Multilateral Investment Guarantee Agency
World Bank Group

miga news

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MIGA Issues $1.4 Billion in Guarantee Coverage in Fiscal Year 2003

REGISTERS INCREASE IN NUMBER OF PROJECTS COVERED

Against a backdrop of global financial woes, war, and the SARS epidemic in Asia, MIGA issued close to $1.4 billion in guarantee coverage during the fiscal year that ended June 30, 2003. The coverage was for 37 projects, a 12 percent increase over the previous year, while in dollar terms, the amount guaranteed was only marginally higher.

"Qualitatively, the year was successful," said Executive Vice President, Motomichi Ikawa. The results were well on target when it came to MIGA's priority areas: eight of the projects were in Africa, 19 in IDA-eligible (the world's poorest) countries, 12 involved investors from developing countries, and 10 were investments in small and medium-size enterprises. Fifteen of the projects were in conflict-affected countries, and MIGA offered first-time coverage for projects in Burundi, Serbia and Montenegro, and Syria.

"Of particular note, projects in Africa now account for nearly a fifth of our outstanding guarantees portfolio, a reflection of our intense efforts over the past few years to underwrite more business in the region," said Ikawa. "Considering that the region receives just 1-2 percent of global FDI flows, we think this is pretty significant."

In relative terms, MIGA's performance was strong, with the agency recording the second highest amount of new coverage issued in calendar year 2002 among all the members of the Berne Union (an international union of credit and investment insurers, consisting of 51 member organizations from 42 countries).

The results from fiscal year 2003 bring total coverage issued since MIGA's inception to $12.4 billion, and the amount of additional foreign direct investment facilitated into developing countries to an estimated $50 billion. Gross outstanding exposure dropped, however, from $5.3 billion in fiscal 2002 to $5.1 billion at the end of the fiscal year, due to higher than expected contract cancellations.

MIGA's efforts to diversify its regional portfolio continued to show positive results in fiscal year 2003, with the Europe and Central Asian and sub-Saharan African regions leading the pack in terms of outstanding portfolio shares, standing at 26 and 19 percent, respectively. Europe and Central Asia benefited from buoyant investor activity in several countries, as well as increased political stability in southeastern Europe. Fiscal year 2003 marked the first year that Croatia and Bulgaria entered MIGA's top 10 list. The Middle East and North Africa region's share of the portfolio increased to 3 percent, despite a difficult regional political and economic situation. While still modest, this growth is a reflection of MIGA's concerted outreach efforts over the past three years. The Asian share of the portfolio also increased, reaching 12 percent, while the Latin American and Caribbean region dropped from 55 percent of the gross outstanding portfolio to 43 percent, due to the economic difficulties and political uncertainties experienced by several countries.

Changes in sectoral coverage were influenced by a decrease in guarantees for financial projects, which fell from 35 percent of the outstanding portfolio in fiscal year 2002 to 29 percent in fiscal year 2003, primarily due to cancellations in Latin America. Coverage for infrastructure projects, a strategic priority for the agency, grew to 41 percent of the portfolio from 36 percent in fiscal year 2002. Manufacturing, oil and gas, and tourism projects registered slight gains in portfolio representation during the fiscal year.

The same adverse elements in the general operating environment were also instrumental in increasing demand for MIGA's technical assistance services, as developing countries sought to attract and retain scarce FDI inflows. Demand for MIGA's online services continued to increase, while the number of content providers doubled for FDI Xchange, an email-based investment promotion tool.

The importance of MIGA's field presence continues to grow, as witnessed by the opening of a new office in Singapore during fiscal year 2003. This adds to those recently established in Paris, Tokyo, and Johannesburg. "Our field offices are proving to be crucial in bringing us closer to the markets, and allowing us to more closely gauge the needs of our host country stakeholders and clients alike," said Ikawa. Plans are currently underway to set up a Central and West African office.

