a Sovereign type of operation towards a commercial Sub sovereign one. To do so, the EFSD+ will support capacity building to systematise risk sharing mechanisms, strengthening the wider system for subnational finance following a PPP Approach.

In line with the policy actions **technical assistance may include**:

- Capacity building to translate NUPs at local level into urban planning, through a participatory and territorial approach including all stakeholders at city level, and corresponding sound and consensual gender responsive, low-carbon climate-resilient investment plans
- Capacity building on various aspects of sub-national infrastructure financing (including private concessions) to enhance the planning and implementation capacity of sub-national governments, regulatory capacity of government agencies and credit analysis capacity of commercial lenders/institutional investors
- Assisting sub-national governments to institute borrowing/investment programs in a financially sustainable manner, and to compile information packages required by creditors and rating agencies
- Capacity building to strengthen arrangements for involvement of private sector at local level. This could also encompass reinforcing the capacities of private sector at all levels (not only SMEs) to provide sound gender responsive, low-carbon sustainable services/equipment/works to the public sector/local government/consumers (with due consideration to TA provided under "MSMEs financing" window)
- Reinforcement of the legal framework and/or the capacities of local governments to manage and supervise municipal utilities, including from a gender perspective
- Awareness activities on the benefits of sustainable production and consumption for a low-carbon and climate resilient economy: need to pay for basic services, sorting at source, etc. at all levels (public, institutional, private sector…)

PRIVATE SECTOR INVOLVEMENT

The EFSD+ guarantee will be a factor of attraction for private investors in the framework of PPP or SPV arrangements in sectors where the role of private companies in the implementation of public services is considered essential (passenger transport, waste, water distribution, social housing).

The private investors and financial intermediaries who will be able to benefit from the guarantee are: companies and specialised investment funds, institutional investors, commercial banks and microfinance institutions and SPVs.

TYPE OF RISKS

Risks to be mitigated may include:

- **Commercial risks** (payment risk, performance risk, etc.)
- **Political and country risk** (expropriation, coup d'Etat, civil war, etc.)
- **Legal and regulatory risk** (change in law, cancellation of license, tariff adjustments, etc.)
- Under certain conditions, **currency risks** (e.g. exchange rate fluctuation, convertibility, transferability, etc.)
- **Climate change and environmental risks** (e.g. droughts, flooding, extreme weather events, temperature rises, etc.)

Indicative guarantee amount of the investment window, subject to assessment of the proposals received

The indicative target volume of guarantees envisaged under this window amounts to EUR 723 million, including the following distribution between NEAR and INTPA geographies:

INTPA : EUR 463 million NEAR : EUR 260 million

The Commission may allocate a higher or lower amount than the indicative target depending on the proposals finally submitted. An indicative earmarking of potential investments per region and sub-region is included in Annex 1.

For NEAR IFIs/DFIs are encouraged to submit regional proposals covering all NEAR regions and countries. For INTPA some priority countries have been identified as priorities and some guarantee capacity has been earmarked for specific countries and regions, as specified in annex 1.

IFIs/DFIs partners are invited to submit proposals specifying their alignment with priority countries, subregional earmarking and key TEIs. This will in turn be a key factor in evaluating and selecting PIPs submitted by DFIs.

ENVISAGED IMPACT AND PERFORMANCE MEASUREMENT

The following **SDGs are targeted** through this window:

- SDG #1: “End poverty in all its forms everywhere”
- SDG #5: “Gender equality”
- SDG #6: “Clean water and sanitation”
- SDG #7: "Affordable and clean energy"
- SDG #8: “Decent work and economic growth”
- SDG #10 “Reduce inequalities”
- SDG #11: “Sustainable cities and communities”
- SDG #13: “Take urgent action to combat climate change and its impacts”
- SDG#14: ”Life below water”
- SDG#15: “Life on land”

The most relevant key performance indicator(s) from the Global Europe regulation (see annex 3) shall be selected. As contribution to the GAP III, the proportion of Union funded cooperation promoting gender equality and women’s empowerment shall be measured where applicable.

The impact of this window shall be measured through indicators included in Annex 3.

Investments under this window shall promote climate and environmental sustainability standards, in line with the EU sustainable finance agenda.

Additional indicators in line with Global Europe Results Framework (GERF) as well as Results and indicators for development for sustainable cities[56] will be agreed at the level of specific proposals under EFSD+.

Whenever possible, disaggregation by sex (when applicable and feasible) shall be pursued. Further sector specific Gender indicators may be selected from the joint staff working document accompanying the Gender Action Plan III (2021-25)[57].

[56] https://europa.eu/capacity4dev/system/files/documents/sector/booklet_sustainable_cities_1.pdf

[57] Gender equality and empowering women and girls | International Partnerships (europa.eu)

Annexes

ANNEX 1: Priority countries and geographic earmarks

A. Priority Countries

Africa (Sub-Saharan)	Latin America and The Caribbean	Middle East, Asia and Pacific	NEAR
Bénin	Bolivia	India	*In NEAR region there are no priority countries, please refer to earmarked allocation at regional/sub-regional level as indicated below.*
Botswana	Brazil	Indonesia	
Burkina Faso	Costa Rica	Laos	
Burundi	El Salvador	Philippines	
Cameroon	Guatemala	Vietnam	
Comoros	Honduras		
Republic of Congo	Mexico		
Djibouti	Nicaragua		
eSwatini	Peru		
Ethiopia			
Gabon			
The Gambia			
Ghana			
Guinée Conakry			
Guinea-Bissau			
Kenya			
Liberia			
Madagascar			
Mauritius			
Mozambique			
Namibia			
Niger			
Rwanda			
Senegal			
South Africa			
Sudan			
Tanzania			
Tchad			
Togo			
Uganda			
Zambia			

B. Geographic earmarks

Africa (Sub-Saharan)	Latin America and The Caribbean	Middle East, Asia and Pacific	NEAR

Sub-region	%	Sub-region	%	Sub-region	%	Sub-region	€m
The objective is to reach the following allocation overall for EFSD+:		Indicative subregional allocation for the window:		Indicative subregional allocation for the window:		Indicative subregional allocation for the window:	
West Africa	36%	Central America	65%	Southeast	16%	Neighbourhood South	90
East and Central Africa	42%	South America	35%	South	48%	Neighbourhood East	60
Southern Africa and the Indian Ocean	22%			Unearmarked	36%	Western Balkans	60
						Turkey	50

Total envelope for the region	**357**	**Total envelope for the region**	**50**	**Total envelope for the region**	**56**	**Total envelope for the region**	**260**

Window total amount (€m)	**723**

Annex 2: TEIs, flagship initiatives, and policy frameworks relevant to the investment window

TEAM EUROPE APPROACH

The following Team Europe Initiatives are of particular relevance for this window and are to be considered when developing proposals. The list of TEIs is indicative and susceptible to evolve over time; regular updates on TEIs can be found in the following website: Consolidated Table - TEIs | Capacity4dev (europa.eu)

The Team Europe approach is an opportunity for European actors to create a lasting impact at scale and in a united manner to maximize impact and match the interests and priorities of partner's countries. The EU and its Member States, together with the EU financial institutions and other relevant EU actors, need to act and speak with one voice following the Team Europe spirit. Additionally, it aims at bringing together non-EU relevant stakeholders to ensure full coordination and synergies from a global perspective.

Team Europe Initiatives should effectively draw on the full range of the respective EU and Member States financing instruments, modalities and resources, and the EFSD+ is not the exception.

This is even more relevant for the Sustainable and Inclusive Cities window since a join methodological and financial approach might provide the necessary balanced approach to reach a multifaceted objective. Under this window there would be actions that tackle climate-urban-economic development-inequalities-urban governance.

A joint or coordinated approach from the Development Financial Institutions will be valued positively when submitting programme requests to the Sustainable and Inclusive Cities window.

The approach can take many forms, including:

I. Coordinated approach among IFIs where they share objectives and/or geographical scope as well as reporting, but where each eligible finance institution has its own intervention. The coordination could be done through a framework to be selected by implementing partners allowing for discussion of activities, challenges, opportunities, synergies and possible collaborations (e.g. on project pipeline).

II. Joint implementation proposal where two or more eligible finance institutions submit a joint programme requests to the Sustainable and Inclusive Cities Window.

III. Any other proposed approach in between.

The investment objectives should be seen in light of two overarching perspectives:

- that proposed actions are aligned with EU policy objective and strategic orientations in the particular including the promotion of a "**Team Europe Approach**", and support of concrete country or regional **Team Europe Initiatives** (TEI),
- that guarantees **contribute to crowd in additional finance**, private and public, as well as underpin the wider strengthening of the wider eco-systems for subnational finance.

The following list is not exhaustive and further TEIs can be added during the call for expression of interest or during the implementation period in order to enable contribution to EU policy objectives until 2027.

Proposals submitted for **West Africa** can support the following Team Europe Initiatives (TEIs):

- Bénin: Investir dans un Port de Cotonou durable

- Burkina Faso: Inclusion sociale pour la stabilité
- Burkina Faso: Économie verte
- Gambia: Green Gambia
- Ghana: Smart, green and digital recovery
- Guinea Bissau: Inclusive and Green Cities
- Guinea Bissau: Education & training towards an inclusive and green transition
- Guinée Conakry: Économie Verte et Bleue
- Niger: Une économie inclusive, verte, digitale pour et avec les jeunes
- Sénégal: Promouvoir une économie verte et digitale
- Sierra Leone: Green alliance
- Tchad: Pacte vert et fragilité
- Tchad: Vive les villes secondaires
- Togo : Décentralisation et gouvernance locale
- Togo : Énergie & Connectivité

For **East and Central Africa**:

- Cameroon: Pacte vert et résilience dans le Septentrion du Cameroun
- Djibouti : Ville propre et prosperite Djibouti à l’horizon 2027
- Kenya: Green transition
- Rwanda: Sustainable cities fit for the digital age
- Sudan: Supporting women's rights and enhancing their role in Sudan's society
- Tanzania: Green and Smart Cities SASA

For the **Latin America and Caribbean Region**, this window could support the following TEIs:

- Bolivia: Green and Resilient Development. The TEI combines a much needed green recovery and a durable development. The three focal areas are: Sustainable and climate change-resilient landscapes, Green energetic transition and Green economy in sustainable cities. It’s within these areas that the EU and Bolivia partnership can make a substantive and sustainable impact while providing an adequate socio-economic response to the challenging situation following the COVID crisis.
- Brazil: Green Deal - sustainable investments and recovery. The TEI will promote sustainable development with a focus on sustainable investment and at the same time contribute to an environmentally sustainable and socially inclusive economic recovery from the coronavirus crisis. It has two specific areas of work 1) Tropical Forests 2) Sustainable and Smart Cities. Under sustainable Cities the Initiative is targeting the largest portion of Brazil's population (in 2019, about 85 percent lived in cities). Numerous cities in Brazil have shown innovative potential and dedication to sustainable urban solutions, in the fields of mobility, housing, social inclusion, local economic development, climate relevant technology and innovation with a potential for scaling up.
- Colombia: Environment. The TEI will aim to ensure the country’s transition towards green development as a model in Latin America, given Colombia’s strong commitment to climate change, biodiversity, SDGs and environment. The TEI will contain three pillars: (i) sustainable local development, (ii) sustainable cities and infrastructure and (iii) sustainable finance and institutions.

- Costa Rica: Green Recovery, Decarbonisation, and Sustainable Urban Mobility. The TEI will seek to support the country in pursuing its 3D 2050 national development vision (decarbonised, digitalised and decentralised) while also consolidating the country's status as a green hub and green economy.
- Peru: Green Deal – Circular economy and Sustainable Cities. Peru is EU key partner on several global challenges as climate change, environmental and Amazon preservation. Building on government commitment to transform the economy, the EU's effort is to achieve a greening of value chains and the transition to a circular production system.
- Mexico: "Promoting the green transition as part of a sustainable and inclusive economic recovery in Mexico": The overall objective is to support Mexico in pursuing a decarbonisation path and increase its ambition under the Paris Agreement. The Team Europe cooperation with Mexico on a green transition will focus in the following four priority areas of engagement inspired by the Green Deal: A. Sustainable transport/safe and smart mobility, particularly in the context of a smart and sustainable urban planning B. Transition to a low-pollution circular economy, with a focus on solid waste management, sustainable agriculture and sustainable water management C. Promoting energy efficiency and support to a low-carbon energy transition D. Strengthening ecosystem-based adaptation and mitigation of climate change, with a focus on ocean, biodiversity and forest conservation.
- Regional TEI on Green Transition: The regional TEI would aim at accompanying the transition of LAC countries to a decarbonised, environmentally friendly and inclusive economy. In line with the Green Transition priority areas, the TEI will be focused on the following focal sectors: 1) Climate policies and action, including a just and clean energy transition, 2) Biodiversity, marine and forest conservation, and 3) Circular economy.

INTPA Directorate B will prioritise proposals presented in consortiums by more than one Financial Institution in line with the Team Europe approach and those covering several countries, particularly if the proposal includes countries from both sub-regions, Central and South America. Countries listed in Annex I will be preferential but others may be considered for financing from regional funds. Proposals are expected to be in line with the MIPs of the countries selected. Preference will be given to proposals that involve EU private sector actors.

Given the broad scope of this window, the complementarity with other windows and the financing needs of the transport sector in Latin America and the Caribbean, INTPA B is open to receive proposals that address the Windows for Sustainable Cities and Connectivity simultaneously.

For **Asia-Pacific**, this window could support the following TEIs:

- Vietnam: "Climate-resilient, low-carbon circular economy"
- Nepal "Green Recovery" ASEAN/South East Asia (regional): "Green Team Europe Initiative in partnership with ASEAN/South East Asia"
- ASEAN/Sustainable Connectivity
- Regional Asia/Sustainable Production and Consumption

REGIONAL FLAGSHIP INITIATIVES

In the East, priority is given to green urban multimodal public and private transport and the development of smart cities in line with urban development plans. This will contribute to the decentralisation process and will unleash the full economic potential of the urban areas, strengthening local authorities, public local utilities, businesses and civil society organisations, creating local employment opportunities. For environment-related quality of life, increased effort is needed to make urban development more sustainable and further improve the quality and delivery of environmental services, such as water supply, sanitation and waste water management, waste management, green areas in order to act in favour of depollution.

This window will in particular contribute to the bilateral Flagship initiatives:

- Armenia Flagship 5: Investing in a green Yerevan – energy efficiency and green buses
- Azerbaijan Flagship 5: Smarter and greener cities
- Belarus Flagship 4: Supporting a green Belarus – support to energy efficiency, waste management and infrastructure
- Georgia Flagship 5: Improved air quality — cleaner air for over 1 millon people in Tbilisi
- Moldova Flagship 3: Increasing energy efficiency — expanding the refurbishment of district heating systems in residential buildings in Chisinau and Balti

In the South, the investment window will concentrate on the same policy objectives increasing climate change adaptation and mitigation capacities and disaster risk reduction. The CES-MED (Cleaner Energy Saving Mediterranean Cities) and also the SECAP (Sustainable Energy and Climate Action Plans) should be considered as concrete actions to be supported by sub sovereign guarantees, on a commercial basis.

Furthermore, in the framework of the Union for the Mediterranean (UfM) the EU together with partner countries and international organisations has contributed to the establishment of a UfM Sustainable Urban Development Action Plan. The Action Plan provides a joint framework that seeks to coordinate urban and regional development and bring forward the strategic value of projects and spatial interventions, in order to boost their effectiveness and outcomes. It aims to support the identification of priority projects that fit with the UfM, EU and global Urban Agendas for partner countries. Support for the preparation and the implementation of sustainable urban mobility plans, and for the development of green multimodal transport solutions in the region's cities would be a high priority. Proposals targeting the Neighbourhood South region under this window are encouraged to make use of this framework.

In the Western Balkans, the Commission will prioritise the same approach adding air pollution, energy efficiency and mobility being a key concern. Indeed, it is a matter of fact that cities in the region register air quality levels among the worst in Europe during winter.

Annex 3: EFSD+ Results Monitoring Framework

Results and indicators

This Annex is attached to each of the Investment Windows for Open Architecture. This Annex provides an overview of results chains and related indicators structured along the areas covered by the Investments Windows of the Open Architecture as crystallised by the EFSD+ Strategic Orientations. This is the basis for the design, monitoring, reporting, and evaluation of the individual interventions approved by the Commission and the Lead International Financial Institution (LFI).

At individual interventions level, the LFI can add additional results and indicators, if relevant and not deviating from the scope of the Investment Windows.

EFSD+ results and indicators

NDICI-GE and IPA III Regulations refer to **results** as per the OECD-DAC definition: "Results are defined as the outputs, outcomes or impacts of development interventions, with each element contributing to the next, as set out in the results chain below. The links between each element are as important as the results themselves, reflecting the theory of change and the roles of providers and other stakeholders." Along those lines, the EFSD+ Results Measurement Framework (RMF) covers the three levels of results as per NDICI-Global Europe and IPA III Regulations.

Each intervention proposed by the Lead IFI is to be coherent with the EFSD+ RMF and **must contain a results chain** composed by <u>results</u> (impact, outcome, output) **and** <u>indicators</u> (using the table as provided in the <u>Application Form template</u>).

In order to ensure consistency and harmonisation of approaches between the European Commission and the IFIs, **indicative results and indicators are proposed <u>for each of the Investment Windows</u>** for the Open Architecture - as part of the overall EFSD+ Results Measurement Framework. The latter is available in the <u>Excel file provided</u>.

EFSD+ RMF

Impact level

At impact level, the Investment Windows are consistent with NDICI-GE, IPA III and EFSD+ Strategic Orientations overarching priorities. Therefore the impact statements provided in the Excel file are common to the six Investment Windows.

At intervention level, the IFI will indicate the SDGs and related indicators the intervention contributes to. In turn, this allows the European Commission to ensure a link with Level 1 indicators of GERF (Global Europe Results Framework) and IPA PF (Instrument for Pre-accession Assistance Performance Framework). The IFIs do not have reporting obligations against those.

The tab 1 (**STEP 1**) of the attached excel file – to be used for relevant selection - is provided below in a simplified way:

EFSD+ Overarching priority	Impact statement	SDG	SDG Indicator	GERF 1	IPA PF 1
Global Gateway and/or **Green Deal** and or/ **Jobs and sustainable and inclusive Growth**	Effective climate resilient low-carbon economy and society *and/or* Eradication of poverty *and/or* Increased green and inclusive employment *and/or* Prevented and/or reduced environmental degradation *and/or* Smart (digital), sustainable and inclusive economic and social development and growth	#	#	#	#

Outcomes and Outputs, with related indicators

In order to ease the application process and ensure consistency with the EFSD+ Results Measurement Framework (RMF), the design of the outcomes and outputs (with related indicators) needs to incorporate elements that are cross-sector as well as sector/area/intervention specific.
The Lead Financial Institution is responsible to report against those throughout the implementation as per individual Agreements provisions.
Accordingly, the attached excel sets out the following two steps:

- **STEP 2 – Cross-sector outcomes and outputs** level, with related indicators. Cross-sectors are <u>mandatory</u> (or exceptionally <u>mandatory if relevant</u>) for all type of interventions.
- **STEP 3 – Investment window/area/sector outcomes and outputs** levels, with related indicators. Investment window specific/area/sector outcomes and outputs are mandatory (if relevant) as linked to the cross-sector ones, and recommended.
  In particular, the STEP 3 outcomes and outputs with related indicators are reflecting **<u>the scope of each Investment Window</u>** – which are **<u>interrelated</u>** one to another. Hence, depending on the intervention proposed by an IFI, outcomes and outputs with related indicators could be taken from the whole list, regardless of the Investment Window financing the intervention.

For interventions that qualify as **<u>sustainability-related financial instruments and products</u>** – regardless of the Investment Window financing them (hence <u>not only the Investment Window Sustainable Finance</u>):

- Sustainable finance specific outcomes and outputs with related indicators are available among the Cross-sector ones, as they are not sector specific, but instrument specific
- Sector outcomes and outputs with related indicators are to be selected from the overall EFSD+ RMF as per STEP 3

The tables provided in the excel file follow the structure below:

Area	Result	Indicator	Unit	Level	Definition and comments	Reference
Cross-sector MSMEs Energy Transport Etc.	The result statement	The indicator(s) that measure the related result	The unit of measure of the indicator	Impact Outcome Output	How to measure the indicator and other comments	GERF, IPA PF, EUBEC, HIPSO, EFSD, WBIF, Other

The design of the proposed interventions could include other outcomes and outputs (with related indicators) as proposed by the Lead IFI, as soon as they are relevant to the scope of the Investment Window and not already captured in the menu provided by the EFSD+ RMF (Excel file).

Remarks on indicators

Indicators are meaningful against a result (impact, outcomes, outputs) to be measured.

Preference is to be given to indicators (and the related outcomes and outputs statements) that belongs to **GERF/IPA Frameworks,** which are clearly marked in the relevant columns of the provided excel file.

Where relevant, indicators are to be disaggregated by sex, age, and disability.

Monitoring and reporting

The monitoring and reporting principles and requirements are to be in line with NDICI-GE (Articles 33 and 41.7) and IPA III (Articles 12 and 13) Regulations. Further specifications will be provided in a dedicated document on the EFSD+ Results Measurement Framework.

At individual intervention level each Guarantee Agreement will need to specify monitoring and reporting requirements against those same principles and the design agreed between the parties.

European Fund for Sustainable Development+ (EFSD+) Guarantee Investment Window – Sustainable Agriculture, Biodiversity, Forests and Water – Natural Capital

POLICY RATIONALE

BACKGROUND ANALYSIS

1. Sustainable agriculture, forestry, land use and fisheries are inextricably linked to actions against poverty and climate change, but access to finance is a key bottleneck

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.[58]

Aquatic and agri-food systems and biodiversity[59] (including crops, livestock, forestry, fisheries and aquaculture) are 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 and with positive environmental impacts.

Agriculture, forestry, land use and fisheries are not only affected by climate change but also have a significant effect on it, as globally the agriculture, forestry and other land uses (AFOLU) sector is responsible for 19-29% of greenhouse gas emissions and is associated with natural resource depletion, desertification and ecosystems degradation. This is an urgent global challenge, as more than 1 billion people in some 100 countries face risks related to the effects of desertification. Another challenge related to this is water scarcity, which does not only make it difficult for a population to ensure a sustainable food supply, but it is also a major hindrance for economic growth. Unsustainable practices in agriculture, forestry, land use and fisheries are a leading driver of biodiversity loss, which in turn negatively affects yields and the sustainability of food systems. 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. 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, at the enterprise, country and regional level.

Lack of access to financial services remains a compounding factor of rural poverty, water and food insecurity in developing countries, in particular for women in this sector. According to the Initiative for Smallholder Finance less than a quarter of the financing needs of smallholder farmers in developing countries are met, leaving an annual financing gap of more than US$150 billion. This is not only due to the inherent high risk in agricultural production (environmental conditions, quantity and quality of produce, prices), but also to higher risks associated with small producers (limited

58 The World Bank, Poverty overview, 2014.

59 Aquatic and agri-food system is global concept that includes crops, livestock, forestry, aquaculture, fisheries, aquaculture and other land and/or water exploitation

technological and innovative capacities, market inefficiencies and disruptions, limited access to financial services and markets, etc.), as well as the high cost of doing business in small rural markets. Banks and financial institutions also have less experience in providing financial services in this sector and often lack the appropriate tools to assess smallholders' creditworthiness. In developing countries, liquidity for working capital purposes and long-term capital expenditure financing is lacking as a result of the absence of suitable policy frameworks and financing instruments.

Evidence shows that the private finance mobilised (which includes DFIs) remains heavily concentrated in middle-income countries, with very little mobilised in low-income economies[60]. Additionally, blended finance predominately mobilises private finance in 'hard' economic sectors, with very little going to the social sectors, to which we include smallholder farming. Over 75% of global blending operations were in capital-intensive infrastructure sectors (energy, transport and water and sanitation).

The COVID-19 pandemic has shown that ensuring food security as well as improving the life of rural residents through the economic and social development of rural areas and building resilience to adverse effects of climate change are critical in order to tackle crises in the future.

In addition, the invasion of Ukraine, and the response to the crisis by the international community through sanctions against Russia, will impact significantly onf the agricultural value chains: (i) 30% of globally traded wheat, 17% of maize and 50% of sunflower seed oil are produced in Russia and Ukraine; (ii) 40 % potassium fertilizer comes from Belarus and Russia; (iii) 17% nitrogen fertilizer are produced in Russia; and (iv) 66% of ammonium nitrate, key ingredient for fertilizer comes from Russia.

2. Biodiversity and Forests play a key role in the sustainable development process and require important investments

Today, more than half of the world's GDP (about 40 trillion USD) directly depends on nature, with several key industries depending on nature for over 50% of their gross value-added through their supply-chains. Three economic sectors in particular (construction, agriculture and food and drinks) are highly dependent on nature, and millions of jobs in agriculture and tourism rely on protected areas or their surroundings. Furthermore, an estimated 25% of the global population (1.6 billion people) depend on forests for their subsistence, livelihood, employment and income. Innovative financial mechanisms to internalise the immense value of ecosystem services, an increasing focus on carbon neutrality and higher political profile of biodiversity and forests globally allow expectation for an increase in nature-positive investments in the decade to come.

The world's forests and biodiversity are in immediate and increasing danger. The global population of wild species has fallen by 68% since 1970[61] and 1 million species are currently at risk of extinction. Land degradation has reduced productivity in 23% of the global terrestrial area, and between USD 235-577 billion in annual global crop output is at risk as a result of pollinator loss[62]. Over 60% of major marine ecosystems are degraded, with the cumulative economic impact of poor ocean management practices being estimated in the order of USD 200 million per year[63]. The main drivers of biodiversity loss and ecosystem degradation are habitat loss (e.g.: deforestation), over-

60 Attridge and Lengen, 2019; Benn et al., 2017; the World Bank, 2018

61 WWF, 2020. Living Planet Report.

62 IPBES, 2018. The global assessment report on biodiversity and ecosystem services.

63 OECD, 2016. Marine Protected Areas: Economics, Management and Effective Policy Mixes.

exploitation (e.g.: unsustainable levels of hunting and fishing for protein consumption), climate change, pollution and invasive species. The annual rate of deforestation was estimated at 10 million ha over the 5-year period from 2015 to 2020 (driven mainly by agricultural expansion), leading to significant loss of biodiversity, increased CO_2 emissions and decreased ecosystem resilience[64]. At the same time, the demand for forest and agricultural products as well as ecosystem services is growing, with increased pressure on natural resources and increasingly powerful criminal networks involved in trafficking and illegal trade. It is estimated that the global demand for wood-based products will increase from 2 billion m^3 in 2019 to 2.5 billion m^3 by 2030 (in round wood equivalent), and industrial-scale capture fisheries to more than double between 2010 and 2030.

Important investments are needed to sustain and enhance the goods and ecosystem services provided by nature and forests. The Global Biodiversity Financing Gap has been estimated at over USD 700 billion per year, a gap that needs to be bridged in the coming years (ongoing discussions at CBD for a target by 2030) through resources from all sources and particularly through a shift to more private and blended public-private investments in Nature-Based Solutions[65], Payments for Ecosystem Services Schemes and other innovative financial mechanisms (as well as phasing out and redirecting harmful incentives and subsidies). Vivid Economics[66] estimated that the investments needed globally to achieve the climate and biodiversity targets by 2050 are about USD 200 billion for forest-related nature-based solutions. Consequently, there is need to scale up finance in forestry and to mobilize increasingly private finance.

Effective strategies to promote forestry development, should necessarily involve investment in forest farmers and SMEs, and improve their access to markets and integration within the forest value chains.

Despite the importance of private investments for forestry, a wide range of political, socio-economic and market barriers hinder its full mobilisation[67]. Institutional investors remain reluctant to invest in forestry in developing countries, due to high institutional and reputational risks and underdeveloped industrial infrastructure. In the absence of appropriate regulations, many private investments in forestry in developing countries remain opportunistic and myopic, leading often to irresponsible forest exploitation and consequent conflicts with the public interest. The particularly large externalities associated to biodiversity conservation and sustainable use[68] are a further barrier to green investments, with a need to implement public or private mechanisms to reflect the real value of services to populations and economies from nature and to integrate an increased share of this value in investment schemes. There is a need, therefore, to increase not only the quantity but also the quality of investments.

64 FAO, 2020. Global Forest Resources Assessment 2020

65 Nature-based Solutions (NbS) are defined by the IUCN as “actions to protect, sustainably manage, and restore natural or modified ecosystems, that address societal challenges effectively and adaptively, simultaneously providing human well-being and biodiversity benefits”. They are essential for climate mitigation and adaptation and can include, inter alia: protecting and restoring wetlands, peatlands and coastal ecosystems, sustainably managing marine areas, forests, grasslands and agricultural soils, or increasing urban green infrastructure. The Convention on Biological Diversity safeguards and principles for ecosystem-based approaches are equally valid for nature-based solutions.

66 Vivid Economics analysis conducted for a webinar organized by UNEP, TFA, GIZ and ELD: State of Finance for Nature: Tracking capital flows to land related Nature based Solutions (NBS) 25 February 2021

67 Castrén, T., Katila, M. & Lehtonen, P. 2014. Business climate for forest investments: a survey. Washington, DC, World Bank Program on Forests.

68 Positive impacts at global, regional and local levels recognized as massive and critical by scientists, but also often too diffused or indirect for investors to track and report on without adapting to each region and sector

3. The water sector has multiple facets and faces multidimensional challenges for which action is needed

Global water supply is expected to come under increased stress due to climate change, ecosystems degradation, and to increased demand caused by population growth, rising wealth levels, dietary change, urbanisation, and rising industrial demand. It is estimated that by 2050, more than half of the world's population could experience severe water scarcity. At the same time, large numbers of people remain without access to basic levels of drinking water supply (2.2 billion) and sanitation (4.2 billion). Wastewater is a growing global water security challenge with an estimated 80 per cent released into the environment without being collected or treated.

The water sector has many facets. The simplest distinction is between water as a resource to be protected and managed for the benefit of all its functions and users, and water as a service to be provided to its many users including sanitation services. Both aspects need financing, and both are currently deficient. In fact, achieving the SDGs, delivering on the Paris Agreement and making the Human Right to Water and Sanitation a reality will require a historic scaling up of investment into the protection and management of water resources and water services. Projections of global financing needs for water infrastructure range from USD 6.7 trillion by 2030 to USD 22.6 trillion by 2050. There are over 1900 public private partnerships (PPPs) across the world with such private sector contracts estimated at USD 1.1 billion in 2015, but this represents less than 1% of the global financing needs.

