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Doing Business in **Africa**

POTENTIAL RETURNS AND IMPROVING CONDITIONS HELP SHAPE INVESTOR PERCEPTIONS

On the surface, the news is grim. Global foreign direct investment is stagnant in some areas and dropping in others. Sub-Saharan Africa, which saw a dramatic drop in FDI inflows for 2002, is no exception. But peeling back the veneer, the picture begins to look a little different.

For starters, the projected two-thirds drop in FDI for sub-Saharan Africa as a whole, from $17 billion in 2001 to $7 billion in 2002, is pretty much explained by several large, one-off transactions in 2001, the global economic and investment slowdown, and geopolitical uncertainty in certain countries. A further breakdown reveals regional variations, particularly in East Africa, where FDI inflows have significantly outpaced global FDI growth since 1991. Projected FDI into the region over next few years are in line with the average for 1997-2000.

Next comes the fact that according to recent World Bank findings, investors reaped higher returns on their investments in sub-Saharan Africa last year than in any other part of the world.

On top of that, many African governments are becoming increasingly aware of the pivotal role investment climate plays in the global competition for investment, and as a result, are beginning to focus more on areas such as open trade, more transparent laws, privatizations and other investment schemes, and fiscal incentives. The recent push to jumpstart FDI in the region through NEPAD (the New Partnership for Africa's Development) is also contributing to increased awareness of the need for investor-friendly regulatory frameworks.

"In the near term—the next six to eight months—much will depend on factors that are beyond the control of policymakers in developing countries," says Uri Dadesh, one of the authors of the World Bank's Global Development Finance 2003. "Over the medium term, however, the improvements that developing countries can make in their policy framework and investment climate can be a powerful force for higher growth and more rapid poverty reduction."

Helping to get the climate right is the goal MIGA's investment promotion team, which to date has provided technical assistance to nearly 20 sub-Saharan investment promotion agencies. This work takes many forms, including capacity-building and advisory services, and information dissemination, as well as bringing investors face-to-face with business opportunities in developing countries.

Through a special multi-year pilot initiative jointly funded by the Swiss government, MIGA is taking its assistance one step further in four countries—Ghana, Mozambique, Senegal and Tanzania—going beyond capacity building to provide hands-on help in identifying investment opportunities in specific sectors.

For example, in Tanzania late last year, MIGA organized a tourism investment forum that brought together industry movers and shakers and resulted in a number of deals, including the redevelopment of a derelict hotel in Dar es Salaam.

In Mozambique, MIGA is working with the country's Investment Promotion Center on a number of initiatives, including advisory work to help advance the development of the Beluluane Industrial Park free zone. The agency also conducted an assessment of the country's apparel sector and is preparing an outreach program to take Mozambican apparel investors to China this year.

"There is undoubtedly an increased awareness among the countries of sub-Saharan Africa that the investment climate matters, especially with more countries now competing for less FDI," says Motomichi Ikawa, executive vice president of MIGA. "This is beginning to translate into improved investment conditions in a number of countries across the continent."

A handful of important trade agreements, allowing investors preferential access to industrialized markets for products exported from sub-Saharan Africa, are also making a difference.

The African Growth and Opportunity Act, for example, offers 35 countries in the region duty-free and quota-free US market access for basically all products, through September 2008. The Cotonou Agreement offers tariff and quota-free access for industrial and almost all agricultural products to European Union markets for 76 African, Caribbean, and Pacific countries until the end of 2007. Other agreements, such as Everything But Arms, COMESA, and SADC, offer varying degrees of tariff and customs duty reductions.

A recent report by MIGA and the United Nations Conference on Trade and Development (UNCTAD) found that these trade agreements can have an overall positive impact, and often beyond the sectors traditionally associated with the region.

"The perception that sub-Saharan Africa offers commercial potential only for basic commodities is misguided. Recent trade agreements and liberalization make the region as deserving of attention from the business and investment community as any other part of the world," says David Bridgman, a program manager in MIGA's investment marketing unit.

Helping to allay potential concerns about political risk is MIGA's investment guarantees program, which offers coverage against the risks of expropriation, war and civil disturbance, breach of contract, and transfer restriction.

