
Sectoral Notes

TRANSPORT

1. Background

Population in the Middle East North Africa Region (MNA) region (approximately 300 million) is rapidly urbanizing and growing at an average annual rate of 2%. Already, eight of the region's cities have more than three million citizens; Cairo and Tehran more than ten million. Enhancing infrastructure capacity and service efficiency to accommodate the increased mobility of the expanding population and the need of a growing economy is a challenge for the transport sector in MNA.

In general, transport systems in the MNA region are well developed (except in Yemen and Djibouti). Most countries have extensive road networks, with high capacity in some areas, and important facilities for air, sea, and rail transport. The quality of transport infrastructure is, however, often insufficient to support growing, modern economies. There are also serious capacity gap in urban and rural transport infrastructure. Institutions in charge of the sector are generally in place, but are in need of further improvements in terms of policy formulation and management capacity. Regulatory and financial systems also need development, especially to encourage more private sector participation in infrastructure service provision.

The transport sector plays an important role in the economies of the MNA region. On average, transport represents 7% - 10% of the countries GDP, and employs around 10% of the labor force. For most countries, the sector is central to their main objectives of accelerating economic growth, creating jobs, and reducing vulnerability and exclusion. It is also key to regional integration and vital to improving the quality of life and reducing poverty.

2. Key Issues in the Sector

Facilitating Trade and Promoting Growth through Greater Transport Efficiency: Economic growth and employment creation are priority objectives for most countries in the region. To achieve them, it will be essential to improve the efficiency of transport services and trade logistics which will serve as a catalyst for economic competitiveness and, thus, encourage investment and generates opportunities for employment. Over the past couple of years, however, the region has lost global market share in many export sectors, and non-oil exports represent just one percent of world share, which is the lowest of any developing region. While a number of factors have contributed to this reduction, deficient transport infrastructure and services in many countries of the region has adversely affected trade flows through higher costs. Trading blocks, such as the Euro-Mediterranean Free Trade Area, could potentially increase trade and promote economic growth throughout the MNA region, but for these arrangements to have an impact, cost-effective transport services, efficient facilitation, and transport infrastructure with ample coverage, good intermodal connectivity, and sufficient capacity to accommodate traffic flows are required.

Upgrading Urban Transport Services: With almost 60 percent of its population living in cities, the MNA region is far more urbanized than East Asia and South Asia. Yet the development of urban transport systems, and particularly public transport, has lagged. As a result, many of the region's large urban areas, where the bulk of GDP is produced, face increasingly difficult transport problems with a high degree of traffic congestion, reduced mobility, and deteriorating air quality. Most larger cities have experienced rapid growth in transport demand, but, because public transport services have not kept pace with demand, there is excessive reliance on private automobiles. This exacerbates congestion and air pollution, increases overall transport costs, and reduces opportunities and quality of life, while affecting

Sectoral Notes

cities competitiveness and economic growth. In Cairo and Tehran ambient concentrations of sulphur dioxide, particulates and nitrous oxides regularly exceed the World Health Organization's guidelines.

Expanding Rural Access: Transport is a critical input for accessing markets, health centers, schools and other social and administrative services, and populations without dependable access are generally poorer than those with reliable access. This is particularly true for rural areas that are distant from roads that carry regular motorized transport services. For many rural communities in the MNA region, year-round access is limited by the poor condition of rural road networks and the lack of basic transport services. Where all-weather roads are available transport services may be available, albeit often at a premium. With just 22 percent of the rural population living within two kilometers of an all-purpose road, access in Yemen is very low by international comparison. With some 45 percent living within one kilometer of an all-weather road, access in Morocco is improving though still lagging. In general, throughout the MNA region, improving mobility of the rural inhabitants, which make up about 40 percent of the population, and therefore facilitating access to markets and services, will be essential for reducing rural poverty.

Adapting Public-Private Partnerships to meet growing transport needs: Throughout the 1990s, most countries encouraged private participation in the development of infrastructure facilities and services. In 1997, private investment flows to infrastructure projects throughout the MNA region peaked at approximately US\$5.7 billion, but have been on a steady decline ever since. Yet, the need to build additional capacity at airports and ports, and to extend and maintain road and motorway networks has continued to grow. To meet this additional demand in a fiscally constrained environment, the private sector can still have an important role to play. The challenge remains one of removing major constraints, supporting policymakers to build frameworks that are favorable for private participation, and developing well-structured transactions to better fit the economic and political context of MNA countries.

Improving Road Safety: Inadequate urban and interurban road networks, weak institutional and legal frameworks, unsatisfactory enforcement of traffic and transport regulations, and shortcomings in safety information and education contribute to poor road safety records in many countries throughout the region. In 2003, the fatality rate on Jordanian roads averaged 18 deaths per 10,000 vehicles, while in Iran that figure was about 45 deaths per 10,000 vehicles, or twenty times the average for industrialized countries. Similar records are witnessed by other countries of the region. There is a need to formulate and consistently implement appropriate national road safety plans that integrate institutional, regulatory and physical improvements.

