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# MIGA NEWS

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## MIGA to Play Important Role in Asian Growth and Recovery Program: President Clinton



*U.S. President Clinton addresses the plenary session of the 1998 IMF-World Bank Group Annual Meetings in Washington, D.C. (See page 8 for more details on MIGA's participation in the Meetings.)*

President Clinton announced a new multilateral initiative to revitalize private sector growth in Asia, in an effort to assist many of the countries hard-hit by the economic crisis in the region. In a joint statement with Prime Minister Obuchi, on a recent visit to Japan, President Clinton said the United States and Japan, together with the World Bank and the Asian Development Bank, had launched the Asian Growth and Recovery Program (AGRP).

The program aims to mobilize new private capital to help Asian companies restructure corporate debt and finance bank recapitalization. AGRP will increase the pace of rebuilding corporate balance sheets and restructuring financial institutions. This, in turn, will revive ailing companies and insolvent banks in Asia, steering these economies towards renewed growth. The IFC and MIGA will provide financing and investment guarantees, respectively, to foreign investment projects in these countries. These efforts will be complemented by the Overseas Private Investment Corporation (OPIC) of the United States and EID/MITI of Japan.

"We aim to provide strong incentives to remove policy and institutional constraints that block rapid restructuring," President Clinton said. "We will target mobilizing \$5 billion in bilateral and multilateral support initially, which we expect will leverage substantial new private financing." With the infusion of new foreign private capital, local private companies in these countries will have the incentive to rebuild their businesses and spur domestic growth.

MIGA has provided \$985.4 million\* in guarantees for investments in 11 countries in the Asia-Pacific region. These investments total about \$8.0 billion and are in the financial, infrastructure, manufacturing, mining, and tourism sectors.

### **Asia-Pacific Region FDI Mart**

Following-up on the APEC Economic Leaders Meeting in Kuala Lumpur, a concerted effort is underway in the region, to implement reforms and attract a much-needed infusion of foreign private capital. A Foreign Direct Investment Mart is scheduled for June 2 - 5, 1999, to be held in the World Trade Center in Seoul.

The Mart will have several events to familiarize potential investors with the improved business environment in the member economies and serve to increase investors' confidence in investing in the region. APEC member countries will be given a special forum to promote their business environment and highlight investment opportunities. Participants will include investors from the region and outside. The Mart will be organized by the Korea Trade-Investment Promotion Agency and sponsored by Korea's Ministry of Commerce, Industry and Energy, and the Ministry of Foreign Affairs and Trade. MIGA will also participate in the Mart. Sessions will highlight individual economies, and include keynote lectures by multinationals, international financial institutions, and economists.

For further information, please contact: Mr. David Bridgman,  
Program Manager, Capacity Building and Investment Facilitation  
Tel: 202-473-0775 or Fax: 202-522-2650

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### **COUNCIL OF GOVERNORS VOTE ON MIGA CAPITAL INCREASE**

Previous issues of this newsletter, in fiscal 1998, included announcements on the approval by MIGA's Board of Directors of a recommendation to the Council of Governors of doubling of the Agency's capital base. The \$1 billion funding package would enable continued expansion of MIGA's services to foreign investors and host developing member countries.

#### **Next Steps Towards the Capital Increase**

The Board's recommendation of the capital increase was sent to the Council of Governors for their vote in April 1998. Two-thirds of the total voting power of the Council is required by April 5, 1999, to obtain the approval. To date, MIGA has received responses from 81 major member countries, representing 47 percent of the total voting power. MIGA is very positive about receiving support for its capital increase from other shareholder countries.

Management looks forward to expanding its guarantee and technical assistance services to serve the development cause of assisting economic growth in developing member countries, in the years to come.

### Mid-Year Fiscal 1999 Results: Gross Exposure Reaches \$3.0 Billion

Guarantees business for the first half of fiscal 1999 continued to expand at a similar pace as the previous fiscal year, despite the continued downturn in foreign investment flows worldwide during 1998. MIGA issued 15 guarantee contracts for \$259.7 million in coverage for investments in ten member countries (Argentina, Bangladesh, Brazil, China, Malaysia, Peru, Philippines, Tanzania, Uganda, and Venezuela), during the first two quarters of FY99. This compared with \$267 million of coverage issued for investments in nine countries, in the first half of FY98.

