



How to Bridge the Arab Infrastructure Gap

Presentation in Panel on Financing Infrastructure: FDI & Multilateral Financing at the Second AFFI Forum

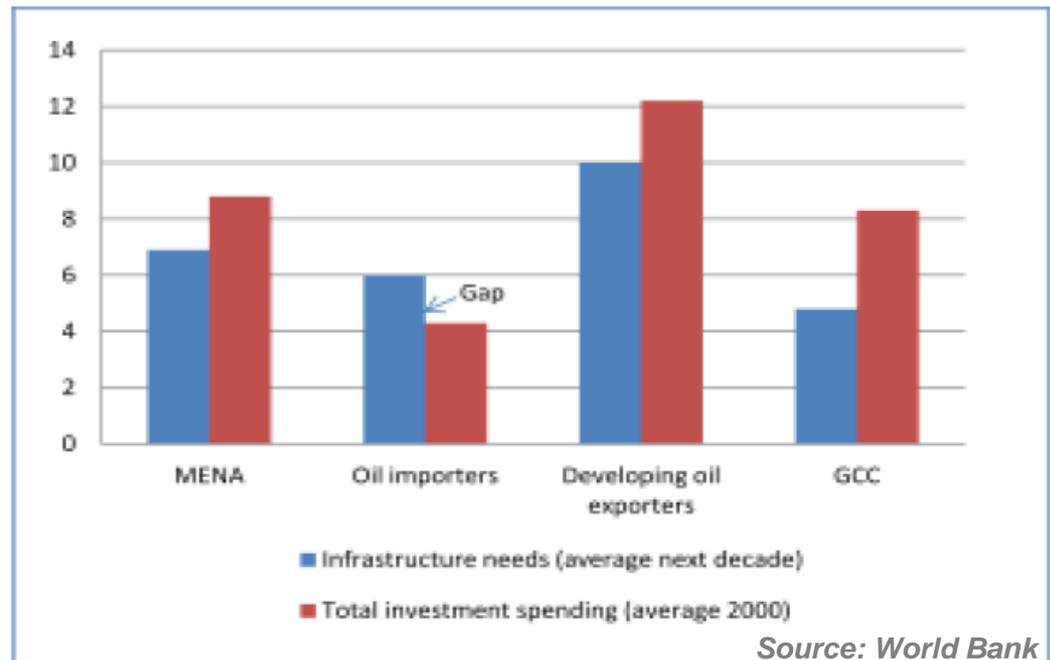
Dr. Nasser Saidi,
Chief Economist, DIFC 17th Apr 2012



Massive MENA Infrastructure requirements

- Annual infrastructure needs in the range of USD 1250 - 1500bn & a financing gap in the range of USD 175 - 700bn in **developing** nations
- WB estimates **MENA's** infrastructure investment and maintenance needs through 2020 at **\$106bn per year** or 6.9% of the annual regional GDP, with a \$60bn financing gap
- Developing oil exporting countries will need to commit about 11% of their GDP annually (USD 48bn) on improving and maintaining their national infrastructure endowments, while the oil importing countries need about 5-6% of their GDP
- Investment and rehabilitation needs are especially high in the **transport sector**, particularly roads, and the **electricity sector**, jointly accounting for almost half of total needs.
- Fulfilling the **electricity needs** alone would require **3% of the yearly regional GDP**.
- **AFFI** modest in comparison to requirements

Infrastructure Needs & Financing (annual, % of GDP)

