

## WATER ISSUES Gather Momentum in Lead-up to KYOTO FORUM

### MIGA POSITIONED TO HELP ADDRESS CHALLENGES

Water seems to be on everyone's lips these days, with the upcoming World Water Forum set for March 16-23, 2003, in Kyoto, Japan. Everyone's lips that is, except for the more than 1 billion people who currently lack access to improved water services, and the 2.4 billion people who still live without improved water sanitation. With estimates pointing to the possible addition of 2 billion people to the world population over the next 30 years, mostly in developing countries, the need for investment, particularly from the private sector, is clear.

The third international water gathering, organized by the World Water Council, will bring together an estimated 10,000 delegates from 190 countries to hammer out a plan for securing clean drinking water and sanitation for the billions of people who currently live without these basic services. Government representatives meeting at the World Water Forum are expected to call on the international community to use the private sector to enhance access to safe water.

The challenge of providing safe drinking water to those who currently lack it—a Millennium Development Goal—is expected to be attained only if the sector receives some \$50 billion in investment a year over the next 12 years. But the lack of sufficient public funding and difficulties attracting private money in the sector make achieving even a third of this amount a challenge.

“Given these constraints, it makes sense to be looking more closely at public-private partnerships as a way of dealing with these critical water issues,” says MIGA's Executive Vice President Motomichi Ikawa. “There are a number of public-private investment models, and MIGA can be an effective risk mitigant in all of these structures.”

The risk profile of water projects is very different to that of other projects for a number of reasons. Water investments have a low risk-adjusted rate of return on investment, with longer payback periods. Regulatory risks are high. And at a time when governments are considering increased private involvement in water services, many are also decentralizing control of services from national to provincial and municipal authorities (sub-sovereigns). The problem is that sub-sovereigns have little experience

dealing with the private sector and often have a poor understanding of investors' needs, such as the need for a stable regulatory environment that allows for predictable earning streams. Sub-sovereigns also tend to have more trouble accessing credit than federal governments.

MIGA has extensive experience in covering sovereign and sub-sovereign risks through its expropriation coverage. This coverage protects against discriminatory administrative or legislative actions by governments at all levels that may reduce or eliminate ownership of, control over, or rights to the insured investment.

To protect investors when governments are contractual partners, MIGA offers coverage against losses arising from local or national breach or repudiation of a contract in the form of denial of justice, i.e., the inability to enforce an arbitration award against the host government. But before a dispute even reaches this point, MIGA mediates with governments and investors to find amicable solutions. In China, for example, MIGA successfully averted a claim situation for several power projects by working together with the government, including sub-sovereigns, and the investor over a three-year period.

Breach of contract coverage can be tailor-made to deal with specific concerns, such as the revocation of licenses or concessions, as well as tariff and regulatory risks. MIGA can extend this coverage to the sub-sovereign level, including for performance bonds or management contracts. For instance, in response to client demand, MIGA started offering insurance against the wrongful call of the performance bonds that operators are often asked to post.

Investors in the water sector also face several currency-related risks, as earnings for water projects are typically in local currency, while debt is denominated in foreign currency. MIGA protects investors against losses arising from an inability to convert local currency into foreign exchange and transfer outside the host country.

The risks of war and civil disturbance, including terrorism and sabotage, are also important considerations for investors. MIGA's coverage against these types of risks currently protects against physical damage and prolonged business interruption.



MIGA's portfolio of water projects is fairly limited, due to the relatively recent interest demonstrated by private operators in the sector. To date, MIGA has issued \$225.5 million in guarantees for six water-related projects, including one that provides potable water and sanitation services in Guayaquil, Ecuador. MIGA's coverage protects the investor against the risks of expropriation, and war and civil disturbance, in addition to providing coverage against the local government's wrongful call of a performance bond posted in accordance with the concession agreement. MIGA's pipeline of projects in the water and sanitation sectors is expanding rapidly and now comprises six projects in China, Eastern Europe, and the Middle East.

