MIGA’s Non-Honoring of Sovereign Financial Obligations Product

The Multilateral Investment Guarantee Agency (MIGA) is a member of the World Bank Group. MIGA’s mandate is to promote developmentally sustainable foreign direct investment into its developing member countries. It does this by providing political risk insurance (guarantees) against certain non-commercial risks to cross-border investments, as well as by providing dispute resolution services for guaranteed investments.

MIGA’s non-honoring of sovereign financial obligations (NHSFO) coverage provides credit enhancement in transactions involving sovereign and subsovereign obligors. The primary beneficiaries of this cover are commercial lenders that provide loans to public sector entities for infrastructure and other productive investments. NHSFO protects the lender against losses resulting from a government’s failure to make a payment when due under an unconditional financial payment obligation or guarantee, because of inability or unwillingness to pay. NHSFO does not require the investor to obtain an arbitral award in order to file a claim for compensation with MIGA. This coverage may be made available to investors only if the financial payment obligation of the sovereign is unconditional and not subject to any defenses—meaning that there are no grounds on which the sovereign could defend legally against the fact that the obligation is due.

Other key features:
- NHSFO is available for a term of up to 15 years (in some cases 20)
- Subsovereign obligations are eligible on a case-by-case basis
- Claim determination and payment are subject to defined waiting periods
- Coverage of up to 95 percent of principal and interest is available

The primary advantage to MIGA’s NHSFO cover is that it is designed to be Basel II compliant, meaning that banks may receive capital relief, which could allow them to continue lending into a MIGA member country. MIGA therefore increases borrowing capacity to fund developmentally strong projects that cannot be financed in the traditional project finance markets. NHSFO coverage may be applicable for projects that involve either a direct payment obligation of the government, or a government guarantee of the obligations of a state-owned enterprise or public-private partnership joint venture. As a result, MIGA support can enhance the risk profile of a broad range of financing structures. Among the benefits of the coverage to the guarantee holder is the timeliness of the claims determination period and the payment of the claim.

In addition to meeting MIGA’s eligibility criteria, the underwriting team will confirm that the investment has a positive economic rate of return and that cash flows have been identified to service the debt. As with all investments supported by MIGA, the underlying project must have a development impact and be consistent with International Monetary Fund and World Bank country and sector strategies.
NHSFO at Work: Supporting the Expansion of Istanbul’s Metro System

In Turkey, MIGA’s NHSFO coverage is supporting the expansion of Istanbul’s metro system, which will reduce traffic and congestion, provide better access to jobs, and improve the quality of life in the metropolis that is home to 18 percent of Turkey’s population.

In December 2010, MIGA issued a guarantee of $19.5 million covering an investment by WestLB of Germany in the Otogar-Bağcılar-Ikitelli-Olimpic Village Metro Project. The NHSFO coverage provided by MIGA is insuring the Municipality of Istanbul’s guarantee of WestLB’s loan to Istanbul Electricity Tram and Tunnel. This project involves the extension of light rail from the main bus terminal to residential areas.

WestLB later approached MIGA to seek additional coverage for a much larger loan. In this case, WestLB AG, London Branch, was the lead agent for a consortium of lenders, in the Kadikoy-Kartal-Kaynarca Metro extension. Again the loan was provided to the Metropolitan Municipality of Istanbul (MMI) and MIGA’s guarantee of $409.2 million for NHSFO covers the risk of a default by MMI on its obligation to pay principal and interest due to WestLB and the lenders related to this loan.

This project involves the first underground metro system on the Asian side of Istanbul. It will also eventually connect with the European side of the city. The first phase of the project involves finishing the construction of 22 kilometers of the line from Kadikoy to Kartal, which includes 16 metro stations. The second phase consists of extending

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Kadikoy-Kartal-Kaynarca Metro Project Structure

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[Diagram showing the project structure with entities such as Ulaşım A.Ş., WestLB, MIGA, Municipality of Istanbul, Astaldi-Gulermak-Makyol JV, and their relationships through ownership, guarantee, loan, contract, funding, construction, and operator.]
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Working with MIGA

Investors should first review MIGA’s eligibility criteria (see box). The next step in applying for coverage from MIGA is to file a Preliminary Application with MIGA. The free, one-page confidential application takes a few minutes to complete. Applications may be completed on MIGA’s website at www.miga.org (click on “apply for a guarantee”).

Before we undertake extensive underwriting, MIGA’s management conducts a preliminary assessment of the project’s development impact, risk profile, and compliance with our legal and policy requirements. This early review helps give prompt feedback to clients on the project and the requirements for MIGA coverage. Once a project is authorized to proceed, our underwriting team completes its analysis of the project’s risks, its economic and financial viability, its environmental and social impact, and in general, its contribution to development.

Investors are encouraged to contact MIGA to discuss the type, amount, and duration of coverage that fits their needs.

MIGA’s Basic Eligibility Requirements

- MIGA insures cross-border investments made by investors in a MIGA member country into a developing member country
- MIGA insures new investments as well as existing investments meeting certain criteria
- MIGA can cover equity investments, shareholder loans, shareholder loan guaranties, and non-shareholder loans
- Investment projects must be financially and economically viable and meet MIGA’s social and environmental performance standards
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 mediate and resolve disputes that might arise. MIGA has supported some 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 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 Advisory Services of the 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.

CONTACT
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