



Supporting Investments in Post-Conflict Countries MIGA's Experience

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Content

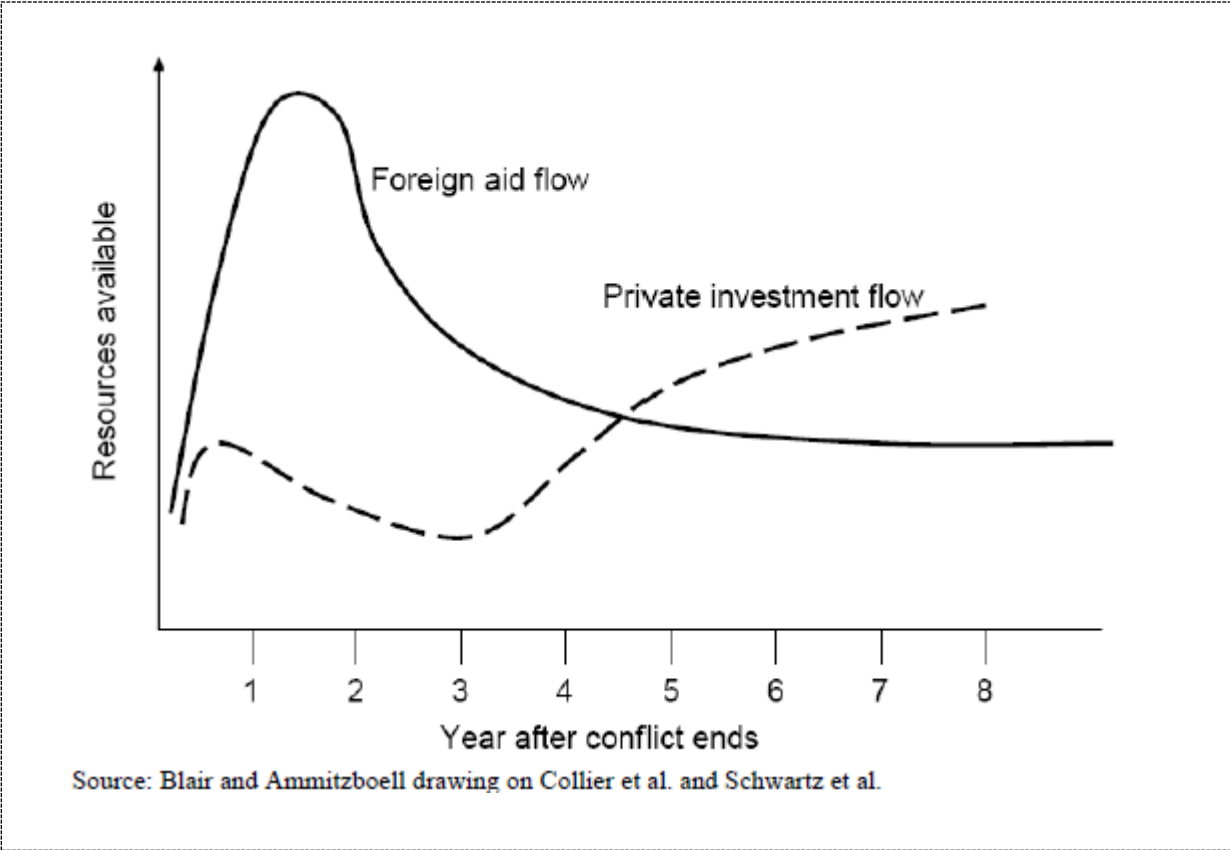
- ◆ Investment Challenges in Conflict Affected and Fragile States
- ◆ MIGA's Experience
- ◆ Proposed Conflict Affected and Fragile Economies Facility

Private investment helps reduce the return to conflict

- ◆ Economic growth reduces the risk of reverting to conflict
- ◆ Main driver: job creation
- ◆ Long-term structural employment requires private sector development
- ◆ Growth rate of private sector is reduced by risk and lack of investment



Private investment tends to come in several years after aid peaks



Private Investment, Economic Growth, and Reduction of Conflict Risk

- ◆ The most important contribution companies can make to peace-building is to concentrate on the responsible fulfillment of their core commercial activities, thus increasing wealth and creating the economic conditions for post-conflict recovery (J. Bray, *The Role of Private Sector Development in Post-Conflict Economic Recovery*, 2007)
- ◆ Economic integration, measured in terms of trade, FDI and financial openness, reduces the probability of war by serving as a means of costly signaling... the cost-benefit calculus (Quan Li, *FDI and Interstate Military Conflict*, 2008)
- ◆ Economic growth sharply reduces the risk that conflict will resume in the first post-conflict decade (Collier, Hoeffler and Söderbom, *Post-Conflict Risks*, 2006)
- ◆ Risk is a significant hurdle to the growth of FDI and trade

MIGA's Experience

Every dollar MIGA guarantees is estimated to facilitate \$4 of foreign investment far-reaching development benefits but the majority of flows go to just a handful of countries—leaving the world's poorest economies largely ignored....



