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MEETING DOCUMENT

From:	European Commission
To:	Working Party of Foreign Relations Counsellors (RELEX) – Horizontal Questions
Subject:	Procurement under Global Gateway: Quality Standards for Infrastructure Projects

PROCUREMENT under GLOBAL GATEWAY: QUALITY STANDARDS for INFRASTRUCTURE PROJECTS

The purpose of this note is to define the position regarding quality standards in infrastructure projects, in the context of the implementation of the Global Gateway. It provides a brief overview of some key elements for consideration as well as the main existing quality infrastructure principles to which the EU is committed.

1. RATIONALE FOR IMPROVED QUALITY STANDARDS

For our partners, with infrastructure being the backbone of economic growth and societal development, ensuring high-quality standards is key to deliver durable, safe, and reliable assets that meet the evolving needs of citizens and industries - and reinforce societal goals and values. Building infrastructure has important financial and physical impacts on countries due both to the high upfront capital costs required, thereby putting pressure on limited financial resources, as well as to the material, environmental and social footprint of the assets. Therefore, ensuring that infrastructure projects meet high quality standards is essential to maximize their economic, environmental, and social effectiveness and minimize negative impacts.

For the EU, since European companies generally operate with the highest quality and the most stringent ESG policies, their competitiveness, and their ability to invest outside Europe is determined by the standards and scope of the tenders in which they participate. This can be seen as a constraint but also as an opportunity on which the Global Gateway builds its success.

Ultimately, enhanced quality standards are crucial to safeguard investments and promote long-term benefits, enabling more confidence among investors, governments, and the public, which in the end fosters a conducive environment for sustainable development and helps set a conscious, disciplined course towards the society of tomorrow.

2. GLOBAL GATEWAY CONTEXT

The Global Gateway[1], launched on 1 December 2021, represents the EU, Member States', and European financing institutions' contribution in a Team Europe approach to reducing the global investment gap in infrastructure[2], by mobilising up to €300 billion of investments for sustainable and high-quality projects. The strategy is designed to provide the framework for EU external action in a changing and challenging international environment, based on a value-driven approach to promote quality infrastructure investment in partner countries.

The Global Gateway aims to promote transparent, high-level partnerships to meet global infrastructure development needs and to strengthen smart, clean, and secure connections in the digital, transport, energy, and climate sectors, as well as to enhance education, research, and health

[1] EC and HR/VP. 2021. Joint Communication to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank "The Global Gateway". Brussels: European Commission. EUR-Lex - 52021JC0030 - EN - EUR-Lex (europa.eu)

[2] The OECD estimates that global investments in infrastructure need to increase by approximately USD 3 trillion annually to meet the goals of the Paris Agreement.

worldwide. Its implementation is based on the key principles of (i) democratic values and high standards; (ii) good governance and transparency; (iii) equal partnerships; (iv) green and clean; (v) focus on security; and (vi) catalysing the private sector.

While the Global Gateway aims to invest mostly by mobilising funds from financial institutions and the private sector, its strength lies in the multiplier effect of the Neighbourhood Development and International Cooperation Instrument – Global Europe[3] (NDICI-Global Europe), which is the main source of EU funds for external action in the period 2021-2027.

3. KEY ELEMENTS TO CONSIDER

Any investment under the Global Gateway must respect the 'do no harm' and 'green and clean' principles. Projects must be screened for their environmental and climate risks, as well as their social and environmental impact assessments prepared showing no significant adverse impacts on ESG aspects. Investments must also comply with Article 29 of the NDICI-Global Europe regulation on excluded activities, and respect high standards of transparency and accountability.

Nevertheless, there is currently no globally recognised definition of what high quality means in terms of infrastructure projects, even if there are international frameworks (see below). Quality refers to the sustainability, resilience, safety, affordability, durability, inclusiveness, and efficiency of infrastructure assets, but there are several elements to consider to better frame and guide the discussion on standards.

(a) Project lifecycle scope

The lifecycle of infrastructure assets starts in the preparatory phases, continues with the implementation and ends in the operation and end-of-life phases. Ensuring that projects are high-quality means considering all phases, from feasibility studies and impact assessments, the "hard components" of building the infrastructure (design, technical specifications, materials and good execution) to the operations and maintenance throughout their expected life span and must include their total cost of ownership (climate and resources footprint, energy consumption, human settlements possible effects, possible social impact, risks to biodiversity beyond the immediate project areas, pollution, climate-proofing circularity of materials, etc.), all the way to end-of-life (e.g. addressing decommissioning costs and impacts).

