



Multilateral Investment
Guarantee Agency

press release

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World Bank's MIGA Hones Focus on Frontier Markets

Records Solid Fiscal Year Results

WASHINGTON, DC, September 13, 2005—The Multilateral Investment Guarantee Agency, MIGA, a private sector branch of the World Bank Group, today said it issued \$1.2 billion in investment guarantees (insurance) for 33 new projects (62 contracts) in developing countries during the fiscal year ending June 30, 2005. The results bring total coverage issued since MIGA's inception in 1988 to \$14.7 billion, including amounts leveraged through its Cooperative Underwriting Program with other insurers. (See MIGA's 2005 Annual Report at miga.org/index.cfm?aid=232.)

The contracts were on track in supporting the agency's foremost development priorities: 20 were for projects in frontier markets (high-risk, low-income), 12 were for projects in conflict-affected countries, seven supported infrastructure investments, and four supported South-South investments (those between developing countries). IDA-eligible countries (the world's poorest) accounted for 43 percent of the gross portfolio—nearly a 25 percent increase over the previous fiscal year—while coverage for projects in sub-Saharan Africa accounted for a 16.5 percent portfolio share.

"Fiscal 2005 has been an important year, both in terms of the amount of foreign direct investment to reach the developing world and for MIGA, with regard to its role in mitigating risks to ensure the maximum benefit for host countries and investors alike," says MIGA's Executive Vice President, Yukiko Omura.

MIGA's fiscal year results coincided with the first increase in foreign direct investment in developing countries in three years. Prospects for increased foreign direct investment (FDI) into developing countries appear promising in the near-term, and there is an encouraging trend in the rise of investment flows originating from developing countries. But this increased willingness to invest in emerging markets is tempered by ongoing concerns about political risks, particularly in high-risk markets and projects where private insurers continue to be risk-averse.

"This landscape highlights the contribution MIGA can make by promoting FDI where it is needed most, and where the private market is less willing to venture," says Omura. "Indeed, MIGA's new operational strategy plays to

MULTILATERAL INVESTMENT GUARANTEE AGENCY

A MEMBER OF THE WORLD BANK GROUP
1818 H Street, NW, Washington, DC 20433

For information:

Angie Gentile, agentile@worldbank.org, 202.473.3509

www.miga.org

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our foremost strength in the marketplace—attracting investors and private insurers into difficult operating environments—areas where we can make the greatest difference.”

Portfolio diversification

The guarantees issued by MIGA in fiscal 2005 continued to mirror regional FDI flows, with Europe and Central Asia accounting for the largest exposure (45.2 percent). This exposure was driven largely by buoyant investment activity by Austrian banks, encouraged by a more stable political environment in the region, particularly in the Balkans.

MIGA’s gross exposure in Latin America and the Caribbean declined from 33.5 percent in fiscal 2004 to 24.7 percent in fiscal 2005, due in part to continued weak investment activity in the region and guarantee cancellations. Sub-Saharan Africa’s share of the portfolio increased to 16.5 percent in fiscal 2005, due mainly to new projects in Burkina Faso, Democratic Republic of Congo, Ghana, Nigeria, Senegal, and Uganda. Asia’s share of the portfolio rose slightly to 13.2 percent, while guarantees for projects in the Middle East and North Africa dropped from 5 percent in fiscal 2004 to 3 percent in fiscal 2005, due to subdued investment flows in the region and a number of guarantee cancellations.

During the fiscal year, MIGA supported projects in six new host countries: Belarus, Burkina Faso, Democratic Republic of Congo, Latvia, Lao PDR, and Thailand.

Ghana ranked for the first time among the top ten largest host country exposures in MIGA’s portfolio. Two post-conflict countries—Bosnia and Herzegovina and Serbia and Montenegro—remained on the top ten list for the second year in a row. Meanwhile, Brazil continued to account for MIGA’s largest exposure overall, although its gross share decreased from 12.1 percent in fiscal 2004 to 7.5 percent in fiscal 2005, hence releasing scarce capacity to underwrite new business.

