POST-CANCUN: What’s on the Table for Investors?

FOOD FOR THOUGHT

Wrapping up the recent annual World Bank/IMF meetings in Dubai, World Bank President James Wolfensohn and IMF Managing Director Horst Kohler called for a renewed spirit of multilateralism and equality between rich and poor countries. Wolfensohn highlighted the need for a new balance between developed and developing countries on aid and trade, and urged leaders to renew their commitment to fighting world poverty. “This is essential not just for poverty reduction and prosperity—but for security and peace,” he said.

Wolfensohn pointed to the commitments made by both rich and poor countries to help reach the Millennium Development Goals—including cutting global poverty in half by 2015. He said actions so far had not matched those commitments, and called on governments to fulfill their responsibilities and help rebalance an inequitable global system. He noted that the recent World Trade Organization (WTO) meeting in Cancun had been a wake-up call because poor nations had refused to accept the trade proposals put forward by the rich countries.

Unbalanced trade policies impact many things, including foreign direct investment, which, when done sustainably and responsibly, is an important driver for economic growth and poverty reduction. The issue of an international investment agreement has been on the table for discussion by the WTO since 1996. The idea is to launch a multilateral framework to secure transparent, stable, and predictable conditions for long-term cross-border investment that will expand trade. 

“The drive to include an international investment agreement in the WTO accords comes against a backdrop of one of the most impressive waves of foreign direct investment in history,” says Richard Newfarmer, a World Bank economic adviser. But the question of what’s in the current round of WTO negotiations, the so-called “Doha Development Agenda,” for investors really goes beyond the issue of an investment agreement, Newfarmer adds. While an international agreement might contribute to increasing stable flows of investment—by increasing market access for investors to permit enhanced competition, and by augmenting protection of investors’ rights to reduce risks—investors would probably benefit more from the greater market access through new deals on services and new investment opportunities in developing countries’ export industries.

Today, restrictive foreign investment policies are being progressively dismantled around the world as governments work to attract foreign investors, with policy barriers being lowered in sector after sector in an attempt to increase competition and spur growth, and speed up the pace of technological progress. A positive outcome in Cancun would have accelerated this process.

Realizing high potential FDI gains in developing countries requires more than liberalization, however. It also needs a regulatory framework that, where possible, permits competition and disciplines natural monopolies in network industries, as well as pro-poor regulation that ensures access and cross-subsidies to the poor.

Increased investor protections, built into a global investment agreement, “would arguably help participating developing countries send a positive signal to potential foreign investors regarding the permanence of policy changes, the expected standard of treatment afforded to foreign investors, and recourse to a dispute settlement procedure,” says Newfarmer. But protections resulting from a multilateral investment agreement alone would probably not produce much additional investment flow. That’s because bilateral investment treaties already cover about half of investment to developing countries, and any new multilateral protections are unlikely to be superior—and therefore additive—to these bilateral investment treaties.

“The benefits of a multilateral investment agreement for developing countries ironically hinge on the increased market access such an agreement would leverage for their exporters and on the additional domestic reforms it leverages at home, particularly in services,” says Newfarmer. “Evidence suggests that trade liberalization, combined with clear investment rules, as well as new access to markets abroad, holds the largest potential for increasing investment in developing countries.”

The next meeting in the Doha round is set for Hong Kong at an as yet undetermined date.
Increasing investor interest in the Middle East and North Africa over recent years has led the region to claim a growing share of MIGA’s outstanding portfolio. Since its inception in 1988, MIGA has supported 13 projects in the region with guarantees worth $280 million. Projects range from financial services to oil and gas, and from manufacturing to tourism. The portfolio rise, though modest, is especially noteworthy when considering the difficult political and economic situation faced by the region during this time.

Investors from the region are increasingly turning to MIGA for guarantee support of their investments going into other developing countries. In fiscal year 2002, for example, MIGA provided guarantees to Investcom Holding S.A., of Luxembourg, and to its wholly owned subsidiary, Investcom Global Ltd., of the British Virgin Islands (both owned by Lebanese investors), totaling $8.06 million, to cover their respective investments in Spacetel Benin S.A.R.L. Spacetel. The project involves the operation of a new GSM mobile telephone network in Benin, which suffers from a shortage of reliable telephone lines.

Also in the same period, the agency provided, in cooperation with Tunisia’s national insurer, COTUNACE, $21.6 million and EUR43.2 million in guarantees to the Office National des Télécommunications of Tunisia for its investment in Société Mauritano-Tunisienne des Télécommunications in Mauritania. Until the year 2000, Mauritania had only one phone operator, which had a capacity of approximately 32,000 fixed lines, serving a population of 2.5 million people. The project involves the installation, operation, and maintenance of a new GSM telephone network.

In addition, in 2003, MIGA provided a total of $75 million in guarantees for Investcom Holdings and Tele Invest, a British Virgin Islands company owned by Saudi Conglomerates, for their respective equity investments in Spacetel Syria. The project involves the installation and operation of a new mobile telephone network in Syria, based on the GSM technology. This project is one of the first two privately held startup GSM telecom projects in Syria. Spacetel will help the government of Syria address the shortage of telephone lines in the country. MIGA’s support for the project is expected to contribute to the development of a more efficient telecommunications infrastructure in Syria, and will also have a positive impact on the economic activities of the country in general. At year-end, MIGA’s total gross guarantee exposure for projects within the region stood at $167 million.

