Multilateral Investment Guarantee Agency
World Bank Group

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AGENCY REPORTS strong results in fiscal 2001

PROGRESS SEEN IN PRIORITY AREAS

Innovation and flexibility were the hallmarks of MIGA's fiscal 2001 performance, which led the agency to record results in bringing foreign direct investment into the world's poorest economies. "This has been an exceptionally rewarding year on multiple fronts, and I'm pleased to report that we have met or exceeded all of the goals we set out," said the agency's Executive Vice President, Motomichi Ikawa.

MIGA's efforts over the year concentrated on five priority areas: the world's poorest countries, especially in Africa, small- and medium-sized enterprises, investments between developing countries, complex infrastructure projects, and targeted technical assistance to help countries market their investment opportunities.

GUARANTEES MAKE THEIR MARK

Despite a recent downturn in FDI into developing countries, prompted by a slowing global economy, MIGA's guarantee program reached a record $2 billion in coverage against non-commercial risks over the fiscal year. Another $153 million was issued under the agency's Cooperative Underwriting Program, a form of coinsurance in which MIGA is the insurer-of-record among other participating insurers.

"MIGA continued to lead the way in facilitating investment in the countries that need it most, and ensuring the developmental impact of these investments," said Ikawa, who emphasized that all projects are consistent with the World Bank Group's country assistance strategy and receive the approval of each host country.

Of the 46 projects covered in 28 developing countries, 18 (or 38 percent) are for small- and medium-sized enterprises, 18 are in the world's poorest countries (those eligible for aid from the International Development Association, or IDA), eight are in Africa, and eight are cross-border investments between developing countries.

Projects in sub-Saharan Africa account for 12 percent of MIGA's outstanding gross portfolio and over 13 percent of the net portfolio, compared with the 1 percent share of overall FDI that flows into Africa as a whole. While the region accounts for the same share of the portfolio as last year, the number of projects is growing—up by two over fiscal 2000—reflecting an ongoing effort to cover smaller investments in the region. Today, Tanzania and Mozambique are among the top ten countries benefiting from MIGA's insurance.

See RESULTS, p. 8

MIGA: SETTLING DISPUTES THROUGH mediation

Disputes over foreign investments date at least to the ancient Sumerians. And while lawsuits to resolve such disputes have been available for more than 2,000 years and formal arbitration for 100 or so years, until recently there was no facility to which foreign investors or sovereign states could turn for informal professional assistance in resolving their disputes. That is, until 1996 when MIGA began offering mediation services to help governments and foreign investors find creative solutions to their disagreements.

See MEDIATION, p. 2

MEDIATION from page 1

Dispute resolution in itself is nothing new at MIGA. As a member of the World Bank Group, the agency routinely provides an umbrella of deterrence against government actions that could disrupt insured investments and influences the resolution of potential disputes, which enhances investor confidence in the safety of investments. This is key to MIGA's underlying goal: to promote the flow of foreign direct investment into developing countries.

"But in addition to making investors feel comfortable, we also want to make sure the investment climate is attractive, so we work with countries to remove the obstacles to the flow of foreign investment," explains agency Vice President and General Counsel, Luis Dodero. "One of these obstacles is the existence of disputes between investors and their host countries."

Investment disputes can entail a government being accused of breaching a company's purchase agreement or expropriating an investor's concession, or an investor being accused of violating its contractual obligations to the host country. Both sides disagree about which is at fault and about how the damaged party should be compensated. "MIGA uses its 'good offices' in these cases to help the parties reach an agreement," says Dodero.

MIGA's involvement in mediation began with a phone call from the U.S. Department of State, which was looking for help in resolving a maritime boundary dispute among several African countries that was scaring away oil investors. The drafters of MIGA's charter were aware that unresolved disputes between investors and countries could be just as much an obstacle to foreign investment as political risk or an unsatisfactory investment climate, and MIGA was specifically directed to "encourage the amicable settlement of disputes." MIGA took action on the case and found that in mediation it had developed another successful way of promoting investment.

Other institutions, such as the World Intellectual Property Organization and the International Centre for the Settlement of Investment Disputes, another member of the World Bank Group, provide formal and structured dispute resolution services, largely through arbitration. "But as far as I know, MIGA is one of very few institutions that mediate investment disputes, working with both parties until they find a way to settle their differences themselves," says Dodero.

Mediation is an alternative to litigation, which isn't always feasible, especially when a foreign investor doesn't even know who to sue, explains MIGA's Principal Counsel and head of its mediation service, Lorin Weisenfeld. And it's not always attractive, considering the high costs and amounts of time usually involved in arbitration and other forms of litigation. In fact, a case mediated by MIGA involving a water purification project in Latin America was settled in just over a year, while other investors with virtually identical cases who opted for litigation have well passed the one-year mark without resolution.

"There seems to be a clear gap in the international law remedies available to the claimants whose cases we have accepted," says Weisenfeld. "Mediation fills this gap."

A mediator is a neutral third party who understands the issues, enjoys the confidence of both parties, and brings them together to resolve their differences, notes Weisenfeld, who jokingly likens the job to that of a marriage counselor. There are few rules beyond good faith participation, and the process itself is informal. That could mean meeting in a conference room in a government building, over dinner in a local restaurant, or in a hearing room.

Keeping the process moving and the parties focused on finding a solution is a very time-consuming job. With such a small mediation team (see story on p. 3), Weisenfeld finds himself on the road for about six months a year: "You have to keep going back to persuade the parties that a settlement is in their best interest." But reaching a solution isn't the hard part, he says. It's getting the parties to agree to the need to mediate that's difficult.

Usually, it's the investor, which can be a company or an individual, that contacts MIGA through diplomatic channels, but in some cases it's the host country authorities.

Regardless of who the claimant is, MIGA satisfies itself that the dispute is of sufficient significance to jeopardize the country's ability to attract foreign investment. Cases of lesser importance are rejected.

"Certainly if there's a festering investment dispute, investors are going to be scared off," says Weisenfeld, "so it's in everyone's interest to resolve the issue. Our hope is that the resolution of the disputes we work on improves the country's investment climate, which complements nicely MIGA's efforts to make a country more successful at attracting investment."

MIGA has resolved eight cases since it began offering its mediation services and currently has active cases in a dozen different countries. Ethiopia, where MIGA is involved in more than 70 disputes, is an exceptional case.

"One of the most challenging problems we've worked on involves the expropriations by Ethiopia's Mengistu regime 27 years ago of all assets owned by foreign investors," Dodero explains. "Although the government solved some of these cases, a number of them are still pending. The government is well aware of the problem and has appointed MIGA as mediator of these disputes."

