

**Financing for MENA Development  
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# MENA: Financing for Development

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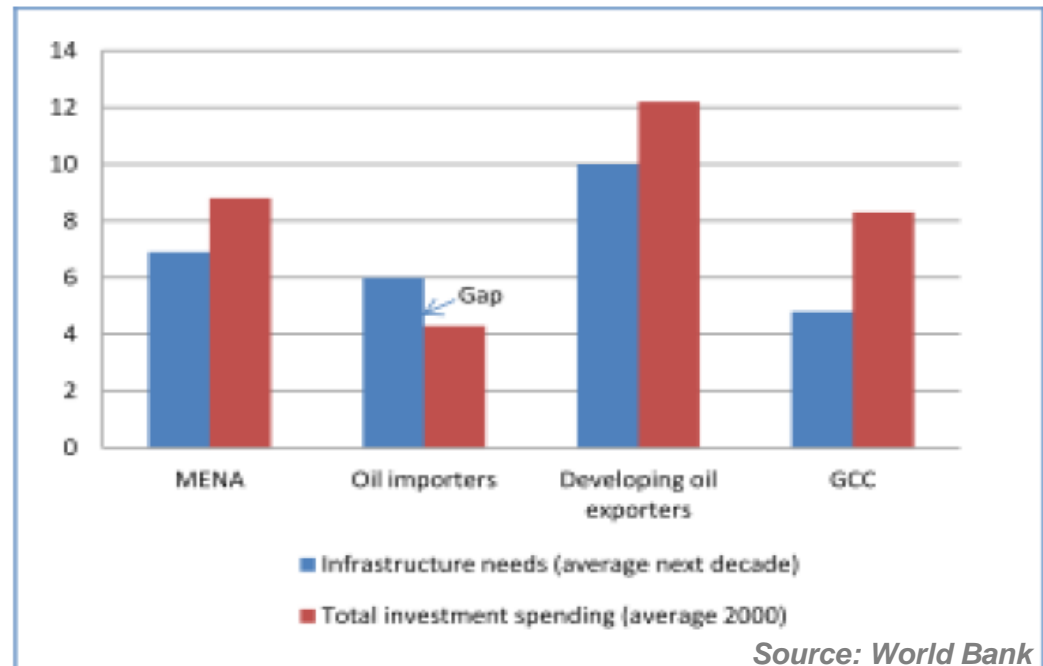
## Background matters:

- Financing for Development & *Reconstruction* in Iraq, Syria, Yemen, Sudan, Palestine, Lebanon. Reconstruction needs for conflict/violence countries exceeds US\$1.1 tn.
- Demographics, Urbanisation driving infrastructure requirements
- Wide differences across countries in income, wealth and natural resources
- Arab Firestorm fundamental factors: Politics & Governance, Socio-Demographic, Economic. Job creation policy priority
- Finance dominated by banks (65%), equity markets (28%), debt (7%)

# Massive MENA Infrastructure requirements

- 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**.
- Fuel subsidies encourage wasteful consumption & increases demand for electricity

