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EUROPEAN INTERNATIONAL CONTRACTORS

EIC Position Paper

Joint Programming of Infrastructure Projects in Africa under the new Neighbourhood, Development and International Cooperation Instrument

COM *(2018) 460 final*

About EIC

European International Contractors (EIC) is a European industry federation with the mandate to promote the interests of the European construction industry in relation to its *international* business activities. EIC has as its members national construction associations from fifteen European countries, to which the internationally active European contractors are affiliated, as well as several associated member companies from construction-related industries and professions. The annual turnover of internationally active European contractors associated with EIC's Member Federations outside their respective home countries amounts to some €170 billion representing an international market share of around 50%.

Executive Summary

European international contractors have a long-standing record of delivering infrastructure projects in Africa, but had to progressively reduce their market presence over the past two decades due to the unlevel playing field in the competition with state-owned enterprises from third countries which can approach their African clients with highly attractive financing offers. Against this background, EIC closely follows the negotiations on the EU Regulation establishing the new EU external financing instrument titled 'Neighbourhood, Development and International Cooperation Instrument' (NDICI). By proposing to integrate eleven existing financial instruments into a unified NDICI, which also incorporates a single blending facility, the 'EFSD+', and a new External Action Guarantee with a ceiling of €60 billion, the European Commission intends to make its spending on external action more effective. This new approach can be considered as a first step to address the concerns of the High-Level Group of Wise Persons on the European financial architecture for development, which released a report in autumn 2019 pointing at overlaps, gaps and inefficiencies, both sectoral and geographical, especially in terms of presence and experience in Africa, between the various European Development Finance Institutions. EIC submits its respective proposal to EU policy-makers, bearing in mind also its previous recommendations published in its report on *"The Case for an EU-Africa Partnership for Sustainable Infrastructure"*:

(1) In terms of EU development financing, EIC observes a certain bias towards the energy sector and calls upon the European Union to substantially **increase the joint programming for the transport and water/sewage sectors**, and to reserve a substantial portion of the 'EFSD+' for these projects, to better respond to the sector targets of the National Indicative Programmes of African partner countries.

(2) The European Union should **focus its Blending activities for transport infrastructure projects on European Development Finance Institutions** and restrict respective procurement opportunities to companies from ACP countries and from countries that have effectively implemented the OECD-DAC Recommendation on Untying Official Development Assistance.

(3) In addition to collaborating closely with European Development Finance Institutions, the European Union should endeavour to **catalyse additional private funding** under the 'EFSD+' by **providing investment grants also for public sector infrastructure projects that are co-financed by European commercial banks and European Export Credit Agencies**.

(4) The European Union should increase Europe's institutional competitiveness in financing large-scale infrastructure projects in Africa by establishing an **EU financing institution and/or system that can combine European development and export finance**, including collaboration with commercial banks and Export Credit Agencies, thus matching the performance of Asian and U.S. financing institutions.

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Key EIC Findings and Recommendations

1. EU Infrastructure Funding is not responsive to Africa's Transport Infrastructure needs

The latest estimates suggest that Africa's infrastructure needs amount to US$ 130 –170 billion a year with a financing gap in the range US$ 68 – 108 billion. Yet, the EU ODA commitments for Sub-Saharan Africa in 2018 amounted to € 773 million only. The European Court of Auditor considered in its Special Report 14/2020 that, in the case of Kenya, the amount allocated to the infrastructure sector in the National Indicative Programme was too small to substantially influence the sector's development. This verdict also applies to the other partner countries in Africa.

EIC recommendation: In terms of EU development financing, EIC observes a certain bias towards the energy sector and calls upon the European Union to substantially increase the joint programming for the transport and water/sewage sectors, and to reserve a substantial portion of the 'EFSD+' for these projects, to better respond to the sector targets of the National Indicative Programmes of African partner countries.

2. AfDB benefits most from EIP Blending for Transport Infrastructure in Africa

In terms of implementation of transport infrastructure projects in Africa, the African Development Bank (AfDB) is by far the largest beneficiary from EU funds (appr. 50%) in the form of investment grants, interest rate subsidies and/or technical assistance. As the procurement process of the AfDB wins priority over the EU Commission's own procurement rules, tenders financed from EU grants are open to bidders from all countries and, eventually, EU grants are disbursed to aggressively low bidding subsidised and/or state-owned enterprises.