MIGA's support for Conflict Affected and Fragile States

gross exposure as of December 31, 2009

Host Country	Sectors	\$M	# of projects
Afghanistan	Telecom, Agriculture, Finance	76.2	5
Georgia	Finance	9.0	1
Guinea	Telecom, Agribusiness	59.9	2
Central African Republic	Telecom	34.7	1
Liberia	Agribusiness	148.7	1
Congo, Democratic Republic	Services, Manufacturing	30.6	2
Guinea-Bissau	Telecom, Tourism	20.1	2
Angola	Services	12.9	1
Sierra Leone	Agribusiness, Manufacturing, Services	17.2	6
Cote d'Ivoire	Manufacturing	1.8	1
Total		411.1	22

Project Examples:

LPG Storage and Distribution – Sierra Leone

- ◆ \$3.6 million guarantee covering Transfer, Expro, and WCD
- ◆ Introduces permanent bulk storage facilities to supply local market
- ◆ Five filling stations for 5kg refillable LPG bottles will be established
- ◆ Expected to reduce local price of LPG by 60%
- ◆ Will reduce carbon emissions from traditional wood fuel fires
- ◆ Increase productivity by eliminating time spent collecting wood
- ◆ Reduce deforestation

Project Examples:

Buchanan Renewable Fuels - Liberia

- ◆ \$142.2 million to cover Expropriation and WCD
- ◆ Project involves harvesting of non-productive rubber trees for export as biomass fuel
- ◆ Will quadruple investors current operation of biomass fuel operations
- ◆ Harvesting of non-productive/dead trees will facilitate sustainable management of Liberia's rubber tree harvesting industry.
- ◆ Farmers will be able to rejuvenate plantations and will receive compensation for harvested trees.

Project Examples:

MTN Telecom – Afghanistan

- ◆ \$88.5 million additional investment in existing project guaranteed for \$76.5 covering Transfer and Expropriation
- ◆ Additional investment will improve geographic cover and quality of signal strength
- ◆ Afghanistan's mobile network has increased sevenfold in five years
- ◆ MTN has contributed to growth by helping to expand coverage to more remote regions of the country.
- ◆ Modernization of technology and internet access to a larger geographical area

Project Examples:

