



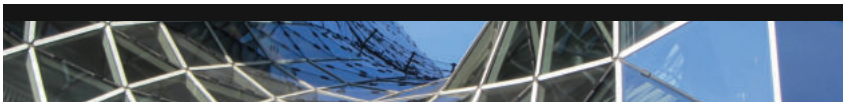
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Eidgenössisches Departement für  
Wirtschaft, Bildung und Forschung WBF  
Staatssekretariat für Wirtschaft SECO

## Public Support for Infrastructure Projects

### TradeRx | Report

**Staatssekretariat für Wirtschaft SECO**



**TradeRX**

EXPERT ADVICE  
GLOBAL EXPERTISE  
BEST PRACTICE

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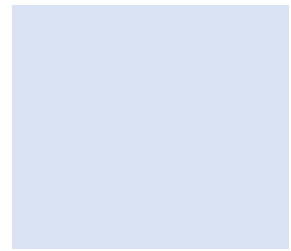
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## List of Abbreviations

|        |  |
|--------|--|
| 4IR    | Fourth Industrial Revolution   |
| ADB    | Asian Development Bank   |
| AHK    | Außenhandelskammer   |
| AIIB   | Asian Infrastructure Investment Bank                                 |
| BDI    | Bundesverband der deutschen Industrie                                |
| BOT    | Build-Operate-Transfer   |
| CDC    | Commonwealth Development Cooperation                                 |
| CDP    | Cassa Depositi e Prestiti  |
| DEG    | Deutsche Investitions- und Entwicklungsgesellschaft                  |
| DFI    | Development Finance Institution                                      |
| DFID   | Department for International Development                             |
| DIT    | Department for International Trade                                   |
| ECA    | Export Credit Agency   |
| EDA    | Eidgenössisches Department für auswärtige Angelegenheiten EDA        |
| EDC    | Export Development Canada  |
| EDCF   | Economic Development Cooperation Fund                                |
| EH     | Euler Hermes   |
| EIB    | European Investment Bank   |
| EMDEs  | Emerging Markets and Developing Economies                            |
| EPC    | Engineering, Procurement and Construction                            |
| EU     | European Union   |
| FCO    | Foreign and Commonwealth Office                                      |
| FDI    | Foreign Direct Investment  |
| FTA    | Free Trade Agreement   |
| G7     | Group of Seven   |
| GCC    | Gulf Cooperation Council   |
| GDP    | Gross Domestic Product   |
| GTAI   | Germany Trade and Invest   |
| IE:UK  | Infrastructure Exports UK  |
| IFC    | International Finance Corporation                                    |
| IMF    | International Monetary Fund  |
| JBIC   | Japan Bank for International Cooperation                             |
| JICA   | Japan International Cooperation Agency                               |
| K-Sure | Korea Trade Insurance Corporation                                    |
| KDB    | Korea Development Bank   |
| KEXIM  | Export-Import Bank of Korea  |
| KfW    | Kreditanstalt für Wiederaufbau                                       |
| KoCC   | Korea Consulting Center for Overseas Infrastructure & Plant Projects |
| MDB    | Multilateral Development Bank  |
| NEXI   | Nippon Export and Investment Insurance                               |
| ODA    | Official Development Assistance                                      |
| OECD   | Organisation for Economic Co-Operation and Development               |
| PwC    | PricewaterhouseCoopers   |
| S-GE   | Switzerland Global Enterprise  |
| SDGs   | Sustainable Development Goals  |
| SECO   | Staatssekretariat für Wirtschaft SECO                                |
| SEK    | Svensk Exportkredit  |
| SERV   | Schweizerische Exportrisikoversicherung                              |
| SME    | Small and medium-sized enterprise                                    |
| UNCTAD | United Nations Conference for Trade and Development                  |
| UK     | United Kingdom   |
| UKEF   | UK Export Finance  |
| US     | United States of America   |
| VDMA   | Verband der Maschinen- und Anlagenbauer                              |
| WTO    | World Trade Organization   |

## Executive Summary



## A. Introduction

1. Schweizerische Eidgenossenschaft, represented by the Staatssekretariat für Wirtschaft (SECO), engaged TradeRx GmbH (TradeRx) in February 2019 to conduct a study on public support for infrastructure projects (the Study). The aim of the Study is to provide an overview of global challenges regarding infrastructure projects and financing gaps, a short summary of capabilities of Swiss businesses to be a relevant part of projects in foreign countries, and an analysis of public support frameworks in six economies. The Study also focuses on high-level recommendations regarding government support in Switzerland for lobbying, project identification and consortium formation, as well as export finance, credit insurance and development finance. The TradeRx team was led by Professor Dr Andreas Klasen.
2. In line with the scope for this project, the Study consists of an analysis and a holistic understanding of differences and similarities of public support frameworks for exporters in Germany, Italy, Japan, South Korea, Sweden and the United Kingdom (UK) involved in infrastructure projects outside Switzerland (Figure 1).

**Figure 1: Countries and Institutions**

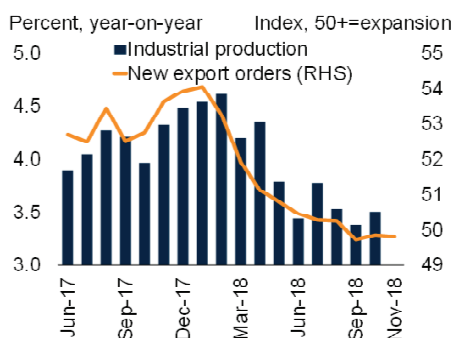


3. Primary research was conducted with a cross-sectional approach using qualitative data via interviews. Secondary quantitative and qualitative data from various publicly available sources was also examined providing a further important basis for the Study. SECO provided documents regarding infrastructure support frameworks in Switzerland. In line with the scope of work, Swiss companies, banks or public authorities were not addressed. The assignment was undertaken during a four-week period in February and March 2019.

## B. Global Challenges

### The Global Economic Environment

4. The external environment for Swiss exporters has changed significantly over the last decade. Real gross domestic product (GDP) in Switzerland grew by 3.2% year-on-year in the first half of 2018, driven by manufacturing exports and supportive financial conditions. However, there is a projected global economic weakening being highly relevant for Swiss exporters, and moderate trade growth is expected over the next years because of political factors as well as structural developments.

**Figure 2: Production/Orders**

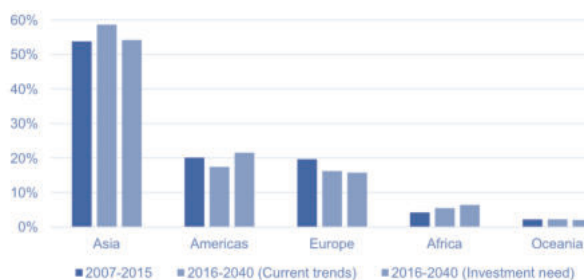
Source: World Bank, 2019.

A rebalancing of the Chinese economy will affect trade moving away from investment including high import components towards higher domestic consumption. Furthermore, foreign direct investment (FDI) activity in 2017 was lower across all sectors on a global level with the rate of expansion of international production slowing down (Figure 2). In addition to increased policy uncertainties and rising geopolitical risks, the decrease in rates of investment return was a main reason for the recent downturn.

### The Rise of Infrastructure Projects

- Despite the risk of global economic weakening affecting foreign trade and investment described above, medium and long-term global infrastructure needs are substantial, in particular in Asia (Figure 3).

As a consequence, development of infrastructure as well as support for exporters being engaged in infrastructure projects have been focus areas for many governments in recent years. Countries have to support their economic growth with new airports, railways or telecommunications projects.

**Figure 3: Global Investments 2007-2040**

Source: Global Infrastructure Hub, 2017.

- In addition, the continued expansion of climate finance activities is an important example of governments' ambitions to foster growth through sustainable infrastructure investments. Infrastructure needs are estimated to be more than \$90 trillion until 2040.

### Infrastructure Financing Challenges and Public Support Instruments

- Public finance for publicly-owned infrastructure comes from different sources such as taxation and public borrowing. In addition, financing is provided by private investors. Infrastructure investments are often done through project finance transactions. There were substantial financing volumes in the last decade, as global spending on infrastructure sectors has gradually increased to \$2.3 trillion in 2015.
- The reduction of government involvement regarding regulation and public investment as well as market-friendly approaches of infrastructure financing led to a shift towards private markets in recent years. However, shortcomings are widely acknowledged in certain situations in which conditions for perfect competition are not met. They result in significant and continuous financing gaps for infrastructure projects.
- In order to facilitate their exporters' participation in infrastructure projects, governments around the globe have created numerous policy instruments.

**Figure 4: Financing Instruments**

Source: Klasen, 2019.

This covers political support, technical assistance and capacity building in developing economies, the creation of national industry networks and platforms, as well as financing vehicles including export credit agencies and bilateral development finance institutions. In a 'Strategic Eco(n)system', different institutions have different mandates and strategic approaches. But they often follow a coherent set of policy objectives in addition to activities of MDBs and private insurers (Figure 4). The combination of policy goals in trade, foreign investment and development aid is key in several Asian economies.

### C. Capability Analysis

#### The Rise of EPC Contracts

10. The environment for infrastructure projects has significantly changed over the last two decades. These changes are related to tender conditions, project types, financial resources or selection criteria. While infrastructure projects with owners' domestic capital as well as international loans or aids dominated in the past, industrial facilities with package deal projects requiring a project financing are now often common. Engineering, procurement and construction (EPC) contracts seem to be the most usual form of contractual relationships in large scale infrastructure projects today.

#### Swiss Opportunities and Challenges

11. Switzerland has lost substantial capabilities and know-how to deliver EPC contracts. For example, ABB has completed its EPC business model change in 2017. Although there still are Swiss contracting companies such as Marti with an international reach, there are no remaining Swiss EPC contractors ranked in ENR's top 250 list. A large exporter, however, exists in the railway sector: Stadler Rail.

Looking at internationally active EPC contractors, the global landscape has also changed dramatically. Numerous major players are now based in China, Japan, South Korea, Spain and Turkey (Table 1).

**Table 1: ENR 2018 Top 100**

| Rank | Firm              | Rank | Firm            |
|------|-------------------|------|-----------------|
| 1    | ACS, Spain        | 9    | Skanska, Sweden |
| 2    | Hochtief, Germany | 10   | PCCC, China     |
| 3    | CCCC, China       | ...  |                 |
| 4    | Vinci, France     | 15   | Salini, Italy   |
| 5    | Strabag, Austria  | 16   | Hyundai, Korea  |
| 6    | TechnipFMC, UK    | 22   | JGC, Japan      |
| 7    | Bouygues, France  | 23   | Samsung, Korea  |
| 8    | CSCE, China       | 27   | Obayashi, Japan |

Source: ENR, 2018.

12. Opportunities for Swiss firms still exist in many markets as subcontractors or suppliers in infrastructure projects despite the significant loss of EPC contractor capabilities. But Swiss exporters have to approach large foreign EPC contractors in order to participate in large projects. This particularly applies for small and medium-sized companies (SME), as projects can include a variety of subcontractors with specific expertise.



13. However, it has to be mentioned that the involvement in infrastructure projects also includes several challenges and risks. These challenges include financial, legal and reputational risks. Government engagement is thus not beneficial per se, extensive public support for infrastructure-exports can also be seen critical.

#### D. Public Support Frameworks

14. Despite some downsides, the question of remaining a competitive nation is closely connected with the quality of public policy tools including lobbying, export credits or innovation support for countries with a strong manufacturing base such as Switzerland. The Study looks at six countries, most of them with substantial activities regarding lobbying, project generation and consortium formation, export finance and insurance, as well as development financing:

##### Germany

15. The Federal Government recently launched infrastructure-related initiatives improving Germany's competitiveness in international strategic mega-projects (Figure 5).

Main pillars of this mega-projects strategy are better coordination among relevant actors and promotion instruments, better usage of existing export and investment promotion schemes, as well as accompanying of development cooperation instruments and improvement of financing instruments.

**Figure 5: Mega-Projects Strategy**



Strategiepapier „Neue Impulse für den internationalen Wettbewerb um strategische Großprojekte – Chancen für Deutschland verbessern“

Source: BMWi, 2016.

16. **Lobbying** through political backing of projects with a German strategic interest is now better coordinated, for example due to a new 'Office for Strategic Projects Abroad'. However, a broader course of action to systematically include financing instruments on a high-level including the export credit agency (ECA) in political lobbying is still lacking. Extended political support for **project generation** is mostly outside the main scope of government activities in Germany, and this also applies for **consortium formation** which is usually undertaken by private industry associations. German offerings for **export finance and credit insurance** include guarantees and insurance but no direct lending or equity. The German ECA traditionally does not specifically promote any sectors or thematic areas, and support for energy projects even went down by 60% in 2017. Concerning **development assistance and financing**, infrastructure is relevant due to commitments, for example in energy, water supply or transport. But support is untied, and there is no strategic priority to finance infrastructure-related projects.

##### Italy

17. Infrastructure-related exports play an important role in Italy's strategy to promote trade. Italy became the first Group of Seven (G7) country to sign a memorandum of understanding with China endorsing the Belt and Road Initiative. Italy's core entity to provide support for Italian businesses engaging in international markets is Cassa Depositi e Prestiti (CDP) with its subsidiaries SACE and SIMEST.

18. The government significantly supports Italian businesses abroad through its diplomatic networks and by promoting the 'Made in Italy' brand. **Lobbying** is often provided in concerted efforts using CDP entities such as SACE. **Project generation** and **consortium formation** is also supported by public instruments. However, Italian industry associations are active here as well, and there is a comparatively limited public involvement concerning a targeted approach. The Italian ECA is very active regarding support for **export credit insurance**, and its international network and the new 'push strategy programme' aim towards high-potential emerging markets. **Development assistance and financing** is clearly geared towards support for Italian firms, and infrastructure is highly relevant as well (Table 2).

**Table 2: SIMEST Approved Investments 2017 (€ million)**

|                | Soft Loan  | Equity     | Interest Subsidies | Export Credit |
|----------------|------------|------------|--------------------|---------------|
| Infrastructure | n/a        | 20         | 5                  | 1,481         |
| <b>Total</b>   | <b>147</b> | <b>150</b> | <b>138</b>         | <b>11,433</b> |

Source: SIMEST, 2018.

## Japan

19. Infrastructure export is a key priority under Prime Minister Abe's so-called 'Abenomics', establishing a framework for private businesses' support in the field of infrastructure with a 'one-voice in a united front' approach (Figure 6).

Government agencies improved structures and processes to deal with support for infrastructure exports. Ministries also set up new posts or promotion headquarters in order to advance integrated policy formation for infrastructure. **Lobbying** is the first pillar of government activities, and missions and visits as well as embassy and other institutions play a role also for scouting.

**Figure 6: Infrastructure Orders**



Source: JapanGov, 2019.

20. Empirical evidence shows that government visits led not only to signings of memorandums of understanding but also **project generation** and concrete contracts. **Consortium formation** is an additional aspect, and the government formed several business-involved government institutions such as the Industrial Competitiveness Council. In terms of **export finance and credit insurance**, financial support for infrastructure is a major objective for Japan Bank for International Cooperation (JBIC), and projects are often supported by overseas investment loans and equity. Nippon Export and Investment Insurance (NEXI) insures power and other infrastructure projects as well. Japan's **development assistance and financing** support specifically includes the development of the Japanese economy, and this financing is particularly applied to infrastructure construction and other projects requiring a large amount of funding.

## South Korea

21. Participation in large-scale infrastructure projects in foreign countries is a crucial part of Korea's industrial strategy. Industrialisation for export today often focuses on green

technologies and renewable energies, as well as sustainable transport and green building construction.

22. **Lobbying** for strategic industries such as infrastructure in foreign countries is a priority in South Korea. After state visits and government visits, there are immediate follow-ups with concrete actions and scouting activities such as working group meetings to identify prospective infrastructure projects. A main policy tool for **project generation** and **consortium formation** is the Korea Consulting Center for Overseas Infrastructure & Plant Projects (KoCC). The strength is rooted in the interaction between KoCC's members such as the Export-Import Bank of Korea (KEXIM) as well as Korea Development Bank (KDB).

Figure 7: KoCC Members



Source: GETech, 2017.

23. Policy loans and **export finance** play an important role in South Korea, and the same applies for government export **credit insurance** schemes. Both KEXIM and K-Sure support Korea's growth and strengthen ties and cooperation with foreign countries through numerous instruments, and KEXIM particularly focuses on infrastructure. The same applies for **development assistance and financing** where mobilising funds for large-scale infrastructure projects plays a major role for KEXIM's activities as manager of the Economic Development Cooperation Fund (EDCF). KDB is also engaged in development finance activities. As a key player in infrastructure financing, the bank ranked third in project finance arrangement of global infrastructure projects in 2017.

