



## MIGA: Supporting Tourism and Hospitality Investments

Emerging markets represent significant untapped potential for investors in the tourism industry. Countries recovering from decades of conflict need a sufficient stock of business-class hotels to help support their private sector development goals. Tourists continue to seek out novel experiences such as ecotourism and adventure travel. While these trends spell new opportunity for investors seeking robust returns, there are risks associated with investing in emerging markets.

### The Tourism Investment Challenge

Tourism and hospitality investors must tread a fine line. On the one hand, being among the first to develop properties in what could be the next highly popular new travel destination entices those in search of an edge over the competition. On the other hand, part of the allure is the remoteness of the location or the novelty of travel to a previously overlooked developing country; this means that additional concerns may arise about the safety of the investment. Newly stabilized governments may still be on shaky political ground. Unclear or incomplete laws on property ownership may obscure the profit picture. Perhaps restrictions on revenue repatriation complicate a project's finances even more, adding to the imbalance between foreign-denominated debt and locally denominated revenue. And other threats, such as terrorism and revolution, add an additional layer of uncertainty—potentially derailing even the most promising of investments in the most idyllic of spots.

Combined, such political risks contribute to the increasingly high cost 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 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 guarantees are well-suited to mitigate noncommercial tourism and hospitality investment risks, thereby lowering the cost of capital. Our insurance reassures 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 where there is a

MIGA insures foreign direct investments against losses related to:

- 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.

perception of high risk. Once a deal is in place, MIGA guarantees, backed by the World Bank Group, bring companies peace of mind, providing an added measure of security that can stabilize an entire project's risk profile and reinforce positive relations with host governments.

Bottom line: MIGA political risk guarantees can decrease the risk profile of tourism and hospitality investments, potentially reducing the cost of capital, lengthening the tenor of loans, or enhancing borrowing capacity—while increasing the probability of a better risk-weighted return.

## TYPES OF COVERAGE

**MIGA expropriation coverage** protects policy holders against government take-over of assets, such as land, equipment, or buildings. 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, increasing

the potential for loan default. Even when governments impose a moratorium on moving currency, as MIGA shareholders they may agree to exclude revenues from MIGA-backed projects. This has been the case in every moratorium 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 hotels. This coverage can also protect against business interruption (lasting 180 days). Coverage for temporary business interruption, including both costs and lost net income, is also available.

**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 tourism investors.

**MIGA 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

### Expanding WEST AFRICA’S Accommodations for Business and Adventure Travelers

Malian-based investor Société Malienne Promotion Hôtelière sought MIGA guarantees for three of its investments in West Africa’s tourism industry. All three projects were underwritten through MIGA’s Small Investment Program, which is specifically designed for small and medium investors. The program offers a standardized package of risk coverages, a quick and efficient underwriting process, and discounted premiums.

MIGA’s relationship with Société Malienne Promotion Hôtelière began in Burkina Faso in the capital city of Ouagadougou where the company secured guarantees

for its investments in leasing the Hôtel Indépendance from the government, as well as renovating and expanding it into a three-star international business hotel. The project was in line with efforts to enhance the capital city’s hospitality infrastructure in order to establish Burkina Faso as a regional center for business and tourism.

On the basis of its good working relationship with MIGA in Burkina Faso, Société Malienne Promotion Hôtelière then insured additional investments with the agency in Guinea Bissau for the renovation of the Hotel 24 Setembro and in Benin to support the upgrade of the Hotel de la Plage in Cotonou.

In all three countries, the renovations and resultant occupancy increases have provided much-needed modern hotel

facilities and contributed to tax revenues and foreign exchange earnings. The hotels employ both skilled and unskilled workers and transfer important managerial and technical skills to the local population. In addition, small and medium businesses—such as shops, food and beverage suppliers, and bus operators that service the hotel and its guests—benefit from increased hotel occupancy.

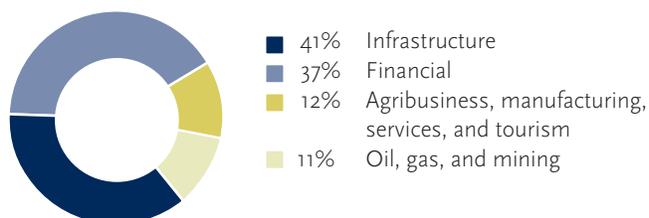
## SELECTED MIGA PROJECTS IN TOURISM

INVESTOR/GUARANTEE HOLDER	PROJECT	HOST COUNTRY	GUARANTEE AMOUNT (\$M)
Société Malienne de Promotion Hôtelière, <i>Mali</i>	Compagnie Hôtelière du Golfe	Benin	1.4
Tamboho International Ltd., <i>Mauritius</i>	Tamboho Hotel	Madagascar	0.7
Société Malienne de Promotion Hôtelière, <i>Mali</i>	Société Burkinabé de Promotion Hôtelière	Burkina Faso	2.9
Louvre International Ltd., <i>Mauritius</i>	Grand Hotel du Louvre S.A.	Madagascar	2.3
Société Malienne de Promotion Hôtelière, <i>Mali</i>	Société Guinéenne de Promotion Hôtelière	Guinea-Bissau	0.6
The Marvin M. Schwan Charitable Foundation, <i>United States</i>	Grupo del Istmo de Papagayo, S.A.	Costa Rica	38.3
Ge.Por.Tur. s.a.s., <i>Italy</i>	Giorgi Alfo Sh.p.k.	Albania	1.6

## MIGA'S TOURISM PORTFOLIO

Since its inception in 1988, MIGA has issued guarantee contracts totaling \$279 million for projects in the tourism sector. The tourism portfolio currently stands at \$12 million.

## OUTSTANDING GUARANTEES PORTFOLIO as of December 2012





## 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 help resolve disputes that might arise. MIGA has supported more than 700 different projects in its history, and has been able to resolve disputes that would have led to claims in all but two cases. (MIGA has paid four claims resulting from damage due to war and civil disturbance.) 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. The annual *World Investment and Political Risk* report examines the overall trends in political risk perceptions, foreign investment intentions, and longer-term demand for political risk insurance, especially in emerging economies ([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 Investment Climate 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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## CONTACT

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### For general information

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