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Yukiko Omura Takes MIGA Helm

FORMER INVESTMENT BANKER SIGNALS NEW DIRECTION FOR AGENCY'S OPERATIONS

> "I want to focus on areas where MIGA brings value-added to investors and member countries."

On May 1, Yukiko Omura assumed her new role as Executive Vice President and signaled a clear direction for MIGA's business going forward.

"Since its inception in 1988, I think MIGA has come a long way," says Omura. "But the industry is rapidly changing, the demands from both the host countries and the private sector are changing. And MIGA needs to adapt to these changes. What it has to offer—a combination of political risk insurance and technical assistance—can provide a real boost to foreign direct investment into developing countries."

Omura sees MIGA as a "niche" agency, complementing private and public insurers and working to open markets to them. She plans to focus on areas where the agency can play a powerful role in attracting investment that supports development.

A Japanese national, Omura brings more than 20 years of international professional experience in the financial services sector, and—with extensive emerging markets experience—an understanding of MIGA's client needs.

No stranger to the development business either, she began her career as a project economist with the Inter-American Development Bank. Subsequently, she spent 10 years at J.P. Morgan in both Tokyo and London, where she was, among other things, the first woman within the firm to enter the derivatives group. As head of its EMSTAR division (Emerging Markets Sales, Trading and Research), she built the Tokyo emerging market business from scratch, then went on to run EMSTAR Marketing for Northern Europe based in London.

Omura has also headed all of Lehman Brothers' Asia credit business, managed the merger of UBS/LTCB Warburg's Global Fixed Income and Derivatives department in Japan, and headed Dresdner's Global Markets and Global Debt offices in Japan.

After 20 years in investment banking, Omura left in 2001 "to do something completely different and important in a different way." Together with former colleagues, she founded and financed the London-based AIDS Prevention Fund.

She is passionate about development and excited about the challenges of leading MIGA. For MIGA, she says, there is a huge opportunity to be a unique insurance and technical assistance provider, to encourage sound investment and corporate governance, and to create new, cutting-edge products and services. "I want to focus on areas that aren't obvious safe investments that can be guaranteed by other insurers, but where MIGA brings value-added to investors and member countries." *(See article on MIGA's new organizational structure, page 7.)*

VIETNAM

Interest-Rate Swap Deal Covers Electrification Project

For investors venturing into emerging markets, insurance against non-commercial risks cushions them against political events detrimental to their projects. MIGA went a step further recently by also offering insurance to a group of lenders to a Vietnam power plant to cover their interest rate hedging instrument. By covering a derivative, the agency is enabling project financiers to use instruments that are widely available in developed countries, but rarely in emerging markets.

The deal represents an important first for MIGA in terms of product offerings. The debt financing is provided at a float-

See VIETNAM, p. 2

Interest-Rate Swap Deal Enhances Coverage of Vietnam Electrification Project

An important first for MIGA, new product protects utilities against interest-rate fluctuations

From VIETNAM, p. 1

ing interest rate, which presents financial risks. To offset the need to either buy an interest rate cap (which could have been prohibitively expensive) or to put together a separate fund to cover severe interest rate increases, the enterprise chose instead to engage in a swap that allows it to pay a fixed interest rate. This is particularly important in the utilities sector where companies relying on a fixed revenue stream benefit from managing their exposure to interest rate fluctuations.

In this case, the interest-rate swap is associated with a non-shareholder loan—part of the project financing—issued by a bank syndicate composed of five lead arranging banks (the agent being Crédit Lyonnais). MIGA covers losses in the event that the swap is cancelled as a result of a political event. "What's innovative here is that for the first time, MIGA has offered coverage against nonpayment of incurred swap losses by the utility to the swap provider due to covered political events," says Philippe Valahu, MIGA Regional Manager for Asia.

The beneficiary of the new scheme is a consortium of energy companies building and operating a power plant in Vietnam—which urgently needs new sources of power. Demand for electricity has been growing by about 14 percent a year for more than a decade, and it is expected to continue to grow at an annual rate of 16 percent in the Ho Chi Minh City area, where the plant is located. The country currently relies heavily on hydropower, which is highly seasonal. Other sources of power—including gas turbine, diesel, and thermal plants—are needed to provide a more reliable supply to meet the rising demand for electricity.

Coverage for the lenders' loan to the project is being provided jointly by MIGA and the Asian Development Bank (ADB)—the first project-specific collaboration between the two institutions. "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."