### Sweden

24. Sweden's aim is to reach emerging markets to a greater extent and focus on high-end goods and services. Environmental technologies and infrastructure-related exports are very important for the country, and the government has focused on the opportunity to support Swedish infrastructure exporters as one priority in its strategic measures.
25. Following the new government export strategy, 'Team Sweden' (Figure 8) has received the mandate to improve coordination between relevant public and private actors with **lobbying** activities. Interviewees describe the 'Team' approach as very successful with other countries such as Finland pursuing a similar strategy. As part of Team Sweden, Business Sweden together with private firms identifies large infrastructure projects with a potential for Swedish exports as part of **project generation**. Infrastructure exports are also significantly supported with **export finance and credit insurance** by the Swedish export credit agency EKN as well as Svensk Exportkredit (SEK). **Development assistance and finance** are generally untied with no specific priority on infrastructure. However, Sweden's development finance institution (DFI) Swedfund offers financial support for Swedish exporters via the 'Swedpartnership' financing programme.

Figure 8: Team Sweden



Source: Government Offices, 2019.

United Kingdom

- 26. The United Kingdom recently developed an export strategy with a holistic approach, and infrastructure projects play a key role. The UK’s strategy is based on four layers: Encouraging and inspiring businesses, help exporters to access information and advice, connect firms to buyers, and ensure financing and risk mitigation (Figure 9).

Figure 9: UK Export Strategy Layers



Source: HM Government, 2018.

- 27. Comparable to the approaches of other countries, ministerial visits and missions play an important role to connect businesses with foreign markets and buyers regarding **lobbying**. The ‘GREAT Britain’ marketing campaign is a major instrument in this context. **Project generation** and **consortium formation** are additional focus areas, and Infrastructure Exports UK (IE:UK) brings together companies as single ‘Team UK’ consortia. The infrastructure sector is a target area for the ECA when it comes to **export finance and credit insurance** support. For example, UK Export Finance (UKEF) recently connected 400 UK companies with multinational contractors for infrastructure projects. The sector is also highly relevant for **development assistance and financing**, but there is no export-related support from the bilateral DFI.

Multilateral Development Banks

- 28. MDBs are particularly well suited for infrastructure financing due to their ability to provide long-term financing for long amortisation periods at a relatively low cost. Following

key principles of their set-up related to additionality and financial sustainability, their aim is also to create a catalytic effect by providing equity investments, long-term loans or guarantees leveraging private sector lending. As infrastructure-related exports from Switzerland and other countries benefit from MDB offerings, the Study also provides a brief overview of selected institutions describing their offerings.

## E. Comparative Analysis and Recommendations

### Lobbying

29. Lobbying activities have been significantly extended by all assessed governments. Many countries are extensively using official visits for business purposes, and missions of ministers are increasingly combined with trade facilitation. Some economies such as Japan and South Korea are at the forefront of the lobbying phenomenon. The UK has also been described as a role model for lobbying. The 'Team' approach in countries such as Sweden has shown that coherent coordination efforts and joining forces can lead to significant success. Germany's activities are regarded as relatively conservative compared to other countries. This is also because of the efficient approach of the private sector, using foreign chambers of commerce (AHKs).
30. Swiss lobbying activities today are limited. Traditionally, the country is also reluctant with regard to significant interventions in the existing market economy. Although extensive lobbying activities can create substantial costs for the government, an extension of Swiss public support would be required in order to compete with other countries in infrastructure-related exports.

Targeted government missions for lobbying in key markets (investors and large EPC contractors) can be used in a more stringent approach. This must include businesses as well as SERV staff. Following a more progressive approach in addition to enhanced information exchange, a 'Team Switzerland' can combine organisations such as EDA and SERV for concerted lobbying, a strengthening of instruments' synergies and better coordination (Figure 10). Created as a public-private partnership, e.g. coordinated by SECO or S-GE, this would still be a reluctant intervention.

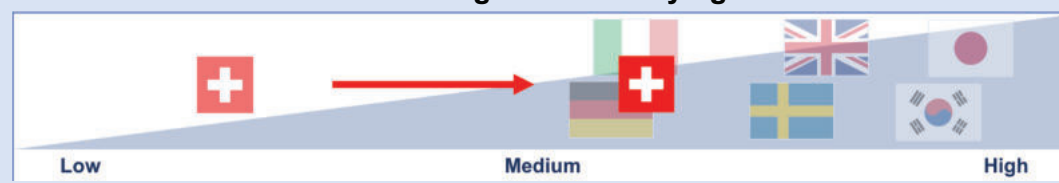
**Figure 10: Team Approach**



Source: Developed for this Study.

- Use official visits in buyer countries in a strategic manner to attract interest for infrastructure exports, involving Swiss firms and SERV in foreign missions.
- Enhance systematic information exchange with Swiss embassies and Swiss Business Hubs in order to improve lobbying functions, also for follow-ups.
- Assess the creation of a 'Team Switzerland' for lobbying exports, in particular for 2<sup>nd</sup> and 3<sup>rd</sup> Tier EPC companies and manufacturers.

**Figure 11: Lobbying**



## Project Generation and Consortium Formation

31. Assessing other governments' activities, there is a substantial difference between countries such as Germany, Italy and Sweden, and the action Japan, Korea and the UK are taking. Germany shows limited efforts for strong official support in order to generate infrastructure projects abroad. The same applies for publicly-driven consortium formation, where Italy and Sweden are also reluctant relying more on activities from private actors. With IE:UK, the United Kingdom has changed its reluctant approach. Korea and Japan have generated major infrastructure projects by strong government support, and Korea's KoCC shows proof that successful project generation and consortium formation can be the result of heavy government action in a concerted manner.
32. Traditionally, public entities have not been active in Western market economies as substantial policy support can lead to a distortion of markets with limited possibilities for private companies to act according to market conditions. Switzerland has been reluctant to take action for considerable public interventions, and major efforts of public actors for project generation and consortium formation might not be very efficient due to the current set-up and lacking EPC contractor capabilities in Switzerland. From a regulative point of view, this would also imply a major change in Swiss economic policy. However, Switzerland could leverage more opportunities: Following a 'Team Switzerland' approach also for project generation and consortium formation can foster success. Pre-investment or feasibility studies, for example awarded by a Team Switzerland, are additional opportunities.

- Use official visits in buyer countries not only for lobbying but also for project generation, and conduct sustainable follow-ups.
- Facilitate collaboration and networking by using the 'Team Switzerland' approach, and permanently include relevant industry associations.
- Systematically enhance SERV's offering for pathfinding activities, and expand exchange between exporters and MDBs.

**Figure 12: Project Generation and Consortium Formation**



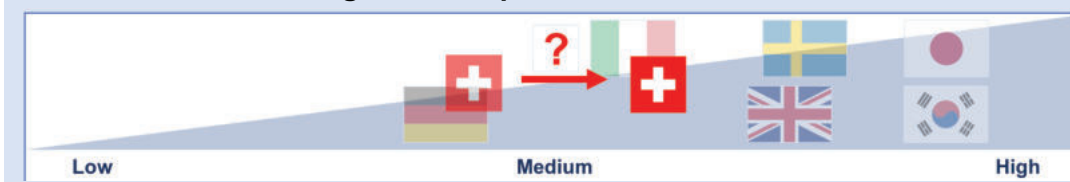
## Export Finance and Credit Insurance

33. Export credit agencies around the globe have expanded their product offering including direct lending, working capital facilities, or even equity and mezzanine financing. Other ECAs took steps to substantially increase their risk appetite, supporting infrastructure projects in EMDEs. Countries such as Germany still regard their ECA as an insurer of last resort. Although Sweden and the United Kingdom also follow a reluctant approach regarding state intervention, they provide a broad product portfolio. SACE is much more aggressive, for example with its 'push strategy' focusing on foreign buyers. JBIC and NEXI as well as KEXIM and K-Sure have an extensive product suite from equity and loans to insurance and guarantees, and both Japan and Korea are particularly focusing on infrastructure financing with many transactions and high commitments.

34. Switzerland follows a reluctant approach regarding strong ECA support, and extensive marketing activities or a broad product suite are not part of SERV's strategy. The Swiss ECA thus has severe disadvantages relevant for infrastructure-related exports: There are no offices or representatives abroad, and there is a limited product portfolio, falling behind agencies offering export credit and investment insurance together with direct lending, equity products and untied loans. For the future, a strong involvement in a Team Switzerland would be useful. In addition, substantial amendments of SERV's set-up moving towards direct lending might boost infrastructure-related exports, as well as trade competitiveness of several other industries. However, this requires major political decisions based on an in-depth assessment (outside the scope of the Study).

- Enable SERV to be an important 'Team Switzerland' stakeholder, and leverage local teams at embassies and SBHs to actively offer SERV products.
- Assess SERV's existing organisational set-up in light of a strategic decision if Swiss infrastructure-related exports should be extensively increased.
- Impartially assess if direct lending or investment guarantee offerings should complement SERV's product portfolio in order to compete with other ECAs.

**Figure 13: Export Finance and Insurance**



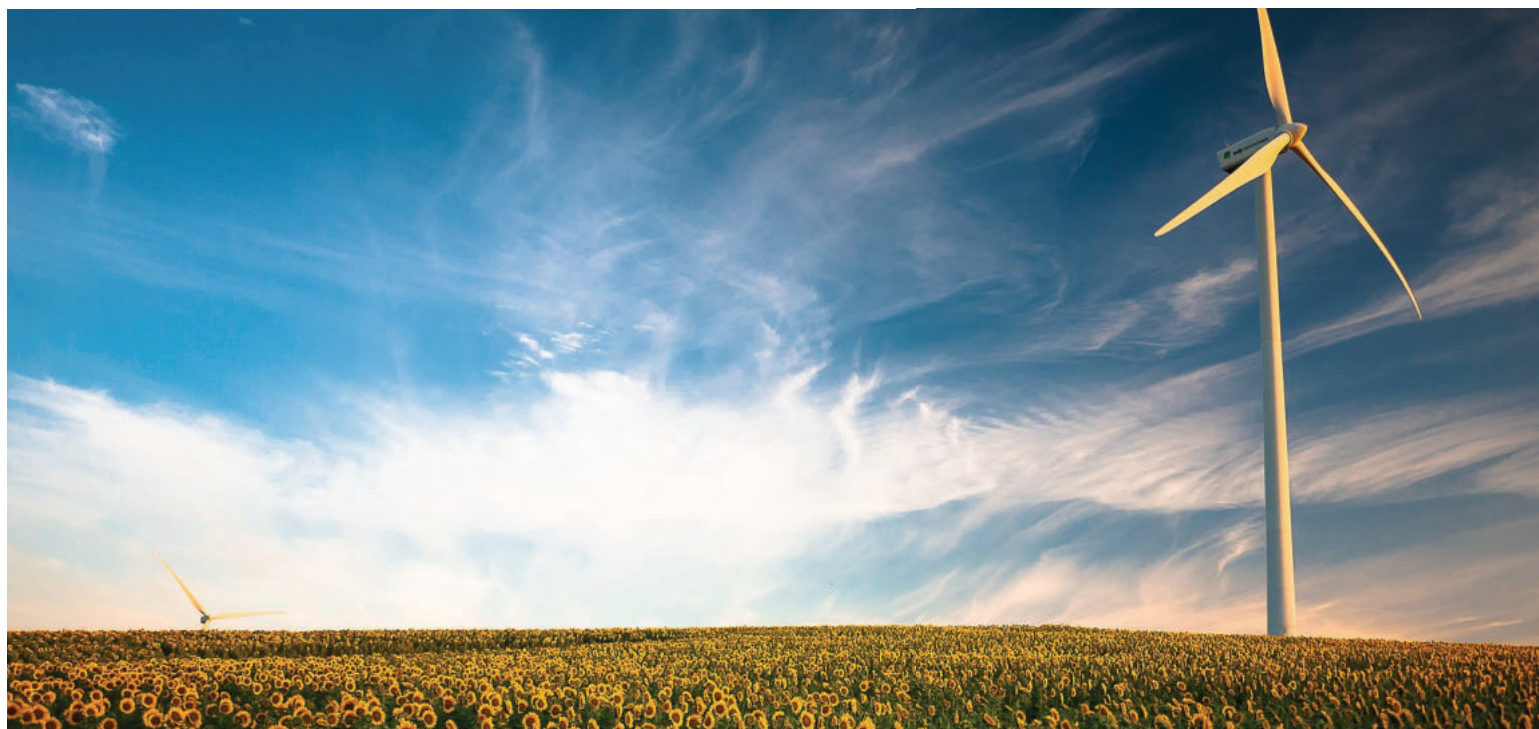
### Development Financing

35. Developing finance institutions and ECAs follow different institutional mandates. However, there are increasing overlaps in infrastructure financing leading to potential competition and collaboration between development and export financing. In the UK, activities are conceptually not related to British exports or businesses. Germany's support is untied, and there is no strategic priority for infrastructure-related exports. The same applies for Sweden, although the 'Swedpartnership' programme is focusing on Swedish firms being active in international business. Italy's SIMEST looks particularly at Italian interest, and feasibility studies are part of SIMEST's activities as well. In Japan and South Korea, there is a large overlap between export and development finance. For example, KEXIM is managing the development financing activities on behalf of the government, and large-scale infrastructure projects play a crucial role.
36. The Swiss development financing approach with regard to infrastructure-related exports does not appear as competitive in comparison with DFIs in Italy, Japan and Korea. Switzerland does not follow a tied loan agenda with the Swiss Investment Fund for Emerging Markets (SIFEM). Although infrastructure is the most important sector, effects for Swiss infrastructure exports are constrained by limited new annual commitments and an indirect investment model. An amendment would be a political and strategic decision. Looking at the multilateral level, Switzerland is also a member of various MDBs. Activities there could be extended, for example through a closer collaboration with initiatives such as the Private Infrastructure Development Group. Furthermore, Swiss employees working for MDBs could create foster initiatives regarding opportunities for exchange between Swiss exporters and MDB investment operations when

transparency and impartiality are ensured. SERV secondments, as done in the past by other ECAs, might be another opportunity

- Assess SIFEM's existing mandate and set-up in light of a strategic decision if public support for infrastructure exports should be enhanced.
- Impartially assess if DFI and ECA activities in Switzerland can be better co-ordinated and work closely together in a 'Team Switzerland'.
- Strengthen Switzerland's existing and assess additional MDB engagement not only at Board of Director level but also in more operational roles.

**Figure 14: Development Finance**





# Introduction

1

## 1.1 Engagement

37. The Schweizerische Eidgenossenschaft, represented by the Staatssekretariat für Wirtschaft (SECO), engaged TradeRx GmbH (TradeRx or the Consultant) on 13/15 February 2019 to conduct a study on public support for infrastructure projects (the Study).
38. The aim of the Study is to provide an overview of global challenges regarding infrastructure projects and financing gaps, a short summary of capabilities of businesses in Switzerland to be a relevant part of projects in foreign countries, and an analysis of public support frameworks in six economies. The Study also focuses on high-level recommendations regarding government support in Switzerland for lobbying, project identification and consortium formation, as well as export finance, credit insurance and development finance.
39. The TradeRx team was led by Professor Dr Andreas Klasen. The assignment was undertaken in February and March 2019.

## 1.2 Scope and Analytical Framework

### Scope

40. In line with the scope for this project outlined in the “Auftrag betreffend Verbesserung des Zugangs von Schweizer Unternehmen zu Infrastrukturprojekten in Entwicklungs- und Schwellenländern“ and the proposal „Kurzstudie Globale Infrastrukturfinanzierung“, the Study consists of an analysis and a holistic understanding of differences and similarities of public support frameworks for exporters being involved in infrastructure projects outside Switzerland (Figure 15). In agreement with SECO, assessed countries include Germany, Italy, Japan, South Korea, Sweden and the United Kingdom (UK).

**Figure 15: Assessed Countries and Institutions**



### Data

41. Primary research was conducted with a cross-sectional approach over a two-week period due to the scope and significant time limitations of the assignment. Qualitative data

was gathered via open-ended, semi-structured interviews with other governments, export credit agencies (ECAs), bilateral development finance institutions (DFIs) and multilateral development banks (MDBs). In line with the scope of work, Swiss companies, banks or public authorities were not addressed.

42. Secondary quantitative and qualitative data from government policy papers, ECA, DFI and MDB annual reports and websites, as well as academic research and reports from publicly available sources such as the Organisation for Economic Co-Operation and Development (OECD) and the United Nations Conference for Trade and Development (UNCTAD) was examined providing an important basis for the Study. SECO also provided documents regarding infrastructure support frameworks in Switzerland.

### 1.3 Structure of the Report

43. The Study consists of five chapters, including the introduction with a description of the assignment and scope, the analytical framework, as well as an overview of the Study.
44. Chapter Two will look at global challenges in order to gain a better understanding of the context and the most important drivers for infrastructure investments. This elaboration includes a brief discussion regarding an increased need for infrastructure investments, financing requirements, as well as market gaps and public interventions.
45. The third chapter will focus on a capability analysis summarising the rise of engineering, procurement and construction (EPC) contracts, opportunities for Swiss businesses to participate in EPC contracts, as well as related challenges and risks.
46. Chapter Four will assess public support frameworks with regard to different perspectives including project identification and export finance support. The discussion will concentrate on selected countries with substantial activities in infrastructure projects abroad: Germany, Italy, Japan, South Korea, Sweden and the UK. MDB activities will also be described briefly.
47. The final chapter summarises and concludes. Chapter Five will highlight high-level recommendations, in particular concerning lobbying, consortium formation, export finance and credit insurance, as well as development financing.



