



PRIVATE PARTICIPATION IN INFRASTRUCTURE RESEARCH GROUP

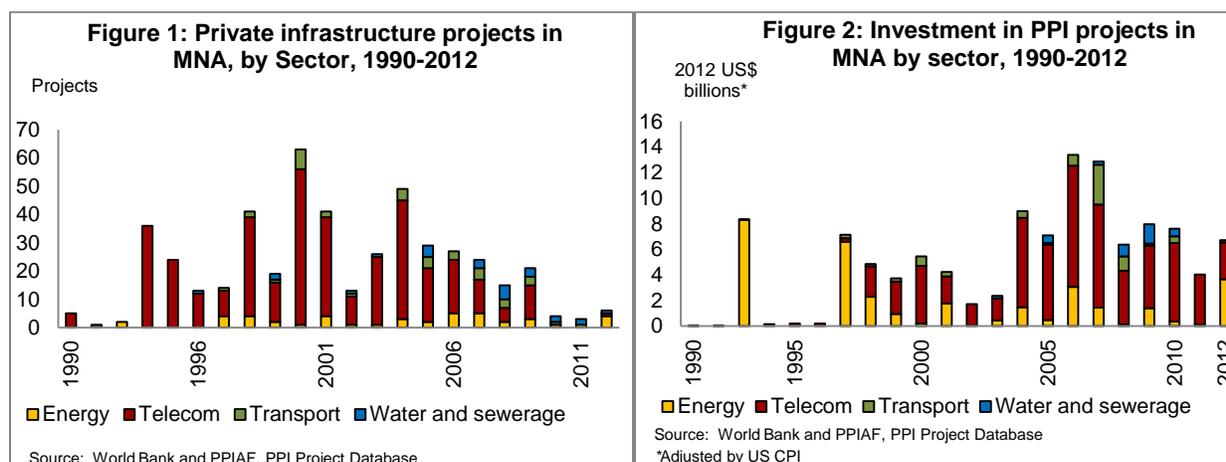
Note 94

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Infrastructure Policy Unit 2012 Middle East and North Africa PPI Data Update

Investments slowly recover from a 20-year low driven by energy sector

In 2012, six new infrastructure projects reached financial or contractual closure in low and middle income countries in the Middle East and North Africa (MNA) region: Iran (1), Jordan (2), Morocco (3). Total investment commitments (hereafter, *investment*) in all infrastructure projects reached US\$6.7 billion, of which \$3.8 billion were investments in new projects, and \$2.9 billion were additional investments in existing projects. As compared to 2011 investment levels, total investment increased by \$2.7 billion or by 66 percent, from \$4.0 billion. After a 47 percent drop in investment in 2011, private participation in infrastructure projects in MNA in 2012 reflected a recovery from a 20-year low. The number of transactions is still below 2009 levels, with just six new deals in three countries; over 70 percent lower than prior to the turbulence caused by continuing regional and financial market turbulence.^{1 2} Regional GDP in the MNA grew 4.0 percent annually on average between 2002 and 2009, and did not keep up with the annual growth in private investment at 21.2 percent. Data beyond 2009 has not yet been released. Private investment in 2012 comprised 0.4 percent of regional GDP.



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¹ The PPI Project Database currently uses the FY12 World Bank country classification released in July 2012. Investment data are in 2012 US dollar using the US CPI to adjust to 2012 values. Data at <http://ppi.worldbank.org/> are reported in millions of current U.S. dollars unless otherwise indicated. St. Kitts and Nevis graduated to high income country status in July 2012. High-income countries in the region such as Qatar, Oman, and Saudi Arabia are not included in the analysis. Investment data are in 2012 US dollars, using the US CPI to adjust to 2012 values.

² Data on projects with private participation include primarily medium-size and large projects in low and middle income countries as reported by the media and other public sources. Small-scale projects are generally not included because of lack of public information. More information is available at <http://ppi.worldbank.org/>.

