

MIGA: Supporting Manufacturing Success

The Multilateral Investment Guarantee Agency, part of the World Bank Group, mitigates political risks to investments through:

Guarantees covering the risks of:

- Currency inconvertibility and transfer restrictions
- Expropriation
- War and civil disturbance
- Breach of contract

Dispute mediation services

MIGA also provides:

Technical assistance to governments and online information on investment opportunities

The ideal manufacturing plant location often combines the optimal mix of lowered production and labor costs with proximity to suppliers and customers. Increasingly, emerging market nations represent strong candidates for such facilities, as they improve their business environments and signal that they are open to foreign direct investment. But investors also know the risks associated with locating in nations emerging from economic and political instability. 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 Manufacturing Investment Challenge

For many manufacturing companies, the goal of producing and distributing “Better-Faster-Cheaper” means a global search for locations, in countries that once might have been overlooked entirely. And as more nations move up the rungs of the development ladder, their people acquire more disposable income, driving up demand and building the market for goods. This would seem the perfect confluence of events for investors. But there are risks. Newly stabilized governments could still be on shaky political ground. Unclear or incomplete laws on property ownership obscure the profit picture. Restrictions on revenue repatriation could complicate a project’s finances even more, adding to the imbalance between foreign-denominated debt and locally 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 part of the World Bank Group. We are a global political risk insurer to private investors and companies investing outside their home countries. We back projects in locations where other political risk insurance agencies might not be willing to go—or where they might go but with shorter tenures—such as countries emerging from war or civil conflict. We advise countries on the needs and benefits of private investors and on ways to attract foreign investment. And, in collaboration with our World Bank Group colleagues, we work with investors to structure deals in ways that will improve the potential for strong returns and foster positive relationships with communities where they invest.

How We Help

MIGA guarantees are well-suited to mitigate non-commercial manufacturing investment risks, thereby lowering the cost of capital. 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 countries seen as high-risk. 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 an entire project and reinforce positive relations with host governments.



World Bank Group
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Types of Coverage

MIGA expropriation coverage protects policy holders against government takeover of assets, such as land, equipment or manufacturing 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. Guarantees also protect investors’ ability to convert local currency into foreign exchange. 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 moving 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 damaged factories. This coverage can also protect against loss of revenue if products cannot get to market due to border closures or if the plant falls inside a war zone, making routine operations difficult.

MIGA coverages, including breach of contract for public-private partnerships, support infrastructure projects in water, power, telecommunications and transportation. Improvements as a result of such projects make developing country locations a realistic option for manufacturers reliant on steady utility sources for industrial processes and an efficient transportation system to bring supplies in and move goods out.

MIGA at Work: Insuring Sheet Metal Manufacturing in Nigeria

Indian manufacturer Manaksia Limited already understood the opportunities in Nigeria when it considered an investment in a metal processing plant. The company, known as MINL of India, boasts a 58 percent share of the substantial bottle cap market in Nigeria, where it also produces them. As it sourced aluminum for bottle caps, company officials began to look at the broader market for aluminum products. With galvanized corrugated steel sheets a popular choice of roofing material for Nigerians, MINL decided to expand its product offerings. The diversification would include corrugated steel sheets, as well as aluminum sheets and aluminum alloy ingots. But where to produce became the issue.

And while MINL determined that it might be more expensive to import, the estimated costs of constructing and operating a local aluminum plant were also quite high. Meantime, the country’s political uncertainties meant that lenders might attach a risk premium that would increase costs even more. But political risk insurance can help reduce these costs, and guarantees

reassure lenders, making them more willing to finance the project.

MINL turned to MIGA, which extended political risk insurance covering equity investments and loans. With MIGA guarantees in place, the decision was made to go forward with construction of the Nigerian plant. The guarantees have a five-year term and protect against the risks of transfer restriction, expropriation, and war and civil disturbance.

Construction of the new facility, with three product lines, is now underway on a green-field site in Nigeria’s Ogun state.

Polish Company Supplies Cans for Growing Beverage Market in Ukraine

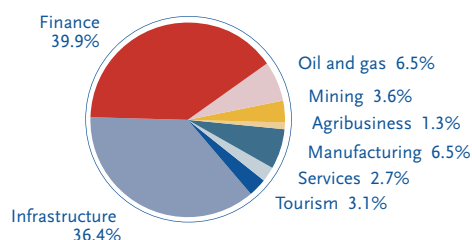
The ubiquitous pop-top beverage can has moved big time into Ukraine. A Polish manufacturer, Can-Pack, saw an opportunity to expand in a country filled with citizens flexing new purchasing power—and a thirst for convenient canned drinks. In Ukraine, Can-Pack also identified a lower cost base—and central geographic location—from which to build its export market into Russia and European nations. But Can-Pack also considered potential non-commercial risks and sought out MIGA.

MIGA guarantees provide the added layer of security the company was looking for. The three guarantees total \$48.8 million, and protect against the risks of expropriation, war and civil disturbance, and transfer restriction. With this additional security in place, the company moved forward with construction of a plant to produce beverage cans for use locally and for export. Now, the plant is up and running, and cans are rolling off the assembly line.

MIGA's Manufacturing Portfolio

Since its inception, MIGA has issued 148 guarantees totaling \$1,467.6 million for projects in the manufacturing sector. The manufacturing portfolio currently stands at \$347.2 million, accounting for 6.5 percent of MIGA's outstanding gross portfolio.

Outstanding Guarantees Issued by Sector (%)



All figures are as of April 30, 2005

Selected MIGA Projects in Manufacturing

Guarantee Holder	Investor Country	Host Country	Gross Amount (\$ M)
Can-Pack S.A.	Poland	Ukraine	48.8
Fatoglu Gida Sanayi Ve Ticaret Anonim Sirketi	Turkey	Azerbaijan	0.3
Komatsu Ltd.	Japan	Pakistan	0.3
Efes Breweries International B.V.	Netherlands	Kazakhstan	7.2
Ingersoll-Rand European Holding Company, B.V., (IR-Europe)	Netherlands	Turkey	22.5
Kjaer Group A/S	Denmark	Mozambique	2.0

What is MIGA's Added Value for Clients?

As a member of the World Bank Group, MIGA is able to provide a unique umbrella of deterrence against political risks related to government actions that may have a negative impact on projects.

Investment Protection and Prompt Claims

- **Deterring harmful actions.** MIGA's relationship with shareholder governments provides additional leverage in protecting investments.
- **Mediating disputes.** As an honest broker, MIGA intervenes at the first sign of trouble to resolve potential investment disputes before they reach claim status, helping to maintain investments and keep revenues flowing.
- **Ensuring prompt claims payment.** In the event that a dispute cannot be mediated, MIGA ensures that valid claims are paid promptly, based on a strong balance sheet and stable stream of operating income.

Improving Financial 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.

- **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.

Country, Social and Environmental Expertise

- **Providing extensive country knowledge.** MIGA applies decades of experience, global reach, and knowledge of developing countries to each transaction.
- **Providing environmental and social expertise.** MIGA helps investors and lenders ensure that projects comply with what are considered to be the world's best social and environmental safeguards.

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