"Africa is MIGA's top priority," says Ikawa. "The region's share of our outstanding guarantees portfolio has grown from 7 percent in 1999 to 17 percent today. Similarly, sub-Saharan Africa currently accounts for 30 percent of our technical assistance portfolio."

Since its inception, MIGA has issued 82 contracts of guarantee in 18 sub-Saharan countries, for a total of $805 million in coverage and an additional $4 billion in FDI facilitated. Since July 1, 2002, the agency has issued six contracts worth $116 million for a variety of projects—ranging from the production and sale of specialty vegetables and flowers, to the provision of telecommunications services, to the development of gas fields—in Burundi, Mali, Mozambique, and Zambia. (For more on MIGA's guarantees program in Africa, see story on page 3.) ■

San Martin Takes Over Helm of MIGA's Investment Marketing Unit

SHARES VISION FOR PARTNERSHIP, SCALING UP

Tessie San Martin joined the Multilateral Investment Guarantee Agency in February 2003 as the new Director of Investment Marketing Services. She comes to MIGA from IBM Business Consulting Services (formerly PricewaterhouseCoopers Consulting), where she was a partner responsible for a $100 million portfolio in nearly 50 countries.

Asked to share her vision for future directions of the Investment Marketing Department, San Martin says she wants it to increasingly serve as a clearinghouse for best practices in FDI and sustainable development: "We have to constantly think about our role in a changing marketplace. Our challenge is to leverage external resources so we can have a more substantive impact."

To address the challenge, San Martin and her team are working to develop a trust fund to enable MIGA to scale up its investment information and marketing services. The fund will enable MIGA to increasingly connect investors and others with information on business environments and new investment opportunities in developing countries, as well as help countries build their capacity to market these opportunities and maximize their development impact.

> "We shouldn't be competing with the private sector, but looking to share our methodologies and best practices, as a way of scaling up."

For San Martin, sharing knowledge and partnering are fundamental to the whole process: "We shouldn't be competing with the private sector, but looking to share our methodologies and best practices, as a way of scaling up. It's a win-win situation: other organizations benefit from their association with the World Bank, and it gets us out in the field more, increasing our outreach and effectiveness."

Before coming to MIGA, San Martin worked on a wide variety of large-scale projects, including a major international USAID privatization contract focused on capacity building, a public-private partnership project for information technology in Egyptian schools, and the design and implementation of capital markets and pension reform programs in Mexico and Poland. She has 16 years experience as a consultant in privatization, capital markets, trade and investment projects, human resource management, and enterprise restructuring.

Previously, she was an adjunct professor at Florida International University in Miami, president of a consulting company in Washington that specialized in strategic planning, and senior faculty advisor for a management institute in the Dominican Republic.

San Martin holds a PhD in political economy from Harvard University, a Master's in Public Administration from the John F. Kennedy School of Government at Harvard, and a BS from Georgetown University's School of Foreign Service. ■

MIGA **TRAINING PROGRAM** Attracts 41 Participants from 16 Countries

Forty-one representatives of export credit, development finance, and other agencies hit the banks of the Seine for a three-day workshop hosted by MIGA in Paris at the end of March. The purpose of the gathering was multi-fold—to increase awareness of MIGA's guarantee program, share best practices in underwriting investment guarantees, and to get to know key players in the political risk arena, as well as MIGA's partners.

Participants represented 12 different export credit and development finance agencies from developed countries, another 8 from developing countries, three insurance brokerage agencies, and one multilateral agency (the Asian Development Bank).

"The training covered a lot of different issues," said MIGA's Federica Dal Bono, the event organizer, "such as MIGA's approach to risk management, contract drafting and amendments, and a hands-on review of project insurance case studies."

Most of the groups represented have already signed memoranda of understanding (MOU) with MIGA to jointly underwrite projects in developing member countries. "One of the things that makes MIGA unique is that we partner with different agencies to increase the insurance industry's overall capacity to underwrite projects in developing countries," said Dal Bono. "The MOU program is an important part of this effort, and the training is one way to help build the capacity of our new MOU partners to really get things off the ground."

