



Overview of MIGA's Products

October, 2011

MULTILATERAL INVESTMENT GUARANTEE AGENCY
WORLD BANK GROUP

Introducing MIGA



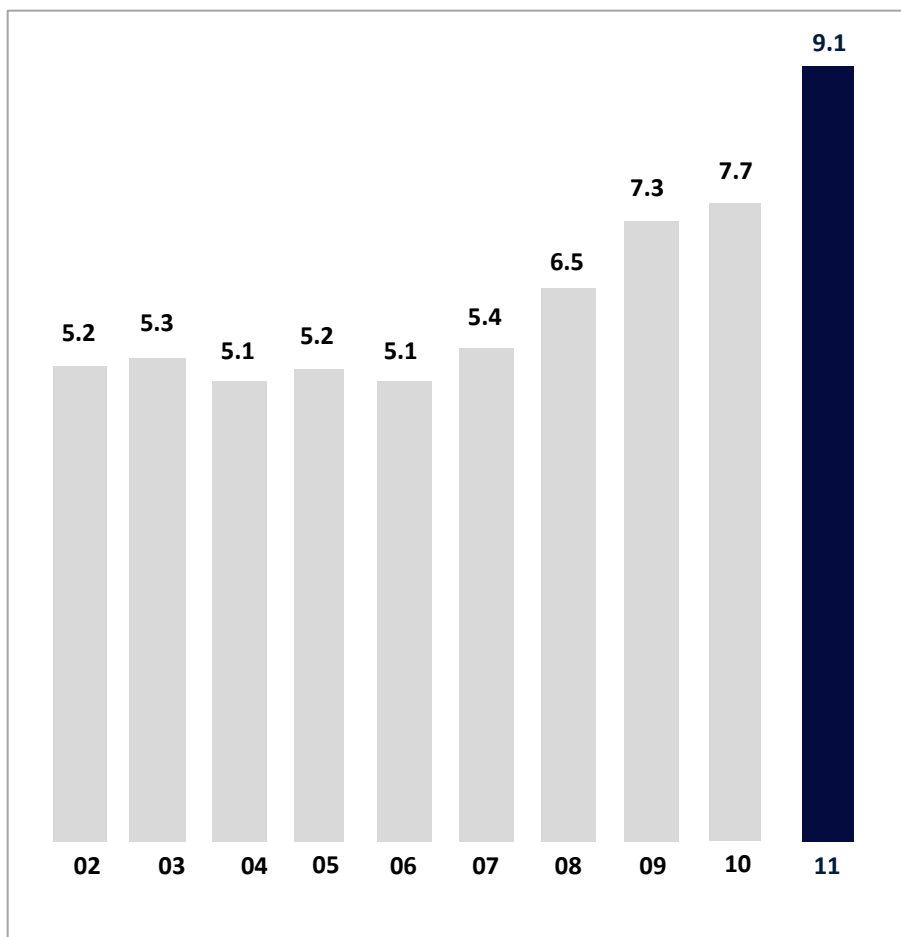
- ❖ member of the World Bank Group
- ❖ mission - promote and facilitate FDI through guarantees against non-commercial risks and technical assistance
- ❖ support investments in challenging market conditions (longer tenors, increase market capacity, etc.)
- ❖ mediation of investment disputes
- ❖ highly rated multilateral under the Basel II Treaty

Our Development Priorities

- ❖ Focusing on sustainable development
- ❖ Opening up difficult or frontier markets, especially in conflict-affected countries
- ❖ Supporting investments in Africa and the world's poorest countries
- ❖ Supporting infrastructure/energy projects, at both the sovereign and sub-sovereign levels
- ❖ Promoting cross-border investments between developing countries

MIGA's 2011 Highlights

Gross exposure 1990 -2011 (\$ billion)



Key Figures

- Issued 1,030 guarantees for 651 projects for a total of \$24.5 billion during 1990-2011
- Gross exposure: \$9.1 billion in FY11
- Issued \$2.1 billion in FY11 in support of 38 projects
- \$415.3 million for investments in IDA-eligible countries (of which \$228.0 million was in sub-Saharan Africa)
- Four new host countries: Iraq, Kosovo, Liberia, Republic of Congo

Gross Exposure by Region and Sector Issued in FY11

By Region



- 42% Europe and Central Asia
- 39% Sub-Saharan Africa
- 8% Asia and the Pacific
- 8% Latin America and the Caribbean
- 3% Middle East and North Africa

By Sector



- 43% Infrastructure
- 24% Financial
- 23% Agribusiness, manufacturing, and services
- 10% Oil, gas, and mining