Mediation of investment disputes is akin to diplomacy, Weisenfeld says. In addition to the particular facts of the dispute at hand, a mediator needs to negotiate the tricky waters of national sovereignty, the hesitation or disinclination of some countries to deal with troubling cases, private lawyers with different agendas, and an array of unexpected cultural and political issues. Given this, few institutions would seem better suited than MIGA to offer investment dispute mediation.

Weisenfeld points to a case involving a Danish investor and the Ghanaian government as particularly satisfying. In that case, the Danish entrepreneur claimed that improper government interference in the management of two agricultural processing ventures had led to their collapse in the late 1980s. The government cited shareholder negligence and misfeasance as the issues. After nearly a decade of recriminations, the matter was referred to MIGA, which organized a mediation panel composed of a leading Ghanaian jurist and MIGA's Weisenfeld. Following a week of hearings in Accra, the panel found elements of fault on both sides. The investor received limited compensation and the Ghanaian government a partial exoneration. "But the real winner in the end was the country of Ghana, which sent a strong signal to investors that it takes its investment climate seriously," says Weisenfeld.

"Our mediation services constitute one more tool among those used by the World Bank Group to fight poverty," Dodero concludes. "Any activity focused on eliminating impediments to foreign investment in poor countries will help to develop the private sector in these countries."

meet the mediation team

Company A receives a license to operate a telecommunications network in Country B. Under the license, the company has to meet certain contractual obligations, such as improving the quality of transmission. Company A falls short on its promises but denies any wrongdoing. Country B starts looking for fast, inexpensive ways to resolve the dispute.

Enter MIGA and its mediation team: Vice President and General Counsel Luis Dodero, Principal Counsel Lorin Weisenfeld, and Legal Consultant Paloma Baena. Together, this triumvirate helps countries and investors around the world settle their investment disputes. (See Mediation story on p. 1.)

"MIGA's founders knew that unresolved disputes between investors and countries were as much an obstacle to foreign investment as political risk or a bad investment climate," says Dodero, a Spanish citizen who joined MIGA in 1989. "That's why our charter directs us to encourage the amicable settlement of disputes."

Dodero is an expert on investment and export credit insurance; claims negotiation, settlement, and recovery; and international commercial law. Prior to joining MIGA, he served as deputy general manager and general counsel at CESCE, Spain's export credit agency, and acted as claims legal advisor to the agency's predecessor. As a member of Spain's delegation to the Paris Club, Dodero negotiated more than 50 bilateral agreements on debt rescheduling for less developed countries. He holds a law degree from the University of Madrid, in addition to diplomas from various English, Spanish, and American institutions.

US national Lorin Weisenfeld, head of the mediation service, also came on board in 1989. In addition to his mediation work, Weisenfeld helps MIGA design its insurance operations. A former assistant general counsel at the Overseas Private Investment Corporation, Weisenfeld worked there on project financing, loan negotiation, insurance contracts, guaranty negotiation, and dispute resolution. Weisenfeld served as vice president and chief operating officer for a global title insurance company. He also brings to the post his background with the International Legal Center, where he worked as Director for Latin America, and experience teaching at the University of Costa Rica, where he studied as a Fulbright Scholar. Weisenfeld has degrees from Hamilton College, the University of Paris, and Harvard Law School.

Rounding out the team is Paloma Baena of Spain, whose focus is the mediation of disputes in Ethiopia. Baena also analyzes foreign investment legal frameworks and drafts and reviews guarantee contracts. She joined MIGA following two years as a senior consultant with Pricewaterhouse Coopers in Madrid. Baena has a law degree from Complutense University and a bachelor's from Aix-Marseille III in France.

PHOTOS | **clockwise from top,** Luis Dodero, Lorin Weisenfeld

REVAMPED **PRIVATIZATION WEB SITE**

Links Investors to Emerging Markets

The newly relaunched PrivatizationLink, MIGA's free online information service on privatization investment opportunities in emerging markets, features significant content and function upgrades, as well as enhanced design and navigation.

The revamped PrivatizationLink (www.privatizationlink.com), a finalist in the 1999 Financial Times Business Web Site of the Year competition, now offers country factsheets detailing privatization programs within individual countries. Another unique new feature is the best practice collection of reports, studies, and articles on trends and leading-edge practices in privatization.

PrivatizationLink's main feature remains its up-to-date, searchable database on upcoming privatization transactions—along with profiles of state-owned enterprises being divested and country-specific information on the bidding procedures and environment for foreign investment.

"PrivatizationLink has helped us to reach out more effectively to foreign investors and has contributed to several successful transactions," says Vardan Arakelian, head of Public Relations and Information at the Ministry of State Property Management in Armenia.

Two other additions include a Practitioners' Corner, designed to support those involved in structuring transactions, and an Investors' Corner, which users can personalize to monitor the investment and advisory opportunities according to their sector or geographic interests.

"The redesign is the result of an in-depth review that included an online survey of PrivatizationLink users, as well as a focus group of core stakeholders from the privatization community," says Karin Millett, MIGA's director of Investment Marketing Services. The survey, completed by some 500 corporate investors, investment intermediaries, and government officials involved in privatization, helped identify priorities for content and functional enhancements to the site.

The survey also reconfirmed the site's contribution to facilitating concrete transactions and networking among users.

PrivatizationLink works with privatization agencies in more than 70 developing countries to provide hundreds of profiles of enterprises being offered for sale to domestic and foreign investors. This content comes bundled with links to relevant resources such as sector and business environment analysis from the Investment Promotion Network—www.ipanet.net, MIGA's portal site for international corporate investors—privatization news from Northern Light, and overviews of relevant MIGA guarantee activity. The site also furnishes contact information on over 8,000 privatization professionals and potential investors through a searchable online directory.

