



TOURISM BRIEF

INSURING INVESTMENTS • ENSURING OPPORTUNITIES

MIGA: Supporting Tourism and Hospitality Investments

While the tourism industry is facing significant challenges in light of the financial crisis, emerging markets still represent significant untapped potential for investors in the tourism and hospitality sectors. Countries emerging from conflict need business-class hotels to help bring in foreign investment and tourists continue to seek out novel experiences such as ecotourism and adventure travel. Although this spells new opportunity for investors seeking returns in today's difficult market, there are risks associated with investing in emerging markets, and with credit availability dwindling, finding project financing is becoming increasingly difficult.

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, when part of the allure is the remoteness of the location or the novelty of travel to a previously overlooked developing nation, additional concerns may arise about the safety of the investment. Newly stabilized governments could still be on shaky political ground. Unclear or incomplete laws on property ownership may obscure the profit picture. Restrictions on revenue repatriation could complicate a project's finances even more, adding to the imbalance between foreign currency denominated debt and local currency denominated revenue. And new threats, such as terrorism, add an addi-

tional 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 (or guarantees) against certain noncommercial risks to investments in developing countries, as well as providing dispute resolution services for guaranteed investments. 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 non-commercial tourism and hospitality investment risks, thereby lowering the cost of capital. They reassure lenders that their investments are protected. They help equity owners overcome hesitations that may loom large prior to deal signing, particularly for costly

MIGA insures foreign direct investments against the risks of:

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

MIGA provides dispute resolution services for guaranteed investments to prevent disruptions to developmentally beneficial projects.

investments in countries where there is a perception of 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. Bottom line: MIGA political risk guarantees can reduce the risk profile of your tourism and hospitality investment, potentially reducing the cost of capital, lengthening the tenure of the loan or enhancing your borrowing capacity, while increasing the probability of a better risk-weighted return.

Types of Coverage

MIGA expropriation coverage protects policy holders against government takeover 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, 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 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).

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’s Projects in Tourism

Expanding WEST AFRICA’s Accommodations for Business and Adventure Travelers

Malian-based investor Société Malienne de Promotion Hôtelière (SMPH) has 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-size investors investing in small and medium-size enterprises. The program offers a standardized package of risk coverages, a quick and efficient underwriting process, and discounted premiums.

In Benin, MIGA is providing political risk insurance that will support the upgrade of the Hotel de la Plage in Cotonou, located on

the Gulf of Guinea coast near the city center. The upgraded 100-room, four-star hotel will cater to the needs of business travelers and tourists. Similar projects are under way in Guinea Bissau, where the investor is renovating the Hotel 24 Setembro and in Burkina Faso where the investor is upgrading the Hôtel Indépendance in the capital city of Ouagadougou.

MIGA at Work: Investing in Hospitality in Culturally Rich DAMASCUS

With the country’s rich historical and cultural background, Syria’s emerging tourism industry offers a potentially significant source of foreign-exchange and growth. The country has been home to 33 civiliza-

tions and has a number of sites from the Bronze Age through the Greek, Roman and Byzantine eras, as well as remains from nearly every Islamic dynasty.

A guarantee provided by MIGA helped Syria tap into this potential by attracting investment into a world-class hotel for business travelers and tourists alike. With MIGA’s coverage, the Four Seasons hotel in Damascus, a 297-room facility, opened in 2004. Syria’s first majority privately owned hotel is helping to contribute to the diversification the economy and is raising standards for the hospitality industry in Damascus.

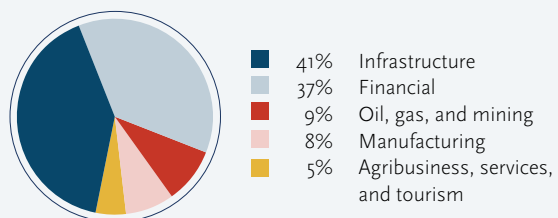
Selected MIGA Projects in Tourism

Investor/Guarantee Holder	Project	Country	Guarantee Amount (\$ million)
Société Malienne de Promotion Hôtelière	Mali	Burkina Faso	2.9
Société Malienne de Promotion Hôtelière	Mali	Guinea Bissau	0.6
Société Malienne de Promotion Hôtelière	Mali	Benin	1.4
Louvre International Ltd.	Mauritius	Madagascar	2.3
Leon Construction International B.V.	Netherlands	Moldova	0.9
The Bank of Nova Scotia & Caribe Hospitality S.A.; Caribe Hospitality de la Republican Dominica, S.A.	Panama	Dominican Republic	7.4
Wings of Papagayo, LLC, Scotiabank (Cayman Islands) Ltd.	Cayman Islands	Costa Rica	81.0
Kingdom 5 KR 71 Ltd.	Saudi Arabia	Syrian Arab Republic	22.8

MIGA's Tourism Portfolio

Since its inception, MIGA has issued guarantee contracts totaling \$279 million for projects in the tourism sector. The tourism portfolio currently stands at \$56 million, accounting for one percent of MIGA's outstanding gross portfolio.

Outstanding Guarantees Portfolio by Sector as of June 30, 2008



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 resolve disputes that might arise. MIGA has supported close to 600 different projects in its history, and has been able to resolve disputes that would have led to claims in all but two cases. (A claim was paid in a third case, resulting from damage due to a war event.) 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.

Online Knowledge Services

- FDI.Net (www.fdi.net) – an investor-focused web portal that offers free, on-demand country analysis and information on foreign direct investment in over 160 countries.
- PRI-Center (www.pri-center.com) – a free service providing in-depth analysis on political risk environment and management issues affecting 160 countries.

Contact

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Technical Assistance

MIGA helps countries define and implement strategies to promote investment through technical assistance services managed by the World Bank Group's Foreign Investment Advisory Services group (www.fias.net).