One project involves $50 million in reinsurance for Spain’s export credit agency (CESCE), covering its guarantee for an investment in the Rhourde el Khrouf oil field. The project entails one of the first production sharing agreements ever signed by the state and a foreign firm in Algeria. The project is expected to generate an average of $315 million a year in royalty payments to the government from 2004-2009, which will allow the country to fund programs in other sectors, including health and education.

Another project, the first in Syria, involves a $23 million guarantee to Kingdom 5 KR 71 Ltd. for its quasi-equity contribution to a company that will develop a 297-room hotel in Damascus. With Syria’s rich historical and cultural background, the government views the tourism industry as a significant source of foreign-exchange and growth. The hotel will also have a positive impact on local industries, such as transportation, food processing, and tour operations.

MIGA will continue its focus on the region in coming years, and will seek to increasingly collaborate with its regional partners—including the Islamic Development Bank in Saudi Arabia, the Inter-Arab Investment Guarantee Corporation in Kuwait, and the Islamic Corporation for the Insurance of Investment and Export Credit in Saudi Arabia.

The growth in guarantees for projects within and from the Middle East and North Africa is a reflection not only of rising investor interest, but also of the agency’s concerted outreach efforts over the past three years. MIGA’s “mobile offices”—a way to reach out to member countries where it does not yet have a field presence—form a key element of the agency’s marketing and business outreach. In fiscal year 2003, MIGA conducted two such visits to the Middle East and North Africa, complementing a series of targeted visits begun in 2000.
MIGA HEAD DISCUSSES INFRASTRUCTURE WITH INVESTORS

Optimism among finance ministers that the global economy is in recovery, however fragile, but disappointment with the failure of trade ministers in Cancun to reach agreement, were the two key messages emerging from the annual World Bank/IMF meetings, held in Dubai, UAE, during the last week of September. The meetings were attended by delegates from 184 countries, business leaders, civil society representatives, academics, and journalists.

The World Bank used the bully pulpit to sound a wake-up call for delivering on the Millennium Development Goals (MDGs), which aim to halve the number of people living in poverty by 2015. With the target date just over a decade away, now is the time for global leadership on action for reaching the goals. “It is clear that progress on the MDGs needs to be accelerated,” said World Bank/IMF Annual Meetings Chairman Kaspar Villiger, Swiss Minister of Finance, during the closing press conference.

One of the cornerstones of the MDGs is the provision of adequate infrastructure. “There is the tremendous need in developing countries and emerging markets for investment in infrastructure,” said MIGA’s Executive Vice President, Motomichi Ikawa, during his annual meetings speech. By very conservative estimates, these countries need $465 billion in annual investment in infrastructure to maintain existing stocks and support annual GDP growth of 2 percent.

While the power and telecommunication sectors occupy a large proportion of the investment needs, water and sanitation projects also need significant investments. To reach the MDG of halving the number of people without access to potable water by 2015, at least $80 billion—and possibly much more—is needed on an annual basis.

“Not only are these investments vital to improve the lives of people in these countries, they are also an essential motor for further economic growth that is needed to reduce poverty,” said Ikawa.

But while the need for investment in infrastructure grows, private participation has dramatically decreased. At its peak in 1997, infrastructure investment was $128 billion. Only four years later, the amount had fallen more than 50 percent to $58 billion. Similarly, project finance lending was only $76 billion in 2002—43 percent lower than the year before. And the investments which are moving forward tend to be concentrated in just a handful of countries, especially China, Brazil, and a few other Asian and European countries.

“This decrease in private infrastructure investment is the result of the economic and political difficulties facing many infrastructure projects in the 1990s,” Ikawa said. “Unrealistic government and public expectations in developing countries, and from foreign investors, have left a bitter aftertaste for many.”

In the early 1990s, governments tended to agree to generous terms due to desperate needs, and the general expectation was often that privatizations would lead to the elimination of huge subsidies and increase the efficiency of services. Investors often expected high returns due to high perceived risks. But events frequently developed very differently. Another contributing factor is that privatizations have often been taking place against a backdrop of inadequate legal and regulatory frameworks.

Yet it is because of the huge need for infrastructure investment and the significant returns that investors are still willing to go ahead in this sector—if the risks are shared and mitigated appropriately.

A key way of mitigating some of these risks is through public-private partnerships. These partnerships provide a mechanism for sharing responsibilities and risks among countries that host investments, businesses, financial institutions, and development banks. They’re attractive to countries that host investments, because this type of arrangement allows them to continue owning the project while gaining critical knowledge on how to operate, maintain, and manage a facility. Investors benefit primarily by not having to lay down a capital investment, while generating revenue through the operation of the facility.