guarantees **ISSUED**

third & fourth 2001 quarters

Guarantee holder	Investor country	Host country	Sector	Gross exposure (US$M)
Unión Fenosa Internacional S.A.	Spain	Moldova	Infrastructure	61.09
Lloyds TSB Bank, Plc	UK	Panama	Financial	3.30
Agro-Industrial Investment and Development, S.A.	Panama	Guinea	Agribusiness	9.00
Raiffesen Zentralbank Österreich AG	Austria	Bosnia and Herzegovina	Financial	3.80
Pamubank T.A.S	Turkey	Kazakhstan	Infrastructure	15.96
Fintur Holdings B.V.	Netherlands	Kazakhstan	Infrastructure	1.84
Pamubank T.A.S	Turkey	Kazakhstan	Infrastructure	5.70
International Water Services, B.V.	Netherlands	Ecuador	Infrastructure	18.00*
Banco Santander Central Hispano S.A.	Spain	Colombia	Financial	100.00
Desco AB	Sweden	Angola	Services	1.01
Sena Development Ltd.	Mauritius	Mozambique	Agribusiness	30.68*
Société Marromeu	Mauritius	Mozambique	Agribusiness	5.75
Sena Holdings Ltd.	Mauritius	Mozambique	Agribusiness	22.18
Industrial Development Corporation of South Africa	South Africa	Mozambique	Agribusiness	6.40
Victory Oil Co.	Netherlands	Russia	Oil & Gas	100.00
Banco Santander Central Hispano S.A.	Spain	Argentina	Financial	11.14
Unión Fenosa Internacional S.A.	Spain	Guatemala	Infrastructure	96.57
Commercial Bank of Greece	Greece	Albania	Financial	7.02
ECI Telecom Ltd.	Israel	Brazil	Infrastructure	20.00
Mitsubishi Corporation	Japan	Zambia	Manufacturing	2.36*
Habib Bank AG	Switzerland	Pakistan	Financial	2.70
International Dialysis Centers B.V.	Netherlands	Bosnia and Herzegovina	Services	1.28*
Banco Santander Central Hispano S.A.	Spain	Brazil	Financial	200.00
Wings of Papagayo	USA	Costa Rica	Tourism	16.40
Constructora Norberto Ödebrecht	Brazil	Ecuador	Infrastructure	150.00
Wesdeutsche Landesbank Gerozentrale	Germany	Philippines	Infrastructure	82.00
Egis Projects S.A.	France	Philippines	Infrastructure	5.00
Öesterreichische Volksbanken AG	Austria	Romania	Financial	86.28
Kreditanstalt für Wiederaufbau	Germany	Argentina	Services	25.30
Hamburger Hafen- und Lagerhaus Aktiengesellsschaft	Germany	Argentina	Services	1.62
Banque Belgolaise	Belgium	Togo	Agribusiness	6.24
Joseph Fermon	France	Togo	Agribusiness	1.18
Mitsui & Co., Ltd.	Japan	Peru	Services	1.00
Mitsui & Co. (U.S.A.), Inc.	Japan	Brazil	Services	5.00
Banco Santander Central Hispano S.A.	Spain	Argentina	Financial	200.00
Raiffeisen Zentralbank Österreich AG	Austria	Romania	Financial	47.73
Hypo Alpe-Adria-Bank AG	Austria	Bosnia and Herzegovina	Financial	21.93*

* Represents two contracts.

MIGA HELPS African Trade Insurance Agency kick off

Despite significant economic liberalization, Africa accounted for less than 1 percent of global FDI flows in 2000, according to recent estimates from the United Nations Conference on Trade and Development. A new effort, supported by MIGA, is underway to address the issue: The nascent African Trade Insurance Agency, or ATI, set to formally launch in August 2001.

The ATI's main function will be to provide insurance against a host of non-commercial risks—such as trade embargoes, expropriation, and seizure of goods—to facilitate trade and investment into Africa, and from African nations into other parts of the developing world. The new agency will be based in Nairobi.

Membership is open to all African countries, with the initiative being launched by Burundi, Kenya, Malawi, Rwanda, Tanzania, Uganda, and Zambia. Other African countries (Egypt, Mozambique, and Madagascar) have already expressed interest in joining.

MIGA has been working behind-the-scenes over the past few months to help get the new agency up and running. "We know there's huge potential for investment and growth in the region that's going unfulfilled because of perceptions of political risk," explains MIGA's Ivan Rossignol, who has led the creation of ATI from the field as part of a staff exchange program. This role follows a one-year exchange with the Common Market for Eastern and Southern Africa, during which he worked with regional private sector and government representatives to promote the use of guarantees as a means of attracting foreign direct investment.

The International Development Association, the soft-loan arm of the World Bank Group, is providing the new agency with a $105 million loan, which will allow it to provide insurance at lower costs than existing insurers.

PHOTO | Ivan Rossignol, seconded by MIGA to the African Trade Insurance Agency in Nairobi

The new agency will also be working with private risk insurers to provide insurance products tailored to market needs, and has appointed a Lloyd's underwriter as its first managing director.

"By addressing head-on the risk perceptions of firms doing business in Africa, this African-led initiative is an important step in increasing the continent's share of FDI flows," says MIGA's Executive Vice President, Motomichi Ikawa.

MIGA holds training for **LATIN AMERICAN** investment promotion agencies

TIPS EMPHASIZE INTERNET AS LOW-COST RESEARCH TOOL

Investment promotion experts from across Latin America visited MIGA's Washington, DC, headquarters earlier this summer to pick up the latest tips on targeting those most likely to invest in their countries.

"One of the greatest challenges faced by investment promotion agencies is not just how to effectively target their investment promotion efforts, but to do so in a cost-effective manner," says MIGA's Rodrigo Ortiz, who co-organized the event with colleague Damien Shiels.

With these needs in mind, MIGA's investment promotion experts designed a 10-day course on conducting market and investor intelligence, with a particular focus on low-cost, Internet-based research. The workshop attracted participants from Latin American countries where MIGA currently has assistance programs in the works, including:

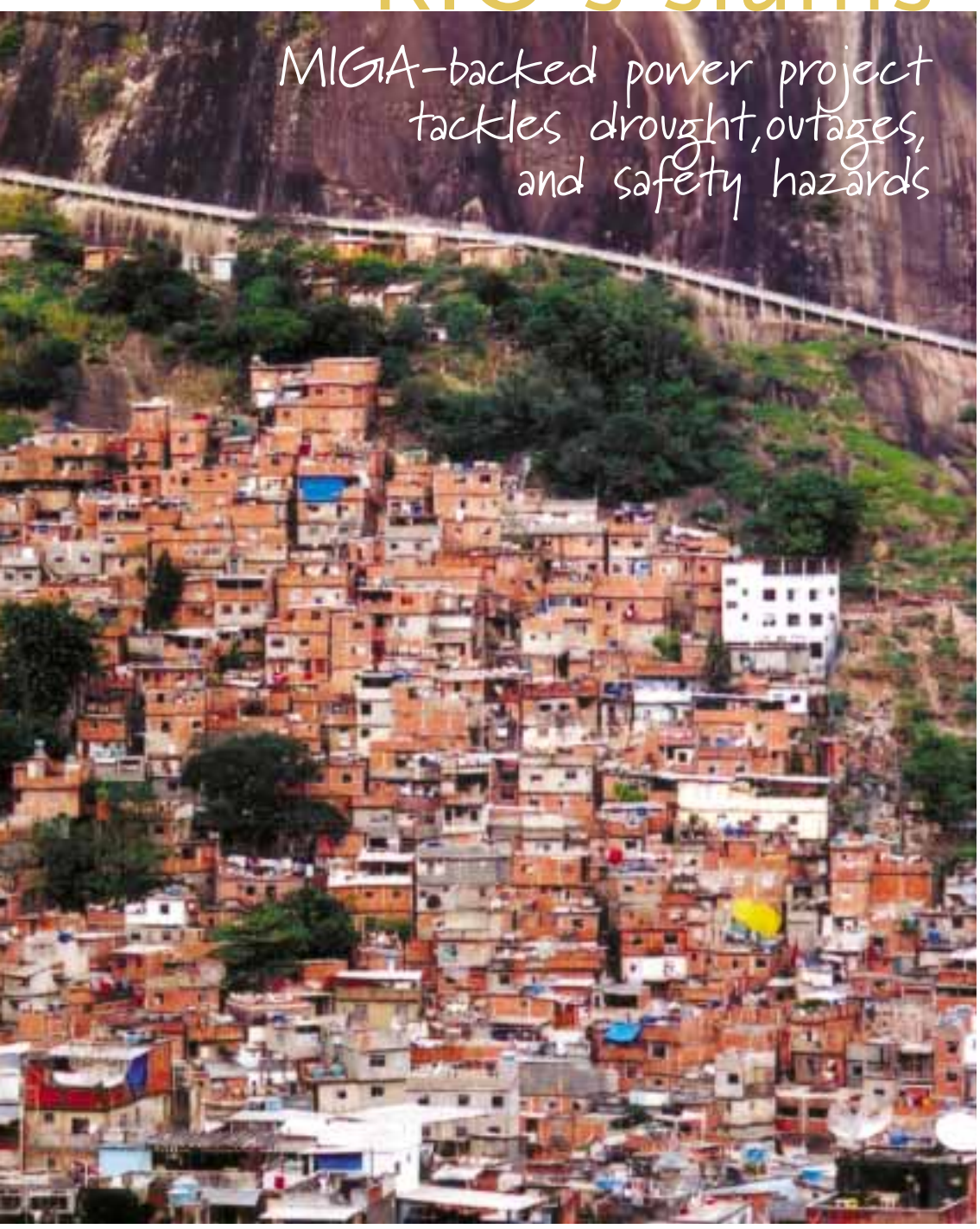
- Bolivia, where MIGA is working with various development organizations on implementing a targeted program that will focus on promoting investment in the apparel, textile, jewelry, agro-industry, woodworking, and export service sectors.
- El Salvador, where the agency has been working to develop on an overall strategy with PRO.ESA, the government investment promotion agency, since December 2000.
- Guatemala, where MIGA has helped establish PROGUAT-Invest, a new investment promotion agency.
- Nicaragua, where MIGA designed a long-term assistance program to be implemented in conjunction with the World Bank's lending operations.

The program introduced country participants to market research techniques and training in the use of print and online resources available through a spectrum of industry and company databases and Web sites, including those of the World Bank.

"The training not only complemented technical assistance and capacity-building efforts underway with each national agency, but provided an opportunity for participants to develop new networks of colleagues within the region, paving the way for potentially valuable approaches to regional promotion," says Shiels.

BRINGING LIGHT TO

RIO's slums



MIGA-backed power project tackles drought, outages, and safety hazards

Power outages, fire, electrocution, unfulfilled economic opportunities…These are the unfortunate facts of life for residents of Rocinha, one of Latin America's largest and oldest slums, where a lack of electricity and illegal connections affect life at the most basic level. There's no one answer to the problem, but a concerted effort to deal with infrastructural inadequacies, provide essential services at low cost, and educate residents about proper power usage is making inroads, here and in other slums in Rio de Janeiro.

The service is being provided by Light Serviços de Electricidade SA, Rio's main power provider, as part of an ongoing program to upgrade the city's electricity transmission and distribution systems. The latest effort falls under a $200 million non-shareholder loan made by Citibank NA on behalf of a syndicate of banks, a portion which is covered against the risks of transfer restriction and expropriation by a MIGA guarantee. The project is especially timely, given Brazil's current energy crisis.

THE DROUGHT

With one of the most extensive river networks in the world, Brazil obtains more than 90 percent of its electricity from dams, and has invested little in alternative sources of energy. The current drought is creating one of the worst power shortages the country has faced in decades. Lights on streets, in offices, and homes are dimmed or switched off as Brazilians rally, in the face of penalties, to reduce power consumption by 20 percent.

The crisis has mobilized Light to add a new element to its work to improve its power distribution: a massive energy conservation campaign that uses public service announcements, letters and fliers, billboards, TV and radio spots to teach people ways to save energy and cut costs. A call center fields customer queries on the crisis.

The messaging is important to all Brazilians, who have been asked to reduce power consumption by 20 percent (against consumption during a three-month period in the previous year) until the rains replenish dwindling water supplies. Those who don't comply may receive a surcharge and risk having their power cut. Those who do comply will receive a bonus. Compliance in early June was at 18 percent.

"Light is investing a lot to make people conscious of how serious the issue is and how to save energy," says Vasco Barcellos, head of Investor Relations. In addition to environmental reasons, Light has a big incentive for doing so: distribution companies have been charged with compliance monitoring and will have to reconnect those who don't comply, at extra cost to the companies.

"The power crisis is changing people's habits," says Barcellos. "It is imposing certain limits, but people know it's better than having blackouts, which would be pretty traumatic."

Nor is the Brazilian economy, which has seen a slowdown in output because of the crisis, immune to the problem. The government is now considering the possibility of offering one day off of work a week to help address the issue.

For residents of Rocinha, where a lack of a electricity affects lives at the most basic level, this is not an unusual hardship. Here, Light is taking its campaign one step farther, dealing with infrastructural inadequacies in addition to educating residents about proper power usage.

SERVING LOW-INCOME CLIENTS

In September 1997, Light created the Program for Normalization of Informal Areas. PRONAI, as it's called, aims to provide safe, legal power connections in the city's "favelas" (slums) and other low-income communities by establishing and upgrading power networks, and by installing transformers and meters.

