

2005
ANNUAL
REPORT



WORLD BANK GROUP
Multilateral Investment Guarantee Agency



MIGA'S MISSION

To promote foreign direct investment into developing countries to support economic growth, reduce poverty, and improve people's lives.

Guarantees

Through its investment guarantees, MIGA offers protection for new cross-border investments, as well as expansions and privatizations of existing projects, against the following types of noncommercial risks:

- Currency inconvertibility and transfer restrictions
- Expropriation
- War and civil disturbance
- Breach of contract

Technical Assistance and Information Services

MIGA provides technical assistance to help government and other agencies involved in promoting investments improve their ability to respond effectively to investor needs as they prepare and implement investments. MIGA helps countries formulate and implement strategies for attracting and retaining foreign direct investment through:

- Advice and tailored assistance to investment promotion intermediaries
- A suite of online services—FDI Xchange, IPAnet and PrivatizationLink—offering free information on investment opportunities, business operating conditions, and business partners

Investment Dispute Mediation

MIGA provides advice to encourage the settlement of disputes between investors and developing member countries, with the goal of improving a country's attractiveness as an investment destination.

CONTENTS

Highlights

Fiscal Year 2005 Highlights	ii
Letter from the President to the Council of Governors	iv
Board Activities Highlights.....	v
Message from the Executive Vice President.....	vi
MIGA Officers and Managers	viii

Development Impact

MIGA in Frontier Markets	1
--------------------------------	---

Operational Overview

Guarantees	10
Technical Assistance	18
Online Dissemination of Investment Information.....	23
Legal and Claims	24
Regional Activities.....	25
Asia and the Pacific.....	25
Europe and Central Asia	28
Latin America and the Caribbean	38
Middle East and North Africa.....	42
Sub-Saharan Africa.....	44

Operations Evaluation and Compliance Advisor/Ombudsman

.....	51
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Management's Discussion and Analysis (FY05) and Financial Statements

.....	53
-------	----

Appendices

.....	87
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Fiscal 2005 Highlights

	2000	2001	2002	2003	2004	2005	FY90-05
Number of Guarantees Issued	53	66	59	59	55	62	773
Number of Projects Supported	37	46	33	37	35	33	486
Amount of New Issuance, Gross (\$ B)	1.6	2.0	1.2	1.4	1.1	1.2	14.0
Amount of New Issuance, Total (\$ B) ¹	1.9	2.2	1.4	1.4	1.1	1.2	14.7
Gross Exposure (\$ B) ²	4.4	5.2	5.3	5.1	5.2	5.1	-
Net Exposure (\$ B) ²	2.8	3.2	3.2	3.2	3.3	3.1	-

¹ Includes amounts leveraged through the Cooperative Underwriting Program (CUP).

² Gross exposure is the maximum aggregate liability. Net exposure is the gross exposure less reinsurance.

Figure 1 Earned Premium, Fee and Investment Income*, \$ M

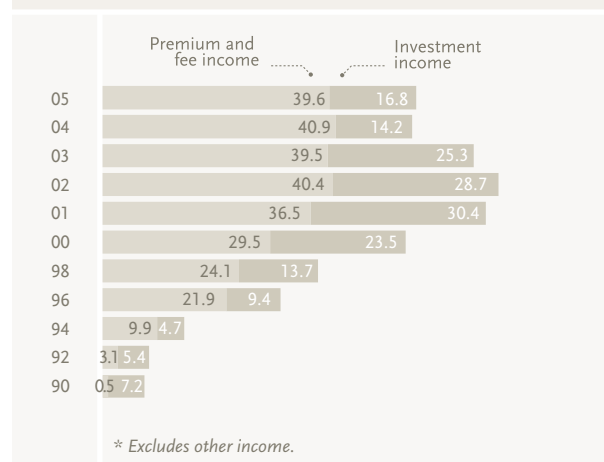
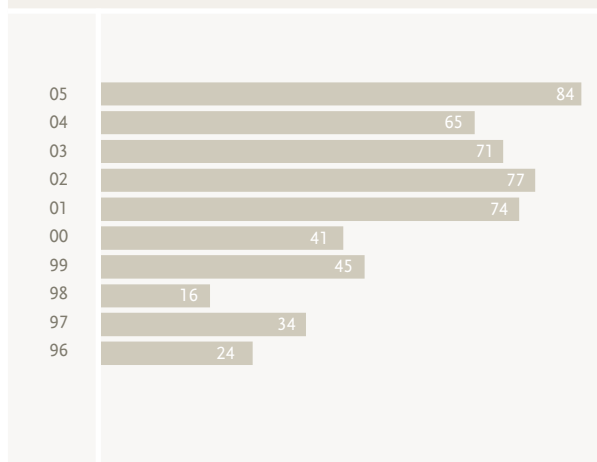