**Infrastructure Needs & Financing (annual, % of GDP)**



# Why Prioritise MENA Infrastructure Investment? I

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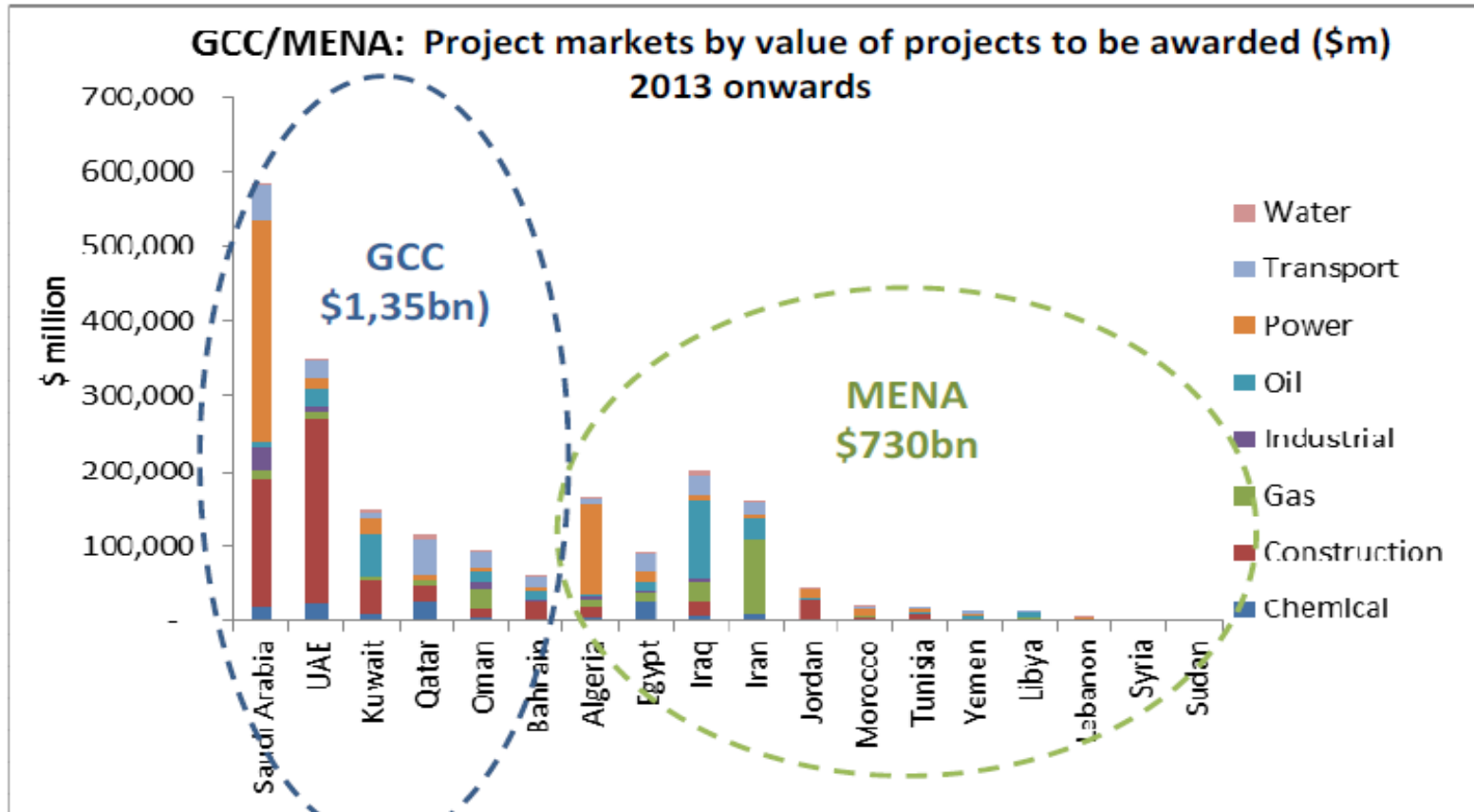
- **Demographics:** Young, fast-growing population + Growing middle class
- **Rapid urbanization:** 3%+ per year; breeding ground for growth of market economy, enterprise localization, talent pooling, clusters of competencies & specialization
- **Enable Economic diversification &** move away from over-dependence 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

# Why Prioritise MENA Infrastructure Investment? II

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- **Reconstruction of countries that experienced war & violence:** Iraq, Sudan, Yemen, Libya, Lebanon, Palestine. Example: Iraq needs \$750bn 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

