

MIGA GUARANTEES KEEP OIL AND GAS PROJECTS ON TRACK

ARTICLES

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The world's insatiable demand for energy and the resulting race to find new oil and gas resources have led to ever increasing investments in the oil and gas sector. Untapped oil and gas resources in developing or emerging economies have the potential to bring substantial economic benefits to both investors and local economies. While investors stand to gain from taking advantage of major opportunities, host countries can profit by using properly managed oil and gas revenues to drive economic development and improve standards of living.

But often the countries that present significant opportunities for investors in the oil and gas sector are high-risk – politically unstable and sensitive. Civil disturbances and conflict disrupt normal operations. Weak macroeconomic environments and inadequate legal and regulatory frameworks sometimes invite unwarranted government intervention. If the host government expropriates a multibillion-dollar project without paying full and fair compensation, investors can lose their entire investment. Few foreign investors can claim to be immune to these risks. Given the large initial capital costs and longer time horizons associated with the sector, managing non-commercial risk is a fundamental decision that investors cannot avoid.

How MIGA Can Help

Political risk insurance or guarantees issued by the Multilateral Investment Guarantee Agency (MIGA) can help investors manage the unusual and unpredictable non-commercial risks in many markets. MIGA is a member of the World Bank Group with a mandate to promote foreign direct investment into emerging economies by providing political risk insurance or guarantees. The agency's guarantee coverage can protect investors and lenders against the risks of expropriation, currency inconvertibility and transfer, breach of contract, and war, terrorism and civil disturbance.

MIGA is able to provide investors with a level of comfort that private insurers are usually unable to offer, thanks to the agency's ability to bring more than just political risk insurance to the table. MIGA's structure as an international organization – whose shareholders are the governments of 171 member countries – gives it the weight necessary to deter many a government action that could disrupt business operations in emerging economies.

The agency's status as a World Bank Group entity ensures that it has a good and productive working relationship with host governments. As a result, it serves as an honest broker with the goal of ensuring the continuing success of the investment and helps to resolve disputes before they reach the point of a claim. MIGA has had to pay only three claims out of nearly 600 projects (worth more than \$17 billion) supported in the past two decades.

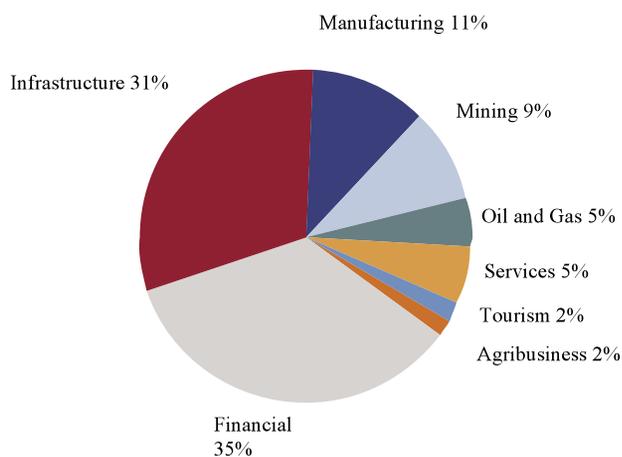
MIGA also leverages the World Bank Group's deep national and local expertise in helping project sponsors understand the sometimes conflicting motivations of local and national governments. This helps to bring all parties to the table to work out a solution when things go wrong. So far, MIGA has been involved in monitoring or facilitating the settlement of disputes in Argentina, China, Dominican Republic, Egypt, Guatemala, Kyrgyz Republic, Mauritania, Moldova, Nicaragua, Nigeria, Senegal and Venezuela.

Extensive Experience in Oil, Gas & Mining

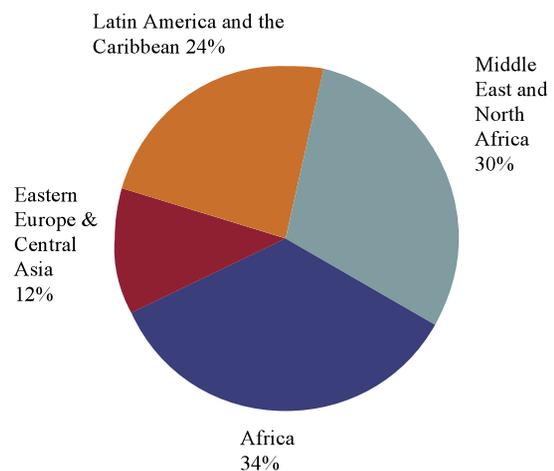
To date, MIGA has issued over \$800 million of guarantees in the oil and gas sector. The agency's outstanding oil and gas portfolio currently stands at \$339 million.

MIGA's extensive experience in the sector has led to the development of guarantees specially designed to target oil and gas-related concerns, such as the revocation of leases or concessions, tariff, regulatory, and credit risks arising from a government's breach or repudiation of a contract, and disputes related to take-off agreements, production sharing, exploitation, and drilling rights.