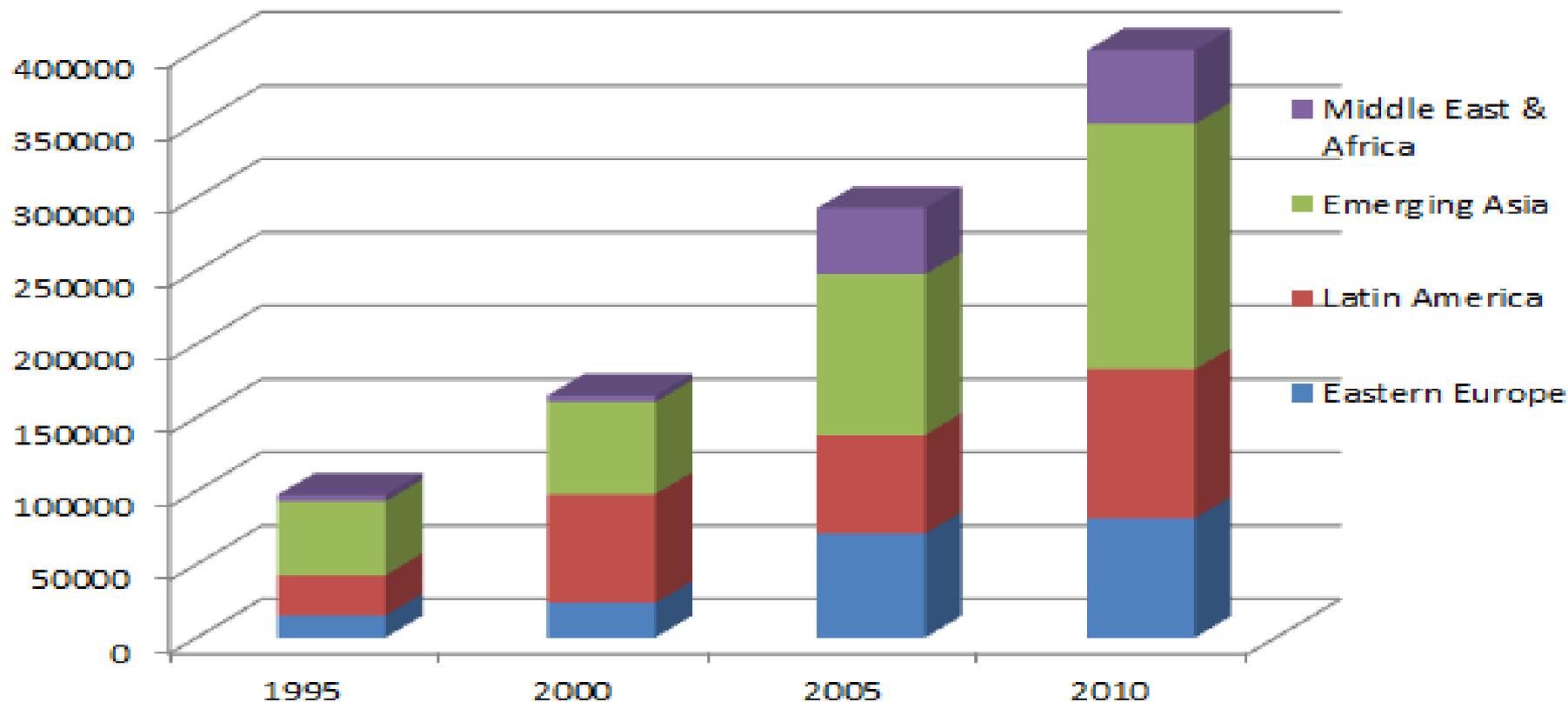


- **Demographics:** Young, fast-growing population + Growing middle class
- **Rapid urbanization:** 3%+ per year; breeding ground for growth of market economy, enterprise localization, talent pooling, clusters of competencies & specialization
- **Enable Economic diversification &** move away from over-dependence on hydrocarbons
- **Historical Underinvestment in Infrastructure => Economic and social returns** to infrastructure investments are high
- **Shift in global economy & trade patterns towards emerging markets & Asia.** MENA countries need to make trade facilitating investments to integrate into new emerging global supply chains, New Silk Road.
- **Regional infrastructure** => driver of regional & International integration, trade, investment & growth

- **Reconstruction of countries that experienced war & violence:** Iraq, Sudan, Libya, Lebanon, Palestine. Example: Iraq needs \$500-\$700bn for rebuilding its infrastructure
- **“Arab Firestorm” countries are going through a transition period** of high unemployment, low investment and low growth
- Infrastructure investments **create jobs in sectors such as construction and manufacturing**, while also enhancing future competitiveness, economic diversification and growth
- Policy need of the hour: **Infrastructure investment** is a **“growth-lifting”** strategy but requires multi-year sustained effort, regional cooperation and institution building

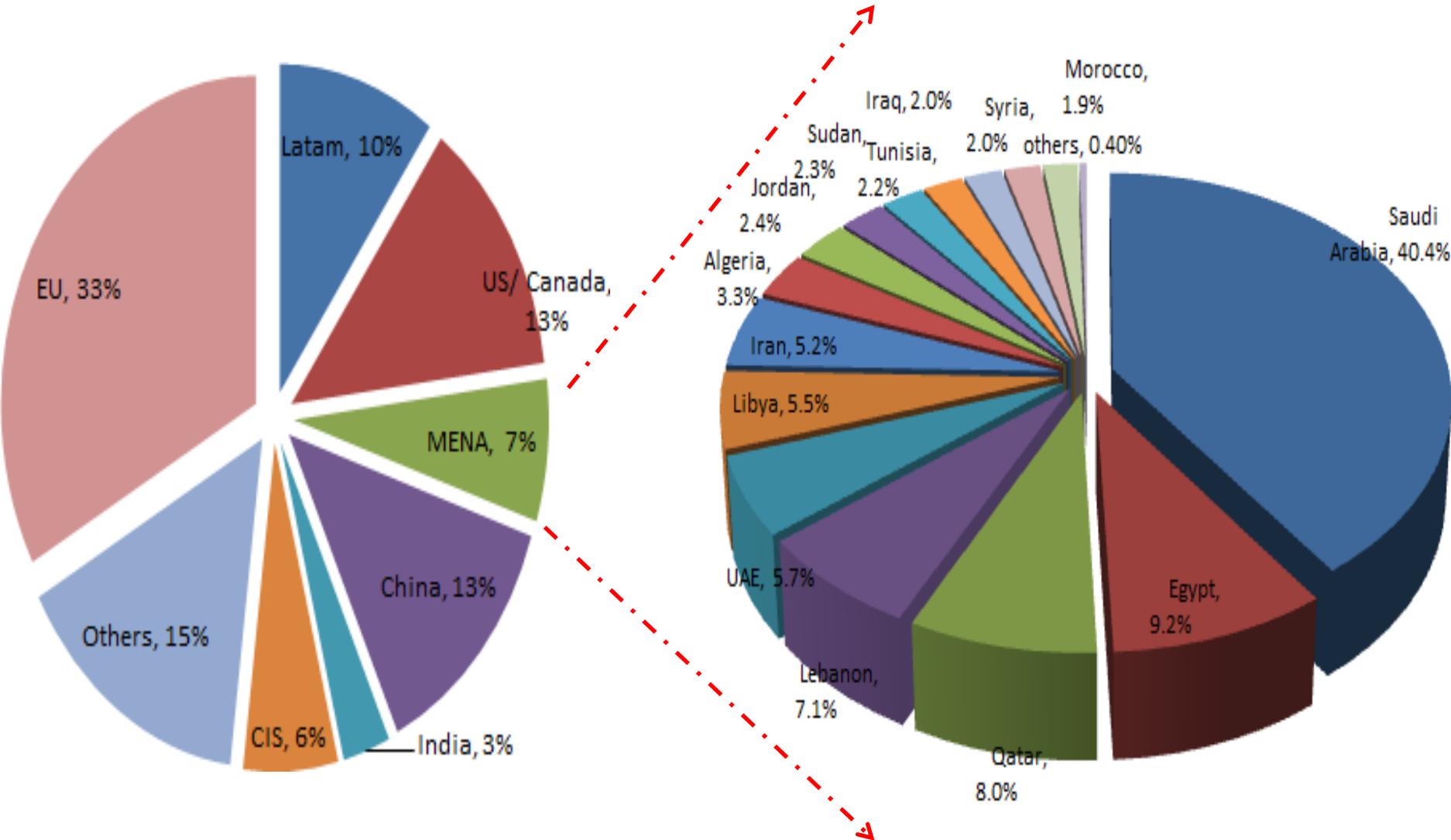
FDI Flows Into the MENA Region 1995-2010

