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THE NEW PARTNERSHIP POLICY OF THE EU: FUNDING OPTIONS AND MECHANISMS

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Abstract

The recent wave of immigration in Europe has shown clearly that the current effort by the EU to help and promote sustainable economic growth in its neighboring regions has not brought sufficient results. A New Partnership Policy of the EU is needed. In this paper we discuss different financing mechanisms of a possible new approach and how they can activate efficient investments in the regions in question ensuring long-term sustainable growth and sufficient job opportunities. Our proposed funding sources involve new financial instruments, direct contributions from governments and international organizations (as envisioned by the UN), contributions from the follow-up organizations of the Marshall plan and additional small tax contributions. We discuss the advantages of those different options, their multiplier effects and possible future cost reductions in national budgets due to effective measures taken today.

[T]he world of suffering people looks to us for leadership. Their thoughts, however, are not concentrated alone on this problem. They have more immediate and terribly pressing concerns where the mouthful of food will come from, where they will find shelter tonight, and where they will find warmth. Along with the great problem of maintaining the peace we must solve the problem of the pittance of food, of clothing and coal and homes. Neither of these problems can be solved alone.

—George C. Marshall, November 1945

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[1] The views, opinions and conclusions or recommendations expressed in this paper are strictly those of the author. They do not necessarily reflect the views of the Austrian Institute for Economic Research, the European Central Bank or the Eurosystem. The author takes responsibility for any errors or omissions in this draft version.

I. INTRODUCTION

The past years have been a period of increased pressure and heated rhetoric on the topic of the influx of immigrants in Europe. The question of how and how many immigrants Europe can accommodate has spurred many discussions and has led to stark political divisions. Many solutions have been put forward in the previous years, some of which have been further extensions of previous practices, while other involved new and innovative approaches. For example the World Bank has recently committed to increased funding of development for the regions in Africa, but this does not reproduce a clear change in thinking about the region. The German Federal Ministry for Economic Cooperation and Development (BMZ) has published in January 2017 the so-called Marshall Plan with Africa, which aims to envision a new paradigm for the development of the continent, through the building of infrastructure and ensuring private companies have the incentive and the opportunity to provide jobs in the countries in question. Furthermore, the G20 has announced "Compacts with Africa", which seek to make bilateral commitments between African government and G20 government for economically enhancing strategies. These compacts are also focused on infrastructure and investment to spur job growth on a very large scale in the region. Both of these initiatives should be welcomed and present a first step in the long way to solve the region`s problems.

It is clear to us that the existing status quo for dealing with European neighboring countries has not been working so far, as it has failed to reach the economic and socio-political stability needed to provide an environment for immigrants from Africa and the Middle East, which will both ensure they have a more prosperous future and would give them the opportunity to stay closer to home. The renowned development and Africa expert Paul Collier (University of Oxford) assesses the current set-up of dealing with immigrants in Europe to be maleficent and proposes much more to be done at the so-called heaven countries such as Tunisia, Jordan and Turkey, where vast amounts of the economic immigrants in Africa and the Middle East pass through, but do not stay because of a shortage of economic opportunities.

Our proposals thus envision a large-scale aid plan to stabilize the neighboring regions of Europe, both to reduce the tension on the topic of immigrants and to provide strong and stable economic environment for the millions of people fleeing their countries in search of better life chances. It concentrates on one of the solutions put forward in the last two years - the idea that it will be much more beneficial and efficient to invest in Europe`s neighboring zones, thereby creating safe and economically stable regions with life opportunities for the incoming refugees, instead of the approaches currently being perceived in Europe. The goal of this plan should be to create zones where growth is sustainable, consistent and evenly split and to ensure the availability of jobs in large numbers, but also reflecting on the environmental and social challenges of our time. In the rest of this short paper we expand the idea of how would this New Marshall Plan work and mostly give different options for its financing and functioning – which is in fact often the most difficult question, especially in times when issues of sovereign indebtedness are still heatedly discussed.

