MIGA: Supporting Tourism and Hospitality Investments

The tourism industry is booming, no question. As sophisticated travelers search the world for ever more exotic locations offering pristine beaches, stunning natural resources, unusual geographic features, and local charm, cross-border travel and eco-tourism are also on the rise. And there seems no end to the growth in the business travel market. This spells new opportunities for investors in the tourism and hospitality sector, particularly in developing nations, which offer tremendous appeal to travelers seeking novel experiences. But there are risks associated with investment in these nations and project financing costs can be prohibitive as a result. MIGA political risk insurance guarantees can reduce the cost of financing. In fact, they often make the difference between a go and a no-go decision for lenders and project sponsors concerned about the safety of their investments in the tourism and hospitality sector.

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-denominated debt and locally denominated revenue. And new threats, such as terrorism, add an additional layer of uncertainty, potentially derailing even the most promising of investments, in the most idyllic of spots. Combined, such political risks contribute to high costs 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 part of the World Bank Group. We are a global political risk insurer to private investors and companies investing outside their home countries. We back projects in locations where other political risk insurance agencies might not be willing to go—or where they might go but with shorter tenures—such as countries emerging from war or civil conflict. We advise countries on the needs and benefits of private investors and on ways to attract foreign investment. And, in collaboration with our World Bank Group colleagues, we work with investors to structure deals in ways that will improve the potential for strong returns 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 over hesitations that may loom large prior to deal signing, particularly for costly 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

Guarantees covering the risks of:
- Currency inconvertibility and transfer restrictions
- Expropriation
- War and civil disturbance
- Breach of contract

Dispute mediation services

MIGA also provides:

Technical assistance to governments and online information on investment opportunities
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 a number of moratoriums 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 at Work: Investors See Market Opportunities for Costa Rica Tourism**

Costa Rica offers something for everyone. Nestled between the Caribbean Sea and the Pacific Ocean, its world class beaches attract sun lovers and surfers alike. Rain forests and active volcanoes lure adventure travelers. And the nation’s commitment to sustainability—close to 30 percent of the country is designated as national park land—makes it a must-see destination for eco-tourists.

Into this environment came Wings of Papagayo, LLC, with an interest in developing a resort on the magnificent Papagayo Gulf in Guanacaste. This western province, formed by the confluence of a group of volcanoes, features rugged mountains, rushing rivers, dense rain forests and perfect beaches. But there were perceived country risks.

MIGA guarantees helped seal the deal, issuing a guarantee to the Wings of Papagayo project against the risk of expropriation. Today, the hospitality conglomerate’s spectacular Four Seasons Wings of Papagayo Resort is fully operational—a highly popular destination for tourists.
Aerial Tramway through Costa Rica’s Rain Forest

Also in Costa Rica, MIGA guarantees provided the additional assurance needed for an investment by Conservation Tourism Ltd. and the Bank of Nova Scotia of Canada in an ecotourism project—an aerial tram in the 1,000-acre rain forest near San Jose. MIGA guarantees protected against the risks of currency transfer, expropriation and war, and civil disturbance. The open trams take visitors on a 90-minute excursion through the rain forest in a manner that respects and preserves the unique ecological balance of the region. Now complete, the Rain Forest Aerial Tram has operated with great success for several years. Dosel, the company established to operate the tram, has expanded its offerings to include eco-learning, adventures and birding.

MIGA’s Tourism Portfolio

Since its inception, MIGA has issued 31 guarantees totaling $271.6 million for projects in the tourism sector. The tourism portfolio currently stands at $162.5 million, accounting for 3.1 percent of MIGA’s outstanding gross portfolio.

Outstanding Guarantees Issued by Sector (%)

All figures are as of April 30, 2005

Selected MIGA Projects in Tourism

<table>
<thead>
<tr>
<th>Guarantee Holder</th>
<th>Investor Country</th>
<th>Host Country</th>
<th>Gross Amount ($ M)</th>
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<tr>
<td>The Bank of Nova Scotia &amp; Caribe Hospitality S.A.; Caribe Hospitality de la Republica Dominicana, S.A.</td>
<td>Panama</td>
<td>Dominican Republic</td>
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<td>Syrian Arab Republic</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

- **Deterring harmful actions.** MIGA’s relationship with shareholder governments provides additional leverage in protecting investments.
- **Mediating 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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