Multilateral Investment Guarantee Agency
World Bank Group

miga news

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MIGA Sees Solid Results in FY02

Agency issues $1.4 billion in coverage

Despite the challenges of the past year, MIGA issued $1.36 billion in guarantee coverage for projects in developing countries, for an estimated total of $4.7 billion in foreign direct investment (FDI) facilitated. The amount issued takes account of projects covered under MIGA's Cooperative Underwriting Program (CUP), a form of coinsurance used by MIGA to increase its guarantee capacity.

"These results need to be considered against the backdrop of the exceptional hurdles we faced this year: a slowing global economy, the events of September 11, and the financial crisis in Argentina," says the agency's head, Motomichi Ikawa. "I'm very pleased that we were able to continue our focus on our priority areas, and achieve solid results, despite the circumstances."

MIGA provided guarantees for 33 projects in 24 countries during the fiscal year. Its priorities were to support foreign direct investments in countries eligible for support from the International Development Association (IDA—those with a per capita income threshold of $885), in Africa, among developing countries ("South-South"), and in small and medium-size enterprises (SMEs). Despite the hurdles faced over the past 12 months, MIGA was able to offer coverage for 14 projects in IDA-eligible countries; 9 in sub-Saharan Africa; 11 among developing countries; and 11 for investments in SMEs.

The top sectors were infrastructure, financial, telecommunications, and services in terms of number of projects guaranteed, at 11, seven, six, and four respectively. Regionally, Latin America accounted for the largest share of coverage, with 11 projects guaranteed for $621 million (including CUP coverage), followed by Europe and Central Asia, with 11 projects worth $319 million in coverage. The nine projects supported in sub-Saharan Africa received guarantees totaling $315 million (including CUP), while Asia hosted two MIGA-guaranteed projects, with coverage of $102 million.

MIGA also provided first-time coverage for projects in Benin, Mauritania, Nigeria, and Senegal, bringing the total number of member countries that have hosted MIGA-backed projects to 82.

The projects are expected to have a high developmental impact, creating social benefits as well as opportunities in host countries through job creation, export and tax generation, technology transfer, spin-off business development, and enhanced domestic competition. For example:

- One "South-South" deal involves a $130 million MIGA guarantee for an investment by Keppel FELS Energy Pte. Ltd. of Singapore in the installation, operation, and maintenance of a barge-mounted emergency power facility in Bahia, Brazil. The project responds to an urgent need for electricity, addressing short-term demand until new, permanent gas-fired power projects are brought on line. In addition to benefiting residents, the project is expected to generate significant in tax revenue during its three years of operation, employ up to 300 local people for construction and an estimated 160 during operation, and provide staff training.
- Benin, one of the world's poorest countries, is the location of a new investment in a GSM mobile telephone network. MIGA is providing an $8 million guarantee to the project sponsors, Investcom Holding S.A. and Investcom Global Ltd., owned by Lebanese investors. Benin suffers from a

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PHOTO | Projects guaranteed by MIGA provide employment for people throughout the developing world, including Africa, which is a priority area for MIGA.
CREDIT | World Bank Photo Library

INVESTING IN TANZANIAN TOURISM

A Trip of a Lifetime

No other industry in Tanzania provides the potential that tourism does for contributing to the country's growth. Yet it is currently providing less than 2 percent of GDP. This, despite Tanzania's appeal to ecotourists and its 230,000 square kilometers of protected area—wildlife and botanical reserve—amounting to 25 percent of its total land mass.

A Tanzania Tourism Investment Forum, organized by MIGA for October 23-25, 2002, in Arusha, will expose investors interested in African tourism development to the country's opportunities.

With its stable and growing economy, Tanzania has come to the fore as an African tourist destination, following on market trends that highlight ecotourism, adventure travel, and cultural exploration. Named in 2002 by *Outside Magazine* as one of its "25 Trips of a Lifetime," Tanzania's offerings are reaching a broader and more affluent international audience. Tourism is the country's second most important economic activity and new projects are coming online every day.

The analysis so far indicates that while Tanzania's "Northern Circuit" has been heavily exploited, there is room for development of the "Southern Circuit," near Dar Es Salaam, the Selous Game Reserve, and Zanzibar.

"Tourism in Tanzania" will be the first investor outreach activity of the MIGA-Swiss Initiative, which is co-funding the forum. The initiative is a $1.7 million effort funded by the Swiss government to encourage investors to locate operations in Africa. The initiative expands on the 2001 Promote Africa effort, which culminated in a sector strategy and investment promotion program.

