MIGA: Connecting Telecommunications Investments

Driven by rapid technological change and the lower cost of cell phones versus fixed landlines, global demand for telecommunications continues to grow. While the rate of telecommunications growth in high-income countries has tapered off, reflecting higher penetration rates and a maturing market base, growth in middle- and lower-income countries remains strong. Foreign and regional investors are increasingly drawn into developing economies in search of new market opportunities, but these countries often carry what investors perceive to be political risks. MIGA’s investment guarantees mitigate the noncommercial risks associated with investment in telecommunications projects, enhancing the deals and protecting the bottom-line potential.

The Telecommunications Investment Challenge
Private investors in telecom projects around the world know there are significant and unique risks associated with these investments—relating, for example, to regulatory concerns, licensing, and frequency allocations. Operators are often concerned about the possibility a host government will impose arbitrary changes to terms and conditions of licenses. Another challenge for telecommunications projects, whose revenues come in local currency, is the ability to convert and transfer earnings outside the country in order to pay dividends or service hard currency debt.

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 (guarantees) against certain noncommercial risks to investments in developing countries, as well as by providing dispute resolution services for guaranteed investments. We also conduct research and share knowledge as part of our mandate to support foreign direct investment into emerging markets. In collaboration with our World Bank Group colleagues, we work with investors to structure deals in ways that benefit all parties and foster positive relationships with communities where they invest.

How We Help
MIGA’s guarantees are well-suited to reduce telecommunications investment risks. They are designed to help companies address hesitations that may impact the decision to move forward with an investment, particularly in countries perceived as high risk. Once a deal is in place, MIGA guarantees bring companies peace of mind, providing an added measure of security that can stabilize the entire project’s risk profile and reinforce positive relations with host governments. Often, the presence of MIGA guarantees makes the difference between a go and a no-go decision for investors concerned about country risk.

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.
TYPES OF COVERAGE

Coverage against expropriatory risks protects against administrative or legislative actions by sovereign governments that are confiscatory, as well as against “creeping expropriation,” a series of acts that gradually lead to expropriation. The guarantees can also cover adverse regulatory decisions, such as the revocation or modification of licenses and decisions related to frequency allocations.

Customized breach of contract coverage when governments are contractual partners protects against the non-payment of an arbitral award granted to the investor in the event of a breach of contractual obligations by the government. MIGA’s breach of contract coverage can be designed to cover selected contract clauses that are of particular concern to telecommunication investors, including performance-related clauses and termination payments.

Coverage against currency-related risks protects investors against losses arising from an inability to convert local currency into foreign exchange or to transfer funds outside the host country. An added benefit of MIGA’s participation is that even when governments impose a moratorium on moving currency, they may agree to exclude revenues from projects backed by MIGA guarantees and thereby permit such transfer. This provides comfort to not only investors but also to lenders, for whom concerns about these risks can drive up financing costs.

Guarantees against events of war, civil disturbance, terrorism, or other politically motivated violence protects investments against physical damage and prolonged business interruption resulting from the above risks. MIGA also covers lenders against payment defaults due to the same risks. 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 Helps Bring State-of-the-Art Telecommunications to AFGHANISTAN

After more than two decades of conflict, Afghanistan presents enormous opportunities for investors willing to take on the challenge of meeting the country’s reconstruction needs. Since Afghanistan became a member of MIGA in 2003, MIGA’s risk mitigation tools have played an important role in securing investments that have a positive development impact in the country.

In 2007, MIGA issued a guarantee of $76.5 million to the MTN Group of South Africa, backing its $85 million investment in Afghanistan’s telecommunications sector. The guarantees cover the installation, operation, and maintenance of a 100 percent digital GSM technology network via its Afghan subsidiary.

The MIGA-backed investment provides residents throughout Afghanistan with a range of affordable telecommunications services, including cell phone, internet, and satellite services, as well as public pay phones. The growth in the subscriber base has been impressive. With the appropriate mitigation of risks, MTN and its investors were able to seize a productive and profitable business opportunity that is also helping to improve life for residents and businesses through the provision of reliable communication services.

Calling WEST AFRICA

As Senegalese telecommunications operator Sonatel has expanded operations into Guinea, Guinea-Bissau, and Mali, MIGA has been a partner every step of the way. Sonatel first turned to MIGA in 2002 when it was awarded a license to provide a broad range of telecommunications services in Mali.

MIGA was instrumental in helping Sonatel gain a secure footing by providing $39.6 million in guarantees for Sonatel’s investment in Ikatel SA. Ikatel, renamed “Orange Mali” in November 2006, began operations in February 2003, and within a few years of commercial deployment, became the leader in Mali’s GSM mobile network.

In 2007, Sonatel approached MIGA again when it received a license to operate and maintain a GSM cellular network in Guinea. MIGA now also provides coverage for Sonatel’s equity investment in Orange Guinée SA.

Building on the success of the “Orange” brand in West Africa, Sonatel most recently began to expand its operations into Guinea Bissau, turning to MIGA once again for $25.9 million of guarantees for this investment.
MIGA’S TELECOMMUNICATIONS PORTFOLIO

Since its inception, MIGA has issued guarantee contracts totaling $1.3 billion for projects in the telecommunications sector. The telecommunications portfolio currently stands at $362.5 million, accounting for 4 percent of MIGA’s outstanding gross portfolio.

OUTSTANDING GUARANTEES PORTFOLIO

as of December 2010

- 53% Financial
- 11% Power
- 11% Agribusiness, manufacturing, and services
- 9% Oil, gas, and mining
- 9% Transportation
- 4% Telecommunications
- 3% Water
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 developing 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)—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).

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.

CONTACT

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