MIGA can play an important role in diminishing the overall risk profile of public-private partnerships. Since 1988, MIGA has issued 166 guarantees for infrastructure projects—over 31 percent of its gross portfolio—for $3.7 billion in coverage. The 87 projects covered by these guarantees involved an estimated $19.3 billion in FDI. Infrastructure is now MIGA’s biggest sector, at 41 percent of the gross exposure, up from 12 percent in 1996. While these projects have mainly been in power and telecommunications, MIGA has increasingly seen interest in coverage for projects in transportation (roads, ports and airports) and water and sanitation.

“While there have been many difficulties in recent years for projects in some developing countries, there is no doubt that more FDI is forthcoming if the investment climate is improved and residual risks are shared by the parties involved,” Ikawa said. “Even governments that have become more cautious about privatizations are not trying to reverse the trend. We are seeing more public-private partnerships. UNCTAD’s World Investment Report, which was just released, also suggests that there may be some moderate rebound in FDI flows in 2003 and 2004.”

“The bottom line is that there are many ripe opportunities for forward-looking investors in emerging markets and developing countries. And MIGA can help ensure that these ripe fruits do not turn sour after they are harvested. That harvest should benefit all involved—investors, lenders, and the public and governments of host countries.”
Increasingly today, developing countries are seeking to capitalize on their natural resources in a more sustainable and equitable way, and this is particularly true for the mining sector.

Where governments were once content to benefit from the employment, licensing fees, royalties, and tax revenues resulting from mining investments, today there are often expectations for far more comprehensive benefits. Governments, and many of the world’s progressive mining companies, realize that attending to the intangible elements of a mining venture—the noncommercial social and environmental aspects that are implicit to all development: fostering the development of adequate education system, infrastructure and viable employment opportunities, and enabling the development needs of local communities to be met.

This is the case in Tanzania, where the government recently opened the mining sector to private investors. There, poverty is widespread despite the abundance of land and natural resources. Per capita income in 2003 is estimated to be about $277; life expectancy dropped to only 44 years in 2001, and infant mortality remains high. Despite its poverty, the country has made substantial progress in terms of human development over the past few years, registering gains in literacy, access to water, and per capita GDP growth.

During fiscal years 2000 and 2001, MIGA provided a total of $172 million in investment guarantees to Barrick Gold Corporation of Canada and a consortium of international banks, for their respective equity investment and non-shareholder loans to the Bulyanhulu mining project in rural northern Tanzania. Private insurers provided reinsurance, while the Export Development Corporation of Canada co-insured the project with MIGA. Located approximately 30 miles south of Lake Victoria in the Shinyanga region, the project consists of the establishment and operation of a state-of-the-art underground mine and mill complex, operated by Barrick’s subsidiary, Kahama Mining Corporation Limited (KMCL).

The Tanzanian government had long intended to develop the potential deposit as a commercial venture. From time to time, the area was mined by artisanal miners who commonly worked in violation of basic safety standards. In addition, access to the newly discovered underground deposit required massive investment and the training of the local workforce, not used to large-scale mining.

The Bulyanhulu mine started production under KMCL management in April 2001. Today, all aspects of the mining operation are conducted in accordance with international environmental and safety standards. In many cases, the company surpasses these standards, playing a leading role in establishing industry best practices in the country. At the same time, Kahama Mining has taken steps to alleviate potentially negative side effects, using innovative approaches to dispose of tailings, including paste technology and backfilling in the underground mine.

The project’s construction phase created approximately 1,500 jobs. Today, the enterprise employs over 1,200 people (excluding contractors) as part of its ongoing operations, and pays $15 million a year in salaries. In addition, the number of people indirectly employed is estimated at 7,500. The company provides extensive training to local staff at all levels of operation, while working to replace expatriate employees with Tanzanians. The project pays roughly $15 million a year in royalties and taxes to the government, and spends another $37 million each year in the procurement of local goods and services.

One of the project’s key benefits isn’t measurable in terms of jobs or tax revenue generated, but rather relates to efforts to build local capacity to take over and maintain community development advances once KMCL finishes operations. Beyond the economic benefits resulting from the mining operation, the project has brought much-needed support to the local community. Most of the 30,000 people in the Bulyanhulu area live in poverty. The region lacks modern health care, an adequate education system, infrastructure and viable employment opportunities, and disease rates are high. When KMCL arrived, it set up a social development program that focused on these issues. “Mining companies have traditionally assumed that providing jobs alone would be enough, but it is increasingly clear that the industry needs to do much more on community development,” says Rene Marion, vice president and general manager of Kahama Mining.

Marion adds that there was a business need behind the effort. “We also needed to ensure that the mining industry would be accepted, and we wanted to reduce the expatriate workforce by 70 percent over a
program design allows full employee participation in the scheme, so that all can own a home at the end of seven years. As with every aspect of the company’s community development program, KMCL held extensive consultation with local residents, government agencies, and mineworkers to ensure that the program reflects the needs of the area. Along with the housing scheme, the company has constructed access roads, a sustainable water system, which is being managed by the community, and has improved other necessary infrastructure, such as schools.

KMCL has also developed the community’s social development program to address issues like housing, education, health, and capacity building. The program is a best-practice model for Tanzania’s development, focusing on long-term, sustainable benefits.