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2002 fourth quarter GUARANTEES ISSUED

Investor	Investor Country	Host Country	Sector	Gross Coverage ($ m)
Slovene Export Corporation	Slovenia	Bosnia and Herzegovina	Financial	1.1
Portus Indico-Sociedad de Servicos Portuarios, S.A.	Portugal	Mozambique	Transportation	6.6 *
Econet Wireless Ltd.	UK	Nigeria	Telecom	10.0
Alain Tagini	Switzerland	Senegal	Services	0.5
Banque Sudameris	France	Peru	Financial	58.4
Ericsson Credit AB	Sweden	Nigeria	Telecom	70.0
Fraport AG	Germany	Peru	Transportation	11.5
I.T.I.S.R.L.	Italy	Kyrgyz Republic	Services	0.9
Mediocredito Central	Italy	Kyrgyz Republic	Services	10.5
Raiffeisen Zentralbank Osterreich AG (RZB)	Austria	Russia	Financial	9.5
The Bank of Nova Scotia	Canada	Jamaica	Financial	45.0
Orascom Telecom Holding	Egypt	Pakistan	Telecom	79.0
International Wireless Communications Pakistan Ltd.	Mauritius	Pakistan	Telecom	11.7
Raiffeisen Zentralbank Osterreich AG (RZB)	Austria	Romania	Financial	19.6 *
ECI Telecom Ltd.	Israel	Brazil	Telecom	83.5
Keppel FELS Energy Pte. Ltd.	Singapore	Brazil	Power	130.0
Hypo Alpe-Adria-Bank	Austria	Croatia	Financial	21.5
Alain Tagini	Switzerland	Senegal	Services	2.6
BCH International Puerto Rico	USA	Dominican Republic	Power	5.0
Union Fenosa Internacional S.A.	Spain	Nicaragua	Power	81.2
Slovene Export Corporation	Slovenia	Bosnia and Herzegovina	Services	7.6 *
L'Office National des Telecommunications	Tunisia	Mauritania	Telecom	41.4
Efes Breweries International B.V.	Netherlands	Kazakhstan	Manufacturing	7.2 *
Construcciones y Auxiliar de Ferrocarriles, S.A.	Spain	Brazil	Power	10.7
Inversiones en Concesiones Ferroviarias	Spain	Brazil	Power	24.0
Dimetronic S.A.	Spain	Brazil	Power	3.0
Compania Espanola de Financiacion del Desarrollo	Spain	Brazil	Power	24.0
BNP Paribas	France	Turkey	Power	80.5
Tractebel S.A.	Belgium	Turkey	Power	35.0
Kjaer Group A/S	Denmark	Mozambique	Services	2.0
MTN International Ltd.	Mauritius	Nigeria	Telecom	50.0
Hypo Alpe-Adria-Bank	Austria	Bosnia and Herzegovina	Financial	0.6

* Represents more than one contract.

MIGA HELPS INVESTORS TAP

African Telecoms Market

Several years of research by MIGA into companies interested in investing in African telecommunications projects paid off big time for three African countries in fiscal year 2002. MIGA issued guarantee contracts for four telecom projects in Benin, Mauritania, and Nigeria—all low-income countries where few people have access to phones. These countries were also first-time hosts of MIGA-insured projects.

Faced with a slowdown in traditional markets, telecommunications companies are increasingly seeking the more fertile commercial grounds of Africa. According to the *Financial Mail* ("Wired Warriors," May 10, 2002), estimates from the research firm BMI-TechKnowledge suggest that Africa's mobile markets will grow by more than 35 percent this year and the fixed-line market is estimated to grow by 25 percent—much higher than in the developed world.

The challenges of investing in a new market are higher for smaller companies, which don't have the advantage of having been on the ground with fixed line services before the cellular boom, or who may lack contacts and access to financing, compared with larger companies.

MIGA's guarantees help companies large and small get over some of the initial hurdles to investing in Africa, especially when it comes to financing. Due to a tightening in the commercial market caused by overexposure and the recent telecom market crash, it has become increasingly difficult to secure loans for telecom projects. Lenders often need extra assurances about the safety of their loans. MIGA provides that assurance.

"Our guarantees help project financiers feel more comfortable about the noncommercial risks they may face. Without us, they often see the risks as being just too high," says MIGA's Vice President for Underwriting, Roger Pruneau. "And because the lenders are more comfortable, they're often willing to provide more funding, at better rates, and for longer terms. This is especially important for some of the smaller companies that may not have the financial wherewithal to finance their own projects and tend to rely on commercial bank loans and vendor financing."

In Nigeria, for example, MIGA's guarantee against the risks of transfer restriction, expropriation, and war and civil disturbance allowed Econet Wireless Nigeria Limited to secure non-shareholder loans from the vendor, Ericsson Credit AB. This loan is allowing the company to continue the installation, operation and maintenance of a countrywide GSM mobile telephone network in a country with an acute shortage of reliable telephone services.

To cover the entire $70 million of Ericsson's loan amount plus interest, MIGA secured $30 million of coverage from the private markets through its Cooperative Underwriting Program. "It's very important to get CUP participation because it increases the amount of coverage and hence financing available," says Pruneau.

MIGA also fills gaps left by the market's inability to provide coverage in certain countries. In Benin, for example, MIGA provided an $8 million guarantee to Investcom Holding S.A., a Lebanese-owned company, and its wholly owned subsidiary, Investcom Global Ltd., for investments in Spacetel Benin, a start-up company that is installing a new GSM mobile telephone network. The guarantee covers the project against the risks of transfer restriction, expropriation, and war and civil disturbance. MIGA was important to the project going ahead, since Lebanon does not have an export credit agency and its national insurer does not cover investments going out of the country.

"MIGA's involvement mitigated the project's political risks, which gave investors the comfort they needed to proceed with the investment while concentrating on the economics of the project rather than exogenous non-economic risks," says Pruneau.

