



MIGA: Reducing the Risk Profile of Financial Investments

The Financial Sector Investment Challenge

Lack of long-term local funding has always been a major constraint on growth in developing countries. Local banks normally have access to short-term funding through local deposits, but long-term funds tend to be scarce and international banks are less inclined to take on longer-term risks due to the inherent instabilities in some emerging economies and the need to prudently manage their country limits.

What We Do

MIGA—the Multilateral Investment Guarantee Agency—is a member of the World Bank Group. MIGA’s mission is to promote foreign 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 (country or political) risks for investments in developing countries. We also provide dispute resolution services for guaranteed investments.

MIGA guarantees are seen as an effective mitigant of country risk that allow banks to stretch their country limits to accommodate additional exposure. MIGA can cover cross-border medium to long-term investments in the forms of equity to recapitalize subsidiaries, subordinated loans to boost Tier II capital, and senior shareholder loans to provide long-term liquidity for onlending to the real economy and to improve asset-liability management.

How We Help

MIGA can help banks by:

- optimizing country limits management
- reducing capital allocations for country risk
- easing access to financing and to more favorable rates
- safeguarding investments from effects of political turmoil in emerging markets
- improving credit ratings

MIGA guarantees are well-suited to reducing the political risks to guaranteed investments and can be used in many ways. For example, a local bank in an emerging market may find it difficult to obtain medium to long-term funding. MIGA may be able to address this concern by providing political risk insurance to a foreign lender that is willing to lend to the local bank at longer tenors with a MIGA guarantee.

MIGA is also classified as a highly-rated multilateral by the Basel Committee on Banking Supervision. This means that a private bank using MIGA insurance to protect against the risk of currency convertibility and transfer restrictions being imposed can now make use of the borrower’s local currency rating for risk-weighting purposes. This risk weight is generally more favorable than the foreign currency ratings of such borrowers, which would otherwise be required and which reflect the ratings of the sovereign. This recognition also means that when an international bank has obtained MIGA’s coverage for a non-honoring of a sovereign financial

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 financial obligations

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

obligation, the bank receives very significant capital relief.

MIGA also supports banks that are venturing for the first time into emerging markets, by providing political risk guarantees for either greenfield operations or acquisitions that may accompany an expansion.

MIGA’s Value

MIGA offers a range of benefits to investors seeking protection and continuity for their projects in developing markets. MIGA’s guarantees can help investors obtain access to funding sources with improved

financial terms and conditions. Our unique strength is derived from our standing as a member of the World Bank Group and our structure as an international organization with our shareholders including most countries of the world. Since our inception in 1988, MIGA has issued more than \$30 billion in political risk insurance for more than 750 projects throughout the world in a wide variety of sectors. Our strong record on claims is a testimony to MIGA's ability to help investors resolve disputes that may arise. MIGA has been able to resolve disputes that would have led to claims in all but two cases and has paid six claims resulting from damage due to war and civil disturbance.

network of microfinance subsidiaries, which are required to hold reserves at their respective Central Banks. These reserves attract risk weights, resulting in specific capital allocation. This means that capital is tied up at the parent holding level.



To offer capital relief, MIGA has issued guarantees to ProCredit Holding against the risk of expropriation of funds—allowing the bank to extend credit to more small and medium businesses, thereby stimulating growth, employment, and poverty reduction.

MIGA's coverage used a portfolio approach to insure a maximum amount of €175 million in guarantees for ProCredit Holding's subsidiaries in Africa, Eastern Europe, and Latin America.

MIGA AT WORK

MIGA Capital Optimization Product Increases Bank Onlending



An example of MIGA's ability to meet new banking challenges is the agency's support to ProCredit Holding. ProCredit Holding operates a global



Covering this bond issue represented an important milestone for MIGA, representing the first time the Agency used our non-honoring of financial obligations cover for a capital markets transaction. It demonstrated how MIGA's products can be used innovatively to support market-based approaches to enhance development.



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MIGA Support to Hungary Exim Assists Country's Exporters



MIGA's credit enhancement support to Hungary's Export-Import Bank (Exim) helped EXIM achieve a savings that it will use to directly support Hungarian exporters. MIGA's backing for a €400-million bond issue by the Exim raised the bond issue from non-investment to investment grade.