Top Investors and Host Countries

as of June 30, 2011

Investor Country	Exposure %
Austria	35.1
France	9.2
Germany	8.0
Belgium	6.5
Luxembourg	6.5
Netherlands	4.6
Spain	3.4
UAE	3.0
Slovenia	2.7
Singapore	2.7

Host Country	Exposure %	\$M
Ukraine	11.0	384.1
Turkey	10.4	379.1
Russian Federation	10.0	455.3
Croatia	7.2	309.5
Indonesia	7.2	327.0
Serbia	4.9	290.4
Hungary	4.5	349.4
Kazakhstan	4.4	162.0
Uruguay	3.3	108.1
China	2.5	210.7

Overview: MIGA's Coverages

- ❖ Currency Transfer Restriction and Inconvertibility
- ❖ Expropriation
- ❖ War and Civil Disturbance
- ❖ Breach of Contract
- ❖ Non-Honoring of Sovereign Financial Obligations

Currency Transfer Restriction and Inconvertibility

- ❖ Protects against losses arising from inability to:
 - ❖ **convert** local currency into foreign exchange within the host country
 - ❖ **transfer** funds out of the host country
- ❖ In case of convertibility restrictions, MIGA's compensation is based on official rate of exchange at the Date of Loss
- ❖ Currency depreciation and devaluation not covered
- ❖ Conversion and transfer have to be lawful in the Host Country at the time when MIGA's coverage is issued

Expropriation

- ❖ Protects against losses arising from:
 - ❖ Nationalization and confiscation
 - ❖ Creeping expropriation (a series of acts that are expropriatory taken in sum, *e.g.* gradual changes in tax regime)
 - ❖ Expropriation of funds (*e.g.*, “account freeze”)

- ❖ Expropriation also if the Project Enterprise
 - ❖ is deprived of a substantial benefit:
 - *constituting a fundamental right (e.g., under a Project Agreement)*
 - *essential to its overall financial viability (normally this implies insolvency or impending insolvency of the Project Enterprise)*

- ❖ Non-discriminatory regulatory measures not covered, unless such measures have a confiscatory effect

War and Civil Disturbance

- ❖ Three forms of coverage
 - ❖ Loss of Assets
 - ❖ Temporary Loss of Income (for equity)
 - ❖ Permanent Loss of Use
- ❖ Loss has to be a direct and immediate result of acts of war, revolution, rebellion, insurrection, coup d'état, civil war, civil commotion, riots
- ❖ Act of sabotage or terrorism can also be covered
- ❖ Acts must pursue a broad political or ideological objective

Breach of Contract

- ❖ Protects against loss arising from breach or repudiation of a project agreement (*e.g.*, in infrastructure and oil and gas projects)
- ❖ Project agreement must be entered between the Host Government on the one hand and **Guarantee Holder** and/or **Project Enterprise** (for Equity investments only) on the other hand
- ❖ MIGA covers “denial of justice” risks:
 - ❖ **Failure to pay on a valid arbitral award** or judgment by a state court rendered against host government or
 - ❖ **No recourse to judicial or arbitral forum** by the investor or Project Enterprise
- ❖ May cover obligations of sub-sovereigns and SOEs, subject to certain conditions

Breach of Contract (cont.)

Examples

Host Government breaches its obligations under:

- ❖ **off-take agreement** (*e.g.*, power purchase agreement)
- ❖ **production-sharing agreement** (*e.g.*, oil & gas upstream projects)
- ❖ **concession** (*e.g.*, toll road)
- ❖ **sovereign guarantee** (*e.g.*, payment guarantee for SOE)
- ❖ **direct agreement** between Host Government and project lenders

***Reminder:** Guarantee Holder and/or Project Enterprise can claim no more than what they are entitled to under the award/judgment, up to the Amount of Guarantee*

Non-Honoring of Sovereign Financial Obligations

- ❖ For unconditional financial payment obligations or guarantees of the Host Government
- ❖ No defenses relating to the underlying guaranteed obligations
- ❖ Typically: financial guarantee “on demand” or “on first demand”

Examples:

- ❖ Host Government unconditionally guarantees **repayment of loan** by Project Enterprise
 - ❖ Host Government assumes unconditional obligation to **inject equity** or other funding on demand or at date certain
 - ❖ Not Eligible: Host Government issues performance guarantee relating to power purchase agreement (guarantee not unconditional)
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- ❖ **No arbitral award is required**