## Global Challenges

2

## 2.1 Overview

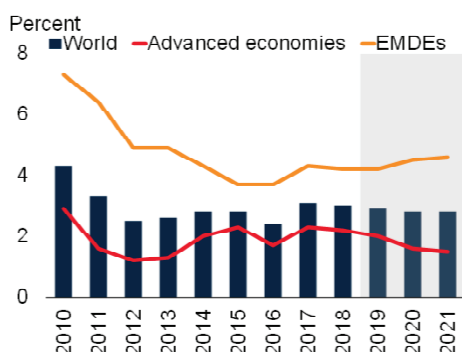
48. This Chapter analyses the international economic environment, explaining how dramatically the global economy has changed, and describes relevant trends in trade and infrastructure investment. In order to better understand the context for capabilities of Swiss exporters and government strategies supporting infrastructure projects, it also explores rising infrastructure needs and financing challenges. This part of the Study concludes by discussing market failure and financing gaps, as well as theoretical backgrounds of policy support frameworks leading to specific strategies and initiatives for infrastructure-related exports discussed in the following chapters.

## 2.2 The Global Economic Environment

### Global Economy

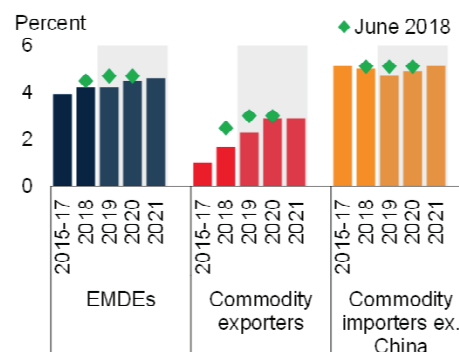
49. The external environment for Swiss exporters has changed dramatically over the last decade. Following the 2008 global financial crisis, financial systems have recovered to the greatest possible extent. Real gross domestic product (GDP) in Switzerland grew by 3.2% year-on-year in the first half of 2018, driven by manufacturing exports and supportive financial conditions. Growth in the Euro Area reached 2.4% (1.9% expected for 2018), and higher domestic demand including investment in 2017 led to 2.2% (2.9% expected for 2018) real GDP growth in the United States (US). As shown in Figure 16 and Figure 17, economic activity continues to flourish in highly-industrialised countries and is envisaged to remain robust in Switzerland to reach 1.6% this and next year. A cyclical recovery is also expected for most emerging markets and developing economies (EMDEs), especially if engaged in commodity exports. However, there is a projected global economic weakening being highly relevant for Swiss exporters, inter alia due to the fact that several central banks might gradually remove monetary stimulus. GDP growth in China is also projected to slow down with a growth rate of 6.1% on average in 2020 and 2021 (World Bank, 2019; OECD, 2018a; UNCTAD, 2018a).

**Figure 16: Global Growth**



Source: World Bank, 2019.

**Figure 17: EMDEs Growth**



Source: World Bank, 2019.

### Foreign Trade

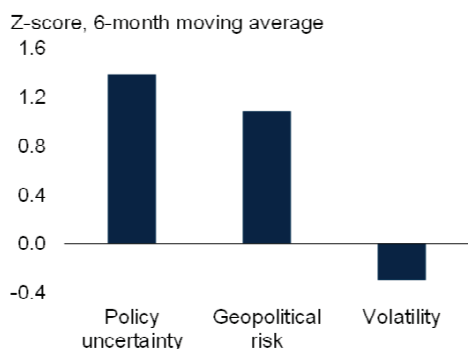
50. Global trade of goods and services experienced a substantial recovery with growth of 4.8% in 2017. Drivers for growth relevant for OECD exporters were not only stronger

intra-regional trade developments in Asia but also rising imports in the US, in particular due to additional fiscal stimulus. The rebound of international trade has also boosted manufacturing exports in Switzerland. However, global trade slowed again more rapidly than envisaged in 2018, and moderate trade growth is expected over the next years because of political factors as well as structural developments. For example, rising trade protectionism and slower growth of global value chains might lead to substantial challenges for Swiss exporters. In addition, the rebalancing of the Chinese economy will affect trade moving away from investment including high import components towards higher domestic consumption. The unanticipated rise of inflation rates with central banks increasing interest rates could also lead to negative consequences on trade, requiring additional actions for government export support in OECD countries (World Bank, 2019; UNCTAD, 2018a; Klasen, 2017a).

### Investment Climate

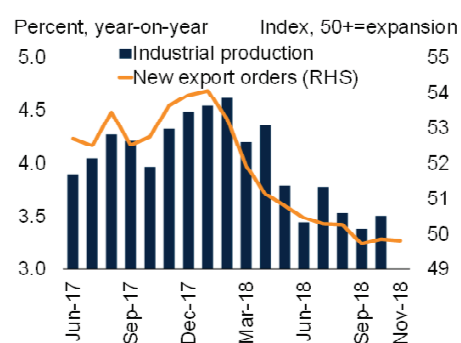
51. Recent forecasts point to solid investment in many developed economies. However, investment growth rates in several EMDEs such as China remain below those in recent years. Foreign direct investment (FDI) activity in 2017 was lower across all sectors on a global level with the rate of expansion of international production slowing down. In addition to increased policy uncertainties and rising geopolitical risks (Figure 18), the decrease in rates of investment return was a main reason for the recent downturn. As shown in Figure 19, the future investment climate might also be negatively affected due to the fact that industrial production and new export orders decelerated in 2018 (OECD, 2018b; UNCTAD, 2018b; Klasen, 2017b).

**Figure 18: Policy Uncertainty**



Source: World Bank, 2019.

**Figure 19: Production/Orders**



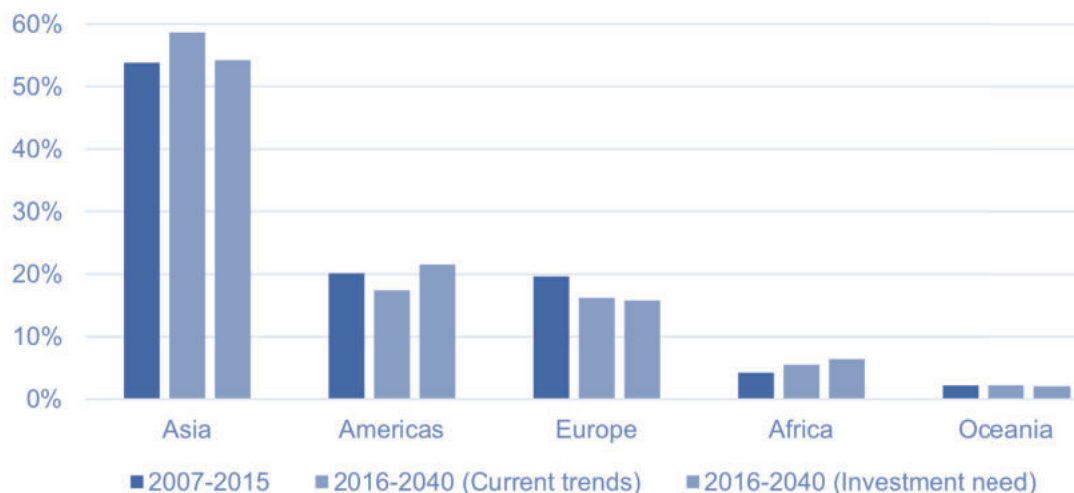
Source: World Bank, 2019.

## 2.3 The Rise of Infrastructure Projects

52. Despite the risk of global economic weakening affecting foreign trade and investment described above, medium and long-term global infrastructure needs are substantial, estimated to be more than \$90 trillion until 2040 (Figure 20). Availability of infrastructure is a crucial factor for human development and economic growth. With more than two billion people lacking access to basic sanitation or constant electricity, the United Nations Sustainable Development Goals (SDGs) implicitly and explicitly include infrastructure as a key objective. Appropriate infrastructure for businesses is also of critical importance, and a 10% rise in infrastructure assets can directly account to an up to 1%

GDP per capita increase (Global Infrastructure Hub, 2017; Griffith-Jones and Kollatz, 2015; Calderón et al., 2011).

**Figure 20: Global Infrastructure Investment 2007-2040**

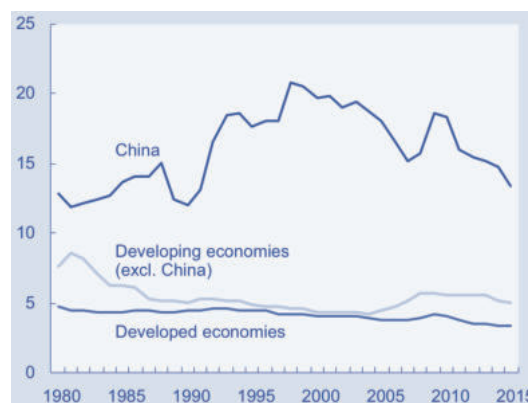


Source: Global Infrastructure Hub, 2017.

- 53. As a consequence, development of infrastructure as well as support for exporters being engaged in infrastructure projects have been focus areas for many governments in recent years (Figure 21). This is due to the fact that the level and quality of transportation, energy generation and transmission or social services such as health are not regarded as adequate in many economies.

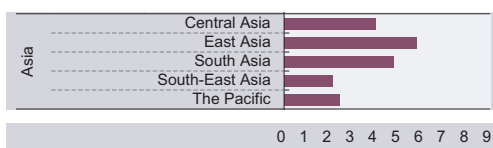
There are significant infrastructure gaps and current investments in EMDEs, for example in East Asia (Figure 22). Countries have to support their economic growth with new airports, railways or telecommunications projects. In addition, the continued expansion of climate finance activities is an important example of numerous governments' ambitions to foster growth through sustainable infrastructure investments, for example in African states (UNCTAD, 2018a).

**Figure 21: Public Investment Trends**



Source: UNCTAD, 2018. % of GDP

**Figure 22: Current Investments**



Source: UNCTAD, 2018. % of GDP.

Annual investments for core infrastructure such as transport or power and electricity of at least \$3.3 trillion per annum are required according to recent studies. It is estimated that only Asia needs \$26 trillion in infrastructure investments until 2030 (OECD, 2018b; Woetzel et al., 2016).

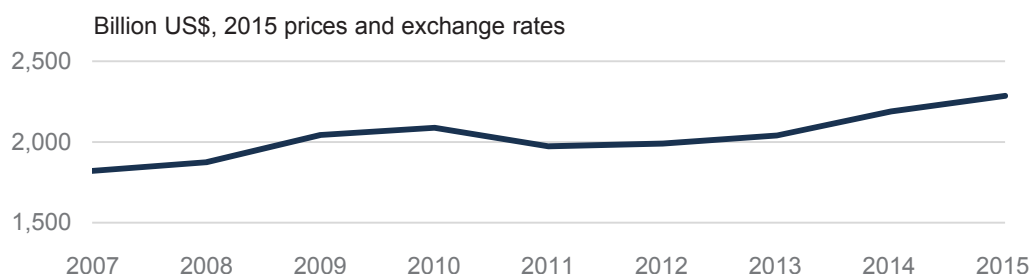
## 2.4 Infrastructure Financing Challenges

54. Due to the infrastructure gaps in general and the significant requirement for infrastructure investments in many EMDEs, infrastructure projects promise tremendous opportunities for investors, contractors, operators and suppliers. This also applies to Swiss businesses being active in infrastructure-related exports. However, there are also substantial challenges such as the financing perspective.

### Sources for Infrastructure Financing

55. Public finance for publicly-owned infrastructure comes from different sources such as taxation and general public borrowing. Funding entities include central and local governments or sometimes state funds for infrastructure. In addition, significant amounts of financing are provided by private investors for specific projects. Infrastructure investments are often done through project finance transactions where a project-specific entity delivers a particular project (see, e.g., Santos and Kearney, 2018; Klasen and Eicher, 2017; Ray, 2015). Funding sources include commercial banks, private insurers, pension funds or private equity funds. The same applies for privately-owned infrastructure such as telecommunication and utilities. Figure 23 shows the substantial financing volumes in the last decade, as global spending on infrastructure sectors such as airports and ports, roads and railways, as well as electricity, water and telecommunications has gradually increased to \$2.3 trillion in 2015 (Global Infrastructure Hub, 2017).

**Figure 23: Global Infrastructure Spending 2007-2015**



Source: Global Infrastructure Hub, 2017.

56. Public finance and private finance options for infrastructure show different benefits and drawbacks. Depending on the conditions of public budgets or the quality of the administration, there can be lower procurement costs and greater flexibility over maintenance costs with government sources, but also underinvestment as well as cost and time overruns due to short-term electoral politics or inefficient contractor management. On the other hand, private financing does not add to standard measure of public sector debt and has lower whole-life costs but can lead to inappropriate risk allocation and contractual inflexibility.

### Competitive Markets and Financing Gaps

57. The reduction of government involvement regarding regulation and public investment as well as market-friendly approaches of infrastructure financing led to a shift towards provision and financing of infrastructure from private markets in many areas. Markets are mechanisms for allocating resources and are, by and large, the most efficient way



to coordinate an economy. Within a secure legal and regulatory framework as well as with the existence of key public institutions such as a judiciary, a modern economy is able to function without significant government involvement. If markets are perfectly competitive, participants have perfect information, and there are no externalities and no public goods, market outcomes without major public interventions are efficient (Stiglitz and Walsh, 2006; Stiglitz, 1998; Bator, 1958). However, shortcomings of markets are widely acknowledged in certain situations in which conditions for perfect competition are not met.

58. These shortcomings result in significant and continuous financing gaps in infrastructure due to several reasons: In addition to the size of the infrastructure investment gap equivalent with a supposed financing gap, public budget constraints in many countries create problems. Furthermore, long infrastructure financing tenors often do not match short-term private investor requirements. Infrastructure projects also create significant transaction costs and include risks to be addressed with appropriate financial instruments (Li, Abraham and Cai, 2017; Griffith-Jones and Kollatz, 2015; Collier, 2014). Imperfect information or information asymmetries between potential transaction partners then prevent mutually beneficial investment from occurring, and this can result in unmet demand for credit. Potential borrowers might not receive loans even if they indicate a willingness to pay more than the market interest rate. Markets then may lead to inefficient outcomes, which provide a rationale for public interventions in infrastructure-related export and development financing.

## 2.5 Policy Support Instruments

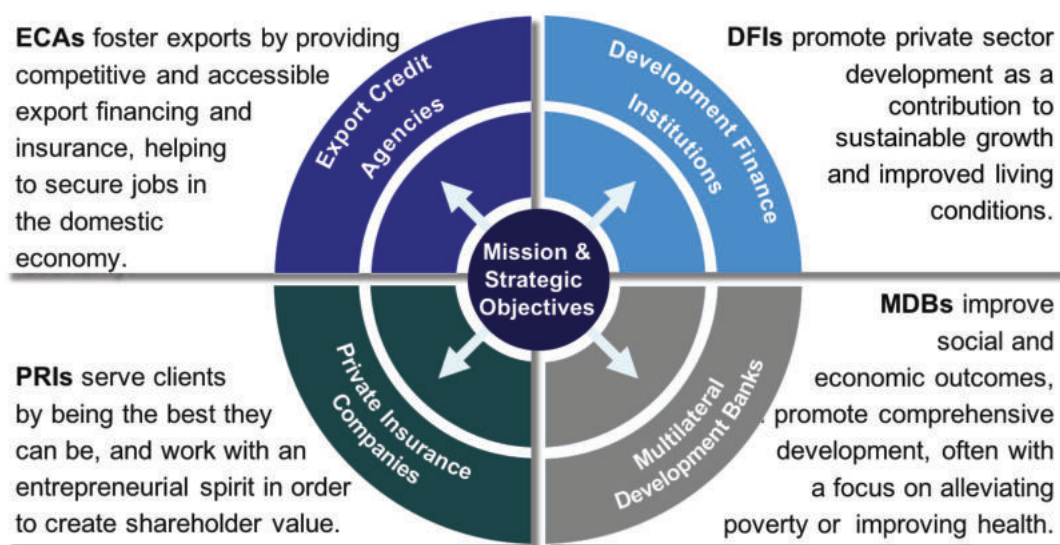
59. In addition to market failure, policy goals for infrastructure projects abroad can be a key aspect for public interventions. As governments play an important role in growth processes, policy goals can be related to employment in the national economy or to industrial policy objectives. However, emphasis can also be placed on SDGs such as poverty reduction. In recent years, a number of governments started to combine objectives regarding trade and development cooperation. Policies focus, for example, on promoting sustainable and inclusive growth, as well as enhancing international earning capacity by pursuing a progressive international trade and infrastructure investment agenda.

