INVESTMENT INSURANCE MARKET
AT A CROSSROADS

Symposium Highlights
Gap between Investors and Insurers

With the global insurance industry hit hard by the events of 9/11 and the Argentine crisis, investors face a hardening of the private political risk insurance market, with a reduction in capacity and shorter tenors for coverage. Meanwhile, investors that are going ahead with projects in developing countries are demanding more comprehensive insurance coverage, greater clarity in contract wording, and generally, better terms and conditions. In this environment of changing risk perceptions and needs, there is scope for strengthening private-public partnerships in the insurance industry to help bridge the divide.

This was the key finding of a symposium on political risk management organized by the Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group, and Georgetown University’s School of Foreign Service. The event, held in Washington, D.C., on October 25, 2002, drew together 130 of the world’s foremost practitioners from the public and private political risk insurance (PRI) markets, investors, consultants, and academics.

The symposium examined the industry in the aftermath of 9/11, the Argentine crisis, and other events, looking at changes in capacity, tenor and contract language, claims experience, and the role of reinsurance in shaping the new PRI marketplace. Discussants also looked at issues from the viewpoints of both equity investors and lenders, focusing on topics such as breach of contract, sub-sovereign risk, devastation coverage, and waiting periods, as well as alternative risk mitigation tools. The final panel featured 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.

"These issues are particularly pertinent to tomorrow’s market. We need a new vision for our industry because many of the underlying risks have changed," said Motomichi Ikawa, executive vice president of MIGA, kicking off the event. "Some types of political risks are becoming more associated with economic crises and less with willful political acts of governments. Investors are questioning the effectiveness of traditional political risk insurance coverages and wanting more comprehensive products that include some portion of commercial risks."

Facing their largest aggregate loss in history following 9/11, insurers are also being forced to reevaluate their views of the risk associated with foreign investment. Discussants agreed that the result has been a significant reduction in the amount of insurance available to cover "risksy" investments. "We are operating in a new environment, and insurers have had to be much more precise about the perils they are actually prepared to cover," said presenter Brian Duperreault, chairman and CEO of ACE Limited, a leading reinsurer in the market.

In particular, PRI providers are being asked to fill in the gaps left by property/casualty insurers, who are now routinely excluding terrorism and sabotage coverage from their policies. Since many lenders require this coverage as part of their loan agreements, many political risk insurers are now seeing great demand for stand-alone terrorism and sabotage policies, especially for projects in OECD countries.

There were two views expressed on pricing. While some said that prices have gone up as a result of the decrease in overall insurance capacity, others pointed out that prices need to be competitive because of fewer good transactions in the marketplace.

See SYMPOSIUM, p. 3

MIGA Opens Singapore Office
New location to help bridge investment gap in Asia

On September 17, 2002, MIGA officially cut the ribbon for its new Asia regional office, located in Singapore, with a half-day seminar attended by more than 100 local businesses and government representatives. Also in attendance were foreign banks, companies, law firms, and agencies, such as Malaysia’s export credit insurance.

See MIGA OPENS OFFICE, p. 8
INVESTMENT MARKETING
Spotlight on Armenia

Since its independence more than ten years ago, Armenia has experienced strong macroeconomic performance, with growth rates accelerating to close to 10 percent in 2001 and the first half of 2002. Despite this, job opportunities remain stagnant and just under half the population lives below the poverty line.

This is attributed in part to the slow growth of new private enterprises and a lack of restructuring of existing ones, caused by government interference, a shortage of necessary skills, and investors’ perceptions of high political risks. While Armenia itself has not suffered from political instability, it is located in a politically unstable region, and is landlocked, with difficult transport routes. In 2001, Armenia was able to only attract $140 million in FDI.

Business and economic conditions, however, have been improving recently, as reflected in accelerated growth and an estimated reduction in poverty.

Accordingly, one of the World Bank Group’s primary goals for Armenia is the development of its private sector. As a result of the Bank’s and other partners’ help, the impact on the ground has been considerable. The business environment has improved, jobs have been created, infrastructure, particularly the road network, has been rehabilitated, and governance is being improved.

But further improvements are needed to make Armenia more competitive, especially with respect to attracting foreign investment. To address this need, the World Bank and MIGA have teamed up to develop a long-term capacity-building program for the Armenian Development Agency (ADA), the agency mandated to promote exports from and foreign investment into Armenia.