II. WHAT ARE THE GOALS?

In its essence, our plan proposes an agenda that is both an investment and a development programme. We call for a more serious consideration of this issue, since the previous decades have seen large official development aid go to the troubled regions, but with not enough impact it seems. In this sense, this is a development programme. But there is a special emergency to the situation coming from the fact that the immigrants problem in Europe has severely heated the political spectrum throughout the past years and seeks an immediate response. This is why this also is an investment programme – the funding of development for Africa and the Middle East has proven insufficient to address the problem at hand and an investment boost is needed at this very moment to come to faster and more immediate results.

Our plan aims to create in a short-term job opportunities to reduce the influx of immigrants towards Europa, but also and mostly to ensure a long-term growth and employment agenda for the regions around Europe. To ensure the long-term sustainability of the project, the agenda should not only focus on employment today, but also on education and trainings that make the region robustly prepared for the future.

This Marshall Plan for neighboring countries would thus aim at achieving the following goals:

1. **Provide stabilization to the region by enhancing economic growth and job opportunities**
2. **Provide public investment for building up the important infrastructure in the region, as well as the educational and training opportunities which are vital for its long term development**
3. **By enhancing the economic environment it will aim also to crowd-in private investments, which will have a further amplification effect of the programme**

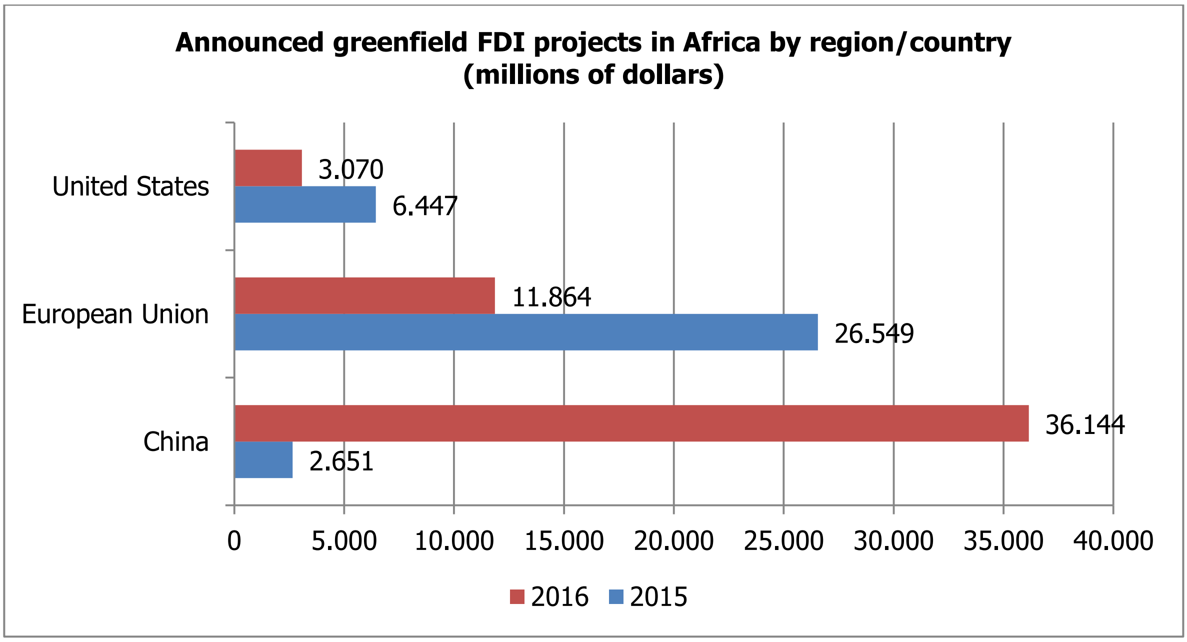
It is true that different development programs exist and have existed for the past decades with various success. While public investment and official development assistant (ODA) have been bringing progress in the region, and while private capital has been increasing steadily, it still falls short to mobilize the progress needed, especially with the speed required to address the current migration crisis. For example, the current EU-financed funds and facilities in Africa equal around 7 billion euros consisting of: 1.05 billion euros at the African Peace Facility, 0.14 billion euros at the Bekou Trust Fund/CAR, 2.4 billion euros at the EU Emergency Trust Fund for Africa and 3.35 billions euros at the EU External Investment Plan (Source: BMZ). But all of this does not provide the funding needed to address the issue at hand thoroughly and decisively.