“This is a sector where MIGA is well-positioned to provide investors with the types of coverage they need, while working to move the global community closer to achieving the water targets set out as a Millennium Development Goal,” says Ikawa. ■



## MIGA's Technical Assistance Pays Off for El Salvador

El Salvador is a small Central American country with a lot of potential. Since the end of its civil war in 1991, strong progress has been made in deregulating and diversifying the economy. Three rounds of peaceful, broad-based elections have taken place. And important legal and regulatory reforms have been made, making the country a more attractive location for investment.

But getting the framework for investment right is one thing. Getting investors in the door is another. This issue came to a head in the years following USAID's decision in the early 1990s to cut funding for the country's investment promotion program. Meanwhile, newly elected governments were looking for ways to deliver on their promises of economic growth and employment. That's when Miguel Lacayo, El Salvador's Minister of the Economy, approached MIGA about getting a new agency going.

"El Salvador had a few ideas of how they wanted to structure an investment promotion

agency, but lacked much of the technical information to make the venture function," says Damien Shiels, one of two MIGA staff members responsible for the agency's technical assistance work in Latin America. "We helped them informally at first, providing advice on the agency's structure, setup and functions of the board, and other job descriptions."

The relationship eventually became more formal, and in the summer of 2000, PRO.ESA (Promoting Investment in El Salvador) was born. Using a model not common in Latin America, a portion of the proceeds from the privatization of the country's telecoms industry was allocated to the fledgling agency. This enabled PRO.ESA to work outside the civil service structure, while ensuring its financial sustainability and one of the strongest budgets in the Central American region.

"We soon realized that there were some big issues we'd have to overcome," says Rodrigo Ortiz of MIGA, "especially the need for an image-building program to tackle the legacy of the country's 12-year civil war."

Together, MIGA and PRO.ESA devised terms of reference for the hiring of a top-notch PR firm to help position El Salvador as a serious competitor for foreign direct investment. Fleishman-Hillard won the international tender and the program was officially launched in 2002. The branding campaign focuses on advertising, research, and targeted PR initiatives aimed at promoting investment in a few priority sectors. The campaign slogan, "El

Salvador Works," reflects the country's most important attribute in the eyes of international investors: its work ethos.

PRO.ESA recently reported that it had secured \$500 million in foreign direct investment over the past two years, according to Financial Times Business. The biggest growth has come in the fields of agribusiness, call centers, electronics, manufacturing, textiles and clothing.

"What makes PRO.ESA unique is the level of government commitment," Ortiz says. "There is support from the top down, with the vice president and various ministers sitting on the agency's board of directors. The result is one of the best-functioning, most proactive agencies in the region."

MIGA continues to advise PRO.ESA. Upcoming work will focus on policy advocacy, a proactive promotion campaign, and developing an aftercare program for existing investors.

"It's important to continue marketing efforts, even during an economic slump. Investment promotion agencies that invest in image-building and continue proactive promotion during times like this are the ones that will distinguish themselves and create awareness. Their efforts will be rewarded with continued investment flows during the slump and excellent positioning to take advantage of the next growth phase," says Shiels.

To find out more about PRO.ESA, visit [www.proesa.com.sv/](http://www.proesa.com.sv/) or [www.elsalvador-works.com.](http://www.elsalvador-works.com.) ■

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 second GUARANTEES

| Investor                                 | Investor Country | Host Country             | Sector      | Gross Coverage (\$ m) |
|--|------------------|--------------------------|-------------|-----------------------|
| Raiffeisenlandesbank Steiermark          | Austria          | Russian Federation       | Financial   | 23.8                  |
| Entergy Power Development Corporation    | United States    | Bulgaria                 | Power       | 51.1                  |
| Société Générale                         | France           | Bulgaria                 | Power       | 238.2                 |
| Sasol Gas Holdings (Pty) Ltd.            | South Africa     | Mozambique               | Oil and gas | 45                    |
| Sasol Petroleum International (Pty) Ltd. | South Africa     | Mozambique               | Oil and gas | 27                    |
| Hypo Alpe-Adria Bank AG                  | Austria          | Bosnia and Herzegovina   | Financial   | 14.2                  |
| Wings of Papagayo                        | United States    | Costa Rica               | Tourism     | 33.3                  |
| Kingdom 5 KR 71 Limited                  | United Kingdom   | Syrian Arab Republic     | Tourism     | 22.8                  |
| SLAP Cabo, LLC                           | United States    | Brazil                   | Power       | 32.6*                 |
| Hypo Leasing Karnten GmbH                | Austria          | Yugoslavia, Fed. Rep. of | Financial   | 1.8                   |
| Scotia Bank (Cayman Islands) Ltd.        | Cayman Island    | Costa Rica               | Tourism     | 47.7                  |

\* Represents two contracts

MIGA guarantees 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](mailto:wchow1@worldbank.org).