FDI Inflows (in millions of current USD)



- FDI has grown fastest in MENA during the period 2000-08
- Gradual recovery is expected post- Arab turmoil; impact of the crisis & extent of expected recovery varies across countries
- GCC likely to recover faster than oil- importers like Morocco, Tunisia, Egypt, Yemen

But FDI still mainly directed to oil/ gas producers

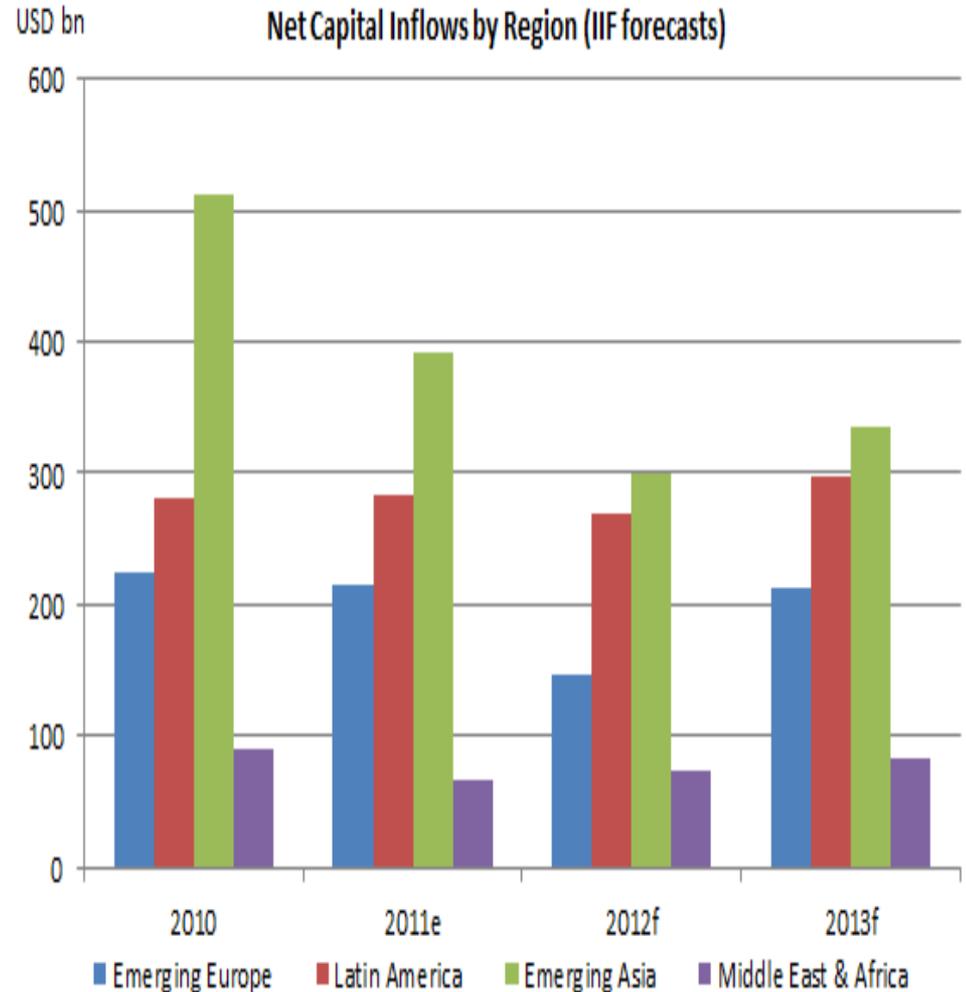


Source: UNCTAD (2010 data)

FDI recovery post-Arab Firestorm will be gradual



- The Arab Spring led to sudden capital stop/outflows from the region & recovery has been gradual.
- **MENA Net private capital inflows likely to slow** 2nd consecutive year: 2011: \$72.5bn; 2012: \$63.7bn.
- **Direct equity investment** accounts for bulk of the flows (~ 60%); likely to remain fairly steady at about \$45bn a year on average through 2013.
- **Portfolio equity** flows - dropped sharply in 2011 due to capital flight from Egypt; forecast to recover as prospects in the region gradually improve.
- In contrast, **official flows** are forecast to be the highest in over a decade. 2012: projected \$9.9bn of net inflows; 2011: \$5.5bn in net repayments;
- Assumes that **multilateral institutions & bilateral creditors** will rally to support countries in transition.

