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Push to diversify economies in Middle East creates huge need for infrastructure capital

DUBAI, 5 November 2008 – In order to meet capital demands driven by strong population and economic growth, more than US\$100 billion of public-private partnership (PPP) investments in the Middle East and North Africa region will be required over the next five years to supplement government funding, says a report published today by Ernst & Young.

According to *Bridging the Gap: Private Investment in Middle East Infrastructure*, current and active civil engineering projects in the six nations of the Gulf Cooperation Council (GCC)¹ have a total value of US\$1.3 trillion. But with construction costs rising and dramatic economic growth, infrastructure needs are rapidly outstripping the region's public resources despite record exports of oil in recent years. For example, despite the Middle East boasting two-thirds of the world's desalinization plants, the World Bank has predicted that the amount of water available per person in the region will halve by 2050 as a result of population and economic growth and climate change. This suggests that a significant capital investment will soon be needed to meet demand and private sources will be increasingly looked to for a portion of this investment.

"Even with the large amount of revenue generated from oil exports in the region, governments are having to find alternate means of funding the expansive infrastructure development plans required to meet rapidly growing demand," said Abraham Akkawi, Middle East Leader of Infrastructure, Ernst & Young.

¹ The GCC comprises the governments of Bahrain, Qatar, Kuwait, Oman, Saudi Arabia and the United Arab Emirates.

In fact, despite oil revenues increasing to an estimated US\$381 billion in 2007, countries in the region have decreased their public spending by five percent since 2002, according to the Institute of International Finance.

"In the long-term, we expect the current trend towards continued greater private sector participation in infrastructure in the Middle East to continue. Investors looking to compete for the lucrative contracts are going to have to cultivate relationships through consultants or other intermediaries already well versed in Middle Eastern business practices," said Mike Lucki, global leader of infrastructure, Ernst & Young.

The report concludes that in the Middle East governments traditionally have contracted with regional or international companies to design and build infrastructure such as, airports, ports or roads and government agencies usually have operated the infrastructure. While that is still true today, governments are increasingly forming PPPs with the private sector to build and operate projects. Such partnerships provide private investors and contractors with new business opportunities in the Middle East, and enable governments to share the risks of project development, draw on the knowledge and experience of the private sector and leverage public investment in infrastructure with private capital.

"No doubt the global credit crisis will have some effect on regional project finance pricing, terms and time to close, but it is too early to determine the magnitude. There are billions of dollars of announced infrastructure projects in the pipeline which have been planned on the assumption of varying levels of private sector participation. These projects are critical to the economic growth of the countries in the region, especially GCC countries," said Phil Gandier, Middle East Leader, Transaction Advisory Services, Ernst & Young.

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About Bridging the Gap: Private Investment in Middle East Infrastructure

The report provides a snapshot of current and planned infrastructure investment in a variety of categories across the Middle East and North Africa, with an in-depth look at The United Arab Emirates, including Abu Dhabi and Dubai, as well as Saudi Arabia, Egypt, Kuwait and Qatar.

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