

Analyzing Policies Affecting Infrastructure PPPs in MENA



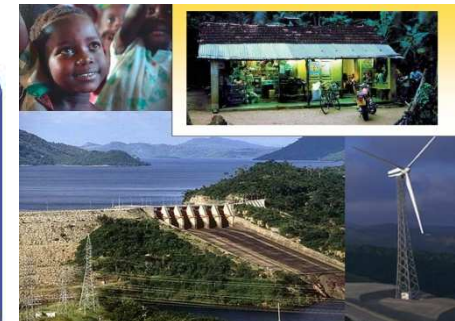
Paul Nomba-Um, Lead Economist,
Sustainable Development Department, The World Bank
pnoumbaum@worldbank.org

Outline

I. Context and Background

II. Why Infrastructure Matters?

III. WBG Response to Infrastructure PPPs Development in MENA



Massive Public Investments have allowed the Achievement of Universal Access ...

		<i>EAP</i>	<i>ECA</i>	<i>LAC</i>	<i>MNA</i>	<i>SAR</i>	<i>SSA</i>
Population (in millions) ¹		1,899	459	555	310	1,492	770
Living population with less than \$1 per day (in million) ²		169	4.4	47	4.4	446	298
Urban population (%) ³		42	64	78	57	29	36
Urban population in 2030 (%) ³		70	63	92	61	40	52
Access to electricity (%) ⁴		89	99	90	78	52	26
Access to water supply (%) ⁵	Urban	93	95	94	95	94	83
	Rural	67	82	66	77	80	44
Access to sanitation (%) ⁵	Urban	73	91	86	93	67	73
	Rural	35	81	52	70	22	43
Access to telephone per 100 population ⁶	Fixed	23	25	18	17	3	1
	Mobile	35	63	55	36	15	14
Access to rural transport (%) ⁷		90	82	59	59	57	34

¹ World Bank Development Database, 2006.

² World Bank Development Economics Data Group (DEC), October 2007 – Data from 2004.

³ World Bank Development Database, 2006.

⁴ International Energy Agency (IEA), 2005. EAP data includes China, while MNA does not include Northern African States.

⁵ Joint Monitoring Program Database (wssinfo.org), 2004 Data.

⁶ World Development Indicators, 2006.

⁷ Rural Access Index (RAI) estimates the proportion of rural population, which has access to an all-weather road, based on household survey data: 2002–04.

MENA DOES NOT FACE AN ACCESS GAP

Country	Mobile & Fixed (%)	% of Roads Paved	Access to water	Access to sanitation	Access to electricity
Algeria	90.5	-	85	94	98.1
Bahrain	211.2	-	-	-	99.0
Djibouti	6.8	-	92	67	-
Egypt	65.4	-	98	66	98
Iran	94.2	72.8	-	-	97.3
Iraq	52.2	-	77	76	15
Jordan	98.8	100	98	85	99.9
Kuwait	117.7	-	-	-	100.0
Lebanon	47.8	-	100	-	99.9
Libya	48.2	-	-	97	97
Morocco	82.7	61.9	83	72	85.1
Oman	125.4	-	-	-	95.5
Qatar	152	-	100	100	70.5
Saudi Arabia	163.3	21.5	-	-	96.7
Syria	50.4	100	89	92	90
Tunisia	95	-	94	85	98.9
U. A. E	242.3	-	100	97	91.9
WBG	37.1	100	89	80	
Yemen	18.2	8.7	66	46	36.2

But Impact on Growth has been limited in MENA

1995 levels as multiples of 1975 levels

	GDP	Electricity	Roads	Telecoms
East Asia	4.8	5.9	2.9	15.5
South Asia	2.6	4.4	2.5	8.2
Middle East & North Africa	1.8	6.1	2.1	7.2
Latin America & Caribbean	1.8	3.0	1.9	5.1
OECD	1.8	1.6	1.4	2.2
Pacific	1.7	2.0		4.3
Sub-Saharan Africa	1.4	2.6	1.7	3.9
Eastern Europe	1.0	1.6	1.2	6.9