### Policy Instruments

60. In order to facilitate their exporters' participation in infrastructure projects, governments around the globe have created numerous policy instruments. This covers political support, technical assistance and capacity building in developing economies, the creation of national industry networks and platforms, as well as financing vehicles including export credit agencies and bilateral development finance institutions (Drysdale and Gisiger, 2017). In addition, regional and multilateral development banks such as the Asian Infrastructure Investment Bank (AIIB) owned by governments foster social development and infrastructure investment. It is estimated that bilateral DFIs and MDBs provided approximately \$60 billion for infrastructure support, whereby DFI support amounted to roughly \$26 billion, and MDB support to approximately \$34 billion (Miyamoto and Chiofalo, 2016).

61. A principal success factor of government financing vehicles is an integration into a concise national strategic framework to leverage impact (Klasen, 2019; Meyer and Klasen, 2013). Within this strategic framework, different institutions such as bilateral DFIs, national ECAs and innovation funds have different mandates and strategic approaches but follow a coherent set of policy objectives in addition to market activities of MDBs and private insurers (Figure 24):

**Figure 24: Financing Vehicles' Mandates and Strategic Approaches**



Source: Klasen, 2019.

### Combining Trade, Investment and Development Policy Goals

62. The combination of policy goals in trade, foreign investment and development aid with public policy instruments is an important strategic approach in several Asian economies. With a profound eastward shift in economic activities and growing South-South trade, China's industrial policy activities are most remarkable as the country is at the forefront of the entire multipolarity phenomenon: China as well as other countries increasingly use their political influence for export promotion or development policy while representing a diverse range of opposed interests. Infrastructure-related exports are a key area of public support activities. However, this also holds true for highly-industrialised countries in the region such as Japan and South Korea.

#### Chinese Activities

Converting from a long-time aid recipient to a donor, China now has a crucial role as an assertive provider of infrastructure-related development and export financing. In addition, the government has signed numerous free trade agreements in order to expand its markets. The Belt and Road Initiative (BRI) is a vivid example for the strategic move in trade, investment and economic development transforming politics at multiple scales (Flint and Zhu, 2019; Klasen, 2017b; Shimomura and Ohashi, 2013; Quah, 2011).

### Chinese Activities (cont.)

China has become a major aid donor in the last two decades. The country did not only grow into the role of an important donor in Central Asia and poorer economies in South-East Asia, but is also particularly active in infrastructure projects in Africa. Being now the largest competitor to traditional donors, China mostly offers unconditional aid to African partners, reaching cumulative foreign aid to the continent of \$130 billion during 2000-2013 (see, e.g., Liu and Tang, 2018).

As discussed above, a major driver for increasing aid and development financing are the focus on mutual benefits due to the framework of South-South cooperation, as well as the BRI. Flint and Zhu (2019) mention that the strategic approach aims to economic integration, regional influence, and global geopolitical competition. Development financing of infrastructure projects plays a major role for the BRI, both from a perspective of national institutions as well as multilateral development banks such as the AIIB.



## Capability Analysis

3

### 3.1 Overview

63. The following chapter discusses the structural change in infrastructure projects in the last decades, for example in the global construction market. It particularly highlights the rise of engineering, procurement and construction contracts, including a high-level assessment of contracts in international power projects. Furthermore, opportunities for Swiss exporters to participate in large infrastructure investments are analysed briefly. Chapter Three also looks at related opportunities and risks.

### 3.2 The Rise of EPC Contracts

#### A Changing Environment

64. The environment for infrastructure projects has significantly changed over the last two decades. This does not only include terms of national competition rules and delivery systems for contractor selection but also altered market structures for contractors including amended requirements regarding a global strategy, extended project components, as well as financial capabilities. Although numerous projects in infrastructure segments such as roads have been undertaken only by local companies in their respective economy, projects in areas such as airports and ports or energy are dominated by a relatively small number of globally active companies. Many of the international contractors have substantially increased the proportion of revenues generated in foreign markets.
65. Changes in international construction projects are related to tender conditions, project types, financial resources or selection criteria. Tenders often move away from price-focused and exclusive competition to mutually negotiated projects focusing on technology transfer. While infrastructure projects with owners' domestic capital as well as international loans or aids dominated in the past, industrial facilities with package deal projects requiring a project financing from the contractor are often common now. This particularly applies for Build-Operate-Transfer (BOT) projects, where the sponsor is engaged with a prime contractor taking responsibility for completing the construction and a pre-determined operation period.



66. As a consequence, selection criteria moved away from construction experience to total capability for project development, financing and management expertise. Early contractor involvement is of crucial importance in these infrastructure projects (Uner, Cavusgil and Cavusgil, 2018; Wondimu et al., 2016; Han et al., 2010). Therefore, EPC agreements are regarded as the most usual form of contractual relationships in large scale infrastructure projects today.

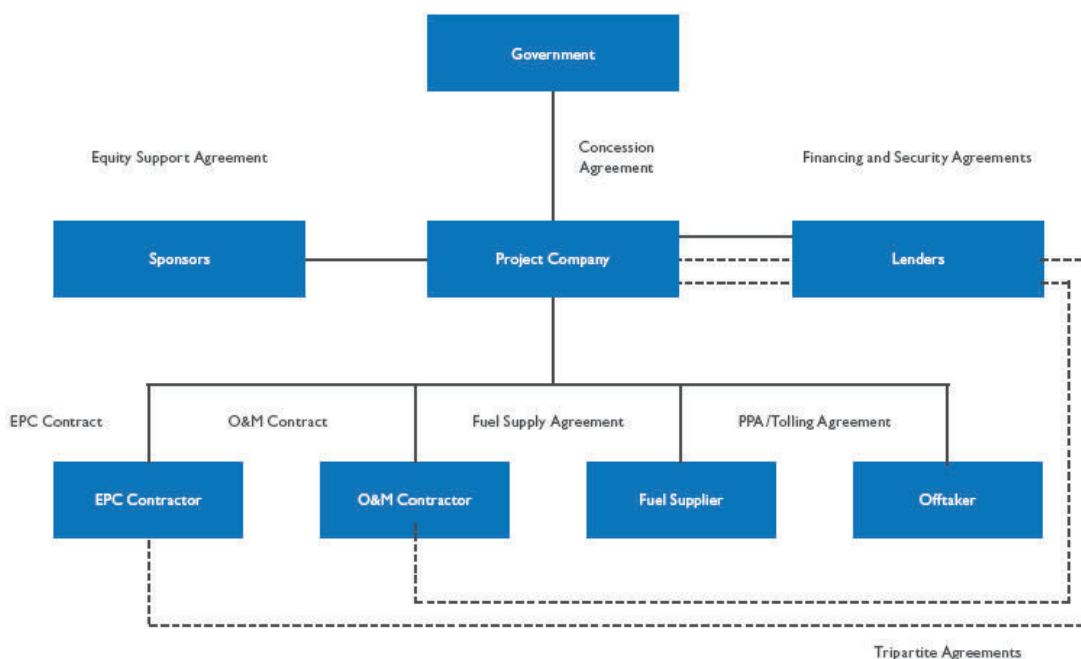
### **Definitions**

67. Although there is no standard definition for EPC contracts or contractors in academic research, delivery forms of the projects include engineering, procurement and construction of the facility or infrastructure project, often combined with developing the project, financing the project, or full turnkey.
68. So-called 2<sup>nd</sup> and 3<sup>rd</sup> Tier EPC companies can be defined as businesses delivering only a part of the facility, or specific products and services (PwC, 2017; Han et al., 2010).
69. There is also no standard definition in academic literature regarding the industries involved in EPC contracts. However, in addition to engineering development and consultancy, EPC providers often are domiciled in the construction industry, transportation, the manufacturing industry, and the energy sector.

### **EPC Contract Structure**

70. In energy projects, EPC contracts usually cover a very broad number of tasks such as project and site management, engineering, materials and equipment, civil and site infrastructure works, transport and installation, as well as performance guarantees for the entire project. Only a limited number of responsibilities typically remain with the customer including project permits and electricity provision as well as site preparation (see, e.g., Pícha, Tomek and Löwitt, 2015).
71. The key element of an EPC turnkey arrangement thus is that the contractor is responsible for the complete facility before handing over the facility to the developer or owner for operations, i.e. turning the key to launch operations. Turnkey EPCs are both possible with fixed and target prices. Key legal aspects of the contractual relationship include specifications, cost estimates, schedules and payment terms, as well as warranties, liquidated damages, limitation of liability and securities. Although the detailed legal structures vary from project to project, an application of standardised contractual documents such as FIDIC documents is often regarded as a success factor for EPC contracts (Pícha, Tomek and Löwitt, 2015). The standard EPC contract structure in power projects is shown in Figure 25.

Figure 25: Standard EPC Structure in Power Projects



Source: DLA Piper, 2011.

### 3.3 Swiss Context and Opportunities

#### EPC Contractors

72. Switzerland has lost substantial capabilities and know-how to deliver EPC contracts in recent years. For example, ABB has completed its EPC business model change in 2017 moving electrical substation EPC projects into a joint venture majority-owned by SNC-Lavalin from France. ABB's oil and gas activities were moved into a joint venture with Arkad from the Kingdom of Saudi Arabia. Although there still are Swiss contracting companies such as Marti with a long-lasting history and international reach involved in construction, transportation or hydropower projects, there are no remaining Swiss EPC contractors ranked in ENR's most recent top 250 list of international contractors (ENR, 2018a). A large and internationally successful exporter, however, exists in the railway sector: Stadler Rail.
73. Looking at internationally active EPC contractors, the global landscape has also changed dramatically in the last decades. Global strategies, bid conditions, financial resources but also strong political support and amended selection criteria led to a shift from traditional players to new competitors. Successful firms in Japan, South Korea or Turkey strategically increased the proportion of overseas business volume to their total revenue. They accounted for a substantial share in 2018 construction starts of more than \$800 billion (ENR, 2018b).
74. Examples for successful global players from Asia are China State Construction Engineering, Hyundai Engineering & Construction, JGC or Samsung C&T. Germany, France and the United States also play an important role with companies such as Bechtel, Hochtief and Vinci in ENR's top 100 list. However, international contractors residing in China, Turkey and Spain such as ACS were able to achieve significant

growth rates (PwC, 2017). Other countries such as Sweden and the United Kingdom also strategically positioned themselves towards infrastructure projects abroad supporting contractors such as Skanska and TechnipFMC, and developing export strategies with a particular focus on infrastructure.

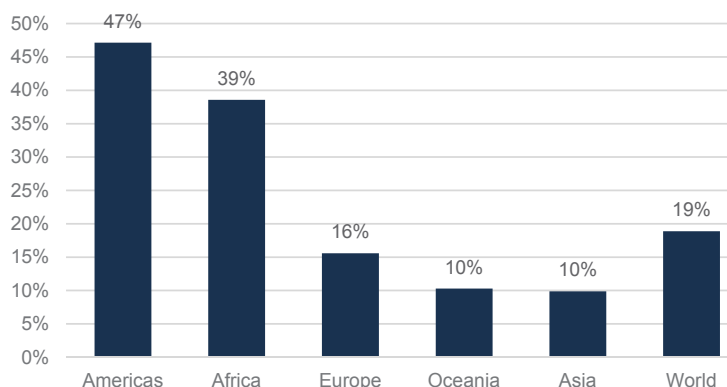
### 2<sup>nd</sup> or 3<sup>rd</sup> Tier Opportunities

75. According to information provided by SECO, Swiss firms are mostly subcontractors or suppliers in infrastructure projects. As a consequence, Swiss exporters often have to approach EPC contractors in foreign countries in order to participate in large projects. This particularly applies for small and medium-sized companies (SME), as infrastructure projects can include a variety of subcontractors with specific expertise.

### Markets

76. The most important markets for infrastructure projects are Africa, Asia and the Middle East. In line with the rising infrastructure needs in EMDEs discussed above, interviewees mentioned that the Americas are still a key region for growth, although Africa is picking up substantially as well with the second largest infrastructure investment gap until 2040 (Figure 26). Most international contracts come from developing and under-developed economies.

**Figure 26: Infrastructure Investment Gaps 2016-2040**



Source: Global Infrastructure Hub, 2017.

## 3.4 Challenges and Risks

77. As discussed above, there are numerous opportunities for Swiss companies in infrastructure projects despite the significant loss of EPC contractor capabilities. However, it has to be mentioned that the involvement in infrastructure projects includes several challenges and risks. An engagement is not beneficial per se, extensive public support for infrastructure-exports can also be seen critical. Key challenges for companies include financial, legal and reputational risks.



## Financial Challenges

78. In addition to the mobilisation of financial resources for infrastructure projects, structuring the project from a financial perspective is a challenge for exporters. This is related to the bankability of the investment developing adequate structures for equity participation, lending facilities, as well as risk mitigation instruments. Although EPC contracts are possible with a target price, a common approach is a fixed completion price, for instance in in turnkey projects in the energy sector (see, e.g., Griffith-Jones and Kollatz, 2015; Collier, 2014). This can lead to major financial challenges for exporters, also because significant cost overruns are common.

## Legal Risks

79. Due to the rising project complexity and increasing size of EPC contracts, legal conditions have become much more complicated in recent years. There is a substantial number of disputes because of the project quality or cost overruns, as well as project delay. Although agreements mostly define the obligations of the contractor and the sponsor or operator in an appropriate manner, scope of work definitions, schedule delays connected with liquidated damages, as well as terminations for default and convenience play a major role. Key disputes also include unclear specifications or different applications of EPC contractors' liabilities under the agreement (Pícha, Tomek and Löwitt, 2015, DLA Piper, 2011). This can lead to significant legal costs for Swiss exporters participating in infrastructure projects abroad.

## Technical and Reputational Risks

80. Infrastructure projects today can be also very complex from a technical perspective. With a turnkey approach, EPC contractors have to prove full reliability and performance of the project, e.g. a power plant. Failure will not only lead to financial losses and legal disputes but also reputational issues regarding other existing clients and future projects. For example, 245 infrastructure projects in India were delayed in 2018 while cost escalation has been reported in 345 infrastructure projects (ET, 2018). As a consequence, infrastructure-related policy support can also have several downsides.



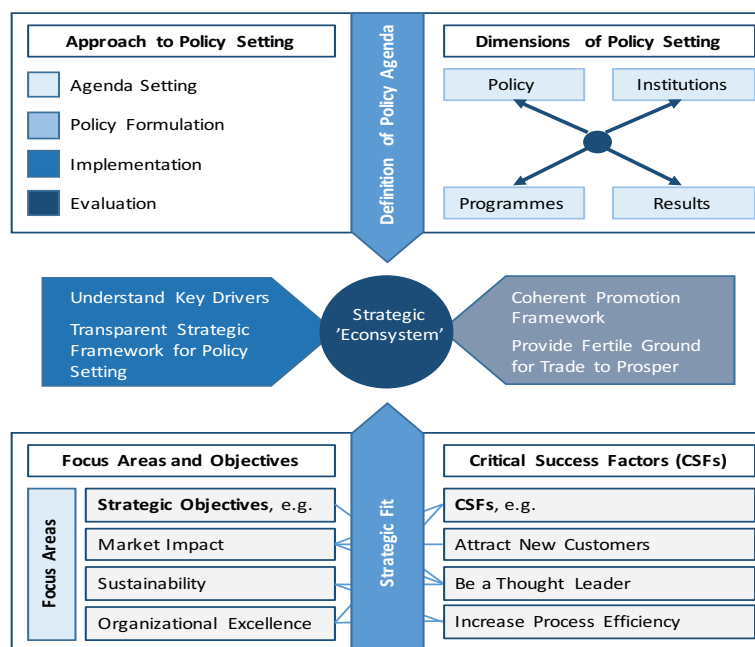
## Public Support Frameworks

4

## 4.1 Overview

81. Despite these downsides, the question of remaining a competitive nation is closely connected with the quality of public policy tools including lobbying, export credits or innovation support for countries with a strong manufacturing base such as Switzerland (see, e.g., Romano and Traù, 2018; Tsai, 2018; Hotz-Hart, 2012). Challenging economic and social developments including the Fourth Industrial Revolution (4IR) with new and rapidly changing technologies are altering the competitiveness of highly-industrialised countries in many ways. Artificial intelligence, cloud computing or autonomous systems create new industries and revolutionise or even destroy traditional sectors. As a consequence, promoting and financing innovation and exports related to infrastructure from a government perspective remain or even become more relevant.
82. As discussed in Chapter Two, a principal success factor of government instruments for infrastructure-related exports is an integration into a concise national strategic framework to leverage impact. A policy mix includes the provision of high-level support, publicly-financed networks, or government financing and risk mitigation instruments such as export insurance. Effectively managing the interaction of government entities involved in innovation, development finance and export credits is key to crafting sustainable and responsive economies (Meyer and Klasen, 2013; Stiglitz and Walsh, 2006). A supportive economic environment, the coherent interplay in a 'Strategic Eco(n)system', is able to provide a fertile ground an economy needs to prosper (Figure 27).

