MIGA unveils simpler guarantee contract

MIGA officially launched its new contract of guarantee in December 2003, responding to client requests for a simpler and more efficient document. The new contract will be used for all definitive guarantee applications received beginning January 1, 2004.

“We changed the contract because some clients were finding it hard to interpret,” says Srilal Perera, chief counsel, who oversaw the drafting of the new contract. “The old contract was the same one used since the agency’s inception in 1988. It was a complex document that required a lot of patience to understand the scope of coverage and the consequences of the coverages. There were an inordinate number of cross-references, which resulted in multiple complications.”

The biggest difference in the new contract is its simplified language. “It’s easier to understand now,” says Perera. “The need for interpretation and cross-referencing will be minimized.” Because it’s simpler, MIGA is expecting a shorter turnaround time for executing policies, and in general, less headaches for clients. The contract does not depart in any way from the agency’s convention or operational regulations requirements.

“The contract was influenced, in the early design stage, by current capital market operations, as well as project and structured finance deals,” adds Peter Jones, manager for Operational Strategy in MIGAs Underwriting Department. The document also benefited from investor and insurer feedback, he says.

Another bonus is the simplification of terms. Coverage elections used to be considered complex by investors, but the new contract has done away with the different categorizations of guarantee amount, such as maximum aggregate liability, maximum amount of guarantee, current amount of guarantee, and standby amount of guarantee. Now there is just one amount of guarantee coverage, plus a standby option for amounts of investments that are committed but not yet disbursed.

Waiting periods for payment of claims have also been reduced for all of the coverages offered: for expropriation claims, it has been reduced from 365 days to 180 days; for transfer restriction, from 90 to 60 days; for war and civil disturbance, from 365 to 180; and for breach of contract claims, from 365 to 180 days. However, contracts retain the flexibility for waiting periods to be increased depending on the risk profile of each project.

In addition, claims adjudication periods are now shorter. MIGA will let investors know whether a claim will be paid within 30 days. Investors can also now file a claim during the waiting period, although the claim becomes final only when all required evidence is submitted.

The new language clearly spells out what evidence the guarantee holder needs to provide in the case of a dispute, as well as what is expected after a claim has been filed and approved.

“We modeled the simplified contract on our inherent strength—that is, our ability to prevent investment disputes from becoming claims,” says Perera. “This strength derives from the fact that our shareholders include most countries in the world, which enables us to provide an umbrella of deterrence against government actions that could disrupt investments. We are also able to influence the resolution of potential disputes. At the same time, the new contract has strengthened our guarantee holders’ obligations, requiring them to give information early on about the possibility of a potential loss. Tightening this obligation gives us the information we need to help prevent a claim.”

Faster turnaround expected

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MIGA launched a new costing/pricing methodology that complements the agency’s new guarantee contract (see related story on p. 1). The methodology is based on quantitative analyses of political risk claims.

MIGA has also developed an implementation process that aims to balance the benefit of the quantitative methodology with a client-focused efficiency. For example, for small-sized transactions, less than $5 million, MIGA offers a convenient single premium rate that covers three main risks combined (transfer restriction, expropriation, and war and civil disturbance). MIGA has also decided to apply the same rate for equity and non-shareholder loans. For further simplification, MIGA no longer uses the distinction between “current” and “standby” rates for loans that have already been disbursed.

“I strongly hope that the new pricing framework will significantly help MIGA better serve its clients’ risk mitigation needs, and will thus facilitate more investment flows into emerging economies,” said Motomichi Ikawa, Executive Vice President of MIGA.

Further information on the methodology is available on www.miga.org.

Yukiko Omura named new head of MIGA

MIGA is set to see a changing of the guard when Yukiko Omura, selected as the agency’s new Executive Vice President, assumes her new role in May 2004.

Omura joins MIGA from her most recent post as CEO and Executive Director of the AIDS Prevention Fund, a London-based company that aims to raise finances for worldwide HIV/AIDS prevention. Omura will officially assume her responsibilities this Spring.