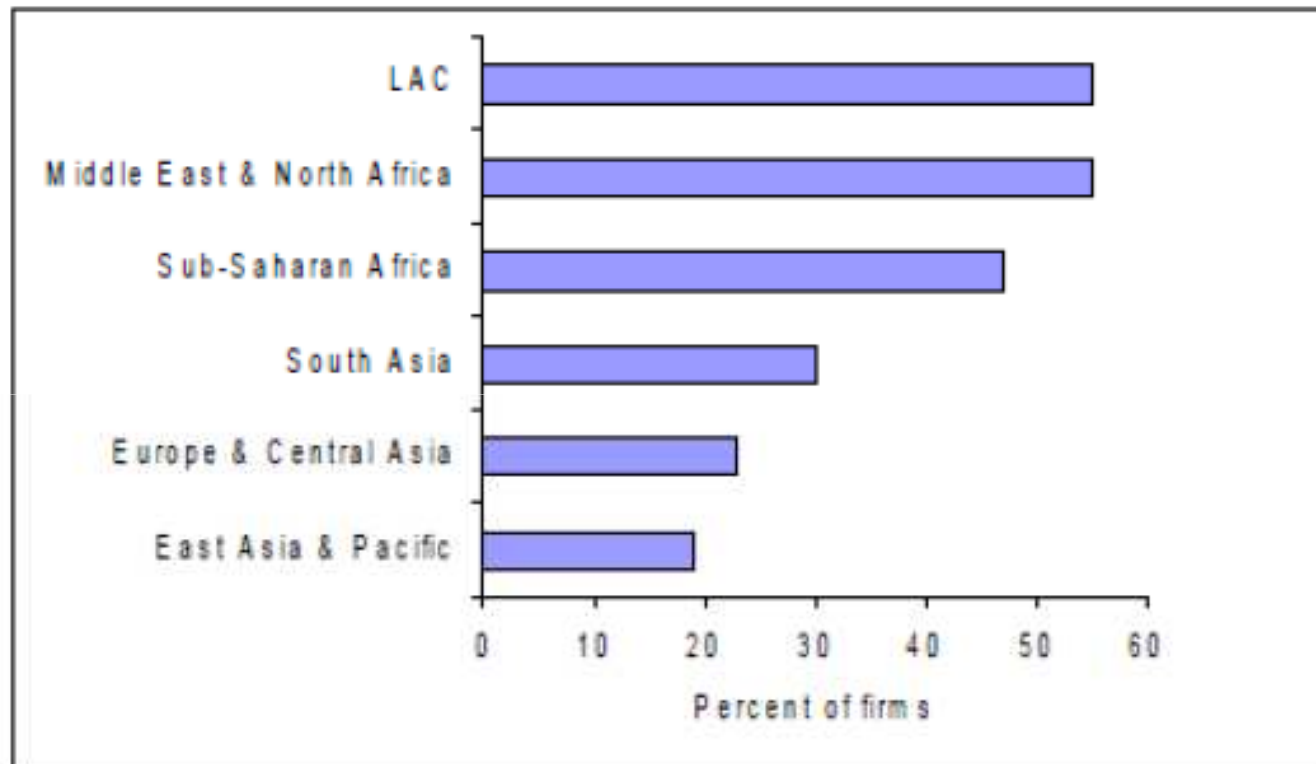
GDP – PPP constant 2000 international \$; Electricity - MW of generating capacity; Roads – km of paved road; Telecoms – number of main lines. See Straub et al. (2008) for construction. Sources: World Development Indicators and Canning (1998).

And Quality of Infrastructure is Hindering Firms' Competitiveness.

Region	Electricity connection delay (days)	Value lost to power outages (% of sales)	Water connection delay (days)	Mainline telephone connection delay (days)
East Asia & Pacific	21	2.6	18	16
Europe & Central Asia	15	3.0	9	16
Latin America & Caribbean	34	4.1	35	36
Middle East & North Africa	62	4.3	44	49
South Asia	49	7.4	29	50
Sub-Saharan Africa	38	5.9	42	54
OECD	10	2.3	—	9

Source: World Bank ICAs.