Sebeel Al Safa Manufacturing – Iraq

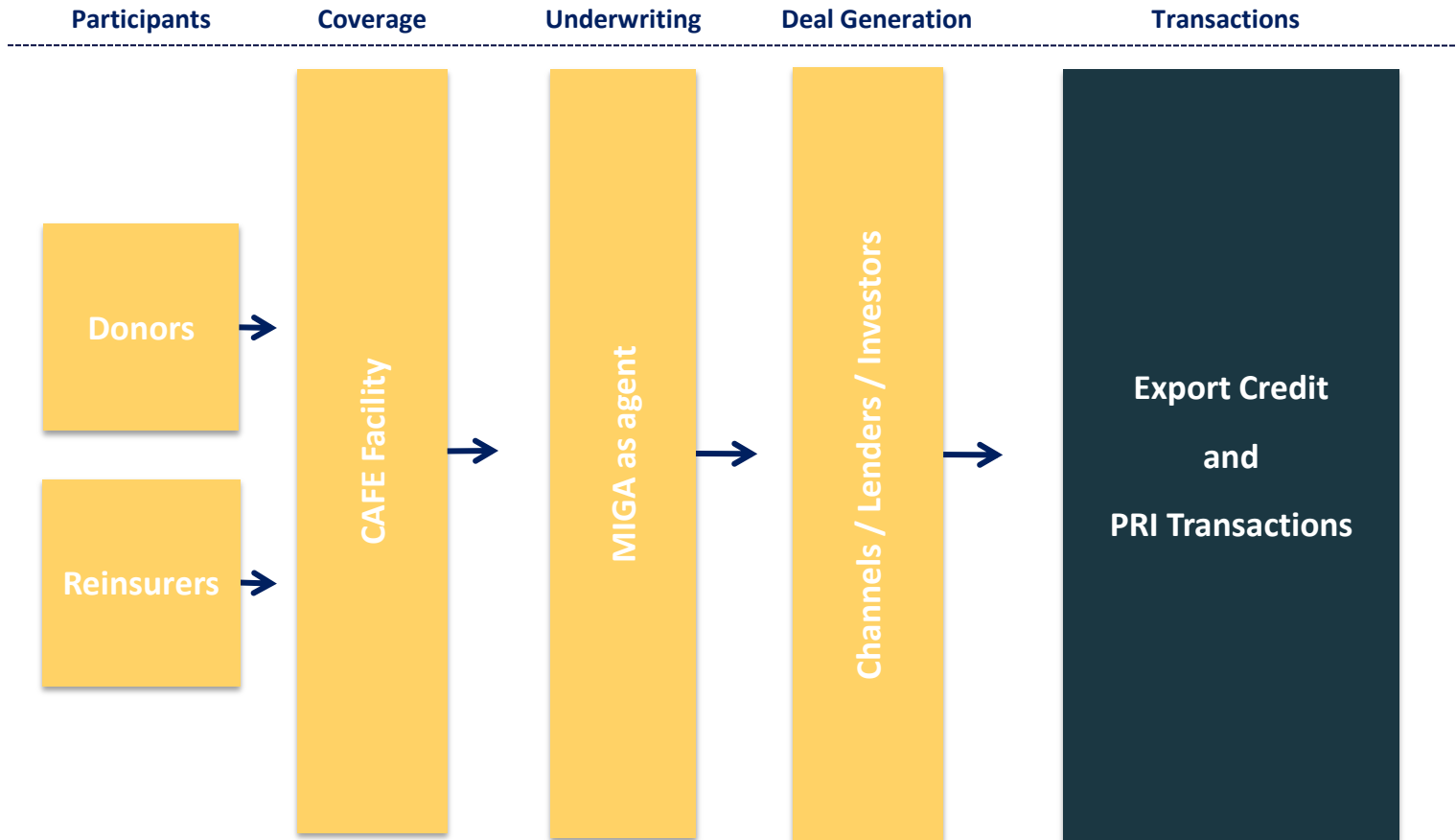
- ◆ \$5.0 million guarantee covering Transfer, Expro, and WCD
- ◆ Manufacture of PET preforms for beverage bottling industry
- ◆ Currently all PET preforms are imported from neighboring countries
- ◆ Project will hire local staff
- ◆ Diversification away from petroleum industry
- ◆ Positive signal to investors considering investments in Iraq

MIGA's support is constrained by its current mandate

- ◆ MIGA's current mandate limits the support the agency can provide to a narrow range of investments and insurance instruments, which are often insufficient to meet the needs of investors, exporters and lenders doing business in fragile and conflict affected states.
- ◆ Over past 12 months, MIGA has had to turn down a total of USD 600 million of applications for projects in fragile and conflict affected states. This is only a fraction of potential demand (investors/banks are aware of constraints).
- ◆ Recent example: Airport modernization project in Haiti. Export credit structure is not eligible for MIGA.

Conflict Affected and Fragile Economies Facility

Facility Structure



How does the facility help?

- ◆ Research has shown that most ECAs have very restrictive cover or are off cover altogether for CAFE countries
- ◆ ECAs can benefit from the facility through reinsurance – the facility will enable ECAs to issue contracts to local businesses and then reinsure that exposure with the CAFEF
- ◆ Facility will complement ECA activities by:
 - ❖ Extending product reach to markets where coverage is not available due to higher risk environments, and
 - ❖ Covering local content and down payment finance, where ECAs have limitations on how much support can be provided
 - ❖ Risk mitigation tools can alleviate investor concerns, facilitate access to finance and catalyze much needed investments sectors such as infrastructure, natural resources, agribusiness and manufacturing, among others

Expected outcomes

- ◆ Facility will contribute to poverty reduction by encouraging private sector development, thus creating employment
- ◆ By covering exports and investments into CAFE countries, a positive signal will be sent to exporters and investors, stimulating further such activity
- ◆ Effect on investment: according to MIGA's historical data, USD 500 million of gross exposure would lead to USD 2 billion of additional investment
- ◆ Employment effects: existing MIGA activity points to substantial gains. Example: 250 direct jobs for telecom project in Afghanistan – excluding employment effect at subcontractors
- ◆ Facilitate regional trade and investment

Questions?