MIGA: Going Where Others Fear to Tread

Multilateral Investment Guarantee Agency (MIGA), part of the World Bank Group, provides political risk coverage in markets which are considered the riskiest and which traditional insurers tend to shy away from. In an interview with *MiddleEast Insurance Review*, Executive Vice President **Yukiko Omura** elaborates on MIGA's role and the situation in the MENA region.

What is the role MIGA is playing in the booming Middle East and North Africa (MENA) market?

One of the key pillars of the World Bank Group's strategy in the MENA region is to help governments build a business climate conducive to investment, job creation and sustainable growth. As a World Bank Group institution, MIGA is also working to that end.

Our political risk insurance (PRI) offers investors and lenders the protection they need to overcome constraints, such as sub-investment grade sovereign ratings, perceptions of potential political instability and conflict, and concerns about legal enforceability of contracts, that hinder investment into and out of the MENA region. We are also encouraging companies from the region to seize available opportunities to venture into other developing countries.

To date, MIGA has issued over 30 guarantees, supporting over US$1 billion of investments, for companies and banks based in the MENA region. MIGA is also helping countries over-reliant on the sale of oil and gas to develop other sectors of their economy for future growth.

In the Gulf states, investors and banks are increasingly looking for investment opportunities beyond the immediate region, in search of higher returns and opportunities to become global players. Islamic financial institutions are playing a rapidly growing role, as are private equity and venture capital funds.

What is the current political risk insurance market climate in the MENA region?

The prolonged period of high oil prices has led to a surge in liquidity in the Middle East region and has resulted in significant amounts of capital in search of higher-yield investment opportunities. Given the volume of liquidity in the region, investors are looking for more opportunities for investment. Increasingly, investors from the region are turning to projects unrelated to natural resource industries, such as real estate, construction and tourism in their domestic markets.

They are also investing in large infrastructure projects, requiring project finance, and, in some cases, partnerships with sovereign or sub-sovereign governments, such as port redevelopment, airport privatisations or road construction. Moreover, investors are extending their reach to places that they have not traditionally considered until now – emerging or frontier countries inside the region and beyond.

Other factors, such as the overall optimistic growth outlook in emerging markets and increase in commercial activity across the broader spectrum of industries are compelling foreign investors to seriously consider investment in the region.

As investors from the Middle East region venture into new and unfamiliar markets, the demand for and awareness of PRI products is expected to increase.

What are some notable market trends and prospects for 2008?

According to a global survey carried out by the Economic Intelligence Unit, World Investment Prospects to 2011, there is a growing perception that political risk is on the rise. And over the next five years, political risk and the threat of production disruption arising from such risks are expected to increase. Moreover, the ongoing credit markets crunch and the associated turmoil have resulted in a generally darker and cautious mood within the global investment and banking communities. Within this climate, MIGA stands ready to work with investors and financial institutions to assuage any lingering concerns over the perceived risks to investing in different markets and regions.

Please give an overview of the types of political factors that may affect foreign investment.

Cross-border investments can pose a number of challenges for foreign investors. Civil disturbances, terrorist attacks and conflict can disrupt normal business operations. Weak macro-economic environments and inadequate legal and regulatory frameworks can invite unwarranted government intervention. Poorly defined ownership rights, failure to enforce the rule of law, exchange control restrictions and limitations on repatriation of funds, governance issues, and increasingly as countries decentralise, sub-sovereign risk are all factors that investors need to consider. If the host government expropriates a multibillion-dollar project without paying full and fair compensation, investors can lose their entire investment. Few can claim to be immune to these risks.

MIGA covers four broad areas of political risk: transfer restriction, expropriation, war and


Ms Yukiko Omura

civil disturbance, and breach of contract. Some of these risks are more prevalent in a given type of investment. For example, breach of contract is usually a risk encountered in projects that contain a performance agreement or which work with a local government entity. Expropriation is obviously more of a risk for a project that contains physical assets, and so on.

What are the cultural aspects of doing business effectively in the MENA region?

One of the increasingly important cultural aspects of doing business in the region relates to the insurer's ability to provide coverage for projects that are consistent with Shariah. MIGA recently issued guarantees to cover investments into a project in Djibouti funded under an Islamic financing structure. The challenge for us was to develop a financial solution that would be acceptable under Islamic finance principles, and we are pleased that we were able to adapt our guarantees accordingly to address the risks the project lenders needed to mitigate.

With the growing Shariah-compliant trade and project finance market, will there be a specialised takaful political risk provider in the private sector?

The increased liquidity in the region has created a dynamism and appetite among global investors and capital markets for structured deals using Islamic finance. In order to satisfy this demand, traditional business tools need to be adapted to meet the relatively unique and complex needs of Islamic finance. In this regard, we are aware that the Islamic Development Bank's takaful insurance affiliate, the Islamic Corporation for the Insurance of Investment and Export Credits (ICIEC), has been – for well over a decade – the main player filling such a void. However, given the current economic boom in the region, we believe there is ample space, and a critical need, for private takaful players to become involved in the ramped-up project finance activities in the region.

How would you compare the role of public insurer with the private provider?

Both private and public insurers have important roles to play in the market. The ultimate goal of both is to distribute the risks among those who are best positioned to shoulder them. Public insurers often take the lead in new product development, since they tend to have a longer-term perspective and more resources to devote to products that may not appear to be commercially viable initially. And they are often at the frontier in terms of providing coverage for "riskier" countries and for longer tenors.

MIGA, for instance, focuses on high-risk post-conflict countries and frontier markets, and our added advantage lies in our ability to tailor our instruments to meet the needs of diverse investor groups in the face of changing market conditions.

We work in close co-operation with other public and private organisations to mobilise insurance capacity, co-finance technical assistance programs, disseminate investment information, and promote best practices. To this end, we have signed Memoranda of Understanding with 39 partners from 31 countries, including with the Islamic Development Bank, ICIEC, the Inter-Arab Investment Guarantee Corporation, and others. The more we work together, the more effective we will all be in achieving our goal.

What role does the broker play in the PRI market today?

Brokers play a very important role in facilitating foreign direct investment by procuring political risk insurance for their clients. In addition, they help to educate investors about different types of PRI coverage and how they can be applied to a given investment to provide the best possible protection. As such, it is the broker's responsibility to understand the nuances between the coverage offered by different insurers and advise clients accordingly, effectively balancing cost concerns with coverage requirements.

In addition to their fiduciary responsibility, brokers must also ensure that there are no gaps in coverage, which could lead to the denial of coverage in the event of a claim. In cases where a single insurer is not sufficient to provide the coverage needed, the broker will approach a number of insurers to arrange a syndication on a coinsurance basis to secure the required amount of coverage.

MIGA's goal is to encourage as much developmentally beneficial investment into emerging economies as possible. To that end, MIGA works with brokers and other insurance providers to ensure complementarity of services and approach.

Doraleh Container Terminal project:
MIGA's Islamic finance project in Doraleh, Djibouti
(Photos: DP World)