KMCL’s social development program is a best-practice model for two reasons,” says Sullivan. “First, the company is focusing on the key development issues faced by the local community in a manner that is likely to provide long-term, sustainable benefits. Second, the focus on capacity building maximizes the likelihood that the community will continue to function effectively and successfully, even after mining operations cease.”

Because of its focus on capacity building, there is every prospect that Kahama Mining will be able to stand back from its current leadership role and contribute to local society on a more equal and sustainable footing with its government and civil society partners.”

five-year period, which meant we needed to have the infrastructure in place to make the location attractive to Tanzanian managers and their families.”

The social development program has been underpinned by a partnership approach, drawing on a series of multi-party steering committees that work with KMCL, local communities, the district council, nongovernmental organizations (NGOs), and donors.

“KMCL has recognized the importance of communicating with the local community, not just at the district level,” says Ally Manyama, a local village executive officer.

One of the most important aspects of the program is that it focuses on long-term health results, with a strong focus on education, capacity building, and disease prevention. The program initiated the country’s first private-public sector health education program when it partnered with the African Medical and Research Foundation (AMREF) to develop, fund, and staff public health education programs in the area. The program focuses on disease prevention and improving treatment, particularly for HIV/AIDS, other sexually transmitted diseases, tuberculosis, and malaria. Together, KMCL and AMREF have refurbished a nearby dispensary and the Kahama district hospital, which serves 30,000 local residents and has eased pressure further up the referral chain.

KMCL has also developed the country’s first private sector housing program, which provides interest-free loans to employees, for up to 600 new houses. The program design allows full employee participation in the scheme, so that all can own a home at the end of seven years. As with every aspect of the company’s community development program, KMCL held extensive consultation with local residents, government agencies, and mineworkers to ensure that the program reflects the needs of the area. Along with the housing scheme, the company has constructed access roads, a sustainable water system, which is being managed by the community, and has improved other necessary infrastructure, such as schools.

KMCL also partners with CARE International in Tanzania—a humanitarian NGO that fights global poverty—to develop educational facilities in the communities around the project site. The six-year joint undertaking, begun in 2001, has contributed to the prevalence of water-borne diseases.

Thanks to the project, a reliable water supply is now widely available in the area for the first time. To meet the water needs of the mining operation, KMCL constructed a 30 mile pipeline from Lake Victoria to Bulumbulu, when mine construction started. At the same time, the company worked with local communities to include 15 outlet points along the pipeline to provide water for the communities along the route. Community-based water user groups are responsible for managing usage at the water points and for educating residents about safe and appropriate uses.

Other infrastructure needs have been addressed as well. KMCL invested $15 million in a turnkey project with the Tanzania Electric Supply Company to extend the national electricity grid from its nearest point, 148 km away in Shinyanga, to the mine site. KMCL is now working with the government and other partners to begin the process of extending the line for domestic and commercial use by local communities, which will bring mains electricity to the area for the first time. Roads have been upgraded, and financial support is improving rail facilities and ports—all necessary for the efficient operation of the project, but also designed with community development needs in mind.

“Kahama Mining could have elected to implement a development program alone, or by establishing a local company-managed foundation,” says Rory Sullivan, director for Investor Responsibility, Insight Investment, the asset management arm of HBOS plc in the UK.

“Instead, the company chose to adopt a multi-sector partnership approach, involving not just different parties, but actually pooling their resources and competencies. By being closely aligned with the goals of the Kahama District Development Council, civil society partners.”

See TANZANIA, p. 8
AGENCY POISED TO SUPPORT RECONSTRUCTION AND ECONOMIC PROGRESS

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

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 66 projects with guarantees worth nearly $1.7 billion in 18 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.

---

**2004 GUARANTEES ISSUED**

**FIRST QUARTER**

<table>
<thead>
<tr>
<th>Investor</th>
<th>Investor</th>
<th>Host Country</th>
<th>Sector Country</th>
<th>Gross Coverage ($ m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raiffeisen Zentralbank Austria</td>
<td>Austria</td>
<td>Bosnia and Herzegovina</td>
<td>Financial</td>
<td>21.95</td>
</tr>
<tr>
<td>Raiffeisen Zentralbank Austria</td>
<td>Austria</td>
<td>Romania</td>
<td>Financial</td>
<td>30.54</td>
</tr>
<tr>
<td>Новыи Registers Development</td>
<td>Norway</td>
<td>Former Yugoslav Republic of Macedonia</td>
<td>Services</td>
<td>0.3</td>
</tr>
<tr>
<td>Can-Pack S.A.</td>
<td>Poland</td>
<td>Ukraine</td>
<td>Manufacturing</td>
<td>44.7 *</td>
</tr>
<tr>
<td>International Dialysis Centers B.V.</td>
<td>The Netherlands</td>
<td>Bosnia and Herzegovina</td>
<td>Services</td>
<td>5.4</td>
</tr>
<tr>
<td>Iraniancom Holding S.A.</td>
<td>Luxembourg</td>
<td>Syrian Arab Republic</td>
<td>Telecommunications</td>
<td>58.0</td>
</tr>
<tr>
<td>Telenet Limited</td>
<td>Cayman Island</td>
<td>Syrian Arab Republic</td>
<td>Telecommunications</td>
<td>19.0</td>
</tr>
<tr>
<td>Raiffeisen Zentralbank Austria</td>
<td>Austria</td>
<td>Bosnia and Herzegovina</td>
<td>Financial</td>
<td>21.8</td>
</tr>
<tr>
<td>Raiffeisenverband Salzburg</td>
<td>Austria</td>
<td>Russian Federation</td>
<td>Financial</td>
<td>18.1 *</td>
</tr>
<tr>
<td>WTE Wasserkraft GmbH</td>
<td>Germany</td>
<td>Russian Federation</td>
<td>Water</td>
<td>51.8 *</td>
</tr>
</tbody>
</table>

