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Intra-African EPC Contract Promotion Initiative

CONTRACTING ENGINEERING, PROCUREMENT, AND CONSTRUCTION PROJECTS IN AFRICA

Survey Report

Afreximbank Research

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@afreximbank African Export-Import Bank

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HEAD OFFICE
African Export-Import Bank 72(B)
El Maahad El Eshteraky Street
Heliopolis, Cairo 11341
P O Box 613 Heliopolis
Cairo 11757, Egypt
Tel: +202 24564100/1/2/3
Email. info@afreximbank.com
Website: www.afreximbank.com

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Introduction and Background

1 Introduction and Background

There are several factors that are driving infrastructure demand in the industrial, commercial, and residential sectors across the African continent. At the same time, rapid growth in urbanization is contributing to a gradual shift in resource allocation toward the provision of affordable housing and basic infrastructure by African governments, while the imperatives of economic development are also feeding into policy design aimed at establishing industrial clusters in special economic zones to accelerate industrialization. The construction landscape in Africa is projected to be one of the most active globally over the next decade. The outlook of the sector is underpinned by the growing populations and expanding economies, as well as challenges and opportunities in the context of climate change. Accordingly, the construction sector will be critical for the continent's drive toward its economic potential (Afreximbank, 2023). Furthermore, rising incomes are contributing to the drive toward formalization of leisure, retail, and food sales across Africa, and in the process, providing incentives to develop requisite infrastructure. These factors are creating significant opportunities for investment in the continent, which has led to the materialization of a vast pipeline of engineering and construction projects.

Despite the significant growth potential, short-term headwinds to the expansion of the African engineering and construction market have risen in recent years. These headwinds are associated with the COVID-19 pandemic and exacerbated by supply chain disruptions occasioned by the Ukraine crisis. In this regard, the infrastructure sector's ability to stimulate the economy, both as a short-term economic multiplier during construction, as well as through long-term efficiency gains for the wider economy, will continue to be tested as economies recover from the lingering effects of the pandemic downturn and the impact of the war in Ukraine. Growing sovereign debt at potentially unsustainable levels across the continent, buttresses the urgent need to leverage private capital into infrastructure projects.

A confluence of factors including inadequate financing capacity and limited local expertise have contributed to low participation by locally owned entities in bidding for construction projects in most developing and emerging market economies. Accordingly, developing and emerging markets in general are compelled to rely on partnerships with international organizations and foreign firms to win bids and deliver major construction projects. For instance, China is the largest foreign investor in Africa's engineering and construction sector, with most African countries typically depending on Asian and European investment in their infrastructure sectors.

In the context of this narrative, as well as numerous approaches by foreign-owned engineering, procurement, and construction contractors for financial support from the African Export-Import Bank, there was an urgent need for a bold and decisive intervention with the view to understanding the peculiar challenges confronting African EPC contractors. In furtherance of the bank's intra-African trade mandate, including the need to support its member states, Afreximbank introduced the African Engineer, Procure, Contract, and Construct (EPC) Initiative – with the overarching objective to promote African participation in large-scale African infrastructure projects and the appointment of EPC contractors by African entities. Afreximbank's decision was also informed by 1) the existence of an opportunity in the sector with a market size estimated at more than US$175 billion, 2) the existence of dozens of contractors across the continent, and 3) capacity to finance these contractors in the context of promoting trade in services.

The goal is to understand the competitive landscape for large infrastructure projects in Africa; identify key challenges confronting African contractors in accessing these opportunities; and undertake a baseline study with findings feeding into the development of strategic capacity, technical assistance, and advocacy programmes to unlock the market and promote African participation in large-scale African infrastructure projects. The study will be an important first step to provide a better understanding of the African EPC environment, in the hope that these findings will inform the broad scope of Afreximbank's targeted interventions, while at the same time offering policy makers adequate insight to guide policy formulation aimed at training African contractors.

The rest of the paper is organized as follows: section two provides high-level, stylized facts about Africa's construction market; section three discusses the survey, including its findings; section four focuses on conclusions and recommendations emanating from the survey; and section five summarizes the limitations of the survey and the way forward.

2

Some Stylized Facts

2 Some Stylized Facts

Afreximbank's 2023 industry report highlights Africa as harbouring some of the fastest-growing construction markets in the world. Estimated at about US$175 billion in 2022, the construction sector in the continent is small compared to other regions. However, it is forecast to more than double to about US$385.5 billion by 2032, and will provide opportunities across various markets. Highly concentrated, the construction landscape in Africa is dominated by a few countries including Algeria, Egypt, Nigeria, Tanzania, and Ethiopia, which together account for more than half the continent's projected growth in the construction sector over the coming decade. Apart from the big economies, small markets such as Rwanda, Côte d'Ivoire and Cameroon are also forecast to witness significant growth during the next decade. The pipeline of infrastructure projects is expected to be the main driver of construction activity in Africa, reflecting growing urbanization. While oil and gas projects will continue to be the focus of investors offering heavy ticket opportunities, transport infrastructure is also expected to attract significant investment. For instance, infrastructure for rail transport will be the main driver of the sub-sector in the long run. Activities in the sub-sector include high-speed rail construction in Egypt, and the development of light rail in Côte d'Ivoire (Afreximbank, 2023).

The continent's construction sector and its development masks variations across different regions and countries. Representing 34 percent of the continent's total construction industry, North Africa's construction market has an industry value of US$58.8 billion. The main driver of the region's construction industry is Egypt, which accounts for about 50 percent of the market value, followed by Algeria at 35 percent and Morocco at 14 percent. Government commitment to infrastructure funding, in addition to expanding economy and population, are expected to drive the industry value in the next decade. The transport sector, especially rail projects will be the most important growth driver. Furthermore, as Egypt strives to position itself as a regional power exporter, facilitated by the expansion of international electricity grids, there will be more project opportunities in the energy sector.

West Africa accounts for 30 percent of the total industry portfolio, representing an estimated value of US$54.4 billion. The region's construction market is dominated by Nigeria, which accounts for about 80 percent of West Africa's construction industry value. Accordingly, developments in West Africa's construction sector in the next 10 years will be determined largely by developments in Nigeria. Notwithstanding the projected underperformance of the construction market compared to its regional peers in the next decade, West Africa will account for the largest share (about 53 percent) of the construction industry growth on the continent over the next decade.

At an estimated industry value of US$38 billion, accounting for 22 percent of total construction value in Africa, East Africa, noted for housing some of the fastest-growing construction markets in the world, offers project opportunities in the sector. Supported by ambitious infrastructure investments and an expanding building sector, the regional construction sector is set to reach a total value of about US$100 billion by 2032, with Ethiopia expected to lead this growth as the largest construction market in the sub-region.

At a total industry value of US$23.9 billion in 2022, Southern Africa accounts for about 13 percent of Africa's construction industry, driven mainly by South Africa, Angola and Zambia. The three countries together account for about 87 percent of the region's construction industry value, with South Africa at 37 percent, Angola at 32 percent and Zambia at 18 percent. Despite having some of Africa's largest construction markets on a per capita basis, the construction industry in the Southern Africa region is set to grow more slowly than the African average, primarily due to muted growth projections in South Africa and Angola.

In the context of tight financial conditions marked by soaring commodity and food prices, as well as rates hikes by systemicly important central banks in an effort to curb inflation, infrastructure projects such as road and port construction remain the mainstay of African transport infrastructure development. At the same time, hydropower plants, supported by a growing number of national and international power grids, are expected to drive energy generation capacity in the energy sector. These developments will improve the infrastructure landscape, enhance investment in manufacturing, and boost opportunities in the development of special economic zones (SEZs), industrial parks and warehouses.

3

The Survey

3 The Survey

3.1 Sample and Response Rate

A semi-structured questionnaire was designed and administered to 153 companies drawn from across the continent. While we received 26 responses, representing a response rate of about 17 percent, only 16 were complete enough for this analysis. While 87.5 percent of these respondents indicated their involvement in EPC contracting in African countries, only 12 companies (representing 75 percent) disclosed information on the projects they are involved in. The 12 companies are involved in 18 projects spread across Ivory Coast, Uganda, Ethiopia, Nigeria, South Sudan, Democratic Republic of Congo, Malawi, and Cameroon. The sectors covered include construction, electricity, gas, steam and air conditioning supply, water supply, and residential construction activities. Four companies, representing 25 percent of respondents, indicated non-involvement in EPC contracts and their responses provided a different perspective on EPC contracting issues in Africa. For a holistic understanding of the issues in the EPC contracting environment, a different research instrument was administered to governments through relevant agencies/ departments, with the view to understanding government perspectives on EPC contracting in Africa. Out of the 20 countries contacted, 12 responded, but only seven of the responses could be used, representing a response rate of 35 percent.

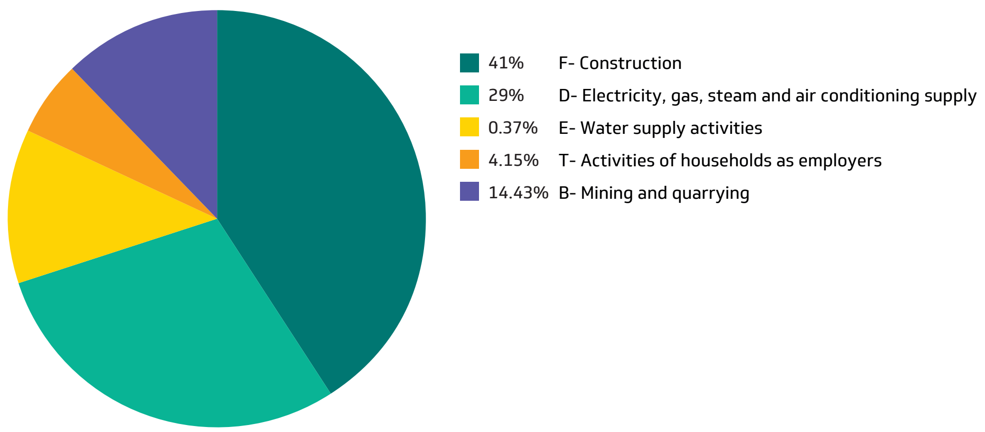
We therefore proceeded to analyze and discuss the responses, as shown in the following sections. The analysis is divided into three main parts: the first examining responses from companies engaged in EPC activities, the second looking at those companies that are not involved in EPC contracts in Africa, and the third discussing responses from African governments.

