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 higher-income countries has tapered off, reflecting higher penetration rates and a maturing market base, growth in middle- and lower-income countries remains high. This is due mainly to the low rates of teledensity throughout the developing world and the relatively inexpensive alternative provided by cell phones. Foreign and regional investors are being 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 improving the bottom-line potential.

The Telecommunications Investment Challenge

Private investors in telecom 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. 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. The shadow of the 1990s telecom bust continues to loom large as well, making it more difficult for some to secure non-shareholder financing, especially in riskier markets.

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 an investment, particularly in countries perceived as high-risk. And once a deal is in place, MIGA guarantees bring companies peace of mind, providing that added measure of security that can stabilize the entire project 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.

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, civil disturbance, terrorism, and sabotage
- Breach of contract

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

MIGA also provides free online information on investment opportunities in developing countries.
Types of Coverage

Coverage against expropriatory risks. This coverage 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. This coverage 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. MIGA’s transfer restriction coverage 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 to not only investors but also to lenders, for whom concerns about these risks can drive up financing costs.

Guarantees against events of war, terrorism, or other politically motivated violence. MIGA coverage 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.

MIGA Helps Bring State-of-the-Art Telecommunications to 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. Since Afghanistan became a member of MIGA in 2003, MIGA’s risk mitigation tools have been playing an important role in securing investments that have a positive development impact in the country.

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 are covering the installation, operation, and maintenance of a 100 percent digital GSM technology network via its Afghan subsidiary, Areeba Afghanistan LLC. MIGA’s coverage is against the risks of transfer restriction and expropriation.

The MIGA-backed investment is providing residents throughout Afghanistan with a range of affordable telecommunications services, including wireless cell phone, Internet and satellite services, as well as public pay phones. The growth in Areeba’s subscriber base has been impressive—with over one million subscribers as of March 2008. With the appropriate mitigation of risks, MTN and its investors were able to seize a productive and profitable business opportunity that is also helping to improve life for residents and businesses through the provision of reliable communication services.
Calling West Africa

As Senagelese telecommunications operator Sonatel has expanded operations into Guinea, Guinea-Bissau, and Mali, MIGA has been a partner every step of the way. Sonatel first turned to MIGA in 2002 when it was awarded a license to provide a broad range of telecommunications services in Mali.

MIGA was instrumental in helping Sonatel gain a secure footing by providing 15-year coverage against the risks of expropriation, war, and civil disturbance for Sonatel’s $18 million investment in Ikatel SA. Ikatel, renamed “Orange Mali” in November 2006, began operations in February 2003, and within a few years of commercial deployment, became the country’s leader of the GSM mobile network. The company’s client base grew by 84 percent from 2003 to 2006—from 182,000 to 1.2 million customers.

In 2007, Sonatel approached MIGA again when it received a license to operate and maintain a GSM cellular network in Guinea. MIGA’s coverage for Sonatel’s $112.3 million equity investment in Orange Guinée SA is providing protection against the risks of transfer restriction, expropriation, war and civil disturbance, and breach of contract.

Building on the success of the “Orange” brand in West Africa, Sonatel most recently began to expand its operations into Guinea Bissau by investing $25.8 million in equity and shareholder loans in Orange Bissau. Sonatel turned to MIGA once again and the agency is providing coverage against the risks of transfer restriction, expropriation, war and civil disturbance, and breach of contract.

MIGA’s Telecommunications Portfolio

Since 1991, MIGA has provided $1.3 billion in guarantees for 35 telecommunications projects in all regions of the world. The telecommunications portfolio currently stands at $400.6 million, accounting for 6.8 percent of MIGA’s outstanding gross portfolio.

### Outstanding Guarantees Issued by Sector (%)

- **31%** Financial
- **22%** Power
- **12%** Transportation
- **10%** Oil, gas and mining
- **10%** Agribusiness, manufacturing, and construction
- **7%** Telecommunications
- **4%** Tourism and services
- **3%** Water/wastewater
- **1%** Waste management

*All figures are as of February 2008*

### Selected MIGA Projects in Telecommunication

<table>
<thead>
<tr>
<th>Guarantee Holder</th>
<th>Investor Country</th>
<th>Host Country</th>
<th>Guarantee Amount ($ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sonatel</td>
<td>Senegal</td>
<td>Guinea-Bissau</td>
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<tr>
<td>Orange Participations S.A.</td>
<td>France</td>
<td>Central African Rep.</td>
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<td>Sonatel</td>
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<td>MTN Group Limited</td>
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<td>Mali</td>
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<tr>
<td>Orascom Telecom Holding SAE</td>
<td>Egypt, Mauritius</td>
<td>Pakistan</td>
<td>90.7</td>
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What is MIGA’s Added Value for Clients?

As a member of the World Bank Group, MIGA is able to provide a unique umbrella of deterrence against political risks related to government actions that may have a negative impact on projects.

Investment Protection and Prompt Claims Payment

- **Deterring harmful actions.** MIGA’s relationship with shareholder governments provides additional leverage in protecting investments.
- **Resolving disputes.** As an honest broker, MIGA intervenes at the first sign of trouble to resolve potential investment disputes before they reach claim status, helping to maintain investments and keep revenues flowing.
- **Ensuring prompt claims payment.** In the event that a dispute cannot be mediated, MIGA ensures that valid claims are paid promptly, based on a strong balance sheet and stable stream of operating income.

Improving Financial 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.
- **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.

Country, Social and Environmental Expertise

- **Providing extensive country knowledge.** MIGA applies decades of experience, global reach, and knowledge of developing countries to each transaction.
- **Providing environmental and social expertise.** MIGA helps investors and lenders ensure that projects comply with what are considered to be the world’s best social and environmental safeguards.

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