About the EIC Study
„The Case for an EU-Africa Partnership for Sustainable Infrastructure“

1. Why has EIC undertaken this study?

In September 2017, the European Commission launched the EU External Investment Plan (EIP) to support the development of Europe's Neighbouring continent and contribute to the UN SDGs. Currently revising its Africa strategy, the EU has launched the Africa-Europe Alliance for Sustainable Investment and Jobs and set up a Transport Connectivity Taskforce dedicated to aligning EU financing to Africa's infrastructure needs.

Meanwhile, China has emerged as major infrastructure financier with a strong presence in Africa, which, however, operates outside the multilateral rules and practices of development and export finance and thus jeopardises the level playing field for competition in Africa. In its recent EU-China Strategy of March 2019, the European Commission proposes to strengthen the cooperation with China on development policies. The EIC study clarifies the risks and pitfalls of such trilateral cooperation and rather makes the case of a bilateral "EU-Africa Partnership on Sustainable Infrastructure".

2. What is the Africa-Europe Alliance and why does EIC promote a Partnership on Sustainable Infrastructure?

A bilateral partnership that closely monitors project investment to the benefit of both African and European partners can achieve greater development impact. The Africa-Europe Alliance and the Programme for Infrastructure Development in Africa (PIDA) are very good steps forward, but the lack of flexible EU financial instruments and the need for a revision of the underlying financial architecture are not yet addressed and will hamper its implementation. To this end, EIC suggests setting up an "EU-Africa Partnership on Sustainable Infrastructure" which would be complementary also to the "Partnership on Sustainable Connectivity and Quality Infrastructure" recently agreed between the EU and Japan in the context of the EU-Asia Connectivity Strategy.

3. What does EIC propose to ensure a level playing field and to improve current European infrastructure financing?

EIC proposes to rebalance the EU's and Member States' ODA portfolio and put a stronger focus on the transport and water sectors. Moreover, the EU and Member States should pool development finance and technical experience for Africa's infrastructure sector in the context of the EU's external action financing instruments. Under the umbrella of the Africa-Europe Alliance, EIC proposes to establish an infrastructure envelope which builds upon existing initiatives like PIDA, the EIP and the EU-Africa Infrastructure Trust Fund (AITF). Such envelope should be dedicated to innovative financing instruments including EIC's Blending 2.0 concept and an EIB export finance mandate. As long as China does not comply with all the multilateral rules and practices on infrastructure financing, EU lending should observe the principle of reciprocity to ensure a level playing-field and a rules-based approach to infrastructure delivery in Africa.

4. What are European donors doing to improve infrastructure in Africa?

According to the latest OECD Statistics on "Development at A Glance: Africa" for the year 2017, the EU and its Member States provided roughly USD 20 bn in Official Development Assistance to Africa. Despite remaining the largest donor region, funds allocated to the transport and water sectors amounted to only 10 % or roughly USD 2 bn. On the assumption that a significant part of this amount is spent on technical assistance, purchase of supplies and rolling stock, European donors actually invest less then USD 1 bn per year for major transport and water infrastructure works.

5. What are other OECD donors doing to improve infrastructure in Africa?

Many other donors have introduced flexibility in lending and moved forward in setting up infrastructure portfolios. The U.S. introduced the BUILD ACT with a volume of 60 bn USD. Japan launched the USD 200 bn Partnership for Enabling Quality Infrastructure, including a dedicated Africa envelope. Australia and Korea are equally setting up instruments to promote infrastructure development and counter China's geopolitical influence. These initiatives are based on 1) increased flexibility of Development Financial Institutions, 2) enhanced cooperation with export credit agencies and 3) a stronger political pillar to promote national and global interests.

In the light of the recently published independent report by the High-Level Group of Wise Persons on the European financial architecture for development, EIC suggests that the EU develops a similar European initiative.

6. What is the role of European contractors in developing Africa's infrastructure?

European international contractors are committed to implementing the 17 goals of the UN Global Sustainable Development Agenda. With regard to Africa's infrastructure needs in water, waste and transport infrastructure, European contractors are prepared to contribute by sharing technical know-how, engaging local businesses and communities and ensuring the respect for the environment and the occupational health and safety of its workforce. European international contractors can ensure that provided solutions properly reflect community needs and long-term development targets.

7. How does China's infrastructure delivery model differ from the European approach?

The Chinese infrastructure delivery model fundamentally differs from its European competitors most notably in the form of opaque financing terms not aligned with OECD rules or reporting, less scrupulous project planning and financing largely tied to Chinese contractors, most of them state-owned. Connected with the bilateral government-to-government contracts are usually tax, tariff and visa exemptions which reduces the costs of imported labour, equipment and material. Such interest-driven project approach evidently results in shorter project life-spans and bears the risk of neglecting societal needs, such as involving a maximum local content. Most of Chinese project lending finances the underlying infrastructure necessary for resource extraction, such as mining, oil refining, deforestation and agriculture. Disbursed directly to its contractors via state entities such as China Eximbank, Chinese infrastructure financing cannot be classified as Official Development Assistance or Other Financial Flows. Being opaque in their contract terms, repayment is largely guaranteed by extraction licenses, transfers of ownership or discounts on resources ("Barter Deals").

8. How does China conclude its infrastructure deals and what are its most important institutions?

The Chinese government directly or indirectly supervises and intervenes in every step of its infrastructure model. Package deals with African governments are negotiated via its ministries, which also approve the disbursements. With the support of the Chinese Ministry for Foreign Affairs, Chinese state-owned companies are separately negotiating construction and extraction licenses. China Eximbank disburses loans directly to these companies - insured by Sinosure – and reverts its profits back to the state for future projects. As lending is not transparently published by either involved companies or the receiving state, conditions are highly opaque and can only be assessed on a case-by-case basis.

9. What are the economic and societal effects of China's infrastructure delivery model?

On the one hand, developing infrastructure has proven to be essential for the development of emerging economies and China has put the importance back on the map of multilateral and bilateral banks. However, building reliable and long-lasting projects while engaging local value chains and communities as well as respecting the environment is equally important to achieve inclusive growth. As China's infrastructure delivery model strongly lacks well-defined standards and accountability, negative effects on fair competition, business climates, local workforce, the environment and ethical governance have been observed. Against this background, China's infrastructure activities are not in line with the global development agenda.

10. Next steps: About the implementation

EIC will discuss its proposal for an "EU-Africa Partnership for Sustainable Infrastructure" with the EU Institutions and Member States' governments. On the EU level, EIC will analyse the conclusions of the EIB High-Level Group of Wise Persons which has recently published its recommendations to cope with the challenges and opportunities for rationalising European development finance, particularly the respective roles of EIB and EBRD. EIC also liaises with the EU Taskforce on Transport Connectivity which is currently drafting a report with policy and investment recommendations, reform proposals as well as collaborative project proposals.