EUROPEAN INTERNATIONAL CONTRACTORS
Kurfürstenstrasse 129
D-10785 Berlin
Germany
Tel +49 (30)-2 12 86-244
Fax +49 (30)-2 12 86-285
info@eicontractors.de
www.eicontractors.de

EIC
EUROPEAN INTERNATIONAL CONTRACTORS

EIC Position

on the EU's Public Consultation

"Towards a post-2015 development framework"

Introductory Remarks

European International Contractors (EIC) has as its members construction industry trade associations from fifteen European countries and represents the interests of the European construction industry in all questions related to its international construction activities. The main objective of EIC is to improve the political, legal, economic and financial framework conditions for the international business of European contractors. In 2010, the European construction industry was active in all world regions and generated an international construction turnover of more than 75 bn. € *outside* of Europe of which approximately 15 bn. € were earned in the ACP countries.

According to World Bank estimates, about 1.4 billion people in the world today have no electricity, some 880 million people are without safe drinking water and 2.6 billion people do not have access to basic sanitation. Furthermore, 1 billion people world-wide live more than 2 km away from a nearest all-weather road. The World Bank calculates that 850 billion US$ is needed for infrastructure financing in the developing world every year through 2015. That is approximately 6% of global GDP. Regions of greatest need are South Asia, where infrastructure demand is equivalent to 11% of GDP, closely followed by Sub-Saharan Africa and the Middle East and North Africa, where the need is estimated to be 10% and 9% of GDP, respectively (cf. World Bank Policy Research Working Paper 5940, January 2012, *"Beyond Keynesianism: Global Infrastructure Investments in Times of Crisis"*).

EIC concurs with the World Bank that an efficient infrastructure network is one of the "missing links" for enabling inclusive growth, decent employment and Wealth Cretion in developing countries. It is an indispensable prerequisite for broad access to education, health services and political participation and a key ingredient for achieving the UN Millennium Development Goals. Transport infrastructure in particular provides the link between national economies and global markets and thus strengthens a country's ability to compete for both export markets and foreign direct investment by removing physical bottlenecks for trade and reducing logistics costs.

EIC believes that, given the huge financing needs, global poverty cannot be eradicated by Official Development Assistance (ODA) alone but that the international donor community needs to develop and implement a strategy to mobilise complementary private capital for development, a strategy that also includes the infrastructure sector.

EIC appreciates that the European Commission has entered into a public consultation with stakeholders on the post-2015 development framework and submits the following answers:

A: The MDGs: benefits and limitations

1. ***To what extent has the MDG framework influenced policies in the country/ies or sectors you work in/with?***
2. ***To what extent has the MDG framework been beneficial for the poor in the country/ies or sectors in/with which you work?***
3. ***What features and elements of the MDG framework have been particularly valuable in the fight against poverty?***
4. ***What features and elements of the MDG framework have been problematic, in your view?***
5. ***In your view, what are the main gaps, if any, in the MDG framework?***

EIC calls upon the EU and the international development community to complement the existing MDG policy goals with clear and achievable targets and indicators related to the transport infrastructure sector. In this context, we recall the *"Declaration of the African Ministers responsible for Transport and Infrastructure on Transport and the Millennium Development Goals"* dated 6 April 2005 and the UN-ESCAP *"Bangkok Declaration on Transport Development in Asia"* of 18 December 2009 which both stress the important contribution of transport infrastructure and related services in achieving the MDGs. In particular, the Declaration by the African Ministers sets out specific goals relating to mobility, road safety and the environment for achievement by the 2015 deadline. This includes a pledge to reduce by half the proportion of the rural population living beyond 2 km of an all season mode of transport in Africa.

EIC observes that the MDG goal-setting exercise was primarily identified with "basic needs provisioning" and was focused on – one could say "limited" to – health and education issues. Consequently, the MDGs have not referred directly to the importance of adequate transport and other economic infrastructure as a prerequisite for inclusive growth and wealth creation. If at all, an indirect connection can be established only through MDG No. 8 ("Develop a global partnership for development"). Whilst there is no specific MDG target about improving the provision of transport infrastructure, it is evident that transport infrastructure, which includes road networks, rails systems and ports, has important knock-on effects for other sectors, for instance by allowing agricultural communities to access both domestic and international markets, by facilitating school attendance for children in remote areas as well as facilitating access to basic health services, by enabling governments to provide public services cheaply and effectively, and by lowering the cost of private enterprise. It is therefore a necessary input into multiple goals, including Target 1 on halving the number of people living in absolute poverty, and a precondition for economic growth itself.

