

**March 2011**

PPIAF'S WORK IN THE MIDDLE EAST AND NORTH AFRICA

As governments work towards economic development and growth, the provision of adequate infrastructure services has grown in importance. However, with state budgets stretched thin by the global financial crisis, governments in the Middle East and North Africa are increasingly looking to leverage private sector management expertise and/or financing to expand and improve infrastructure services. As a result, PPIAF's Middle East and North Africa portfolio has been highly solicited by a range of governments to identify and implement public-private partnerships (PPPs).

Since inception PPIAF has provided \$8,397,480 in funding to 50 projects in the Middle East and North Africa region, representing 5% of PPIAF's total funding portfolio. This figure looks set to rise rapidly as requests for assistance become more frequent—in fiscal 2010 Middle East and North Africa activities represented 13% of the PPIAF portfolio, and that figure has risen to 29% over the first half of fiscal 2011. The Middle East and North Africa portfolio has typically been dominated by the region's middle-income countries—PPIAF has supported twelve activities in Egypt, six activities in Morocco, and five activities in Jordan. However, the portfolio composition is evolving as other countries in the region also begin to look to the private sector to finance burgeoning infrastructure needs. Consequently, requests for assistance from low-income countries such as Djibouti and Yemen have become more frequent. Multi-sector activities represent 41% of PPIAF's portfolio in the region, followed by 24% in water, and 17% in energy.

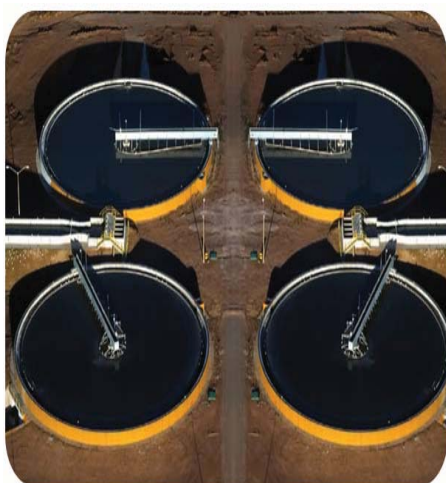
In recent months, PPIAF has approved one activity in Jordan to assess the feasibility of using PPPs to implement their pipeline of Nationally Appropriate Mitigation Actions (NAMAs), a prefeasibility study on the Heliopolis-New Cairo Tramway in Egypt, support for the establishment of a PPP Unit and PPP project pipeline in Morocco, a study to improve regulations in the port sector in Djibouti, and support to develop the telecommunications licensing framework in Syria.

PPIAF's upstream capabilities have been demonstrated by a consistent focus on activities that have sought to build government capacities to develop strong frameworks for enhanced private sector participation in infrastructure projects. As the Middle East and North Africa portfolio has evolved, PPIAF has been able to shape and contextualize its country support. Thus, activities in the more advanced middle-income countries have evolved from broader multi-sector upstream support to the PPP enabling environment, to sector-specific activities, and finally, to transaction-focused activities. Thus far in fiscal 2011, the activities approved in Egypt, Jordan, and Morocco are all focused on either specific transactions or building a PPP transaction pipeline for which future PPIAF support may be requested. In contrast, PPIAF's work in the region's low-income countries such as Djibouti,

West Bank and Gaza, and Yemen has tended to be more focused on broader PPP capacity building, consensus building, and sector development strategies. PPIAF's assistance has been sought to establish and maintain dialogues among policy makers, regulators, investors, and other stakeholders. In the second half of fiscal 2011, it is hoped that PPIAF assistance will be requested to support activities in these target low-income countries. Notably, PPIAF assistance in countries such as Egypt, Morocco, and Jordan can demonstrate the positive impacts of PPPs and PPP best practice to other less experienced countries in the region.

Egypt: New Cairo Wastewater Treatment Plant

PPIAF Funding: \$75,000



Background: By 2006 Egypt's water sector was characterized by limited service provision and poor quality infrastructure. In New Cairo City, the population of 550,000 is expected to increase to approximately 3 million over the next 20 years, placing increasing pressure on water supply and sanitation services. Consequently, the government began considering new approaches for financing and managing water supply and sanitation services that involve greater performance accountability, improved operational efficiency, and reduced fiscal burden faced by the government.

PPIAF's Contribution: In 2006 the Egyptian government requested \$75,000 from PPIAF to prepare a conceptual framework and transaction model for increased private sector participation in the proposed New Cairo Wastewater Treatment Plant. The final report resulting from PPIAF's technical assistance was presented in January 2008 to the Ministry of Housing, Utilities, and Urban Development (MHUUD) and reviewed PPP options that could be implemented. An important consideration was to structure the project so that it was locally financed, yet still attractive to international investors.

Outcomes: The resulting New Cairo Wastewater Treatment Plant was awarded to Orasqualia, a 50/50 joint venture between Egypt's Orascom Construction Industries and Aqualia, a division of Spanish construction firm FCC, in June 2009, and reached financial close in February 2010. The 20-year concession contract, worth \$482 million, covers engineering, procurement, and construction as well as operation and maintenance of the plant. The plant will serve one million people and has a capacity of 250,000 cubic meters per day. As of December 2010 Orasqualia has completed nearly 40% of the New Cairo Wastewater Treatment Plant and expects construction to be completed in time for the plant to be operational in March 2012.