In Mauritania, MIGA and Tunisia's national insurer (COTUNACE) provided $66 million in guarantees to the Office National des Télécommunications of Tunisia, for an investment in, and loan guaranties to, the Société Mauritano-Tunisienne des Télécommunications. The coverage protects against the risks of transfer restriction, expropriation, and war and civil disturbance. The project involves the installation, operation, and maintenance of a new GSM telephone network.

"MIGA was approached by Tunisia's national telecom company about a guarantee for this project," says Pruneau. "By participating in the project through the Cooperative Underwriting Program, COTUNACE played in an important role in making the project happen." The deal marked MIGA's first CUP with a public insurer, an area of cooperation the agency is increasingly seeking to enter. ■

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> –Roger Pruneau,
> MIGA's vice president for Underwriting

PAVING THE WAY for Others in Bosnia-Herzegovina

From 1991 to 1995, Bosnia-Herzegovina was rocked by a bitter war that resulted in tens of thousands of deaths and the displacement of more than one million people. A once ethnically mixed area of Croats, Serbs, and Bosniaks, the country endured ethnic cleansing on all sides. Infrastructure was destroyed and the banking system collapsed. The economy came to a standstill, with unemployment at about 65 percent. The Dayton Peace Accord, signed in December 1995, put a halt to the killing.

Along with the task of rebuilding came the challenge of addressing life-threatening kidney disease, so prevalent it even has its own name—Balkan Endemic Nephropathy. But with the country's faltering health care system in further disarray after the war, there was little hope that local citizens suffering from the disease would receive adequate treatment. That all changed in April 2001, when the International Dialysis Center BV (IDC) of the Netherlands injected several million dollars into a new, state-of-the-art dialysis facility in the city of Banja Luka. The investment marked the first infusion of foreign cash in the country's health sector. Treatment, and results, altered dramatically.

MIGA made the investment possible by issuing $1.3 million in guarantee coverage, made available through a special trust fund financed by the European Union. The insurance was key to the investment going ahead, removing the investor's concerns about the threat of renewed violence, lack of foreign exchange, and potential for laws not being enforced. This is just one of six projects supported by MIGA in Bosnia-Herzegovina since 1999, in cooperation with the EU trust fund: three in banking, one in manufacturing, and one in health, for a total of $56.5 million.

From conception to implementation, the investor faced a number of impediments to opening the clinic. Marijan Bilić, the clinic's general manager and a Belgrade native, set out in 1998 not just to open a private sector health clinic in a country where public sector is the rule, but to create a model and spread it throughout the region. The only problem was he didn't have a model to point to and had to convince everyone, from the Prime Minister to the Minister of Health, to take a chance on him. "They had to trust me," Bilić says.

The new clinic replaced an existing facility that had been ordered closed by the Ministry of Health because of its dilapidated condition. "It is very difficult to find words to explain how horrible the situation was," says Vlastimir Vlatković, MD, the clinic's medical director. "We were in a building that was supposed to be a temporary structure. We didn't have enough medical supplies and it was really hard to do our work."

It was also extremely unpleasant and dangerous for patients, who suffered serious medical consequences—such as severe fatigue, cramps, headaches, back pain, hypertension, chest pain, and even malnutrition, caused by low levels of protein in the blood. "No one wants to go to a place like that every few days. They were left, understandably, with the strong impression that no one cared about them," Vlatković says.

IDC estimates that the quality of treatment has improved three-fold. "No one can believe the difference," says Vlatković. "After three months of proper treatment, patients no longer have complications. More than half can now work, compared with just 20 percent before. Our goal is for them to live as normal a life as possible."

The project negotiated a contract with the Ministry of Health to cover all patient expenses on a per-treatment basis. "This is the first time we are working with a private company," says Dragutin Ilić, MD, director of the republic's National Health Insurance Fund. "We don't have enough money to provide for all services, so we are supporting those who can provide them."

That demand is disproportionately high, particularly along the banks of the Sava River, where residents suffer from an unusually high incidence of renal disease. The illness develops slowly from childhood, with the kidneys eventually shrinking and unable to cleanse the blood. The end result is always the same: dialysis, a process that filters the blood to remove toxins.

Ljubimir Gajić, 39, started dialysis seven years ago. The father of two recently returned to Bijeljina after living outside of Sarajevo as a refugee, and is now building a new home with materials and land provided by the state. Since the new clinic opened in Banja Luka, he has chosen to make the 250-kilometer trek for treatment every other day.

"Treatment in Bijeljina [a city in eastern Bosnia] was awful," Gajić explains. "We were treated only twice a week, instead of every other day." Patients with hepatitis weren't separated from the others, treatment lasted for just two hours instead of the usual four, and the equipment was obsolete. "I couldn't walk after treatment. I didn't have enough strength. Now I feel good."

The clinic is one of 11 serving the Republika Srpska's 1.5 million inhabitants. It treats 110 patients, who receive dialysis in three shifts running from 7 am to 9 pm. The clinic may not be able to treat everyone who needs help next year, because war refugees are still returning to their homes and among them will be new patients. But for now, demand is being met.

As the first private investor in the health sector in all of the Balkans, IDC is playing an important role in paving the way for others. IDC recently opened a center in Bijeljina, which is expected to serve 150 patients, and hopes to open centers in other locations.

