EUROPEAN UNION

EU EXTERNAL INVESTMENT PLAN

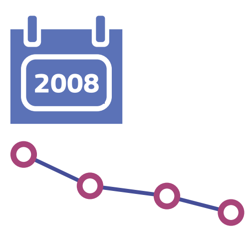
The European Commission proposed on 14 September 2016 an ambitious External Investment Plan (EIP) to encourage investment in our partner countries in Africa and the EU Neighbourhood region, to strengthen our partnerships and contribute to achieve the Sustainable Development Goals, helping addressing some root causes of migration. Part of the EIP is the new European Fund for Sustainable Development (EFSD) as an integral financing mechanism to support investments by public financial institutions and the private sector.

WHY DO WE NEED THE EXTERNAL INVESTMENT PLAN?

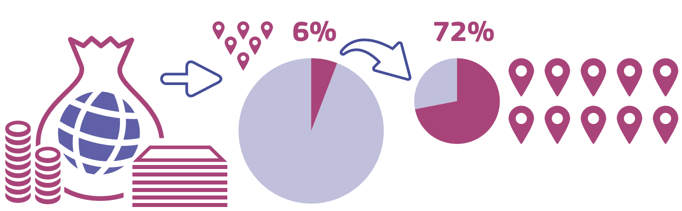
Instability and conflicts in Africa and the EU Neighbourhood have been aggravated by the global economic crisis, reducing access to finance for much needed investment. Instability and conflict have also exacerbated the ongoing migration crisis with more people than ever on the move in Africa and in the Neighbourhood. This 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 some of the root causes of migration. A partnership is needed that is extended not only to third Countries governments, but also to the private sector that is called to join our shared efforts to bring prosperity and economic growth. Through the External Investment Plan the EU will not only provide targeted guarantees but will also contribute to improve the investment climate and the overall policy environment in partner countries.

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 the 17 goals of the United Nations' 2030 agenda for sustainable development. Grants remain essential, but must be complemented by other tools and sources of finance, in order to reach these ambitious development targets. This is in line with the 2015 Addis Ababa Action Agenda on financing for development, which called for new partnerships, notably mobilising private resources and applying innovative financing models, for achieving the SDGs. The External investment plan is contributing to the implementation of these international commitments.

WHAT IS THE EXTERNAL INVESTMENT PLAN (EIP)?

The EIP, with the European Fund for Sustainable Development (EFSD) at its centre, provides a coherent and integrated framework to improve investment in Africa and the EU Neighbourhood, in order to promote decent job creation, sustainable development and tackle some of the root causes of migration.

It builds on the long-standing cooperation with our partner countries in these regions and intends to deepen that relationship, by adding three important innovative elements: (1) an integrated 3-pillar approach to promote improved conditions for investments and good governance (2) a single entry point for financing requests for investments, thus ensuring transparency, efficiency and leverage of public and private finance, and (3) mitigating the risks of investments in difficult environments, such as post-conflict and least developed countries through an innovative new guarantee mechanism.

The EIP offers an integrated framework for partnership enabling full cooperation between the EU, its Member States, partner countries, public finance institutions, other donors, public authorities and the private sector. The plan is expected to leverage more than EUR 44 billion of investments until 2020. In order to enhance the firepower and the efficiency of the new European Fund for Sustainable Development, the Commission calls on Member States and other partners to contribute to the fund, either in cash or via second-loss guarantees.

The approach is coherent with the G20 initiative launched by the German presidency aiming at intensifying the partnership with Africa by strengthening sustainable private sector investments and investments in infrastructure and renewable energies and supporting overall sustainable economic development for growth.

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 sustainable 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 decent 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

HOW DOES THE EXTERNAL INVESTMENT PLAN (EIP) WORK?

EUROPEAN FUND FOR SUSTAINABLE DEVELOPMENT (EFSD)

- The EFSD will be composed of two Regional Investment Platforms (Africa and the Neighbourhood). They will combine existing financial instruments, with an indicative budget of EUR 2.6 billion, and the new EFSD guarantee instrument, which has a value of EUR 1.5 billion. They will operate as a one-stop-shop to receive proposals from public development finance institutions and other interested public and private investors.
- The new EFSD guarantee will consist of partial guarantees for portfolios of investment projects to intermediary finance 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 these financiers and investors.

TECHNICAL ASSISTANCE

- Pillar 2 seeks to stepping up technical assistance to develop financially attractive and mature projects and, thus helping to mobilise more 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.
- Technical assistance will also be available to improve the regulatory and policy environment and enhance the capacities of private sector representatives, including chambers of commerce and social partners, complementing the structured dialogue under pillar 3.

PROMOTING A CONDUCIVE INVESTMENT CLIMATE

- Pillar 3 will provide a multi-level approach to improve the investment climate and business environment in our partner countries through the following elements, in which EU Delegations will play a key role:
- Policy and political dialogue to highlight constraints to investments and promote good governance
- Structured dialogue with business, including through the promotion of European and local business fora
- Providing intelligence at country level, including sector and value chains analysis
- Ensuring coherence with other aid modalities and Member States initiatives

The EIP builds on the European Commission's experience in implementing eight regional investment facilities. From the creation of the first EU blending facilities in 2007, €3.4 billion of EU grants have leveraged €26 billion of loans with a total investment volume in partner countries of around €57 billion. More details on the results obtained by each regional investment facility can be retrieved on: *http://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending_en*