MIGA's Claims History

- ❖ From 1990 to 2010 MIGA has issued 980 guarantees for 616 projects, more than 90 cases treated as possible claims
- ❖ MIGA has successfully facilitated the settlement of disputes in all currency transfer/inconvertibility issues
- ❖ Since its inception MIGA has paid claims in 6 cases:
 - ❖ **Indonesia** for expropriation in FY00
 - ❖ **Nepal** for war and civil disturbance in FY05
 - ❖ **Argentina** for expropriation in FY06
 - ❖ **Kenya** for war and civil disturbance in FY09
 - ❖ **Madagascar** for war and civil disturbance in FY09
 - ❖ **Afghanistan** for war and civil disturbance in FY11
- ❖ All other cases have been resolved (before or after the claim was filed) or the claim was withdrawn

Terms of Coverage

Amount of coverage

- ❖ MIGA can typically arrange cover for all amounts, either on its own books or through co/reinsurance
- ❖ No minimum amount for guarantee or size of investment
- ❖ Amounts can include interest principal for debt and future retained earnings for equity
- ❖ Equity covered up to 90% and debt up to 95%

Tenor

- ❖ Up to 15 years with possible 20 year tenor on an exceptional basis

Pricing

- ❖ Premium rates are decided on a per project basis and vary by country, sector, transaction and the type of risk insured
- ❖ Premiums are paid annually or semi-annually and are calculated as a percentage rate applied to the amount of coverage



Energy Projects: Securing value for your investments

Structured Guarantee Framework

- ◆ phased approach: from development to operation
- ◆ different pricing at different project phases
- ◆ advisory support

Example 1: exploration phase

- ◆ Situation: Oil Co is currently undertaking appraisal operations
- ◆ Problem: concession granted before change in the petroleum law; FID expected in the next 18 months
- ◆ Implication: change in law could affect project financial viability and bankability (e.g. royalties/oil share)
- ◆ MIGA action: guarantees wrap at PSA during exploration phase

Example 2: development & operation

- ◆ Situation: Oil Co is developing gas field with debt syndication being finalized
- ◆ Problem: debt exposure to political events; PSA, GTA & GSA agreements
- ◆ Implication: project development halted; absence of MDB support restricts choice of lenders – real deal breakers
- ◆ MIGA action: PSA guarantees wrap; alignment with WB initiatives for the host country

Example 3: PE fund wrap

- ◆ Situation: equity fund is seeking 1st closing to invest in conflict affected countries – target USD1Bn
- ◆ Problem: small partners reluctance to invest in risky countries
- ◆ Implication: 1st closure stalled
- ◆ MIGA action: fund wrap for 1st closing with price lock-in; projects to be assessed on a case-by-case basis

SASOL Gas Project: the Proposal

Mozambique

SASOL is a party to a concession to develop a gas field but has to create a market for it

South Africa

SASOL is operating petrochemical plants using expensive fuel

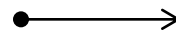
Project

USD850 million gas pipeline from Mozambique to South Africa

Overcoming Obstacles

Issues

Vertically Integrated Project



Solutions

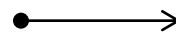
Structuring upstream, midstream and downstream components