* Represents two contracts
African Trade Insurance Agency and MIGA
Join Forces to Boost African Private Sector Investment

Africas bid to stimulate private sector-led growth and increase cross-border trade received a major boost with the signing of a Memorandum of Understanding between the African Trade Insurance Agency (ATI) — the continent’s only pan-African, multilateral import and export credit and political risk agency — and MIGA. The agreement calls for the two agencies to jointly promote foreign investment within Africa.

ATI and MIGA will help each other in the areas of business development, marketing and knowledge-sharing, as well as engaging in risk-sharing arrangements through co-insurance and reinsurance projects. The partnership with MIGA will put ATI in a stronger position to offer political risk insurance for longer-term, equity-based foreign direct investments to complement its products for physical damage resulting from war and terrorism and for debt-related project and trade transactions.

The partnership aims to further the development and growth of the private sector in Africa by providing the additional confidence needed by companies that see commercial opportunities in the region but where they or their financiers remain concerned about perceived political risks. Berno de Haldevang, chief executive and managing director of ATI, welcomed the announcement, saying it heralded “a major breakthrough in the bid to increase African private sector growth as a tool for reducing poverty. It will also serve to ensure that ATI can better fulfill its mandate to encourage and support new investment into and among African countries.

“The expertise of MIGA, with its proven ability to draw on the World Bank Group’s extensive resources, together with ATI’s engagement of the private market to support trade political risk, where ATI member states have put up their own funds as risk capital, is a compelling and persuasive proposition. With the support of governments, the private sector and multilaterals, Africa can start to fulfill its investment potential. We are already working on two significant joint deals, and we expect many more to follow.” Motomichi Ikawa, head of MIGA, reinforced this: “Africa is a priority area for MIGA, and the region now represents 19 percent of our gross portfolio, a number we hope to see grow over the next few years. MIGA and ATI can draw on each other’s strengths to bring even more FDI into Africa. Together, we offer an unrivalled partnership and a clear message — Africa is open for business.”

Highlights of the Memorandum of Understanding include:

- Risk-sharing through co-insurance and reinsurance contracts.
- An agreement to refer potential clients to each other in filing applications, analyzing risk, conducting contract drafting negotiations, collecting premiums, and collecting all requested information for the determination of a claim.
- Selective joint missions for business development and marketing within Africa, especially in regard to small- and medium-sized business enterprises in Africa or those enterprises engaged in intra-African trade and/or investment.

MIGA Registers Solid Development Record in Fiscal Year 2003

Despite the turmoil of fiscal year 2003, MIGA issued $1.4 billion in guarantee coverage for 37 new projects in its developing member countries, facilitating an estimated $3.9 billion in foreign direct investment.

This brings the cumulative amount of FDI facilitated since the agency’s inception to an estimated $49 billion. While the amount of FDI facilitated is not as high in fiscal 2003 as in previous years, other development indicators show good results.

The fiscal year saw good progress in supporting priority investments: The agency guaranteed 17 projects in IDA-eligible (the world’s poorest) countries, seven in sub-Saharan Africa, ten south-south investments (those among developing countries), ten small and medium-size projects, and 14 projects in conflict-affected countries.

“MIGA’s involvement in conflict-affected countries showed a dramatic increase over the previous year, and represented more than a third (39 percent) of all new projects guaranteed by MIGA,” says Motomichi Ikawa, MIGA’s executive vice president. The agency also supported more south-south and IDA investments than in the previous three years.

“The expertise of MIGA, with its proven ability to draw on the World Bank Group’s extensive resources, together with ATI’s engagement of the private market to support trade political risk, where ATI member states have put up their own funds as risk capital, is a compelling and persuasive proposition. With the support of governments, the private sector and multilaterals, Africa can start to fulfill its investment potential. We are already working on two significant joint deals, and we expect many more to follow.”

Motomichi Ikawa, head of MIGA, reinforced this: “Africa is a priority area for MIGA, and the region now represents 19 percent of our gross portfolio, a number we hope to see grow over the next few years. MIGA and ATI can draw on each other’s strengths to bring even more FDI into Africa. Together, we offer an unrivalled partnership and a clear message — Africa is open for business.”

