Development Finance Institution focus: MIGA

One risk at a time

Sasol

Africa teems with potential money-making projects, but sometimes the costs are just too great. Step in the Multilateral Investment Guarantee Agency, says Moina Varkie

Today's foreign investors flush with cash are looking beyond their traditional base of operations to scope out potential new opportunities in Africa.

Countries such as Mozambique and Uganda are experiencing impressive economic turnarounds, in which rising incomes are unleashing pent-up consumer demand for goods and services. Investors are also beginning to dip their toes into places that saw little foreign investment in the past, but where reform-minded governments are making inroads towards creating more business-friendly environments. Improved investment climates, macroeconomic stability, excess liquidity, and surging demand are driving the investments.

"We are absolutely seeing more private investment activity in sub-Saharan Africa, in Asia, in the Middle East - challenging markets that no on would touch a few years ago," says Daniel Gabaldon, a principal in consultancy firm Booz Allen Hamilton's Energy, Chemicals and Utilities practice.

But translating opportunities into real investment requires a measured assessment of the realities faced by investors. According to the World Bank's *Doing Business* report for 2007, countries in sub-Saharan Africa occupy 19 of the bottom 25 places in ease of doing business rankings. More than a third of the countries in the region are still suffering from the legacy of past conflicts. When it comes to increasing FDI into the region, the bottom line is that sub-Saharan Africa continues to be perceived as a high-risk, high-cost place to do business.

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Foot in the door

Investors need to mitigate political risks, real and perceived. The Multilateral Investment Guarantee Agency (MIGA) has an important role to play in this regard. As the private sector insurance arm of the World Bank, MIGA offers investors and lenders the protection they need to overcome constraints – sub-investment grade sovereign ratings, perceptions of potential political instability and conflict, and concerns about legal enforceability of contracts – that hinder investment into and out of the region.

The agency's political risk insurance helps to assuage investor concerns about the safety of investments and encourages them to open businesses in countries where they would otherwise not venture on their own. MIGA's coverage protects investments against such non-commercial risks as expropriation of assets; currency transfer restrictions and inconvertibility; war, terrorism, sabotage and civil disturbance; and breach of contract across the range of sectors.

In addition to offering the promise of reimbursement in the event of a claim, guarantees can also decrease an investor's exposure to country risk, help reduce the cost of borrowing, and, in some instances, increase tenors on project financing. The value to

investors and companies is significant, as they gain the peace of mind to focus on the main task of growing their businesses and meeting the challenges of international expansion. More important, before disputes reach a crisis point, MIGA works with governments and investors to find amicable solutions so that the project can continue as planned.

"The public sector prefers to resolve problems with you and there is not an issue of non-payment," says Greg Ansermino, Director, Investment Banking at Standard Bank. "With MIGA, you get the World Bank on your side. Investors don't want a claim paid. They want to keep the project going."

In fact, MIGA's efforts have helped investors and host governments resolve more than 50 disputes related to MIGA-guaranteed projects, ultimately keeping the projects, and their development impacts, on track.

"The biggest benefit of the World Bank Group from IDC's perspective is avoiding business interruption," says Gordon Glass, head of risk management at the Industrial Development Corporation of South Africa.

Frontier focus

As part of the World Bank Group, MIGA plays a unique role, often going into frontier markets where commercial insurers are often not willing to go. Since its inception in 1988, MIGA has

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issued US $2.3 billion in guarantees for projects in Africa. During fiscal year 2007 alone, MIGA issued $311m in guarantees (18 contracts) for 11 projects in the region. With $964m in gross exposure, Africa accounts for 18% of MIGA's outstanding portfolio. The agency has supported projects in 27 African countries, with projects ranging in size from less than $1m to more than $1bn.

"MIGA is active in many sectors throughout Africa, but one of our key priorities is addressing the region's lack of infrastructure, which is recognised as a major impediment to growth," says Yukiko Omura, Executive Vice President of MIGA. "High investment costs, as well as perceptions of risk, can make it hard for investors to secure the long-term financing needed for cash-heavy infrastructure undertakings. By mitigating non-commercial risks, MIGA can help investors secure loans for longer tenors and at better rates."

As Africa's population urbanises around economic growth, the need for infrastructure is creating enormous investment opportunities. A recent Booz Allen Hamilton study suggests that world infrastructure demand will top $40 trillion over the next 25 years. This figure is "roughly equivalent to the 2006 market capitalisation of all shares held in all stock markets in the world," notes the report.

Combined, the annual demand for infrastructure investment in the developing world, including much of sub-Saharan Africa, currently amounts to $230bn. As macroeconomic recoveries in many of these nations set the stage for new business growth and increased prosperity for local citizens, the demand for better, more efficient services will grow as well. And while average returns on infrastructure investments can be difficult to quantify, some estimates suggests that returns on African infrastructure investments can range between 20 and 200%.