Water and sanitation has historically been financed by the public sector, with concessional finance playing an important role in developing countries. Recently, the international development community has increasingly put forward the private sector as a source for additional investments in sustainable development. However, private finance for the water sector has not reached the scale commensurate with the challenge. The perception of the water sector is that there is a lack of 'bankable– and profitable' projects, creditworthy institutions and water businesses. Supply of private finance often fails because the public institutions managing the water sector do not generate reliable and sufficient revenues (often due to reluctance to charge sustainable tariffs) to pay back loans to the private sector - and cover the contextual risks. Risk-return considerations and structural issues related to profitability and management of operating business models often undermine commercial investment. However, new organisational schemes with more flexible and smart PPPs, transparency, flexibility and accountability brought by digital tools, financial instruments bringing together capacity support and finance and new financial stakeholders such as impact funds, are progressively opening up opportunities for the financing of the sector.[69]

4. The oceans require a transition towards more sustainable approaches and have the potential to play a key role in economic development

In addition to being the largest natural carbon sink on the planet, our ocean is a tremendous source of economic livelihoods for billions of people. FAO estimates indicate that about 800 million people make their living in aquatic food systems[70], mostly in developing countries in small-scale fisheries and aquaculture. Fisheries and aquaculture provide about 3.2 billion people with almost 20% of their average per capita intake of animal protein at global level and more than 50% in many LDCs, contributing significantly to food and nutrition security. Fish are also crucial sources of

69 OECD, 2019, Making Blended Finance Work for Water and Sanitation

70 FAO. The State of World Fisheries and Aquaculture 2020. Sustainability in Action https://www.fao.org/publications/sofia/2020/en/

micronutrients, often in highly bioavailable forms. Seafood is the most globally traded food commodity; around 37% of all fisheries and aquaculture production enter international markets.

The ocean is becoming the centre stage for a new range of economic activities. Too often, however, these activities have expanded with no sufficient consideration for environmental and social sustainability, creating low paying jobs and leading to environmental degradation. The conservation and sustainable use of the ocean needs to unlock sustainable development across social, environmental and economic dimensions. It needs to benefit all countries, especially the poorest and the most vulnerable ones, which are highly exposed to the effects of ocean degradation while possessing the least ability to respond.

The transition from the current unsustainable, unequal and destructive approach to aquatic ecosystems towards a more sustainable aquatic food systems that contributes to the conservation and restoration of biodiversity, presents a tremendous economic and sustainable investment opportunity that will not only increase the supply of nutritious food but also contribute to community resilience, good jobs, gender equity, and poverty alleviation.

Especially within the aquaculture sector, a move towards more sustainability is required. Investments to develop sustainable aquaculture and the uptake of innovative solutions can significantly help meet the increasing global demand for food if managed sustainably. Reducing ocean pollution and overfishing can put an end to fish stocks depletion and negative impacts on the quality of edible fish and other marine products.

Financial resources are needed to transform both emerging and existing ocean-based sectors into catalysts for long term, inclusive and sustainable development.

EU POLICY OBJECTIVES

The Global Europe[71] priorities (including the EFSD+), the New European Consensus on Development, the European Green Deal (including the Farm to Fork strategy)[72] and the Zero pollution action plan[73] as well as with key EU policy documents of cross cutting nature such as gender mainstreaming (EU Gender Action Plan 2021-2025) and human rights (EU Human Rights and Democracy Action Plan 2020-2024, Global Europe article 8.2) will guide all operations of the EFSD+.

We refer to annex 2 for a detailed overview of relevant policy frameworks for the various dimensions of this window including agriculture, forest, oceans, biodiversity, water and sanitation, as well as transversal aspects. Regional and Country MIPs are the translation of these objectives into programming documents, capturing the policy priorities and prioritising them in their specific sub-regional and country contexts. As such, they also define the priorities for EFSD+ supported investments and should therefore be the basis for ensuring the policy first principle for EFSD+ supported investments.

Specific attention should be paid to the Team Europe Initiatives (see annex 2). They are built around EU political priorities at country and regional level and provide direct guidance as to where the EU and the EU Member States will be focusing their cooperation efforts in a given context. This political prioritisation will also be reflected in the future choices of operationalising funds channelled via the EFSD+ windows. As Team Europe Initiatives provide a frame around which European funding

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71 Global Europe regulation https://eur-lex.europa.eu/legal-content/EN/TXT/DOC/?uri=CELEX:52018PC0460&from=EN

72 Farm to Fork Strategy https://ec.europa.eu/food/horizontal-topics/farm-fork-strategy_en

73 Zero Pollution Action Plan https://ec.europa.eu/environment/strategy/zero-pollution-action-plan_en

instruments and modalities coalesce, project proposals that support TEIs have to be the preferred option to ensure we achieve our policy goals.

Furthermore, an overview of the relevant flagship initiatives is provided in annex 2.

OPERATIONAL CONCEPT

OVERALL WINDOW OBJECTIVES

1.1.1 General objective

Investments promoted under this window will seek to improve food security and nutrition in an aquatic and agri-food systems[74] approach, and thus targeting directly or indirectly smallholder farmers and fisher folk; protect, conserve and restore terrestrial and aquatic ecosystems; support sustainable forest value-chains and ensure access to water sanitation and hygiene (WASH) services. It will transversally address climate risks and adaptation, favour circular economy principles and systematically address gender equality.

Investments addressing the effect of the war in Ukraine could also be covered within this investment window.

1.1.2 Specific objectives

The EFSD+ guarantee(s) under this window shall be structured in such a way as to:

i) Foster innovative financing solutions promoting private funding sources. This is in order to ensure sustainable and inclusive agriculture and forest production and respective value chains, as well as enhanced biodiversity conservation and restoration, water resource use and management, climate resilience and increased food and nutrition security.
ii) Create decent and sustainable jobs and income-generating activities in rural and peri-urban areas in particular for women and young people and to contribute to environmentally sustainable, climate resilient and low-carbon development as well as addressing relevant risks in order to ease and extend access to capital and increase investments.
iii) Improve food security and nutrition, address food value chain disruptions such as the one created by the invasion of Ukraine by Russia, address climate risks and contribute to halting and reversing the loss of biodiversity and ecosystem services.
iv) Help countries deliver on their commitments to align with national, EU and international environment and climate commitments and policies, in particular implement the Paris Agreement on climate change and their gender action plan, the post-2020 Global Biodiversity Framework and to achieve Land Degradation Neutrality.
v) Promote the sustainable and efficient use of natural resources (land, soil, water).
vi) Promote green economy principles in sustainable production and encourage sustainable consumption and healthy diets.
vii) Strengthen market integration with the EU, with efforts focusing on facilitating integration of sustainable and more innovative production and processing value chains.
viii) Improve the sustainable management of water resources in rural and urban contexts, including for ecosystem services.
ix) Contribute to the target of universal and equitable access to safe and affordable water, sanitation and hygiene by 2030.
x) Support co-creation, innovation and the dissemination of knowledge.

74 Aquatic and agri-food system is a global concept that includes crops, livestock, forestry, aquaculture, fisheries and other land and/or water exploitation

xi) Promote resilience to ecosystem degradation, natural disasters, climate change and related food crises, e.g. through nature-based solutions.

INDICATIVE SECTORS OF INTERVENTION

This window targets all aquatic and agri-food systems, conservation and forest-based production, manufacturing and services and water management in their broader meaning can be covered, notably including deforestation-free and climate-smart agriculture, sustainable livestock and fisheries/aquaculture development, agroforestry and other agro-ecological practices, sustainable forest management, land restoration, afforestation and reforestation, ecotourism, natural/green infrastructure, biodiversity conservation, combatting ocean pollution, bio-waste and reuse of wastewaters, sustainable land use and integrated water resources management, respective value chains and MSMEs as well as WASH services.

The food systems, value chain, sustainable agriculture/fisheries/aquaculture and forestry and biodiversity management or protection/preservation (including landscape/seascape and /ridge-to-reef approaches form an important element of the operations to be funded under this window.

Proposals should reflect investment opportunities for the private sector in those areas, provided that the investment promotes sustainable, low-carbon, climate-resilient, nature positive and inclusive growth and that there is a direct or indirect link with farmers.

Examples: the upscaling of agro-ecological practices; the development of local processing (food, timber); the reduction of food losses/waste; etc. This allows for a broad view of eligible sectors and a comprehensive approach to eligible activities, including production, post-harvest, food-processing, aggregation and marketing, as well as trade facilitation and promotion, always with links to smallholders and agricultural and forestry MSMEs. Links with carbon and local biodiversity offsets will also be supported, as well as cooperative sector development and domestic-oriented production agriculture and forestry. Financial instruments proposed should go clearly beyond partner financial institutions' traditional product ranges, potentially including insurance solutions (such as weather index insurance) as well as dedicated products for ecosystem-based adaptation measures) to enhance resilience of farmers and local communities against climate risks.

Access to water and sanitation services and sustainable water resource management form another complementary element of this window. Proposals should reflect investment opportunities to mobilise private sector and commercial funding (including sub-sovereign commercial funding) so to strengthen financing systems upon which sustainable service delivery and water resource management rely. The guarantees associated with other risk mitigation tools and strategies, can help meet risks associated with for example the credibility of water operators and water services providers such as revenue recovery, cash flow constraints, innovation and/or contextual risks linked to country situations or cultural acceptance of changes.

Sustainable Agriculture

Investment priorities developed in this window will respond to the lack of financing mechanisms adapted to farmers, fishermen and agri-entrepreneurs, particularly for smallholders, cooperatives and agricultural MSMEs. The aim will be that of fostering a transformative shift towards a competitive low-carbon and climate-resilient development in line with the Paris Agreement. The protection of natural resources such as land and water is a horizontal priority, particularly when it comes to address the Food – Water – Energy Nexus. The potential areas may also explore mechanisms to enhance food and nutrition security at country level. Special attention will be given to underserved market segments and social businesses, such as women owned businesses and young entrepreneurs, as well as innovation, early stage support, climate-smart activities and start-ups favouring green and circular business models.

Biodiversity

Private investments can contribute positively to biodiversity either through (i) reducing the drivers of biodiversity loss (provision of alternative livelihoods) or (ii) diversifying revenue flows for conservation finance. Such investments should be spatially prioritized in high biodiversity landscapes[75]. Investments focusing on reducing the drivers of biodiversity loss can include the promotion of deforestation-free and ecosystem-based agricultural practices[76], sustainable forestry, sustainable fisheries, sustainable rural electrification[77] or sustainable protein production[78]. Investments contributing to the diversification of revenue flows for conservation finance can include ecotourism operators and associated SMEs, carbon projects, local biodiversity offsets and other payments for ecosystem services. Nature-Based Solutions for water treatment, depollution, carbon sequestration, coastal protection, land restoration, disaster risk reduction and climate adaptation at large are a transversal priority area for investment. Wherever possible, synergies between the preservation of natural and cultural heritage would be favoured (e.g. sustainable eco-cultural tourism). Innovative mechanisms connecting the financing needs for conservation in protected areas with the revenues from sustainable economic activities in the broader landscapes will be favoured.

Forests

Investments in forest production should comply with agreed environmental, social and governance standards and generate, in addition to commercial benefits, ecosystem services and social wellbeing. A special focus on biodiversity within the forest to preserve the variety of the habitat should be taken into consideration. This investment window will respond specifically to the lack of financing mechanisms adapted to small- and medium-scale forest producers, notably women and young farmers applying productive ecosystem-based forest management, with the aim to foster a transformative shift towards a circular and competitive low-carbon and climate-resilient development. The whole forest value-chain can be targeted, from natural and plantation forestry, including REDD+ projects, smallholder and community forestry, to timber processing and manufacturing.

Water

The main priority in this area is to improve **universal and equitable access to safe and affordable water, sanitation and hygien**e (**WASH)** in urban, in particular secondary cities, peri-urban and rural areas, thus leveraging further sustainable social and economic development.

There should be an adequate balance in the window:

i) Between the support to access to safe drinking water and to sanitation;
ii) Between rural, peri-urban and urban areas;
iii) For the support to women, and marginalised groups and communities.

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75 See, for example, the *Key Landscapes for Conservation and Development* identified in the EU 'Larger than' series.

76 Descriptions of more than 20 biodiversity-friendly management practices and approaches, and trends in their level of adoption, are discussed in detail in chapter 5 of The State of the World's Biodiversity for Food and Agriculture (FAO, 2019)

77 As a means to reduce local over-reliances on wood biomass and unsustainable wood harvesting for energy needs. This should be explored in synergy with the EFSD OAG Window on Connectivity (Energy, transport and digital)

78 As a means to reduce local over-reliances on wild meat (bush meat) and unsustainable hunting levels. Where possible, micro-finance would be a preferred option in order to provide alternative revenues for the local population.

Complementarily, EFSD+ supported interventions shall aim at **protecting and managing sustainably water resources**, notably:

- Improving river basin management (including source to sea and ridge to reefs approaches),
- Increasing reliance on nature-based-services, improving urban water management (drainage; storage and conveyance),
- Flood protection (riverine and coastal),
- Promoting water stewardship principles (including circular economy principles, de-pollution, re-use, use efficiency, effluents and sludge management and valorisation), and
- Implementing beneficial aspects of the water-energy-food-ecosystems nexus (including multi-purpose water infrastructures).

Ocean

Funding towards the sustainable blue economy needs to go hand in hand with diverting and re-orienting finance away from harmful and unsustainable activities. It needs to refocus economic activities and generate new economic and business models that innovatively contribute to both production and ocean health. To achieve this, investments in the ocean must follow the Sustainable Blue Economy Finance Principles[79]. The principles were developed by the European Commission, WWF, the World Resources Institute (WRI), the European Investment Bank (EIB) and UNEP.

GEOGRAPHIC COVERAGE AND REGIONAL SPECIFICITIES

1.1.3 Geographic coverage of the window

While the geographic coverage of the EFSD+ Guarantee is global (Sub-Saharan Africa, Asia and the Pacific, Latin America and the Caribbean, Neighbourhood East and South, the Western Balkans and Turkey) and encompasses all countries eligible under Global Europe, the Commission will allocate the available guarantee capacity in line with its geographic policy priorities. Investments within LDCs/fragile/landlocked and conflict affected countries will be given particular attention.

For already identified priority countries and/or specific regions an earmarked guarantee capacity is presented in annex 1. DFI partners are invited to submit proposals taking into account these geographic priorities

1.1.4 Regional specific objectives

Sustainable food systems, biodiversity, forests, water resources management (WRM) and WASH, all appear prominently throughout country and regional MIPs, including in related EFSD+ sections. Mentions to biodiversity in relation to EFSD+ within the MIPs is linked (in decreasing order of frequency) to ecotourism, nature-based solutions, payments for ecosystem services, carbon credits and conservancies. Mentions to agriculture in relation to EFSD+ evoke the promotion of agro-ecology and food and nutrition security; targeting the “missing middle” as regards to agri-business (M)SMEs; and improving smallholders’ earnings and living conditions. Mentions to forests in relation to EFSD+ focus on a value-chain approach, with mentions to sustainable exploitation, processing, plantations or infrastructure. Mentions to WRM and WASH in relation to EFSD+ evoke implementation or rehabilitation of WASH systems in underserved rural, urban and peri-urban areas and/or improved river basin management. Mentions to Ocean in relation to EFSD+ is linked to sustainable aquatic food systems, sustainable fisheries and aquaculture management, ocean governance (including maritime

79 https://www.unepfi.org/blue-finance/

spatial planning), biodiversity conservation and restoration, nature-based solutions to strengthen coastal resilience, blue carbon, ocean afforestation and reduction of ocean pollution.

In **Africa**, while publicly managed protected areas have traditionally predominated, shared governance models (notably Public-Private-Partnerships) and conservancies have been gaining increasing importance, opening new prospects for private investments, including projects based on carbon sequestration, local biodiversity offsets or the sales of ecosystem services (notably ecotourism and energy).
In **Latin America and the Caribbean**, pioneering countries have made the case for Payment for Ecosystem Services schemes, and pilot projects have shown it is possible (and paramount) to involve Indigenous Peoples and their territories in the design and implementation of global funds for climate and the environment.
Asia and the Indo-Pacific have also seen their share of innovative projects (land-based carbon sequestration, biodiversity trust funds, sanitation impact bonds, WASH revolving funds etc.), including the creation of the first Blue Bond in the Indian Ocean and an increasing prioritisation of the development of the sustainable Blue Economy in the Pacific.
For the **Southern Neighbourhood**, the priority is resource efficiency, focusing on the water-energy-food nexus with a view to developing more sustainable food systems and enhancing resilience to the impacts of climate change. This can include support to sustainable production and consumption - integrated water resource management, use of renewable energies, soil conservation techniques, pollution reduction, the promotion of biodiversity and the preservation and restoration of ecosystems.

For the **Eastern Neighbourhood,** priorities lie in preserving and restoring biodiversity and natural assets including through integrated river basin management, extension of protected areas and forests, improving forest management, halting land degradation, improving access to safe water and sanitation as well as sustainable agriculture, land reform privatisations and agro-processing, enabling forest-dependent communities to generate more income and to create sustainable jobs. This can also include activities related to resource-efficient, clean and circular production.

For the Western Balkans, following the Economic and Investment Plan and its accompanying Green Agenda reflecting the Green Deal in the region, sustainable farming and food production, protecting biodiversity and nature-based solutions are high on the agenda, as well as agro-production and sustainable land use to inter alia attract tourism and align with EU standards. Investments in waste and wastewater management is also key to support sustainable and reliable ways of managing water supply, wastewater and waste disposal which are crucial for the protection of the environment and of the health of citizens and can have positive impacts on tourism in the region. This is essential for the green perspectives of the region, and safeguarding the health and welfare of its people.

For **Turkey**, adapting agricultural production, processing and marketing of products to climate change effects and sustainable and renewable energy production, building resilience of the sector to address adverse climate change effects, as well as sustainable integrated management of soil, water and air will be very important. Any activities related to the EU Farm to Fork Strategy and Green Deal would be beneficial.

POTENTIAL BENEFICIARIES AND END RECIPIENTS

Investment priorities developed in this window will respond to the lack of financing mechanisms adapted to farmers, fisher folk, forest managers and agri-entrepreneurs, particularly for smallholders, cooperatives and MSMEs, and for women and young people. In case of water, recipients of the supported investment include the owner/user of the respective infrastructure, water operators and utilities, water related services providers (e.g digital services, construction services, innovation services, Non-revenue water, watershed management, monitoring and data management) in the form of PPPs or direct contracts and the relevant sovereign or sub-sovereign entities (e.g. IPP, ESCOs, commercially operating utilities).

The guarantee seeks to bring in private and cooperative sector investment with both its skills and funds. The financial institutions and institutional investors (banks, endowments, hedge funds, MFIs, Impact Funds, insurance companies, mutual funds and pensions) serve as intermediaries.

The level of coverage provided to individual operations could be differentiated to reflect a focus on the disadvantaged and marginalised groups, the young and women, on certain types of crops or farming systems, or certain geographic areas that are considered more difficult to service.

COMPLEMENTARITY WITH OTHER INVESTMENT WINDOWS

This window is closely linked to the window addressing “MSME financing for inclusive green growth and job creation”, which also addresses some activities relating to agricultural/fish and forest-based value chains or the reinforcement of biodiversity standards (including science-based targets for nature). Innovative financial mechanisms, such as green and blue bonds can be supported in synergy with the window on sustainable finance. Sustainable electrification in high-biodiversity landscapes and “water-energy-food” nexus approaches should be explored in synergy with the connectivity window. Furthermore, water investments under this window will complement the “Sustainable Cities” window, which covers wastewater management investments in urban environments. Moreover, it will complement the Human Development window with regards to food security and nutrition.

Sustainable Finance is a cross-sectoral priority under the EFSD+ as it is a key means to mobilise additional resources to achieve our policy objectives, including on sustainable agriculture, biodiversity, forests and water management hence acting as a multiplier. In this respect, the Natural Capital Window will very much welcome proposals aiming to support the development and use of **sustainability-related financial instruments and products issued on capital markets for the purpose of attracting private capital towards sustainable investments, in particular towards sustainable agriculture, biodiversity, forests and water management in partner countries.** These may include (but are not limited to) transferable securities (equity, bonds), investment funds and vehicle, units in collective undertakings, managed portfolios of instruments, or pension products[80].

Outreach to these windows will be ensured as innovation solutions will be sought for under this window.

FINANCIAL STRUCTURES

POTENTIAL GUARANTEE MECHANISMS

EFSD+ supports a wide variety of guarantee structures, including pari passu, first-, second- and third-loss guarantees. Generally, proposals in line with the average EFSD+ risk absorption capacity will be considered favourably. These typically include pari passu and second-loss financial structures. Considering the overlap and complementarity of the Sustainable Agriculture Fisheries and Aquaculture, Biodiversity, Forests and Water investment window with other windows (i.e. MSMEs,

80 As defined in Directive (EU) 2014/65 and Regulation (EU) 2019/2088

Sustainable Cities, Connectivity, and Human Development), a range of operational guarantee structures exist from the EFSD Guarantee programme. DFI partners are invited to consider them when making proposals. Relevant guarantee structures include, inter alia, pari passu guarantees for intermediated lending, second-loss guarantees where local partners retain a layer of first-loss risk, and fund structures.

Wherever possible, guarantee programmes targeted at mobilising private co-investors will be prioritised.

Different types of eligible operations may be considered, including but not limited to:

- Guarantees to mitigate risk attached to launching new financial tools for sustainable investment promotion on agriculture, forestry, water, oceans, land use and fisheries sectors.
- Guarantees on innovative projects, which strive to stabilize revenue streams in water and sanitation services through improved revenue recovery, differentiation of tariffs and increased customer registration (and payment) pathways, including microfinance institutions, commercial banks, non-banking financial institution, non-sovereign commercial entities and public-or- private sector service providers.
- Guarantees to mitigate risks attached to financial transactions and innovative credit instruments regarding implementation or rehabilitation of water, sanitation and hygiene (WASH) systems in underserved rural, urban and peri-urban areas, including public and private sector investors, non-sovereign commercial entities, and funds.
- Guarantees on innovative projects, which strive to introduce new technologies to meet green deal, carbon neutral and efficiency objectives in the water sector, such as improvement of preparedness and adaptation to climate change, including droughts, net-metering solar power solutions at existing water and wastewater treatment plants, smart meters, digital monitoring systems (at network and river basin levels), reduction of nonrevenue water, or circular economy solutions (re-cycle and re-use, use efficiency, effluents and sludge valorisation).
- Guarantees on financial structures down to local finance levels (commercial banks, local businesses and services, non-sovereign commercial entities, and individual stakeholders and landowners) that have the potential to contribute significant growth and efficiency in the water sector, nature-based-services or water services in other sectors.
- Sustainability-related financial instruments and products issued on capital markets for the purpose of attracting private capital towards sustainable investments, in particular towards sustainable agriculture, forests and other land uses for climate, biodiversity, water and food security in partner countries. These may include (but are not limited to) transferable securities (equity, bonds), investment funds and vehicle, units in collective undertakings, managed portfolios of instruments, or pension products. For example:
    - Credit enhancement for investment funds attracting private institutional investors into developing, neighbourhood and pre-accession country investments in value chains based on sustainable, climate neutral, climate resilient, biodiversity-friendly and circular agriculture, fisheries and forestry ; biodiversity conservation, restoration and sustainable management; carbon farming, nature-based solutions and ecosystem-based approaches, such as agro-forestry as well as support to cooperatives.
    - Risk mitigation mechanisms for investment funds providing equity participations in micro, small and medium enterprises (MSMEs) in developing, neighbourhood and pre-accession countries, active in value chains based on sustainable, climate neutral, climate resilient, biodiversity-friendly and circular agriculture, fisheries and forestry; in water access and

sanitation, sustainable water management; biodiversity conservation, restoration and sustainable management; carbon farming, nature-based solutions and ecosystem-based approaches, such as agro-forestry as well as support to cooperatives.

- Risk mitigation mechanisms for commercial banks and non-banking financial institutions for medium-long term lending towards investments in value chains based on sustainable, climate neutral, climate resilient, biodiversity-friendly and circular agriculture, fisheries and forestry.
- Financial guarantees to cover part of the portfolio risk of an investor or group of investors promoting comprehensive value chain investments or investments in a landscape approach, combining TA for skill development and financing mechanisms.

The operations listed above are indicative and non-prescriptive/exhaustive. Priority will be given to innovative initiatives and climate-smart entrepreneurship clearly going beyond existing products available in the market and optimising advantage and cost efficiency, mobilising private funding sources and operating in countries/regions where private sector participation is low. Cooperative sector development will also be encouraged to help small holders or landless farmer mutualise risks. Priority will also be given to inclusive initiatives reducing inequalities and leaving no one behind (in particular children, women and disabled people). The EU Human Rights guidelines for safe drinking water and sanitation should be implemented by partners developing WASH operations.

Proposals should aim as much as possible towards a fair repartition of costs, risks and benefits between the various parties associated in the operation and demonstrate the catalytic effect of the EU financial support, allowing for replication and scaling up of the operation.

POLICY DIALOGUE AND TECHNICAL ASSISTANCE MEASURES

Implementation of this window may thus be accompanied by sector policy dialogue with the partner countries and by in-country reform processes supported by the EU and led by the EU Delegations in the country as well as EU member states, in a Team Europe approach, in order to foster an enabling environment including alignment of sector policies, regulations and planning with climate change and gender equality objectives, under which the policy goals can materialise and increased investments can take place. Supporting policy actions and technical assistance to be provided in connection with the guarantee instruments may therefore include:

At the policy dialogue level:

- Support the integration of climate change (adaptation and mitigation), biodiversity, disaster risk management, environment and gender equality in agricultural, water, forestry and land use policies and ocean governance.
- Adjustments to sector policy and regulatory framework to make it conducive to private and public sector investment. This may entail consolidation of suitable legislative, fiscal and regulatory frameworks that facilitate investments and mobilise funding for water sector projects including financial and technical support measures to minimise investment risks such as: improved public investment policies and planning, tariff reforms towards cost reflective tariff structures that ensure long term financial stability of utilities; review of subsidies' policy and other existing market distortions;.
- Governance and institutional reforms, incl. possible utility restructuring to improve its creditworthiness, reforms in the field of domestic resource mobilisation and municipal finance,

management capacities and skills development (enhanced transparency, efficiency, data/human resources/financial management etc.);

- Legal and regulatory reforms allowing for improved market access by private institutional investors to pursue long- term low-carbon investment strategies that contribute to water security, including at sub sovereign level;
- Addressing synergies and inter-linkages between gender equality, climate change, environment, biodiversity, agriculture and national development plans, including the implementation of the National Determined Contributions (NDCs) and Long Term Strategies (LTS) and national commitments towards international gender equality objectives (i.a. Beijing platform of action, Convention on the elimination of all forms of discriminations).
- Analysis of barriers for project development stage, including scale-up and aggregation of projects, project and contracts standardisation, licensing procedures to help governments (local and national) to build a strong pipeline of investment projects using transparent and inclusive procedures such as auctions. This could be particularly important at the municipal level and coordination with the Sustainable Cities Window and the MSMEs window needs to be ensured.
- Structured and strategic policy dialogue and stakeholder engagement with increasing private sector mobilisation, including MSMEs, as well as inclusion of non-state actors and civil society.
- Structure and strategic policy dialogue, design of policies and plan to promote equality and women's empowerment in the agriculture, fisheries, aquaculture, forest, biodiversity and water sectors.

In line with the policy actions detailed above, technical assistance to be provided along with the guarantee instruments to be deployed may include:

Technical Assistance measures and policy dialogue may relate to:

- Technical capacity building, to be defined at the proposal stage, reflecting the main risks to the success of the investment.
- Technical assistance to support the strengthening of ESG standards of financial intermediaries and/or final beneficiaries.
- Analysis and technical assistance to address synergies and inter-linkages between gender equality, climate change, agriculture, ocean, forestry, water use/management, land-use, WASH, biodiversity and food security, including the implementation/reaching of the National Determined Contributions (NDCs), National Biodiversity Strategies and Action Plans (NBSAPs), National Adaptation Plans (NAPs), Sendai Framework and Land Degradation Neutrality targets in line with the SDGs.
- Fine tuning policies and regulatory frameworks to allow for increased investments WASH and water resources management and in facilitating the implementation of the investment projects needed to meet SDG 6, SDG 7 and SDG 13 as well as other associated SDGs.
- Technical assistance for public and private bodies to support the integration of gender equality, climate change (adaptation and mitigation) and environment in their strategies and operations;
- Promoting and implementation of transparent investment preparation practices, including competitive procurement processes and transaction advisory services, demonstrating the benefits of well-structured public/private partnerships and competitive dialogue procedures, equitable availability of country/sector/project information; facilitating public-private consultation on

project support schemes and awareness of existing risk mitigation instruments to ensure a level playing field;

- Assisting public bodies in preparing sustainable projects pipelines, from identification to feasibility stage, incl. environmental and social studies (e.g. gender analysis), technological studies to integrate innovative technologies (e.g. energy storage, renewable hydrogen) etc.;
- Assisting public institutions (at all levels) to institute borrowing/investment programs in a financially sustainable manner, and to compile information packages required by creditors and rating agencies;
- Utilities revenues support and reform (where appropriate) to achieve financial sustainability level with due consideration to affordability issues and mechanisms to protect the most vulnerable.
- Technical support to improve the deployment of digital solutions to improve transparency and efficiency of utility operations (e.g. payments control, smart metering, NRW monitoring) to increase trust among partners;
- Assistance to develop innovative projects and financial tools such as payment for ecosystem services, use of nature based solutions, nature-debt swaps or use of bonds and carbon credits.
- Specific policy support to initiatives in smart water, smart catchments, tariff differentiation, small and medium size business and service, WASH services, and microfinance special purpose vehicles that meet EUD objectives over a wide range of geographical areas.
- TA for improving the understanding, monitoring and management of the water resources and uses, in particular with the objective of decreasing risks related to availability and quality of the resources for water related operations;
- TA to support targeted social measures for enhanced social acceptance of water tariffs could also be covered to reduce affordability and acceptability risks.
- Technical assistance, gender analysis, adjustment of sector legislations to improve the contributions of investments to gender equality and women's empowerment

Synergies should be sought with country programmes and actions in the respective sectors, policy dialogues and work with the CSOs (in particular to implement the Human Rights guidelines for safe drinking water and sanitation.

PRIVATE SECTOR INVOLVEMENT

Proposals with a higher private sector financial leverage will be given the preference, separately for (a) proposals with a primary agricultural focus and (b) proposals with a primary forest/biodiversity focus, (c) proposals with a primary water focus.

TYPE OF RISKS

Risks to be mitigated may include:

i) Commercial risks (payment risk, off-taker payment not honoured, off-take bankruptcy, etc.),

ii) Political and country risk (expropriation, coup d'état, civil war, etc.),

iii) Legal and regulatory risk (change in law, cancellation of license, tariff adjustments, etc.),

iv) Currency risks (e.g. exchange rate fluctuation, convertibility, transferability, etc.),

v) Climate change and environmental risks (e.g. droughts, flooding, extreme weather events) and

vi) Pandemics, disease and pests; sanitary and phytosanitary risks.

In addition, the water aspect allows those financing vehicles to address further risk elements, often specific to the water sector, such as:

i) Financial risk (sustainable tariff policy approval by the national regulator and implementation by the service provider/local-national government, which addresses both the 'social' and 'commercial' range),

ii) Social risk- affordable to the poor (regarding minimum water consumption levels, for example of 20-50 litres/ capita/ day),

iii) Commercial risk: fiscally sound for the service provider (ensuring cost-recovery for annual operations and maintenance of the water and sanitation systems via increasing rates for higher consumption levels, across all customer categories: domestic, institutional and commercial customers; ensuring payments for ecosystem services, flood management services or other services related to the sustainable management of water resources),

iv) Operational risks (water and sanitation system performance according to the technical, administrative and managerial capacities of service provider's staff, water allocation risks, water pollution events risks, resource conflict risks).

