



MIGA

Multilateral Investment
Guarantee Agency
WORLD BANK GROUP

MIGABRIEF

TELECOMMUNICATIONS



INSURING INVESTMENTS ■ ENSURING OPPORTUNITIES

MIGA: Connecting Telecommunications Investments

Driven by rapid technological change and the lower cost of cell phones versus fixed landlines, global demand for telecommunications continues to grow. While the rate of telecommunications growth in high-income countries has tapered off, reflecting higher penetration rates and a maturing market base, growth in middle and lower-income countries remains strong, especially with the increase in broadband connectivity. Foreign and regional investors are increasingly drawn into developing economies in search of new market opportunities, but these countries often carry what investors perceive to be political risks. MIGA's investment guarantees mitigate the noncommercial risks associated with investment in telecommunications projects, enhancing the deals and protecting the bottom-line potential.

The Telecommunications Investment Challenge

Private investors in telecoms projects around the world know there are significant and unique risks associated with these investments—relating, for example, to regulatory concerns, licensing, and frequency allocations. Operators are often concerned about the possibility a host government will impose arbitrary changes to terms and conditions of licenses. Another challenge for telecommunications

projects, whose revenues come in local currency, is the ability to convert and transfer earnings outside the country in order to pay dividends or service hard currency debt.

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's guarantees are well-suited to reduce telecommunications investment risks. They are designed to help companies address hesitations that may impact the decision to move forward with

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.

an investment, particularly in countries perceived as high-risk. Once a deal is in place, MIGA guarantees bring companies peace of mind, providing an added measure of security that can stabilize the entire project's risk profile and reinforce positive relations with host governments. Often, the presence of MIGA guarantees makes the difference between a go and a no-go decision for investors concerned about country risk.

TYPES OF COVERAGE

Coverage against expropriatory risks

protects against administrative or legislative actions by sovereign governments that are confiscatory, as well as against “creeping expropriation,” a series of acts that gradually lead to expropriation. The guarantees can also cover adverse regulatory decisions, such as the revocation or modification of licenses and decisions related to frequency allocations.

Customized breach of contract coverage when governments are contractual partners

protects against the non-payment of an arbitration award granted to the investor in the event of a breach of contractual obligations by the government. MIGA's breach of contract coverage can be designed to cover selected contract clauses that are of particular concern to telecommunication investors, including

performance-related clauses and termination payments.

Coverage against currency-related risks

protects investors against losses arising from an inability to convert local currency into foreign exchange or to transfer funds outside the host country. An added benefit of MIGA's participation is that even when governments impose a moratorium on moving currency, they may agree to exclude revenues from projects backed by MIGA guarantees and thereby permit such transfer. This provides comfort not only to investors but also to lenders, for whom concerns about these risks can drive up financing costs.

Guarantees against events of war, civil disturbance, terrorism, or other politically motivated violence

protects investments against physical damage and prolonged business interruption resulting from the

above risks. MIGA also covers lenders against payment defaults due to the same risks. Coverage for temporary business interruption, including both costs and lost net income, is also available.

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

MIGA Helps Bring State-of-the-Art Telecommunications to INDONESIA

Telecommunications is a particular challenge for the remote islands of the Indonesian archipelago, where MIGA provided \$450 million in investment guarantees to support the expansion of telecom company PT Natrindo Telepon Seluler (NTS), known by the brand “Axis.” MIGA's guarantees are backing a \$450 million Murabaha financing facility underwritten by Deutsche Bank and Saudi British Bank.

The MIGA-backed Islamic finance facility is part of a larger \$1.2 billion financing package for Axis—a GSM and 3G cellular service provider offering wireless communication services in more than 400 cities across Indonesia. The financing has helped the company increase network quality, build capacity, and expand coverage. Axis has been able to reach lower-income segments of the market, allowing the country to improve living standards and boost the quality of its business climate.

Connecting AFGHANISTAN

After more than two decades of conflict, Afghanistan presents enormous opportunities for investors willing to take on the challenge of meeting the country's reconstruction needs.

In 2007, MIGA issued a guarantee of \$76.5 million to the MTN Group of South Africa, backing its \$85 million investment in Afghanistan's telecommunications sector. The guarantees covered the installation and operation of a digital GSM technology network via its Afghan subsidiary. In 2011, MIGA issued an additional \$80.4 million in guarantees covering the expansion of the company's operations.

The MIGA-backed investments provide residents throughout Afghanistan with a range of affordable telecommunications services, including cell phone, internet, satellite, and public pay phones. The growth in the subscriber base has been substantial. With the appropriate mitigation of risks, MTN and its investors were able to seize a profitable business opportunity that is also helping to improve life for residents and businesses.

Calling the CENTRAL AFRICAN REPUBLIC

MIGA's first project guaranteed in the Central African Republic (CAR) involved \$37.9 million in political risk insurance to Orange Participations S.A. of France, covering its investment in Orange Centrafrique S.A. The resultant installation, operation, and maintenance of a state-of-the-art telecommunications network operating on 100 percent digital GSM technology was an important undertaking in a country that has been ranked as one of the most difficult countries in the world for foreign investors. In fact, MIGA's guarantee was a condition precedent for the French investor's equity investment in the country.

The entry of an experienced international operator has expanded telecommunications and internet connections in the CAR. By introducing competition in the local telecommunications market, the project also reduced consumer costs and improved service. Affordable and dependable telecommunications and internet services are especially important for a landlocked country like the CAR.

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).

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.

For General Information

Multilateral Investment Guarantee Agency

World Bank Group
1818 H Street, NW
Washington, DC 20433
t. 1.202.458.2538
f. 1.202.522.2630
migainquiry@worldbank.org

For Information on Guarantees for Telecommunications Sector Investment

Elena Palei
epalei@worldbank.org

 miga.org

 MIGA

 @MIGA

 MIGAWorldBank