MIGA: Guaranteeing Investments in Water Projects

The Water Investment Challenge
Today, more than one billion people lack access to clean and safe water; 2.6 billion people live without adequate sanitation. With estimates pointing to the addition of two billion people to the world’s population over the next 30 years, mostly in developing countries, the need for investment in the water sector is clear.

Yet private financing for water supply and sanitation in developing countries has lagged far behind that for other infrastructure sectors, reflecting in part the limits of private capital contributions and the lack of appetite to bear the political risks associated with these projects. Investor losses in various regions—caused by contract breaches related to tariff adjustments, protests, exchange rate fluctuations, and currency devaluations—illustrate the reality of these risks.

Risks in Water Projects
As with other infrastructure investments, water and sanitation projects are affected by political and macroeconomic instability, inadequate legal and regulatory environments, and insufficient government commitment to contractual obligations. These projects are also exposed to risks related to the decentralization of service oversight from the national level to provincial and municipal authorities. Sub-sovereign regulatory and contractual risks can pose a different set of challenges than sovereign risks. Local authorities may have less experience dealing with the private sector and may lack a solid understanding of investors’ needs.

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
Our guarantees are well-suited to mitigate the particular risks associated with investing in water projects in developing countries. These guarantees, covering both new investments and project expansions, help to ensure that investors are able to operate in a stable and predictable environment.

MIGA’s expropriation and breach of contract coverage protects investments against a variety of regulatory and contractual risks. Our guarantees can improve the risk/return profile of projects, lower the cost of capital, and foster positive relationships with local governments.

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.

MIGA’s guarantees can be used on a standalone basis or in conjunction with other World Bank instruments, which offer an additional set of benefits. World Bank partial risk guarantees, for instance, 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.
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 water 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 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.

MIGA 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

WTE’s Clean Water Project in MOSCOW

As Moscow’s population has grown, so has its thirst for water. Eyeing a potentially strong business opportunity, German water company, WTE Wassertechnik GmbH (WTE), a subsidiary of the Austrian EVN Group, investigated the possibility of building a new water treatment plant that would serve customers throughout Moscow.

Reluctant to move forward without political risk insurance, the company turned to MIGA. The agency provided $56.4 million (Euro 42.7 million) in guarantee coverage to protect WTE’s Euro 47.5 million equity investment against the risks of expropriation and breach of contract.

Water treated at the plant built by WTE is now being distributed through the municipal water system by Mosvodokanal, the city-owned utility. Thanks to MIGA’s support, the public-private partnership, structured as a 13-year build, own, operate and transfer (BOOT) concession, is increasing Moscow’s potable water supply, improving local health, environmental, and safety conditions.

MIGA Helps Improve Quality of Water Supply in WESTERN CHINA

The fast urbanization and industrial growth in China’s western provinces are causing serious wastewater issues. Nearly one billion tons of wastewater is generated annually and most of this is discharged directly into the Yangtze and Jialing rivers, threatening the quality of water supply.

The project supported by MIGA involved the acquisition of a minority stake in Chongqing Water Group Co., Ltd. by Suez Environnement SA of France and the expansion of an existing wastewater treatment plant. Located in Western China—an area that has received little foreign direct investment—the project is expanding the municipality’s wastewater treatment capacity, addressing the issue of sludge treatment, and contributing to the improvement of water quality in the Yangtze River.

MIGA provided $72.2 million in guarantees for this project that is bringing in €1.54 billion of investment to this underserved region of the country.
**SELECTED MIGA PROJECTS IN WATER**

<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>Suez Environnement SAS, France</td>
<td>Chongqing Water Project</td>
<td>China</td>
<td>72.2</td>
</tr>
<tr>
<td>Aqualyng Holding AS, Norway</td>
<td>Caofeidian Seawater Desalination Project</td>
<td>China</td>
<td>7.5</td>
</tr>
<tr>
<td>Golden State Water Group Corporation, Cayman Islands</td>
<td>Zhenjiang Golden State Water Co. Ltd.</td>
<td>China</td>
<td>2.3</td>
</tr>
<tr>
<td>Infilco Degremeont, Inc., United States; Suez Environment S.A., France</td>
<td>As-Samra Wastewater Treatment Plant Company Ltd.</td>
<td>Jordan</td>
<td>4.1</td>
</tr>
<tr>
<td>Compagnie Générale des Eaux, France</td>
<td>Shenzhen Water (Group) Company Ltd.</td>
<td>China</td>
<td>40.0</td>
</tr>
<tr>
<td>WTE Wassertechnik GmbH, Germany</td>
<td>WTE Süd-West of the Russian Federation</td>
<td>Russian Federation</td>
<td>56.4</td>
</tr>
</tbody>
</table>

**MIGA’S WATER PORTFOLIO**

The current water portfolio stands at $254 million, accounting for 3 percent of MIGA’s outstanding gross portfolio.

**OUTSTANDING GUARANTEES PORTFOLIO**

as of December 2010

- 53% Financial
- 11% Agribusiness, manufacturing, and services
- 11% Power
- 9% Transportation
- 9% Oil, gas, and mining
- 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.

CONTACT
**For information on guarantees for water sector investment**
Margaret Walsh
mwalsh@worldbank.org
t. 1.202.458.4518

**For general information**
Multilateral Investment Guarantee Agency
World Bank Group
1818 H Street, NW
Washington, DC 20433
t. 1.202.458.2538
f. 1.202.522.0316
migainquiry@worldbank.org

www.miga.org