Since it opened its doors in 1988, MIGA has signed partnerships agreements with 32 agencies, including export credit and investment promotion agencies, as well as development finance institutions and multilaterals. The agreements have resulted in an increased exchange of information on investment climate and business opportunities. Another key outcome is joint coverage for a number of projects, including one involving the production and export of fertilizer in Jordan, and another involving a rapid rail transportation project in Brazil.

Workshop participant, Philemone Thobane, with the Export Credit Insurance Corporation of South Africa (ECIC), noted: "After signing an MOU with MIGA last year, I now have a clearer understanding of how ECIC and MIGA cooperate on coinsuring and reinsuring contracts of guarantees. Our investment insurance program is relatively new, and a single large claim could wipe our business out. That's why we need to work together with MIGA if we want our business to expand." ■

Africa Mission Puts Spotlight on Investment Opportunities and Concerns

AGENCY HOLDS TALKS WITH LOCAL LEADERS

MIGA's Vice President for Underwriting, Roger Pruneau, hit the road in late March for a series of high-level talks with key government and business leaders in the Democratic Republic of Congo, Congo-Brazzaville, Senegal, and Mali. The visits were geared toward identifying ways for MIGA to help the countries attract quality foreign investment to assist them on their paths to sustainable development (see related story on page 1).

Democratic Republic of Congo

The action kicked off in the Democratic Republic of the Congo (DRC), which officially became a member of MIGA earlier this year. There, MIGA staff were joined by Assaad Jabre, vice president of operations at the International Finance Corporation, and his regional field-based staff.

DRC is worse off today economically than it was at the time of independence in 1960, with per capita income registering at just 29 cents a day. But recent progress on the peace front, following years of conflict, as well as new, transparent public sector, mining, and forestry reforms, hold important promise.

Meetings with private sector, banking, and mining representatives highlighted the country's investment potential, but also revealed concerns about the business environment, such as poor basic infrastructure and administrative hassles. "We were able to convey these concerns to the key cabinet members representing economic sectors, who pledged to continue reforms," Pruneau said.

For their part, government ministers identified energy, road infrastructure, mining, and forestry as priority areas for investment. Talks were also held with the country's investment promotion agency (ANAPI), major donors and development agencies, and foreign businesses interested in possible guarantees.

"The Business Federation of the Congo welcomes this type of initiative that brings international financial institutions closer to the economic players [of the Congo]," said Federation administrator Athanase Matenda Kyelu.

Republic of Congo

In the neighboring Republic of Congo, the MIGA delegation met with President Denis Sassou-Nguesso, as well as the ministers of Economy, Finance, Planning, Commerce, Energy, and Mining.

"Given the recent conflict experienced by the country, we weren't surprised to hear the government identify post-conflict reconstruction, particularly for energy and road infrastructure, as one of the main areas where they'd like to see MIGA support," said Pruneau. Mining and forestry were two other priority sectors identified.

As in the DRC, business representatives shared concerns about the difficult business environment, weakness of the banking sector, high level of taxes in certain sectors, and inadequate infrastructure, issues that were echoed by donors and other agencies.

Sassou-Nguesso focused on the need for MIGA to support energy projects under the framework of the New Partnership for Africa's Development (NEPAD), road infrastructure, and mining. He emphasized his support for an improved investment climate and private sector development as the main engine of economic growth.

"Support for infrastructure investment is a key area where we can help advance and reach the goals of NEPAD," said Pruneau, "which we believe will reduce the cost of doing business and attract foreign investment."

Senegal

NEPAD was also on the agenda in Senegal, where Pruneau and team were invited to meet with President Abdoulaye Wade to discuss MIGA's support for the initiative, as well as support for several large, regional infrastructure projects. Meetings also took place with representatives of the banking sector, other key government officials, and Senegalese and private foreign investors, who said that new FDI is critical to the development of remote areas of the country, which will help position Senegal as a regional economic hub.

Capping a collaborative effort that began three years ago, MIGA signed a memorandum of understanding with the Senegalese investment promotion agency, APIX, which MIGA helped establish. "The memorandum calls for MIGA and APIX to jointly identify and promote projects that involve foreign investors going into Senegal, as well as Senegalese investors who are looking to invest in other developing countries," Pruneau said.