Therefore, it is important to define the phase of the project that is being quality-assessed in order to validate the rating (e.g., there could be well-designed projects that are poorly operated).

(b) Thematic scope

Infrastructure projects include a broad number of sectors with many specificities related to the construction, use and maintenance of their assets. Several sectors can be distinguished with their sector-specific technicalities associated: energy, water and sanitation, information, and communication technology (ICT), transport, urban infrastructure, mining, etc. These cover a

[3] https://commission.europa.eu/funding-tenders/find-funding/eu-funding-programmes/global-europe-neighbourhood-development-and-international-cooperation-instrument_en

higher number of sub-sectors[4] including the full sector value chain, which increases the complexity of the analysis.

The types of assets considered to be infrastructure are also rapidly evolving in response to global trends like climate change, digitalisation, and rising social inequality. This creates large data gaps, especially for new types of infrastructure that cross sectors and/or integrate technologies, like energy transition infrastructure (e.g. e-mobility or solar district heating), digital infrastructure (e.g. e-government), resilient infrastructure (e.g. nature-based solutions for disaster risk reduction and myriad health-safety-liveability-economic advantages gained by integrating, instead of dismantling, ecosystems in infrastructure), and circular infrastructure (e.g. waste-derived fuel, circular treatment of waste from construction or wastewater, biomaterials).[5]

It is difficult to capture all the diversity of projects and to determine baselines and quality parameters. Therefore, despite cross-cutting issues (like the transparency of the procurement processes, anti-corruption measures, etc.), most quality standards are defined differently for each sector, and attempting to define a solid position about quality requirements means recognizing these sector-specificities.

(c) Geographic scope

While recognising the primary objective of economic growth, improving living conditions and reducing inequalities, connectivity infrastructure projects must aim at international interoperability and ensure a convergence of regional standards and technical specifications. In addition, narrowing the infrastructure gap is an opportunity to leapfrog towards solutions that do not involve more GHG emissions, pollution, harm to biodiversity or an increase on inequalities. Therefore, quality infrastructure standards need to adopt a differentiated approach depending on the reality of each region and country. Generalisations and simplified policies must be avoided.

At the same time, many connectivity infrastructure projects are linear (e.g., transmission lines, pipelines, roads, railway lines) and this is why many investments are programmed under a corridor approach. This poses particular challenges as they cross diverse institutional and socio-economic realities and landscapes and can lead to significant indirect effects (e.g., irregular settlements, access to protected natural resources, cutting off biological corridors, violation of indigenous peoples' rights, etc.).

Moreover, for the EU infrastructure industry to be competitive beyond its borders, sectoral dialogue with partner countries and regions must be tailored, and expectations must be clearly expressed.

In this respect, the Global Gateway is an appropriate response and there should be a deepening and consolidation of its geographic agendas and plans (Economic and Investment Plans in the

[4] For instance, energy includes power, oil and gas sectors; water and wastewater cover water collection, treatment, distribution, etc.; ICT comprises cables, tower sites, data centres, satellites, etc.; transport includes roads, railways, ports, airports, etc.; and urban infrastructure covers urban mobility and solid waste management among others.

[5] https://www.gihub.org/news/definitions-and-classifications-of-infrastructure-hugely-influence-investment-decisions-and-the-ability-to-close-the-infrastructure-gap/

Neighbourhood regions, EU-Africa Investment Package[6], EU-LAC Investment Agenda, Central Asia Transport Corridors, etc.)

(d) Private or public investments

The lack of agreement between countries and regions on the meaning of 'high quality' can also be seen among international organizations and across the private sector.

Private sector led initiatives are bound to respect the national legislation that applies to the construction and overall management of infrastructure assets, but further to that, no other quality requirements exist. There are sector-specific good practices, certification schemes (see below) and the "savoir-faire" of infrastructure developers and operators, but it is not possible to frame all into one overall definition of high-quality. Also, international financial institutions (IFIs) have their own safeguard policies which usually impose high standards in terms of ESG on infrastructure investments.

In Europe, the EU Taxonomy works as a market transparency tool that defines criteria for economic activities that are aligned with environmental and climate goals. It plays a pivotal role in high-quality infrastructure development by establishing clear criteria and classification standards, which helps investors and policymakers channel funds towards infrastructure projects that meet stringent ESG criteria.

