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# MIGA NEWS

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Summer 1997

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## WIDE SUPPORT FOR MIGA CAPITAL INCREASE AT SPRING MEETINGS

MIGA has doubled its portfolio over the past three years, with \$2.7 billion outstanding as of May 15, 1997, and demand for its guarantee services continues to grow. As a result, the Agency's remaining capacity under its current risk-to-asset ratio is under increasing pressure. Management, therefore, has focused attention on the need to improve MIGA's capital base.

MIGA's need for additional capital has drawn wide support from the Agency's President, Board of Directors, and the Development Committee, consisting of finance ministers of 24 member countries that advise the Boards of Governors of the World Bank and International Monetary Fund on the promotion of economic development in developing countries.

Mr. James D. Wolfensohn, President of MIGA, remarked at the Spring Meetings of the Development Committee of the World Bank-IMF held in Washington, D.C., in April: "If MIGA is to continue to respond adequately to the increasing demand for its services, it urgently needs an increase in its capital base."



*At the Bank-Fund Spring Meetings (seated left to right): Mohamed Kabbaj, Development Committee Chairman; James D. Wolfensohn, MIGA President; and Michel Camdessus, International Monetary Fund Managing Director.*

Mr. Robert Rubin, Secretary of the Treasury of the United States, reiterated this backing of MIGA's need for a capital increase during the meetings: "We strongly support the work of MIGA a financial strengthening should allow MIGA to play a larger role in promoting a greater flow of private capital to those countries now primarily dependent upon multilateral and bilateral aid."

In its concluding communiqué, the Committee noted its "concern about the slow progress in finding a long-term solution to the resource constraints of MIGA, and urged the international community to give urgent attention to this critical issue in view of its constraining impact on beneficiary countries."

The communiqué also noted MIGA's continued growth in response to expanding demand for its services and urged the Agency's Board of Directors to resolve in an expeditious manner the remaining issues on how best to obtain adequate resources, and report back to the Committee at its next meeting in September 1997.

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## **MIGA SIGNS TREATY REINSURANCE AGREEMENT: *Expansion of Guarantee Capacity***



*MIGA-ACE treaty reinsurance signed: (seated) Brian Duperreault, ACE Chairman and Akira Iida, MIGA Executive Vice President*

*(Standing) from MIGA: Christina Westholm-Schröder, Syndications and Business Development Manager; Leigh Hollywood, Guarantees Vice President; and Luis Dodero, General Counsel*

In an unprecedented agreement between a private reinsurer and a multilateral agency, MIGA signed a quota share treaty reinsurance agreement with A.C.E. Insurance Company, Ltd. (ACE), a wholly-owned subsidiary of ACE Limited, on April 22, in Bermuda. The agreement marks the first of its kind to provide long-term (up to 20 years) political risk reinsurance of foreign private investments in developing countries.

### **Expanding positive developmental impact**

MIGA's Board of Directors approved Management's reinsurance proposal at a meeting in early April. Directors recognized the significance of the agreement as an innovative means to supplement MIGA's own guarantee capacity in order to continue its support of investments into developing countries. The agreement will allow the Agency to enhance its developmental impact by expanding MIGA's reach in supporting the flow of foreign capital into developing countries, and increase its ability to issue investment guarantees to better meet investors' demands for long-term political risk insurance.

Mr. Akira Iida, MIGA's Executive Vice President, expressed his enthusiasm at the signing: "This agreement is an important milestone in MIGA's collaboration with the private insurance market in the promotion of increased flows of foreign direct investment to the developing world."

### **Proven Track Record**

Mr. Brian Duperreault, Chairman, President and Chief Executive Officer of ACE, noted: "We are pleased to enter into this agreement with MIGA, with its proven track record of successful underwriting of political risk guarantees, and look forward to the opportunities this new alliance will create."

Over the longer term, the MIGA-ACE treaty agreement is expected to have an overall positive impact in encouraging expanded involvement of private insurers in long-term risk insurance as well as opening the door for other public insurers to procure reinsurance for longer terms.

### **Promoting partnership with private insurers**

Among other collaborative efforts with the private insurance market, MIGA also created the Cooperative Underwriting Program (CUP) to increase the benefits of foreign investment in its developing member countries. This program is a form of coinsurance with private underwriters designed to encourage them to offer political risk insurance for projects in developing countries where they might not have assumed the risk without the backing of an international institution such as MIGA. The program facilitates the syndication of additional insurance capacity from private insurers.

MIGA recently signed its first guarantee contract under the CUP for an investment in a power project in Indonesia. (See project details in "**Third Quarter Fiscal 1997 Guarantee Results**")

For further information, please contact: Ms. Christina Westholm-Schröder (202-473-6165).

## **What does the MIGA-ACE Reinsurance Agreement mean for private investors?**

### **i) Capacity**

The agreement between MIGA and ACE will significantly increase available insurance capacity for investors seeking to expand their businesses in developing countries. Under the agreement, ACE will assume exposure of up to US\$25 million per project and up to US\$100 million per country for new contracts of guarantee. In effect, this means MIGA can offer increased coverage, of up to \$75 million per project (up from \$50 million) and up to \$325 million per country (up from \$225 million), without increasing its own exposure. This will be particularly important for countries in which MIGA has already utilized most of its current capacity, e.g., Brazil, Peru, and Russia. The agreement will specifically benefit large infrastructure and mining projects which require large amounts of coverage.

### **ii) Procedures**

Investors will not be subject to any new procedures or duplication of information. The main parameters of MIGA's current program, such as sector and country eligibility, and terms and conditions of the guarantee contracts, will remain unchanged. MIGA retains total independence and flexibility in its underwriting decisions, and projects insured would have to contribute to the development needs of the host country, including creation of jobs, generation of exports, and transfer of technology. They will also continue to be required to meet MIGA's criteria of environmental, financial, and technical soundness.

