

PRIVATE PARTICIPATION IN INFRASTRUCTURE DATABASE

PPI data update note 28

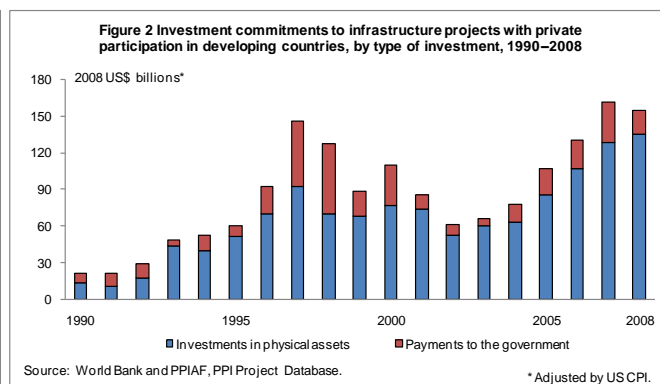
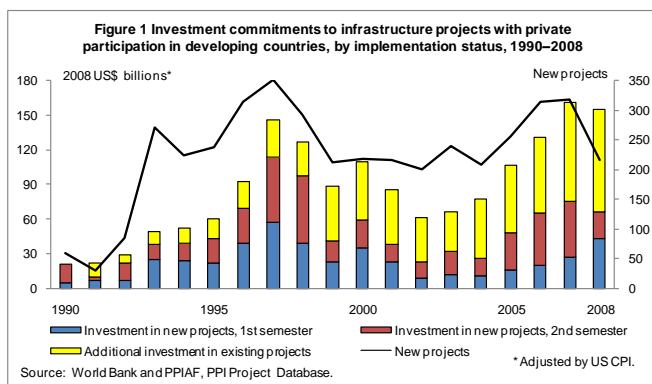
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Private activity in infrastructure down, but still around peak levels

Private activity in infrastructure showed mixed results in 2008, according to just-released data from the Private Participation in Infrastructure Project Database. Although investment commitments to infrastructure projects with private participation were down, they remained strong—at the second highest level in 1990–2008. Activity in the first half of 2008 kept investment at a high level for the year. Investment slowed in the second half with the full onset of the financial crisis. The slowdown in the second half also led to a decline in the number of projects for the entire year.

In 2008, 216 infrastructure projects with private participation reached financial or contractual closure in 48 low- and middle-income countries.¹ These involve investment commitments (hereafter, *investment*) of US\$66.5 billion. Infrastructure projects implemented in previous years had additional commitments of US\$87.9 billion, bringing total investment in 2008 to US\$154.4 billion. That represents a drop of 4% from the level reported in 2007 (figure 1).² Investment in new projects accounted for the decline, falling by 12% from the level in 2007. By contrast, investment in projects implemented in previous years was up 3% from 2007.

When investment is classified by type, it is payments to governments (such as concession or lease fees and divestiture revenues) that explain the drop in total investment (figure 2). Such payments totaled US\$19.1 billion, 42% lower than in 2007 and the lowest since 2004. By contrast, investments in physical assets grew by 6% from 2007 to reach US\$135.3 billion, the highest level in 1990–2008.



New projects and associated investment were more concentrated in the first half of the year in 2008 than in previous years. In that period 123 of the 216 new projects reached closure. These involve investment of US\$43.7 billion, 66% of the total for new projects. Investment in the first semester of 2008 was up 60% from the same period of 2007—and the second highest of any first semester in 1990–

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¹ The data on infrastructure projects with private participation include primarily medium-size and large projects as reported by the media and other public sources. Small-scale projects are generally not included because of lack of public information. Additional investment in some projects may have been omitted for the same reason. Equatorial Guinea, Hungary, the Northern Mariana Islands, Oman, and the Slovak Republic became high-income economies according to the 2008 World Bank country classification (released in July 2008) and are therefore excluded from the 2008 update of the PPI Project Database.

