

EXPANDING POLITICAL RISK INSURANCE

A PARTNERSHIP APPROACH TO GROW PRIVATE INVESTMENT



Developed by



Based on discussions at the 1st MIGA Guarantee Conference 2019 and the MIGA Guarantee Paris Workshop February 2020, with African Development Bank, Asian Development Bank, Asian Infrastructure Investment Bank, European Bank for Reconstruction and Development, European Investment Bank, Islamic Corporation for the Insurance of Investment and Export Credit, Inter-American Development Bank, and New Development Bank

TABLE OF CONTENTS

I 3

Introduction

An introduction to partnerships
and key objectives

II 9

The case for partnership

The case for stronger collaboration across the
development community to expand political risk insurance

III 16

Guiding principles

A framework for shifting to a systematic
approach to partnership to expand political risk insurance

IV 28

Project typologies

Illustrations of project types with political risk insurance that unite
members of the development community and unlock investment

V 39

Steps towards a stronger partnership

Commitment to systematic partnerships across the
development community to expand political risk insurance

INTRODUCTION

An introduction to partnership
and key objectives



A FOREWORD

from Tharman Shanmugaratnam

As members of the global community, we work for a world that can be free of poverty, that supports broad-based prosperity and job creation for the fast-growing number of young people entering the workforce, and that is sustainable. Today's pandemic has set us back on each of these goals.

We need a forceful effort to rebuild growth, and most critically in the developing world. It will require more finance from every source, domestic and international, and a more effective use of finance. However, we will only succeed if we mobilize private capital on a vastly greater scale than seen in the past.

Doing so requires significant reforms across the system of development finance. At the core of these reforms is the recognition that development finance must work as a system, rather than a collection of multilateral and bilateral agencies, or of individual projects. In particular, bringing together and effectively leveraging the complementary capabilities of all development agencies has the potential to reduce investment risk, attract much larger volumes of private capital, and multiply development impact.

In this regard, one of the key proposals that the G20 Eminent Persons Group on Global Financial Governance made in its 2018 report was to develop system-wide risk insurance capabilities, taking advantage of MIGA's position as a global political risk insurer in development finance. Partnerships with MIGA can serve as a platform to combine expertise and expand political risk insurance (PRI), lowering the hurdles to private investment.

MIGA and its partners in the international development community are making these partnerships a reality. This handbook lays out guiding principles and highlights modalities that can serve as a foundation upon which sustained partnerships can be developed. They will get us closer to our collective ambition of a world without poverty.

Sincerely,

Tharman Shanmugaratnam, Senior Minister, Singapore; Chairman, G20 Eminent Persons Group on Global Financial Governance¹

1. The G20 EPG report, which was submitted in 2018, is available at www.globalfinancialgovernance.org

A FOREWORD

from Hiroshi Matano

The scale and complexity of today's development challenges necessitate a renewed effort to mobilize investments into emerging markets and developing economies. Achieving the Sustainable Development Goals (SDGs) alone will require annual investments of \$3.9 trillion over the next 10 years. The stress on national budgets introduced by the global COVID-19 pandemic has severely limited the ability of governments to mobilize the funds necessary to finance the investments that will close this gap. The result is a need for private sector capital that is greater than ever before.

Political risk insurance and credit enhancement have a track record of effectively de-risking and thus catalyzing private investment into emerging markets through capital-efficient instruments. Deploying these types of de-risking solutions in combination with debt and equity financing has the potential to materially increase the flow of private sector capital into emerging markets and developing economies.

Over the last 30 years, MIGA has partnered with the private sector and the broader development community to develop and deploy innovative de-risking solutions that support investments across infrastructure, financial services, energy, manufacturing, agriculture, and services. At a time when public financing is under severe pressure, MIGA is ready to expand its commitment to investors and governments to unlock private capital at the scale required, and in doing so, form even closer partnerships across the development community.

Sincerely,

Hiroshi Matano, Executive Vice President, MIGA

AN INTRODUCTION from Ethiopis Tafara

Over the last several decades, the global community has made enormous progress towards reducing extreme poverty and creating shared prosperity. Between 1990 and 2015, 1.1 billion people were lifted out of poverty, 600 million gained access to clean water, and the number of children of primary school age that were out-of-school fell by 50 million. As members of a global development community, we have individually and collectively led the way on initiatives and projects instrumental to these achievements. Despite this progress, the challenges we face today remain sizable and are a call to action for each of us. Every year, 20 million new jobs need to be created to match the growing number of young people entering the labor market. Additionally, the global infrastructure gap is expected to reach \$15 trillion by the end of 2040, and the COVID-19 pandemic is expected to push between 20-40 million people into poverty this year alone. Achieving the SDGs as committed by 2030 will require an estimated annual investment of \$3.9 trillion. Today's investment level of \$1.4 trillion falls well short of that target.

Political risk guarantees can play a bigger role in mobilizing private sector investment. However, in order to mobilize the private sector capital necessary to close this gap, a new form of cooperation among the development community is needed – one that is based on systematic partnerships to expand PRI. This new form of partnerships must operate based on commonly agreed-upon principles that facilitate joint project origination, set standards for shared diligence, encourage innovative product applications, and strategically leverage complementary capabilities and capacity. At scale, such partnerships have the potential to expand development impact and enable private sector investment that would not have been possible otherwise. Deploying political risk guarantees in these new systematic partnerships is essential for the development community to operate at its full potential, and to rise to the development challenges of the present day.

The pages that follow describe MIGA's approach to expanding partnership in political risk insurance. The approach builds on a set of guiding principles that MIGA intends to follow when partnering with the broader development community. It also outlines a series of scalable or replicable project structures that demonstrates how political risk insurance together with other investment, lending, and de-risking instruments can mobilize incremental private sector investment into emerging markets and developing economies. This approach is the result of ongoing discussions among development partners and the input gathered during the 2019 Guarantee Conference and the Paris Workshop. It reflects MIGA's commitment to expand partnerships and to increase the use of political risk insurance as a way to effectively mobilize private sector capital into developing economies.

In the turbulent global environment in which we find ourselves, we believe that fostering partnership through de-risking solutions is imperative in order to offer innovative solutions that effectively respond to the challenges we collectively face. While the following handbook outlines MIGA's commitment to partner more effectively and systematically with the development community, we hope you will join us in the pursuit of global collaboration, and we look forward to working with you in the months to come.