# MENA/GCC: Projects by value

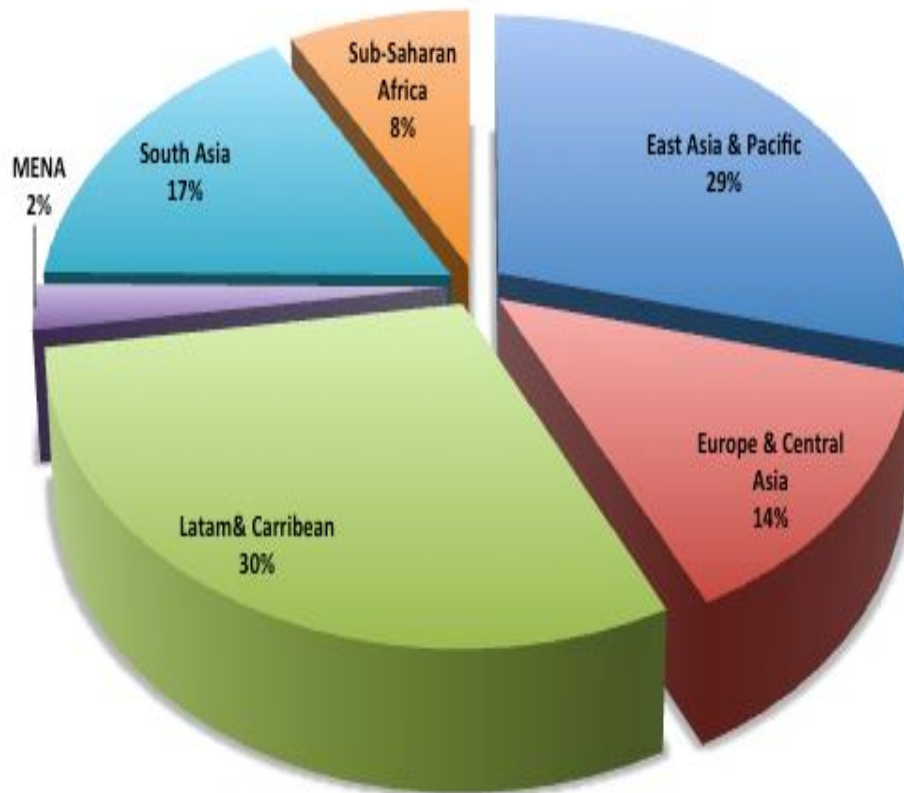


Big shift in this picture is due entirely to the inclusion of the Saudi nuclear and renewables programme. Aside from this masterplan, Iraq has potential to be at least as big as UAE