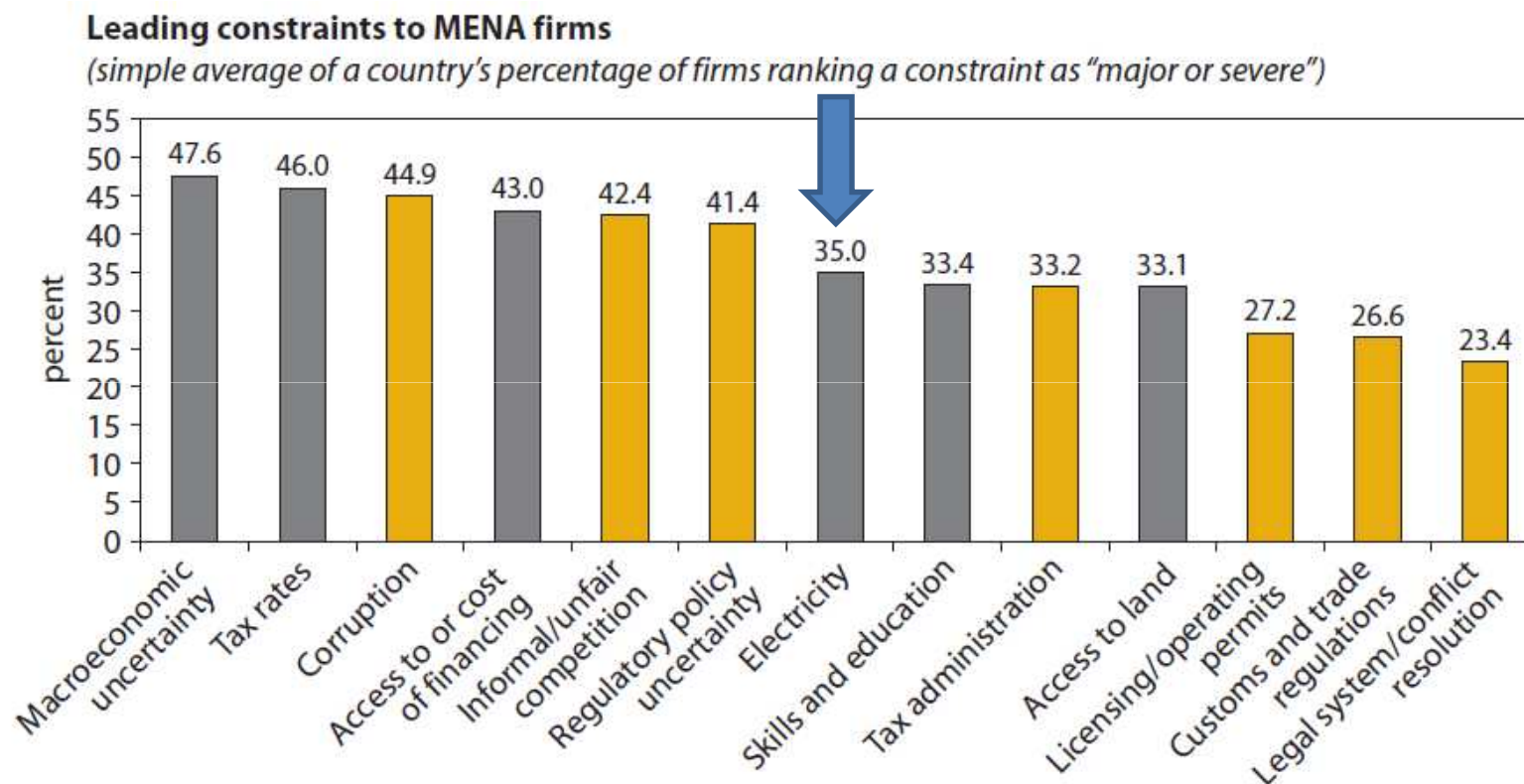
Businesses see Infrastructure as a serious constraint in MENA (2004)



Source: World Bank 2004a based on Investment Climate Surveys data.

Note: Figure shows the share of firms that report any of electricity, telecommunications, or transportation as "major" or "severe" obstacles to the operation and growth of their business.

Lack of Quality Infrastructure is perceived as a Major or Severe Constraint. (2008)

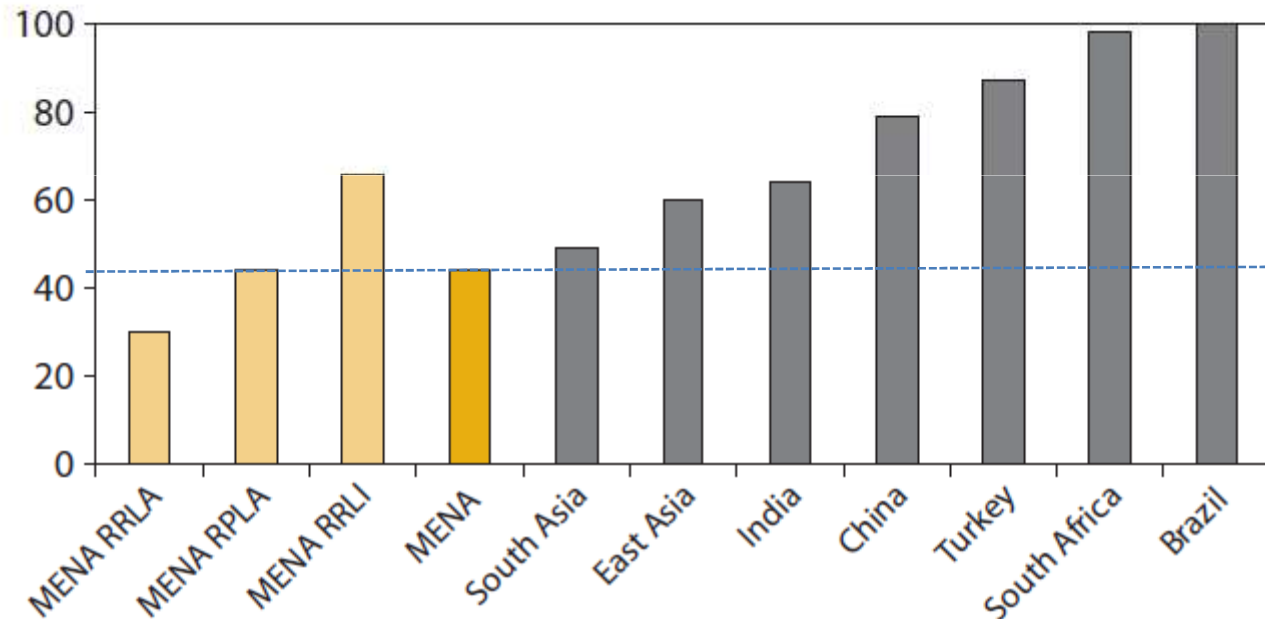


Note: Constraints related to policy uncertainty and policy implementation are highlighted in yellow.