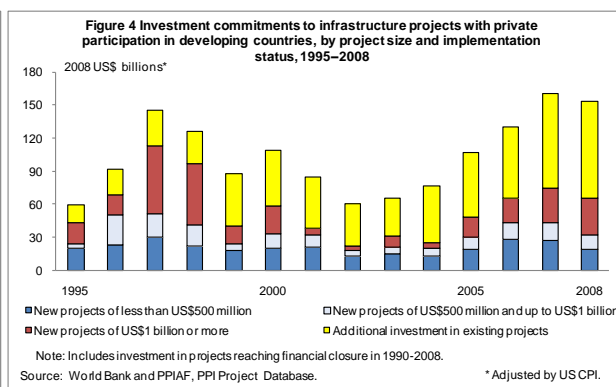
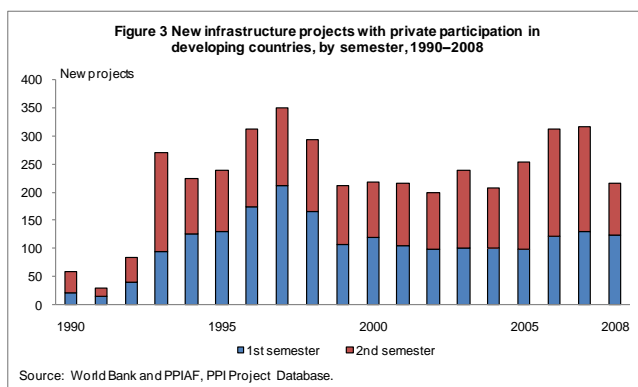
² Investment data are reported in 2008 U.S. dollars, using the U.S. consumer price index and 2008 as the base year. Data at <http://ppi.worldbank.org/> are reported in millions of current U.S. dollars unless otherwise indicated.



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2008. That suggested a continuation of the investment growth for new projects seen since the second semester of 2006 (see figure 1). But activity dropped off sharply in the second semester of 2008. Investment amounted to just US\$22.7 billion, down 53% from the same period in 2007. This decline is not surprising given the more difficult financial and investment environment that came with the full onset of the global financial crisis. And preliminary data on new projects in the first semester of 2009 suggest a strong recovery. Investment reached a new peak of US\$48.7 billion, driven by the implementation of unusually large generation projects.³ For previously implemented projects, the data do not allow the separation by semester of additional investment to see whether it slowed in the second half of the year.

After an upward-to-stable trend for three consecutive years, the number of projects reaching financial or contractual closure declined by 32% in 2008 compared with 2007 (figure 3). The closure of larger projects explains why investment declined proportionally less than the number of new projects. Investment in large projects (US\$1 billion or more) grew by 5% to US\$33.4 billion in 2008, partially offsetting the investment decline for smaller projects (figure 4). With the large projects excluded, investment in new projects would have fallen by 24% in 2008, to US\$33.1 billion.



As in previous years, the picture varied across sectors (figure 5). Telecommunications was the only sector where investment grew in 2008, though by only 1% compared with 2007 (table 1). That growth reflected a sharp slowdown from rates reported in the previous four years (25% on average). Even so, the sector accounted for 51% of investment in 2008. Energy investment fell by 7% as the slowdown in the second half of the year offset the growth reported in the first half (figure 6). Transport had the largest drop in investment (10%), also driven by the slowdown in the second half of the year. Investment in transport nevertheless remained strong, at the third highest level for the sector in 1990–2008. Water investment amounted to US\$2.7 billion, well below the peak of 1997 but within the US\$2.6–3.7 billion range of the previous three years.

All sectors saw a decline in the number of projects reaching closure (table 2). The slowdown took place in the second half of the year. In the first half, by contrast, most sectors had a similar or higher number of projects reaching closure compared with the same period in 2007. The exception was telecommunications, where the number of projects was down in both semesters.

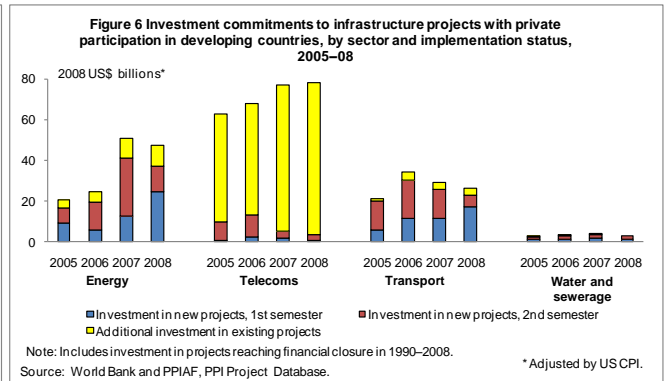
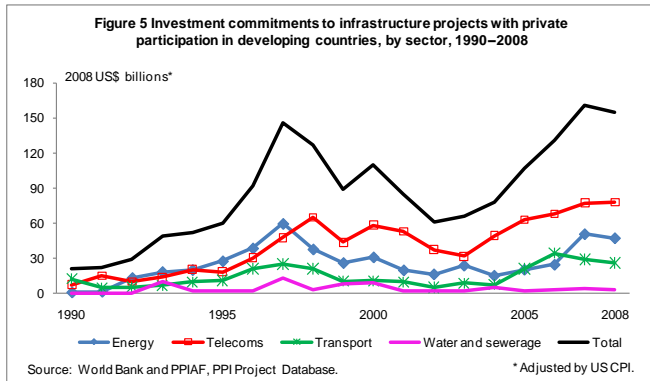
Upper-middle-income countries saw a small increase in investment, while low- and lower-middle-income countries had declines (figure 7).⁴ Investment in upper-middle-income countries grew by 3% to

