



Enhancing Credit and Increasing Access to Commercial Financing

The Multilateral Investment Guarantee Agency (MIGA) is a member of the World Bank Group. MIGA's mandate is to promote developmentally sustainable foreign direct investment into its developing member countries. It does this by providing political risk insurance (guarantees) against certain noncommercial risks to cross-border investments, as well as by providing dispute resolution services for guaranteed investments.

MIGA's non-honoring of financial obligations (NHFO) coverage provides credit enhancement in transactions involving sovereign and sub-sovereign entities, as well as state-owned enterprises (SOEs). The primary beneficiaries that can benefit from this cover are commercial lenders that provide loans to these public sector entities for infrastructure and other productive investments. NHFO protects the lender against losses resulting from a failure to make a payment when due under an unconditional financial payment obligation or guarantee. NHFO does not require the investor to obtain an arbitral award in order to file a claim for compensation with MIGA.

This coverage may be made available to investors only if the financial payment obligation is unconditional and not subject to any defenses—meaning that there are no grounds on which the sovereign, sub-

sovereign, or SOE could defend legally against the fact that the obligation is due and payable.

Other key features:

- NHFO is available for a term of up to 15 years (in some cases 20)
- Claim determination and payment are subject to defined waiting periods
- Coverage of up to 95 percent of principal and interest is available

The primary advantage to MIGA's NHFO cover is that it is designed to be Basel II compliant, meaning that banks may receive capital relief, which could allow them to continue lending into a MIGA member country. The MIGA guarantee therefore may increase lending capacity of the banks, allowing them to fund developmentally strong projects that cannot be financed in the traditional financial markets with the needed tenors. NHFO coverage may be applicable for projects that involve either a direct payment obligation or unconditional guarantee of the government, a state-owned enterprise, or public-private partnership joint venture. As a result, MIGA support can enhance the risk profile of a broad range of financing structures. Among the benefits of the coverage to the guarantee holder is the timeliness of the claims determination period and the

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 financial obligations

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

certainty of the date of payment of the claim.

In addition to meeting MIGA's eligibility criteria, the underwriting team will confirm that the investment has a positive economic rate of return. As with all investments supported by MIGA, the underlying project must have a positive development impact and be consistent with International Monetary Fund and World Bank country and sector strategies.

Non Honoring of Financial Obligations at Work

Supporting the Expansion of ISTANBUL'S Metro System



In Istanbul, Turkey, MIGA is providing NHFO coverage to a consortium of lenders for the Kadikoy-Kartal-Kaynarca Metro extension. The loan, arranged by facility agent West LB, was provided to the Metropolitan Municipality of Istanbul (MMI). MIGA's guarantee of \$409 million for NHFO covers the risk of a default by MMI on its obligation to pay principal and interest due to WestLB and the lenders related to this loan.

The expansion of Istanbul's metro 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 project demonstrates how MIGA can cover sub-sovereign credit risk without the requirement of a ministry of finance guarantee. MIGA's guarantee is allowing MMI to cover the financing gap from phase I that resulted from a withdrawal of a key lender and the additional financing needed for phase II.

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 NHFO coverage of \$251 million is 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" 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.

Facilitating Innovative Financing for Basic Infrastructure in SENEGAL

In Senegal, MIGA is providing NHFO coverage backing a US dollar cross-currency swap arrangement between Standard Bank Plc and the government. Senegal's Ministry of Economy and Finance entered into

the swap with Standard Bank as a hedge against currency risk exposure related to a 10-year, \$500 million Senegal Eurobond. The proceeds of the Eurobond are being used to finance new infrastructure projects, including a 19-kilometer extension of the Diamniadio Toll Road to the new Blaise Diagne International Airport and critical energy sector investments. This transaction marked the first time MIGA issued a guarantee for a hedging arrangement without covering the related financing.

A More Reliable Energy Supply for GHANA



In Ghana, MIGA is providing NHFO cover of \$88.4 million to Société Générale covering its loan to the government of Ghana to finance the completion of the Takoradi 3 power plant. The expansion of the power plant will allow it to feed more electricity to Ghana's national grid, granting broader and more reliable access to power.

As recently as 2007, Ghana was in the midst of an energy crisis. Growing

SELECTED PROJECTS INVOLVING NHFO COVER

HOST COUNTRY	GUARANTEE HOLDER	INVESTOR COUNTRY	SECTOR	GUARANTEE AMOUNT (\$M)
Angola	HSBC Bank Plc	United Kingdom	Power	511.0
Bangladesh	HSBC Bank Plc	United Kingdom	Power	251.4
Ghana	Société Générale	France	Power	88.4
Panama	Citibank N.A.	United States	Transportation	320.0
Senegal	Standard Bank Plc	United Kingdom	Infrastructure	99.0
Tunisia	BNP Paribas	France	Transportation	217.7
Turkey	West LB, AG	Germany	Transportation	409.2

urbanization and robust economic growth rapidly increased the demand for electricity. This growth in demand combined with historical under-investment led to considerable strain on the network, culminating in energy shortages and rolling blackouts.

MIGA's 15-year cover was a requirement for the lender as there were no other providers in the market able to cover the transaction.

Stepping in to Fill Market Gaps in TUNISIA

Tunisia's plans to acquire a new passenger ferry were nearly derailed in 2011. In light of the political uprisings in the country, the export credit agency that was planning to provide NHFO cover to the financier pulled out and no other insurer was willing to provide cover. MIGA stepped in, providing guarantees totaling \$217.7 million covering financing by BNP Paribas and Société Générale of France. The coverage is for a period of up to 13 years on a guarantee provided by the Tunisian Ministry of Finance.

Trade Finance magazine and *Global Trade Review* both recognized the transaction with "deal of the year" awards.

Cleaner Commuting in PANAMA CITY



In Panama, MIGA's NHFO cover is helping make long-term finance available to construct a modern and integrated mass-transit system. MIGA is providing a

guarantee of \$320 million to cover a \$250 million loan arranged by Citi Transaction Services and Citigroup Global Markets, Inc. (Citi) including interest and other financing costs associated with the construction of Line 1 of the metro system. Citi is the joint global coordinator along with the Bank of Tokyo-Mitsubishi UFJ, Ltd. on the MIGA-guaranteed financing, with Mizuho Corporate Bank Ltd. serving as lead arranger.

Given the current state of transportation and mobility in Panama City's urban center, the metro project will have a positive effect on the livelihoods of the city's residents and commuters. It will reduce travel times, vehicle operating costs, and greenhouse gas emissions, while helping people living in suburban regions access jobs and educational services in the city.



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 some 700 different projects in its history, and has been able to help 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 Advisory Services

of the 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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