## trips and events

|             |                        |  |
|-------------|------------------------|--|
| March 15-19 | Kinshasa, DRC          | Mansour Kane, Regional Manager<br>Finance, Agriculture, Manufacturing and Services                                 |
| March 16    | Kyoto, Japan           | Motomichi Ikawa, Executive Vice President<br>Angela Paris, Senior Underwriter<br>Mari Kogiso, Tokyo Representative |
| March 17    | Madrid, Spain          | Christophe Bellinger, Director, Europe   |
| March 19-22 | Brazzaville, Congo     | Mansour Kane   |
| March 22-27 | Dakar, Senegal         | Mansour Kane   |
| March 25    | Paris, France          | Federica dal Bono, Corporate Relations Officer   |
| March 27-30 | Bamako, Mali           | Mansour Kane   |
| April 7     | Vienna, Austria        | Motomichi Ikawa, Executive Vice President<br>Christophe Bellinger, Director, Europe                                |
| April 24    | Kuala Lumpur, Malaysia | Philippe Valahu, Regional Manager<br>Middle East, North Africa, and Asia   |
| April 28    | Lima, Peru             | Patricia Veevers-Carter, Regional Manager<br>Europe, Central Asia, Latin America and the Caribbean                 |

# Tourism: A PASSAGEWAY TO DEVELOPMENT

Farmers on the outskirts of Dar es Salaam wake up early, sometimes before the sun is up, to give their produce one last check before loading their bicycles for the trek to the city's outdoor markets. The bike ride over rutted paths and streets, with heavy and unwieldy loads, can be arduous. That situation changed for some of these farmers when new management took over the Royal Palm Hotel in 2001. The hotel, in the center of Dar es Salaam, needed a better way of procuring fresh vegetables and flowers for its residents, and started sending a truck directly to the farmers. This simple change not only brought efficiencies to the market, it also helped create a new market for local farmers. This type of impact is played out over and over again in tourism projects throughout the developing world.

For many developing countries, tourism is a significant vehicle for economic progress that creates jobs, foreign exchange, and tax revenues—all of which contribute in one way or another to improving poor people's lives.

While poor countries command only a minority share of the international tourism market, tourism can make a significant contribution to their economies, says the UK's Department for International Development (DFID). According to a 1999 report by DFID, 80 percent of the world's poor (below \$1 a day) live in 12 countries. In 11 of these, tourism is significant and/or growing. Of the 100 or so poorest countries, tourism is significant (accounting for over 2 percent of GDP or 5 percent of exports) in almost half the low-income countries and almost all the lower-middle income countries.

"Tourism can play a critical economic role in developing countries, especially for those with limited income-generating alternatives," says Motomichi Ikawa, executive vice president of MIGA. "While tourism accounts for less than 1 percent, or \$269 million, of our cumulative guarantees portfolio, we believe this sector offers our developing member countries tremendous growth potential."

Tourism is one the world's fastest growing industries, expected to overtake agriculture as the world's largest industry by 2010. In the past year, an estimated one out of every 13 workers was employed either directly or indirectly by tourism, according to the World Travel and Tourism Council. In the year ahead, the travel and tourism economy is expected to contribute \$3.5 trillion to world GDP and account for 11.6 percent (or \$1.1 trillion) of total world exports, the council says.

Tourism can generate significant revenues for governments through a variety of taxes, including sales tax, value added tax, room or "bed" tax, aircraft landing fees, corporate income tax, payroll tax, and so on. Tourism is, in fact, the world's largest tax contributor, with an

estimated \$800 billion in personal and corporate taxes recorded in 1999.