"This is a story about changes," Vlatković says. "We have a rush on here, not just to cure patients but also to educate them and change their way of thinking. This is very important in a post-war country, where many people are afraid and have the impression that no one cares about them. Our patients feel safe here. We really hope this is a first step in changes we'll be seeing in our country."

Another important investment supported by MIGA is the Hypo Alpe-Adria-Bank of Austria, for which MIGA provided two guarantees in fiscal 2001, offering protection against the risks of transfer restriction, expropriation, war and civil disturbance. The European Investment Trust Fund is also providing coverage. The project aims to expand and diversify the bank's services throughout the Federation of Bosnia and Herzegovina and the Republika Srpska.

We have a rush on here, not just to cure patients but also to educate them and change their way of thinking. We really hope this is a first step in changes we'll be seeing in our country.

—Vlastimir Vlatkovic, MD

The bank currently has 25 branches throughout Bosnia-Herzegovina, the majority of which are in the Bosnian Federation, and offers a variety of services, including corporate and private banking, individual lending, and international deposits. New leasing and consulting branches are also being developed.

The war brought a complete collapse of the banking system, which continues to suffer the consequences today. Very few financial resources were available. And the insolvency and collapse of local banks, one after the other, led to the total loss of people's life-savings and widespread distrust, making the operation of most banks completely unviable.

"During the war and post-war period, all domestic banks went bankrupt, bringing down people's savings with them. Complete mistrust was the most dominant feeling of individuals and corporations towards domestic financial institutions," says Zelimir Markić, head of the Board's Secretary and External Relations Department. "Before, when there was less money to go around, it was not possible to meet all loan requests. Now, if you need a loan, you get it."

Today, thanks to a number of reforms, it is now easier for foreign institutions to get the required approvals from state authorities. International players are helping to spur the reforms and restoring faith in the sector. Local banks are trying to create joint ventures with foreign banks since they do not have access to capital and they are still struggling to survive.

Hypo Bank helped bring interest rates down, making reconstruction more affordable to everyday citizens and helping to restore the production base by offering lower-interest, longer-term capital to local investors. The bank's corporate clients are engaged in a variety of sectors, including the production of food, furniture, and construction materials. With most of Bosnia's production facilities destroyed in the war and almost all goods imported at a higher cost, these loans are critical to the country's economic reconstruction.

One of the corporate clients, FeAl, processes and produces aluminum profiles. These are beams used to construct window frames for residential and industrial use. This is a thriving market in a country still facing the daunting task of rebuilding houses and factories demolished by war, yet only about 12-15 percent of the profiles are produced in-country. "Due to the damage to housing caused by the war, the production of window profiles is essential to the post-war reconstruction efforts," says Mate Cujić, the company's director.

Hypo's loan helped FeAl buy raw materials and inventory, which freed up funds for the plant's modernization. Within two weeks of receiving the loan, nearly all the money was spent. A five-year loan was not available to Bosnian companies before foreign banks entered the market. "It is very important for companies to have enough liquidity to expand operations and to face the increase in demand; availability of credit is fundamental for the recovery of the local industry," says Cujić.

The company also stimulates the local economy by buying materials from six smaller local companies that provide wood, plastic, hinges, and other materials. ■

PHOTOS | Top left, the devastating effects of the country's war illustrate the ongoing need for reconstruction, seven years after the war's end. MIGA's guarantees are helping businesses address the country's special needs. Above, the dialysis clinic in Banja Luka treats patients suffering from kidney disease, and General Manager Marijan Bilić points out area hit by disease. Bottom right, photo illustrates the reconstruction of windows, made possible through MIGA's guarantee to Hypo Bank.
CREDITS | Angela Gentile and Federica Dal Bono

AGENCY OPENS OFFICE IN
Johannesburg

PHOTO | Ken Kwaku, MIGA's chief representative for Africa.
CREDIT | Suzanne Pelland

Earlier this year, MIGA launched a new office in Johannesburg, South Africa, to raise the agency's visibility in the region and expand the scope of its guarantee coverage and technical assistance services. The new office is part of MIGA's commitment to bring more foreign direct investments into Africa and "South-South" investments into the region.

Speaking at the March 25 launch, the agency's Executive Vice President, Motomichi Ikawa, said: "FDI flows have become crucial for many African countries to be winners in the globalization process. FDI can break the cycle of low savings and productivity in Africa, transforming it into a cycle of reinvestment and expansion."

Africa accounted for 23 percent of MIGA's fiscal 2002 guarantee portfolio, with nine projects guaranteed in the telecommunications, power, services, and agribusiness sectors. MIGA-supported projects create local jobs, generate tax revenue, and transfer skills and technological know-how, all of which play a key role in economic growth, Ikawa said, adding that FDI should be promoted in parallel with reform efforts.

Discussion at a seminar to kick off the office opening focused on the New Partnership for Africa's Development (NEPAD), which has at its core an emphasis on private investment in infrastructure as a key to encouraging development.

"The resources needed for infrastructure expansion in developing countries are huge, and the public sector cannot do it alone. Private capital is needed to help meet the challenge," Ikawa said. MIGA will focus on encouraging FDI in this sector, with an emphasis on transactions in support of privatization efforts and involving public-private partnerships.

"This new location will enable us to forge closer partnerships with agencies that are eager to invest in Africa and make progress in our efforts to support economic growth in our fight against poverty," added MIGA's Chief Representative for Africa, Ken Kwaku.