³ "Assessment of the Impact of the Crisis on New PPI Projects: Update 4," PPI data update note 24 (October 2009).

⁴ The trends by income group reported here differ in important ways from those presented in PPI data update note 13 (2007) as a result of changes in the income classification of nine developing countries in addition to those indicated in footnote 1. In the 2008 World Bank country classification India, Mongolia, Sudan, and Timor-Leste moved from the low-

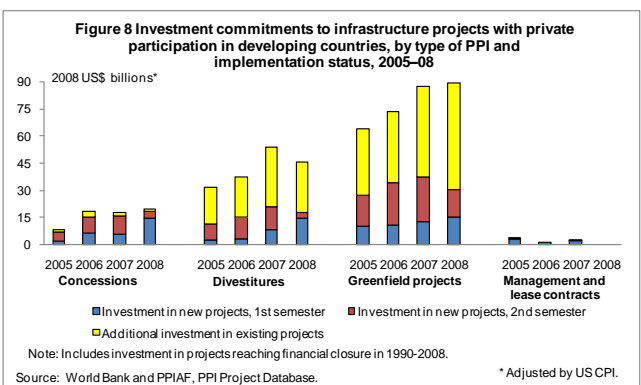
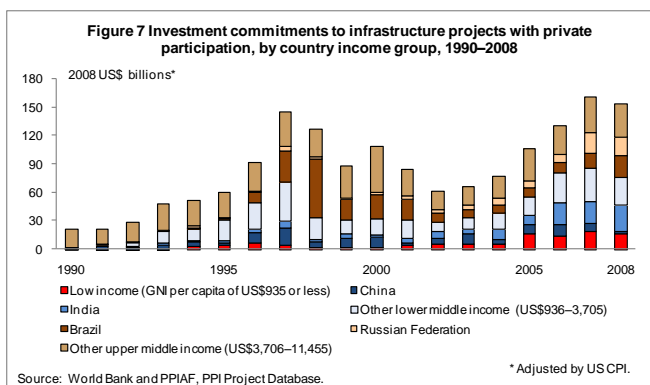
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US\$78.2 billion in 2008, with gains for both new projects and previously implemented ones. But while investment in new projects amounted to US\$28.6 billion in the first half of the year—almost three times the level in the same period of 2007 and the highest level for any first semester in 1990–2008—it dropped to just US\$4.8 billion in the second half. Brazil accounts for most of the investment growth in this income group. With Brazil excluded, investment in upper-middle-income countries would have fallen by 7%.



In lower-middle-income countries investment fell by 11% in 2008 as a result of lower investment in new projects. Investment was lower in both semesters compared with the same periods of 2007, but the slowdown in the second half of the year was more pronounced. Investment in previously implemented projects, by contrast, remained stable at around US\$30 billion. India, which accounts for a large share of the activity in this group, saw investment in new projects grow, partially offsetting the slowdown in other lower-middle-income countries. With India excluded, investment in this group of countries would have fallen by 28% in 2008.

In low-income countries investment decreased by 9% in 2008 compared with 2007, driven by lower investment in new projects. As in lower-middle-income countries, the slowdown in the second half of the year was more pronounced than in the first half. Investment in previously implemented projects remained stable at around US\$13 billion. Nigeria and Pakistan account for a large share of the activity in this country group, and with these two excluded, investment in the group would have fallen by 11% in 2008.