Phu My 3 BOT Power Company Ltd. was set up by BP Holdings BV (a subsidiary of BP plc), SembCorp Utilities Private Limited SembCorp (SembCorp), and the consortium of Kyushu Electric Power Co., Inc. and Nissho Iwai Corporation. The total cost of the project was $412 million, funded by shareholders ($103 million), Japan Bank for International Cooperation ($99 million), ADB ($40 million), as well as the syndicate of international commercial lenders ($170 million).

This represents one of the largest foreign direct investments ever made in Vietnam. In addition to the project loan, ADB is providing $32 million in political risk guarantee. MIGA is providing another $138 million in political risk guarantees. Of this, $15 million is for coverage of the interest rate hedging instrument. Another $38 million is covering Singapore-based SembCorp Utilities Private Limited's Equity, and the balance covers principal and interest. Nippon Export and Investment Insurance is also covering political risk.

For MIGA, the importance of the deal goes beyond the opportunities accessed by the new coverage products. It is also an indication to the marketplace of the benefits of joint projects involving a number of multilateral development banks, and signals more such programs in Asia going forward.

VENEZUELA

MIGA Mediation Strengthens Insured Project

Purchasing a MIGA guarantee is not just about purchasing insurance. It is about choosing an agency prepared to help resolve any situation that endangers the viability of a project because of political actions.

MIGA's lawyers act as liaisons between investors and host governments, bringing their expertise not only to avert possible claims, but also to achieve mutually beneficial solutions to problems which could potentially halt or delay investments.

Over the past several months, MIGA's lawyers have acted as mediators for insured projects all over the world, and in the process, have helped host countries improve their standing with the international business community and create a more positive FDI climate. "We rely on the cooperation and the willingness of the concerned host country as a shareholder of MIGA to address the problems our clients might face," says Celina Penovi, MIGA's Senior Counsel.

Recently, for example, financial regulations enacted by the Venezuelan government were jeopardizing a number of projects guaranteed by MIGA. Trouble started in February 2003, when Venezuela's government issued executive decrees that imposed restrictions on foreign currency transfers by requiring them to be approved by a commission established for the administration of foreign currency, called CADIVI (the Comisión de Administración de Divisas).

Because of MIGA's early intervention, its clients were able to benefit from the enactment of measures that provided an exemption to the restrictions on foreign exchange transfers to projects guaranteed by multilateral institutions. But this was just a first step. In order to benefit from this pre-approval, each project had to be registered with CADIVI. "We helped our client banks in Venezuela, namely Citigroup and ABN Amro, to fulfill all the requirements and register their guaranteed loans with the Venezuelan authorities," said Penovi. "CADIVI staff was very cooperative on this matter and we were able to establish a very good working relationship."

Since banks must also notify CADIVI of any change in the registered loans' schedule of payments, MIGA's dialogue with the Venezuelan authorities continues to the benefit of clients. "We are grateful to MIGA's legal staff for their help in securing repatriations of ABN Amro – Venezuela's loan payments to Holland," says Roland Pladet, Vice President, Cross Border Structured Finance at ABN Amro Bank.

COURTING INVESTORS

New on-line resource gives developing countries tools to help them boost FDI: **www.fdipromotion.com**

The goal is straightforward: Encouraging foreign investment into emerging economies is good for economic and social development and poverty reduction. Guaranteeing investors against political risks is one way to do it. But just as important is helping developing countries to attract investors.

Earlier this year, MIGA launched a comprehensive resource to help clients stay up-to-date on the best ways of securing inward investment. The free, on-line knowledge facility (www.fdipromotion.com) is designed for an audience of investment promotion professionals, especially those in developing countries.

These clients use the FDI Promotion Center to develop highly segmented, sophisticated marketing programs to court potential investors, often in the manufacturing and service industries, to set up plants and facilities in their locations. The new resources are also available to other business promotion organizations, such as industry associations and chambers of commerce, as well as operators of free zones and industrial parks.

The centerpiece of the FDI Promotion Center is an updated Investment Promotion Toolkit, first published by MIGA in 2001, and previously available in print as a series of reference publications. The toolkit focuses on nine key aspects of investment promotion:

- understanding foreign direct investment
- setting-up an investment promotion agency
- creating a promotional strategy
- building partnerships
- strengthening the location's image
- targeting and generating investment opportunities
- investor servicing and aftercare
- monitoring and evaluation
- using information technology

The new Center also has additional tools such as case studies, sample presentations and advertising materials, guidelines and checklists, sample terms of reference, and sector or country-specific analyses. An investment promotion practitioner logging on to the site will find, for example, a pro-forma spreadsheet illustrating the financial and market analysis typically undertaken by an electronics firm reviewing alternative plant locations, as well as details of a successful program for conducting investor outreach to the textile and apparel industry in Southeast Asia.