INDICATIVE GUARANTEE AMOUNT OF THE INVESTMENT WINDOW

The indicative target volume of guarantees envisaged under this window amounts to
EUR 890 million, including the following distribution between NEAR and INTPA geographies:

INTPA : EUR 720 million NEAR : EUR 170 million

The Commission may allocate a higher or lower amount than the indicative target depending on the proposals finally submitted. An indicative earmarking of potential investments per region and sub-region is included in Annex 1.

For NEAR IFIs/DFIs are encouraged to submit regional proposals covering all NEAR regions and countries. For INTPA some priority countries have been identified as priorities and some guarantee capacity has been earmarked for specific countries and regions, as specified in annex 1.

IFIs/DFIs partners are invited to submit proposals specifying their alignment with priority countries, subregional earmarking and key TEIs. This will in turn be a key factor in evaluating and selecting PIPs submitted by DFIs.

ENVISAGED IMPACT AND PERFORMANCE MEASUREMENT

Investments qualifying for this in this window will contribute to achieving the following UN Sustainable Development Goal:

- SDG #1 on "Ending poverty in all its forms'',
- SDG #2 on ''Ending hunger, achieving food security and improved nutrition and promoting sustainable agriculture'',
- SDG #5 on "Achieving gender equality and empowering all women and girls",
- SDG #6 "Ensure access to water and sanitation for all",
- SDG #7 on "Access to affordable, reliable, sustainable and modern energy";
- SDG #9 on "Building sustainable and resilient infrastructure development";
- SDG #11 Make cities and human settlements inclusive, safe, resilient and sustainable;

- SDG #12 to "Ensure sustainable consumption and production patterns";
- SDG #13 on ''Taking urgent action to combat climate change and its impacts'';
- SDG #14 on "Conserving and sustainably using the oceans, seas and marine resources"; and
- SDG #15 on "Protecting, restoring and promoting sustainable use of terrestrial ecosystems, sustainably managing forests, combating desertification and halting and reversing land degradation and halting biodiversity loss".

Indicators will be reported upon agreed definition and methodology so to allow informing on impact and performance of the investments on these SDGs.

Furthermore, operations falling under this window shall directly contribute to the EFSD+ Result Monitoring framework (see annex 3). For example the PIP deployed under this window shall result in one or more of the following outcome:

i) Increased agricultural yields, output and income together with increased agriculture diversification;
ii) Stronger forestry value-chains with increased and better distributed added value, resource efficiency, and recovery of materials and waste;
iii) Improved climate resilience;
iv) Sustainable managed forest areas and other land under sustainable management;
v) Increased protection, sustainable use and restoration of biodiversity;
vi) Increased carbon stocks;
vii) Low-carbon and climate-resilient inclusive growth and decent job creation e.g. good labour standards and improved working conditions in the sector, increase in women's decent jobs in the sector;
viii) Gender equality;
ix) Improved productive environment and sustainability (natural resources management, such as land and water use, management and conservation, soils, climate adaptation);
x) Improved food and nutrition security;
xi) Increased local food conservation, processing and value adding;
xii) Reduction of and education on food losses/waste; Increase WASH access including marginalised people
xiii) Improved integrated water resources management at basin level for peace and security
xiv) Increased water related jobs creation including female practitioners
xv) Increased efficiency and circularity of water use and management
xvi) Sound due diligence procedures promoted; and
xvii) Helping countries to achieve their international climate change and biodiversity pledges.

ANNEXES

Annex 1: Priority countries and geographic earmarks

C. Priority Countries

Africa (Sub-Saharan)	Latin America and The Caribbean	Middle East, Asia and Pacific	NEAR
Angola	*No priority countries for this window.*	Bhutan	*In NEAR region there are no priority countries, please refer to earmarked allocation at regional/sub-regional level as indicated below.*
Benin		Cambodia	
Botswana		Fiji + SIDS	
Burkina Faso		Indonesia	
Burundi		Kyrgyz Republic	
Cabo Verde		Laos	
Cameroon		Malaysia	
Central African Republic		Mongolia	
Côte d’Ivoire		Nepal	
Comoros		Pakistan	
Republic of Congo		Papua New Guinea	
Democratic Republic of the Congo		Philippines	
eSwatini		Sri Lanka	
Ethiopia		Tajikistan	
Gabon		Thailand	
The Gambia		Turkmenistan	
Ghana		Uzbekistan	
Guinee Conakry		Vietnam	
Guinea-Bissau			
Kenya			
Lesotho			
Liberia			
Madagascar			
Malawi			
Mali			
Mauritania			
Mauritius			
Mozambique			
Namibia			
Nigeria			
Niger			
Rwanda			
Sao Tome and Principe			
Senegal			
Sierra Leone			
Somalia			

South Africa			
South Sudan			
Sudan			
Tanzania			
Chad			
Togo			
Uganda			
Zambia			
Zimbabwe			

D. **Geographic earmarks**

Africa (Sub-Saharan)		**Latin America and The Caribbean**		**Middle East, Asia and Pacific**		**NEAR**	
Sub-region	**%**	**Sub-region**	**%**	**Sub-region**	**%**	**Sub-region**	**€m**
The objective is to reach the following allocation overall for EFSD+:		*No subregional allocation for this window.*		Indicative subregional allocation for the window:		Indicative subregional allocation for the window:	
West Africa	36%			Southeast	21%	Neighbourhood East	20
East and Central Africa	42%			South	8%	Neighbourhood South	60
Southern Africa and the Indian Ocean	22%			Central Asia & Mongolia	29%	Turkey	30
				Pacific	5%	Western Balkans	60
				Unearmarked	36%		
Total envelope for the region	**484**	**Total envelope for the region**	**35**	**Total envelope for the region**	**201**	**Total envelope for the region**	**170**

Window total amount (€m)	**890**

Annex 2: TEIs, flagship initiatives, and policy frameworks relevant to the investment window

Team Europe Initiatives

The following Team Europe Initiatives are of particular relevance for this window and are to be considered when developing proposals. The list of TEIs is indicative and susceptible to evolve over time; regular updates on TEIs can be found in the following website: Consolidated Table - TEIs | Capacity4dev (europa.eu)

This window should support Team Europe Initiatives such as the Amazon Initiative, NaturAfrica, Green ASEAN, Blue Pacific and initiatives such as the Great Green Wall as well as regional TEIs such as Investing in Young Businesses in Africa; Water, Energy and climate TEI in Central Asia; and Transboundary Water Management TEI in Africa.

Proposals submitted for **West Africa** can support the following Team Europe Initiatives (TEIs):

- Bénin: Investir dans l'énergie verte
- Burkina Faso: Économie verte
- Cape Verde: Green deal
- Gambia: Green Gambia
- Ghana: Smart, green and digital recovery
- Guinée Conakry: Économie Verte et Bleue
- Guinea Bissau: Inclusive and Green Cities
- Guinea Bissau: Education & training towards an inclusive and green transition
- Ivory Coast: Cacao durable
- Liberia: Forest and biodiversity
- Liberia: Safe and sustainable food system
- Mali: Environnement et changement climatique
- Mauritania: Transition towards Green and Blue Economy
- Niger: Une économie inclusive, verte, digitale pour et avec les jeunes
- Nigeria : Green Economy Alliance
- Sénégal: Promouvoir une économie verte et digitale
- Sierra Leone: Green alliance
- Tchad: Pacte vert et fragilité
- Togo: Agro-business durable

For **East and Central Africa:**

- Cameroon: Pacte vert et résilience dans le Septentrion du Cameroun
- Republic of Congo: Partenariat pour les forêts et le climat
- DRC : Alliance verte : un partenariat pour les hommes, la nature et une économie verte en RDC
- Gabon : Green Economy and Sustainable Jobs
- Kenya: Green transition
- Rwanda: Investing in sustainable and inclusive agricultural transformation
- Sudan: Supporting women's rights and enhancing their role in Sudan's society

For **Southern Africa & Indian Ocean:**

- Angola : Economic Diversification

- ComoroS : Pacte vert pour une croissance integree
- Lesotho : Green Deal
- Madagascar: Pacte Vert Paysage
- Malawi: Green Growth
- MauritiuS: Environment and climate change for a green recovery from COVID-19 pandemic
- Mozambique: Mozambique's Green Deal
- South Africa: A just and green recovery for South Africa
- Zambia: Climate Action for Inclusive Green Growth in Zambia
- Zimbabwe: Climate Smart Agriculture Based Resilience Building

For the **Africa Region:**

- NaturAfrica
- Africa EU Green Energy Initiative - Green and climate transition
- Climate Change Adaptation and Resilience in Africa

For the **Asia and Pacific Region**, this window could support the following TEIs:

- Cambodia: “Sustainable landscapes, forest and agriculture”
- Pakistan: "Building Back Better through Green Jobs Creation"
- Mongolia: “Sustainable natural resource management and value chain development in Mongolia”
- Nepal: “Green Recovery”
- Laos: “Green TeamEurope Initiative for the Lao PDR”
- Sri Lanka: “Green Recovery”
- Vietnam: “Climate-resilient, low-carbon circular economy”
- Indonesia: Green Agenda
- Philippines: Circular Economy and Plastic Waste Management
- ASEAN/Southeast Asia (regional): “Green Team Europe Initiative in partnership with ASEAN/Southeast Asia”
- Timor-Leste: “A New Green Deal for Timor Leste”.
- Papua New Guinea (PNG): “Our Forest, Our Future”
- Pacific region: “Green Blue Alliance for the Pacific”
- Bangladesh: “Green Energy Transition for Bangladesh”

For the **Latin America and Caribbean Region**:

- **Regional TEI on “Green Transition”:** The regional TEI would aim at accompanying the transition of LAC countries to a decarbonised, environmentally friendly and inclusive economy, using EU public and private sector expertise. In line with the Green Transition priority areas, the TEI will be focused on the following focal sectors: 1) Climate policies and action, including a just and clean energy transition, 2) Biodiversity, marine and forest conservation, and, possibly 3) Circular economy in the second phase of the implementation. The TEI would follow a variable geometry approach which would allow regional, sub-regional, multi-country and country level cooperation under a general umbrella of climate change and the environment.
- **Regional TEI on “Amazon Basin”:** The multi-country TEI (Brazil, Colombia, Peru, Bolivia, Ecuador, Guyana and Suriname) aims at preserving the Amazon forest’s contribution to climate change mitigation, to global biodiversity conservation and at improving its peoples’ socio-economic development, through addressing root causes of key challenges affecting the region: i) mounting deforestation and forest degradation; ii) biodiversity loss, sustainable management

and use of biodiversity and forest resources; iii) sustainable and inclusive development for its population; and iv) respect for human rights and enhanced citizen-security. To address those challenges, the suggested intervention pillars are 1) Protection of the Amazonian ecosystems, 2) Green and inclusive growth, sustainable livelihood, 3) environmental governance and indigenous peoples rights and 4) Sustainable finance

- **Regional TEI "EU-LAC Justice and Security":** The objective of the TEI would be to leverage the transformative impact of EU-LAC cooperation on the fight against transnational organised crime by joining forces with EU Member States, Commission DGs (DG HOME and DG JUST) and EU Specialised Agencies (EUROPOL, EUROJUST, CEPOL, EMCDDA, FRONTEX). Further, linkages and cooperation would be sought with IFIs through blending and possible guarantees operations to catalyse additional resources on citizen security. The pillars of this TEI are: 1) EU-LAC networks to fight against organised crime with focus on 2) drugs trafficking, environmental crimes, cybercrimes and 3) Preconditions of citizen security: governance, rule of law, addressing impunity.

- **TEI "Green Investment and sustainable value chains" in Argentina:** EU is proposed to support mainstreaming of climate action and environmental sustainability in Argentina's socio-economic development model, aiming in particular at transformative changes and facilitating investments in agriculture, and waste management and support to the implementation of municipalities' plans to fight against climate change.

- **TEI "Green and Resilient Development" in Bolivia:** In Bolivia the TEI has been named Green and Resilient Development to combine a much-needed green recovery and a durable development. The three focal areas of the TEI are: Sustainable and climate change-resilient landscapes, Green energetic transition and Green economy in sustainable cities. It's within these areas that the EU and Bolivia partnership can make a substantive and sustainable impact while providing an adequate socio-economic response to the challenging situation following the COVID crisis.

- **TEI "Environment" in Colombia:** The TEI will aim at ensuring the country's transition towards green development as a model in Latin America, given Colombia's strong commitment to climate change, biodiversity, SDGs and environment. The TEI will contain three pillars: (i) sustainable local development, (ii) sustainable cities and infrastructure and (iii) sustainable finance and institutions.

- **TEI "Green Hydrogen" in Chile:** The EU is deploying a Team Europe Initiative in Chile in support of green hydrogen development - a key enabling technology to transition to climate neutrality – piloting a hydrogen partnership that may be replicated with other countries in LAC, considering their favourable conditions for the production of renewable energies, as demonstrated by the recent report of the International Energy agency "Hydrogen in Latin America, from near-term opportunities to large-scale deployment".

- **TEI "climate change and protection of the Environment" in Paraguay:** The EU and its partners are natural allies and have a common interest in sharing technology, best practices, know-how and bringing financial resources to achieve Paraguay's commitments in terms of climate change/environment. The proposed TEI is articulated around three main axes: (1) Building alliances with Paraguayan civil society, private sector, academia and media; (2) Raising awareness on environmental challenges and possible benefits a greener model can bring and (3) Specific actions/programmes in (a) Biodiversity preservation/restoration and fight against deforestation and (b) Sustainable production and support to sustainable value chains. These actions can contribute to provide opportunities for EU private sector investments and leveraging additional resources through Financial Institutions (blending and guarantees).

- **TEI “Green Deal – Circular economy and Sustainable Cities” in Peru:** Peru is EU key partner on several global challenges as climate change, environmental and Amazon preservation. Building on government commitment to transform the economy, the EU's effort is to achieve a greening of value chains and the transition to a circular production system.
- **TEI “environmental protection and sustainability” in Uruguay:** The “Green Deal - Environmental Protection & Sustainability” TEI for Uruguay will help to ensure that the post-COVID recovery is based on an economic model that takes into account environmental protection and sustainability. This Initiative will include under a single umbrella policy dialogue, exchange of experience, investment, research and development, technical cooperation, cooperation with civil society, local authorities and the private sector. Two priorities have been set, aligned with the EU Green Deal: Smart cities (recycling, energy-efficient transport) and Sustainable agriculture and water protection.
- **TEI “EU Green Deal” in Guatemala:** The TEI proposes to strengthen the climate change governance and the capacities of the public institutions. This includes i.e. design or updates of National Strategies on climate change and green, blue and circular economies and making the environmental fiscal strategy operational, continuing already existing bilateral or regional programmes. In the medium/long term, the aim will be to promote a sustainable and inclusive economic development in rural areas that meets the necessary balance between use of limited natural resources and protection of the environment and biodiversity, as well as the rights of communities.
- **TEI “Climate Change and Natural Resources Management” in Honduras:** Through this TEI, the EU and Member States will work side by side with Honduras to meet its Paris Agreement targets by establishing a resilient low carbon economy, supporting implementation of the National Determined Contributions and climate strategy, supporting the restoration/preservation of forests and ecosystems, and creating green jobs. It will also seek to take full advantage of the VPA FLEGT that was recently signed between the EU and Honduras and support the country’s decarbonisation strategy.
- **TEI “Green Recovery” in Nicaragua:** This initiative will promote green recovery and circular economy, with cleaner production, biodiversity protection, and resource efficiency through three inextricable and mutually reinforcing building blocks: 1. climate change mitigation and adaptation; 2. water management and 3. resilient agriculture.
- **TEI “Forest Partnership” in Guyana and Suriname:** With the objective to among other further develop forest management in the two countries, as well as enhance coherence and coordination at regional level, in order to ensure sustainable and inclusive natural resources and biodiversity management.

INTPA Directorate B will prioritise proposals presented in consortiums by more than one Financial Institution in line with the Team Europe approach and those covering several countries, particularly if the proposal includes countries from all sub-regions, Caribbean, Central and South America. Proposals are expected to be in line with the MIPs of the countries selected. Preference will be given to proposals that promote European standards or involve European private sector operators.

For the **Neighbourhood East**, this window should support the regional TEI on "Zero Pollution” as well as the following bilateral TEIs (more details on the TEIs can be found in Annexes):

- Green Growth, Environment, Innovation and Jobs Initiative in Armenia
- Initiative on Inclusive, Sustainable and Integrated Regional Development with a focus on Energy Efficiency/Green Growth in Azerbaijan (this also includes water management)

- Green and Health Initiative in Georgia

Regional Flagship Initiatives

This window should in particular contribute to the implementation of the following regional flagship initiatives:

Neighbourhood East:

- Flagship 4: Building resilience in the southern regions in Armenia
- Flagship 4: Innovative rural development in Azerbaijan
- Flagship 4: Supporting a green Belarus – support to energy efficiency, waste management and infrastructure in Belarus (which includes water quality and water utilities)
- Flagship 2: Economic transition for rural areas — assistance to over 10 000 small farms in Ukraine

Neighbourhood South:

- Egypt – Integrated Water and Food Security.
- Jordan – Sustainable Management: the proposed TEI on Sustainable Water Management is part of the wider EU effort to support Jordan's transition to a green and more resilient economy.
- Water in Tunisia: the proposed TEI will contribute to the general objective of sustainable and equitable management of water resources.

For the **Western Balkans**, this window should support to the implementation of the Economic and Investment Plan as well as the Green Agenda for the Western Balkans. In particular, by contributing to implement the EIP Green Agenda for the Western Balkans which foresees dedicated pillars on biodiversity and sustainable food production and the Economic and Investment Plan:

- Flagship 7 – waste and wastewater management, in order to support sustainable and reliable ways of managing water supply, wastewater and waste disposal which are crucial for the protection of the environment and of the health of citizens and can have positive impacts on tourism in the region. This is essential for the green perspectives of the region, and safeguarding the health and welfare of its people
- Flagship 9 – investing in the competitiveness of the private sector, in particular by mobilising assistance for sustainable transformation of agri-food systems and rural development in the region.

Relevant policy frameworks

Support to Agriculture under this window will be in line with the EU Farm to Fork Strategy and other EU policy commitments concerning green development, sustainable finance, food security challenges, resilience, nutrition, sustainable agriculture, climate change adaptation and mitigation and gender equality. EFSD+ operations will promote the emergence of investments designed to create sustainable jobs and income-generating activities in rural and peri-urban areas, contribute to environmentally sustainable, climate resilient and low-carbon development (notably related to the implementation of Nationally Determined Contributions), as well as address relevant risks in order to ease and extend access to capital and increase investments. Maintaining biodiversity within the agriculture is as well important to reduce the risk of spreading diseases and allow a better resilience to climate change. Support to organic agriculture should also be taken into consideration.

Support to forest- and biodiversity-related interventions under this window will be in line with the EU Biodiversity Strategy for 2030, the New EU Forest Strategy for 2030 , the principles of the EU Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan as well as the Communication 'Stepping up EU Action to Protect and Restore the World's Forests'. This includes the proposed partnerships with producing countries to reduce pressures on forests and to 'deforest–proof' EU development cooperation, and the commitment to 'redirect finance to support more sustainable land-use practices'.

Protection and sustainable water management, universal and equitable affordable water supply, sanitation and hygiene related interventions shall particularly consider the Council Conclusions on Water Diplomacy[81] and Water in EU external action[82] as well as the EU Human Rights guidelines for safe drinking water and sanitation[83].

The interventions in the Ocean will endorse the principles of the European Green Deal by taking a holistic and ecosystem-based management approach to manage marine ecosystems and reduce the adverse impacts of fishing, aquaculture and other human activities on the ocean. In line with the International Ocean Governance Agenda (which will be updated in 2022) and with the legal framework established by the UN Convention on the Law of the Sea, the support to partner countries will contribute to advance and diversify their sustainable, inclusive and equitable blue economies. Biodiversity conservation and protection should be also considered as foundational principles of any intervention in the Ocean.

Transversally, integrated approaches such as the food systems, value-chains and/or landscape/seascape/ridge-to-reef approaches will be favoured, focused upon increasing farmers' revenues, income-generating activities for private sector operators and decent job creation in rural and peri-urban areas, in particular for women and young people, developing and diversifying production, building environmental sustainability, circular economy principles, and climate resilience, adding value at the local level and promoting the accompanying local skills. Sustainability of investments represents an integral part of the actions, and special attention will be paid to climate-smart and ecosystem-based approaches integrating the three dimensions of sustainable development: economic, environmental and social. This includes full respect of due diligence requirements, such as those relating to climate change, including land tenure and soil preservation. Actions in line with the EU Circular Economy Action Plan and the EU Adaptation Strategy will be favoured. Gender mainstreaming will be embedded in the intervention logic in order to comply with the Gender Action Plan III commitments. Preference shall be given to proposals addressing gender inequality and projects supporting the green and digital transition. Investments should respond to the specific situation and needs of a given country or region, they should respect social, fiscal, ethical and environmental internationally recognised principles and standards, including enhancing gender equality and zero pollution approach, and ensure sustainability and efficient maintenance of investments.

81 https://www.consilium.europa.eu/en/press/press-releases/2021/11/19/water-in-diplomacy-council-confirms-eu-s-commitment-to-enhanced-eu-engagement/

82 https://www.consilium.europa.eu/en/press/press-releases/2021/11/19/water-in-diplomacy-council-confirms-eu-s-commitment-to-enhanced-eu-engagement/

83 https://www.consilium.europa.eu/en/press/press-releases/2019/06/17/safe-drinking-water-and-sanitation-council-approves-eu-guidelines/

ANNEX 3: Results Monitoring Framework

This Annex is attached to each of the Investment Windows for Open Architecture. This Annex provides an overview of results chains and related indicators structured along the areas covered by the Investments Windows of the Open Architecture as crystallised by the EFSD+ Strategic Orientations. This is the basis for the design, monitoring, reporting, and evaluation of the individual interventions approved by the Commission and the Lead International Financial Institution (LFI).

At individual interventions level, the LFI can add additional results and indicators, if relevant and not deviating from the scope of the Investment Windows.

EFSD+ results and indicators

NDICI-GE and IPA III Regulations refer to **results** as per the OECD-DAC definition: "Results are defined as the outputs, outcomes or impacts of development interventions, with each element contributing to the next, as set out in the results chain below. The links between each element are as important as the results themselves, reflecting the theory of change and the roles of providers and other stakeholders." Along those lines, the EFSD+ Results Measurement Framework (RMF) covers the three levels of results as per NDICI-Global Europe and IPA III Regulations.

Each intervention proposed by the Lead IFI is to be coherent with the EFSD+ RMF and **must contain a results chain** composed by results (impact, outcome, output) **and** indicators (using the table as provided in the Application Form template).

In order to ensure consistency and harmonisation of approaches between the European Commission and the IFIs, **indicative results and indicators are proposed for each of the Investment Windows** for the Open Architecture - as part of the overall EFSD+ Results Measurement Framework. The latter is available in the Excel file provided.

EFSD+ RMF

Impact level

At impact level, the Investment Windows are consistent with NDICI-GE, IPA III and EFSD+ Strategic Orientations overarching priorities. Therefore the impact statements provided in the Excel file are common to the six Investment Windows.

At intervention level, the IFI will indicate the SDGs and related indicators the intervention contributes to. In turn, this allows the European Commission to ensure a link with Level 1 indicators of GERF (Global Europe Results Framework) and IPA PF (Instrument for Pre-accession Assistance Performance Framework). The IFIs do not have reporting obligations against those.

The tab 1 (**STEP 1**) of the attached excel file – to be used for relevant selection - is provided below in a simplified way:

EFSD+ Overarching priority	Impact statement	SDG	SDG Indicator	GERF 1	IPA PF 1
Global Gateway and/or **Green Deal** and or/ **Jobs and sustainable and inclusive Growth**	Effective climate resilient low-carbon economy and society *and/or* Eradication of poverty *and/or* Increased green and inclusive employment *and/or* Prevented and/or reduced environmental degradation *and/or* Smart (digital), sustainable and inclusive economic and social development and growth	#	#	#	#

Outcomes and Outputs, with related indicators

In order to ease the application process and ensure consistency with the EFSD+ Results Measurement Framework (RMF), the design of the outcomes and outputs (with related indicators) needs to incorporate elements that are cross-sector as well as sector/area/intervention specific. The Lead Financial Institution is responsible to report against those throughout the implementation as per individual Agreements provisions.
Accordingly, the attached excel sets out the following two steps:

- **STEP 2 – Cross-sector outcomes and outputs** level, with related indicators. Cross-sectors are <u>mandatory</u> (or exceptionally <u>mandatory if relevant</u>) for all type of interventions.
- **STEP 3 – Investment window/area/sector outcomes and outputs** levels, with related indicators. Investment window specific/area/sector outcomes and outputs are mandatory (if relevant) as linked to the cross-sector ones, and recommended.
  In particular, the STEP 3 outcomes and outputs with related indicators are reflecting <u>**the scope of each Investment Window**</u> – which are <u>**interrelated**</u> one to another. Hence, depending on the intervention proposed by an IFI, outcomes and outputs with related indicators could be taken from the whole list, regardless of the Investment Window financing the intervention.

For interventions that qualify as <u>**sustainability-related financial instruments and products**</u> – regardless of the Investment Window financing them (hence <u>not only the Investment Window Sustainable Finance</u>):

- Sustainable finance specific outcomes and outputs with related indicators are available among the Cross-sector ones, as they are not sector specific, but instrument specific
- Sector outcomes and outputs with related indicators are to be selected from the overall EFSD+ RMF as per STEP 3

The tables provided in the excel file follow the structure below:

Area	Result	Indicator	Unit	Level	Definition and comments	Reference
Cross-sector MSMEs Energy Transport Etc.	The result statement	The indicator(s) that measure the related result	The unit of measure of the indicator	Impact Outcome Output	How to measure the indicator and other comments	GERF, IPA PF, EUBEC, HIPSO, EFSD, WBIF, Other

The design of the proposed interventions could include other outcomes and outputs (with related indicators) as proposed by the Lead IFI, as soon as they are relevant to the scope of the Investment Window and not already captured in the menu provided by the EFSD+ RMF (Excel file).

Remarks on indicators

Indicators are meaningful against a result (impact, outcomes, outputs) to be measured.

Preference is to be given to indicators (and the related outcomes and outputs statements) that belongs to GERF/IPA Frameworks, which are clearly marked in the relevant columns of the provided excel file.

Where relevant, indicators are to be disaggregated by sex, age, and disability.

Monitoring and reporting

The monitoring and reporting principles and requirements are to be in line with NDICI-GE (Articles 33 and 41.7) and IPA III (Articles 12 and 13) Regulations. Further specifications will be provided in a dedicated document on the EFSD+ Results Measurement Framework.

At individual intervention level each Guarantee Agreement will need to specify monitoring and reporting requirements against those same principles and the design agreed between the parties.

ANNEX IV: Examples

1. *EDFI – AGRIFI*

The Agriculture Financing Initiative (EDFI – AgriFI) is a blending facility funded at 100% by the EU (EUR 39.7 million) aiming at providing long-term finance, on commercially-oriented terms, to Medium and Small enterprises (SMES) active in the agri-food value chain involving smallholder farmers.

Its geographical scope is global, but the project must take place in low and lower-middle income countries, with a focus on Sub-Saharan countries. AgriFI provides risk capital in the form of debt or equity (or anything between them), with a minimum contribution of EUR 0.5 million and a maximum of EUR 10 million per project.

Technical Assistance funds (EUR 2 million) are also available to provide capacity building to clients and help them address or improve some issues that are important for the viability and sustainability of the investment.

To date, AGRIFI has made 5 investments (representing around EUR 16.3 million): Two impact funds of global scope: Fair Trade access Fund (EUR 5 million) and Alterfin (EUR 3 million); One Monetary Financial Institution in Myanmar (2.7 M EUR); and two MSMS (in Nigeria - EUR 5 million - and in Senegal - EUR 0.6 million. 14 other investment projects in the phase of being approved or already approved. The average size of investments is approximately EUR 2.5 million.

A new country window has recently been signed using Multiannual Indicative Planning funds from Ghana (EUR 8 million) to support investments in the Northern region. Three other AgriFi windows are expected before the end of the year: (1) EUR 50 million for ACP countries (regional); (2) EUR 10 million for Sri Lanka for post harvest conservation and processing and (3) EUR 12 million for Tanzania on tea, coffee and horticulture.

2. **The Agri-Business Capital Fund (ABC Fund)**

The EU contributes to the ABC Fund with €45-million (€ 40 million to the 1st loss tranche and € 5 million for the TA). It has also received investments from: the International Fund for Agricultural Development - IFAD (€8.4 million, Swiss Development Cooperation funding); the Government of Luxembourg (€ 5 million); and AGRA (€ 5 million. The TA is implemented by Agriterra, the Dutch agri-agency founded by farmers' organisations and cooperatives. It is seen as an integral part of the effectiveness of the investments. The ABC Fund offers a set of financial products, including loans and equity, specifically tailored to the needs of smallholder farmers and agri-SMEs with ticket sizes of € 200,000 - € 800,000 for direct investments, and up to €3 million for indirect investments (via local banks – which subsequently lend on much smaller tickets sizes).

To reach them most effectively, these products are made available either directly to farmers' organizations and SMEs, or indirectly via financial institutions. Financial constraints are only some of the problems faced by smallholders and SMEs. To ensure the success of its investments, the ABC Fund also helps investees resolve issues such as lack of business capacity through its Technical Assistance Facility (TAF). In addition, the ABC Fund pays special attention to financing projects and solutions that help smallholder farmers adapt to climate change and reduce greenhouse gas emissions.