Urban facilities, such as hotels and airports, are often essential for emerging and transitional economies that lack the basic infrastructure to attract international investors and business people. Upscale hotels can have the broadest economic impact per unit of capital invested, and a well-planned, integrated resort development is generally more cost-effective in terms of infrastructure use and a better guardian of the environment than mass tourism or ad hoc developments throughout the country.

Of the 14 tourism projects supported by MIGA, 10 have involved the construction or rehabilitation of hotels. Some of these projects have been in Costa Rica, where for more than two decades, the government has been working to develop and consolidate its tourism industry in an effort to diversify its export earnings base, and to offset a migration of manufacturing employment to countries with cheaper labor.

"Tourism is the main generator of income in Costa Rica," says former Minister of Tourism Walter Niehaus. "It is the great democratizer." When it comes to distribution of income from tourism, residents of all income levels across the country benefit, Niehaus explains.

By issuing guarantees to enable the investments to go ahead, MIGA has played a key role in helping the country follow the development path it set out for itself. "MIGA has been a great supporter of investments going into Costa Rica," says Niehaus. "Just the name of MIGA alone helps to build confidence in a project, which is also helpful when it comes to getting investment partners."

"Tourism's main comparative advantage over other sectors," says the World Travel and Tourism Council, "is that visitor expenditures also have a 'flow-through' or catalytic effect across the economy in terms of production and employment creation." Through consumption of local products in hotels, tourists can be a catalyst for the development of small businesses in the production and service sectors, and generate linkages to agriculture, fisheries, food processing, and light manufacturing, such as the garment industry. Visitors also spend a substantial amount of money outside the hotel for food, transport, guides, entertainment, souvenirs, entrance fees, and so on. Estimates of such ex-hotel expenditures vary according to the type of hotel and local circumstances, but can range from half to nearly double the expenditures in the hotel. Tourism can also create investment opportunities for small and medium-size enterprises.

Illustrating the sector's cross-sectoral is a hotel project supported by MIGA in Mozambique. The project, which involves the upgrading and renovation of the 220-room

Rovuma Carlton Hotel in Maputo, includes the development of Maputo's first modern shopping mall consisting of restaurants, some 40 retail stores, and office space. This is expected to generate a substantial multiplier effect for other downstream businesses, such as dry cleaning, food and beverages, local handicrafts, and marketing services.

Another project guaranteed by MIGA involves a \$1.6 million investment into Albania, an IDA (low-income) country, whose tourism sector was greatly disrupted by the Balkans conflict. The MIGA-supported project involves the construction of the country's first marina, which includes a lodge facility and a restaurant. In addition to providing employment and training to local residents, the project is procuring goods locally and spurring the development of local businesses.

Tourism is labor intensive, with about two employees required per hotel room in developing countries, depending on the type of hotel and local skill levels. Tourism tends to employ a high number of entry-level and female workers, and the physical working conditions are often healthier and safer than other sectors.

With an increasing dependence on local staff, hotels are upgrading the skills of their employees through formal and informal training, and, in many countries, local people are rising through the ranks to technical and senior management positions. In Damascus, Syria, for example, a new hotel project backed by MIGA has allocated \$2.5 million to train Syrian nationals who will be employed by the hotel. Training will be conducted onsite and in other locations in the Middle East.

In addition to these benefits, tourism also generates a demand for key infrastructure, such as water and sanitation services, and telecommunications, as well as for financial services, which are integral to successful tourism. These improvements also benefit the local community.

"Because the barriers to tourism are lower than for many traditional exports, such as sugar and textiles, developing countries perceive tourism to be one of the few global industries in which they can be successful players," says David Bridgman, an investment marketing specialist in MIGA. In fact, the share of developing countries in world tourism "arrivals" grew steadily from 19 percent in 1980 to some 30 percent in 1998.

In today's globalized market, a country competes with every other destination in the type and price of tourism it offers. If a country is to successfully compete in the international tourism market, standards of excellence must

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## MIGA IN GUATEMALA

# Peace and power promote development

The government of Guatemala's signing of a peace agreement with the revolutionary guerrilla movement in 1996 brought to an end one of Latin America's longest-running and more fratricidal wars, which had resulted in the deaths or disappearance of more than 200,000 people over a 35-year period. The peace agreement was important not just for its content, but for the willingness of key actors on all sides to negotiate after decades of inflexibility, state-sponsored terror, and guerrilla brutality. Among other things, the accord acknowledged the importance of improving the country's infrastructure—an area where the government had historically committed unsustainably low levels of funding—particularly by reaching rural, mostly indigenous, communities with basic services. The government is now addressing this need by setting and working to achieve targets for access to power, water, and transportation services.