Sincerely,

Ethiopis Tafara, Vice President for Corporate Services and Partnerships & Chief Risk, Legal and Admin Officer,
MIGA

PARTNERSHIP

across the development community

Jürgen Rigterink,
First Vice President, EBRD

“ This partnership will allow us to collaborate and complement the different risk mitigation products offered by our respective organizations to respond to clients’ needs in more innovative ways. ”

Bajabulile “Swazi” Tshabalala,
Vice President, AfDB

“ Historically each organization has developed its own processes and procedures. By aligning the way we operate in critical areas we have begun to lay the foundations for efficient and effective partnerships, strategically leveraging the synergies between our institutions. ”

José Antonio Álvarez,
Vice Chairman and CEO, Banco Santander

“ As a private bank with operations in emerging economies, we always look for opportunities to partner with development finance institutions. Finding partners that understand and are comfortable with the risk in frontier markets is essential to scale the types of projects we invest in. ”

James P. Scriven,
CEO, IDB Invest

“ De-risking will be an essential element to crowd in more private sector partners within our overall quest to meet our development objectives. ”

Oussama Kaissi,
CEO, ICIEC

“ The Handbook’s Guiding Principles reflect the importance of enhanced cooperation between development partners as recommended by the Eminent Persons Group in 2018. ICIEC strongly believes that closer cooperation within the multilateral development bank community and other partners is of strategic importance to achieving the UN SDGs and to addressing other critical issues like climate change and the current COVID-19 crisis. ”

Paddy Padmanathan
President & CEO, ACWA Power

“ Managing the risks and complexity of investing in emerging markets requires strong partnership built on implicit trust between the private sector and multi-lateral organizations that understand and are comfortable operating in these markets. ”

Thierry Deau,
Founder and CEO, Meridiam

“ We continue to seek out opportunities to deploy private sector capital in emerging markets. Partnerships with MDBs to deploy innovative de-risking solutions are critical to create bankable projects in high risk markets. ”

Martin Kimmig,
Chief Risk Officer, AIIB

“ MIGA’s guarantees remain an interesting option as we are dealing with large SOEs and Municipalities. ”

CHANGING the nature of partnership

We believe that expanding collaboration among the development community to increase the use of political risk insurance has the potential to unlock material incremental private capital. This handbook sketches out a systematic approach to expanding partnerships by making the case for collaboration, articulating a set of principles to facilitate partnerships, and highlighting project typologies that demonstrate how political risk insurance can be expanded through partnership.

The outlined approach is intended to build on recent commitments by the MDB community

to work together to crowd in private investment, such as the Joint MDB Statement of Ambitions for Crowding in Private Finance. We are committed to implementing this new approach and changing how MIGA partners with other members of the development community. In doing so, we hope to move toward systematic, principles-based collaboration that increases the use of PRI products and encourages global investment. If successful, we expect to see three shifts in how MIGA partners with members of the development community.

From

1 Ad hoc, opportunistic partnerships based on short-term requirements

2 Pursuit of the same transactions and project pipelines

3 Inefficient engagement with duplication of documents and processes

To

Systematic collaboration based on partnership principles that bring together both the development community and the private sector

Synergistic collaboration based on complementary institutional strengths and products

Streamlined and consistent interaction on joint projects, leveraging each partner's key strengths



THE CASE FOR PARTNERSHIP

The case for stronger collaboration across the development community to expand political risk insurance



THE CHALLENGES

facing emerging markets and developing economies

The development community has played a pivotal role in making meaningful progress towards reducing global poverty and creating shared prosperity. However, as the end of 2020 nears, the challenges facing emerging markets and developing economies remain immense.

The goals of achieving universal access to power and clean water, food security, adequate transport infrastructure, sustainable job creation, access to health care, and education remain illusive for too many. To solve these challenges, coordination and collaboration on an unprecedented scale is required across members of the development community and the private sector.

40-60M

people will fall into extreme poverty in 2020

40-60 million people will fall into extreme poverty (under \$1.90/day) in 2020, raising the global extreme poverty rate to around 9%.

20M

new jobs are needed per year

Through 2030, 20 million new jobs need to be created each year just to keep up with the growing number of people entering the labor market.

143M

people could become climate refugees

By 2050, as many as 143 million people could become climate migrants. Meanwhile, by 2030, climate change could push an additional 100 million people into poverty.

2.2B

people lack access to safe drinking water

By 2025, half of the world's population will be living in water-stressed environments; today, 2.2 billion people lack access to safely-managed drinking water services.

\$15T

needed for infrastructure

By 2040, the world will be facing an infrastructure gap of \$15 trillion compared to approximately \$5.5 trillion today.

860M

people lack access to power

In 2018, 860 million people still lacked access to electricity, with 600 million of those people living in sub-Saharan Africa.

OUR GLOBAL ALLIANCE is needed to close a \$2.5 trillion annual funding gap

Achieving the SDGs by 2030 will require an estimated annual investment of \$3.9 trillion. Today’s investment level of \$1.4 trillion each year falls well short of this target, leaving a financing gap of \$2.5 trillion. Private and public sector investment working together – along with proactive investment de-risking – could help fill this gap, but today only \$0.37 of additional capital is mobilized for every \$1 of public investment. To mobilize additional private sector finance for development, the development community must work together to act as lenders, conveners, co-investors, and providers of de-risking solutions.

“ Our efforts to achieve the SDGs will require a surge in financing and investments. ”

**António Guterres,
Secretary-General of
the United Nations**

Estimated annual investment to meet SDGs in developing countries (\$ trillions)



GLOBAL CHALLENGES require that we renew our commitment to grow private investment



To make future economies more resilient, many countries will need systems that can build and retain more human and physical capital during the recovery—using policies that reflect and encourage the post-pandemic need for new types of jobs, businesses and governance systems.



David Malpass, World Bank Group President

Closing the \$2.5 trillion annual investment gap needed to achieve the SDGs by 2030 requires a step change in private capital mobilization. Global macroeconomic trends adversely affecting investment flows into emerging markets and developing economies have, however, slowed the progress in closing the investment gap to date.

FDI into IDA and FCS countries has been in decline since 2015, reaching a six-year low in 2018. At the same time, average public debt ratios in emerging markets and developing economies have risen to levels comparable to those seen during the crises of the mid-1980s and 1990s. Between November 2018 and November 2019, global trade decreased by 1.1% - a decline that is expected to accelerate as a result of the continuing COVID-19 pandemic.

In addition to the volatile global macroeconomic environment, the challenges associated with climate change necessitate a coordinated global response and significant private sector investment. From 2017-18, average public climate finance investment totaled \$253 billion - less than half of the commitments required to achieve the global climate goals.