Environmental and social issues surrounding the pipeline



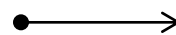
Assistance from the WB

Commercial Lenders would not assume Political risks in Mozambique



Political Risk Guarantees

SASOL Board was concerned with exposure in Mozambique

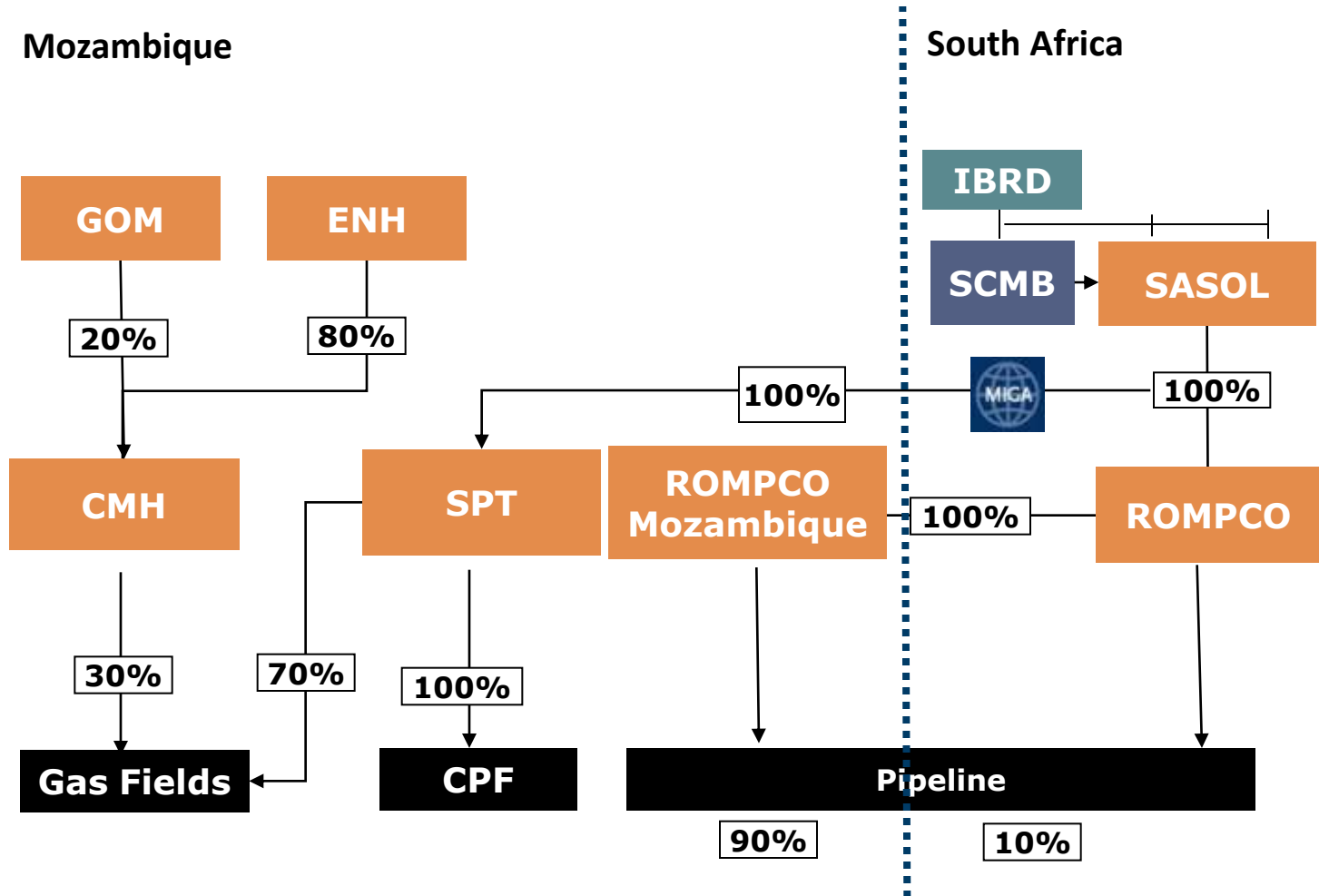


Political Risk Guarantees

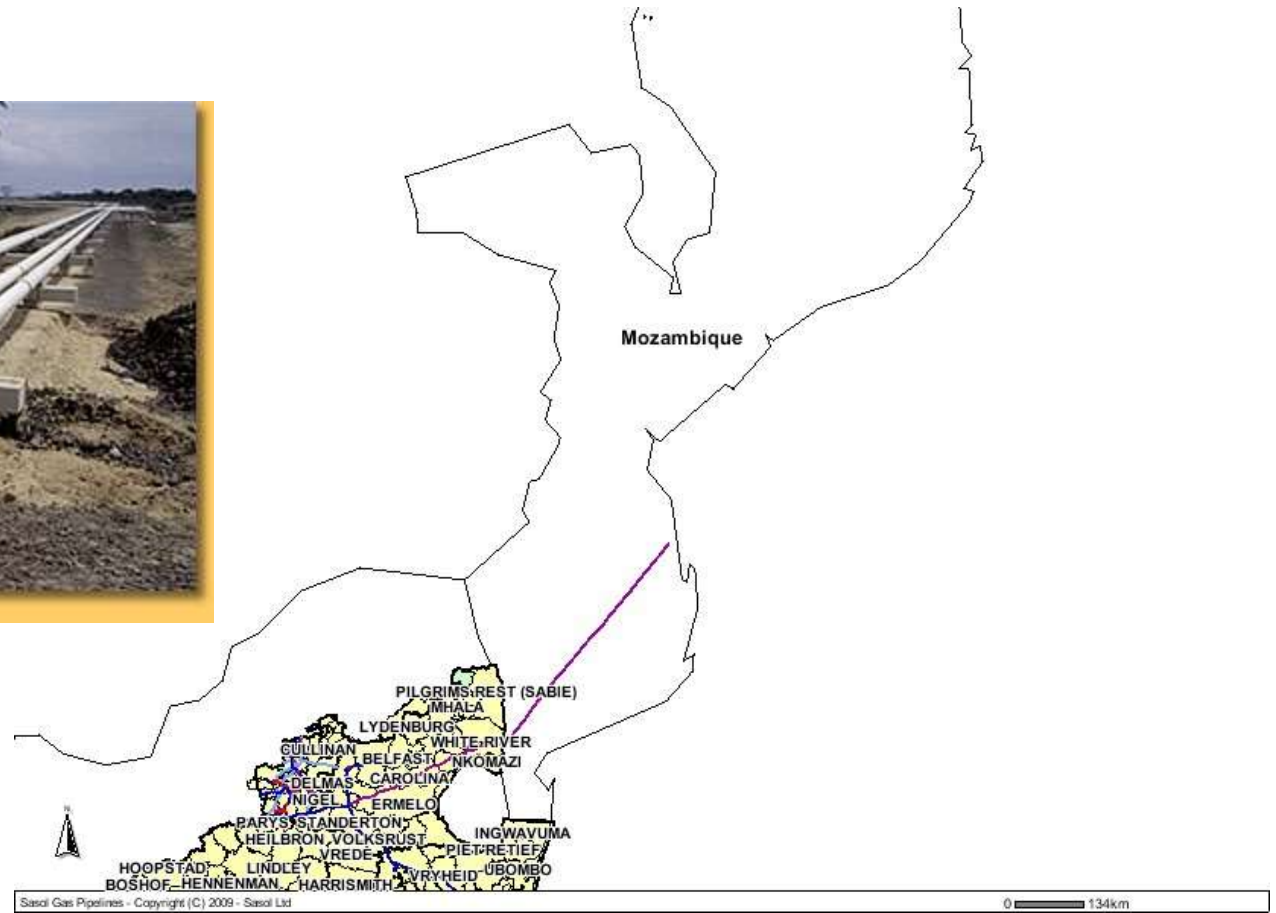
Risk Allocation

- ◆ Option for both governments to acquire 25% of shares of pipeline company in South Africa
- ◆ WB assistance with environmental and social issues
- ◆ Significant funds raised by Development Bank of South Africa as lead arranger, African Development Bank, European Investment Bank
- ◆ Loans syndicated Standard Corporate and Merchant Bank of South Africa with help from guarantees from MIGA, PRG and ECAs (EFIC of Australia, SACE of Italy and ECIC of South Africa)

Project Structure



Sasol Pipeline



Rhourde el-Khrouf and Orhroud, Algeria

- ◆ US\$240 million oil project under a Production Sharing Agreement with Sonatrach in Rhourde Yacoub exploration block
- ◆ Project developed by CEPSA which has production rights but not asset ownership
- ◆ MIGA provided \$60m in reinsurance to CESCE of Spain out of \$144m in coverage
- ◆ MIGA's involvement critical to project moving forward (CESCE short of capacity for Algeria)

Rhourde el-Khrouf and Orhroud, Algeria



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ANNEX: Non-Honoring of Sovereign Financial Obligations

Non-Honoring of Sovereign Financial Obligations

Eligibility Requirements

- ❖ Sovereign Financial Obligation must be associated with:
 - ❖ An eligible investment project
 - ❖ Developmental benefit and
 - ❖ Private sector participation

- ❖ Whose obligations are eligible?
 - ❖ Central governments (*e.g.*, guarantee issued by MoF)
 - ❖ Sub-sovereign obligations (*i.e.*, provincial or municipal governments) eligible on a case-by-case basis
 - ❖ Guarantees issued by an SOE not eligible

Non-Honoring of Sovereign Financial Obligations

Legal Requirements

- ❖ Sovereign obligation must be valid, enforceable and in full force and effect
 - ❖ No defenses relating to the underlying guaranteed obligations
 - ❖ Typically: financial guarantee “*on demand*” or “*on first demand*”
 - ❖ Legal Opinion required to that effect

- ❖ Sovereign obligation must be assigned to MIGA prior to payment of compensation
 - ❖ Background: MIGA’s recovery against Host Government