3.2 Survey Results and Analysis

3.2.1 Companies Involved in EPC Contracting in Africa

The 12 companies involved in EPC contracting have contracts covering 18 projects in different sectors. The study shows that the construction sub-sector appears to attract the highest proportion of EPC contracts, accounting for about 41 percent of all contracts, followed by electricity, gas, steam and air conditioning supply services (Figure 1).

Figure 1: Sector distribution of EPC contracts

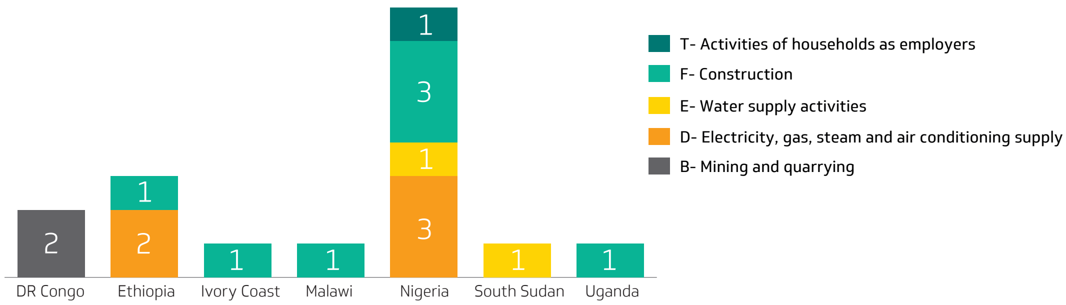


Source: Survey data.

3.2.1.1 Project Distribution by Sector and Country

Findings of the survey suggest that more than 50 percent of the 18 projects are found in Nigeria, with the other 50 percent spread across the six other countries (Figure 2). Construction is the most common project in five of the seven countries, and a total of five projects related to electricity, gas, steam, and air conditioning supply are in Nigeria and Ethiopia. The two projects in Democratic Republic of Congo are mining and quarrying-related, owing to the country's natural resource endowment. Nigeria attracts various types of projects, though not EPC projects relating to mining and quarrying.

Figure 2: Distribution of projects by sector and country

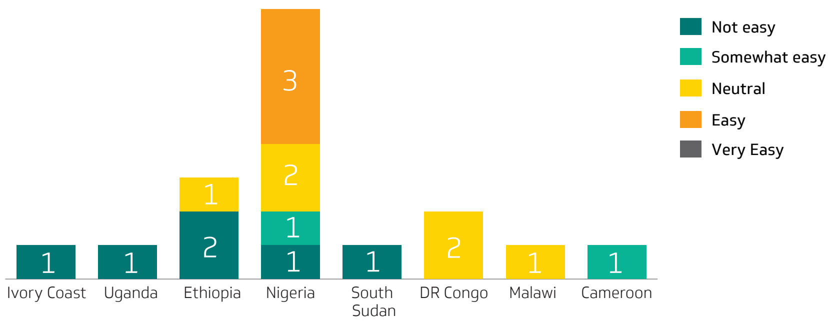


Source: Survey data.

3.2.1.2 Ease of Bidding for EPC Projects

About a third of the respondents spread across Ethiopia, Ivory Coast, Nigeria, South Sudan and Uganda said it is "not easy" to bid for EPC contracts (Figure 3), underlying the relative lack of adequate representation of African entities in EPC contracts on the continent. Half of the contracting companies said they found it easy to bid for projects in Nigeria, yet the same cannot be said of most of the other countries, where contractors found it more difficult. For instance, two thirds of the companies in Ethiopia found it difficult to bid for EPC contracts. The case of Nigeria is underpinned by a growing readiness to take on government debt, resulting in increased public infrastructure investment, as well as a fast-growing private-sector-led residential and non-residential building industry as suggested by Afreximbank's 2022 Trade Intelligence Solution report on the construction sector.

Figure 3: Ease of bidding for EPC contracts

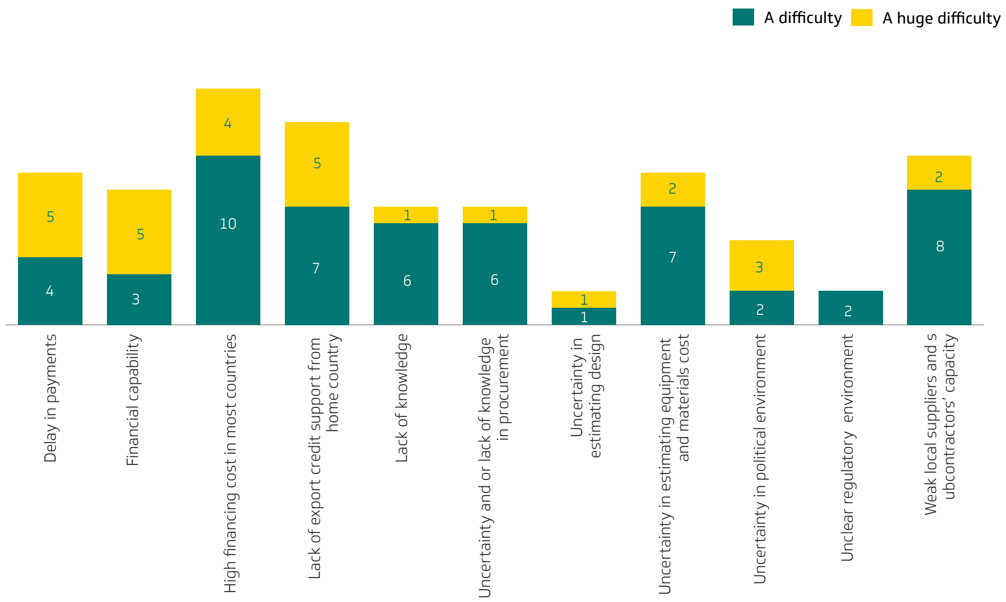


Source: Survey data.

3.2.1.3 Difficulty in Bidding for EPC Contracts

In further exploring the difficulty in bidding for EPC contracts, the goal was to identify the challenges confronting companies bidding for EPC contracts and further ascertain whether these difficulties are more prevalent in one country than another. Companies were asked to rate 11 kinds of difficulties they faced while bidding. The results showed that high financing cost was the most prominent challenge facing African EPC companies, with almost 78 percent of companies rating this issue as a "difficulty" or a "huge difficulty." While the survey instrument used cost of financing, it is important to highlight that the financing challenge could be an issue of both cost and access. The next biggest challenge was lack of export credit support from the home country, named by almost 67 percent of the companies. More than 50 percent said "weak local suppliers and subcontractors' capacity" was another challenging factor (Figure 4).

Figure 4: Difficulties in bidding for EPC contracts



Source: Survey data.

It is important to note that these difficulties vary from one country to another. For instance, uncertainty and or lack of knowledge in procurement is not a difficulty in Ivory Coast, but it is a difficulty in Uganda. It is therefore important to contextualize these difficulties country-by-country when designing appropriate interventions for effectiveness and optimum impact. Tables 1a and 1b provide a summary of these country-driven difficulties.

Table 1a: Challenges faced by EPC contracting companies

	Lack of knowledge about existing opportunities	Difficulty in estimating design cost	Lack of knowledge in procurement processes	Weak local suppliers and subcontractors' capacity	Difficulty in estimating equipment & materials cost	Uncertainty in political environment
Cameroon			✔	✔		
DR Congo				✔		
Ethiopia	✔		✔		✔	✔
Ivory Coast						
Malawi				✔	✔	
Nigeria	✔		✔	✔	✔	
South Sudan	✔	✔	✔	✔		✔
Uganda	✔	✔	✔			

Source: Survey data.

Table 1b: Challenges faced by EPC contracting companies

	Delay in payments	Unclear regulatory environment	High financing cost in most countries	Financial capability	Lack of export credit support from home country
Cameroon	✔		✔		✔
DR Congo	✔		✔		
Ethiopia	✔				
Ivory Coast					✔
Malawi	✔		✔		
Nigeria	✔		✔	✔	✔
South Sudan	✔	✔	✔	✔	✔
Uganda			✔	✔	✔

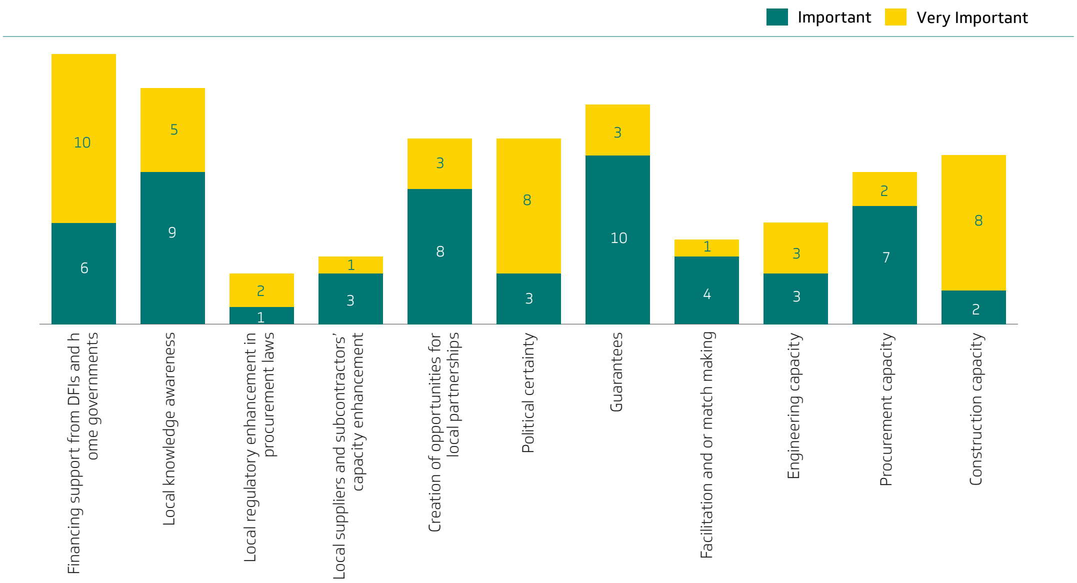
Source: Survey data.