The undertaking, in the form of a $1 million Learning and Innovation Loan, marks the first time the Bank is using such a loan for FDI-related technical assistance, and the first time MIGA has taken a lead role in developing a loan proposal of this type. The project aims to help ADA become an agency with the culture and skills needed to support and facilitate the needs of foreign investors, complemented by an effective outreach program to promote the country’s image and to attract investor interest.

Under the loan, MIGA is helping ADA to develop a highly targeted investment and export promotion strategy—providing staff training, coaching senior management, preparing terms of reference, and designing and developing a website and a customer relationship management system to better track the progression of leads from inquiry to transaction and post-investment assistance. Future program components include the development and implementation of sectoral marketing campaigns, the creation of promotional materials, and staff coaching for participation in investment missions and fairs.

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**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.**

**Investor** | **Investor Country** | **Host Country** | **Sector** | **Gross Coverage ($ m)**
---|---|---|---|---
Société Nationale de Télécommunications du Sénégal (Sonatel) | Senegal | Mali | Infrastructure | 39.6 *
Bank Austria Creditanstalt AG | Austria | Romania | Financial | 13.9
Bank Austria Creditanstalt AG | Austria | Bulgaria | Financial | 23.3
Bank Austria Creditanstalt AG | Austria | Croatia | Financial | 10.1 *
Bank Austria Creditanstalt AG | Austria | Bosnia & Herzegovina | Financial | 4.6

* Represents more than one contract

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“This work follows up on preliminary guidance we provided to ADA, to help the agency create a more focused mandate, among other things,” says John Wille, interim director of MIGA’s Investment Marketing Services Department. “This early assistance helped put ADA on a sounder and more effective footing.”

For more information, contact Birgit Brauwieser at 202.473.3075, email bbrauw-wieser@worldbank.org.
Agency Teams Up with Asian Development Bank to Promote Foreign Investment into Asia

MIGA signed an agreement with the Asian Development Bank (ADB) in Manila on September 23, 2002, to collaborate in supporting foreign direct investment into Asia.

According to the Memorandum of Understanding signed by MIGA's Executive Vice President Motomichi Ikawa and ADB Vice President (Finance and Administration) John Lintjer, the two agencies will work together to promote economic growth and sustainable development in Asia through closer collaboration on projects and programs.

ADB and MIGA will support joint projects in which one or both will provide investment guarantees, in combination with ADB direct assistance, such as loans or equity investments. Eligible projects must be financially, technically, and environmentally sound. One such collaborative project, already undertaken by the two agencies, is the Manila North Tollsway Corporation, which entails the expansion and rehabilitation of a toll road in the Philippines. MIGA and ADB will also work together to increase awareness about political risk insurance.

From SYMPOSIUM, p. 1

Argentina's economic difficulty, which highlights the changes in underlying risks, is having broad repercussions on the PRI industry. Many participants felt it would be a test of how effective PRI can be in the face of economic collapse. An interesting development has been the exemption, for Berne Union members, of Argentinian claims from the Central Bank approval of conversion from the Centratl Bank's approval of conversion to the Argentine currency to dollars. This is a complex picture and the potential for inconvertibility and expropriation claims remains.

Argentina and a number of other claims are testing the market, and the market will need to respond to those that are valid if it is to be perceived as having value by investors," said Julie Martin, a broker with Marsh McLennan. "The political risk market is at a crossroads," she said, articulating the recurring notion that there is a mismatch between what investors want and what insurers are willing to provide. This is evident in a lot of areas, including coverage for currency inconvertibility, where what many investors have really wanted is a hedge against commercial risks, such as devaluation.

The Argentine crisis also brings into focus the need for greater transparency and tighter contract language. Discussants said that more specific language would help clarify what risks were being covered, but also pointed to the hazards of limiting coverage to a few specific concerns. Some argued that insurance policies had been devised and written in a post-World War II environment and were no longer relevant, despite amendments.

Prescriptions to the ills facing the political risk and insurance industry as a whole ranged from "stay the path" to clarifying expropriation policies and providing a larger role for the public sector, to urging investors to know their insurance policies better and take on some of the risks themselves.