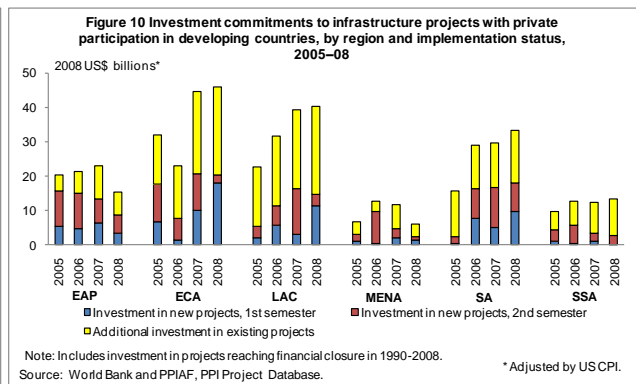
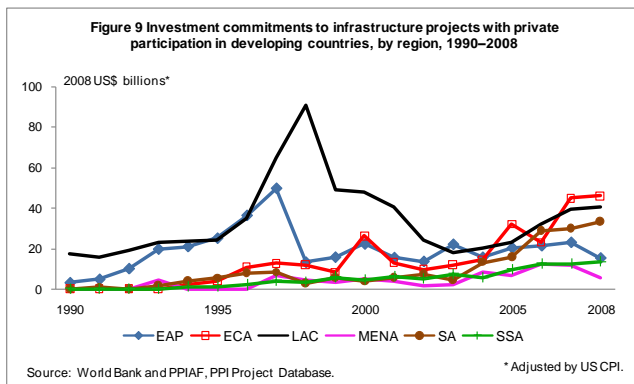
income to the lower-middle-income group, while Belarus, Cuba, Fiji, Jamaica, and Suriname moved from the lower-middle-income to the upper-middle-income group.

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Activity also varied by type of private participation. Investment in concessions rose by 12% to US\$19.5 billion. Strong activity in the first half of the year drove the growth, offsetting the slowdown in the second half (figure 8). Greenfield projects had investment amounting to US\$89.4 billion, up 2% from 2007. Previously implemented projects accounted for the growth. New greenfield projects, by contrast, had a 19% drop compared with 2007, with the slowdown in the second half of the year offsetting the growth in the first half. Investment in divestitures totaled US\$45.5 billion, down 15% from 2007 because of a decline for both new projects and previously implemented ones. Investment in new divestitures grew by more than 70% in the first half of the year compared with the same period of 2007, but declined sharply in the second half.

Investment grew in all developing regions except East Asia and Pacific (EAP) and the Middle East and North Africa (MENA) (figure 9). East Asia and Pacific saw a 33% decline in investment from the level of 2007, and the Middle East and North Africa a 50% drop. In both regions the declines were driven by lower investment in new projects throughout the year and in previously implemented projects (figure 10). Energy and telecommunications accounted for most of the year's investment in East Asia and Pacific, and telecommunications for most in the Middle East and North Africa.

Europe and Central Asia (ECA) saw investment grow by 3% from 2007, to the region's highest level since 1990. Previously implemented projects drove the growth, with investment rising by 6% to US\$25.7 billion. Investment in new projects fell by 1% to US\$20.1 billion as a result of a rapid slowdown in the second half of the year. In the first half, by contrast, investment in new projects rose by almost 80% compared with the same period of 2007, reaching the highest level for any first semester in 1990–2008. The reason for the high level was the privatization of Russian RAO UES's generating companies, which concluded in June 2008. Energy and telecommunications accounted for most of the year's investment.



In Latin America and the Caribbean (LAC) investment grew by 2% compared with 2007. Previously implemented projects accounted for the growth, with investment rising by 12% to US\$25.7 billion. Investment in new projects, by contrast, dropped by 11% to US\$14.6 billion. As in Europe and Central Asia, investment in new projects differed sharply between semesters. In the first half of the year investment almost tripled to reach US\$11.4 billion, a level not seen since 2001. But in the second half it declined rapidly. Telecommunications and transport accounted for most of the year's investment.

In South Asia (SA) investment grew by 12% compared with 2007, driven by higher investment in new projects as well as in previously implemented ones. Investment in previously implemented projects rose by 18% to US\$15.4 billion, while investment in new projects grew by 8% to US\$17.9 billion. Activity in new projects varied by semester. In the first half of the year investment grew by 90% to US\$9.6 billion, the highest level for any first semester in 1990–2008. Investment in the second half, however, declined by 28% to US\$8.3 billion. Energy and telecommunications accounted for most of the year's investment.



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In Sub-Saharan Africa (SSA) investment grew by 10% compared with 2007, driven by previously implemented projects. Investment in such projects rose by 22% to US\$10.8 billion, a peak level for the region. Investment in new projects, by contrast, dropped by 22% to US\$2.7 billion as a result of a sharp decline in the first half of the year. Telecommunications accounted for most of the year's investment.

Most developing regions saw a 30–40% decline in the number of projects reaching closure in 2008 compared with 2007. The exceptions were Europe and Central Asia (with a 20% drop) and Latin America and the Caribbean (16%). These two regions had smaller declines thanks to activity in the first half of 2008 that offset declines of more than 50% in the second half. The other regions had fewer projects in both semesters of 2008 compared with the same periods of 2007.