FDI Promotion Center also offers a database of resources for researching potential target companies. An e-learning component, which will offer online courses covering various investment promotion disciplines, will be launched in the near future.

In addition to the new FDI Promotion Center, MIGA offers a suite of online information services for prospective foreign investors, including IPAnet (www.ipanet.net), FDI Xchange (www.fdixchange.com), and PrivatizationLink (www.privatizationlink.com).

MIGA IN **ROMANIA**

Fueling a Local Economy One Small Loan at a Time

Romania's Spectrum Industries s.r.l. does € 2,924,042 of business a year producing customized glass for doors and windows for residential and industrial use. This is a thriving market in Romania, where the construction sector, driven by the stable economic growth of the past few years, is rapidly expanding.

A five-year loan from Raiffeisen Bank Romania S.A. ("Raiffeisen Bank") enabled Spectrum to buy an 800,000 state-of-the-art glass tempering machine. This alone would not make news, but a few years ago, prior to the entry of foreign banks, borrowing to grow a small- or medium-sized business in Romania was nearly impossible.

According to a 2001 report (World Bank Technical Paper No, 499, April 2001), banking in transitional Romania has been characterized by poorly performing portfolios, lack of liquidity, little competition, weak capacity to service clients, and high fixed costs. In this environment, small- and medium-sized enterprises (SMEs) have found it difficult to access financing and meet the collateral requirements of banks.

The macroeconomic environment has been equally difficult. In general, Romania's transition since 1990 to a market economy

has been in many respects harder than that of other countries in the region. But a new government, in place since 2001, has been implementing growth-oriented reforms that are making the country more attractive to foreign investors. Over the past two years, Romania's economy has grown by 4.9 percent each year (and 5 percent average growth over 2001-2003). Still, further structural reforms are needed to build a truly competitive market economy that is capable of withstanding the pressures of prospective European Accession in 2007.

International players are helping to spur reforms in the financial sector and provide needed access to financing. One of these is Raiffeisen Bank Romania, created in 1997 and 99.35 percent owned by RZB, Austria's third largest banking group. RZB has a presence in 14 other Central European countries (Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, FYR Macedonia, Poland, Russia, Serbia and Montenegro, Slovakia, Slovenia, and Ukraine), and at fiscal year end 2003, had consolidated assets worth € 56 billion.

In 2001, RZB acquired Banca Agricola—a state-owned bank lending primarily to the agricultural sector—which was operating at a loss. The purchase gave RZB a large banking infrastructure, consisting of more than 200 branches across the country. Raiffeisen Bank straight away set about modernizing and transforming itself into a universal bank; restructuring its portfolio and cash management operations; recovering some of its non-performing loans and changing its client base. It also put a strong emphasis on client service. This turnaround was supported by long-term loans from RZB Austria, which were guaranteed by MIGA against political risks. By 2003, Raiffeisen Bank had recorded a net profit of €4.2 million and had become Romania's third largest bank in terms of assets.

RZB has been using MIGA's guaran-

tees since 2001 to support its strategy of expansion into Central and Eastern Europe. MIGA's coverage is an essential part of the bank's risk management policy for investment in the region. To date, MIGA has provided guarantees for more that 20 projects in Bosnia-Herzegovina, Romania, Ukraine, Serbia and Montenegro, the Czech Republic and the Russian Federation. The agency has formed a strong relationship with RZB, whose investments in the region are helping to strengthen the financial sector and provide liquidity to SMEs.

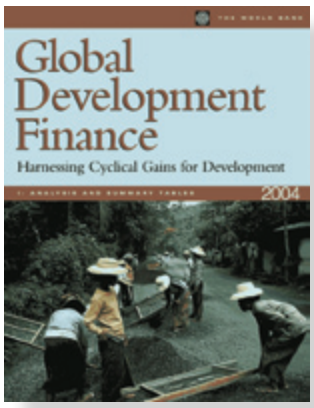
RZB loans to its Romanian subsidiary have infused much-needed capital into the local economy, particularly through SMEs, which were previously constrained in their growth by lack of funds. Additionally, Raiffeisen Bank is launching a corporate bond to be listed on the Bucharest Stock Exchange. This will attract new funds for the bank, as well as local investors, and will contribute to the development of Romania's capital market.