Symposium participants pointed to an increasing role for the public sector in this environment, urging it to continue taking the lead in new product development, since it tends to have a longer-term perspective and more resources to devote to products that may not appear to be commercially viable right away. The innovation that has characterized the industry's explosive growth in recent years is being threatened by a new cautiousness brought on by global events. Public insurers, many agreed, could and should be at the forefront in terms of providing coverage for "riskier" countries, re-examining certain coverages, such as expropriation and inconvertibility, and rethinking the approach to complex projects, particularly in infrastructure, where sovereign performance risk is perceived to be high. As PRI capacity and tenors are reduced in the private sector, the public agencies' role in maintaining large-per-project limits and long tenors will be critical.

"A new distribution of risks among those who are best positioned to shoulder them is critical for sustaining FDI flows into developing countries," said Ikawa. "Redistributing the risks will call for enhanced partnerships and collaboration among insurers and other risk mitigation entities." Ikawa called on developing countries to step up their efforts to promote FDI and minimize the risks to investors.

Overall, Ikawa said, he was pleased with the sharing of knowledge and experience afforded by the event: "This symposium has played an important role in helping to broaden understanding of investors' needs and insurers' ability to understand and react to those needs. We now need to pursue the key points identified to begin to bridge the market gaps."
Agency Reaches Out to China and India

MIGA recently visited China and India, where senior staff held seminars and a series of high-level meetings to inform business and government representatives about the agency's guarantees and technical assistance services.

In late August, MIGA met with some 150 members of the Chinese and international business communities for a day-long seminar in Beijing. The event, co-hosted by the China Export & Credit Insurance Corporation (Sinosure), provided a platform for MIGA to discuss ways in which the two agencies' political risk insurance programs can help investors meet their business goals.

"China has undergone a remarkable internal economic transformation over the past 15 years, with Chinese investors moving more and more into overseas markets," said MIGA's Executive Vice President Motomichi Ikawa, at the seminar. "But investing abroad comes with risks. MIGA and Sinosure can play an important role in mitigating noncommercial risks."

In addition to MIGA's presentation, the seminar featured talks by the State Development Planning Commission, the Ministry of Finance, Sinosure, and the China National Chemical Engineering (Group) Corp. Topics centered on the status of overseas investment in China, the country's strategy for encouraging domestic companies to expand abroad, and how Chinese enterprises can use Sinosure and MIGA's investment insurance to make the most of overseas markets.

MIGA and Sinosure signed a memorandum of understanding nearly two years ago to work together to facilitate Chinese investments into emerging economies. The seminar is a concrete result of the cooperation between the two organizations. "I hope it will be only one of many future efforts to work together as we jointly help Chinese companies compete in the global marketplace," said Ikawa.

A concurrent visit to India resulted in a series of meetings in Bombay and Delhi, where staff co-hosted a seminar organized by the Export Credit Guarantee Corporation of India, took part in a number of workshops organized by KPMG, and held one-on-one meetings with major industrial groups. Discussions were focused, as investors had specific deals in mind and were interested in fully understanding how MIGA's products could mitigate their risks.

"There is good potential for MIGA to insure Indian outbound investments," says Moina Varkie, MIGA's chief of Corporate Relations, who led the visit. "Indian companies are increasingly looking for overseas opportunities, especially as they will face more competitive pressures post-2005, following the implementation of India's WTO commitments. Investors expressed interest in taking their business to China, Africa, the 'Stans,' and Latin America. In addition to the private sector, several of the majority state-owned enterprises are actively looking to invest overseas and have expressed a strong interest in working with MIGA."

Guarantee Helps Singaporean Power Provider Set Up Power Barges in Brazil

In June 2002, less than two months after submitting a definitive guarantee application to MIGA, Keppel Energy Pte. Ltd. of Singapore received $130 million in guarantee coverage for its investment of over $200 million in Nordeste Generation Ltda. of Brazil. The MIGA guarantee is for three years and protects against the risks of transfer restriction and expropriation. The coverage also includes protection against the Brazilian governments' failure to honor its payment obligation under its guarantee to the electrical power supply contract issued in favor of Nordeste.

"Through our experience, MIGA has the ability to meet fast-track project requirements," says Leng. "As a member of the World Bank Group, MIGA provides a unique benefit for investments in developing countries."

