

**MIGA:
Bringing Clients
Unique Strengths**

The Multilateral Investment Guarantee Agency (MIGA) is a member of the World Bank Group. Its mission is to promote foreign direct investment into developing countries, in order to support economic growth, reduce poverty and improve people's lives.

MIGA's unique strengths derive from its structure as an international organization whose shareholders include most countries in the world. This enables the agency to provide an umbrella of deterrence against government actions that could disrupt investments, and allows it to influence the resolution of potential disputes – and ultimately enhance investor confidence.

The agency actively cooperates with public and private political risk insurers through coinsurance and reinsurance arrangements for joint coverage of eligible investment projects. These collaborative efforts significantly increase available insurance capacity for applicants seeking to expand their businesses in developing countries. MIGA can act as the arranger for a project's total insurance requirements.

Small Investment Program

MIGA has developed a guarantee program called the Small Investment Program (SIP) that is specifically designed for Small and Medium Investors (SMIs) investing in Small and Medium Enterprises (SMEs). Foreign direct investment can play an important role in SME development, both in wholly foreign-owned and joint local-foreign ventures.

MIGA helps the SME sector in emerging economies in two ways: (1) by providing political risk insurance (guarantees) to foreign investors who wish to invest in SMEs, and (2) by providing political risk insurance to financial institutions that will then lend to small and medium businesses through local affiliates.

MIGA's SIP is designed to grow its support for small and medium investors by offering:

- a standardized package of risk coverages that includes currency inconvertibility and transfer restriction, expropriation, and war and civil disturbance
- a quick and efficient underwriting process
- a single application form which can be completed online
- no application fee for small and medium investors

Investors work with one underwriter, who guides them throughout the underwriting process. Depending on the availability of the necessary project information, MIGA can issue guarantees within 6-8 weeks of receiving an application.

What is eligible?

ELIGIBLE INVESTMENTS

MIGA insures new investments destined for any developing country as well as investments associated with the expansion, modernization, or financial restructuring of existing projects. Acquisitions that involve the privatization of state-owned enterprises are also eligible. Other investments may be eligible and are considered on a case-by-case basis.

Types of foreign investments that can be covered include equity, shareholder loans, and shareholder loan guaranties, provided the loans have a minimum maturity of three years. Commercial bank loans can also be insured, provided a shareholder investment in the project is insured concurrently or has already been insured. Other forms of investments, such as technical assistance and management contracts, and franchising and licensing agreements, may also be eligible for coverage.

New investments are those that have neither been made nor irrevocably committed on the date of submission to MIGA of a definitive application for guarantee signed by the investor.

In keeping with MIGA's objective of promoting economic growth and development, investment projects must be financially and economically viable, environmentally sound, and consistent with the labor standards and other development objectives of the host country.

SIZE OF INVESTMENT

Investments in the non-financial sector are eligible for coverage under SIP if they are related to the establishment of an SME, or made into an existing SME, in a developing member country. The SME must fulfill two out of three of the following criteria:

- No more than 300 employees
- Total assets should not be more than US\$15 million
- Total annual sales should not be more than US\$15 million

Investments in the financial sector are eligible if they are geared towards providing financial services for SMEs, and at least 50% of clients related to the investment are SMEs as defined above.

ELIGIBLE INVESTORS

Eligible investors include:

- Nationals of a MIGA member countries
- Corporations if they are either incorporated, and have a principal place of business, in a member country, or if they are majority-owned by nationals of member countries.

There are no restrictions in SIP with respect to the size of the investor. However, the program is specifically designed to assist Small and Medium Investors (SMIs) with their foreign direct investment activities. The application fee is waived for SMIs. In order to qualify as an SMI, the company must have no more than 375 employees and fulfill one of the following criteria: have no more than US\$50 million in assets or US\$100 million in annual sales.

TERMS OF SIP GUARANTEE

SIP guarantees have a term of up to 10 years (3 years minimum), with a possibility for an extension, at the end of the original term, of up to 5 years at MIGA's discretion.

The maximum amount of guarantee is US\$5 million. There is no minimum required amount of guarantee. SIP covers up to 90% of the investment for equity and up to 95% for debt. While the total size of the investment may be larger than \$5 million, the investment must be for a small and medium enterprise in the host country.

