MIGA: Driving Transportation Investments

Reliable and modern transportation infrastructure is critical to improving livelihoods around the globe. Trade depends on the ability to get goods to market, even as communities rely on transportation networks to connect with schools, businesses, and health care. But the high cost and uncertainty involved in large transportation projects may deter private investors from seeking out the business opportunities in sectors such as roads, shipping, ports, airports, and public transportation. This is particularly true in the developing world. MIGA’s guarantees mitigate the unique noncommercial risks associated with investment in transportation projects and help the market realize its full potential.

The Transportation Investment Challenge

Experienced private investors in transportation projects around the world know all too well that there are significant and unique risks associated with these investments. Such projects typically involve huge upfront costs, take longer to complete, and are reliant on future cash flows to meet financial obligations and provide reasonable returns. In some emerging markets, macroeconomic, legal, institutional, and regulatory concerns may add a level of uncertainty that can complicate deals even more. Transportation projects, such as toll roads, in many cases are exposed to subsovereign risk as governments decentralize control of services from national to provincial and municipal authorities. These authorities may have limited experience in dealing with the private sector or international banks, which adds another layer of complexity to project structuring.

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 transportation sector investment risks. They are designed to help companies overcome risk aversion, particularly for highly capital intensive investments, in countries where there is a perception of high risk. Once a deal is in place, MIGA guarantees bring companies additional comfort, providing an added measure of security that can help keep a project stable and reinforce positive relations with host governments.

The bottom line: MIGA’s guarantees reduce the risk profile of transportation investments, increasing the probability of a better risk-weighted return.

MIGA insures foreign direct investments against losses related to:
- Currency inconvertibility and transfer restrictions
- Expropriation
- War, civil disturbance, terrorism, and sabotage
- Breach of contract
- Non-honoring of sovereign financial obligations

MIGA provides dispute resolution services for guaranteed investments to prevent disruptions to developmentally beneficial projects.
TYPES OF COVERAGE

Coverage against expropriatory risks protects against administrative or legislative actions by sovereign governments that are confiscatory, as well as against “creeping expropriation,” a series of acts that gradually lead to expropriation. The guarantees can also cover adverse regulatory decisions, such as the revocation or modification of licenses and decisions related to tariffs.

Customized breach of contract coverage when governments are contractual partners protects against the non-payment of an arbitration award granted to the investor in the event of a breach of contractual obligations by the government. MIGA’s breach of contract coverage can be designed to cover selected contract clauses that are of particular concern to infrastructure investors, including performance-related clauses and payment obligations of the government related to output-based assistance and termination amounts.

Coverage against currency-related risks protects investors against losses arising from an inability to convert local currency into foreign exchange or to transfer funds outside the host country. An added benefit of MIGA’s participation is that even when governments impose a moratorium on moving currency, they may agree to exclude revenues from projects backed by MIGA guarantees and thereby permit such transfer. This provides comfort not only to investors but also to lenders, for whom concerns about these risks can drive up financing costs.

Guarantees against events of war, civil disturbance, terrorism, or other politically motivated violence protect investments against physical damage and prolonged business interruption resulting from the above risks. MIGA also covers lenders against payment defaults due to the same risks. 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 obligation is unconditional and not subject to defenses.

MIGA AT WORK

Easing Traffic Congestion in ISTANBUL
In Turkey, MIGA supports the expansion of Istanbul’s metro system, which will reduce traffic and congestion, provide better access to jobs, and improve the quality of life in the metropolis that is home to 18 percent of Turkey’s population.

The Kadikoy-Kartal-Kaynarca Project in Istanbul demonstrates how MIGA mobilizes financing and insurance capacity to support private sector participation in major infrastructure projects. MIGA was approached by a consortium of banks to provide coverage against the risk of non-payment by the Metropolitan Municipality of Istanbul because export credit capacity was limited due to existing exposures and local content restrictions. In April 2011, MIGA issued a guarantee of $409.2 million to WestLB, the facility agent for the consortium of lenders. This financing is supporting the construction of Istanbul’s metro on the Asian side of the city, including 16 metro stations.

Rebuilding CÔTE D’IVOIRE’s Transportation Infrastructure
In Côte d’Ivoire, a long-standing plan to construct and operate a toll bridge over Abidjan’s Ebrié Lagoon had been shelved for over 10 years, but has now moved forward with MIGA guarantees. The Agency is providing $145 million in insurance covering the equity investor and all of the project’s private sector lenders as well as FMO, the development finance institution of the Netherlands. The African Development Bank is also providing financing for this public-private partnership, the country’s first since the civil conflict ended.

The construction of the bridge is a high priority for the government, as Abidjan’s existing bridges and infrastructure are under severe strain and unable to manage the city’s growing traffic. Once completed, the new bridge will significantly reduce travel times, improve overall mobility, and alleviate chronic traffic congestion. The project will also provide important demonstration effects for further private sector initiatives in the country.
Since its inception 1988, MIGA has issued guarantee contracts totaling $1.2 billion for projects in the transportation sector. The transportation portfolio currently stands at $1.1 billion, accounting for 15 percent of MIGA's outstanding gross portfolio.
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 that 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

For information on guarantees for transportation investment
Margaret Walsh
t. 1.202.458.4518
mwalsh@worldbank.org

For general information

Multilateral Investment Guarantee Agency
World Bank Group
1818 H Street, NW
Washington, DC 20433
t. 1.202.458.2538
f. 1.202.522.2630
migainquiry@worldbank.org

www.miga.org