**Figure 27: The Strategic Eco(n)system**



Source: Meyer and Klasen, 2013.

83. Chapter Four discusses public support frameworks and their application in Germany, Italy, Japan, South Korea, Sweden and the United Kingdom. The analysis focuses on strategic approaches, as well as a variety of policy instruments. This includes lobbying, project generation and consortium formation, export finance and credit insurance, as well as development financing. A brief overview of MDB activities in infrastructure financing is provided as well in this chapter.

## 4.2 Germany

### Strategic Approach

84. Being one of the leading nations in international trade of goods and services, many industries in Germany such as construction, transportation or energy are heavily dependent on exports. Free global trade and fair competition are therefore of particular importance for Germany in order to boost economic growth and create jobs. Trade, export and FDI form part of the policy portfolio of the Ministry of Economic Affairs and Energy. As such, the Ministry has the lead of Germany's initiatives regarding infrastructure-related exports.
85. The German Federal Government has recently launched several infrastructure-related strategic initiatives to combine elements of innovation, trade and development. In 2016, the Ministry of Economic Affairs and Energy issued a strategy paper on how to improve Germany's competitiveness in international strategic mega-projects (Figure 28).

Main pillars of this mega-projects strategy are better coordination among relevant actors and promotion instruments, better usage of existing export and investment promotion schemes, as well as accompanying of development cooperation instruments and improvement of financing instruments (BMW, 2016).

**Figure 28: Mega-Projects Strategy**



Strategiepapier „Neue Impulse für den internationalen Wettbewerb um strategische Großprojekte – Chancen für Deutschland verbessern“

Source: BMW, 2016.

86. The intensification of other international initiatives is a further important pillar. For example, Germany's Energy Export Initiative supports exporters in the energy sector to approach foreign markets. Although the programme mainly focuses on small and medium-sized enterprises (SMEs), EPC contractors and large corporate benefit as well.

### Lobbying

87. Historically, the German Federal Government as well as Federal State governments have played a comparatively reluctant role in systematically connecting exporters with foreign buyers. High-level industry delegations participating in chancellor or ministerial visits and missions were always common, and political missions for business match-making have a long tradition. However, German embassies often played a relatively limited role regarding active lobbying according to interviewees. One reason for this is that the German foreign chambers of commerce (AHKs) traditionally have been of crucial importance for connecting German businesses with potential customers abroad, and Germany Trade and Invest (GTAI) is a proven instrument for export promotion.
88. Following the 2016 strategic initiative mentioned above, the approach for large-scale infrastructure projects abroad has changed. Lobbying through political backing of projects with a German strategic interest is now better coordinated, for example due to a new 'Office for Strategic Projects Abroad'. The office is also associated with an Inter-ministerial committee. The Energy Export Initiative with a €18.5 million budget organises 170 events per year with 1,600 business representatives participating. However,

evidence for significant positive effects for the mega-projects strategy still has to be provided. For example, a broader course of action to systematically include financing instruments on a high-level such as ECAs in political lobbying is still lacking. The same applies to substantial export credit agency marketing activities to further promote infrastructure-related export financing in mega deals, with just one employee of the German ECA located in one foreign office in Dubai. Proactive searching for projects, often defined as scouting, is also still not regarded as an appropriate government activity.

### Project Generation and Consortium Formation

89. Additional public activities fostering infrastructure-related exports are related to an actively executed approach for project generation or consortium formation. There are examples for large-scale infrastructure projects where political activities or support on a high level led to new projects for German corporates. In Egypt, for instance, a mega-investment in the energy sector was facilitated with significant support from Chancellor Merkel. However, extended political support for the generation of projects related to infrastructure is usually outside the main scope of government activities in Germany.
90. The same applies for significant public activities for the formation of consortia. There are no systematic support processes or matchmaking activities for German companies being active in infrastructure projects abroad provided by the Federal Government or the Federal States' governments.

**Figure 29: VDMA Offering**



Source: VDMA, 2019.

Support for consortium formation is usually undertaken by private industry associations such as the Federation of German Industries (BDI) or the Mechanical Engineering Industry Association (VMDA), the latter offering a specific cooperation marketplace for the engineering industry including infrastructure-related projects abroad (Figure 29).

### Export Finance and Credit Insurance

91. As discussed in previous chapters, financing and risk mitigation instruments are integral parts of support for infrastructure projects abroad. Hermes Cover is the official German export credit guarantee programme managed by Euler Hermes (EH). The aim of the German ECA is to help to open up markets, which are difficult to access, and to maintain business relations in challenging circumstances. EH also runs an untied loan guarantee programme on behalf and for account of the Federal Government. In addition, PricewaterhouseCoopers (PwC) manages the German investment guarantee scheme. Together, EH and PwC offer a comprehensive product suite to advance exporters and investors abroad. Direct lending is not part of the product portfolio though.
92. The 2016 strategy particularly emphasises a better use of existing instruments to finance or insure large-scale export projects. However, the German ECA traditionally does not specifically promote any sectors or thematic areas. Support for energy projects even went down by 60% in 2017, and the predominant sector with regard to single

transaction policies was ships. This is in line with the overall outstanding portfolio, where ships reflect 34% of the total outstanding exposure (Figure 30). Investment guarantee support for infrastructure was also non-dominant accounting to approximately 40% of approved applications. Figure 31 shows that the geographical distribution for export insurance is allotted fairly equally reflecting the diversified economy (EH, 2018).

### EH Key Industries and Regions (%)

Figure 30: New Cover (Industry)

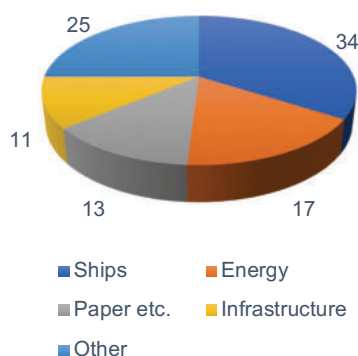
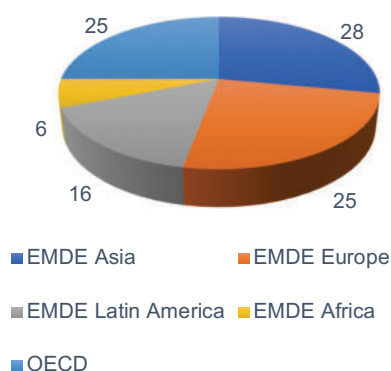


Figure 31: New Cover (Region)



Source: EH, 2018.

### Development Assistance and Financing

93. Germany's bilateral DFI is Deutsche Investitions- und Entwicklungsgesellschaft (DEG), a wholly-owned subsidiary of the German state-owned bank Kreditanstalt für Wiederaufbau (KfW). DEG is mandated to promote the private sector in EMDEs within the context of entrepreneurial development cooperation. In order to fulfil its mandate, DEG has defined strategic goals covering three dimensions: Developmental impact, provision of financing, and advice to German enterprises. DEG has structured its offering according to customer clusters comprising corporates, financial institutions, funds and project financing. DEG maintains a standard DFI product suite including loans, mezzanine financing, equity contributions, as well as guarantees. Feasibility studies proposed by German businesses and partially financed by DEG are also an important instrument.
94. DEG's primary geographic focus areas are Asia and Latin America. Overall financing commitments were spread across 44 countries in 2017. DEG's dominant industries are financial institutions followed by energy and water supply as well as manufacturing. Substantial new commitments promoted the protection of climate and the environment (DEG, 2018). Similar to the German ECA, infrastructure is relevant due to commitments in the energy and water supply as well as the transport and telecommunication. Support is untied, but DEG in cooperation with the German Foreign Chambers of Commerce and the German Government has started to establish 'German Desks' abroad. They are set up to provide credit lines for local partner banks. With these credit lines, local banks may provide financing for German SMEs as well as local businesses. However, there is no strategic priority for DEG to support infrastructure-related projects.
95. A new development financing initiative of the Federal Government are the up to one billion Euro funds 'AfricaConnect' and 'AfricaGrow'. However, eligibility criteria are still discussed, and there seems to be no specific focus on infrastructure-related exports.

## 4.3 Italy

### Strategic Approach

96. Italy is the eurozone's third largest economy and one of the top ten exporters globally. Slowing external demand and uncertainty about global trade arrangements have hurt Italian businesses. However, export success is particularly driven by increasing specialisation in sectors with less competition from low-cost economies. The overall policy framework for international trade and development cooperation is defined by the Ministry of Foreign Affairs and International Cooperation together with the Ministry of Economic Development, Labour and Social Policies.
97. An intergovernmental steering committee developed a new framework of an extraordinary plan in 2015 to promote exports and attract inward investment. Infrastructure-related exports play an important role in this strategy. Italy became the first Group of Seven (G7) country to sign a memorandum of understanding with China endorsing the Belt and Road Initiative, driven in particular by the Ministry of Economic Development.
98. Italy's core entity to provide support for Italian businesses engaging in international markets is Cassa Depositi e Prestiti (CDP). In addition to the wholly-owned subsidiary SACE acting as the official Italian export credit agency, CDP has assumed the role of Italy's DFI in 2016 with SIMEST. It thereby combines export promotion, export finance support and international development cooperation under one roof. Furthermore, CDP is the national promotional institution with a mandate to finance public investments and infrastructure. Infrastructure and international expansion are two main pillars of CDP's 2020 plan strategic guidelines (Figure 32).

**Figure 32: CDP 2020 Plan Strategic Guidelines Pillars**



Source: CDP, 2018.

### Lobbying

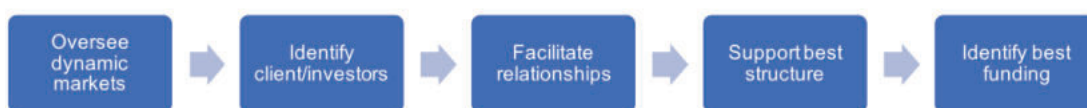
99. The Ministry of Foreign Affairs and International Cooperation significantly supports Italian businesses abroad through its diplomatic networks and by promoting the 'Made in Italy' brand. In addition, the Ministry of Economic Development, Labour and Social Policies oversees a broad spectrum of promotional agencies as well as instruments directed at facilitating access to foreign markets.
100. Missions involving ministries and government export promotion entities have been expanded during recent years. Ministerial visits are used in a strategic manner to enable

Italian businesses to export. Lobbying are provided in concerted effort, using CDP entities such as SACE and SIMEST in an approach some interviewees describe as aggressive. In any case, it is SACE's policy to actively lobby Italian involvement in new projects including elements of scouting. To achieve this, the ECA followed in the footsteps of Canada's EDC and Japan's JBIC over the past years setting up a network of international hubs in major emerging and industrialised markets.

### Project Generation and Consortium Formation

101. Project generation and the formation of infrastructure consortia is also supported by public instruments. However, the Italian industry associations are active here as well, and according to interviewees there seems to be a comparatively limited involvement of government entities concerning a targeted approach for project generation and consortium formation.
102. SACE plays not only an active role in lobbying but also in project generation. The Italian ECA's ten international offices work in close connection with Italian companies active in the region and their local counterparties. SACE provides managerial and advisory support for the definition and implementation of market-specific international growth strategies. The team also supports exporters in identifying business opportunities in countries with sales potential, proposing financial and insurance solutions (Figure 33).

**Figure 33: Added Value of SACE's Network**



Source: Developed for this Study based on SACE, 2018.

103. In collaboration with industry associations, SACE also developed training initiatives and seminars dedicated to exporters. These workshops and training sessions allow participants to acquire strategic and operational skills needed for successful internationalisation.

### Export Finance and Credit Insurance

104. In addition to its substantial lobbying and other support activities, SACE's main purpose is to provide a broad range of risk mitigation instruments to support the competitiveness of Italian business on the international stage. SACE's activities are commercially oriented, and the ECA operates on its own balance sheet. As part of its positioning under Cassa Depositi e Prestiti, SACE's business development activities are driven by CDP's strategic pillars, and product offerings are increasingly interlinked within the group. SACE offers a full spectrum of credit insurance, financial guarantee and trade finance products.
105. In 2017, the Italian ECA also launched a 'push strategy programme' inspired by Export Development Canada's pull strategy. The programme is intended to open doors for 'Made in Italy'. It offers untied guarantees for medium and long-term lines of credit to major foreign counterparties in order to facilitate purchases from Italian suppliers.



SACE focusses the 'push strategy programme' towards high-potential emerging markets where Italian exporters are still under-represented. This includes, in particular, support for infrastructure-related projects. Although cruise-shipbuilding is a key industry in the portfolio, Figure 34 shows that oil and gas as well as infrastructure, construction and electric power play a major role for SACE's business activities (SACE, 2018). Not only large but also small infrastructure projects are important for the ECA, for example supporting a €9 million service contract in Qatar for an Italian EPC contractor.

### SACE Key Industries and Regions (%)

Figure 34: Guarantee Portfolio

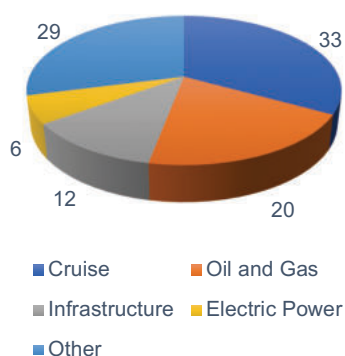
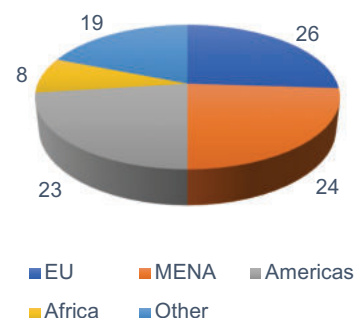


Figure 35: Exposure (Region)



Source: SACE, 2018.

### Development Assistance and Financing

106. As discussed above, SIMEST is a subsidiary majority-owned by the Italian ECA SACE within CDP. Other shareholders include commercial banks, private businesses and industry associations. SIMEST's mandate is to promote investments in Italian businesses abroad and to provide them with technical and financial support. SIMEST's product offering significantly varies from the products and investment profiles of the other European DFIs such as the Dutch Development Bank FMO, Proparco in France and Germany's DEG. It includes not only equity and loans but also export credit support and soft loans to support Italian businesses in their internationalisation efforts including foreign market penetration programmes and feasibility studies.
107. SIMEST does not appear to explicitly pursue development impacts in target countries. There is also no reference to any other developmental theme. As such, SIMEST's exposure is mainly market-driven and linked to Italian FDI interest and export support including infrastructure (Table 3). The market-driven approach is reflected in the portfolio, for example regarding export credit support: A high proportion is directed towards defence which are largely banned by other DFIs. Shipbuilding as well as infrastructure and construction are also highly relevant (SIMEST, 2018).

Table 3: SIMEST Approved Investments 2017 (€ million)

|                | Soft Loan  | Equity     | Interest Subsidies | Export Credit |
|----------------|------------|------------|--------------------|---------------|
| Infrastructure | n/a        | 20         | 5                  | 1,481         |
| <b>Total</b>   | <b>147</b> | <b>150</b> | <b>138</b>         | <b>11,433</b> |

Source: SIMEST, 2018.

## 4.4 Japan

### Strategic Approach

108. Japan has experienced robust economic growth in the aftermath of the 2008 global financial crisis. As the 4<sup>th</sup> largest export economy in the world, foreign trade is an important driver for GDP growth in addition to private investment and consumption. A global regulatory framework and fair competition in trade are main success factors for Japanese businesses. As a powerful player in the global trade environment, bilateral deals as political and strategic tools are key for the country. Most recently, the European Union (EU) and Japan finalised negotiations for an economic partnership agreement removing trade barriers and shaping global rules for exports and imports.
109. Infrastructure export is a key priority. The government under Prime Minister Abe has focused on the economic revitalisation with the so-called 'Abenomics' consisting not only on monetary policy and flexible fiscal policy, but also the expansion in the export of infrastructure systems (Figure 36).

The government unveiled a comprehensive policy package to support the Japanese economy, and the new growth strategy also stipulated to establish a framework for private businesses' support in the field of infrastructure with a 'one-voice in a united front' approach. Government agencies improved structures and processes to deal with support for infrastructure exports. Ministries also set up new posts or promotion headquarters in order to advance integrated policy formation for infrastructure (Yoshimatsu, 2017).

**Figure 36: Infrastructure Abenomics**



Source: JapanGov, 2019.

### Lobbying

110. Lobbying of Japanese infrastructure support is the first pillar of government activities. For example, the government intensified proactive missions including a high number of Prime Minister visits abroad with the explicit goal to expand infrastructure-related exports. The same applies for other cabinet members. Government leaders' visits are often designed as economic missions, involving Japanese firms and business associations in numerous foreign visits. Furthermore, several public initiatives such as partnerships for quality infrastructure were launched covering elements of scouting, and international conferences related to infrastructure are a further lobbying tool.
111. In addition to government missions and visits as well as embassy involvement, public export finance institutions such as the Japan Bank for International Cooperation (JBIC) play an important role already in lobbying activities. Similar to some other countries such as Canada or Italy, Japan's approach has shifted from trade facilitation to trade creation. The set-up of international representations, for example in Beijing, Bangkok,

Jakarta, Manila, New Delhi and Dubai, allows JBIC to directly engage with local financial institutions and potential foreign buyers. International representations are part of extensive overseas operations with regional headquarters for Asia and Pacific located in Singapore, Europe, Middle East and Africa in London, and the Americas in New York. The same applies for the Japan International Cooperation Agency with more than 90 offices abroad (JICA, 2019).