Figure 2 Technical Assistance Activities, number



Membership

In fiscal year 2005, the Maldives joined MIGA, bringing the number of member countries to 165

Coverage for MIGA's Four Priority Areas¹

- 20 projects in frontier markets
- 12 projects in conflict-affected countries
- 7 infrastructure projects
- 4 South–South investments²

Highlights

- 20 guarantee projects and 20 technical assistance projects in IDA–eligible countries³
- Eight new guarantee projects and 11 technical assistance projects in sub-Saharan African countries
- First guarantee coverage for investors from Lebanon and India
- Six new host countries: Belarus, Burkina Faso, Democratic Rep. of Congo, Lao PDR, Latvia, and Thailand
- Supported three waste management projects, the agency's first involvement in this subsector
- Launched investment guarantee facility for Afghanistan, in partnership with the Islamic Republic of Afghanistan, Asian Development Bank, UK government, and IDA
- 84 technical assistance activities conducted in 33 countries, along with several regional and global initiatives
- €4.5 million trust fund partnership with the European Agency for Reconstruction to cover technical assistance activities in the Balkans
- Launched Enterprise Benchmarking Programs in Afghanistan, Africa, the Balkans, and China

iii

Partnerships

- Facultative reinsurance provided to MIGA by other insurers: \$353 million for 11 projects; and by MIGA: \$3.6 million for one project
- Cooperative Underwriting Program: \$6.8 million placed in the market
- Through the European Investor Outreach Program, partnered with investment promotion intermediaries in the Western Balkans and with development partners from countries interested in investing in the region

World Bank Group Cooperation

- Worked with the World Bank guarantees program on the West Africa Gas Pipeline project (Ghana), mortgage securitization project (Latvia), as well as on the Umeme (Uganda) and Nam Theun 2 (Lao PDR/Thailand) power projects
- Coordinated with the Foreign Investment Advisory Service (FIAS) in Ethiopia, Fiji, Azerbaijan, Tajikistan, China, Peru, and Bangladesh, and globally on a series of investment promotion case studies
- Worked with the World Bank on promoting private sector business opportunities in Afghanistan, and on the Gambia Gateway Project
- Conducted joint work with the International Finance Corporation (IFC) on technical assistance projects in Panama and Morocco
- Participated in various World Bank fora, including the Private Sector Development Forum for Latin America, annual Knowledge Forum for Europe and Central Asia, and co-organized the Africa Forum convened in South Africa

Claims and Mediation

- Two claims, totaling \$1.54 million, paid to investors for losses in Argentina and Nepal

¹ Some projects address more than one priority area.

² Investments made from one developing country to another developing country.

³ The International Development Association (IDA), a member of the World Bank Group, helps the world's poorest countries reduce poverty by providing "credits" – which are loans at zero interest – and grants.

Letter from the President to the Council of Governors



This Annual Report records the achievements of the Multilateral Investment Guarantee Agency during the last year of the tenure of my distinguished predecessor, Jim Wolfensohn. It is an enormous responsibility to be entrusted with the leadership of this extraordinary institution, and I am grateful to Jim for having done so much to strengthen it over the past decade.

While much has been accomplished by the World Bank Group and its development partners, much remains to be done. The G-8 Summit at Gleneagles at the beginning of this new fiscal year has brought a welcome focus on the challenges of global development, particularly in Africa. It has also reaffirmed the central role of the World Bank in so much of that work, and has given us even more to do.

As we move forward, we need to keep a balance among the different development priorities. The first priority must be to pay special attention to the needs of the poorest people in the poorest countries in the world. At the same time, the World Bank still has an important role

to play with the rapidly growing developing countries, the so-called “middle-income” countries that nevertheless still have hundreds of millions of people living in extreme poverty. Finally, as a multilateral development institution, the World Bank is uniquely positioned to help the world address some of the concerns of the “global commons,” such as the development of sustainable energy and the alleviation of global health crises.

For its part, MIGA’s investment insurance, dispute mediation services, and technical assistance generated strong results this fiscal year. The agency issued 62 guarantees totaling \$1.2 billion for 33 new projects.

