STATE OF THE UNION 2016

EU EXTERNAL INVESTMENT PLAN

The European Commission has proposed on 14 September an ambitious External Investment Plan in order to support investment in our partner countries, in Africa and the European Neighbourhood, to strengthen our partnerships, promote a new model of participation of the private sector and contribute to achieve the Sustainable Development Goals. This is part of the broader efforts the EU is pursuing on the basis of the new Partnership Framework that was adopted in June.

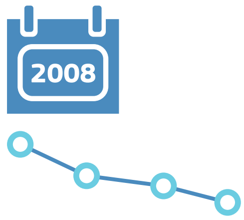
WHY DO WE NEED THE EXTERNAL INVESTMENT PLAN?

Economic growth in developing countries has now reached its lowest level since 2003. Instability and conflicts in Africa and the EU Neighbourhood have been aggravated by the global economic crisis, resulting in increased overall indebtedness, reducing access to finance for badly needed investment. Instability and conflict have also exacerbated the ongoing migration crisis with more people than ever on the move in Africa and in the Neighbourhood This clearly marks the gaps in investment in those countries and the added-value targeted action by the European Union can have.

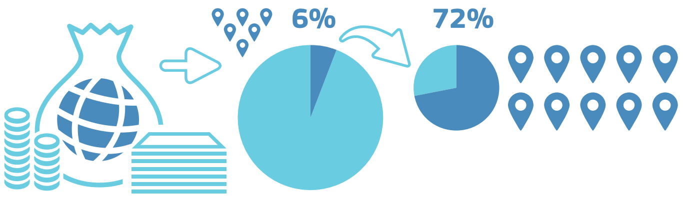
This poses short and long term challenges that need to be addressed in a spirit of partnership, to support inclusive and sustainable growth, creating jobs and contributing to address the root causes of migration. A partnership that is extended not only to Third Countries, but also to the private sector that is called to join our shared efforts to bring prosperity and economic growth. Through the Investment Plan the EU will not only provide targeted guarantees but will also contribute to ameliorate the investment climate and the overall policy environment in partner countries along the same lines as the Investment Plan for Europe and its European Fund for Strategic Investments (EFSI).

BUSINESS ENVIRONMENT AND INVESTMENTS IN FRAGILE COUNTRIES:

Foreign Direct Investment (FDI) and other private financial flows have declined across developing countries since the 2008 financial crisis.



Only 6% of overall Foreign Direct Investment (FDI) to development countries are going to fragile countries (2012). Of those investments, as much as 72% concentrated in ten resource-rich countries.



The cost of setting up a business in fragile African countries **3x higher** than in non-fragile African countries

A NEW APPROACH: MOVING BEYOND CLASSICAL DEVELOPMENT ASSISTANCE

Traditional development assistance alone cannot meet the challenge of achieving sustainable development. It must be complemented by other tools, in order to make best use of and leverage scarce public funds.

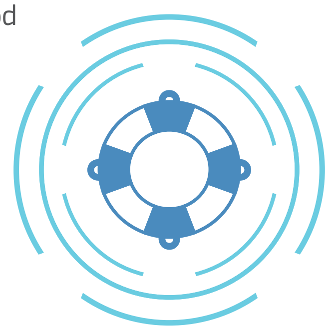
The implementation of the External Investment Plan will allow the EU to lead by example in developing more effective partnerships that go beyond classical development assistance. This is a fundamentally new approach to the way the Union supports development and to the way the Union identifies, prepares, and delivers support for investment projects in countries outside Europe. The Plan offers an integrated and coherent framework enabling full cooperation between the EU, international financial institutions, donors, public authorities and the private sector.