MIGA Guarantees Issued, By Sector, 1990-June 2007



MIGA Oil & Gas Guarantees Issued, By Region, 1990-June 2007



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Compliance with MIGA's environmental safeguards

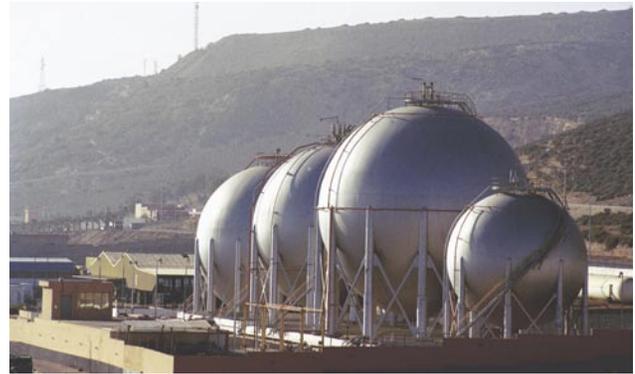
While selecting projects, MIGA takes into account considerations that go well beyond the purely commercial. Each and every project guaranteed by the agency has to meet MIGA's environmental and social guidelines. In accordance with the findings of an extractive industries review conducted by the World Bank, MIGA ensures that there is local community support for the projects; that companies and governments involved are transparent regarding the revenues generated; and that the emphasis is on promoting environmentally and socially sustainable development. Therefore, MIGA only supports projects that meet the highest standards of transparency and environmental and developmental sustainability, improving the development impact of projects, as well as client standing in the community. Bottom line: MIGA guarantees shield investments from the financial consequences of political turmoil around the world, increasing the probability of a better risk-weighted return.

Selected Oil & Gas Projects

| Project | Guarantee Holder(s) | Guarantee Amount \$ million | Host Country |
|--|---|-----------------------------|--------------------|
| Sasol Oil and Gas Project | Sasol Gas Holdings, Sasol Petroleum Int'l, Standard Bank of South Africa | 171.6 | Mozambique |
| West African Gas Pipeline Project | West African Gas Pipeline Co. Ltd. | 75 | Ghana |
| Production sharing contract with Sonatrach in Rhourde Yacoub Block 406 A | Compania Espanola de Petroles (Cepsa) | 50 | Algeria |
| ZAO Stimul | Victory Oil | 100 | Russia |
| Mehr Petrochemical Company (JV) | Cementhai Chemicals Co., Ltd., Itochu Corporation, National Petrochemical Public Company Ltd. | 122 | Iran |
| Brazil-Bolivia Gas Pipeline | El Paso Energy International Company | 14.6 | Brazil and Bolivia |
| Barracuda-Carratinga Leasing Co. | Mitsubishi; Itochu; Deutsche Bank | 72 | Brazil |
| Coastal Petroleum Dominicana S.A. | Coastal Corp. | 23.9 | Dominican Republic |

Case Studies

SASOL pipeline project in Mozambique. When South African oil, gas, and chemical firm Sasol identified business potential in a natural gas deposit in resource-rich Mozambique, lenders remained wary of investing given their perception of country risks. The company sought



MIGA's help to mitigate the risk and reduce the cost of the investment. MIGA guarantees cover the project against the non-commercial risks of transfer restriction, expropriation, war and civil disturbance, and breach of contract.

The project involves the development of the Temane and Pande gas fields, the construction of a central processing facility to clean up and compress the gas, and the construction of a 865 kilometer cross-border gas pipeline from Temane in Mozambique to Secunda in South Africa.

Building on the success of the natural gas project and its positive relations with the government, Sasol has announced an expansion of its Mozambique operations to include offshore drilling and exploration.

Rhourde el Khrouf oil field project in Algeria. MIGA provided \$50 million in reinsurance to Compañía Española de Seguros de Crédito a la Exportación (CESCE), the

Spanish export credit agency, for its \$144 million guarantee to Compañía Española de Petróleos S.A. (CEPSA) of Spain. CESCE's insurance covers CEPSA's \$240 million investment in a Production Sharing Contract with Sonatrach of Algeria in the Rhourde Yacoub Block 406A oil fields. MIGA's reinsurance provides coverage against the risks of expropriation, breach of contract, and war and civil disturbance.

The current investment includes the expansion of CEPSA's activities into a new oilfield (the Ourhoud field), as well as existing activities. The project is located in the Algerian interior in the Sahara desert, some 80 miles from the border with Tunisia.

El Paso natural gas pipeline project in Brazil. MIGA helped El Paso Energy International Company participate in one of the largest foreign investments in Latin America by insuring its investments in a project involving the construction and operation of a 3,150 kilometer natural gas pipeline from Santa Cruz in Bolivia

to Porto Alegre in Brazil. MIGA's \$14.6 million guarantee is covering the investment against the risks of transfer restriction, expropriation, and war and civil disturbance. The expropriation coverage protects El Paso's investment against actions by either government that would affect the project enterprise in either country.