

DEVELOPMENT IMPACT: MIGA AND THE GLOBAL CHALLENGES



IT IS THE VISION OF THE WORLD BANK GROUP TO CONTRIBUTE TO AN INCLUSIVE AND SUSTAINABLE GLOBALIZATION—TO OVERCOME POVERTY, ENHANCE GROWTH WITH CARE FOR THE ENVIRONMENT, AND CREATE INDIVIDUAL OPPORTUNITY AND HOPE.

PRESIDENT ROBERT ZOELLICK

ONE HUNDRED DAYS INTO HIS TENURE AS PRESIDENT OF THE WORLD BANK GROUP, ROBERT ZOELLICK LAID OUT AN AGENDA FOR ADDRESSING A NUMBER OF KEY CHALLENGES FACING THE DEVELOPING WORLD. AT THE CORE OF THE AGENDA IS THE BELIEF THAT GLOBALIZATION OFFERS OPPORTUNITIES THAT ARE THREATENED BY EXCLUSION, GRINDING POVERTY, AND ENVIRONMENTAL DAMAGE. THE GLOBAL COMMUNITY HAS A RESPONSIBILITY TO ENSURE THAT THE WORLD'S POOREST ARE NOT LEFT BEHIND BY GLOBALIZATION—AS A MATTER OF RESPECT FOR THE WORTH OF OUR FELLOW HUMANS, AS WELL AS A MATTER OF ENSURING STABLE SOCIETIES, REDUCING THE INCIDENCE AND SPREAD OF DISEASE, AND ENSURING RESPONSIBLE OVERSIGHT OF OUR COMMON RESOURCES.

The World Bank Group has a role to play, particularly when it comes to the poorest countries, fragile and conflict-affected states, middle-income countries, global public goods, and the Arab world. The Bank Group can also better tap its extensive knowledge and expertise to support its development work in all areas.

As the private sector insurance arm of the World Bank Group, MIGA brings a unique set of tools and solutions to support the goal of inclusive and sustainable globalization. The six strategic areas outlined above are in line with MIGA's operational priorities of supporting investments in the world's poorest countries, conflict-affected countries, complex infrastructure projects, and South-South projects (investment between developing countries).

POOREST COUNTRIES

The World Bank, MIGA, and IFC play complementary roles in facilitating growth and attracting private capital into the world's poorest countries.

MIGA's political risk insurance encourages responsible and sustainable foreign direct investment, which promotes growth, creates jobs, and improves the lives of people in developing countries.

According to the 2008 *Global Development Finance* report, private capital inflows to developing countries surged to an all-time high of \$1 trillion in 2007, the fifth consecutive year of strong gains. It is important to keep in mind, however, that the bulk of private capital flows go to a few of the largest economies. MIGA specializes in facilitating investments in underserved markets, encouraging investors and lenders to enter countries where they would not ordinarily venture.

Since its inception, MIGA has issued \$5.9 billion in guarantees in support of investments in IDA-eligible countries. Today, the agency's gross IDA exposure stands at \$2.3 billion—36 percent of the outstanding portfolio. In fiscal year 2008 alone, 63 percent of all projects supported by MIGA were in IDA countries.



POOREST COUNTRIES

Among the investments supported this year is a telecommunications project in the Central African Republic, where roughly two-thirds of the population lives below the poverty line. The agency provided \$38 million in coverage for a state-of-the-art telecommunications network operating on digital GSM technology. The project will also set up Internet services, especially important for the integration of a landlocked country like the Central African Republic into the regional and global economies. Subscribers should benefit from more reliable service and reduced costs. The project is also expected to support the growth of other industries, spurring job creation and further economic development.

Overall, MIGA's guarantees have provided coverage for more than 210 projects in IDA-eligible countries around the world. In Vietnam, for

example, MIGA is supporting the Phu My 3 power project, which involves a large amount of financing and multiple players, from investors to lenders and brokers to government agencies. The project—part of the Phu My power complex supported by the World Bank Group—is already providing 8-10 percent of the country's electricity, which is particularly important given the inability of hydroelectric and other power resources to keep pace with the country's growing energy needs.