EIC recommendation: The European Union should focus its Blending activities for transport infrastructure projects on European Development Finance Institutions promoting fair competition and sustainable procurement rules and restrict respective procurement opportunities to companies from ACP countries and from countries that effectively implement the OECD-DAC Recommendation on Untying Official Development Assistance.

3. Transport Infrastructure projects in Africa cannot benefit from EIP Guarantees

By providing guarantees under the EU External Investment Plan (EIP) the European Union shares the risks involved in investments together with development banks and private investors under five defined investment windows. Since, however, large infrastructure projects in the transport infrastructure sectors in Africa, with very few exceptions, do not generate sufficient revenues to attract private investment, it is highly unlikely that the transport infrastructure (and the water/sewage) sector can benefit from EIP guarantees in the context of private investment. Therefore, a different mechanism is required to mobilise additional private funds for typical public sector projects.

EIC recommendation: In addition to collaborating closely with European Development Finance Institutions, the European Union should endeavour to catalyse additional private funding under the 'EFSD+' by providing investment grants also for public sector infrastructure projects that are co-financed by commercial banks and European Export Credit Agencies.

4. A 'Team Europe' Approach for Transport Infrastructure Connectivity

The so-called 'Wise Persons' Group' has found that the present fragmentation of the European development financial architecture is detrimental to the achievement of the EU's priority goals and the desired development impact. The report argues for a consolidation and streamlining of development finance and climate activities outside the EU in order to avoid overlaps, and strengthen the EU's visibility, role and long-term capacity to deliver on EU development priorities.

EIC recommendation: The European Union should increase Europe's institutional competitiveness in financing large-scale infrastructure projects in Africa by establishing an EU financing institution and/or system that can combine European development and export finance, including collaboration with commercial banks and Export Credit Agencies, thus matching the performance of Asian and U.S. financing institutions.

1. EU Infrastructure Financing is not responsive to Africa's Transport Infrastructure needs

African countries continue to struggle to end poverty and increase employment. Unemployment, especially amongst the young population causes economic inequality and urban fragility. The way forward is to industrialise, but insufficient stock of productive infrastructure causes the globally lowest access levels to power (47%), water (63%), communication (20%) and transportation services. All these factors slow down the pace of development. Especially transportation remains a problem: Sub-Saharan Africa is mostly landlocked and has a paved road density of 31 km per 100 km², compared to 134 km per 100 km² in other low-income countries and 180 km per 100 km² in Central Europe. Poor quality infrastructure services can increase the input material costs of consumer goods by up to 200 % in certain countries. Consequently, public infrastructure development has been identified as one of the top three priorities in African partners' National Indicative Programmes (NIP). The NIPs are meant to guide ODA investment and facilitate the principle of ownership in development cooperation.

The AfDB has suggested in its African Economic Outlook 2018 that the continent's infrastructure needs amount to USD 130 – 170 bn EUR annually, with a yearly financing gap of EUR 68 – 108 billion. The most urgent investment needs are found in the roads sector with USD 800 billion needed by 2040, followed by water and ICT (see **Figure 1**).

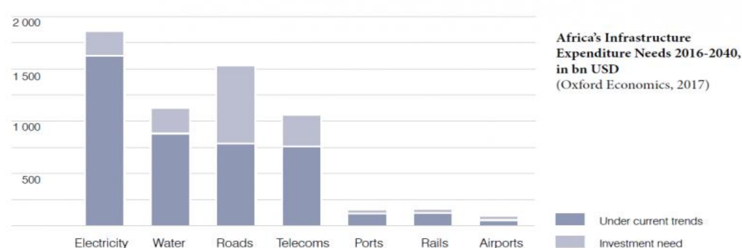

Figure 1

However, the European Union's approach to support Africa's infrastructure sector is biased towards the energy sector and neglects in particular the transport sector. For instance, the European Court of Auditors published a Special Report (No. 14/2020) in September 2020 in which it assessed the effectiveness of the EU's development aid provided to Kenya through the European Development Fund. The audit highlighted that, although transport infrastructure was a priority for both Kenya under its National Indicative Programme (NIP) and for the European Union, respective EU support had only a marginal impact. The allocation of €175 million under the European Development Fund was not enough to implement all the plans listed in the NIP given that Kenya's infrastructure needs are US$3 billion per year for transport. The Court considered that the NIP's goals were unrealistic and that the allocation to the infrastructure focal sector was insufficient to make a significant impact.