“It is with great pleasure that I welcome the appointment of Ms. Omura. She brings to the table a unique combination of private sector experience, as well as a commitment to development issues, which will no doubt serve MIGA well,” said World Bank President James D. Wolfensohn. “At the same time, I would like to express my deep appreciation to the current head of MIGA, Motomichi Ikawa, for his dedicated service to the agency over the last five years.”

Omura brings more than 20 years of international experience in the financial services sector. Prior to her founding of the AIDS Prevention Fund, she was Managing Director and Head of Global Debt for Japan with Dresdner, and served as Managing Director and Head of Global Fixed Income and Derivatives, Japan, with UBS/LTCB Warburg.

Omura has extensive knowledge of emerging markets, with many years of experience in areas such as mergers and acquisitions, derivatives and emerging market sales, trading, and research at JP Morgan.

In addition, she served as Head of Credit Products and Emerging Markets, Asia, with Lehman Brothers. She began her career as a project economist with the Inter-American Development Bank, after receiving her education predominantly in Geneva, London, and Boston.
“MIGA has a key role to play in helping foreign investors take advantage of the many investment opportunities in Sri Lanka,” MIGA’s Executive Vice President, Motomichi Ikawa, said during a press conference in Colombo in October 2003. The event was one of a host of activities undertaken by Ikawa and a group of MIGA delegates during a three-day sojourn in the country. The visit was spurred by a bilateral meeting between Ikawa and Prime Minister Ranil Wickremasinghe during the Tokyo Donor Conference on Sri Lanka held in June 2003. In addition to meeting with the prime minister, MIGA representatives also held talks with A.S. Jayawardena, Governor of the Central Bank, Ravi Karunanayake, Minister for Commerce and Consumer Affairs, and high-level officials from the Treasury, Ministry of Enterprise, and Board of Investment. The delegates also met with private sector representatives.

In addition, Ikawa gave a keynote address on the role of the private sector in infrastructure development at the Chamber of Commerce Convention, “Sri Lanka: From the Ravages of War to the Road to Prosperity.” He said, “not merely because of the island’s strategic location, but also because of its highly educated and intelligent pool of human resources and the ability of the business community to quickly adapt to difficult situations. Yet it has not been immune to the terrible ravages of war and civil disturbance.”

Conflict-afflicted economies need high levels of investment. Battered infrastructure needs to be rehabilitated. Run-down public utilities have to be refurbished and modernized to meet the demands of a modern economy. Employment has to be generated. In all these areas, foreign direct investment and the private sector will have to play a crucial role. But to attract foreign investment in a conflict-affected environment is undoubtedly a difficult task,” said Ikawa.

It is precisely for such an environment that MIGA was created. As a member of the World Bank Group, MIGA promotes foreign direct investment into emerging economies by offering political risk insurance (guarantees) to investors and lenders, and by helping developing countries attract and retain private investment through its technical assistance and dispute mediation programs.

Since its inception, MIGA has supported 66 projects with guarantees worth nearly $1.7 billion in 18 conflict-affected countries, representing 13 percent of the agency’s gross portfolio. Sri Lanka is one of the original shareholders of the agency. MIGA’s outstanding portfolio for the country consists of one contract of guarantee in the infrastructure sector worth $1.68 million. This project is estimated to have facilitated $71.1 million in additional foreign direct investment.

MIGA also mediates ongoing investment disputes between host countries and investors, thereby enhancing the investment climates of its member countries. Sri Lanka was a recent beneficiary of MIGA’s mediation services.

Ikawa added that MIGA looks forward to working closely with institutions like the Board of Investment, the Sri Lanka Export Credit Insurance Corporation, and the Ceylon Chamber of Commerce, to build their capacity to share crucial information on investment opportunities with foreign investors. “Partnerships are critical for the recovery process,” he said.