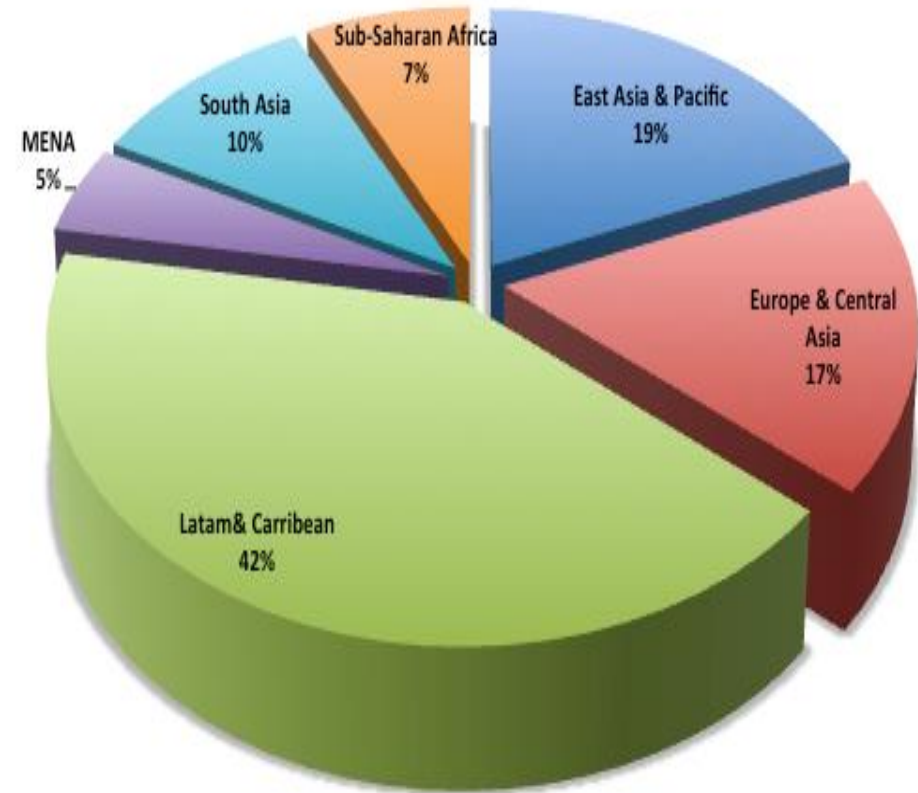
# MENA PPP: Lowest globally

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