Achieving the MDGs without paying proper attention to issues of transport infrastructure and its interaction with the various social domains is problematic and this is nowhere more visible than in the context of inclusive growth. Anyone trying to assess the long-term impact of transport sector projects soon will acknowledge the fact that economic growth implies the need for an appropriate transport infrastructure. This includes roadways, railways, ports, waterways and airports as well as local public transport systems.

How highly developed the transport infrastructure needs to be depends on the extent of the division of labour and market orientation of a given economic area. In remote rural areas simple roads or tracks are sufficient; in medium-sized or large towns or cities with an extensive national, regional or international division of labour, it is generally vital for the basic infrastructure of national roads to be supplemented by air, rail and possibly maritime transport links. Mega-cities with their vast populations would cease to function without efficient inner-city public transport systems without which people to could not reach their jobs, schools, health care.

B. Feasibility of a future framework

6. ***In your view, in what way, if at all, could a future framework have an impact at global level in terms of global governance, consensus building, cooperation, etc.?***
7. ***To what extent is a global development framework approach necessary or useful to improve accountability with regard to poverty reduction policies in developing countries?***
8. ***What could be the advantages and disadvantages of a global development framework for your organisation/sector, including how you work effectively with your partners?***

EIC supports the view that one of the advantages of having a post-2015 framework would be to bring all countries and all actors, including the private sector, into one coherent and inclusive process in which responsibility and accountability is shared by all. This will, however, be difficult to achieve because at present different philosophies and diverging attitudes prevail among the OECD-DAC donors, on the one hand, and emerging donors, on the other hand, with respect to some basic elements for a sustainable development policy. For instance, the 2011 Outcome Document of the 4th High Level Forum on Aid Effectiveness in Busan, South Korea emphasises the importance of increased ownership, transparency and accountability in development co-operation, including accelerated efforts to untie aid and to rely on country procurement systems, whilst it explicitly states in paragraph 2 that *"the nature, modalities and responsibilities that apply to South-South co-operation differ from those that apply to North-South co-operation... The principles, commitments and actions agreed in the outcome document in Busan shall be the reference for South-South partners on a voluntary basis."*

There seems to be quite some discord on the global level in this area. Hence it does not come as a surprise that the **"Beijing Action Plan 2013-2015"** adopted at the 5th Ministerial Conference of the Forum on China-Africa Co-operation (FOCAC) on 23 July 2012 **does not mention the Busan Outcome Document nor any of the previous Declarations adopted in Paris and Accra** nor does it call for the use of country systems, further untying of aid and harmonisation of development partners. EIC concludes that emerging donors are not inclined to subscribe to what is perceived by the OECD-DAC as an international consensus of development policy principles.

A global framework would facilitate common Terms of Reference for all stakeholders involved in development co-operation and ensure that new or additional goals are tackled in compliance with the three dimensions of sustainable development, i.e. economic, social and environmental elements. In order to have a measurable impact, concrete goals need to be set as well as interim goals and guidance on the means to achieve them. In this context, EIC would be in favour of updating the process regularly (e.g. every 3-5 years) in order to overcome the challenge of renewing political consensus once a deadline has been reached. Accountability of all the stakeholders should be built-in the process and it is particularly important to win international support from the private sector, especially from large corporations who are in turn held accountable by their shareholders.

With respect to the principle of Good Governance, EIC takes the view that there is a strong correlation between Good Governance, successful absorption of ODA and Foreign Direct Investment (FDI) which eventually would release recipient countries from aid dependency. EIC suggests that the global donor community also scrutinises in the a partner government's progress with regard to Good Governance reforms. When it comes to defining the criteria for Good Governance, EIC recommend resorting to universally accepted indicators, such as the benchmarks of the *"Worldwide Governance Indicators"* (WGI) which aggregate individual governance indicators for 213 economies for six dimensions of governance, namely Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. The WGI draws on data from 31 different sources that provide information on various aspects of governance and the aggregate indicators combine the views of a large number of expert survey respondents in industrial and developing countries.