Sources: World Bank Enterprise Surveys of Algeria, Egypt, the Islamic Republic of Iran, Jordan, Lebanon, Morocco, Oman, Saudi Arabia, Syria, West Bank and Gaza, and the Republic of Yemen economies, various years.

In fact, Total Factor Productivity is lower in MENA.

(percent of the average total factor productivity level in Brazil)



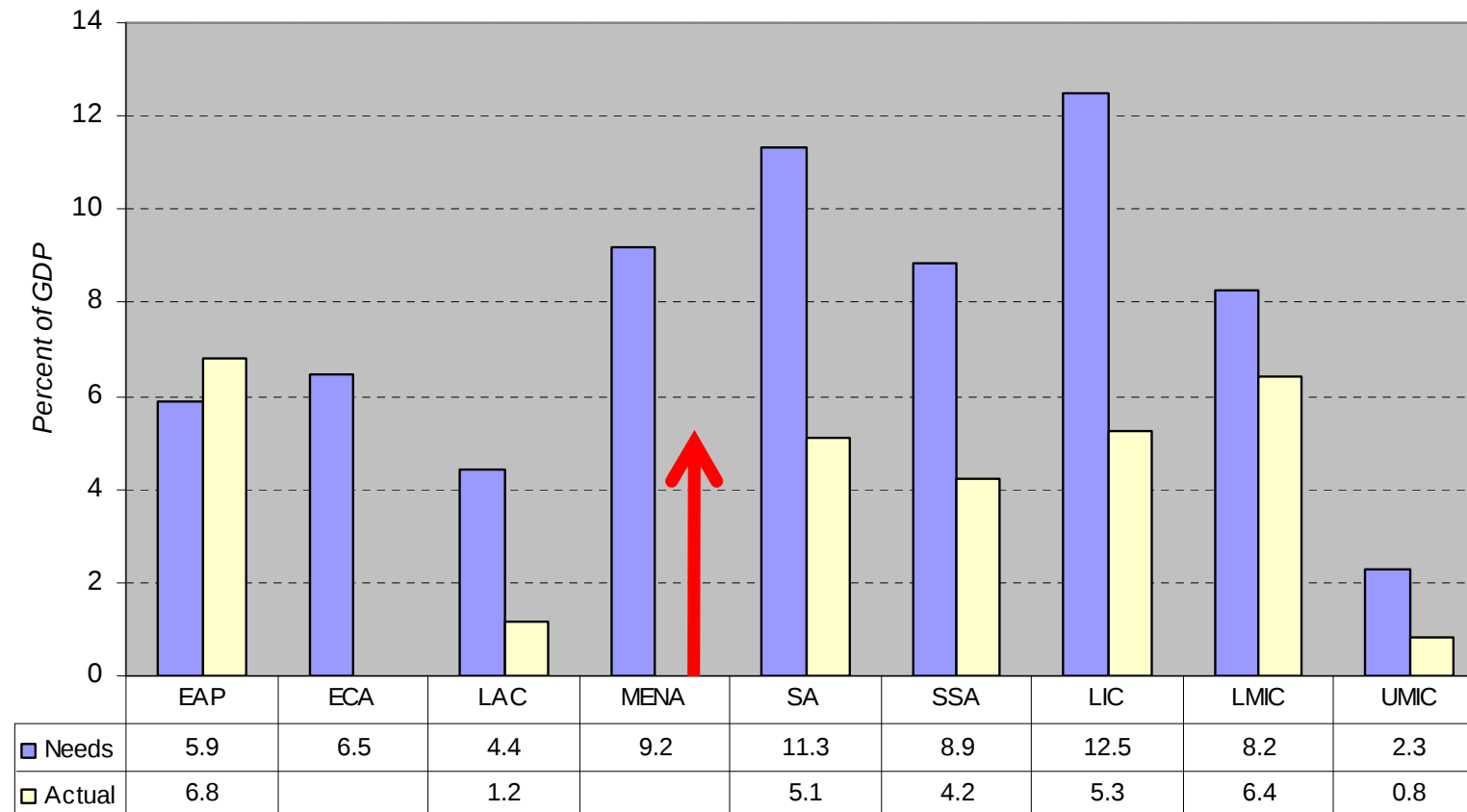
Source: World Bank Enterprises Surveys..

So Why Infrastructure Matters?