Yielding results

Since its inception in 1988, MIGA has issued guarantees totalling nearly $1bn in support of infrastructure projects in Africa. In Uganda, for example, an acute electricity crisis is affecting the livelihoods of millions of Ugandans and has stunted the country's economic growth by an estimated 1% of GDP. To help address the crisis, MIGA has issued $195m in guarantees supporting investments in electricity generation and distribution.

Since 1994, the agency has provided $268m in guarantee coverage for 17 manufacturing projects

Part of this support is a $115m MIGA guarantee for the Bujagali hydropower project. The project consists of the construction and operation of a 250 megawatt, run-of-the-river hydropower plant that is expected to increase supply to the national power grid at the lowest cost compared to other power generation expansion options under Uganda's energy strategy. MIGA's guarantee was considered essential to securing part of the investment.

MIGA is also active in African telecommunications. Despite the relatively lower costs of mobile telecommunications investments, investors know there are potentially significant and unique risks associated with these investments – relating, for example, to regulatory concerns, licensing and frequency allocations. Since 1996, MIGA has issued $536m in guarantees for 16 telecommunications projects in Africa, allaying investor concerns about the safety of their investments. Projects are located in Benin, Burundi, Ghana, Guinea, Mali, Mauritania, Nigeria, Sierra Leone, Tanzania and Uganda.

"Africa is a huge, largely untapped market for cell phone users. The demand is enormous, particularly in a continent where challenging geography and enormous cost limits landline installation," says MIGA Executive Vice President Omura. "Our political risk insurance is helping nations move directly to cell phones and leapfrog the need for more expensive landline infrastructure."

Guinea, for example, has just received one of its largest foreign investments to date, from Senegal-based Sonatel, with the help of MIGA. Sonatel will operate and maintain a GSM cellular network across the country, under a licence and concession agreement with the national government. The new company, Orange Guinée, will roll out coverage throughout the country within two years, providing access to underserved populations and those without access at all. In addition to generating government revenues, the project will employ and train 400 Guineans. Subscribers are expected to benefit from lower costs due to increased competition and the diversity of product offerings.

Despite Sonatel seeing a strong opportunity, the company also had concerns about the risks associated with the project. The firm sought assistance from MIGA, which issued a guarantee of $67m, covering the investment for 10 years against the risks of transfer restriction, expropriation, war and civil disturbance, and breach of contract. Without the MIGA coverage, Sonatel says it would not have committed to the investment.

MIGA's guarantees are also helpful when it comes to kickstarting manufacturing projects. Since 1994, the agency has provided $268m in guarantee coverage for 17 manufacturing projects in the region. One such project supported by MIGA was the $2bn Mozal project in Mozambique, which involved the construction and operation of a potline smelter to produce

Active MIGA-supported projects in sub-Saharan Africa

Guarantee holder	Investor country	Host country	Sector	Amount* (US $m)
World Power Holdings Luxembourg Sarl	Luxembourg	Uganda	Infrastructure	115.0
Rockland Steel Training (P) Limited of India, and State Bank of India	India, United Kingdom	Nigeria	Manufacturing	11.4
Société Malienne de Promotion Hôtelière	Mali	Burkina Faso	Tourism	2.9
Sonatel	Senegal	Guinea	Infrastructure	59.4
Globeleq Holdings	Bermuda	Uganda	Power	40.0
Société Malienne de Promotion Hôtelière	Mali	Guinea Bissau	Tourism	0.6
Mauritius Commercial Bank Limited	Mauritius	Mozambique	Agribusiness	22.1
Sasol, Standard Bank of South Africa Ltd, Standard Corporate & Merchant Bank	South Africa	Mozambique	Oil and gas	72.0/49.7/85.3
Office National des Télécommunications	Tunisia	Mauritania	Telecom	41.0
West Africa Gas Pipeline Company Ltd	Bermuda	Ghana	Gas pipeline	75.0
Loita Capital Partners	Mauritius	Cameroon	Financial	1.8
Société de Promotion et de Participation pour la Coopération Economique	France	Ghana	Financial	1.3
Cotecna SA	Switzerland	Nigeria	Services	84.9
Industrial Development Corporation of South Africa Ltd, Sena Group, Mauritius Comm. Bank	South Africa/ Mauritius	Mozambique	Agribusiness	87.8
Barloworld	United Kingdom	Angola	Services	33.1
Anvil Mining Ltd, RMB International	Canada/Ireland	Democratic Republic of Congo	Mining	13.6
Industrial Development Corporation of South Africa Ltd, Mr Chatthe	South Africa/UK	Kenya	Agribusiness	13.7
Investcom Global Ltd	United Kingdom	Benin	Telecom	8.0
Eskom	South Africa	Mozambique/ Swaziland	Power	69.5
Mauritius Telecom Ltd.	Mauritius	Burundi	Telecom	0.9
Louvre Int'l Ltd	Mauritius	Madagascar	Tourism	2.4
MTN	South Africa	Nigeria	Telecom	50.0

*Indicates amount of guarantee issued at initial contract signing aluminum ingots for export.

