
MIGA NEWS

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DEVELOPMENT COMMITTEE ENDORSES MIGA'S CAPITAL INCREASE

The Development Committee¹ announced, at the conclusion of its annual meeting in Hong Kong on September 22, that a consensus had been reached on the funding of additional capital for MIGA. Mr. Driss Jettou, Chairman of the Development Committee, noted that the consensus marked a breakthrough in addressing MIGA's need for a capital increase. In its Communiqué, the Ministers reiterated their support for MIGA's continued growth in response to the expanding demand for its services and welcomed the decision to resolve the Agency's capacity constraints by means of a three-part US\$1 billion funding package comprising an IBRD grant of US\$150 million, paid-in capital of US\$150 million, plus US\$700 million of callable capital. The Ministers expressed their view that this package would relieve MIGA's operating constraints and would permit the Agency, in the medium-to-long term, to support further expansion of its guarantee activities.

Ministers Express Enthusiasm

The Committee's Ministers were enthusiastic and optimistic in their support of MIGA's capital increase. Mr. Anatoly Chubais, Finance Minister of the Russian Federation, noted that MIGA is a leading institution in the field of long-term political risk insurance and faces growing demand for its services. Indonesia's Finance Minister, Mr. Mar'ie Muhammad, went further to say that MIGA's very success in promoting the flow of foreign direct investment to developing member countries had led to the Agency's capacity constraints, limiting the growth of its operations, and recommended a capital

increase so MIGA would not have to curtail its guarantee operations or its efforts to promote private investments in developing countries.

Mr. Eduardo Aninat, Finance Minister of Chile, commented:

"MIGA has had a very important development impact, and for countries beginning to travel the road towards the adoption of a market-led growth strategy this can be invaluable. Supporting reforms in poor countries needs a revitalized MIGA, one that is in a position to continue assuming manageable risks. Only in this way can MIGA hope to play a catalytic role and foster the flows of private capital needed for crucial and urgent development investments."

The Future

In its joint Communiqué, the Development Committee urged MIGA's Board and management to come to closure on the capital increase by the time of the Committee's next meeting in April 1998. Management, consequently, began to closely examine the potential effects of the capital increase on the Agency's future activities, and plans to address a number of policy issues of interest to shareholders which emerged during the recapitalization process.

The consensus reached in Hong Kong has encouraged MIGA to lay the foundation for an expansion of its business by recruiting five new guarantee officers to better serve its clients, both investors and beneficiary developing member countries. In addition, a senior environmental liaison officer has been hired to assist in expeditious review of the environmental impact of prospective MIGA projects to ensure their consonance with World Bank environmental policies and guidelines.

SPECIAL ANNOUNCEMENT

Addressing a special gathering of clients and staff in Hong Kong, Mr. Akira Iida, MIGA's Executive Vice President, congratulated management and staff for their contribution to MIGA's success, commenting that their excellent performance in the past and the continued strong demand for the Agency's services justified MIGA's recapitalization. The conclusion of the capital increase effort, he noted, is an appropriate milestone to end his responsibilities as Executive Vice President of MIGA, at the expiration of his second term next summer.

"The conclusion of the recapitalization effort marks the end of the First Act of the MIGA theatre and the opening of the curtain for the Second Act," Mr. Iida noted.



Mr. Iida with members of his Management team and staff at the annual meetings in Hong Kong, following his announcement to retire next Summer.

FIRST QUARTER FY98: MIGA SIGNS ITS 300th CONTRACT OF GUARANTEE

MIGA concluded the first quarter of fiscal year 1998 with the signing of its 300th contract of guarantee. The contract covers Coastal Suzhou Power, Ltd. of the Cayman Islands for its investment in a gas turbine power plant in China, and is also MIGA's 29th contract for a project in that country. With this project, MIGA has issued US\$102.8 million in coverage during the first quarter of FY98. The investments facilitated by these guarantee contracts were made in six developing countries and included MIGA's first project in India.

First MIGA Project in India

In its first project in India, MIGA issued a guarantee totaling US\$9.6 million to **Motorola, Inc.** for an investment to establish a mobile cellular network in the Punjab province and Karnataka state. Motorola's equity is covered by MIGA against the risks of transfer restriction, expropriation, and war and civil disturbance.

Commenting on the project, Mr. Akira Iida, the Agency's Executive Vice President, noted:

"India joins 52 other developing countries that have benefited from MIGA guarantees. MIGA hopes to continue to serve India, as well as assist prospective Indian investors interested in investing abroad." (See inset box on "MIGA in India".)