Highlights of the Memorandum of Understanding include:

- Risk-sharing through co-insurance and reinsurance contracts.
- An agreement to refer potential clients to each other in filing applications, analyzing risk, conducting contract drafting negotiations, collecting premiums, and collecting all requested information for the determination of a claim.
- Selective joint missions for business development and marketing within Africa, especially in regard to small- and medium-sized business enterprises in Africa or those enterprises engaged in intra-African trade and/or investment.
MIGA Offers Online Users and Partners
New Features to Access Content

Users of the Investment Promotion Network (www.ipanet.net), MIGA’s portal site for international corporate investors, are now able to search content by five new major topic categories—business, legal, markets, opportunities, and events—as well as by country and sector. IPAnet and its companion site, FDI Xchange (www.fdixchange.com), an email alert service delivering current investment information matched to users’ interests, have also been linked with simple visual cues representing five new categories. The new icons, now common throughout the two sites, guide users in finding information about investing in the developing world.

“We wanted to streamline the access and navigation, so that even a first-time user can easily locate specific pieces of information in a few clicks,” explains John Wille, head of MIGA’s online information services. “The upgraded design accomplishes that objective, while allowing for planned growth and specialization in our database of resources, and further enhancement of our services.”

Partner organizations that refer users to MIGA’s websites can now link to “co-branded” versions of both the Investment Promotion Network and FDI Xchange. “Essentially this gives other organizations that promote direct investment into the developing world access to new information resources, which they can build into their own web offerings,” says Wille, adding that this access to MIGA’s content is intended to drive new segments of users to partners’ sites while increasing the numbers frequenting MIGA’s sites. MIGA partners include organizations such as chambers of commerce and business associations, country and regional investment promotion and privatization agencies, and private sector business information providers.

MIGA partners are already finding the upgrades effective in broadening their markets. Investe Brasil’s Director of Marketing and Communication, Clementino Fraga Neto, considers MIGA’s online services as extensions of the Brazilian investment promotion agency’s main marketing and communication tools—allowing them to achieve maximum impact in their target community. “[Both the new IPAnet and] FDI Xchange enable us to reach a larger public for our bimonthly bulletin Scenario. Using MIGA services as channels for dissemination helps put us in contact with investors and opinion-makers,” says Fraga Neto. Investe Brasil is the agency responsible for providing information about investment opportunities in Brazil.

Highlights of recent content available through MIGA’s online services:

- Information on upcoming tenders for manufacturing enterprises being privatized in Croatia and Serbia
- Shedding New Light on Africa’s Investment Opportunities, a new MIGA publication outlining sector-specific opportunities in selected African countries
- Opportunities on the Last Frontier (Guizhou Province)—China, from EuroBiz Magazine
- Dubai—At a Crossroads of the Global Economy, from International Reports

The Investment Promotion Network (IPAnet), established in 1995, is MIGA’s flagship site serving the foreign investment community, including multinational corporations, investment promotion agencies, policymakers and supporting organizations. FDI Xchange delivers periodic, customized email alerts containing links to new investment opportunities, market research, and country analysis from public and private sector sources worldwide. For more information on MIGA’s online information services, contact Courtney Roberts at 202.458.2924, or at ipanet@worldbank.org.

Plan, the development program has met local infrastructure priorities as well as the government’s policy for a bottom up approach to community planning. KMCL’s establishment of steering groups to oversee the development program is part of a deliberate strategy to develop capacity and ensure that assets can be handed over to local groups once mining operations wrap up. “KMCL has actively sought to reduce long-term dependency on the company while providing the necessary development benefits,” says Sullivan.

“The approach adopted by Kahama Mining aims to bridge the gap by addressing areas where there is a real need and where the project can make a real difference,” says Aida Kiango, KMCL’s Community Development and Localisation Manager. “The ultimate aim of the project is for government, communities, and NGOs to take over. However, to get things started, Kahama Mining has had to adopt a role that is closer to that of an NGO.”

“Because of its focus on capacity-building, there is every prospect that Kahama Mining will be able to stand back from its current leadership role and contribute to local society on a more equal and sustainable footing with its government and civil society partners,” adds Sullivan. For Kahama Mining, the process of operating a mine entails a deeper commitment to involvement in the community. Community development also makes good operating sense. Providing modern health care and safe working conditions leads to a more stable and reliable workforce, and providing housing and education benefits helps to attract and retain the best national employees. These benefits aside, there is a moral imperative, and progressive companies recognize this imperative. Firms such as Kahama Mining understand that socially responsible companies must align their strategic objectives with those of the community and that each area of the company should be as committed to community objectives as to business objectives.

“KMCL’s social development program is a best-practice model for two reasons,” says Sullivan. “First, the company is focusing on the key development issues faced by the local community in a manner that is likely to provide long-term, sustainable benefits. Second, the focus on capacity building maximizes the likelihood that the community will continue to function effectively and successfully, even after mining operations cease.”

This article is based on a field visit conducted by MIGA in 2003, and on a report prepared by Barry Sullivan, then an independent consultant for Business Partners for Development (BPD).

TANZANIA, from p. 5

Plan, the development program has met local infrastructure priorities as well as the government’s policy for a ‘bottom up’ approach to community planning. KMCL’s establishment of steering groups to oversee the development program is part of a deliberate strategy to develop capacity and ensure that assets can be handed over to local groups once mining operations wrap up. “KMCL has actively sought to reduce long-term dependency on the company while providing the necessary development benefits,” says Sullivan.