These challenges combined require a renewed commitment to grow private sector investment into emerging markets and developing economies.

FDI into IDA and FCS countries
(Billions, \$US)



Public debt
(percent of GDP, weighted average)



COVID-19 HAS HIGHLIGHTED the importance of collaboration amongst the global development community



The coronavirus pandemic is the most urgent global crisis of our time, exposing structural weaknesses and exacerbating inequality. ... an effective response will require a high level of coordination and cooperation both within and across countries, using the full gamut of tools and options.



Mari Pangestu, World Bank Group Managing Director of Development Policy and Partnerships

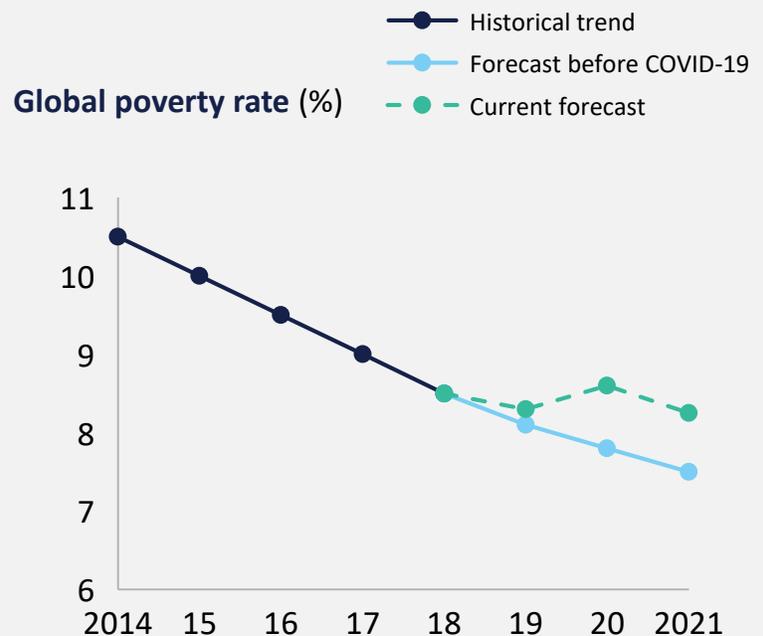
The ongoing COVID-19 pandemic has deepened existing development challenges and exposed vulnerabilities across emerging markets and developing economies. It has also highlighted the need for the global development community to come together and act in concert to provide counter-cyclical support.

COVID-19 is expected to push an estimated 71 million people into extreme poverty and reduce global FDI by as much as 30% to 40% this year. The global economy is projected to shrink by 5.2% this year, representing the deepest recession since the Second World War. According to the UN's COVID-19 Report, global hours worked during the second quarter of 2020 dropped by 10.5%, equivalent to 305 million full-time workers working a 48-hour work week.

The pandemic's influence is far-reaching, extending into societal, educational, health, and financial facets of life. Today's statistics will affect tomorrow's population, resulting in increasing challenges to meet the aspirations put forth by the global community through the SDGs.

To respond to these challenges, the development community will have to intensify its effort to mobilize investment to address the direct effects of the pandemic and build resilience for the future. To do so, it will be critical to leverage complementary capabilities through effective and systematic partnership - including the systematic application of PRI to mobilize private sector investment into emerging markets and developing economies.

The impact of COVID-19 on global poverty



DESIRED OUTCOMES of partnership



Independent evaluations suggest that each MDB is individually performing well, but the system as a whole is not delivering enough.



Brookings Institution

To address these development challenges, MIGA hopes to expand its collaboration with the broader development community and increase the use of political risk insurance to mobilize private capital at scale.

Through collaboration, MIGA in partnership with fellow members of the development community aims to



Meaningfully expand investment opportunities and increase FDI into emerging markets and developing economies



Create new financial products by leveraging each member's experience and expertise



Reduce the time and resources needed for project diligence while enhancing quality



Develop global project platforms to rapidly scale and deploy solutions on a global scale



Increase the number of bankable projects by creating markets upstream



Create simplified and holistic solutions that attract private sector participation

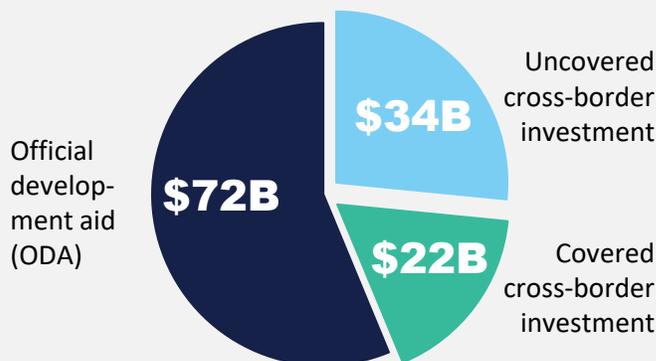
POLITICAL RISK INSURANCE (PRI): An opportunity for broader de-risking

De-risking complex projects through the use of political risk insurance offers a capital-efficient method to catalyze private investment into emerging markets. Stimulating investment at the scale required to achieve the SDGs will rely on the systematic application of political risk insurance to increase the capacity of the private sector to invest in higher risk markets.

Between 2013 and 2017, cross-border private investments into emerging markets and developing economies averaged \$56 billion annually. Of that, \$22 billion was covered by political risk insurance. Expanding political risk insurance to enable incremental private capital flows - as well as covering more of the existing flows to create risk capacity for incremental investments - are important steps towards mobilizing more private investment in emerging markets and developing economies.

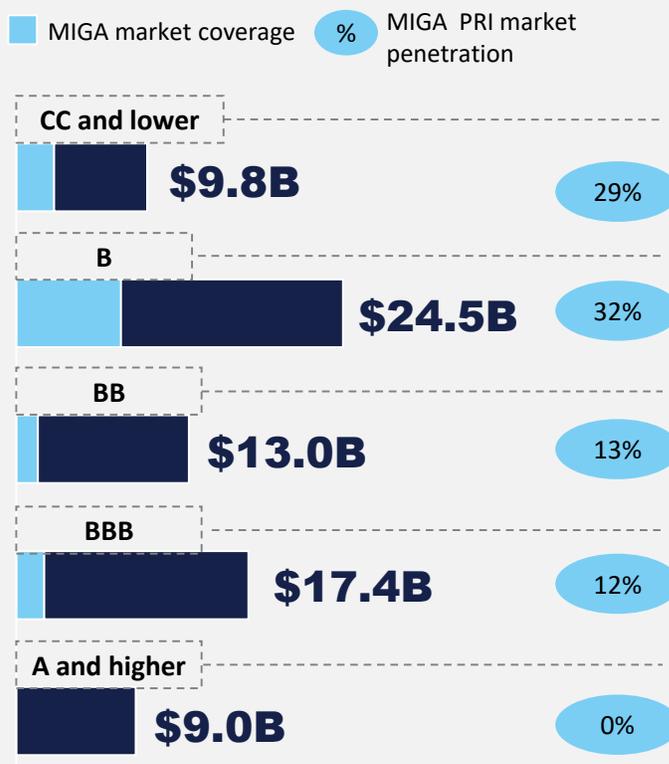
MIGA is a leader in providing political risk insurance for complex projects in high risk markets. As it continues to expand its partnership with the development community, MIGA is looking to systematically offer and provide political risk insurance.

