

## APPENDIX C: MIGA SUPPORT FOR TRANSPORT PROJECTS

The Multilateral Investment Guarantee Agency (MIGA) was founded in 1988 with the mandate to promote foreign direct investment into developing countries. To fulfill this mandate, MIGA offers four products and services: it insures investors against political risks, which include expropriation, transfer restrictions, war and civil disturbance, and breach of contract. MIGA also mediates disputes between investors and governments; provides technical assistance to help governments attract foreign investment; and provides information on investment opportunities through online services.<sup>1</sup>

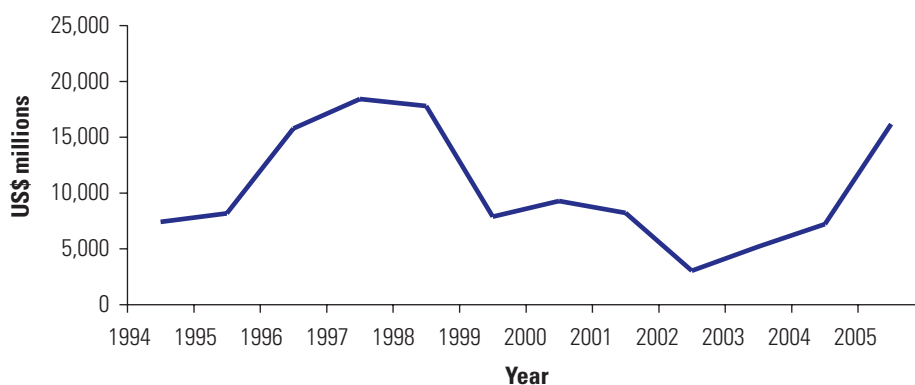
### MIGA and Bank Group Strategy

As private sector interest in infrastructure and transport projects increased in the 1990s (figure C.1), the World Bank shifted toward complementing private investments with policy and regulatory reforms and institutional capacity building, and Bank lending for infrastructure and trans-

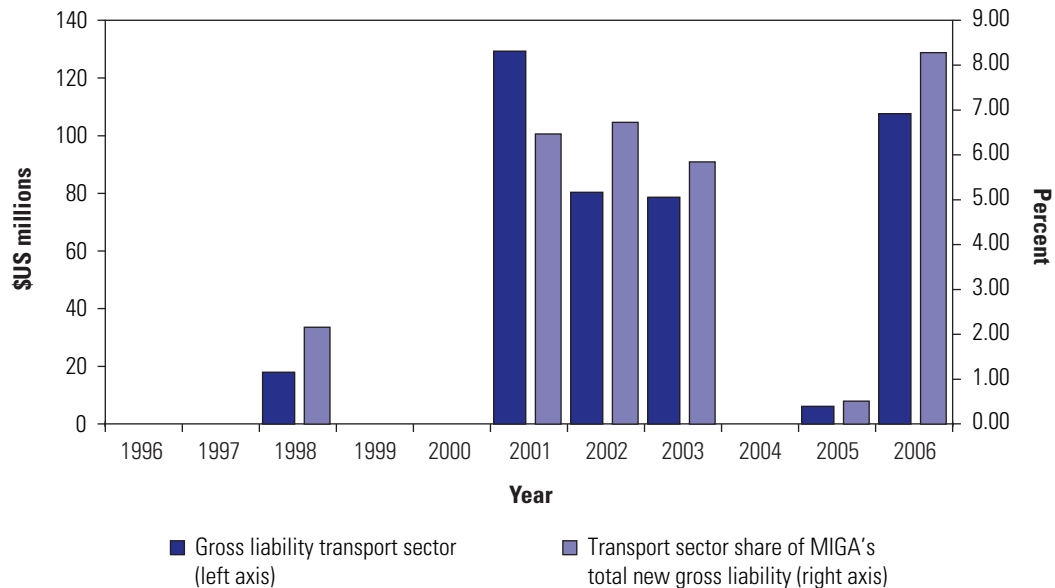
portation projects declined. Conversely, MIGA insured its first transport project in 1995, and the Agency's guarantee projects in this sector reached a peak in 2001–2003.

In 2000, MIGA's strategy set forth the increased facilitation of complex infrastructure projects as a priority, citing significant growth in private participation of this sector during the previous 10 years and record demand for MIGA's services. These projects were generally highly capital-intensive, had long pay-out periods of 10–20 years, and often involved concession agreements with public entities (MIGA 2000, p. 54). Within this focus on infrastructure, transport projects accounted for approximately 6 percent of new MIGA guarantees (measured by gross guarantee volume) each year during fiscal 2001–03, and over 8 percent in fiscal 2006 (figure C.2).<sup>2</sup> However, although overall MIGA guarantees for infrastructure projects have remained strong if somewhat

**Figure C.1: Private Sector Investment in Transport Projects, 1994–2005**



Source: World Bank PPI database.

