

WORLD BANK GROUP INFRASTRUCTURE ACTION PLAN

MIDDLE EAST &
NORTH AFRICA REGION



World Bank Group
Infrastructure Strategy Update





Access Indicators

Energy	
Electrification rate (% of population with access) ¹	90.2
Delay in obtaining electrical connection (days) ²	60.9
Water and Sanitation	
Improved water source (% of population with access) ³	87.3
Improved sanitation (% of population with access) ³	84.3
Delay in obtaining water connection (days) ²	55.7
ICT	
Internet users (per 100 people) ⁴	21.5
Population covered by mobile cellular network (%) ⁴	93
Delay in obtaining a mainline telephone connection (days) ²	37.8
Transport	
Motor vehicles (per 1,000 people) ³	87.6
Firms identifying transportation as a major constraint in doing business (%) ²	21.5

Source: ¹International Energy Agency 2010

²Enterprise Firm Surveys, Enterprise Analysis Unit

³World Development Indicators

⁴Little Data Book on ICT

1. INFRASTRUCTURE ISSUES

The Middle East and North Africa region encompasses great diversity of countries with differentiated needs and financing capabilities:

- **Non borrowing oil-exporting countries:** Gulf Cooperation Council nations(GCC), Libya, Algeria.
- **Middle Income Countries (MICs):** Morocco, Tunisia, Egypt, Jordan, Lebanon, Syria, Iraq and Iran.
- **Low Income Countries (LICs):** Djibouti, Yemen.
- **Special financing:** West Bank and Gaza (WB&G).

Infrastructure status

- Relatively good stock of infrastructure in high-income/oil-exporting countries and some MICs but unsatisfactory service quality in most sectors.
- Low levels of regional economic integration. Huge potential benefits for developing intraregional trade and regional infrastructure, including more efficient logistical services.
- Infrastructure deficit in some rural and poor areas hindering access. More acute challenge for LICs.

Challenges

- Growing backlog of infrastructure investments and rapid urbanization rate (+3 percent per year) leading to congestion, pollution and declining competitiveness of the region's cities and economies.
- Scarce water resources coupled with unsustainable and inefficient uses.
 - Private investment in infrastructure in the lags behind other regions.
 - GCC accounts for about 10% of the region's population and 50 percent of GDP but over 80% of private infrastructure investment, particularly in Saudi Arabia, United Arab Emirates, Qatar and Oman.
 - 2011 investment impacted by the political events in the region; increased political risk leads to investor uncertainty and higher pricing.
- Building resilience against climate change and natural hazards and sensitivity to the food crisis; potential to develop green growth via Concentrated Solar Panels (CSPs) and city green growth programs.
- Most countries developed infrastructure stimulus packages to sustain economic growth and weather the impact of the financial crisis but there is still a US\$30-40 billion

per year deficit in infrastructure investment out of US\$100 billion of spending needs estimated by the Bank. Improving governance is critical to give confidence to private sector to (re)invest in infrastructure.

The 2011 Arab Spring highlighted additional challenges:

- Lack of transparency, accountability and social inclusiveness, perception of cronyism and abuses of power (perceived or real).
- Contraction of the fiscal space, limiting resources for investment and refocusing Governments' priorities toward non economic infrastructure/social investments.
- Young, unemployed and growing population accentuating the challenge of job creation and how infrastructure investments and maintenance can contribute.