Encouraging foreign direct investment into Africa—which continues to be perceived as a high-risk, high-cost place to do business—is another strategic priority for the agency. For investors, the need to mitigate political risks, real and perceived, is great. MIGA has extensive experience in the region, and has issued \$2.5 billion

in guarantees for about 100 projects supporting investments in all sectors across the continent.

MIGA has been particularly active in the infrastructure sector in Africa, with more than \$1 billion in guarantees supporting telecommunications, power, roads, ports, and other infrastructure investments. Over the past few years, for example, MIGA has been working with investors to provide a stable electricity source to energy-deprived Ugandans. The agency joined its World Bank Group counterparts in 2007 in supporting the 250 megawatt Bujagali hydropower project, which is expected to help reduce outages and costs. MIGA's \$115 million guarantee was considered essential to securing part of the investment.

MIGA's support for this project built on previously guaranteed investments in the country's electricity distribution system. In 2005 and 2007, MIGA provided \$80 million in coverage for the Umeme electricity distribution project, which will extend 13,000 km of overhead lines throughout the country, provide up to 60,000 new connections, and reduce losses within the first five years. Access to electricity will expand for households, schools, clinics, hospitals, and water systems. This is the sort of holistic approach to development MIGA aims for.

This fiscal year, Africa accounts for 38 percent of new projects supported by MIGA.

FRAGILITY AND CONFLICT

The World Bank Group has a long history, dating back to its inception, of helping to rebuild states emerging from conflict. Today, the challenge has been broadened to include aid to help avoid the breakdown of states.

Foreign direct investment can have a strong, positive impact on rebuilding conflict-affected and fragile countries, bringing in much-needed private capital, jobs, technology, and new skills. The creation of jobs provides an important "peace dividend"—providing an alternative to conflict that literally pays off.

MIGA can play a critical role in encouraging FDI back into a country after a period of conflict. Since its inception, MIGA has supported 159 projects with guarantees totaling \$2.9 billion in 24 conflict-affected countries. The development benefits have been far-reaching: providing basic infrastructure; getting financial sectors back on their feet; allowing governments to allocate limited funds to critical social programs; and restoring private sector confidence.

In Afghanistan, for example, MIGA's guarantees are playing an important role in encouraging the private sector back into the country following decades of conflict. MIGA is working with investors to help them overcome their concerns about political risks.

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In fiscal year 2008, MIGA, together with the Afghanistan Investment Guarantee Facility, issued \$1.7 million in guarantees for an innovative project that is addressing the need for durable construction materials to aid in the country's reconstruction. The project consists of a portable, self-powered system that manufactures compressed-earth blocks called GeoBricks. The project is expected to provide builders in Afghanistan with a lower cost, higher quality, and more energy-efficient building material. If the experience is successful, operations will be expanded into neighboring countries.

Since 2006, MIGA has issued more than \$75 million in guarantees in support of investments in agribusiness, telecommunications, banking, and services in Afghanistan. The majority of guarantees average around \$1 million or less, with the exception of a landmark telecommunications investment supported by MIGA last fiscal year. The \$85 million MIGA-guaranteed project represented roughly a third of total FDI flows into the country from March 2006-2007 (the Afghan calendar year).

Also in fiscal year 2008, MIGA provided \$25 million in guarantees for the establishment of a dealership in the Katanga Province of the Democratic Republic of Congo to distribute and service earth-moving and power generating equipment. The project will directly supply equipment suitable for the construction and rehabilitation of road and rail links, and power sector installations, which are in a poor state following decades of conflict and instability. The provision of small-scale generators will help provide power to firms and individuals who currently lack access to electricity or who experience frequent power outages.

MIGA's work in conflict-affected countries spans the globe, but perhaps nowhere has its presence been felt more than in Bosnia and Herzegovina. The agency has played a particularly strong role in helping the country's nascent financial system, stymied by

years of conflict, get off the ground. Since 2001, the agency has supported three of the country's top four banks with more than \$329 million in guarantees for dozens of banking and leasing investments.

Banks supported by MIGA have helped increase consumer confidence in the banking system, introduce new tools, such as leasing, provide training, and bring in new ways of doing business. For large and medium-size local investors—who provide key goods and services, as well as jobs—the availability of long-term financing options has provided the capital needed for businesses to take off. Small and medium-size enterprises (SMEs), which often lack the funds or credit history to purchase the equipment needed to add production capacity, are benefiting too. Foreign banks often provide the only option for small businesses looking to lease trucks, tractors, and other heavy equipment.

