MIGABRIEF

POWER

INSURING INVESTMENTS ▪ ENSURING OPPORTUNITIES

MIGA: Facilitating Power Sector Investments

The global need for power is enormous. Today, more than one billion people lack access to electricity. Rapid industrialization coupled with the increased buying power of local citizens is further fueling the demand. Moreover, as emerging markets become locations of choice for companies in search of lower-cost operations, demand for power in these nations is skyrocketing. What this means for companies and investors in the power sector is a broad, new market. But it also means potential new risks.

The Power Sector Investment Challenge

As the world looks increasingly to the private sector to take the lead in delivering infrastructure, investors and lenders are often wary of entering these relatively untested markets. The risks that concern investors often relate to low confidence in the judiciary system, weak or untested regulatory frameworks, poor governance, corruption, lack of enforcement of contracts, and macroeconomic instability. In some countries, the threat of political instability, war, and civil disturbance poses a danger to physical assets and makes financing difficult and expensive to obtain. In addition, environmental and social risks associated with infrastructure investments can add to the uncertainties of doing power-sector business.

What We Do

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

How We Help

MIGA guarantees are well-suited to reduce the risks associated with investments in the power sector and can play a pivotal role in helping companies attract funds for large, capital-intensive investments. For example, 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 power investors, including performance-related clauses and payment obligations of the government related to output-based assistance and termination amounts. MIGA's coverage can be used on a standalone basis or in conjunction with the World Bank's partial risk guarantees, which offer additional benefits. Partial risk guarantees include conditions that promote stable regulatory and contractual frameworks, while helping investors obtain capital market financing on better terms and secure a sovereign counter-guarantee.

More and more, MIGA guarantees are becoming important as a credit enhancement tool that can ensure a more stable, long-term partnership for energy providers and offtakers—as energy projects inevitably involve an insurable commitment from a sovereign or sub-sovereign.

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.

MIGA's Value

MIGA offers a range of benefits to investors seeking protection and continuity for their projects in developing markets. MIGA's guarantees can help investors obtain access to funding sources with improved financial terms and conditions. Our unique strength is derived from our standing as a member of the World Bank Group and our structure as an international organization with our shareholders including most countries of the world. Since our inception in 1988, MIGA has issued more than $59 billion in political risk insurance for more than 900 projects across the globe in a wide variety of sectors. Our strong record on claims is a testimony to MIGA's ability to help investors resolve disputes that may arise.

MIGA AT WORK

Supporting Renewable Energy in Honduras

In Honduras, MIGA is backing the Cerro de Hula wind power project that will supply cheaper, clean, and renewable energy in one of Latin America's poorest countries. MIGA's guarantee of $82.4 million covers Globeleq Mesoamérica Energy's new and existing equity investments in the project against the risks of expropriation, breach of contract, transfer restriction, and war and civil disturbance.

The project includes the 24-megawatt expansion of the existing 102-megawatt Cerro de Hula wind project, located 20 kilometers south of Tegucigalpa. It benefits from a long-term operating agreement issued by the Honduran Secretariat of Natural Resources and Environment and a long-term power purchase agreement with ENEE, the Honduran state-owned power utility.

In Honduras, the electricity sector's dependence on fuel oil means that it is subject to oil price volatility. Retail tariffs are among the highest in Central America. By providing additional clean energy, the project will further reduce the country's dependence on traditional fossil fuel generation and avoid the creation of 280,000 tons per year of carbon emissions.

New Hydropower Plant to Boost Georgia's Renewable Energy Output

In Georgia, MIGA is backing the country's first hydropower plant developed by the private sector on a project-finance basis. The project involves the construction and operation of the 187-megawatt Shuakhevi hydropower project, consisting of the 178-megawatt Shuakhevi plant and the nine-megawatt Skhalta plant. The project is part of the Adjaristsqali cascade of three run-of-the-river hydropower plants that has a total planned installed capacity of 400 megawatts.

MIGA is providing an investment guarantee of $63 million to Tata Power, the project's equity sponsor. The coverage is for a period of up to 15 years against the risks of expropriation, breach of contract, and war and civil disturbance.

The project is further supported by $250 million debt financing arranged by the International Finance Corporation (IFC), a member of the World Bank Group. The financing consists of long-term senior loans from the Asian Development Bank, the European Bank for Reconstruction and Development, and IFC.

Meeting the Burgeoning Demand for Power in Côte d'Ivoire

In Côte d'Ivoire, demand for electricity is growing at an estimated 8 percent annually as businesses seek to rebuild and urbanization takes hold. MIGA is helping to mobilize private finance for Côte d'Ivoire's vast reconstruction needs with its support for the expansion of the Azito Thermal Power Plant, which will generate 50 percent more power without using any additional gas.

This project involves converting the existing simple-cycle Azito Plant to combined-cycle, increasing total capacity from 290 to approximately 430 megawatts while avoiding 225,000 tons of carbon dioxide emissions per year. Upon completion, the facility will become one of the largest independent power generators in sub-Saharan Africa.

The International Finance Corporation (IFC), the World Bank Group's private sector lending arm, is also supporting Azito's expansion. IFC arranged a $350-million debt package, providing $125 million from its own account and mobilizing the balance from five European development finance institutions and the West African Development Bank. MIGA is providing breach of contract cover to the equity investor and lead sponsor, Globeleq.

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