



AGRIBUSINESS BRIEF

INSURING INVESTMENTS ■ ENSURING OPPORTUNITIES

## MIGA: Cultivating Agribusiness Growth

In many parts of the developing world, lush soils, temperate climates and strong farming traditions create an ideal environment to grow agricultural businesses. And as worldwide demand soars for staples such as flour, sugar, coffee, and rice, savvy investors can earn strong profits. With the world's population projected to reach nine billion by 2050, the United Nations estimates that the world needs to double food output. But obstacles abound, particularly for companies venturing into countries with a history of instability and upheaval. Project financing costs can be prohibitive, due to such risks. MIGA political risk insurance policies can reduce the cost of financing. They often make the difference between a go and a no-go decision for project sponsors and lenders concerned about the safety of their investments.

### The Agribusiness Investment Challenge

While there will always be strong worldwide demand for foodstuffs, the fact remains that agricultural investments are risky business, especially in the developing world. Food prices remain volatile and it's a long way from visualizing the opportunity in an all-but-abandoned sugar plantation to realizing profit on a well-run, state-of-the-art sugar factory. Newly stabilized governments could still be on shaky political ground. Unclear or incomplete laws on property ownership complicate the profit picture. Restrictions on revenue repatriation could complicate a project's finances even more, adding to the imbalance between foreign currency denominated debt and local currency denominated

revenue. And new threats, such as terrorism, add an additional layer of uncertainty, potentially derailing even the most promising of investments. Combined, such political risks contribute to high costs of capital. In fact, some lenders might not be willing to lend at all, in the absence of political risk insurance policies.

### 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 (or guarantees) against certain noncommercial risks to investments in developing countries, as well as providing dispute resolution services for guaranteed investments.

### How We Help

MIGA guarantees are well-suited to mitigate noncommercial agribusiness investment risks, thereby lowering the cost of capital and helping an investment opportunity to materialize. They reassure lenders that their investments are protected. They help equity owners over hesitations that may loom large prior to deal signing, particularly for costly investments in high-risk countries. And once a deal is in place, MIGA guarantees, backed by the World Bank Group, bring companies peace of mind, providing that added measure of security that can stabilize the risk profile of

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.

an entire project and reinforce positive relations with host governments.

Agribusiness companies also face challenges related to the environmental and social aspects of their investments. Key natural resources need to be managed effectively while yields are increased to meet market demand. Investments in agriculture can play a significant role in poverty reduction, but labor standards need to be met. MIGA has the experience to guide its agribusiness clients in implementing social and environmental best practices in their operations.

MIGA places no limit on the size of the projects it supports. MIGA's Small Investment Program ([www.miga.org/sip](http://www.miga.org/sip)) offers a streamlined underwriting process for investors looking for coverage of less than \$10 million.

## TYPES OF COVERAGE

**MIGA expropriation coverage** protects policyholders against government takeover of assets, such as land, farm machinery or food processing plants. This coverage also guarantees protection from “creeping expropriation,” a series of acts that eventually result in outright nationalization or confiscation.

**MIGA transfer restriction coverage** insures policy holders against the possibility that governments would prevent earnings repatriation. The coverage also protects against the risk of currency inconvertibility. With these guarantees in place, lenders may be willing to reduce borrowing costs, since this mitigates concerns that foreign companies might not be able to get their cash out of a country, which would increase the potential for loan default. Even when governments impose a moratorium on mov-

ing currency, as shareholders of MIGA, they may agree to exclude revenues from projects backed by MIGA guarantees and permit the transfer. This has been the case in a number of moratoriums since 1990.

**MIGA coverage against war and civil disturbance** protects policy holders in the event that political upheaval causes direct destruction of assets, such as torched fields or damaged factories. This coverage can also protect against loss of revenue if crops or food products cannot get to market due to border closures. Guarantees insure against losses if the farm or plant falls inside a war zone, and farmers are not permitted to return to fields in time to harvest crops.

**MIGA breach of contract coverage** protects investors when governments are contractual partners. While agribusiness investments do not typically involve gov-

ernment partners, this is an additional component of MIGA's political risk insurance offerings.

**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

### Insuring Sugar Investments in MOZAMBIQUE

At the end of Mozambique's devastating 17-year civil war, the country's assets were in tatters. While the nation's climate and geography offer ideal growing situations, the farming infrastructure was almost entirely destroyed. Amidst this environment, a visionary consortium of Mauritian companies saw an opportunity in an abandoned sugar plantation. They considered making an investment that would revitalize the farm land and rebuild the sugar refinery. Not surprising, the estimated costs of such an investment were quite high, and the political landscape remained uncertain. The consortium turned to MIGA, which extended \$65 million in political risk insurance to the Sena Group and to the Industrial Development Corporation of South Africa, covering their equity investments and loans for the project. At the time, MIGA was the only political risk insurance agency willing to operate in

Mozambique, among the world's poorest countries even before the war.