EIC observes that the EU's total ODA disbursements in the year 2018 for the transport sector of EUR 393 million, and EUR 773 million for infrastructure altogether, are insufficient in its largesse in the light of Africa's high demand for large infrastructure projects. As the European legislator will soon adopt the NDICI Regulation, which incorporates a single worldwide blending facility ('EFSD+') and a new External Action Guarantee with a ceiling of €60 billion (see Annex A), the European Commission should rebalance its Official Development Assistance towards the infrastructure sector and in particular transport and water/ sewage infrastructure.

EIC recommendation

In terms of EU development financing, EIC observes a certain bias towards the energy sector and calls upon the European Union to substantially increase the volume of ODA commitments for the transport and water/sewage sectors, and to reserve a substantial portion of the new 'EFSD+' for these projects, in order to better respond to the sector targets of the National Indicative Programmes of African partner countries.

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2. AfDB benefits most from EIP Blending for Transport Infrastructure in Africa

Under the 'classical' Blending option of the EIP, see Annex B, the European Commission can disburse investment grants to cover a part of the project cost or interest rate subsidies to reduce the interest rate of a loan. These investments are dedicated to those areas of the economy which private investors or companies do not usually invest in, such as transport infrastructure (and water/sewage) sector. The European Commission entrusts the task of budget implementation tasks under indirect management to the selected Lead Financier which has the capacity to administrate and implement the project "on the ground".

As regards blending in the transport infrastructure sector in Africa, interestingly, 11 out of 21 (i.e. 50%) of the projects involving EU-blended finance were led by the African Development Bank (AfDB). Obviously, by transferring EU grants to non-EU financial actors, the European Commission suffers a loss of visibility and control over the project implementation. Moreover, as the procurement process of the lending institutions, e.g. the AfDB, wins priority over the EU Commission's own procurement rules, tenders financed from EU grants, when mixed with loans from financial partners, are open to bidders from all countries.

Due to the fact that AfDB-financed tenders for transport infrastructure are generally awarded on the basis of the lowest evaluated price, an award system that favours aggressive bidding practices to the disadvantage quality-orientated and sustainable solutions, is does not come as a surprise that, during the years 2016-18, 104 out of 287 AfDB-financed transport and water have been awarded to Chinese construction companies, most of which are subsidised and/or state-owned contractors, and only 18 to European international contractors. This result is clearly not in the interest of the European industry, bearing in mind also the huge amounts of Chinese funding flowing into Africa's infrastructure that are not open for international competition but are tied via government-to-government contracts to Chinese state-owned companies.

When examining the latest version of the AfDB Standard Bidding Documents (SBD), as of August 2020, we acknowledge that AfDB offers to its borrowers a set of bidding documents for goods and related services where other criteria than price, such as life-cycle-cost, may include quality criteria to compare and assess the degree to which such goods and related service meet or exceed the technical and other requirements. For the procurement of small works of admeasurement or lump-sum type contracts, the AfDB has at its disposal a set of bidding documents to be used when the Employer wishes to evaluate the technical responsiveness of Bids and the Bidders' qualifications before opening the priced Bids. It is striking that for the procurement of large works none of these options are available, at least not in the form of a Standard Bidding Document. This procurement policy indicates a certain reluctance of the AfDB to consider quality-based procurement routes in case of major infrastructure works.

EIC recommendation

The European Union should focus its Blending activities for transport infrastructure projects on European Development Finance Institutions promoting fair competition and sustainable procurement rules and restrict respective procurement opportunities to companies from ACP countries and from countries that effectively implement the OECD-DAC Recommendation on Untying Official Development Assistance.

The European Union should also strengthen the environmental and social reporting and auditing obligations attached to the EU funds when used by beneficiary financial institutions and request EFSD applicants to elaborate an analysis on how proposed programmes/projects will contribute to the EU's development vision, its influence and economic agenda.