2. ACHIEVEMENTS AND LESSONS LEARNED, FY08-11

- **Regional integration:** transport/trade diagnostic studies for the Mashreq and Maghreb, technical assistance to specific countries, e.g., Tunisia, Morocco and Egypt, investment loans for the development of major infrastructure, e.g., Egypt power plants, airports and railways.
- **Urban development:** TA and studies for specific countries, e.g. Morocco, Yemen, Egypt, Jordan and Iran; investment loans, e.g., for improving traffic management in Beirut, and creating a new peripheral corridor in Amman; development policy loans to Morocco to promote policy reforms in urban transport and municipal solid waste management.
- **Expansion of rural access:** investment loans/credit for rural roads upgrading in Morocco and Yemen; Second Rural Access Project in Yemen has provided year round all weather road access to about 475,000 people.
- **Strengthening PPPs:** RTAs in GCC countries to support PPP unit in Kuwait and PPP framework in Qatar; Support of the PPP Central Unit in Egypt in developing its portfolio.
- **Promoting private sector participation:** IFC invested about US\$1.5 billion in 38 projects in the infrastructure space in the region, with an additional US\$600 million mobilized from third parties. Highlights include a regional water company, two private airport concessions in Jordan and Tunisia, the first financing for a private power distribution utility in Jordan, financing for mobile telecom operators in Iraq and the West Bank and a container terminal in Iraq. Over the same period, IFC infrastructure Advisory Services were also very active in the region, with 10 active and closed mandates, including an airport in Jordan, an airport in Saudi Arabia and a wastewater treatment plant in Egypt.
- **Mitigation and adaptation to climate change:** pilot studies in Morocco, Tunisia, West Bank and Gaza and Yemen; carbon finance project for taxi fleet renewal in Egypt; component of the Morocco urban transport DPL reducing CO2 emissions by 400,000 tons/year.
- **Transport:** increased transport sector contribution to social development through gender and transport studies in Yemen, Morocco and West Bank and Gaza; labor intensive works in the rural roads projects; promotion of access for persons with reduced mobility in Morocco; and a pilot road safety diagnostics study in Yemen.
- **Water:** in Iraq, 2 million people recovered access to safe water and half a million people benefited from sewers rehabilitated by Bank-supported projects; in Egypt, Bank-financed projects helped 850,000 families increase their annual agricultural production by US \$35 million; in West Bank and Gaza, the Assessment of Restrictions on Palestinian Water Sector Development resulted in dialogue for improving the joint Israeli-Palestinian governance framework that controls water projects implementation.
- **Energy:** additional power capacity installed in Egypt and Jordan; significant renewable energy projects are under preparation (concentrated solar panels and wind power).



3. ACTION PLAN, FY12-15

World Bank Group Infrastructure Commitments

	FY11	FY08
WBG Infrastructure Commitments (US\$ billion)	1.4	1.8
Total private sector investment enabled (\$US billion)	1.1	0.8
IFC PPP advisory transactions completed	0.3	0.6
MIGA Infrastructure Commitments (US\$ billion)	–	0.4
Total private sector investment enabled by IFC (US\$ billion)	16.5	

Source: SAP Business Warehouse, MIGA, IFC

■ CORE ENGAGEMENT

What will constitute the core engagement in infrastructure?

Core engagements will include:

- Boosting the development of economic infrastructure to sustain economic growth, enhance competitiveness and unlock regional integration benefits.
 - **Transport:** disseminate studies on regional trade and transport in Maghreb and Mashreq; provide technical assistance to develop trade facilitation and logistics in Egypt, Yemen; produce study on regulation of ports operators and transport constraints to employment in Djibouti; support regional transport programs (TA and horizontal Adaptable Program Loans); support Egypt railway sector (studies, TA and investment as required).
 - **Energy:** provide ad hoc support to power generation projects including independent power producers; continue facilitating the regional energy agenda, particularly by supporting regional interconnections (Egypt-Saudi Arabia); manage water resources; support water resource management initiatives in particular the Tigris-Euphrates monitoring program.
- Achieving basic infrastructure service provision in rural and poor areas.
 - Develop rural road programs in Yemen, Morocco, Tunisia and Egypt.
 - Pursue large scale irrigation programs in Egypt.
 - Explore desalination for horticulture in Morocco.
- Supporting integrated and inclusive development of efficient municipal infrastructure services in urban and peri-urban areas.
 - **Integrated urban development operations:** produce studies in Tunisia and Morocco to assess how to improve the delivery of municipal services and help empower local authorities in their role as promoter of local economic growth, social cohesion and quality of life in urban areas.
 - **Urban transport:** produce study on transport and climate change; support urban transport programs in Morocco and Egypt (Cairo).

