World Bank Group
Multilateral Investment
Guarantee Agency

MIGA Classified as 'Highly-Rated Multilateral' under Basel II

What is the Basel II Framework?

The Basel II Framework is the second of the Basel Accords—recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision, and used by individual bank regulatory authorities in the determination of their national banking regulations.

The purpose of Basel II, which was initially issued in June 2004, is to create an international standard that banking regulators can use when preparing regulations on, among other areas, how much capital banks are required to set aside to guard against the types of financial and operational risks banks face. Basel II aims to accomplish this by setting up risk and capital management requirements designed to ensure that a bank holds capital reserves appropriate to the risk the bank exposes itself to through its lending and investment practices.

Classifying MIGA as a Highly-Rated Multilateral

At its 2010 Spring meeting, the Basel Banking Supervision Committee classified the Multilateral Investment Guarantee Agency (MIGA) as a highly-rated multilateral, a treatment that recognizes the special value to banks of the political risk insurance (PRI) that MIGA provides. The Basel Committee determined that MIGA meets the criteria spelled out in the Basel II Framework to merit treatment similar to a select group of multilateral development organizations.

How Does MIGA's Classification under Basel II Affect Banks?

A private bank that uses MIGA insurance to protect against the risk of currency convertibility and transfer restrictions being imposed can now make use of the borrower's local currency rating for risk-weighting purposes. This risk weight is generally more favorable than the foreign currency ratings of such borrowers, which would otherwise be required and which reflect the ratings of the sovereign.

This, in turn, lowers the cost of such loans, encouraging the flow of investments to developing countries. MIGA hopes that this value spurs loans to poorer countries on the receiving end of developmentally-sound foreign direct investment, which can be a powerful instrument to help countries reach their development goals.

Mitigating Risk to Support Economic Growth

MIGA was created in 1988 as a member of the World Bank Group to promote foreign direct investment into emerging economies to support economic growth, reduce poverty, and improve people's lives. MIGA fulfills this mandate by offering political risk insurance (guarantees) to investors and lenders, covering risks including expropriation, breach of contract, currency convertibility and transfer restriction, war and civil disturbance, and non-honoring of sovereign financial obligations.

For investors entering developing-country markets, MIGA is an important risk-mitigation tool, with its value now formally recognized under Basel II.

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