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3. Transport Infrastructure projects in Africa cannot benefit from EIP Guarantees

By providing guarantees under the EU External Investment Plan (EIP) the European Union shares the risks involved in investments together with development banks and private investors under five defined investment windows. These guarantees ultimately aim at mobilising additional public or private funds and the Lead Financier can use such guarantees in several ways: These investment windows mainly cover sectors of the economy in partner countries where investors can generate a profit on their investment, such as small businesses and agriculture, digitalisation, energy or local currency financing. In each case, the European Commission shares with the Lead Financier some of the risk that they might not get all their money back and the Commission will only pay out money if a loss occurs with one (or more) of the programmes carried out by the Lead Financiers.

In theory, transport infrastructure is featured in two investments windows, namely on “Sustainable Energy and Connectivity” (with a volume of 366 m EUR) and “Sustainable Cities” (with a volume of 130 m EUR). In practice, however, the guarantee provided for the ‘Resilient City Development (RECIDE)’, administered by the Spanish Agency for International Development Cooperation (AECID) and the World Bank, is the only guarantee that aims to protect private financiers and investors against certain government-related risks in developing better transport links. However, practitioners working for investment management firms and DFIs maintain that the availability of resources is not the most pressing problem. Instead, the availability of good projects is seen as the principal constraint in practice. The development finance community is confronted with the paradoxical situation where a tremendous annual financing gap and a limited number of bankable projects coexist. The absence of functioning business environments in which banking operations can be conducted and returns stand in proportion to risks is the principal impediment for infrastructure investments in many developing countries.

Unless donors are prepared to provide a comparably high level of subsidies, there are certain constraints for privately invested infrastructure projects in Africa, such as inadequate legal and regulatory framework, lack of technical skills to manage PPP programmes and projects, small market size, limited infrastructure and limited financial markets. With very few exceptions, large infrastructure projects particularly in the transport infrastructure (and in the water/sewage) sectors in Africa do not generate sufficient revenues to attract private investment and it is thus highly unlikely that they can benefit from EIP guarantees in the context of private investment. Therefore, a different mechanism is required to mobilise additional private funds for typical public sector projects and EIC wishes to recall its innovative “Blending 2.0” concept which propose to utilise EU ODA grant money to catalyse additional finance from commercial banks to the extent that insurance cover from Export Credit Agencies.

EIC recommendation

In addition to collaborating closely with European Development Finance Institutions, the European Union should endeavour to catalyse additional private funding under the ‘EFSD+’ by providing investment grants also for public sector infrastructure projects that are co-financed by commercial banks and European Export Credit Agencies. It would be helpful if the European Commission clarifies that Export Credit Agencies are eligible to become pillar-assessed financial partners under the ‘EFSD+’.

The European Union should re-examine EIC’s “Blending 2.0” proposal (dated 2014) for typical public infrastructure projects that are critical for social and economic development in Africa partner countries; in this context, EU grant funding up to 30% of the project volume and additional guarantees could catalyse additional finance from commercial banks to the extent that insurance cover from Export Credit Agencies is available.

The European Union should also establish dedicated infrastructure units in the EU Delegations that serve as contact point (“one stop shop”) for project proposals from African governments.

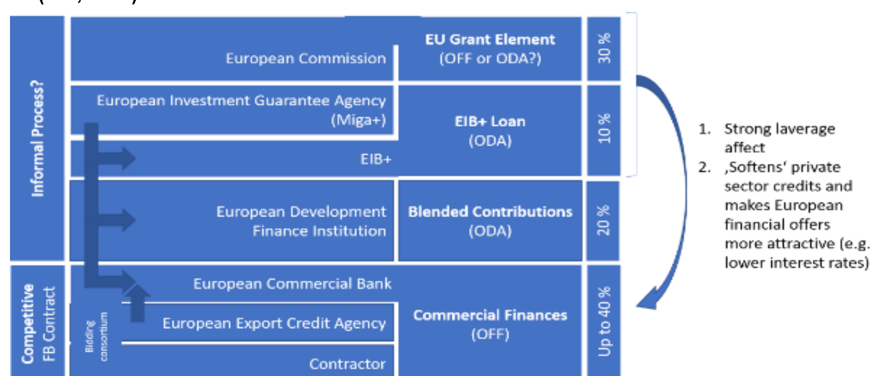
4. 'Team Europe' Approach for Transport Infrastructure Connectivity