MIDDLE-INCOME COUNTRIES

Middle-income countries (MICs) are at a crossroads: able to secure attractive financing as well as investment, and demanding more technical assistance than traditional lending services from development institutions. At the same time, these states continue to face major development challenges, particularly when it comes to the provision of critical social services and infrastructure. And while MICs account for the vast majority of South-based FDI flows into the developing world, there remains the potential for volatility in these flows.

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The challenge for the World Bank Group is to identify and provide a competitive menu of development solutions for middle-income countries, involving customized services as well as finance.

MIGA adds an important dimension to the Bank Group's menu of solutions in middle-income countries. These countries are often home to large, complex investments that involve

contractual relationships with local or regional government entities. These so-called “sub-sovereign entities” may experience political pressures or lack experience in contract management and hands-on knowledge of building and operating massive utility projects—a situation that can cause ill-will and misunderstanding. MIGA’s dispute resolution skills are called into play to help parties reach a resolution when guaranteed investments face these kinds of stumbling blocks.

This was the case in 2005, when a dispute arose between a water company supported by a MIGA guarantee and a municipal authority in China. Each party claimed breaches of the joint-venture contract by the other party, and the construction of a water treatment plant that would provide potable water to nearly half a million people was delayed as a result.

MIGA worked with the relevant parties to find an amicable resolution to the dispute, and a settlement was reached, through the cooperation and goodwill of the foreign investor, the Chinese government, and the provincial authorities. As a result, the water treatment plant was recently commissioned and is now providing potable water to 450,000 people in Deqing County in the Province of Zhejiang.

Another key area of MIGA engagement is in support of South-South investments. Emerging markets, particularly MICs, are becoming an important source of FDI for the rest of the world. South-South investment now represents roughly one-third of all FDI going into developing countries. Demand for political risk insurance to protect these cross-border investments has also gone up. MIGA’s support for South-based FDI now accounts for \$1.24 billion—19 percent, of the outstanding guarantees portfolio.

MIGA has been especially active in supporting outward South African investors. Since inception, MIGA has issued \$578 million in support of 13 projects involving South African companies. Of all investments supported by MIGA in sub-Saharan Africa, 20 percent have involved South African investors.

MIGA’s guarantees are an important tool available to South African investors looking to make sustainable investments throughout the region. With most markets becoming saturated at home, these investors are eyeing business opportunities outside the country, particularly in the areas of finance, retail, mining, telecoms, pharmaceuticals, and agri-business. South African investments are contributing important development benefits, such as job creation and technology transfer—while encouraging overall intraregional economic development.

GLOBAL PUBLIC GOODS

Global public goods are universally recognized goods that markets do not produce adequately—such as vaccines against infectious diseases or reductions in carbon dioxide emissions, which are the chief cause of global warming. Protecting and enhancing global public goods requires multilateral action and global partnerships involving governments, organizations like the World Bank Group, and socially and environmentally responsible corporations.

MIGA’s contribution to this global challenge lies primarily in its ability to create new guarantee products and support projects that will create a demonstration effect in the area of climate change. The agency is working to help developing countries move onto a lower carbon path by encouraging investments into projects that exploit renewable energy resources, support energy conservation, and increase efficiency.

This year, for example, the agency provided \$88 million in guarantee coverage for a project in Kenya that involves the design, construction, management and operation of a base-load geothermal power plant. The project is designed to alleviate the severe power shortages that have hampered economic growth in Kenya, where only about 15 percent of the population has access to electricity. The use of indigenous geothermal fuel resources will reduce Kenya’s exposure to fossil fuel price fluctuations and will avoid the greenhouse gas emissions typically associated with use of fossil fuels.

In El Salvador, MIGA provided \$2 million in investment guarantees for a project that involves capturing and flaring gas generated by municipal waste at a landfill outside San Salvador. The project is already reducing the country’s CO₂ emissions by roughly 3 percent. The second phase of the project will use methane gas from the landfill to generate electricity. The project sponsors used carbon credit financing to raise funds.



MIGA's support enabled them to get better financing terms by mitigating all noncommercial and some Kyoto Protocol-related risks.