Outside Europe other taxonomies exist, and currently the EU position regarding the implementation of funds in partner countries (and more specifically in the context of the Global Gateway) is not to impose the EU Taxonomy but rather to promote and apply similar tools at national and regional level. The EU, MS and IFIs are Team Europe is working strongly in a Team Europe approach in the context of the Sustainable Finance Agenda (GGBI[7]) to enhance their interoperability with the EU Taxonomy, and hence European investment appetite. Many of these taxonomies have a strong European DNA, some go even beyond into social aspects. In this context, we should ask those partner countries with a national/regional taxonomy to apply it to these infrastructure projects.

Regarding public investments, each partner country is sovereign to apply its own legislation in accordance with its international commitments. Despite the highly rigorous due diligence on projects and safeguard policies of IFIs, which play a crucial role in investment and decision-making processes, there is currently a lack of internationally accepted definitions or classifications for infrastructure. Discrepancies exist across –and sometimes even within– government jurisdictions, donors, and development banks.

While differences exist, several initiatives[8] have been established to facilitate the exchange of expertise, aiming to coordinate and harmonise approaches concerning quality infrastructure. IFIs

[6] The EU-Africa Investment Package comprises €150 billion in EU-financed investments, which represents around 50% of the amount that Global Gateway aims to mobilise.

[7] Global Green Bond Initiative https://capacity4dev.europa.eu/resources/team-europe-tracker/partner-countries/global/global-green-bond-initiative-ggbi_en

[8] This includes practitioners' networks, professional associations, industry consortia, international standards organizations, regulatory bodies, research institutions and development cooperation networks, among others.

have also developed procedural frameworks for cases of co-financing, where one institution's procedure applies to avoid duplicating the due diligences put in place to infrastructure projects. This is only possible thanks to a principle of mutual reliance, where high-quality investments are a common goal shared by the co-financiers, which facilitates an alignment of positions.

In Europe, in addition to the Member States policies and legislation, the European Commission and the European Investment Bank have adopted technical guidelines and lending policies on several matters related to quality infrastructure such as on climate-proofing of infrastructure projects, on road safety, on critical infrastructure, on green/nature-based infrastructure, etc. While these guidelines apply only for financing instruments within the Union (InvestEU, Connecting Europe Facility…), they are a good guide for NDICI-funded projects outside Europe, and Global Gateway infrastructure projects should seek convergence with these EU quality objectives[9].

Overall, there is still a need to identify more efficient ways in which the public and private sectors can jointly leverage more funding for project preparation and investment to close the infrastructure investment gap.

4. INTERNATIONAL COMMITMENTS: EXISTING TOOLS & FRAMEWORKS

The G20 Principles for Quality Infrastructure Investment

In this context of lack of clarity about the scope of the discussions, many initiatives have been launched[10]. Among them, in 2019 the G-20 set forth six voluntary, non-binding principles that provide a strategic direction for infrastructure investment[11]. The Quality Infrastructure Investment Principles (QII Principles) build on the consensus that well-built and sustainable infrastructure maximizes the positive impacts of these high-priced investments. It is no coincidence that it is the only one that has generated consensus even with countries such as China and India.

The QII Principles are:

- Maximizing the positive impact of infrastructure to achieve sustainable growth and development
- Raising economic efficiency in view of life-cycle cost
- Integrating environmental considerations in infrastructure
- Building resilience against natural disasters
- Integrating social considerations in infrastructure investment
- Strengthening infrastructure governance

Furthermore, a "Compendium of QII Indicators"[12] was developed in 2022, which serve as a tool to collect data and measure the impact of infrastructure on economic, social, environmental, and developmental objectives. It is a voluntary and non-binding tool for the operationalization of the

[9] The Commission is currently working on a common guidance on do-not-significant-harm (DNSH)

[10] For instance, the Equator Principles, the G7 Charlevoix Commitment on Innovative Financing for Development, the G20 Roadmap to Infrastructure as an Asset Class, the OECD Recommendation on the Governance of Infrastructure, the International Finance Corporation Performance Standards or the G20 Global Infrastructure Hub.

[11] https://www.worldbank.org/en/programs/quality-infrastructure-investment-partnership/qii-principles

[12] https://cdn.gihub.org/umbraco/media/4761/compendium-of-qii-indicators.pdf

QII Principles, consisting of a menu of commonly used indicators applicable to each infrastructure sector. However, attempts by some G20 members to quantify and make legally binding these GII indicators have proved unsuccessful.

The EU is committed to applying these principles, which enable countries to pursue infrastructure investments that maximize the economic, social, environmental, and development impact of infrastructure. The Global Gateway strategy commits to promote the implementation of the G20 QII Principles at the international level.