Among the many challenges faced by Guatemala was the need to build the country's power infrastructure from the ground up. In 1998, Guatemala's share of households with an electricity connection was 60 percent, one of the lowest in the region. This number was reduced to 52 percent in rural areas. Historic underinvestment, the poor performance of the state's two power utilities, and the destructive effects of the civil war were to blame for the situation. To address the problem, the government of Guatemala embarked on a full-scale privatization of the electricity distribution system in 1998.

The rural distribution business of INDE, the national electricity company, was split into two new companies (DEORSA and DEOCSA) and placed on the auction block, with 50-year concessions to operate power distribution. Unión Fenosa Internacional S.A. of Spain won the bid for both companies. MIGA supported the project by providing investment insurance coverage against the risks of currency restriction, expropriation, war and civil disturbance, and breach of contract.

"At the time of privatization, INDE was facing substantial losses, which made the purchase of the newly created entities unattractive," says Rodolfo Santizo, vice minister of Energy and Mines. "The low levels of electricity consumption per household in the rural areas, 30 kilowatt-hours (Kwh) per month on average, compared with the low population density in rural areas made it quite hard for a distribution business to be financially sustainable."

An ambitious government rural electrification program (PER) designed in 1998 to address the country's rural electrification needs made the privatization more attractive. Under this innovative output-based scheme, DEORSA and DEOCSA are paid \$650 for each community that is "electrified." According to the construction contract, all new installations will become part of DEORSA's and DEOCSA's fixed assets when finished. The government has tapped the \$101 million in proceeds from the sale of assets for this incentive program. The setup serves both the investor and the government, which obliged Unión Fenosa to meet the program's extension targets by incorporating the scheme into the concession agreement.

"The introduction of the PER has certainly helped increase the number of customers as well as energy demand, which means that more Guatemalans now have access to power and that the two companies have a greater chance of financial sustainability," says Fernando Quevedo, Unión Fenosa's manager of the PER.

"I believe we could not have possibly come up with a better idea to promote development in rural areas," Santizo adds. "Electrification was badly needed. Without electricity the country cannot develop."

The project aims to connect 280,000 new households in some 2,600 communities by the end of 2004. This rate of connection would raise the national electrification rate to about 90 percent. In its three years of operation, the project has reached about 150,450 households.

Getting to this point was not a simple matter. "We had lots of problems identifying what we needed to do and where," says Quevedo. "To manage the situation, we held weekly negotiations with INDE to identify the communities to be reached and develop an electrification grid."

In the village of Savana, 20 wood and straw houses stand in the middle of a coastal forest 110 kilometers from the nation's capital. Inside one of the houses is Rosa Gómez, a 30-year old mother of three. Gómez has just received her electricity connection. She and her neighbors hope to pitch in to buy a refrigerator together in a few years. For now, a single light bulb illuminates the walls of her one-room house. "This is a very good change in our lives," she says. "The value of our property is going to increase now."

The local elementary school is also a beneficiary of the project. Rain, a frequent event in a tropical forest, tends to darken the school's interior. The power connection is providing the electricity to light up the classrooms as needed.

Unión Fenosa's operating know-how and investments are also playing a substantial role in the operation's success. Its ability to operate the distribution companies more efficiently is helping to create significant energy savings for the country, and individuals, and allowing for expansion of the distribution system without significant addition of generating capacity. Among these improvements are upgrades in customer management, widespread use of metering, and the installation of modern information systems.

Protection of the project agreements, including those for power purchase and the trust fund, was a particularly sensitive issue for Unión Fenosa. "Because the project agreements extend through various government entities, our partnership with MIGA is vital," says Carlos

Fernández Gómez, executive vice president of Unión Fenosa-DEOCSA/DEORSA. "It enhances our confidence that each government agency will support this important development initiative as it was originally conceived."