Middle-income countries are home to 40 percent of global emissions of CO₂ from fossil fuels. Together with developed countries, which produce most emissions, these nations are an important part of a global approach to climate change. In China, where MIGA has an active portfolio, environmental protection is being given the highest priority. The country has the added impetus of achieving certain environmental standards required as host of the 2008 Olympic Games. Among the key targets are reductions in energy consumption and in the discharge of major pollutants, and an increase in the ratio of energy derived from renewable sources.

With rapid economic and urban development in China, solid waste treatment in large cities has become an increasingly important issue. The establishment of environmentally sound solid waste treatment facilities is a high priority for Beijing, which hopes to convert 40 percent of its waste to energy by 2010 and is planning to build four waste-to-energy treatment plants to help achieve this target. MIGA is supporting the first of the four plants.

In fiscal year 2007, MIGA issued \$25 million in guarantees to Golden State Waste Management Corporation for its support to a waste-to-energy project in Beijing. The project, 11 percent state-owned, consists of a solid waste treatment and power generation facility that will serve a population of 3 million inhabitants. The facility will have the capacity to handle 15 percent of the city's solid waste a day. With an estimated total investment of \$106.5 million, the project is expected to become the largest waste incineration and power generation plant in China when it becomes operational in July 2008.

In addition to improving air quality, reducing CO₂ emissions, and con-

serving limited space for landfills, the project will also generate electricity. While the amount is modest, it represents an important complement to energy generated by fossil fuels. And the project can serve as a model for how other cities in China and throughout the world can help reduce a key contributor to climate change—by cashing in on trash.

MIGA is working with Golden State on a portfolio of projects in China, including a recycling project in Beijing. Together, the two MIGA-supported projects will handle 40 percent of the city's solid waste. MIGA's involvement in the projects provided extra comfort to the international financiers that are backing the projects, helping to increase confidence and raise financing.

THE ARAB WORLD

The Arab world has abundant energy resources as well as the potential to integrate into the global economy outside the oil sector. But the countries in this part of the world face challenges relating to water scarcity, unemployment, lack of economic diversity, weak public accountability, and conflict.

The Bank Group can support the region's advancement by fostering broad-based growth, increasing trading opportunities, improving the ability of education systems to respond to the job market, and creating more hospitable environments for entrepreneurship and innovation. Within this framework, MIGA's niche is in the facilitation of investment that can help

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Since 1988, MIGA has issued nearly \$1 billion in guarantees in the Middle East and North Africa, covering a diverse range of sectors. Current exposure stands at \$682 million. In addition, MIGA has issued some \$881 million in guarantees to MENA-based companies

and banks investing in developing countries outside the region.

The majority of MIGA's guarantees in the region—53 percent—are in support of infrastructure investments. In Jordan, the agency is supporting the country's first build-operate-transfer project, as well as the first public-private partnership in the financing and management of a public infrastructure project. The project consists of the design, construction, operation, maintenance, and financing of a new wastewater treatment plant in As-Samra. MIGA is insuring both the investment and a performance bond.

Recently, MIGA issued a guarantee to cover investments in a service sector project in Algeria. The project involves the privatization of Enterprise Publique Economique de Contrôle Technique Automobile, a public company estab-

lished in 2001 by the Ministry of Transport to provide mandatory vehicle inspection throughout Algeria. The investor acquired a majority stake in the project enterprise in 2007 and is introducing international vehicle safety standards and state-of-the-art inspection systems. MIGA's support for this project is aligned with the World Bank's transport business strategy.

Projects such as these illustrate the powerful role the private sector can play in providing not only essential services, but also jobs and know-how.

Islamic finance is emerging as a rapidly growing part of the financial sector in the Islamic world, and is spreading wherever there is a sizable Muslim community. This fiscal year, MIGA adapted its investment guarantee to cover a Shariah-compliant project finance structure and issued its first Shariah-friendly guarantee coverage.

Supporting investors from the region with guarantees for outward investments is another agency priority. Businesses from Egypt, Israel, Lebanon, Saudi Arabia, Tunisia, and the United Arab Emirates have all received MIGA guarantees for investments in other developing countries.