3.2.1.4 Areas of Support for EPC Bidding

In identifying the nature of support needed by companies to enhance their participation in bidding for EPC contracts in the region, the respondents were asked to rate 11 support areas in terms of importance ranging from “least important” to “very important.” The results show that financing support from development financial institutions and home governments is the most important support needed by companies, with almost 89 percent of respondents citing it as “important” or “very important.” Next was “local knowledge awareness,” with almost 78 percent. Another issue that received some attention is “guarantees,” with 72 percent of respondents highlighting it as critical (Figure 5). Following these top three are the creation of opportunities for local participants, political certainty, construction capacity and engineering capacity. All were cited as areas needing intervention from both government and private-sector stakeholders.

In summary, financing, local knowledge, guarantees, creation of opportunities for local participants, political certainty, construction capacity and engineering capacity emerged as the seven principal areas requiring immediate intervention in order to help EPC contract bidding companies across the continent. As indicated, the nature of support required by companies varies in different countries. The summary of key EPC contracting issues and the weight attached to each issue by the countries in our sample is presented as Appendix 1 in this report.

Figure 5: Support for EPC contract bidding companies



Source: Survey data.

As indicated earlier, it is critical to analyze the areas of support country-by-country in order to fashion country specific interventions for optimal results. Table 2a and 2b provide an overview of the support needed by companies in each country.

Table 2a: Country-specific areas where companies need support

	Financing support from DFIs and home governments	Local knowledge awareness	Local regulatory enhancement in procurement laws	Local suppliers and subcontractors' capacity enhancement	Creation of opportunities for local partnerships	Political certainty
Cameroon		✔				
DR Congo	✔	✔			✔	✔
Ethiopia	✔	✔	✔	✔		✔
Ivory Coast						
Malawi	✔					
Nigeria	✔	✔			✔	✔
South Sudan	✔	✔	✔	✔	✔	✔
Uganda	✔	✔			✔	

Source: Survey data.

Table 2b: Country specific areas where companies need support

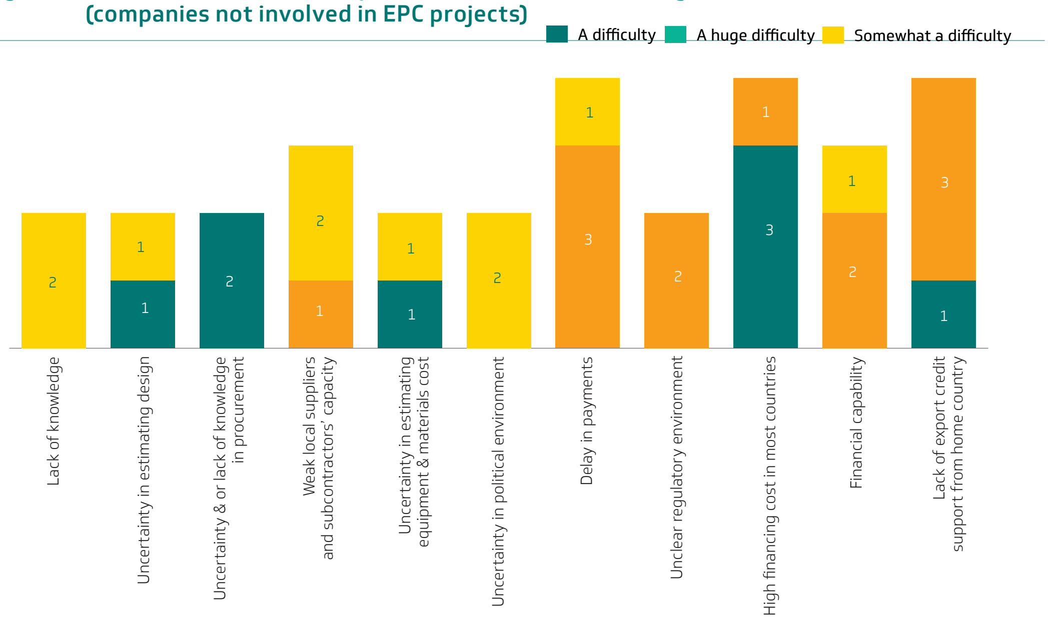
	Guarantees	Facilitation and or match making	Engineering capacity	Procurement capacity	Construction capacity
Cameroon	✔			✔	
DR Congo		✔			
Ethiopia	✔				✔
Ivory Coast					
Malawi	✔				✔
Nigeria	✔			✔	✔
South Sudan	✔	✔	✔		
Uganda	✔	✔			

Source: Survey data.

3.2.2 Companies Not Involved in EPC Contracts

This part of the report seeks to analyze the key issues raised by companies that are not involved in EPC contract bidding, and compare them with issues raised by companies that are involved. Only four companies indicated lack of involvement in EPC contracts across the continent. Of the four companies, two were in Tanzania with one each was in Gambia and Ethiopia. For these companies, issues that emerged as the greatest hindrance to their participation in EPC contract bidding included lack of export credit support from the home country, delays in payments, and high financing costs (Figure).

Figure 6: Reason for lack of Participation in EPC contract bidding (companies not involved in EPC projects)

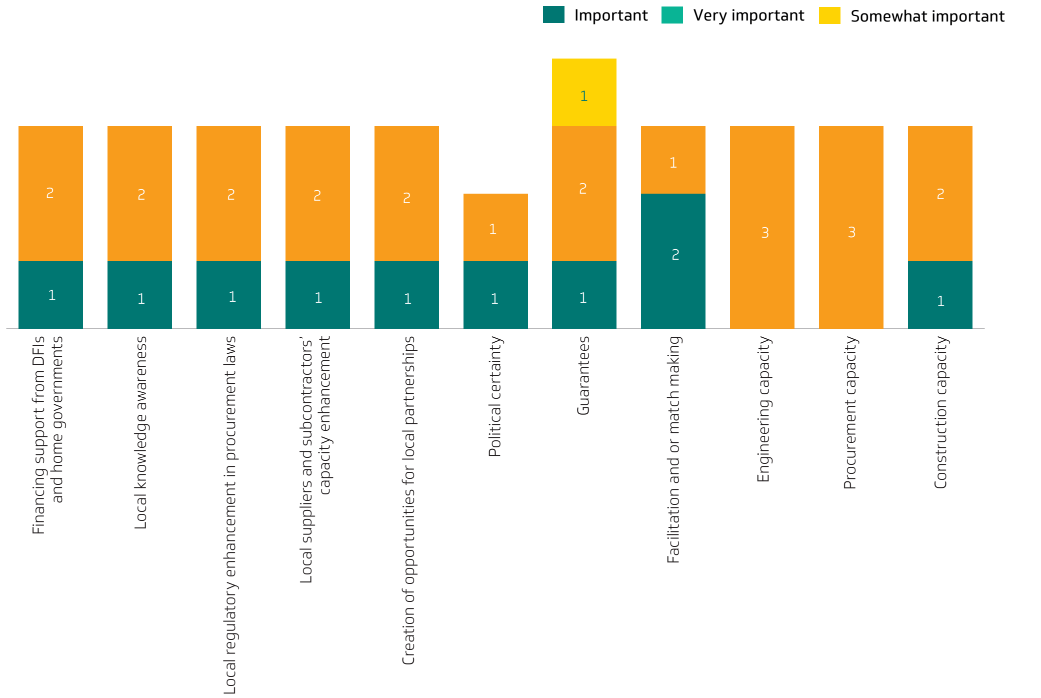


Source: Survey data.

3.2.2.1 Support for EPC Contracting Companies

While the companies not involved in EPC contracts listed all the issues presented in Figure 7 as key areas requiring intervention, engineering and procurement capacity emerged as the two most urgent issues for action, while all the companies cited lack of guarantees as an important constraint.

Figure 7: Support needed by companies not involved in EPC contracts



Source: Survey data.

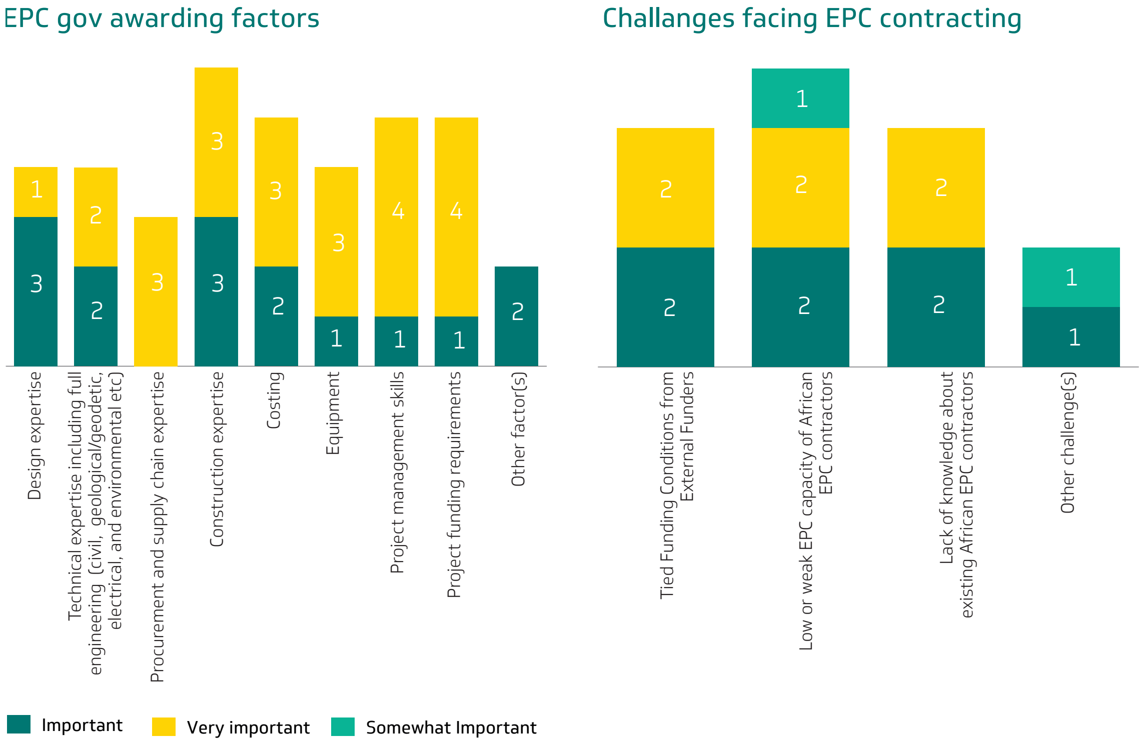
3.2.3 EPC Contracting in Africa: The Government Perspective

Initial sample of countries including Democratic Republic of Congo, Cote d'Ivoire, Ethiopia, Tanzania, Nigeria, Malawi, and Togo, was expanded to include other countries owing to lack of response. This section of the report therefore analyzes and discusses government perspectives on EPC contracting in Africa informed by the responses received from the expanded pool of countries. Accordingly, using the information provided by public sector entities drawn from Ivory Coast, Uganda, Nigeria, the Gambia, Zimbabwe, Algeria, and Ethiopia, the section highlights factors that are considered by governments in awarding EPC contracts. It also discusses key constraints to awarding contracts to domestic companies, the most important challenges and weaknesses facing EPC contracting, and areas of support needed to increase participation by domestic companies.