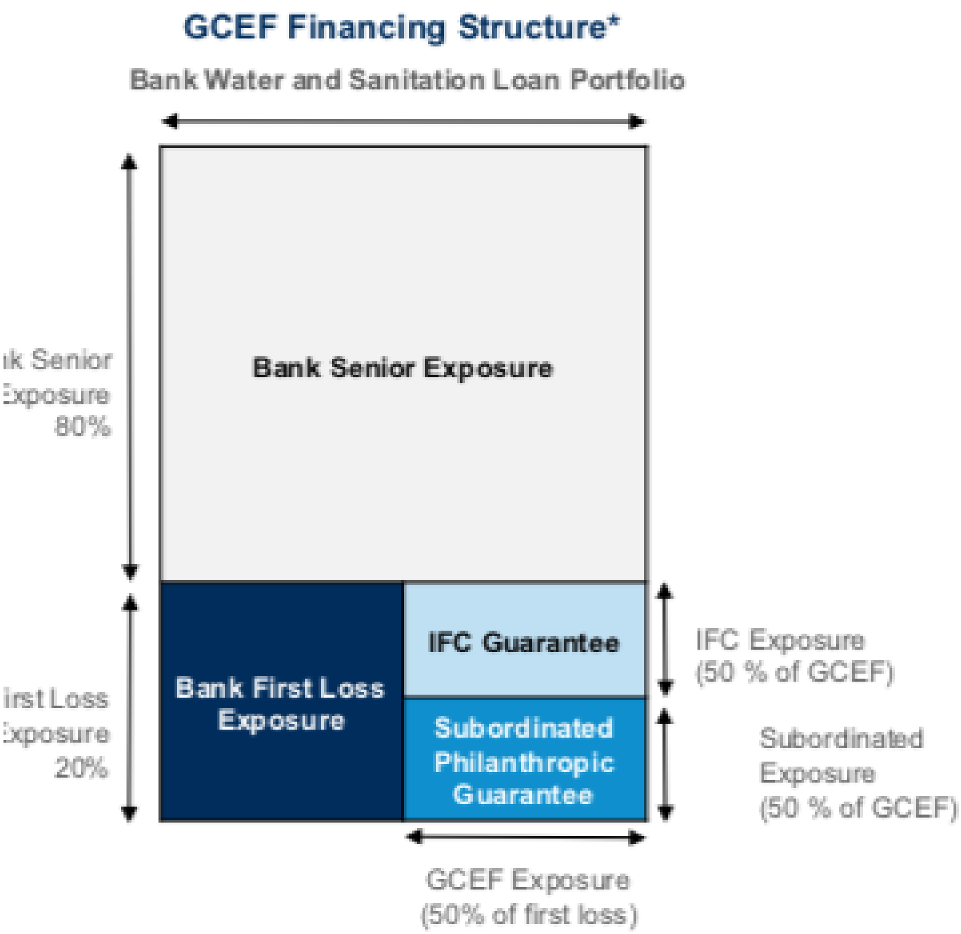
The Fund is managed by Bamboo Capital Partners together with Injaro Investments as advisor and lead for direct lending in Africa. The Technical Assistance Facility (TAF) is managed by Agriterra. Agriterra is an agri-agency focusing on the development of farmers' organizations and cooperatives in developing countries. With more than 20 offices worldwide, including in Africa, and 170 professionals, it provides capacity-building focused on agricultural cooperatives. Advance Consulting and Rabo Partnership, which are partners in the TAF, provide technical assistance to SMEs and financial institutions respectively.

Since the beginning of its activities in 2019, the ABC Fund has made 8 investments, totalizing 10 M EUR. The investments are located in Burkina Faso, Côte d'Ivoire, Ghana, Kenya, Uganda and Ecuador.

3. The global credit enhancement facility (GCEF)

Country: India

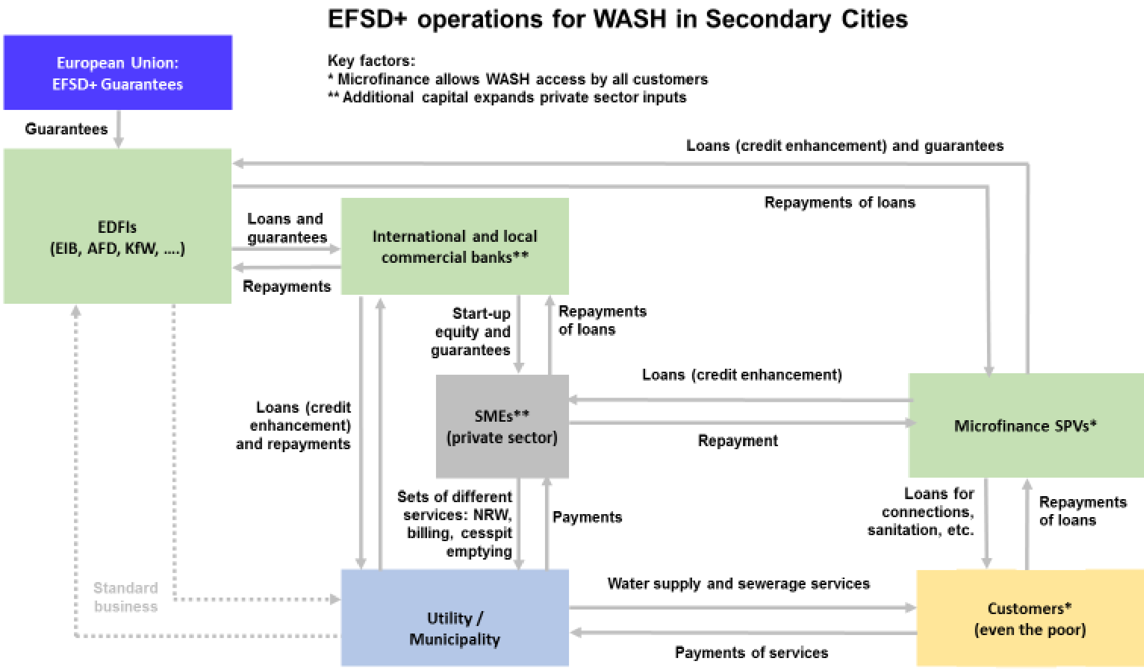
Description of the model: Water.org partnered with International Finance Corporation (IFC) to create a global water and sanitation loan loss guarantee facility. This facility will provide credit enhancements structured as risk sharing facilities for portfolios of water and sanitation loans made by local banks, thus mitigating credit risks and enabling local banks to scale up lending to low income households for water and sanitation assets. An innovative blended finance program, the GCEF will allow banks to receive credit enhancement support through guarantor funding raised by Water.org, as the junior or first loss tranche, and IFC funding, as the senior or second loss tranche.



Structure of the Facility: Water.org and IFC are considering establishing GCEF as a Special Purpose Vehicle (SPV) that will enter into risk participation agreements with banks in several countries. GCEF will be managed by a global administrator to service the risk participation agreements with the individual banks in the target countries on behalf of GCEF. Pursuant to the risk participation agreement between GCEF and each bank, GCEF will reimburse the bank for a portion of the losses incurred on a portfolio of eligible water and sanitation loans. The banks will pay guarantee fees for availing the credit protection from GCEF.

4. WASH improved access

Application: EU Partner Countries, which are low – middle income category



Description of the model: the water window supports increased WASH facilities and services in ‘secondary cities’ by enabling operations which…

1. * Provide **guarantees** and **credit enhancement** (micro loans) to target the chronic condition of insufficient service provider revenues resulting from low customer connection – and payment – rates, in turn related to affordability. **Microfinance facilities** provide low-interest micro-loans to enable even poor customers to afford connection fees and payments (based on progressive tariff policy, starting at subsistence water consumption amounts and increasing for large, commercial-institutional water users).

   Greater availability of WASH increases economic development potential – and over the long term supports increased number of jobs, wages and standards-of-living.

2. ** Provide **guarantees** and **credit enhancement** (commercial loans) Increase the capital available at **commercial banks** for **private sector entities** (small and medium enterprises, SMEs) to enter/ extend the water market by providing non-core and/or core services to communities and their public service providers.

European Fund for Sustainable Development+ (EFSD+) Guarantee Investment Window – MSME Financing for Inclusive and Green Growth and Job Creation

1 POLICY RATIONALE

1.1 BACKGROUND ANALYSIS

1) Micro, small and medium-sized enterprises (MSMEs) play a key role in the sustainable development process.

They contribute to a substantial proportion of total **employment and national income** (Gross Domestic Product). In emerging markets, including in countries of the neighbourhood and enlargement region, Micro, Small and Medium Enterprises (MSME[84]) generate about 40% of value added (GDP)[85] and 70% of formal employment[86]. MSME consumption and production patterns significantly influence global capacity to meet climate change, pollution, and biodiversity objectives, with resource efficiency and circular economy business practices effectively responding to the increasing pressures on natural ecosystems. In the case of Africa, small and medium-sized enterprises form the backbone of the economy, representing more than 90% of businesses and employing about 60% of workers, many of whom are women and youth[87]. Micro, small and medium enterprises (MSMEs) are also the engines of growth and innovation in the Asia and Pacific region, accounting for over 97% of all business and employing over half of the workforce across the economies. In Latin America and the Caribbean, MSMEs represent 90-95% of the establishments/businesses created in the manufacturing, trade and services sectors. They generate approximately 85-90% of the jobs, and contribute roughly 30-40% of Gross Domestic Product (GDP) of the countries of the Region[88].

Women represent up to 40%[89] of the world's workforce and estimates suggest that gender parity could increase the global GDP by between USD 12 and 28 trillion by 2025. However, access to finance and company creation is a major constraint for women and young entrepreneurs. This is particularly true for the initial and early stages of entrepreneurship that need seed capital, angel investor or venture capital support combined with strong technical and mentorship support. This can accompany the development of successful business models that will allow them to move towards accessing further financial products or local and international. Additionally, well-established SMEs also have limited direct access to market-based financing to support their development (including for green or digital transition).

From an **environmental** perspective, although the individual impact of MSMEs may be small, on aggregate, they account for a large part of resource consumption and pollution in developing countries, thereby contributing significantly to climate change and biodiversity loss. They can adapt to technological changes (when financing and skills are available), and be a driver for green growth and sustainable management of natural resources especially locally or when incorporated into global

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84 According to the EU definition and guidelines: https://ec.europa.eu/growth/smes/sme-definition_en ; https://ec.europa.eu/docsroom/documents/42921
85 https://www.worldbank.org/en/topic/smefinance
86 https://www.worldbank.org/en/topic/smefinance
87 International Trade Centre (2018). Promoting SME competitiveness in Africa: Data for de-risking investment. ITC, Geneva.
88 Public Policies to Support SMES of the greater Caribbean Region. http://www.acs-aec.org/index.php?q=trade/public-policies-to-support-smes-of-the-greater-caribbean-region. Accessed on 14/11/2019
89 http://www.worldbank.org/en/results/2013/04/01/banking-on-women-extending-womens-access-to-financial-services. Accessed on 21/10/2019.

value chains with dynamic diffusion of knowledge, standards, and best available technologies. For example, by developing eco-tourism, green building and construction, or agriculture and forestry activities or integrating circularity principles in sustainable manufacturing (textiles, electronics & ICT, or food processing operations). Given their economic and environmental importance, MSMEs are therefore vital players in achieving both inclusive and green growth, and are essential to the delivery of the EU Green Deal and the Green Agenda for the Western Balkans priorities related to climate change, the Circular Economy Action Plan, the EU Farm to Fork strategy, and Biodiversity.

Through new legislative initiatives in the context of the European Green Deal, the EU is setting high standards on responsible business conduct and sustainability for EU companies and their global supply chains ("do no harm" principles). Integrating global and EU value and supply chains represents a strong incentive for MSMEs in developing countries to shift to more sustainable production practices and inclusive business models. MSMEs can thereby be active contributors to a sustainable, circular and socially just economy when being able to access investments for the transition to, or scaling-up of more sustainable business operations and technologies.

2) The challenges MSMEs face are multiple and multi-dimensional.

These challenges influence both formal and informal MSMEs capacity to grow and their potential to contribute to job creation. Common challenges are: (i) lack of access to affordable sources of **financing**[90]**,** (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.

3) Access to finance is a key bottle neck.

About half of formal MSMEs do not have access to formal credit. The financing gap is even larger when micro and informal enterprises are taken into account[91] and when talking about women-owned businesses[92]. The International Finance Corporation (IFC) estimates that 65 million firms, or 40% of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of USD 5.2 trillion every year, which is equivalent to 1.4 times the current level of the global MSME lending.[93]

On the **supply side**, the financial institutions in partner countries are relatively concentrated in urban areas. MSME financing is mainly provided by commercial banks, offering standardised products, not sufficiently tailored to the MSMEs specific needs at various stage of their life cycle. Non-debt instruments, alternative and new financing products and services offered by financial-technology companies remain mostly inaccessible to MSMEs, and their potential for development untapped. There are a number of reasons for this that can be country specific or due to systemic barriers and

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90 "What are the biggest obstacles to growth of SMEs in developing countries? An empirical evidence from an enterprise survey." Yao Wang Charles. 1 June 2016

91 https://www.worldbank.org/en/topic/smefinance (Accessed on 23/10/2019).

92 As per the World economic forum "80% of women-owned businesses with credit needs are either unserved or underserved". [https://www.weforum.org/agenda/2019/06/women-finance-least-developed-countries-collateral]

93 MSME Finance Gap (2017) https://www.ifc.org/wps/wcm/connect/4075bc12-7277-4c4c-a509-e359d3a0de5d/MSME+Report.pdf?MOD=AJPERES&CVID=my5EjLJ

disincentives of the local financial market including issues on information asymmetry or financial transparency, collateral, legal rights, financial regulation, elevated costs when reaching these sectors, capital or credit risks constraints by financial institutions.

On the **demand side**, MSMEs face challenges at various stage of their development. They have limited access to debt products commensurate to their investment or operational needs. Collateral-based lending is often not accessible for small companies with small balance sheets and limited credit history. Early and growth stages equity financing are hardly accessible in many developing countries. Well-established SMEs have limited direct access to market-based financing /capital market to support their development (incl. green or digital transition). A lack of human and technical resources further restrain MSMEs capacities to engage into sustainable growth and their integration into (global) value chains.

4) COVID-19 has increased the financing challenge.

In the aftermath of the covid-19 pandemic, MSMEs financing is further stretched (limited cash flow and increased short-term debts) while risk taking on their potential growth has become even a stronger imperative. The mid- and long- term impact of covid-19 pandemic on MSME landscape, production networks and global value chains including financing capacity of lending structures are yet to be handled. Risks of economic scarring from debt defaults/non-performing loans and bankruptcies may yet materialize. The pandemic has also heavily affected the way MSMEs produce and interface both upstream and downstream of their supply chain. As a result, traditional sources of funding may no longer be adapted.

As demands and risks have changed for both sides, the guarantee should also take into consideration these challenges on MSMEs as well as on financial institutions. Furthermore, this crisis has accelerated the global trend away from cash towards digital payments, thus increasing the digital divide with the 1.7 billion people lacking access to a formal bank account around the world[94], including unbanked MSMEs. This is especially true for women-run enterprises. Of course, digital payments offer an opportunity to close access to finance gaps in both private and business sectors.

5) Action is needed.

Although the risk of funding MSMEs varies according to the economic, legal and regulatory environment, it is perceived as high, thus limiting the financing options. In such context, it is imperative to mitigate risk advert financing practices and encourage innovative and impactful financing mechanisms backing effectively EU policy objectives and SDGs. In parallel, it remains critical to foster MSMEs' capacity to match eligibility criteria of financial services providers (financial sustainability, collaterals, and regulatory prerequisites).

The investment window intends to reconcile 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 non-ODA private investments into MSMEs as well as potentially mobilise already existing domestic savings and deposits, de-risk local financial institutions portfolios, finance from the private sector, foundations and/or remittances into investments that help reduce existing financing gaps.

[94] 2017 Findex full report [https://globalfindex.worldbank.org/sites/globalfindex/files/chapters/2017 Findex full report_chapter2.pdf]

1.2 EU POLICY OBJECTIVES

The **Global Europe regulation**[95] sets out the overarching objectives. Other key policies include the Towards a comprehensive strategy with Africa Communication[96], the Economic and Investment Plan for the Western Balkans[97], the Joint Staff Working Document - Recovery, resilience and reform: post 2020 Eastern Partnership priorities[98], the New Agenda for the Mediterranean 2021-2027[99] and the EU Gender Action Plan III[100]. We refer to Annex 2 for further detail on policy frameworks relevant to the investment window.

Regional and Country MIPs are the translation of these objectives into programming documents, capturing the policy priorities and prioritising them in their specific subregional and country contexts. As such, they also define the priorities for EFSD+ supported investments and should therefore be the basis for ensuring the policy first principle for EFSD+ supported investments.

Specific attention should be paid to the **Team Europe Initiatives** (see annex 2). They are built around EU political priorities at country and regional level and provide direct guidance as to where the EU and the EU Member States will be focusing their cooperation efforts in a given context. This political prioritisation will also be reflected in the future choices of operationalising funds channelled via the EFSD+ windows. As Team Europe Initiatives provide a frame around which European funding instruments and modalities coalesce, project proposals that support TEIs have to be the preferred option to ensure we achieve our policy goals.

Worth highlighting is the Team Europe Initiative (TEI) "Invest in Young Businesses in Africa" (IYBA) that will be the main vehicle to help create the systemic conditions that support micro, small and medium enterprises (MSMEs) creation and growth, with a special focus on pre-seed, seed an early stage entrepreneurs and companies, especially those led by women and young people. The EFSD+ Guarantees are expected to play a key role ensuring systemic change through innovative financial mechanisms for the IYBA target groups. In addition, guarantees can target funds and accelerators,

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[95] Global Europe regulation EUR-Lex - 52018PC0460 - EN - EUR-Lex [https://eur-lex.europa.eu/legal-content/EN/TXT/DOC/?uri=CELEX:52018PC0460&from=EN]

[96] https://ec.europa.eu/international-partnerships/system/files/communication-eu-africa-strategy-join-2020-4-final_en.pdf

[97] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. An Economic and Investment Plan for the Western Balkans. [https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/communication_on_wb_economic_and_investment_plan_october_2020_en.pdf]

[98] Joint communication to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions. Eastern Partnership policy beyond 2020 reinforcing resilience - An Eastern partnership that delivers for all. [https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/joint_communication_on_the_eap_policy_beyond_2020.pdf] and the Joint staff working document: Recovery, resilience and reform: post 2020 Eastern Partnership priorities. [https://eeas.europa.eu/sites/default/files/swd_2021_186_f1_joint_staff_working_paper_en_v2_p1_1356457_0.pdf]

[99] Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Renewed partnership with the Southern Neighbourhood. A new agenda for the Mediterranean [https://eeas.europa.eu/sites/default/files/joint_communication_renewed_partnership_southern_neighbourhood.pdf]

[100] https://ec.europa.eu/international-partnerships/system/files/join-2020-17-final_en.pdf

incubators, angel investors, venture capital funds, impact investment funds and innovative MSME equity funds, as well as co-investments into equity and quasi-equity instruments and funds.

Furthermore, an overview of the relevant flagship initiatives is provided in annex 2.

A significant number of regional and country and regional MIPs in all regions identify support to MSMEs in general, and green/circular economy in particular, as priority areas of cooperation. In the case of circular economy it is sometimes embedded as a cross cutting contribution to other Green Deal priority areas.

Against this comprehensive policy framework, the proposed investment window shall specifically address the main constraints hampering MSMEs' development globally, by adopting a differentiated approach to the development level and needs of targeted countries and beneficiaries.

1.3 SUPPORTING POLICY ACTIONS

Since the specific objective of this window is to ensure better access for MSMEs to affordable and relevant financial products as well as non-financial assistance to develop financially resilient and inclusive business models, other policy areas that constitute challenges for MSME development would need to be tackled as well. The most relevant are the following:

- Business enabling environment (including related to financial inclusion)
- Investment climate and incentives
- Legal and regulatory system to innovative businesses
- Financial markets & access to finance, including capital market development
- Economic and trade prospects
- Sustainable products and governance, ESG standards

These will be addressed through the **regular policy dialogue with the partner countries concerned as well as with other actions under the National and Regional MIPs, thus providing additional mitigation of the risk associated to its operations.**

In the Neighbourhood region, policy dialogues under the umbrella of enhanced partnership and association agreements and related regional investments plans and platforms. In the case of (pre-) accession countries, the EU integration agenda and related High Level Policy Dialogue will serve as central vehicles for policy dialogue.

In the Western Balkans, investments shall contribute to the reforms priorities and targets identified by the Economic and Investment Plan for Western Balkans, the Economic Reform Programmes and to the implementation of the Common Regional Market. The Western Balkan Investment Framework will specifically govern all operations in support to public and private sectors in the region through blending and guarantee operations with the objective to implement the Economic and Investment Plan for Western Balkans investments flagships.

Where appropriate, guarantees under this window shall contribute to strengthening market integration with the EU, in particular in the areas of green and digital transition, trade, financial inclusion and financial and financing diversification.

2 OPERATIONAL CONCEPT

2.1 WINDOW OBJECTIVES

2.1.1 General objective

The general objective is to support investments as a means of contributing to the achievement of the Sustainable Development Goals, fostering sustainable and inclusive economic and social development and promoting the socio-economic resilience in partner countries.

This investment window will have a particular focus on the eradication of poverty, creation of decent jobs, in particular for women and young people, economic opportunities, skills and entrepreneurship, supporting micro, small and medium-sized enterprises and promoting gender-responsive, climate neutral and circular business models and practices, digitalisation in accordance with the relevant indicative programming documents. It will do so by playing a key role in the delivery of the national and regional MIPs. Investments addressing the effect of the war in Ukraine could also be covered within this investment window.

2.1.2 Specific objectives

The specific objective is to ensure that MSMEs and entrepreneurs across different growth stages have access to affordable and relevant financial products as well as non-financial assistance to develop financially resilient and inclusive business models, and invest in climate-neutral, resource-efficient and sustainable production solutions.

2.2 INDICATIVE SECTORS OF INTERVENTION

Considering that a comprehensive range of instruments is available, specific financial vehicles shall address investments to tap financial gaps in the different unserved sub-sectors.

From initial assessment, the following priority sectors of interventions were identified (level of priority may vary between region/countries):

- Financial Inclusion (including green, women-led business, youth, microfinance, and social enterprises)
- Start-up and innovation[101], research and technology (incl. technology transfer and commercialisation of technology) especially promoting green start-ups through business incubation and access to green finance.
- Manufacturing, including textile and garment
- Sustainable agriculture and agri-food production (including processing and marketing),
- Sustainable tourism (incl. recovery schemes, green/digital transition)
- Digital innovation including financial technologies, digitalisation of MSMEs, digital clean tech solutions, digital innovation hub and development of digital services,
- Social Inclusion (including social economy and care economy)
- Circular economy (including waste and pollution prevention as well as waste treatment, in particular collection, recovery and recycling – see annex 4 for detailed definition of circular economy investments)
- Supply chain development and integration into EU and global supply chains
- Trade finance (particularly for export and cross border trading)

[101] The term "innovation" covers all possible sectors and not exclusively tech & IT (e.g. social innovation, creative industries, innovative circular economy models, etc…)

- Remittances channelling to productive ventures
- Local currency financing
- Introduction and scale up of climate and disaster risk finance and insurance products
- Integration of renewable energy and resource-efficient (incl. energy efficient technologies into production processes), as a means to achieve better competitiveness (profit margins) and trade opportunities (market access with better standards)
- Use of high environmental standards across Global Value Chains, related to recyclable waste, trade in minerals and other material resources, notably secondary raw materials
- Applying extended producer responsibility schemes (as the basis for a product policy framework contributing to the Circular economy – see also SWD(2019) final) in accordance with general good governance principles, to provide an impetus for more efficient product design.

Impact investments[102] shall also represent an interesting model to look at, to complement existing instruments, possibly addressing investment sizes, which are smaller than what usually cover partner IFIs.

2.3 GEOGRAPHIC COVERAGE AND REGIONAL SPECIFICITIES

While the geographic coverage of the EFSD+ Guarantee is global and encompasses all countries eligible under Global Europe, the Commission will allocate the available guarantee capacity in line with its geographic policy priorities. Investments within LDCs/fragile/landlocked and conflict affected countries will be given particular attention.

For already identified priority countries and/or specific regions an earmarked guarantee capacity is presented in annex 1. DFI partners are invited to submit proposals taking into account these geographic priorities and regional specificities identified and presented in annex.

In addition, the following regional specificities have been identified:

- In the Asia-Pacific region, support to MSME’s transformation adaption and participation to resilient, equitable and socially and environmentally sustainable value chains will be prioritized to enhance regional cooperation and to support the green and just recovery process.
- The Caribbean region has a number of specificities that pose additional challenges to financial development and inclusion. These include the countries’ small size and scale, geographic and logistical challenges, prolonged low growth, persistent high debt, and a constant vulnerability to external shocks and natural disasters. While the small scale of most economies does not appear to directly hamper growth in the short term, it has fostered a relatively concentrated and small banking sectors, with weak competition. Very few financing opportunities are available for start-ups and early-stage enterprises in the region. Access to finance, cost of finance, and overall financial inclusion are among the greatest hurdles reported by MSMEs in the Caribbean region, strongly affecting firm productivity and performance. Therefore, priority interventions in the Caribbean could have a particular focus on financial inclusion, digital innovation, circular economy, sustainable agricultural and tourism, and trade finance (including support to regional value chains).

[102] Impact Investments are defined as investments made into companies, organisations and funds with the intention to generate measurable social and environmental impact alongside financial return - Global Impact Investing Network (GIIN), Impact Investing Trends, December 2016

- For the TEI IYBA, the geographical focus will be solely Africa.
- In the Neighbourhood South, more specialised forms of MSME finance, than traditional credit lines via commercial banks, will be prioritised. This could include other sources of finance, via e.g. alternative investment funds (impact investment vehicles).

2.4 POTENTIAL BENEFICIARIES OF THE GUARANTEE AND END RECIPIENTS OF SUPPORTED INVESTMENTS

The investment window acknowledges the need to reconcile demand and supply of financial products by covering a wide spectrum of services for different unserved or underserved clients in risky markets. However, it also acknowledges that the nature of the EFSD+ Guarantee is to attract more and better investments to segments and countries that have traditionally not benefited from financial products developed by different actors from the financial market ecosystem, including commercial banks, insurance and reinsurance companies, investment funds and national, regional and international development financial institutions. In addition, guarantees shall benefit to the development of accelerators, incubators, angel investors, venture capital funds, impact investment funds and innovative MSME equity funds, as well as of co-investments into equity and quasi-equity instruments and funds.

Proposals submitted by DFIs will need to consider the correlation between technical assistance requested linked to financial guarantees and the level of innovation and targeting of fragile and underserved segments of the economy and populations. The more inclusive, innovative and impactful the guaranteed operations are, the more technical assistance may be needed to ensure successful implementation and vice versa.

Priority will be given to inclusive initiatives offering high sustainable development impact (including decent job creation, youth and women empowerment, and environmental sustainability), fostering a just transition towards inclusive climate-neutral and circular economy, optimising leverage and cost efficiency, and mobilising funding from multiple sources in fragile countries, including small islands.

Companies which have a higher number of staff headcounts and/or a higher turnover than the EU definition of MSMEs[103] are not foreseen to be covered by this window. Exceptions could be considered if the Lead IFI provides substantial evidence, demonstrating very high likelihood of strong development impact of the operations, and showing that the guarantee element is necessary for the viability of the operation and achievement of the desired impact.

End-beneficiaries will be entrepreneurs, micro, small and medium enterprises operating under formal or informal conditions with different financial needs but that have no or very limited access to financing opportunities at reasonable terms and conditions. Special consideration will be provided to:

[103] An enterprise is any entity engaged in an economic activity, irrespective of its legal form. Enterprises qualify as micro, small and medium-sized enterprises (SMEs) if they fulfil the criteria laid down in the Recommendation which are summarized in the table below. In addition to the staff headcount ceiling, an enterprise qualifies as an SME if it meets either the turnover ceiling or the balance sheet ceiling, but not necessarily both.

Enterprise category	Head count	Turnover	or	Balance sheet total
medium-sized	< 250	≤ € 50 million		≤ € 43 million
small	< 50	≤ € 10 million		≤ € 10 million
micro	< 10	≤ € 2 million		≤ € 2 million

- Households, entrepreneurs, micro and informal enterprises with a specific focus on most excluded population and in vulnerable situations, comprising women, youth, indigenous people, migrants and refugees
- Formal MSMEs with sustainable growth potential in unserved sectors, that have none or very limited access to finance at reasonable terms and conditions, especially the "missing middle", early and growth stage MSMEs in promising value chains, including social inclusive businesses as well as cooperatives
- Formal SMEs having limited access to capital market products to support their growth and integration into regional and global value chains, with a particular focus on supporting them in meeting increasing demands from European and global lead firms on the sustainability of their operations and production practices.
- Non-banking financial institutions, insurance companies, and intermediaries providing financial products to MSMEs (such as local Credit Guarantee Funds, leasing companies), equity funds or investments and financial inclusion vehicles, including start-up, youth and gender financial products
- Banks and banking financial intermediaries (commercial banks, Micro-finance institutions) providing financial products to MSMEs, households and entrepreneurs
- MSMEs operating in sectors deeply affected by the COVID 19 crisis, or in the care economy
- MSMEs operating in the area of innovation, technology and creative industries, facing challenges due to dependence on non-tangible assets and non-conducive business environments, notably intellectual property rights.
- Financial products supporting trade development, backing exports and cross border trade. Special attention will be given to financial products targeting MSMES operating in fragile and insular states, in sectors subject to high environmental and/or human rights risks.
- Financial products focused on supporting MSMEs on the digital and green transition and circular economy practices.
- Financial products to enhance_gender sensitive climate change and disaster resilience, such as insurance and re-insurance
- Financial products focused on disaster risk transfer/insurance initiatives

2.5 COMPLEMENTARITY WITH OTHER INVESTMENT WINDOWS

The interventions under this window should be complementary to the operations proposed in other windows, particularly the investment windows on connectivity and on agriculture, biodiversity, forestry and water.

The focus of operations and projects under this window shall be determined against the expected impact of MSMEs investments in a wide range of sectors, but particularly in terms of sustainable economic growth and decent job creation as a primary objective.

Sustainable Finance is a cross-sectoral priority under the EFSD+ as it is a key means to mobilise additional resources to achieve our policy objectives, including on MSMEs hence acting as a multiplier. In this respect, the MSME Window will very much welcome proposals aiming to support the development and use of **sustainability-related financial instruments and products issued on capital markets for the purpose of attracting private capital towards sustainable investments, in particular towards MSMEs in partner countries.** These may include (but are not limited to) transferable securities (equity, bonds), investment funds and vehicle, units in collective undertakings, managed portfolios of instruments, or pension products[104].

3 FINANCIAL STRUCTURES

3.1 Potential guarantee mechanisms

EFSD+ supports a wide variety of guarantee structures, including pari passu, first-, second- and third-loss guarantees. Generally, proposals in line with the average EFSD+ risk policy guidelines will be considered favourably. A range of operational guarantee structures in support of MSMEs exist from the EFSD Guarantee programme. DFI partners are invited to consider them when making proposals. Relevant guarantee structures include, inter alia, pari passu guarantees for intermediated lending, second-loss guarantees where local partners retain a layer of first-loss risk, and fund structures. First loss guarantees could be considered depending on policy first goals and the type of protection required to meet development goals.

Measures for aligning the interests of the different private and public stakeholders should be considered in line with relevant market practice. Such measures shall be transparent and will take into account the policy and financial objectives of the relevant instrument.

Under IYBA TEI, the proposals shall target equity / risk capital investments for start-ups, female and young entrepreneurs, in the seed, Series A and Series B stages.

Wherever possible, guarantee programmes targeted at mobilising private co-investors will be prioritised.

