



Utilizing MIGA Products to Support Renewable Energy Projects

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MULTILATERAL INVESTMENT GUARANTEE AGENCY
WORLD BANK GROUP

The World Bank Group

1944	IBRD	International Bank for Reconstruction and Development
1960	IDA	International Development Agency
1956	IFC	International Finance Corporation
1966	ICSID	International Center for the Settlement of Investment Disputes
1988	MIGA	Multilateral Investment Guarantee Agency

What We Do

- ❖ Noncommercial risk insurance (guarantees) for investors and lenders
- ❖ Proven success in supporting resolution of investment disputes
- ❖ Technical assistance to help countries attract and retain FDI through FIAS (Foreign Investment Advisory Services)

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 projects, at both the sovereign and sub-sovereign levels
- ❖ Promoting cross-border investments between developing countries

MIGA's Value Added

Strong pre-claim management	<ul style="list-style-type: none">• Management of risks at pre-claim level (100+ pre claims among 700 guarantees -2 claims paid for Expro, 4 for WCD)• Leveraging the World Bank network
Highly rated	Highly rated multilateral by Basel II Committee
Financially stable	<ul style="list-style-type: none">• Strong capital base• Access to secondary markets
Creative risk taker	<ul style="list-style-type: none">• Take different risks in emerging markets• Longer tenors (up to 20 years)
Protects clients' social obligations	Best practices in environmental and social standards

MIGA's Claims Track Record

- ◆ MIGA has supported more than 700 projects and has assisted clients in resolving more than 90 disputes
- ◆ MIGA has successfully facilitated the settlement of disputes in all currency transfer/inconvertibility issues and since inception has paid claims in 6 cases in different countries and sectors
- ◆ All other cases have been resolved (before or after the claim was filed) or the claim was withdrawn

Deterrence effect ensures that only a small number of projects that MIGA supports encounter problems

Eligibility Requirements

Eligible investments

- ❖ Cross-border from one member country (developed or developing) into another developing member country
- ❖ Primarily “greenfield” investments
- ❖ Can insure existing investments, subject to certain criteria

Investment types

- ❖ Equity
- ❖ Shareholder loans
- ❖ Loan guaranties
- ❖ Non-shareholder loans (i.e. stand-alone debt)
- ❖ Non-equity direct investment (contracts including management, production-sharing, licensing, turnkey and others, subject to certain criteria)
- ❖ Capital market transactions

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

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

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

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
 - ❖ 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

Breach of Contract

- ❖ Protects against loss arising from breach or repudiation of a project agreement (*e.g.*, in infrastructure and power 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 restrictions

Breach of Contract (cont.)

- ❖ New guidelines permit coverage of contracts with an SOE where:
 - ❖ **It is controlled by the Host Government** or its political subdivision
 - ❖ **It performs a public service** or fulfills a governmental function (like a utility) **and**
 - ❖ Either:
 - The Host Government, as a matter of law, is responsible for its financial liabilities or
 - It is creditworthy on a stand-alone basis

- ❖ In some cases where the contract is with an SOE that does not meet these criteria (e.g. Dakar Ports), MIGA has the option of covering a Host Government guarantee in BoC

Breach of Contract (cont.)

Examples

Host Government breaches its obligations under:

- ❖ **off-take agreement** (*e.g.*, power purchase agreement)
- ❖ **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

- ❖ 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)