Since there is no econometric, nor narrative evidence from similar initiatives of the same amount and with diversified sources of funding, it is not a trivial task to make an estimation of how much would be needed for this initiative. But we make a comparison with the "Juncker Fund" in Europe – The European Fund for Strategic Investments (EFSI). In its first year, it managed to trigger around 100 Billion Euros in economic activity with only 21 billion pledged to it – 5 billion euro from the European Investment Bank and 16 billion euro of guarantees from European Institutions. This is a significant multiplier effect and we will assume the same for our envisioned ENP. Thus, to trigger 100 Billion per year for the first five years, the Fund will need to pledge 20 billion euros of funding per year. The risks to investment in the European Neighbourhood region are bigger, but therefore the returns could also be higher, thus triggering more private interest and a larger multiplier to exceed the envisioned 100 billion per year.

We are looking therefore to ensure 20 billion per year of funding for the New European for the ENP for the next 5 years. Where can this funding come from?

The sum of 100 billion euro might sound considerable, but it is not improbable. For example China has increased its investment in the continent on a massive scale – more than tenfold only from 2015 to 2016. Figure 1 shows the staggering amounts of announced greenfield FDI projects going to Africa by region and country – with over 36 billion dollar in 2016 FDIs from China to Africa far outweigh those from the United States and the European Union combined. What is more, the massive increase also points to the fact that now is the time to increase investment in Africa and a government strategy to do so is going in the right direction.

Figure 1: Announced greenfield FDI projects in Africa by region/country (millions of dollars)



Source: UNCTAD World Investment Report 2017

III. How can it function? How will it be financed?

At the heart of the debate on setting up a new Marshall Plan for the zones neighboring Europe is the question about its financing. There are many options how to do that and what amount would be required, with policymakers having a choice at hand of how most efficiently to devise this according to their own preferences.

Financing development in emerging and third-world countries has been done worldwide through international organizations for the past decades with changing success. While for a long period of time, development finance was done mainly through public investment, private capital flows have increased massively in the past decade, pointing to the idea that currently, well directed public effort may crowd-in further private capital than was the case before since there is interest in private investment in Africa. At the moment, there are a number of development finance institutions across the world, which are usually majority owned by national governments and use the capital from national or international funds, as well as government guarantees, to provide stable and long-term finance to regions which would otherwise have difficulties obtaining it. Various bilateral and multilateral development finance institutions (DFI), such as the EBRD, the EIB, the German KFW/DEG, the Norwegian Norfund and many others, provide different services and aim at expanding development in the needing countries by a number of channels:

- Through equity investments
- Through long-term loans
- Through guarantees
- Through additional support instruments and investment products

All of the above should be part of a renewed attempt at stabilizing and securing the region neighboring Europe, given the scale of the challenge ahead.

But why do we need a New Marshall Plan for Africa, if private capital is already flowing in increasing amounts? The fact is that even though it has been steadily increasing, private capital as it is now, is just not enough to develop and ensure the stability of the region fast enough. The refugee crisis in

Europe has exacerbated the problem immensely and needs a quick resolution. Furthermore, private capital can often miss the very spots so crucial for the long-term sustainable development of a region – bringing in the long-term, stable capital for infrastructure projects that often take many years to complete.

There are different alternatives for the functioning of this New Marshal Plan. One is to set up an international agency that will gather the funds, manage them and make decisions on where and how to invest them. This will mean a robust and consistent approach based both on needs and efficiency considerations. The funds will be under strict control in terms of a set of technical criteria, but also under democratic control, as the agency should be overseen by a body of the European institutions, the UN and the IMF (for technical assistance matters). The agency would then need permanent funding both for its operational needs and for its investment. We lean towards this proposal.

The financing of such an institution could be done via country contributions depending on country size, population and GDP per capita. But given that the economic debate across Western countries in the past few years has focused on the high levels of government spending and the need to reduce country indebtedness, this might be politically difficult – so we propose a number of different funding options below and we believe a well-thought combination of them could both acquire the required amount of funding and be acceptable for European citizens.