3.2.3.1 Factors Influencing Awarding of EPC Contracts

Construction expertise (almost 86 percent), project management expertise (71 percent), and project funding requirement (71 percent) emerged as the top three criteria used by governments to award EPC contracts. While the finding of reliance on construction expertise is consistent with the view of the private sector EPC contracting companies, project funding requirements appeared to increasingly marginalize participation by domestic firms in EPC contracts. Herein lies the basis for development finance institutions and governments across the continent to financially support EPC contracting firms and increase their participation in the sector. Other challenges pointed out include low or weak EPC capacity among African contractors (71 percent), funding conditions from external project funders (57 percent), and limited knowledge about existing EPC contractors (57 percent) (Figure 8).

Figure 8: Governments and EPC contract awarding factors and challenges

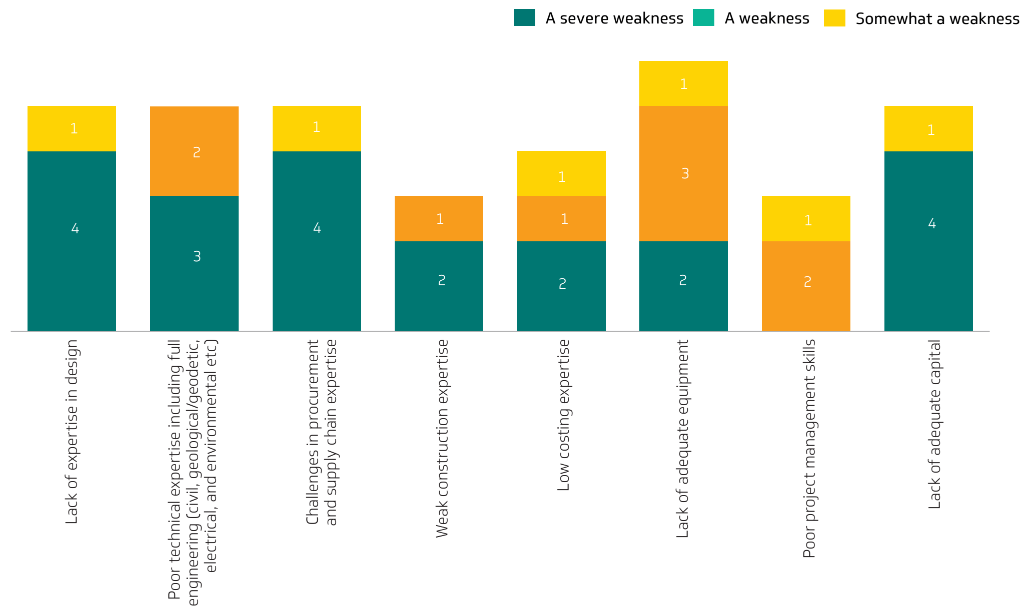


Source: Survey data.

3.2.3.2 Weaknesses Preventing Companies From Winning EPC Contracts

Governments also indicated other weaknesses inherent in domestic EPC contracting companies that undermine their capacity to win and execute EPC contracts. Lack of adequate equipment (85 percent); poor technical expertise, including civil, geological/geodetic, electrical, and environmental engineering (71 percent); lack of expertise in design (71 percent); and challenges in procurement and supply-chain expertise (71 percent), were also pointed out as major weakness inherent in domestic EPC contracting companies that contribute to their unsuccessful bids for EPC contracts across the continent (Figure 9).

Figure 9: Weaknesses in EPC contracting companies



Source: Survey data.

3.2.3.3 Areas of Support

In light of these developments, governments re-emphasized the need for financial support, particularly sustainable access at a reasonable cost from African development finance institutions and governments with the goal of capacitating EPC contracting companies to bid for contracts. At the same time, project finance and facilitation (or match making) were also identified as important interventions in the sector by key stakeholders in finance institutions and governments.

Responses from governments regarding EPC contracting in Africa masked important variations across the different countries as presented in Tables 1-4 in the appendix to this report (Appendix 2).

4

Conclusions and Recommendations

4 Conclusions And Recommendations

4.1 Conclusions

Afreximbank's 2022 Trade Intelligence Solutions report, "Infrastructure Investment Opportunities: At the Heart of Africa's Economic Development," highlights the potential of Africa's construction industry. It is estimated to reach US$385.5 billion by 2032, on the back of sustained expansion in the engineering and construction market, as governments across Africa continue to strengthen domestic export-related industrial infrastructure, such as the building of pipelines and fuels storage to link hydrocarbon resources with foreign markets.

Yet participation by African companies remains a major concern, as the sector is dominated by foreign entities that win and execute bids, leading to significant outflow of scarce foreign exchange with attendant balance of payment challenges. At the same time, the participation of African firms in EPC contracts is important to build a critical mass of local expertise for delivering much-needed infrastructure projects in Africa, a continent with a significant infrastructure gap that requires financing of more than US$80 billion annually over the next decade. This study, which sought to understand the African EPC contracting context, reveals interesting findings. It is immediately obvious that bidding for EPC contracts by African firms is a challenging task, as attested to by a third of the respondents. The level of difficulty worsens as one moves across countries. For instance, in Ethiopia, two thirds of respondents find it not easy to bid for EPC contracts.

This result confirms deep challenges facing African firms that require more investigation. Further examination reveals that these challenges are rooted in financing constraints associated with EPC contracts, and to an extent, local capacity in engineering and construction, which are also critical. For example, a majority (almost 78 percent) of the firms surveyed cited high financing cost as a difficulty in bidding for EPC contracts. At the same time, the lack of export credit support from home countries featured prominently as a challenge in bidding for EPC contracts. The finance and export credit constraints show clearly how funding availability plays a key role in accessing EPC contracts and are also cited by firms not involved in EPC as a major reason for non-participation. The challenges of weak local suppliers and subcontractor capacity emerge as another constraining factor in accessing EPC contracts.

Government perspectives were not that different, as respondents highlighted not only lack of finance, but also technical expertise such as engineering and design as some of the factors preventing African firms from participation in EPC contracts. While it is obvious that EPC contracts with tied conditions and/or project requirements would naturally eliminate most local companies, the finding that African governments cited lack of awareness of the existence of local companies was revealing.

Most importantly, as widespread as these difficulties appear, they mask variations across countries. For instance, uncertainty and or lack of knowledge in procurement appear not to be a difficulty in Ivory Coast, but they are a difficulty in Uganda. While firms in Ivory Coast cited lack of export credit support as their only major concern, the difficulties for companies in a fledgling state like South Sudan are comparatively more pronounced.

4.2 Recommendations

This study has shown the need to provide both financial and non-financial interventions, with the goal of increasing the participation of local or domestic firms in EPC contracts on the continent. The three critical areas of support and or intervention are financial, capacity building, and advocacy in support of African firms to actively participate in EPC contracts.

4.2.1 Financial

Providing access to requisite finance through the development of appropriate and innovative instruments, in addition to specialized export credit guarantees and other well-targeted interventions from finance institutions and/or home governments, can help ease the financing constraint faced by African firms in the EPC contracting sector. Access to sustainable finance continues to plague the continent. The Afreximbank can develop specific engineering-related facilities in support of companies involved in EPC contracts in its member states with the goal of closing this financial gap. In this regard, bids by an approved panel of EPC contractors must be supported with letters of financial support. Because this panel is supported by Afreximbank executives on missions relating to contract awards, there is a need to make the process more routine, institutionalized, and systematic.

4.2.2 Building Local Capacity

Other concerns raised by respondents, including engineering and construction capacity, weak local supplies and subcontractor capacity, and uncertainty and/or lack of procurement knowledge, require capacity building for companies interested in EPC contracts in the sampled countries. Additionally, building local capacity through both downstream and upstream activities will create a strong local supplier and subcontractor base for African firms and make them more ready to engage and access EPC contracts—especially in a continent where such specialized knowledge and expertise are inadequate, but required in a highly specialized and competitive domain like the EPC sector.

4.2.3 Advocacy

Problems such as political uncertainty, unclear regulatory environments, delays in payments, lack of local knowledge and awareness, and creation of opportunities for local partnerships require effective advocacy programs to resolve. This is particularly so given that surveyed governments cite lack of awareness of existing EPC firms as the basis for such firms not having the opportunity to bid for EPC contracts. Afreximbank, can partner with relevant stakeholders, including the AU and AfCFTA Secretariat, to design appropriate advocacy tools for implementation across its member states.

As part of efforts to ensure effective dissemination of relevant information on Arican EPCs, Afreximbank has been at the forefront in investing in digital assets and solutions to disseminate information and unlock trade and investment opportunities on the continent. The EPC initiative therefore presents an opportunity to enhance available digital solutions portals in the bank’s African Trade Gateway, such as TRADAR Regulations to provide a centralised database of information on credible African EPC companies and their areas of expertise for referral on projects as well as to identify opportunities/projects across the continent.

