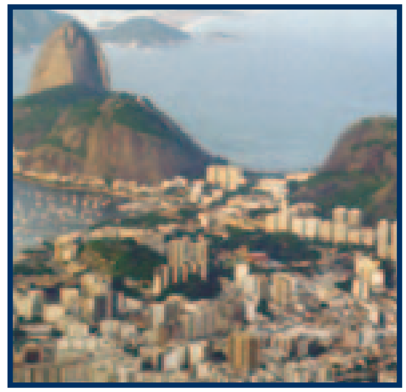
MIGA in capital markets



INSURING INVESTMENTS r ENSURING OPPORTUNITIES

The Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group, promotes foreign direct investment into developing countries by offering political risk insurance (guarantees) to investors and lenders, and by providing technical assistance to help developing countries attract and retain foreign investment.

MIGA

Multilateral Investment Guarantee Agency

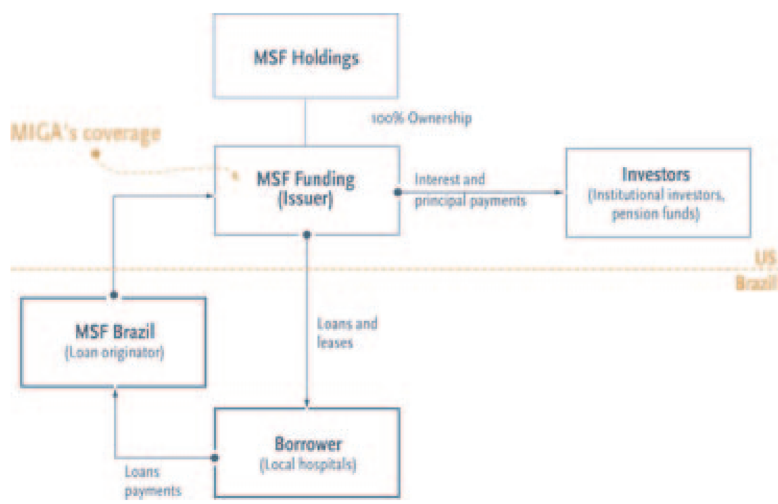
World Bank Group

POLITICAL RISK INSURANCE IN CAPITAL MARKETS

Political risk insurance coverage has the ability to stimulate capital markets by improving ratings, broadening the investor base, and lowering financing costs for investments in emerging economies. It helps eliminate the risks associated with external factors and allows projects to be considered solely on their intrinsic merits. MIGA, the Overseas Private Investment Corporation (OPIC), Zurich Emerging Markets Solutions and others, have pioneered several innovative transactions to encourage capital market development.

In 2000, MIGA insured a ground-breaking deal which was the first internationally rated securitization of Brazilian lease and loan receivables generated from the financing of medical equipment. MIGA issued the $90 million guarantee to MSF Funding LLC, whose parent company, MSF Holdings Ltd., provides loan and lease financing for the supply of high technology diagnostic imaging and radiation therapy equipment to hospitals, physician groups, and clinics throughout Latin America. MSF issued floating-rate notes on the international capital markets based on the company's future leasing revenues. The notes were secured by financing contracts in Brazil. MIGA reinsured its guarantee with eight Lloyd's of London syndicates and with the Netherlands Development Finance Company.

MSF PROJECT STRUCTURE



This is the first transaction securitizing existing assets rated by Standard & Poor's where the assigned rating is higher that the sovereign ratings (both local and foreign currency ratings) of the country where the underlying contracts were originated.

– Standard & Poor's

The MIGA guarantee protects MSF's ability to convert funds generated in local currency into US dollars and to transfer them outside of the country, as well as against expropriation of MSF's Brazilian bank accounts. MIGA is obligated to make scheduled payments of principal and interest on the pool of medical equipment leases and loans in the event of an imposition of inconvertibility and transfer restrictions in Brazil and/or an expropriation of funds by the Brazilian government. The MIGA policy covers the outstanding principal and interest payments due on the Class A, B, and C notes.

