

Conference on Opportunities for Investment in The Mediterranean Region

# Where are the openings ?

The scope of my presentation, today, is to give a brief overview of the opportunities for participation of the private sector in infrastructure financing in the region.

After a brief description of the region's socio-economic features, I am going to draw up its recent economic performances and the expected evolution, in the short and medium terms.

This will lead me to specify to what extent, the infrastructure sector can represent an opening for the private sector, in the forthcoming years.

## I. THE REGION OVERVIEW

The region of interest here includes 12 countries from the eastern and the southern Mediterranean shores : 3 Maghreb countries : Morocco, Algeria, Tunisia, 7 Middle-East countries : Egypt, Palestine, Lebanon, Syria, Jordan, Israël and Turkey and 2 Mediterranean countries : Malta and Cyprus (Fig. 1).

In general, the region benefits from acceptable living standards with, however, comparatively important variations from one country to another.

The natural resources (mining and water resources), the geographical size, the population and its socio-economic standards may vary substantially from one country to another.

The region covers a total area of more than 5 million square kilometers with a population of more than 200 million people accounting for about 4% of the world's population.

The population varies significantly from one country to another. The population of the smaller countries such as Cyprus and Malta, is about half a million but that of the bigger countries such as Egypt and Turkey, is close to 60 million.

Gross Domestic Product in the region reached \$415 billion in 1993, which represents about 1.5% of the world's GDP and 7% of the developing countries' GDP (Fig. 2).

Population growth, usually high in the region, has recently slowed down to no more than 2% a year.

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The per capita income also varies from one country to another : from \$ 600 in Egypt to nearly \$ 14,000 in Israël.

The annual average per capita income for the whole region is about \$ 2,000 per capita.

## **II. THE REGION'S ECONOMIC PERFORMANCES AND THE GENERAL TRENDS**

Economic growth in the region was in general low during the last decade. It was less than the average performance of developing countries on the whole and even less than that of industrialized countries. The region experienced decline in the standard of living in the petroleum exporting countries such as Algeria, and relatively sustained growth in the case of Tunisia.

Unfavourable external factors have contributed to these globally insufficient performances :

- THE LOW LEVEL OF ECONOMIC ACTIVITY IN INDUSTRIAL COUNTRIES,
- THE DECLINE IN THE PRICES OF PETROLEUM PRODUCTS,
- AND THE POLITICAL INSTABILITY WHICH HAS AFFECTED SEVERAL COUNTRIES IN THE REGION.

On the whole, the responses of the macro-economic policies implemented by the countries of the region did not enable them to reverse the negative effects of these exogenous factors let alone to put the region on a steady and rapid growth path.

We should point to the fact that, except for Turkey, inflation has been maintained, in the different countries, at lower levels in comparison to the other developing regions in the world.

The balance of payment deficit was also generally lower than the average in other developing countries.

The response to this situation was different among the countries.

However, we can single out some significant trends for the whole region :

- firstly, the implementation, for ten years of Structural Adjustment Programs with the collaboration of the World Bank and the International Monetary Fund ;
- secondly, the general liberalisation of foreign trade and the opening of the national markets to greater competition ;

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- thirdly, the will to associate the national and foreign private sector to the development task through the implementation of investment incentive policies and state disengagement from the productive and competitive sectors.

The balance of payment deficits were brought back to reasonable levels and this tendency is expected to be confirmed in the forthcoming years.

Although implementation varies from country to country, the reform programs (economic adjustment and opening) are under way and represent a general trend.

Negotiations are under way between the EU and all countries of the region.

Since 1995, some of the negotiations have led to partnership and cooperation agreements within a free trade area such as in Tunisia, Israel and Morocco, or to a customs union agreement as in the case of Turkey.

The various governments of the region committed themselves to precise schedules aiming to tariff dismantling with Europe.

Europe being the main commercial partner of the region, the impact of the foregoing policies on the countries is well known: an important reduction of their effective economic protection, which must be offset by a greater efficiency in resources allocation, and a drastic decrease of public revenue as a result of the dismantling of tariff protection. Thus, new budgetary resources must be found and Direct Foreign Investment must be enhanced.