The project does not overlook the burden of cost on the poor. The National Commission for Electricity, the sector regulator, determines the prices the companies can charge. In addition, households using less than 300 Kwh a month (virtually all rural customers) receive a subsidy. As a result, the average electricity bill comes to \$3 a month.

In order to make sure that people understand what the bills mean and how to pay them, Unión Fenosa has opened a 20-person call center spread throughout the countryside. "We have to be close to the people and understand what they need," says Fernández.

"This project came at a very challenging yet hopeful time for Guatemala," Fernández adds. "After 35 years of war, the country required significant investment in infrastructure. We are doing our part by working to improve and extend electricity in rural areas, where, in most cases, there has never been electricity before." ■



CREDITS | Federica Dal Bono



## TWO MIGA-Backed Projects Take Home the **BIG PRIZE**

priation, war and civil disturbance, and breach of contract. Additional insurance was provided by four major export credit agencies, including OPIC and OeKB. Seven banks took the deal in a club-style arrangement overseen by BNP Paribas.

Based on conservative economic growth scenarios, Turkey will need at least 2,000 megawatts of additional installed capacity per year to meet increased power demand. The project is expected to help meet this demand, while allowing Turkey to rely less on imported electricity and to focus more on natural gas as a fuel source (part of its national energy strategy).

Also receiving a Deal of the Year award was the Coltea Clinic project in Romania, which claimed top honors from Global Trade Review. MIGA provided guarantee coverage against the risks of transfer restriction, expropriation, war and civil disturbance, and breach of contract for this EUR 64 million shareholder loan by Oesterreichische Volksbanken AG of Austria. MIGA's guarantee was facilitated by reinsurance contracts with OeKB and a private reinsurer. The loan supports the expansion of

Volksbank Romania S.A, which will allow it to provide a loan to the Ministry of Health for the renovation, modernization, and extension of Clinic Coltea, a hospital in Bucharest.

The renovated hospital will treat and research HIV/AIDS, tuberculosis, and provide radiotherapy, cardiology, hematology, oncology, orthopedics-trauma, and other services. Central laboratories and a pharmacy are also included in the new hospital. The project will also improve environmental standards at the hospital, specifically in areas such as waste water treatment, waste separation, and emissions from burning fossil fuel.

The project garnered the best deal moniker for a number of reasons, including its positive development impact, mobilization of long-term private capital for a public project, innovative structure of the contracts, overall financing structure and formation of an international lenders' consortium, and the project's tenor and terms. ■

Project Finance International conferred its 2002 Power Deal of the Year award for Europe, the Middle East and Africa to Baymina Enerji, a MIGA-guaranteed project in Turkey. The project marks the first major long-term project financing hosted by Turkey since the country's currency crisis.

The \$360 million investment involves the construction and operation of a 763 megawatt combined cycle power plant outside of Ankara. In June 2002, MIGA issued guarantees to Tractebel S.A. of Belgium, and BNP Paribas of France, in the amounts of \$35 million and \$90 million to cover their respective loan guaranty and non-shareholder loan to Baymina Enerji A.S. The guarantees are for 15 years, and are against the risks of transfer restriction, expro-



## AZERBAIJAN: flour mill

MIGA has provided Fatoglu Gida Sanayi Ve Ticaret Anonim Sirketi (Fatoglu Food Industry and Trade Corporation) of Turkey with a \$529,920 guarantee to cover its \$588,800 equity investment in Fatoglu Istehsal Azerbaijan Co. Sirketi (Fatoglu Production Azerbaijan Co. Ltd.), for a period of up to 5 years. The guarantee offers protection against the risks of transfer restriction, expropriation, war and civil disturbance. The investment is for the expansion and modernization of a flour mill, which produces flour that is distributed and sold in Azerbaijan and Georgia. Following the expansion, the mill's increased production is expected to account for approximately 10 percent of Azerbaijan's flour supply.

Since its inception in 1999, the project has provided a steady source of local employment. It currently employs more than 90 nationals and expects to generate more jobs during the next five years, while providing onsite technical and managerial training. In addition, the mill's activities indirectly support approximately 150 jobs through transportation and other related sectors. The project also has upstream benefits for local businesses in the packing and domestic and international shipping industries;

approximately 15 percent of the goods and services needed by the project are purchased locally.