Average annual cross-border investment (2013-17)



MIGA has extensive experience and a long track record of de-risking private investment in the most challenging markets

PRI gross exposure for addressable market, Country credit rating CY2019





GUIDING PRINCIPLES

A framework for shifting to a systematic approach to partnership to expand political risk insurance



PRINCIPLES to guide partnership

The following principles reflect MIGA's sharpened focus on fostering effective partnerships alongside members of the development community to expand the use of political risk insurance and grow private investment into emerging markets and developing economies.

I. What we hope to achieve together



1. Complementarity

MIGA will reach out to members of the development community to combine complementary capabilities to effectively develop, finance, and de-risk complex projects.



2. Systematic collaboration

MIGA will pursue sustained collaboration with other members of the development community through regular information sharing, taking advantage of existing platforms where appropriate.



3. Innovation

MIGA will work with members of the development community to advance innovative products and solutions that increase the number of bankable projects.

II. How we will achieve our goals together



4. Project subsidiarity

In joint projects, MIGA will work to allocate roles and responsibilities in the project evaluation process to the most relevant and best-positioned institution.



5. Reliance

In joint projects, where institutions have similar or comparable policies and standards, MIGA will encourage reliance on each other's due diligence work, to the extent possible.



6. Accountability

In joint projects, MIGA will be responsible for reviewing inputs accepted from any other institution and determining whether such work satisfies its own requirements.



7. Comparability

MIGA will work with other institutions to align policies and standards used in project evaluation in the interest of streamlining processes.



8. Scalability

MIGA will seek to standardize roles and structures with partners, in order to scale and repeat successful partnership formats.



9. Recognition

MIGA will coordinate with members of the development community to craft incentives to encourage effective collaboration within and across institutions.



10. Results

MIGA will work with members of the development community to measure results of collaboration and progress of partnership objectives.

1 COMPLEMENTARITY



MIGA will reach out to members of the development community to combine complementary capabilities to effectively develop, finance, and de-risk complex projects.

MIGA will encourage institutions to assume distinct roles and deploy their respective products to achieve optimal structuring and risk allocation among partners on projects that would otherwise not be bankable when evaluated by a single institution. MIGA hopes to target countries and sectors with specific development challenges and promote upstream opportunities to develop comprehensive financing and de-risking solutions.

What this could look like in practice

- Actively seek out and leverage each other's products to structure bankable projects
- Present projects that are deemed to be high risk to a broader group to develop solutions that leverage the full toolbox of financing and de-risking solutions
- Share information on operational, funding, and pricing limitations on projects to attract solutions from partners
- Increase collaboration with upstream teams, where projects can be structured and risks can be properly allocated among institutions
- Proactively market the availability of PRI coverage, as many private sector clients and host countries are not familiar with the products and de-risking tools available

Key benefits

Complementarity should lead to proactive de-risking across transactions, through leveraging of political risk guarantees, diverse financial products, and unique structuring approaches. Successfully de-risking transactions should lead to more completed projects, and expand the addressable market of the development community. Additionally, this principle should lead to increased interaction between members of the development community and governments to unlock new markets to private sector investors.

2 SYSTEMATIC COLLABORATION



MIGA will pursue sustained collaboration with other members of the development community through regular information sharing, taking advantage of existing platforms where appropriate.

MIGA will collaborate intentionally in order to deliver the full breadth of the development community's capabilities. It will work to increase partnership activity by committing to common undertakings and sharing information regularly on potential projects and pipelines, policy developments, and ongoing practices.

What this could look like in practice

- Enter formal agreements with each other to drive joint business development and collaboration
- Develop work plans to tackle market hurdles (e.g., sector assessments, unbundling of industries, capacity constraints) and related implementation plans
- Hold recurring PRI roundtables to discuss the guarantee products and risk mitigation instruments available and how these can help mobilize financing into countries where there is greatest need

Key benefits

A systematic approach to collaboration should lead to a more responsive development community, that is thus informed and prepared to meet evolving market demands and unexpected challenges.

3 INNOVATION



MIGA will work with members of the development community to advance innovative products and solutions that increase the number and impact of bankable projects.

MIGA will seek innovative or new financial products that allow the development community to increase activity and investment. Creative solutions will offer more options and increase the scope of applicable projects within emerging markets and developing economies – expanding the existing set of bankable projects.

What this could look like in practice

- Hold series of workshops to explore opportunities for innovative financing, risk mitigation or new combinations of products
- Provide education on existing products offered by various institutions, including case studies, to share examples of innovative financing

Key benefits

Innovative solutions will lead to unlocking more investment and attracting new investors. It should also heighten awareness of the wide range of products offered by the development community, and illuminate ways in which these products can be combined and evolve over time.

4 PROJECT SUBSIDIARITY



In joint projects, MIGA will work to allocate roles and responsibilities in the project evaluation process to the most relevant and best-positioned institution.

Each institution conducts assigned due diligence and shares the results with other project participants, using the highest degree of transparency, to reduce costs to clients and eliminate duplication.

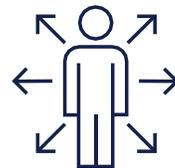
What this could look like in practice

- Develop a project management platform for tracking and sharing diligence results with partners
- Establish a framework which identifies the best-positioned institution for each phase of diligence within each transaction
- Develop an efficient mechanism for cost-sharing amongst institutions during the diligence process
- Ensure timely dissemination of new information to enhance transparency among partners

Key benefits

Project subsidiarity should lead to increased efficiency and decreased cost associated with due diligence.

5 RELIANCE



In joint projects, where institutions have similar or comparable policies and standards, MIGA will encourage reliance on each other's due diligence work, to the extent possible.