In 2008, 14 infrastructure projects were canceled or became distressed, bringing the total number for 1990–2008 to 267. These contracts represent 6.3% of all infrastructure projects and 7.8% of investment during the period. In addition, 9 infrastructure projects (2 in energy, 5 in transport, and 2 in water and sewerage) concluded in 2008, bringing the total number of concluded projects to 127. These projects represent 3% of all infrastructure projects with private participation and 0.6% of total investment in 1990–2008.

A forthcoming note will analyze private activity in infrastructure in more depth.



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Table 1 Investment commitments to infrastructure projects with private participation in developing countries, by sector or region, 1998–2008
2008 US\$ billions

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Sector											
Energy	37.9	26.2	31.1	19.9	16.5	24.0	15.3	20.5	24.8	51.0	47.5
Electricity	30.4	22.6	28.4	15.8	13.5	19.3	13.4	17.3	21.8	46.4	46.3
Natural gas	7.5	3.6	2.7	4.1	3.0	4.7	1.9	3.2	2.9	4.6	1.2
Telecommunications	65.1	43.8	58.5	53.1	37.5	31.7	49.4	62.9	68.1	77.3	78.1
Transport	21.0	10.4	10.9	9.6	5.2	8.9	7.6	21.1	34.3	28.9	26.0
Airports	3.9	0.7	2.5	1.4	0.2	0.8	0.9	5.4	8.7	4.5	2.4
Railways	4.3	3.7	1.4	1.0	0.2	1.1	1.3	1.5	9.2	2.3	1.7
Roads	10.7	2.9	4.5	5.7	2.7	4.8	3.4	7.0	10.1	14.9	16.7
Seaports	2.0	3.2	2.4	1.5	2.2	2.2	2.0	7.1	6.4	7.2	5.2
Water and sewerage	3.1	8.2	9.0	2.6	1.9	1.7	5.3	2.6	3.2	3.7	2.7
Region											
East Asia and Pacific	13.3	15.8	22.3	15.6	13.7	22.1	15.7	20.3	21.4	23.1	15.4
Europe and Central Asia	11.9	8.5	26.1	13.0	9.6	11.9	14.6	32.0	23.1	44.7	45.9
Latin America and the Caribbean	90.9	49.1	48.0	40.5	23.8	18.0	20.1	22.7	31.8	39.3	40.3
Middle East and North Africa	4.5	3.5	5.1	4.1	1.6	2.2	8.4	6.6	12.5	11.8	6.0
South Asia	3.1	5.9	3.8	5.8	7.4	4.6	13.3	15.7	29.0	29.7	33.4
Sub-Saharan Africa	3.3	5.9	4.3	6.4	5.0	7.4	5.5	9.6	12.6	12.3	13.5
Total	127.1	88.7	109.5	85.3	61.2	66.3	77.6	107.1	130.4	161.0	154.4

Note: Includes annual investment commitments to projects reaching closure in 1990–2008.

Source: World Bank and PPIAF, PPI Project Database.

Table 2 New infrastructure projects with private participation in developing countries, by sector or region, 1998–2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Sector											
Energy	94	81	81	89	108	106	76	94	105	113	86
Electricity	78	72	70	62	63	60	50	66	92	95	79
Natural gas	16	9	11	27	45	46	26	28	13	18	7
Telecommunications	71	37	37	50	15	31	30	21	33	29	10
Transport	97	57	61	37	32	58	47	76	119	94	56
Airports	12	8	17	10	4	3	5	9	15	14	7
Railways	9	10	8	3	2	7	3	5	8	4	5
Roads	49	21	16	14	15	33	19	23	64	59	25
Seaports	27	18	20	10	11	15	20	39	32	17	19
Water and sewerage	31	37	39	39	44	44	54	63	56	81	64
Region											
East Asia and Pacific	48	46	46	71	87	103	84	105	105	126	78
Europe and Central Asia	37	21	26	27	18	29	18	34	34	45	36
Latin America and the Caribbean	151	83	93	58	64	50	48	37	55	49	41
Middle East and North Africa	9	6	11	10	4	5	13	14	11	12	10
South Asia	20	25	13	20	17	26	25	24	78	60	36
Sub-Saharan Africa	28	31	29	29	9	26	19	40	30	26	15
Total	293	212	218	215	119	239	207	254	313	318	216

Source: World Bank and PPIAF, PPI Project Database.