Educational activities are a fundamental component, aiming to improve the quality of life of those living in the poorest areas of Rio. And for favela residents, the program doesn't just provide a steady, safe source of power; it also documents proof of residence, necessary for getting a phone and establishing credit, in addition to other benefits.

Based on household income, rate of consumption, and number of appliances, some 8.5 percent or 280,000 of Light's customers are considered low-income. The recent power crunch has added a new urgency to the program, which in 2000 reached out to about 150,000 new low-income clients. By 2005, Light expects to be present, through the PRONAI program, in 728 slums and 594 low-income communities and

"irregular" areas—those with unregistered connections or "doctored" meters—adding some 176,000 new clients. In 2000 alone, 43,000 irregular connections were normalized.

Program coordinator Marcia de Moraes Coutinho, with 20 years of experience working in the favelas, moves confidently along the winding streets and paths of Rocinha, one of Latin America's largest and oldest slums. Rocinha is home to 25,000 families, whose average income is R$200 a month. Set against the breathtaking backdrop of Rio's famous camel-hump mountains, the slum dwellers' ramshackle homes are built wherever there is a patch of land or anything stable enough to anchor a foundation. Plastic tubing carries water along rooftops, criss-crossing the bundles of wires, or "gatos," that run haywire throughout the community as they carry sporadic electricity, often illegally, into the dwellings.

The PRONAI program, begun last year in Rocinha, picks up on work supported by the World Bank in the early 1980s to bring power to the favela. Coutinho says the program is really three-pronged, aiming to "normalize" transmission lines and connections, remove safety risks, and educate people about safe power use and conservation.

"People don't know the power lines are dangerous," she says. "They build their houses too close together, which makes it impossible for a fire truck to get through when there is a fire caused by the lines. Just the other day, 200 houses burned down in one of the local favelas." Another real danger is electrocution, which is a fact of life in the slums. "A simple, cheap solution might turn out to be very expensive," she says.

PRONAI has 16 technicians and engineers on the job, contracts 400 construction workers, and employs some 35 Light staff members. As in the other 250 favelas that Light has already tackled—usually those with the most egregious infrastructure problems—the Rocinha program also works hand-in-hand with local nongovernmental organizations to make sure people understand what the effort entails and to get their buy-in. Coutinho talks with the community association presidents (each neighborhood has one). Local students, usually in their teens, are trained to be "Light Agents," who reinforce the message by going door-to-door and talking with each family. They also make presentations and hold community meetings, in addition to taking stock of the current situation, which is important in determining what steps the company needs to take.

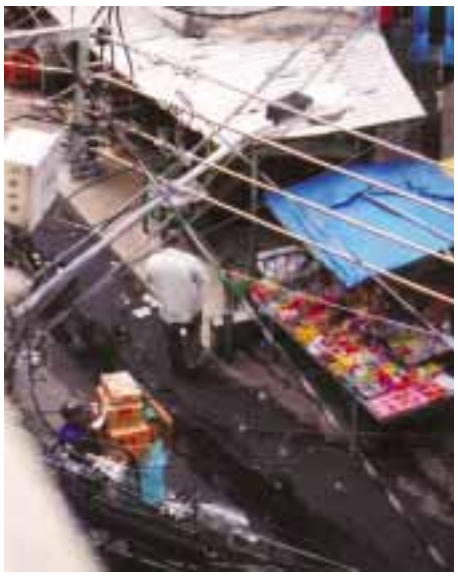
In its latest endeavor, PRONAI is working with Rocinha XXI, a growing nonprofit organization in the foothills of the slum. At the top of a narrow stairway, a long white room is filled with young people sporting green and white Light T-shirts. They sit at a wooden table reviewing their work programs as a special Light hip-hop song blasts in the background, proclaiming the benefits of safe, legal connections.

Among them is Déo Pessoa, a 29-year-old field assistant. Pessoa knows a lot about Rocinha. He grew up there. His father was president of the municipality. His parents, who have since moved, lived there since the 1970s. "We have it in our blood," Pessoa says, whose job it is to help explain the program to local residents. It's not too hard of a sell, he says: "The people here want the program. They know it's for the betterment of the community. There's a great need here for this type of service. Since I was little, I've witnessed the community's economic and social development. Light is a private business, but it gives us a good, essential product."

Local resident Sandra, 33, who runs a small grocery shop overlooking a sharp precipice, agrees. A lifetime resident of Rocinha, she says the program is "legal," using a play on words to say it is literally legal as well as "cool." "With a meter and connections," she says, "we will not have problems with power shortages. Now things will be better."

After the company installs the power network, each resident is connected to the service and a meter is installed. For low-income residents, the connection costs about $30, providing a 42 percent discount for low-income clients. Light has a microfinance program that allows residents to make 24 payments of R$3 to cover the expense. "It takes each neighborhood about five years to generate a profit," Coutinho says.

The setup is a major change for residents, about half of whom are estimated to be siphoning off power illegally. "Stealing power in Brazil is a socially acceptable crime," says Coutinho. "It's very easy to doctor meters. Of course it's illegal to steal power, and we could ask for three years of back-payment, but PRONAI wipes the slate clean." For Light, the main benefit is that the program will help reduce power losses.



To Coutinho, the effort boils down to something very human: "People need to live in better conditions. This program brings electricity into homes, on a steady basis, which makes life easier and safer. It plays an important role in helping the local economy, by allowing cottage industries, such as seamstresses, to work at home, and giving them the address that is needed to get credit. It also gives them a sense of citizenship."

The program takes good corporate citizenship to another level, donating furniture and equipment, and funding language, computer, and college preparatory training in local community centers. The college entry training is going strong. In its first year, 60 students passed the test. Last year that number was 240, for an average of 80 percent getting into university, including some of the most competitive.

A measure of success of any effort is whether it is good enough to be replicated elsewhere. PRONAI's development impact has been so significant that it is being extended to another 500 or so favelas in Rio alone, and even into other states.

PHOTO | clockwise from top, Rocinha resident Sandra, with sons (l-r) Zé Carlos, 12, and Julio, 8, says power shortages are an everyday event. New meters with special locks installed by Light technicians are expected to deter energy theft. Brazil's favelas are rife with safety hazards that stem from illegal power connections known as "gatos."