5

Survey Limitations and Dissemination of Findings

5 Survey Limitations and Dissemination of Findings

5.1 Survey Limitations

The main limitation of the study was the small number of responses received from the sample participants. Notwithstanding the sample limitation, it is also important to indicate that information provided by survey participants is consistent with general sentiments of major players and key stakeholders in the industry, which gives us some comfort and a basis to share our survey findings.

5.2 Dissemination of Survey Findings and Next Steps

While it is appropriate to disseminate the findings of this baseline study, it is recommended that a comprehensive study is undertaken subsequently for a much broader and deeper insights into the sector with the view to adequately informing key stakeholders and policy formulators regarding required interventions.

Reference

Afreximbank, 2023, Report on Industry Outlook – Construction

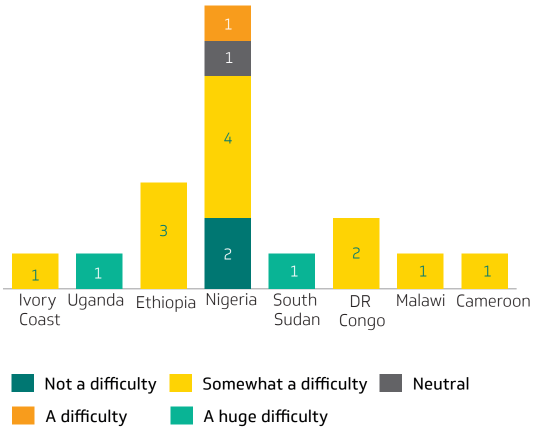
Afreximbank, 2022, Report on Infrastructure Investment Opportunities: At the Heart of Africa's Economic Development

Afreximbank, 2018, Engineering, Procurement and Construction Concept Note

Appendix 1

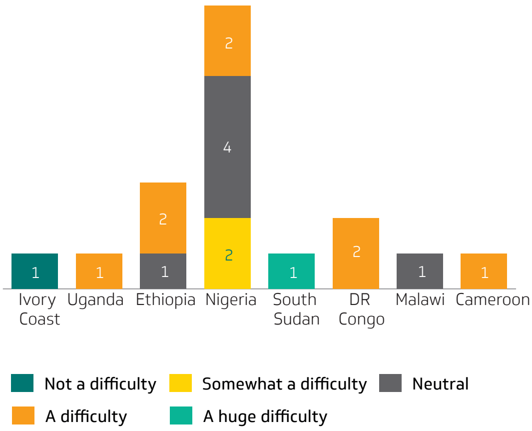
Summary of Key EPC Contracting Issues in Various Countries

