





## Trade and Private Investment in the Energy Sector: The Role of International Financial Institutions in the Middle East & North Africa

### Did you know...?

-  The Middle East & North Africa (MENA) region sits on 56% of the world's proven oil reserves and 41% of proven natural gas resources. However, an estimated 28 million people (nearly 10% of the region's population) still lack access to electricity and about eight million people rely on biomass to meet their energy needs.<sup>1</sup>
-  The energy sector receives the largest share of finance from International Financial Institutions in the region. Fully 43% of the European Investment Bank's (EIB's) total lending to MENA in 2006 went to energy projects, and the sector accounted for 40.6% of the World Bank's financing to the region in 2007, up from 18.6% in 2006.<sup>2</sup>
-  EIB financing for energy projects in MENA serves the European Union's interest in tapping the region's energy supplies. As the "financing institution of the European Union," the EIB reflects EU energy priorities in its investment portfolio.<sup>3</sup> The first objective of the Energy Policy for Europe (EPE) is to secure energy supply to the continent through diversification of energy sources, including from nearby North Africa.<sup>4</sup> Most of the Mediterranean countries in MENA have already signed bilateral trade agreements with the EU that facilitate this cross-border energy purchasing. After lending €1.3 billion in 2006, the EIB is planning to provide €8.7 billion to MENA between 2007 and 2013, with energy remaining a top priority.<sup>5</sup> *What are the impacts of the EIB's export-oriented projects on the local population in the MENA region, and particularly on the poor?*
-  The World Bank's energy strategy in MENA focuses on making the region's energy sector more attractive to private investment, with a stated emphasis on improving the sector's 'governance' and 'efficiency.' The strategy highlights the following elements: "opening up the sector for private sector participation... [promoting] regional trade in electricity and natural gas ... [and adjusting] prices in a

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<sup>1</sup> [MENA Regional Energy Brief](#), World Bank, May 2007.


<sup>2</sup> [The Role of IFIs in the MENA Region](#), Bank Information Center, March 2007.


<sup>3</sup> [Energy Brief](#), European Investment Bank.


<sup>4</sup> [EU Presidency Conclusions](#), European Union, March 24, 2006: p. 29.

<sup>5</sup> [FEMIP for the Mediterranean: 2006 Results](#), European Investment Bank, March 2007: p. 3.

phased manner that ensures **cost recovery** and creditworthiness of enterprises in the sector,” so that they may access foreign capital markets.<sup>6</sup> The implementation of **this strategy risks making energy a more expensive commodity for the poor**, as experience from other countries shows that private sector provision of electricity and cost-recovery requirements frequently result in tariff hikes and the elimination of cross-subsidies for lower-income consumers. The World Bank’s sector brief on energy in MENA refers to the uneven access to electricity services in the region. ***How will reforms underway affect energy access and affordability, especially among the poorest segments of the population?***

 **There are currently 14 active World Bank energy projects in MENA and six more in preparation.**<sup>7</sup> The Bank’s largest existing energy investment in the region –\$259.6 million – is the El Tebbin Power Project in Egypt. The project includes support for energy sector regulatory and pricing reforms designed to pave the way for more private sector partnerships, with important implications for the cost of energy to consumers and revenues for the state.<sup>8</sup> The largest proposed project is the Electricity Transmission Project in Morocco, with a price tag of \$150 million. The proposed project aims not only to improve the national transmission grid, but to strengthen power interconnections with Spain and Algeria.<sup>9</sup>

 **In the last two years alone, the International Finance Corporation (IFC) – the private sector arm of the World Bank Group – has invested in at least seven power generation and fossil fuel projects in the MENA region, four of them operating wholly or partially in Pakistan.**<sup>10</sup> The IFC’s recent investments also include a \$25 million loan to a Texas-based company for exploration and development of new oil wells in Egypt and the Gulf of Suez, and a partial credit guarantee of up to \$100 million for a holding company engaged in oil, gas and mining activities throughout the region, in order to help it expand operations in Yemen.<sup>11</sup>

 **Financing for the power sector in North Africa represents 14.5% of total African Development Bank Group (AfDB) involvement in the region from 1967 to 2006.**<sup>12</sup> To date, almost all the AfDB’s loans and grants to North Africa have supported infrastructure projects, including the power investments, and other reforms aimed to boost private sector development. There is no mention in the AfDB’s 2006 Annual report, however, about the impact of its programs on poverty in North Africa.

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*The **Bank Information Center** is an independent, non-profit, non-governmental organization that advocates for the protection of rights, participation, transparency, and public accountability in the governance and operations of the World Bank, regional development banks, and IMF.*

*Find out more about BIC’s MENA Program at [www.bicusa.org/mena](http://www.bicusa.org/mena).*

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<sup>6</sup> [MENA Regional Energy Brief](#), World Bank, May 2007.

<sup>7</sup> [List of Active MENA Energy Projects](#), [List of Proposed MENA Energy Projects](#), World Bank.

<sup>8</sup> [Egypt El-Tebbin Power Project PAD](#), World Bank, January 2006: p. 11.

<sup>9</sup> [Morocco Electricity Transmission Project in Morocco PID](#), World Bank, February 2007: p. 3.

<sup>10</sup> Note: IFC considers Pakistan part of its MENA region portfolio.

<sup>11</sup> [SMB Holding Company SPI](#), IFC, October 2006; [IPR Egypt SPI](#), IFC, November 2006.

<sup>12</sup> [2006 Annual Report](#), African Development Bank, May 2007: p. 45.