

The EIC Perspective on New Project Delivery and Financing Mechanisms for Infrastructure in Africa

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Agenda



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- ✚ **EIC Working Group “Africa”**
- ✚ **General picture: An Unfair Competition**
- ✚ **EIC Proposal for a revised “ITB blending 2.0” mechanism**
- ✚ **EIC perspective on Design-Build & Operate methods for infrastructure projects in ACP countries**
- ✚ **Conclusions**

About the EIC Working Group “Africa”



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- ✦ **Set up in 2005**, EIC’s Working Group Africa **prepares the lobbying activities of EIC** towards the European Commission and the EIB with respect to the **construction markets in Sub-Saharan Africa**
- ✦ Members are **15 European international contractors** from Belgium, France, Germany, Italy, The Netherlands and Portugal.
- ✦ Working Group activities:
 - Representation of the European construction industry in the **EU-Africa Business Fora**
 - Comments on the **periodic update editions of the “PRAG”** (Practical Guide to contract procedures for EU external action), in particular EDF Conditions of Contract
 - Development of a concept for a **revised Blending Mechanism for financing infrastructure projects in Africa**
 - Comments on **EC study on Design-Build & Operate methods in ACP countries**

An Unfair Competition: Politics



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EP-INTA Working Paper (2011): **China is not a member of the OECD** and is therefore **not obliged to comply with the OECD guidelines** that: limit tied aid; regulate credit practices; impose maximum repayment terms, country risk classification and minimum interest rates; require the exchange of information; and impose social, environmental and governance standards; on financing activities. This creates an **unfair advantage for Chinese exporters**.



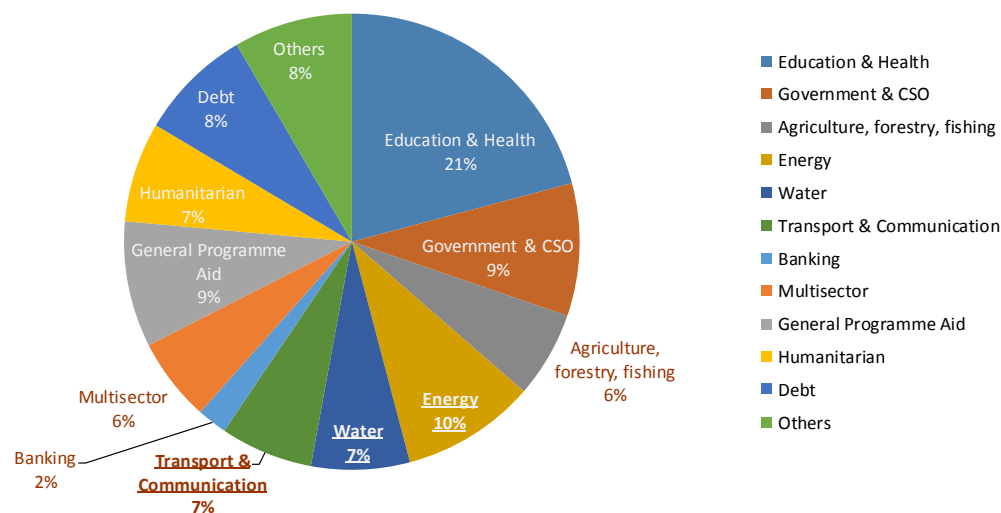
	% of Tied Aid	Transparency & Reporting	Payments in kind / Barter	Grant element at least 25%	Compliance with IMF /WB DSF	Budget support	Strict sustainability standards	Strict anti-bribery measures	Project preparation time
<u>EU Aid</u>	15% ²	Yes	No	Yes	Yes	Yes	Yes	Yes	Long
<u>China "Aid"</u>	100%	No	Yes	No	No	No	No	No	Short

An Unfair Competition: Finance

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Whilst the **EU and its Member States collectively is the biggest donor world-wide and for Africa** in particular, disbursing a total development aid of **23 billion US\$** in 2012, only a fourth (= 5.5 billion US\$) was spent on (mostly small-scale) infrastructure, and only **7% in the transport sector** (**UNTIED AID**)