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Brazil was in the midst of a severe energy crisis last year, caused by underinvestment in new generation and transmission capacity and a dependence on hydro-generating facilities, which has been affected by a series of droughts in recent years. The state of Bahia, in northeast Brazil, has been among the most severely affected by the droughts, which have caused serious electricity shortages.

To address these shortages, the project will install, operate, and maintain a barge-mounted emergency power generation facility in Bahia. The 150MW power generating facility will help address short-term demand until permanent gas-fired power projects are brought on line and can add their energy contribution to the national grid.

In evaluating projects in general, Keppel Energy identifies possible risks relating to changes in government, market structure, as well as to possible payment, operational, and implementation risks. (See chart.) The company says that MIGA's political risk insurance is relevant in mitigating certain types of project risks. "In the event of an adverse government action, projects covered by expropriation policy can continue operations, as the policy would protect the investment's physical assets," says Tan Boon Leng, general manager of development at Keppel Energy.

Reliability of revenue payment is another risk that MIGA's breach of contract policy can mitigate, Keppel Energy says. The ability to convert local currency and transfer foreign currency for dividends and debt payment are other considerations, which can be protected by MIGA's coverage against foreign repatriation.

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POLITICAL RISKS

- Breach of Contract Risk
- Coniscation, Expropriation and Nationalization Risks
- Currency Inconvertibility
- Currency Non-transfer Risk

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PLAYING A COUNTER-CYCLICAL ROLE IN A Difficult Environment

Reading the tea leaves of foreign direct investment is not an easy task, especially when a "crack in the porcelain cup" can tip projections in unexpected ways. Despite these complexities, most would agree that given the global economic slowdown, corporate governance issues, and political uncertainty, the months ahead will likely see continued retrenchment and repositioning of overseas investment portfolios—including in developing countries. This is the key finding of a number of new reports recently released that track and assess flows of foreign direct investment.

In its recently released annual report, the United Nations Conference on Trade and Development noted a 50 percent drop in global FDI in 2003, from $1.600 billion to $700 billion, the largest drop registered in 30 years. Developed countries fared worse than developing countries, UNCTAD said, registering a 59 percent decline in FDI compared with 14 percent for developing countries. A further decline is expected this year.

A.T. Kearney’s FDI Confidence Index also expects continuing declines in foreign direct investment in 2002, but says the downturn does not necessarily presage a permanent shift in investor habits or structural change in the global economy. Rather, it more likely represents the start of a period of corporate retrenchment and repositioning following the boom of the 1990s.

According to the Institute of International Finance, the overall risk appetite of investors has waned in recent months and capital flows to emerging markets in general have slowed. As a result, net private capital flows are expected to decrease slightly in 2002, from $126 billion last year to about $123 billion. As a share of emerging market GDP, these flows have declined from nearly 4 percent in 1992 to just an estimated 2 percent in 2002. The Institute does project a modest pickup in private capital flows for 2003, however, assuming global economic recovery.

The findings are consistent with MIGA’s experience over the past fiscal year. The economic and political environment led to a decline in the volume of guarantees MIGA underwrote. Although deals around the world took longer to close, MIGA saw an increase in the levels of both inquiries and applications for guarantees, demonstrating the special assurance that investors are seeking as they venture into emerging markets. At the same time, the events of the last year have led to a tightening in the political risk reinsurance markets, underscoring the cyclical role of the marketplace. The tighter general conditions mean a renewed emphasis on public providers.

According to the Berne Union’s 2003 Yearbook, official insurers are clearly beginning to lead the market again. “Over the last five years or so, commercial insurers have provided new products with capacity and tenor that offered a viable alternative to public sector insurance, especially for banks seeking project finance support,” says Mark Gubbins, a director at a London-based brokerage First City Trade and Political Risks. “Now there is a trend to say that export credit agencies have their role back, as it is only a handful of private sector underwriters can now offer investors substantial capacity and 7-10 year tenors.”

MIGA is a case-in-point. The agency’s counter-cyclical role in difficult investment environments encourages lenders and insurers to venture into markets where they may not otherwise feel comfortable, to ensure that foreign investment benefits those who need it most. MIGA’s counter-cyclical role in difficult investment environments encourages lenders and insurers to venture into markets where they may not otherwise feel comfortable, to ensure that foreign investment benefits those who need it most.