Outreach Targets
Asia and Saudi Arabia

The fourth quarter of the fiscal year saw increased client outreach in Asia and Saudi Arabia, where teams of MIGA staff met with government and business representatives to continue building awareness of the agency's services and identify projects for joint collaboration.

Heading one of the Asia visits was Vice President for Underwriting, Roger Pruneau, who held strategic meetings with senior staff from public agencies, banks, and sponsors active on the project finance scene in Hong Kong, Malaysia, and Singapore. A number of one-on-one meetings were organized with current and prospective clients to discuss new product needs, investment pipelines, and the general economic outlook of the region. "This visit was especially timely," says Pruneau, "given the revival of structured finance transactions following the Asian financial crisis of the late 1990s."

With a view to enhancing collaboration with the Asian Development Bank (ADB), MIGA's Executive Vice President, Motomichi Ikawa, attended the bank's annual meeting in Shanghai in May. Ikawa delivered a speech on how multilateral guarantees can help overcome impediments to the flow of foreign direct investment and the promotion of access to capital markets.

"Before the Asian economic crisis of 1997, many believed in the continuation of the Asian Miracle for another decade," Ikawa said at the event. "Few people thought of making use of PRI in many parts of Asia…However, today PRI can be an effective risk management tool in a number of sectors and Asian countries to promote FDI flows."

Ikawa also met with representatives from visiting banks and project sponsors who are active in the Asia region.

Another MIGA team, led by Christophe Bellinger, director of MIGA's Europe office, conducted a visit to Saudi Arabia. In addition to meeting with Ministry of Finance officials, the team held talks with representatives from public institutions, including regional insurance partners, commercial counselors, and various chambers of commerce. The visit's primary focus, however, was to meet with private companies, financial institutions, advisers, and law firms in Riyadh and Jeddah. "Investors are keenly aware of the risk environment for projects under consideration, and expressed a lot interest in finding ways to actively mitigate uncertainties," says Bellinger.

A follow up visit is planned to Saudi Arabia for October 2002. Parties interested in meeting with a MIGA representative at that time should contact Khaled Al-Khattaf at kalkhattaf@worldbank.org.

Trips and events

MIGA staff will be traveling to the following locations over the next few months.
If you would like to meet with them, please contact Ms. Wyfield Chow at wchow1@worldbank.org.

AUGUST		
19-23	Bombay, Delhi	Moina Varkie, Chief, Corporate Relations
		Mansour Kane, Regional Manager, Africa, Asia and the Middle East
26-28	Beijing, China	Mansour Kane
		Mari Kogiso, Tokyo Representative
SEPTEMBER		
16-17	Vienna, Austria	Christophe Bellinger, Director, Europe
16-19	Singapore	Philippe Valahu, Chief, Asia Operations
17-19	Tunis, Tunisa	Justin Kouakou, Senior Underwriter
19-20	Amsterdam, Netherlands	Christophe Bellinger
25-26	Brussels, Belgium	Christophe Bellinger

MIGA SIGNS ACCORDS WITH

South African and Spanish Export Credit Agencies

PHOTOS | Top left, Agustín Hidalgo de Quintana, chairman of Spain's CESCE (center), with MIGA and World Bank representatives. Right, Patrick Kohlo, chief executive officer of South Africa's ECIC, with Motomichi Ikawa, head of MIGA. Bottom, Luis Dodero, vice president and general counsel of MIGA. CREDIT | Suzanne Pelland

MIGA added two new export credit agencies to its partnership roster with the recent signing of memoranda of understanding with the Export Credit Insurance Corporation of South Africa and the Compañía Española de Seguros de Crédito a la Exportación. This brings the number of such partnerships to 28.

The alliances formalize a commitment to work together to identify possible projects for joint insurance coverage, with the goal of promoting foreign direct investment into developing countries. The export credit entities will also cooperate on technical assistance and training as needed.

"We see this partnership as an alliance that will allow us to expand the scope of our operations," said Patrick Kohlo, chief executive officer of South Africa's ECIC, at the June 13 signing ceremony in Washington. "The MIGA-World Bank synergy provides an important understanding of what's going on in developing countries. It's a win-win situation for all of us."

Kohlo added that while his agency is open for business everywhere, one of its priorities will be infrastructure projects, the primary focus of the New Partnership for Africa's Development (NEPAD) initiative.

Since 1988, MIGA has provided $270 million in guarantee coverage for a broad range of investments from South Africa into developing countries, and $43 million for foreign investments going into the country.

"Africa is a strategic priority for us," said MIGA's Executive Vice President, Motomichi Ikawa. "It currently accounts for 14 percent of our portfolio. But we would like to do more. We think this partnership, and our new office in Johannesburg, will be an important way of achieving that goal."

Agustín Hidalgo de Quintana, chairman of Spain's CESCE, said at his agency's June 19 agreement ceremony with MIGA: "I am very positive about this partnership. MIGA will help us increase the security of our operations, and we can also be of benefit to the agency."

Over the past 13 years, MIGA has issued close to $1 billion in guarantees for investments from Spain into developing countries. MIGA and CESCE are currently working together on a possible oil and gas project in North Africa.

