DEVELOPMENT IMPACT: MIGA in Africa
Sub-Saharan Africa hosts just 10 percent of the global population, yet it is home to 30 percent of the world’s poor. The reduction of extreme poverty, which spiked to roughly 50 percent of the population (300 million people) in 2000, has been hampered by poor growth performance. But following several “lost” decades of slow growth, Africa today is on the cusp of major change, as the region breaks out of the long economic stagnation of the 1970s and 1980s.

A REGION ON THE MOVE

Strong growth, improved macroeconomic performance, and relative political stability helped the region’s GDP expand by 5.6 percent in 2006—surpassing the 5 percent mark for the third consecutive year. Growth in the region as a whole is expected to remain strong in reform-minded economies, while robust government spending ahead of elections is boosting growth in others.

Recently, there has been a notable shift on the risk horizon, as democratic elections, economic stability, more peaceful relations, and regulatory reforms have begun to gain traction. But with many countries scheduled to hold presidential or legislative elections in 2007, there is potential for an upswing in political and social tensions.

Foreign direct investment (FDI) has also increased noticeably, with the region attracting $13.8 billion in 2005, and $18.5 billion in 2006. Nontraditional investors have contributed substantially to this surge. While China and India have caught headlines recently, South Africa has been a leader for many years, and there is potential for additional intra-regional investment.

CHALLENGES REMAIN

But no one denies that formidable challenges remain. According to the World Bank’s Doing Business report for 2007, countries in sub-Saharan Africa occupy 19 of the bottom 25 places in ease of doing business rankings. Over a third of the countries in the region are still suffering from the legacy of past conflicts. And infrastructure needs are so great that the region needs to invest an additional $40 billion a year if it is to accelerate growth and meet the Millennium Development Goals.

When it comes to increasing FDI into the region, the bottom line is that sub-Saharan Africa continues to be perceived as a high-risk, high-cost place to do business. For investors, the need to mitigate political risks, real and perceived, is great.

MIGA has an important role to play in this regard, by offering political risk insurance to protect investments against the risks of expropriation, transfer and inconvertibility, war and civil disturbance, and breach of contract. And supporting FDI into Africa is a strategic priority for the agency.

MIGA mitigates risks to get investment in the door

MIGA’s strategy builds on its market strengths: being able to encourage investments in the more difficult, frontier markets; helping to structure financing for complex infrastructure deals while mitigating sub-sovereign risks; encouraging investment from one developing country into another (South-South); and facilitating investment in conflict-affected countries. As a multilateral agency and member of the World Bank Group, MIGA has the added value of deterring harmful government actions and mediating disputes to prevent claims situations from escalating and keep investments on track.

Since its inception in 1988, MIGA has issued $2.3 billion in guarantees for projects in Africa. During fiscal year 2007 alone, MIGA issued $311 million in guarantees (18 contracts) for 11 projects in the region. With $864 million in gross exposure, Africa accounts for 18 percent of MIGA’s outstanding portfolio.

MIGA has supported projects in 27 African countries—including projects involving investors from South Africa, Senegal, Mali, and Mauritius. Projects range in size from less than $1 million to more than $1 billion, and cover all sectors. (See Figure 2 for guarantees to Africa issued by sector.)

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Infrastructure brings more than water, electricity, sanitation, transportation, and telecommunications. Infrastructure brings opportunities, and opportunities transform lives. In Africa, the lack of infrastructure development is recognized as a key impediment to growth. But investment costs can be prohibitively high, as can commercial and noncommercial risks, making it hard for investors to secure the long-term financing needed for cash-heavy infrastructure undertakings.

Telecommunications. There is an exception to this predicament, and that is in the field of mobile telecommunications, where lower start-up and maintenance costs make it easier for projects to get off the ground. As a result, nations are moving directly to cell phones while leapfrogging the need for more expensive landline infrastructure. With developed countries approaching a market saturation point, the developing world is now expected to account for the majority of mobile telephone growth by 2010.