### **III. THE WAY TO DEVELOPMENT**

In the forthcoming years, development in the region, will depend, to a large extent, on the acceleration of the pace of investment.

Investment in these countries should necessarily recover following a period of decline when it fell down to no more than 20% of GDP, well behind the average level of investment in the developing countries which stood at c. 24% in the last decade. The comparison with the emergent South-East Asian Countries where investment represented 30% of GDP is even more striking.

A number of fundamental reasons underly this assertion:

Firstly, investment represents the mainspring of growth and employment and there is no other alternative to meet the additional demand in the region.

Secondly, investment is the ideal channel for technology and know-how transfer, and, therefore, the only guarantee for a successful integration of the region in the world-wide economy.

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Finally, investment both in its private component and as a voluntary act, epitomizes the support of the business community to the macro-economic policies implemented, which reveals their relevance.

Development can only be achieved through an important reliance on the private sector.

The states are going through increasingly stringent budgetary limitations, which, as a matter of course, entail greater austerity and the search for a maximization of resources allocation.

The field must be opened to the private sector, whenever the risks inherent to the private sector direct participation can be taken. In addition, its achievements in terms of cost, delay, quality and performance are comparable to those of the public service.

This can be achieved through two complementary and parallel approaches :

- The state disengagement from the productive and competitive sectors by speeding-up privatisation and public enterprises sales ;
- The association of the national and foreign private sector in financing infrastructure so far regarded as a State prerogative ;

Today, economic activity, in several countries, is still dominated by the public sector. (Fig.3).

## **IV. INFRASTRUCTURE: NEW OPPORTUNITIES FOR PRIVATE INVESTMENT IN THE REGION**

In the present paper, infrastructure includes the following: power supply (generation, transmission and distribution), oil, gas, telecommunications (mainline and cellular), transportation systems (including railways, ports and airports,...), water supply and sewerage. (Fig.4).

Several common features have characterized the production, financing and management systems of infrastructure (fig.5) resulting in de facto or de jure monopoly on infrastructure. However, some important issues such as supply/demand adequacy, infrastructure services quality, or infrastructure economic efficiency have not been addressed, as yet.

This resulted in inadequate infrastructure supply, poor service quality, and investment inefficiency.

These inadequacies have represented restrictive factors in the choice/selection of countries eligible for Foreign Direct Investment.

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A recent survey conducted by the World Bank shows that infrastructure insufficiency ranks third as a barrier/constraint for private investment. (Fig.6).

Fig. 7 illustrates the state of infrastructure within a sample of countries in the region.

We can point particularly to :

- the important discrepancies among the countries of the region : the best equipped countries are not necessarily those which have had in the past the largest financial facilities ;
- as for management and maintenance Israël, Morocco and Tunisia seem to benefit from a better mastery of operations : electric network losses are comparable to those of the industrial countries and represent the third of the average of those of the other countries of the region.

As to demand satisfaction, the comparison is even more significant.

Fig.7.5 gives the average waiting period required for access to a telephone line in some countries.

The evidence presented in this paper shows that, on the whole, the region's performances in meeting the needs for infrastructure are short of the average of those countries with equivalent income. Therefore, growth rate and investment in infrastructure should be boosted.

The needs of the region have been globally estimated in physical and financial terms. (See fig.8 and 9).

The needs are obviously huge. The states budgets are not capable to meet them and the contribution of the private sector is unavoidable.

Today, the projects of association of the private sector to infrastructure financing are at their early stages. Several countries are at the early stages of the preparation or implementation of transactions involving private participation in the infrastructure sector.

It's crucial that these transactions succeed.

One can list scores of intentions of concessions projects, of BOT, of BOO, ... in the energy sector : thermic plants, gas production and transportation ; in the telecommunication sector : cellular, GSM ; in the water sector ; in the urban transportation sector ; in the urban and industrial wastes collection and treatment, ... and this trend is going to accelerate and its scope is bound to broaden in the forthcoming months.

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At last we can say that the region is ready today to make up for the delay in terms of equipment but also comparatively to South America or South-Eastern Asia.

*Thank you for your attention.*