

Outlook of European Contractors on EDF- Financed Infrastructure Projects

EC – EIC Round Table on Infrastructure in ACP Countries
Brussels, 26 March 2009

Structure presentation

- Profile of European contractors working abroad
- Activities of European contractors in ACP countries
- Reasons for diminishing interest for donor-financed projects
- Bottlenecks in EDF procurement policy
- The way forward: recommendations for EDF procurement policy

Profile of European Contractors working abroad

- International turnover European contractors around € 121 billion
- Active in more than 150 countries in all 5 continents
- Active in a broad range of markets (transport, water, energy, PPP's etc.)
- Significant added value to the local economy (work, income, tax)
 - ✓ Deliver quality infrastructure over the life-cycle of the project
 - ✓ Employ the local workforce according international standards
 - ✓ Co-operation with local contractors and suppliers
 - ✓ Transfer of (technical/financial) know-how and skills
 - ✓ Respect and protect the environment

Activities of European Contractors in ACP Countries

- Share of revenue generated in ACP countries relatively low
 - Africa represents only 3% of the global construction market
 - Small individual Caribbean and Pacific construction markets
- European contractors are not disengaging from Africa
 - International turnover in Africa (incl. North Africa): € 7.6 billion (2007)
 - Turnover in Africa nearly doubled in since 2003
- Relative share of Africa – nevertheless – has steadily dropped
 - International turnover European contractors doubled since 1990
 - Relative share of Africa dropped to 5% (1990: 15%)

Diminishing interest for donor-financed projects (1)

- Growing importance of financials markets and corporate governance
 - Stronger focus on profitability, reporting and positive cash-flow
 - Stronger focus on markets with lower political/economic risk
 - Evolution of contractors (more construction-related services)

Diminishing interest for donor-financed projects (2)

- Increasing reluctance of donor community to control the tender process
 - Shifting financial support from project aid to budget aid
 - From international bidding rules to country procurement standards
 - Thus increasing the risks of non-payment and corruption

Diminishing interest for donor-financed projects (3)

- Unlevel playing field between European and non-OECD contractors
 - Systemic subsidization of state-owned companies
 - Massive influx of ‘tied aid’ & soft loans
 - Not subject to strict OECD environmental, social & ethical rules
 - No attention for stakeholder interests (unions, communities etc.)

Bottlenecks in current EDF Procurement policy (1)

- Poor payment conditions
- Low advance payments
- VAT problems: uncertainty of refunding or exemption
- Too strong focus on the lowest construction costs

= Negative cash flow on the project!

Bottlenecks in current EDF Procurement policy (2)

- Little room for variation orders
- Low eligibility conditions on past performance (technical & financial)
- Insufficient coherence with wider EU policies
- Passive role EC/EuropeAid in managing the tender process

Note: EU is contributing globally 60% of Official Development Assistance!

The way forward (1)

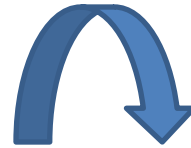
- Highest quality for the lowest price!
- Value for money over the entire life-cycle of the project!
- Stronger eligibility obligations for (pre-)qualification
- Stronger monitoring on quality aspects during the tender process

The way forward (2)

- Increase effectiveness through early involvement of contractors
- Maintain a project approach for infrastructure development
- Realistic project budgets and availability through all project phases
- Precede to alternative – more sustainable – procurement methods!

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Outlook of European Contractors



Thank you for your attention!



Issues for debate (1)

How to increase aid effectiveness in infrastructure projects (“better aid”)

- Sector Budget Aid: A preferable mechanism for infrastructure tenders?
- Country Procurement Systems: Part of the solution or part of the problem?
- Capacity-building: How to strengthen partner countries’ management capacity?

Issues for debate (2)

Further untying EU development aid: more value for money?

- Policy coherence: The use of local standards; coherent with EU's wider policy?
- EU-Africa-China Triologue: Is there a basis of common values for cooperation?
- Conditionality: Quality, integrity & sustainability need strong conditions?

Issues for debate (3)

How to meet the needs for funding of infrastructure (“more aid”)

- Is infrastructure getting the right priority?
- Can PPP help to bring additional sources for building Africa’s infrastructure?
- How to improve the (long-term) predictability of funding for projects?

Issues for debate (4)

How to (re-)attract European contractors to EDF projects?

- Can the tender process be geared stronger towards quality?
- Can the Commission improve the risk-reward ratio of infrastructure tenders?
- Can the Commission address the cash-flow issue in its disbursement policy?
- Can the contract package be enlarged, comprising Design-Build + O&M?