MIGA has received numerous applications from investors interested in procuring MIGA guarantees for projects in Sri Lanka.

“We stand ready to carry out our responsibilities, not only to assist in the economic recovery of the country, but to ultimately bring hope and prosperity to Sri Lanka’s people who have been traumatized by decades of civil war.”

**Iran Joins MIGA**

The Islamic Republic of Iran became the newest member of the Multilateral Investment Guarantee Agency (MIGA) on December 17, 2003, with its subscription to the agency’s capital base. This brings the number of MIGA members to 164.

With the membership, foreign companies seeking to invest in Iran are now eligible to receive MIGA’s guarantee coverage, which protects investments against the risks of transfer restriction, expropriation, breach of contract, and war and civil disturbance (including terrorism). Iranian investors going into other developing countries may also receive coverage. Membership also makes the country eligible to receive MIGA’s technical assistance services to help it attract more foreign direct investment.

“MIGA support for investment in Iran can help address two serious challenges faced by the country: the prevalence of unemployment and poverty,” says MIGA’s Executive Vice President, Motomichi Ikawa. “By guaranteeing projects going into and out of Iran, MIGA will be supporting the country’s fledging private sector and stimulating regional economic growth.”

The agency has received a number of inquiries from investors interested in doing business in Iran, particularly in the infrastructure, services, and finance sectors.

“MIGA can bridge the gap between investors’ concerns and a country’s desire to attract good investment to help jumpstart the economy,” says Ikawa. “We are looking forward to supporting private sector development in Iran and the region.”

**PHOTO | Motomichi Ikawa, Executive Vice President of MIGA**
Lessons learned from the turbulent late 1990s have helped focus China’s efforts on accelerating reforms of the state enterprise and corporate sectors. While it is too early to evaluate how successful China’s entry into the WTO has been, the FDI environment is generally perceived as positive. So positive in fact, that for the first time ever, China has knocked the United States off its perch as the world’s number one investment destination, according to AT Kearney’s FDI Confidence Index.

In addition to its new WTO status, investors these days are drawn to China’s growing middle-class of consumers, with higher disposable incomes and increasing purchasing power, and the country’s strong supply of relatively low-cost, high-output labor.

Despite these draws, investing in a developing country can be a daunting experience. In addition to commercial risks faced by all projects, doing business in an emerging economy can bring added risks, real or perceived, of an undesirable political event that many investors are simply not prepared to deal with on their own. Political risk insurance is an important instrument for equity investors and financiers concerned about mitigating noncommercial risks.

China was one of the earliest members of MIGA, joining soon after the agency’s founding. Since then, MIGA has actively supported foreign direct investment into the country, providing a total of $333 million in investment guarantees. As of December 2003, MIGA’s portfolio consisted of 14 contracts, with gross exposure of $150 million, for projects in the manufacturing, power, and water sectors. China is currently in the top 15 countries in terms of MIGA’s outstanding guarantee exposure.
MIGA's involvement in China has been evolutionary. When the agency first started insuring projects there, manufacturing was the sector in demand. But there's a perception now that manufacturing no longer presents the kinds of noncommercial risks that investors are concerned about. Rather, it is the larger projects, such as infrastructure, that provide opportunities for foreign investment, but which also make investors wary of risks. Given that infrastructure projects often involve local governments with long-term concessions, and therefore add what some perceive to be a lesser-known element to the mix, investors in this area typically seek out political risk insurance.

MIGA is no stranger to these types of risks, as reflected in its involvement in the country's power sector. More than three years ago, provincial government officials in China unilaterally reduced the prices it paid certain foreign electric power producers. MIGA had issued guarantees to one of the affected investors, providing protection against the risks of transfer restriction, expropriation, and war and civil disturbance. When the investor alerted MIGA to its difficulties, the agency stepped in. Ongoing negotiations with the investor and government representatives eventually yielded an agreement to resolve the problem and avoid a claim by the investor. This dispute was just one of some two dozen that erupted in China's power sector following the 1999 price change.

