MIGA: Bolstering Private Equity Investment

Private equity funds face significant challenges as they seek to attract capital for investments into emerging and frontier markets. Top-down investors may be uneasy with the macro environments of certain markets due to concerns about government stability, civil unrest, and fragile regulatory frameworks.

These are risks that private markets find very difficult to hedge and they present a specific challenge to emerging market private equity funds.

The Multilateral Investment Guarantee Agency (MIGA) can help international private equity investors overcome these challenges in order to achieve attractive and long-term sustainable risk-adjusted returns. Our work is to encourage foreign direct investment into emerging by markets by helping investors and lenders mitigate political risks through insurance (guarantees) products.

Political risk insurance is widely recognized as an enhancement for securing emerging market debt and is considered an effective risk management tool by credit rating agencies. Indeed, the risk-mitigation benefits offered by MIGA’s political risk insurance go well beyond financial compensation in the event of a loss. By demonstrating the investments MIGA supports 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 of directors, we are in a strong position to resolve disputes that might arise.

MIGA’s operational strategy plays to our foremost strength in the marketplace—attracting investment into difficult operating environments. The agency’s strategy focuses on specific areas where we can make the
greatest difference, including complex deals in infrastructure and extractive industries as well as projects in the world’s poorest and conflict-affected countries.

In fact, MIGA’s support is a catalyst for mainstream capital providers to invest in emerging market private equity. The agency has experience working with private equity funds and is particularly sensitive to their concerns, including the needs to effectively mitigate risks in high-stake investments or to gain the confidence of potential limited partners.

In addition to MIGA’s traditional practice of underwriting individual projects, MIGA can also offer private equity funds a master contract of guarantee that reserves our capacity and provides up-front pricing to the general partners of the fund for a specific period. The fund managers may use this contract to raise funds from institutional investors who are interested in taking the commercial risks (and returns) associated with these investments but are concerned about political risks. MIGA underwrites each underlying investment using its regular underwriting process and guarantees the political risks.

Aside from this insurance and leverage, there are other benefits to MIGA’s support of private equity funds, such as our independent audit of environmental compliance, increased debt tenors, shared country knowledge, reputation risk management for limited partners, and verification of transparency and good governance.

MIGA currently has master contracts with several private equity funds that invest in Sub-Saharan Africa. For example, we support the Sierra Investment Fund LLC and ManoCap Soros Fund LLC of Mauritius in raising capital to invest in a number of small-scale companies in Sierra Leone. Under MIGA’s contract with Chayton Atlas Investments, the agency will provide political risk cover for Chayton’s eligible investments in Zambia and Botswana.

MIGA’s engagement with private equity funds represents a new business model that facilitates investment into the countries that need it most. With this and other products, MIGA emphasizes continuous innovation and adaptation to the marketplace—both from investor and host-country perspectives.

The first step in applying for a guarantee for any coverage from MIGA is to file a Preliminary Application. The free one-page confidential application takes only a few minutes to complete. Applications may be found on MIGA’s website at www.miga.org (click on “apply for a guarantee”).

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