MIGA continues to provide technical assistance services to APIX, through an investment facilitation program co-funded by the Swiss government. The agency's current portfolio in Senegal consists of two contracts totaling $3.1 million in coverage.

Mali

The four-country tour wrapped up in Mali where MIGA guaranteed its first project in the country—a cellular telephone project last summer, involving a Senegalese investor (Sonatel). In its first eight days of operation, the project had already signed up 48,000 subscribers. In addition, the $40 million guarantee has facilitated an estimated $267 million in additional FDI.

Telecommunications is just one of a number of sectors where Mali is hoping to see increased investment. Finance Minister Bassary Toure, a former World Bank Executive Director, and investment ministry staff discussed the country's reliance on cotton and gold, two highly volatile sectors, and emphasized their commitment to moving forward on various regional NEPAD projects, including the Bamako-Dakar railway, a sugar refinery, road network, hydroelectric plant, and others. They also shared their views on the country's investment climate, the main impediments to flows of FDI, and appealed to MIGA for its support in creating a one-stop investment promotion agency.

"I am convinced that through our investment guarantee and promotion services, MIGA can help Mali attract quality foreign investment," said Pruneau. "We look forward to guaranteeing many more investments like the Sonatel project."

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Investor	Investor Country	Host Country	Sector	Gross Coverage ($ m)
MTU Asia Pte.Ltd	Singapore	Indonesia	Services	2.4 *
MB Mobile Ltd.	Mauritius	Burundi	Infrastructure	0.9
Raiffeisen Zentralbank Osterreich AG	Austria	Romania	Financial	38.0
SembCorp Utilities Pte.	Singapore	Vietnam	Infrastructure	43.2

* Represents two contracts

MIGA IN ECUADOR

MIGA-SUPPORTED PROJECT TO DELIVER WATER TO A QUARTER MILLION OF ECUADOR'S POOREST

Segundo Rodriguez is a middle-aged carpenter and resident of Isla Trinitaria, one of Guayaquil, Ecuador's largest and oldest slums. Rodriguez says he doesn't know what it means to be healthy. Along with thousands of his neighbors, his water is delivered by a special truck called a "tanquero," at a cost of up to seven times the average price paid by those with municipal water service. There are other costs as well. The water is stored in open plastic barrels that are breeding grounds for parasites, and resulting illnesses often go untreated.

Isla Trinitaria is on the brink of receiving municipal water services for the first time—potable water, sewage, and storm drainoff—thanks to a guarantee issued by MIGA in March 2001. "Water is going to make my life different," Rodriguez says. "The fact that I can simply take a shower without having to scoop water from a bucket will make an enormous difference."

Guayaquil is Ecuador's largest urban concentration, with a population of just over 2 million. As the country's main industrial hub, it attracts many rural citizens looking for a better way of life. For many years, a lack of potable water and sanitation services had been a critical problem for the city. Massive rural immigration throughout the 1990s further taxed the already weak water system. Today, the population is still growing, but not at the uncontrolled rate experienced before.

"Guayaquil is a big city that attracts many people from the countryside. Providing clean water to the increasing number of city dwellers is a great challenge for the municipality," says Luis Chiriboga Parra, the city's vice mayor.

Just over two-thirds of the city's residents currently receive municipal water services. Those left without are typically in the poorest neighborhoods, which are also burdened with a lack of sanitation infrastructure. The impact of a high incidence of water-related diseases, ranging from malaria and dengue fever to gastrointestinal disorders, is felt on many levels.

The problems are partly a result of the migratory influx, but also of serious operational problems experienced by the former municipal water provider, which by the early 1990s had reached a crisis level. An uneconomical tariff and subsidy system contributed to the problems and left little money for maintenance and upgrades. At the recommendation of the World Bank and Inter-American Development Bank, municipal water and sanitation services were fused in 1994 and became the Empresa Cantonal de Agua Potable y Alcantarillado de Guayaquil, or ECAPAG. But the problems continued and the new entity sought out private sector help.