Different types of operations are eligible to the EFSD+ guarantee under this window, such as:

- Guarantees to de-risk debt transactions, portfolios and innovative debt instruments including of commercial banks, microfinance institutions, development institutions, insurance companies, credit vehicles and non-banking financial institutions when lending or creating pipelines towards MSMEs.
- Guarantees for commercial banks (excluding first tier) and non-banking financial institutions (including micro-finance, credit cooperatives, impact funds and fintech) for de-risking medium-long term lending towards MSMEs primarily for capital expenditure, covering the various risk range (subordinated debt, counterparty default, interest rate fluctuation, foreign exchange rate fluctuation),
- Guarantees covering part of the portfolio risks of investors or group of investors promoting comprehensive MSMEs financing schemes and products, combining Technical Assistance for skill development and financing mechanisms.
- Guarantees or counter guarantees private or public Credit Guarantee Schemes for MSME in underserved sectors, credit and saving cooperatives, capital investment vehicle SMEs.
- Guarantees to de-risk debt or equity investment for MSMEs that focus on supporting economic integration into EU and global value chains and trade

[104] As defined in Directive (EU) 2014/65 and Regulation (EU) 2019/2088

- Guarantee backing export and cross border trade support schemes
- Guarantees promoting a sustainable, adequate and diversified source of funding to address the needs of the different priority sectors identified (including, (micro-)insurance, leasing, equity, seed capital) **sustainability-related financial instruments and products issued on capital markets for the purpose of attracting private capital towards sustainable investments, in particular towards MSMEs in partner countries.** These may include (but are not limited to) transferable securities (equity, bonds), investment funds and vehicle, units in collective undertakings, managed portfolios of instruments, or pension products[105]. For example:

    - Guarantees to de risk equity / risk capital investments for start-ups, female and young entrepreneurs and in underserved sectors of activity, including for pre-seed and seed capital (dedicated funds as well as, inter alia, accelerators, incubators or angel investors), venture capital funds, impact investment funds and innovative MSME equity funds, as well as co-investments into equity and quasi-equity instruments. Both direct and indirect (through funds or funds of funds) are eligible. Including funds catalysing financing to young and innovative enterprises prior to transitioning to the commercial credit market (see IYBA Team Europe Initiative in annex 2).
    - Guarantee to support investment in line with green and digital transition
    - Guarantee to support impact funds targeting social (including social enterprises) and environmental objectives.
    - Guarantees to de-risk issuing of social impact bonds in order to crowd-in private investors to finance better social outcomes in relevant areas for which they will receive, if achieved, a payment with an interest from the contracting public authority.
    - Guarantees to de-risk debt and equity investments in support to Incubators, Accelerators, Public Research Institutions, National Innovation Funds, thematic Funds etc. with a view to strengthening the Innovation Ecosystem.
    - Guarantee making local currency financing more accessible.
    - Guarantees to de-risk debt, quasi-equity investment and subordinated debt (mezzanine) for high expansion potential start-ups or MSMEs, MSMEs operating on fragile estates or for supporting recovery from the impact of COVID-19 pandemic.

3.2 Policy dialogue and technical assistance measures

Operations can include a Technical Assistance (TA) component to support the regulatory change, enhance the financial ecosystem capabilities, improve financial transparency, promote compliance with environmental and social standards, support gender transformative approaches and support the investment climate. Such TA can be linked to support transactions and benefiters of guarantees, to enable better products and better reach policy objectives described in this investment window.

Synergies with existing EU policy dialogue platform, other blending initiatives and/or EU funded TA support that complement and support the investment climate, creation of pipelines, regulation and the financial ecosystem must be considered.

[105] As defined in Directive (EU) 2014/65 and Regulation (EU) 2019/2088

TA can also be provided to support Ecosystem Support Organizations (ESO)[106] and MSMEs to develop bankable projects, including by improving business skill capacity as well as operations and technological set-up of enterprises to include circular economy operational practices.

It is expected that TA efforts are aligned to ensure that current business model and/or existing business model will move in the direction of a greener and more circular business approach.

3.3 Private Sector Involvement

Guarantees will be defined and retention of risk by the different partner financial institutions considering on case-by-case basis, taking into account financial risks, policy benefits and capabilities of local financial institutions and funds implementing the guarantees.

3.4 Type of risks

Risks to be mitigated may include:

i) Commercial risks (Losses due to a borrower, investment or counterparty failing to meet its obligations in accordance with agreed terms, for example payment risk, performance risk, etc.),
ii) Political and country risks: All risks that are related to actions of a state or a government, over which the investors do not have any influence, for example expropriation, coup d'état, civil war, etc.), including changes in law and regulatory framework,
iii) Under certain conditions, currency risks: Potential losses due to foreign exchange currency exposure, currency fluctuations, convertibility, and transferability international currency exchange rate etc.
iv) Natural hazards, climate change and environmental risks (e.g. droughts, flooding, extreme weather events, temperature rises, etc.)
v) Risks of failing compliance with quality standards, ESGs, SPS, etc. by borrowers, necessary to maintain market positions in export markets with strengthening quality and environmental standards, thereby undermining the value of the investment in the medium-term (such as the EU internal market).

3.5 Indicative guarantee amount of the investment window

The indicative target volume of guarantees envisaged under this window amounts to EUR 1 120 million, including the following distribution between NEAR and INTPA geographies:

INTPA : EUR 620 million NEAR : EUR 500 million

The Commission may allocate a higher or lower amount than the indicative target depending on the proposals finally submitted. An indicative earmarking of potential investments per region and sub-region is included in Annex 1.

For NEAR IFIs/DFIs are encouraged to submit regional proposals covering all NEAR regions and countries. For INTPA some priority countries have been identified as priorities and some guarantee capacity has been earmarked for specific countries and regions, as specified in annex 1.

[106] These include, among others, accelerators and incubators, Angel Investors and Equity Fund managers, universities, VET centres, marketplaces, etc.

IFIs/DFIs partners are invited to submit proposals specifying their alignment with priority countries, subregional earmarking and key TEIs. This will in turn be a key factor in evaluating and selecting PIPs submitted by DFIs.

4 ENVISAGED IMPACT AND PERFORMANCE MEASUREMENT

This investment window shall contribute to achieving the following United Nations Sustainable Development Goals (SDGs):

1) *#1 "End poverty in all its forms everywhere"*
2) *# 5 "Gender Equality and women's empowerment"*
3) *#8 "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all", and*
4) *#9 "Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation"*
5) *#12 "Responsible consumption and production''*

In coherence with the SDGs, the proposed investments programme covered by a guarantee falling under this window shall contribute to the **performance indicators stipulated in the Global Europe regulation and particularly:**

SDG goals	Corresponding Global Europe performance indicators
#8	*(4) Number of smallholders reached with Union supported interventions aimed to increase their sustainable production, access to markets and/or security of land*
#8;#9	*(9) Leverage of investments and multiplier effect achieved*
#1	*(13) Number of beneficiaries, disaggregated at least by sex, with access to financial services a)firms b) individuals*
#12	*(15) Number of MSMEs adopting sustainable consumptions and productions as well as circular practice with Union support*

In coherence with the EFSD+ objectives, each Proposed Investment Programme (PIP) should explain how it intends to contribute to one or more of the **cross-cutting performance indicators stipulated in Annex VI of the Global Europe regulation**, including to environmental sustainability objectives in lines with the ambition of the Green Deal and EU sustainable finance agenda. In this respect, the Proposed Investment Programmes (PIPs) under this window shall have an explicit ambition to promote gender equality, young entrepreneurship and environmental sustainability and shall aim at having in their portfolio businesses adopting circular economy[107] practices.

[107] These include MSMEs employing one or more of the following practices (see Annex 4 for a detailed definition of circular economy investments): a. reducing resource use including by improving resource efficiency; b. use secondary (recycled) materials as inputs; c. eliminate/reduce input of hazardous/toxic materials; d. design for easy repair, recycling, and/or reuse; e. increase the capacity utilisation of a product or asset during its useful life; f. extend the useful life of products and assets; g. provide product-as-a-service offerings; and h. deal with value recovery from wastes, be it materials, heat, bio-wastes or wastewaters. Facilitators in the circular economy (such as consultancy, engineering, knowledge and data providers or accounting firms, that promote reverse logistics, operate marketplaces for used materials, manage data

Finally, the operations falling under this window shall directly contribute to the **EFSD+ Result Monitoring framework (see annex 3)**. For example the PIP deployed under this window shall result in one or more of the following outcome:

I. Increased number of MSMEs accessing short, medium or long term credit
II. Increased contribution of MSMEs to sustainable growth and decent employment creation in given markets;
III. Increased mobilisation of private sector capital invested in MSMEs;
IV. Increased informal MSMEs accessing financial products
V. Increased MSMEs accessing financial products and operating in fragile states
VI. Increased availability of appropriate products and financial services for MSMEs;
VII. Improved financial inclusion (e.g. number of households, micro and small enterprises taking credit for the first time; number of adults using digital payments; women entrepreneurs; young entrepreneurs; enterprises served in different regions/outside capital etc.);
VIII. Increased access and use of financial services for MSMEs including for remote regions and in particular for women and youth (e.g. access to medium or long term credit for investments by MSMEs.; access to credit, savings, insurance and transfers by micro and small enterprises; increase use of digital payments);
IX. Increased use of climate-smart and circular solutions as well as climate and disaster risk finance and insurance tools and processes limiting the effects of climate change and increasing resilience (e.g. reduce health and environmental impacts);
X. Innovative and more inclusive business models are scaled up (including social enterprises and cooperatives);
XI. Increased financial products availability for young entrepreneurs and early stage business
XII. More integrated MSMEs into global value chains
XIII. Women financial inclusion under the 2X Challenge Criteria[108].
XIV. Increased access for women in all their diversity to financial services and products, and productive resources
XV. Percentage of small and medium-sized enterprises (SMEs) who introduced at least one product innovation or process innovation either new to the enterprise or new to their market
XVI. Number Innovative and more inclusive business models are scaled up

For each PIP a **results framework will be developed to monitor the outcome achieved and impact contribution realised. All indicators shall be disaggregated by the operations/transaction geographic**

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repositories for material passports, or use other means to support circular economy uptake by MSMEs) are also considered.

[108] The 2X Challenge was launched in June 2018 as a major new commitment of the development finance institutions (DFIs) from the G7 countries to unlock resources that will help advance women's economic empowerment and gender equality. These DFIs have since been supporting investments and initiatives that provide women in developing countries with access to leadership opportunities, quality forms of employment, finance, enterprise support, as well as products and services that enhance the inclusion or economic participation of women and girls. Since the launch, six new DFI members have joined to expand the commitment: BIO-Invest, Finnfund, FMO, IFU, SIFEM, and Swedfund. In October 2019, the EIB became the first multilateral development bank to endorse the 2X Criteria. These institutions represent more than US$112.3 billion in combined assets. For More information please visit https://static1.squarespace.com/static/5b180402c3c16a6fe0001e45/t/60bfe7c22d1a9a22ea0b775e/1623189445146/2XReferenceGuide_Designed_June+2021+UPDATE_final.pdf

areas (countries). All indicators referring to individuals shall be disaggregated, whenever possible, by sex, in particular to monitor progress towards gender equality, and by age.

Discounts for remuneration can be applied to proposals that include **at least one** of the following quantitative targets as part of their objectives:

I. 51% women benefited (under the 2x Challenge Criteria).
II. 70% young entrepreneurs (age between 15-30)
III. 30% target early stage businesses with seed, series A and B capital.
IV. 20% target MSME cooperatives and social enterprises[109]
V. 30% of businesses adopting circular economy practices

All indicators shall be disaggregated by the operations/transaction geographic areas (countries). All indicators referring to individuals shall be disaggregated, whenever possible, by sex, in particular to monitor progress towards gender equality, and age for youth. Indicators referring to job creation shall be disaggregated for green jobs[110].

Indicators referring to MSMEs and/or MSME access to finance (number and size of loans, number of MSMEs with increased turnover, etc.) shall be disaggregated whenever possible by sex and age of the MSME's owner, and circular economy investments(see annex 4 for related definitions). The additionality of the EU intervention will be measured, in terms of actual capacity to mobilise both local and international private sector investors on operations:

- in fragile/conflict affected states/regions and other high risk situations;
- in underserved market sectors and segments of MSME ecosystems;
- promoting MSMEs, social business and cooperatives;
- targeting youth and women empowerment;
- enabling small size investment
- enabling the adoption of sustainable production practices and the mitigation of human rights risks to facilitate the integration of MSMEs into global and EU supply chains;
- promote the sustainable use of natural resources and transition to a low-emissions climate-resilient green economy, circular economy
- Enable the development of specific new financial products and vehicles, for example for early stage MSME graduating from the start-up phase).

The additionality of the EU intervention will be, beyond the geographical focus, targeting segments of MSME ecosystem that can benefit from the financial instruments. The value added, will also lie in

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[109] A social enterprise is an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities. https://ec.europa.eu/growth/sectors/social-economy/enterprises_en

[110] Green jobs are decent jobs that produce goods, provide services or make production processes more energy and resource efficient and less polluting, thus contributing to environmental preservation or restoration. They can be in traditional sectors such as manufacturing and construction, or in new, emerging green sectors, such as renewable energy and energy efficiency (see also ILO definition). Green jobs comprise decent employment in: a. the production of environmental goods and services (see eurostat definition); and b. environment-friendly processes, e.g. use of pollution abatement technologies in a polluting ("brown") industry.

ensuring support for proposals promoting the sustainable use of natural resources and transition to a low-emissions climate-resilient green economy, circular economy.

Additionality of this window will also be linked to the type of risks the guarantee could cover, for example provision of coverage of foreign exchange (FX) exposure which is one of key problems in lending to MSMEs as well as on the provision of new financial instruments or facilities which are not already covered by existing EU blending operations.

Furthermore, the development of specific new financial products and vehicles for example for early stage MSME graduating from the start-up phase shall contribute to the additionality of EU intervention.

Annexes

ANNEX 1: Priority Countries and geographic earmarks

For the MSME window, the priority countries listed under section A below have been identified. In addition, some guarantee capacity has been earmarked for specific regions, as specified in section B below.

C. Priority Countries

Africa (Sub-Saharan)	Latin America and The Caribbean	Middle East, Asia and Pacific	NEAR
Angola	All countries in the region.	Afghanistan	*In NEAR region there are no priority countries, please refer to earmarked allocation at regional/sub-regional level as indicated below.*
Bénin		Bhutan	
Botswana		Cambodia	
Burkina Faso		Indonesia	
Burundi		Iraq	
Cabo Verde		Kazakhstan	
Cameroon		Kyrgyz Republic	
Central African Republic		Laos	
Côte d'Ivoire		Malaysia	
Comoros		Maldives	
Republic of Congo		Mongolia	
Democratic Republic of the Congo		Pakistan	
Eritrea		Philippines	
Ethiopia		Sri Lanka	
Gabon		Tajikistan	
Ghana		Thailand	
Guinée Conakry		Turkmenistan	
Guinea-Bissau		Uzbekistan	
Kenya		Vietnam	
Liberia			
Madagascar			
Malawi			
Mali			
Mozambique			
Namibia			
Nigeria			
Niger			
Rwanda			
Senegal			

South Africa			
Sao Tome and Principe			
Somalia			
South Sudan			
Sudan			
Tanzania			
Tchad			
Uganda			
Zambia			
Zimbabwe			

D. Geographic/country earmarks

Africa (Sub-Saharan)		**Latin America and The Caribbean**		**Middle East, Asia and Pacific**		**NEAR**	
Sub-region	**%**	**Sub-region**	**%**	**Sub-region**	**%**	**Sub-region**	**€m**
The objective is to reach the following allocation overall for EFSD+:		Indicative subregional allocation for the window:		Indicative subregional allocation for the window:		Indicative subregional allocation for the window:	
West Africa	36%	Caribbean	24%	Southeast	31%	Neighbourhood South	180
East and Central Africa	42%	Central America	34%	South	11%	Neighbourhood East	120
Southern Africa and the Indian Ocean	22%	South America	42%	Central Asia & Mongolia	28%	Western Balkans	200
				Unearmarked	30%		
Total envelope for the region	**445**	**Total envelope for the region**	**50**	**Total envelope for the region**	**125**	**Total envelope for the region**	**500**

Window total amount (€m)	**1120**

ANNEX 2: TEIs, flagship initiatives, and policy frameworks relevant to the investment window

Team Europe Initiatives

The following Team Europe Initiatives are of particular relevance for this window and are to be considered when developing proposals. The list of TEIs is indicative and susceptible to evolve over time; regular updates on TEIs can be found in the following website: Consolidated Table - TEIs | Capacity4dev (europa.eu)

For **Sub-Saharan Africa**, the platform to implement the Team Europe Initiative (TEI) "Invest in Young Businesses in Africa" (IYBA) will be a major vehicle to help create the systemic conditions that support micro, small and medium enterprises (MSMEs) creation and growth, with a special focus on pre-seed, seed an early-stage entrepreneurs and companies, especially those led by women and young people.

For **West Africa**, the following TEIs have been identified:

- Bénin: Croissance durable et emploi pour les jeunes
- Burkina Faso: Inclusion sociale pour la stabilité
- Cape Verde: Green deal
- Ghana: Smart, green and digital recovery
- Guinea Bissau: Inclusive and Green Cities
- Guinea Bissau: Education & training towards an inclusive and green transition
- Guinée Conakry: Économie Verte et Bleue
- Mali: Faire de la jeunesse un acteur du changement et du développement du Mali
- Mali: Environnement et changement climatique
- Niger: Une économie inclusive, verte, digitale pour et avec les jeunes
- Nigeria : Green Economy Alliance
- Sénégal: Pour une meilleure gouvernance économique
- Sénégal: Promouvoir une économie verte et digitale
- Tchad: Pacte vert et fragilité
- Tchad: Vive les villes secondaires

For **Southern Africa & Indian Ocean**, the following TEIs have been identified:

- Angola: Economic diversification
- Comoros : Pacte vert pour une croissance intégrée
- Malawi: Green Growth
- Mozambique: E-Youth
- South Africa: A just and green recovery for South Africa
- Zambia: Climate Action for Inclusive Green Growth in Zambia
- Zimbabwe: Gender Equality through women empowerment

For the **Africa Region**, the following TEIs have been identified:

- AfCFTA
- Investing in Young Businesses in Africa (IYBA)

For **East and Central Africa**, the following TEIs have been identified:

- Cameroon: Pacte vert et résilience dans le Septentrion du Cameroun
- Gabon : Green Economy and Sustainable Jobs
- Kenya: Human centred digitalisation
- Rwanda: Sustainable cities fit for the digital age
- Rwanda: Investing in sustainable and inclusive agricultural transformation
- Sudan: Supporting women's rights and enhancing their role in Sudan's society
- Tanzania: Green and Smart Cities SASA
- Uganda: Sustainable Business For Uganda

For **the Latin America and Caribbean Region**, this window could support the following bilateral TEIs:

- Argentina: digitalisation. Over the past decade, Argentina has made efforts to improve digital access for all, and its agenda lays the foundation for governing the country's digital transformation. In this regard, the EU intends to help the country achieve full digital inclusion of all its citizens, improve the productivity of the economy and put the state at the service of its citizens.
- Argentina: Green Investment and Sustainable Value Chains. EU is proposed to support mainstreaming of climate action and environmental sustainability in Argentina's socio-economic development model, aiming in particular at transformative changes and facilitating investments in agriculture, and waste management and support to the implementation of municipalities' plans to fight against climate change.
- Bolivia: Green and Resilient Development. The TEI combines a much needed green recovery and a durable development. The three focal areas are: Sustainable and climate change-resilient landscapes, Green energetic transition and Green economy in sustainable cities. It's within these areas that the EU and Bolivia partnership can make a substantive and sustainable impact while providing an adequate socio-economic response to the challenging situation following the COVID crisis.
- Brazil: Digital Transformation. Cooperation on digital transformation will focus on policies and standards, industrial and business partnerships, cooperation on research and innovation and on digital government and inclusion. Aligning technology advances with universal (and EU) values of human dignity, freedom, democracy, equality, rule of law and solidarity. The EU Delegation will engage also with the private sector. EU Chambers of Commerce and EU companies showed strong interest and support.
- Colombia: Environment. The TEI will aim to ensure the country's transition towards green development as a model in Latin America, given Colombia's strong commitment to climate change, biodiversity, SDGs and environment. The TEI will contain three pillars: (i) sustainable local development, (ii) sustainable cities and infrastructure and (iii) sustainable finance and institutions.
- Costa Rica: Green Recovery, Decarbonisation, and Sustainable Urban Mobility. The TEI will seek to support the country in pursuing its 3D 2050 national development vision (decarbonised, digitalised and decentralised) while also consolidating the country's status as a green hub and green economy.
- Cuba: ecological transition. The TEI prioritise the dimensions of mitigation (mainly towards the increased use of clean renewable energy), adaptation (mainly through sustainable agriculture) and resilience to climate and health emergencies.
- Dominican Republic: Inclusive socio-economic recovery is a priority for Team Europe in the Dominican Republic. This initiative will be beneficial for SME strengthening, job creation and promote a more inclusive society, allowing the most vulnerable to benefit from economic recovery while promoting green practices.

- Ecuador: Sustainable Growth and Jobs and Green Deal. While Ecuador looks to the EU as a partner to trade with, from which to attract investments and receive assistance in terms of economic development, on the other hand the EU wants to strategically support this demand by promoting trade and foreign direct investment, facilitating private and public investment and stimulating innovation and productivity by using its expertise in fields such as the circular economy, research and innovation and digitization.
- El Salvador: Digital Jobs. The objective of the TEI is to increase economic growth and to create innovative jobs for youth, in order to boost post-COVID recovery. This will be done by addressing the digital divide, strengthening the digital public institutional set up, fostering digital skills and supporting the creation of new business models, in particular where the digital and the artistic and cultural sector meet, so that youth and women enjoy opportunities to join the labour market in high quality, innovative and future-oriented jobs. Complementarity with Erasmus+ capacity building action for VET will be sought.
- Guatemala: Sustainable Growth and Jobs. In the short term the aim will be to support new businesses and self-employment opportunities, including where opportunities exist in the green, blue and circular economies, and improve productivity through the promotion of innovation in growing micro, small and medium enterprises, the execution of the Strategic Plan for Scientific and Technological Development and promoting the trade opportunities offered by the EU-CA Association Agreement for Guatemala. In the medium/long term, the aim will be to support partnerships focused on innovation, economic transformation (including the energy transition) and digitalisation in order to create highly qualified jobs, strengthening economic integration among Central American countries and the development of economies of scale, synergies and regional value chains.
- Paraguay: climate change and protection of the Environment. The EU and its partners are natural allies and have a common interest in sharing technology, best practices, know-how and bringing financial resources to achieve Paraguay’s commitments in terms of climate change/environment. The proposed TEI is articulated around three main axes: (1) Building alliances with Paraguayan civil society, private sector, academia and media; (2) Raising awareness on environmental challenges and possible benefits a greener model can bring and (3) Specific actions/programmes in (a) Biodiversity preservation/restoration and fight against deforestation and (b) Sustainable production and support to sustainable value chains.
- Peru: Green Deal – Circular economy and Sustainable Cities. Peru is EU key partner on several global challenges as climate change, environmental and Amazon preservation. Building on government commitment to transform the economy, the EU's effort is to achieve a greening of value chains and the transition to a circular production system.

- And the following regional TEIs:
  - EU – LAC Digital Alliance: The proposed regional digital TEI would provide a holistic framework for the EU to develop its digital cooperation with the LAC region. The TEI would respond to increased interest in the European human-centric digital model from LAC partners; it would support the building of a bi-regional digital partnership of mutual benefit and opportunities.
  - It will encompass various tracks that have been identified as central for EU intervention, such as: i) convergence of regulatory frameworks and standards, ii) regional digital connectivity and infrastructures, iii) private sector collaboration, competitiveness and innovation, and iv) e-services and digital products. In a flexible approach, it would allow tackling other topics that respond to the joint of the Team Europe partners.
  - Green Transition: The regional TEI would aim at accompanying the transition of LAC countries to a decarbonised, environmentally friendly and inclusive economy. In line with the Green Transition priority areas, the TEI will be focused on the following focal sectors: 1) Climate

policies and action, including a just and clean energy transition, 2) Biodiversity, marine and forest conservation, and 3) Circular economy.

- Amazon Basin : the multi-country TEI (Brazil, Colombia, Peru, Bolivia, Ecuador, Guyana and Suriname) aims at preserving the Amazon forest's contribution to climate change mitigation, to global biodiversity conservation and at improving its peoples' socio-economic development, through addressing root causes of key challenges affecting the region: i) mounting deforestation and forest degradation; ii) biodiversity loss, sustainable management and use of biodiversity and forest resources; iii) sustainable and inclusive development for its population; and iv) respect for human rights and enhanced citizen-security.
- To address those challenges, the suggested intervention pillars are 1) Protection of the Amazonian ecosystems, 2) Green and inclusive growth, sustainable livelihood, 3) environmental governance and indigenous peoples rights and 4) Sustainable finance
- Inclusive and Equal societies: The aim of this intended TEI would be to foster decisive action to build back better in a just and inclusive way by addressing structural inequalities in LAC. Building on the successful EUROsociAL brand, this TEI would send a strong message of European partnership and solidarity, leveraging on the EU social model and its variety of national facets.
- Actions under this TEI would pilot social innovation at regional, sub-regional or multi-country level in core human development areas, such as education, health, social protection and fiscal justice.

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- For Latin America and the Caribbean, priority will be given to proposals presented in consortiums by more than one Financial Institution in line with the Team Europe approach and those covering several countries, particularly if the proposal includes countries from all sub-regions, Caribbean, Central and South America. Proposals are expected to be in line with the MIPs of the countries selected. Preference will be given to proposals that involve EU private sector actors.

For **the Asia-Pacific region,** this window could support the following bilateral and regional TEIs:

- Cambodia: "Built Back Better: Green energy and industrial value chains"
- Cambodia: "Sustainable landscapes, forests and agriculture"
- Sri Lanka: "Green Recovery"
- Pakistan: "Building Back Better through Green Jobs Creation"
- Mongolia: "Sustainable natural resource management and value chain development in Mongolia"
- Laos: "Green Team-Europe Initiative for the Lao PDR"
- Vietnam: "Climate-resilient, low-carbon circular economy"
- Philippines: "Circular Economy and Plastic Waste Management"
- Regional Pan-Asia: "Supporting Sustainable Consumption and Production (SCP)"
- ASEAN/South East Asia (regional): "Green Team Europe Initiative in partnership with ASEAN/South East Asia"
- Iraq: "Sustainable and Inclusive Socio-economic Perspectives for Iraq". Timor Leste: "A New Green Deal for Timor Leste".
- PNG : "Our Forest, Our Future"
- Pacific region : "Green Blue Alliance for the Pacific"
- Timor-Leste: "A new Green Deal for Timor-Leste

In **the Neighbourhood South**, the *TEI "Job creation through trade and investment"* will be one of the flagships to bring together initiatives that link trade and investment policies and outcomes with job creation at the macro, meso and micro levels.

In the **Neighbourhood East**, this window will in particular contribute to the following bilateral TEIs in Southern Armenia: *Resilient Syunik TEI* aims at supporting inclusive, resilient and green socio-economic recovery in Syunik region, in line with the EU-Armenia Comprehensive and Enhanced Partnership Agreement (CEPA) framework, the Economic and Investment Plan (EIP) for the Eastern Partnership, the EU-Armenia 2021-2027 Multi Annual Indicative Programme (MIP) and Government priorities. This Initiative will bring together the various initiatives initiated by EU, MS and IFIs to focus on socio-economic recovery and resilience-building in the region through promoting a balanced green development aimed at attracting investments, sustainable employment and job creation, while protecting the most vulnerable groups.

In the Western Balkans, the Western Balkans Investment Framework supports the public and private sector development through blending and guarantees. It is worth noting that current programme in support of the private sector development in the region since 2012 include: the Western Balkans Enterprise Development and Innovation Facility (WB EDIF), the Regional Energy Efficiency Programme, the Green for Growth Programme and the EFSE[111].

1) *Team Europe Initiative "INVEST IN YOUNG BUSINESS IN AFRICA" Team Europe Initiative (TEI IYBA)*

On 18 May 2021, at the French Financing Summit for African economies, the European Commission President Ursula von der Leyen announced the creation of a Platform to implement the Team Europe Initiative (TEI) "Invest in Young Businesses in Africa" (IYBA).

The objective of the TEI IYBA is to help create in Africa the systemic conditions that support micro, small and medium enterprises (MSMEs) creation and growth, with a special focus on pre-seed, seed an early stage entrepreneurs and companies, especially those led by women and young people. It will do so by supporting and developing new and early stage business ecosystem actors as well as increase the quantity and the quality of financial products and technical assistance for these enterprises, bringing together public and private funding. The TEI IYBA is structured around three building blocks:

- Building block 1: Increase the financial and technical support for pre-seed stage entrepreneurs and micro and small enterprises.
- Building block 2: Increasing access to finance for MSMEs and entrepreneurs at seed and early stages.
- Building block 3: Supporting the ecosystem development, with a special emphasis on women and young people.

For **Africa**, **the** Team Europe Initiative (TEI) "Invest in Young Businesses in Africa" (IYBA) will be a major vehicle **to** help create the **systemic** conditions that support micro, small and medium enterprises (MSMEs) creation and growth, with a special focus on **pre-seed, seed** an **early-stage entrepreneurs and companies**, especially those led by women and young people.

Under this TEI IYBA, the EU expects to receive proposals for potential guarantees that de-risk equity / risk capital investments for start-ups, female and young entrepreneurs, in the seed, Series A and Series B stages, with a substantial component of TA. In addition,

111 More information on www.wbif.eu

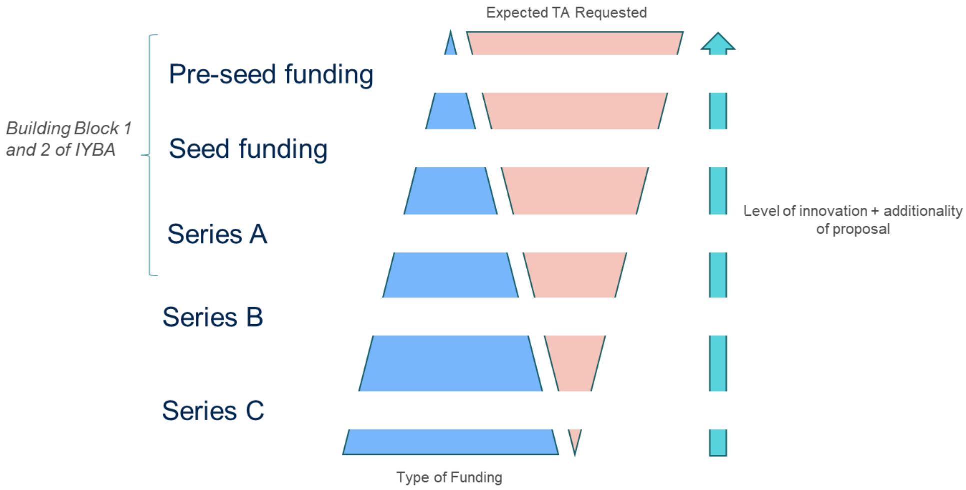
guarantees can target funds and accelerators, incubators, angel investors, venture capital funds, impact investment funds and innovative MSME equity funds, as well as co-investments into equity and quasi-equity instruments and funds.

Both direct and indirect investments (funds or funds of funds) are eligible, including funds catalysing financing to young and innovative enterprises prior to transitioning to the commercial credit market.

A joint or coordinated approach from the Development Financial Institutions will be valued positively when submitting programme requests targeting the IYBA segments in particular, and on which the programmes would need to operate under the TEI framework.