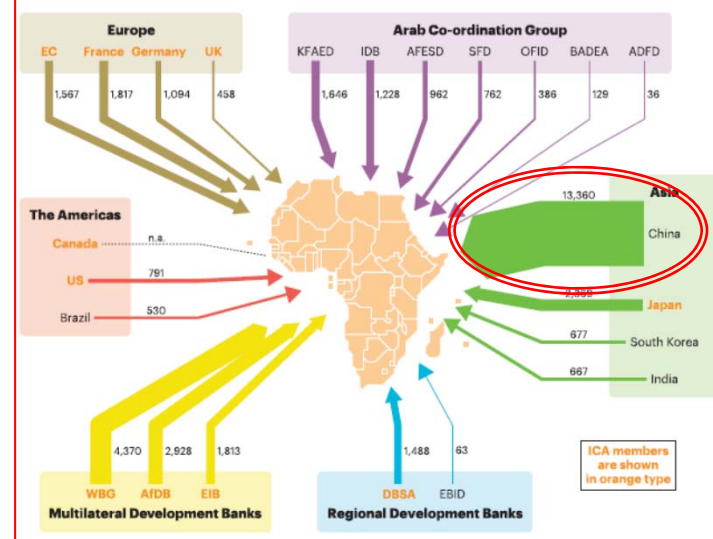
EU-ODA to Africa by Sector 2012



Source: OECD Statistics: Development Aid at a Glance: Africa (2014)

By contrast, **China** alone committed more than **13 billion US\$** for funding **large-scale infrastructure investments in Africa** in the same year (**TIED AID**)