Africa too is a huge, largely untapped market for cell phone users. The demand is enormous, particularly in a continent where challenging geography and enormous cost limits landline installation. The market is broad and deep, extending into rural villages and rapidly growing cities, into economically and politically stable nations, as well as countries emerging from conflict.

The economic impact of telecommunications is widespread. The good news for Africa is that, according to recent research, whenever cell phone connectivity reaches ten phones for every 100 people, there is a 0.6 percent gain in gross domestic product (GDP). Small businesses, which communicate by cell phone with suppliers and sellers, are one of the primary beneficiary groups. The benefits are so vast that in the Democratic Republic of Congo, people are actually migrating to live near mobile stations.

Africans have been quite innovative in expanding the traditional use of cell phones—a factor borne of necessity perhaps in areas where other forms of technology are not available. For example, cell phones are being used for tasks such as sharing minutes as a form of credit, a function not normally associated with cell phones. Mobile banking is also on the rise, wherein people can “e-bank” via cell phones. Throughout the continent, farmers are receiving commodity price and other market information on their phones.

Despite the relatively lower costs of mobile telecommunications investments, private investors in telecom projects know there are potentially significant and unique risks associated with these investments—relating, for example, to regulatory concerns, licensing, and frequency allocations. MIGA’s guarantee coverage takes these particular risks into account, helping to allay investor concerns and encouraging investments in markets where they are most needed.

Since 1996, MIGA has issued $536 million in guarantees for 16 telecommunications projects in Africa. Projects are located in Benin, Burundi, Ghana, Guinea, Mali, Mauritania, Nigeria, Sierra Leone, Tanzania, and Uganda.

In Burundi, for example, where teledensity is less than 1 percent, an investor from Mauritius sought out a business opportunity with MIGA’s help. The company, Mauritius Telecom, a joint venture in which France Telecom owns a 40 percent stake, secured a MIGA guarantee to build, operate, and maintain a nationwide mobile telephony network using the GSM (Global System for Mobile Communication) standard. But any private investment in Burundi, an impoverished nation ravaged by a recent civil war, comes with challenges. MIGA is mitigating some of the risks with coverage to protect the company against transfer restriction, expropriation, and war and civil disturbance.
The West African nation of Sierra Leone has just one landline for every 250 people, one of the lowest teledensities in the world, and until recently, no broadband network. That was until Sierra-Com, an Israeli telecommunications company, opened up shop with a MIGA guarantee in fiscal year 2006 to provide inexpensive, reliable telecommunication services. Sierra-Com is bringing high-speed broadband wireless Internet and Voice Over IP communications (allowing phone calls to be made over the Internet) to Sierra Leone, through its subsidiary IPTEL. Prior to IPTEL’s entry into the marketplace, Internet access was provided by a slow dial-up service plagued by poor management and broken infrastructure, and by a narrowband Internet service provider whose service was prone to stoppages due to electricity shortages. Sierra-Com’s $3 million investment is establishing a network using technologically advanced telecom equipment imported from Israel. Improved connectivity is expected to trigger additional new investment and catalyze overall economic growth.

In 2002, monthly Internet access in the poor, landlocked nation of Mali cost €1,830 a month. Today, reliable Internet service is available from €45 a month. At the same time, the number of mobile phone users has increased from 50,000 customers to over one million today. This dramatic change in Mali’s telecommunications sector follows the government’s decision to privatize the state-owned operator and open the sector to competition. When Senegalese company Sonatel was awarded a license to provide a broad range of telecommunications services in Mali in 2002, they turned to MIGA.

This MIGA-backed deal represents one of the largest foreign investments in Mali and has generated significant benefits through its diverse and affordable products offerings and by providing direct and indirect employment. Ninety-seven percent of Orange Mali’s 250 employees are Malians with an average age of 32. Another 10,000 Malians are indirectly employed through telecenters and distributors.

The benefits extend beyond the project itself. As is often the case in Africa, the private investor is funding good deeds, in this case through its charitable arm—La Fondation Orange Mali. The company has donated an optical scanner to a local hospital, financed cataract operations for elderly Malians, and supported a girls’ education campaign in collaboration with UNICEF. In cooperation with Population Services International, Orange Mali has distributed 800,000 free text messages on health issues to its clients.