Uncertainty in Estimating Design



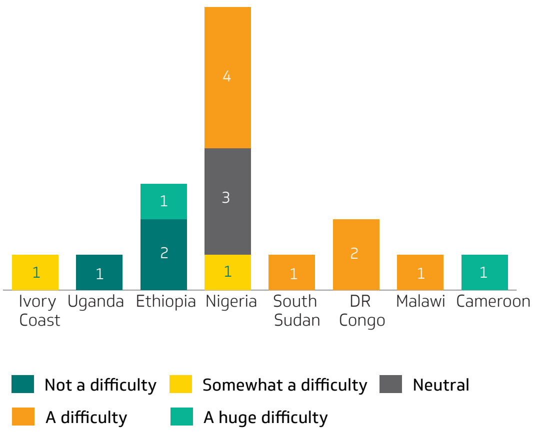
Source: Survey Data

Uncertainty & or Lack of Knowledge in Procurement



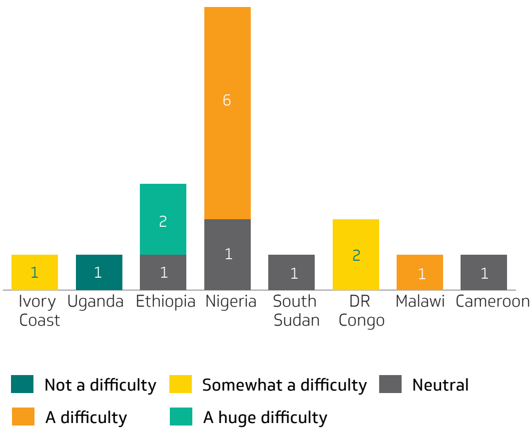
Source: Survey Data

Weak Local Suppliers & Subcontractors' Capacity



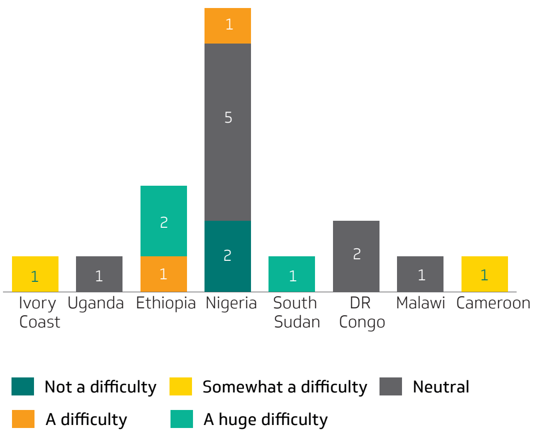
Source: Survey Data

Uncertainity in Estimating Equipment Cost



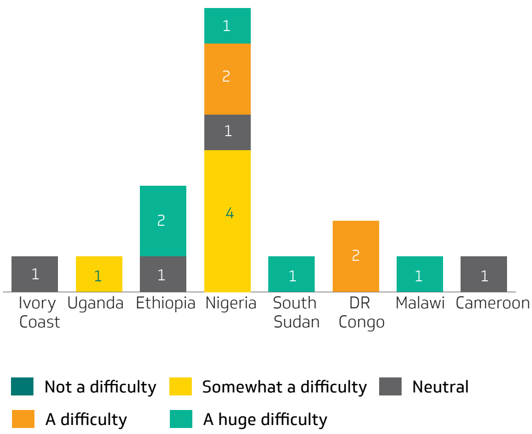
Source: Survey Data

Uncertainity in Political Environment



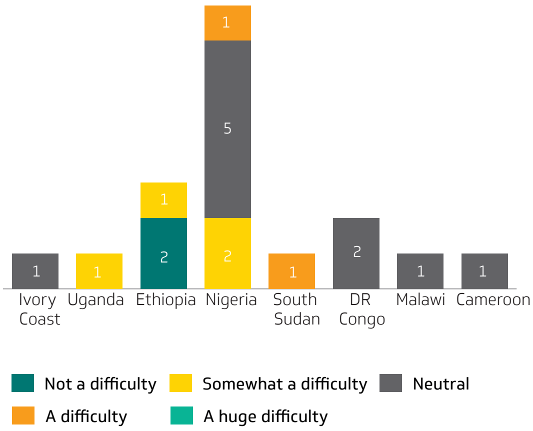
Source: Survey Data

Delay in Payments



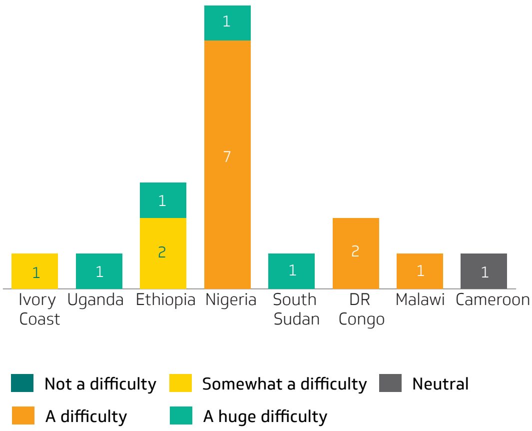
Source: Survey Data

Unclear Regulatory Environment



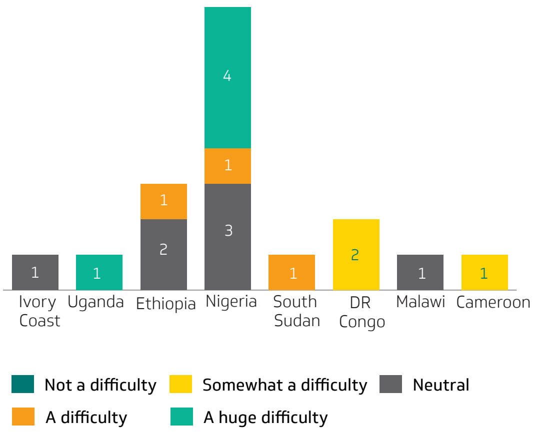
Source: Survey Data

High Financing Cost in Most Countries



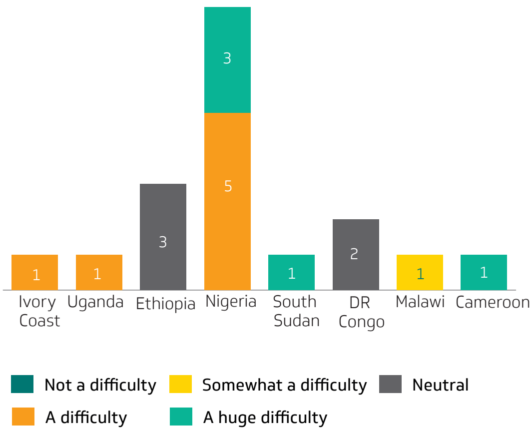
Source: Survey Data

Financial Capability



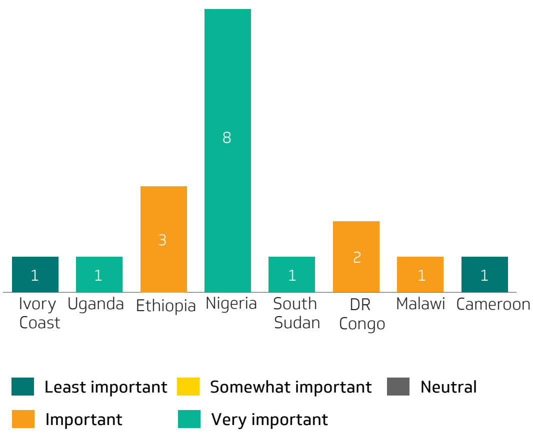
Source: Survey Data

Lack of Export Credit Support from Home Country



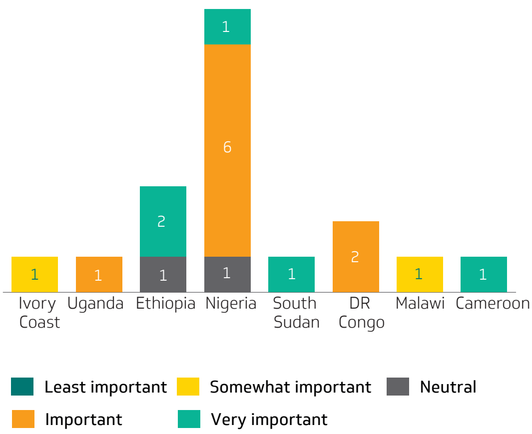
Source: Survey Data

Financing Support from DFIs and Home Governments



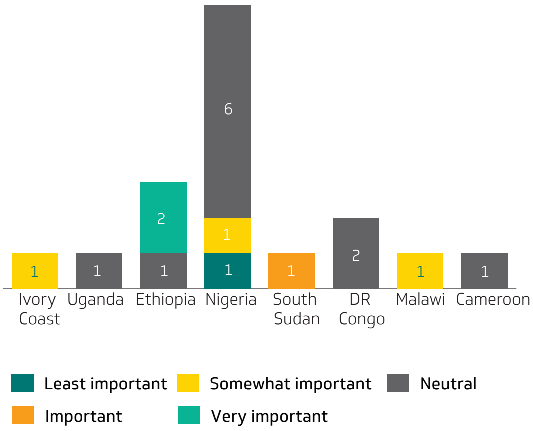
Source: Survey Data

Local Knowldge Awarness



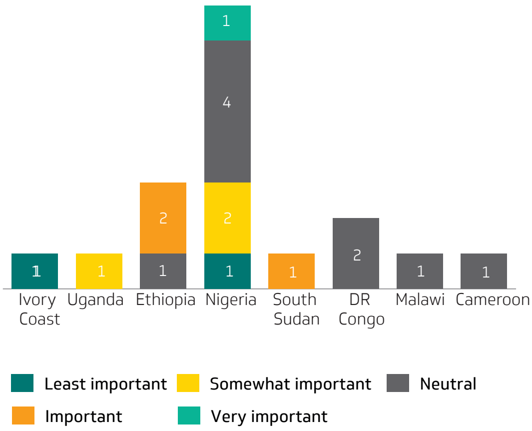
Source: Survey Data

Local Regulatory Enhancement in Procurement Laws



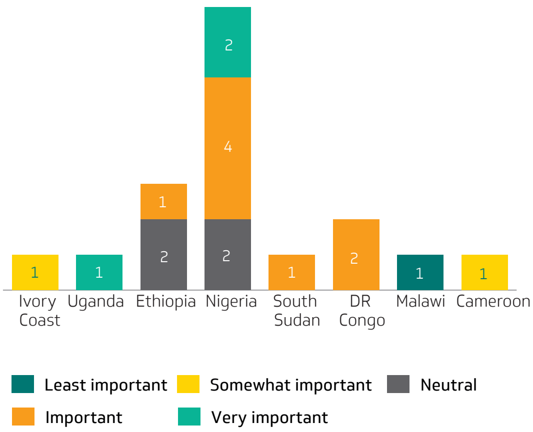
Source: Survey Data

Local Suppliers & Subcontractor's Capacity Enhhancement



Source: Survey Data

Creation of Opportunities for Local Partnership



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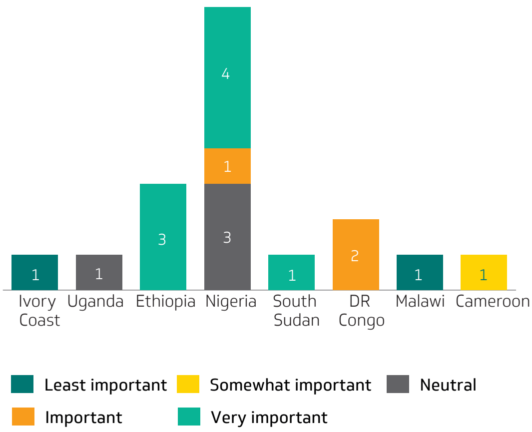
Political Certainty



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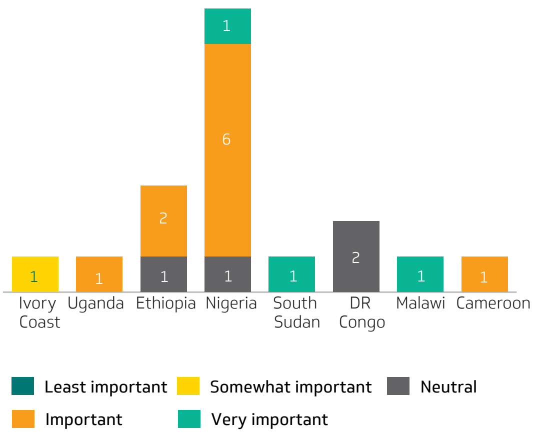
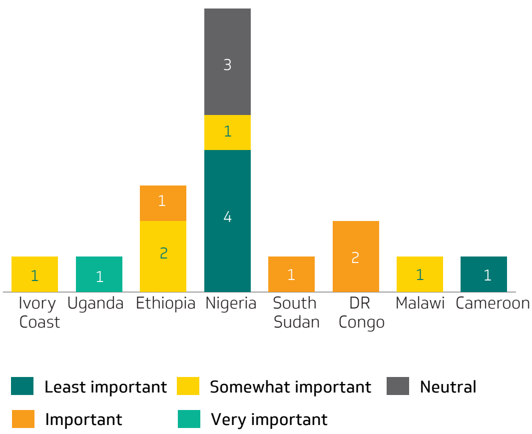
Guarantees



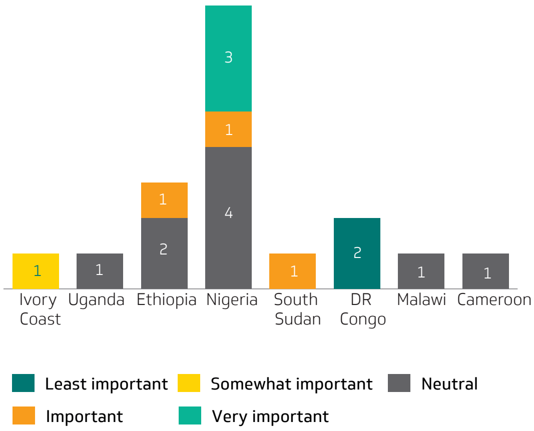
Source: Survey Data

Facilitation and or Match-making



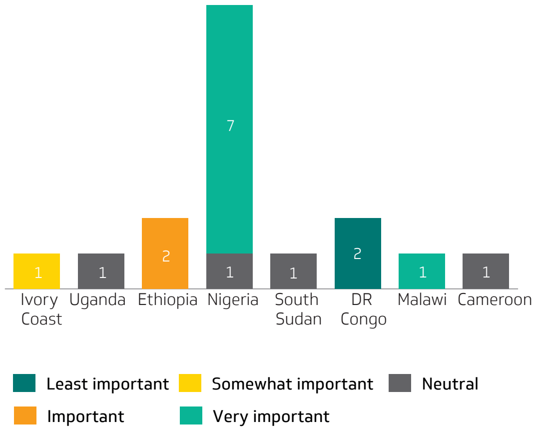
Source: Survey Data

Engineering Capacity



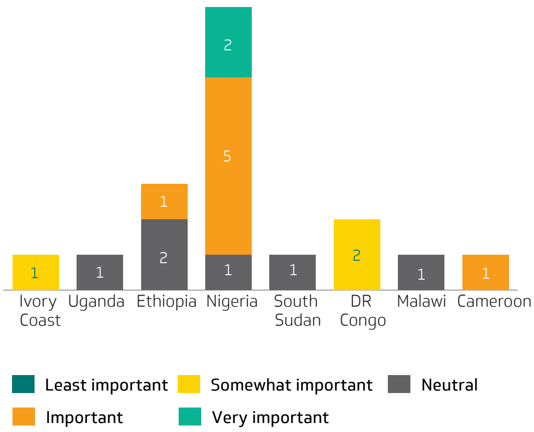
Source: Survey Data

Construction Capacity



Source: Survey Data

Procurement Capacity



Source: Survey Data

Appendix 2

Country-Specific Dimensions of Government Responses on EPC Contracting in Africa

Appendix 2: Country-Specific Dimensions of Government Responses on EPC Contracting in Africa

Table 1: Factors considered in awarding EPC contracts

	Design expertise	Technical expertise including full engineering	Procurement and supply chain expertise	Construction expertise	Costing	Equipment	Project management skills	Project funding requirements
Algeria	✔	✔	✔	✔	✔	✔	✔	✔
Ethiopia	✔	✔		✔	✔	✔	✔	✔
Gambia	✔	✔		✔		✔	✔	✔
Ivory Coast								
Nigeria	✔	✔	✔	✔	✔	✔	✔	✔
Uganda		✔	✔	✔	✔	✔	✔	✔
Zimbabwe				✔				

Source: Survey data.

Table 2: Challenges facing the awarding of EPC contracts

	Tied Funding Conditions from External Funders	Low or weak EPC capacity of African EPC contractors	Lack of knowledge about existing African EPC contractors
Algeria	✔	✔	
Ethiopia	✔	✔	✔
Gambia	✔	✔	✔
Ivory Coast			
Nigeria		✔	
Uganda	✔		
Zimbabwe			✔

Source: Survey data.