Where possible, MIGA will rely on the due diligence of others to satisfy fact-finding and third-party assessment requirements, and avoid duplication of work and extended timelines. This is an incremental principle, in the sense that an institution's level of reliance and confidence on another's work will increase as they do more projects together. The extent to which an institution will rely on another's due diligence work will depend on its internal regulations and policies.

What this could look like in practice

- Develop guidelines for relying on others' due diligence work, which identify overlapping procedures and standards between organizations
- Identify the commonalities behind respective standards and policies, and develop acceptable solutions to address gaps for each partner
- Extend reliance through the life span of the project to evaluations and monitoring information, where appropriate

Key benefits

Reliance should ultimately lead to reduced timelines and resources associated with joint projects, and make it easier for new partners to join a project with minimal disruption.

6 ACCOUNTABILITY



In joint projects, MIGA will be responsible for reviewing inputs accepted from any other institution and determining whether such work satisfies its own requirements.

Once project information, fact-finding reports, or third-party assessments are accepted as inputs, MIGA will evaluate such material and use its own judgement to determine whether its requirements and policies have been satisfied, and will encourage each other institution to do the same.

What this could look like in practice

- Share diligence requirements with partners in order to establish clear guidelines for acceptable outputs
- Establish process whereby outputs from partner organizations are formally accepted
- Set clear internal policies for evaluating inputs from other institutions

Key benefits

Clear accountability will assure boards and stakeholders that the institutions are fulfilling their mandate, exercising sound judgment, and implementing the policies and standards required of the institution.

7 COMPARABILITY



MIGA will work with other institutions to align policies and standards used in project evaluation in the interest of streamlining processes.

MIGA will identify standards and policies applied by other institutions that are comparable to its own, and to the extent possible align requirements, to achieve development mandates in a cost- and time-effective manner.

What this could look like in practice

- Develop a baseline of standards and policies used in project evaluations across development organizations, and note where there are key differences
- Communicate on policies and processes that are aligned and avoid inconsistency across organizations

Key benefits

Recognizing a core system of standards and policies should increase partners' ability to integrate each other's work, reducing project complexity and redundancy. This should ultimately lead to streamlining of project requirements, reducing the cost and time taken to execute deals with members of the development community in general.

8 SCALABILITY



MIGA will seek to standardize roles and structures with partners, in order to scale and repeat successful partnership formats.

MIGA will work to develop standing arrangements whereby it works together with partner institutions in standardized or formalized roles on projects with the intent to scale or repeat successful partnership formats.

What this could look like in practice

- Review past joint projects on an ongoing basis, to identify archetypes for scaling (e.g., projects that have addressed a challenge faced by similar sectors or geographies)
- Codify key project elements (e.g., partners, roles, product innovations) that can be repeated in future projects

Key benefits

Scalability should enable broad and rapid deployment of projects in new sectors and geographies, increasing impact and decreasing costs over time.

9 RECOGNITION



MIGA will coordinate with members of the development community to craft incentives to encourage effective collaboration within and across institutions.

MIGA will work to develop incentives to encourage effective collaboration among institutions and recognize individuals for the work done to pool resources, decrease risk, increase efficiency, provide support, and share information.

What this could look like in practice

- Establish business incentives, such as fees and cost-sharing arrangements, to enhance the mutual benefits of collaboration
- Recognize partnership efforts against institutional targets (e.g., allow each partner organization to recognize mobilization against target)
- Launch structured incentive programs for staff that increase awareness of partnership initiatives and recognize individuals that role-model collaborative behaviors
- Include participation in partnership or collaboration objectives as part of career development or review processes

Key benefits

Incentives should encourage institutions to engage with each other, while individual recognition should motivate staff to pursue partnership goals as a result of structured incentive programs.

10 RESULTS



MIGA will work with members of the development community to measure results of collaboration and progress of partnership objectives.

MIGA will embark on action-oriented collaboration to produce real results and employ mechanisms to assess implementation of partnership objectives.

What this could look like in practice

- Establish systems for collecting data within projects and across the development community, with clearly articulated and measurable objectives for the partnership
- Develop and deploy a “partnership assessments mechanism” that adequately measures results and generates an implementation progress report (e.g., joint projects, new products, new clients, capital mobilized, shorter project processing timeline and development impact)
- Report against the development community’s partnership goals on a regular basis (e.g., progress against SDGs, increase in FDI into IDA and FCS countries)

Key benefits

Over time, being results-oriented should enable the development community to prioritize, track, and recognize partnerships that enable effective projects, as well as to capture and apply lessons learned.

IV PROJECT TYPOLOGIES

Illustrations of project types with political risk insurance that unite members of the development community and unlock investment



PROJECT TYPOLOGIES

to scale partnerships (1/2)

Partnerships bring together complementary capabilities to address complex development challenges. This section describes replicable project structures that demonstrate the benefit of partnerships that incorporate de-risking solutions, particularly political risk insurance. Each project typology illustrates a specific transaction's structure and the way partnership enabled it. We hope that these examples serve as blueprints to scale partnership-based solutions with political risk insurance and that over time the catalogue of project typologies will grow, as new and innovative partnerships are added.

Financial structures

- 1 Use of a first loss guarantee in combination with traditional PRI coverage**
Combining a first loss guarantee with traditional political risk insurance coverage to create a bankable project that mobilizes private capital for complex projects in high-risk markets

- 2 Use of an unfunded liquidity facility in combination with traditional PRI coverage**
Combining an unfunded liquidity facility with traditional political risk insurance to enhance the project's credit rating and provide capital market access in sub-investment grade markets

- 3 Combination of complementary PRI products from multiple MDBs/ECAs**
Blending political risk insurance products from multiple MDBs and ECAs to optimize pricing and create financially viable transactions

- 4 Provision of flexible reinsurance to expand PRI capacity and enable scalable platforms**
Providing a master reinsurance agreement to extend capacity and risk limits and to create a flexible framework that enables a scalable platform of transactions

- 5 Use of master agreements to reproduce transactions**
Creating a contractual framework to streamline repeat transactions through a consortium of MDBs, including scalable reinsurance and co-insurance

PROJECT TYPOLOGIES

to scale partnerships (2/2)

Enabling environments

- A** **Sector reform and investment programs** Collaborating amongst MDBs, DFIs, and other members of the development community to work with the host government to enable policy reform and develop sector-specific investment and de-risking programs to enable critical projects
-
- B** **Coalition of development partners to finance and de-risk large-scale projects** Collaborating amongst MDBs, DFIs, and other members of the development community to jointly support large-scale projects with the purpose of expanding capacity and sharing risk
-
- C** **Platform approach to scale and replicate a specific project type** Collaborating amongst MDBs, DFIs, and other members of the development community to develop and execute repeat transactions based on a platform approach that includes project frameworks, development templates, and shared diligence processes

AFGHANISTAN - Gas-to-power

Deal typology

1. Use of a first loss guarantee in combination with traditional PRI coverage

Project summary

MIGA, IFC, and IDA are working in close collaboration, along with ADB and DEG, to develop Afghanistan's first privately-funded power plant in concert with the Ghazanfar Group, a private conglomerate. The 58.56 MW Mazar Independent Power Plant (IPP) will also be the first private power project to use domestically-produced natural gas, and the approach can be replicated on other projects in Afghanistan. In order to crowd in private funding and de-risk the project, MIGA PRI has been combined with IDA's Private Sector Window (PSW). The project will result in the creation of almost 200 direct and many more indirect jobs.