The funding needs to be seen as twofold – one is funding for operational needs/expenses, that includes the initial set-up costs and needs to be provided from the start, the other is long-term financing, which does not need to be available in full right from the start. This funding of the long-term investments (which would be in large amounts and needs to be stable) can come out of an interest-bearing bond, which the new agency issues, as we propose below. The government and international organizations will need to ensure the guarantees for the collateral on these bonds, but mostly will have to make sure that the initial funding of this new fund has been ensured, as well as the funding needed to pay the interest rates on the bonds for their duration

We propose that the new initiative would need funding of around 100 billion euro for the first 5 years. Commissioner Hahn has already reported on the idea of the Commission to set up an European External Investment Fund for Afrika[2] with as much as 50 Billion Euros in guarantees. The guarantees should be enough to motivate private firms to invest further and thus increase the multiplier effect. Currently, there is an Africa-Fund set up already, but neither would it be big enough to contribute to a significant change (it is planned to be at 1.8 Billion euro), nor did the member states contribute the money needed yet (it has only gathered 16 Million euros). Plus, its main goal is enhancing security measures, rather than long-term economic construction of the region. To reach this goal, a Fund with vast resources at hand and a strategic outreach needs to be setup with a long enough time frame to address the problems and bring about the necessary change. But the goal of 100 billion euros, as we explain below, does not mean this will be the amount the Marshall Plan fund will spend itself.

To have maximum impact the Fund needs own sources, but also even more considerable guarantees, similarly to the functioning of the Juncker Fund in Europe. This is the logic that The European Fund for Strategic Investment used from the beginning. Starting with a much smaller amount of public money, it was aimed at mobilizing around 315 billion euro of investment after the private sector gets involved and public investment crowd-in further private investment. Especially at times where interest rates are still at their zero lower bound and investment is still relatively low in

[2] https://kurier.at/politik/ausland/hahn-diese-ganze-kette-muss-zerschlagen-werden/274.029.617

historical comparison, crowding-in is an often observed phenomenon (see Furman 2016[3]), rather than the standard assumption of public investment crowding-out private investment.

A report on the Investment Plan for Europe (with its major pillar known as the European Fund for Strategic Investments (EFSI)) for example reports that in its first year, the Investment Plan used only 5 Billion Euro of the European Investment Bank resources and 16 Billion Euro of guarantees to trigger 100 Billion Euro in economic activity. Even if an investment in the neighboring EU countries might be seen as more risky investment and therefore could trigger lower crowding-in of investments, the significantly higher rate of returns of the projects there should accommodate for that so we can expect a similar multiplier for the investments. Further advantage of the programme would be its multilateral foundations, since the support of a multilateral organisation normally mobilizes much more sources flowing in from the private sector, as a multilateral arrangement seems more stable to a changing political cycle or to a reversal of decisions previously agreed upon.

The further crowding-in of private investment could be especially powerful in areas, which lack the initial infrastructure and some basic characteristics, as well as a well-functioning rule of law, which the UN should aim to ensure for the region. The combination of public money and an enhanced presence of global institutions such as the UN would ensure more credibility for the region and should thus revive private interest there. This would mean that the final results could be much higher than the initial investment by the public, making the project all the more beneficial for all sides.

But a crucial part of the funding needs to go not only on investment and building of infrastructure, but rather on organization building. While cost effectiveness has been seen as a number one priority throughout government stimulus efforts worldwide, it is important not to restrain fiscally the building of an institution of respect and authority to oversee and control the dealing of this new initiative. The building of strong and stable institutions is crucial, both because it could provide the much needed rule of law, but because it means a longer-term vision and people with skin in the game to develop the region sustainably, which is not often the case with investment initiatives. Building an institutional basis, with clearly set goals and incentives to reach them, should also hinder the often expressed criticism that the private sector will only get involved to obtain short term profits, with possible negative long-term ecological and social consequences. Such an institution will give an opportunity for the people of the region to build up the common spirit of a region, developing and moving forward together, and will have a character of building a common spirit across the region, similarly to how European institutions do this in the EU. It should therefore also develop itself further in the future. Such was the case of the first organization created to implement the original Marshal Plan in Europe that evolved to be the OECD today. Working for such an institution that gives clear perspectives and a vision, would also be good for the well educated population in this region to have further career opportunities and restrain the brain drain that is happening in the region.