In all of this work, the Bank is blessed with an exceptionally dedicated and qualified professional staff. It is an honor and a privilege to work with them on a daily basis.

Paul D. Wolfowitz
June 30, 2005

Board Activities Highlights

A Council of Governors and a Board of Directors, representing 165 member countries, guide the programs and activities of the Multilateral Investment Guarantee Agency. Each country appoints one governor and one alternate. MIGA's corporate powers are vested in the Council of Governors, which delegates most of its powers to a board of 24 directors. Voting power is weighted according to the share capital each director represents. The directors meet regularly at the World Bank Group headquarters in Washington, DC, where they review and decide on investment projects and oversee general management policies.

Directors also serve on one or more of five standing committees, which help the Board discharge its oversight responsibilities through in-depth examinations of policies and procedures. The Audit Committee advises the Board on financial management and other governance issues to facilitate Board decisions on financial policy and control issues. The Budget Committee considers aspects of business processes, administrative policies, standards, and budget issues that have a significant impact on the cost effectiveness of the Bank Group operations. The Committee on Development Effectiveness advises the Board on operations evaluation and development effec-

tiveness with a view to monitoring progress towards MIGA's mission of poverty reduction. The Personnel Committee advises the Board on compensation and other significant personnel policy issues. In addition, directors serve on the Committee on Governance and Executive Directors' Administrative Matters.

During fiscal year 2005, MIGA's Board of Directors reviewed and concurred with investment guarantees for 37 projects. The Board also oversaw and reviewed MIGA's budgeting and planning process for the upcoming fiscal year. The Board approved MIGA's FY05-08 strategy document (see message from the Executive Vice President) and, along with the Council of Governors, endorsed a five-year review of the agency's activities during FY00-04. A new provisioning methodology for the agency also received Board approval. In addition, during the 2004 Annual Meetings, the Council of Governors approved a mechanism to achieve voting parity between Category 1 and Category 2 countries. Last, the Board reviewed the 2004 Review of Development Effectiveness in MIGA and approved the 2005 Annual Report, both prepared by the Operations Evaluation Unit, which independently evaluates MIGA's activities.

v



MIGA's Board of Executive Directors, as of June 30, 2005

Standing, left to right: Robert Holland*, Herwidayatmo, Pietro Veglio, Eckhard Deutscher, Mathias Sinamenye, Thomas John Austin, Tom Scholar, Chander Mohan Vasudev, Thorsteinn Ingolfsson, Sid Ahmed Dib, Yahya A. M. Alyahya, Nuno Mota Pinto*, Otaviano Canuto, Pierre Duquesne, Paulo Fernando Gomes, Gino Pierre Alzetta, Gobind Ganga*, Alexey G. Kvasov, Luis Marti

Sitting, left to right: Mahdy Ismail Aljazzaf, Jiayi Zou, Jaime Quijandria, Yoshio Okubo, Adrianus P.W. Melkert

Absent: Biagio Bossone, Marcel Massé

* *Alternate*

Message from the Executive Vice President



Fiscal year 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 maximum value-added for foreign investors and host countries alike.

Globally, foreign investors signaled their willingness to once again invest abroad, with FDI into developing countries reaching \$165 billion in 2004, the first increase in three years. This willingness was tempered, however, by ongoing concerns about political risks. Changes in the political risk insurance market were relevant in that insurance capacity increased but providers' tolerance for risk was limited, which inhibited participation in certain countries and sectors. These issues highlighted the important contribution MIGA continued to make in promoting FDI where it is needed most.

This fiscal year has also been an important one for MIGA, which implemented significant internal changes aimed at strengthening the agency's development impact and added value for our shareholders and clients. The agency has undergone a significant transition, with the introduction of a new business model and a revised operational strategy.

MIGA's new business model centers on the agency's unique role as a multilateral risk mitigator, drawing on its governance structure to support investments with the greatest development impact and complement the

activities of others. This implies a focus on areas that public and private entities cannot serve as well, such as higher-risk markets and other areas where MIGA has a unique comparative advantage.

The business model consists of three principal elements that reinforce each other to form an integrated strategy: proactive marketing and complementary products; a comprehensive risk management framework; and stepped-up collaboration with the World Bank Group.

Indeed, our closer cooperation with the World Bank Group is yielding good results, as illustrated by our joint collaboration on a number of high-profile projects during the past year. And we expect that this is just the beginning of a more integrated approach to development, to become an ever more defining feature of the way we do business.