Two years ago, International Water Services (Guayaquil) BV of the Netherlands won a contract to operate and improve the delivery of Guayaquil's water and sanitation services. It wasn't long before they came knocking on MIGA's door for a guarantee.

Political risk coverage was required for the project to move ahead, says Yvon Mellinger, general manager of Interagua, International Water's local subsidiary: "MIGA's coverage is extremely important because at the time the project was first getting started, the country didn't have a very good political risk history, and shareholders were worried. We looked at other agencies, but liked the idea of using MIGA because of its link to the World Bank. MIGA is different from other agencies. It has more experience, gives us a better chance of getting proper treatment, and offers a very different type of protection."

The signing of the $18 million MIGA guarantee for the rehabilitation and expansion of water services marked a number of important firsts, including the first time a private sector company would become involved in the provision of water services in Ecuador, as well as MIGA's first coverage of a water services project and of a performance bond. The guarantee covers International Water's equity investment in Interagua for up to 15 years against the risks of expropriation and war and civil disturbance. The 30-year contract also required Interagua to post a bond as collateral to ensure that it would meet the contractual requirements set forth by ECAPAG. MIGA guaranteed the bond against wrongful call.

With the signing of the concession, ECAPAG took on the new role of autonomous sector regulator to enhance accountability. Its primary functions are to ensure that the investor fulfills its contractual obligations and that residents of Guayaquil receive adequate service. Duties include oversight of quality, technical control and supervision, economic and financial supervision, tariff setting, and claims resolution.

The contract, signed in August 2001, calls for Interagua to operate and maintain the potable water, sewage, and flood water services, and to invest as needed to upgrade and expand services. ECAPAG retains full ownership of the existing assets.

The contract requires 55,238 new water connections to be made, all in low-income

PHOTO | Interagua's contractors employ local workers at job sites. The company also incorporates health, safety and environmental protection measures into all contracts for execution of works

areas based mostly in the southern part of the city, at the end of a five-year period. Based on the average household size of five, that means an estimated 276,190 people will have access to safe, clean water and sanitation services once the connections are complete. Overall, the municipality hopes to have 90 percent coverage of water services in 10 years, and 60 percent of sewage in the same time period.

"Our goal at Interagua is not only to provide water and sewerage services in accordance with the contract, but to also help improve the living conditions of the people of Guayaquil and the sustainable development of the local environment," says Mellinger.

Other new connections, about 100 a month, are installed on empty lots in already serviced areas. One criteria for service connection is that plots have to be registered by the municipality and land ownership legalized. Illustrating the synergies between the company and the local government, the mayor has accordingly instituted a program to allocate 40,000 lots to low-income citizens, to help them achieve service and to discourage squatting.

The involvement of the private sector was an important improvement for the city, says Rodrigo Andrade Rodriguez, president of ECAPAG's Board of Directors. "The benefits of private sector involvement are technological efficiency, access to financing, and money to rehabilitate the infrastructure." But the biggest benefit is that the "concession acts like a vaccine against politicization."

"The private sector alone can't do it—it has to be a combination of public and private," adds Mellinger.

Let the water flow

Interagua chose to begin the expansion program in the community of Isla Trinitaria, a slum of some 100,000 residents located on an island in Guayaquil. Residents currently get water two ways: They buy water on the other side of the river and bring it over by hose and pump. The hose is then taken door-to-door and individual plastic barrels called "tanques" located inside the houses are filled. Residents who don't have access to water by hose are forced to buy water from "tanqueros," water trucks that periodically come around.

The city of Guayaquil has three water stations where trucks rumble in throughout the day to fill their often dirty tanks with water. The price per barrel or "tanque" is 70 cents for 200 liters, and a small family goes through 15 tanks a month. This translates into $4 per cubic meter, compared with the 24 cents per cubic meter they'll pay for the first 15 cubic meters of water consumed when connected to the municipal system. Interagua has no control over the tanquero prices.

The work to install potable water and sewage connections in Isla Trinitaria, including engineering and procurement, began nearly two years ago. Conditions in the slum are tough and construction is a little slow-going right now. Rain fills the channels being dug out by the workers and the ground tends to crumble when the pipes go in. But the project is still on target. The first segment of the work is scheduled to be complete by July of this year, with some 8,500 families—or 42,500 individuals—set to receive service.