- Infrastructure impact economic growth in many ways:
 - Stock of capital investment
 - Intermediate input for production
 - Externalities or Network Effects
- While Infrastructure causes growth, growth also induces more demand for infrastructure (Endogeneity effect)
- Not all infrastructure projects create the same effects (heterogeneity)
- **How much and where should government invest in Infrastructure?**

Sustaining growth prospects calls for an increase of investments in Infrastructure

Figure 4. Needs versus Actual (percent of GDP)



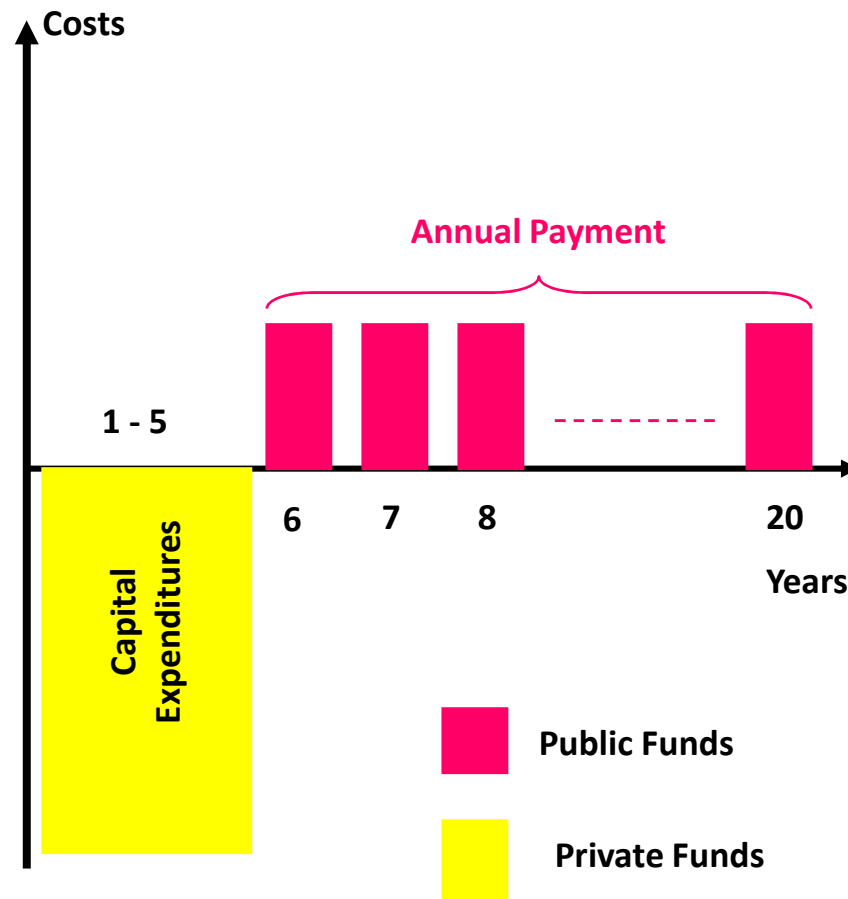
How to Bridge this Investment Gap?

Public Sources: Taxes, Debt, etc.

Donors' Grants

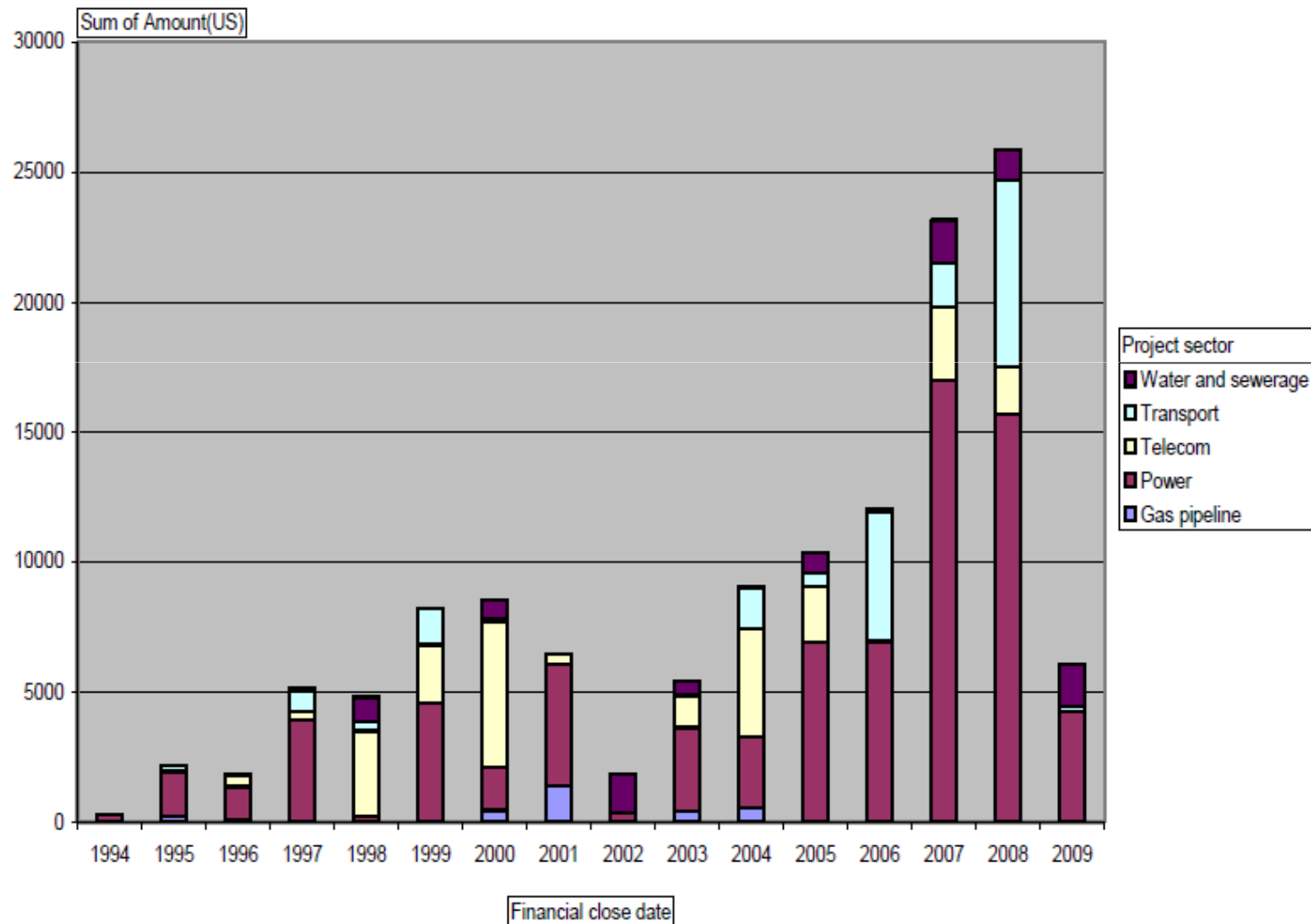
Private Sources: User fees, Private Sector