The G7 Partnership for Global Infrastructure and Investment and the certification schemes

The Partnership for Global Infrastructure and Investment (PGII) is a shared G7 commitment to advance public and private investments in sustainable, inclusive, resilient, and quality infrastructure[13]. The total commitment of the PGII amounts to $600 billion, and the EU contributes to half of it with the Global Gateway, presented as "the European part of this initiative"[14].

As an alliance of like-minded countries, the G7 PGII has many merits in bridging the global infrastructure gap. However, in the current context where partner countries reject centre-periphery narratives, connectivity infrastructure cannot be presented as a dichotomy between developing and developed countries. With the emergence of alternative donors, G7 countries should set realistic expectations and conditions for infrastructure funding in partner countries in order to avoid that these partner countries shift towards less demanding donors regarding the quality of investments, while maintaining a sustainable and superior offer.

Certification schemes for sustainable infrastructure projects, such as the BDN[15] and Fast-Infra[16], have become increasingly acclaimed, notably among OECD countries. They are mostly designed to label infrastructure projects characterized by high levels of transparency, reliable economic returns and low environmental, social and governance risks. They intend to facilitate and promote the application of international standards and best practices, building trust around quality infrastructure investments.

The EU welcomes certification schemes that aim to unlock investment in sustainable infrastructure. When used to label Global Gateway projects, they can increase the quality and attract financing. However, the EU is not committed to funding such schemes nor to having all Global Gateway projects certified, since these initiatives still present critical challenges related to their scope, cost, complexity, and political acceptance by partner countries.

5. CHALLENGES AND OPPORTUNITIES

The fragmented and rapidly changing development of infrastructure taxonomies presents opportunities by bringing to light new types of impactful investments. However, the absence of

[13] Factsheet on the G7 Partnership for Global Infrastructure and Investment https://www.mofa.go.jp/mofaj/files/100506916.pdf

[14] https://ec.europa.eu/commission/presscorner/detail/en/statement_23_2828

[15] https://www.bluedot-network.org/

[16] https://fastinfragroup.org/

clear and comparable definitions to organise and make sense of these complex contexts can also entail significant challenges[17] such as difficulties in data collection, which affects the risk perception and the decision of capital allocation to specific sub-sectors.

As described above, although diverse in terms of metrics, globally the minimum standards of quality in infrastructure assets are already very high in many aspects.

Therefore, ***the "EU added value"*** brought by the Global Gateway should be based on striving for excellence, by looking at quality infrastructure with the goal of harnessing its development potential to catalyse sustainable and inclusive growth in partner countries. This implies a broader understanding of quality, considering ***the total cost of ownership beyond the lifecycle*** of the project and with ***a strong focus on ESG principles*** and equal partnerships.

Global Gateway projects can have an important role by engaging in a ***political and policy dialogue with partners*** (countries, regions, and international development partners) to converge in the same direction, especially regarding common approaches on how to assess climate and environmental impacts, thereby avoiding a more theoretical competitive approach between different quality initiatives. The social and human rights impact and the broader issue of good governance (participation, inclusion, transparency, and accountability) should also be considered as a central element of all projects under the Global Gateway.

6. RECOMMENDATIONS

While most of the current work is already going in the right direction, it is recommended that the Commission and the Member States intensify their efforts on the following aspects:

1. **Planning and budget allocation[18]**: decisions on infrastructure projects should respond to strategic plans that have integrated environment, climate change, digitalisation, reduced inequalities, etc. In this way, the overall strategic orientations are in line with EU policies, and the selected projects already represent part of the solution towards a green, digital and just transition. In the EU, infrastructure projects are based on sector policies and strategies that are subject to a Strategic Environmental Assessment (SEA); in partner countries in which the Global Gateway operates, it is convenient to require such environmentally integrated strategic planning. A certain level of 'democratic infrastructure' is also crucial to ensure that decisions are made in the public interest throughout the project, including meaningful civil society and local involvement, independent media as well as formal oversight bodies.

   Furthermore, budget targets are a pragmatic tool, in conjunction with quality standards, to channel – and enforce – realisation of investments to the right sectors aligned with overarching thematic goals. In external action, for example, the NDICI-Global Europe sets

[17] https://www.gihub.org/news/definitions-and-classifications-of-infrastructure-hugely-influence-investment-decisions-and-the-ability-to-close-the-infrastructure-gap/

[18] The Global Gateway Joint Communication recognises the need to "Promote the use of multilateral tools such as the IMF's Public Investment Management Assessment (PIMA) framework, the OECD's Methodology for Assessing Procurement Systems (MAPS) and the IMF/World Bank's PPP Fiscal Risk Assessment Model (PFRAM) to improve project preparation and ensure value for money in infrastructure."

portfolio and intervention level objectives[19] to advance thematic ambitions, consistent with global and, in turn, EU commitments.