The cellular network will use the Global System for Mobile Communications technology, which is the digital radio-telephone system that provides "roaming" facilities, or signal compatibility enabling subscribers to move freely and communicate throughout different locations using the technology. The infrastructure consists of a network of base station sites controlled by a mobile switching center, and the project will use new telecommunications equipment at the cell sites, master switch centers and an interconnection with the existing land line public telephone system. The project is estimated to provide better telecommunications facilities to some 235,000 subscribers in the two regions, north and south of the subcontinent, which it services. The project will employ over 650 Indian nationals and will procure ongoing operational material, such as antennas and control towers, locally.

MIGA IN INDIA

Mr. Akira Iida, MIGA's Executive Vice President, led a delegation of MIGA executives to the Berne Union's Investment Insurance Committee, held in New Delhi on October 13-14. In conjunction with this trip, MIGA and the Export-Import Bank of India (EIBI) conducted a special two-week program with the objective of discussing how MIGA's guarantee and technical assistance services could benefit Indian investors interested in expanding their businesses abroad, in other developing countries.

The program included setting up a MIGA "mobile office" for two weeks, in the four major cities of Bangalore, Calcutta, Delhi, and Pune. The endeavor was headed by MIGA's Asia Regional Manager for Guarantees, Mr. Philippe Valahu. The venture with EIBI followed a visit in March 1996, during which Mr. Iida signed a Memorandum of Understanding to foster closer collaboration with the investor community in the country.

The effort provided a unique opportunity for representatives of private companies and interested individual entrepreneurs in India to interact with MIGA staff. In addition, EIBI arranged half-day seminars in each of these cities, inviting prospective investors to attend presentations on MIGA's guarantee and technical assistance programs. There was substantial interest for MIGA guarantees covering investments into Africa, Asia, and Eastern Europe.

Further, there was a lot of interest in MIGA's technical assistance services. For example, in Bangalore, the center of India's computer technology and software industry, MIGA staff conducted a special live-feed presentation of *IPAnet*, the Agency's Internet-based investment promotion network. The session drew a large audience of prospective investors interested in gaining desktop access to information on investment opportunities, sources of finance, investment laws and regulations, market intelligence and business news, all of which is available through *IPAnet*.

MIGA staff met with representatives of some 80 multinationals and

other corporate sponsors during the course of these sessions. The initiative helped to develop close ties with the investor community in India and signaled the need for more MIGA assistance of investments from the subcontinent to other developing countries.



Mr. Philippe Valahu, MIGA's Regional Manager for Asia Guarantees, with EXIM Bank of India's Mr. S. R. Rao, General Manager (right) and Mr. S. Sridhar, Regional Resident Representative (left), at a seminar in New Delhi.

Other FY98 Infrastructure Projects

In other infrastructure projects during FY98, a US\$17.9 million MIGA guarantee insured **Companhia Brasileira de Projectos e Obras (CBPO)** of Brazil for its investment in the construction and operation of the Western Access toll road in Buenos Aires, Argentina. The project consists of a new three-lane express highway and an extension road linking the highway with the Provincial Route 47. The project sponsors will provide engineering plans and technology for road and bridge construction, and expertise in traffic monitoring, management, and toll collection. Local supplies will be used, benefiting Argentinean businesses. The highway will ease traffic congestion and reduce traveling time for commuters coming into the capital. MIGA's guarantee covers the risks of transfer restriction, expropriation, and war and civil disturbance.

In China, MIGA issued a US\$17.6 million guarantee to cover **Coastal Suzhou Power Ltd.** of the Cayman Islands for its equity investment in the construction and operation of a 76-megawatt simple-cycle gas turbine power plant in Suzhou City. MIGA's guarantee covers against the risks of transfer restriction, expropriation, and war and civil disturbance. The project enterprise, a cooperative joint venture, is designed specifically to alleviate power shortage in Suzhou City's urban districts during peak load hours and improve the reliability of power supply. The facility will replace temporary boilers burning oil or coal, thus reducing coal consumption and contributing to energy conservation and reduction of pollution in the area. The project will also contribute to the area's physical infrastructure with the construction of new roads, a wharf, and transmission lines connected to the local grid.

In Pakistan, MIGA issued US\$8 million in coverage to **Sithe International, Inc.** of the United States for its equity investment in Tapal Energy Limited, a 126-megawatt power plant in Sind Province. The investment is covered against the risk of war and civil disturbance. (In FY97, MIGA covered Wartsila Power Development, Inc. for its involvement in this project.)

