Examining Political Risk Insurance - Risk Mitigation for PPP Projects

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MIGA is the part of the World Bank Group that promotes developmentally sound foreign direct investment.

It does this by providing political risk insurance (guarantees) to the private sector.
insuring investments

- in challenging market conditions
- with tangible development impact
- facilitation of dispute settlement
- highly rated multilateral under Basel II Accord
MIGA’s 2011 Highlights

Gross exposure, $ billion

- gross exposure: $9.1 billion in FY11
- issued $2.1 billion in FY11 in support of 38 projects
- $415.3 million for investments in IDA-eligible countries (of which $228.0 million was in sub-Saharan Africa)
- four new host countries: Iraq, Kosovo, Liberia, Republic of Congo
- issued 1,030 guarantees for 651 projects for a total of $24.5 billion during 1990-2011
surrounding environment of PPP projects

- wide range of investment amounts: USD200 million to 1 billion
- long operatorship lifespan - 15 years or more
- significant initial equity contribution followed by corporate/project financing
- heightened perception of risks by stakeholders on operating environments
- increasing risk exposure of equity holders
MIGA structured guarantees framework

- ensure “level playing field” for operators
- implement phased approach - from early stages of funding to commissioning and operations
- apply different pricing for different project phases
- mitigate/facilitate operations under “risk neutral” conditions
a familiar situation

- **situation:** equity holder (EH) is seeking funding for new IPP whose scheme is still being finalized

- **problem:** EH is concerned with PPA payments exposure to the electricity utility including operations interruptions

- **implication:** EH’s initial funding commitments are constrained; lenders also required protection for their exposure

- **solution:** guarantees for payment defaults, permits renewals, expropriation and political violence
a familiar situation (cont’d)

- **situation:** toll road debt syndication is still being finalized by investor
- **problem:** lead arranger is concerned with minimum revenue payment.
- **implication:** delays in financial closure could jeopardize project execution
- **solution:** guarantees to lenders against minimum revenues, expropriation, breach of contract and political violence
simplified project structure

- **Host Country**
  - Equity holders
- **Overseas**
  - Lenders
  - Services Agreement
  - MIGA
  - breaching of contract
  - expropriation, political violence, convertibility

- SPV
- PPA payments
- off-taker
key messages

- PRI is an effective credit enhancement tool creating value for stakeholders
- MIGA support increases insurance capacity availability in challenging markets
- structured guarantees framework has allowed creative responses to support high development impact projects
- compliance with World Bank’s E&S performance standards is mandatory
final remarks about MIGA

risks covered

- currency inconvertibility and transfer restriction
- expropriation
- war and civil disturbance
- breach of contract
- non-honoring of sovereign financial obligations
MIGA guarantees can help investors

- access funding and lower borrowing costs
- access the WBG’s knowledge and expertise
- manage environmental and social risks
- resolve disputes by leveraging the WBG “umbrella”
- mobilize and complement insurance capacity from other public and private insurers
contacting MIGA

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