Additionally, one has to also clearly explain and take notice of the fact that a lot of these investments are going to come back to the donor country in the form either of exports or reduced spending on security in the future. For example, back in 2010, the German Ministry for Economic Cooperation and Development has published in a report that each euro given for development help comes back in a triple size due to the effect only of exports later.[4] Thus, many of the costs that might now seem very large for the public are going to pay for themselves in the future.

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[3] http://voxeu.org/article/new-view-fiscal-policy-and-its-application

[4] https://web.archive.org/web/20040909131344/http://www.bmz.de/de/zahlen/deutscherbeitrag/index.html

IV. FINANCING OPTIONS

In this section we iterate and expand upon some of the channels through which the fund can obtain its necessary initial funding and how it can then be expanded and used through multiplier and crowding-in effects to activate a much bigger amount of financial sources. We measure the initial needed funding to be around 20 billion euros, and we aim for it then to activate the much bigger amount of around 100 billion euros to be invested in the region.

A. Direct contributions from national governments (up to 10 % of the initial funding)

There would be an inevitable need for governments across the EU to contribute more to development. This is a major issue of our times and it is clear that more efforts and support from national budgets is needed, even though it might be at the moment very hard politically to argue for that. But the majority of the rich countries have not yet even reached the proposed level of 0.7 % of GDP going on official development aid, a level that has been set up as the target by the UN decades ago. The OECD reports that in 2016 the average for all the countries in the OECD Development Assistance Committee was at 0.32 % of GNI, almost at half the envisioned target.[5] Even just reaching this targeted level of spending would thus result in billions of additional euros flowing from the EU countries. An additional incentive from the UN to the EU countries to reach faster the goal of 0.7 % could be a commitment from the UN that these resources will be used directly for the neighboring countries of Europe – or they can be directed by governments themselves in the new institution we envision. The debate on fiscal sustainability has been at the heart of heated debates across Europe, but the fact is that additional spending on the neighboring zones of Europe today will actually mean less spending in the future – we expand upon this below. Thus, it could also be argued that the funding committed to Africa and the Middle East today for pursuing the Marshall Plan could even be exempt from the official government budgets in terms of the Maastricht Criteria and the Stability and Growth Pact, so that it does not result into additional deficits and does not burden governments across the EU with additional pressure from the institutions and from financial markets.

B. New financial products, mostly bonds, issued by the new agency (up to 30-40 % of the initial funding)

Without a doubt, one of the biggest parts of the investment, especially after the very first sources needed to set-up the institution, would come from different financial products that would enable private and institutional investors to commit their available funds to being invested in the designated region.

It is a well discussed empirical observation of the past years that there is a global shortage for safe assets (Caballero, Gourinchas & Farhi 2015; Caballero, Gourinchas & Farhi 2016). In Europe alone, there are large amounts of cash assets on one hand, while the opportunities for profitable, but secure and stable investment have been lacking in the past years. Furthermore, the last years in Europe have been marked by high savings rates and in the case of Germany by very high current account surpluses, which some economists see as a threat to the Eurozone economy.[6] Directing those savings in investments in the neighboring regions of Europe would have the dual benefit of reducing excessive savings and boosting global demand, while also contributing to enhancing stability and reducing tension around the question how best to help refugees by creating zones with opportunities for them.

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[5] http://www.oecd.org/dac/development-aid-rises-again-in-2016-but-flows-to-poorest-countries-dip.htm

[6] http://voxeu.org/article/danger-germanys-current-account-surpluses-results-cfm-and-cepr-survey

As the bond will provide the above mentioned strong and stable investment opportunities, while also creating an opportunity to help in the difficult situation relating to the influx of immigrants in Europe, we suppose there will be enough interest in it from large institutional investors like pension funds etc. It could be structured similar to a development bond, e.g. the so-called Development Impact Bonds (DIBs).

One can take for example the EIB Climate Awareness Bonds, which is a form of Green Bond.[7] The EIB has currently raised over 11 billion euros from Green Bonds, with 3.8 billion only in 2016. Similarly, the same could be done with an African/Middle East Development Bonds, where at least 1 billion euros per year is a realistic set-up, given that these bonds will bring higher yields as the projects are more risky, but can be secured by the guarantees of the international institutions and the EU. This would mean that these bonds would be the biggest source of the funding for the lending activities of the fund (which is similar for example in the case of the European Investment Bank).