Also during the year, MIGA continued efforts to enhance its risk and financial management capabilities to better model the agency's portfolio risk. This ongoing work, initiated in fiscal year 2001, aims to ensure long-term financial sustainability.

MIGA registered one claim for a project in Argentina during the fiscal year. The claim, which is under review, is closely related to the financial crisis that the country has been weathering, and MIGA is working with the investor and the Argentine government to resolve the matter. "This claim is only the second to have been registered with MIGA, which reflects our ability to settle investment problems which do occur before they become full-fledged disputes. In this regard, this past fiscal year we have been working closely with a number of other clients in Argentina, and alongside the government, to protect their interests," noted MIGA's Legal Vice President and General Counsel, Luis Dodero.

"Considering the difficult operating environment encountered during the past fiscal year, we are pleased with our operational results," said Ikawa. "We will continue to focus our efforts on those priority areas where we have added value, such as Africa, while centering our capacity-building resources on those countries that have the greatest potential and need to translate our assistance into increased FDI flows."

Email Alert Service Broadens Reach

FDI XCHANGE NOW AVAILABLE THROUGH TWO MAJOR BUSINESS ORGANIZATIONS

The US Council for International Business (www.uscib.org) and the World Trade Centers Association (www.wtca.org) recently signed on as partners for FDI Xchange (www.fdixchange.com), the premier emerging markets investment information service of the Multilateral Investment Guarantee Agency.

FDI Xchange—which recently began its second year of operation—provides investors with free, customized email alerts that include timely market analysis and information on investment opportunities. In its first year, the service disseminated more than 70,000 alerts, all tailored to subscribers' sectors and countries of interest.

The new partnerships call for the two agencies—USCIB and WTCA—to promote FDI Xchange among their members. MIGA, in turn, will deliver co-branded versions of the service to their clients and constituents.

"To help broaden the dissemination of this critical information, we have established cooperation agreements with public and private sector groups whose constituents are interested in receiving new business environment analysis, market research, and investment opportunities in emerging markets," says John Wille, manager of MIGA's online information services. "The better investors are informed of business opportunities in developing countries, the more likely they are to actually set up shop there. And the closer we come to achieving our mission—promoting foreign direct investment into the world's poorest countries to help reduce poverty."

A growing global network of 69 investment-related organizations provides much of the information disseminated via the FDI Xchange. This content also appears in the Investment Promotion Network (www.ipanet.net)—MIGA's flagship portal website launched in 1995—and the agency's other online services, which currently receive about 50,000 visitors a month.

To date, over 4,000 businesspeople have registered to receive customized email updates from the FDI Xchange. This number is expected to grow rapidly with the addition of the two new partners.

"MIGA's online investment information complements our other offerings," says Robert Di Chiara, executive vice president of the WTCA, which represents almost 300 World Trade Centers in 92 countries. "We believe this service will benefit our 40,000 plus online users by giving them access to new investment information, opportunities, and resources."

Thomas Niles, president of USCIB, a pro-trade group representing 300 some major US companies, law firms, and industry associations, adds: "Overseas investment is a driving force in the expansion of American commerce, but companies need access to quality information to make the right investment decisions. With this in mind, we're pleased to be able to make FDI Xchange available to our members and our global business network."