- ❖ **No arbitral award is required**

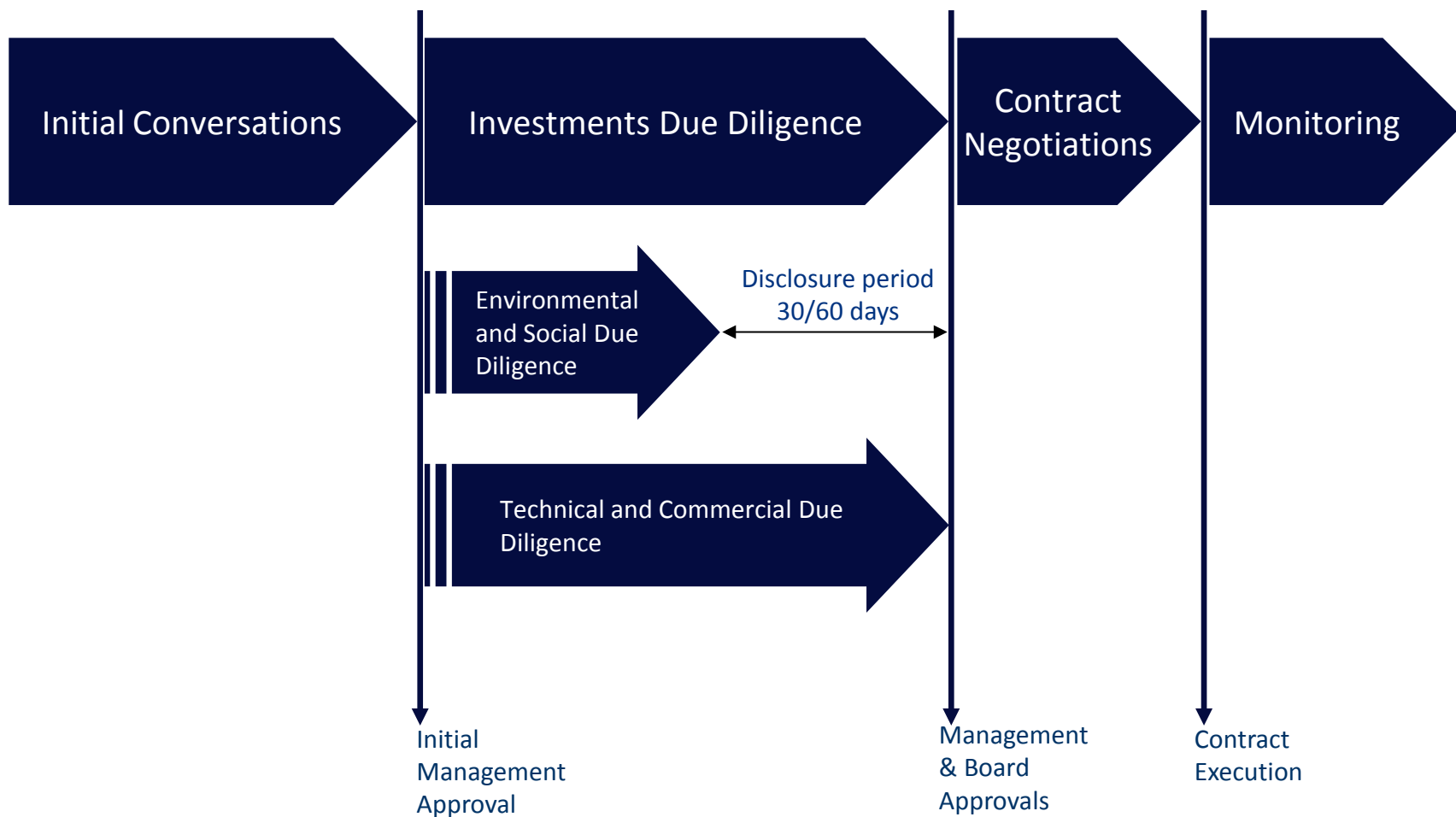
MIGA covers for renewable energy projects

- ◆ Expropriation and Breach of Contract
- ◆ Mitigating regulatory risks to facilitate financing
 - PRI can be one of the regulatory requirements or pre conditions for some lenders in certain countries;
 - For equity investors, it depends on risk appetite and perceptions
 - Important to protect losses caused by change of government, law, regulatory framework etc.
 - Examples: potential cover for feed in tariff for renewable energy projects

IDA/IBRD and MIGA risk-mitigation products

- IDA/IBRD guarantees require counter-guarantee from the government
- no counter-guarantee for MIGA, but host country approval required
- Other technical differences in terms of process, pricing and risk covers
- MIGA guarantees can complement IDA/IBRD guarantees, or be provided independently
- cooperation with many World Bank Group programs