Other infrastructure. MIGA is also active in other infrastructure sub-sectors in Africa, with an additional $4.43 million in guarantees issued for 11 projects involving transportation, power, and sanitation.

In Uganda, for example, an acute electricity crisis is impacting the livelihoods of millions of Ugandans and has stunted the country’s economic growth by an estimated 1 percent of GDP. To help address the crisis, MIGA has issued a total of $195 million in guarantees supporting investments in electricity generation and distribution. Among this support is a $115 million MIGA guarantee for the Bujagali Hydropower Project in Uganda. The project consists of the construction and operation of a 250 megawatt, run-of-the-river hydropower plant on the Victoria Nile. The plant is expected to increase supply to the national power grid at the lowest cost compared to other power generation expansion options under Uganda’s energy strategy, thereby reducing outages and costs. MIGA’s guarantee is one element of the World Bank Group’s support of Uganda’s strategy to close its energy supply and distribution gap. The IFC is also supporting the project with $130 million in loans and the International Development Association and its energy supply and distribution gap. The IFC is also supporting the project with $130 million in loans and the International Development Association is providing a partial risk guarantee of up to $115 million. MIGA’s guarantee was considered essential to securing part of the investment.

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MIGA is also supporting a Ugandan electricity distribution project with $81 million in guarantees. The project consists of 13,000 km of overhead lines extending throughout the country and will provide up to 60,000 new connections, reduce losses, and improve collection rates within the first five years. Access to electricity is also expected to expand for households, schools, clinics, and hospitals, which suffer daily power shortages. The investor chose MIGA because of its ability to help the project obtain a competitive interest rate on the international commercial market.

**Agribusiness**

MIGA also supports projects in other sectors, including agribusiness. Since 1994, the agency has issued $162 million in guarantees for 16 agribusiness projects in nine sub-Saharan countries. MIGA’s support has been pivotal in revitalizing moribund industries, in some cases reducing the need to import at higher cost while also generating export revenues. Projects typically bring in critical technology that helps countries gain the tools needed to compete globally. Agribusiness investments also provide employment in rural areas and often help local farmers process and market their goods.

In Kenya, for example, where agricultural growth is helping to drive the country’s economic recovery, MIGA is supporting the rejuvenation of an ailing sugar industry. Many sugar mills in Kenya face a host of problems, such as preferential pricing regimes, protected markets, and outdated technology. The lack of inward investment has led to the industry’s decline, as local farmers, who relied on income from the cultivation of cane at one time, have turned to subsistence farming.

This fiscal year, the Industrial Development Corporation of South Africa Limited and a United Kingdom-based businessman, R. S. Chatthe, jointly established Kibos Sugar and Allied Industries Limited, which includes a greenfield sugar factory and 3,000 hectares of irrigated sugarcane. The factory, set to open in late 2007, will support small local growers who currently experience high losses while transporting their cane to factories further afield. MIGA helped the investment go forward by providing $13.7 million in guarantees to protect the investment against political risks.

Charles Midigo, who farms over 19 hectares of land in Kibos, had switched to subsistence crop farming (maize, cassava, and potato) after the closure of the local mill in Miwani. The move had proved to be volatile financially due to market and price fluctuations. Thanks to the Kibos sugar project and the switch back to cane cultivation, Mr. Midigo expects supply-side risks to be virtually eliminated and his profit margins to double. Many farmers like Charles Midigo have already signed contracts with the project.

**Services**

In the services sector, MIGA has supported 12 projects with contracts totaling $183.8 million in coverage. Contracts have ranged in size from $1 million to $12 million, and have supported projects in eight countries throughout the region.

MIGA is also active in other infrastructure subsectors in Africa, with an additional $443 million in guarantees issued for 11 projects involving transportation, power, and sanitation.
the impact of foreign banks on the domestic banking scene can be highly beneficial from a commercial and developmental standpoint. The competition they introduce typically helps reduce interest rates, increase consumer confidence in the banking system, institute a more aggressive marketing approach with a wide range of services, and introduce new tools, such as leasing, which often benefit smaller businesses.