2003 GUARANTEES ISSUED

FOURTH QUARTER

Investor	Investor	Host Country	Sector Country	Gross Coverage ($ m)
Compania Espanola de Seguros de Credito a la Exportacion, S.A.	Spain	Algeria	Oil and Gas	50.0
Raiffeisenverband Salzburg	Austria	Russia	Financial	5.7
Caribe Hospitality	Panama	Dominican Republic	Tourism	1.0
Scotiabank (Cayman Islands) Ltd.	Cayman Islands	Dominican Republic	Tourism	6.4
Slovene Export Corporation (Mercator)	Slovenia	Croatia	Services	8.7
Hypo Alpe-Adria-Bank AG	Austria	Serbia and Montenegro	Financial	15.6
Raiffeisen Zentralbank Osterreich AG	Austria	Bosnia & Herzegovina	Financial	11.1
Finrep Handles Ges.m.b.H.	Austria	Kyrgyz Republic	Services	4.9 *
Rabobank Curacao N.V.	The Netherlands	Brazil	Financial	95.0
BNP Paribas	France	Turkey	Power	10.0
Aecon Group Inc.	Canada	Ecuador	Transport	33.3 *
ADC Management Ltd.	British Virgin Islands	Ecuador	Transport	16.6 *
HAS Development Corporation	United States	Ecuador	Transport	16.6 *
Credit Lyonnais, S.A.	France	Vietnam	Power	56.8
Raifeissen Leasing GmbH	Austria	The Czech Republic	Services	4.96
Cotecna S.A.	Switzerland	Nigeria	Services	30.0 *
MTN International Ltd.	Mauritius	Nigeria	Telecom	5.0
Ericsson Credit AB	Sweden	Nigeria	Telecom	45.0
Bank Austria Creditanstalt AG	Austria	Serbia and Montenegro	Real Estate	20.6
Corporacion Interfin, S.A.	Costa Rica	Nicaragua	Financial	1.4 *
Portus Indico-Sociedade de Servicos Portuarios, S.A.	Portugal	Mozambique	Transport	13.8 *
Ewekoro Power Plamt Sales limited	UK	Nigeria	Power	19.0
Rolls-Royce Power Ventures (Ekiti) Ltd.	UK	Nigeria	Power	0.54
Kenmare Resources P.L.C.	Rep. of Ireland	Mozambique	Mining	1.80
Kreditanstalt Fuer Wiederaufbau	Ireland/Germany	Mozambique	Mining	19.0
Credit Lyonnais, S.A.	France	Vietnam	Power	18.2

* Represents two contracts

Vietnam

PROJECT TO HELP MEET POWER SHORTFALL

The Multilateral Investment Guarantee Agency and the Asian Development Bank (ADB) recently teamed up to back the construction and operation of a new power plant to help meet Vietnam's need for more reliable electricity.

ADB will assist the Phu My 3 Power Project by providing a $40 million direct loan and a $32 million political risk guarantee. MIGA will provide political risk guarantees totaling $138 million, with the support of facultative reinsurance from the private sector.

"The project is a concrete result of the official partnership established between MIGA and the Asian Development Bank, to jointly support foreign direct investment into Asia," said MIGA's Executive Vice President, Motomichi Ikawa, referring to a cooperation agreement signed by the two agencies in September 2003.

Under the project, a 716.8 megawatt gas-fired combined cycle power plant will be constructed near the town of Phu My, about 75 kilometers from Ho Chi Minh City. It will comprise two gas turbines, two heat-recovery and steam generation systems, and one steam turbine.

The plant, expected to operate commercially by February 2004, is covered by a 23-year build-operate-transfer (BOT) contract between the Ministry of Industry and Phu My 3 BOT Power Company Ltd., a company set up in Vietnam by BP Holdings BV (a subsidiary of BP plc), SembCorp Utilities Private Limited, and the consortium of Kyushu Electric Power Co., Inc. and Nissho Iwai Corporation.

Electricity of Vietnam will buy the power plant's output under a power purchase agreement for 20 years. Vietnam Oil and Gas Corporation will provide natural gas for the plant under a gas sales agreement. At the end of the BOT contract period, the plant will be handed over to the government of Vietnam.

Demand for electricity has been growing by about 14 percent a year for more than a decade in Vietnam. The country's current power supply relies heavily on hydropower, which is highly seasonal. Other sources of power, including gas turbine, diesel, and thermal plants, are therefore needed to provide a more reliable supply and meet the rising demand for electricity.

"The project is an environmentally friendly solution to the supply problem. It will feed the national power grid, as well as the industrial and residential areas in south Vietnam," says Kurumi Fukaya, ADB's project team leader. "This will make the areas served by the project attractive to investment, which can spur economic growth and help reduce poverty."