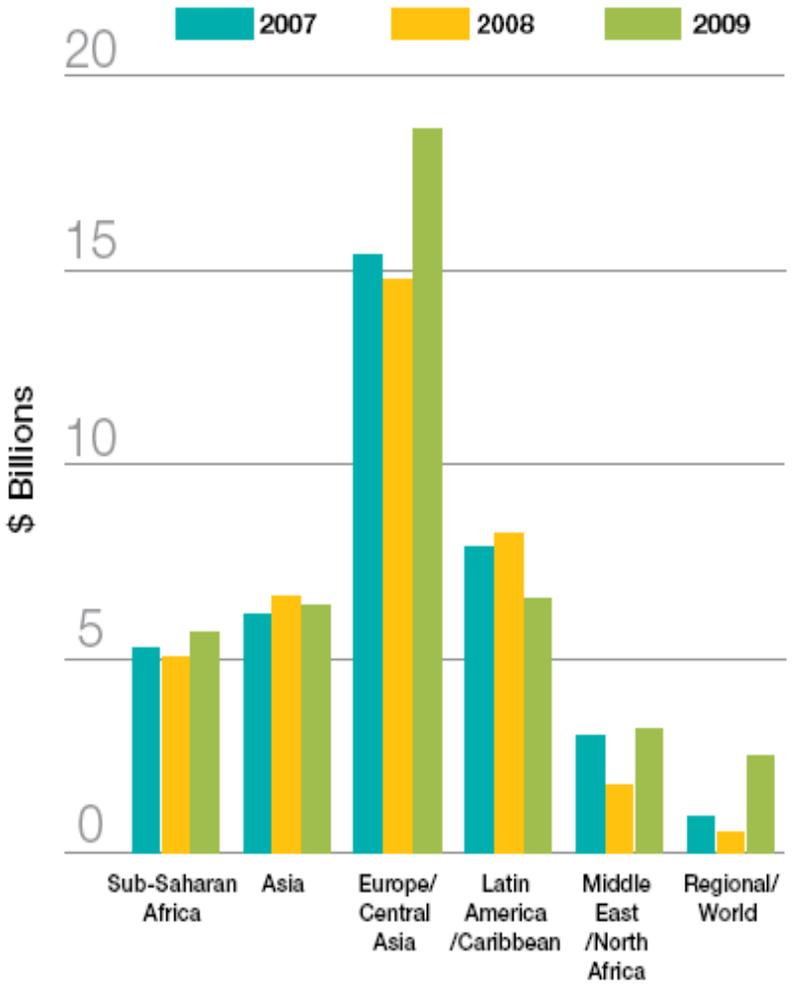


Source: IIF Capital Flows to Emerging Market Economies, Jan 2012

IFIs are compensating for cowardly private flows

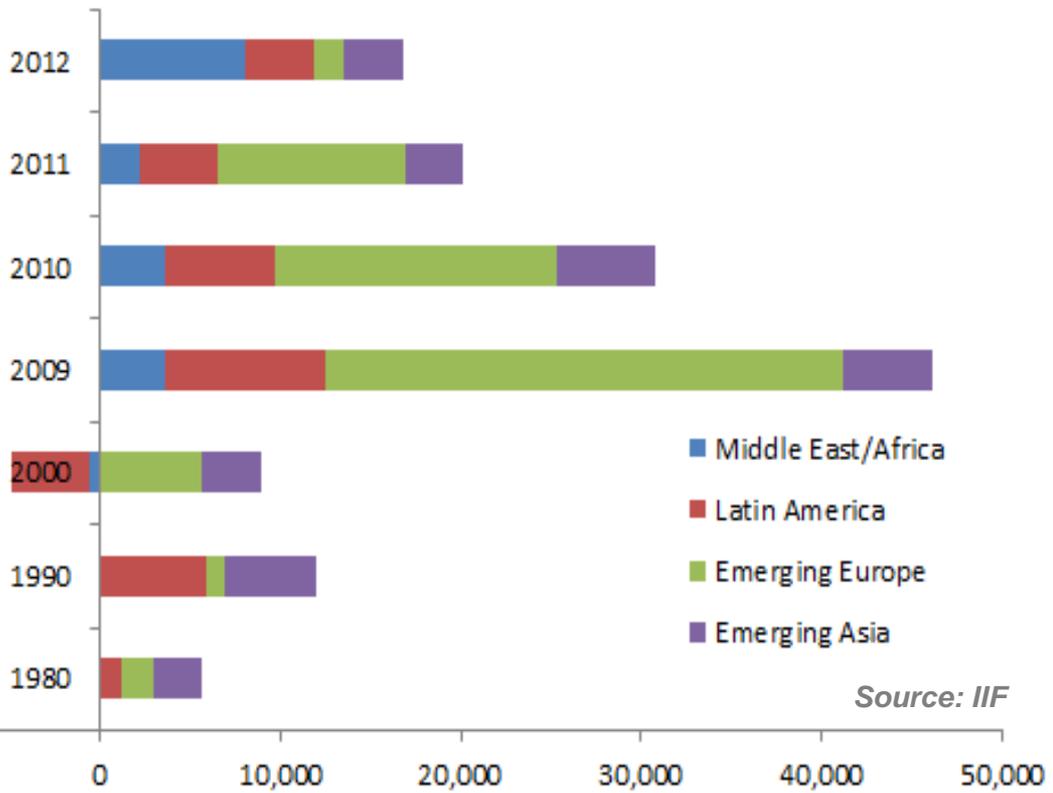


IFI Commitments to the Private Sector by Region



- Net official inflows from IFIs to the MENA region is expected to increase in 2012.
- Breakdown of data for the MENA countries shows a substantial rise in expected flows into Egypt

Net Official Inflows from IFIs (in USD mn)



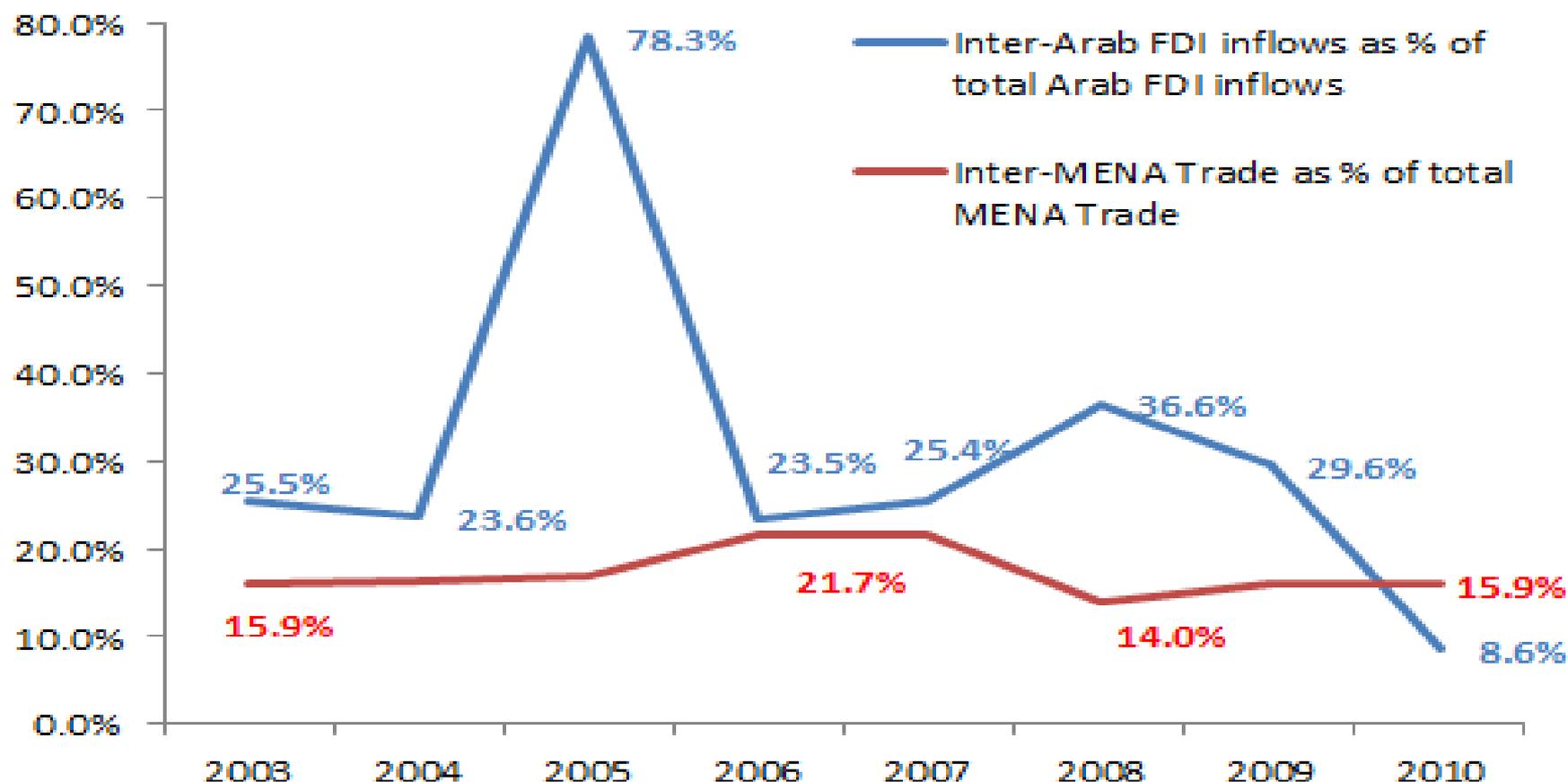
Source: IFC Report on IFIs & Development through the Private Sector

