MIGA: Improving Project Profiles to Get Investments Going

The case of a Dominican toll road

These days, everyone knows that investments are vulnerable to adverse political actions and that political risk insurance (PRI) can offer protection against losses incurred due to these actions. Less well known is the power of PRI beyond simply safeguarding projects. Political risk insurance is being used increasingly as an important lynchpin to help lower project risk, raise financing through capital markets, and more. Take, for example, the case of a toll road project in the Dominican Republic.

MIGA, a member of the World Bank Group, mitigates noncommercial risks by insuring investments against the risks of:

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

MIGA provides mediation services for guaranteed investments to prevent disputes from escalating.

MIGA also provides technical assistance to help countries attract and retain foreign direct investment, as well as providing free online information on investment opportunities.

The project involves a 30-year concession for the construction, maintenance, operation, and transfer of a 106-kilometer toll road. Transport and tourism experts predicted high usage since the road would connect Santo Domingo with the burgeoning tourist destination of the Samaná peninsula, which was at the time accessible only by an unpaved road that became impassible during the rainy season. Despite this optimism, numerous attempts to finance the project fell through due to perceived risks.

In 2005, Autopistas del Nordeste (AdN) tried again. With total project costs estimated at $220 million, AdN contributed $30 million in equity and the government agreed to a $30 million equity stake. But that left $162 million to finance. An initial attempt by the sponsor to secure financing was not successful because commercial banks were unwilling to provide loans beyond 10 years in the Dominican Republic.

Undeterred, AdN decided to look at alternative forms of financing. Together with its financial advisors and with support from the Multilateral Investment Guarantee Agency (MIGA), the company approached the capital markets to raise the additional $162 million needed to finance the project.

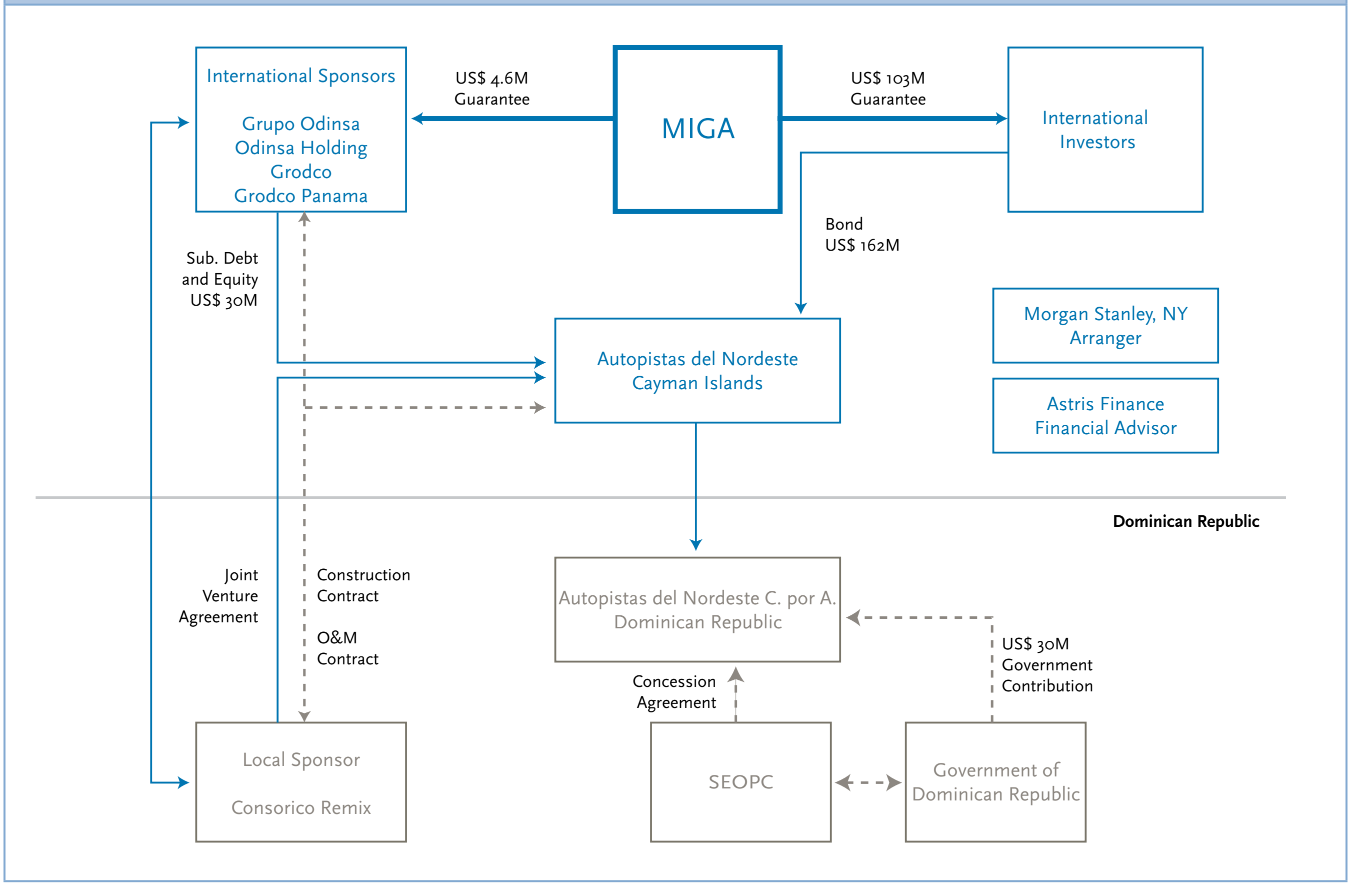
Credit rating agency Fitch was brought in to rate the transaction and found some other potential issues. The greenfield project was located in an untested highway corridor. And, while the models showed that a new highway would improve access to a promising tourist destination, there was no real way of knowing whether the location would actually attract more visitors.