Key roles and relevant product structures

- IDA will provide a \$12 million guarantee to backstop the ongoing payment obligation of Afghanistan's power utility
- IFC has provided advisory services to structure the IPP with the Ghazanfar Group. It has also provided \$23.8 million in a senior loan and \$1.5 million in a client risk-management swap. It will further mobilize \$43.8 million in parallel loans for the project
- ADB will provide \$20 million in loans to the transaction, and DEG will provide \$23.8 million in loans
- MIGA will provide PRI to two private shareholders and a senior lender (\$49.5 million) against the risks of breach of contract and war and civil disturbance
- IFC's investments and MIGA's political risk guarantees are combined with first loss guarantees through the IDA private sector window

Typology results

- Use of a first loss guarantee structure combined with PRI helps mitigate political and financial risks, ultimately encouraging private sector participation in the transaction
- The transaction will serve as a model for future transactions in Afghanistan, with an emphasis on using IPPs to close the energy gap

Benefits of partnership – Principles in action



Project subsidiarity

Close coordination in this project between partners within the diligence and transaction phases ensure minimal duplication of effort



Innovation

This project is an example of the application of the PSW, and ensures private sector participation in the first-of-its-kind private power plant



Scalability

This model of close collaboration and risk sharing can be replicated within Afghanistan, and could be scaled to similar markets



Recognition

This project enables a transaction in a conflict-affected country, garnering recognition for its success in aligning with MDB priorities

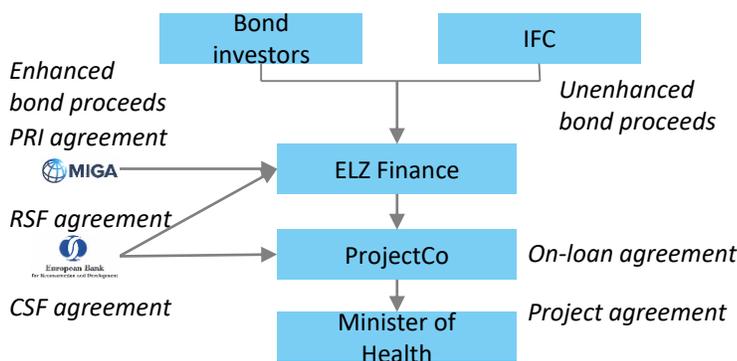
ELAZIG - Healthcare PPP

Deal typology

2. Use of an unfunded liquidity facility in combination with traditional PRI coverage

Project summary

The Elazig hospital project is a component of the "Health Public-Private Partnership" program developed by the Turkish Ministry of Health. The combination of MIGA PRI and EBRD unfunded liquidity products granted access to liquidity on the bond level to the transaction, leading to credit enhancement, green bond recognition, and a more dependable financial cash flow.



Key roles and relevant product structures

Debt financing was raised through issuance of A1 Bonds that were supported by the following structures:

- MIGA provided PRI to guarantee payments on actual termination of the project
- EBRD provided unfunded liquidity facilities to bridge the waiting period of MIGA's PRI coverage

Typology results

- Pairing PRI with a liquidity facility led to A1 bonds that were originally rated Baa2, improving the credit rating of the bond by two notches
- This facilitated access to capital markets without a sovereign guarantee - financing that would otherwise have been unavailable
- The liquidity facility ensured timeliness of payment to investors in the event of a claim

Benefits of partnership – Principles in action



Complementarity

Paris-based investor and asset manager Meridiam approached a consortium of partners to bring the full breadth of capabilities from multiple members of the development community, in order to develop a new financial instrument



Innovation

MIGA, IFC, and EBRD collaborated to offer the first-ever liquidity-based political risk insurance for a greenfield project bond



Scalability

This project achieved a scalable and replicable structure, wherein IFIs can provide short-term liquidity instruments to complement MIGA PRI guarantees to projects located in countries with below investment grade sovereign ratings

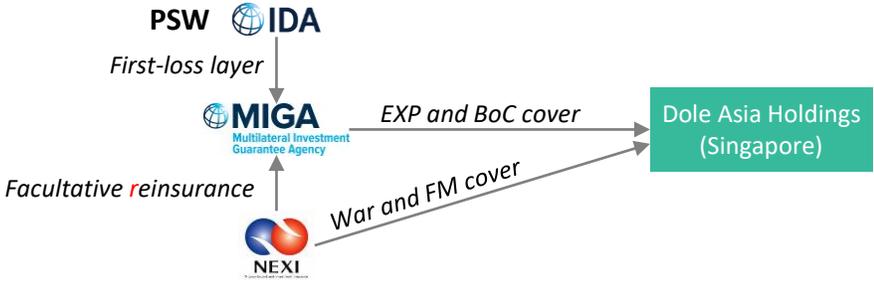
SIERRA LEONE - Tropical Fruit

Deal typology

- 1. Use of a first loss guarantee in combination with traditional PRI coverage
- 3. Combination of complementary PRI products from multiple MDBs/ECA's

Project summary

The Sierra Leone Tropical Fruit project is a greenfield agro-industrial facility that will process tropical fruits – primarily pineapple, for export throughout the world. Sierra Leone’s Ministry of Agriculture, Forestry & Food Security has set an ambitious target to attract investments worth billions of dollars into agriculture over the next 10 years. In order to attract private sector funding, de-risk the transaction, and provide optimal pricing to the client, MIGA, NEXI, and IDA collaborated to provide reinsurance, PRI coverage, and a Guarantee Facility, respectively.