Source: IIF

Intra-Arab FDI more important than trade flows

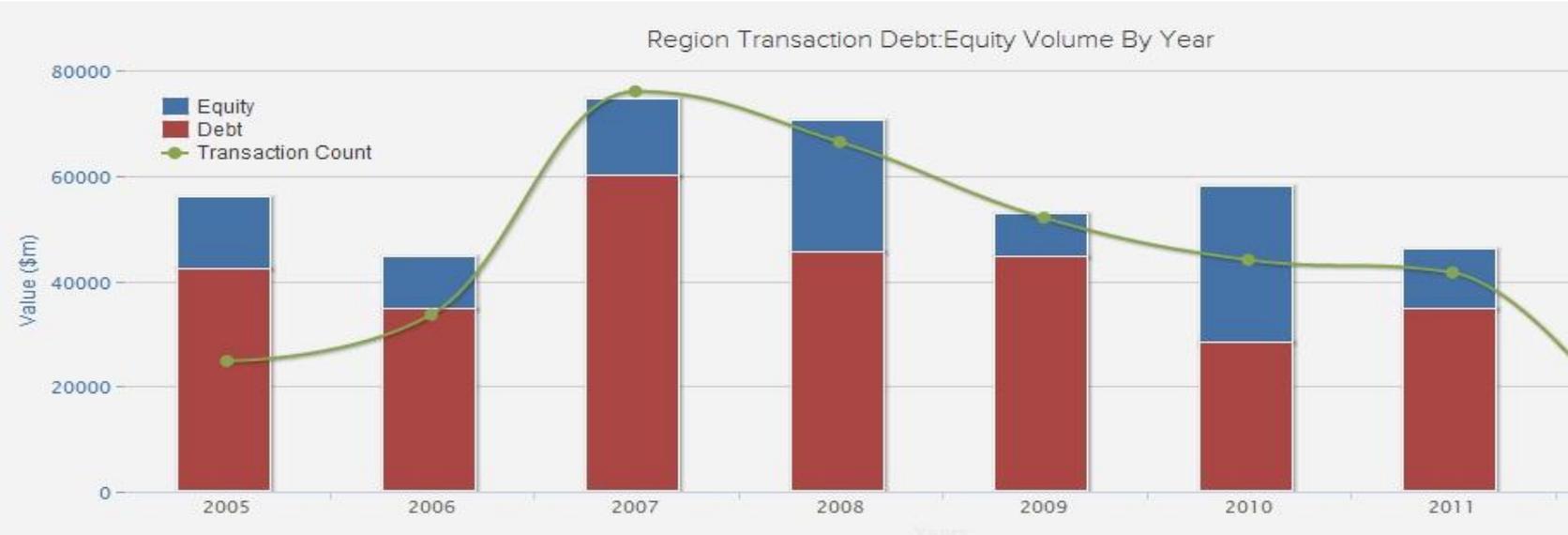
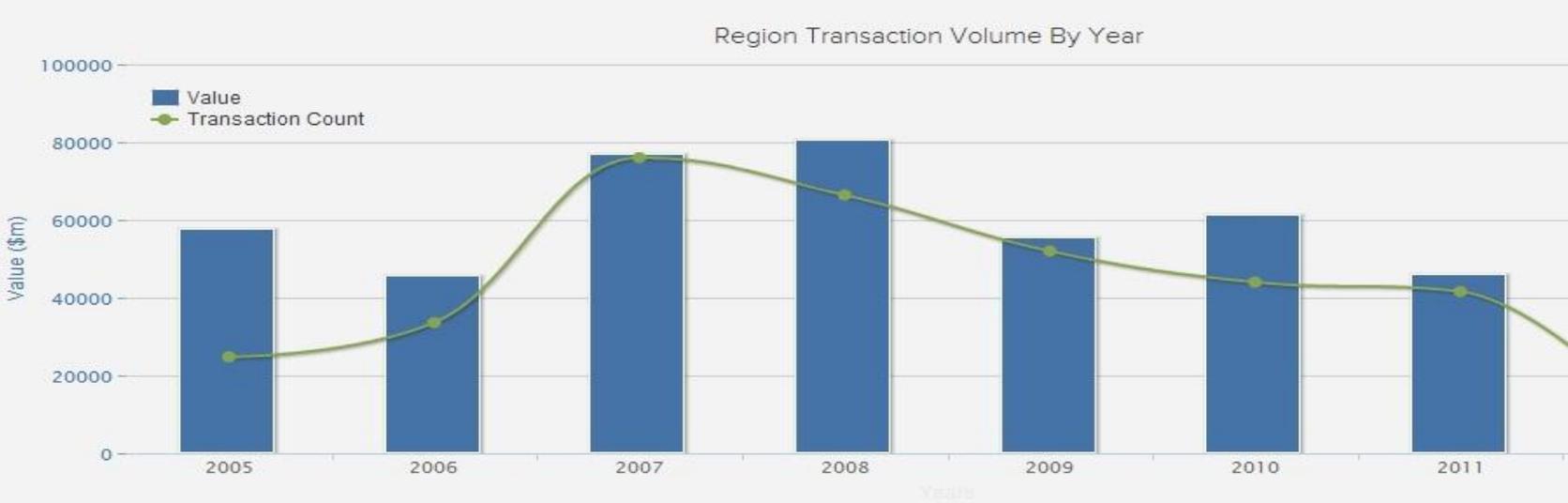
- Intra-MENA trade accounts for under 20% of total MENA trade
- Intra-MENA FDI meanwhile represents a non-negligible share of the total amount of FDI in MENA, with wide disparities in FDI inflows among Arab countries