Table 3: Weaknesses preventing African countries from winning EPC contracts

	Lack of expertise in design	Poor technical expertise including full engineering	Challenges in procurement and supply chain expertise	Weak construction expertise	Low costing expertise	Lack of adequate equipment	Poor project management skills	Lack of adequate capital
Algeria	✔	✔	✔	✔	✔	✔	✔	✔
Ethiopia	✔	✔	✔			✔		✔
Gambia	✔	✔	✔	✔	✔	✔		✔
Ivory Coast								
Nigeria								
Uganda	✔	✔	✔	✔	✔	✔	✔	✔
Zimbabwe		✔				✔		

Source: Survey data.

Table 4: Support needed to attract African EPC contractors

	Sovereign financing support from African Development Finance Institutions (DFIs) and governments	Project finance from African DFIs and governments	Facilitation and or match making from African DFIs and governments	Guarantees from African DFIs and Governments
Algeria	✔	✔	✔	✔
Ethiopia	✔	✔	✔	✔
Gambia	✔	✔	✔	✔
Ivory Coast				
Nigeria	✔	✔	✔	
Uganda	✔	✔	✔	✔
Zimbabwe	✔		✔	

Source: Survey data.

Appendix 3

EPC Finance Framework

AFREXIMBANK

Intra-African EPC
Contract Promotion
Initiative

INTRA-AFRICAN TRADE INITIATIVE
EPC FINANCE FRAMEWORK

1

Introduction

1 Introduction

Several factors are driving infrastructure demand in the industrial, commercial and residential infrastructure sectors across the African continent. Rapid rates of urbanisation are increasingly encouraging African governments to channel public funds into providing affordable housing and basic infrastructure, while economic development policies across the continent are focusing on establishing industry clusters in special economic zones. In addition, rising incomes are driving the formalisation of leisure, retail and food sales across Africa, incentivising the development of related infrastructure. Together, these factors are creating significant opportunities for investment in the continent, which has led to the materialisation of a vast pipeline of construction projects (Trade Information Services (TRIN) Construction Industry Outlook 2022).

Despite this significant growth potential, short-term headwinds to the expansion of the African construction market have risen over the last year, associated with the Covid-19 pandemic. The infrastructure sector's ability to stimulate the economy, both as a short-term economic multiplier during construction, as well as through long-term efficiency gains for the wider economy, will continue to be tested as governments look to recover economic activity following the pandemic. High levels of government indebtedness will increase the need to leverage private capital into projects, which will remain a challenge.

A lack of domestic financing capacity and limited local expertise means that emerging markets in general typically have to rely on partnerships with international institutions and foreign firms to realise major projects. Today, China is the largest foreign investor in Africa's construction sector. Most African countries have typically enjoyed a combination of Chinese and Western investment in their infrastructure sectors. However, African governments may increasingly need to choose between Chinese or Western investment, restricting their options for developing major projects. The possibility of US sanctions against Chinese contractors means that cooperation between European and Chinese contractors in Africa may come under threat. Worsening relations between USA and China will complicate the process of securing financing and operational partners for infrastructure projects.

This document seeks to outline a financing framework that consolidates the Bank's existing products into a programme that seeks to promote African participation in large scale African infrastructure projects and the appointment of EPC contracts to African entities, which we are dubbing the "Intra-African EPC Finance Framework". The overarching theme of the programme is to drive growth of the EPC value chain by providing a suite of financing and facilitation solutions that directly support the various actors in the sector (governments, construction companies, financial institutions, engineering companies etc.). The framework also includes a monitoring and evaluation proposal and justifications for its alignment with the Bank's mandate and strategy.

2

Rationale

2 Rationale

Most African countries have local content requirements enshrined in public procurement law which is intended to protect and support indigenous African owned businesses to grow while competing with more established foreign companies. These local content requirements however do not extend a step further to support other African-owned companies where indigenous companies do not have the capability and technical know-how for a given project. At this stage, Africa's public procurement becomes open competition for all where two scenarios increasingly dominate the infrastructure landscape. Firstly, foreign companies- predominantly Chinese, Indian, and European, have an edge over African competitors as they are usually backed by their domestic Export Credit Agencies (ECA's) and global banks. They are also often more qualified and/or prepared given their previous experience from elsewhere. Even in these situations' African counterpart financing of 15-25% is required to be mobilized domestically from equity or commercial financing. Secondly, mid-tier foreign engineering and construction companies, that are often below par when compared to some African counterparts, are also supported by their home Governments that push the interests of these companies to win contracts ahead of these more established African companies.

It has become imperative to do more to support African countries and companies with Engineering and Construction capabilities to get more of the share of African infrastructure investments. Besides the contracts, some of these foreign companies do not come with financing and African project owners then tend to engage Afreximbank and related DFIs for financing.

What is clear is that the opportunity in Africa is huge given the continent's infrastructure deficit as well as finance gap. The opportunity is further evidenced by the quantum of infrastructure deals closed during IATF2021 – with Construction at $9.45 billion while energy and power deals were $5.16 (together totalling $14.61bn – 32% of deals closed). Afreximbank is increasingly being presented with these major EPC contracts in search of financing, where the contractors are neither African nor from Bank member states. There is a clear need to develop a more robust offering to support member countries and capacitate African EPC companies to position themselves to take advantage of these opportunities. Afreximbank has also succeeded in supporting numerous African contractors in winning and executing major infrastructure projects across Africa, however, a more focused approach is required in order to increase African participation in the share of infrastructure projects in Africa. This has constituted the basis on which the Bank has sought to create the EPC Finance Framework.

3

Objectives

3 Objectives

The purpose of the EPC Financing Framework is to provide a financing and capacity building solution for the development of Africa's Engineering, Procurement and Construction industry across the continent.

The Bank will be driving this through the use of its existing tools and resources to support the lack of information, lack of capacity, and lack of competitive financing to enable more actors in the EPC value chain to participate more actively. This includes:

- Financing and Issuance of Specialized Guarantees (Advanced Payment Bonds, Retention Bonds, Performance Guarantees etc.)
  - The Bank can also issue Letters of Support/Expressions of Interest for African companies bidding for contracts, subject to companies meeting their eligibility criteria;

The proceeds of the facility can be used to support African EPC companies in the execution of construction-linked contracts on the continent.

4

Key Financing Instruments

4 Key Financing Instruments

Services Offerings for the following facilities include:

4.1 Global Facility for Intra-African Trade Champions (Intra-Champs)

- Term loans and capital goods import financing to facilitate capital investments in home country for intra-African trade enabling infrastructure projects and/or in other African markets;
- Offer wraps in the form of partial or full guarantees to enable designated entities to raise affordable medium term credit from international markets.
- Variety of Guarantee services under the Bank's AFGAP, including;
- Short term Country Risk Guarantees
- Guarantee in support of African Government commitment to project promoters
- Contract and Market availability Guarantees
- Bid bonds and Advance Payment Guarantees to enable Eligible Entities to participate in bidding for large contracts;
- Safeguards for investments of the designated entities in the form of investments and country risk guarantees;
- Advisory services;
- Including equity and debt capital raising;
- Corporate debt management/restructuring to ensure efficient balance sheet management;

4.1.1 Qualifying Instruments

- Contracting-related Guarantees including:
- Bid Bonds
- Performance Bonds
- Advance Payment Guarantees
- Retention Guarantees
- Specialized Guarantees including:
- Intra-African Investment Guarantees
- Inter-State Transit Guarantees
- Country Risk Guarantees
- Guarantee of Government's Commitment to Project Promoters, to be approved on a case by case basis
- Market Availability Guarantees e.g. Traffic Availability
- Capital Market Entry Guarantees
- Asset based Finance Facilities in any or all of the following forms/purposes:
- Fleet Acquisition Financing
- Asset/Company Acquisition Financing
- Franchise Acquisition and set-up Financing
- Intra-African Investment Financing
- Debt Purchase and Refinancing
- Advisory including:
- Trade Information Advisory Service
- Market Entry/Penetration Strategy Advisory Service
- Corporate debt management/restructuring service

- Capacity Building including:
  a. New and innovative financing instruments
  b. Staff Exchange

4.1.2 Collateral

The Global Facility will typically be supported by the guarantee of the Sponsor or Holding Company (if not the borrower) and/or other group company. Other Collateral forms will depend on the nature of the business and transactions offered.

4.2 Intra-African Investment Finance and Guarantee Facility

Proceeds of the Facility can be used for any or all of the following:

c. Investment for setting up and/or expansion of an eligible business by an entity from one African country in another African country;

d. Acquisition of an existing business in an African country by an entity from another African country;

e. Support of joint venture activities between entities from two or more African countries in an African country provided that at least one of the joint venture Partners is from an African country other than the host of the joint venture;

   - Supporting a company in one African country to set up and operate a business under a concession agreement in another African country.

f. Supporting non-equity modes of investment activities by an entity in one African country with another, e.g. franchising, licensing, contract manufacturing, contract farming etc.

4.2.1 Eligible Investments

- Investment in infrastructure especially trade enabling infrastructure including but not limited to roads, ports, power generation;
- Investment that will promote interconnectivity between African Countries including logistics, shipping, aviation, warehousing and telecommunication industries;
- Investment in other services sectors including hospitals, hospitality and financial services;

4.2.2 Qualifying Instruments

a. Direct advances:

   - to the Borrower and Borrower's suppliers and/or EPC contractors engaged by the Borrower;

- to the Borrower to acquire shares or make equity investments in companies in other African countries;
- to the Borrower to inject shareholder loans in subsidiaries in other African countries for expansion purposes;
- to a Borrower in one African country to meet its capital calls contribution in a Joint Venture (JV) registered in another African country.

b. Lines of Credit:

   - to banks or other financial institutions in African countries for on lending to sub-borrowers specifically for intra- African investment financing;
   - to banks or other financial institutions outside Africa for on lending to sub-borrowers specifically for intra-African investment financing.