**Figure C.2: New Transport Project Guarantees, Fiscal 1996–2006**

volatile, guarantees for transportation projects dropped during fiscal 2004 and 2005.

### MIGA Portfolio Overview

As noted above, MIGA exposure in the transport sector has been modest. From fiscal 1990 to fiscal 2006, MIGA issued 36 guarantee contracts for 12 projects totaling \$424.2 million in this sector (figure C.2). Cumulatively, this represents 2.8 percent of MIGA historical gross exposure. As of June 30, 2006, MIGA's active transport portfolio was \$221.4 million, accounting for 4.1 percent of its outstanding gross portfolio,<sup>3</sup> and eight of the 12 projects remained in the portfolio.<sup>4</sup>

Toll roads accounted for the largest share of transport projects, both in terms of the number of projects and their guarantee exposure (four projects, and 51 percent of exposure), followed by airports/airlines (three projects, 20 percent of exposure), and ports (three projects, 8 percent of exposure) (figure C.3). Three of the first five MIGA guaranteed transport projects were toll roads, but those insured after 2001 were primarily in port and airport/airline projects, followed by a large toll-road project in fiscal 2006.

Consistent with the privatization trends in the 1990s, the large majority of MIGA's exposure in transport projects (75 percent of exposure, and 8 of 12 projects) was in Latin America. The remaining projects were in Asia (21 percent of exposure and two projects), Africa (3 percent of exposure and one project), and Europe and Central Asia (1 percent and one project) (figure C.4).

MIGA's transport projects have been concentrated in middle-income countries (96 percent of exposure). Half of MIGA transport projects were in lower-middle-income countries, accounting for a gross exposure of 69 percent. These projects included key infrastructure improvements in countries such as Ecuador, Peru, and the Philippines, where perceived risk was relatively high and/or investors required specific coverage to obtain financing. Only four percent of MIGA's cumulative exposure (two projects) was in low-income/IDA-eligible countries, including one project in Sub-Saharan Africa.

While MIGA's transport portfolio was concentrated in Latin America and the Caribbean, and to a lesser extent in Asia and the Pacific, large pri-

vatisations or public private partnerships in Central and Eastern Europe have not obtained MIGA coverage.

Most of MIGA's transport projects involved complex concession agreements or licenses specifying tariffs, performance benchmarks, and other parameters critical to the project's viability. MIGA appears to have met a demand from foreign investors, entering a relatively new area for the private sector.

### Effectiveness of Guarantee Activities

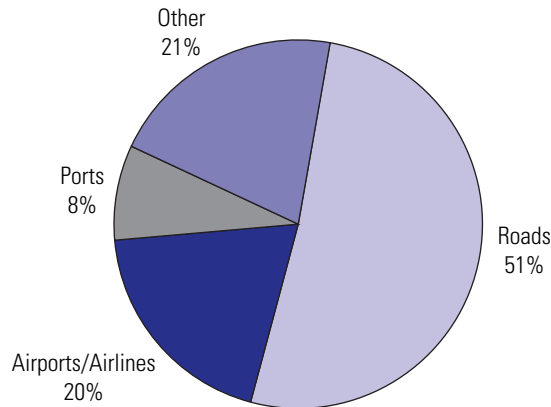
IEG-MIGA carried out ex post evaluations of two MIGA-supported transport projects—an airport facility and a toll road. Both projects involved the privatization, modernization, and expansion of existing facilities where host governments sought private financing and management. The projects were designed to meet future increases in demand and upgrade outdated facilities to current international standards in their sectors, and to improve safety. Ultimately, the projects were expected to contribute to the host country's private sector development and economic growth. The concession agreements for these projects were awarded in the 1990s, when private participation in the provision of infrastructure peaked.

IEG-MIGA's evaluations have highlighted findings on project beneficiaries, concession agreements and the sustainability of the projects, environmental and social effects, and MIGA's role and value added in the two transport projects.

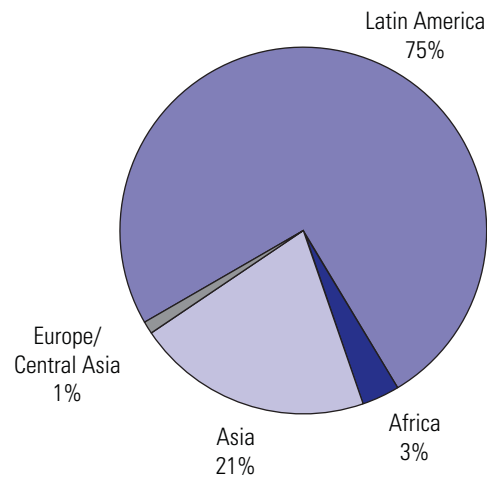
### Project Outcomes

Both projects helped to transform the deteriorating infrastructure into modern facilities designed and equipped with the appropriate technology and specifications to meet current international airport and highway standards. The quality of service has also vastly improved. Efficiency gains were also achieved in both projects, for instance, by greatly reducing the processing time for air cargo, benefiting exporters and importers. Similarly, the toll road has considerably cut vehicle-operating costs, travel time, accidents, and crime along the highway.