THE COMPANY Light Serviços de Electricidade SA has 3.4 million customers in the 30 municipalities it serves in the state of Rio de Janeiro. With more than 5,000 employees, it is one of the region's largest employers. The century-old company is currently owned by Electricité de France (64 percent), AES Corporation (24 percent), the public (11 percent), and the Brazilian government (1 percent). Light generates about 15 percent of the energy it distributes, and has eight power plants. Since its privatization four years ago, which MIGA also supported, Light has made good progress on a $1 billion investment program. Technological improvements have led to reductions in the duration and frequency of outages, and the company's work to improve conditions in the city's slums has made strong progress. For more on light, visit www.lightrio.com.br.

strong results

RESULTS from page 1

Outstanding guarantees issued in IDA-eligible countries represent 30 and 24 percent of the net and gross portfolios, respectively. And MIGA issued 12 guarantee contracts for eight projects to investors from developing member countries (Brazil, Israel, Mauritius, Panama, Singapore, South Africa, and Turkey) for investments in Brazil, Guinea, Kazakhstan, Mozambique, Nicaragua, and Vietnam.

The projects supported by MIGA in fiscal 2001 are expected to facilitate about $5.2 billion in FDI flows, bringing the total facilitated by the agency since inception to around $41 billion. "MIGA is an important catalyst, increasingly promoting FDI into poorer countries where investors simply would not finance projects without MIGA's support," said Roger Pruneau, the agency's vice president for guarantees.

Other notable developments included first-time coverage of a capital markets deal in Brazil, and of a performance bond and a water project in Ecuador. The year also saw MIGA offer its 500th guarantee, for a power project in Moldova, and its first coverage for ventures in Jordan, Panama, and Togo.

OUTREACH GROWS

Fiscal 2001 was a banner year for cooperation with other investment insurers, with MIGA adding five new partners to the 13 private insurers who participate in its Cooperative Underwriting Program. MIGA also engaged extensively in partnerships with national and private providers of political risk insurance through facultative (project-specific) reinsurance, which mobilized $602 million of capacity.

"Both facultative and treaty reinsurance play a key role in mobilizing additional investment insurance capacity for projects in developing countries and in sparing our insurance capacity," said Ikawa. "These efforts also reflect our work to pave the way for other insurers to enter new markets."

On a broader level, MIGA signed seven new cooperation agreements with official insurers and development finance institutions: the People's Insurance Company of China, the Korea Export Insurance Corporation, the Islamic Corporation for the Insurance of Investment and Export Credit of Saudi Arabia, PwC Deutsche Revision AG of Germany, Finnvera of Finland, the Finanzierungsgarantie-Gesellschaft of Austria, and the Export Credit Insurance Organization of Greece.

MIGA also extended its client outreach efforts in fiscal 2001 through a new Europe-Africa office, complementing its field representation in Tokyo, Bosnia-Herzegovina, Southern and Eastern Africa, and Switzerland. The new office is part of the agency's move to increase the level of foreign direct investment from Europe into developing countries, particularly in Africa and Eastern Europe.

In addition to its more permanent field offices, MIGA conducted briefings and seminars around the world as part of its "mobile office" program in Latin America, Asia, West Africa, and Southeastern Europe. Additionally, the agency provided training at its Washington, DC, headquarters for staff of eight national insurers.

AGENCY CONNECTS DEVELOPING COUNTRIES TO POTENTIAL INVESTORS

The fiscal year also saw growing demand for MIGA's technical assistance, advisory services, and online investment promotion instruments—designed to meet the individual needs of investment promotion intermediaries in developing countries.

"Our hands-on technical assistance really emphasizes the transfer of best practice in FDI promotion, with a special focus on our priority areas," said Karin Millett, who heads MIGA's Investment Marketing Services Department.

In fiscal 2001, MIGA strengthened its delivery of field-based technical assistance, undertaking some 59 project activities in support of FDI promotion efforts worldwide. In many cases, these projects were multifaceted efforts incorporating strategy development, hands-on training, implementation of information technology tools, and other elements of service delivery. Nineteen of the 28 countries receiving long-term, in-depth technical assistance were eligible for IDA loans.

MIGA defined and implemented a new project reporting system in fiscal 2001 to improve its monitoring and evaluation capabilities, including the tracking and assessment of each project on a geographic and functional basis, and the collection of baseline data for FDI flows in each country.

"The changing nature of investment flows and the rapid evolution of Internet technology have led us to be particularly innovative in the area of online investment promotion," said Millett. MIGA's new Investment Promotion Toolkit and tools such as PrivatizationLink and IPAnet provide host country agencies with state-of-the-art instruments for getting the word out about investment opportunities and business operating conditions. MIGA's online investor information resources are used by over 25,000 people, many from the developing world.

New online tools, such as the FDI Xchange and IPAworks, continue to underscore the agency's pioneering use of the Internet. FDI Xchange, currently in development, will offer developing countries new ways to promote investment opportunities targeted to the sector and geographic interest of potential investors through an email-based matching system. PrivatizationLink Russia, a joint effort with the Russian government and other partners dedicated to publicizing privatizations in Russia, was another fiscal 2001 online offering.

PROGRESS REPORTED IN OTHER AREAS TOO

MIGA paid its first claim at the end of fiscal 2000—and began receiving repayment of the claim by the host country in fiscal 2001. Additionally, MIGA worked with investors and host countries to prevent claims from arising and to mediate investment disputes. In addition to the six cases successfully resolved by the agency since its inception, MIGA is working with the government of Ethiopia to help resolve long-standing claims by foreign investors. (See related story on mediation.)

Over the year, MIGA published a new, in-depth review of the agency's developmental impact and established an independent evaluation unit to more fully assess the impact of the agency's activities.

The overall number of MIGA member countries, meanwhile, increased to 154, as Thailand and the Central African Republic completed membership requirements.

"As MIGA prepares for a new fiscal year, I am confident that these innovations and improvements—involving new products, partnerships, and approaches for all of the agency's programs—will lead to better services for our clients," said Ikawa. "As a result, we will be able to facilitate more foreign direct investment, particularly in the priority areas, and play our part in the fight against global poverty."

Dr. Ibrahim Shihata

MIGA HONORS MEMORY OF AN EXCEPTIONAL MAN

The death of a great man haunts us. The death of a great man who impacts and shapes our lives haunts us even more. This year, MIGA mourns the loss of Dr. Ibrahim Shihata, international development and legal expert, who leaves behind a profound legacy in his native Egypt, in the Middle East, and at the World Bank Group, where his inspiration, courage, and determination were instrumental in the founding of MIGA. Dr. Shihata, 64, died at Georgetown University Hospital on May 28, 2001.