Since production began in 2001, Sena has produced 750,000 tons of sugar each year, for domestic markets and for export. The company employs 6,000 people on a permanent basis and up to 2,000 seasonal workers. It enjoys a strong relationship with the local community, where it has partnered to build a health clinic and a water supply facility. Revenues remain strong, despite competition from lower-price sugar producers in other parts of the world.

### Capitalizing on Consumers' Thirst for Coffee

In a world filled with many perspectives and opinions, few things unify consumers more than the love of coffee. One UK-based company took advantage of a strong business opportunity in coffee-bean heaven—Uganda. MIGA guarantees were the security that underpinned

Afriproduce's investment in coffee processing facility Ugacof in 2005.

MIGA's \$3.1 million guarantee covered the investor's equity investment against the risks of transfer restriction, expropriation, and war and civil disturbance, and offered critical security during an uncertain time.

In 2006, MIGA issued a new guarantee contract to MILLco Limited, replacing the previous contract with Afriproduce. The new guarantee contract reflects the sale of Ugacof's processing and warehousing facilities to a subsidiary owned by MILLco. The guarantee tenor remains unchanged (expiring in 2010).

Today, the company continues to thrive, generating employment and business opportunities for local farmers.

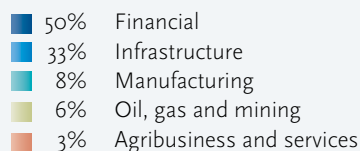
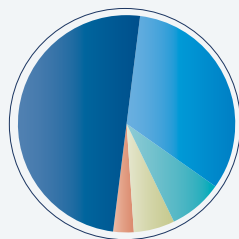
## SELECTED MIGA PROJECTS IN AGRIBUSINESS

INVESTOR/ GUARANTEE HOLDER	PROJECT	HOST COUNTRY	GUARANTEE AMOUNT (\$ MILLION)
African Company for Oil Derivatives Freiha Feed Company, Ralph Freiha, Yousef Freiha and Sons Lebanon, Virgin Islands (British)	Congo Oils and Derivatives SARL	Congo, Democratic Republic of	4.3
Sierra Investment Fund LLC Mauritius	Sierra Fishing Company Limited	Sierra Leone	4.5
Mauritius Commercial Bank Limited, Mauritius	Companhia de Sena SARL	Mozambique	22.1
Industrial Development Corporation of South Africa Ltd. South Africa	Kibos Sugar and Allied Industries Limited	Kenya	7.0
DAGRIS S.A., France	Afghanistan Project for Cotton and Oil Development	Afghanistan	0.9
DAGRIS S.A., France	Hasy Malagasy S.A.	Madagascar	2.9
MILLco Limited, St. Kitts and Nevis	Kyoga Ltd.	Uganda	3.0
Afriproduce Limited, Switzerland	Ugacof Ltd.	Uganda	3.1
Industrial Development Corporation of South Africa Ltd. Sena Development Ltd., Sena Holdings Ltd., Societe Marromeu Ltd. Mauritius, South Africa	Companhia de Sena SARL	Mozambique	65.0

## MIGA'S AGRIBUSINESS PORTFOLIO

Since its inception, MIGA has issued 46 guarantee contracts totaling \$248 million for projects in the agribusiness sector. The agribusiness portfolio currently stands at \$74 million, accounting for one percent of MIGA's outstanding gross portfolio.

## OUTSTANDING GUARANTEES PORTFOLIO AS OF DECEMBER 31, 2009



## 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 emerging and transition 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 resolve disputes that might arise. MIGA has supported close to 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 has paid three claims resulting from damage due to war and civil disturbance.) 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.

### Online Knowledge Services

- FDI.Net ([www.fdi.net](http://www.fdi.net)) – an investor-focused web portal that offers free, on-demand country analysis and information on foreign direct investment in over 160 countries.
- PRI-Center ([www.pri-center.com](http://www.pri-center.com)) – a free service providing in-depth analysis on political risk environment and management issues affecting 160 countries.

### Technical Assistance

MIGA helps countries define and implement strategies to promote investment through technical assistance services managed by the Investment Climate 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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## CONTACT

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### For information on agribusiness investment

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