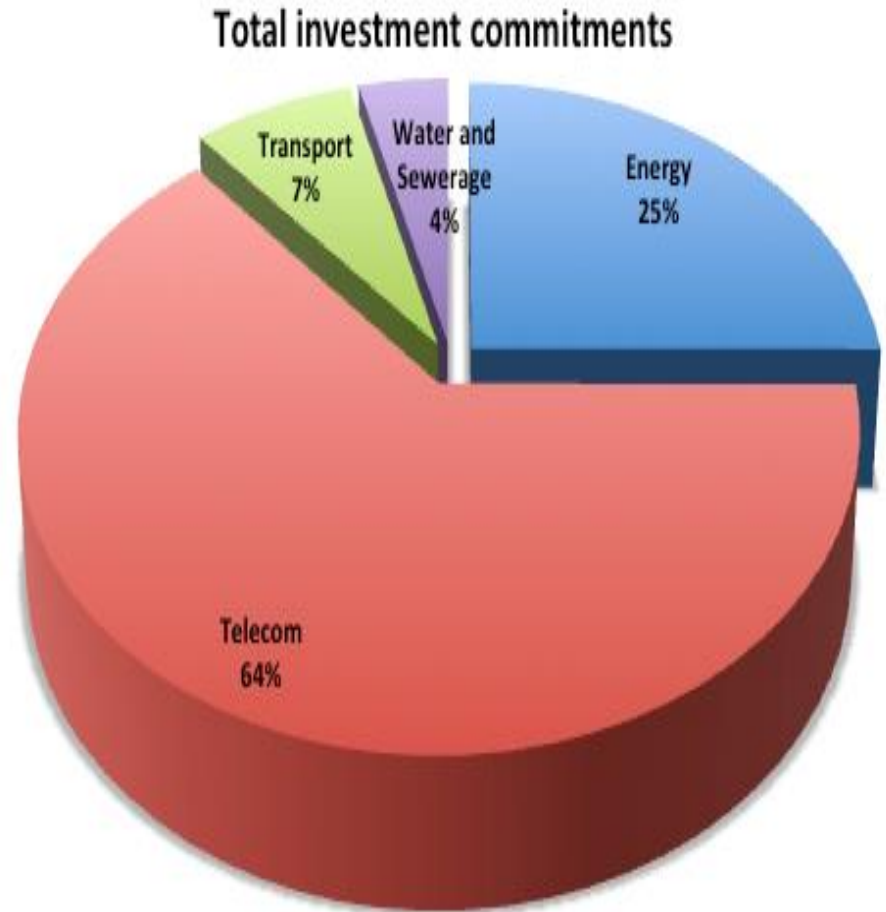
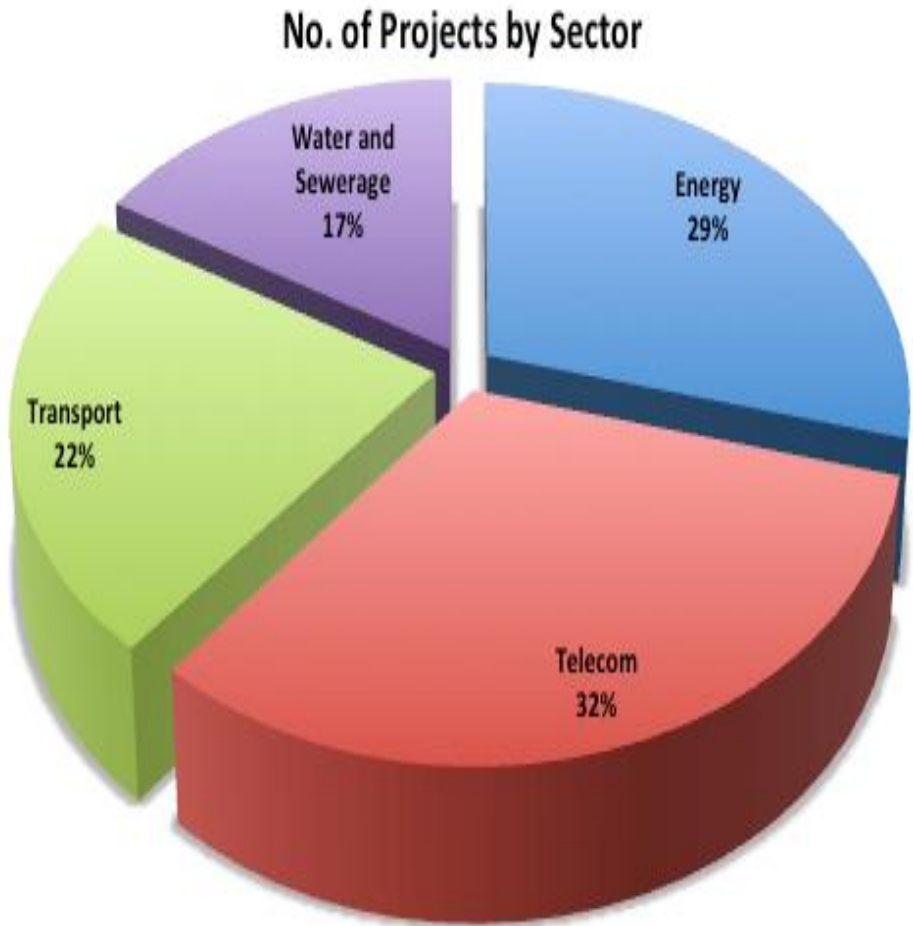
No of PPP projects by region (1990-2013)