Most MIGA guarantees help skittish investors face the political risks they see as preventing them from going ahead with their investments, while making deals more attractive to financiers and even helping to extend the amount and tenor of some loans.

The result? Since its inception 14 years ago, MIGA has issued more than 600 guarantees in 82 countries, for a total of $11 billion in coverage, bringing the estimated amount of FDI facilitated to more than $47 billion. The agency has an outstanding portfolio of guarantees worth $3.5 billion in 33 of the world’s poorest countries (those eligible for zero-interest loans from the International Development Association). MIGA covered 14 such projects in the past fiscal year.

Yet this is not a role MIGA plays on its own. Rather, the agency is firmly rooted in the idea that the more it partners with other insurers, the stronger it, and the industry, becomes. Last year alone, MIGA signed cooperation agreements with 12 new partners, bringing the total number of official partners to 30. By partnering with national agencies, MIGA is often able to increase the amount of coverage that can be offered, and can play a critical role in encouraging insurers to support investments in new markets. The same is true of private insurers, which may have seen a decrease in their overall capacity and terms over the past year.

For example, MIGA’s Cooperative Underwriting Program has catalyzed $661 million in capacity since its inception in 1999, including $136.5 million in private capacity mobilized in fiscal 2002. Gubbins, again commenting in the Berne Union Yearbook, cites MIGA’s Cooperative Underwriting Program as "a shining example" of being able to boost project capacity by drawing in private underwriters alongside MIGA, and "an extremely successful product."

Facultative reinsurance is another way MIGA mobilizes additional capacity, working with both public and private insurers on a project-by-project basis to leverage its capacity to support investments in emerging economies. Since its inception, MIGA has mobilized $1.37 billion in cumulative capacity.

Above all, when the going gets rough, MIGA can play a powerful counter-cyclical role, helping developing countries compete for financing support investments in emerging economies. Since its inception, MIGA has mobilized $1.37 billion in cumulative capacity.
ENCOURAGING

FDI into Mozambique

When Mozambique gained independence from Portugal in 1975, its economy was agriculture-based, with very little industrial development. For more than 17 years, a prolonged civil war raged in the country, home to 17.6 million inhabitants in southeastern Africa. Two decades of conflict had taken their toll, leaving Mozambique one of the poorest, most debt-ridden countries on earth.

Starting in 1987, the country embarked on a massive economic reform and privatization program, considered the most active in Africa. Peace and political stability have reigned for the past decade, and the country is now considered a post-conflict "graduate."

Since 1997, MIGA has issued guarantees for seven projects in Mozambique, totaling $190 million in coverage. Today, Mozambique ranks ninth in terms of outstanding coverage. MIGA is guaranteeing projects in an array of sectors, including a project that is rehabilitating the country’s largest sugar estate, seen as key to supporting the country’s reconstruc-
tion.

Amid these changes is one single project that is having a remarkable impact on many fronts, putting Mozambique on the map for other investors and helping to kick-start the emerging economy. Launched in 1997, a $1.3 billion aluminum smelter, called Mozal, is the largest foreign investment in Mozambique’s history and one of the three lowest-cost producers of aluminum in the world. MIGA is providing $40 million in coverage for loan guarantees issued by the Industrial Development Corporation of South Africa (IDC).

The project is a joint venture of IDC, BHP Billiton, a British company, Japan’s Mitsubishi Corporation and the government of Mozambique. Mozal currently produces 250,000 tons of aluminum ingots a year, mainly for export, and is being expanded to increase production to 500,000 tons. When the current expansion phase is completed, expected by 2003, Mozal will be one of the largest aluminum smelters in the world.

Three years after providing the Mozal guarantee, MIGA extended $70 million in guarantee coverage to Eskom, South Africa’s electricity company, for new electricity distribution facilities that provide the critical energy supply to the Mozal facility. In addition to supplying the cheap and sustainable power Mozal needs to operate, the investment also benefits the people living in southern Mozambique, South Africa, and Swaziland, by providing low-cost, reliable power 24 hours a day.

In both projects, MIGA guarantees are protecting the investors against the risks of expropriation and war and civil disturbance. MIGA is not the only agency of the World Bank Group to have supported Mozal. The project is a true showcase of positive synergies among the World Bank Group agencies. The International Financial Corporation has contributed $145 million in loans to Mozal, its largest investment to date.