"MIGA's collaboration with CESCE will play an important part in augmenting our outreach in Europe," Ikawa said. ■

TECHNICAL ASSISTANCE WORKSHOP

Reaches Francophone Africa

MIGA's workshop series on how to use the Internet to attract foreign investment reached Francophone Africa in June.

The skills-building event, held at the World Bank's Distance Learning Center in Dakar, Senegal, brought together investment promotion professionals from seven Francophone countries—Algeria, Benin, Côte d'Ivoire, Gabon, Guinea, Mali, and Senegal. It was the fifth joint workshop by MIGA and the World Association of Investment Promotion Agencies (WAIPA), aimed at helping investment promotion intermediaries effectively deploy modern information technology to support their investment promotion efforts.

Nearly 300 national and local investment promotion agencies worldwide operate a website, and growing traffic volumes indicate that corporate investors increasingly use this medium. But of the seven countries represented in Dakar, only three have functioning websites for investors. MIGA's technical assistance program in West Africa is currently focusing on investment promotion structures in all three of these countries: Senegal (Agence Nationale Chargée de la Promotion des Investissements et des Grands Travaux), Mali (Centre National de Promotion des Investissements) and Côte d'Ivoire (Centre de Promotion des Investissements en Côte d'Ivoire).

MIGA is also collaborating with UNCTAD, UNIDO, and FIAS under a multi-agency initiative focused on providing FDI-related technical assistance on a coordinated and integrated basis to the world's least developed countries. ■

From RESULTS, p.1

severe shortage of reliable telephone lines—less than 1 percent of residents have phone service. The project will help increase teledensity and improve connections, voice quality and clarity, and is expected to be particularly beneficial to the local business community. The project should generate some $6.5 million in tax revenues over the first five years of operation, employ 54 people, provide staff training, and benefit local businesses through in-country procurement of various goods and services.

- MIGA also provided guarantee coverage for investments in SMEs. One example involves a guarantee to Komatsu Limited of Japan for its ¥30 million (approximately $250,000) investment in, and future retained earnings from, Komatsu Pakistan Soft (Pvt.) Limited in Pakistan. The investment involves establishing a new company, based in Islamabad, which will develop computer software for commercial use. The project is expected to export 100 percent of its products, and will therefore contribute to the country's balance of payments through foreign currency earnings. The company will recruit and train local computer programming and software development staff.

Fiscal year 2002 yielded solid results on other fronts as well. The global downturn in foreign direct investment led growing numbers of developing countries to seek MIGA's help in promoting their countries as desirable FDI destinations. As a result, the agency undertook 34 technical assistance projects in 27 countries. The year also saw the launch of FDI Xchange, a customized service that provides investors with free email updates on investment opportunities in developing countries, as well as the publication of an extensive survey of investors' plans to take their business overseas.

The agency's legal team was successful in helping an investor avert an insurance claim for a project in China (see *MIGA Averts Claim for Power Project in China*, p. 9), and made good progress on helping dozens of parties involved in investment disputes in Ethiopia come closer to a resolution.

Other fiscal year highlights include the establishment of an office in South Africa to encourage more investments into the region (see *Agency Opens Office in Johannesburg*, p. 6), and an internal reorganization to strengthen regional representation, client outreach and service, and risk management. The agency's Operations Evaluation Unit became fully independent in fiscal 2002, while Chad, the Federal Republic of Yugoslavia, and the Syrian Arab Republic all finalized the requirements to become members of MIGA. The agency also partnered with the Corporate Council on Africa's US-Africa Business Summit, Asia Pacific Political Risk, Project Finance, and Trade Credit Summit 2001 on a number of major international events.

"We are encouraged by these results, and look forward to even better ones this year," says Ikawa. "The impact of last year's events has really underscored the importance of MIGA's role in the marketplace—in terms of providing investors with the special assurance they need to venture into emerging markets, helping countries attract limited FDI, and working with investors and host countries to find a joint solution to potential disputes." ■

Agency Averts Claim for Power Project in China

Nearly three years ago, provincial government officials in China unilaterally reduced the prices it paid certain electric power producers, violating an agreement to buy power at an agreed rate from a foreign investor. The investor was jointly operating four peaking power plants with local government entities.

MIGA had provided five guarantees for these projects from 1993-95, insuring the $65 million investment against the risks of transfer restriction, expropriation, and war and civil disturbance. When the investor alerted MIGA to its difficulties, the agency decided to step in.

A year of ongoing negotiations with the investor and with government representatives at the local, provincial, and national levels eventually yielded a memorandum of understanding—the first step toward resolving the problem and avoiding a claim by the investor. That agreement, signed late in 2000, sought to address the contractual changes that had led the investor to sound the alarm.

"Central government authorities were unequivocal in saying they wanted to do everything they could to avoid a claim," says Lorin Weisenfeld, chief counsel for MIGA. "The investor also proved to be reasonable and flexible, willing to make certain sacrifices today to protect important long-term interests."

The next step was to implement the memorandum. Progress was slow, says Weisenfeld, due to the complexities of working with so many different levels of government. Talks eventually faltered when local officials failed to accept some of the proposed new contract terms.