Regional Integration or Not So Much? Inter-regional trade and FDI flows



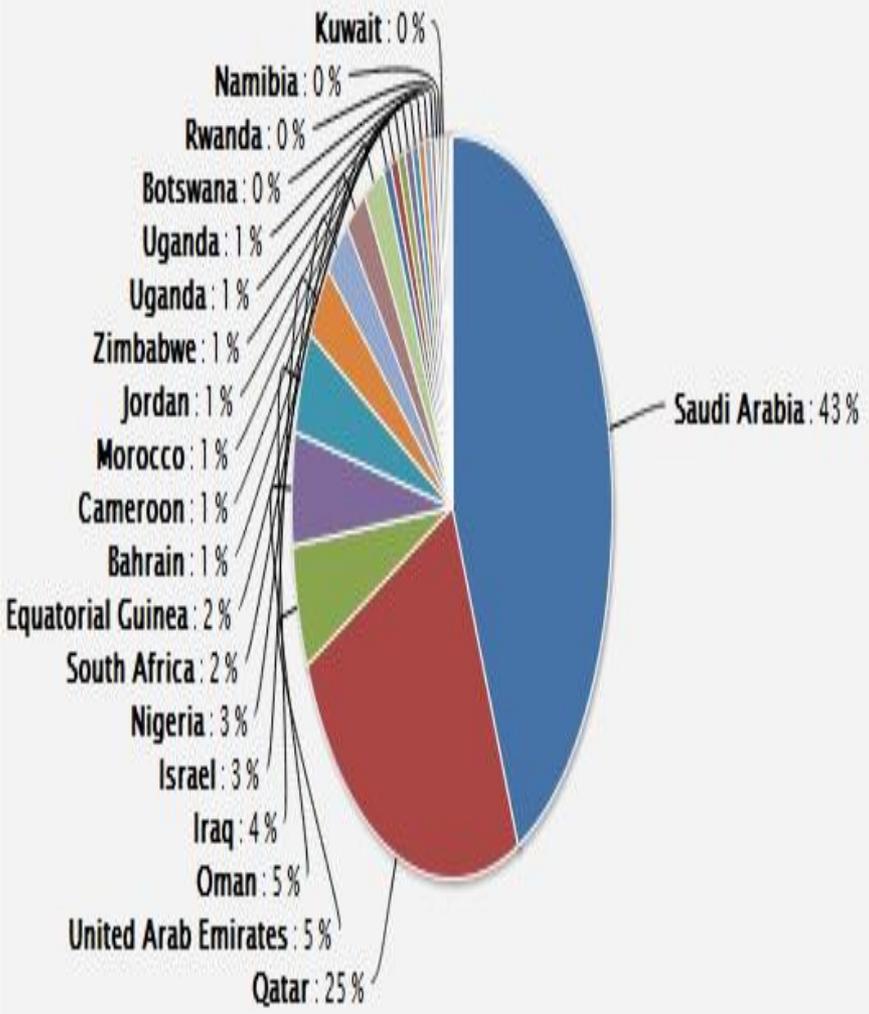
Source: WTO, Arab Investment and Export Credit Guarantee Corporation