Key roles and relevant product structures

- MIGA issued \$36 million in guarantees for the design, construction, and operation of the tropical fruit facility in southern Sierra Leone
- MIGA additionally used IDA’s MIGA Guarantee Facility (MGF) to provide a first-loss layer in support of the project
- NEXI reinsured a portion of MIGA’s exposure, in addition to providing its own insurance to Dole International Holdings

Typology results

- The partnership featured use of a first-loss vehicle to de-risk investment in order to crowd in private sector funding
- Additionally, MIGA and NEXI intentionally divided and assigned coverages to offer the best pricing to the client
- Sierra Tropical is expected to create over 3,000 jobs during the production phase, and provide technical and vocational training to staff, along with new infrastructure for local communities

Benefits of partnership – Principles in action



Complementarity

The combination of playing to each provider’s strengths, along with the first loss vehicle for crowding in private sector funding, allowed partners to come together to de-risk the transaction and to increase its commercial viability. Additional resource sharing as it applied to pre-claims allowed each organization to provide specific complementary skill sets. Moreover, NEXI and MIGA worked together to identify which products each provider would be best positioned to supply to the client



Scalability

This model of close collaboration, application of a first-loss vehicle, and positioning of MDBs and an ECA to increase the commercial viability of a transaction can be scaled and repeated across regions and sectors

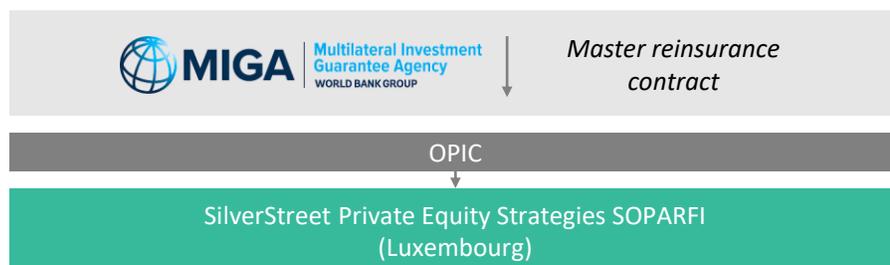
NAMIBIA, TANZANIA, ZAMBIA - Agribusiness

Deal typology

4. Provision of flexible reinsurance to expand PRI capacity and enable scalable platform
5. Use of master agreements to reproduce transactions

Project summary

In 2014, SilverStreet Private Equity Strategies Soparfi S.à r.l., a private equity investor, set up a \$350 million fund for agricultural investments in sub-Saharan Africa. OPIC, due to its investment requirements, could only take on limited exposure in the transaction. As a result, MIGA agreed to provide reinsurance capacity of up to \$210 million or 60% of the fund. The parties entered into a master agreement establishing the general conditions for coverage and signed annexes to the master contract that set out specific conditions for each project.



Key roles and relevant product structures

- OPIC provided PRI coverage under a master agreement that allowed cover for equity, subordinated debt, and other arrangements
- MIGA issued reinsurance to OPIC under a master reinsurance agreement on the same terms

Typology results

- MIGA's issuance of reinsurance to OPIC allowed for expansion of the deal coverage, ultimately meeting SilverStreet's ambitious fund target. Without MIGA's reinsurance issuance, the investment would have been restricted in size due to OPIC's requirements
- Use of a framework master agreement streamlined documentation and processes to easily include new projects, saving time and resources in diligence and deal execution while maintaining flexibility to cover different forms of investment

Benefits of partnership – Principles in action



Systematic collaboration

OPIC and MIGA were able to combine their capacity to support a group of projects in a sustained and consistent manner through replicable master agreements



Project subsidiarity

The Silverlands project was built upon shared due diligence in E&S, as well as shared access to all underwriting materials between MIGA and OPIC



Scalability

The structure of PRI providers complementing each other through reinsurance to expand capacity is a scalable project approach

MYANMAR - Power Project

Deal typology

A. Sector reform and investment programs

Project summary

In 2010, Myanmar began a major government and economic transition and reengaged with the WBG and other development partners. The first stage of assistance identified electrification as a priority given the severe power shortage in Myanmar. Following the WBG advice on power sector reforms, a new 225 MW gas-fired plant in Myingyan was developed as an opportunity to introduce competitive bidding and attract private international participation. The WBG helped organize public and private partners to “crowd in” financing and mitigate risk, while MIGA coverage protected investors against political risks. The result was Myanmar’s first international, competitively tendered, multi-lender power project.

Key roles and relevant product structures

- WBG provided technical assistance and policy advice on power sector reforms, financial viability, electricity tariffs, procurement, and financial management
- MIGA provided PRI for the transaction for up to \$170 million in guarantees against the risks of transfer restriction, expropriation, war and civil disturbance, and breach of contract
- IDA provided partial risk guarantees for the transaction

Typology results

- Comprehensive engagement upstream in the energy sector forged a path for private sector participation in Myanmar’s power sector
- The Myingyan project was the first IPP in Myanmar to be awarded on the basis of an international competitive bid
- Myanmar’s MOEE is now better equipped to attract private investment

Benefits of partnership – Principles in action



Complementarity

Given Myanmar’s frontier market status, risk mitigation was a key component of the deal; the IFC, ADB, Asian Infrastructure Investment Bank (AIIB), and a group of international commercial lenders jointly provided the debt, while WBG provided World Bank guarantees and MIGA insurance products to mitigate political and commercial risks



Recognition

The project was cited by the AIIB as leading, in part, to a cooperative MOU signed by the WBG and AIIB in 2017. Additionally, support and recognition for the project’s impact across the World Bank Group led to further encouragement of collaboration



Project subsidiarity

The WBG coordinated efforts between ADB, Japan International Cooperation Agency (JICA) and other development partners to create an effective coordination working group led by the Government

CAMEROON - Hydropower

Deal typology

A. Sector reform and investment programs

Project summary

The Cameroon Hydropower project is intended to increase the country's power generation capacity by 30% and boost hydropower's share of the country's power generation to about 75% by 2023. Given the power sector's financial position (having been plagued by arrears in the years leading up to the project), upstream reforms in collaboration with AfDB and WBG promoted an environment more conducive to private investor engagement. Collaboration between WBG and local investors enabled local commercial banks to significantly increase their participation in the project's financing.