MIGA, the investor, and government representatives spent another year and a half negotiating a resolution of the remaining issues. On May 31 of this year, a new memorandum was signed, embodying additional concessions by the investor and placing less of a burden on local enterprises. The agreement provides compensation to the investor for a plant that proved unusually expensive to build and allows the investor to receive annual distributions of invested capital as a depreciation allowance. The provincial power company, rather than municipal power enterprises, will execute amended power purchase agreements. All parties have also agreed to work to control project costs so they remain in line with costs of other peaking power plants in the region.

Although the process will not be completed until new power purchase contracts are signed, the memorandum of understanding executed in May nails down the fundamental points, and its signing reflects a political commitment on all sides. This dispute was just one of some two dozen that erupted in China's power sector following the 1999 price change. It is the only one that has been resolved amicably.

"No one wants the house to burn down so they can collect the insurance. They want to keep the house," Weisenfeld adds. "At MIGA, we're the firemen." ■

Chad, Syria, and Yugoslavia Lift Agency's Membership Rolls to 157

May and June saw Chad, the Syrian Arab Republic, and the Federal Republic of Yugoslavia all complete the requirements needed to become members of MIGA.

Foreign investors wishing to do business in Chad, Syria, and Yugoslavia are now eligible to receive MIGA's guarantee coverage, which protects investments against the risks of transfer restriction, expropriation, breach of contract, and war and civil disturbance. Investors from these nations who wish to do business in other developing countries may also receive coverage. MIGA's members are also entitled to receive the agency's technical assistance services to help them attract more foreign direct investment.

"I am very pleased to welcome Chad, Syria, and Yugoslavia into MIGA," said Motomichi Ikawa, the agency's executive vice president.

Syria's membership will enable MIGA to expand the scope of its work, encouraging increased foreign direct investment into the Middle East, while providing comfort to Syrian investors as well, Ikawa said.

"Promoting investment in Africa is another of our priorities, and Chad's membership will enable us to further broaden our presence on the continent," Ikawa added. Chad, a landlocked country in Central Africa with a population of 7.6 million, is one of the world's poorest countries.

In early May, Yugoslavia finalized the requirements needed to succeed the Socialist Federal Republic of Yugoslavia as a member of MIGA, in accordance with a resolution approved by MIGA's Board in 1993. "Yugoslavia's membership into MIGA paves the way for us to facilitate investment into the country," said Ikawa. ■

airport

power

banking

PERU

MIGA has provided Fraport AG, of Germany, with an $11.5 million guarantee to cover its $12.8 million counter guarantee for a performance bond posted for the Lima Airport privatization. The guarantee protects against the risk of expropriation (the wrongful call of the performance bond), and extends for eight years.

Peru greatly depends on its airport network because of its geographic characteristics, and because its ground handling transportation infrastructure has not been fully developed and railroads are not an alternative to air transportation. The Lima Airport, Jorge Chávez International Airport (JCIA), is especially important to the country, since it is Peru's main operating international airport, accounting for 97 percent of international traffic, as well as some 58 percent of national traffic. JCIA also functions as a regional hub for all cargo traffic. The airport privatization is considered by the government as a key factor in the expansion of employment opportunities, the creation of a modern transportation facility to serve as Peru's gateway to the world, and for the enhancement of tourism, an industry that the government is actively trying to expand. The airport serves a natural gateway for north-south traffic in the Americas and as a well-located feeder for associated logistics and shipping.

The airport's privatization is therefore expected to provide the government with additional revenues through increased income tax, custom duties, and concession fees. During the first four years of the concession, the consortium is expected to invest more than $130 million in new infrastructure, including upgrading the current terminal, constructing a new passenger concourse, expanding and adding new aircraft aprons and taxiways, reconfiguring the existing car parking structure, and creating a hotel and world-class retail center within the existing airport perimeter. Due to the upgrade in the technology and services at the airport, the project will create approximately 49 additional, new positions, mostly for expert technicians and service operators. The sponsors have instituted a profit-sharing plan for the employees. The majority of the goods and services required by the airport refurbishment will also be sourced locally, and most of the ongoing capital expenditures foreseen (amounting to $1 billion over the entire life of the concession) would be sourced locally. Furthermore, the government will benefit from the improvements in the operation of JCIA through a revenue-sharing agreement as well as a landing and take-off fee-sharing agreement.

KENYA

MIGA has provided Ormat Holding Corp. of the Cayman Islands, a wholly owned subsidiary of Ormat Industries Ltd. of Israel, with a $70 million guarantee to cover its investment in OrPower 4 Inc. in Kenya, as well as future loans to the project. The guarantee protects against the risks of transfer restriction, expropriation, war and civil disturbance and breach of contract, and is for a period of 14 years.

OrPower 4 Inc. involves the design, construction and operation of a 48 MW geothermal power plant, located in the Olkaria geothermal fields, in Kenya's Rift Valley, some 50 kilometers northwest of Nairobi. Geothermal power is a clean, renewable, and low-cost source of energy, and Ormat will bring to the project its experience in this area, as well as state-of-the-art geothermal technology. The plant will add to the capacity already provided by a 12 MW plant built during Phase 1 of the project, which MIGA insured in fiscal 2000, and will help alleviate the problem of severe power shortages from which the country suffers. In a country where only about 10 percent of the population has access to electricity, the project will provide power to many first-time users. OrPower 4 will also help reduce Kenya's heavy dependence on hydroelectric power. With some 70 percent of the 1,000 MW installed capacity being hydroelectric, Kenya's national power production was severely curtailed during the three-year drought that ended in 2001. The project will play an important role in achieving greater reliability, security, and stability of power within the national grid, and will reduce the dependence on imported thermal energy, thereby having a positive impact on the balance of payments.