Whereas China's Exim Bank or Japan's International Development Agency (JICA) or the U.S. International Development Finance Corporation (DFC) serve as national policy banks with the mandate to support the development policy mandate of their national governments, the European Union suffers from a lack of coherence in its development policy given that EU funding is channelled through a multitude of actors, including multilateral development banks, such as EIB and EBRD, national development banks, such as the French AFD or the German KfW, and EU government agencies which specialise in mobilising private resources. Whilst such fragmentation across many institutions may be an advantage for small-scale projects, it is clearly a hindrance for structuring tailor-made financial offers for large-scale infra-structure projects.

To analyse the fragmented European financial architecture for development, the Council of the EU established a High-level Group of Wise Persons with the task of producing an independent report on the challenges and opportunities for improving and rationalising the external development and climate activities of the European Union. The report found that the European development financial architecture plays an important global role, but tolerates overlaps, gaps and inefficiencies, sectoral and geographical, especially in terms of presence and experience in Africa, of the main European multilateral finance institutions, the EIB and the EBRD. Strong and effective coordination is required to turn this situation into a strength and three options for consolidation have been submitted for further discussion by the EU decision-maker which all imply important institutional changes and significant financial resources.

EIC welcomes the proposals formulated by the Wise Persons Group. If the EU would like to proceed from a 'global payer' to a 'global player' in the implementation of ambitious sustainable development projects, in including in the area of 'green' transport connectivity, it will be necessary establish a single, well-capitalised development finance entity or coherent system, alongside the European Commission in its role of policy centre. This single entity or coherent system should have at its disposal the full range of financial instruments to support the EU's development strategies and climate agenda and have the capacity to combine European development and export finance, including collaboration with commercial banks and Export Credit Agencies, thus matching the performance of Asian and U.S. financing institutions. It is therefore necessary to develop the 'Team Europe' approach, launched by the European Union on the policy level with the objective to combine resources from the EU, its Member States, and financial institutions for developmental purposes, for the financial institution level, at least for larger projects. A possible joint implementation (co-financing) structure for infrastructure projects under a "Team Europe" approach is demonstrated in **Figure 2**.

Figure 2: Team Europe Approach (EIC, 2020)



A more centralised European financial institution or system would also be better equipped to catalyse additional and new types of private flows to support development efforts, with the ability to convene a variety of actors around important development issues. As mentioned in the previous chapter, the European Union should aim at catalysing additional private funding under the 'EFSD+' also for public sector infrastructure projects by providing investment grants that are co-financed by commercial banks and European Export Credit Agencies. In this context, EIC recalls its "Blending 2.0" proposal of 2014 advocating the use of EU investment grants or interest rate subsidies to support concessional development loans arranged by the EU's financial partners which are then syndicated amongst commercial banks and Export Credit Agencies.

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EIC holds the view that the NDICI, once adopted, together with the Financial Regulation provide an adequate legal basis for combining EU Official Development Assistance (ODA) arranged by a more centralised EU financing institution and/or system with private funds from commercial banks and ECAs. ECAs, mostly fully owned by the Member States, may be considered as 'eligible counterparts' in the sense of Article 27 (4) and (5) of the proposed NDICI Regulation in connection with Articles 62 (1) and 208 (4) of the Financial Regulation if and when they have passed the pillar assessment required by Art. 154 (4) of the Financial Regulation.[1] According to Art. 27 (6) of the proposed NDICI Regulation, the Commission has the discretion to select the eligible counterparts taking due account of (b) the objective of the EIP's investment windows and (d) the amount of own resources as well as private sector co-financing, that the eligible counterpart is ready to mobilise for the investment window.

Whilst EIC acknowledges the advantages of setting up a single, well-capitalised European development entity as the natural development finance centre alongside the European Commission in its role of policy centre, as suggested by the Wise Persons Report, there are nevertheless some caveats to be made for the proper operation of such single entity, for instance under the EIB umbrella. First of all, such financing entity should have sufficient flexibility to decide about the structure and syndication of the loan, depending on the size and the location of the project, and it should not be restricted by a policy ceiling of project participation at 50 %.