Key roles and relevant product structures

- MIGA issued guarantees of up to \$187 million against the risk of Breach of Contract using its PRI product, covering EDF and STOA's equity and quasi-equity investments
- IBRD provided \$300 million in payment and loan guarantees for the project
- IFC provided \$58 million in equity investment, as well as \$146 million in loans and risk management swaps

Typology results

- Upstream policy reforms of Cameroon's power sector and investment increased the market's attractiveness to private investors
- Close collaboration across the World Bank Group and with the AfDB and 9 other MDBs and DFIs mobilized \$902 million in overall debt for the transaction

Benefits of partnership – Principles in action



Complementarity

The WBG worked with the government to shape upstream sector reform that enabled the full breadth of lending, investment, and guarantee products, while partner MDBs and DFIs provided critical local knowledge



Innovation

Regulations in West Africa restricted commercial banks from offering loans beyond 7 years; partners worked together to apply the World Bank's PRG facility, thus extending local tenors to 21 years and enhancing local participation in the project's financing



Scalability

Two unique elements of this project are scalable: (1) The broad-based approach to sector reform and (2) application of the PRG to a region with a cap on commercial bank lending tenors

COTE d'IVOIRE - Henri Konan Bédié Bridge

Deal typology

B. Coalition of development partners to finance and de-risk large-scale projects

Project summary

Cote d'Ivoire's population is largely concentrated in Abidjan, the economic capital city, and population density placed considerable pressure on transportation assets. The Henri Konan Bédié Bridge was selected as one of 12 large infrastructure projects that needed to be developed to relieve traffic congestion and boost economic growth in the city and region.

The project was led by the African Development Bank, with strong engagement from multiple MDBs and DFIs over a period of almost two decades – the length of time driven by political events that stalled the project on several occasions.

Key roles and relevant product structures

- MIGA provided up to \$145 million in guarantees for equity investments and loans by Bouygues and Pan African Infrastructure Development Fund, as well as loans by Africa Finance Corporation, BMCE Bank International Plc, and Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. ("FMO") to SOCOPRIM
- The African Development Bank participated in the transaction as Mandated Lead Arranger and senior lender

Partnership participants



Typology results

- The project's development and closure relied heavily on multiple partners coming together to increase capacity, build on each other's capabilities, and de-risk the transaction. Without partnership, the financial requirements of the project could not have been achieved
- MIGA cover played a significant role in mobilizing the massive amount of private sector investment needed to help the government reach its ambitious goals

Benefits of partnership – Principles in action



Complementarity

Without delivery of complementary capabilities and different types of financial instruments (e.g., senior loans, subordinated debt, pure debt and equity, and PRI) the deal could not have closed or ultimately attracted additional investors



Reliance

The complexity of the deal required heavy documentation and diligence, which was further increased by the start-and-stop nature of the project. As a result of these documentation requirements, workstreams were split across DFIs and MDBs, and each party owned the portions of the diligence for which they were best positioned



Results

As a result of the project starting and stopping several times, partners needed to consistently and repeatedly prove out the value and results of the transaction

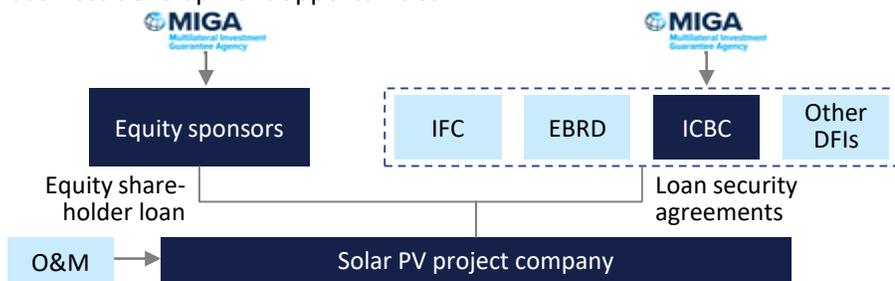
EGYPT - Solar power

Deal typology

C. Platform approach to scale and replicate a specific project type

Project summary

IFC and EBRD led an effort with the Egyptian government to drive sector reform needed to encourage international, private investment in Egypt's power sector. Strong MDB support led to private sector interest (160+ potential investors) in the project, with 59 private investors providing financing. Close collaboration between IFC, EBRD, and MIGA shortened diligence and review times to two weeks and encouraged sharing of business development opportunities.



Key roles and relevant product structures

- IBRD, IFC, and MIGA jointly developed an Energy Joint Implementation Plan in response to the Egyptian government's priorities
- MIGA provided guarantees of up to \$222M in support of construction, operation, and maintenance of six solar power plants in Egypt; the MIGA guarantees covered equity and debt investments against risks of Expropriation, Transfer Restriction and Incontrovertibility, Breach of Contract, and War and Civil Disturbance
- IFC, EBRD, and other DFIs have extended loans to a number of projects in the program

Typology results

- A programmatic approach within the sector has allowed for the rapid scaling of solar projects, as similar deal packages are rolled out to a number of investors
- The project supports Egypt's feed in tariff (FiT) program, which seeks to crowd in private sector investment for up to 4.3GW in solar and wind power generation
- The combined 250MW projects will contribute to the government's target of having renewable energy make up 20% of power generation by 2020

Benefits of partnership – Principles in action



Project subsidiarity

An existing partnership framework between the IFC and MIGA allowed for accelerated diligence, while close partnership with the EBRD provided additional diligence resources



Innovation

The innovative programmatic partnership structure allowed MIGA to rapidly extend PRI coverage to multiple investors with efficient addendums and minimal additional effort



Scalability

The programmatic approach to signing multiple investors across projects in the same deal package allowed MIGA to quickly scale from an original 11 clients, to an additional 12 clients

V

STEPS TOWARDS A STRONGER PARTNERSHIP

Commitment to systematic partnerships across the
development community to expand political risk
insurance



STEPS towards a stronger partnership



Over the coming months, we hope to work together with members of the development community in the area of political risk insurance to:

- Adopt the ten guiding principles put forth in this document as foundational tenets upon which to expand collaborative and scalable transactions. This may be accomplished through a series of workshops to develop action plans against the ten principles, and periodic checkpoints to measure progress against our commitments.
- Build off the project typologies outlined in this document to inform new systematic and sustained project partnerships. This may be accomplished by formal joint writeups of projects wherein multiple members of the development community have collaborated

Going forward, we hope to incorporate elements of the guiding principles in our joint business agreements, and to integrate the project typologies into joint project development efforts.

We hope this Handbook will serve as a useful framework to begin our journey towards expanding political risk insurance to systematically de-risk investments and grow private capital. We look forward to fruitful partnerships with members of the development community that lead to more projects, more private investment, and greater development impact. Undoubtedly, working together will bring us closer to improving global economic conditions and achieving the Sustainable Development Goals by 2030.