Sector Overview

In the Middle East and North Africa region, two countries implemented 3 three greenfield power generation projects, an increase from one project in 2011: in Morocco (2), and Jordan (1). Investment increased as well, totaling \$3.4 billion. Of the investment the **energy** sector, \$1.9 billion was attributable to two **renewable** energy projects in Morocco: Nareva Tarfaya wind farm (300MW), and Ouarzazate Solar Phase I (160MW). Two non-renewable projects contributed another \$1.8 billion, which included the ADWEA Jorf Lasfar Coal Plant in Morocco (700MW), and an AES Diesel IPP in Jordan (240MW). There was no investment in the natural gas subsector. The sector had no additional investments in existing assets.

In the **telecom** sector, one mobile telecom project reached financial closure in the Islamic Republic of Iran. Rightel (Tamin Telecom) entered as the third operator in the country and acquired 702,500 subscribers, predominantly focusing on the 3G market as the first operator in the spectrum. Investment figures for the project were not available due to limited public information. Additional investments in existing assets by telecom providers contributed \$2.9 billion in 2012. Although this was a 26 percent decrease compared to 2011, it represents the lowest amount in real terms (2012 US dollars) in nine years.

No **transport** projects reached financial closure in 2012. The last project in this sector to reach financial closure was by developed by GulfTainer in 2010, the Umm Qasr Container Terminal Berth 8, 10 and 11 at a value of \$527 million. The sector had no additional investments in existing assets.

In the **water** sector, one concession for a wastewater treatment plant reached financial closure in Jordan. Suez, from France, closed the As-Samra Wastewater treatment with a capacity of 98,000m³/day for \$192 million. The sector had no additional investments in existing assets.

Regional Outlook

Two important drivers of investment trends are the region's continued political instability and the growing demographic. Strong demographic growth, projected by the World Bank to continue at 2-3% per year, has led to a bottom heavy population pyramid and high youth unemployment. Although growth has slowed down in recent years, the IMF World Economic Outlook expects an average GDP growth of 5.1% between 2013 and 2018. The increasing demand for public services and desired economic growth imply an expansion of infrastructure needs, the implementation of which is expected to boost job creation. Recent political developments have led to a contraction of fiscal space and a reduction of Foreign Direct Investment, as well as a higher country risk profile. The instability the region inherently creates uncertainty about the future, making large upfront commitments difficult. Although the region includes oil rich nations which are investing heavily abroad, partly due to low levels of regional economic integration, only a fraction of these funds are invested intra-regionally. This differs from other regions, such as Latin America and the Caribbean and East Asia and the Pacific, which have strong intra-regional investors in infrastructure.

Development institutions are aiming to mitigate the limited availability of capital in a time of increased infrastructure demand via initiatives such as the Arab Financing Facility for Infrastructure (AFFI), a partnership between the Islamic Development Bank and the World Bank launched in 2011. The AFFI includes a policy forum, a technical assistance facility, a public/IFI financing window, as well as a private equity fund (AIIV). The size of the private equity fund is targeted at US\$300 million and is expected to mobilize in excess of US\$ 2 billion of infrastructure spending.

Given the political instability and perceived riskiness private participation in infrastructure may pick up only gradually. Perhaps initially investors may find their way to less risky deals such as contracts for existing assets, small scale greenfield projects, or user-funded cash generating assets such as power generation capacity,

airports and seaports.³ Renewable energy projects, including wind and solar are cash generating and require little upfront commitment due to their relative small scale. Continued investments in this sector are therefore likely and particularly Jordan, Morocco and Egypt have an active pipeline. Egypt alone is planning 7.2GW of wind power by 2020, of which 550MW is already online. Furthermore, renewable energy projects have strong government and IFI support mechanisms in these countries.

Public sector priorities are expected to be in desalination plants and water supply, electricity generation capacity, and transportation tailoring to the urbanization trend with road- and rail systems. Water supply is still under stress, with a regional average availability of water of 1,200m³/person per year, compared to a global average of 7,000m³/person per year. Capacity shortages in electricity generation and expected demand growth pressure countries to look for investments in electricity sector, as for example in Egypt where the IFC is advising on bringing to market a potential 1,500MW gas-fired Dairut IPP. The Dairut IPP is part of an aggressive generation capacity expansion plan for Egypt which is expecting to add 11,150MW generation capacity by 2020, of which 5,000MW is reserved for build-own-operate projects (2012-2017). Examples of initiatives meeting transportation needs include the 35 kilometer Rod El Farag Axis highway project as well as an expansion plan of the airport capacity, both in Egypt.

