Emerging markets, among them the rapidly rising economies of Latin America and the Caribbean, are slated to add more than one billion consumers to the global marketplace in 10 years. According to UNCTAD’s World Investment Report 2007, flows of foreign direct investment (FDI) into the region’s major economies doubled in 2006, especially in Brazil, Chile and Mexico, reflecting strong regional economic growth and high corporate profits on the back of the commodity-price boom.

**Investment Prospects**

Rapid economic growth, stable governments, and privatization of key sectors are among the factors that make investment destinations attractive for foreign investors. According to the World Bank’s Global Investment Prospects 2008 report, GDP growth in Latin America and the Caribbean continued to be strong in 2007—marking the fourth consecutive year of sustained advances at 5.1 percent. The growth was relatively broad-based, with positive results shared by all sub-regions—the Caribbean, Central America, and South America.

The region’s ports and roads—crucial for future economic growth, given the export-driven nature of many of its economies—present significant opportunities for foreign investors. Port infrastructure is a sector ripe for foreign investment, especially in countries such as Brazil, Chile, Colombia, Jamaica, and Peru. According to the World Investment Prospects to 2011 report, privatizations and concessions for utilities and infrastructure, as well as energy and mining, in Colombia and Peru are likely to need foreign participation. Agribusiness and manufacturing in Paraguay and Uruguay, the financial sector in Dominican Republic and Jamaica, and energy in Brazil are also potential avenues for investment.

**Uncertainties in Political and Regulatory Environment**

The Latin America and Caribbean region spans a diverse range of countries at very different stages of economic development. In each country, investors encounter unique challenges. Political tensions represent a major risk for businesses in the region. Political crises, civil unrest, expropriation, foreign exchange moratoriums, and deficiencies in the business environment continue to disrupt business operations in some countries. Shifts toward nationalization of energy and mining assets and large-scale confiscations of private properties by governments remain major concerns. Few foreign investors can claim to be immune to these risks.

**MIGA Makes Investments Safe**

Managing noncommercial risk is a fundamental component of cross-border investment. Foreign investors interested in making investments in emerging economies do not have to lose out on profitable and productive business opportunities due to perceptions of risk. MIGA can help developmentally beneficial investments go ahead in even the most unstable of environments through effective management of risks related to political uncertainties.

As a risk mitigator and promoter of foreign direct investment into emerging economies, MIGA provides insurance (or guarantees) to protect the investments of foreign investors against political (or noncommercial) risks. As a member of the World Bank Group, MIGA also adds value by deterring harmful government actions and resolving disputes to keep investments on track.

To date, MIGA has issued nearly $6.9 billion in guarantees for more than 160 projects in Latin America and the Caribbean. As of January 31, 2008, MIGA’s gross guarantee exposure for the region stood at $1.5 billion.

MIGA has provided political risk insurance for a wide range of projects in the region. The agency places no limit on the size of the projects it supports—and has issued guarantees as small as $194,000 for a project involving the production of metal and plastic cans in Ecuador, and as big as $300 million for a pulp mill project in Uruguay.
MIGA’s Portfolio in Latin America and the Caribbean

Toll Road in COSTA RICA

In 2008, MIGA issued $152.96 million in guarantees for the development of a toll road in Costa Rica. The guarantees include $9 million in coverage for an equity investment by FCC Construcción S.A. and Itinere Infraestructura S.A., and $143.96 million in coverage for a shareholder loan by Caja Madrid. The project consists of the design, construction and/or rehabilitation, operation and maintenance of portions of a toll road linking San José to the port city of Caldera. This 25-year concession will be the first highway concession in Costa Rica to successfully reach financial closing and begin operations.

The project is aligned with the World Bank Group's strategy for Costa Rica, which includes supporting, rehabilitating, and maintaining key trade corridors. The corridor connects the main industrial/business area of the country to one of the main ports. The project is expected to reduce transportation costs by reducing travel time by 1.5 hours for those who travel the full length of the corridor. By providing easier access to Caldera, the investment is expected to help improve the country’s trade competitiveness and may reduce the price of imports.

Pulp Mill in URUGUAY

In 2007, MIGA issued a guarantee of $300 million to Oy Metsä-Botnia Ab of Finland for its equity investments in a greenfield pulp mill, a free trade zone, and plantations in Uruguay. The coverage, for a period of up to 15 years, is protecting the investments against the risks of expropriation, war and civil disturbance, and breach of contract. The project constitutes the largest foreign investment in Uruguay’s history, and is considered very important for the country’s economic development.

The pulp mill in Fray Bentos, Uruguay, will produce bleached eucalyptus kraft pulp, which will be exported to paper manufacturers in Europe, Asia and North America. The plant will generate value added equivalent to 1.6 percent of Uruguay’s entire GDP (based on 2005 figures) and slightly more than 8 percent of the country’s exports for each year of full-capacity production.

Power in ECUADOR

In 2007, MIGA provided $102.6 million in investment insurance to Rodeo Power Pte. Ltd. (Rodeo) and New Energy Industrial Ltd. (New Energy), wholly owned subsidiaries of Keppel Energy Pte. Ltd. for investments into a 150 MW barge power project in Guayaquil, Ecuador. MIGA’s insurance covers the investments against the risks of transfer restriction, expropriation, and breach of contract over the period of the loan and leases. Ecuador has experienced severe power shortages, particularly in the dry season, as hydro-generation makes up more than 50 percent of the country’s total installed capacity. The majority of installed thermal capacity in Ecuador consists of older and less efficient plants, resulting in high generation costs. The power barges will be able to provide reliable and competitive energy to alleviate electricity shortages in the country. The project is also expected to result in significant cost savings to the energy sector of Ecuador due to its ability to dispatch electricity at a lower cost than most of the existing thermal plants.
Solid Waste Management in EL SALVADOR

In 2006, MIGA provided its first-ever support for a project that will sell carbon credits gained by reducing greenhouse gas emissions. The reductions, which can be sold under the Kyoto Protocol, will result from the conversion of methane gases to less harmful carbon dioxide at a landfill in El Salvador. MIGA is providing $1.8 million in guarantee coverage to Canadian company Biothermica Energy Inc. for the project. The guarantee covers the risks of expropriation, war and civil disturbance, and breach of contract—including the breach of the Salvadoran government’s commitments under a letter of approval for the carbon emission reductions under the Clean Development Mechanism of the Kyoto Protocol.