Perhaps the project’s biggest impact is its “demonstration effect” — showing other foreign investors that a mega project could be successfully undertaken in the post-conflict environment of Mozambique, and giving the country credibility as an investment destination. Several new jumbo deals (over $1 billion) involving foreign investors are now under active consideration. The project has also played an important role in creating a blueprint for assessing and processing FDI proposals, strengthening the government’s capacity and nudging it to develop a more responsive regulatory framework and investment climate.

The Mozal project has had an important regional impact, enhancing the viability of the Maputo corridor, promoting regional trade integration, increasing traffic through ports, and benefiting the South African economy through exports, jobs, and government tax revenues.

The project contributed an estimated 10 percent to Mozambique's GDP growth in 2001. It employed 9,000 employees, mostly Mozambican, for the first part of construction and is employing 6,000 for the second part. Once construction is done, Mozal will provide jobs for about 880 permanent staff, primarily local, with another 4,000 jobs to be created in related industries.

Mozal also paved the way for improvements in investment legislation, the creation of incentive regimes for different industries, and even the creation of labor organizations. Because there had never been an investment of this size, various ministries would meet regularly to address impediments as they came up.

“We’re profoundly changing how business is done here,” this project is in many ways serving as a model for other investors,” says Eddy Kenter, Mozal’s manager for Finance and Administration.

Mozal is also a leader when it comes to strong corporate citizenship. Through a special
MIGA News

Join MIGA

The Democratic Republic of Timor-Leste and Rwanda officially joined MIGA in the past quarter, bringing the agency’s membership total to 119.

Timor-Leste became a full member of MIGA on July 24, 2002. Signing on behalf of his country was Prime Minister Mari Alkatiri, accompanied by the Minister of Planning and Finance, Maria Madalena Boavida, and Ismaila Ceesay, a UN official working with the finance ministry.

While Timor-Leste (previously known as East Timor) has taken great strides in its reconstruction and political transition since 1999, more than two in five residents live below the national poverty line, making the challenges ahead immense.

“We are happy to have this opportunity to develop a relationship with MIGA,” Prime Minister Alkatiri told MIGA News, to not only guarantee investments going into Timor-Leste, but also to help encourage investors to take their business to his country. He noted that tourism and the environment are two specific areas in which he will be seeking the agency’s help.

“We at MIGA are delighted to see Timor-Leste’s membership materialize so fast,” said MIGA’s Executive Vice President, Motomichi Ikawa. “Post-conflict countries are a priority for MIGA. We are eager to facilitate investment in many areas, including tourism and telecommunications, and stand at the ready to provide technical assistance in the area of institutional building to help the country attract foreign investment.”

In addition to becoming a member of MIGA, the country joined the IBRD, IDA, and the International Centre for the Settlement of Investment Disputes (ICSID). Timor-Leste also became a member of the International Monetary Fund. The new country is expected to soon become a member of IFC.

On September 27, 2002, Rwanda joined Timor-Leste to become a full member of MIGA with the completion of its membership requirements, begun 13 years earlier, including payment of the local currency portion of the initial capital subscription and deposit of the promissory note. The membership was followed by Rwanda’s election to MIGA’s Board of Directors during the World Bank/IMF annual meetings held in Washington.

“Rwanda is making some good headway on a number of fronts,” said Motomichi Ikawa, head of MIGA. “I am very pleased that we are in a position to begin offering guarantees to businesses that would like to tap the many investment opportunities that exist in Rwanda and help the country continue on its path of peace and economic growth.”

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FDI Xchange (www.fdixchange.com), a free email alert service that provides up-to-the-minute information on new foreign direct investment opportunities and country analysis, is MIGA’s latest electronic product offering. Launched in April of this year, FDI Xchange helps investors keep abreast of market research and business environment analysis with the touch of a button. You and your colleagues can begin receiving the updates by completing a simple three-step registration process on the FDI Xchange website, detailing your areas of interest by sector, region, and topic. You will then receive periodic, customized emails containing a summary of new information and analysis—with hyperlinks to the full text. You will also have access to a web-based archive of information previously delivered.