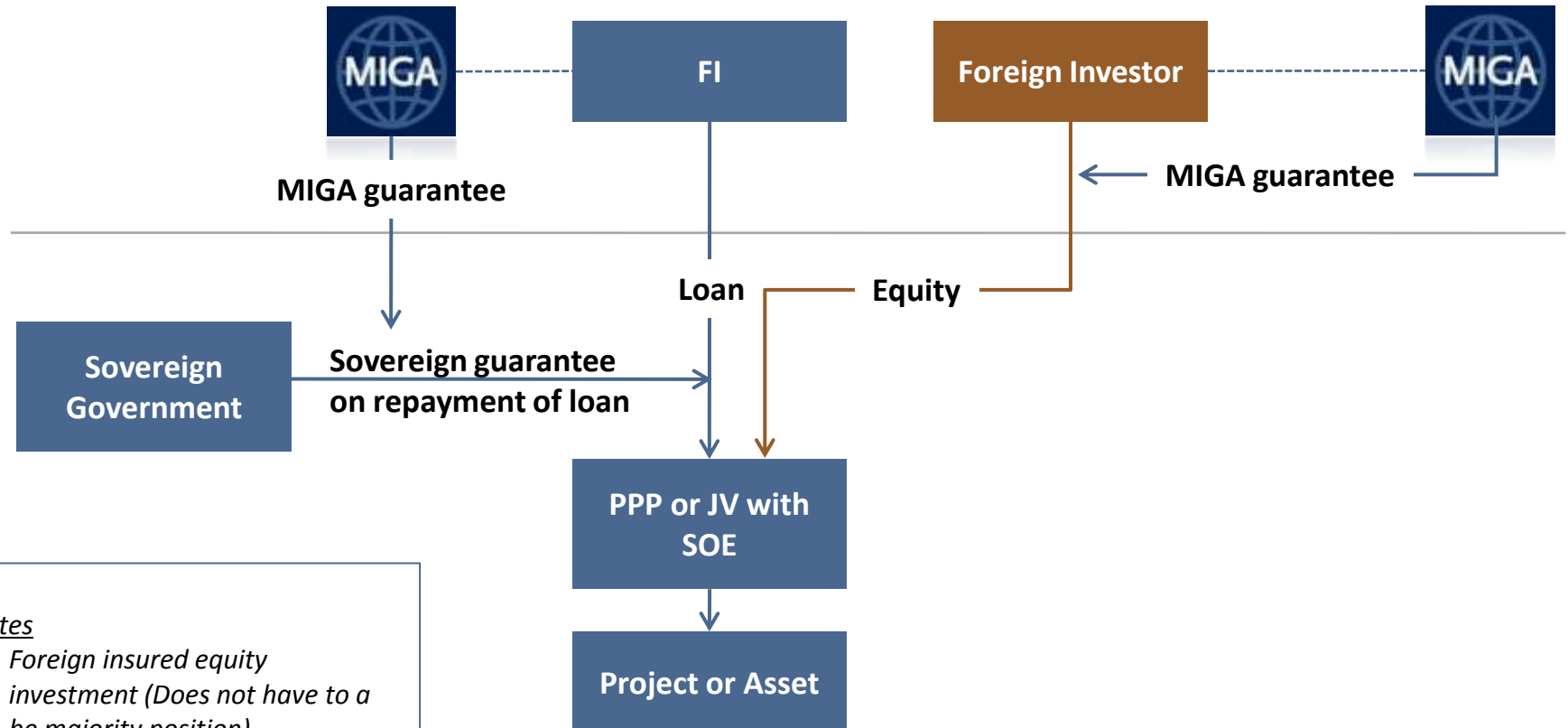
Non-Honoring of Sovereign Financial Obligations

Legal Requirements (cont.)

- ❖ Coverage of scheduled payments of principal (95-99%) and interest (default interest excluded)
- ❖ Waiting period and claims determination period condensed in order to provide seamless coverage
 - ❖ Waiting Periods of 90-180 days depending on risks
- ❖ Customized approach to pricing: takes into consideration bond spread, loan margin, and guarantee holder's cost of capital. Pricing quote available upon request.