“The approach adopted by Kahama Mining aims to bridge the gap by addressing areas where there is a real need and where the project can make a real difference,” says Aida Kiango, KMCL’s Community Development and Localisation Manager. “The ultimate aim of the project is for government, communities, and NGOs to take over. However, to get things started, Kahama Mining has had to adopt a role that is closer to that of an NGO.”

“Because of its focus on capacity-building, there is every prospect that Kahama Mining will be able to stand back from its current leadership role and contribute to local society on a more equal and sustainable footing with its government and civil society partners,” adds Sullivan. For Kahama Mining, the process of operating a mine entails a deeper commitment to involvement in the community. Community development also makes good operating sense. Providing modern health care and safe working conditions leads to a more stable and reliable workforce, and providing housing and education benefits helps to attract and retain the best national employees. These benefits aside, there is a moral imperative, and progressive companies recognize this imperative. Firms such as Kahama Mining understand that socially responsible companies must align their strategic objectives with those of the community and that each area of the company should be as committed to community objectives as to business objectives.

“KMCL’s social development program is a best-practice model for two reasons,” says Sullivan. “First, the company is focusing on the key development issues faced by the local community in a manner that is likely to provide long-term, sustainable benefits. Second, the focus on capacity building maximizes the likelihood that the community will continue to function effectively and successfully, even after mining operations cease.”

This article is based on a field visit conducted by MIGA in 2003, and on a report prepared by Barry Sullivan, then an independent consultant for Business Partners for Development (BPD).
A new MIGA study of business operating costs and conditions in two key industries in Asia—electronics manufacturing and so-called shared services—reveals a diverse competitive landscape with plenty of niche market opportunities. The exercise looked at China, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam, and offers a number of across-the-board recommendations to help countries attract more foreign investment in these sectors.

The first in MIGA's "snapshot" series of regional sectoral analyses, Benchmarking FDI Competitiveness in Asia distills practical information collected from investors and published sources into a "snapshot" of the business operating environment. Benchmarking is a research methodology commonly adopted by corporations to help evaluate potential investment locations. MIGA’s benchmarking exercise set standards by which the participating countries could be measured and compared in quantitative terms across a range of critical factors, such as political and social stability, labor costs and availability, and access to affordable infrastructure and services.

"Benchmarking is a very pragmatic tool for both investors and countries competing for foreign direct investment (FDI)," says David Bridgman, MIGA's manager for Capacity Building and Investment Facilitation. "It captures the dynamics of the competitive environment, and brings a lot of clarity to a complex decision. An investor typically needs to evaluate many considerations, which influence the decision to varying degrees, based on the corporation's strategy and preferences."l

Senior Investment Promotion Officer, Bill Luttrell, spearheaded project design and implementation. "We designed this study to analyze the factors most important to investors, and interviewed investors directly," he says, "so we are confident the results will help the participating countries understand how international businesses view their locations relative to the competition."

The study reveals a competitive landscape ripe for the six countries to differentiate their locations as distinctive "products" for potential investors. No one country emerged as the clear leader in all factors and both sectors, nor is any one country too inexperienced, or too late, to compete for FDI in either field. The study suggests however, that there is ample opportunity for each of the individual countries to focus on different niches in both industries by building on their comparative strengths.

Strengths commonly identified were large pools of available skilled or unskilled workers, relatively low labor costs, and a proficiency in the English language or "back office" trades. Weaknesses included challenges related to power and transportation infrastructure, government transparency and procedures, lack of language or technical skills and underdeveloped supplier networks. China, for example, boasts the best-developed supply base among the countries surveyed: low-cost labor, and low-cost real estate and construction. Among its challenges are onerous labor regulations that burden employers with heavy costs, and perceived differences in business culture that may make management more difficult.

Meanwhile, Vietnam's relatively well-educated workforce and ample supply of low-cost unskilled labor have helped attract a base of major Japanese and Korean electronics manufacturers. Underdeveloped infrastructure, a shortage of management-level employees, and an inadequate base of supporting industries were identified as weaknesses.

"The objective of the study was not to find winners and losers among the six countries already active in both industries," Luttrell emphasizes, "but rather to provide each country participant with a broad-based and informed context for targeting the most likely potential new investors. This sort of study also helps officials in participating countries to see which infrastructure improvements and procedural and policy reforms matter most from the investors' perspective. We see this as an enormous benefit to both potential investors and those already operating in the region."

Study researchers drew from multiple data sources, including publicly available sources for information about labor and real estate costs and considerations, utilities, market access, taxes, transportation and shipping infrastructure, and business and living conditions. They also interviewed 64 companies operating in the participating countries and asked respondents to rate various aspects of these factors from their own experience.

The study revealed significant differences in many cases between the data collected from public sources, and the information obtained directly from current investors. For several factors, including many considered critical, the interviewees reported significantly different costs or conditions than in published sources. Investor responses were often more positive than the data pulled from the web and research directories. The most dramatic example is in labor costs. For an electronics manufacturing operation, the information collected from interviewees placed labor costs at an average of 30 percent less than the costs reported in the public information sources.

"Investors should be careful to not eliminate potential locations on the basis of desktop research alone, because it is often too generic to give an accurate reading," says Luttrell.