The following figure represents the TEI IYBA main type of expected funding and its expected correlation with potential TA requested, as well the value added within the EFSD+ framework:

Figure 1. TA vs Guarantees expected per development stage



2) *Regional TEI Pan-Asia supporting Sustainable Consumption and Production (SCP)*

In Asia-Pacific, MSMEs are the backbone of the real economy being the largest job creators and employers but also among the largest environmental polluters of water, air and soil in the region due to their unsustainable production models. Engaging with the private sector will be crucial over the next years to provide them with sustainable solutions for their transitions but also to ensure that capitals available on the market are in line with their financing needs.

This regional Team-Europe Initiative will support the **identification and testing of sustainable and circular production solutions within MSMEs part of key value chains with high economic added value in the region as well as with high potential to further develop EU-bilateral and intra-regional trade. It will provide European and international financial institutions, multilateral development banks and the guarantee initiative(s) proposed under this Investment Window with a pipeline of investment projects for sustainable and circular solutions which MSMEs in the region will be able to integrate through available relevant and affordable credit lines.**

3) *TEI in South Neighbourhood "Job creation through trade and investment"*

In the **Neighbourhood South**, this Team Europe Initiative's (TEI) objective, being currently developed, is to support a holistic approach to job creation in the Southern Neighbourhood, by bringing together initiatives that link trade and investment policies with job creation at the macro (policy dialogue), meso (institutional capacity and support), and micro (direct support to MSMEs, including access to finance) levels. The TEI's fundamental logic is that consolidating efforts to align trade and investment policies with employment objectives in the Southern Neighbourhood will contribute to macroeconomic stability and post-pandemic recovery. Actions would contribute to increase employment and reduce inequalities, especially for the young and vulnerable.

Following consultations with Member States and the EIB and an analysis of Southern partners' post-pandemic objectives, the following three thematic areas have been identified:

(i) Sustainable trade and investment

(ii) Vocational training/technical skills:

(iii) Inclusive entrepreneurship

Proposals that would support entrepreneurship for young and women entrepreneurs, social entrepreneurs and start-ups particularly in future-oriented areas i.e. related to digital and green transitions through improved financial inclusion, would require innovative financial products, channelled through local institutions, including through improved channels of migrants' remittances.

Flagship initiatives

In the **Neighbourhood region**, proposals submitted shall highlight how they are contributing to the achievement of the respective regional flagship initiatives notably, in **Neighbourhood East**:

- Armenia Flagship 1: Supporting a sustainable and innovative and competitive economy – direct support for 30 000 SMEs
- Armenia Flagship 3: Investing in the digital transformation, innovation, science and technology
- Azerbaijan Flagship 3: Supporting a sustainable, innovative, green and competitive economy — direct support for 25 000 SMEs
- Belarus Flagship 1: Supporting an innovative and competitive economy — direct support for 20 000 SMEs
- Belarus Flagship 3: Boosting innovation and the digital transformation, including an Eastern Partnership IT school in Minsk
- Georgia Flagship 3: Sustainable economic recovery — helping 80 000 SMEs to reap the full benefits of the DCFTA
- Moldova Flagship 1: Supporting a sustainable, innovative, green and competitive economy — direct support for 50 000 SMEs
- Ukraine Flagship 1: Supporting a sustainable, innovative, green and competitive economy — direct support for 100 000 SMEs

In the **Western Balkans**, regional initiatives need to focus on delivering on the Economic and Investment Plan, the Green Agenda and the Innovation agenda for the Western Balkans. In particular, focus should be put on:

- Green transition: shall support investment in the private sector focusing on the Green Agenda for the Western Balkans priorities, including energy; decarbonisation; circular economy; sustainable farming and food production; and protection of biodiversity
- Digital transition: shall support investments strengthening the digitalisation of the business sector in the region, including start-ups, scale-ups and MSMEs. Support

shall also be provided to the integration of research and development results, innovation, technology transfer and enabling digital ecosystems.

- Trade: shall aim at raising the quality standards of companies and the availability of export-oriented investments in order for the region private sector to benefit from market integration and trade within the region and with the EU. Efforts should also focus on facilitating integration of sustainable and more innovative industrial value chains between the Western Balkans and the EU, in particular by supporting sustainable and innovative production and processing of raw materials, including critical raw materials.
- Financial Inclusion: shall support the labour, social and financial inclusion of those furthest away from the labour market. Focus should be put on unlocking adequate diversified finance instrument and to build capacity to develop entrepreneurial undertakings (including social enterprises, social inclusive businesses and cooperatives). Crowding-in private capital to tackle social challenges through sustainable social innovation shall also be pursued.
- Financial and financing diversification: shall aim at supporting the development of innovative financial instruments and at providing alternative sources of funding.

Relevant policy frameworks

The main policy objectives that define the European Commission approach towards MSME support under EFSD+ are embedded in the following frameworks:

- The Global Europe regulation[112] and related commitment to contribute to the United Nations Sustainable Development Goals (SDG) relevant to this investment window (see section 4.4)
- The European Consensus on Development[113] and the Communication "A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries", frame the policy to support the transition of MSMEs businesses towards sustainability by facilitating the creation of an investments enabling framework for private investors and the public sector.
- The European Green Deal[114] and related thematic policy strategies and action plans, notably the EU Circular Economy Action Plan[115], highlighting the EU ambition to lead a just transition to a climate-neutral, resource-efficient and circular economy.
- The EU Gender Action Plan III[116]
- The EU Human Rights and Democracy Action Plan 2020-2024
- Joint communication to the European Parliament and the Council "Towards a comprehensive Strategy with Africa"[117] / 2018 "New Alliance for sustainable development and jobs"[118]
- Joint Communication on Strengthening the EU's contribution to rules-based multilateralism[119]

[112] Global Europe regulation EUR-Lex - 52018PC0460 - EN - EUR-Lex [https://eur-lex.europa.eu/legal-content/EN/TXT/DOC/?uri=CELEX:52018PC0460&from=EN]
[113] https://ec.europa.eu/international-partnerships/system/files/european-consensus-on-development-final-20170626_en.pdf
[114] https://ec.europa.eu/info/publications/communication-european-green-deal_en
[115] Reference to be included
[116] Reference to be included
[117] JOIN(2020) 4 final
[118] COM(2018) 643 final
[119] JOIN(2021) 3 final of 17.2.2021.

- Post-Cotonou Agreement with African, Caribbean and Pacific (ACP) countries[120]

In the **neighbourhood and enlargement region**, the economic reform programmes in accession countries, the regional European investment plans and flagship initiatives constitute the core policy framework supporting the implementation of EFSD+ towards EU objectives in this region, namely:

- The *Economic and Investment Plan for the Western Balkans* advocates for investments supporting start-ups and MSMEs to develop a robust private sector, the essential engine to improve the region's competitiveness and jobs creation. Investments shall support access to finance of MSMEs; build and adequate business climate; support companies digitalisation, research, innovation and technology transfer, including when relevant, in line with economy-based Smart Specialisation Strategies; look into financial and financing diversification; attract private investments that target social needs (e.g. impact finance); tackle social challenge by encouraging social innovations and promoting social entrepreneurship; support the transition of MSMEs to quality standards. Export-oriented investments shall aim at scale-up regional integration and trading within the region and with the EU market. Investment shall foster the green and digital transition of the business sector of the regions.

- The *Green Agenda for the Western Balkans[121]*, based on the approach of the European Green Deal, and related thematic policy strategies and action plans to lead a just transition to a climate-neutral, resource-efficient and circular economy.

- The *Agenda for the Western Balkans on Innovation, Research, Education, Culture, Youth and Sport[122]*, a long-term strategy for cooperation with the Western Balkans around enhancing human capital development; stopping brain drain; encouraging brain circulation; and innovation ecosystem and the transition to a knowledge-based economy.

- The *Joint Communication on the Eastern Partnership beyond 2020 and its investment plan[123]* which prioritises investing in competitive and innovative economies. It aims at reaching up to 500,000 SMEs (i.e. 20% of all SMEs in the region), upscaling MSMEs' access to finance (including to equity), for start-up companies as well as high growth potential SMEs, so to strengthen their competitiveness and integration into EU value chains.

- The *New Agenda for the Mediterranean* 2021-2027, which highlights the objective to promote private sector-led growth and job creation, providing debt and equity finance and loan guarantees to local financial institutions to support expanding financial inclusion, including in the social economy sector.

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120 https://eeas.europa.eu/diplomatic-network/africa_en
121 COM(2020) 641 final and SWD/2020/223 final
122 https://ec.europa.eu/info/sites/default/files/research_and_innovation/strategy_on_research_and_innovation/documents/ec_rtd_western-balkans-agenda-overview.pdf
123 https://eeas.europa.eu/sites/default/files/1_en_act_part1_v6.pdf, https://eeas.europa.eu/sites/default/files/swd_2021_186_f1_joint_staff_working_paper_en_v2_p1_1356457_0.pdf

ANNEX 3: Results Monitoring Framework

This Annex is attached to each of the Investment Windows for Open Architecture. This Annex provides an overview of results chains and related indicators structured along the areas covered by the Investments Windows of the Open Architecture as crystallised by the EFSD+ Strategic Orientations. This is the basis for the design, monitoring, reporting, and evaluation of the individual interventions approved by the Commission and the Lead International Financial Institution (LFI).

At individual interventions level, the LFI can add additional results and indicators, if relevant and not deviating from the scope of the Investment Windows.

EFSD+ results and indicators

NDICI-GE and IPA III Regulations refer to **results** as per the OECD-DAC definition: "Results are defined as the outputs, outcomes or impacts of development interventions, with each element contributing to the next, as set out in the results chain below. The links between each element are as important as the results themselves, reflecting the theory of change and the roles of providers and other stakeholders." Along those lines, the EFSD+ Results Measurement Framework (RMF) covers the three levels of results as per NDICI-Global Europe and IPA III Regulations.

Each intervention proposed by the Lead IFI is to be coherent with the EFSD+ RMF and **must contain a results chain** composed by results (impact, outcome, output) **and** indicators (using the table as provided in the Application Form template).

In order to ensure consistency and harmonisation of approaches between the European Commission and the IFIs, **indicative results and indicators are proposed for each of the Investment Windows** for the Open Architecture - as part of the overall EFSD+ Results Measurement Framework. The latter is available in the Excel file provided.

EFSD+ RMF

Impact level

At impact level, the Investment Windows are consistent with NDICI-GE, IPA III and EFSD+ Strategic Orientations overarching priorities. Therefore the impact statements provided in the Excel file are common to the six Investment Windows.

At intervention level, the IFI will indicate the SDGs and related indicators the intervention contributes to. In turn, this allows the European Commission to ensure a link with Level 1 indicators of GERF (Global Europe Results Framework) and IPA PF (Instrument for Pre-accession Assistance Performance Framework). The IFIs do not have reporting obligations against those.

The tab 1 (**STEP 1**) of the attached excel file – to be used for relevant selection - is provided below in a simplified way:

EFSD+ Overarching priority	Impact statement	SDG	SDG Indicator	GERF 1	IPA PF 1
Global Gateway and/or	• Effective climate resilient low-carbon economy and society *and/or* •	#	#	#	#

Green Deal and or/ **Jobs and sustainable and inclusive Growth**	• Eradication of poverty *and/or* • • Increased green and inclusive employment *and/or* • • Prevented and/or reduced environmental degradation *and/or* • • Smart (digital), sustainable and inclusive economic and social development and growth				

•

Outcomes and Outputs, with related indicators

• In order to ease the application process and ensure consistency with the EFSD+ Results Measurement Framework (RMF), the design of the outcomes and outputs (with related indicators) needs to incorporate elements that are cross-sector as well as sector/area/intervention specific.

• The Lead Financial Institution is responsible to report against those throughout the implementation as per individual Agreements provisions.

Accordingly, the attached excel sets out the following two steps:

- **STEP 2 – Cross-sector outcomes and outputs** level, with related indicators. Cross-sectors are <u>mandatory</u> (or exceptionally <u>mandatory if relevant</u>) for all type of interventions.
- **STEP 3 – Investment window/area/sector outcomes and outputs** levels, with related indicators. Investment window specific/area/sector outcomes and outputs are mandatory (if relevant) as linked to the cross-sector ones, and recommended.
  - In particular, the STEP 3 outcomes and outputs with related indicators are reflecting **<u>the scope of each Investment Window</u>** – which are **<u>interrelated</u>** one to another. Hence, depending on the intervention proposed by an IFI, outcomes and outputs with related indicators could be taken from the whole list, regardless of the Investment Window financing the intervention.

For interventions that qualify as **<u>sustainability-related financial instruments and products</u>** – regardless of the Investment Window financing them (hence <u>not only the Investment Window Sustainable Finance</u>):

- Sustainable finance specific outcomes and outputs with related indicators are available among the Cross-sector ones, as they are not sector specific, but instrument specific
- Sector outcomes and outputs with related indicators are to be selected from the overall EFSD+ RMF as per STEP 3

The tables provided in the excel file follow the structure below:

• Area	• Result	• Indicator	• Unit	• Level	• Definition and comments	• Reference
• Cross-sector • MSMEs • Energy • Transport	• The result statement	• The indicator(s) that measure the related result	• The unit of measure of the indicator	• Impact • Outcome • Output	• How to measure the indicator and other comments	• GERF, IPA PF, EUBEC, HIPSO, EFSD, WBIF, Other

• Etc.						

The design of the proposed interventions could include other outcomes and outputs (with related indicators) as proposed by the Lead IFI, as soon as they are relevant to the scope of the Investment Window and not already captured in the menu provided by the EFSD+ RMF (Excel file).

Remarks on indicators

Indicators are meaningful against a result (impact, outcomes, outputs) to be measured.
Preference is to be given to indicators (and the related outcomes and outputs statements) that belongs to **GERF/IPA Frameworks,** which are clearly marked in the relevant columns of the provided excel file.

- Where relevant, indicators are to be disaggregated by sex, age, and disability.

Monitoring and reporting

The monitoring and reporting principles and requirements are to be in line with NDICI-GE (Articles 33 and 41.7) and IPA III (Articles 12 and 13) Regulations. Further specifications will be provided in a dedicated document on the EFSD+ Results Measurement Framework.

At individual intervention level each Guarantee Agreement will need to specify monitoring and reporting requirements against those same principles and the design agreed between the parties.

ANNEX 4: Definition of Circular Economy (CE) Investments

To assess whether a company or investment project contributes to the Circular Economy or not, two assessment criteria are defined, as follows (see also ABN AMRO, ING & RABOBANK, 2018):

1. Type of business model;
2. Impact (socio-economic and environmental).

The business model and circular practices need to be assessed in terms of both MSME's current profile and its business plan. Important to note that circularity is a horizontal approach that applies to a broad variety of sectors. Circular economy is not a sector.

The following are typical **circular economy business models**[124]:

1. **Circular Inputs**: Companies/projects that substitute virgin raw materials with secondary (recycled) materials originating from materials and resources recovery.
2. **Circular design**: Companies/projects that: a. eliminate/reduce input of hazardous/toxic materials; and/or b. design for modularity, easy disassembly and repair to facilitate recycling, reuse, life time extension.
3. **Sharing business models**: Companies/projects that increase the capacity utilisation of a product or asset during its useful life (e.g. through sharing and/or predictive maintenance). Sharing is circular when it optimizes the utilisation of the product or asset.
4. **Life Time Extension**: Companies/projects that increase Reuse/Refurbishment/ Remanufacturing to extend the useful life of products and assets.
5. **Product-as-a-service**: Improve the circularity of the whole supply chain through product-as-a-service offerings based on:
    a. a changed ownership structure, where the ownership of an asset remains with the supplier;
    b. improved collaboration and alignment of interests between partners in the value chain (e.g. sharing of costs and benefits);
    c. improved traceability of products and materials.
6. **Material/resources recovery**: Companies/projects dealing with value recovery from wastes, be it materials, heat, bio-wastes or waste waters. Recycling is considered as a circular economy business model that recovers value from end-of-life materials and products.
7. **Circular facilitators and enablers**: Establish networks and collaborate with facilitators in the circular economy such as consultancy, engineering, knowledge and data providers or accounting firms, promoting the shift to a circular economy. These facilitators include their role in the circular economy in their business purpose or strategy. Some examples are:
    - Development of key enabling technology with circular economy applications (e.g. 3D printing);
    - Facilitation of reverse logistics;
    - Knowledge gathering and sharing on organizing the circular economy;
    - Designing (measurement) tools for the circular economy;
    - Setting up and/or operating marketplaces for used materials;
    - Setting up and/or managing data repositories for material passports.

European Fund for Sustainable Development+ (EFSD+) Guarantee Investment Window – Connectivity: Energy, Transport and Digital

[124] See also European Commission (2020) Categorisation System for the Circular Economy, ISBN 978-92-76-10527-5. [Categorisation System for the Circular Economy]

1 POLICY RATIONALE

BACKGROUND ANALYSIS

Enhancing and shaping connectivity has been recognised as one essential tool to address the global challenge of climate change and as well as to foster more widespread and equal participation and opportunities in the global economic and social development.

For connectivity to contribute to the movement of people, goods, services, information, knowledge and capital worldwide, it has to encompass both hard and soft infrastructure. Connectivity is by nature based on comprehensive networks including transport, energy, digital and people-to-people connectivity. It means both physical networks (optical fibre cables, transport corridors, satellite infrastructures, power transmission lines, etc.) and digital, regulatory or otherwise less tangible elements (standardisation, trade, interoperability, safety and security, social media, research communities, cultural exchanges, ecosystems, etc.). Whatever the underlying connectivity technology, a certain level of physical infrastructure is necessary, but the governance of the connectivity systems is as important as its infrastructural dimension is.

1. The energy sector plays a key role in the sustainable development process, but access to finance is a key bottleneck

In the energy sector, reducing poverty and fostering transformation to competitive, low-carbon, inclusive and climate-resilient economies require a secure access to clean, affordable and sustainable energy resources. It is equally important to ensure an efficient, predictable use of these resources. Despite rapidly rising cost-competitiveness of renewable energy technologies and products, the financing of renewable energy projects still faces difficulties in many parts of the world. Limiting the global warming mean temperature rise to below 2°C would require around $3.5 trillion investments in energy-sector alone each year until 2050. The intended transformation of the energy sector requires also ambitious policy measures, as well as unlocking private capital, in particular from institutional investors, through risks mitigation[125]. Similarly, private companies, state owned enterprises and public utilities are required to perform substantial investments to decarbonise their production processes, including by introducing new green technologies.

The lack of creditworthy offtakers is one of the key factors deterring investment in this sector[126]. The weak balance sheets and poor payment track records of many national utilities is one of the reasons why many commercial banks have been unwilling to fund projects, reducing competition and increasing the cost of capital. In addition, policy and regulatory barriers, market barriers, macro-economic conditions, poor governance, grid/infrastructure constraints and investment risks, including a lack of reliable investment data, are, among other reasons, currently obstructing the development and financing of both renewable energy and energy efficiency projects. Thus, improving and where appropriate reforming the policy and regulatory framework for energy producing/transmitting/distributing entities, including utilities, in order to ensure their efficiency and access to finance at manageable costs need to be pursued.

Moreover, enhanced use of decentralized (off grid) energy and innovative business models need to be promoted so as to contribute to universal access to affordable and reliable clean energy services. Energy connectivity (through enhanced cross border electricity interconnections) must be encouraged

125 Perspectives for the energy transition – investment needs for a low-carbon energy system ©OECD/IEA and IRENA 2017.
126 See for example: IRENA (2016), 'Unlocking Renewable Energy Investment: The Role of Risk Mitigation and Structured Finance,' IRENA, Abu Dhabi;

as well in order to promote grids' stability, better integration of renewables in electricity systems and longer-term market integration.

A key pillar of the energy transition should be to ensure that the opportunities it creates are equally accessible, and the benefits it provides, equitably distributed. Ensuring a human rights based approach and gender mainstreaming into renewable energy development is critically important to ensure that women's contribution –their skills and views- represent an integral part of the growing industry.

2. Closing the various digital divides is essential to foster partner countries' potential to grow and to contribute to job creation.

In an increasingly interconnected and globalized world, digital technologies have become indispensable for our societies and our economies. 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. While 4.5 billion people use the internet nowadays, large "divides" exist between and within countries and regions; more than half of the world's population, an estimated 3.6 billion people, are still offline, with most of the unconnected living in rural areas and the Least Developed Countries (LDCs).

Digital divides manifest themselves in different forms: for example, in terms of geographies, there are connectivity gaps caused by territorial characteristics (i.e. less densely populated rural areas vs. urban areas; landlocked vs. coastal countries), while socio-economic divides include gender, skills and age gaps. As a result, huge disparities in terms of internet penetration, accessibility, affordability and performance of digital services exist between and within continents and countries, as well as between different population segments. In LDCs, only 38% of all youth and only 19% of all people are online. The digital gender gap is growing in Africa, the Arab States and the Asia-Pacific region. Key barriers to internet access include lack of infrastructures, limited affordability, poor digital skills, and unreliable sources of electricity, regulatory bottlenecks, financial and socio-cultural constraints, lack of personal identification, safety and security concerns and perceptions of irrelevance.

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 advancing its digital partnerships agenda, the EU seeks to promote a comprehensive digital model in its investments, based on digital connectivity and infrastructure, digital entrepreneurship and innovation, as well as e-services. The EU will pursue a human-centric digital transformation, reflecting both core European values as well as geostrategic interests. The EU will offer its partner countries digital economy packages to support their digital transformation, in the spirit of shaping new strategic partnerships, based on shared values.

3. Reliable transport networks ensure connectivity between countries and regions, and innovative financial instruments are crucial to face the substantial investment gaps.

As regards transport, a reliable and sustainable core network in roads, railways, waterways and other sustainable solutions is needed to ensure efficient links within countries, regions and between them, and to further connect the EU with its neighbours and beyond, for example by extending the TEN-T network and supporting the Trans-Mediterranean Transport Network (TMN-T). It will also support the rollout of lower and zero-emission fuel infrastructure for road transport vehicles. Furthermore, the support of the improvement and decarbonisation of logistics and mobility systems should include digital transport technologies, remove infrastructure and non-infrastructure bottlenecks, and promote safety measures and alternative fuels.

The transport sector will require $50 trillion of investment by 2040, and the investment gap is estimated at $10 trillion[127]. Public-Private Partnerships (PPP) and innovative financial instruments, such as green bonds, are crucial help close the financing gap, with donors involved to ensure a greater emphasis on sustainability. A key issue for transport PPPs is how the concessionaire is to be paid and who is to bear the risks of traffic/volume risk and revenue risk. This is typically the case of highways and railways. Traffic/volume risk is the risk of how many vehicles/passengers/tonnes will travel along or use the infrastructure. The revenue risk is a factor of both traffic volumes/toll rates and collection/enforcement risk.

Furthermore, fuelled by advanced technologies and new mobility solutions, the global smart market for mobility is projected to reach $150 billion in the next five years[128]. Private investors are investing into hundreds of new mobility starts-ups every year, and stakeholders up and down the automotive value chain are pumping funds into making autonomous, connected, shared, and electric vehicles a reality. It is expected that the demand for transportation and mobility will continue to grow exponentially in the future—in the next 30 years, there will be one car for every three people on Earth. Equally important are pressures put on the transportation and manufacturing industry to innovate and deliver the new mobility solutions of the future —those that will be affordable, efficient, safe, and green. The EU is supporting mobility start-ups in developing countries through the Horizon 2020 research and innovation programme[129]. A guarantee instrument would help to scale up these pilot sustainable mobility solutions. The increased deployment of zero-emission vehicles need to go hand-in-hand with a sufficient network of recharging infrastructure.

EU POLICY OBJECTIVES

The Global Europe priorities (including the EFSD+)[130,131], the New European Consensus on Development[132], the European Green Deal as well as key EU policy documents of cross cutting nature such as gender mainstreaming (EU Gender Action Plan 2021-2025) and human rights (EU Human Rights and Democracy Action Plan 2020-2024, Global Europe article 8.2) will guide the interventions. A key pillar of the connectivity Global Gateway is to ensure that the opportunities it creates are equally accessible, and the benefits it provides, equitably distributed and leave no-one behind. The window will be deployed in full support of the Global Gateway Initiative.

Economic and Investment Plans, Flagships, Regional and Country MIPs are the translation of these objectives into programming documents, capturing the policy priorities and prioritising them in their specific subregional and country contexts. As such, they also define the priorities for EFSD+ supported investments and should therefore be the basis for ensuring the policy first principle for EFSD+ supported investments.

Specific attention should be paid to the Team Europe Initiatives (see annex 2). They are built around EU political priorities at country and regional level and provide direct guidance as to where the EU

127 https://outlook.gihub.org/
128 https://www.researchandmarkets.com/reports/4418419/global-smart-mobility-market-drivers
129 See for instance: http://www.solutionsplus.eu/
130 Refer to Annex V of Global Europe on EFSD+
131 https://eeas.europa.eu/headquarters/headquarters-homepage/330/european-neighbourhood-policy-enp_en
132 COM(2017) New European Consensus on Development

and the EU Member States will be focusing their cooperation efforts in a given context. This political prioritisation will also be reflected in the future choices of operationalising funds channelled via the EFSD+ windows. As Team Europe Initiatives provide a frame around which European funding instruments and modalities coalesce, project proposals that support TEIs have to be the preferred option to ensure we achieve our policy goals.

Furthermore, an overview of the relevant flagship initiatives is provided in annex 2.

2 OPERATIONAL CONCEPT

OVERALL WINDOW OBJECTIVES

General Objective

The General Objective is to increase and to improve connections between Europe and partner countries around the globe. This will be achieved by: delivering investments in sustainable infrastructure, exchanging goods and services, connecting people around the world, scaling-up the deployment of digital infrastructures to support the digital transformation of societies and economies in partner countries, promoting digital entrepreneurship and digital innovation, while enabling equal opportunities to take advantage of the digital economy adopting a gender and a human rights based approaches, focusing on women and youth, promoting global low-emissions, climate-resilient and environmentally sustainable inclusive economies as well as just energy transition with enhanced energy access and green job creation, leaving no one behind.

Investments addressing the effect of the war in Ukraine could also be covered within this investment window.

Specific Objective

Enable increased investments by private and sub-sovereign entities into sectors of interventions by reducing risks perceived by investors through broader cooperation with European DFIs.

Investments should respond to the specific situation and needs of a given country or region, they should respect social, fiscal, ethical and environmental internationally recognised principles and standards, including enhancing gender equality and zero pollution approach, and ensure sustainability, resilience against natural hazards and climate change and efficient maintenance of investments.

INDICATIVE SECTORS OF INTERVENTION

Energy

Development of new low carbon, energy efficient and climate resilient opportunities and better interconnected electricity systems across the following priority areas/sub-sectors:

(i) on-grid renewable electricity projects such as solar, wind, geothermal and climate resilient hydropower generation including efficient transmission and distribution infrastructure for renewable electricity deployment and storage systems;

(ii) off-grid and decentralised renewable energy systems and solutions, including storage and hybrid systems, providing electricity access for rural and peri-urban areas and for social, domestic (e.g. clean cooking) and productive uses of energy , as well as providing solutions for waste management from off-grid systems (e.g. recycling of spent batteries; promoting circular economy practice)

(iii) energy efficiency investments both in the industrial sector (heating and cooling and combined heat and power, smart-grid technologies and demand side management actions) and in buildings, incl. retrofitting of residential, public and commercial use buildings as well as energy efficiency measures in the transport sector; and

(iv) investments in emerging technologies for RE production and storage, value chains development of clean technologies, and investments linked to green energy transition such as renewable hydrogen (RH2), power-to-X, pump storage, compressed air storage etc. Projects' proposals featuring other hydrogen production schemes based on non-renewable sources will be scrutinized carefully. Investments in cost-efficient waste to energy schemes (biogas/biomethane...) and other processes for producing renewable gases will be considered under this window as well.

Digital Connectivity, entrepreneurship and e-services: from international to regional and national infrastructures and eco-systems[133]

1. Digital connectivity
   (i) Construction of secure and resilient submarine cables and landing points to increase and diversify international links. Priority should be given to countries that either possess few international links, or represent geostrategic points of landing, while aiming to increase international links with Europe.
   (ii) International satellite connectivity. Particular attention will be paid to the deployment of secure, resilient, and quality infrastructure equipment, while ensuring that the Open Access principle is met.
   (iii) Regional digital infrastructures, such as terrestrial regional backbones and the connection of missing links between countries (fibre optic cables). Particular attention will be paid to improvements of affordability of the resulting connectivity services.
   (iv) Data infrastructures, such as data centres, content delivery networks and internet exchange points to enhance regional and local data processing and storage capacities, ensure data sovereignty of partner countries and promote technology line with EU values and standards.

133 Connectivity investments need to fulfil EU cybersecurity standards and EU's environmental standards under the Green Deal

(v) Support to innovative digital technologies and circular economy solutions that reduce GHG emission and energy and raw material use of digital infrastructure and innovative green data centres, which can mitigate the rapid increase of energy consumption and greenhouse emissions.

(vi) Last mile connectivity. To cover fixed, mobile and satellite investments to connect citizens, businesses, educational and other public institutions to quality broadband internet at affordable prices (specific focus on land-locked countries[134] and remote/undeserved areas[135]). Possibilities could include partnerships with municipalities in deploying fibre

2. Digital entrepreneurship/innovation

(i) Support to the development of innovative business models based on disruptive technologies to enable or improve affordable access to goods and services to the un(der)served in emerging markets, especially for the development of agri-tech, fintech (non-exhaustive).

(ii) Support to creation and interconnection of Digital Innovation Hubs that promote local innovation ecosystems and digital entrepreneurship.

(iii) Support to the digitalization of businesses and their transition to digital transformation, including start-ups promoting innovative solutions, particularly focusing on technologies and new business models that integrate digital and green components at the same time.

(iv) Promotion of women-led and youth-led digital enterprises, participation of women and youth in the digital economy and empowering them through digital entrepreneurship, focusing on gender-smart financing to empower women and paying a specific attention to the gendered aspects of digital spaces (e.g.: reproduction of social norms, stereotypes, etc.).

(v) Digital Clean Tech solutions for the reduction of GHG emissions and resource use, powered by digital innovative technologies such as AI, blockchain and Internet of Things, as well as circular economy solutions

(vi) Supporting digital creative industries to facilitate access to global cultural value chains and increase trade of cultural goods and services.

3. Digital and E-services

(i) Increase the performance of e-services and businesses and enable private sector providers of digital services to develop solutions like eID, eProcurement, eHealth, e-education, e-energy and climate services, disaster risk management, early warning systems, forestry and land and water management and e-agriculture, e-Justice, e-Company, etc. (non-exhaustive).

(ii) Other digitalised services intended to increase the performance of public services through private sector providers and business, in coordination with state authorities, are equally targeted. This includes proposals related to digital freelancing platforms, which provide job opportunities and services for professional working remotely across the world, as well as guarantees provided to local operators in the field of Digital financial services and innovative digital financial solutions, and other platform services. Particular attention will be given to the development of more inclusive and/or gender sensitive e-services. Ensuring EU standards

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134 Africa ICT infrastructure map shows that the continent is mainly connected at its port cities (submarine cables) and is lacking in land backbone connectivity.