PPPs Can Create Fiscal Space and Improve the Delivery of Needed Infrastructure...



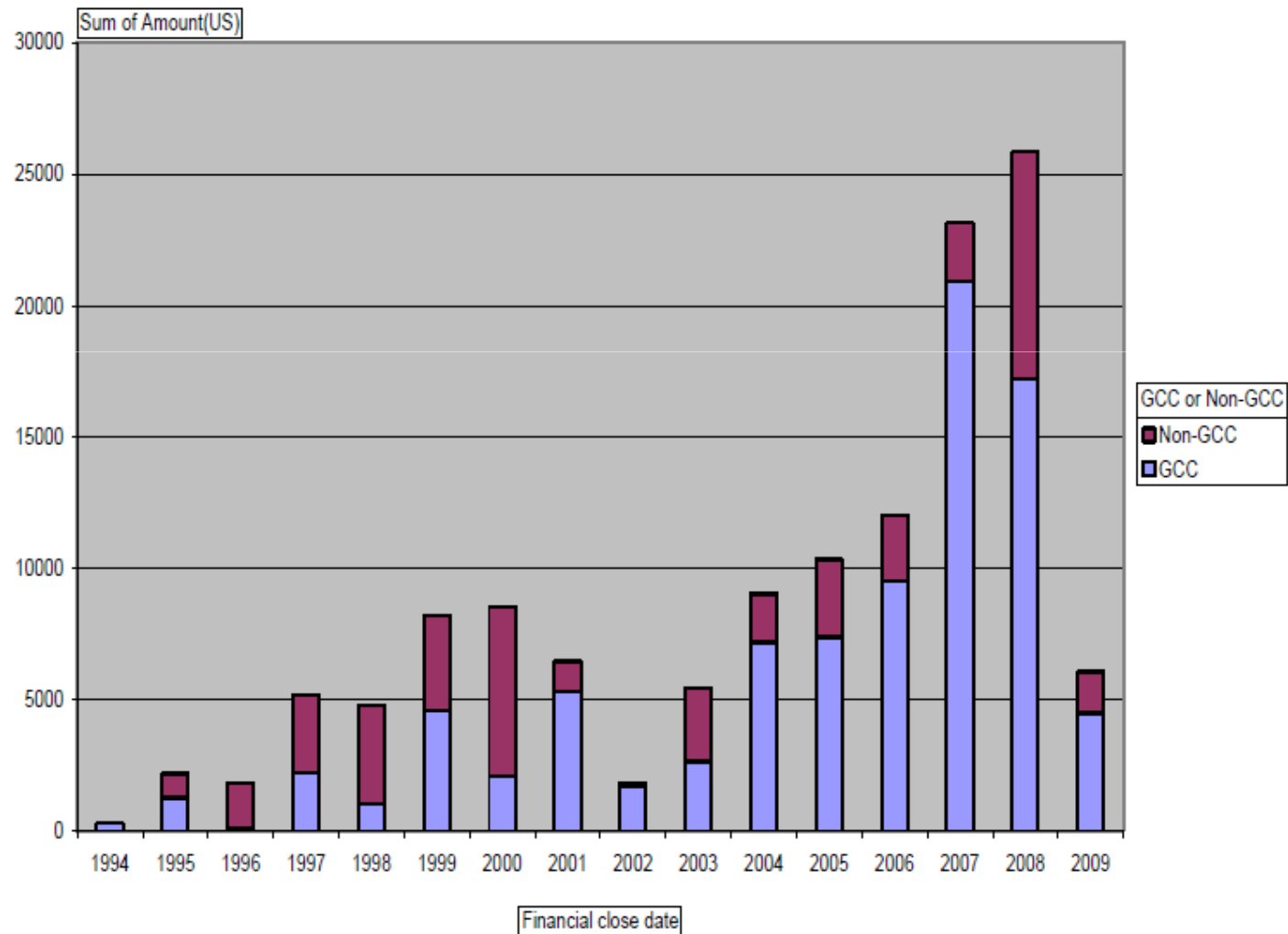
- Investment costs can be translated into Annual Payments.
- Private sector managerial expertise can lead to Efficiency gains (lower costs & better quality)
- **PPPs Can free Fiscal Resources to other Pressing Needs**

Infrastructure PPP Projects Closed in MENA – By Sectors



Source – Dealogic Projectware

Projects Financed Infrastructure Projects in MENA – GCC v non GCCs



Source – Dealogic Projectware.