Lessons Learned

- If political will is paramount in getting things done, good governance is essential for public acceptance. The Group can play a key role helping decision-makers to be more transparent, to consult more widely and to be more accountable.
- The quality and capacity of national and local institutions are essential for designing and implementing improvements in sector performance.
- Change is a long process which requires sustained effort by Government, local authorities and the Group.
- Transfer of knowledge, especially international best practices, is in high demand at all levels and essential to promote change.
- The study *Optimizing Wheat Import Supply Chains (WISC)* indicates that Arab countries would save millions of dollars each year by addressing WISC bottlenecks, e.g., insufficient storage capacity which creates clogs in the supply chain or over-reliance on one unloading port which increases supply risk. The Bank can help by improving existing WISC port logistics, storage facilities and road networks in-country and by promoting regional cross-border trade that may require infrastructure development.
- **Municipal Solid Waste (MSW):** scale up tailored support (DPLs or RTAs in Gulf countries) to help governments implement reforms of their respective municipal solid waste sectors. Combine MSW projects, when possible, with CO2 emission reduction schemes.
- **Water supply and sanitation:** produce nation-wide studies on sector performance and provide ad hoc support to water and sanitation projects.
- Engaging with clients on cross-cutting issues.
 - **Rationalization of demand in infrastructure:** improve the efficiency of uses of natural resources, e.g., water, arable land and infrastructure assets, e.g., more urban roads versus urban transport system.
 - **Infrastructure service quality, governance and job creation:** produce studies to assess and maximize the benefits of infrastructure development on job creation; develop road asset management programs and explore labor-oriented technologies; improve the performance and governance of the energy sector in capturing inefficiencies, strengthening regulators and creditworthiness.
 - **Development of private sector participation in infrastructure service provision:** support harmonization and foster the PPP agenda; develop use of guarantees; provide ad hoc support to rescue PPP transactions affected by the Arab Spring.
- Managing green growth, climate change adaptation and disaster risk management.
 - **Promotion of renewable energy:** integrate, leverage climate funds and cross-sector approaches while implementing low carbon investments (new technologies) and enhancing the efficient use of natural resources (Jordan); draw lessons from the Ouarzazate project to help replication of concentrated solar panel programs in the region; scale-up financing and TA/RTA for renewable energy programs.
 - **Resilience to climate change:** finalize and disseminate studies on adaptation to climate change in the Arab countries; develop a regional pilot, climate change DPL, in Morocco.
 - **Improved disaster risk management (DRM):** focus on small-scale, labor-intensive work to build resilience at the community level to mitigate risk of water scarcity, drought, food insecurity and floods; expand capacity building efforts for Disaster Risk Management by providing support to national and regional institutions of learning.
 - **Modernized water and irrigation schemes:** develop wastewater reuse program in Tunisia; develop innovative finance schemes (e.g., PPPs) in irrigation.

What will the Bank do to secure more/efficient public sector financing for infrastructure?

- Continue developing partnerships and further coordination with other Development Finance Institutions (DFIs) to address the region's infrastructure challenges with European partners (EU, EIB, EBRD and bilaterals) and with Arab/Islamic partners (Islamic Development Bank, Arab Funds and bilaterals).
- Assess inefficiencies in infrastructure services and devise practical solutions to capture them.

■ TRANSFORMATIONAL ENGAGEMENT

Where are the new opportunities for “transformational” engagements?