SIP's contract of guarantee includes coverage against three types of risks:

- Currency Inconvertibility and Transfer Restriction
- Expropriation
- War and Civil Disturbance

Guarantee Coverages

Currency Inconvertibility and Transfer Restriction Protects against losses arising from an investor's inability to convert local currency (capital, interest, principal, profits, royalties and other remittances) into foreign exchange for transfer outside the host country. The coverage insures against excessive delays in acquiring foreign exchange due to host government action or failure to act. MIGA pays compensation in the currency specified in the contract of guarantee.

Expropriation Protects against losses arising from host government actions that may reduce or eliminate ownership of, control over, or rights to the insured investment. In addition to outright nationalization and confiscation, "creeping" expropriation – a series of acts that, over time, have an expropriatory effect – is also covered. Coverage is available on a limited basis for partial expropriation (e.g., confiscation of funds or tangible assets). Bona fide, non-discriminatory measures by the host government in the exercise of legitimate regulatory authority are not considered to be expropriatory.

For total expropriation of equity investments, MIGA pays the net book value of the insured investment. For expropriation of funds, MIGA pays the insured portion of the blocked funds. For loans and loan guaranties, MIGA can insure the outstanding principal and any accrued and unpaid interest. Compensation will be paid upon assignment of the investor's interest in the expropriated investment (e.g., equity shares or interest in a loan agreement) to MIGA.

War and Civil Disturbance Protects against loss from, damage to, or the destruction or disappearance of, tangible assets caused by politically motivated acts of war or civil disturbance in the host country, including revolution, insurrection, coups d'état, sabotage, and terrorism. War and civil disturbance coverage also extends to events that, for a period set forth in the contract of guarantee, result in an interruption of project operations essential to overall project financial viability. Business interruption coverage is effective when the investment is considered a total loss; at that point, MIGA will pay the book value of the total insured equity investment.

For equity investments, MIGA will pay the investor's share of the least of the book value of the assets, their replacement cost, and the cost of repair of damaged assets. For loans and loan guaranties, MIGA will pay the insured portion of the principal and interest payments in default as a direct result of damage to the assets of the project caused by war and civil disturbance or as a result of business interruption caused by covered events.

Breach of Contract is not offered under SIP, but investors requiring Breach of Contract cover may apply through MIGA's regular guarantee program.

How to Apply

The definitive application from the investor provides MIGA with the information needed to underwrite a project and prepare a contract of guarantee. The application asks for the amount and type of investment, the development and environment impacts of the project and its financial and economic viability. Once the definitive application is received, MIGA will register the project and the investor will be contacted.

The definitive application may be filled out on-line and saved. A user identification and password will allow the applicant to return to the saved application. When filing the definitive application on-line, a signed copy should be sent by mail or fax to:

MIGA Applications Office
MSN U12-1205
1818 H Street, NW
Washington, DC 20433
USA

fax 1. 202.522.2630

If the investor prefers to receive a copy of the definitive application by mail or email, he/she should send a request to migasip@worldbank.org.

While the registration of the definitive application is in effect, implementation of the investment, through transfer

or irrevocable commitment of investment resources to the project, may commence. However, until MIGA's analysis and due diligence is complete, the agency will not be able to commit to providing the requested guarantees. In order for MIGA to pay a claim on an insured investment—shares, assets and other securities obtained by the investor in connection with such investment must be assigned to MIGA unencumbered.

The approval process should not take longer than four weeks if the information requested in the definitive application is filled completely and MIGA is supplied with all relevant project documentation. Once the guarantee proposal has been approved by MIGA, the investor will receive a contract of guarantee, and will have a period of six weeks after receipt of the contract to sign the contract. If the investor decides not to go ahead within this period, MIGA will terminate the guarantee process.

In an effort to process the application without delay, business plan and financial plan should be in place and financial projections should be made available, prior to filing the definitive application.

PLEASE CONTACT US

Questions regarding SIP or the application process should be forwarded to:

migasip@worldbank.org
telephone 1.202.458.4798
fax 1.202.522.2630

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