Total Investment Commitments (1990-2013)

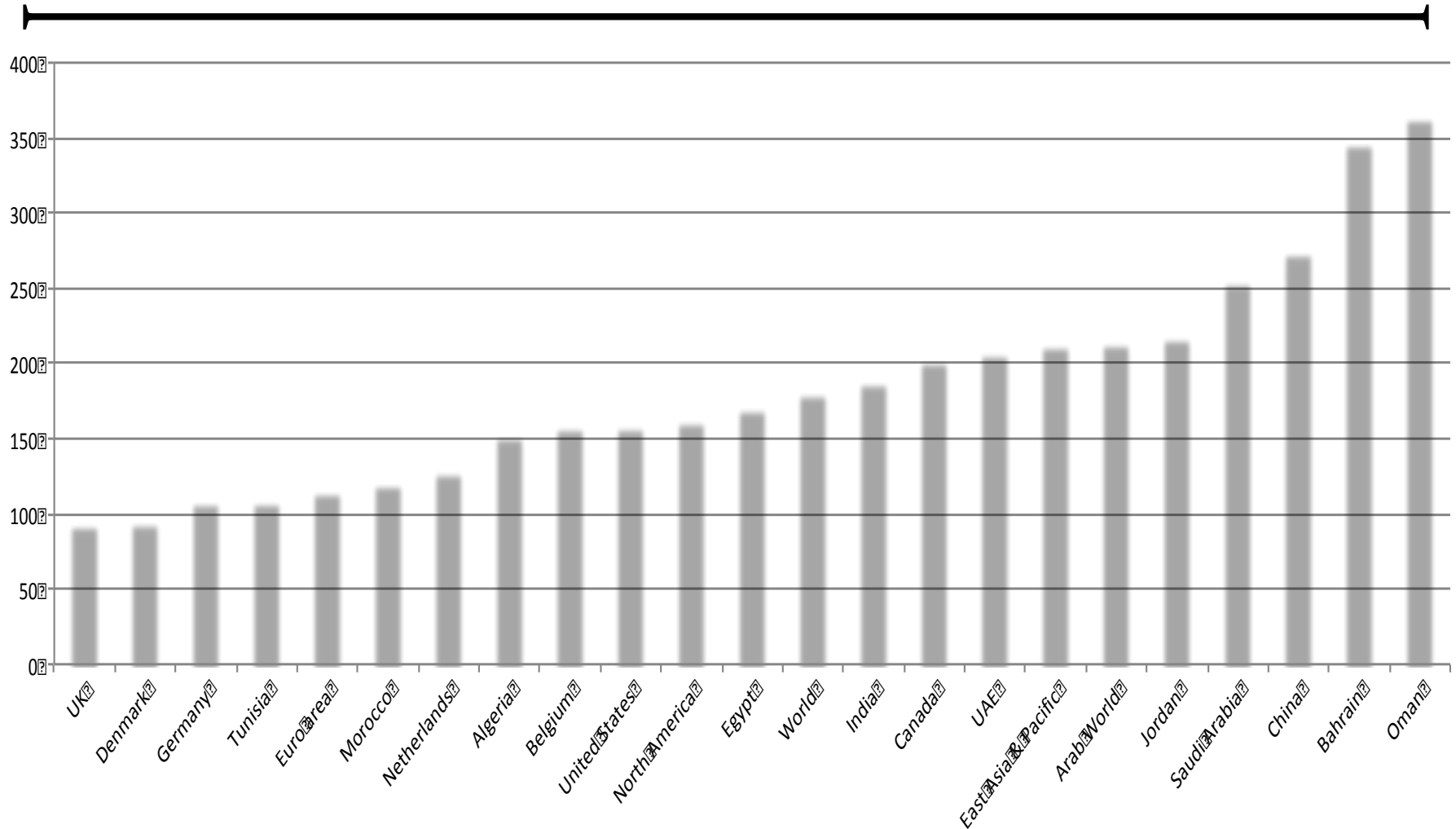


# MENA PPP: Mainly Energy & sectors like telecom that have been liberalised. Policy reform matters





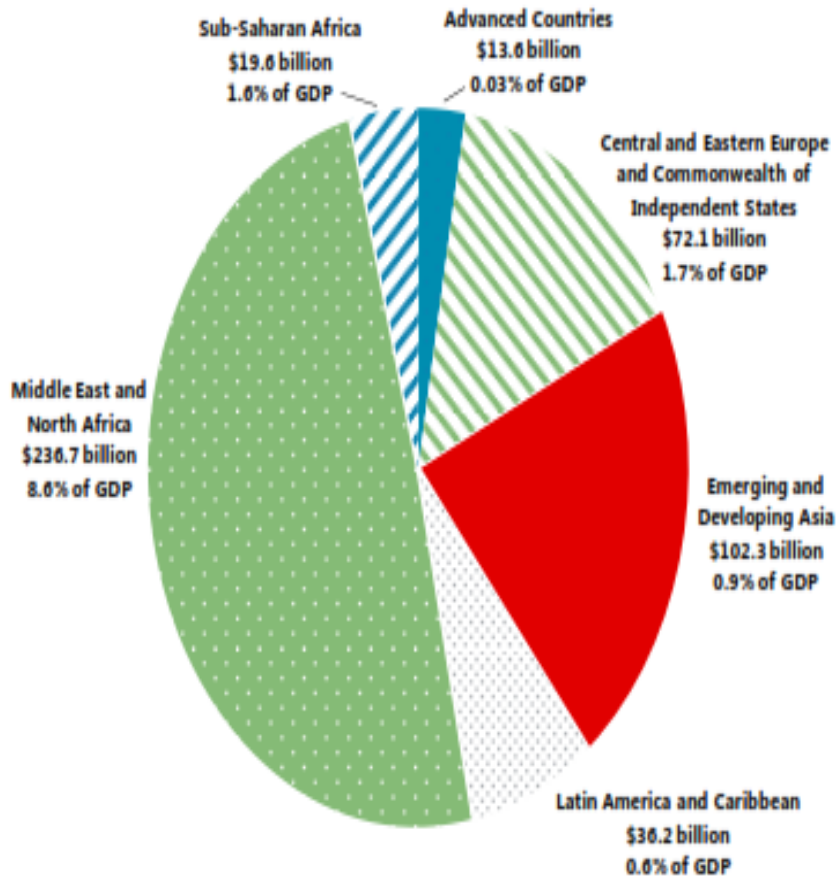
# High Energy Inefficiency in Arab countries compared OECD, Non-OECD Countries (Energy used/GDP)