At a very young age, Dr. Shihata emerged as one of the most brilliant legal minds from the developing world. A graduate of Cairo University and Harvard Law School, he was both an intellectual teaching law and a successful practitioner of law. He was the legal architect of some of the most far-reaching and significant economic developments in the Middle East in the 1970s, at a time when much of the world's wealth had shifted almost overnight to the oil producing countries. Dr. Shihata's vision was clear: this vast wealth had to be shared, and shared equitably.

In 1983, he was appointed Vice President and General Counsel of the World Bank, the first-ever from a developing country. As a result of his indefatigable efforts, MIGA's Convention opened for signature in 1985. With Dr. Shihata playing an important shepherding role, surmounting a variety of obstacles and forging important compromises among stakeholders, MIGA launched operations in 1988.

"When I joined the Bank on August 1, 1983, as general counsel, I was convinced that the need for an international agency to encourage foreign investment was greater than ever," Dr. Shihata said in a recent 10-year retrospective on MIGA's operations. "Such investment not only was concentrated in a few countries; its volume had started an historical decline. An agency supported by the World Bank…could play a significant role by rebuilding confidence in investing in developing countries and by breaking the psychological barrier that magnified political risks."

At a memorial service held in June at World Bank headquarters, President James Wolfensohn praised Dr. Shihata as a legal mastermind who "steered me, my predecessors, and our Board through the stormy weather of changing times and changing needs of our clients." Wolfensohn called Dr. Shihata's 15-year career at the Bank "extraordinary and without comparison," observing that "Ibrahim's unequivocal commitment to the cause of poverty reduction stemmed from his love of people and faith in God," which "gave him the strength and passion in his pursuit of excellence, highest integrity, objectivity, and loyalty to the mission of the institution."

"Dr. Shihata was a great teacher and always gave of his busy time to assist students interested in the application of international economic law to the practical world of development," said Srilal Perera, MIGA's chief counsel. "I first met Dr. Shihata as a student in 1983 and long afterwards, whenever we met, he always advised me, 'you have to write and you have to teach.'"

In addition to his legal accomplishments, Dr. Shihata wrote poetry and short stories. In 1990, he authored *My Will for My Country*, and in 1995 *My Friendship with Death and Other Strange Stories*. It included the last poem he wrote, "Let Me In The Earth Vanish With No Ceremony Attending." At the family's choosing, the English translation of the Arabic text was read at the memorial ceremony by his youngest daughter, Nadia, an intern at the International Finance Corporation.

"MIGA's staff is grateful to Dr. Shihata for his creative spirit, convictions and perseverance," said Motomichi Ikawa, executive vice president of MIGA. "In many ways, MIGA's creation was the embodiment of his vision. In a broader context, the operations of the agency have improved the lives of thousands of poor people in developing countries, linking their destinies to his initiative and courage. For MIGA, his outstanding contributions shall forever remain a legacy."

Experts Endorse African Shipping Company

MIGA TO PROMOTE INVESTMENTS IN NEW ENTERPRISE

Shipping experts from Africa, Canada, and Europe, meeting at a maritime investment conference in Lomé, Togo, recently endorsed plans to launch an African shipping company. The event was jointly organized by MIGA, the Economic Community of West African States, and the Port Autonome de Lomé. Some 150 people attended.

The coastal shipping project, "Ecomarine," stems from a proposal made by regional representatives last year on ways to stimulate investments in West Africa, and takes aim at issues that undermine cost-efficient sea transport.

Speaking at the event, MIGA's Promote Africa Program Manager, Ken Kwaku, noted that 90 percent of goods to the sub-region are transported by sea, but that "the free movement of goods is hampered by inadequate and poor railway and road infrastructure, high maritime transport costs, and cumbersome transit procedures, among other things."

Conferees identified other issues affecting local business, such as a lack of adequate services, low market penetration, problems with customs clearances, inefficient state monopolies, an inappropriate regulatory framework, and the creation of large shipping companies, which had driven up freight charges by 30 percent. They agreed on the need to establish a coastal shipping company to address the problems.

One of the forum highlights was a presentation by Alhaji Bamanga Tukur, chairman of Africa Business Roundtable, who outlined the advantages of Ecomarine as helping to create jobs, reduce shipping costs and the price of goods, and integrate the region economically.

World Bank Senior Economist Kofi Egbeto is being seconded to Ecomarine for two years, and will take up the post of chief executive in September 2001.

Kwaku offered the agency's services to help attract investment in the new enterprise.

BOSNIA-HERZEGOVINA: GUARANTEES SUPPORT RENAL DIALYSIS PROJECT

Bosnia's health sector recently got its first infusion of foreign cash, thanks in part to MIGA's support for the creation and management of a renal dialysis facility in the city of Banja Luka.

MIGA provided two guarantees, totaling $1.3 million, to the International Dialysis Centers BV of the Netherlands. The first guarantee is for an equity investment in the International Dialysis Center Banja Luka in Bosnia-Herzegovina, covering the risks of expropriation, and war and civil disturbance. The second guarantee covers obligations of the Health Insurance Fund and the Republika Srpska for the provision of dialysis services, protecting the investor against breach of contract. The European Union Investment Guarantee Fund, administered by MIGA, is providing additional coverage.

Renal dialysis treatment is an acute problem in Bosnia-Herzegovina, and the new facility is expected to provide high-quality dialysis services for up to a fourth of all dialysis patients living in Republika Srpska. The project uses state-of-the-art medical equipment, which is helping to improve patients' life expectancy and quality of life. The hospital that houses the new treatment center is also expected to benefit from refurbishments associated with the new facility. In addition, the project will supply a medical waste and water treatment unit, and is already providing extensive technical, medical, and managerial training to facility staff.

MOZAMBIQUE: SUGAR PROJECT A SWEET DEAL

A new project guaranteed by MIGA is expected to help rehabilitate and partially privatize Mozambique's largest sugar estate, creating thousands of jobs and generating significant economic and social benefits in the country's Marromeu region.

MIGA is extending $65 million in investment insurance to the "Sena group"—a consortium of Mauritian companies—and to the Industrial Development Corporation of South Africa, covering their equity investments, management and technical assistance contract, and non-shareholder loan for the project.

The project entails the 75 percent privatization, rehabilitation, and management of the former Sena Sugar Estate, which was severely damaged during Mozambique's prolonged civil war. Combined with infrastructure improvements, the change should lead to the production of up to 100,000-125,000 tons of raw and refined sugar a year, helping the country raise its production capacity to about one-third of its pre-war levels. The investment, located on the Zambezi River, will also involve the development and farming of 11,000 hectares of cane fields.