MIGA's guarantee portfolio now totals 363 guarantee contracts, reaching \$4.5 billion in total exposure issued at the end of mid-FY99. The outstanding portfolio is \$3.0 billion for projects in 52 developing countries. The top five countries to receive MIGA guarantees are:

Host Country	Gross Exposure (Million \$)	Percentage of Portfolio	FDI Facilitated (Million \$)
Argentina	344	11.4	2,805
Russia	296	9.9	647
Brazil	215	7.2	1,478
Peru	196	6.5	864
Pakistan	171	5.7	774

Commenting on these results, Mr. Roger Pruneau, Vice President of Guarantees, said: "The recent economic crisis has emphasized the crucial need for investment guarantees to protect investment decisions in developing countries. MIGA's guarantee product is valued greatly by the investment community today. I expect a steep increase in contracts issued during the second half of the fiscal year."

The guarantee contracts issued by MIGA during the first half of fiscal 1999 are as follows:

Guarantee Holder	Investor Country	Project Type	Host Country	Gross Exposure (US\$million)
BWF Unternehmensbeteiligungen GmbH (2 contracts)	Germany	Manufacturing	China	2.4
ABN AMRO, N.V.	Netherlands	Financial	Philippines	22.5
Citibank, N.A.	United States	Financial	Venezuela	18.0
Banco Santander, S.A.*	Spain	Financial	Argentina	109.3
S.A. White Martins	Brazil	Manufacturing	Peru	2.7

Lloyds Bank Plc	United Kingdom	Financial	Brazil	29.7
Schmalbach-Lubeca AG	Germany	Manufacturing	China	5.8
Coastal Nanjing Power, Ltd.	Cayman Islands	Diesel Power	China	20.7
Ormat Holding Corp.	Cayman Islands	Mining	Guatemala	1.6
Mediocredito Centrale SpA	Italy	Manufacturing	Kyrgyz Republic	10.5
Coastal Power Khulna, Ltd.	Cayman Islands	Power	Bangladesh	29.3
Avon Cycles Limited	India	Manufacturing	Tanzania	0.7
Afriproduce Limited (2)	United Kingdom	Agribusiness	Uganda	6.5
<b>GRAND TOTAL =</b>	<b>15 contracts</b>			<b>259.7</b>
* Includes Facultative Reinsurance				

## INFRASTRUCTURE

### Bangladesh

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#### Coastal Power Khulna Ltd.

MIGA insured Coastal Power Khulna Ltd. of the Cayman Islands, for its \$32.6 million investment in the first independent power producer in Bangladesh. The barge-mounted 110-megawatt thermal power plant will increase the critically-needed energy capacity in the city of Khulna. It will alleviate the severe power shortages constraining the productivity of the private sector in the region.

The dual-fueled power plant will initially operate on residual fuel oil. A natural gas pipeline is being developed, linking Khulna to gas fields in the region, for a switch to natural gas in the future. The output will be sold to the Bangladesh Power Development Board, the state-owned electric company, under a 15-year power purchase agreement.

The project enterprise will create some 150 new jobs for Bangladeshi nationals. It will provide a prototype for other such plants and private sector involvement will increase competition and help to reduce the high costs of existing power generation in the country.

This project is being financed by IFC equity and loans. MIGA coverage of \$29.3 million will insure Coastal's investment against the risks of expropriation, transfer restriction, and war and civil disturbance.

## China

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### Coastal Nanjing Power, Ltd.



*MIGA insured a gas turbine diesel power plant in Nanjing City, in the Jiangsu Province, that will contribute to the increasing the limited installed energy capacity of the region.*

Coastal Nanjing Power, Ltd., of the Cayman Islands will develop, construct and operate a 76-megawatt gas turbine diesel power plant in Nanjing City, the economic, social and cultural center of Jiangsu province.

The project enterprise, Nanjing Coastal Xingang Cogeneration Power Plant, will alleviate the acute power shortages experienced by the city, caused by its fast economic growth and limited installed energy capacity. Reliable power supply during peak periods will help to attract companies to Nanjing's industrial zone.

It is estimated that 90 percent of the project's goods and services will be purchased locally. Local staff will receive on-site training in gas turbine installation, testing, startup and operation of the power plant. MIGA insurance of \$20.7 million will cover Coastal's \$22.9 million investment against the risks of transfer restriction, expropriation, and war and civil disturbance.

## Guatemala

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### Ormat Holding Corporation

MIGA issued \$1.6 million in coverage to Ormat for its investment in a 24-megawatt geothermal power plant in the Quetzaltenango department of Guatemala. Ormat will build, own, and operate the project enterprise, Orzunil I de Electricidad, Limitada. MIGA previously issued \$5.6 million in coverage to Ormat for this project in fiscal 1997.