PHOTOS | Water trucks fill up throughout the day, charging low-income clients such as Juana Tambrano (left) up to seven times the average amount paid by those with municipal water connections. Informal water sources are often associated with illnesses such as dysentery, typhoid, malaria and other parasites, including giardia (bottom left, photo courtesy of the Department of Parasitology, Chiang Mai University, Thailand)

Ulises Gomez, a small shop owner is cautious about the change: "I've lived here for 12 years and with the new water connections, we're hoping for a real improvement. But, the bread can burn in the oven door, meaning, who knows. We have to be optimistic and think that things can change."

In addition to the monetary issue, there are serious health consequences of having "trucked" water. People often leave their water barrels uncovered. Chlorine, which some people add to their water, doesn't address all health issues, and people don't boil the water either. The open water containers and lack of proper sewage disposal also provide stagnant pools that become breeding grounds for mosquitoes that carry malaria and dengue fever, both life-threatening illnesses that can have an impact on survivors for many years.

Fifty-eight year old Juana Tambrano has lived in Isla Trinitaria for about 10 years. She shares a simple, clean one-bedroom house with a swarm of mosquitoes. "This service is very necessary," she says. "The water is dirty, filled with bugs. Sometimes we go five days without water. Then we have to collect rain water or go to friends to get some. It takes a lot of time." When asked about the biggest benefit of the new service, Tambrano says: "Water itself is the benefit. You can't do anything without it—wash, drink, clean."

"You can't just measure the impact from an economic standpoint," adds Fernando Alvarado, Interagua's communications officer. "You also have to look at qualitative improvements in the way people are living, their health. Illnesses are common in the slums. People are often sick, listless." Typical illnesses include diarrhea, dysentery, cholera, typhoid, and parasites.

New standards ensure better water quality...

In accordance with the contract, Interagua monitors and reports on the quality of raw and potable water, and residential and industrial effluents. The company has already invested an estimated $100,000 in the treatment plants alone since taking over.

Among the improvements are better, safer disinfection of water, resulting in less water-related illnesses. Equipment improvements have made a difference in the labs, which test samples of the water drawn from all parts of the river for heavy metals and other contaminants. New bacterial testing equipment allows technicians to better culture specimens, which improves the accuracy of analysis and treatment. The labs also analyze industrial waste to make sure large companies aren't contaminating the water source. Violations are reported to the municipal authorities. Interagua has also introduced ongoing, comprehensive monitoring of effluent discharges in the River Guayas.

"By having better labs, we are now able to identify potential water quality issues and address them," says Carlos Aguilar, manager of Regulation and Information. "The general public may not realize it, but the water quality is much better."

...at affordable prices

In order to avoid the social discontent that would inevitably be caused by a sudden price increase, ECAPAG has implemented a plan that allows for gradual price increases based on a number of factors. The plan, which underwent extensive technical studies, gradually modifies tariffs to cover the cost of services through a formula that is adjusted for inflation every three months while taking into consideration energy costs and income indexes. The tariff plan will be revised every five years, based on Interagua's investment plans as well as agreed qualitative and quantitative coverage criteria.

Payment is on a sliding scale. There are eight different consumer groups, with the three lowest-consuming groups subsidized by the five other groups. Low-income customers currently pay about 28 cents per cubic meter, while industries pay about $1.20 per cubic meter. The average cost is 53 cents per cubic meter. To get a sense of the scale, most upper middle-income customers consume 200 liters per person per

See ECUADOR p. 7

PHOTOS | Main water complex, where water pumped from the Guayas River is tested and chemically treated for public consumption
CREDITS | Angela Gentile and Federica Dal Bono

MIGA Backs Telecom Project in Burundi

MIGA recently issued a $1 million guarantee for a cellular telecommunications project that aims to address the acute shortage of telephone services in the Republic of Burundi. The project marks the first time MIGA is supporting a project in Burundi. The undertaking involves the buildup, operation, and maintenance of a nationwide mobile telephony network using the GSM 900 standard. The guarantee is protecting the investor, Mauritius Telecom Ltd., against the risks of transfer restriction, expropriation, and war and civil disturbance.