Common bonds have also been one of the most heatedly discussed topics in Europe in the past years due to their attractiveness as a common tool for steering macroeconomic policy across the EU. But actually, the bonds issued by the EIB are already common European bonds – it is the question of where do the gathered funding then flow to which is crucial. The proponents of common Eurobonds have mainly the argument against them that the funding from them would be used by the member states – and thus could reduce the market discipline on government budgets which should be a stark motivator for structural reforms. Common Eurobonds have also been feared to reproduce risk sharing, but in this case this is welcome as we would optimally want all European government to participate actively in the common effort to stabilize the neighboring regions. All of these points to the fact that common European Bonds for Africa should be much easier to implement and accept between member states than Eurobonds and the discussion across them would be very different.

C. Increased contribution from already existing international institutions

Besides the national governments providing a significant amount for the setting up and initial costs for our envisioned Marshall Plan, the international organizations would also need to contribute more. This could be done via expanding and strengthening big programmes and initiatives such as the European External Investment Plan and the European Development Fund, the Programme for Infrastructure Development in Africa (PIDA) and others. But it can also be through ensuring the needed personnel and technical assistance, which will be crucial. This is where the experience of the past decades could be used. The World Bank, the IMF, the European Commission, the OECD and other international institutions could thus cover a part of the costs for setting up the new Marshall Plan not by providing so much funding, as with lending their experts to work for a limited period of time at the new agency, helping it set-up using best practices used at these organizations in the sphere of development aid.

D. Through a number of small tax increases or other government spending changes

There are many ways in which taxation could also cover part of the needed funds. These include a small one off wealth levy across the EU, a small increase in VAT surcharges, the introduction of the financial transaction tax, a diesel fuel tax, using segniorage money from the Eurosystem, limiting tax evasion in Africa or introducing environmental taxes. Wealth taxation has been under serious discussion in the past years, ever since Thomas Piketty`s book "Capital in the 21st Century" shed light on the growing disparities in the income and wealth distribution in developing nations. He has proposed numerous times a global wealth tax to reduce these disparities. And while such proposals

[7] http://www.eib.org/eib.org/investor_relations/cab/index.htm

often spur heated debates because of different beliefs concerning the pros and cons of redistribution policies and the effects of taxation on incentives, in this case they seem very suitable, especially due to the emergency of the situation. What is more, a one-off tax levy on wealth would not have the feared disincentive effects, as it will just be based on already accumulated wealth across the EU. Such a one off wealth tax has already been presented in a Proposal for an economic stimulus, investment and a development programme for Europe by the Confederation of German Trade Unions (DGB, 2012). The proposal has been of a once-off wealth levy of 3% on all private assets in excess of EUR 500,000 for single persons and EUR 1 million for married couples, where the authors estimate that this could bring around 200 billion euros across the EU. We limit our proposal to a much smaller levy of 0.5 %, which could still be a very significant contribution of funds.

There have been further interesting suggestions for tax changes to help gather the funding needed. While German Finance Minister Wolfgang Schäuble has proposed a new EU-wide petrol tax to finance the immigrant crisis[8], this proposal has lost attention in the past months. Another option that we find more suitable would be the new Financial Transactions Tax, which is under serious discussion lately. Its introduction should raise a significant sum as well, with previous estimations from the European Commission putting it at 57 billion euros per year. This is a very considerable amount and some of it could without a doubt be used for financing of the Marshall Plan.

Further suggestions also include a very small, but uniform tax could be imposed in the participating countries, for example a small VAT surcharge, as proposed by Corsetti et. al (2016) for the case of a euro area fund relating to Eurobonds. Another idea from the same paper from Corsetti et. al (2016), which could be also useful for the New Marshall Plan, could be to use seigniorage from the Euro system to fund these expenses.

Introducing environmental taxes for large companies and pollution charges could be a further helpful step. It will both help to limit the amounts of pollution that are worsening even further the climate change risks in the region, but also will provide additional finance for developing the region. This will require establishing ecological tax systems by using true cost pricing in the consumption of goods and resources, as well as strict control of the companies for following the given rules and limitations to emissions. An additional source of funding in the future could also be a more enhanced fight against tax evasion and money laundering in the countries receiving aid as well. According to the African Union the continent is losing 50 Billion dollar annually from tax evasion and illegal activities. It is unrealistic to recover the whole of this considerable amount, but any actions in this direction can help. It would also be in the prerogatives of the new agency to impose harsh conditionalities on recipient countries to crack down on illegal activities and tax evasion in order to fulfill the criteria for obtaining the promised funds.