During this fiscal year, MIGA provided $1.8 million in guarantees to cover an investment by a Mauritian company in the creation of a newly licensed commercial bank, national Financial Credit Bank s.A., in Cameroon. The new bank will provide micro-credit and other financial services to clients, including small and medium-size enterprises (SMEs), infusing critically needed funds into the local financial market. The project will also involve the transfer skills and services from the investor to the local institution.

An example of MIGA's ability to facilitate important foreign investments in the services sector is in Ghana. In 2006, MIGA issued $6.3 million in guarantees to Malaysia's Metro Ikram, covering its equity and shareholder loans to Meridian Development Limited. The project is the first step in a multi-pronged, government-backed approach to ease Ghana's housing crunch. The project involves the development of the first phase of a large affordable housing project as a joint venture with Ghana's Social Security National Insurance Trust. This first phase will result in the construction of approximately 1,000 homes in the crowded Accra-Temma metropolis. Later stages of the project include the construction of up to 100,000 homes throughout Ghana. Meridian is demonstrating to other private investors that such projects can bring a strong rate of return when risks are properly mitigated.

Financial

Since 1994, MIGA has supported seven financial projects in the region, totaling $54.3 million in guarantee coverage. The financial sector is at the heart of a functioning economy.

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Oil, gas, and mining

Resource-rich Africa is an increasingly popular investment destination for extractive industries companies in search of new opportunities. Since 1992, MIGA has provided $671 million in guarantees for ten mining projects and five oil and gas projects in sub-Saharan Africa. Projects that have benefited from MIGA's support and environmental and social advice generate income and jobs in some of the world's poorest countries. They also are an important means of transferring skills and technological know-how, as well as providing critical infrastructure.

For example, people who live in remote areas often lack access to basic services, such as power, water, telecommunications, roads, health, and school facilities. For every extractive industries project it supports, MIGA encourages the contribution of these services. Infrastructure projects, in particular, are generally hard to finance because of risks and lack of commercial viability, and the only chance a rural citizen may have of getting these services for the time being is through extractive industry companies.

In Mozambique, for example, MIGA is supporting investments in a gas field and pipeline project with $235 million in guarantee coverage. The project involves the development of
Mozambique: A case of sustained MIGA support and development impact

When Mozambique gained independence from Portugal in 1975, its economy was agriculture-based, with very little industrial development and an illiteracy rate of about 90 percent. Later, prolonged civil war ravaged the country, leaving Mozambique one of the poorest, most debt-ridden countries on earth. Since the war’s end in 1992, the country has enjoyed a remarkable recovery. People today talk of the Mozambique miracle.

Thanks to an extensive economic reform and privatization program, as well as the reign of peace and political stability, Mozambique achieved an average annual growth rate of 8 percent between 1996 and 2006. Over the last few years Mozambique has made some substantial progress in fighting poverty and improving human development. Sustained growth and increased spending in the social sectors contributed to a decline in poverty by 15 percentage points (to 54 percent) from 1997 to 2003.

Despite these gains, the country is still in transition, with a large number of social and economic challenges, including unemployment, low agricultural production, and limited infrastructure and social services. Due to these and many other problems, Mozambique is still considered one of the world’s poorest countries.

Since 1998, MIGA has been very active in Mozambique, where it has supported 14 projects with guarantees totaling $495 million. (See table for details.) Mozambique is currently MIGA’s fifth-largest host country and represents the agency’s largest exposure in Africa. The outstanding portfolio consists of 19 guarantees totaling $271 million in gross exposure, including $122 million for the Sasol gas project, $60 million for the Marromeu sugar project, and $25 million for the Moma mining project. The Mozambique portfolio is well-diversified—consisting of seven projects in support of the country’s agribusiness, infrastructure, manufacturing, mining, oil and gas, services and tourism sectors.