Situated in a rural area with high unemployment and under-employment, the project is expected to employ 44 people for operations and up to 700 full and part-time workers during the construction. There will be a significant transfer of skills and technology. Training programs will be set up, and will include optimization of operations, plant maintenance, geothermal technique, security, business, and administration. Approximately 80 percent of goods and services will be procured locally. In addition to royalties, the project will pay approximately $27 million in taxes to the government over its lifetime.

UKRAINE

MIGA issued a $19 million guarantee to Raiffeisen Zentralbank Österreich AG, of Austria, to cover its $20 million shareholder loan to JSCB Raiffeisenbank Ukraine, a Kiev-based bank. The coverage is against the risks of transfer restriction and expropriation of funds, and extends for up to seven years.

The project is part of an overall World Bank Group strategy for Ukraine that lists private sector development among its primary goals. A properly functioning financial sector is critical to private sector development and economic growth. The bank currently directs its lending to companies engaged in trade, metallurgy and mining, food and beverages, printing and publishing. The loan will allow the bank to expand operations and continue lending to customers in these sectors, as well as provide additional funds to finance privatizations and small and medium-size enterprises. The bank also specializes in pre-export finance and, as such, should help stimulate Ukrainian exports. The project's provision of funds for short- and medium-term lending should assist the country's financial sector. The bank, which follows the parent company's corporate governance standards, is expected to have a positive effect on other banks. It will provide staff with ongoing training, both on- and offsite.

REGISTER TODAY!

www.ipanet.net/symposium

Mark your calendars and register for the Third Biennial MIGA-Georgetown University Symposium on International Political Risk Management, to be held on October 25, 2002, in Washington, DC.

This year's event, on "International Political Risk Management: The Brave New World," is an interactive forum that will bring together some of the foremost practitioners from the public and private political risk insurance markets, investors, consultants, and academics for a day-long exchange of ideas and information on critical, current issues in international political risk management.

The symposium will begin by examining the industry in the aftermath of 9/11 and the Argentine crisis, looking at changes in capacity, tenor and contract language, claims and near-claims experience, repercussions for investors, and the role of reinsurance in shaping the new PRI marketplace. Speakers include Brian Duperreault, Chairman and CEO of ACE Ltd., Vivian Brown, Chief Executive of ECGD, John Salinger, President of AIG Global Trade and Political Risk, and David James, Senior Underwriter of Ascot/London. Commentary will be provided by Julie Martin of Marsh McLennan.

The second panel will discuss demand-side issues from the viewpoint of equity investors and lenders, focusing on issues such as breach of contract, sub-sovereign risk, devaluation coverage, and waiting periods, as well as alternative risk mitigation tools. Paul Aird of Bechtel and Anne Predieri of Banc of America will speak, and Kenneth Hansen of Chadbourne & Park and James Alford of Citibank will comment.

The final panel will feature the views of brokers, consultants, and academics on perceived gaps between investors' political risk insurance needs and what insurers are currently offering, as well as possible solutions to bridge these gaps. Charles Berry of Berry Palmer & Lyle, Mac Johnston of FMJ International Risk Services, and Witold Henisz of The Wharton School will address these issues. David Bailey of Sovereign and Edie Quintrell of OPIC will provide commentary.

For further information or to register, visit www.ipanet.net/symposium, call 202.687.5895, fax 202.687.6033, or email polriskconf2002@georgetown.edu. The symposium fee is $1000. Space is limited and will be made available only to paid registrants on a first-come, first-served basis. ■

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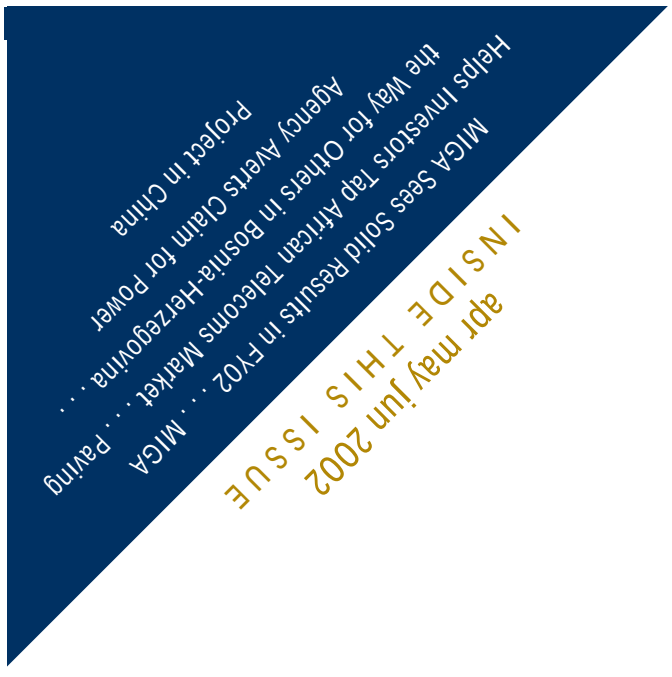

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