E. From the followers of the Marshall plan (5 %)

Finally, across Europe there still exist the recipient country institutions of the original Marshall Plan. They normally have an amount of funds which they continue reinvesting on a revolving principle. For example, in Germany the European Recovery Programme continued to reinvest its available funds throughout the 90s in the now unified Germany in the former Eastern Germany regions. In January 2007 the German government reorganised the ERP Special Fund and contributed 4.65 billion euros to KfW as equity capital and 3.25 billion euros as subordinated loans. As the KfW website states: "the designated purpose of the Special Fund is retained, though, because any earnings generated are used exclusively for ERP economic promotion and capital preservation." In a sense, the old funds are still available and thus they can be redirected to the new Marshall Plan to

[8] http://www.dw.com/en/germanys-finance-minister-proposes-petrol-tax-to-fund-refugees/a-18984764

help Europe`s neighbors, similarly to how the same country received help in the past. This is similar across the former recipients of the US Marshall Plan funds.

Additional cost reductions from security and welfare state expenditures in the future (but also in the present)

It is important to also point out that these investments today in new safe zones at the borders of the EU will have increasingly cost sinking effects in the future, but also immediately. This should be taken into account by policy makers when considering whether the above mentioned amounts are too high. Establishing safe zones in the neighboring countries will mean both decreases in projected security and welfare spending in the future, which will go instead to the much more productive cause of ensuring a stable economic environment at the bordering countries. Furthermore, in 2017 there is was a vocal talk about the possibility of a Defense Union. Although that is a separate topic, which we do not iterate here, we believe that some part of this planned defense spending money could be better spend going to the new Fund for the neighboring countries. After all, safe and stable neighbours are the first line of defense any country can have.

All of these initial investments will then multiply

There are different channels through which to stimulate even further and multiply the initial investments. First comes the expected crowding-in of private investment, when the infrastructure projects initiated form the necessary economic environment and guarantees the stability of the investment, which is what hinders them in the first place, as we explained above. Secondly, the Oxford economist Paul Collier, who researches and analyzes the problems in Africa and the Middle East, proposes to subsidize private EU companies to create jobs in the region in question. According to him, the current solution to the immigration crisis – giving free food and other in-kind benefits does not help refugees, since it will be much more optimal to just create the necessary environment for them not to be pushed to leave their own countries. This is in line with our own proposals. He sees the short-term need to adjust this question best solved via using subsidies for European companies to create the jobs needed. Collier argues that the subsidies are economically justified, as the set-up costs for training the labour force in a developing country is too high and has to be borne by the first mover, whereas the following benefits could then be gathered by any firm that moves in, which basically hinders this from ever happening in the first time. That is why, this market failure, has to be addressed by government money and should not be perceived as a normal, market-distorting government subsidy. In the end, this will also save money from going into security measures and welfare for the incoming immigrants and will furthermore bring long term working solutions. We agree this is one of the ways to approach the problem in the short-term and to respond immediately, while we believe in the long term the investment done. Furthermore, Collier also proposes a special tax incentive for companies investing in the selected countries. This could be in the form of a tax credit to their relevant taxes in their home country and might work as an additional and easy to implement incentive to invest in the region.

V. CONCLUSIONS

We believe the current challenge from the influx of immigrants should be taken very seriously and needs to be addressed as fast as possible, as it is a humanitarian crisis that such large number of people are pushed to leave their country for lack of economic opportunities and the chance to live a life of dignity. Therefore we propose an enhanced initiative to help the neighboring regions of Europe, as these are the countries all immigrants pass by on their way for a better future in Europe. With the significant economic boost these countries can get from our proposed Marshall Plan, they can start developing at the pace needed to accommodate the immigrants in question in a safe and economically stable environment. The exact details of how this can function are both a technical question and a political issue, so we propose a rough design how this plan can function and we present a number of options for its financing. It is up to policymakers to decide on the best combination of them to have a democratically legitimate, but also economically efficient solution to this ongoing crisis.

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