In 2006, for example, MIGA issued \$78 million in coverage to Egyptian investor Orascom Telecom, covering its equity investment in a telecommunications project in Bangladesh. The project involves the acquisition, operation and maintenance of a national mobile telephone network based on GSM technology. Since the start of operations, Orascom has upgraded the network, rapidly deployed new infrastructure, set up a distribution network, and is offering high-quality mobile services at competitive prices. By supporting this project, MIGA is helping the government of Bangladesh address the acute shortage of reliable telephone services in the country. MIGA also supported a telecommunications investment by Orascom in Pakistan.

MIGA also administers the West Bank and Gaza Political Risk Insurance Trust Fund, which offers guarantees for investments in the Palestinian Territories.

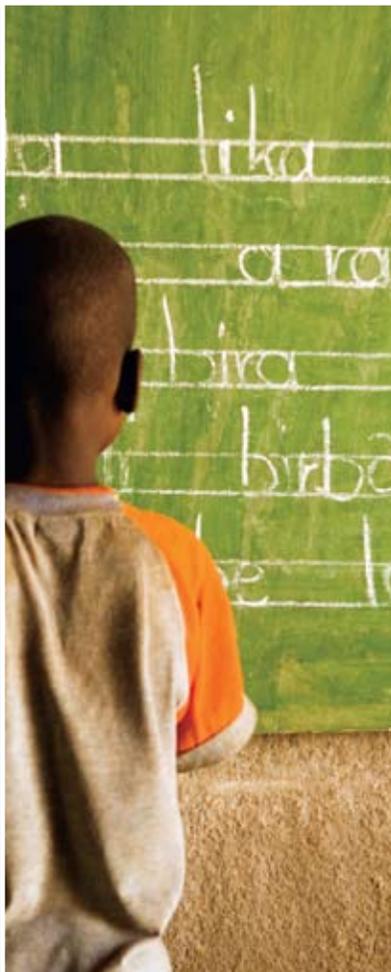
KNOWLEDGE AND LEARNING

One of the World Bank Group's greatest assets is its cumulative "brain trust" of knowledge and experience. Tapping and applying this knowledge in better ways, to elicit better development outcomes, is one of the Bank Group's most important tools—and challenges.

MIGA provides intellectual leadership within the World Bank Group and among the broader insurance and investment communities on guarantees, political risk, and foreign direct investment.

One of the ways MIGA provides this leadership is through its online information services—PRI-Center and FDI.net. These services provide research, promote learning, and share knowledge and experience on FDI and political risk insurance, in support of the World Bank Group's overall knowledge and learning agenda. They also serve as a way for MIGA to build partnerships within the PRI and FDI communities.

The PRI-Center (www.pri-center.com) provides information on the insurance market, featuring political risk analysis and ratings for 160 countries, research, tools, directories, news, and events. Launched in November 2006, the Political Risk Insurance Center is a first-of-its-kind web service that responds to a growing demand for information on mitigating the political or noncommercial risks associated with investing in developing countries. This site is a knowledge resource for all users looking to balance investment risks—from companies in developed and developing countries to small and medium-size enterprises, which may not have the risk management resources available to larger companies.



As a development agency, MIGA's goal is to encourage FDI into the countries that need it most, and one of the first steps is to make sure investors know about the investment opportunities and business conditions in developing countries. To address this need, MIGA hosts FDI.net (www.fdi.net)—an investor-focused portal serving some 25,000 registered users. FDI.net combines business and public resources with World Bank Group analysis to provide users with a single entry point for the full-spectrum of information needed to make a decision about investing in a foreign country. MIGA is also the principal content provider of FDI-related information for the Development Gateway portal.

In addition, MIGA's investment promotion services are integrated into the Foreign Investment Advisory Service (FIAS), enabling the World Bank Group to help countries get the framework right for investment and then market the improved environment from a single platform.

THE GLOBAL CHALLENGES GOING FORWARD

Twenty years ago, MIGA's founders envisaged a World Bank Group entity

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that would complement the institution's mission and activities by offering risk mitigation, rather than direct financing, for projects.

Today, MIGA contributes to the Bank Group's mission of alleviating poverty by focusing on a critical task: encouraging investments in underserved emerging markets and deterring harmful actions that might negatively affect projects' success.

Looking ahead, the agency will continue to leverage its unique mandate and draw on its niche expertise to innovate and find the best solutions possible to the key global challenges facing its clients.