The total cost of the project will be $412 million, to be funded by shareholders ($103 million), Japan Bank for International Cooperation ($99 million), ADB ($40 million), and a syndicate of international commercial lenders ($170 million). This represents one of the largest foreign direct investments ever to go into Vietnam.

The ADB political risk guarantee covers $32 million of the commercial debt. MIGA will guarantee $90 million of the project's commercial debt and swap breakage, and provide an additional $48 million in guarantees to cover Singapore-based SembCorp Utilities Private Limited's equity. The project will also benefit from political risk cover from Nippon Export and Investment Insurance.

"I thank MIGA for their support in catalyzing commercial bank financing for the project with their early involvement and innovative approach to addressing issues through the financing," says Takefumi Kuwabara, chairman, Phu My 3 BOT Power Company Limited. "I also thank the government of Vietnam for their unstinted support in making Phu My 3 happen."

"Phu My 3 will bring many development benefits to the country," says Philippe Valahu, MIGA's manager for Asia. "In addition to creating jobs and procuring most of the construction materials locally, the reliable supply of electricity is expected to help attract additional private capital investment flows for further infrastructure development in the country."

MIGA Doubles Capital Base

A recent campaign to increase MIGA's capital base by $850 million yielded $647 million in subscriptions from 92 countries. Another 38 countries have signaled their intention to subscribe to their shares of the capitalization, which will result in a 97 percent capital increase for the agency when all payments are made. This amount is in addition to the World Bank's contribution of $150 million.

"The fact that so many of our members participated demonstrates their commitment to our mission," says Motomichi Ikawa, the agency's executive vice president.

"The recapitalization strengthens our ability to reach out to investors and developing countries by raising project and country guarantee limits, and also will enable us to do more in priority areas."

Going to Dubai? Don't Miss the MIGA Briefing

MIGA will be holding a special briefing on the agency's activities at the Annual Meetings of the World Bank Group/IMF, in Dubai, United Arab Emirates, on Monday, September 22, 2003. The event will take place from 4:30-5:30 pm in the Al Jumeirah Room of the Emirates Towers Hotel, Sheikh Zayed Road, Dubai. The briefing is open to all interested parties.

GENERATING A 'PEACE DIVIDEND'

As policymakers and practitioners become more aware of the links between peace and development and the direct correlation between conflict and poverty, it seems relevant to ask how important is the role of the private sector in post-conflict reconstruction? The answer: it's crucial.

PHOTO | Executive Vice President of MIGA, Motomichi Ikawa (left), discussing ways to increase private sector investment in Sri Lanka with the country's Prime Minister, The Hon. Ranil Wickremesinghe.

The private sector's role in rebuilding conflict-affected countries is crucial not only in attracting foreign direct investment back into a country after the war's end, but also in generating a "peace dividend," an incentive for sustaining peace, as it can reintegrate ex-fighters and refugees socially and economically, and bring a sense of hope to those who have experienced so much fear and desperation.

Foreign investment also has a powerful "demonstration effect," encouraging private investors who have taken flight to return, and sending a signal to international investors that the country is suitable as an investment destination, which is key for economic recovery and long-term development, explains MIGA's Executive Vice President, Motomichi Ikawa. It also serves to reestablish valuable links to international markets and provides an impetus for improving the rules, regulations, and procedures to help improve investment climates in post-conflict countries.

With few exceptions, conflict-affected countries are among the least developed. Of the 39 countries that are currently considered to be conflict-affected, 30 are among the world's poorest. In Africa, Southeastern Europe and elsewhere, conflict has become a major constraint to poverty reduction, halting social progress and preventing economic growth.

And the needs of post-conflict countries are many. Basic infrastructure—such as homes, schools, factories, communications networks, roads and trade links—has been destroyed. Currency is weakened. Death, displacement, and lack of training result in seriously diminished human resources. And institutions are weak, with dysfunctional financial, governmental, and legal structures further complicating the recovery effort.

