MIGA: Securing Oil and Gas Investments

As the world cautiously emerges from the financial crisis that brought a steep drop in oil prices, declining demand, and an interruption of expensive energy projects, the current environment still holds significant challenges for the energy industry. Supplies of oil and gas increasingly come from countries that are located in remote or politically unstable parts of the world, adding to the cost and uncertainties associated with extractive industries. MIGA’s guarantees mitigate the unique noncommercial risks associated with investment in oil and gas projects.

The Oil and Gas Investment Challenge

Oil and gas projects can be risky propositions with political dimensions, no matter what part of the world. Recent events in North Africa and the Middle East have strongly underlined this point. Returns are unpredictable as well, particularly in today’s uncertain world where oil reserves are used as political leverage, prices are volatile, demand can be affected by natural disaster in the developed world, and concerns grow about security of supply. Civil disturbances and conflict can disrupt normal operations. Social and environmental concerns are prominent. A weak macro-economic environment and an inadequate legal and regulatory framework can invite unwarranted government intervention. Areas of increased focus arising from the World Bank Group’s Extractive Industries Review—such as governance and transparency issues, community consultation, and equitable distribution of revenues—have become part of the investment decision process.

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 political risk guarantees are well-suited to reduce noncommercial oil and gas investment risks. They are designed to help companies over hurdles that may loom large prior to deal signing, particularly for such costly investments in countries seen as high-risk. And once a deal is in place, MIGA guarantees bring companies peace of mind, providing an added measure of security that can make the project attractive to investors and lenders as well as reinforce positive relations with host governments.

Bottom line: MIGA guarantees reduce the risk profile of oil and gas investments, increasing the probability of a better risk-weighted return.
TYPES OF COVERAGE

Expropriation coverage for sovereign and subsovereign risk protects against discriminatory administrative or legislative actions by governments at both national and sub-national levels that may result in nationalization and confiscation. Coverage extends to loss of “mobile assets”—oil rigs, platforms, and the like—as well as supplies and materials stored in the country that could be confiscated by the government. Guarantees also protect against “creeping expropriation,” a series of government acts that gradually lead to expropriation, such as arbitrary changes to licensing or royalty agreements, or burdensome administrative procedures.

Customized breach of contract coverage when governments are contractual partners can be designed to target specific oil and gas concerns such as disputes over long-term agreements that relate to take-off agreements, production sharing, exploitation, or drilling rights. Coverage extends to tariff, regulatory, and credit risks arising from a government’s breach or repudiation of a contract.

Coverage against currency-related risks protects investors against losses from an inability to convert local currency into foreign exchange for transfer outside the host country. Even when governments impose a moratorium on moving currency, as shareholders of MIGA, they may agree to exclude MIGA-insured projects, and permit the transfer. This has been the case in a number of moratoriums since 1990.

Guarantees for investments in the event of civil disturbance, war, sabotage, or terrorist activity protects against physical damage and prolonged business interruption (lasting 180 days). Coverage extends to situations in which an investor is forced to abandon the project due to war or other political disturbance. In such cases, assets need not be damaged or destroyed for a claim to be made. Border closures or blockades might not cause a loss of the local investment, however they can significantly interrupt its business activities, and MIGA guarantees can cover associated losses. 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.

MANAGING ENVIRONMENTAL AND SOCIAL RISKS

Sound environmental performance, sustainability with respect to natural resource management, and social responsibility are critical to an investment’s success and its contribution to the host country’s development. Well-designed environmental and social programs can help manage reputational risks for project sponsors, reduce social conflicts within communities, protect the environment, and reduce borrowing costs. The resulting debt financing structure is “an innovative combination of corporate and traditional project finance lending, interwoven with a supporting web of political risk insurance,” according to industry experts at Cadwalader Wickersham and Taft.

The project involves development of the Temane and Pande gas fields, construction of a processing facility to clean up and compress gas, and building of a cross-border gas pipeline from Temane in Mozambique to Secunda in South Africa.

Building on the success of the natural gas project and its positive relations with the government, Sasol has announced an expansion of its Mozambique operations to include offshore drilling and exploration.

MIGA AT WORK

SASOL Pumps in MOZAMBIQUE; MIGA Guarantees Key

When South African firm Sasol identified the business potential of a natural gas deposit in resource-rich Mozambique, lenders remained wary of investing due to country risks. The company sought MIGA’s help as a way to mitigate risk and reduce political risks. MIGA helps clients take a responsible approach to their projects’ environmental and social aspects. Central to MIGA’s approach are environmental and social impact assessments.

Environmental assessments evaluate a project’s potential environmental risks and impacts; identify ways to address adverse environmental and social impacts; and include the process of mitigating and managing adverse environmental impacts throughout implementation. Assessments consider the natural environment; human health and safety; as well as transboundary and global aspects.

Social impact assessments examine a project’s impacts on living standards—including impacts on livelihoods as well as productive and cultural assets. MIGA works with clients to define the parameters of these assessments and initiate them as early as possible in the project development process.
Since its inception, MIGA has issued guarantee contracts totaling $1.1 billion for projects in the oil and gas sector. The oil and gas portfolio currently stands at $463.6 million, accounting for 5.5 percent of MIGA’s outstanding gross portfolio.

OUTSTANDING GUARANTEES PORTFOLIO
as of December 2010

- 55% Financial
- 27% Infrastructure
- 11% Agribusiness, manufacturing, and services
- 6% Oil and gas
- 3% Mining
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.

CONTACT

For information on guarantees for oil and gas investment

Antonio Barbalho  
t. 1.202.473.6761  
abarbalho@worldbank.org

For general information

Multilateral Investment Guarantee Agency  
World Bank Group  
1818 H Street, NW  
Washington, DC 20433  
t. 1.202.458.2538  
f. 1.202.522.2630  
migainquiry@worldbank.org

www.miga.org