In terms of guarantee size, the infrastructure and financial sectors each accounted for 39 percent of the portfolio, followed by oil, gas, and mining at 9 percent, agribusiness and manufacturing at 8 percent, and tourism and services at 5 percent.

Support for small and medium-size enterprises (SMEs) also grew in FY05, with guarantees issued for nine projects. The agency’s insurance for banking operations had a significant, indirect impact on SMEs. For example, guarantees in support of branch expansion in the post-conflict countries of Eastern Europe is helping make credit more accessible at lower rates and for longer-terms to SMEs operating in these countries. In FY05, MIGA continued to de-

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velop its Small Investment Program, which offers a specialized, streamlined underwriting process designed specifically for this special class of investors.

Technical Assistance

In addition to its guarantee services, MIGA provides technical assistance to help governments and other intermediaries involved in promoting investments improve their ability to respond effectively to investor needs. In fiscal 2005, demand for MIGA's technical assistance services continued to be strong, with 32 new requests for services received from the agency's member countries. This brought the agency's active technical assistance portfolio up to 54 projects covering 40 countries.

"MIGA helps investment promotion intermediaries develop their capacity to attract and retain foreign investment, particularly in priority sectors," says Omura.

In addition to country-specific assistance, MIGA was active in a number of global programs, such as the European Investor Outreach Program, a regional initiative designed to increase FDI flows into the Western Balkans. Other global activities included the launch of a new "Investing in Development" publication series, the first report of which profiles successful investment promotion agencies in developing countries, as well as the launch of a global Enterprise Benchmarking Program, which gauges a country's ability to compete with other potential sites and locations for foreign investment.

Mediation

During the fiscal year, MIGA completed the review and resolution of 49 claims stemming from the expropriatory actions of the Mengistu government in Ethiopia more than 30 years ago. "The resolution of many of these long-standing foreign investment claims should encourage the flow of additional investment into Ethiopia," says Omura. The agency also engaged in more than a dozen investment disputes involving clients and paid two claims.

Developmental Impact

The projects supported by MIGA are expected to have strong developmental impacts, helping to reduce poverty in host countries through job creation, export and tax generation, provision of basic services, technology transfer, skill development, spin-off business development, enhanced domestic competition, and more. For example:

- MIGA supported a landmark \$1.2 billion hydropower project in Lao People's Democratic Republic, the largest ever investment in the coun-

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try. The project involves the development, construction, and operation of a trans-basin power plant that is expected to generate \$1.9 billion in foreign exchange earnings over a 25-year period through the export of electricity to Thailand. These earnings will enable the country to increase the amount of money it can invest in health, education, and basic infrastructure for the benefit of the poor.

- The West African Gas Pipeline project illustrates MIGA's unique role in providing support for interregional projects and mobilizing private insurance capacity. The project involves the construction of a 678-km pipeline to transport natural gas from Nigeria to Ghana, Togo, and Benin. The pipeline will allow abundant and cheap natural gas from Nigeria to replace the expensive alternate fuels currently being used. The project sponsor chose to proceed only with the appropriate mitigation of risks and sought out political risk coverage from MIGA and others to ensure that contractual obligations would be fulfilled.
- In addition, MIGA is providing technical assistance to help Afghanistan further stimulate reconstruction through enhanced FDI. Chief among this aid is a program to build the capacity of the Afghan Investment Support Agency, the country's principal agent for attracting and servicing investment into the country, as well as an FDI competitiveness benchmarking program.

"Looking forward, I am excited about MIGA's growing role as a leader when it comes to encouraging critical investment in those markets that need it most," says Omura. "To that end, we will continue to hone our focus on promoting investment in frontier markets, conflict-affected countries, infrastructure, and between developing countries."

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. In addition to providing technical assistance to investment promotion agencies, MIGA fulfills this mandate by offering political risk insurance (guarantees) to investors and lenders (covering expropriation, breach of contract, currency transfer restriction, and war and civil disturbance), and by mediating investment disputes. Since its inception, MIGA has issued 774 guarantees for projects in 91 developing countries, totaling \$14.7 billion in coverage. MIGA's gross exposure stands at \$5.1 billion.

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