2.2 Who is financing Africa's infrastructure?



Source: Annual Report 2012, Infrastructure Consortium for Africa

An Unfair Competition: Consequence

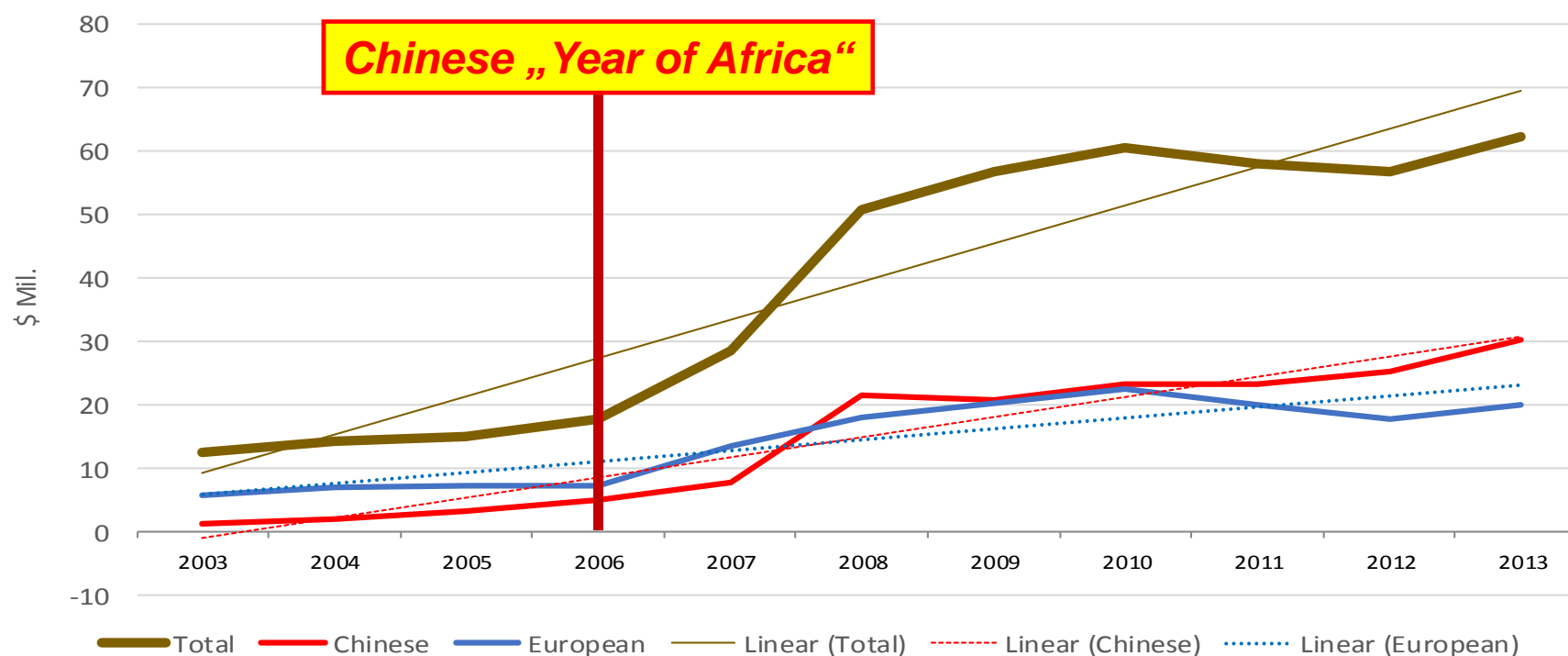


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Since the year 2005, **turnover of Chinese** international contractors in Africa has grown by **factor 10**, **turnover of European** international contractors by **factor 3**!

International Construction Turnover in Africa (2003-2013)



EIC Proposal for “ITF blending 2.0”



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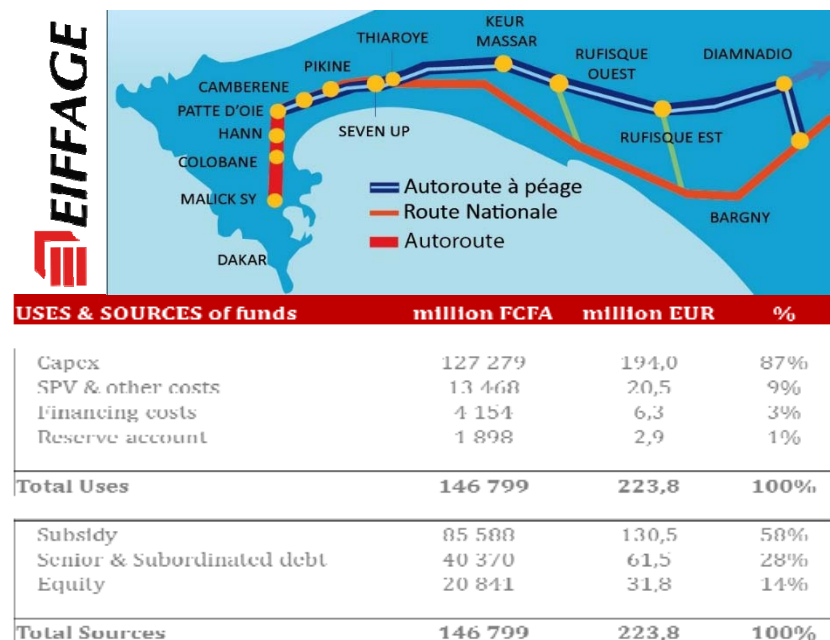
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In the “**Agenda for Change of EU Development Policy**” (2011), the EU has stressed the importance to “*develop new ways of **engaging with the private sector** with a view to... catalyse **public-private partnerships** and **private investment***”. The EU Commission is prepared to deploy “*a higher share of EU development resources... through existing or, such as **blending grants** and **loans** and other **risk-sharing mechanisms**, in order to **leverage further resources***”.



EIC response:

- EIC welcomes the EU’s political goal to leverage additional funds from private sector resources
- **BUT: Only few infrastructure projects can be structured as Project Finance/ PPP in Africa** because of the high investment cost and corresponding political and financial risk
- If PPPs are implemented in Africa, they will need a **high amount of subsidies**



EIC Proposal for “ITF blending 2.0”

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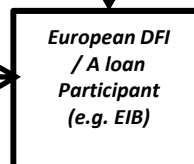


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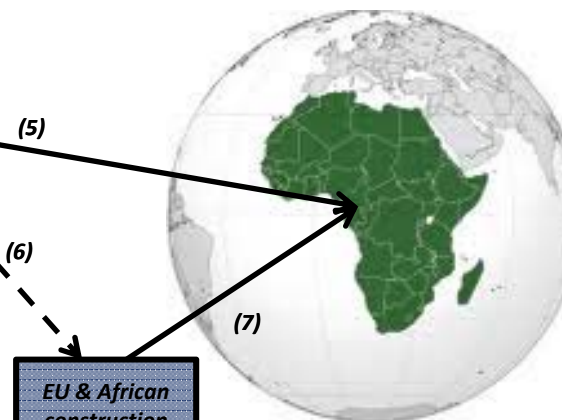
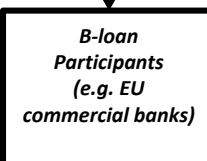