Since it was launched six months ago, FDI Xchange has signed up a network of more than 50 content providers, including investment promotion and privatization agencies, as well as private business and government information providers that specialize in emerging markets. As a project finance professional, you rely on timely information. Let FDI Xchange help you gain easy access to the information resources relevant to your emerging market investment activities.

For more information, contact Stephan Dreyhaupt at sdreyhaupt@worldbank.org.

Need information on FDI opportunities? We’ve got it.
European investors account for more than half of all foreign direct investment in developing countries, according to the 2002 World Investment Report. With this in mind, the Private Sector Liaison Network was launched in January 1999 to strengthen the relationship between the World Bank Group and the private sector in Europe.

There are currently 11 private sector liaison officers (PSLOs), located in Austria, Belgium, Denmark, Finland, France, Greece, Iceland, Italy, the Netherlands, Portugal, and Switzerland. The PSLOs are based in their home countries and financed by local private sector intermediary organizations, such as chambers of commerce, export organizations or government agencies.

“The liaison officers operate as strategic local ‘door-openers’ to bring the Bank closer to companies in Europe and to bring companies in Europe closer to the Bank,” says Gilie García, an external affairs counselor who oversees the network. “They help disseminate information about the World Bank Group by organizing local events or facilitating contacts between local companies and us.” Their presence in the field also allows them to foster a closer strategic dialogue between the private sector and the Bank Group on issues of interest to developing countries.

The network is essentially comprised of staff with private sector backgrounds and an intimate knowledge of specific sectors. “Most of us focus on small and medium-size enterprises, with special attention to how they can contribute to development,” says Mike Timmermans, a PSLO based in the Netherlands. “We offer the added knowledge of our home country’s development and export subsidy strategies. We can put it all in context.”

The focus on SMEs is natural, Timmermans says, because European markets are small and SMEs have to look elsewhere to grow. “We remove obstacles for European SMEs to be engaged in developing countries, and to create partnerships between the countries,” he says.

On a day-to-day basis, the PSLOs help local companies on three major fronts: issues related to the World Bank’s procurement procedures, MIGA guarantees, and project financing with the IFC. Since starting a year ago, Timmermans says, he has helped more than 10 companies.

“For procurement issues, we give concrete information to help companies find the right World Bank contacts,” Timmermans says. “Larger companies have staff to do this, but smaller companies don’t. We are not the experts, but we can provide information on policies and procedures, and guide companies through the process.”

The PSLOs also help spread the word about MIGA by disseminating information on the agency’s services and organizing investor seminars focused on political risk insurance.

Timmermans has organized a few such events, pulling together industry representatives, including the Dutch public risk insurer, NCM, and structured trade finance staff from ABN AMRO, in addition to MIGA clients. “Hearing first-hand the experiences of business colleagues is a very important way to learn some concrete ‘dos and don’ts,’” Timmermans says, who adds that several preliminary guarantee applications have been submitted as a result of recent outreach.

PHOTO | Mike Timmermans, PSLO from the Netherlands

CREDIT | Sariif Mesir

For the IFC, the PSLOs help companies prepare investment proposals. Timmermans also rolls up his sleeves to help prepare shortlists for potential consultants for various IFC projects, such as a wind technology project in Brazil and a tomato paste factory in China.

“With its broad geographical coverage, the network is playing an increasingly important role in bringing the World Bank Group closer to its stakeholders,” says García. 

### Field-Based Network Opens Doors for European Investors

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**EUROPEAN INVESTORS**
Mali
Senegalese investor to provide much-needed telephone service

MIGA issued guarantee coverage to Société Nationale de Télécommunications du Sénégal (Sonatel), a Senegalese company, for its $138 million equity investment in Ikatel SA of Mali. The 15-year coverage provides protection against the risks of expropriation, war and civil disturbance, and breach of contract. MIGA is also providing coverage for an eight-month bridge loan of $26 million. The guarantees total $44 million.

Mali is one of the world’s poorest countries, ranked 153 out of 162 countries in the 2001 Human Development Index. A landlocked country, more than half of which is desert, Mali has limited natural resources and tends to rely on two volatile commodities, cotton and gold, for export income. The country’s low rate of teledensity has adversely affected economic growth.

The project will provide various telecommunications services, including fixed lines, wireless, Internet, and satellite communication services, as well as public pay phones. It will also establish the country’s first fully digital GSM cellular network, which is expected to improve the quality and efficiency of mobile phones. Ikatel aims to reach 250,000 subscribers through the project over the next nine years.