2. **Sustainable tender design and integrated packages**: in international procurement, it is no longer a problem for many non-OECD donors and their companies to meet high technical standards while offering low prices. However, most of these tenders are designed according to a traditional set-up that separates the construction from its operation, maintenance and after-sales services and does not consider the whole life cycle and the economic ecosystem that surrounds the infrastructure. While the EU continues to push for legislative frameworks that promote anti-corruption measures[20], do not unfairly favour state-owned or subsidised foreign companies, and restricts its eligibility rules for development aid funds, it should take advantage of the Team Europe approach to offer fully integrated infrastructure packages, involving finance, design, construction, rolling stock, etc. In this way, partner countries will be open to design comprehensive tender procedures.

   The differentiating factor for the Global Gateway must be to be able to deliver not only the highest quality infrastructure, but also to offer economies of scale that keep the total cost of ownership to a minimum, both socially and environmentally, with the highest possible return to society over time. For instance, to tackle traditional tendering, an option would be that the tender is designed to value and technically assess proposals that improve the sustainability of the infrastructure with respect to a baseline defined by the project developer, such as proposals that reduce more emissions or improve the circularity/use of resources beyond what initially intended. Continuing to raise standards on open procurement will also be instrumental to save money, avoid corruption, and showcase accountability in action. EU companies - already able to comply with these standards - will be well placed to benefit.

3. **Human dimension of infrastructure projects**: the EU has a clear advantage regarding the importance its companies attach to the quality of employment and skills development, as well as the use of the local labour force against high quality standards (including decent work, gender equality, accessibility, etc). Although the EU and Member States have numerous Technical and Vocational Education and Training (TVET) programmes, these should be better designed to reinforce Global Gateway investments. For example, digital skills development associated with signalling and customs systems for investments in a rail corridor. The additionality respect to a baseline referred to above should also concern the human dimension.

[19] For example, the NDICI-Global Europe Regulation sets a target of 30 % of NDICI-Global Europe funds to contribute to climate objectives.

[20] There is political momentum and existing tools towards the promotion of transparency and integrity in public procurement, see UNCAC Conference of the States Parties (COSP) in December 2023 Resolution; OECD anti-corruption and Integrity Hub, Open Contracting Partnership tools and best practices; U4 resource centre; the Methodology for assessing procurement systems (MAPS)

4. **Upstream support to European investors[21] and promoters**: To deliver on the ambitions of Global Gateway, European investors and promoters must be more comprehensively supported also in the early stages of their work with partner country governments. On one side, an EU public-private work process with the partner country can be useful in terms of policy guidance and infrastructure design. On the other side, this is closely linked to the strategic design of tenders, as it is at this point that the government's directions can be oriented and the choice of one technology or another can be made.

5. **Proactively shape the international agenda on quality infrastructure**: Given the countless initiatives related to the promotion of quality infrastructure, the EU needs to be able to decide which ones are of value to it and which are not. Moreover, the exponential increase in infrastructure needs in partner countries, coupled with the fact that the G7 members are no longer the preponderant players, forces the EU to be more selective about the international policy framework to which it gives preference. The G20 Infrastructure Working Group is probably the most appropriate one. However, it is necessary to better co-ordinate between the EU, the Member States, and the European financial institutions, including on the minimum ESG safeguards and standards, and due diligence procedures. It is important for the EU to be able to influence the priorities of the successive G20 presidencies, to capitalise on the work done and to avoid initiatives such as ones that require a lot of communication effort but have little added value for the EU (e.g., common flagships) or imply financial commitments without a clear business model.

Overall, under the Global Gateway, the EU's priority must be to work to make international procurement rules more credible, transparent, and open, and not disadvantageous to EU companies, which have the greatest capacity to mobilise investments, which bring maximum benefits to partner countries in the long run whilst ensuring high standards.

[21] Note also that in some cases it is not straight forward to define a particular investor as European or not, e.g. consortia of companies from several nationalities where an EU company is present with a small participation but the effective control of the consortium is in foreign hands, companies based in the EU but with majority of its capital owned by a foreign company or State