Already a poor, heavily indebted country, Burundi's recent conflict set the country's economy back even more. Further hampering efforts to spur economic growth and investment is the extreme dearth of telecommunications infrastructure. Burundi's teledensity (number of lines per 100 people) is less than 1 percent, one of the lowest levels in the world. Given that businesses simply cannot operate well with poorly functioning or nonexistent telephone services, this project is a crucial springboard for growth on many levels.

In addition to being the national operator of the Republic of Mauritius, Mauritius Telecom—in which France Telecom holds a 40 percent minority stake—also participates in joint-venture telecommunications services (mobile GSM) in Madagascar. The company is one of three that won 15-year licenses to operate in the Republic of Burundi (mobile GSM). Recent regulatory and institutional reforms carried out by the government, in coordination with the World Bank, were key to encouraging the private sector to bid on the licenses. ■

MIGA Covers MTU Diesel Project in Indonesia

MIGA provided two guarantees to MTU Asia Pte. Ltd. of Singapore, worth $540,000 and $1,860,000 to cover its $0.6 million equity investment in, and $1.8 million shareholder loan to, PT MTU Detroit Diesel Indonesia. The guarantees are for a period of up to five years against the risks of expropriation and war and civil disturbance.

The project involves the establishment of a distributorship in Jakarta for the distribution, sale, and maintenance of MTU diesel engines and spare parts for use in construction, power generation, and other industries, including the commercial marine sector. The project will meet an increasing demand for diesel engines and improve the levels of customer satisfaction by providing extensive after-sales service. In addition, the supply of high-technology, high-performance, electronically controlled diesel engines will improve the quality and efficiency of facilities to which they are installed and improve the quality of life for Indonesian residential and business users by supplying well-maintained engines that reduce environmental and noise pollution.

The project will employ about 50 local people and provide a special training program for qualified service technicians. The project is also expected to generate approximately $490,000 in tax revenues for the government of Indonesia during the first 5 years of operation. The project meets two of MIGA's priority concerns: it is a South-South investment (between developing countries) and provides support for small and medium-size enterprises. Furthermore, the ECICS Credit Insurance Ltd. of Singapore, with whom MIGA shares a Memorandum of Understanding (signed in November 1998), played an instrumental role in MIGA's involvement in the project. ■

FDI Xchange to Pilot Capacity-Building Program in Developing Countries

MIGA's FDI Xchange initiative, an ongoing effort to link investors with information on investment opportunities and market analysis in emerging economies, recently received funding from the Development Gateway Foundation to help deploy its online FDI Xchange service (www.fdixchange.com/) in developing countries.

The funding, made possible by a grant from the Japanese government, has enabled MIGA to launch a pilot program to build capacity for investment marketing in developing countries. The undertaking, called FDI Xchange Investor Information Development Program (IIDP), will help countries develop, mobilize, and disseminate to investors critical investment information, such as market research, factor cost data, details on infrastructure and facilities, sector profiles, and specific project opportunities.

"One of the main objectives of our service is to provide investment intermediaries, such as investment promotion agencies, privatization agencies, and business associations, with a low-cost way of reaching out to foreign investors that have expressed an interest in their country," says John Wille, manager of MIGA's online marketing services. "FDI Xchange gives countries an important leg-up in achieving this."

The pilot countries identified through a competitive process will soon be announced. The FDI Xchange allows investors to stay current on economic and regulatory developments in their countries of interest. Users seeking information for shortlisting alternative investment locations can access the full array of investment information, financing, and networking resources available through IPAnet (www.ipanet.net).

In its first year of operation, FDI Xchange has proved to be a valuable marketing tool for many investment promotion and privatization agencies that actively use the service in their investor outreach activities. Some milestones include:

- Sixty-four investment-related organizations have signed cooperation agreements with MIGA and are now disseminating new online promotional content through the FDI Xchange. This content also appears in the IPAnet and PrivatizationLink (www.privatizationlink.com) websites for users searching MIGA's 13,000 investment information resources.
- Nearly 4,000 business people from 1,900 organizations have registered to receive customized email updates from the FDI Xchange, joining the 45,000+ users per month that access investment information on IPAnet and MIGA's other online services.
- During the past quarter, FDI Xchange delivered more than 27,000 customized email updates, containing links to new sector profiles, privatization tenders, and other marketing information on the websites of content partners.