135 WB Development Report 2016, p. 211: Markets fail where the private sector underinvests—for instance, because the private return may be less than the social return. This appears to be happening in the ICT sector in at least three areas (remote areas, unattractive markets and uneconomic services).

on cybersecurity in line with is strategic policies, such as the EU toolbox for the cybersecurity of 5G networks, is a pre-condition for developing above-mentioned services.[136]

Transport

i. Public-Private Partnerships projects, in the area of transport connectivity, mainly highways and railways, bearing in mind the need to support the decarbonisation of the sector, including by ensuring that investment in road infrastructure is future-proof. In developing countries, "availability" or Government-Pays PPPs are the most realistic option. Actions in this field can be linked to urban mobility solutions when transport in metropolitan areas represent a bottleneck for the fluidity of the corridors

ii. The rehabilitation and transformation of airports, seaports into full decarbonisation and introduction of smart mobility and gender sensitive concepts are measures to enhance infrastructure resilience.

iii. Supporting the development of third generation road funds. When revenue generation is stable and ring-fenced, road funds can also potentially be used to leverage commercial financing for new investments, innovative financial mechanisms and tools (e.g.: insurance of public assets) for climate and natural hazard related disaster risk reduction or to backstop government obligations under PPP schemes. This, in turn, can enable a greater participation of private entities, not only as contractors, but also as long-term investors and managers of road assets.

iv. Scaling up technologies and innovative green mobility solutions for individual, shared, public, and commercial vehicles in developing countries; supporting both the industry, including spare parts manufacturers, and operators, including repairing companies..

v. Climate-smart transport logistics chains (terminals/platforms), including intermodal hubs (sea and dry ports,) transport services and equipment. Measures shall contribute to the greening of the connectivity sector, based on a sustainable and low-emission transport mode.

GEOGRAPHIC COVERAGE AND REGIONAL SPECIFICITIES

Geographic coverage of the window

The geographic coverage of the EFSD+ Guarantee is global and encompasses all countries eligible under Global Europe, the Commission will allocate the available guarantee capacity in line with its geographic policy priorities, such as the Global Gateway.[137] Investments within LDCs/fragile/landlocked and conflict affected countries will be given particular attention.[138]

[136] COM(2020) 50 29.1.2020, Communication from the Commission to the European Parlament, The Council, the European Economic and Social Committee and the Committee of the Regions Secure 5G deployment in the EU - Implementing the EU toolbox

[137] With regard to the participation of Belarus, and in line with the Council Conclusions of 12 October 2020, the EU will focus on intensifying cooperation with non-state stakeholders, including notably civil society, independent media, and youth. Proposed flagship initiatives for Belarus under the Economic and Investment Plan for the Eastern Partnership are dependent on a democratic transition, in line with the Comprehensive Plan of Economic Support for a Democratic Belarus, announced in May 2021.

138 In line with art. 13 of the Global Europe regulation, 9 June 2021

For already identified priority countries and/or specific regions an earmarked guarantee capacity is presented in annex 1. DFI partners are invited to submit proposals taking into account these geographic priorities.

Regional specific objectives

For the neighbourhood and enlargement regions proposals submitted shall take into account the operational orientations given in the Economic Investment Plans set up for the Western Balkans[139], the Southern neighbourhood[140] and the Joint Communication on the Eastern Partnership beyond 2020[141] and its investment plan[142] and shall fit within the policy framework provided in the Joint communications to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions respectively for the Eastern[143] and the Southern[144] Neighbourhood. For Africa, particular reference should be made to the EU-AU Investment Package.

Energy

To reinforce EU's external energy relations and accelerate a global just energy transition, the Commission will adopt in the first quarter of 2022 a new international energy engagement strategy. It will aim to ensure energy security and diversification, while promoting energy efficiency and renewable energy, including renewable hydrogen, in a transparent, rule-based and competitive market.

Particularly for the **Neighbourhood and Enlargement** regions, creating interconnected green economies, including industrial decarbonisation and depollution, by enhancing renewable and sustainable energy supply to make the regions more resilient from shocks while increasing energy security and greening the energy mix, energy efficiency (including energy efficiency in buildings), clean technologies and sustainable transport are of high importance. These processes shall go along with energy policy development and dialogue, supported by technical assistance, and by specific schemes addressing the urgency to make the regions more energy resilient, in particular the Western Balkans economies. This will also include investing in **Africa** for the establishment of a market for green hydrogen that connects the two shores of the Mediterranean and ensures that hydrogen produced outside the EU can flow freely across the borders without export restrictions or price distortions.

In **Sub-Saharan Africa,** the EU supports the objectives of increasing access to energy, enhancing the share of renewable energy and promoting energy efficiency. This strategic and coordinated approach on the energy partnership with Africa to support the universal sustainable energy access ambition for Africa will be guided by the Africa-EU Green Energy Initiative[145] to be launched at the Africa-EU Summit in 2022.

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139 Western Balkans: An Economic and Investment Plan to support the economic recovery and convergence | European Neighbourhood Policy And Enlargement Negotiations (europa.eu)

140 Southern Neighbourhood: EU proposes new Agenda for the Mediterranean | EU Neighbours

141 https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/joint_communication_on_the_eap_policy_beyond_2020.pdf

142 https://eeas.europa.eu/sites/default/files/swd_2021_186_f1_joint_staff_working_paper_en_v2_p1_1356457_0.pdf

143 Joint Communication: Eastern Partnership policy beyond 2020: Reinforcing Resilience – an Eastern Partnership that delivers for all - European External Action Service (europa.eu)

144 Renewed partnership with the Southern Neighbourhood - A new agenda for the Mediterranean - European External Action Service (europa.eu)

145 Joint Communiqué of the Second African Union – European Union Foreign Affairs Ministerial Meeting, Kigali, Rwanda, 25 – 26 October 2021.

In **Asia and Pacific regions,** the EU support will promote the deployment of renewable energies and energy efficient solutions and support the transition to low carbon sources of energy. The EU will also promote the development of national and regional electricity grids and support the integration of regional energy markets for enhanced energy trade between neighbouring countries and facilitate integration of renewable energy sources.

In Latin America and the Caribbean, as a way to address the region´s carbon-intensive energy mix and dependence on hydropower, the EU support will focus on increasing the share of renewable energy in the energy mix (including by fostering renewable hydrogen). Similarly, the EU will support governments by making energy-efficiency measures a policy and investment priority and support a stronger regional integration of electricity markets.

Moreover, for all regions, investment in conducive regulatory regimes, including strengthening stability and predictability of the investment framework of regulatory authorities, shall modernise and diversify energy markets, the industrial sector, as well as connectivity. Combined effort of governments, public institutions, the financial/banking sector and the private investors are therefore necessary to meeting the growing energy demands while addressing climate change and integrating gender equality and the human rights based approaches.

Digital

Sub-Saharan Africa. There is a strong need for investments in digital and data infrastructures from the first mile, where international connections enter countries, to the middle mile linking major cities and borders and the last mile, providing internet to individuals, businesses and institutions. In addition, investments are needed to leverage the potential of digital connectivity and technologies for boosting digital entrepreneurship and the creation of innovative business models, as well as to support digital innovation eco-systems and their interconnection with EU Digital Innovation Hubs (DIHs), the digitalization of businesses and the provision and development of e-services. The baseline for further steps of cooperation includes: i) strategic priorities formulated in the African Union's Digital Transformation Strategy of 2020[146]; ii) regulatory cooperation under PRIDA[147], a continental initiative on regulation harmonisation, internet governance and support to digitalization process; iii) launching the Digital for Development Hub ("D4DHub") in December 2020, as a multi-stakeholder platform for continental cooperation (which will be gradually extended to other regions of the world). There is also a need to ensure digitalisation follows a sustainable development path, addressing its environmental footprint by integrating the principles of a circular economy and of zero pollution for digital technology

Eastern Neighbourhood. The EU will support investments to develop and upgrade the infrastructure that provides access to the broadband internet, in particular in remote and rural areas. The EU will also support the development of ecosystems for digital services. Through the Digital Innovation and Scale Up initiative (DISC), the EFSD+ guarantees will invest to stimulate digital innovation.

Neighbourhood South. The EU will help strengthening the set of interconnected actors who contribute to driving innovation at the local, national, and regional levels (digital and innovation ecosystems), including through technical advice on the regulation and framework conditions for innovation. Moreover, the EU will facilitate links across the Mediterranean and within the Southern Neighbourhood which can contribute to economic integration. It will also support digitalisation efforts through promoting the deployment of relevant internet and mobile infrastructure and skills.

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146 https://au.int/en/documents/20200518/digital-transformation-strategy-africa-2020-2030
147 https://africa-eu-partnership.org/en/projects/policy-and-regulation-initiative-digital-africa-prida

Western Balkans and Turkey. Accelerating the region's digital transformation through investments in digital infrastructures and services for business and governments represents a priority. The EU support for investments in digital infrastructures - with a focus on rolling out ultra-fast and secure broadband, or establishing secure, energy-efficient and trustworthy data centres - will be significantly increased though the digital infrastructure flagship of the Economic and Investment Plan for Western Balkans, specifically targeting the six economies in the region. In addition, exploring synergies with other connectivity areas such as transport and energy in the context of infrastructure sharing will be also supported.

Latin America and the Caribbean. The EU aims to support the development of a human-centric digital economy and society and support regional integration towards the creation of a common regional digital space. Key areas of intervention include (not exhaustive): i) Connectivity and data infrastructure including promoting regulatory convergence and stronger sectoral collaboration and exchanges between EU and LAC, while promoting EU standards, including orange economy; ii) Supporting LAC digital private sector to increase their competitiveness through digitalisation,; iii) e-Services including – e-governance, e-finance, digital skills, cybersecurity.

Asia and the Pacific. The EU will aim at bridging digital connectivity gaps, focusing on quality, affordability, security, reliability of digital infrastructure, as well as on interoperability. Similarly, digital entrepreneurship should be addressed as the engine of sustainable economic development and green economic transition in the region. The EFSD+ can help tackle some of the challenges in creating (digital) start-ups, i.e. lack of specific funding schemes and access to markets opportunities, coupled with lack of specific regulation to promote the incorporation and growth of digital companies, lack of digital skills and electricity in remote or rural areas, currently off the grid.

<u>Transport</u>

Africa. The objective of the EU is to enhance sustainable, climate-proof and safe connectivity both within Africa and between Europe and Africa, with land, air and water transport infrastructure that responds to trade and mobility demand. These smart and resilient corridors will also promote the implementation of digital systems to improve transport safety management for the smooth movement of passengers and goods. Investments will be prioritised in a limited number of selected strategic corridors and will include urban mobility actions, in particular the ones addressing the bottlenecks that represent the urban nodes along those corridors.

Asia Pacific. With the trade between Asia and Europe accounting for 70% of world's exchanges, the overall objective is to establish and develop further diversified trade and travel routes linking between Asia and Europe, as well as within Asia. The transport networks would shorter transit times and simplify customs procedures, with a view to establishing network for greater mobility, for people and goods. Possible operations would cover railways, ports, or inland waterways.

Southern neighbourhood. Priority will be given to the swift development of the TransMediterranean Transport Network and to the transport policy reforms objectives identified jointly under the Regional Transport Action Plan (RTAP) and supported by the ongoing technical cooperation. Logistics, covering both regional infrastructure and links with customs cooperation, will feature in our aid-for-trade initiatives. Space cooperation will continue to play a supportive role, notably through joint actions for the uptake of Galileo free and open services and through the extension of the European Geostationary Navigation Overlay Service (EGNOS).

Eastern Neighbourhood. The focus will be on investing in sustainable green and rules-based transport connectivity covering road, rail, air, maritime and waterborne transport including across the Black Sea in a way that is climate-proof and limits environmental damage. This includes priority investment projects in the extended core TEN-T network, as well as high-impact quick win projects investing in logistics centres, border-crossing points, rehabilitating airports and seaports.

Enlargement region. The EU will prioritise projects and programmes on the indicative extension of the Trans-European Transport Network (TEN-T) core network to the Western Balkans six economies, which are of strategic interest to the region and to its cohesion towards the EU. Actions will be taken to speed up construction of new transport infrastructure and the upgrading of existing infrastructure (railways, roads, waterways and ports), with the objective of bringing the core transport network up to EU standards. Fast and efficient transport links, both within the region and with the neighbouring EU Member States, and sustainable transport with further investment in rail and inland waterways are crucial. It includes investments promoting multimodal transport solutions and modal shift, and reducing transport related pollution. Actions aiming at greening transport infrastructure and to ensure implementation of EU technical standards in all transport modes, in particular the European Railway Traffic Management System should also be explored.

Caribbean. Inadequate intra-regional transport is widely considered one of the key barriers to economic growth in the Caribbean region. Tackling this barrier requires not only capital expenditure but also political support and coordination, as well as numerous reforms and policy agreements between all stakeholders involved. Specifically, currently there are too many impediments for the private sector to act alone, while there are risks and initiatives that the public sector is not well suited to implement. Financial guarantees could therefore have an important role to play, particularly in the maritime multi-modal transport sector, coupled with support to advance the regulatory hurdles.

POTENTIAL BENEFICIARIES OF THE GUARANTEE AND END RECIPIENTS OF SUPPORTED INVESTMENTS

Potential beneficiaries of the Guarantee include the DFIs, international, regional and national commercial financial institutions (including insurance and reinsurance companies as well as private or commercial sub-sovereign investors. The guarantee seeks to bring in private and cooperative sector investment with both its skills and funds. Recipients of the supported investment include the owner/user of the respective infrastructure and the relevant sovereign or sub-sovereign entities, e.g. IPPs, ESCOs and other commercially operating utilities, highway concessionaires, railway companies, port terminal and airport operators, urban transport companies (buses, tramways, BRTs, taxis, etc.), start-ups promoting alternative-fuels-based mobility, etc. – as well as well as owners & operators of digital and transport infrastructure. This is to enhance sustainable and equitable access to better services in the sectors of intervention by the population in the areas of intervention.

COMPLEMENTARITY WITH OTHER INVESTMENT WINDOWS

The energy sector is also heavily connected with food security and water sector management. Processes for water pumping, transmission, distribution for fields' irrigation, households, industries and wastewater treatment show a high-energy intensity. Furthermore, sustainable rural electrification in high biodiversity landscapes is paramount to reduce the pressure on key ecosystems where unsustainable levels of wood harvesting for energy consumption are observed. Therefore, the "nexus Water-Energy-Food" and green electrification in Key Landscapes for Conservation will be given particular attention. Similarly, these approaches are also highlighted in the Investment Window "Sustainable Agriculture, Biodiversity, Forests and Water".

Complementarities should be sought with the MSME investment window and to promoting circular economy business models, while special attention will be given to synergies with the Team Europe Initiative 'Investing in Young Businesses in Africa' (IYBA). IFIs are encouraged to work jointly with the private sector in de-risking investments, also through the development of innovative instruments to work together with venture capital and angel investors to support the scale up of start-ups in the digital field. Particular attention will be paid to scalable platforms that that enhance the access to equity and growth financing to innovative, digital and clean tech.

Sustainable Finance is a cross-sectoral priority under the EFSD+ as it is a key means to mobilise additional resources to achieve our policy objectives, including on sustainable connectivity/infrastructure hence acting as a multiplier. In this respect, the Connectivity Window will very much welcome proposals aiming to support the development and use of **sustainability-related financial instruments and products issued on capital markets for the purpose of attracting private capital towards sustainable investments, in particular towards sustainable connectivity/infrastructure (energy, transport and digital) in partner countries.** These may include (but are not limited to) transferable securities (equity, bonds), investment funds and vehicle, units in collective undertakings, managed portfolios of instruments, or pension products[148].
Outreach and coordination with activities promoted under those windows will be encouraged and ensured.

The transport and energy sectors are closely related to Sustainable Cities, and synergies should be sought. For example, in relation to sustainable urban and inter-urban mobility, access to clean energy in urban centres. Both windows can de-risk actions designed to support urban transport systems. Ideally, urban mobility actions under this window should be linked to the efficiency of the corridor where the metropolitan is located while the "Sustainable Cities" window should cover urban mobility actions that integrate a more large multi-sectoral urban development programme.

3 FINANCIAL STRUCTURES

Potential guarantee mechanisms

EFSD+ supports a wide variety of guarantee structures, including pari passu, first-, second- and third-loss guarantees. Generally, proposals in line with the average EFSD+ risk absorption capacity and aimed at mobilising private co-investors will be considered favourably. These typically include pari passu and second-loss financial structures. A range of operational guarantee structures in support of Sustainable Energy exist from the EFSD Guarantee programme. DFI partners are invited to consider them when making proposals. Relevant guarantee structures to be taken into consideration and expanded in line with the evolving market needs include, inter alia, the European Guarantee for Renewable Energy (EGRE) suite of guarantee products and the Upscaling Renewable Energy programme.

Different types of eligible operations in the Energy Sector may be included, such as:

- Guarantee instruments to mitigate various types of investment risks including: guarantees for utility demand side programmes and for vendor finance agreements with suppliers of green technologies and guarantees to support the use of energy performance contracting in order to scale up private sector participation in energy efficiency investments.
- Guarantee cover for equity/subordinated or senior loans for renewable energy and/or related climate-friendly–and zero-emission infrastructure investments, including infrastructure to supply

148 As defined in Directive (EU) 2014/65 and Regulation (EU) 2019/2088

energy to zero-emission vehicles; it could cover innovative renewable energy and related technologies to address key risks that currently deter private sector participation, such as weather related/resources risks, exploration cost, ramp-up risks, etc.

- Guarantees covering fully or partially the offtake agreements in renewable energy investments (such as IPPs leading to PPA contracts) aiming to reduce the overall financing cost and the risk perception for sustainable energy related investments, including liquidity risks mitigation instruments to provide coverage against cash flow constraints or potential off-taker defaults. [149]
- Any other innovative guarantee solutions addressing key project risks in renewable energy, electrification or energy efficiency projects.
- EFSD+ guarantees can also play a key role complementing EU export credit agencies (ECA) based financing packages where the ECA's in accordance with OECD-rules cannot offer 100% risk coverage or financing. The ECA-backed market for Africa is large (USD 35 billion in 2020) but lacks a proper concerted focus on sustainable energy.
- EFSD+ guarantees can support non-sovereign IPPs by guaranteeing credit risk associated with net metering / net billing schemes for grid-connected commercial and industrial (C&I) opportunities, by guaranteeing a pool of non-sovereign grid-connected off-takers that also provide electricity for local use.
- Stand-by Liquidity Support: Project financiers generally require relief mechanisms to be able to review remedies of loans in possible default scenarios, so-called 'liquidity support mechanisms'. For example, in the case an utility misses a monthly capacity or energy payment the debt service in that month could still be done by using a debt service reserve account (DSRA). Lenders and the project company agree to keep the level of the agreed DSRA up to a certain level as long as there is debt outstanding (for example ½ year or 1 year forecasted debt service).

- **Sustainability-related financial instruments and products issued on capital markets for the purpose of attracting private capital towards sustainable investments, in particular towards sustainable connectivity/infrastructure (energy) in partner countries.** These may include (but are not limited to) transferable securities (equity, bonds), investment funds and vehicle, units in collective undertakings, managed portfolios of instruments, or pension products[150]. For example:
    - Guarantees to promote the launch of capital market instruments for energy efficiency/ renewable energy investments (e.g. carbon credits), or innovative projects which strive to introduce new technologies to meet the Paris Agreement, the Green Deal and carbon neutrality objectives and/or investments in appropriate transmission and distributions systems that will unlock significant public and private investments on a potentially transformative scale. Support for creating a pipeline of underlying assets for Green Bonds

149 Until now, offtaker risk is covered in some countries and subject to conditions under existing EFSD guarantees, such as EGRE with three complementary schemes: non-sovereign (AFD and CDP), RSLF+ (KfW) and AEGF (KfW). However, investors/developers are keen to look towards a more comprehensive and combined risk coverage (e.g. payment, currency and political risks) to fully de-risk their investments in RE generation ('one-stop-shop' approach) applicable in more countries using and combining different instruments as part of a comprehensive package with clear rules and costs known well upfront. The risks should be spread fairly evenly among the different stakeholders involved (financiers, public, private investors, utilities) and avoid that EU alone assumes a given risk to avoid moral hazard.

150 As defined in Directive (EU) 2014/65 and Regulation (EU) 2019/2088

as well as covering repayments risks deriving from the investments in Green Bonds is particularly envisaged. Potential issuers in partner countries shall be encouraged and supported to access the market, taking into account the EU Taxonomy.

- Credit enhancement for investment funds attracting private institutional investors into developing country investments in renewable energy, electrification and energy efficiency, as well as guarantees in relation to eligible crowdfunding platforms and venture capitals attracting private investments into technology areas, countries and business sizes typically not targeted by DFIs and covering inter alia credit and currency risks. Such credit enhancement guarantees for innovative business models would be welcome in critical market segments such as clean cooking, pico grids, energy-digital nexus etc.
- For off grid electrification, private sector investors need targeted and comprehensive guarantee coverage. Thus, demand side clusters of risk for mini grids investments (e.g. payment, currency, expropriation of assets when the grid arrives etc.) combined with competitive concession award procedures by rural electrification authorities should be sought. This approach could be also coupled with reducing the CAPEX costs of mini grid operators by setting investment funds to cater for infrastructure development and equipment purchase cost.
- For clean hydrogen technology specifically, guarantee schemes should address the demand side risks for renewable hydrogen valleys, particularly by guaranteeing renewable hydrogen off taker payments by local industry clusters having established purchase agreements with local hydrogen producers / electrolysers.

The above list of examples is indicative only and any other innovative guarantee solutions addressing key project risks in renewable energy, electrification or energy efficiency projects are welcome.

The objectives of reducing greenhouse gas emissions and enhancing carbon removals, and climate-proofing will systematically be integrated in all infrastructure projects.

Moreover, EFSD+ guarantees for renewable energy operations should encourage and be deployed, as far as possible, in connection with competitive project selection procedures (e.g. auctions), and reflect appropriate risk sharing arrangements between the EU and partner DFIs.

Different types of eligible operations in the digital sector may be included, such as:

- Guarantees should cover the construction of secure and resilient submarine cables and landing points to increase and diversify international links. Priority should be given to countries that either possess few international links, or represent geostrategic points of landing, while aiming to increase international links with Europe
- Guarantees may also cover international satellite connectivity, given the rise of internet satellite constellations that are increasing cost effectiveness, making it more sustainable for remote areas. Particular attention will be paid to the deployment of secure, resilient, and quality infrastructure equipment.
- Guarantees covering regional digital infrastructures, such as terrestrial regional backbones and the connection of missing links between countries (fibre optic cables). These actions should tackle the digital divide between countries and regions and foster intra-regional internet traffic to promote

regional integration. Particular attention will be paid to improvements of affordability of the resulting connectivity services and the deployment of secure, resilient and quality infrastructure equipment.

- Guarantees covering data infrastructures, such as data centres, content delivery networks and internet exchange points to enhance regional and local data processing and storage capacities, ensure data sovereignty of partner countries and promote technology line with EU values and standards. This should also cover the upgrade and deployment of key internet standards (e.g., IPv6 and QUIC).
- Guarantees covering the support to innovative digital technologies that reduce GHG emission and energy use of digital infrastructure (i.e. smart 5 applications) and innovative green data centres, which can mitigate the rapid increase of energy consumption and greenhouse emissions.
- Guarantees provided to de-risk last mile connectivity. Financial products could cover fixed, mobile and satellite investments to connect citizens, businesses, educational and other public institutions to quality broadband internet at affordable prices (specific focus to land-locked countries[10] and remote/undeserved areas[11]). Possibilities could include partnerships with municipalities in deploying fibre, guaranteeing private investments or PPPs to deploy fixed or mobile broadband to under-served areas and supporting affordable and scalable satellite connectivity business models. Proposals involving institutions or organisations which are best placed to reduce the digital gender gap would be especially welcomed.
- Guarantees covering innovative business models based on disruptive technologies and addressing their particular challenges to enable or improve affordable access to goods and services to the un(der)served in emerging markets, especially for the development of agri-tech, fintech (more to be added). Proposals focusing on youth will be viewed favourably.
- Guarantees covering the development and implementation of Digital Innovation hubs that promote local innovation ecosystems and digital entrepreneurship. The guarantees would support investments in DIHs based on the model of public-private partnership approach developed by DIHs within the EU12, which enables private investors to invest in highly innovative DIHs that provide clearly defined set of digital services (i.e. e-services, e-ID, blockchain solutions) and advisory services (i.e. advice on the digitalisation of SMEs) to local markets. DIHs are a clear opportunity for partnership with innovative EU private sector actors seeking to expand into markets abroad.
- Guarantees supporting digitalization of businesses and supporting their transition to digital transformation. Experience sharing with European accelerators and competence centres in e.g. agriculture, manufacturing and logistics, can strengthen the possibilities for joint development of circular economy concepts. Particular attention will be given to proposals considering the greening of technologies and supporting new business models that integrate digital and green components at the same time. Financing should also target early stages of development (proof of concept, pre-seed, seed, etc.), as well as the scale-up phases of innovative digital start-ups and SMEs that develop, while being directed at digital services that can generate a social and/or a climate-friendly impact.
- Guarantees supporting Digital Clean Tech solutions: There is a strong need to enable digital technologies to release their potential for the reduction of GHG emissions. Digital innovations such as AI, blockchain and IOT provide unprecedented opportunities to enhance sustainability of economy and society, but there is a need to support new business models that integrate the digital and the green components at the same time.

- Guarantees supporting digital creative industries to facilitate access to global cultural value chains and increase trade of cultural goods and services. Concrete actions are sought in the area of pre-investment (skills, incubators, accelerator programmes, supporting the creation of quality goods and services, notably in the audio-visual sector, and creating economies of scale and by harnessing digital distribution channels (e.g. audio-visual or music platforms).
- Guarantees covering digital Services: in order to increase the performance of e-services and businesses, guarantees will support the development of private sector providers of digital services like eID, eProcurement, eHealth, e-education, e-energy and climate services, e-waste management, disaster risk management, forestry and land management and e-agriculture, e-Justice, e-Company. Other digitalised services intended to increase the performance of public services through private sector providers and business, in coordination with state authorities, are equally targeted. This includes proposals related to digital freelancing platforms, which provide job opportunities and services for professional working remotely across the world, as well as guarantees provided to local operators in the field of Digital financial services and innovative digital financial solutions, and other platform services. Particular attention will be given to the building of circularity principles in digital equipment and the development of more inclusive and/or gender sensitive e-services. Ensuring EU standards on cybersecurity in line with is strategic policies is a pre-condition for developing above-mentioned services
- Sustainable finance instruments and products, mainly sustainability-related loans but also financial instruments and products issued on capital markets for the purpose of attracting private capital towards sustainable investments, in particular towards sustainable connectivity/infrastructure (digital) in partner countries. These may include (but are not limited to) sustainable loans, transferable securities (equity, bonds), investment funds and vehicle, units in collective undertakings, managed portfolios of instruments, or pension products[151]. For example:

- Guarantees covering Promotion of women-led digital enterprises, participation of women in the digital economy and empowering them through digital entrepreneurship. Special attention will also be paid to gender-smart financing with the goal of enhancing the access to equity finance to highly innovative start-ups and SMEs that are being lead by female entrepreneurs, while the Guarantee instruments based on the payment mechanism option of the highways and railways concessions: Pure "Availability" based payment structures generally transfer neither of these risks to the private sector. "Shadow Toll" structures are seen as transferring traffic risk, but not revenue risk and "Real-Tolled" structures are usually considered capable of transferring both risks.
- Guarantees adapted to urban transport operators: most urban transport systems do not cover their operation and maintenance expenses, let alone capital expenses. In addition, upgrading to more environmentally friendly vehicles or building a mass transit system—metro, light rail, Bus Rapid Transit, etc.—requires investing large amounts of money at once. Private urban transport operators have limited control over demand, especially in cities that are seeing rapid motorization and the predominance of informal shared mobility. As public transport services are often very capital-intensive, the PPP are often split: the infrastructure (where the CAPEX is entirely covered by the public sector and the OPEX is conceded for maintenance) and the rolling stock (where the provision, maintenance and operations are conceded to private operators). At the end, the contracts between authorities and operators for urban transport concessions are complex, and it

[151] As defined in Directive (EU) 2014/65 and Regulation (EU) 2019/2088

is important to offer a diversity of risk management products. When a municipality struggles to access private finance due to low credit ratings and shallow financial markets, a credit guarantee may be the right option. Likewise, a guarantee instrument can ensure that the concessionaires will be paid as promised by the authorities.

- Promotion of women-led digital start-ups and digital solutions with a gender lens will be actively targeted.

The operations listed above are indicative and non-prescriptive/exhaustive. The operations should also optimise leverage and cost efficiency, mobilising funding from multiple sources and targeting countries/regions where private sector participation is currently low.

Proposals under this window should consider a fair repartition of costs, risks and benefits between the various parties associated in the operation and demonstrate the catalytic effect of the EU financial support, allowing for replication and scaling up of operations. Operations supported should be based on sound business models that can be sustainable on the long term.

POLICY DIALOGUE AND TECHNICAL ASSISTANCE MEASURES

Links will be established to adequately coordinate between the investment and enabling policies to foster stable investment climate and conducive business environments. Limited technical assistance will be provided to build capacity of potential investors and beneficiaries. Implementation of this window may thus be accompanied by sector policy dialogue with the partner countries and by in-country reform processes supported by the EU and led by the EU Delegations in the country as well as EU member states, in order to foster an enabling environment including alignment of sector policies, regulations and planning with climate change objectives, under which the policy goals can materialise and increased investments can take place.

Supporting policy actions and technical assistance may therefore include:

- Improving policies and regulatory frameworks to allow for increased investments in the sectors of intervention and in facilitating the implementation of the investment projects by private as well as sub-sovereign stakeholders
- addressing synergies and inter-linkages between climate change, renewable energy, energy efficiency, environmental sustainability and national development plans
- Adjusting policies to promote energy efficiency and Energy Services Company (ESCOs) markets
- promote gender equality and women’s empowerment in the sectors of intervention.
- integration of climate change (adaptation and mitigation) and environment in policies and operations;
- Promoting and implementation of transparent investment preparation practices, including competitive procurement processes and transaction advisory services
- Utilities revenues support and reform (where appropriate) to achieve financial sustainability level with due consideration to affordability issues and mechanisms to protect the most vulnerable.
- Enhance regulatory framework and support deployment of digital solutions to improve transparency and efficiency of utility operations and including environmental sustainability and circular economy considerations in digitalisation policies.

- Support to the development of National Digital Plans, in accordance with EU values and promoting the EU digital cooperation model; regulatory legal frameworks, mainly on a regional basis, to create the enabling environment for affordable connectivity - telecom regulator independence; legal frameworks for privacy, data sharing, eID, e-signature and cybersecurity setting the rules; etc.
- Capacity building on various aspects of infrastructure financing (including private concessions) to enhance the planning and implementation capacity of governments, regulatory capacity of government agencies; to strengthen arrangements for involvement of private sector at local level; for effectively introducing into D4D operations key EU policy principles and values; preparation of pilot projects on use of digital technologies in priority sectors; formulation of recommendations to National Administrations for the finalisation of digital policies.
- Promoting environmental sustainability standards, in line with the EU sustainable finance agenda.
- Supporting regulatory convergence in all transport areas in coherence with the 2021-2027 regional transport action plans
- Supporting regulatory convergence and activities to depollute transport, in particular maritime transport.
- Supporting transport connectivity reform measures to accelerate integration with the TEN-T, the EU acquis and its digital and clean energy technologies.