One of two low-income countries in the Middle East and North Africa, Djibouti is also a fragile state where PPIAF has thus far supported three activities. In 2004 a small PPIAF grant helped the government identify institutional options for managing urban electricity, water supply, and waste water services with private participation. The activity leveraged \$7 million from the International Development Association for more in-depth sector reform, which included a preferred structure, grouping, and overall development of the three sectors. In 2009 PPIAF approved a second grant to increase private participation in the management of solid waste in District 7 of Djibouti City. This activity has now been completed, and a pilot transaction that would allow small private operators to pre-collect waste is currently on hold while the government decides on the appropriate legal framework to allow private operators to enter the sector. Additional phase II PPIAF support will be sought to prepare the appropriate legal and financial groundwork for the pilot. The activity is expected to substantially improve the cleanliness of the neighborhood and provide a sustainable

Algeria: Private Sector Participation in the Telecommunications Sector

PPIAF Funding (three activities): \$165,200



Background: In late 1999 the newly appointed Algerian government indicated its interest in reforming and restructuring the telecommunications sector in order to increase penetration, lower tariffs, and decrease the government's fiscal burden in the sector. The government was interested in improving the sector's internal efficiency and strengthening the competitiveness of the economy through market liberalization, establishment of a sound regulatory framework, and promotion of private investments.

PPIAF's Contribution: In early 2000 PPIAF provided assistance to prepare a new telecommunications policy strategy designed to assist the new government in initiating its sector reform plan and drafted a sector policy statement aimed at increasing private involvement in the sector. Following the successful outcomes of this activity, PPIAF supported

the organization of an international investors conference in 2001 to present Algeria's Telecommunications Sector Reform Program to private investors and provide tendering information on Algeria's mobile licenses.

Outcomes: In July 2000 the government adopted the proposed new Telecommunications Sector Policy Statement, which called for the gradual liberalization of the sector and contained a detailed calendar with the sequencing of reform measures, including privatization of the public telecommunications operator, and stated the government's commitment to award a GSM license to a private operator in 2001. On August 5, 2000, the President of Algeria adopted a new Telecommunications Law, which allowed for the creation of an autonomous regulator and enabled the emergence of a multi-operator market structure where all operators will be on an equal competitive footing with respect to regulatory provisions on tariffs, interconnection, and universal service.

Impacts: The government awarded mobile licenses to Dzezy GSM in 2001 and to Wataniya Telecom Algérie in 2004. By 2009 these two companies had made combined investment commitments in physical assets totaling over \$3.5 billion, and have attracted a combined 23 million mobile subscribers.

In 2005 the Consortium Algérien de Télécommunication was awarded a fixed line license. By 2009 it had made investment commitments in physical assets totaling \$400 million, and added around 500,000 fixed lines.

model for other areas of the city. In 2011 one activity has been approved in the ports sector. The activity will assess and improve the regulation of private operators, and recommend a revised pricing structure for the private operators, in the ports of Djibouti.

In Jordan, two ongoing activities are focusing on PPPs and the green agenda. An activity approved in 2010 is supporting the Amman Green Growth Program through a study to determine the feasibility of a solar water heater (SWH) promotion program. In view of the failure of market forces alone to increase the SWH penetration rate, the activity aims to establish the preferred mode and structure of a PPP, which would enable the Greater Amman Municipality to ensure a rapid increase in SWH penetration. Another activity recently approved is providing assistance to assess

options for embedding a low carbon approach into development planning through the prioritization of selected Nationally Appropriate Mitigation Actions (NAMAs) with specific attention to innovative use of financial instruments. The activity will prioritize Jordan's NAMA pipeline into activities that are suitable to be implemented under a PPP arrangement, and choose one pilot activity for more detailed financial analysis.

Moving forward, PPIAF support is needed to implement critical reforms in the energy, transport, and water sectors throughout the region, and further transaction support to middle-income countries. Government commitment to PPPs throughout the region has been demonstrated by the recent spike in demand for PPIAF technical assistance. This is expected to continue as governments struggle to balance fiscal constraints with the need to provide adequate infrastructure to spur economic development.

PPIAF ACTIVITIES APPROVED IN RECENT MONTHS

- **Djibouti:** Improving the Regulation of Private Operators in the Ports Sector, approved on February 14, 2011, **\$74,500**
- **Syria:** Developing the Telecommunications Licensing Framework, approved on February 9, 2011, **\$74,740**
- **Morocco:** PPP Unit Support, approved on December 31, 2010, **\$245,700**
- **Egypt:** Prefeasibility of PPP Options for Heliopolis-New Cairo Tramway, approved on December 21, 2010, **\$155,000**
- **Jordan:** PPPs and Jordan's Nationally Appropriate Mitigation Actions (NAMAs), approved on October 18, 2010, **\$100,000**

PPIAF has activities in: Algeria, Djibouti, Egypt, Iraq, Jordan, Lebanon, Morocco, Syria, Tunisia, West Bank and Gaza, and Yemen