### Project Generation and Consortium Formation

112. Lobbying through top-level sales activities of joint government and business missions has led to successful outcomes. Empirical evidence shows that formal government visits led not only to signings of memorandums of understanding but also concrete contracts, for example in the transportation sector. Major projects generated by explicit government support include airport development in Mongolia, mass transport systems in Indonesia and Thailand, a coal power plant in Malaysia, or high-speed rail technologies in India (Yoshimatsu, 2017).
113. Consortium formation is an additional aspect of government support. The Abe cabinet formed several business-involved government institutions such as the Industrial Competitiveness Council focusing on expanding the export of infrastructure systems as a crucial pillar for the international development strategy of Japan. Committees with public and private actors work on future prospects for infrastructure-related exports. Furthermore, the government and industry associations such as the Chamber of Commerce and Industry established a joint organisation supporting Japanese companies' bidding for infrastructure projects. Project formation is also part of JBIC's current action plan (JBIC, 2019).

### Export Finance and Credit Insurance

114. Japan Bank for International Cooperation is a government-owned policy bank. JBIC's mission is to promote overseas development and securement of important resources for Japan, supporting the international competitiveness of Japanese industries, promoting overseas businesses dedicated to mitigating climate change and preventing disruptions to the international financial order. Core operating principles of JBIC are complementarity to private sector financial institutions as well as ensuring financial sustainability. JBIC's product offering contains export and import loans, overseas investment loans, untied loans, government loans, guarantees and equity participations.

**Figure 37: JBIC' Strategic Approach**



Source: Developed for this Study based on JBIC, 2019.

115. Financial support for infrastructure projects is a major objective for JBIC, providing the wide range of product offerings described above. As such, overseas infrastructure development is a key focus area with action plans to support projects that are highly important on the policy front, as well as helping geo-economically relevant countries to establish frameworks for promotion infrastructure development. Recent JBIC projects in the power sector included photovoltaic, onshore wind and geothermal power. Infrastructure projects are often supported by overseas investment loans and equity (Figure 38). Examples are a solar power generation project in India, a hospital PPP project in Turkey, or a railway and port infrastructure project in Mozambique.

### JBIC Key Tools and Regions (%)

Figure 38: Commitments (Purpose)

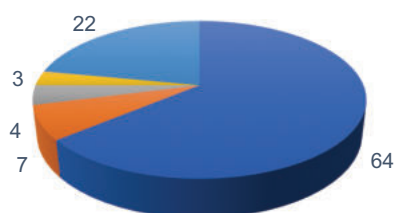
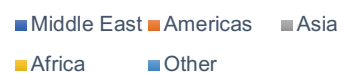
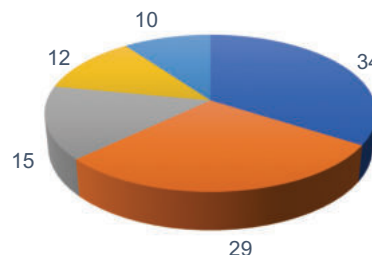


Figure 39: Commitments (Region)



Source: JBIC, 2019.

116. In addition, Nippon Export and Investment Insurance (NEXI) actively supports power and other infrastructure projects helping the government's goal to promote quality infrastructure exports. This includes not only offering export credit insurance per se, but also enhancing its products specifically for infrastructure financing. Examples are USD-denominated insurance as well as transactions with extended deferred payment (NEXI, 2018). Investment insurance is offered as well, although the portion was relatively small with an 8% share of NEXI's total underwritten amount in 2017.

### Development Assistance and Financing

117. Japan International Cooperation Agency (JICA) is not a classic bilateral DFI but rather comparable to institutions like USAID combining both official development assistance (ODA) and grant financing as well as technical cooperation. JICA is one of the largest bilateral DFIs. JICA's mission is to contribute to the promotion of international cooperation as well as to the development of the Japanese and global economy through its grant, loans and technical cooperation offerings (JICA, 2019). JICA's finance and investment activities focus on infrastructure. Support is particularly applied to construction and other projects requiring a large amount of funding. Support centres on urban and regional development as well as transportation and energy, but also on other infrastructure areas such as education. In recent years, the agency has also launched new initiatives such as a private sector investment finance scheme and a collaboration programme with the private sector for disseminating Japanese infrastructure exports.

## 4.5 South Korea

### Strategic Approach

118. South Korea's trade policy has seen a variety of directions during last decades. For many years, the country's outward-oriented economic development strategy was based on multilateral trade liberations only. With a change in its strategic approach for trade policy, free trade agreements (FTAs) are now much more often used to open up a wide range of industries to more international competition and opportunities for Korean exporters. This outward orientation, comparative advantages of businesses, as well as economic management of industrialisation efforts led to a huge success of the country.
119. Economic growth and industrial development have been considerably supported by active infrastructure investment by the government, and participation in large-scale infrastructure projects in foreign countries is a crucial part of Korea's industrial strategy. Historically, policy objectives have not only included a deepening industrial structure but also the promotion of large Korean enterprises, in particular in order to raise technological efforts in infrastructure projects. Industrialisation for export today focuses on green technologies and renewable energies, as well as sustainable transport and green building construction (MOEF, 2018; ADB, 2014; Sta. Romana, 2014).

### Lobbying

120. Lobbying for strategic industries such as infrastructure in foreign countries has been a priority for many governments in South Korea. This includes energy projects, but also airports, ports, roads, railways and public transportation abroad. Similar to other countries described above, state visits and government missions are used to promote Korean infrastructure exports. However, there are usually immediate follow-ups with concrete actions such as working group meetings at governmental level to identify prospective infrastructure projects. These scouting activities cover areas such as roads and smart cities in order to position Korean EPC contractors in relevant regions, in particular Asia and the Middle East (KEXIM, 2018).
121. State-owned agencies providing financing play a key role already in lobbying infrastructure exports from South Korea. Both the export-import bank of Korea (KEXIM) and the country's export credit insurance agency Korea Trade Insurance Corporation (K-Sure) were created with the mission to support manufacturing exports. As the country's foreign investments cover many other areas including energy and construction, both institutions now actively lobby Korean exports in infrastructure and undertake activities. As an example, KEXIM expanded its presence in developed economies emerging markets through subsidiaries and international offices (Figure 40). The bank also jointly holds infrastructure investment conferences with other governments such as Indonesia.

Figure 40: KEXIM’s Overseas Network



Source: KEXIM, 2018.

**Project Generation and Consortium Formation**

122. A main policy tool for project generation and consortium formation is the Korea Consulting Center for Overseas Infrastructure & Plant Projects (KoCC). Originally established in 2014 as an integral one-stop service provider for SMEs, KoCC now helps large-scale Korean EPC contractors as well. For example, the center provided consulting services to more than 230 projects in 2017 and arranged financing support for more than 40 projects. Feasibility studies and bond guarantees are also part of KoCC’s toolbox supporting Korean infrastructure exports.

Figure 41: KoCC Members



Source: GETech, 2017.

The center is not only an important part of the government strategy, interviewees also mentioned that the strength is rooted in the interaction between KoCC’s members: KEXIM, K-Sure, Korea Development Bank, Korea Plant Industries Association, Seoul Guarantee Insurance, KDB Industrial Bank, the International Contractors Association of Korea, and the Korea Off-shore & Shipbuilding Association. (Figure 41).

123. In addition, institutions such as KEXIM support project generations in priority countries for infrastructure-related exports through marketing activities and the introduction of finance packages. Korea Development Bank (KDB) conducts economic or technological feasibility studies on new projects as part of their consultation services.

### Export Finance and Credit Insurance

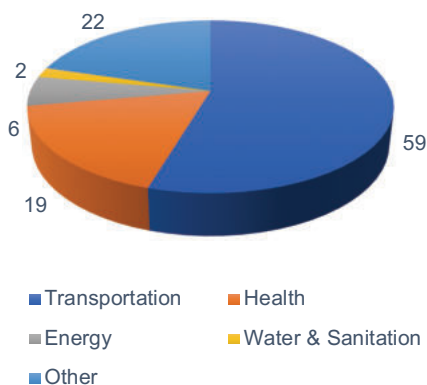
- 124. Policy loans and export financing play an important role in South Korea, and the same applies for government credit insurance schemes (Mah, 2011). Both KEXIM and K-Sure support Korea’s economic growth and strengthen ties and cooperation with foreign countries. KEXIM’s mandate is threefold: As ECA it facilitates export transactions and supports overseas investments; it administers the Economic Development Cooperation Fund (EDCF); and it executes the Inter-Korean Cooperation Fund serving as a clearing settlement bank. KEXIM’s financial products include loans, guarantees and trade finance products. For example, the bank approved a \$1 billion direct loan for the Clean Fuels Project in Kuwait. KEXIM also promotes direct investments as well as fund investments and bond financing.
- 125. K-Sure offers insurance and guarantee products covering commercial and political risks. Mid-to long-term export insurance and overseas business financing insurance are two flagship products of the second Korean ECA. Both solutions support, in particular, infrastructure-related exports although K-Sure does not explicitly mention infrastructure in its strategic approach.

### Development Assistance and Financing

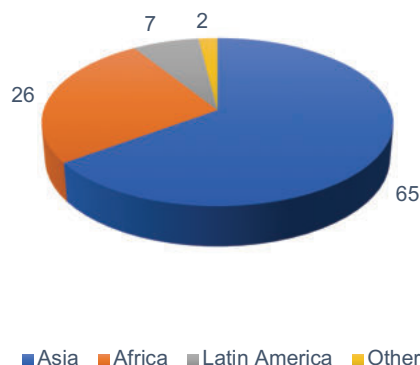
- 126. Similar to the export finance and credit insurance support system, there is also a significant overlap in development assistance and financing. Both KEXIM and Korea Development Bank are active in development financing: KEXIM manages the activities of the Economic Development Cooperation Fund on behalf and for account of the Korean government. EDCF extends assistance to developing countries by providing funding for development efforts. Again, mobilising funds for large-scale infrastructure projects plays a major role for KEXIM’s activities as EDCF manager (Figure 42). Examples are four large-scale infrastructure projects in 2017 each worth \$100 million or above (KEXIM, 2018).

**EDCF Industries and Regions (%)**

**Figure 42: Commitments (Industry)**



**Figure 43: Commitments (Region)**



Source: KEXIM, 2018.

127. KDB is also engaged in development finance activities. In addition to corporate and investment banking activities, a particular focus is on inter-Korean economic cooperation and North Korea development finance. Furthermore, a bank's priority area is to drive overseas advancement of domestic companies. KDB is a key player in infrastructure financing, and ranked third in project finance arrangement of global infrastructure projects in 2017. Examples are the facilitation of Korean companies' involvement in the Asian infrastructure market by investing in airport projects as part of China's BRI. KDB also endorsed the government's policy to encourage firms to secure EPC contracts or investments in overseas infrastructure projects by forming a global infrastructure venture fund together with the Ministry of Land, Infrastructure and Transport (KDB, 2018).





## 4.6 Sweden

### Strategic Approach

128. Sweden is a relatively small economy but a strong exporter with a high dependency on international trade. As GDP growth is driven by trading relationships, the Swedish government has created an export strategy to strengthen domestic businesses' internationalisation opportunities. This includes the aim to keep global markets open in a rule-based framework avoiding protectionist tendencies, and working towards a well-functioning European market. Furthermore, it is the intention of the government to reach emerging markets to a greater extent and focus on high-end goods and services regarding the value chain. The transition to a green economy is a focus area, making environmental technologies and infrastructure-related exports also very important for the country (Government Offices, 2015).
129. Infrastructure has been recognised as a high potential opportunity in the government's export strategy.

#### Figure 44: Export Strategy (Excerpt)

##### 7. High potential opportunities

Sweden and Swedish enterprises have solutions for modernising and expanding infrastructure and systems that we can export. Exports of systems often depend on the participation of enterprises both large and small, including technical consultants. The processes involved in systems procurement are long and often have elements dependent on political decisions.

Source: Government Offices, 2015.

As the country and its businesses are actively involved in infrastructure-related projects abroad, the government has focused on the opportunity to support Swedish infrastructure exporters as one priority in its strategic measures. 'Team Sweden' plays a crucial role in the effort to foster infrastructure-related exports (Figure 44).

130. The creation of Team Sweden under the responsibility of the Ministry of Enterprise and Innovation's State Secretary is a key pillar in the government's objective to provide effective export support.

### Lobbying

131. Sweden's export strategy explicitly mentions the coordination of high-level visits and government delegations facilitating new business opportunities. With the new strategy, 'Team Sweden' has received the mandate to improve coordination between relevant public and private actors (Figure 45). Lobbying activities for Swedish exporters are an important part of that. As a collective umbrella for the government's work to support Swedish exporters, Team Sweden coordinates lobbying efforts and helps exporters with marketing activities.
132. Swedish embassies have also created local Team Sweden organisations in order to increase awareness. They closely collaborate with chambers of commerce in the respective countries, as well as with Swedish export promotion organisations. Both the Swedish export credit agency EKN as well as Svensk Exportkredit (SEK) are also involved in lobbying activities, for example in state visits and official missions of the government (SEK, 2018).

Figure 45: Team Sweden



Source: Government Offices, 2019.

### Project Generation and Consortium Formation

133. As part of Team Sweden, Business Sweden together with private firms continuously identifies large infrastructure projects that have a potential for Swedish exports. Business Sweden's support covers not only advisory services and skills development for companies, but also events and targeted campaigns for exporters. Government authorities are also involved from time to time in the generation of projects, but activities do not centre around consortium formation.

### Export Finance and Credit Insurance

134. Sweden has recognised the crucial important of financing for infrastructure projects abroad. Two institutions support exporters with financing and risk mitigation: EKN insures export companies and banks against the risk of non-payment in export transactions. SEK provides export credits, lending, structured and project finance, as well as capital market products and financial advisory services.
135. Infrastructure exports are significantly supported by EKN, for example with regard to electrification, electricity transmission and integrating telecommunications (Table 4). The Swedish ECA also covered significant amounts with regard to transport and construction equipment (EKN, 2018). Many transactions covered by EKN are financed by SEK. One example for export-related infrastructure financing is a NOK 1.5 billion road project in Norway for Skanska, one of the leading EPC contractors in the Nordic countries. Investment guarantees do not play an important role, and only two new guarantees were offered recently.

Table 4: EKN New Guarantees and Transactions

|                | New Guarantees (SEK) |        | New Transactions (number) |      |
|----------------|----------------------|--------|---------------------------|------|
|                | 2017                 | 2016   | 2017                      | 2016 |
| Transport      | 10,419               | 7,386  | 235                       | 142  |
| Machinery      | 9,294                | 7,646  | 754                       | 672  |
| Telecom        | 8,499                | 19,322 | 73                        | 45   |
| Power          | 4,677                | 1,713  | 8                         | 16   |
| Paper and Pulp | 2,997                | 2,128  | 648                       | 353  |
| Mining         | 1,688                | 644    | 72                        | 26   |
| Other          | 2,340                | 4,760  | 303                       | 303  |

Source: EKN, 2018.

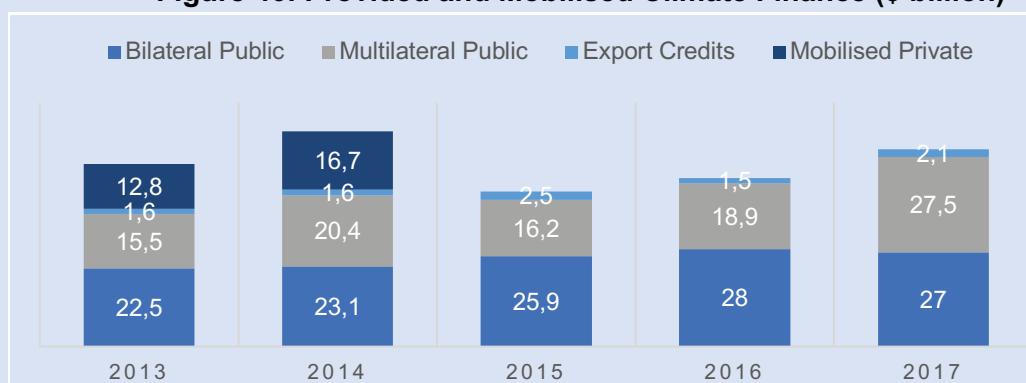
## Development Assistance and Financing

136. Swedfund is the country's official development finance institution owned by the Ministry of Enterprise and Innovation. Similar to most other European DFIs, Swedfund focuses on additionality, financial viability and sustainability. Therefore, it looks at profitable projects from a long-term perspective (Swedfund, 2018). The mandate is on poverty reduction through the creation of job opportunities in least-developed, low-income and post-conflict countries. Swedfund offers equity, loans and fund investment. Geographically, the DFI centres on Sub-Saharan Africa, although investments are widely distributed. Priority investment sectors are climate and energy, financial institutions and healthcare.
137. In addition, Swedfund offers financial support via the 'Swedpartnership' financing programme. Although there is a focus on small and medium-sized Swedish firms being active in international business, Swedfund is also engaged with larger companies. For example, a partnership with Scania has been agreed concerning a biogas plant supporting sustainable green passenger transport. Infrastructure and transport are therefore also relevant areas for the Swedish DFI. However, there is no particular focus on infrastructure investments.