As a business association, we consider a credible global development framework as advantage for the community of European international contractors. Our member companies are not only supplying goods from Europe but they actually implement immense and complex infrastructure projects in developing countries together with local partners, often over a timeline of several years, and a globally defined political framework could guide and influence companies' activities and give them a possibility to co-operate as effectively as possible in the development process.

C. The potential scope of a future agenda

9. In your view, what should be the primary purpose of a future framework?
10. In your view, should its scope be global, relevant for all countries?
11. To what extent should a future framework focus on the poorest and most fragile countries, or also address development objectives relevant in other countries?
12. How could a new development agenda involve new actors, including the private sector and emerging donors?
13. How could a future framework support improved policy coherence for development (PCD), at global, EU and country levels?
14. How could a new framework improve development financing?

Given that global poverty cannot be eradicated by ODA alone, EIC would argue that a modern and effective development policy is aligned first and foremost with the political objective of *"Wealth Creation"* rather than *"Poverty Reduction*". The global development policy should, therefore, be geared towards attaining inclusive economic growth in partner countries as the basis for fighting inequality and improving social outcomes.

In view of the current public debt crisis in Europe, on the one hand, and the huge financing needs for development, on the other hand, it is the firm belief of EIC that the international donor community should develop and implement a strategy to mobilise complementary private capital for development, also for the infrastructure sector. To be successful, EIC holds that **a new development agenda welcomes the private sector as a development actor**. EIC is ready to become such an actor and we are already a signatory of the Joint Statement titled "*Expanding and Enhancing Public and Private Co-operation for Broad-based, Inclusive and Sustainable Growth"* adopted at the 4th High-Level Forum on Aid Effectiveness in Busan for endorsement by public and private sector representatives (cf. Annex).

We would also like to recall that the Busan Outcome Document recognises in paragraph 32 the central role of the private sector in advancing innovation, creating wealth, income and jobs, mobilising domestic resources and in turn contributing to poverty reduction. In particular, stakeholders have agreed to:

a) Engage with representative business associations, trade unions and others to improve the legal, regulatory and administrative environment for the development of private investment; and also to ensure a sound policy and regulatory environment for private sector development, increased foreign direct investment, public-private partnerships, the strengthening of value chains in an equitable manner and giving particular consideration to national and regional dimensions, and the scaling up of efforts in support of development goals.

b) Enable the participation of the private sector in the design and implementation of development policies and strategies to foster sustainable growth and poverty reduction.

c) Further develop innovative financial mechanisms to mobilise private financing for shared development goals.

d) Promote "aid for trade" as an engine of sustainable development, focusing on outcome and impact, to build productive capacities, help address market failures, strengthen access to capital markets and to promote approaches that mitigate risks faced by private sector actors.

e) Invite representatives of the public and private sectors and related organisations to play an active role in exploring how to advance both development and business outcomes so that they are mutually reinforcing.

EIC would like to request the European Commission to work towards incorporating these commitments of the international donor community into the new global development framework. For instance, **the private sector through its global and regional (European) business associations could be invited to attach specific pledges and commitments to each – confirmed or new – goal agreed upon by the governments in the post-2015 development framework**. **Partnerships between governments, donor agencies and**

private sector representatives could be established to identify and formulate common proposals and strategies to improve development effectiveness.

EIC specifically supports the idea that the post-2015 development framework aims at improving development financing. From our perspective this involves an acknowledgement of the complementary roles of development and trade finance and a commitment to create synergies between the two sources of finance. In this context, EIC welcomes the **EU's Agenda for Change in Development Policy** which intends to leverage private sector activity and resources for delivering public goods and under which the EU has vowed to further develop blending mechanisms to boost financial resources for development.