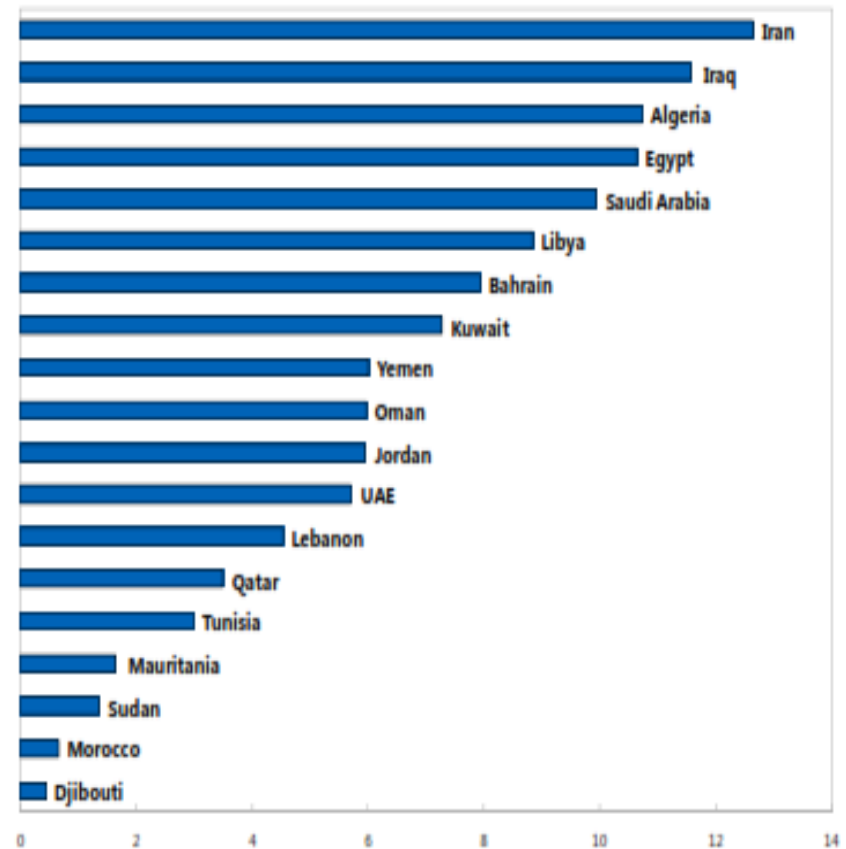
Source: World Development Indicators, World Bank (latest available)

# MENA Energy Subsidies cost about \$240bn: equivalent to about 8.5% of regional GDP, or 22% of government revenue, and account for about one-half of global energy subsidies!