The project will not only develop the emerging agricultural sector, but will also diversify Azerbaijan's economy, which is concentrated in the oil and gas industry. Moreover, it will have a net impact of \$1.6 million a year in new taxes and duties, while replacing \$6.5 million a year in imports. This is expected to create a positive effect of \$500,000 on foreign exchange annually. The project meets three of MIGA's priority concerns: It provides support for an SME, is a "South-South" investment, and is located in an country eligible for support from the International Development Association. ■

## MOZAMBIQUE: gas project

MIGA has provided the Sasol Limited Group of South Africa with guarantees for \$27 million to cover \$30 million of its investment in Sasol Petroleum Temane Limitada, Mozambique and \$45 million to cover \$50 million of its investment in the Mozambican branch of the Republic of Mozambique Pipeline Investment Company (Pty) Ltd, South Africa. Initially, both companies will be wholly owned subsidiaries of Sasol. The guarantees are for a period of up to 15 years against the risks of transfer restriction, expropriation, war and civil disturbance, and breach of contract. MIGA's participation was a necessary component for the completion of the deal.

The project involves the development of the Temane and Pande gas fields, the construction of a central processing facility, to clean and compress the gas, and the construction of a 865 km cross-border gas pipeline from Temane in Mozambique to Secunda in South Africa. Sasol will also be converting an existing petrochemical plant in South Africa from coal as feedstock to gas.

The project will contribute to developing the Mozambican economy through monetizing its gas reserve—the country will receive significant royalty payments as well as dividends, production bonuses, and corporate taxes in excess of \$2 billion over the 25-year lifetime of the project.

Environmentally, the project will contribute to the reduction of harmful emissions by replacing sulfur-rich coal and heavy oils with clean burning natural gas. The project will provide contracting opportunities for both Mozambican and South African companies during the construction phase. The upstream benefits for local enterprises are estimated to be in excess of \$1 million per year. The project is expected to create more than 720 jobs for local employees during construction, and an estimated 110 after completion. The project will benefit Mozambique's infrastructure through the development of roads and water supplies, and the removal of land mines. The Sasol project meets two of MIGA's priority concerns: it is a "South-South" investment and in an IDA-eligible country. Further, the project represents the first cross-border initiative in sub-Saharan Africa in developing regional natural gas markets. ■

## MIGA Helps Guarantee Clients Weather Argentine Crisis

The past year of turmoil in Argentina has affected not only the country's citizens, but foreign businesses operating there as well. The move from a dollar-pegged monetary regime to a single floating rate has left people and businesses, already dealing with an economic slowdown, reeling. But so far, some investors have had a little more peace of mind than others, particularly those covered by MIGA guarantees.

MIGA currently has 20 outstanding guarantees in Argentina, with the majority concen-

trated in the financial sector. With MIGA's help, these clients have so far weathered a host of government decrees and communications from the Central Bank that could have had a deleterious effect on their investments.

One such decree, issued in December 2001, called for all monetary transfers on payments of loans going outside the country to be authorized by the Central Bank, a body that had not been involved in such day-to-day transactions for about a decade. The resulting delays

could have easily led to transfer restriction and other problems. MIGA was able to negotiate with the country's authorities and obtain an exception to the authorization requirement for its guarantee clients.

"We have established a great rapport with the government of Argentina," says Celina Penovi, senior counsel in MIGA. "They've been very receptive to our requests, and have had an open attitude toward finding common ground." In the months ahead, MIGA will continue to use its unique rapport with country authorities to make sure its guarantee clients are protected. New guarantees are currently being considered, provided they meet MIGA's developmental and business standards. ■



## Preliminary Application for Guarantees Now Online

In an effort to streamline the guarantee application process, MIGA's preliminary application for investment guarantees can now be filled out and submitted online. The change is expected to make the process more convenient for investors, who currently have to print and fax the application, as well as speed up turnaround times for notifying investors of eligibility for coverage.