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1. EU ODA subsidies to ITF
2. ITF Interest rate subsidy (IRS) to EU DFI
3. EU ECA insurance for DFI and participating banks
4. B-loan syndication to participating banks + distribution of ITF IRS
5. A/B concessional loan to African sovereign
6. Direct payments out of A/B concessional loan to construction companies
7. Construction contract for infrastructure project

ADVANTAGES:

- **Additional EU financing for concessional infrastructure loans for African public clients**
- **Elimination of unfair competition as only OECD-ECAs and commercial banks are eligible (OECD standards !!)**

EIC Proposal for “ITF blending 2.0”



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SECTOR ELIGIBILITY.

- Projects with a **great developmental impact** providing the basis for **socio-economic benefits** and a **better investment climate** in African partner country
- Typical public sector infrastructure projects that do **not generate sufficient direct project income to repay market based loans**
- Potential examples (OECD ex-ante Guide):
 - Education and health infrastructure
 - Drinking water and sanitation
 - Road and bridge construction, ports, airports
 - Railway and urban transport systems, waterways
 - Power projects isolated from the power grid

EIC Proposal for “ITF blending 2.0”



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EIC holds that such **evolutionary modification** of the **EU-Africa Infrastructure Trust Fund (ITF)** should be seriously scrutinised by the EU, the EIB as well as DFIs and ECAs

A broad comparison of current ITF 1.0. and EIC’s proposal for ITF 2.0.

Topic	Current ITF 1.0.	EIC proposal for ITF 2.0.
Leading role of EU Development Banks	Yes	Yes
Role of commercial banks	No	Yes, as participating banks and potential as co-lead arranger for ECA cover
Role of ECAs	No	Yes
Direct catalyzing non-development (risk) capital	No	Yes, from ECAs and commercial banks
Indirect catalyzing impact	Yes	Yes, the same as under ITF 1.0.
ITF subsidies	Yes	Yes, but only interest rate subsidies for sovereign borrowers
Applicant for ITF subsidy	EU Development Bank	EU Development Bank
Borrower	Both public and private	Only sovereign borrowers
Minimum concessionality level	25%, 35% or 50% depending on country	25%, 35% or 50% depending on country
Tied or untied aid?	Untied aid	Untied aid
Strict Sustainability procurement criteria for construction companies	No	Yes
Strict sustainability criteria for infrastructure projects	Yes, standard DFI requirements for social and environmental risks	Yes, standard DFI requirements for social and environmental risks

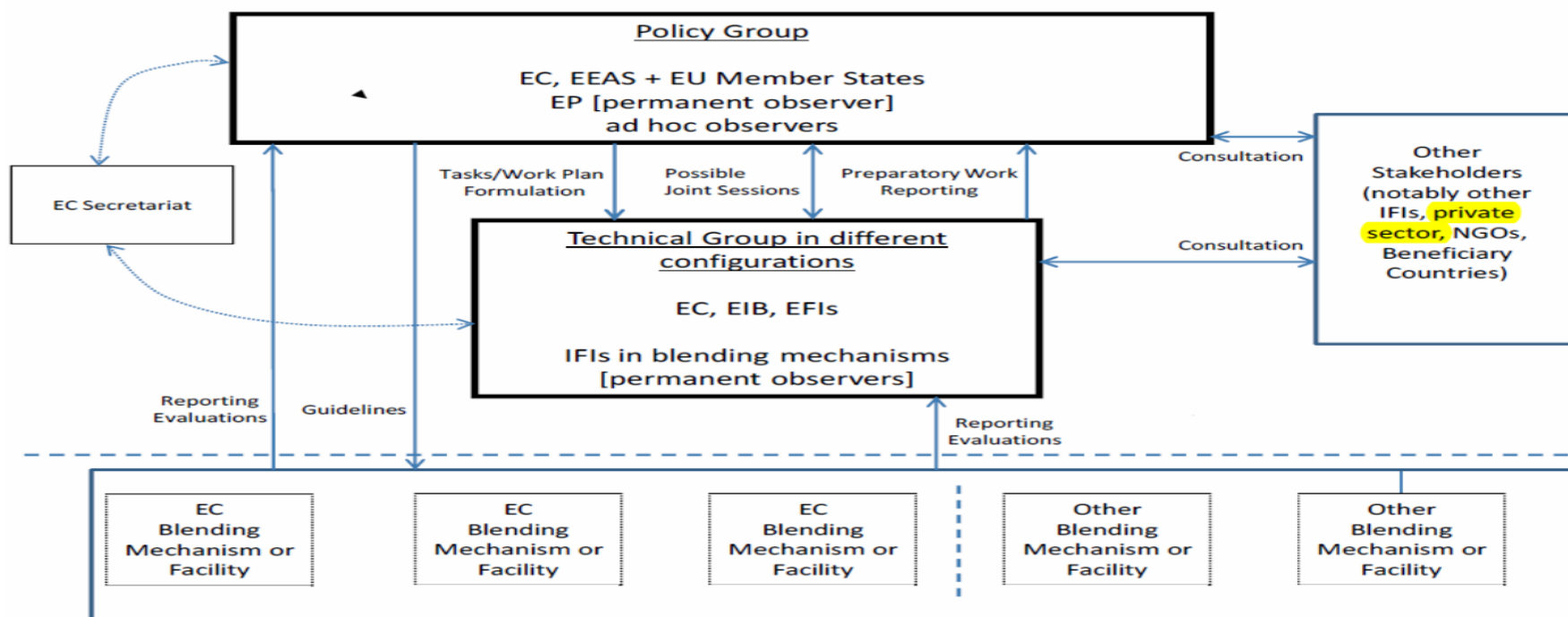
EIC Proposal for “ITF blending 2.0”