"Foreign direct investment (FDI) can have a strong, positive impact on rebuilding conflict-affected countries, bringing much-needed private capital, technology, and new skills, and stimulating local spin-off industries," explains Ikawa. "The presence of new foreign investment is also a visible manifestation of hope for a better tomorrow for local citizens."

But years of conflict color investors' perceptions of risks, particularly those of a non-commercial nature. MIGA was created in 1988 as a member of the World Bank Group to mitigate some of these risks and encourage FDI through its investment guarantee and technical assistance programs.

MIGA at work in conflict-affected countries

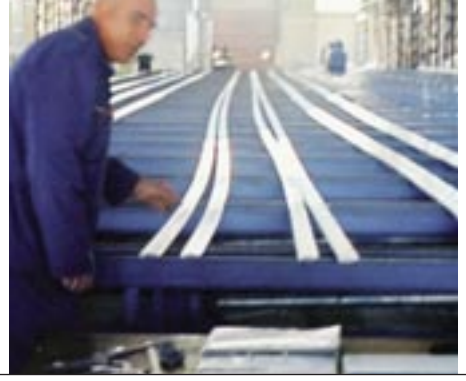
MIGA can play a critical role in encouraging FDI back into a country after the war's end, as shown in several countries, including Bosnia-Herzegovina and Mozambique. Since its inception, MIGA has supported 56 projects with guarantees worth nearly $1.5 billion in 16 conflict-affected countries—representing 13 percent of the agency's overall portfolio.

"The development benefits have been far-reaching, helping to restore cash flows, getting financial sectors back on their feet, allowing governments to allocate precious funds to critical social programs, and perhaps more importantly, restoring private sector confidence to invest in the reconstruction," explains Ikawa.

MIGA is able to increase its capacity to guarantee projects in conflict-affected countries by partnering with public and private counterparts on co- and reinsurance, as it did with the Slovene Export Corporation in Bosnia in 2002. The agency is also able to leverage its assistance by offsetting risks through special trust funds, such as the European Union (EU)-sponsored Investment Guarantee Trust Fund for Bosnia-Herzegovina.

Since becoming a member of MIGA in 1993, Bosnia-Herzegovina has hosted nine agency-backed projects, concentrated mostly in the banking and manufacturing sectors. In an effort to encourage even more FDI into the country, Bosnian Prime Minister Adnan Terzic recently met with Ikawa to ask MIGA to further increase its presence in the country. The request comes in light of 10 planned privatization projects, including in tourism and services.

Ikawa recently took part in a Tokyo-based conference on the reconstruction and develop-



IN CONFLICT-AFFECTED COUNTRIES

ment of Sri Lanka, another conflict-affected country supported by MIGA. "Stable economic growth through private sector development is one of the central pillars of the country assistance strategy," Ikawa noted during discussions with Sri Lankan Prime Minister Ranil Wickremesinghe. Since the signing of a permanent cease-fire agreement in February 2002, investors from Canada, the UK, Australia, Malaysia, India, France, and Japan have shown interest in exploring investment opportunities in Sri Lanka, attracted by high-growth prospects and a qualified labor force.

Through its technical assistance program, MIGA works with investment promotion agencies to build their capacity to share information on investment opportunities with foreign investors. This assistance typically involves customized training ranging from market research to online information dissemination. The agency has so far provided services to 23 conflict-affected countries.

"Helping war-torn countries begin and sustain recovery is an important development goal for MIGA, and the agency looks forward to continuing its work to mobilize investment into these countries," says Ikawa. "For reconstruction to be effective, it requires a careful and concerted approach that draws on domestic resources, international donor assistance, and private sector resources, so countries can mend their post-conflict wounds and move towards a path of long-term sustainable development."

For more on MIGA's work in conflict-affected countries, visit www.miga.org/screens/pubs/brochure/postconflict/pc_brochure.htm.