As China gears up for the 2008 Olympics in Beijing, there's a renewed focus on investment in infrastructure, including in the water, power, and transport sectors. In the past six months alone, MIGA has issued guarantees for two water projects, in Deqing and Pudong, with a few more in the pipeline. One project, for which MIGA provided a $50 million guarantee, involves the treatment, distribution, and sale of water, maintenance and management of facilities, and water supply services in the Pudong district of Shanghai, home to more than 1.7 million residents. The guarantee covers the investment against the risk of expropriation for a period of up to 15 years. MIGA is also starting to see more Chinese investments going into Southeast Asia—particularly Indonesia, Thailand, and Vietnam—with investors expressing interest in MIGA's coverage. The growing interest stems in part from a partnership struck in 2001 by MIGA and Sinosure, China's official export credit insurance agency (representing a merger of the export credit insurance departments of both the People's Insurance Company of China and Chinese Eximbank). The partnership agreement calls for Sinosure and MIGA to increase cooperation and, in particular, to support Chinese investment into developing countries. MIGA is working closely with Sinosure—co-hosting investment insurance seminars in Beijing, for example—and has provided training to its staff. While primarily an export credit insurer, Sinosure is being drawn increasingly into the field of investment insurance, and is expected to work more closely with MIGA in the coming year on coinsurance and reinsurance of investments.

In addition to its guarantee and dispute mediation services, MIGA also provides technical assistance to help the agency's developing member countries define and implement strategies to catalyze foreign direct investment. Among these activities is a regional benchmarking exercise conducted by MIGA in 2003, with funding from the Japanese government. The study, "Benchmarking FDI Competitiveness in Asia," compares operating costs and conditions in China, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam for electronics and information services, industries that are regionally strong in FDI.

The study finds that China is a regional powerhouse in terms of size, strength, and anticipated rapid growth of its domestic economy, as well as consumer purchasing power. The country boasts the best-developed electronics supply base and the least expensive land and building facilities among the countries surveyed. Overall labor costs rank among the lowest, with the workforce considered the most productive—benefits that apply to both sectors analyzed. The study also reveals that China's competitive telecommunications costs and stable government and society are advantages for foreign investment in information services.

Among the weaknesses identified in the electronics sector are labor and management issues. Employees may lack recognition of quality issues, which requires constant supervision, while labor regulations, which vary widely by location, can be onerous for the employer. Perceived differences in business culture—mindset, loyalty to company, and management philosophies—tend to make management more difficult. Most of the weaknesses in the information services sector, which includes, for example, call centers, also relate to personnel, particularly salaries, language and management skills. Despite these drawbacks, the study finds ample evidence of investment opportunity in both sectors. To find out more, visit www.ipanet.net/snapshotsasia.

The benchmarking study has spawned interest in a number of quarters, including the International Finance Corporation's China Project Development Facility (CPDF) which recently asked MIGA to help the Sichuan Provincial Investment Promotion Bureau (SPIPB) conduct a similar investigation of the Sichuan province. In 2004, MIGA is also embarking on a series of quarterly capacity-building workshops, also in coordination with the CPDF and SPIPB, to reach out to other promotion agencies throughout the province. The first workshop, on the general tenets of investment promotion, will take place in February 2004.

China is also well-represented in MIGAs online information services. Currently, more than 250 China-based individuals and organizations are members of IPAnet—www.ipanet.net—an investment information clearinghouse established by MIGA to promote information exchange, business development, and investment opportunities worldwide.