For more on the new FDI Xchange development program, contact Stephan Dreyhaupt, senior marketing specialist, at sdreyhaupt@worldbank.org. ■

From ECUADOR p. 5

day. Lower-income customers, who have smaller houses, usually without appliances, use much less. They end up paying less than $5 a month.

The cross-subsidy program is designed to make the service affordable to low-income customers. "The subsidy cannot and should not disappear," adds Jose Luis Santos, general manager of ECAPAG. "There will always be a need to subsidize lower-income customers." A phone tax and small flood water tax currently provide additional subsidy funds. If the current system doesn't work, ECAPAG says it will consider other ways of subsidizing the service.

"People in Guayaquil are pragmatic," says Mellinger. "They're not ideologically opposed to the private sector. Of course, progress always helps."

In 2002, Interagua increased the number of registered and billed customers by 12 percent. By the end of 2003, Interagua plans to have installed 50,000 new meters. They've also reduced prices by paying for bulk generator services for energy.

How the water system works

Interagua's water system consists of three water plants that capture, filter, and distribute water to the city of Guayaquil. The entire system is capable of treating 13.8 cubic meters of water per second, and currently treats 11.8 cubic meters per second. Treatment includes an underground sand filtration system.

Internal leakage is one of the project's biggest problems. People are used to water dripping from pipes and used to be billed on estimated consumption, never per the amount they actually used. Interagua actually visits customers with high bills to help identify internal leaks, and provides discretionary bill rebates after clients have fixed the problem. The company is working to repair leaks, but is still losing 75 percent of treated water, although this is down 5 percent from the time Interagua took over.

Storm drainage and sewage also see improvements

Guayaquil is a flat city, sitting just five meters above sea level, and is most at risk of flooding during the rainy season of February to April. Storm drainoff canals and gullies typically fill with vegetation and trash, which creates a problem for drainage and ultimately creates breeding grounds for mosquitoes. There is environmental fallout as well, as trash is carried into the river.

Interagua is changing the culture from one that was reactive to one that plans maintenance. The company now has a regular maintenance program that over the past two years has cleared 162 km of canals of vegetation and debris. Another 4.2 km of new canals have been built. As a result, the city has seen a significant reduction in pluvial flooding. Some of the work, including the construction of drainage canals, is being reimbursed under a municipal tax mechanism.

Together with community leaders, Interagua has instituted an "El Nino Prevention" campaign, which focuses on mitigating the impacts of flooding by keeping drainage canals and sewers free of litter. The campaign has also enlisted a cadre of volunteers to help clean canals and storm drainage canals of debris.

Sewage treatment is another part of the project. There are three main outlets that take effluents to the Guayas River, using a basic screening process. The river has a high dilution and absorption capacity, and is considered a healthy river. The concession allows Interagua to maintain this basic process for the first five years. But the next five-year plan may call for investment in more extensive, and expensive, sewage treatment, which Interagua believes will be the main issue in dialogue with the government.

Client outreach not an afterthought

Since its inception, the project has had a strategic identity campaign in place to let the public know about the company, service, and expansion plan, as well as to educate them on how to conserve water. The campaign has so far involved print, digital, and face-to-face communications, including grassroots visits to 150 schools, 300 community meetings, and 10,250 individual homes.

PHOTOS | Interagua has begun steps to obtain ISO 17025 certification for water quality and effluent analysis at its labs

"These visits all take place before the work begins," says Alvarado. "We want the community to know exactly what we plan to do and get their input, so there's as little disruption to their neighborhoods and lives as possible."

Interagua is also taking various steps, including the introduction of a new customer service office and improvements to the Call Center, to increase its responsiveness to clients. The goal is for inquiries to be answered in just one call or visit. The company is also trying different ways to get people to pay their bills on time, and has introduced new collection services and incentives such as price reductions and prize giveaways for those with current accounts.

For more on Interagua, visit www.interagua.com.ec/. ■

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