MIGA’s first involvement in the country was in 1998, when it provided $40 million in guarantee support for the groundbreaking Mozal aluminium smelter. The project, with an original cost of $1.3 billion, was the largest foreign investment in Mozambique’s history and in many ways placed the country on a different development path. Implemented soon after the war’s end, Mozal sent a powerful signal to the international business community about Mozambique’s stability and potential as a business destination.

The project also played an important role in creating a blueprint for assessing and processing FDI proposals, strengthening the government’s capacity, and encouraging it to develop a more responsive regulatory framework and investment climate. The Mozal project has had an important regional impact as well, enhancing the viability of the Maputo corridor, promoting regional trade integration, increasing traffic through ports, and benefiting the South African economy through exports, jobs, and government tax revenues.

Another MIGA-supported investment that is having a strong impact is the Marromeu sugar project. Located in the heart of the former conflict zone, the project has had a huge impact on the region’s economy and social fabric. Marromeu helped bring important peace dividends by providing work for those seeking an alternative to conflict. MIGA’s presence was critical to encouraging the investor to go ahead.

MIGA is also supporting the Kenmare Moma Mining project with $25 million in guarantees. The project involves a 20-year contract for the dredge mining development of a large heavy mineral sands deposit located in the Nampula province in northeast Mozambique. The province is one of the poorest in the country and in an area that has not yet benefited from recent FDI flows. The Moma project is one of two titanium mineral projects under active consideration, which if fully developed, will establish the country as one of the world’s foremost producer of titanium minerals. In fact, recent titanium discoveries in the Moma area have doubled the estimated reserves.

The project is expected to have a significant development impact, providing key infrastructure enhancements including improved access to roads,
air strips, electricity, water supply, and telecommunications. The Moma project is also an important provider of jobs and is expected to generate $70 million in export earnings annually and $1.5 billion over its life. The project will also contribute significant taxes over the life of the mine, with revenues expected to hit about $7 million by next year.

But the biggest contribution to the local community has been the cash injection through a community development program. By the end of 2007, the company expects to have spent more than $300,000 on community development, helping some 2,500 people in six local villages. Projects include HIV/AIDS prevention, income-generating activities, and the installation of water points. Company representatives acknowledge that they are not development experts and have therefore signed partnership agreements with proven nongovernmental organizations (NGOs) such as the World Wildlife Fund.

Beyond its guarantee services, MIGA has also been actively providing technical assistance to Mozambique. Under the four and a half-year, $2.7 million MIGA-Swiss Partnership program, MIGA helped Mozambique identify opportunities to integrate better into the international economy and facilitated a $1.5 million investment to help finance the Belulane Free Zone and Industrial Park. Over the past few years, MIGA has also cooperated with the World Bank Group on the Enterprise Development Project in Mozambique by providing assistance to and monitoring progress on the country’s Investment Promotion Center (CPI).
MIGA’s Online Services Focus on African Infrastructure

Historically, Africa has seen phases of prolonged sluggish economic performance followed by periods of erratic growth. However, within the last decade or so, there has been renewed economic growth and improved governance across most of the continent.

Increased infrastructure investment is recognized as being key to sustained economic growth, while high perceived political risks, as well as the lack of timely and accurate information on the infrastructure environment in Africa, are widely acknowledged constraints to such investment. The latter was acknowledged in the World Bank’s recent Africa’s Silk Road report, which underscored both significant asymmetries across African countries in terms of the supply of information, while citing evidence of growing attention to sub-Saharan Africa by potential investors from all regions.

MIGA is committed to helping improve investor perceptions and understanding of Africa by the mobilization of quality information. To promote interest in the infrastructure sector, as well as MIGA’s guarantee products, MIGA’s foreign direct investment portal (www.fdi.net) provides information on infrastructure opportunities through a topical online feature. The “Spotlight on Infrastructure” feature page highlights infrastructure trends, conditions, and opportunities. Information resources on Africa offered by MIGA include investment opportunity profiles, sectoral studies, and best practice reports related to contract structuring and project finance in infrastructure public-private partnerships (PPPs).