Agribusiness

In another project in China, MIGA's US\$1.7 million guarantee insures André & Cie S.A. of Switzerland for its loan guaranty to Banque Nationale de Paris against the risk of war and civil disturbance. The loan was made for an agribusiness project in Jiangxi Province, involving oilseeds crushing, vegetable oils refining, and marketing of feedgrains and meal (cottonseed, peanut, rapeseed, and soybean). MIGA had issued coverage to André earlier in FY96 for its equity and loans to this project.

Finance

In the financial sector, MIGA guarantees were issued for investments to expand branch banks in Ecuador and Uruguay to ING Bank, N.V. of the Netherlands for US\$10 million and to Banco Santander S.A. of Spain for US\$38 million in coverage, respectively. Both branch capital investments were covered against the risks of transfer restriction and expropriation of funds.

Forecast for FY98

MIGA's outstanding portfolio of US\$2.5 billion in coverage at the end of the first quarter is expected to grow significantly during the rest of the year, with the anticipated increase in capital (see "Capital Increase" article above) and the healthy pipeline of some 1,000 active applications for guarantee.

MIGA BOOSTS EFFORTS TO ENCOURAGE PRIVATE INVESTMENT IN EASTERN EUROPE AND CENTRAL ASIA

In a continued effort to expand its guarantee and technical assistance operations in Eastern Europe and Central Asia (ECA), MIGA organized a seminar for ambassadors and official representatives from the region, at its offices in Washington, D.C., in mid-October.

The Seminar on "Working with MIGA to Promote Foreign Investment" was well attended. High-ranking officials from 17 embassies participated, representing Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, Republic of Croatia, Estonia, Georgia, Hungary, Kazakhstan, the Kyrgyz Republic, Latvia, Lithuania, the Russian Federation, the Slovak Republic, the Republic of Slovenia, Turkey, and Turkmenistan. The seminar

comprised presentations by MIGA staff describing the role of the Agency's guarantee program as a catalyst of foreign investments into the ECA region. Staff also explained how the various technical assistance tools offered by MIGA's Investment Marketing Services department, such as executive training programs and capacity building of local investment promotion agencies, help host governments in the region to better attract such investments.

MIGA's guarantee activities in Eastern Europe and Central Asia totals 23 percent of its outstanding portfolio, involving US\$586 million in coverage for investments in 13 transition economies in the region. The Agency currently has some 255 applications for coverage of future investments in 27 countries in the region, in sectors ranging from banking, telecommunications, power, mining, and oil and gas to manufacturing and tourism. To meet the increasing demand for its guarantee operations in the region, the Agency's ECA team was recently reorganized and one new guarantee officer was hired to work on projects in the region.



Ms. Stine Andresen with official representatives from ECA region embassies, attending a seminar on Working With MIGA to Promote Foreign Investment.

Ms. Stine Andresen, a Norwegian national, joined MIGA's Guarantees department in February 1990. She was made Regional Manager of the the Europe and Central Asia region in September 1997, before which she served as Regional Manager of the Latin America and Caribbean region.

Ms. Andresen started her career in the political risk insurance field as a country risk specialist in Garanti-Instituttet for Eksportkreditt, the Norwegian official export-credit agency. Ms. Andresen also worked as a multilateral and bilateral debt negotiator for the Norwegian Ministry of Foreign Affairs. She holds Master's degrees in economics and political science from the University of Oslo.

Mr. Engin Göksu, a Turkish national, joined MIGA in July 1996 as a Guarantee Officer for Europe and Central Asia. Prior to joining MIGA, Mr. Göksu worked as a Credit Analyst at Deutsche Bank in New York and Frankfurt, where he specialized in the evaluation of European multinational and sovereign borrowers. He holds a Master's degree in International Relations, with a major in International Economics, from the

Johns Hopkins University's School of Advanced International Studies in Washington, D.C.

Ms. Monique Koning, a Dutch national, joined MIGA in September 1997 as a Guarantee Officer for the ECA region. Before that, she worked as a Country Officer for Bosnia and Herzegovina in the World Bank. From 1993 to 1996, she was the Advisor to the Executive Director of the World Bank for Bosnia and Herzegovina, the Netherlands, and Ukraine.

Ms. Koning began her career in 1990 as a Policy Advisor in the Treasury Department of the Ministry of Finance in the Netherlands. She graduated from the University of Amsterdam in the Netherlands in 1990, and holds a Master's degree in Economics with specializations in International Finance and International Economic Relations.

Mr. Bahram Salimi, an Iranian national, joined MIGA as a Guarantee Officer in December 1996. He is on a special assignment to MIGA from the International Finance Corporation (IFC), where he worked for 12 years on project finance, country risk analysis, and project economic/ developmental impact analysis. Prior to joining IFC, Mr. Salimi worked as a consultant with the World Bank on trade and commodity related issues.