Furthermore, it would need to use harmonised Standard Procurement Documents for the procurement of works which reflects the EU's ambition for environmentally and socially responsible and sustainable business. Sustainable procurement should aim at a selection of the "Most Economically Advantageous Tender" in order to safeguard compliance with all Environmental, Social, Health and Safety (ESHS) requirements. Since the lowest price tender will not provide the optimal technical solution, a selection method should be implemented which is economic in nature but also integrates life-cycle concepts, environmental and social criteria, without replacing the primary objectives of procurement. Furthermore, it should be required to closely supervise the project implementation, including direct payments to the contractor after proper certification.

As the establishment of a European Lead Financing Institution and the coordination of the DFI landscape is a lengthy process, EIC recommends prioritising the opening of European External Action Guarantee to Member States' owned Export Credit Agencies which would already soften credit requirements, provide more concessional packages for countries under IMF programmes and mobilise private financing, thereby increasing the competitiveness of European financial offers amid Asian competitors and help overcome the COVID-19 caused lack of private insurance to back up tied commercial loans. By implementing the "Team Europe" approach for transport infrastructure financing and the recommendations from chapters one to three, the European Commission can realise several advantages:

- Regain control over and visibility of investment flows;
- Streamline fragmented donor landscape to improve coordination, increase visibility of operations and develop a feasible project pipeline as "first point of contact";
- Increase the transport leverage affect from European companies and commercial banks;
- Increase ownership through direct stakeholder engagement;
- Uphold sustainability and highest international standards;
- Level the playing field as regards competition from state-owned competitors.

EIC recommendation

The European Union should increase Europe's competitiveness in financing large-scale infrastructure projects in Africa by establishing an EU financing institution and/or system that can combine European development and export finance, including collaboration with commercial banks and Export Credit Agencies, thus matching the performance of Asian and U.S. financing institutions.

[1] Financial regulation applicable to the general budget of the Union - Publications Office of the EU (europa.eu)

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Annex A: Policy and Legal Background

Acknowledged by the Joint Communication to the European and the Council titled "Towards a Comprehensive Strategy with Africa" (JOIN(2020) 4 final), the European Commission argued that 2020 is a pivotal year for the partnership between European and its twin continent Africa. There is an immediate need to strengthen a post-Cotonou alliance to support African societies in harnessing new prospects and overcoming challenges. The strategy lists sustainable and climate resilient infrastructure and its financing as core element to stimulate sustainable African development. The Joint Communication builds on the Africa Europe Alliance for Sustainable Infrastructure and Jobs as well as the European External Investment Plan (EIP), introduced by former President Juncker in 2018. The initiatives seek to mobilise EUR 155 bn and EUR 55 bn for Central and Southern Africa, respectively, with a sharpened focus on infrastructure development. This change has been facilitated by the EU Africa Taskforce on Transport Connectivity, which outlined current caveats in infrastructure delivery and the importance of overcoming them to foster overall economic growth.

The increased awareness for a necessary renaissance of infrastructure financing in Africa is also reflected in the most recent Commission's proposed amendments of the Multiannual Financial Framework (MFF) 21-27. Under the MFF, particular attention shall be paid to regions with critical infrastructure and connectivity needs, especially in Africa. Alongside its amendments, the European Commission published its proposal COM (2018) 460 for a regulation establishing the Neighbourhood, Development and International Cooperation Instrument (NDICI)[2] in June 2018.

Applying as of 1st January 2021, the proposal entails a major restructuring and streamlining of the EU's external action instruments by introducing the new NDICI. The NDICI's financing arms shall be the European Fund for Sustainable Development Plus (EFSD+) with a merged approximate budget of 80 bn EUR and the External Action Guarantee with a financial backbone amounting to 130 bn EUR. In its Opinion 10/2018 (Art.14), the European Court of Auditors stressed the proposal's ambitious rationale to simplify ways of working while increasing coherence and consistency of interventions, and emphasised that "although the proposal goes in the right direction […], coherence and consistency depend on the implementation arrangements that are chosen as well as the Commission's supervision and management arrangements." Art. 23 (1. (g) COM (2018) 460 on forms of EU funding and methods of implementation establishes "blending" as implementation arrangement and refers to the positive findings on the leverage effects and financial additionality[3].