"In a few years of operations, RZB has fundamentally modified the traditional client base of Banca Agricola," says Magda Manea, Department Manager in the Corporate Banking Division. "After the acquisition, Raiffeisen Bank's lending portfolio went up from €30 million to €674 million in two years, about 70 percent of this was lent to SMEs—companies with a turnover of less than €15 million." In some cases, the turnover is as small as €300,000 and loans have been made to businesses for as little as €10,000.

"It is very important for companies to have enough liquidity to meet the increasing demand for their products; availability of credit is fundamental for the creation of a local industry," says Silviu Ioan Cristian, Spectum's General Manager. "The mentality is different in the financial community now that there is improved competition from foreign banks. When we decided to buy the glass tempering machine, we started looking for financing abroad, but went to RZB instead because it was cheaper and more convenient, but also because it offered a higher quality of service." With the new machinery, Spectrum is expecting to double its turnover in 2004.

Another of Raiffeisen Bank's SME clients since 2001 is Vostrade Romania, an Austrian-German distribution company based in Bucharest. The company started its operations as a distributor and technical assistance provider for the water-based painting and coating industry in 1998, and has been expanding its activities steadily ever since. Today, Vostrade has six permanent employees and a turnover of €1.4 million. Just as important, it has been promoting environmentally-friendly practices in Romania. "We try to introduce new ideas into the markets," says Oana Grigorescu, the 28-year old General Manager of Vostrade. "For example, we have been promoting environmentally-friendly paint and our clientele for the products has been increasing."

Altipo Construction Ltd. imports and assembles windows made from polyvinyl chloride and aluminum with double glass sealing. Altipo's operations began in 1997 with three employees. Today, it has some 80 employees and an annual turnover of €1.6 million. "This is a fast growing business because there are many old buildings in Bucharest that need new windows," says Sorin Boureanu, Altipo's General Manager. "Small companies like us face a growing demand and need fast access to financing, but we cannot always provide the collateral banks want. RZB provided us with the flexibility we needed; they were willing to look at alternative solutions."



Global Development Finance

CHALLENGE IS TO SPREAD GAINS IN CAPITAL FLOWS TO MORE COUNTRIES

*By Mansoor Dailami**

Net private capital flows to developing countries as a whole rebounded to $200 billion in 2003, up from $155 billion in 2002. That is good news, but unfortunately, only a few relatively better-off countries are sharing most of the gains. Meanwhile, official development assistance (ODA), on which the poorest countries depend for external capital, has increased only marginally to $58 billion in 2002, a $6 billion hike from 2001.

The increase in net private flows — bonds and bank loans — most of which went to Brazil, China, Indonesia, Mexico and Russia, is the major factor in an overall increase in net capital flows to developing countries from all sources, public and private, to $228 billion in 2003 from $190 billion in 2002. These increases, which reached every region, to some extent, except the Middle East and North Africa, are due partly to low interest rates in the industrial countries, and reflect a strengthening global economic recovery. They have also been prompted by sounder fiscal policies in many developing countries, as well as structural reforms.

As a whole, the developing and transition countries ran current account surpluses in 2003 totaling $76 billion, or about 1.1 percent of GDP. These surpluses—again, concentrated in relatively better-off countries such as Russia, China and Saudi Arabia—now coincide with a large buildup of a few developing countries' reserves totaling more than $1.2 trillion. China, India and a few others account for a large proportion of these reserves and have invested large volumes in the financial markets of developed countries.

This shows deepened interdependence in the world economy, with global capital flows, trade and exchange-rate policies more intricately linked than ever before. But the key challenge that remains is to increase these flows more broadly in a way that is sustainable, which requires channeling them to countries with good policies and into investments that spur long-term growth and poverty reduction. For example, investments are urgently needed in infrastructure, as well as trade finance in developing countries.

For example, the increase in private capital inflows offers significant opportunities for developing countries to invest in infrastructure and facilitate trade finance to foster a self-reinforcing cycle of sustained capital flows, economic growth and poverty reduction.

Since 1997, every important measure of infrastructure finance to developing countries—total external finance, project finance, and investment with private participation—has declined by at least 50 percent. This downturn, led by the East Asia, Russia and Brazil crises of the late 1990s, has been accentuated by retrenchment by major commercial banks, and a weakening of the global infrastructure industry in 2000 and 2001.

But infrastructure needs in developing countries are both pressing and largely unmet. About 1.1 billion people do not have access to safe drinking water, 2.4 billion do not have adequate sanitation, and 1.4 billion have no power. The cost of needed infrastructure investments in developing countries is estimated at $120 billion a year from now to 2010 in the electricity sector, and $49 billion a year up to 2015 for water and sanitation.