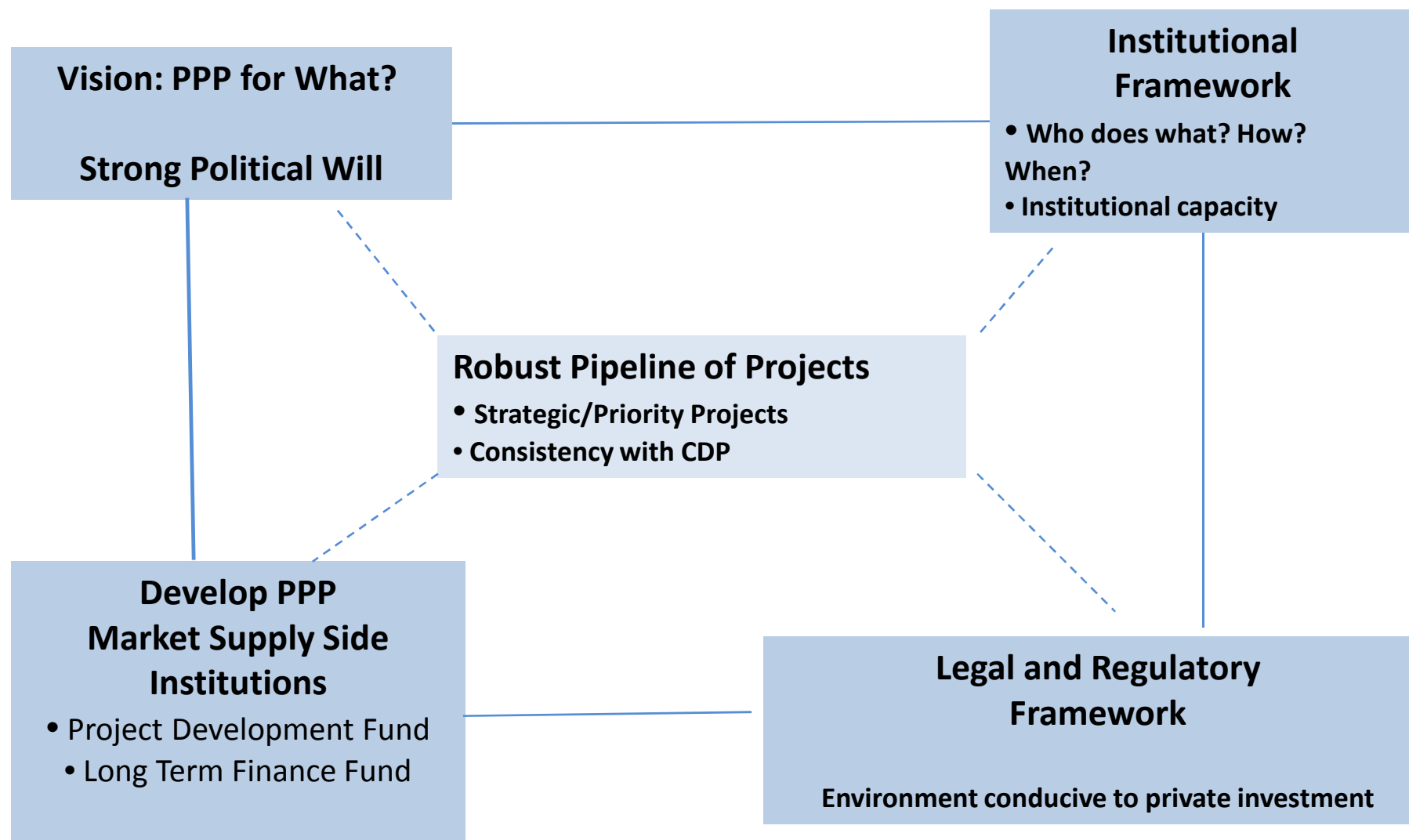
Key Challenges for MENA

- Strong demographic Trends (2-3% p/a)
- Rapid Urbanization Pace > 3% per year
- Low Diversification of the Economies
- High Unemployment – Goal is to create 40 million jobs to employ the growing work force
- Weak Regional Integration - from current 6% of total trade of the region to 20%-30%
- High Energy Subsidies ~ 7% of GDP
- Growing Urban Congestion
- Climate Change Implications !!!!!

A Second Wave of Reforms is Needed?

