

MIGA and DIFC Collaborate to Promote Foreign Direct Investment in Middle East and North Africa

MoU with the World Bank's MIGA will assist cross-border financing in the Arab world

Dubai: 05 October 2009: The Dubai International Financial Centre (DIFC) and the Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group, have signed a Memorandum of Understanding (MoU) to promote foreign direct investment (FDI) into the Middle East and North Africa. Under the MoU, MIGA and DIFC will explore opportunities for co-branding of existing political risk insurance products, joint business development efforts, and development of a mutual referral process.

Through the initiative, public and private sector enterprises could benefit from improved access to cross-border financing as a result of MIGA's provision of political risk insurance, which helps international investors mitigate non-commercial risks.

The programme will leverage DIFC's in-depth knowledge of regional markets and market participants and MIGA's experience in working closely with clients in emerging markets worldwide to enable cost-efficient, cross-border financial structures.

HE Dr Omar Bin Sulaiman, Governor of the Dubai International Financial Centre said: "The overarching goal of this programme is to help develop efficient and liquid capital markets in the region, long one of the top priorities of DIFC and of strategic importance in the light of current global conditions. MIGA is the ideal partner given its global expertise, unique package of products, and ability to enhance global business confidence throughout the regions in which it operates."

As part of the MoU, DIFC – which has extensive expertise in Islamic finance innovation – and MIGA will collaborate to design and implement a standardised Sharia-compliant guarantee template. Islamic bonds, or sukuk, will be one type of security likely to benefit from this guarantee template.

Izumi Kobayashi, MIGA's Executive Vice President, notes the initiative is strongly aligned with World Bank and MIGA objectives as well as MIGA's commitment to respond to countries hit by the financial crisis. "This initiative responds to business demand for a programme aimed at enhancing market confidence in the Middle East and could help facilitate much-needed foreign investment into creditworthy enterprises and projects."

The MENA region has historically received a disproportionately small share of global FDI, while at the same time having many creditworthy enterprises hampered in their ability to attract cross-border financing because of investor demand for a high risk premium. This is because many of these enterprises are located in jurisdictions with low sovereign ratings. The current global financial crisis has highlighted difficulties faced by enterprises in obtaining international financing, as investors have become even more risk sensitive.

David Eldon, Chairman of DIFC Authority, said: "The signing today is a turning point for the region because it reflects the continued maturing of MENA capital markets, as well as the growing sophistication among regional companies and projects regarding how they secure financing."

MIGA can insure eligible investments made by investors in a MIGA member country into a developing member country. The types of investments the agency can cover include equity, shareholder loans, certain shareholder loan guarantees, management contracts, asset securitisations, capital market bond issues, and leasing, services, franchising and licensing agreements.



The political risks that MIGA can cover include currency inconvertibility and transfer restrictions; expropriation; war, terrorism, and civil disturbance; breach of contract; and non-honouring of sovereign financial obligations.

The memorandum of understanding will seek wherever possible from a legal and operational perspective, and at the request of clients, to have DIFC as the jurisdiction for the issuance/guarantee. As well, DIFC will, in the course of its operations, identify and refer to MIGA enterprises and projects in the region seeking foreign financing that could benefit from political risk insurance (PRI) coverage. DIFC also will provide insights into trends and market dynamics across the MENA region in order to help MIGA refine its regional strategy and products.

The potential demand from enterprises for this programme is significant, given that in the MENA region PRI already guarantees investments in excess of US\$18 billion, up from US\$7.8 billion in 2005. This level of PRI activity is unprecedented and demonstrates the high demand for this instrument. Moreover, almost 50% of current PRI coverage is focused on investments in sub-investment grade countries, jurisdictions where MIGA's guarantees are most useful.

At the same time, the international market has an appetite for MENA securities, given that even in the current environment, several highly rated MENA sovereigns have been able to obtain financing from international investors.

Globally, concerns about investment environments and perceptions of political risk often inhibit foreign direct investment, with the majority of flows going to just a handful of countries and leaving the world's poorest economies largely ignored. MIGA addresses these concerns by providing political risk insurance for foreign investments in developing countries.

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About DIFC

The Dubai International Financial Centre (DIFC) is an onshore hub for global finance. It bridges the time gap between the financial centres of Hong Kong and London and services a region with the largest untapped emerging market for financial services. In just four years, over 800 firms have registered at DIFC. They operate in an open environment complemented with world-class regulations and standards. DIFC offers its member institutions incentives such as 100 per cent foreign ownership, zero tax on income and profits and no restrictions on foreign exchange. In addition their business benefits from modern infrastructure, operational support and business continuity facilities of uncompromisingly high standards.

About MIGA

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, non-honoring of sovereign financial obligations, currency transfer restriction, and war and civil disturbance. MIGA works actively with investors and host countries, helping to resolve disputes before they reach a claims situation. The agency also offers technical assistance to its member countries and provides free online investment information services. Since its inception, MIGA has supported 600 projects in 100 developing countries, totaling \$21 billion in coverage. MIGA's gross exposure stands at \$7.3 billion. For more information, visit www.miga.org.

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