3. World Bank Recommendations

Improve Transport Infrastructure and the Efficiency of Services: Adequate transport infrastructure and efficient services are fundamental ingredients to building trade with other countries, reducing congestion in the region's major cities, and increasing access and affordability. Poorly functioning transport assets add to production costs and constrain trade, while deficient urban transport services exacerbate congestion and air pollution, and limit mobility. The Bank has assisted a number of MNA countries to develop national transport strategies, formulate sectoral policies and regulations, and finance critical investments in transport infrastructure. Investments have been targeted at expanding the capacity of high use roads, developing rural access, equipping ports and airports with up-to-date facilities and technologies, and providing much needed resources for public transport systems.

Build Institutional Capacity and Systems for Maintaining Existing Assets: Building institutional capacity and establishing appropriate systems to better maintain existing assets and sustain the benefits of new investment is also essential. This is especially true in the road sector, where abilities

Sectoral Notes

to develop and carry out road maintenance and rehabilitation programs are essential prerequisites for preserving networks. Bank interventions have sought to strengthen planning and management capabilities of Government agencies, enhance the operational effectiveness of both public and private sector organizations, and develop mid-term priority investment programs based on economic and social criteria that will maximize the return on public resources.

Create or Enhance the Regulatory Framework for Public Private Partnerships: To meet the growing transport demand in terms of capacity and efficiency, the Bank assists client countries in developing adequate frameworks to promote public-private partnerships. Opening markets to greater competition and increasing the private sector's involvement in managing and delivering transport facilities and services can free scarce financial resources for other purposes, foster efficiency, and harness innovation. Gains can be substantial, for example, when better traffic management schemes and pioneering bus and rail based systems are introduced. To this end, the Bank has extended assistance to support client countries in piloting specific transactions and reforming existing regulations so that constraints to private sector participation are removed. This has involved when possible, separating the policy, regulatory and operational functions, and building adequate regulatory structures.

4. World Bank Lending/AAA Activities

Between FY2002 and FY2006, the MNA region's transport portfolio remained relatively stable, with a peak in FY2004. The average loan size doubled from about \$ 40 million in FY2000/2003 to \$80 million in FY2006. This is indicative of the larger projects that are coming on line. Nine projects are currently under implementation. Although most of the countries in the region are middle-income, there is sustained demand for financing to develop transport infrastructure.

Analytical and advisory activities (AAA) will continue to be comparatively more important than in most regions, as client countries seek assistance from the Bank in the design and evaluation of transport policies. Support for climate change mitigation is also expected to become an important area for support.

Examples of Projects under Preparation or Consideration:

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| • Djibouti | Djibouti-Ethiopia Railroad Concessioning Guarantee |
| • Egypt | Railways Rehabilitation Project
Road Asset Management Project |
| • Iran | Road Safety Project |
| • Iran | Urban Transport Technical Assistance Project |
| • Jordan | Second Amman Development Corridor Project |
| • Lebanon | Second Urban Transport Project |
| • Morocco | Road Asset Management Project |

AAA examples:

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| • Morocco | Trade Facilitation
Urban Transport Strategy
Climate Change |
| • Tunisia | Development of Logistics |
| • Yemen | Transport Sector Review |

5. Status of the Dialogue

Sectoral Notes

The Bank's growing support to infrastructure fits MNA clients' demand for growth and competitiveness. Client countries are especially interested in global knowledge and lessons of international experience, areas in which the Bank has a unique comparative advantage. While financing critical public investments in transport infrastructure, the Bank will continue to assist countries in the region to develop sound transport strategies, policies and regulations, strengthen institutions, and establish better frameworks to deliver successful private participation, which has so far contributed little to the region's transport sector.

In general the dialogue with MNA countries focuses on creating an alignment with the client's development agenda and priorities, including accelerated growth and employment creation. The main areas of concentration are urban transport, transport contributions to trade growth, private sector development, and multi-sectoral lending. The Bank pursues quality and long-term engagement, as well as just-in-time assistance, through AAA, focused and flexible products that may be scaled-up later, programmatic operations, and special attention to business development.

6. Donors Activities/Partnerships

The Bank is involved in numerous partnerships in the transport sector in the region. In Jordan for example, the World Bank, the European Investment Bank and the Arab Fund for Economic and Social Development (AFSED) cooperated to finance three sections of the Amman Development Corridor Project. In Morocco, the Bank joined forces with the European Investment Bank and others to finance the rehabilitation of a large program of rural roads. In Yemen, the Bank's Rural Accessibility Project provides the institutional framework as well as all preparatory studies and engineering for the sub-sector, thus leveraging much funding from the AFESD, the Saudi Fund, and other donors.