Hence, the EFSD+ should also support future NDICI blending activities operationalised within the EU External Investment Plan (EIP). As regards management arrangements, Art. 5 lists the indirect management of funds as possible choice, enabling the Commission to partner with international organisations or partner countries as long as it is in the interest of the Union and subject to the rules laid out in the accompanying Financial Regulation (Art. 154).

While EIC welcomes the Commission's foray to put infrastructure back on the agenda and to streamline financial instruments, it doubts whether the financing architecture and implementation arrangements in place are fit to deliver in an increasingly competitive development aid environment (see Wise Persons report). **Whereas Europe remains the largest ODA donor to African countries, it still lacks visibility, primarily because it redirects its investments under indirect management via multilateral institutions (blending), which leads to a loss of control over investment and project implementation to the benefit of abnormally low bidding, subsidised and/or state-owned competitors.** The White Paper on levelling the playing field as regards state subsidies is a very good step forward, but an even fiercer EU positioning is needed in order to ensure sustainable development and to defend European interests. Against this background, EIC has published its Position Paper on "Correcting the Level Playing Field", put forward its proposition of an Europe African Partnership for Sustainable Infrastructure and encourages now the EU to re-evaluate its financing instruments and Blending methodology for infrastructure projects to adequately reflect European interests.

[2] Hereafter „the proposal"
[3] https://ec.europa.eu/europeaid/evaluation-blending_en

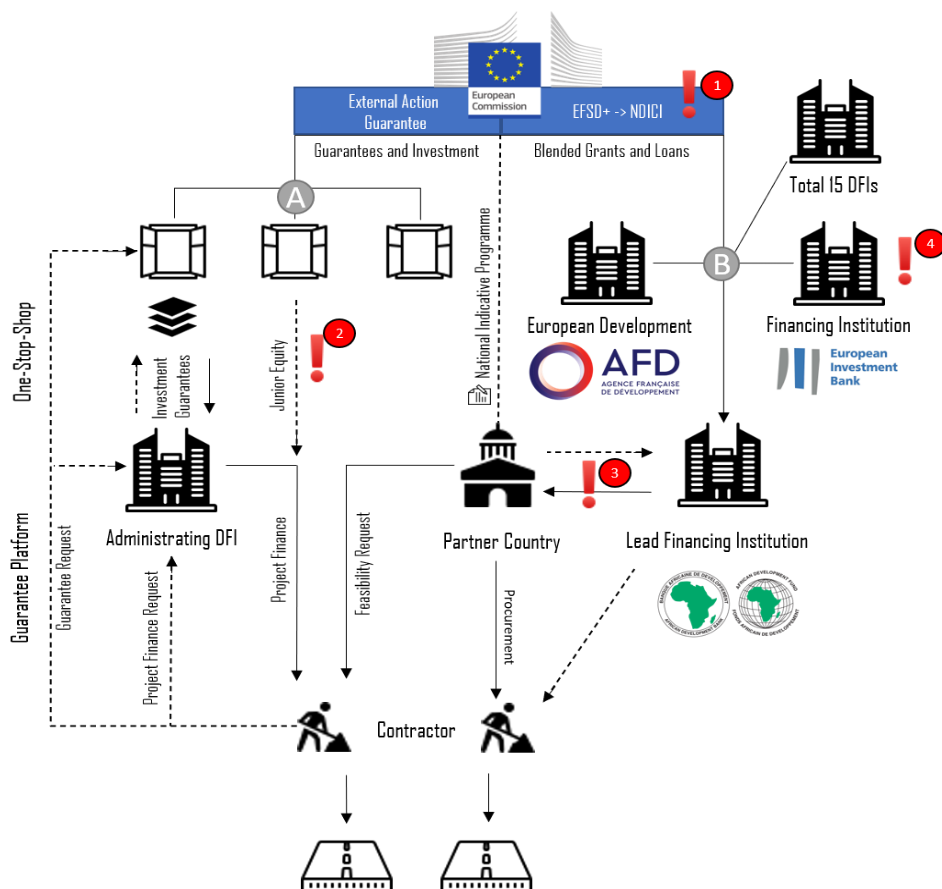
Annex B: The European External Investment Plan (EIP)