PRIVATE SECTOR INVOLVEMENT

The window aims at mobilising local and international private sector and commercial sub-sovereign entities both as a provider of investments and funding as well as a strategic stakeholder for mobilising their innovative potential and managerial strength at enhanced delivery on the defined goals. It shall contribute to creating or expanding markets to allow for a larger participation of private sector stakeholders. Maximising these goals to the extent possible in the respective country and sector context will be an important evaluation criteria of submitted PIPs.

Moreover, the EU looks forward to a diversification and expansion of foreign and local partner financial institutions in order to further reach vulnerable groups and remote areas so as to increase the impact to drive inclusive economic development, targeting impact results including decent job creation through impact investments.

TYPE OF RISKS

Risks to be mitigated may include:

(i) Commercial risks (e.g. payment risk, off-taker payment not honoured, liquidity, off-taker bankruptcy, etc.);

(ii) Political and country risk (e.g. expropriation, coup d'état, civil war, etc.);

(iii) Legal and regulatory risk (e.g. change in law, cancellation of licenses, nationalisation, tariff adjustments, etc.);

(iv) Currency risks (e.g. exchange rate fluctuation, convertibility, transferability, etc.); and v) unforeseen climate change and environmental risks (e.g. droughts, extreme weather events, temperature rises, etc.).

(v) Climate change and natural hazards-related disasters, including those linked with environmental risks (e.g. droughts, extreme weather events, temperature rises, etc.);

(vi) geopolitical risks related to competition among donors about the attractiveness of their respective digital offers and implications for international standard setting;

(vii) Construction risks (e.g. land availability, site risks, permits, design, etc.)

DFIs should undertake a careful selection of the above risks to be guaranteed per project type so as to avoid attracting cases of moral hazard or providing too wide risk coverage and vague trigger mechanisms of guarantees. To achieve the latter, DFIs should work on a project cycle approach, trying to solve specific market failures that call for use of guarantee instruments as the preferred instrument. As a rule, risks should be allocated to and borne by the party that can best manage them. Wherever needed and justified, guarantees should also be combined with other EFSD+ instruments such as debt, equity finance and TA for pipeline building.

INDICATIVE GUARANTEE AMOUNT OF THE INVESTMENT WINDOW

The indicative target volume of guarantees envisaged under this window amounts to
EUR 2 145 million, including the following distribution between NEAR and INTPA geographies:

INTPA : EUR 1 565 million NEAR : EUR 580 million

The Commission may allocate a higher or lower amount than the indicative target depending on the proposals finally submitted. An indicative earmarking of potential investments per region and sub-region is included in Annex 1.

For NEAR IFIs/DFIs are encouraged to submit regional proposals covering all NEAR regions and countries. For INTPA some priority countries have been identified as priorities and some guarantee capacity has been earmarked for specific countries and regions, as specified in annex 1.

IFIs/DFIs partners are invited to submit proposals specifying their alignment with priority countries, subregional earmarking and key TEIs. This will in turn be a key factor in evaluating and selecting PIPs submitted by DFIs.

4 ENVISAGED IMPACT AND PERFORMANCE MEASUREMENT

The window contributes mainly to the following SDGS: health (SDG #3); education (SDG #4); gender equality (SDG #5); access to affordable, reliable, sustainable and modern energy (SDGs #7); jobs and growth (SDG8); Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation (SDG #9); responsible consumption and production (SDG #12); reducing inequality within and among countries (SDG #10); environment and climate change (SDGs #13, #14 and #15); as well as peace, justice and strong institutions (SDG #16).

The General Objective is to increase and to improve connections among Europe and partner countries around the globe and to deliver investments in sustainable infrastructure, exchanging goods and services, connecting people around the world, promote global low-emissions and climate-resilient inclusive economies as well as just energy transition with enhanced energy access to clean energy and green job creation, leaving no one behind as well as to support and scale-up the deployment of digital infrastructures to support the digital transformation of societies and economies in partner countries. To the extent possible, the investments should be aligned with the EU Sustainable Finance Taxonomy. Specific objectives applying to all sectors:

(i) National Determined Contributions (NDCs) are complied with as well as the objectives of the Paris Agreement

(ii) Policy and regulatory framework is upgraded in line with EU and international standards and creates an enabling environment for climate resilient low-carbon economy and secured digitalization and reduced digital divide,

(iii) Employment directly supported

(iv) Increased mobilization of private sector capital

For <u>sustainable/renewable energy</u> the following specific impacts objectives are envisaged:

(i) Increased and/or improved access to affordable, reliable, renewable and modern energy that improves citizens' quality of life, in particular for the population in the most vulnerable situation and contributes to the objectives of the Paris Agreement;

(ii) Increased renewable energy generation capacity installed or enabled, replacing the use of fossil fuels;

(iii) Contribution to energy security and reduced energy supply costs (related to the fossil fuel imports);

(iv) Creating and enabling regional markets that allow for more and efficient sharing of energy resources;

(v) More efficient, sustainable and rational use of energy resources;

(vi) Improved business and operational performance of power utility companies;

(vii) Increased investments in green technologies and effective decarbonisation of production processes by corporates, public utilities and state owner enterprises;

(viii) Reduced local pollution and greenhouse gases emissions improving public health and environmental quality, and helping countries to achieve their international climate change pledges;

(ix) Low-emissions and climate-resilient inclusive growth, decent job creation particularly for youth and women and balanced territorial development, enabling of productive and social activities and other economic benefits widespread to the society, hence tackling some of the root causes of irregular migration.

<u>For Digital</u>:

(i) reduce the digital divide by increasing proportion of population with access to affordable broadband connectivity;

(ii) increase quality, security and sustainability of digital and data infrastructures; iii) improve international and interregional connectivity, including also with Europe;

(iii) create jobs, both in the digital domain, as well as in other sectors benefitting from digital transformation;

(iv) stimulate and enable the creation and the development of digital start-ups and the digital transformation of businesses, towards increased competitiveness, sustainable economic recovery and growth by addressing the bottlenecks;

(v) Foster the capacity of digital technologies to support low-carbon, climate-resilient and environmentally sustainable growth;

(vi) enhanced visibility of EU action and strengthen global strategic engagement in digital connectivity;

(vii) contribute to the closing of the digital gender gap;

(viii) promote and support the EU Digital Innovation Hubs approach in developing countries, and connecting them to EU DIHs.

(ix) Policy and regulatory framework is upgraded in line with EU and international standards and creates an enabling environment for secured digitalization and reduced digital divide, incl. across borders and continents
(x) Improved broadband (incl. international) connectivity, in line with EU digital connectivity toolbox principles
(xi) Improved performance of supported businesses (including women & youth led businesses)
(xii) Increased digital entrepreneurship (including women & youth entrepreneurship)
(xiii) Increased (secured) access to (public and private) e- services

For transport:

(i) contribute to achieve a zero-emission, seamless, safe, smart, resilient and inclusive mobility, logistics and freight transport in all its modes (by air, sea, inland waterways, rails and roads);
(ii) Reduced local pollution and greenhouse gases emissions improving public health and environmental quality and helping countries to achieve their international climate change pledges
(iii) reduced transport costs and increased affordability of transport services for women, persons with disabilities and the groups in most vulnerable situations.
(iv) increased efficiency of the international transport systems by ensuring common standards and interoperability
(v) Increased connectivity for people and goods
(vi) Improved transport/road safety and logistics infrastructure / facilities, including infrastructure to supply energy to zero-emission vehicles
(vii) Improved zero-emission transport and logistics management performance

PIP proposed under this window shall contribute to one or more of the above listed objectives.

In coherence with the EFSD+ objectives, the investments covered by a guarantee falling under this window shall also contribute to one or more of the cross-cutting performance indicators stipulated in Annex VI of the Global Europe regulation, Annex 3 of this document, and to environmental sustainability objectives in lines with the ambition of the Green Deal and EU sustainable finance agenda.

A specific results monitoring framework shall be developed to monitor the outputs, outcomes and impacts achieved under each PIP. All indicators shall be disaggregated by the operations/transaction geographic areas (countries). All indicators referring to individuals shall be disaggregated, whenever possible, by sex, in particular to monitor progress towards gender equality, and by age. A non-exhaustive set of output and outcome indicators is listed in Annex 3. Further details on monitoring are defined in the EFSD+ Result Monitoring Framework which apply.

Annexes

Annex 1: Priority countries and geographic earmarks

E. Priority Countries

Africa (Sub-Saharan)	Latin America and The Caribbean	Middle East, Asia and Pacific	NEAR
Angola[2]	Antigua and Barbuda	Bangladesh	*In NEAR region there are no priority countries, please refer to earmarked allocation at regional/sub-regional level as indicated below.*
Bénin	Argentina	Bhutan[1]	
Botswana	Bahamas	Cambodia	
Burkina Faso	Barbados	Fiji + SIDS	
Burundi	Belize	India	
Cabo Verde[2]	Bolivia	Indonesia	
Cameroon	Brazil	Iraq[1]	
Central African Republic	Chile	Kyrgyz Republic	
Côte d'Ivoire	Colombia	Laos	
Democratic Republic of the Congo	Costa Rica	Malaysia	
Djibouti	Dominica	Mongolia	
Eritrea[1]	Dominican Republic	Nepal	
eSwatini	Ecuador	Pakistan	
Ethiopia	El Salvador	Philippines	
Gabon	Grenada	Tajikistan	
Gambia	Guyana	Uzbekistan	
Ghana	Haiti	Vietnam	
Guinea-Bissau[2]	Jamaica		
Guinée Conakry	Mexico		
Kenya	Panama		
Lesotho[2]	Paraguay		
Liberia[2]	Peru		
Madagascar	Saint Kitts And Nevis		
Malawi	Saint Lucia		
Mali[2]	St Vincent & The Grenadines		
Mauritanie[2]	Suriname		
Mauritius[2]	Trinidad and Tobago		
Mozambique	Uruguay		
Namibia			
Niger			
Nigeria			

Republic of Congo			
Rwanda[1]			
Sao Tome and Principe			
Senegal[1]			
Sierra Leone[2]			
Somalia			
South Africa			
South Sudan			
Sudan			
Tanzania			
Tchad[2]			
Togo			
Uganda			
Zambia			
Zimbabwe[2]			

[1] ***Exclusively for Digital***

[2] ***Exclusively for Energy and Transport***

F. Geographic/country earmarks

Africa (Sub-Saharan)		**Latin America and The Caribbean**		**Middle East, Asia and Pacific**		**NEAR**	
Sub-region	**%**	**Sub-region**	**%**	**Sub-region**	**%**	**Sub-region**	**€m**
The objective is to reach the following allocation overall for EFSD+:		Indicative subregional allocation for the window:		Indicative subregional allocation for the window:		Indicative subregional allocation for the window:	
West Africa	36%	Caribbean	22%	Southeast	35%	Neighbourhood East	200
East and Central Africa	42%	Central America	22%	South	27%	Neighbourhood South	180
Southern Africa and the Indian Ocean	22%	South America	56%	Central Asia & Mongolia	22%	Western Balkan	200
				Pacific	6%	Turkey	-
				Unearmarked	11%		
Total envelope for the region	**1067**	**Total envelope for the region**	**74**	**Total envelope for the region**	**424**	**Total envelope for the region**	**580**

Window total amount (€m)	**2145**

ANNEX 2: TEIs, flagship initiatives, and policy frameworks relevant to the investment window

TEAM EUROPE APPROACH

The following Team Europe Initiatives are of particular relevance for this window and are to be considered when developing proposals. The list of TEIs is indicative and susceptible to evolve over time; regular updates on TEIs can be found in the following website: Consolidated Table - TEIs | Capacity4dev (europa.eu)

For the Neighbourhood East:

- Azerbaijan: Initiative on Inclusive, Sustainable and Integrated Regional Development with a focus on Energy Efficiency/Green Growth
- Targeted recovery initiatives in Southern Armenia – Syunik region

For the Neighbourhood South this would in particular include:

- Egypt: TEI Connected Economy and Society
- Morocco: TEI for the Green Transition
- Palestine: EI Digital transformation programme

East and Central Africa:

- Cameroon: Pacte vert et résilience dans le Septentrion du Cameroun
- DRC : Alliance verte : un partenariat pour les hommes, la nature et une économie verte en RDC
- Djibouti : Ville propre et prosperite Djibouti à l'horizon 2027
- Gabon : Green Economy and Sustainable Jobs
- Kenya: Green transition
- Kenya: Human centred digitalisation
- Rwanda: Sustainable cities fit for the digital age
- Somalia: Green deal
- Sudan: Supporting women's rights and enhancing their role in Sudan's society
- Tanzania: Green and Smart Cities SASA

West Africa:

- Bénin: Investir dans l'énergie verte
- Bénin: Investir dans un port de Cotonou durable
- Burkina Faso: Économie verte
- Cape Verde: Green deal
- Gambia: Green Gambia
- Ghana: Smart, green and digital recovery
- Guinée Conakry: Économie Verte et Bleue
- Guinea Bissau: Inclusive and Green Cities

- Mali: Environnement et changement climatique
- Mauritania: Transition towards Green and Blue Economy
- Niger: Une économie inclusive, verte, digitale pour et avec les jeunes
- Nigeria : Green Economy Alliance
- Sénégal : Promouvoir l'économie verte et digitale
- Sierra Leone : Green alliance
- Tchad: Pacte vert et fragilité
- Tchad: Vive les villes secondaires
- Togo : Énergie & Connectivité

Southern Africa & Indian Ocean:

- Comoros : Pacte vert pour une croissance integree
- Angola: Economic Diversification
- Lesotho : Green Deal
- Madagascar : Green Deal - Energie Renouvelable Et Durable
- Madagascar: Pacte Vert Paysage
- Malawi : Good Governance
- Mauritius: Environment and climate change for a green recovery from COVID-19 pandemic
- Mozambique: E-Youth
- Mozambique: Mozambique's Green Deal
- South Africa: A just and green recovery for South Africa
- Zambia: Climate Action for Inclusive Green Growth in Zambia
- Zambia: Human Development
- Zimbabwe: Climate Smart Agriculture Based Resilience Building

Africa Regional:

- Africa EU Green Energy Initiative - Green and climate transition
- D4D for Digital Economy and Society in Sub-Saharan Africa
- Strategic corridors for economic integration & regional integration

Asia region:

- ASEAN Sustainable Connectivity
- Central Asia regional TEI on Water, Energy and Climate Change
- Cambodia: "Built Back Better: green energy and industrial value chains"
- Nepal: Green Recovery
- Central Asia: Digital Connectivity
- Mongolia: "Sustainable natural resource management and value chain development in Mongolia"
- Vietnam: "Climate-resilient, low-carbon circular economy"
- Philippines: TEI 'Digital transformation and Connectivity'
- Timor Leste: "A New Green Deal for Timor Leste".

Latin America and Caribbean region:

Regional TEI on “Green Transition”

The regional TEI would aim at accompanying the transition of LAC countries to a decarbonised, environmentally friendly and inclusive economy, using EU public and private sector expertise. In line with the Green Transition priority areas, the TEI will be focused on the following focal sectors: 1) Climate policies and action, including a just and clean energy transition, 2) Biodiversity, marine and forest conservation, and, possibly 3) Circular economy in the second phase of the implementation.

The TEI would follow a variable geometry approach which would allow regional, sub-regional, multi-country and country level cooperation under a general umbrella of climate change and the environment.

Regional TEI “EU-LAC Digital Alliance”

The proposed regional digital TEI would provide a holistic framework for the EU to develop its digital cooperation with the LAC region. The TEI would respond to increased interest in the European human-centric digital model from LAC partners; it would support the building of a bi-regional digital partnership of mutual benefit and opportunities

It will encompass various tracks that have been identified as central for EU intervention, such as: i) convergence of regulatory frameworks and standards, ii) regional digital connectivity and infrastructures, iii) private sector collaboration, competitiveness and innovation, iv) e-services and digital products. In a flexible approach, it would allow tackling other topics that respond to the joint objectives of the Team Europe partners.

TEI “Digitalization” in Argentina

Over the past decade, Argentina has made efforts to improve digital access for all, and its agenda lays the foundation for governing the country's digital transformation. In this regard, the EU intends to help the country achieve full digital inclusion of all its citizens, improve the productivity of the economy and put the state at the service of its citizens.

TEI “Digital Transformation” in Brazil

Since 2007, the EU has been engaged in an extensive cooperation with Brazil on digital resulting in a common understanding of the mutual priorities and interests, reaffirmed at the 11th edition of the EU-Brazil Dialogues on Information Society and Digital Economy. The COVID 19 Pandemic resulted in a dramatic acceleration of digitisation making even more critical the international outreach of EU strategy for digital transformation in a country with the economic and regional influence of Brazil.

TEI “Green and Resilient Development” in Bolivia

In Bolivia the TEI has been named Green and Resilient Development to combine a much needed green recovery and a durable development. The three focal areas of the TEI are: Sustainable and climate change-resilient landscapes, Green energetic transition and Green economy in sustainable cities. It’s within these areas that the EU and Bolivia partnership can make a substantive and sustainable impact while providing an adequate socio-economic response to the challenging situation following the COVID crisis.

TEI "Environment" in Colombia

The TEI will aim at ensuring the country's transition towards green development as a model in Latin America, given Colombia's strong commitment to climate change, biodiversity, SDGs and environment. The TEI will contain three pillars: (i) sustainable local development, (ii) sustainable cities and infrastructure and (iii) sustainable finance and institutions.

TEI "Green Hydrogen" in Chile

The EU is deploying a Team Europe Initiative in Chile in support of green hydrogen development - a key enabling technology to transition to climate neutrality – piloting a hydrogen partnership that may be replicated with other countries in LAC, considering their favourable conditions for the production of renewable energies, as demonstrated by the recent report of the International Energy agency "Hydrogen in Latin America, from near-term opportunities to large-scale deployment.

TEI "Sustainable Growth and Jobs and Green Deal" in Ecuador

While Ecuador looks to the EU as a partner to trade with, from which to attract investments and receive assistance in terms of economic development, on the other hand the EU wants to strategically support this demand by promoting trade and foreign direct investment, facilitating private and public investment and stimulating innovation and productivity by using its expertise in fields such as the circular economy, research and innovation and digitization.

TEI "environmental protection and sustainability" in Uruguay

The "Green Deal - Environmental Protection & Sustainability" TEI for Uruguay will help to ensure that the post-COVID recovery is based on an economic model that takes into account environmental protection and sustainability. This Initiative will include under a single umbrella policy dialogue, exchange of experience, investment, research and development, technical cooperation, cooperation with civil society, local authorities and the private sector. Two priorities have been set, aligned with the EU Green Deal: Smart cities (recycling, energy-efficient transport) and Sustainable agriculture and water protection.

TEI "Green Recovery, Decarbonisation, and Sustainable Urban Mobility" in Costa Rica

The TEI will seek to support the country in pursuing its 3D 2050 national development vision (decarbonised, digitalised and decentralised) while also consolidating the country's status as a green hub and green economy.

TEI "Digital Jobs" in El Salvador

The objective of the TEI is to increase economic growth and to create innovative jobs for youth, in order to boost post-COVID recovery. This will be done by addressing the digital divide, strengthening the digital public institutional set up, fostering digital skills and supporting the creation of new business models, in particular where the digital and the artistic and cultural sector meet, so that youth and women enjoy opportunities to join the labour market in high quality, innovative and future-oriented jobs. Complementarity with Erasmus+ capacity building action for VET will be sought.

TEI "Circular economy and Sustainable Cities" in Peru

Peru is EU key partner on several global challenges as climate change, environmental and Amazon preservation. Building on government commitment to transform the economy, the EU's effort is to achieve a greening of value chains and the transition to a circular production system.

TEI "Promoting the green transition as part of a sustainable and inclusive economic recovery in Mexico" in Mexico

The overall objective of the TEI is to support Mexico in pursuing a decarbonisation path and increase its ambition under the Paris Agreement. The Team Europe cooperation with Mexico on a green transition will focus in the following four priority areas of engagement inspired by the Green Deal: A. Sustainable transport/safe and smart mobility, particularly in the context of a smart and sustainable urban planning B. Transition to a low-pollution circular economy, with a focus on solid waste management, sustainable agriculture and sustainable water management C. Promoting energy efficiency and support to a low-carbon energy transition D. Strengthening ecosystem-based adaptation and mitigation of climate change, with a focus on ocean, biodiversity and forest conservation.

INTPA Directorate B will prioritise proposals presented in consortiums by more than one Financial Institution in line with the Team Europe approach and those covering several countries, particularly if the proposal includes countries from all sub-regions, Caribbean, Central and South America. Proposals are expected to be in line with the MIPs of the countries selected. Preference will be given to proposals that involve EU private sector actors.

Given the broad scope of this window, the complementarity with other windows and the financing needs of the transport sector in Latin America and the Caribbean, INTPA B is open to receive proposals that address the Windows for Sustainable Cities and Connectivity simultaneously.

REGIONAL FLAGSHIP INITIATIVES

For **Neighbourhood East**, proposals submitted shall contribute to the relevant flagship initiatives. These would in particular include the following Flagship initiatives:

- Armenia Flagship 2: Boosting connectivity and socio-economic development – the north-south corridor
- Armenia Flagship 3: Investing in digital transformation, innovation, science and technology
- Armenia Flagship 4: Building resilience in the southern regions
- Azerbaijan Flagship 1: Green connectivity – supporting the green port of Baku
- Azerbaijan Flagship 2: Digital connectivity – supporting the digital transport corridor
- management and infrastructure
- Georgia Flagship 1: Black Sea connectivity — improving data and energy connections with the EU

- Georgia Flagship 2: Transport connectivity across the Black Sea — improving physical connections with the EU
- Georgia Flagship 4: Digital connectivity for citizens — high-speed broadband infrastructure for 1 000 rural settlements
- Moldova Flagship 2: Boosting EU-Moldova trade — construction of an inland freight terminal in Chisinau
- Moldova Flagship 3: Increasing energy efficiency — expanding the refurbishment of district heating systems in residential buildings in Chisinau and Balti
- Moldova Flagship 4: Improving connectivity — anchoring Moldova in the TEN-T
- Ukraine Flagship 3: Improving connectivity by upgrading border crossing points
- Ukraine Flagship 4: Boosting the digital transition — modernising public IT infrastructure
- Ukraine Flagship 5: Increasing energy efficiency support for renewable hydrogen

For **Neighbourhood South**, proposals submitted shall contribute to the relevant flagship initiatives:

- Flagship 10 – Energy transition and energy security
- Flagship 11 – Resource efficiency, including water and waste management, and biodiversity

KEY RELEVANT EU FRAMEWORKS

President von der Leyen laid a particular focus on the next generation of international partnerships, announcing the new connectivity strategy called Global Gateway. Recognizing 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 and enabling equal opportunities to take advantage of the digital economy. This will also include investing in Africa for the establishment of a market for green hydrogen that connects the two shores of the Mediterranean[152] Investments in **digital, energy, transport and people-to-people connectivity** are needed to support the EU's strategic interests around the world. 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 aims at enhancing 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 Global Gateway also commits to ensure that the benefits of investment are fairly and equally accessible, guaranteeing that projects and investments be inclusive, notably in terms of gender equality.

For the different components of this window, the following policies and strategies will apply:

The European Green Deal and the Council Conclusions on Energy and Climate action[153] will be guiding the interventions on sustainable energy supply.

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152 The European Commission Communication of 08.07.2020 setting up 'a hydrogen strategy for a climate-neutral Europe'

153 e.g. Energy and Development — Foreign Affairs Council conclusions (28.11.2016),; Climate and Energy Diplomacy: Foreign Affairs Council conclusions (25.01.2021)

The **Digital for Development Policy**[154], the related **Council conclusions** and the recent **Digital Decade Communication**[155] **and Digital Compass define the basis for the Digital Transformation.** Furthermore, the EU can support the creation of dynamic and integrated markets in other regions of the world, following the principles of the **EU Digital Single Market (DSM),** where individuals and businesses can seamlessly access and participate in online activities in a safe and secure environment. In addition, special attention will be given to addressing the **'twin challenge' of green and digital transition**, as they are closely intertwined, as well as to providing opportunities for women and youth to participate in the digital economy. With this, the EU has developed the world's most advanced policy and regulatory framework in many aspects of digitalisation, which can serve as a blueprint for sovereign digital economic transformation in other countries.

EU transport policy for the coming years is defined in accordance with the European Green Deal objectives and the legislative packages deployed to meet climate ambitions. The main policy reference document is the **2020 Sustainable and Smart Mobility Strategy**, which identifies the EU as the world's connectivity hub.

The revision of the **Trans-European Transport Network (TEN-T)** policy, which incorporates the cooperation with third countries, and the Zero Pollution Action plan, where the EU will support global action on the export of used vehicles and the G20 agenda on quality infrastructure and maintenance, are concrete examples of support policy actions.

This window aims at stimulating the private sector investment by reducing risks, to mobilise sub-sovereign and private sector commercial funding and investment in order to have a catalytic impact on:

1) low-emissions, climate-resilient and environmentally sustainable inclusive economies as well as just energy transition with enhanced energy access and green job creation, leaving no one behind.

2) the promotion of digital connectivity, entrepreneurship and e-services to bridge the digital divide providing the basis for access to basic services, equal opportunities for participation in the digital economy and society taking advantage of innovative digital technologies, while promoting EU values and standards.

3) the enhancement of regional and global interconnectivity and the transition towards a zero-emission, seamless, safe, smart, resilient and inclusive transport connectivity in all its modes (by air, sea, inland waterways, rails and roads).

154 14320/16 DEVGEN 243 ACP 152 RELEX 938 TELECOM 227: Mainstreaming digital solutions and technologies in EU development policy - Council conclusions (28 November 2016).
155 These priorities have been echoed in "Digital Decade" and the accompanying "Digital compass"

ANNEX 3 – Results Monitoring Framework

This Annex is attached to each of the Investment Windows for Open Architecture. This Annex provides an overview of results chains and related indicators structured along the areas covered by the Investments Windows of the Open Architecture as crystallised by the EFSD+ Strategic Orientations. This is the basis for the design, monitoring, reporting, and evaluation of the individual interventions approved by the Commission and the Lead International Financial Institution (LFI).

At individual interventions level, the LFI can add additional results and indicators, if relevant and not deviating from the scope of the Investment Windows.

EFSD+ results and indicators

NDICI-GE and IPA III Regulations refer to **results** as per the OECD-DAC definition: "Results are defined as the outputs, outcomes or impacts of development interventions, with each element contributing to the next, as set out in the results chain below. The links between each element are as important as the results themselves, reflecting the theory of change and the roles of providers and other stakeholders." Along those lines, the EFSD+ Results Measurement Framework (RMF) covers the three levels of results as per NDICI-Global Europe and IPA III Regulations.

Each intervention proposed by the Lead IFI is to be coherent with the EFSD+ RMF and **must contain a results chain** composed by results (impact, outcome, output) **and** indicators (using the table as provided in the Application Form template).

In order to ensure consistency and harmonisation of approaches between the European Commission and the IFIs, **indicative results and indicators are proposed for each of the Investment Windows** for the Open Architecture - as part of the overall EFSD+ Results Measurement Framework. The latter is available in the Excel file provided.

EFSD+ RMF

Impact level

At impact level, the Investment Windows are consistent with NDICI-GE, IPA III and EFSD+ Strategic Orientations overarching priorities. Therefore the impact statements provided in the Excel file are common to the six Investment Windows.

At intervention level, the IFI will indicate the SDGs and related indicators the intervention contributes to. In turn, this allows the European Commission to ensure a link with Level 1 indicators of GERF (Global Europe Results Framework) and IPA PF (Instrument for Pre-accession Assistance Performance Framework). The IFIs do not have reporting obligations against those.

The tab 1 (**STEP 1**) of the attached excel file – to be used for relevant selection - is provided below in a simplified way:

EFSD+ Overarching priority	Impact statement	SDG	SDG Indicator	GERF 1	IPA PF 1

Global Gateway and/or **Green Deal** and or/ **Jobs and sustainable and inclusive Growth**	Effective climate resilient low-carbon economy and society *and/or* Eradication of poverty *and/or* Increased green and inclusive employment *and/or* Prevented and/or reduced environmental degradation *and/or* Smart (digital), sustainable and inclusive economic and social development and growth	#	#	#	#

Outcomes and Outputs, with related indicators

In order to ease the application process and ensure consistency with the EFSD+ Results Measurement Framework (RMF), the design of the outcomes and outputs (with related indicators) needs to incorporate elements that are cross-sector as well as sector/area/intervention specific.
The Lead Financial Institution is responsible to report against those throughout the implementation as per individual Agreements provisions.
Accordingly, the attached excel sets out the following two steps:

- **STEP 2 – Cross-sector outcomes and outputs** level, with related indicators. Cross-sectors are mandatory (or exceptionally mandatory if relevant) for all type of interventions.
- **STEP 3 – Investment window/area/sector outcomes and outputs** levels, with related indicators. Investment window specific/area/sector outcomes and outputs are mandatory (if relevant) as linked to the cross-sector ones, and recommended.
  In particular, the STEP 3 outcomes and outputs with related indicators are reflecting **the scope of each Investment Window** – which are **interrelated** one to another. Hence, depending on the intervention proposed by an IFI, outcomes and outputs with related indicators could be taken from the whole list, regardless of the Investment Window financing the intervention.

For interventions that qualify as **sustainability-related financial instruments and products** – regardless of the Investment Window financing them (hence not only the Investment Window Sustainable Finance):

- Sustainable finance specific outcomes and outputs with related indicators are available among the Cross-sector ones, as they are not sector specific, but instrument specific
- Sector outcomes and outputs with related indicators are to be selected from the overall EFSD+ RMF as per STEP 3

The tables provided in the excel file follow the structure below:

Area	Result	Indicator	Unit	Level	Definition and comments	Reference
Cross-sector	The result statement	The indicator(s)	The unit of measure of	Impact Outcome	How to measure the	GERF, IPA PF, EUBEC,

MSMEs Energy Transport Etc.		that measure the related result	the indicator	Output	indicator and other comments	HIPSO, EFSD, WBIF, Other

The design of the proposed interventions could include other outcomes and outputs (with related indicators) as proposed by the Lead IFI, as soon as they are relevant to the scope of the Investment Window and not already captured in the menu provided by the EFSD+ RMF (Excel file).

Remarks on indicators

Indicators are meaningful against a result (impact, outcomes, outputs) to be measured.

Preference is to be given to indicators (and the related outcomes and outputs statements) that belongs to **GERF/IPA Frameworks,** which are clearly marked in the relevant columns of the provided excel file.

Where relevant, indicators are to be disaggregated by sex, age, and disability.

Monitoring and reporting

The monitoring and reporting principles and requirements are to be in line with NDICI-GE (Articles 33 and 41.7) and IPA III (Articles 12 and 13) Regulations. Further specifications will be provided in a dedicated document on the EFSD+ Results Measurement Framework.

At individual intervention level each Guarantee Agreement will need to specify monitoring and reporting requirements against those same principles and the design agreed between the parties.