MIGA: Driving Transportation Investments

Reliable and modern transportation infrastructure is critical to improving livelihoods around the globe. Trade depends on the ability to get goods to market, even as communities rely on transportation networks to connect with schools, businesses, and health care. But the high cost and uncertainty involved in large transportation projects may deter private investors from seeking out the business opportunities in sectors such as roads, shipping, ports, airports and public transportation. This is particularly true in the developing world. MIGA’s guarantees mitigate the unique noncommercial risks associated with investment in transportation projects and help the market realize its full potential.

The Transportation Investment Challenge

Experienced private investors in transportation projects around the world know all too well that there are significant and unique risks associated with these investments. Such projects typically involve huge upfront costs, take longer to complete, and are reliant on future cash flows to meet financial obligations and provide reasonable returns. In some emerging markets, macroeconomic, legal, institutional, and regulatory concerns may add a level of uncertainty that can complicate deals even more. Transportation projects, such as toll roads, in many cases are exposed to subsovereign risk as governments decentralize control of services from national to provincial and municipal authorities. These authorities may have limited experience in dealing with the private sector or international banks, which adds another layer of complexity to project structuring.

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 transportation sector investment risks. They are designed to help companies overcome risk aversion, particularly for highly capital intensive investments, in countries where there is a perception of high-risk. Once a deal is in place, MIGA guarantees bring companies additional comfort, providing an added measure of security that can help keep a project stable and reinforce positive relations with host governments.

The Bottom line: MIGA’s guarantees reduce the risk profile of transportation investments, increasing the probability of a better risk-weighted return.

MIGA insures foreign direct investments against the risks of:
- Currency inconvertibility and transfer restrictions
- Expropriation
- War, civil disturbance, terrorism, and sabotage
- Breach of contract
- Non-honoring of sovereign financial obligations

MIGA provides dispute resolution services for guaranteed investments to prevent disruptions to developmentally beneficial projects.
TYPES OF COVERAGE

Coverage against expropriatory risks protects against administrative or legislative actions by sovereign governments that are confiscatory, as well as against “creeping expropriation,” a series of acts that gradually lead to expropriation. The guarantees can also cover adverse regulatory decisions, such as the revocation or modification of licenses and decisions related to tariffs.

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 infrastructure investors, including performance-related clauses and payment obligations of the government related to output-based assistance and termination amounts.

Coverage against currency-related risks protects investors against losses arising from an inability to convert local currency into foreign exchange or to transfer funds outside the host country. An added benefit of MIGA’s participation is that even when governments impose a moratorium on moving currency, they may agree to exclude revenues from projects backed by MIGA guarantees and thereby permit such transfer. This provides comfort to not only investors but also to lenders, for whom concerns about these risks can drive up financing costs.

Guarantees against events of war, civil disturbance, terrorism, or other politically motivated violence protect investments against physical damage and prolonged business interruption resulting from the above risks. MIGA also covers lenders against payment defaults due to the same risks. Coverage for temporary business interruption, including both costs and lost net income, is also available.

Non-honoring of sovereign financial obligations coverage protects against losses resulting from a government’s failure to make a payment when due under an unconditional financial payment obligation or guarantee given in favor of a project that otherwise meets all of MIGA’s normal requirements. It does not require the investor to obtain an arbitral award. This coverage is applicable in situations when a sovereign’s financial payment obligation is unconditional and not subject to defenses.

MIGA AT WORK

MIGA-backed Toll Road Paves the Way in COSTA RICA
MIGA guarantees of $158.5 million are covering investments by FCC Construcción S.A., Itinere Infraestructura S.A., and Caja Madrid for the design, construction and/or rehabilitation, operation, and maintenance of portions of the toll road linking San José to Caldera in Costa Rica. The new toll road connects the industrial and business heartland of the country to one of the main ports and provides easier access to the capital city.

The project partners say it was MIGA’s participation that helped negotiations among the government, the concessionaire, and the local councils achieve the first public-private partnership project in the country. Like most complex infrastructure projects, the toll road faced challenges, especially with respect to people and their potential resettlement. Nevertheless, according to all parties involved, MIGA’s social and environmental safeguard practices helped create a new and innovative model for future infrastructure projects in the country.

MIGA Helps Port of DAKAR Double Capacity
In Senegal, MIGA has provided €71 million in guarantees to cover loan and hedging investments by Standard Chartered Bank and an equity investment by DP World FZE of the United Arab Emirates for the upgrade of the Port of Dakar. The project consists of modernizing the port’s terminal facilities and is expected to result in a doubling of the port’s container-handling capacity from the current 250,000 of twenty foot equivalent unit (TEUs) to 550,000 TEUs. Enhanced operations and management as well as investment in additional capital equipment are expected to result in lowered trade costs. This translates into greater access to shipping services for the landlocked territories of the region, a significant development impact.