Featured project: Nareva Tarfaya Wind Farm (Morocco) | Greenfield (BOT) | 20 year PPA

Nareva Holdings and International Power, a wholly-owned GDF Suez subsidiary since 2012, formed a 50/50 joint venture via the project company Tarfaya Energy Company (TAREC) to develop a series of renewable energy projects in Morocco, which includes the 300 MW Tarfaya wind farm. The project is expected to have a high load factor, of 45%. The plant is projected to save 900,000 tons of CO² per year. Nareva Holdings is a wholly-owned subsidiary of Societe Nationale d'Investissement (SNI). Other projects under development by the sponsor include the Akhfennir, Haouma, and Foum el Oued wind farms, as well as the Safi ultra-supercritical coal plant.

The project signed a 20 year PPA with Office National de l'Electricite et de l'Eau Potable (ONEE), the state-owned utility company, at US\$ 8.63/kWh (MD 7.55). The equipment supply contract and construction contracts have been awarded to Siemens Wind Power and Siemens Maroc, in a consortium with the local civil works contractor SOMAGEC. Commissioning was expected in late-2014. The advisory team of ONEE included Chadbourne & Parke legal advisors, HSBC financial advisors, and Garrad Hassan technical advisors. Nareva Holdings and International Power subscribed the advice of Clifford Chance (legal). Rival bidder for the build-own-operate-transfer contract was parent company of International Power, GDF Suez. Though supported by Fortis Bank and Credit Agricole CIB, the bid was considered non-compliant based on funding concerns by ONEE. Legal advisors to GDF Suez were Vinsons & Elkins. The original bidders were invited in February 2008 and bidding took place in July 2009, with the results initially planned to be revealed in March 2010 but delayed to August.

Financing was provided by Attijariwafa Bank, Banque Populaire and Banque Marocaine du Commerce Exterieur. The debt-to-equity ratio was 75/25. Total project cost was \$ 467 million. Financial closure was reached in August 2012.

³ International Finance Corporation, *PPPs: A Way Forward Amid Uncertainty*, Farley, C., Mills, S., Dubai 2013. (Unpublished).

Table 1 - Projects with private participation reaching financial or contractual closure in the Middle East and North Africa region in 2012

Energy	Country	Project name	Project status	Segment	Type of PPI	Subtype of PPI	Investment commitment (US\$ millions)	Capacity type	Capacity	Sponsors
1	Jordan	AES - Diesel IPP	Construction	Electricity generation	Greenfield project	Build, own, and operate	350	MW	240	AES Corporation (60% / United States), Mitsui (40% / Japan)
2	Morocco	ADWEA - Jorf Lasfar IPP	Construction	Electricity generation	Greenfield project	Build, own, and operate	1400	MW	700	Abu Dhabi National Energy Company (TAQA) (100% / United Arab Emirates)
3	Morocco	Nareva Tarfaya Wind Farm	Construction	Electricity generation	Greenfield project	Build, own, and operate	467	MW	300	International Power (50% / United Kingdom), Nareva Holdings (50% / Morocco)
4	Morocco	Ouarzazate Solar Phase I	Construction	Electricity generation	Greenfield project	Build, operate, and transfer	1438	MW	160	ACWA Power (85% / Saudi Arabia)

Telecom	Country	Project name	Project status	Segment	Type of PPI	Subtype of PPI	Investment commitment (US\$ millions)	Capacity type	Capacity	Sponsors
1	Iran, Islamic Rep.	T Rightel	Construction	Mobile access	Greenfield project	Build, operate, and transfer	N/A	Number of connections (thousands)	703	Others (100% / N/A)

Water & Sewerage	Country	Project name	Project status	Segment	Type of PPI	Subtype of PPI	Investment commitment (US\$ millions)	Capacity type	Capacity	Sponsors
1	Jordan	As-Samra Wastewater Treatment Plant Phase II	Construction	Sewerage Treatment Plant	Concession	Build, own, and operate	192	Cubic meters per day (thousands)	98	Suez (100%)

Note: .. denotes missing data; N/A means not applicable. Investment commitments include payments to the government and investment in physical assets

Source: World Bank and PPIAF, PPI Database 2013.