"This project demonstrates how serious we are about helping Mozambique use investment to fight poverty and to restore the economic viability of its sugar sector," says MIGA's Vice President for Guarantees, Roger Pruneau. "We expect this undertaking to yield significant developmental benefits for one of the world's poorest, most highly indebted countries."

As the region's main employer, the project will provide jobs for an estimated 5,000 workers. According to the landmark World Bank study, *Voices of the Poor* (1999)—based on personal accounts from more than 60,000 men and women living in poverty—jobs are at the heart of achieving a better standard of living.

Other local benefits include the supply of electricity and other improvements to the

Marromeu hospital, road construction, and housing and school upgrades. The project is also expected to supply potable water to the local community, reducing the incidence of water-borne illness for the town's 90,000 residents.

On a broader level, the project aims to sell about 70 percent of its output in Mozambique, which will help offset, possibly entirely, the need to import sugar and will have a positive impact on foreign exchange revenue. At least 60 percent of goods will be procured in-country.

"We feel especially confident about this project's developmental impact, given that the investors—all from developing countries—have an outstanding track record of corporate citizenship," Pruneau says. Earlier this year, a prolonged rainy season led to extensive flooding of the Zambezi River, displacing tens of thousands of Mozambicans along the river's edge. The investors took quick action by providing barges, normally to be used for sugar transport, to help the government move people to dry land and provide them with supplies and shelter.

PHILIPPINES: PROJECT TO TACKLE TRAFFIC CONGESTION AND POLLUTION IN MANILA

MIGA guarantees totaling $87 million for a project to expand and rehabilitate a toll road north of Manila are expected to have a strong impact on traffic gridlock, one of the country's most pressing problems.

The guarantees cover an equity investment by Egis SA of France and a loan from a syndicate of banks led by West LB to the Manila North Tollway Corporation. The coverage offers protection against the risks of transfer restriction, expropriation, and war and civil disturbance.

Recent economic prosperity has accelerated motorization and the demand for mobility in Manila, causing severe traffic congestion and environmental problems. Residents perceive traffic congestion as their number one problem, followed by air pollution, the primary source of which is the transport sector. The level of congestion is so acute that average travel speed is only slightly faster than that of Bangkok, which has the slowest travel speed of any major Asian city.

One of the area's key arteries is the North Luzon Expressway, which is in urgent need of repair. The project involves widening and rehabilitating 82 km of the expressway, Southeast Asia's oldest toll road, between Balintawak in Metro Manila and Santa Ines in Pampanga. The refurbished highway is expected to not only improve traffic flows and vehicular efficiency, but to also help move industrial traffic away from heavily congested areas. A number of multipurpose complexes are already being built along the highway corridor to take advantage of the high traffic volumes out of Metro Manila, which is helping to spur local economic development.

"We expect this project to really make a mark on the traffic problems that plague the city, resulting in improved transportation efficiency and reduced pollution from exhaust fumes," says Pruneau.

The effort is part of a network of projects designed to support the government's "Philippines 2000" economic program, which aims to revive and support economic growth in the country. Also participating in the project are the International Finance Corporation, the Asian Development Bank, the Export Finance and Insurance Corporation of Australia, and COFACE, France's foreign investment insurance agency.

"Our involvement in the operation, along with a number of other multilateral and bilateral organizations, has been instrumental in helping the project secure financing," says Pruneau, adding that "the project is also in line

with the World Bank's strategy of enhancing cooperation among such institutions."

The project is expected to provide jobs for about 1,000 people during the two-year construction period.

GUATEMALA: POWER PROJECT TARGETS RURAL POOR

Rural Guatemalans are set to get a boost in their electricity services from a recent MIGA guarantee covering the privatization of two state-run power distribution companies.

The $96.6 million guarantee was extended

to Unión Fenosa Internacional, SA, of Spain, for its equity investment in, and loan to, Distribuidora Eléctrica de Oriente SA and Distribuidora Eléctrica de Occidente SA. The project involves the purchase of 85 percent of the companies' shares. The guarantee is protecting the investor against the risks of transfer restriction, expropriation, war and civil disturbance.

In addition to assuming management and operational control, the project will help support Guatemala's rural electrification program, which aims to address economic imbalances arising from the dearth of electricity in rural areas. The improved, expanded services are expected to reach some 220,000 new customers in underdeveloped areas of Guatemala that suf-

fer from power shortages and blackouts. The privatization should lead to more reliable and efficient power distribution, without the need for any substantial additions to generating capacity. Moreover, the transfer of skills and technology will result in enhanced customer service, widespread use of metering, and the installation of modern information systems.

changes

NEWLY APPOINTED FIELD STAFF TO CULTIVATE CONTACTS

Change is afoot at MIGA, which recently announced new staff placements in Thailand, Tokyo, and Turkey. The assignments are designed to buttress the agency's efforts to market its guarantee and investment marketing services to potential investors, lenders, and investment promotion agencies in the field.

Mari Kogiso was named Special Representative for Tokyo, succeeding Isabella Badenoch (formerly Stoehr), the agency's first field representative in Japan. Kogiso joins MIGA from the World Bank, where she worked on financial sector development and on infrastructure issues in the Eastern Europe and Central Asia division. She is a graduate of Tokyo University and The Fletcher School at Tufts University. She can be reached at mkogiso@worldbank.org, or t. (81) 3.3597.9100.

Badenoch will continue to work as MIGA's Special Representative for Asia, based from her new headquarters in Thailand. She has covered Asia for two years under a program funded by the Miyazawa Initiative, a Japanese–sponsored program to revitalize private sector growth in Asia. Before joining MIGA, Badenoch worked as an analyst at the Petroleum Finance Company and a Japanese equity analyst at Alliance Capital Management. She is a graduate of the University of Buckingham and Georgetown University. She can be reached at ibadenoch@worldbank.org.

Half a world away in Ankara, Alev Bilgen took the reins as MIGA's Special Representative for Turkey, Middle East, Eastern Europe, and Central Asia. Bilgen's assignment follows ten years in MIGA working on issues ranging from contract negotiation to the creation of trust funds for post-conflict countries. Prior to joining MIGA, Bilgen worked as foreign investment legal advisor in Turkey's State Planning Organization, where she also served as chief negotiator on bilateral investment treaties. In addition, Bilgen served as legal advisor to Turkey's Central Bank and worked at the United Nations Development Program. She can be reached at abilgen@worldbank.org, or t. (90-212) 227-8036.

PHOTO | clockwise from top, Alev Bilgen, Isabella Badenoch, and Mari Kogiso

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