In August 2000, Brazil's foreign currency rating was B+, and local currency rating was BB. After MIGA's coverage was issued the ratings changed as follows:

	Moody's	Standard & Poor's	Fitch IBCA
A Notes - 65% of the issue	A2	A	A
B Notes - 7% of the issue	Baa2	BBB	BBB
C Notes	Ba3	BB	BB

The MIGA coverage proved key to improving the risk profile of the notes and helping the investor secure the needed financing, enabling the issue to be rated above Brazil's local and foreign currency ratings. The Class A Notes received an A2 rating from Moody's Investor Services, and an A rating from Standards & Poor and Fitch IBCA. The Class B Notes were rated Baa2 and BBB respectively, and the Class C Notes received a BB rating. Rating agencies would not normally assign a rating to a project higher than the sovereign rating of the country in which the project is located. However, political risk insurance helped the issuers pierce the sovereign ceiling in the MSF deal, and consequently reduced MSF's costs of financing. For issuers whose credit quality is constrained by sovereign foreign currency ratings, such political risk coverage can be particularly beneficial.

The willingness of rating agencies to increase an issuer's rating is typically tied to, among other things, the amount of insurance obtained relative to the total expected payments; the degree of protection provided to the debt holders; and the quality of the insurer. Moody's Investors Services noted that the ratings assigned for the MSF deal exceeded the B2 Brazilian country ceiling because of the presence of the MIGA guarantee. Standard & Poor's also reported that, among other factors, considerations for rating the asset securitization above the sovereign ceiling of Brazil were MIGA's guarantee coverage, its ability and willingness to pay claims, and the establishment of a separate reserve account to address the potential exchange rate mismatch between MIGA's payment under the policy and the amount due from the obligor upon the imposition of a monetary restriction event.

The ratings assigned to the Notes exceed the B2 Brazilian country ceiling because of the presence of the MIGA guarantee.
– Moody's Investor Services

MIGA'S ADDED VALUE

MIGA's participation in a project adds value beyond that of a credit enhancer for country risk. As a member of the World Bank Group and an international agency whose shareholders are the governments of 160 countries, MIGA brings considerable clout and influence to bear on the treatment of the investments it insures. MIGA's involvement in a project provides a powerful umbrella of deterrence against non-commercial risks and enhances confidence that an investor's rights will be respected. The agency is unique in its ability to act as an objective intermediary and to resolve claims and potential investment disputes between investors and host country governments. To date, MIGA has registered and paid only one claim, but has been able to successfully resolve a number of investment disputes, preventing them from developing into full fledged claims.

With the growing importance of the international capital markets, MIGA expects to support more capital market transactions similar to the MSF deal in the future. The added value brought about by converting illiquid individual debt instruments (which cannot be readily sold to third-party investors) into liquid marketable securities is especially important for emerging economies.

PRIVATE PLACEMENTS (UNRATED) INSURED BY MIGA

ING Brazil (1993) and Volvo Peru (1995)	Eurobond private placement deals
Santander Brazil (1999)	$100 million of negotiable notes with a three-year tenor issued by Banco Santander Brazil to a Trust
Santander Argentina (2000)	$50 million negotiable notes (floating-rate notes), with a three-year tenor, issued by Banco Santander Central Ispano (BSCH)
Citibank Argentina (2000)	$100 million notes with a ten-year tenor, issued by Citibank Trust Fund
Brazil light (2000)	$100 million floating-rate notes, issued by Citibank N.A. and BSCH

MIGA's guarantees protect investors against the risks of:

- Currency transfer restriction and inconvertibility
- Expropriation
- War and civil disturbance
- Breach of contract

MIGA provides added value to investors through:

- Credit enhancement: Improved access to financing, increased tenors of capital, and often reduced capital and financing costs.
- Greater confidence: The World Bank Group "umbrella" has a deterrent effect against government actions that could disrupt investments. MIGA can also influence the resolution of potential disputes between investors and host governments, thereby preventing claims.
- Extensive knowledge: Clients are offered unparalleled knowledge of emerging economies through the extensive resources of the entire World Bank Group.

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