MIGA: Guaranteeing Investments in Water and Sanitation Projects

The Water Investment Challenge
Today, more than 780 million people lack access to clean and safe water; 2.5 billion people live without adequate sanitation. With estimates pointing to the addition of two billion people to the world’s population over the next 30 years, mostly in developing countries, the need for investment in the water sector is clear.

Yet private financing for water supply and sanitation in developing countries has lagged far behind that for other infrastructure sectors, reflecting in part the limits of private capital contributions and the lack of appetite to bear the political risks associated with these projects. Investor losses in various regions—caused by contract breaches related to tariff adjustments, protests, exchange rate fluctuations, and currency devaluations—illustrate the reality of these risks.

Risks in Water Projects
As with other infrastructure investments, water and sanitation projects are affected by political and macroeconomic instability, inadequate legal and regulatory environments, and insufficient government commitment to contractual obligations. These projects are also exposed to risks related to the decentralization of service oversight from the national level to provincial and municipal authorities. Subsovereign regulatory and contractual risks can pose a different set of challenges than sovereign risks. Local authorities may have less experience dealing with the private sector and may lack a solid understanding of investors’ needs.

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
Our guarantees are well-suited to mitigate the particular risks associated with investing in water and sanitation projects in developing countries. These guarantees, covering both new investments and project expansions, help to ensure that investors are able to operate in a stable and predictable environment.

MIGA’s expropriation and breach of contract coverage protects investments against a variety of regulatory and contractual risks. Our guarantees can improve the risk/return profile of projects, lower the cost of capital, and foster positive relationships with local governments.

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.

MIGA’s guarantees can be used on a standalone basis or in conjunction with other World Bank instruments, which offer an additional set of benefits. World Bank partial risk guarantees, for instance, 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.
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 water 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 to not only 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 protects 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.

MIGA 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

MIGA Guarantees Back Desalination Plant in GHANA

Accra is one of the major cities in Ghana that is experiencing rapid urbanization and population growth. Many residents in the city lack access to piped or safe water, and many old settlement areas and urban suburbs are facing water shortages. A MIGA-backed desalination plant will provide potable water to up to 500,000 residents in the Teshie-Nungua catchment of the capital and will improve the overall security and quality of the water supply.

MIGA's guarantees for this project total $179.2 million covering an equity investment and shareholding loan by Abengoa Water Investments Ghana, BV of the Netherlands; an equity investment and a shareholding loan by Daye Water Investment (Ghana), BV; and their local partner Hydrocol Ltd. are constructing and operating the plant, which is being built on a 25-year build-own-operate-transfer (BOOT) basis.

In JORDAN, MIGA’s Insurance Supports Clean Water

Jordan is one of the ten most water-deprived countries in the world and water scarcity is one of the country’s biggest impediments to sustainable economic growth. A MIGA-supported plant treats wastewater from the Arman and Zarqa areas (with a combined population of approximately 2.3 million people), generating an average daily capacity of 267,000 m³ of water. The use of treated wastewater frees up drinking water by decreasing agricultural and industrial use of potable water. At the same time, the treatment plant has rectified a serious environmental issue—as previously, poorly treated water was discharged into clean water.

MIGA’s $4.1 million in guarantees to Infilco Degremont Inc. and Suez Environnement S.A. cover their equity investment and performance bond for As-Samra Wastewater Treatment Plant Company Limited.

The project represents the first build-operate-transfer (BOT) project in Jordan, as well as the first public-private partnership in financing and management of a public infrastructure project in the country.
Since its inception in 1988, MIGA has issued contracts totaling $495.2 million for projects in the water and sanitation sector. The current water portfolio stands at $321.2 million, accounting for 4 percent of MIGA’s outstanding gross portfolio.

### OUTSTANDING GUARANTEES PORTFOLIO
**as of December 2012**

<table>
<thead>
<tr>
<th>Investor/Guarantee Holder</th>
<th>Project</th>
<th>Host Country</th>
<th>Guarantee Amount ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Bank of South Africa Ltd., South Africa; Daye Water Investment (Ghana), BV, Netherlands; Abengoa Water Investments Ghana, BV, Netherlands</td>
<td>Seawater Desalination Project in Ghana</td>
<td>Ghana</td>
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<tr>
<td>Standard Chartered Bank, Singapore</td>
<td>SCB Wastewater Treatment Project</td>
<td>China</td>
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<td>Suez Environnement SAS, France</td>
<td>Chongqing Water Project</td>
<td>China</td>
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<tr>
<td>Aqualyng Holding AS, Norway</td>
<td>Caofeidian Seawater Desalination Project</td>
<td>China</td>
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<td>Darco Environmental Pte. Ltd., Singapore</td>
<td>Deqing Darco Producing Water Co., Ltd.</td>
<td>China</td>
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<tr>
<td>Darco Environmental Pte. Ltd., Singapore</td>
<td>Second Darco Water (Qianyuan Water) Project</td>
<td>China</td>
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<td>Golden State Water Group Corporation, Cayman Islands</td>
<td>Zhenjiang Golden State Water Co. Ltd.</td>
<td>China</td>
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<td>Infilco Degremeont, Inc., United States; Suez Environment S.A., France</td>
<td>As-Samra Wastewater Treatment Plant Company Ltd.</td>
<td>Jordan</td>
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<td>Compagnie Générale des Eaux, France</td>
<td>Shenzhen Water (Group) Company Ltd.</td>
<td>China</td>
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</tbody>
</table>

**MIGA’S WATER AND SANITATION PORTFOLIO**

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.

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