MIGA's Conflict Work at a Glance

- MIGA provides insurance coverage in countries where other insurers are often not willing to go.
- Insurance is particularly important for large, capital-intensive projects in the energy, mining, heavy industry, and infrastructure sectors.
- MIGA offers guarantees against the risks of war and civil disturbance (including terrorism and sabotage), transfer restriction, expropriation, and breach of contract.
- Trust funds play an important role in enabling MIGA to underwrite projects in conflict-affected countries.
- MIGA provides technical assistance to promote foreign investment, working with a country's investment promotion agency to help develop a national investment strategy.

Afghanistan Joins MIGA

AGENCY POISED TO SUPPORT RECONSTRUCTION AND ECONOMIC PROGRESS

Afghanistan took the final step to secure its membership in the Multilateral Investment Guarantee Agency with its subscription to the agency's capital base. The membership took effect June 16.

The move marks a critical step forward in the country's efforts to rebuild in the wake of two decades of conflict. The membership allows MIGA to provide political risk insurance for investments going into and out of Afghanistan, as well as to help the country develop its ability to attract investment. MIGA provides coverage against the risks of transfer restriction, expropriation, breach of contract, and war and civil disturbance (including terrorism and sabotage).

After 23 years of conflict, the Afghan people are working to restore peace and prosperity. But daunting challenges remain: 70 percent of the population is malnourished, and only 23 percent have access to safe water, 12 percent to adequate sanitation, and just 6 percent to electricity. More than 70 percent of schools need repairs, as do most of the country's primary roads. Reconstruction alone is expected to cost about $15 billion over the next decade, underscoring the need for private sector help in meeting the challenge.

There are many areas in need of urgent attention, particularly basic infrastructure, says Afghan Finance Minister Ashraf Ghani. Investment priorities are primarily in the power, roads, telecommunications, industry, and tourism sectors. Agriculture, too, which has suffered due to an extended drought, is an area that stands to benefit from investment.

Since its inception, MIGA has supported 56 projects with guarantees worth nearly $1.5 billion in 16 conflict-affected countries. This represents 13 percent of the agency's gross portfolio. "MIGA can bridge the gap between investors' concerns and a country's desire to attract good investors to help reconstruct the economy," says Motomichi Ikawa, MIGA's executive vice president. "We have a healthy pipeline of inquiries from investors who are interested in doing business in Afghanistan, but are concerned about the safety of their investments."

MIGA is currently in the process of setting up a guarantee trust fund for Afghanistan, with donor and other outside funding. "This will allow us to more fully deploy our guarantee products in Afghanistan, as well as increase our flexibility in the types of deals and transactions we'll be able to support," says Ikawa.

"We are pleased to become a member of MIGA. We look forward to a fruitful relationship that will help us attract and retain more foreign investment, promote economic growth, and ultimately benefit the people of our country," says Ghani.

Algeria

MIGA REINSURANCE HELPS MOVE OIL PROJECT AHEAD

MIGA recently provided $50 million in reinsurance to the Compañía Española de Seguros de Crédito a la Exportación (CESCE), the Spanish export credit agency, for its $144 million guarantee to the Compañía Española de Petróleos S.A. (CEPSA) of Spain. The insurance covers CEPSA's $240 million investment in a production sharing contract with Sonatrach of Algeria in Rhourde Yacoub Block 406A Oil fields. MIGA's reinsurance provides coverage against the risks of expropriation, breach of contract, and war and civil disturbance.

In 1997, MIGA provided $10 million in reinsurance to CESCE for a portion of its coverage of an investment made by CEPSA in the Rhourde el Khrouf oil field, which will continue production through 2004. The current investment includes the expansion of CEPSA's activities into a new oilfield (the Ourhoud field), as well as existing activities. The project is located in the Algerian interior in the Sahara desert, some 80 miles from the border with Tunisia. The field's surface facilities will consist mainly of a central processing facility where the crude gathered from the different satellite stations will be treated and stored for export. Under the production sharing contract, an organization integrated by CEPSA, Sonatrach and other companies with interests in the fields, provides exploration services, production equipment for petroleum extraction in existing wells, and overall technical and managerial assistance.