Benchmarking FDI Competitiveness in Asia was funded under the Miyazawa Initiative, a special element of the Japanese foreign assistance program intended to promote economic recovery in the countries most affected by the 1997 Asian financial crisis. The study served as the pilot for a broader competitive benchmarking program that MIGA will soon launch to analyze specific industry sectors in Southeastern Europe, Africa, and the Middle East.

To access the study online, visit www.ipanet.net/snapshotasia. For more information, contact MIGA Investment Marketing Services at 202.458.2076, or fax 202.522.2630.
MIGA has issued a guarantee of EUR1.26 million to International Dialysis Center B.V. of the Netherlands for its EUR2 million equity investment in International Dialysis Center Banja Luka of Bosnia and Herzegovina. The guarantee has a duration of seven years and provides coverage against the risk of breach of contract.

The project—an expansion of an earlier MIGA-underwritten healthcare facility located in Banja Luka—will provide renal dialysis treatment services to the city of Bijeljina, Republika Srpska, and its environs, where kidney disease is endemic. Using state-of-the-art medical equipment, the project will help to improve life expectancy and quality of life for dialysis patients. The center’s location—within an existing hospital—will also benefit the local community by refurbishing the premises for the new facility.

In addition to providing critical healthcare services, the project will also make modest contributions to local economic development. Fifty local employees will be involved in the design and construction phase of the facility. Moreover, once operative, the dialysis center will provide permanent jobs to 39 local managers, technicians, and administrators—all of whom will be paid salaries 50 percent above the local standard. The project will also procure an estimated $100,000 in goods and services every month from local suppliers, fueling upstream growth in the country’s domestic health services sector.

The World Bank Group’s Living Standards Measurement System shows that 25 percent of the population in Republika Srpska and 16 percent in the Federation of Bosnia Herzegovina live below the poverty line and that serious distortions in the social safety net adversely affect these poor people. This project is consistent with Bosnia’s and the World Bank Group’s latest country assistance strategy, which regards promoting social services like high-quality and accessible healthcare as a fundamental step in building social sustainability in the medium term.

Can Production Plant to Meet Growing Demand in Ukraine

MIGA has issued three guarantees totaling $48.75 million to Can-Pack S.A. of the Republic of Poland for its support for its Ukrainian subsidiary, Can-Pack Ukraine Limited. The guarantees include $36.5 million in coverage (for the equity investment and associated dividends and retained earnings), $8.65 million for an $11 million shareholder loan, and $2.25 million for a management and technical assistance contract. All three guarantees provide coverage against the risks of expropriation, war and civil disturbance, and transfer restriction.

The guarantees for the equity investment and the management contract cover a period of 15 years and the shareholder loan is for a period of five years.

The project involves the construction and operation of an aluminum beverage can production plant. It will increase Can-Pack’s production capacity in order to meet the growing demand for canned beverages in the Ukraine and will allow it to maintain market share in the Ukraine, Russia, and other members of the Commonwealth of Independent States. Can-Pack expects to produce approximately 2,600 cans per minute when fully operational, and will be the largest Polish investment in the Ukraine to date. MIGA’s involvement in the project will help create approximately 110 direct local jobs. One hundred and forty-five additional jobs will be created during the construction phase, and Can-Pack S.A will provide ongoing training throughout the duration of the project.
MIGA’s 2003 Annual Report Highlights Support for Water and Community Development

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, reveals the agency’s 2003 Annual Report. 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.

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.

This year’s report showcases the agency’s work in supporting projects in the water and sanitation sector, mining and community development, and leveraging information technology to facilitate foreign direct investment.

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

MIGA to Launch PRI Symposium Publication

November will see the publication of International Political Risk Management: The Brave New World—the second in a series of volumes based on the bi-annual MIGA Georgetown Symposium on international political risk management.

The 18 contributors to this volume consider The Brave New World of the political risk insurance industry in the wake of September 11, 2001, the Argentine economic crisis, and other upheavals. The book begins with the supply-side perspectives of insurers and then turns to the concerns of investors and lenders, in particular those involved in large infrastructure projects in emerging markets. An in-depth analysis of international political risk management from the frontlines of the industry, this book will be a valuable guide to those considering private sector investments and privatizations in the developing world, whether as equity sponsors, lenders, or insurers. It should also be of interest to independent analysts and scholars working in the field of political risk management.

The work is 230 pages long and is priced at $30 per copy. Orders and ordering inquiries for International Political Risk Management: The Brave New World (ISBN 0-8213-5649-6) should be sent to: World Bank Publications P.O. Box 960 Herndon, VA 20172-0960 USA t. 800.645.7247 Email: books@worldbank.org Online orders can be placed at: www.worldbank.org/publications
INSURING INVESTMENTS ■ ENSURING OPPORTUNITIES

...AND MORE

WHAT'S ON THE TABLE FOR INVESTORS?
INSIDE: POST-CANCUN:

Www.miga.org

Multilateral Investment Guarantee Agency
1818 H Street, NW
Washington, DC 20433, USA

World Bank Group

Covering
JUL AUG SEP 2003
INSIDE THIS ISSUE
Ministers Up on Global Economy, Down on Cancun, as IMF Meets...