**Figure C.3: MIGA Gross Expenditure by Project Type, Fiscal 1990–2006**



**Figure C.4: Issued Gross Exposure by Region for Transport Sector Projects, Fiscal Years 1990–2006**



At the same time, the modernization and privatization of these two facilities means that users have to pay higher prices for the services, compared with before the privatization, when they were operated by public sector entities. User charges have been a contentious issue in both projects. Actual volume of traffic and revenues are below expectations for both, although the revenues generated by each project are sufficient to cover operating costs, accelerated debt service, and fiscal obligations; in one case revenues also allowed payment of shareholder dividends.

### **Beneficiaries**

The main beneficiary in the airport project has been the host government, as revenue generation was the main impetus for privatization, and the concession agreement reflects this objective. Airline passengers—both local and foreign—and air cargo companies also benefited from efficiency gains, although the net effect is smaller because of increased user charges, which are higher than for comparable airport facilities in the Region. The impact on the private sector has been limited because of the structure of the concession agreement, which restricted the entry of other providers.

In the case of the toll road, the host country's motivation for privatization was the repair of a decaying road infrastructure, which was to be the linchpin of Regional economic revitalization. The majority of the beneficiaries of the toll road are middle-income public transportation passengers, high-income car owners, and commercial users. The company has also introduced targeted subsidies to low-income transport operators. Government tax revenues have been lower than expected, as a result of lower traffic volume. That comes mainly from high tolls, an increase in gasoline prices, and an economic slowdown in the country. Although the owners of public transportation companies, trucking services, and private passengers benefit from efficiency gains, effects on the Regional economy are not yet significant. However, some commercial development of land near the toll road has started.

### **Concessions and Sustainability of Projects**

As noted above, the majority of MIGA transport projects involved complex concessions or licenses, and both evaluated projects were covered by long-term concession agreements. In recent years, MIGA has been notified about disputes between its guarantee holders and government entities related to transport projects. Investors filed two claims that were related to provisions in the concession agreements, such as tariff rates, allegations of being in breach of concession agreements, or outright abrogation of concessions.

The concession agreements in the two evaluated projects resulted from competitive or solicited bid-

ding processes. In both cases, commercial risks are borne by the project enterprise. Affordability of tariffs or fees, which are set in the concession agreements, has been a common concern with both projects. In both cases, there have been challenges in sustaining the projects, albeit for different reasons. In the case of the airport facility, the distribution of revenues stipulated in the concession agreement is not sustainable, and it has not had the intended impact on the country's private sector development. The concession did not lead to lower prices for users and has added constraints on future competition in the sector. In the toll-road project, the main challenge is increasing usage to improve the financial performance and sustainability of the enterprise.

### **Environmental and Social Compliance**

As required by the concession contract, the airport facility has carried out remedial pollution control works on the project site and set up an environmental and health and safety management system covering all the areas of the site under its control. At evaluation, it was in full compliance with MIGA's safeguard policies.

The toll-road project did not fully follow World Bank provisions for involuntary resettlement of affected people; at the time of the evaluation, an amended Resettlement Action Plan and Corrective Action Plan were being implemented to address these deficiencies. Although these plans rectify some of the earlier shortcomings, IEG found that the effectiveness of these plans was low, in part because of the delays in their execution and poor design and implementation of the relocation.

### **MIGA's Role**

MIGA played a particularly important and catalytic role in the airport facility. In the toll road, its coverage was important, but it came after financing was finalized. Also, its value-added was limited to providing political risk coverage, because IFC took the lead.

In the airport project, MIGA's coverage was secured *before* the lenders provided financing; MIGA support was instrumental in that it provided coverage of a performance bond, which

was not available from private insurers on a long-term basis and was critical for the investment to go forward. Coverage was also important because of the uncertain political environment at the time the guarantee was issued.

***Prior Recommendation***

IEG-MIGA previously made a recommendation to MIGA covering its involvement in projects with concession agreements, which is relevant for the two

evaluated transport projects (IEG-MIGA 2006, p. 46). It recommended that MIGA develop rules of engagement for projects involving concessions and similar agreements. Considering that MIGA often gets involved in projects as an insurer after such agreements have been negotiated and signed, it needs to satisfy itself that the underlying business model, terms given to concession holders, and tariffs are sustainable and reflect sound economic policy to ensure a positive development impact.<sup>5</sup>