Declining Regional Infrastructure Transactions post-2008

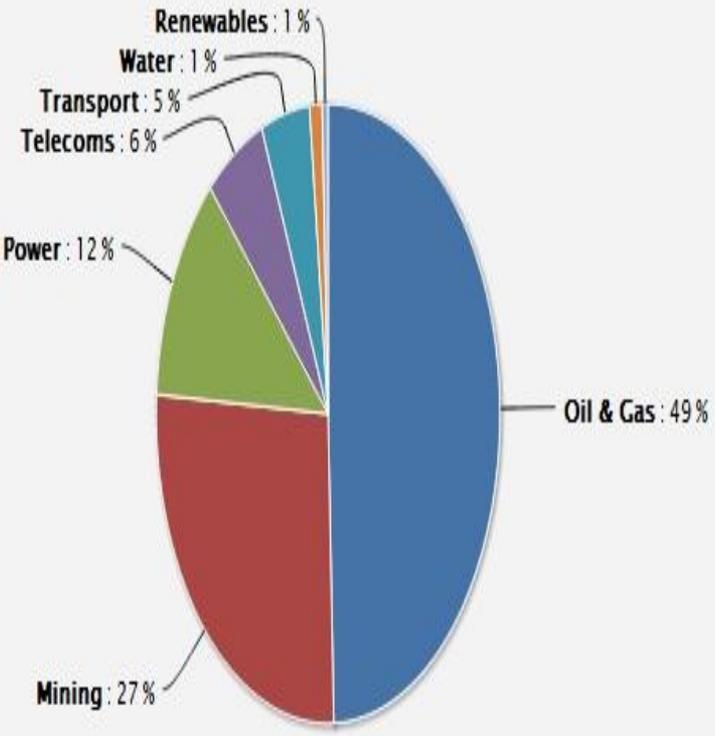


Source: Infrastructure Journal

Region Transactions By Sub Region



Region Transactions By Sector For Past Year

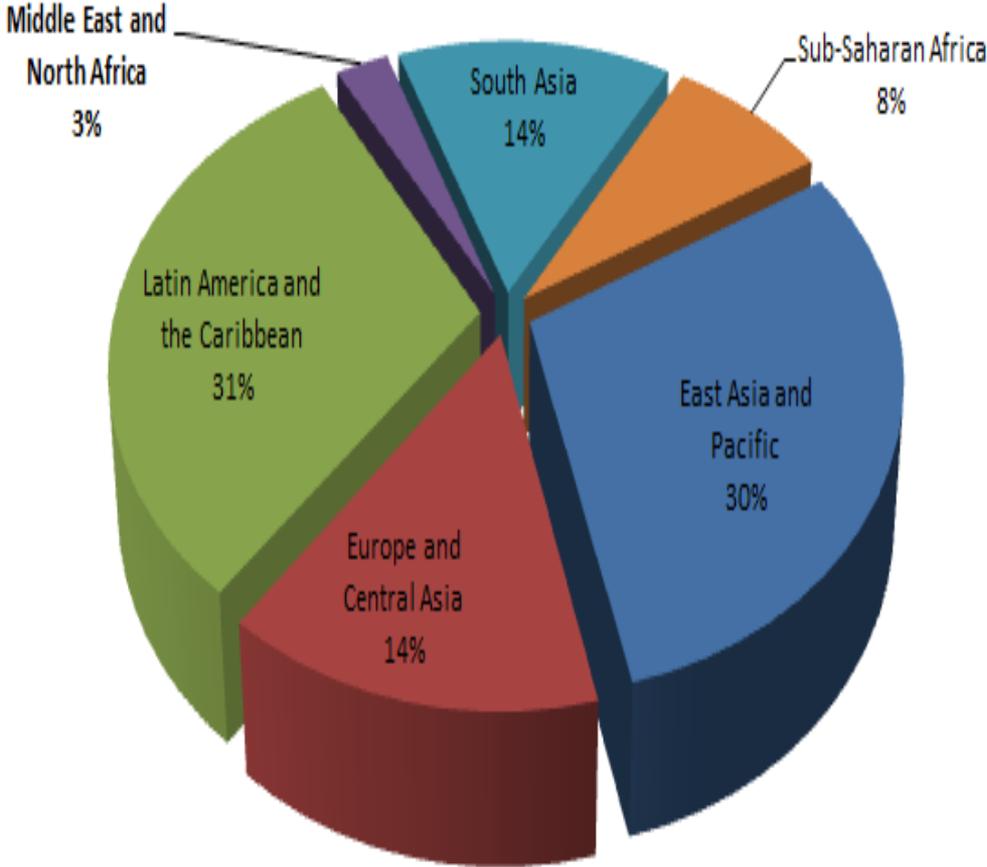


Oil & Gas Mining Power Telecoms Transport Water Renewables

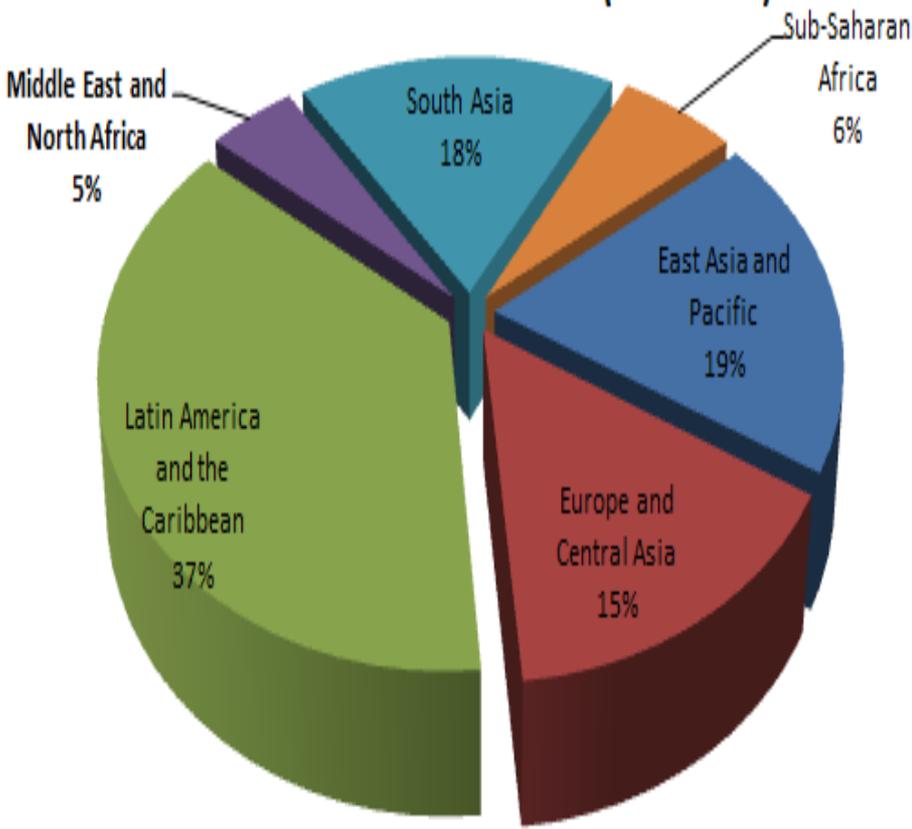
MENA PPP: Lowest globally

- Middle East has lowest number/value of PPP projects compared to other regions
- Absence of an existing framework for PPP is a major impediment

Number of PPP Projects by Region (1990-2011)