Then in 2006, MIGA agreed to a partial guarantee of 51 percent of the 144a bond issue, including breach of contract coverage, representing first-time four-point cover (expropriation, breach of contract, transfer restriction, and war and civil disturbance) of a capital markets issue to support an infrastructure project. MIGA and the company's financial advisors worked together to develop a flexible and innovative insurance policy that would secure a rating necessary to attract investors, while at the same time being cost-effective to the company. The agency ultimately provided $108 million in political risk insurance, covering the capital markets transaction and the equity investment for 20 years.

The guarantees were instrumental in helping the bond issue ultimately achieve a rating above the sovereign ceiling for the country. The senior secured notes—issued by Autopistas del Nordeste and launched by Morgan Stanley—drew strong demand from investors keen to buy Latin American bonds and were eventually 40 percent oversubscribed.

The benefits to the sponsor were twofold: (1) the cost of capital was reduced; and (2) the amount of principal requiring PRI coverage was also reduced. According to AdN, MIGA's endorsement was the critical factor that opened the financing doors. With MIGA guarantees in place, the company was able to extend the tenor of the payback period, to

Financial Structure



20 years, another key issue for a project with large upfront costs. The company adds that MIGA's involvement plays a more subtle role as well, encouraging all players to abide by the terms of the contract.

DEVELOPMENT IMPACT

With completion slated for May 2008, the toll road is clearly catalyzing development in the Dominican Republic: the country's GDP growth rate is the highest in the region, and new developments and tourism developments are popping up in Samaná, linked by the road to the airport. The road is also expected to foster the development of agricultural production and agribusiness because it will make access to end consumers in the capital and region easier for farmers.

As the country's first highway concession, the project is playing an important role in transferring to locals international standards and knowledge on financing, design, construction, and operation of road concessions.

The project's success has already opened the door for additional bond issues: in November 2006, Cap Cana, a new resort community along the east coast, completed the country's largest international corporate bond issue to date, $250 million in seven-year bonds, receiving a B3 risk rating.

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