MIGA: Fortifying Power Investments

The global need for power is enormous. Today, 1.3 billion people lack access to electricity, and three billion rely on conventional biomass fuels for cooking and heating. Rapid industrialization followed by increased buying power of local citizens is further fueling the demand for power. And as developing countries become locations of choice for companies in search of lower-cost operations, demand for power in these nations is skyrocketing. What this means for companies and investors in the power sector is a broad, new market. But it also means potential new risks. MIGA's investment guarantees mitigate the noncommercial risks associated with investment in power projects, enhancing the deals, and often making them possible.

The Power Sector Investment Challenge
Power investors know all too well that there are significant and unique challenges associated with this sector. On the business side, funds must be raised for capital-intensive projects. Demand-side management could also impact the bottom line. Power sector regulatory concerns in particular add a level of uncertainty, which is augmented further by evolving national climate change regulatory frameworks. Often, political pressures and negative publicity make it difficult for regulators to adjust tariffs, despite rising costs—which inevitably affects a project’s financial viability. If the project revenues are in local currency, transfer restrictions and inconvertibility may become a concern for power providers and lenders. In some countries, the threat of political instability, war, and civil disturbance poses a danger to physical assets and makes financing difficult and expensive to obtain. In addition, environmental and social risks associated with infrastructure investments can add to the uncertainties of doing power sector business.

What We Do
MIGA—the Multilateral Investment Guarantee Agency—is a member of the World Bank Group. MIGA's mission is to promote foreign direct investment into developing countries to support economic growth, reduce poverty, and improve people’s lives. We do this by providing political risk insurance (guarantees) against certain noncommercial risks to investments in developing countries, as well as by providing dispute resolution services for guaranteed investments. We also conduct research and share knowledge as part of our mandate to support foreign direct investment into emerging markets. In collaboration with our World Bank Group colleagues, we work with investors to structure deals in ways that benefit all parties and foster positive relationships with communities where they invest.

How We Help
MIGA guarantees are well-suited to reduce noncommercial power investment risks. They are designed to help companies feel comfortable with the risks they may perceive and can play a pivotal role in helping companies attract funds for large, capital-intensive investments. MIGA’s coverage can be used on a standalone basis or in conjunction with the World Bank’s partial risk guarantees, which offer additional benefits. Partial risk guarantees include conditions that promote stable regulatory and contractual frameworks, while helping investors obtain capital market financing on better terms and securing public obligations by a sovereign counter-guarantee.

MIGA brings to the table a strong track record, with only two power claims paid in 25 years—a testament to our demonstrated mediation abilities. With $4.6 billion in guarantees for power projects under our belt, MIGA offers proven sector capabilities.

Bottom line: MIGA’s guarantees mitigate the risk profile of your power sector investment, increasing the probability of a better risk-weighted return.
TYPES OF COVERAGE

Expropriation coverage for sovereign and subsovereign risk protects against discriminatory administrative or legislative actions by governments at both national and subnational levels that may result in nationalization and confiscation. Coverage extends to loss of “mobile assets”—oil rigs, platforms, and the like—as well as supplies and materials stored in the country that could be confiscated by the government. Guarantees also protect against “creeping expropriation,” a series of government acts that gradually lead to expropriation, such as arbitrary changes to licensing or royalty agreements, or burdensome administrative procedures.

Customized breach of contract coverage when governments are contractual partners can be designed to target specific oil and gas concerns such as disputes over long-term agreements that relate to off-take agreements, production sharing, exploitation, or drilling rights. Coverage extends to tariff, regulatory, and credit risks arising from a government’s breach or repudiation of a contract.

Coverage against currency-related risks protects investors against losses from an inability to convert local currency into foreign exchange for transfer outside the host country. Even when governments impose a moratorium on moving currency, as shareholders of MIGA, they may agree to exclude MIGA-insured projects, and permit the transfer. This has been the case in a number of moratoriums since 1990.

Guarantees for investments in the event of civil disturbance, war, sabotage, or terrorist activity protects against physical damage and prolonged business interruption (lasting 180 days). Coverage extends to situations in which an investor is forced to abandon the project due to war or other political disturbance. In such cases, assets need not be damaged or destroyed for a claim to be made. Border closures or blockades might not cause a loss of the local investment, however they can significantly interrupt its business activities, and MIGA guarantees can cover associated losses. Coverage for temporary business interruption, including both costs and lost net income, is also available.

Non-honoring of sovereign financial obligations coverage protects against losses resulting from a government’s failure to make a payment when due under an unconditional financial payment obligation or guarantee given in favor of a project that otherwise meets all of MIGA’s normal requirements. It does not require the investor to obtain an arbitral award. This coverage is applicable in situations when a sovereign’s financial payment per year. Upon completion, the facility will become one of the largest independent power generators in sub-Saharan Africa.