FUNDING

The new European Fund for Sustainable Development lies at the core of the External Investment Plan and is expected to trigger additional public and private investment volumes, mobilising total investments of up to EUR 44 billion, based on EUR 3.35 billion contribution from the EU budget and the European Development Fund. In order to enhance further the firepower and the efficiency of the new Fund, the Commission calls on the Member States and other partners to match these EU contributions. Member States can do so via second-loss guarantees. If they match the contribution to the guarantee, the total amount of additional investment could be EUR 62 billion. If Member States also match the contribution to the blending, this amount could reach EUR 88 billion

THE EXTERNAL INVESTMENT PLAN WILL...

- contribute to achieving sustainable development in our partner countries in a **coherent and consistent manner**
- mobilise investment and leverage funds: it will help reach those countries where investments are currently difficult and facilitate investments by (private) actors **that would otherwise invest less or not at all in these areas.**
- target socio-economic sectors and in particular infrastructure, including energy, water, transport, information and communications technology, environment, social infrastructure, human capital, and provide finance in favour of micro-, small- and medium-sized enterprises **with a particular focus on job creation.**
- assist in developing economically and financially viable projects to attract investment.
- Help to improve the business environment in partner countries by supporting reforms and economic governance
- Contribute to address the root causes of migration and strengthen our partnerships in Africa and the Neighbourhood



THE EXTERNAL INVESTMENT PLAN: POTENTIALLY UP TO € 88 BN:

With EU funds totalling **€3.35 billion** until 2020, the EFSD is expected to mobilise up to €44 billion additional investment.
If Member States match this contribution fully, it may mobilise more than **€ 88 billion** of additional investment

HOW DOES THE EXTERNAL INVESTMENT PLAN (EIP) WORK?

MOBILISING INVESTMENTS through the New Guarantee under the External Fund for Sustainable Development

- The EFSD will be composed of **two Regional Investment Platforms** (Africa and the Neighbourhood). They will combine existing blending[1] instruments and will operate as a one-stop-shop to receive proposals from financial institutions and other public and private investors.
- The EFSD will also create a new guarantee, which will provide partial guarantees to intermediary financing institutions, which in turn will provide support, via loans, guarantees, equity or similar products, to final beneficiaries.
- The objective is to leverage additional financing, in particular from the private sector, as the EFSD guarantee will reduce the risk for private investment and absorb potential losses incurred by eligible counterparts, for example public financing institutions and private sector investors.

STEPPING UP TECHNICAL ASSISTANCE to develop financially attractive and mature projects and, thus helping to mobilise higher investments.

- The Commission has made significant resources available for technical assistance to help partner countries attract investment by developing a higher number of bankable projects and making them known to the international investor community
- Structured dialogue is needed in order to understand the needs and constraints of the local private sector and to boost the potential of the European private sector to invest in and engage with businesses in partner countries.
- The Commission will also, through EU delegations and in coordination with the Member States, facilitate and support inclusive public-private policy dialogue in partner countries to identify key challenges and opportunities.
- The Commission will provide targeted capacity building for private sector representatives, including chambers of commerce, social partners, and organisations representing micro-, small- and medium-sized enterprises, female entrepreneurs, and firms and workers in the informal sector.

Improving economic governance, the **BUSINESS ENVIRONMENT** and engaging with the private sector

- The EIP will reinforce the economic and social policy dialogue between the EU and the partner countries in order to develop legal frameworks, policies and institutions that are more effective and promote economic stability and inclusive growth.
- Training through practical policy-oriented courses, hands-on workshops, twinning projects, and seminars, will strengthen officials' capacity to analyse economic developments, formulate, and implement effective policies.
- Political and policy dialogues with partner countries will be maintained, in order to support i.a. sustainable and inclusive growth, respect of human rights, fight against corruption and organised crime, illicit financial flows, and improve trade relations of the EU's development partners. Generally, they will contribute to better regulation and liberalisation of partner country markets, improving employment opportunities and supporting the development of the local private sector.

[1] Blending is the use of a limited amount of EU money (grants) to mobilise additional support, for instance in the form of loans, from financial institutions and from the private sector to strengthen the development impact of investment projects.