MIGA: Fortifying Power Investments

The global need for power is enormous. Today, 1.5 billion people lack access to electricity, and 2.5 billion rely on conventional biomass fuels for cooking and heating. Rapid industrialization followed by increased buying power of local citizens, as in China, are further fueling the demand for power. And as developing countries become locations of choice for companies in search of lower-cost operations, demand for power in these nations is skyrocketing. What this means for companies and investors in the power sector is a broad, new market. But it also means potential new risks. MIGA’s investment guarantees mitigate the non-commercial risks associated with investment in power projects, enhancing the deals, and often making them possible. With traditional investors from North America and Europe reducing their exposure in emerging markets, opportunities are opening up for other players. MIGA is working to increase its support for these new power investors.

The Power Sector Investment Challenge

Power investors know all too well that there are significant and unique challenges associated with this sector. On the business side, funds must be raised for capital-intensive projects. Demand side management could also impact the bottom line. Power sector regulatory concerns in particular add a level of uncertainty, which is augmented further by evolving national climate change regulatory frameworks. Often, political pressures and negative publicity make it difficult for regulators to adjust tariffs, despite rising costs—which inevitably affects a project’s financial viability. If the project revenues are in local currency, transfer restrictions and inconvertibility may become a concern for power providers and lenders. In some countries, the threat of political instability, war, and civil disturbance poses a danger to physical assets and make financing difficult and expensive to obtain. In addition, environmental and social risks associated with infrastructure investments can add to the uncertainties of doing power sector business.

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 non-commercial power investment risks. They are designed to help companies feel comfortable with the risks they may perceive and can play a pivotal role in helping companies attract funds for large, capital-intensive investments. MIGA’s coverage can be used on a standalone basis or in conjunction with the World Bank’s partial risk guarantees, which offer an additional set of benefits. Partial risk guarantees include conditions that promote stable regulatory and contractual frameworks, while helping investors obtain capital market financing on better terms and securing public obligations by a sovereign counter-guarantee.

MIGA brings to the table a strong track record, with only two power claims paid in over 20 years—a testament to our demonstrated mediation abilities. With $3.5 billion in guarantees for power projects under our belt, MIGA offers proven sector capabilities.

Bottom line: MIGA’s guarantees mitigate the risk profile of your power sector investment, increasing the probability of a better risk-weighted return.
**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. Under selected circumstances, MIGA is able to cover risks at the sub-national government level.

**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 power 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 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** protects 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 Helps UGANDA Address Acute Energy Shortage**

As part of its ongoing support for Uganda’s power sector, MIGA issued $115 million in guarantee coverage for the Bujagali hydropower project. The guarantee is insuring an investment by World Power Holdings Luxembourg S.à.r.l., a subsidiary of Sithe Global (USA).

The project consists of the construction and operation of a 250 megawatt, run-of-the-river hydropower plant on the Victoria Nile by Bujagali Energy Ltd. (BEL), of which Sithe Global is a partner. Developed on a build-own-operate-transfer basis, the plant will re-use water flowing from two existing upstream facilities to generate electricity. The project also includes an associated Interconnection Project, which consists of a series of transmission lines to be owned and operated by the Uganda Electricity Transmission Company.

The Bujagali project on the Nile River is an integral component of Uganda’s strategy to close an energy supply gap that seriously constrains the country’s social and economic development. MIGA’s coverage was considered essential in securing part of the Bujagali equity investment.

**MIGA Facilitates Clean Energy Project in KENYA**

A MIGA-guaranteed investment in Kenya is helping the country address severe power shortages while simultaneously offsetting greenhouse gas emissions. The project consists of the design, construction, management, and operation of a base-load geothermal power plant with a combined capacity of 48MW on a build-own-operate basis in the Olkaria geothermal fields of the Rift Valley.

MIGA issued a guarantee of $88.3 million to Ormat Holding Corp. for its $98.1 million equity investment in OrPower 4, Inc. The electricity generated by the plant will be sold under a 20-year power purchase agreement with Kenya’s national power transmission and distribution utility.

The project uses indigenous geothermal fuel resources, thus lowering Kenya’s dependence on imported thermal energy. Geothermal electricity production does not result in any of the conventional air pollutants associated with other fossil fuel generation options.
Since 1990, MIGA has issued $3.5 billion in guarantees power projects in all regions of the world. The power portfolio currently stands at $913.5 million, accounting for 11 percent of MIGA’s outstanding gross portfolio.

### OUTSTANDING GUARANTEES PORTFOLIO
as of December 2010

- 53% Financial
- 11% Power
- 11% Agribusiness, manufacturing, and services
- 9% Oil, gas, and mining
- 9% Transportation
- 4% Telecommunications
- 3% Water
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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