The International Finance Corporation (IFC), the World Bank Group’s private sector lending arm, is also supporting Azito’s expansion. IFC arranged a $350 million debt package, providing $125 million for its own account and mobilizing the balance from five European Development Finance Institutions and the West African Development Bank. MIGA is providing breach of contract cover to the equity investor and lead sponsor, Globeleq. This groundbreaking transaction in a post-conflict country was recognized as “African Power Deal of the Year 2012” by leading industry magazine Project Finance International.

MIGA AT WORK

Bringing Power to Energy-Starved BANGLADESH

In Bangladesh, MIGA is backing a financing package arranged by HSBC of the United Kingdom to Ashuganj Power Station Company Limited (APSCL), a state-owned utility. The financing is for the construction of the 450-megawatt combined-cycle gas-fired Ashuganj South power plant, which is expected to provide nearly 12,000 households with electricity.

MIGA’s guarantee of $221 million is providing coverage against the risk of non-honoring of sovereign financial obligations for a period of up to 13 and a half years. The Ministry of Finance of Bangladesh has provided an unconditional sovereign guarantee covering debt obligations of APSCL under its loan agreement with HSBC. This transaction represented the country’s first power sector credit facility agreement and was named “Asia Pacific Deal of the Year 2012” by Trade Finance Magazine.

This project will contribute enormously to the country’s power sector objectives, adding clean generation capacity through an indigenous fuel source. MIGA’s involvement was crucial for this important project to move forward, as insurance in the private market was limited due to the lengthy tenor of the loan.

Meeting the Burgeoning Demand for Power in CÔTE D’IVOIRE

In Côte d’Ivoire, demand for electricity is growing at an estimated eight percent annually as businesses seek to rebuild and urbanization takes hold. MIGA is helping to mobilize private finance for Côte d’Ivoire’s vast reconstruction needs with its support for the expansion of the Azito Thermal Power Plant, which will generate 50 percent more power without using any additional gas.

The project involves converting the existing simple-cycle Azito Plant to combined-cycle, increasing total capacity from 290 to approximately 430 megawatts while avoiding 225,000 tons of CO2 emissions
Since its inception in 1988, MIGA has issued $4.6 billion in guarantees for power projects in all regions of the world. The power portfolio currently stands at $1.4 billion, accounting for 13 percent of MIGA’s outstanding gross portfolio.

### OUTSTANDING GUARANTEES PORTFOLIO
as of December 2012

- **37%** Financial
- **15%** Transportation
- **13%** Power
- **12%** Agribusiness, manufacturing, and services
- **11%** Oil, gas, and mining
- **8%** Telecommunications
- **4%** Water and sanitation
MIGA’S VALUE
As a member of the World Bank Group, MIGA offers a range of benefits to investors seeking protection and continuity for their projects in developing markets.

Keeping Developmentally Sound Projects on Track

- **Mobilizing sound investments:** As a multilateral development agency, MIGA supports investments that are developmentally sound and meet high social and environmental standards. Governments have a vested interest in the sustainability of investments covered by MIGA.

- **Resolving disputes:** By demonstrating the investments being supported are developmentally sound, meet high social and environmental standards, and are approved by the host country government authorities as well as by MIGA’s Board, MIGA is in a strong position to help resolve disputes that might arise. MIGA has supported more than 700 different projects in its history, and has been able to resolve disputes that would have led to claims in all but two cases. (MIGA has paid four claims resulting from damage due to war and civil disturbance.) MIGA is able to work effectively with all parties to resolve disputes, keeping projects on track.

- **Prompt claims payment:** When claims do need to be paid, MIGA is able to pay them promptly, based on a strong balance sheet and a stable stream of operating income.

Improving Terms and Conditions for Investors/Lenders

- **Accessing funding:** MIGA guarantees help investors obtain project finance from banks.

- **Lowering borrowing costs:** MIGA-guaranteed loans may help reduce risk-capital ratings of projects, leading to lower borrowing costs.

- **Increasing tenors:** MIGA can provide insurance coverage for up to 15 years (in some cases 20), thereby increasing the tenor of loans available to investors.

- **Mobilizing reinsurance capacity:** MIGA is able to provide guarantee support for effectively any size project, through MIGA’s ability to secure reinsurance capacity.

Knowledge and Experience

- MIGA can help clients structure transactions to mitigate risk efficiently.
- Clients can benefit from the agency’s decades of experience, global reach, and knowledge of developing countries.
- MIGA works with clients to implement social and environmental best practices.
- MIGA ensures that appropriate risk solutions are implemented at various stages of the project life cycle.

Research and Knowledge

MIGA shares knowledge on political risk and foreign direct investment as part of its mandate to support foreign direct investment into emerging markets. The annual *World Investment and Political Risk* report examines the overall trends in political risk perceptions, foreign investment intentions, and longer-term demand for political risk insurance, especially in emerging economies (www.miga.org/wipr).

Technical Assistance

MIGA helps countries define and implement strategies to promote investment through technical assistance services managed by the Investment Climate World Bank Group. Through this vehicle, MIGA’s technical assistance is facilitating new investments in some of the most challenging business environments in the world.

CONTACT

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