**Total Pre-Tax Subsidies (2011): \$480.6bn, 0.7% of GDP**



**MENA Pre-Tax Subsidies as % of GDP**

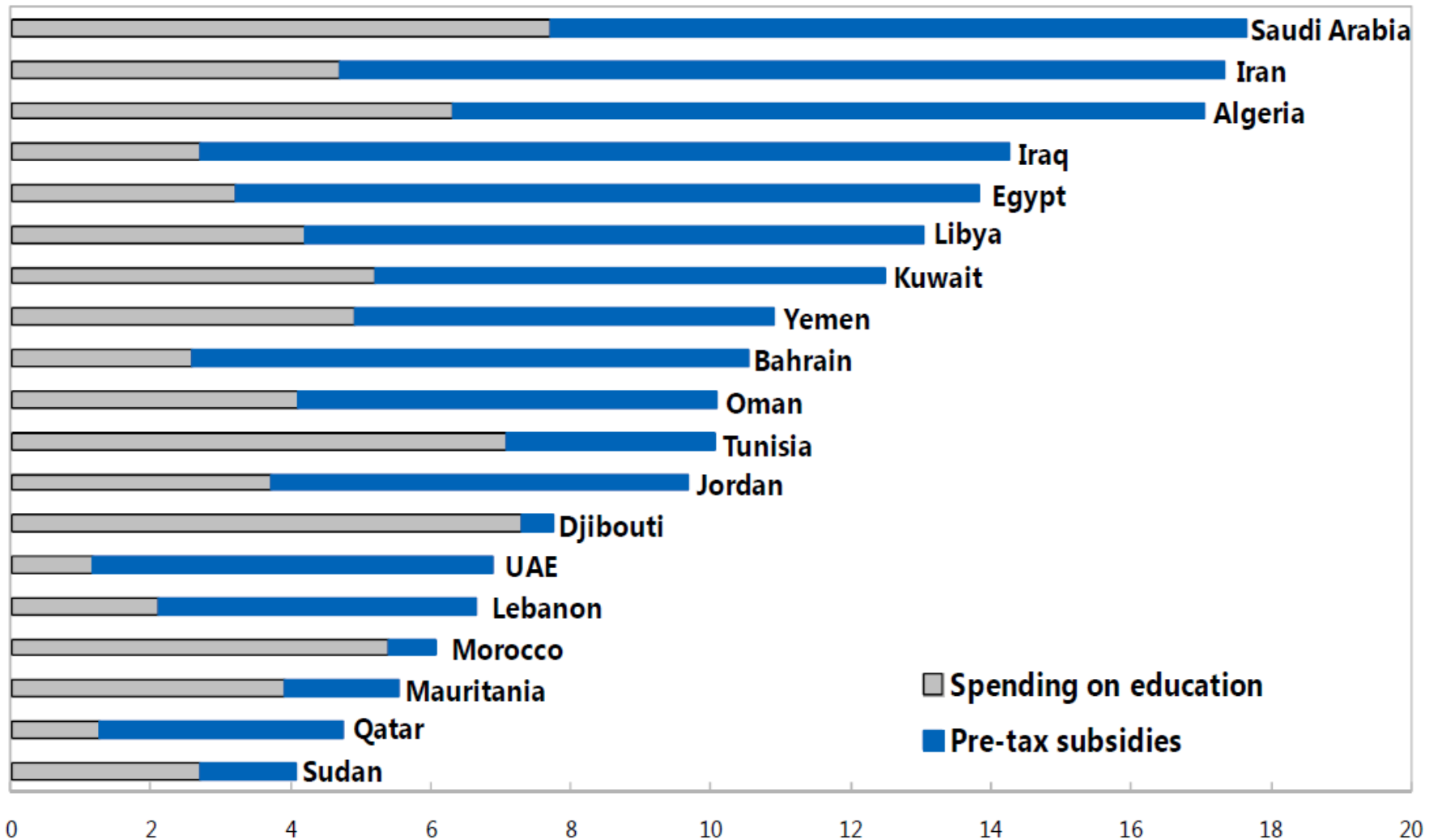


Sources: IMF staff estimates, Organisation for Economic Co-operation and Development, International Energy Agency, Deutsche Gesellschaft für Internationale Zusammenarbeit, IMF World Economic Outlook, and World Bank.  
<sup>1</sup>Includes petroleum, electricity, natural gas, and coal subsidies.

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# Distorted incentives: MENA Countries Spend more on Energy Subsidies than on Education!

*In % of GDP*



# Energy Subsidies in the MENA region

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- **Energy subsidies distort consumption and production patterns & choice energy intensive technologies**
- **Urgent need to increase energy efficiency by at least 2%-3% p.a. to correct upward trend in (E/GDP) ratios of past 20 years which is threatening macroeconomic stability and fiscal sustainability**
- Simulations suggest that higher investment in more efficient & energy-saving technologies could boost growth by up to 1% over the long term. Need careful empirical analysis of underlying assumptions.
- Despite apparent climatic comparative advantage total **investment of MENA in renewable/solar & clean energy** was about \$2.9bn in 2012, up almost 40% yoy, but a trivial amount compared to a global total of \$244bn.
- The problem is that the absence of well designed energy policies & **fossil fuel subsidies result in artificially low energy prices** which are disincentives to Energy Efficiency and Renewable Energy investments

# 7 Policy/Structural Priorities to Move Forward

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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
  - ❖ Bond, Sukuk and other instruments can benefit from MDB guarantees for eligible countries and projects
  - ❖ Consider Diaspora bonds for 'transition countries'

# 7 Policy/Structural Priorities to Move Forward

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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, transport, electrification, oil & water pipelines, solar/renewable energy
  - ❖ Integration of MENA infrastructure with Central Asia/New Silk Road infrastructure to enable MENA countries to be part of new global supply chains
4. **Policy reforms for Energy Subsidies, Energy Efficiency, RE**
5. **SWFs should re-balance investment strategies towards local & regional economic & financial development**
6. **GCC Moment: FTAs, engine for regional economic/financial integration**
7. **Establish an Arab Bank for Reconstruction & Development**

# ARAB BANK RECONSTRUCTION & DEVELOPMENT

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- **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:** \$US 50 billion
  - **Investors:** GCC + China + Japan + Turkey + Deauville Partnership + IFIs

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