Core engagements will be considered transformational if they address to a large extent one or more of the below critical issues in infrastructure development:

- **Regional integration:** supporting regional programs/projects when possible and harmonization of national frameworks to help countries share the benefit of more economic integration.
- **Concerns of the Arab Spring:** strengthening the Governance Framework (transparency and accountability) of infrastructure service delivery; and enhancing economic and social inclusion of basic infrastructure and growth.
- **Job creation:** increasing Bank's ability to frame competitive infrastructure projects which can create sustainable jobs (direct, indirect and induced).
- **Green growth and climate change:** preparing demonstration projects to foster green growth programs.

What will the Bank do to build client capacity to support transformational engagement?

- Scale up institutional capacity building linked with lending operations.
- Target technical assistance for project preparation with attention to procurement and public consultation.
- Support regional PPP harmonization.

■ INFRASTRUCTURE FINANCING

What will the Bank do to improve the investment climate?

- During and since the Arab Spring, citizens have called for greater voice and accountability. The region's main challenge, loudly proclaimed, is to create sustainable jobs generated by the private sector. The key is improving the enabling environment for private sector players, both large and small. Also key is ensuring fair competition and reducing privileges which have historically benefited solely the elite class. For example, the Bank has two new DPLs focusing on improved accountability and governance in Iraq and in Jordan. The Bank will also be continuing analytical work on economic governance and social safety issues in Egypt, Morocco and Tunisia.

What will the Group do to help client countries attract more private sector financing?

- Arab Financing Facility for Infrastructure (AFFI): a regional partnership between WBG and the Islamic Development Bank, is designed to promote regional policy dialogue on infrastructure challenges, to catalyze access to public and private finance sources and to support the preparation of sustainable infrastructure projects, in particular PPPs. Its goal is to become a center of excellence for infrastructure financing in the region.

- Private sector participation: The region will continue to be a critically important region from an infrastructure perspective for IFC, with 8-10 projects expected annually over FY12-14 for IFC own account volumes of US\$400-500 million, with an additional US \$200-300 million anticipated in mobilization. There is an appetite for well structured deals in the region with multiple sources of funding available.
- Political risk mitigation products: MIGA expects to allocate US\$500 million of net insurance capacity and further mobilize an additional US\$500 million of reinsurance from the private market for a total of US\$1.0 billion for the region. This capacity should meet the market demand for guarantees for a period of approximately 15 months. Beneficiaries of this allocation will include large infrastructure projects.
- Conflict Affected and Fragile States facility: (currently under development) will help stimulate of Foreign Direct Investment (FDI) flows to some countries.

Where are the opportunities for public-private partnerships?

- PPP opportunities spread across sectors (independent power producers, integrated water and power projects, solid waste, toll roads, urban transport, ports, airports, logistics hubs, wastewater treatment plants, schools, hospitals), but need to be well prepared and structured to attract investors.
- Continued capacity building development in Morocco, Tunisia, Egypt, Syria and Jordan.
- Increased lending support as PPPs are rebalanced (less private/more public) via investment loans and targeted DPLs.
- PPP “rescue” operations for bankable projects impacted by the Arab Spring.

- Continued IFC Advisory services which pursue opportunities in the PPP space as the Arab Spring puts pressure on regional governments to provide better coverage and quality of infrastructure services; potential for reevaluating PPP development pipeline and existing PPPs in tender (opportunities for increased transparency, governance and social prioritization).

What are the opportunities to tap into “green financing”?

- Concentrated solar power programs and other renewable energies.
- City green growth programs.
- Municipal solid waste programs.

What will the Bank do to tap into knowledge and financing of private foundations, think tanks and others?

The Bank will develop cooperation with existing partners, listed below, on joint activities (conference, knowledge products):

- Marseille Center for Mediterranean Integration.
- Arab Water Academy, Arab Water Council, Arab Water Country Utility Association.
- Arab Center for the Studies of Arid Zones and Dry Lands (ACSAD).
- Arab Academy and Regional Center for Disaster Risk Reduction.
- League of Arab States.

The Bank will further engage/explore with Gulf countries and funds to finance infrastructure development.



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