"Mozal had a huge effect that cannot be fully captured in any economic analysis that measures job creation, taxes and the like," says Greg Binkert, the World Bank's Lead Specialist in Mozambique. "To bring economic development to a conflict area is absolutely essential to peace, which in turn is the basis for rapid and sustained growth." The company's success created confidence and has directly contributed to nationwide economic improvements. Today, the investment climate is strong, and FDI is flowing. But without MIGA guarantees, the Mozal project might not have gone through.

Also in Mozambique, MIGA supported the Sasol gas field and pipeline project, issuing $72m in guarantee coverage.

MIGA has a strong track record in other sectors as well, including agribusiness, oil, gas, mining, tourism and financial services, which together account for more than half of MIGA guarantees issued for projects in the region.

Growing South-South investment

Foreign direct investment into sub-Saharan Africa grew substantially from 2005 to 2006, with flows growing from $13.8bn to $18.5bn. So-called "South-South" investors contributed substantially to this rise, driven by a surge in liquidity and limited growth opportunities at home.

Supporting South-South investment is a key element of MIGA's strategy. In 2007, the number of South-South investments insured by MIGA increased by four percent over the previous year, supported by $249m in guarantees. The majority of these investments are intra-regional, meaning the development impact rests locally.

Call to action: MIGA has issued $536m in guarantees for 16 telecommunications projects in Africa

"MIGA's outreach doesn't target only developed country investors," says Omura. "A large part of our outreach is tailored to intra-regional investors. In fact, during the last year, we were able to support nine projects in sub-Saharan Africa, involving investors from South Africa, Senegal, Mali and Mauritius. We believe this is just a start."

Investment opportunities, and returns, abound in Africa. In an ever-changing landscape of investment and political risk, MIGA is constantly seeking ways to provide flexible offerings to meet new and unique client needs – by providing tailored solutions to mitigate specific risks and address emerging concerns.

"In the long term, Africa's prosperity and stability will not come from dependency on foreign aid, but from sustained private investment and enterprise," says Omura. "We are committed to doing our part to ensure that Africa continues on its upward path of growth."

Moina Varkie is Director of External Outreach and Partnerships at MIGA

The small print: applying for a MIGA guarantee

MIGA provides non-commercial guarantees (insurance) for investments made in developing countries. MIGA's guarantees protect investors against the risks of transfer restriction (including inconvertibility), expropriation, war and civil disturbance, and breach of contract. In general, investors who are citizens of, or entities that are incorporated in, MIGA member countries – other than the country in which the investment is being made (called host country) – are eligible for MIGA guarantees.

MIGA issues guarantees for periods of up to 15 years, and occasionally 20 years. Contracts may be cancelled by the investor after the first three years of coverage or by MIGA in the event of a contractual breach by the investor.

Investments covered must be new and of at least three years in duration. New investments include start-ups, those associated with the expansion, modernisation or financial restructuring of existing projects, and acquisitions involving privatisation of state enterprises. Projects eligible for guarantees must support the host country's development goals and comply with MIGA's social and environmental safeguard policies, as well as World Bank Group anti-corruption standards.

Forms of eligible investments include equity interests, shareholder and non-shareholder loans, loan guarantees, as well as certain types of transactions in which the remuneration of the investor largely depends on the revenues or production of the investment project (for example, technical assistance contracts, management contracts, operating leases, profit sharing contracts and franchising agreements). To be eligible for coverage, investments must not have been irrevocably committed on the date of submission to MIGA of a Preliminary Application for Guarantee.

The Preliminary Application is the first step an investor must take to initiate the guarantee process. The application is free, confidential and short. Once a project is deemed to meet MIGA's eligibility criteria, the client may submit a Definitive Application, which includes a refundable application fee and non-refundable processing fee.

Upon receipt of the Definitive Application, MIGA initiates a thorough project review, which includes an assessment of the project's development impact, risk profile, economic and financial viability, environmental and social impact, and compliance with the agency's legal and policy requirements. This review helps give feedback to clients on the project and the requirements for MIGA coverage, and forms a basis for a decision on whether MIGA will proceed with consideration of the project. MIGA also seeks the host country's approval to issue the insurance. Once MIGA's senior management approves a project, it is submitted to MIGA's Board of Directors, comprised of government representatives of its member countries. With MIGA's Board concurrence and host country approval, guarantee contracts are ready to be signed.

For general inquiries and information on applying for a guarantee, contact migainquiry@worldbank.org, call 1.202.458.4798, or visit www.miga.org/guarantees.