STRUCTURE 1

Examples of Structures for NHSG

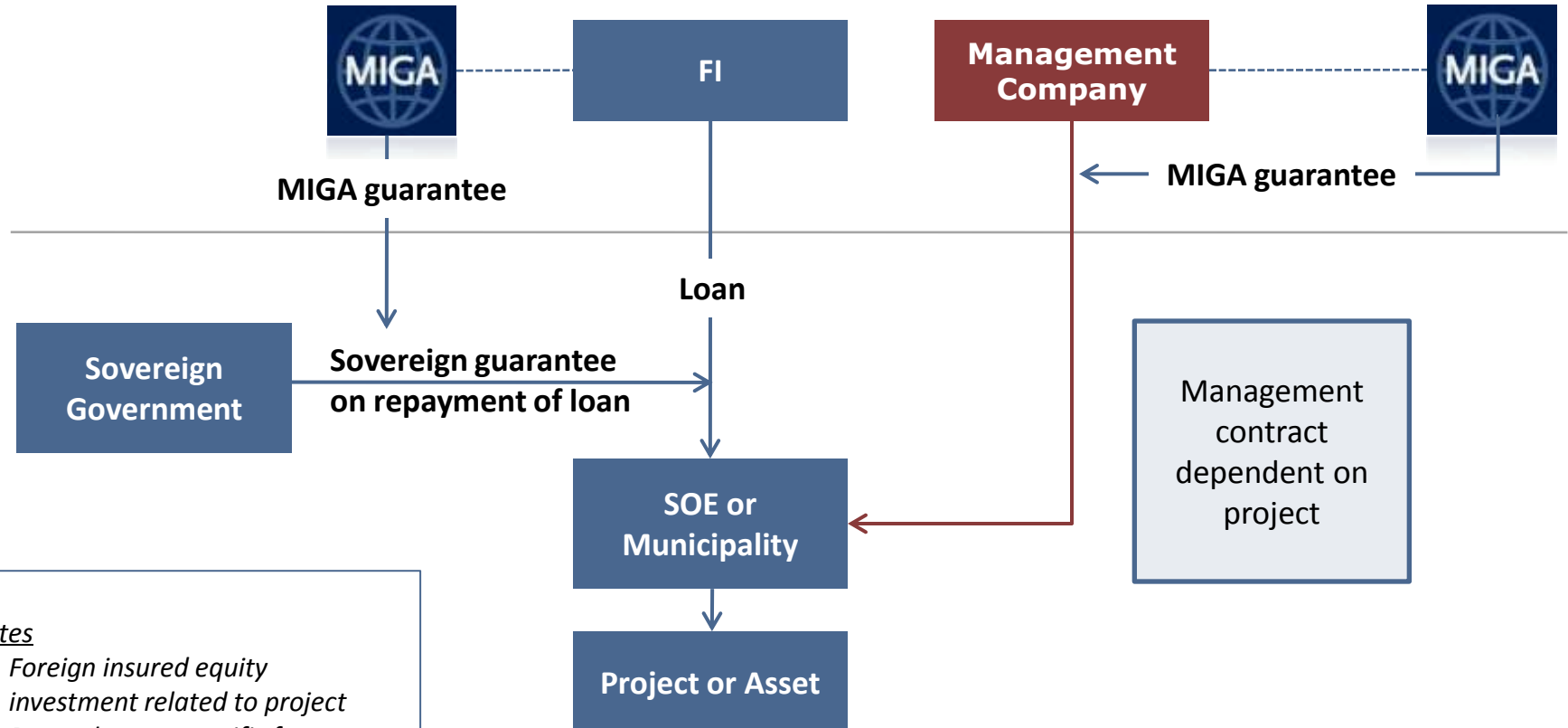


Notes

- Foreign insured equity investment (Does not have to be majority position)
- Identified project