- To cope with Strong demands for infrastructure services
- To Increase Investments in Infrastructure
- To Promote Private Sector Investment and Diversify the Economies
- To Tackle Institutional Deficiencies which have Shaved off infrastructure impact on growth

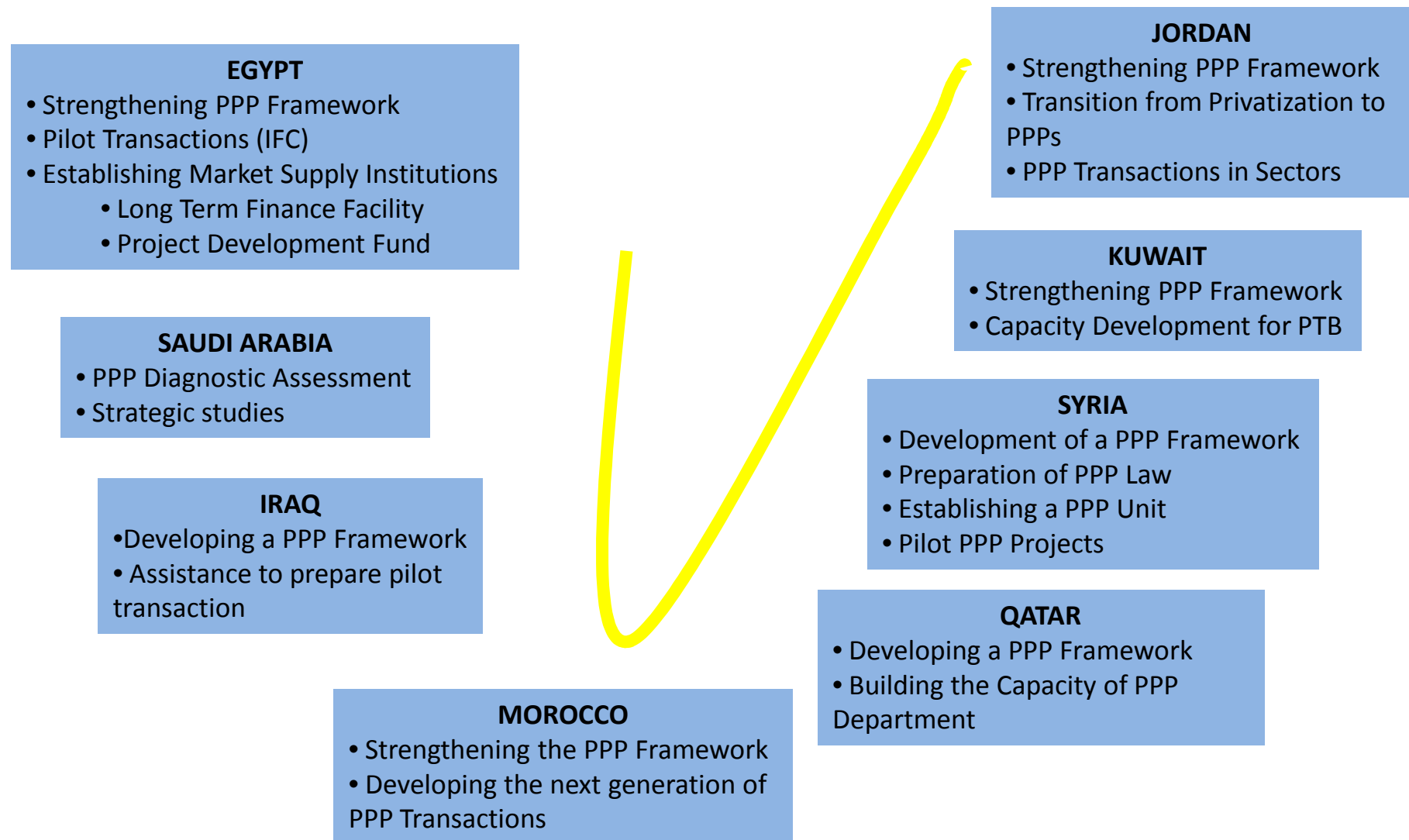
How to Approach the PPP Reform?



The World Bank Group Stands Ready to Support

IFC	MIGA	World Bank (IBRD)
Transaction Advisory services IFC Loans: A/B/C IFC Guarantees (partial credit structures usually for local financing) Interest Rate and Currency swaps	Political Risk Insurance - Expropriation - Transfer restriction - Breach of contract - War & civil disturbances	Non Lending TA - Policy and Regulatory Advisory - Institutional Capacity Development Public Financing (Loans) Guarantees - Partial Risk - Partial Credit

The World Bank Supports PPPs at Country Level



MENA Islamic Finance Facility for Infrastructure (MIFFI)

- Establish a MENA Islamic Finance Facility for Infrastructure (MIFFI):
 - To help unlock constraints on long term debt financing for infra PPP projects and cross-border projects
 - To foster the use of Islamic Finance for Infrastructure
- MIFFI will operate at wholesale level, and will include a Technical Assistance Window