For more information on MIGA, please visit www.miga.org, or contact MIGA's Corporate Relations Officer, Federica Dal Bono at t. 202.473.9292 or email fdalbono@worldbank.org. A version of this article will appear in the March-April 2004 issue of the China Business Review (www.chinabusinessreview.com)
# MIGA and Austrian Government to Launch Investor Outreach Facility for Southeastern Europe

The Multilateral Investment Guarantee Agency (MIGA) and the Austrian government recently signed an agreement to jointly establish a new facility to help the Western Balkans reach out to European investors. The facility, to be based within the Österreichische Kontrollbank in Vienna, is set to launch in April 2004.

The facility will seek to strengthen the capability of the beneficiary countries—Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia, and Serbia and Montenegro—to attract inward investment from across Western Europe. The goal is to increase investors’ awareness of the region’s investment potential, encourage investors to undertake site visits to explore possible investments, and ultimately to support actual investments in the region. A benchmarking study currently underway will guide the program’s outreach activities.

“The countries of Southeastern Europe are implementing far-reaching reforms to improve their investment climates and reduce the administrative and regulatory barriers that can put off investors,” says Tessie San Martin, head of investment marketing for MIGA. “These improvements have opened up many areas of promise for investment in the region.

The challenge we want to address, in collaboration with the Austrian government, is to make sure these improvements are communicated well to investors, and that investors receive the support they need to make well-founded investment decisions and implement them successfully.”

For Karl-Heinz Grasser, Austria’s Minister of Finance, the development of Southeastern Europe depends highly on the progress made by the private sector in these countries. “Austria very much welcomes the support of the region by the World Bank Group, including MIGA,” says Grasser.

The initiative will start out as a two and a half-year pilot program, supported by an initial contribution of $900,000 made available to MIGA by the Austrian government under a grant agreement. MIGA will support the initiative with a significant in-kind contribution. It is expected that additional donors will join the initiative and the pilot program will be expanded to cover additional countries and a wider range of sectors and industries.

Activities planned under the project include preparatory country benchmarking and sector-profiling work, as well as a wide range of targeted investment generation and facilitation activities, focused on a small number of priority sectors of common interest to the participating countries. MIGA will also deliver a series of skills training and other capacity development activities through the facility.

The project will work hand-in-hand with leading investment intermediaries in the region—including investment promotion agencies, chambers of commerce, and business associations—on the design and execution of outreach activities. “MIGA has piloted this type of demand-driven marketing program in other regions around the world, with very good results so far,” says San Martin.

The Vienna facility will operate under MIGA’s supervision, with guidance from a steering committee comprised of representatives from MIGA, the Austrian government, and participating countries. It is the first project that will be executed under MIGA’s new Invest-in-Development Facility.

More information on the program can be found at www.ipanel.net/EIOP/index.htm.

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### 2004 GUARANTEES ISSUED

#### SECOND QUARTER

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* Represents more than one contract.
MIGA has issued a guarantee of $1.4 million to Geosurvey International, LLC of the United States for its $1.5 million equity investment in East Africa Geosurvey Limited of Kenya. The guarantees are for a period of seven years and provide coverage against the risks of breach of contract.

The project involves the establishment and operation of four diagnostic centers by SC Euromedic Romania s.r.l., based on a public-private partnership with the national healthcare service. The diagnostic centers will operate in the cities of Arad, Bucharest, Constanta, and Petrosani, and will provide MRI, computer, tomography, bone densitometer, ultrasound, and stress tests diagnostic services.

Euromedic's healthcare services should make significant contributions to Romania's social services infrastructure by offering diagnostic services to a broad range of patients. In addition to providing healthcare services, the project is expected to bolster the Romanian economy. The four clinics will hire 227 permanent medical employees and 13 managers. Euromedic will also provide employees with the training required to operate the clinics. Each unit will buy goods and services from local suppliers; annual procurement for the four clinics will total $2.1 million. Government tax and fee revenue from Euromedic's operations is expected to total close to $1 million annually.

SC Euromedic Romania s.r.l. represents MIGA's second turnkey project in the health sector, the first being a dialysis center in neighboring Bosnia and Herzegovina.
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