Through an independent project, the World Bank’s Public-Private Infrastructure Advisory Facility (PPIAF) acquired a database of projects in Africa where private sector participation was being sought. MIGA partnered with PPIAF to conduct a program of extensive research and quality control, leading to the publication of 21 infrastructure and PPP project profiles across 13 African countries on FDI.net. These profiles remain among the top downloaded information resources on FDI.net.

In addition, the Washington-based Institute of Public Private Partnerships (Ip3) has been a pioneer in the area of PPP training and institution-building. Through MIGA’s partnership with Ip3, their thematic repository of international case studies and global best practice reports on infrastructure PPPs are available via FDI.net. Many of the case studies focus on successful African PPPs.
the Temane and Pande gas fields, and the construction of an 865 km cross-border gas pipeline from Mozambique to South Africa. The guarantee also covers the construction of a central processing facility to clean and compress the gas.

Through the project’s social development plan, extensive community consultation has taken place on issues such as access to clean water, electricity, and health care. To date, the company has spent $5 million on improved drinking water systems, agricultural extension, establishment of health clinics serving some 20,000 local residents, and construction of three primary schools and a secondary school. Care and custody of these resources have been handed over to the local communities. (See Box 1 for more on MIGA’s work in Mozambique.)

Manufacturing

Africa has a number of advantages that increase its attractiveness as a manufacturing investment location, particularly its low labor costs, abundance of unskilled labor, and preferential access to a number of global markets. Given low current investment levels, a “first in” advantage awaits those investors ready to move into the region’s relatively underdeveloped markets.

MIGA has been working with manufacturing companies investing in Africa since 1994. Since then, the agency has provided $268 million in guarantee coverage for 17 manufacturing projects in the region. Factories are at particular risk of asset damage caused by war or civil disturbance, and of expropriation of assets by government entities, both of which are covered by MIGA’s guarantees.

One investor supported by MIGA is Indian manufacturer Manaksia Limited. The company, known as MINL, was looking to start a metal processing plant to supply an existing project in Nigeria, as well as expand its product offerings. With galvanized corrugated steel a popular choice of roofing material for Nigerians, MINL decided to expand production to include corrugated steel sheets, as well as aluminum sheets, and aluminum alloy ingots.

To get the project started, the company turned to MIGA, which extended political risk insurance covering equity investments and loans. With MIGA’s guarantees in place, the decision was made to go forward with the project. Construction of the new facility is now underway on a greenfield site in Nigeria’s Ogun state.

Tourism

The tourism industry, one of the fastest-growing markets in the world, is a significant vehicle for economic progress. Tourism contributes to poverty reduction through the creation of jobs, foreign exchange, and tax revenues, and directly and indirectly impacts industries such as agriculture, catering, transportation, construction, and retail. The development of a hotel or resort, for example, can bring other benefits that are often overlooked, but which can have a profound impact on the development of local communities. These include improved access to power, transportation, telecommunications, water and sewage systems, and health services.

The natural beauty of Africa offers tremendous appeal to travelers searching for novel experiences and for investors on the lookout for the next “must go to” travel destination. But when part of the allure is the remoteness of the location or the novelty of travel to a previously overlooked developing nation, additional concerns may arise about the safety of the investment.

MIGA is sensitive to these concerns and tailors its guarantee products to meet the specific needs of this set of investors. In Africa, the agency has facilitated eight investments in the tourism sector through the provision of $15.4 million in guarantees.

Among these is a project guaranteed this fiscal year, which involves leasing the existing Hôtel Indépendance in Burkina Faso’s capital city of Ouagadougou from the government, as well as renovating, equipping, and expanding it into a three-star international business hotel. MIGA is providing $2.9 million in coverage to a Malian investor, which is running the project jointly with local Burkinabé investors. The project is expected to enhance the capital city’s hospitality infrastructure, while generating local jobs and supporting the growth of local SMEs. The project is also expected to transfer management expertise and training to local staff, as well as provide additional taxes and foreign exchange to the government.

The agency’s outstanding guarantee portfolio in sub-Saharan Africa stands at $964 million, supporting investments in all sectors across the continent.