"When an investor submits an application by fax, we sometimes have to go back and forth to complete the form before we can determine whether the investment qualifies for MIGA coverage," says Nouredin Ennaboulssi, who oversees the application process.

Because the online application requires all fields to be filled in, investors will know to do this right away, which should help reduce processing delays. "We continue to find ways to make dealing with MIGA more efficient and investor-friendly," Ennaboulssi adds.

To access the form, visit [www.ipanet.net/guarantees/index.cfm](http://www.ipanet.net/guarantees/index.cfm). ■

# in brief

**Tajikistan became MIGA's newest member** in December 2002, bringing the agency's membership totals to 160. With over 80 percent of the population living below the poverty line, Tajikistan is one of the poorest former Soviet countries. MIGA aims to help the country encourage private sector development, create incentives, and improve the investment climate to help generate growth and employment... December marked a week-long MIGA **visit to Moscow**, where staff met with Russian and foreign businesses, banks, and investment intermediaries. To date, MIGA has insured 25 projects worth almost \$600 million in Russia. The

purpose of the trip was to promote the guarantees program as a way of spurring greater levels of FDI—which may be hindered by investor perceptions of political risks—into the country and region... Meanwhile, **staff continued efforts to increase the agency's activities in the Middle East** by taking part in a World Bank Group delegation that visited Jordan, Lebanon, and Syria from December 9-17, 2002. The mission sought to introduce the products and services of the World Bank Group available to the business community in these three countries, namely World Bank procurement, the International Finance Corporation, MIGA, and SME Exchange... During the same period, **the agency reached out to African investors** during a series of visits throughout South Africa

and Mozambique. At the center of discussions was MIGA's role in encouraging regional businesses to fill the investment void and help move the continent toward the goals of the New Partnership for Africa's Development (NEPAD). The visit highlighted MIGA's extreme willingness to work with African countries to achieve early wins under this initiative. In addition to offering guarantees, MIGA is assessing the business environment in South Africa, at the request of the NEPAD Secretariat, to identify other potential risk mitigation instruments. And Mozambique is one of four African countries selected under a MIGA-Swiss pilot program to help investment promotion intermediaries reach out to international investors. ■

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be introduced. A coordinated approach and good management are also key to heading off negative externalities, such as overbuilding, exploitation, and environmental degradation. "This is where a group like MIGA comes into play—by ensuring that the investments it supports adhere to the highest standards of excellence across the board," says Ikawa.

There is little doubt about the development benefits to countries that host tourism projects. But without private capital, the potential of tourism assets cannot be realized. And for investors to go into these countries, the business environment has to offer the opportunity to operate profitable firms.

"There is a role for MIGA's technical assistance services in this regard," says Ikawa. "Since 1993, we have been helping our developing member countries target, attract, and retain foreign direct investment in the tourism sector.

This includes advising governments on the need to have a solid investment framework that encourages businesses to invest in their countries."

To date, MIGA has been active in promoting foreign direct investment in tourism in Latin America and the Caribbean, Central Asia, Central Europe, the Middle East, and Africa. MIGA receives a large number of requests for assistance from developing member countries. These requests continue to rise, reflecting governments' increasing focus on tourism to promote economic development.

MIGA's tourism initiatives typically involve investment strategy workshops and are often linked to "catalytic" conferences that bring together investors and project sponsors. MIGA typically organizes its technical assistance and events as single-sector, multi-country exercises, which encourages regional cooperation and the exchange of "best practices" among developing countries. For investors, this type of event pro-

vides the advantage of bringing a large number of project sponsors and key decisionmakers together in one location.

Although tourism is generally not as susceptible to fluctuations in demand as commodity exports, the sector was running slower for most of 2002 than it was the year before. The World Travel and Tourism Council says demand was affected by worries over traveling in the wake of September 11 and by spending cutbacks associated with the global economic downturn. However, fourth quarter output was running well above that seen in the immediate aftermath of September 11.

"MIGA clearly has a part to play in this environment," says Ikawa, "first, in using our guarantees program to mitigate the perceived risks that inhibit tourism investment in developing countries, and second, in helping countries improve the environment for tourism investment and helping businesses find out about these opportunities." ■

## C O N T A C T M I G A C O N T A C T M I G A C O N T A C T M I G A

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