Developing countries should seek to tap international capital to meet this demand for infrastructure financing by, among others, establishing transparent rules with the assurance that contracts will be respected, strengthening local capital markets, developing public-private risk mitigation instruments, and helping public providers of infrastructure services achieve commercial standards of creditworthiness. Multilateral agencies, including the World Bank, can help support countries in pursuing these reforms.

As trade accounts for about one-half of the gross national income of developing countries, financing that trade is important to a country's development prospects. Trade finance, provided by commercial banks, export credit agencies, multilateral development banks, suppliers and purchasers, has fluctuated since the early 1980s, but on average its growth has been about 11 percent a year. In 2003, trade finance commitments by international banks totaled $23.7 billion. Countries and multilateral agencies need to work to further increase trade finance, especially for poor countries. Such financing eases creditors' risk as it is tied to the traded goods, and can help pave the way for poor countries to gain broader access to financial markets.

For more information on Global Development Finance and other World Bank publications and research papers, go to www.worldbank.org.

** Mansoor Dailami is lead author of the World Bank's Global Development Finance Report for 2004, entitled Harnessing Cyclical Gains for Development.*

2004 GUARANTEES ISSUED THIRD QUARTER

Investor	Investor Country	Host Country	Sector	Gross Coverage ($ m)
Raiffeisen Zentralbank Österreich AG, Raiffeisen A.S.	Austria	Serbia and Montenegro	Financial	24.5 *
Raiffeisenverband Salzbug	Austria	Russian Federation	Financial	56.0 *
Raiffeisen Zentralbank Österreich AG	Austria	Russian Federation	Financial	28.5
Standard Corporate and Merchant Bank	South Africa	Mozambique	Oil & Gas	113.5 *
BACA (HVB Bank Bosnia & Herzegovina DD)	Austria	Bosnia and Herzegovina	Financial	20.4 *
BACA (Central Profit Banka DD)	Austria	Bosnia and Herzegovina	Financial	20.4 *
Fatoglu	Turkey	Azerbaijan	Manufacturing	0.3
Hypo Alpe-Adria Bank	Austria	Serbia and Montenegro	Financial	10.6
Hypo Alpe-Adria Bank	Austria	Bosnia and Herzegovina	Financial	5.9

** Represents more than one contract.*

MIGA Gets New Organization, Structure, and Senior Management Team

On May 7, MIGA implemented an agency-wide reorganization designed to streamline business operations and integrate more effectively technical assistance and guarantee products. Said Executive Vice President Yukiko Omura, "We need to adapt our organizational structure, products and services, analytical tools, external outreach and approaches to operational and risk management to a changing operating environment and evolving client needs."

Omura has "flattened" the organization and management structure of MIGA and has indicated that the agency will continue to re-think business models and systems, to look for new ways to minimize costs and maximize value for clients. She has also put a very strong emphasis on MIGA's relationships with partners, including donors and insurers. There will be much closer links with the World Bank Group, which gives the agency its unique advantages for both investors and host countries.

Under the new plan, MIGA is organized into five groups, led by the Agency's senior management team:

- A new Operations group, headed by Tessie San Martin, combines MIGA's guarantees activities and technical assistance programs. It will have both a sectoral and regional focus; underwriting operations, organized by sector and regional groups, will provide the technical assistance components of the business (see contacts below).
- The Legal Affairs and Claims group, headed by Luis Dodero, will continue to assist member countries on legal matters pertaining to MIGA and foreign direct investment, mediate investment disputes and oversee all of MIGA's legal and claims work.
- A new Economics and Policy group, headed by Frank Lysy oversees MIGA's work on assessing development impact, reviewing project risks, and ensuring that MIGA's operations are supportive of World Bank Group country strategies.
- Amédée Prouvost will continue to lead the Finance and Risk Management group, continuing the work he started two years ago to bring MIGA to the point where it can rely on a comprehensive and integrated risk management framework.
- A new External Outreach and Partners group is incorporating investor outreach activities, trust funds, communications, partnerships and online information products and services, and is headed by Moina Varkie.

"We are moving into a more complex period in MIGA's history, operating in a global environment that has changed fairly dramatically in the last three to four years," says Omura. "In that light, we need to reassess our role in the market and our relationship with clients and partners. We can bring more added value to our developing member countries if we focus on extending the reach of other insurers in frontier markets; being innovative in terms of how we integrate environmental/social practices in our work, and provide technical assistance to countries and investors."

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