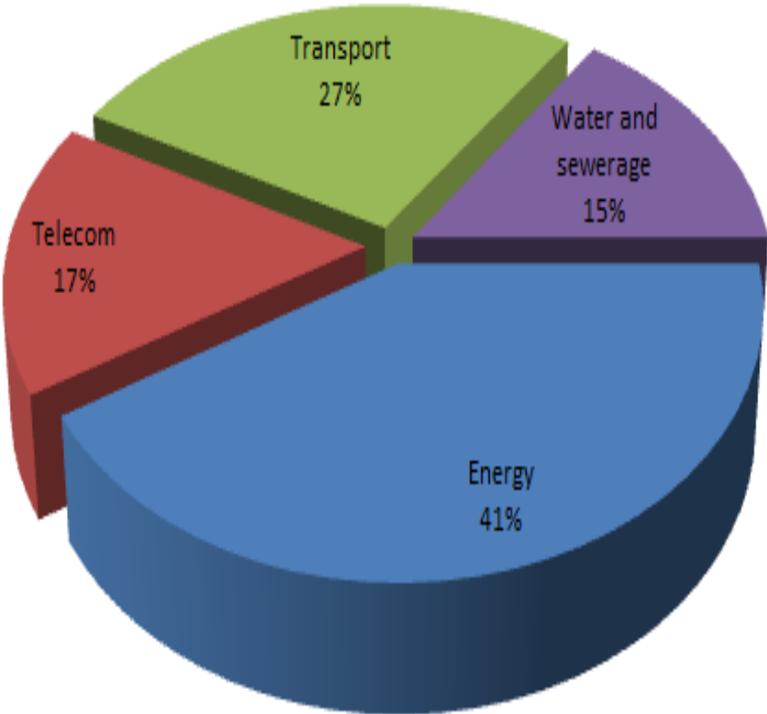


Total Investment Commitments (1990-2011)

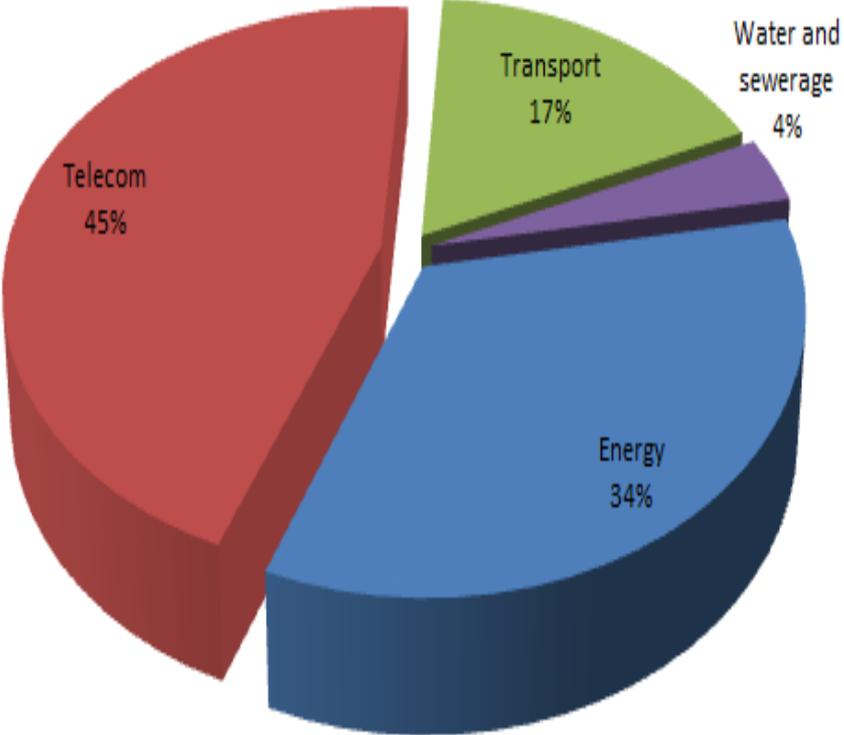


Source: WB PPI database

Number of projects by Sector



Total Investment Commitments



Source: WB PPI database

Region needs to **change the development & investment model**

1. **Focus on private sector involvement** – through PPP, privatisation and other direct investment: Need to develop legal/regulatory/operational framework;
Regional MNEs & SOEs could spearhead infrastructure spending, financed by regional SWFs

2. **Grow Region's financial markets to finance reconstruction & Infrastructure**
 - Move away from using current revenues to finance infrastructure
 - Develop Local Bond & Sukuk Markets to finance Infrastructure with focus on local currency financing
 - Dubai International Financial Centre is a platform for infrastructure finance with instruments, investors, intermediaries and markets
 - Bond, Sukuk and other instruments can benefit from MIGA guarantee for eligible countries and projects

3. Integration of Regional Infrastructure: large benefits can result from economies of scale, network externalities + lower maintenance costs

- Integrate GCC core infrastructure and link with other MENA countries, including North African countries: transport, electrification, oil & water pipelines, solar/renewable energy (Desertec)
- Integration of MENA infrastructure with Central Asia/New Silk Road infrastructure to enable MENA countries to be part of new global supply chains

4. SWFs should re-balance investment strategies towards local & regional economic & financial development

5. Establish an Arab Bank for Reconstruction & Development (next slide)

- **ABRD focus on infrastructure projects** to stimulate private sector-led growth.
 - **Core sectors** include energy, transport, housing, agriculture, communications, water and sanitation
 - Focus on infrastructure & logistics **enabling greater regional & international integration**
 - **ABRD would have 3 investment programmes:**
 - Public investments & development projects
 - PPP and Private Finance Initiative
 - Private Investment & Private Equity
 - **ABRD could invest** US\$100 Billion over the next 5 years to potentially create up to 11 million jobs to address region's critical job creation policy priority
 - **Target countries:**
 - Arab Firestorm Transition countries:** Egypt, Tunisia, Yemen, Syria, Algeria, Morocco, Jordan
 - Reconstruction countries:** Iraq, Lebanon, Palestine, Sudan
- Investors:
- **Capital:** \$US100 billion
 - **Investors:** GCC + China + Japan + Turkey + Deauville Partnership + IFIs

Outlook for 2012?

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Will Perceptions Change to Attract Investment?





Thank You!

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