The first phase of the project involves the construction and operation of facilities for capturing and flaring gas generated by municipal waste at a landfill that serves metropolitan San Salvador. The landfill currently receives 500,000 tons of solid waste a year, generating some 7,500 tons a year of methane gas. With the landfill slated to expand to meet the entire country’s municipal waste disposal needs, methane gas emissions are expected to double within the next decade. The global warming potential of methane is 21 times higher than that of carbon dioxide.

Emission reductions from the captured gas are expected to be between 140,000 and 190,000 tons of carbon dioxide equivalents a year from 2006-2012. The guarantee holder, Biothermica Energy Inc., has completed the Kyoto Protocol validation process and has agreed to sell carbon credits to a private carbon fund on delivery of the certified emission reductions.

Hotel in the DOMINICAN REPUBLIC

In 2003, MIGA provided guarantees of $1 million and $6.4 million to Caribe Hospitality S.A. of Panama and Scotiabank Ltd. of the Cayman Islands for their equity investment in, and non-shareholder loan to, Caribe Hospitality de la Republica Dominicana, S.A. in the Dominican Republic. The guarantees are for a period of 15 years and protect against the risks of transfer restriction, expropriation and war and civil disturbance. The project involved the development of a 146-room hotel for business travelers in downtown Santo Domingo.

Capital Markets in BRAZIL

In 2005, MIGA issued $66.5 million in guarantees to Cooperative Centrale Raiffeisen of the United States, covering its $70 million shareholder loan to Banco Rabobank International Brasil SA. The guarantee is for a period of up to eight years and covers the risks of transfer restriction and expropriation. This deal was structured as a local currency securitization.

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<th>Selected MIGA Projects in the Region</th>
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<td>Guarantee Holder</td>
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<tr>
<td>Biothermica Energy Inc.</td>
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<td>Abengoa S.A.</td>
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MIGA’s Value

MIGA provides a unique umbrella of deterrence against political risks and can offer comfort to clients by improving projects’ risk-return profiles.

Investment Protection and Prompt Claims Payment

- **Deterring harmful actions.** MIGA’s relationship with shareholder governments provides additional leverage in protecting investments.
- **Resolving disputes.** As an honest broker, MIGA intervenes at the first sign of trouble to resolve potential investment disputes before they reach claim status, helping to maintain investments and keep revenues flowing. In almost all cases, MIGA is able to resolve these disputes.
- **Ensuring prompt claims payment.** In the event that a dispute cannot be resolved, MIGA ensures that valid claims are paid promptly.

Improving Financial Terms and Conditions for Investors/Lenders

- **Accessing funding.** MIGA guarantees help investors obtain project finance from banks.
- **Lowering borrowing costs.** MIGA guaranteed loans may help reduce the cost of capital.
- **Increasing tenors.** MIGA can provide insurance coverage for up to 15 years (in some cases 20), thereby increasing the tenor of loans available to investors. Helping to structure project financing, MIGA also ensures that risks are allocated properly.
- **Helping to structure project financing.** MIGA also ensures that risks are allocated properly.

Country, Social and Environmental Expertise

- **Providing extensive country knowledge.** MIGA applies the World Bank Group’s decades of experience, global reach, and knowledge of developing countries to each transaction.
- **Offering environmental and social expertise.** MIGA helps investors and lenders ensure that projects comply with what are considered to be the world’s best social and environmental safeguards.

Types of Coverage Offered

- **Transfer restriction** coverage protects against losses arising from an investor’s inability to convert local currency into foreign exchange for transfer outside the host country. The coverage also insures against excessive foreign exchange delays caused by the host government’s actions.

Expropriation coverage offers protection against loss of the insured investment as a result of acts by the host government that may reduce or eliminate ownership or control of the insured investment. This policy also covers partial losses and “creeping expropriation,” a series of acts with an expropriatory effect.

- **War, civil disturbance, terrorism, and sabotage** coverage protects against loss due to the destruction, disappearance, or physical damage to tangible assets caused by politically motivated violence. It also extends to events that result in the total inability of the project enterprise to conduct operations essential to its overall financial viability.

- **Breach of contract** coverage protects against losses arising from the host government’s non-payment of an arbitral award in favor of the investor, due to the government’s breach or repudiation of a covered contractual agreement with the investor.

Note: In almost all cases, by working with the host governments and the covered investors, MIGA is able to resolve potential claims situations before they become claims.

Partnerships

MIGA works with the following key partners in the region to better support inward and outbound investments:

- The World Bank and IFC
- Seguradora Brasileira de Crédito à Exportação S/A (SBCE), Brazil
- Banco Nacional De Desenvol. Econômico E Social (BNDES), Brazil
- Fundación ProBarranquilla, Colombia

Online Services

MIGA provides the following free online services for investors and lenders:

- FDI.net (www.fdi.net)—A web portal providing information on foreign direct investment in emerging markets
- PRI-Center (www.pri-center.com)—An information service on political risk insurance for investors and practitioners

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