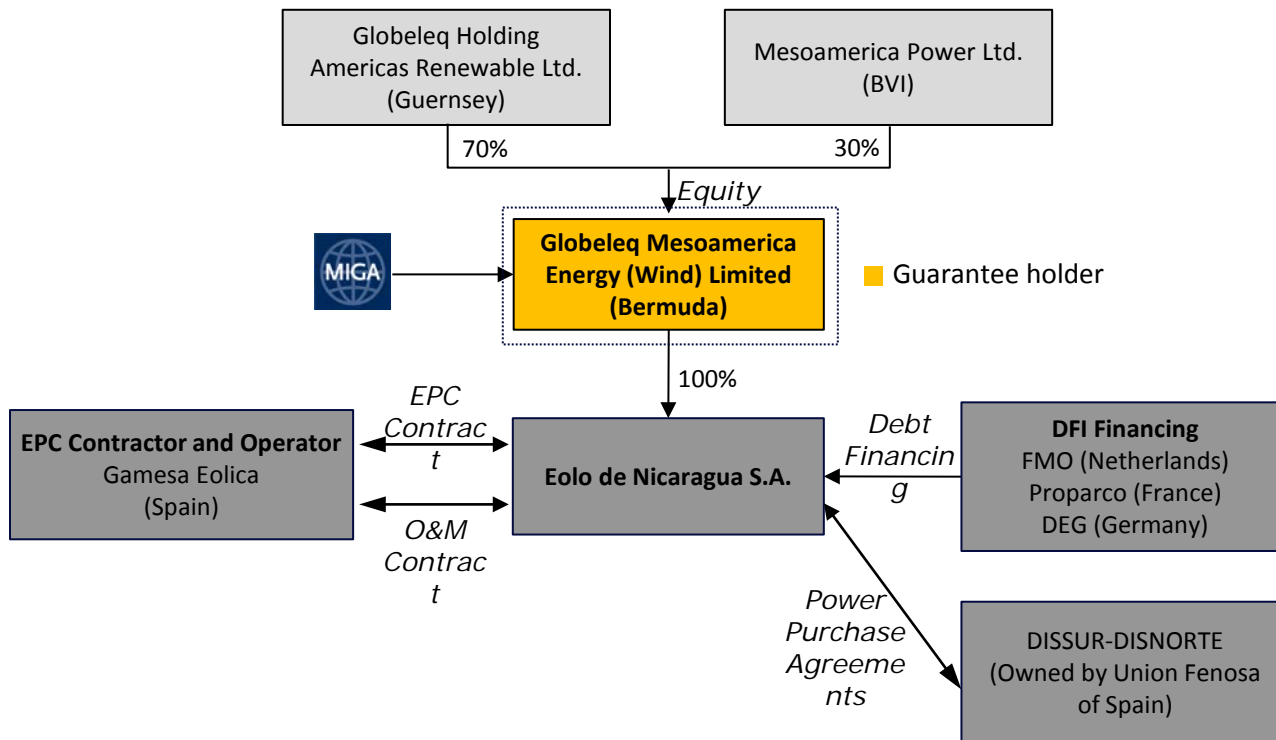
Underwriting – Process and Timeline



ANNEX: Case Studies

Eolo Wind Project, Nicaragua

– Expropriation, Transfer Restriction, War and Civil Disturbance



- ❖ **Project:** Construction and operation of a 44 MW wind farm in Rivas Province on the shores of Lake Nicaragua
- ❖ 30-year power generation license from Government of Nicaragua. 20-year PPA with DISSUR-DISNORTE
- ❖ Equity covered: US\$18.1M
 - Tenor: 20 years



Star Hydro Project – Pakistan

- US\$148.5 million guarantee for an equity investment by K-water, acting on behalf of itself and Daewoo Engineering and Construction Company
- BOOT of a 147 MW run-of-river hydropower plant
- Joint IFC/MIGA project
- electricity generated will be sold under a 30-year PPA with the state-owned National Transmission and Dispatch Company Limited
- guarantee for a period of up to 20 years against the risks of transfer restriction, expropriation, and breach of contract.