The project represents one of the largest aid projects in Mali and is expected to offer many development benefits. It will spur the growth of several industries, including small businesses and microenterprises, many of which will provide phone services to those who cannot afford a phone. Consumers will benefit from the diversity of service offerings and lower costs. The project will also generate government revenues in the form of taxes and fees, including a $44 million license fee, which has already been paid. Ikatel plans to directly employ some 200 local staff and should indirectly generate thousands of additional jobs. Other benefits include staff training and a program that involves building affordable housing for employees. The project will also help provide new technology to schools, in addition to contributing to local charities and sponsoring regional cultural and sports events.

Croatia
Bank expansion to bolster country’s financial sector

MIGA has provided Bank Austria Creditanstalt AG with a guarantee covering its EUR65 million shareholder loan to HVB Bank Croatia d.d. The guarantee, for EUR68.8 million, provides coverage against the risk of transfer restriction for a period of up to 10 years. The project will allow HVB Croatia to further expand its in-country operations, focusing mainly on financing small and medium-size enterprises (SMEs) and on-lending for projects in the energy and food industry sectors, among others. Through its upcoming merger with Splitbanka, the bank is expected to play an even more important role in the financial sector as the country’s third largest bank.

The project complements the World Bank Group’s country assistance strategy, which is to help Croatia achieve economic growth by improving the environment and incentives for attracting financial flows, particularly private and foreign direct investment. To do so, the Bank’s efforts are focused on SMEs, improving access to housing finance, encouraging contractual savings, and promoting infrastructure investments. This follows a number of years of lending for infrastructure and related sector reforms, focused on addressing the country’s post-war reconstruction needs.

The project, supported by MIGA, is expected to yield a number of developmental benefits. MIGA’s coverage will allow the bank to increase lending, particularly medium-term financing, for productive investments, encouraging competitive pricing and better terms for loans. The project will also introduce new products, more efficient services at competitive prices, and know-how and technical improvements. SMEs will receive a critical boost through improved access to financing, as will Croatian export-earning companies. It will continue to support local community activities such as SOS Children’s Village, and other humanitarian efforts, as well as participate in diverse cultural projects in cooperation with Bank Austria.

Bulgaria
Guarantee supports bank expansion

MIGA recently provided Bank Austria Creditanstalt AG with a EUR23.8 million guarantee for its EUR25 million shareholder loan to HVB Bank Bulgaria EAD. The loan will allow HVB Bulgaria to further expand the financing it provides to Bulgarian companies. MIGA’s coverage is for a period of up to eight years and provides protection against the risk of transfer restriction.

The project is consistent with Bulgarians broader development strategy, supported by the World Bank Group, which focuses on the promotion of competitive private sector-led growth. MIGA’s support will help HVB Bulgaria provide additional medium-term financing to businesses, especially small and medium-size enterprises (SMEs). The increased availability of funds with longer tenors is expected to have a positive impact on the financial sector as well, and will generate competitive loan pricing and terms for Bulgarian companies in addition to improving SMEs access to financing.

At year end, HVB Bulgaria will merge with Biochim, Bulgaria’s fourth largest bank, which was acquired by Bank Austria Creditanstalt in October 2002. As a subsidiary of the leading Austrian bank, the bank expects to play a leading role in the ongoing process of privatization in Bulgaria, providing know-how, technical solutions, and new products to the market.
Despite the challenges of the past year, MIGA issued $1.4 billion in guarantee coverage for 33 projects in 24 developing countries, according to the agency’s newly released annual report. This brings the estimated total of FDI facilitated in fiscal 2002, which ended on June 30, to $4.7 billion. The results reflect strong progress on the agency’s priorities, which include support for foreign direct investments in the world’s poorest countries, including Africa, among developing countries, and in small and medium-size enterprises.

This year’s report showcases the agency’s work in supporting basic infrastructure, rebuilding conflict-affected countries, encouraging cross-border investment among developing countries, and strengthening institutional capacity, and reports on the agency’s technical assistance and legal activities as well.

To order a free copy of the report, contact Ms. Wyfield Chow, 1818 H Street, NW, Washington, DC 20433, t. 202.458.9595, or email wchow1@worldbank.org.
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