Mr. Salimi holds a Master's degree from the Johns Hopkins University's School of Advanced International Studies, and an MBA from the George Washington University, both in Washington D.C.



MIGA Guarantees ECA team (left to right): Mr. Engin Göksu, Ms. Stine Andresen (Regional Manager), Ms. Monique Koning, and Mr. Bahram Salimi.

INTERNATIONAL POLITICAL RISK SYMPOSIUM

MIGA organized a symposium on "*International Political Risk Management Techniques and the Role of Political Risk Insurance*", in conjunction with Georgetown University's Karl F. Landegger Program in International Business Diplomacy, on October 30, 1997. Dr. Theodore H. Moran of Georgetown University coordinated and chaired the event, which attracted key presenters, discussants, and more than 80 participants from the political risk insurance field. A wide range of institutions were represented, including members of the international business community; private insurers -- such as ACE Limited, American International Group (AIG), Lloyd's of London, UNISTRAT, and Zurich American; public insurers -- such as the Export Development Corporation of Canada and the Overseas Private Investment Corporation of the United States; risk rating agencies (such as Standard and Poor's); as well as insurance brokers, attorneys, and academicians with extensive experience in evaluating and managing political risks in emerging markets. Mr. Malcolm Stephens, Secretary General of the Berne Union², also presented a paper (see section below).

The symposium began with an exploration of the changing nature of political risk and the implications for corporate risk management strategies. Speakers noted that some common trends which swept through developing countries since the mid-1980s have affected the risks faced by foreign investors. Professor Louis T. Wells, Jr. of the Harvard Business School postulated that investors now face a set of "new risks", such as corruption, organized crime, increasing nationalism, and the power of international pressure groups. It was noted that these new risks, which are very difficult to evaluate, has arisen from the rapid decentralization of governments and the increasing participation of foreign investors in subnational affairs. Thus, while the spread of democracy has provided better access for foreign investors and some protection against arbitrary policies, it has often led to more open opposition and skepticism of foreign investments.

Mr. Malcolm Stephens of the Berne Union elaborated on the dramatic changes in the investment insurance marketplace. He emphasized the rapidly increasing number of new private entrants in the market and the expanding insurance capacity, combined with longer terms and broader coverages. He also commented on the increasing cooperation between the public and private sector to accommodate the growing demand for investment insurance, exemplified by the treaty reinsurance agreement between MIGA and ACE Insurance Company, Ltd.

Mr. John Salinger, President of AIG, and Mr. Charles Berry of Lloyd's continued the discussion with a focus on the dynamic changes in the private market. They emphasized the increased capability of private insurers to provide insurance packages for single investments of up to US\$1 billion. This is of particular significance in view of the growing trend towards privately-financed infrastructure projects and the increasing recognition of political risk insurance as an integral component of complex project financing packages.



The symposium on International Political Risk Management Techniques and the Role of Political Risk Insurance drew high-level participants from the investment insurance marketplace.

Representatives from several large multinationals, including Chevron, Enron Corp., and Exxon Exploration, shared their investment experiences in emerging markets and on the means to approach the analysis and management of political risks. Mr. Robert Shanks of Morrison & Foerster LLP addressed the issue of political risk management techniques for private infrastructure projects. He noted that a clear separation of the political and commercial risks for some of these projects was a difficult task and that insurance coverages needed to be tailored to suit the particular investment project. Ms. Linda Powers of Enron Corp. praised MIGA's "Cooperative Underwriting Program", which is designed to expand available insurance capacity by encouraging private insurers to offer coverage in developing countries where they might not have insured investments without the involvement of a multilateral institution as the insurer-of-record.

At the conclusion of the symposium, discussants and other participants engaged in informal exchanges at a reception. The symposium was characterized as very successful and a useful forum for dissemination of information on investment insurance. As one participant noted:

"It is most fitting that the only global multilateral investment insurance institution in the world (MIGA) should help organize a gathering of all the key players in the investment insurance marketplace."

The papers and the proceedings of this Symposium will be compiled into a book, edited by Dr. Moran and published by Blackwell Publishers, in 1998. For details, in the U.S., please call: 1-800-216-2522, or fax: 781-388-8210.

1. The Development Committee is the Joint Ministerial Committee of the Boards of Governors of the World Bank and International Monetary Fund.

2. The Berne Union comprises 24 investment insurers, including MIGA.

MIGA NEWS

would be pleased to receive queries or comments from readers about any matters appearing in this publication.

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