The readiness of the European Union to create such synergies should be replicated on the global level under the new development framework. It is of great importance that effective risk mitigation instruments and Public-Private Partnerships are developed with the aim to form a strategic alliance between (European) donor agencies and commercial lenders/investors. Ultimately, the new development framework should set out the complementary roles of public and private financing for development and emphasise the catalyst role of development financing for triggering private investment in "non-commercially viable" infrastructure from capital markets and the insurance sector. The above-mentioned Joint Statement adopted by the public and the private sector in Busan would be a good starting-point as it calls for the encouragement of private sector engagement and financing into countries and sectors where private capital is scarce through the effective blending of aid and concessional lending with non-concessional resources. Official agencies and Development Finance Institutions should be used to provide critical knowledge and upgraded instruments to improve risk management and catalyse the resources from the private sector.

It is particularly important that in the future guarantees provided by official donors are recognised as ODA. Currently, the ODA definition does not generally include development guarantees and such guarantees are only accepted as ODA if a claim occurs which leads to an actual cash flow from the guarantor to the beneficiary of the guarantee (i.e. the claims payment). Evidently, this practice discourages bilateral donors to provide such guarantees. It is a fundamental hurdle to establish strategic partnerships with the private financial sector and explains the limited cooperation between bilateral donors and commercial banks. In EIC's view, **an explicit recognition of (development) guarantees within the ODA definition is important to bridge the gap between the investment needs of developing countries and the scarce development finance resources that are available**. Through (development) guarantees limited ODA resources can be leveraged substantially and ODA donors would – despite the current crisis in Europe and subsequent budget constraints of many EU governments – be able to maintain or even increase their current ODA performance without substantial budget implications. Development guarantees can play a critical role in defining more precisely the complementary role of development finance versus commercial finance, including ECA guarantees.

D. The potential shape of a future agenda

15. ***What do you consider to be the "top 3" most important features or elements which should be included in or ensured by any future development agenda?***

16. ***What do you consider to be the "top 3" features or elements which must be avoided in any future development agenda?***

17. ***Should it be based on goals, targets and indicators? If any, should goals have an outcome or sector focus? Please give reasons for your answer.***

18. ***How should implementation of the new framework be resourced?***

On question 15, EIC takes the position that a future development agenda needs to **recognise the importance of the infrastructure sector for providing solutions to the challenge of climate change.** This includes improving energy efficiency, creating sustainable means of transport thus allowing for inclusive access to education, health care and jobs and as a pre-condition for economic growth and development. A second top priority is to **consider ODA not as the sole financial tool for wealth creation and poverty reduction but as a catalyst to leverage other complementary forms and sources of finance for development**. In this context, it is essential to **recognise development guarantees as "Official Development Assistance"**. Thirdly, **EIC believes that it would be mutually beneficial if the private sector were included more closely as a key-stakeholder in development policy** since it has the experience and skills to advance innovation, to create income and jobs and to mobilise domestic and foreign resources.

On question 16, EIC holds that, as far as infrastructure is concerned, **Sectoral Budget Aid has not proved to be the best means as it tends to lead to a lack of transparency, accountability and in many cases efficiency**. Therefore, it should be avoided to use Sectoral Budget Aid for infrastructure development. Instead, financing needs to be linked to individual projects to which **standardised and internationally accepted procurement policies and procedures apply**.

On question 17, **EIC is in favour of basing the future agenda on goals, targets and indicators which are sector-specific.** Strengthening accountability by defining concrete goals, interim goals and procedures is essential to win sufficient international support for the implementation of any future framework. Due to the broadness and the heterogeneity of the development agenda, ranging from agriculture to water supply, it would be wise to adjust potential goals and targets to sector-specific indicators or at least to form certain clusters, for instance, finance, infrastructure (commercially viable and commercially non-viable), production, welfare, etc.

On question 18, as to the resources for the implementation, EIC believes that today public debt is on the rise and thus **classical state-financed development aid can by no means suffice to achieve the above-mentioned goals**. It is therefore crucial to include the private sector as an equal partner and to incentivise private investment. In this context, the public sector could make use of respective fiscal incentives; another possibility could be to link public funds as leverage for private investment.

Berlin, 11 September 2012