The project involved one of the first production sharing contracts signed by the state and a foreign firm in Algeria, and at the time provided an important "demonstration effect" for other potential foreign investors. While the demonstration effect is no longer a key issue (given the important number of other foreign parties that have since invested in the country), the project continues to provide other important benefits for Algeria. During the period of maximum output of the new oil field, which is expected to be from 2004 to 2009, royalty payments to the Algerian government will average $315 million per year, a figure equivalent to 16 percent of the 2000 national budget. Thus, the agreement has allowed the Algerian government to fund its investment programs in other economic sectors, including health and education. The project will continue to bring to the country managerial and technical knowledge, which will permit an efficient and environmentally sound exploitation of the country's natural resources. The project will support human resources initiatives with two US oil firms operating in neighboring exploration blocks, by constructing permanent housing and health facilities for workers at a combined cost of approximately $53 million.

Nigeria

X-RAY SCANNING CENTERS TO IMPROVE TRADE EFFICIENCY

MIGA also issued guarantees of $20 million and $10 million to Cotecna S.A. of Switzerland for its $12.5 million equity investment in, and $8 million shareholder loan to, Cotecna Inspection Ltd. Nigeria of Nigeria. The coverage is for a period of ten years and against the risks of expropriation, war and civil disturbance, transfer restriction, and breach of contract.

The project involves the establishment of container X-ray scanning centers in six ports, four airports, and four land-border sites in Nigeria. The project is contracted under a build-operate-transfer agreement with the government of Nigeria, and assets will be transferred after ten years. Cotecna will provide import verification services to ensure compliance with technical specifications and Nigerian laws. The X-ray scanning system will ensure that containerized goods landed in Nigeria are in compliance with importers' declarations. The project is also expected to reduce port congestion.

The project will contribute to the promotion of trade by helping Nigeria become a more efficient trading partner, as well as to the development of investment in the non-oil sector. The increased transparency of trade activities is expected to limit capital flight and loss of foreign exchange (from short-shipment, over-invoicing and the shipment of sub-standard and counterfeit goods), as well as enhance customs revenues.

Cotecna expects to create about 400 local jobs, 214 of which will be managerial and professional positions, and a significant portion of the staff will be female. Staff will receive a compensation package higher than for comparable jobs in Nigeria, including housing, transportation, and insurance. Heimann Systems S.A., a world leader in X-ray equipment, will provide the project equipment and comprehensive training programs.

The project addresses two of MIGA's priorities: it is an investment in an IDA country (low-income) and in Africa.

Agency Helps Resolve Decade-Long Dispute in **Sri Lanka** over Arbitral Award

Cement is an important commodity in Sri Lanka, because of population growth and infrastructure development, and is often imported. The high demand for cement encouraged a Gibraltar-based company, Italtrade Limited, to sign a deal in 1990 with a subsidiary of Sri Lanka Cement Corporation, then a state enterprise, to provide 310,000 tons of "clinker," the raw material used to manufacture cement.

Italtrade had won the contract through a bidding process. Although it followed through on its obligation to deliver the material, payment failed to materialize. The problem was compounded when Sri Lanka Cement, charging that Italtrade had breached the contract, cashed a $475,000 bond posted by Italtrade to guarantee its performance under the contract.

For the next seven years, Italtrade tried in vain to get payment for the tons of clinker it had provided and reimbursement for the performance bond it had posted. In 1997, having exhausted all informal channels and now bankrupt, Italtrade began an arbitral proceeding against the state enterprise under the rules of the International Chamber of Commerce. It was awarded $475,000 for the performance bond, $1,325,000 in damages for the contract breach, plus interest and costs. The award was not appealed and was deemed by the International Chamber of Commerce to be binding.