MIGA’s coverage of Standard Chartered Bank’s investment made the commercial debt financing possible for this highly complex and important project.
Since its inception, MIGA has issued guarantee contracts totaling $531 million for projects in the transportation sector. The transportation portfolio currently stands at $297 million, accounting for 9 percent of MIGA’s outstanding gross portfolio.

### OUTSTANDING GUARANTEES PORTFOLIO

as of December 2010

<table>
<thead>
<tr>
<th>Investor/Guarantee Holder</th>
<th>Project</th>
<th>Host Country</th>
<th>Guarantee Amount ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Troy AB, Sweden; Unicredit AG, Germany</td>
<td>Bandırma Port</td>
<td>Turkey</td>
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<tr>
<td>Standard Chartered Bank, United Kingdom; DP World FZE, United Arab Emirates</td>
<td>DP World Dakar S.A.</td>
<td>Senegal</td>
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<td>DP World Djibouti FZCO, Dubai Islamic Bank PJSC, United Arab Emirates; Standard Chartered Bank, United Kingdom; WestLB AG, Germany</td>
<td>Doraleh Container Terminal S.A.R.L.</td>
<td>Djibouti</td>
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<td>Caja de Ahorros y Monte de Piedad de Madrid FCC Construcción S.A., Illinere Infraestructura S.A., Spain</td>
<td>Autopista del Sol S.A.</td>
<td>Costa Rica</td>
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<td>Autopistas del Nordeste (Cayman) Limited, Cayman Islands; Grodco Panama, Panama; Grodco S.C.A., Odinsa Holding Inc., Organizacion de Ingenieria Internacional S.A., Colombia</td>
<td>Autopistas del Nordeste C. Por. A.</td>
<td>Dominican Republic</td>
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<tr>
<td>Dragados Servicios Portuarios y Logisticos, Spain</td>
<td>Jingtang International Container Port Co. Ltd.</td>
<td>China</td>
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<td>Fraport AG of Germany, Germany</td>
<td>Jorge Chavez International Airport (JCIA)</td>
<td>Peru</td>
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<td>Dole Food Company, Inc., United States</td>
<td>Bananpuerto Puerto Bananero S.A.</td>
<td>Ecuador</td>
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MIGA’S VALUE
As a member of the World Bank Group, MIGA offers a range of benefits to investors seeking protection and continuity for their projects in developing markets.

Keeping Developmentally Sound Projects on Track
- **Mobilizing sound investments**: As a multilateral development agency, MIGA supports investments that are developmentally sound and meet high social and environmental standards. Governments have a vested interest in the sustainability of investments covered by MIGA.
- **Resolving disputes**: By demonstrating the investments being supported are developmentally sound, meet high social and environmental standards, and are approved by the host country government authorities as well as by MIGA’s Board, MIGA is in a strong position to mediate and resolve disputes that might arise. MIGA has supported more than 600 different projects in its history, and has been able to resolve disputes that would have led to claims in all but two cases. MIGA is able to work effectively with all parties to resolve disputes, keeping projects on track.
- **Prompt claims payment**: When claims do need to be paid, MIGA is able to pay them promptly, based on a strong balance sheet and a stable stream of operating income.

Improving 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 risk-capital ratings of projects, leading to lower borrowing costs.
- **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.
- **Mobilizing reinsurance capacity**: MIGA is able to provide guarantee support for effectively any size project, through MIGA’s ability to secure reinsurance capacity.

Knowledge and Experience
- MIGA can help clients structure transactions to mitigate risk efficiently.
- Clients can benefit from the agency’s decades of experience, global reach, and knowledge of developing countries.
- MIGA works with clients to implement social and environmental best practices.
- MIGA ensures that appropriate risk solutions are implemented at various stages of the project life cycle.

Research and Knowledge
MIGA shares knowledge on political risk and foreign direct investment as part of its mandate to support foreign direct investment into emerging markets. Please visit PRI-Center.com (www.pri-center.com)—a free service providing in-depth analysis on political risk environment and management issues affecting 160 countries—or browse the annual report: *World Investment and Political Risk* (www.miga.org/wipr).

Technical Assistance
MIGA helps countries define and implement strategies to promote investment through technical assistance services managed by the Foreign Investment Advisory Services of the World Bank Group. Through this vehicle, MIGA’s technical assistance is facilitating new investments in some of the most challenging business environments in the world.

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