### Excursus: Climate Finance

Climate finance is a major topic for policy makers globally, and the level of finance needed to address global climate issues remains substantial. Funds flow through multilateral channels such as the Green Climate Fund but also bilateral and regional initiatives. DFIs and MDBs are some of the largest providers of public finance offering a pivotal source of catalytic finance. ECAs play a role as well. In 2017, public climate finance from developed to developing countries amounted to more than \$56 billion (OECD, 2018c) (Figure 46).

**Figure 46: Provided and Mobilised Climate Finance (\$ billion)**



Source: OECD, 2018c. For the years 2015-17, mobilised private finance is not yet included.

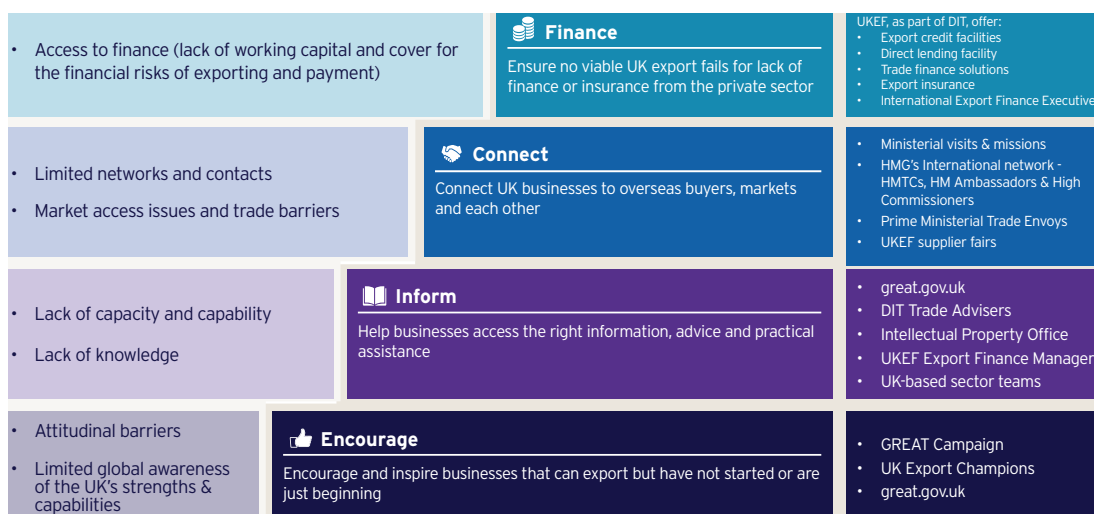
Taking measures to contribute to sustainable investments and to lowering climate impact are important for several Nordic ECAs. For example, it is part of EKN's strategy to promote export of equipment that contributes to reducing climate impact (EKN, 2018).

## 4.7 United Kingdom

### Strategic Approach

138. The UK government is a strong supporter of an open, rules-based international trading system despite global uncertainty and potential breakdowns of international cooperation discussed in Chapter Two. The policy approach is to focus on transparent and inclusive trade with a legal environment governed and driven by the WTO. Therefore, a level playing field for British companies remains a topical issue.
139. With the specific situation of the UK leaving the EU in 2019, the government intends to secure greater access to overseas markets for UK companies and grow exports. Infrastructure projects play a major role in this strategic approach. The government’s export strategy focuses not only on a holistic approach regarding the Department for International Trade’s (DIT) offerings but also on collaborating with other departments such as Department for International Development (DFID) and UK Export Finance (UKEF). As shown in Figure 47, the UK strategy is based on four layers: Encouraging and inspiring businesses, help exporters to access information and advice, connect firms to foreign buyers, and ensure financing and risk mitigation (HM Government, 2018).

**Figure 47: Export Challenge and Government Role**



Source: HM Government, 2018.

### Lobbying

140. Comparable to the approaches of several other countries described above, ministerial visits and missions play a crucial role to connect UK businesses with foreign markets and overseas buyers. Furthermore, government networks including embassies and high commissioners are actively lobbying, for example for infrastructure project participation. The Foreign and Commonwealth Office (FCO) fundamentally changed its orientation in recent years towards trade and investment, including the integration of DIT roles in British embassy structures. In addition, there are ‘trade envoys’, a network of parliamentarians appointed by the Prime Minister, engaging with emerging markets where substantial trade and investment opportunities have been identified.

141. UKEF is involved in numerous state visits unlocking significant opportunities for UK exporters in key sectors through trade agreements and ECA cooperation. The 'GREAT Britain' marketing campaign is a major instrument for export promotion (Figure 48). Lobbying tools are promotional services under the 'GREAT' campaign, but also an offering of UKEF's financial support to foreign buyers at a very early stage.

**Figure 48: UK Government Campaign**



Source: UK Government, 2018.

### Project Generation and Consortium Formation

142. The layers related to encouragement, information and connection are also highly relevant for infrastructure projects. In general, the government intends to encourage UK businesses to engage in foreign trade and investment through its digital platform, and has created a network of export champions offering guidance. The single digital platform is also a key information source, supported by international trade advisors and trade support networks. Project generation is fostered by a government-to-government commercial model. Trade envoys and trade commissioners facilitate business introductions and improve market access.
143. The generation of projects related to infrastructure is an additional focus area of the UK government. In order to help British exporters benefiting from the Belt and Road Initiative, there is a coordination team and a new 'BRI envoy' working in the Treasury. A further emphasis is on project generation in the Middle East. The UK government regards itself as a natural strategic partner for Gulf Cooperation Council (GCC) countries, and it is a strategic goal to focus on support for British exporters' participation for infrastructure projects in the region. This also includes consortium formation. Infrastructure Exports UK (IE:UK) brings together companies of all sizes as single 'Team UK' consortia. IE:UK has a public mandate to support exporters in selecting, targeting, and participating in infrastructure exports.

### Export Finance and Credit Insurance

144. UKEF covers the fourth layer, the UK's official export credit agency and a government department with a statutory mandate established in the Export and Investment Guarantees Act 1991. UKEF reports to the Secretary of State for International Trade and works alongside DIT as an integral part of its strategy and operations. Together, DIT and UKEF seek to offer a range of products and services to secure market access for British companies. This particularly includes overseas infrastructure projects. UKEF is

fully aligned with DIT's strategy and operations providing a broad range of lending and insurance products. There is also a close collaboration between DIT, UKEF and the British Business Bank to review exporters' finance challenges in order to ensure that government support best addresses their needs.

145. The infrastructure sector is a target area for UKEF. The British ECA prides itself as an important source of export finance for foreign buyers developing infrastructure. In the 2017-18 financial year, UKEF connected approximately 400 UK companies with seven multinational contractors for infrastructure projects. Construction and energy projects amounted to 94% of exposure for deals in the last year including transport infrastructure with a €270 million direct loan in Uganda, a €65 million buyer credit with more than 20 UK subcontractors in Ghana, and a 1 billion Mexican peso local currency buyer credit. The aim for this year is to play an even more significant role in supporting long-term financing to address funding gaps in infrastructure (UKEF, 2018).

### Development Assistance and Financing

146. As the UK's development finance institution and wholly owned by DFID, the Commonwealth Development Cooperation (CDC) plays a major role executing in DFID's economic development strategy. CDC Group is mandated to act as an investor targeting capital to the private sector, but also adds value beyond capital and aims to mobilise private sector financing. CDC's investment strategy allows it to make both direct investments as well as investments through intermediaries. With regard to project acquisition, CDC acts similar to commercial financing institutions. CDC learns about prospective deals through project sponsors, third party contacts or through direct outreach from CDC. No specific eligibility criteria exist per se, rather the project has to be in line with CDC's priority regions and sectors and be considered financially viable.
147. Similar to UKEF, infrastructure is highly relevant for CDC. The British DFI has identified construction and infrastructure as two out of seven priority areas. This is also reflected in CDC's portfolio and commitments: Infrastructure ranked second in 2017 in the portfolio amounting to GBP 902.4 million (23%), and first concerning 2017 commitments with a 38% share (GBP 407.2 million) (CDC, 2018).

### CDC Investments 2017 by Sector (%)

Figure 49: CDC Portfolio

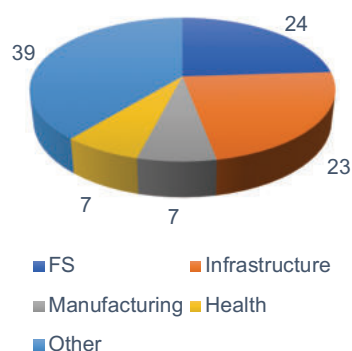
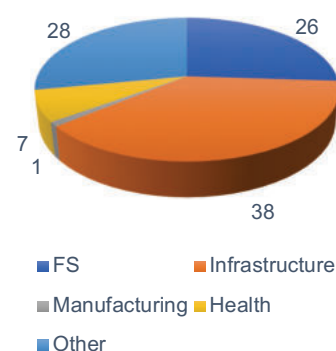


Figure 50: CDC Commitments



Source: CDC, 2018.

## 4.8 Multilateral Development Banks

### Overview

148. The establishment of national development banks goes back to the 19<sup>th</sup> century when the rapid industrialisation could often only be achieved by a government provision of long-term financing for risky transactions (see, e.g., Diamond, 1957). On a multilateral level, the World Bank was set up in 1944 at the Bretton Woods Conference alongside the International Monetary Fund (IMF).
149. In the 1950s and 1960s, other MDBs such as the African Development Bank (AfDB), the Asian Development Bank (ADB) and the European Investment Bank (EIB) followed. Most recently, new multilateral development banks such as the Asian Infrastructure Investment Bank or the New Development Bank (NDB) were founded by EMDE governments, some of them focusing on infrastructure or energy projects in order to intensify regional and global trade relations (Flint and Zhu, 2019; Gallagher et al., 2018).

### Infrastructure Financing

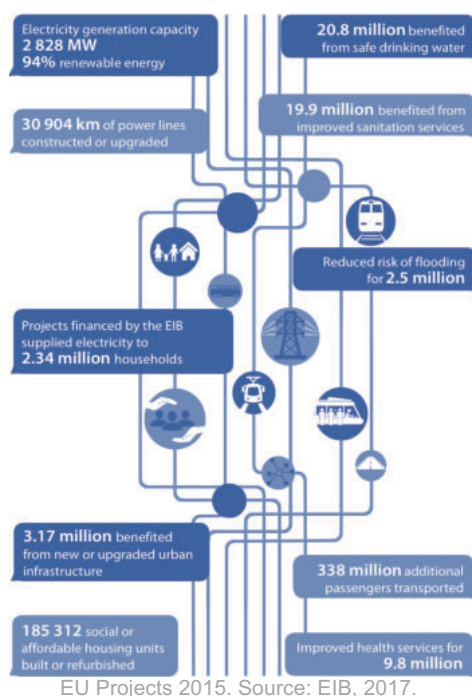
150. MDBs are particularly well suited for infrastructure financing due to their ability to provide long-term financing for long amortisation periods at a relatively low cost. Following key principles of their set-up related to additionality and financial sustainability, their aim is also to create a catalytic effect by providing equity investments, long-term loans or guarantees leveraging private sector lending.
151. Although some MDBs such as the World Bank or the AIIB face criticism to be dominated by few or even only one country such as the US or China, multilateral institutions by definition don't follow an approach to support specific national exporters. In practice, the project approach is also centred around SDGs, support for specific sectors such as infrastructure, or regional development goals linked to poverty reduction or technology transfer. The aspect of trade only plays a limited role, for example with trade finance programmes established by ADB and the World Bank Group.
152. However, as infrastructure-related exports from Switzerland and other countries benefit from MDB offerings, this section provides a brief overview of selected institutions.

### Overview of Selected Institutions

153. The Asian Development Bank is a multilateral development bank founded in the early 1960s. Its goal is to eradicate extreme poverty and achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific. In partnership with its 67 member countries and other financial institutions, ADB is focused on delivering projects in developing economies that create economic and development impact. The bank provides loans, grants and guarantees. In addition, the Asian Development Bank facilitates policy dialogues, provides advisory services, and mobilises financial resources through co-financing operations that tap official, commercial, and export credit sources. Infrastructure projects play an important role for ADB operations.

154. The Asian Infrastructure Investment Bank is a multilateral development bank with a mission to improve social and economic outcomes in Asia. Founded in 2016, AIIB has already grown to more than 90 approved members worldwide. By investing in sustainable infrastructure and other productive sectors in Asia and beyond, AIIB aims to better connect people, services and markets. AIIB provides or facilitates financing to a broad variety of stakeholders such as members, member country agencies, or international and regional entities concerned with economic development of Asia. This includes loans and equity. Guaranteeing loans and bonds will be a further product layer in 2019.
155. The European Investment Bank is the lending arm of the EU with a mission to help the economy, create jobs and promote equality.

**Figure 51: EIB Infrastructure Investments**



The EIB is the world's largest multi-lateral lender and the biggest provider of climate finance. In addition to climate, focus areas are innovation, small businesses and infrastructure lending to public and private sectors (Figure 51). The vast majority of the European Investment Bank's financing is through loans, but the bank also offers guarantees, microfinance and equity investment. In addition, its support unlocks financing from other sources, particularly from the EU budget. This is blended with loans to form a full financing package. Furthermore, the EIB helps with administrative and project management capacity to facilitate investment.

156. IDB Invest, formerly known as Inter-American Investment Corporation, is part of the Inter-American Development Group focusing on supporting the private sector in Latin America and the Caribbean. Its mission is to promote the economic development of its regional developing member countries. IDB invest offers a broad spectrum of financial instruments, including loans, guarantees, equity investments and debt securities. Recently developed products are bonds, guarantees for project bonds, mezzanine, warehouse financing and supply chain. IDB Invest's core sectors include not only financial institutions but also infrastructure such as energy and transport.
157. International Finance Corporation (IFC) is a member of the World Bank Group offering its financing and advisory services to the private sector in developing countries. IFC's mandate is to encourage growth of productive private enterprises by investing alongside others in private firms, mobilising capital and bringing investment opportunities to investors. IFC's products include loans, equity, trade and supply chain finance, syndications, treasury client solutions, blended finance, venture capital, advisory services and asset management services. Infrastructure finance is a key area of IFC's activities.



## Comparative Analysis and Recommendations

5

## 5.1 Overview

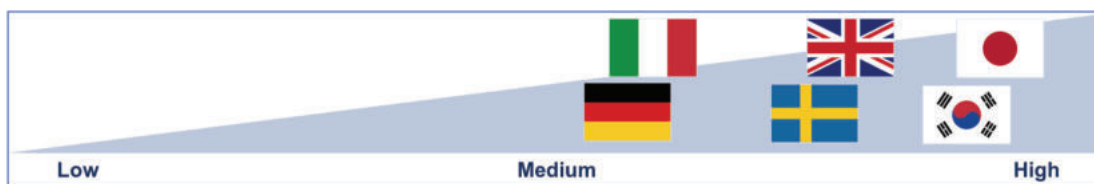
158. Chapter Five looks at government strategies through a comparative analysis, also discussing best practices for and success of public support for infrastructure-related exports in countries assessed in Chapter Four. It focuses on government lobbying activities, looks at project generation and consortium formation, discusses export finance and credit insurance best practices, as well as development financing activities. For Germany, Italy, Japan, South Korea, Sweden and the UK, the final chapter looks at all perspectives mentioned above. With regard to MDBs, only the financing aspect is covered when briefly discussing their activities. Chapter Five also focuses on high-level recommendations for Switzerland according to best practices and lessons learned.