4.3 Contracting Guarantees

Proceeds of the Facility can be used to confirm/reissue a wide range of specialized guarantees (i.e. bid bonds, performance bonds, advance payment guarantees and retention bonds) to African construction/contracting companies to conduct construction services in other African countries.

i. Bid Bonds

ii. Performance Bonds

iii. Advance Payment Guarantees

iv. Retention Bonds

4.3.1 Eligible Projects

– Various construction projects in African in support of trade-enabling infrastructure, tourism-linked infrastructure and/or manufacturing related infrastructure. These include but are not limited to:

- Roads
- Railways
- Airports
- Hotel resorts
- Power plants
- Manufacturing plants
- Energy related infrastructure

4.3.2 Qualifying Instruments

a. Advance Payment Guarantee (APG): Issued to service exporters to secure a project mobilisation advance as a percentage (10-20%) of the contract value, which is generally recovered on a pro-rata basis from the progress payment during project execution.

b. Performance Guarantee (PG): PG for up to 5-10% of contract value, is valid until completion of the service and/ or grant of Final Service Acceptance Certificate (FAC) by the overseas employer/client.

c. Retention Money Guarantee (RMG): This enables the service exporter to obtain the release of retained payments from the client prior to the completion of the service.

d. Other Guarantees: e.g. in lieu of customs duty or security deposit for expatriate labour, equipment etc.

4.4 Guarantees in support of Government Commitment to PPP Promoters

These guarantees are exclusively in support of projects requiring EPC related services, where Government's have provided their offtake agreements to project promoters or have provided support to the implementation of the projects via sovereign guarantees or otherwise.

4.4.1 Eligible Transactions

– Infrastructure related opportunities (road construction, airports, other trade enabling infrastructure etc.);

– Independent Power Producer projects;

– Manufacturing projects;

– Digital switchover projects; and/or

– Any project that has secured government support/offtake that meets Banks eligibility criteria.

4.4.2 Qualifying Instruments

a. Advance Payment Guarantee (APG): Issued to service exporters to secure a project mobilisation advance as a percentage (10-20%) of the contract value, which is generally recovered on a pro-rata basis from the progress payment during project execution.

b. Performance Guarantee (PG): PG for up to 5-10% of contract value, is valid until completion of the service and/ or grant of Final Service Acceptance Certificate (FAC) by the overseas employer/client.

c. Bid Bonds in support of African companies bidding for large contracts in Afreximbank member countries

4.5 Letters of Credit/Receivables Discounting Facility

The Letter of Credit/Receivables Discounting Facility is purposed to support companies engaged in the EPC value chain in Africa with easier and quicker access to funds to support their working capital needs or otherwise. To enable companies procure goods, The Bank will make available its whole suite of trade products and facilities, including Domestic and foreign Letters of Credit for importation of raw materials / goods and refinancing of those LCs to make payment to suppliers.

4.5.1 Eligible Transactions

– Preference shall be given to companies looking to import/export engineering related equipment and services; and/or

– Companies seeking to discount receivables from construction, engineering or procurement related works in need of immediate working capital;

4.5.2 Qualifying Instruments

a. Letters of Credit

b. Letters of Credit Discounting

c. Receivables Purchase (sellers obtain financing by selling receivables to a finance provider)

d. Receivable discounting

e. Forfaiting

f. Factoring

g. Payables finance (reverse factoring)

4.6 Promissory Notes Discounting Facility

The Bank is able to discount promissory notes owed to any EPC service provider/contractor for works done to an beneficiary which could be a corporate entity or a sovereign.

Eligible Transactions

– Infrastructure related opportunities (road construction, airports, other trade enabling infrastructure etc.);

– Independent Power Producer projects;

– Manufacturing projects;

– Digital switchover projects; and/or

Any project that has secured government support/offtake that meets Banks eligibility criteria.

4.4.3 Qualifying Instruments

The Bank will provide a discounting mechanism based on the provisions of the projects (repayment milestones, contract value, risks etc.) for each promissory note for the Borrower to have immediate access to working capital.

4.7 Construction All-Risk Insurance

Construction All Risks Insurance (CAR) offers comprehensive protection against loss or damage in respect of the contract works, construction plant, equipment and machinery, as well as against third-party claims in respect of property damage or bodily injury arising in connection with the building and execution of a construction project.

4.7.1 Eligible Transactions

- Infrastructure related opportunities (road construction, airports, other trade enabling infrastructure etc.);
- Independent Power Producer projects;
- Manufacturing projects;
- Digital switchover projects; and/or

Any project that has secured government support/offtake that meets Banks eligibility criteria.

5

Facilitation Initiatives

5 Facilitation Initiatives

5.1 Twinning Services

In the context of the EPC sector, the Bank works towards introducing potential and existing clients of the Bank to potential opportunities. Additionally, the Bank actively plays a role in facilitating the awarding of contracts through:

- Issuance of letters of support;
- Issuance of non-binding heads of term sheets;
- Client introductions;
- Mission invitations.

5.2 Policy Advocacy

- Under the EPC Finance Framework, the Bank collaborates with its partners to spear-head policy advocacy for the purpose of encouraging African governments to introduce policies and programmes that are supportive of the continent's EPC value chain.

5.3 Digital Platform

- The Bank will leverage its African Trade Gateway as a resource that will house an EPC Portal that will provide a centralised, readily accessible repository of information to identify a database of credible African EPC companies.
- The EPC Portal provides areas of expertise for referral of projects and enables contractors to identify opportunities/ projects across the continent.

5.4 Trade Intelligence Advisory

- Trade intelligence advisory is available as a element of Afreximbank's TRADAR Club which seeks to curate trade intelligence solutions via the Bank's digital offerings, which involves tailored research and access to exclusive publications, invitations to strategic networking events and discounted access to relevant capacity development trainings and strategic advisory services.

6

General Eligibility

6 General Eligibility

6.1 Eligible EPC's ("Eligible Countries" and "Eligible Entities"):

- Entities in "Participating States", namely, those States which directly or through a designated entity or agency (as defined Article 4(3) of the Bank Agreement) have subscribed to the Bank's share capital and/or whose Governments have signed or signed and ratified or acceded to the Bank Agreement;
- Shareholders in Non-Participating States; and
- Non-shareholders in Non-Participating States will be financed only to the extent that such financing will be used to pay for imports from a "Participating State" or imports from a Shareholder in a Non-Participating State in Africa.
- African engineering, construction and other industrial companies that often regularly import significant volumes of components used in the normal course of their business;

6.2 Eligible EPC Projects:

- Construction of trade enabling infrastructure (roads, railways, airports etc.) by African EPCs in member states;
- Construction of manufacturing-related facilities for goods can be processed, and traded;
- Procurement of Construction related equipment;

7 How to Apply

7 How to apply

Send a description of the proposed Engineering, Procurement and Construction Financing Framework stating whether it is new or an extension of an existing facility, its purpose, amount and currency, tenor and proposed security or collateral to be offered, and the rationale for Afreximbank support.

In addition, Afreximbank needs an applicant to provide:

- A description of the Borrower (or applicant)
    - Its legal status and capital structure
    - Specifications of the project(s) and countries contracts are to be executed
    - Detailed description of the counterparties involved
    - Principal shareholders, history, Management details (CVs of key management staff), and an organizational chart
    - The markets served
    - Safety Management Certificates (ISM Code)
- Brief financial history, audited or certified financial statements for the past 3 years
- Projection of capital needs; cash flow, balance sheet and profit and loss (plus the assumptions).
- A summary of borrowing history and bank references

Afreximbank complies with best practices in Customer Due Diligence including Know Your Customer (KYC) and Anti Money Laundering (AML) policies. In accordance with Afreximbank procedures, applicants shall be required to conform to Customer Due Diligence processes.

8 Conclusion

8 Conclusion

Based on the suite of products presented above, it is clear that there is a need for African solutions to the continents lack of a robust EPC value chain, in spite of the massive opportunity to do so as is evidenced by the US$130bn p/y infrastructure opportunity, most of which Western entities are first in line and have the backing for. This essentially can be achieved by the Bank's commitment to provide both funded and non-funded instruments and support to the sector, coupled with ancillary capacity building services such as workshops and research. Afreximbank has been a leading entity in the realm of infrastructure financing, having provided over US$12bn in various forms of support (letters of support, financing, non-direct lending, twinning etc.), and this portends to only increase further as companies begin to consider Afreximbank as a lender of choice for such opportunities.

In spite of the apparent challenges, the establishment of this programme by the Bank is critical to bridge the infrastructure deficit in Africa and for the success of the Bank's intra-African trade and Export Development agenda.

All enquiries and applications may be addressed to the
Acting Director – Trade, Investment & Corporate Finance,Intra-African Trade Bank

azoghby@afreximbank.com

IATItradeandcorporatefinance@afreximbank.onmicrosoft.com

Notes

Notes

African Export-Import Bank
Banque Africaine D'Import-Export

Headquarters

72B El-Maahad El-Eshteraky Street
Roxy, Heliopolis, Cairo 11341, Egypt

info@afreximbank.com
T +(202) 2456 4100/1/2/3/4

Abuja Branch

No. 2 Gnassingbe Eyadema Street, Off Yakubu Gowon Crescent, Asokoro, Abuja, Nigeria

PMB 601 Garki, Abuja, Nigeria

abuja@afreximbank.com
T +(234) 9 460 3160

Harare Branch

Eastgate Building,
3rd Floor (North Wing), Sam Nujoma Street, Harare, Zimbabwe

P.O. Box CY 1600, Causeway, Harare, Zimbabwe

harare@afreximbank.com
T +(263) 24 2 700 904
+(263) 24 2 700 941

Abidjan Branch

3ème Etage, Immeuble CRRAE-UMOA, Angle Boulevard Botreau Roussel – Rue Privée CRRAE-UMOA Abidjan, Côte d'Ivoire

abidjan@afreximbank.com
T +(225) 2030 7300

Kampala Branch

Rwenzori Towers, 3rd Floor, Wing A, Plot 6 Nakasero

P.O. Box 28412, Kampala, Uganda

kampala@afreximbank.com
T +(256) 417 892 700
+(256) 312 423 700

Yaoundé Branch

National Social Insurance Fund (NSIF) Headquarters Building, Town Hall, Independence Square

P.O. Box 405,
Yaoundé, Cameroon

yaoundebranch@afreximbank.com

Caribbean Office

Trident Insurance Financial center
Hastings, Christ Church, Highway 7, Bridgetown

Barbados BB5156

info@afreximbank.com
T +(246) 629 2342

afreximbank.com

9 789295 097346