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## **THIRD QUARTER FISCAL 1997 GUARANTEE RESULTS**

In the first three quarters of fiscal 1997, MIGA issued 30 contracts of guarantee for US\$355 million in coverage in 15 developing countries. These projects will facilitate some US\$1 billion in foreign direct investment and create about 2,300 jobs in these countries. In the third quarter (January 1-March 31), MIGA issued guarantees for the following investments:

<i>Guarantee Holder</i>	<i>Project Description</i>	<i>Host Country</i>	<i>Max. Limit of Liability (US\$mill.)</i>
Efes Sinai Yatirim ve Ticaret A.S.	Manufacturing	Azerbaijan	\$16.5
ABN AMRO Bank, N.V.	Telecommunications	Colombia	\$30.0
Drummond Company, Inc.	Mining	Colombia	\$35.0
Enron Development Corp.	Power	Indonesia	\$15.0
Bank of Nova Scotia	Branch Banking	Jamaica	\$24.0
Lloyds Bank, Plc.	Branch Banking	Paraguay	\$10.0
Banco Santander S.A.	Financial Services	Peru	\$19.0
Citibank, N.A.	Branch Banking	Peru	\$13.5
Efes Sinai Yatirim ve Ticaret A.S.	Manufacturing	Russia	\$23.0

## **MIGA Issues First Guarantees under the CUP**

MIGA issued a \$60 million guarantee contract to Enron Java Power Corporation, a subsidiary of Enron Corporation of the United States for its equity investment in a 500-megawatt gas-fired, combined cycle power plant in Indonesia. MIGA's guarantee covers the risks of expropriation, transfer restriction, and war and civil disturbance. The guarantee is issued under the Cooperative Underwriting Program (CUP). MIGA's exposure is \$15 million.

The project enterprise, P.T. East Java Power Corporation, will be located near Surabaya. It will create about 800 jobs during the construction phase, and approximately 45 permanent jobs after operation. An additional 90 people will be hired separately by contractors for maintenance and other services. Employees will receive substantial technical and managerial training. The local community will benefit from the installation of electricity transmission lines, the building of a new road and the improvement of an existing one with drainage and lighting. Local businesses will benefit from the local sourcing of more than 90 percent of the value of goods and services.

The project will improve the availability and reliability of electric power in Indonesia and will account for 3 to 5 percent of the country's total electricity production.

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## MIGA CREATES INVESTMENT GUARANTEE TRUST FUNDS

MIGA established two separate Investment Guarantee Trust Funds to facilitate foreign investments into Bosnia and Herzegovina and the West Bank and Gaza, respectively. The Trust Funds will broadly follow the parameters of MIGA's guarantee program and will provide long-term (up to 15 years) insurance for eligible small- and medium-sized investments. MIGA will issue guarantees on behalf of, and pay compensation from, the Trust Funds. New investments, including contributions associated with the expansion, modernization, or financial restructuring of existing projects, and acquisitions that involve the privatization of state enterprises are eligible. The Trust Funds will utilize MIGA's underwriting, claims and recovery expertise, and supplement the Agency's available insurance capacity for foreign investments in these regions.

In consonance with MIGA's mandate to promote economic growth and development, eligible investments covered by the Trust Funds will have to contribute to the development needs of the host countries or territories, be financially and economically viable, and environmentally sound.



*Luis Dodero, MIGA's General Counsel (left) met with Yasser Arafat, Palestinian Authority Chairman, and Rajai Khouri, Arafat's advisor (right) to discuss the West Bank and Gaza Investment Guarantee Trust Fund.*

### ***Bosnia and Herzegovina***

The European Union sponsored the Investment Guarantee Trust Fund for Bosnia and Herzegovina with a credit line of 10.5 million ECU. The Trust Fund will encourage the

inflow of much-needed capital into the country from eligible investors of EU member countries and certain East European countries.

## ***West Bank and Gaza***

MIGA created the West Bank and Gaza Investment Guarantee Fund in cooperation with the Palestine Liberation Organization, on behalf of the Palestinian Authority. The Fund is mandated to stimulate private investment flows for reconstruction of the territories and their reintegration into the world economy. Governments of a number of countries have shown their willingness to contribute to the Fund. The World Bank also plans to contribute to the Fund through sponsorship by the Palestinian Authority. MIGA continues to seek additional commitments from governments and multilateral institutions to support this initiative.

For details on these Investment Guarantee Funds, please contact the respective [Regional Managers](#).

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## **SPECIAL ANNOUNCEMENT**

**A Symposium on International Political Risk Management Techniques**, jointly sponsored by MIGA and Georgetown University's Landegger Program in International Business Diplomacy, will be held on October 30, 1997.

*Original papers will be commissioned on:*

- The Changing Nature of Political Risk and the Design of Corporate Strategy;
- Management of Political Risk in Infrastructure, Petroleum, and Mining; and
- The Use of Political Risk Insurance and Multilateral Guarantees.

The agenda includes analysis and commentary by leading figures in the financial, insurance, legal, and rating communities.

***For details, please contact:***

Professor Theodore H. Moran, School of Foreign Service, Georgetown University,  
Washington, D.C. 20057

Tel: 202-687-5854 / Fax: 202-687-6033 / E-mail: [morant@gunet.georgetown.edu](mailto:morant@gunet.georgetown.edu)

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### **MIGA NEWS**

**would be pleased to receive queries or comments from readers about  
any matters appearing in this publication.**

**World Wide Web: <http://www.miga.org>**