As part of the shift to a new business focus, we also brought together our operational units—guarantees and technical assistance—under one director in a new Operations Department. The move recognized that addressing the challenges of attracting and retaining FDI requires more than just political risk insurance. It requires that MIGA provide client countries an integrated package of products to address risk and related factors affecting an investment.

Along with this realignment came a revised operational strategy that plays to our foremost strength in the marketplace—attracting investors and private insurers into difficult operating environments. The new strategy focuses on specific areas where we can make the greatest difference:

- **Infrastructure development** is an important priority for MIGA, given the estimated need for \$230 billion a year solely for new investment to deal with the rapidly growing urban centers and underserved rural populations in developing countries.
- **Frontier markets**—high-risk and/or low-income countries and markets—represent both a challenge and an opportunity for the agency. These markets typically have the most need and stand to benefit the most from foreign investment, but are not well served by the private market.

- **Investment into conflict-affected countries** is another operational priority for the agency. While these countries tend to attract considerable donor goodwill once conflict ends, aid flows eventually start to decline, making private investment critical for reconstruction and growth. With many investors wary of potential risks, political risk insurance becomes essential to moving investments forward.
- **South-South investments** (investments between developing countries) are contributing a greater proportion of FDI flows. But the private insurance market in these countries is not sufficiently developed or national export credit agencies lack the ability and capacity to offer political risk insurance.

MIGA offers comparative advantages in all of these areas—from our unique package of products and ability to restore the business community’s confidence, to our ongoing collaboration with the public and private insurance market to increase the amount of insurance available to the business community.

All of these changes were integral to our 2005 fiscal year operational results. During the year, the amount of guarantees issued reached \$1.2 billion—representing the first, albeit modest, increase in total new issuance since fiscal year 2001. By the end of the fiscal year, five commitment letters were outstanding, totaling an additional \$123.2 million in coverage. Many of the contracts focus on our priority areas: 20 are for projects in frontier markets, four support South-South investments, 12 are for projects in conflict-affected countries, and seven support infrastructure investments.

MIGA’s work in the area of technical assistance also garnered good results. During the year, we conducted 84 technical assistance activities in 33 countries, along with several regional and global initiatives, including the Enterprise Benchmarking Programs in Africa, Afghanistan, the Balkans, and China. Our technical assistance complements the work of the Bank and IFC, with which we collaborated on an array of fronts, including joint investment promotion case studies and the promotion of private sector business opportunities in Afghanistan and The Gambia.

On the mediation front, we 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. We also engaged in more than a dozen investment disputes involving clients during the fiscal year, and paid two claims.

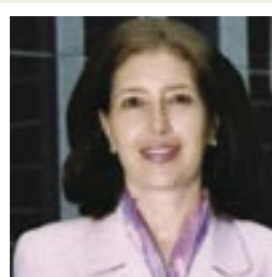
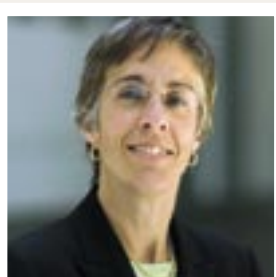
Fiscal year 2005 also saw MIGA conduct a five-year review of its activities, which was accepted by the Board of Directors and put forward to the agency’s Council of Governors for their approval.

Looking forward, I am excited about the prospects for the coming fiscal year. Some of the new initiatives we have in the works—such as a post-conflict guarantee facility for Africa and our Small Investment Program—hold tremendous potential for getting critical investment into nontraditional markets.

Last, I would like to take this opportunity to thank the Board of Directors for their ongoing assistance with the development of our strategy this past year. In addition, I would like to express my gratitude to former World Bank Group President James D. Wolfensohn, for his leadership and vision as the head of MIGA during the year, and welcome his successor, President Paul Wolfowitz.

Yukiko Omura
June 30, 2005

MIGA Officers and Managers



Moina Varkie
Director
External Outreach
and Partners

Luis Doderó
General Counsel and
Vice President
Legal Affairs and Claims

Frank Lysy
Chief Economist and
Director
Economics and Policy

Amédée Prouvost
Director and
Chief Financial Officer

Yukiko Omura
Executive Vice President

Marcus Williams
Adviser
Strategy and Operations

Tessie San Martín
Director
Operations

W. Paatii Ofosu-Amaah
Vice President and
Corporate Secretary

Aysegul Akin-Karasapan
Director
Operations Evaluation Unit