Introduced with the 2016 'State of the Union Address' by the then President of the EU Commission, Jena-Claude Juncker, the European External Investment Plan (EIP) serves as principle investment blueprint with the focus on Europe's twin continent. In the strategic framework of the Africa Europe Alliance for Sustainable Investment and Jobs, the EIP aims at generating investment, creating jobs and thereby stipulate stable and prosperous development. Based on EIP's (updated) financing arm the European Fund for Sustainable Development (EFSD/+), African clients and infrastructure promoters can access the EU Commission's financing instruments through Pillar 1 (the EFSD+) in two ways, see **Figure 3** below (Pillars on technical assistance and investment climate not included):

- **Tranche A - Providing Guarantees (1.3 bn EUR):** Private project promoters are approached by African clients to mobilise project financing. The EIP's investment windows and subsequent 22 Guarantee platforms administered by eligible Development Finance Institutions (DFIs) and the one-stop-shop are thereby providing investment guarantees and limited junior equity, so investors are more confident to operate in high-risk environments.

- **Tranche B – Blended Grants and Loans (3.1 bn EUR):** In line with their National Indicative Programmes, African clients can also approach the 15 eligible DFIs directly to receive project finance in form of loan or grants. Serving as Lead Financing Institution, the DFI approached is then requesting additional contributions from the EU Commission and other DFIs and agrees on the financing and procurement modalities together with the beneficiary partner country.

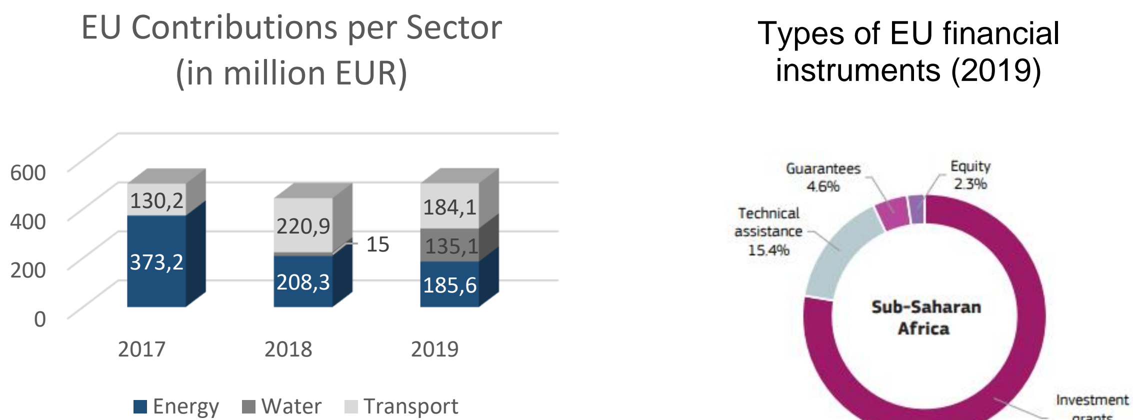
Figure 3: Illustration of EIC Key Findings alongside the current EIP Financing Architecture[4]



[4] Under the EIP, a total of 15 DFIs are eligible for indirect management. The most relevant infrastructure financiers for projects are the AfDB, the AFD, the EIB and the KfW. The represented institutions are mentioned as example due to their strong presence in Africa.

The Commission claims that since their inception, both tranches have generated over 50 bn EUR in public and private investment for projects with financial returns. In 2019, the EU contributed a total of 504,8 m EUR to blended infrastructure projects **(see Figure 4**), a marginal share of Africa's overall infrastructure investment needs (**see figure 4** below). The largest portion of EU financing was provided as investment grant (77.7%), followed by technical assistance (15.4 %), guarantees (4.6 %) and equity (2.3%).

Figure 4: Sectoral Distribution of EU Financing in Sub-Sahara Africa (2017 – 2019) [5] [6]



[5] European Commission (2020). https://ec.europa.eu/eu-external-investment-plan/projects-map_en
[6] European Commission (2019). https://ec.europa.eu/eu-external-investment-plan/sites/devco-eip/files/documents/201016_efsd_op_report-_final-_ldef.pdf

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