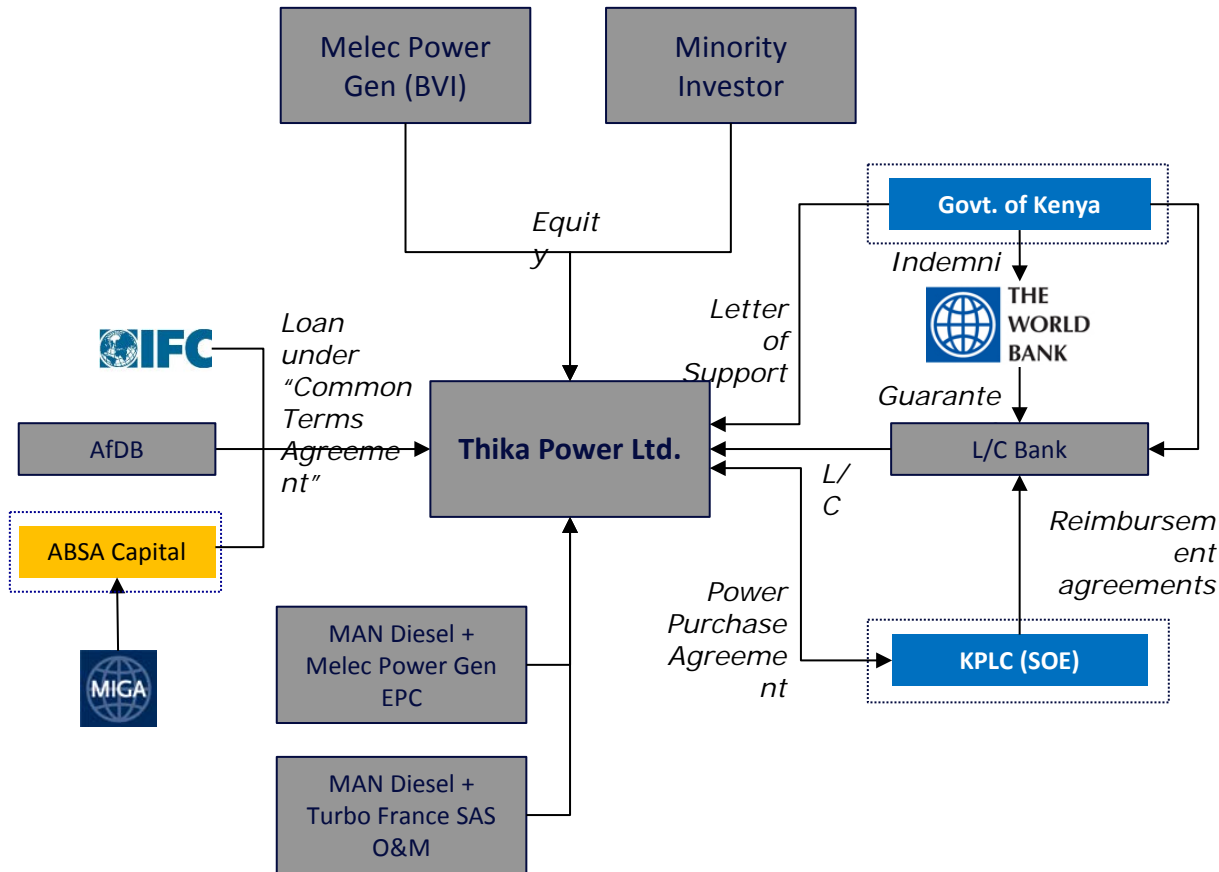
Nam Theun II Hydropower Dam - Lao PDR



- US\$90.6 million guarantee to cover non-shareholder loan by Fortis Bank and equity investment by EDF International
- US\$1.25 billion trans-basin power plant in Lao PDR with transmission facilities to Thailand
- Joint IDA/MIGA project
- structured as PPP because of limited budget resources in Lao PDR
- WB advisory and technical assistance (environment and technical aspects)
- MIGA's Breach of Contract covered EGAT's off-take obligations

Thika Power Project in Kenya

– Breach of Contract Cover



- Obligor
- Guarantee holder

- ❖ **Project:** Construction of a heavy fuel oil plant near Nairobi (87 MW)
- ❖ 20-year power purchase agreement with Kenya Power and Lightning Co.
- ❖ Joint WB PRG/IFC/MIGA project
- ❖ MIGA cover Breach of Contract of a loan from ABSA
- ❖ Tenor: 15 years
- ❖ Amount: US\$62m



Contact Information

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