Sri Lanka Cement failed to honor the award, and the legal quagmire continued. Actions to enforce the award in Sri Lanka were rejected on procedural grounds by local tribunals. As these legal actions were unfolding, the state had begun to privatize the cement industry, leaving Sri Lanka Cement Corporation little more than a shell company. It was eventually bought by Holcin Lanka, a subsidiary of a major multinational cement producer, which became an unwilling party to the dispute when it acquired the assets and liabilities of the former state enterprise.

That's when MIGA stepped in. Concerned about the enforceability of arbitral awards, a critical element of investor protection, MIGA worked for two years to bring the relevant parties to the table. In September 2002, all sides agreed to meet in Washington, DC, to start negotiations.

"Throughout these years, there had been a series of government turnovers, with varying degrees of commitment to resolve the case through mediation," says Luis Dodero, MIGA's Legal Vice President and General Counsel. "As the country gets back on its feet following the end of the civil war, thoughts in Colombo are again turning to the role of foreign investment in promoting growth, and the government clearly sees the benefit of clearing up this outstanding claim. Mediation provided an attractive context in which to do so."

To facilitate a settlement, Italtrade agreed to significantly reduce the amount of its claim. For its part, Holcin Lanka stepped in to pay the award, so compensation would not have to come out of government coffers.

"If a settlement had not been reached, we would have had a hard time promoting foreign direct investment into the country because of the unenforced arbitral award," says Dodero. Resolution of this claim "will help the government promote an investment climate that is attractive, friendly, and predictable."

New MIGA-Backed Airport Slated for **Quito**

The Multilateral Investment Guarantee Agency recently announced that it is supporting the financing and development of a new airport outside Quito, Ecuador. The new airport will replace the Mariscal Sucre airport, currently located in the city center, which no longer meets travel industry requirements and has constrained the region's economic development.

MIGA has issued $66.5 million in guarantee coverage to Aecon Group Inc. of Canada, Airport Development Corporation Management Limited of the British Virgin Islands, and Houston Airport System Development Corp. of the United States, for their equity investment and shareholder loans to Corporación Quiport S.A. of Ecuador. The coverage is for a period of up to 15 years, against the risks of transfer restriction, war and civil disturbance, and breach of contract.

Quiport will design, construct, finance, operate, and maintain a new airport near Puembo, about 24 kilometers from the capital city of Quito, at a projected cost of $550 million. The airport will be developed and operated under a 35-year private sector concession, administered by an independent agency—La Corporación Aeropuerto y Zona Franca del Distrito Metropolitano de Quito—established under the Municipality of Quito. The agency selected Quiport as the concessionaire following an open tender competition held in July 2001.

The new airport is expected to be operational in late 2007, following a 48-month construction period. During construction, Quiport will operate and manage all services at the existing airport, except for air traffic control.

The project is expected to contribute a number of significant developmental impacts, ranging from safety improvements to multiplier effects on the Ecuadorian economy.

"This project is part of a broader World Bank Group strategy that seeks to support key structural reforms in Ecuador, such as private sector participation in primary transportation infrastructure," says Roger Pruneau, MIGA's vice president for Underwriting. "We expect the new airport, to be located in a Free Trade Zone, to be a key driver for the sustainable economic development of metropolitan Quito and of Ecuador."

The new airport site is 15 times the size of the existing airport, and will boast an extended runway at an altitude of some 400 meters lower than the current airport's. Among the expected benefits are improved public safety and reduced noise pollution. In addition, the improved air freight capacity is expected to generate foreign exchange earnings from an increase in exports of perishable goods, such as cut flowers and shrimp, as well as additional tourism.

Altogether, roughly 2,000 people will be directly employed during the various phases of the project. The development of the Free Trade Zone will also provide opportunities for job creation, estimated at approximately 300 local staff.

"This project has been in the works for more than 20 years," says Pruneau. "We at MIGA are very pleased to be taking part in turning this long-held vision into a reality.

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