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EIC has asked the EU/DG DEVCO and to the EIB for an opportunity to discuss the EIC proposal in the context of the **EU Platform for Blending in External Cooperation**

THE EU EXTERNAL PLATFORM



Design, Build & Operate schemes



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DG DEVCO has undertaken a Study to assess the application of Design, Build and Operate methods to EC financed infrastructure projects in developing countries.

DB/ DBO procedures are mainly appropriate for:

- Projects where major component is supply of a processing plant;
- Innovative projects based on new technologies and operational challenges;
- Complex projects involving different technologies needing to be optimally integrated;
- Large-scale projects requiring optimal coordination of various components; and
- Infrastructure facilities which the public sector finds difficult to maintain.

In the **transport sector**:

- DB projects for large structures (bridges) of new railway lines;
- DB or DBO projects for urban passenger transport;
- DB projects for multi-purpose or specialized goods terminals in ports;
- DB projects for passenger or freight terminals in airports; and
- DBO projects for toll highways with a large traffic volume.



Design, Build & Operate schemes



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Selected Study Recommendations

- ✦ *“All bidders should be prequalified. Normally their numbers should be limited to five under the restricted procedure and three under other procedures”*
- ✦ *“Award criteria which are used for scoring and ranking competing viable tenders and selecting the most economically advantageous tender”*
- ✦ *“The EU Commission should adopt its own format of a Design-Build contract based on its existing contract format, maintain its own specific requirements and incorporate relevant design provisions”*

EIC Perspective

- ✦ *EIC would welcome if PQ criteria also deal with contractor’s capacity to comply with international standards on Health & Safety, Environment and use of local content*
- ✦ *EIC has some reservations as regards the proposed “new two-stage procedure” introducing a “Competitive Dialogue light” (EIC suggested “two-envelope system”)*
- ✦ *EIC suggests that EU Commission studies the FIDIC “Yellow Book” which is a fair international standard for Design-Build*
- ✦ *EIC questions the rule of joint & several liability of the DBO consortium*

Conclusions

- ✚ **European contractors suffer from a VERY “unlevel playing-field” vis-à-vis their Chinese competitors**
- ✚ **EIC welcomes the EU Blending Agenda and suggests to tap additional private finance resources from commercial banks also for concessional loans to African public clients in the form of syndicated loans if and when insurable by the OECD export credit agencies (“Mixed credits”)**
- ✚ **EIC supports EU roadmap towards Design-Build and Operate methods for EC financed infrastructure projects in developing countries but warns that the “quantum jump” in complexity must be properly managed**
- ✚ **EIC is prepared to continue the dialogue with DG DEVCO and EIB**

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