## 5.2 Lobbying

### Comparative Analysis

159. Lobbying activities for infrastructure projects have been significantly extended by all governments analysed in Chapter Four. Many countries are extensively using visits of their presidents or prime ministers for business purposes, and official missions of ministers or state secretaries are increasingly combined with the idea of trade facilitation.
160. Some economies are at the forefront of the lobbying phenomenon for infrastructure: Japan's 'Abenomics' strategy has created substantial business opportunities for companies being active in infrastructure projects, and interviewees mentioned that political support is a key success factors for large EPC contractors as well as 2<sup>nd</sup> and 3<sup>rd</sup> tier infrastructure sector suppliers. Korea's activities are slightly behind, but it can be seen that the practice of immediate follow-ups with working group meetings on governmental level for project identification is a very effective procedure as well. The UK's strategy of integrating trade and investment roles in the British embassy structures has been described as a role model for export promotion in the lobbying phase.
161. The 'Team' approach in countries such as Sweden has shown that coherent coordination efforts and joining forces for lobbying can lead to significant success. Sweden was able to bring 20 relevant organisations together. Although interviewees mentioned that the set-up was time consuming, Team Sweden today has successfully customised teams for promoting exports domestically. Furthermore, local Team Sweden groups are led by Swedish ambassadors, efficiently using the existing infrastructure abroad. Governments in other countries confirm the 'Team' approach success, and followed a similar approach such as Finland or are planning activities in an analogous manner.
162. Although Germany has created new support structures for infrastructure-related exports, activities are regarded as relatively conservative compared to other countries. However, this is also due to a strong role and efficient approach of the private sector, using the powerful AHK network. Italy seems to focus very much on CDP institutions such as SACE and SIMEST according to interviewees, with a growing success of combining government activities with these export promotion and financing organisations. Figure 52 evaluates the support level in the countries analysed in Chapter Four.

**Figure 52: Assessment Lobbying**



Source: Developed for this Study.

**Recommendations**

- 163. Lobbying for infrastructure projects is a common activity, and the success of countries such as Japan, Korea and the UK tells its own tale. However, it has to be recognised that extensive lobbying activities can create substantial costs for the government. This does not only hold true for government visits and ministers’ missions, but also for lobbying programmes such as Germany’s Energy Export Initiative. Furthermore, Korea’s and Japan’s strategic approach built on an existing basis of strong players in infrastructure, and large EPC contractors are non-existent in Switzerland.
- 164. Swiss lobbying activities today seem to be limited. Traditionally, the country is also reluctant with regard to powerful interventions in the existing market economy. However, in order to compete with other countries in infrastructure-related exports, a significant extension of public support would be required.

**Figure 53: Team Switzerland**

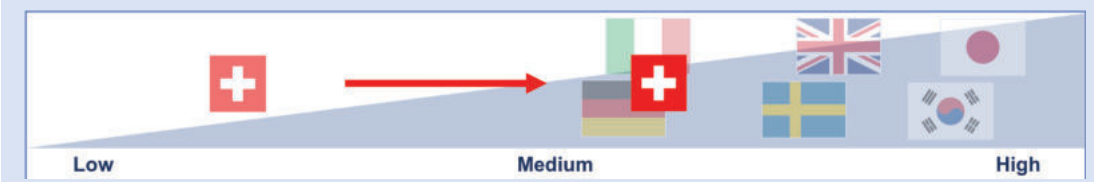


Source: Developed for this Study.

Targeted government missions for lobbying in key markets (investors and large EPC contractors) can be used in a more stringent approach. This must include businesses as well as SERV staff. Following a more progressive approach in addition to enhanced information exchange, a ‘Team Switzerland’ can combine organisations such as EDA and SERV for concerted lobbying, a strengthening of instruments’ synergies and better coordination (Figure 53). Created as a public-private partnership, e.g. coordinated by SECO or S-GE, this would still be a reluctant intervention.

- Use official visits in buyer countries in a strategic manner to attract interest for infrastructure exports, involving Swiss firms and SERV in foreign missions.
- Enhance systematic information exchange with Swiss embassies and Swiss Business Hubs in order to improve lobbying functions, also for follow-ups.
- Assess the creation of a ‘Team Switzerland’ for lobbying exports, in particular for 2<sup>nd</sup> and 3<sup>rd</sup> Tier EPC companies and manufacturers.

**Figure 54: Lobbying in Switzerland**

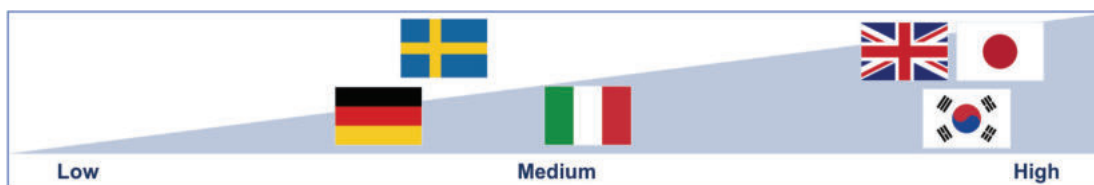


### 5.3 Project Generation and Consortium Formation

#### Comparative Analysis

165. Public support for project generation is an important aspect of success in infrastructure-related exports, and consortium formation is closely related to project generation. Assessing the different government activities, there is a substantial difference between countries such as Germany, Italy and Sweden, and the action Japan, Korea and the UK are taking.
166. Germany shows limited efforts for strong official support in order to generate infrastructure projects abroad. The same applies for publicly-driven consortium formation. This is related to the historical policy approach of the Federal Government not to aggressively interfere in the sphere of private market actors. Interviewees mentioned that Sweden is also reluctant to actively involve public entities in project generation and consortium formation. Italy seems to focus on enhanced SACE and SIMEST activities to a large extent, closely collaborating with private actors and industry associations.
167. The United Kingdom has changed its reluctant approach for policy interventions with regard to project generation and consortium formation with its new export strategy. After years of limited public sector involvement, encouragement, information and connection of UK companies particularly for infrastructure projects are essential aspects of government actions. IE:UK is a key effort to build British consortia in infrastructure projects. In Asia, Korea and Japan have generated major infrastructure projects by strong government support. There is evidence for Japan's success, and Korea's KoCC also shows proof that successful project generation and consortium formation can be the result of heavy government action in a concerted manner (Figure 55).

**Figure 55: Assessment Project Generation and Consortium Formation**



Source: Developed for this Study

#### Recommendations

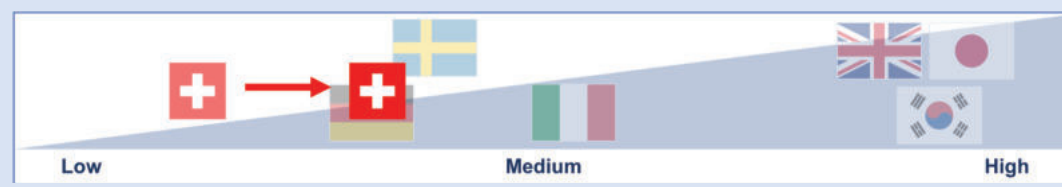
168. The assessed countries follow diverse strategies regarding public support for project generation and consortium formation. Traditionally, public entities have not been active in Western market economies as substantial policy support can lead to a distortion of markets with limited possibilities for private companies to act according to market conditions.
169. Similar to several other European countries like Germany, Switzerland has been reluctant to take action for considerable public interventions. Looking at wide-stretched activities in Korea and Japan focusing on large contractors but also at the current set-up and existing EPC contractor capabilities in Switzerland, significant efforts of public actors for project generation and consortium formation in the future might also be not very

efficient. From a regulative point of view, this would also imply a major change in Swiss economic policy.

170. However, Switzerland could leverage more opportunities during and after government missions within a relatively limited set of actions through coordinating activities of S-GE, SECO and EDA, and by involving institutions such as SERV and MDBs with Swiss participation at least for pathfinding. Following a 'Team Switzerland' approach not only for lobbying but also for project generation and consortium formation in a reluctant manner could be even more efficient.
171. In addition, pre-investment or feasibility studies as carried out in Germany, Italy or Korea can support project generation activities as well as early involvement of Swiss 2<sup>nd</sup> or 3<sup>rd</sup> Tier EPC contractors. In this regard, it should be reconsidered if the requirement of focusing on the benefit for target country can be amended in order to focus on infrastructure exports both from a development and an export perspective. Systematic follow-ups and targeted support by SERV for projects which are in the 'pipeline' or where principle offers of cover were provided can support Swiss firms as well.

- Use official visits in buyer countries not only for lobbying but also for project generation, and conduct sustainable follow-ups.
- Facilitate collaboration and networking by using the 'Team Switzerland' approach, and permanently include relevant industry associations.
- Systematically enhance SERV's offering for pathfinding activities, and expand exchange between exporters and MDBs.

**Figure 56: Project Generation and Consortium in Switzerland**



## 5.4 Export Finance and Credit Insurance

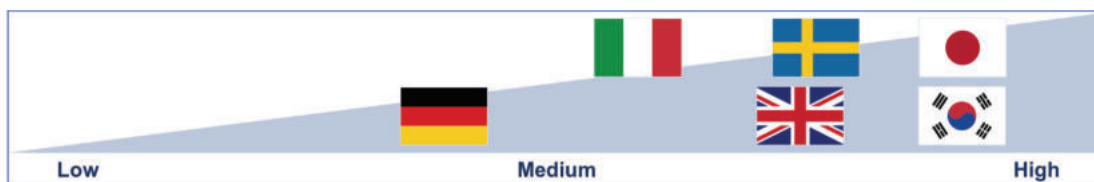
### Comparative Analysis

172. The world of ECAs and export-import banks has changed considerably in response to new challenges of the foreign trade environment and financial markets in recent years. Export credit agencies around the globe have expanded their product offering including direct lending, working capital facilities, or even equity and mezzanine financing. Other ECAs took steps to substantially increase their risk appetite, supporting infrastructure projects in EMDEs.
173. Countries such as Germany still regard their ECA as an insurer of last resort, and EH only steps into the breach when commercial banks or private insurers do not offer sufficient facilities. The rationale for official involvement remains to stimulate national ex-

ports if there is market failure in commercial lending or private credit insurance coverage. SACE has been described as much more aggressive, but additionality and catalytic effects are still key aspects of the Italian approach due to the fact that SACE does not offer direct lending. However, trade facilitation through buyer-driven activities has become much more important for the Italian export credit agency in recent years.

174. Sweden traditionally provides not only credit insurance but also direct lending. However, there is a reluctant approach for support and no interest to compete with the commercial market. The United Kingdom also follows an approach of market complementarity, but has significantly advanced its product portfolio with direct lending facilities as well as a very competitive local currency policy. With the exception of Germany, national content rules play a limited role as most agencies today including Italy, Sweden and the UK generally follow national interest policies.
175. A very comprehensive product offering for export finance and credit insurance is provided by Korea and Japan though. KEXIM and K-Sure as well as JBIC and NEXI have a broad product suite from equity and loans to insurance and guarantees. Overseas investment loans in addition to untied loans are a key element of Asian ECAs portfolio, increasingly providing large amounts of financing to support national companies overseas. Both KEXIM and JBIC are particularly focusing on infrastructure financing with many transactions and high commitments. KEXIM aims to be a one-stop-shop solution provider to EPC contractors, and JBIC focuses very much on integrated infrastructure system projects. Figure 57 evaluates the support level for export finance and credit insurance.

**Figure 57: Assessment Export Finance and Insurance**



Source: Developed for this Study

## Recommendations

176. An increasing number of export finance and credit insurance institutions today is much more policy driven than in previous years: Many ECAs have strong high-level backing and are regarded as a key instrument in foreign trade and investment policies, in particular for infrastructure sector exports. There is a substantial increase in the strategic importance of ECAs.
177. Similar to some other European economies, Switzerland has followed a reluctant approach regarding extensive ECA support. The idea of an insurer of last resort is also the dominant approach for SERV, and extensive marketing activities or a broad product suite are not part of its strategy. However, SERV thus has severe disadvantages in comparison with ECAs in other countries being engaged in infrastructure-related exports: No offices or representatives abroad and a limited product portfolio, falling behind agencies offering export credit and investment insurance together with direct lending or even mezzanine financing, equity products and untied loans.

178. A strong involvement in a Team Switzerland would be useful in any case. In addition, substantial amendments of the Swiss ECA set-up moving towards direct lending could boost infrastructure-related exports as well as trade competitiveness of several other industries. However, this would imply a significant change of the existing policy approach and would require both an in-depth political discussion as well as an impartial and comprehensive assessment of advantages and disadvantages (which is outside the scope of this Study). In contrast to other measures discussed above, this would also only be feasible over a longer time horizon. The recommendations are as follows:

- Enable SERV to be an important ‘Team Switzerland’ stakeholder, and leverage local teams at embassies and SBHs to actively offer SERV products.
- Assess SERV’s existing organisational set-up in light of a strategic decision if Swiss infrastructure-related exports should be extensively increased.
- Impartially assess if direct lending or investment guarantee offerings should complement SERV’s product portfolio in order to compete with other ECAs.

**Figure 58: Export Finance and Insurance in Switzerland**



## 5.5 Development Financing

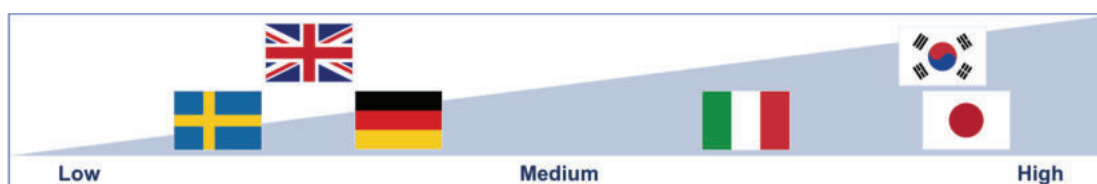
### Comparative Analysis

179. Developing finance institutions and ECAs follow different institutional mandates. While export credit agencies foster exports by providing competitive and accessible export financing and insurance, DFIs usually promote private sector development as a contribution to sustainable growth and improved living conditions. However, there are increasing overlaps in infrastructure financing leading to potential competition and collaboration between development and export financing. Several bilateral DFIs and MDBs are operating in the same industries and markets as ECAs, for example in transportation, climate finance and African economies.
180. CDC’s activities are conceptually not related to British exports or UK businesses. There is no requirement for an involvement of British firms, and although infrastructure is a priority area, interviewees mentioned that CDC looks at projects purely from a non-export related perspective. The same applies for Sweden. Swedfund’s mandate is to reduce poverty through the creation of job opportunities, and priority sectors are generally not related to Swedish exports. ‘Swedpartnership’ financing, however, is a specific programme where Swedfund is focusing on Swedish firms being active in the international business arena. DEG’s focus is also particularly on contributing to SDGs such as poverty reduction, but also affordable and clean energy, decent work and economic growth. Although infrastructure projects are relevant, support is untied, and there is no strategic priority for infrastructure-related exports. However, German Desks

abroad in cooperation with AHKs and the Federal Government aim at a closer connection between German exporters and DEG financed projects.

181. Italy, in contrast, looks particularly at Italian interest. Not only due to SIMEST's close connection with SACE as its main shareholder but also due to its mandate to promote Italian business activities abroad, export and development financing are interrelated in Italy. SIMEST's activities are diversified, but infrastructure investments through equity, interest subsidies and export credits are relevant following the Italian government's strategic approach. Feasibility studies are part of SIMEST's activities as well.
182. Similar to Italy, there is a large overlap between export and development finance in both assessed Asian economies. KEXIM is managing development financing activities on behalf of the government, and large-scale infrastructure projects play a crucial role. KDB is highly engaged with an important arranger role of global infrastructure project financing. Japan's JICA also promotes Japanese business, and finances large projects to support infrastructure exports. Figure 59 shows the different support levels.

**Figure 59: Assessment Development Financing**



Source: Developed for this Study

## Recommendations

183. Many bilateral DFIs went through a change process in recent years, and institutions today follow diverse objectives. Some DFIs are still financial gap fillers focusing solely on additionality. Others stated to undertake more entrepreneurial roles, focusing not only on economic growth but also on private sector development. Consistent themes such as infrastructure financing are emerging globally for DFIs and MDBs.
184. The Swiss development financing approach with regard to infrastructure-related exports does not appear as competitive in comparison with DFIs in Italy, Japan and Korea. Switzerland does not follow a tied loan agenda with the Swiss Investment Fund for Emerging Markets (SIFEM). Although infrastructure is the most important sector, effects for Swiss infrastructure exports are constrained by limited new annual commitments and an indirect investment model. But Swiss exports could be fostered using fund investments particularly in infrastructure funds.
185. Switzerland is also a member of various MDBs, shaping the strategic and institutional orientation. Activities should be extended, for example through a closer collaboration with initiatives such as the Private Infrastructure Development Group. Furthermore, Swiss employees working for MDBs could create foster initiatives regarding opportunities for exchange between Swiss exporters and MDB investment operations when transparency and impartiality are ensured. SERV secondments, as done in the past by other ECAs, might be another opportunity.



- Assess SIFEM's existing mandate and set-up in light of a strategic decision if public support for infrastructure exports should be enhanced.
- Impartially assess if DFI and ECA activities in Switzerland can be better co-ordinated and work closely together in a 'Team Switzerland'.
- Strengthen Switzerland's existing and assess additional MDB engagement not only at Board of Director level but also in more operational roles.

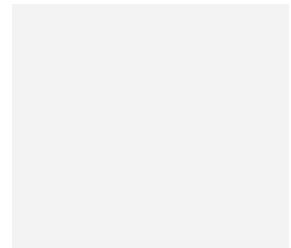
**Figure 60: Development Finance in Switzerland**



Offenburg, 19 April 2019

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