MIGA: Reducing the Risk Profile of Financial Investments

The Financial Sector Investment Challenge
Lack of long-term local funding has always been a major constraint on growth in developing countries. Local banks normally have access to short-term funding through local deposits, but long-term funds tend to be scarce and international banks are less inclined to take on longer-term risks due to the inherent instabilities in some emerging economies and the need to prudently manage their country limits.

What We Do
MIGA—the Multilateral Investment Guarantee Agency—is a member of the World Bank Group. MIGA’s mission is to promote foreign investment into developing countries to support economic growth, reduce poverty, and improve people’s lives. We do this by providing political risk insurance (guarantees) against certain noncommercial risks for investments in developing countries. We also provide dispute resolution services for guaranteed investments.

MIGA guarantees are seen as an effective mitigant of country risk that allow banks to stretch their country limits to accommodate additional exposure. MIGA can cover cross-border medium to long-term investments in the forms of equity to recapitalize subsidiaries, subordinated loans to boost Tier II capital, and senior shareholder loans to provide long-term liquidity for onlending to the real economy and to improve asset liability management.

How We Help
MIGA can help banks by:
- optimizing country limits management
- reducing capital allocations for country risk
- easing access to financing and to more favorable rates
- safeguarding investments from effects of political turmoil in emerging markets
- improving credit ratings

MIGA guarantees are well-suited to reducing the political risks to guaranteed investments and can be used in many ways. For example, a local bank in an emerging market may find it difficult to obtain medium to long-term funding. MIGA may be able to address this concern by providing political risk insurance to a foreign lender that is willing to lend to the local bank at longer tenors with a MIGA guarantee.

MIGA is also classified as a highly-rated multilateral by the Basel Committee on Banking Supervision. This means that a private bank using MIGA insurance to protect against the risk of currency convertibility and transfer restrictions being imposed can now make use of the borrower’s local currency rating for risk-weighting purposes. This risk weight is generally more favorable than the foreign currency ratings of such borrowers, which would otherwise be required and which reflect the ratings of the sovereign. This recognition also means that when an international bank has obtained MIGA’s coverage for a non-honoring of a sovereign financial obligation, the bank receives very significant capital relief.

MIGA also supports banks that are venturing for the first time into emerging markets, by providing political risk guarantees for either greenfield operations or acquisitions that may accompany an expansion.

There is no limit on the size on investments that MIGA can support. Support for projects in the financial sector has ranged from $380 million to an Austrian bank for a shareholder loan to a bank in Ukraine to $1.7 million for the establishment of a microfinance bank in Pakistan. MIGA’s Small Investment Program (www.miga.org/sip) offers a streamlined underwriting process and reduced premium rates for investors seeking coverage under $10 million. This program is particularly well suited to microfinance institutions.
TYPES OF COVERAGE

Transfer restriction coverage protects against losses arising from an investor’s inability to convert local currency (capital, interest, principal, profits, royalties, or other monetary benefits) into foreign exchange for transfer outside the host country. The coverage also insures against excessive delays in acquiring foreign exchange caused by the host government’s actions or failure to act. Currency devaluation is not covered.

Expropriation coverage offers protection against loss of the insured investment as a result of acts by the host government that may reduce or eliminate ownership of, control over, or rights to the insured investment. This policy also covers partial losses, as well as “creeping expropriation,” a series of acts that over time have an expropriatory effect. Bona fide, non-discriminatory measures taken by the host government in the exercise of its legitimate regulatory authority are not considered expropriatory.

Breach of contract coverage protects against losses arising from the host government’s breach or repudiation of a contractual agreement with the investor. In the event of such an alleged breach or repudiation, the investor must be able to invoke a dispute resolution mechanism (e.g., arbitration) set out in the underlying contract and obtain an award for damages. The investor may file for a claim if, after a specified period of time, payment is not received. This coverage can be particularly useful for cases in which governments are contractual partners, including in public-private partnerships (PPPs).

War and civil disturbance coverage protects against loss due to the destruction, disappearance, or physical damage to tangible assets caused by politically motivated acts of war or civil disturbance, including revolution, insurrection, and coups d’etat. Terrorism and sabotage are also covered. War and civil disturbance coverage also extends to events that result in the total inability of the project enterprise to conduct operations essential to its overall financial viability. Coverage for temporary business interruption, including both costs and lost net income, is also available.

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

MIGA Capital Optimization Product Increases Bank Onlending

An example of MIGA’s ability to meet new banking challenges is the agency’s support to ProCredit Holding AG. ProCredit operates a global network of microfinance subsidiaries, which are required to hold reserves at their respective Central Banks. These reserves attract risk weights, resulting in specific capital allocation. This means that capital is tied up at the parent holding level.

To offer capital relief, MIGA has issued guarantees to ProCredit against the risk of expropriation of funds—allowing the bank to extend credit to more small and medium businesses, thereby stimulating growth, employment, and poverty reduction.

MIGA’s coverage used a portfolio approach to insure a maximum amount of €175 million in guarantees for ProCredit subsidiaries in Africa, Eastern Europe, and Latin America.

MIGA Supports Modernization of Rwanda’s Banking Sector

A MIGA-guaranteed investment in Rwanda is helping the country modernize its banking infrastructure. ADC IT & Payment Solutions (ADC) of Mauritius sought MIGA’s coverage for its equity investment in the Société Monétique au de Tele-Compensation au Rwanda (SIMTEL) S.A.R.L. SIMTEL is Rwanda’s national electronic payment transactions provider and operates the country’s credit card switch and cash systems.

ADC’s action plan includes increasing the number of ATMs; replacing and improving SIMTEL’s information technology hardware and software; improving service levels and functionality (for example, accepting international VISA cards); defining a card strategy; and implementing the use of national ID cards as credit/debit cards.

MIGA’s coverage of $9.5 million was underwritten through the agency’s Small Investment Program.
Since its inception, MIGA has issued guarantee contracts totaling $9.7 billion for projects in the financial sector. The finance portfolio currently stands at $4.3 billion, accounting for 51 percent of MIGA's outstanding gross portfolio.

### OUTSTANDING GUARANTEES PORTFOLIO
as of December 2010

#### MIGA'S FINANCE PORTFOLIO

53% Financial  
27% Infrastructure  
11% Agribusiness, manufacturing, and services  
9% Oil, gas, and mining
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 mediate and resolve disputes that might arise. MIGA has supported more than 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 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.**
- **MIGA ensures that appropriate risk solutions are implemented at various stages of the project life cycle.**

Research and Knowledge
MIGA shares knowledge on political risk and foreign direct investment as part of its mandate to support foreign direct investment into emerging markets. Please visit PRI-Center.com ([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—or browse the annual report: *World Investment and Political Risk* ([www.miga.org/wipr](http://www.miga.org/wipr)).

Technical Assistance
MIGA helps countries define and implement strategies to promote investment through technical assistance services managed by the Foreign Investment 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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