STRUCTURE 2

Examples of Structures for NHSG

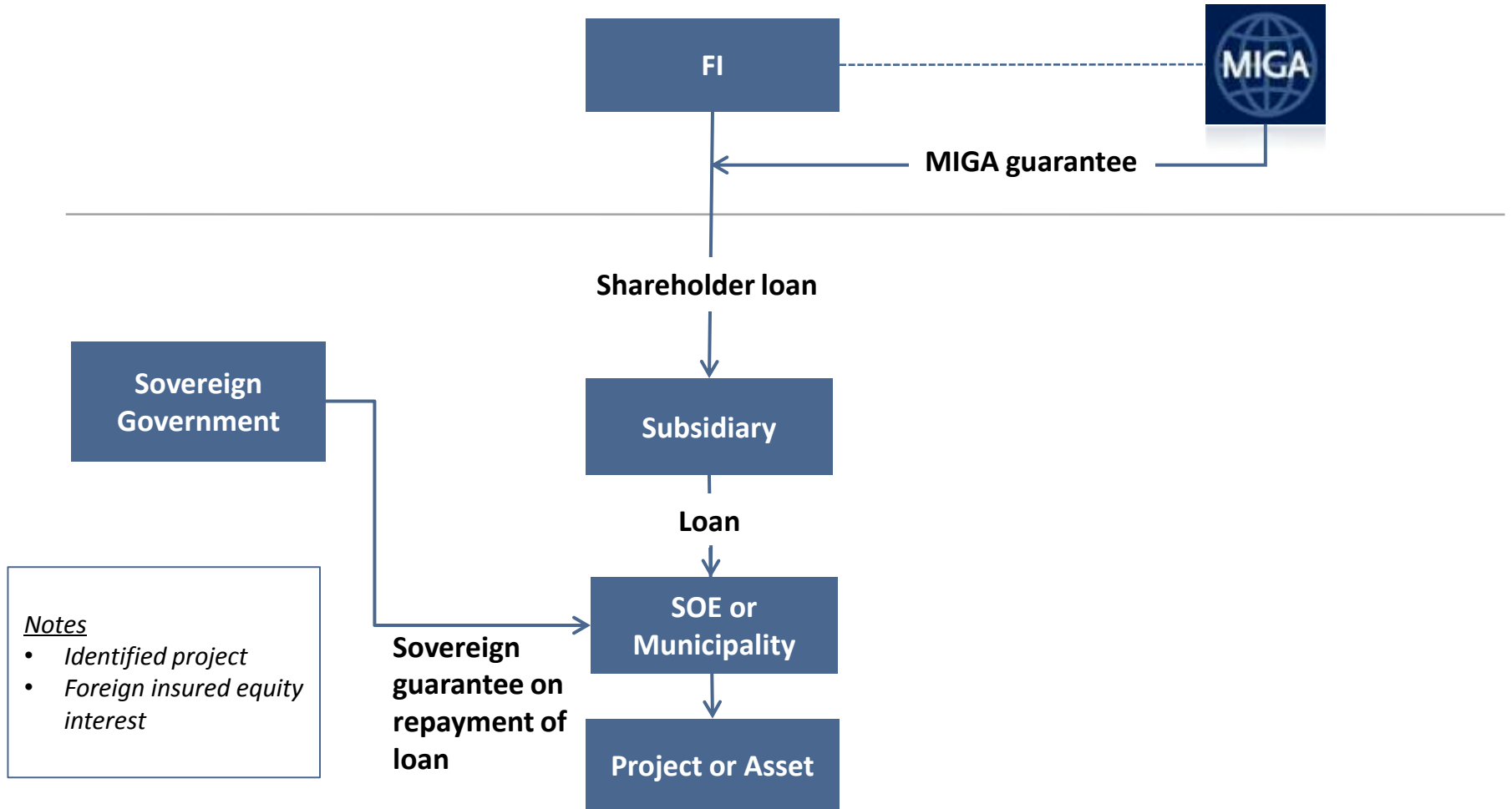


Notes

- Foreign insured equity investment related to project
- Dependent on specific facts, including relative size of private commitment

STRUCTURE 3

Examples of Structures for NHSG



Non-Honoring of Sovereign Financial Obligations

Example 1: Otogar-Bağcılar-Ikitelli-Olimpic Village Metro Project in Turkey

Summary of the Guarantee

On December 27, 2010, MIGA issued a guarantee of \$19.5 million to cover an investment by WestLB of Germany in the Otogar-Bağcılar-Ikitelli-Olimpic Village Metro Project in Turkey. MIGA's guarantee is for a period of up to three years against the risk of non-honoring of sovereign financial obligations. It covers a guarantee by the Metropolitan Municipality of Istanbul (MMI) on a loan amount of up to \$21 million that WestLB AG's branch office in Istanbul has extended to Istanbul Electricity, Tram and Tunnel, a general directorate of MMI, which is financing the expansion of the project in Istanbul.

Development Impact

By extending coverage of the metro system to the suburban and light manufacturing areas to the west, the project will help improve urban mobility, and reduce travel times and traffic, thereby contributing to urban productivity and private sector-led growth. In addition, the expansion of public transportation in the city will reduce dependence on roads and motorways, which will help reduce the growth of transport-related greenhouse gases and, through the reduction in pollution, help make Istanbul a more attractive business location.

The project is also aligned with the World Bank Group's Country Partnership Strategy for Turkey. Improving transportation infrastructure is a key component of the Bank Group's focus on helping Turkey improve its competitiveness and employment opportunities.

Non-Honoring of Sovereign Financial Obligations

Example 2: Takoradi Power Project in Ghana

Summary of the Proposed Guarantee (disclosed September 30, 2010, www.miga.org)

This summary covers an investment by Société Générale (SG) in Ghana, which will finance the completion of Ghana's Takoradi Power Plant. SG has applied for a MIGA guarantee of \$85 million for a period of up to 14 years against the risk of non-honoring of sovereign financial obligations. The project, located within the existing Takoradi T1/T2 power plant complex in the Ghanaian district of Sharma Ahanta East, will expand the existing combined cycle gas turbine power generation facility. The proposed expansion will furnish power to the national grid during peak demand and provide base load capacity in times of low water levels when hydroelectric generation is affected.

Development Impact

The expansion of the Takoradi Power Plant will allow it to feed more electricity to Ghana's national grid, allowing broader and more reliable access to power for Ghanaians across the country. Efforts to bolster the energy sector are essential to avoid blackouts, such as the ones Ghana experienced in 2008. The project fits into the government's sector plans, which specifically seek to: (i) increase installed capacity from 2000 MW to 5000 MW and become a net exporter of electricity to neighboring countries by 2015; (ii) encourage independent power producers to invest in the country; and (iii) achieve 10 percent of electricity generation with renewable energy sources by 2020.

MIGA's proposed support for the project is also aligned with the World Bank Group's Country Assistance Strategy for Ghana, which urges the strengthening and expansion of the country's power generation and distribution systems.