The power output will be sold to Guatemala's electric company, Instituto Nacional de Electrificación, which is responsible for the country's power transmission and generation. This new environmentally-sustainable power source will increase the existing limited power generating capacity of the region, and supplement the current thermal plants that are dependent on imported fuel sources. It will also develop a renewable energy resource to

support higher living standards and new businesses in Guatemala, and promote private participation in power generation.

The IFC is also providing loan financing to this project. MIGA coverage is issued against the risks of expropriation, transfer restriction, and war and civil disturbance.

## **MANUFACTURING**

### **China**

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#### **BWF Unternehmensbeteiligungen GmbH**

MIGA issued \$2.4 million in coverage, in separate guarantee contracts for new equity and loan investments made by BWF Unternehmensbeteiligungen GmbH of Germany, in a filtration needle felt manufacturing facility, in the Jiangsu Province. MIGA had previously insured BWF's initial investment in fiscal 1997.

The new investment in the facility, Wuxi BWF Environmental Technology Limited, was used to buy out the local joint venture partner. The facility produces and sells specialized polyester fiber filtration needles for industrial dust extraction and waste gas purification. Wuxi BWF is expected to produce approximately 50 percent of China's filtration needle felt in the next two years and will be a leading manufacturer of the product in the region.

The project enterprise will benefit from considerable management skills training, and transfer of technology and know-how in needle felt manufacturing, especially in production procedures. It will also use modern quality control and maintenance systems.

A majority of the output will be exported to Asian countries, including Japan, Korea, Malaysia and Thailand. The project will create about 130 jobs for local nationals, and all supplies and critical raw materials required for production will be purchased from local suppliers.

MIGA coverage is issued against the risks of expropriation and war and civil disturbance.

#### **Schmalbach-Lubeca AG**

In another manufacturing project in China, MIGA issued \$5.8 million in coverage to Schmalbach-Lubeca AG of Germany, for an equity investment in the production and sale of vacuum closures and packaging equipment for food and beverage containers.

The project enterprise, Shanghai White Cap Co. Ltd., will benefit from a transfer of modern technology and managerial expertise that will enhance

the quality of the closures and sealing equipment to improve food safety. The closures will be used to preserve perishable products, such as coffee, dairy products, and soups.

The project will also lease machines for the production of vacuum closures to local Chinese companies. Schmalbach will provide technical and after-sales services to its customers in China. Local employees will receive on-site training in manufacturing, testing, and distribution of high-quality products. A social welfare program, including medical, housing, accident insurance, and other benefit funds, has been established. Raw materials required for the project enterprise will be purchased locally.

MIGA insurance is provided against the risks of expropriation, transfer restriction, and war and civil disturbance.

## **Kyrgyz Republic**

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### **Mediocredito Centrale S.p.A.**

MIGA insured Mediocredito Centrale S.p.A. of Italy for its loan towards the construction and operation of an air cargo complex and airport catering center in Bishkek. The facility, Manas Management Company, will enable the country's only international airport to better serve incoming and outgoing air freight, and attract more international airlines business.

Modern technology and special handling techniques will be used to transport perishable agricultural food items, greatly benefiting local food suppliers. It will also make international quality food catering available to both local and foreign airlines. MIGA previously issued coverage to Italian Technology & Innovations S.r.l. for its equity investment in the Company, in fiscal 1998. In fiscal 1999, MIGA covered Mediocredito's investment in the Company for \$10.5 million against the risks of expropriation, transfer restriction, and war and civil disturbance.

## **Peru**

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### **S.A. White Martins**

MIGA issued coverage of \$2.7 million for a loan guaranty to S.A. White Martins of Brazil for its guaranty of a loan by Banco Santander S.A. for the expansion of an industrial gas company in Pisco.

The project involves the expansion and modernization of Praxair Peru S.A. through construction and operation of a new facility in Pisco. Investments in this facility were previously guaranteed by MIGA for \$10.7 million, in fiscal 1998.

Praxair produces and markets chemicals, such as argon, used in laboratory equipment and for welding. In addition, it produces carbonic gases and nitrogen used in mining and metals, and food and beverage sectors. The project is expected to triple Praxair's production capacity in Peru.

MIGA covered the investments against the risks of expropriation and transfer restriction.

## **Tanzania**

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### **Avon Cycles Limited**

In its first guarantee contract issued to an Indian investor, MIGA covered Avon Cycles Limited (India) for its \$1.8 million investment in the privatization and expansion of a bicycle manufacturing plant in Dar-Es-Salaam.

The project, National Bicycles Company Limited (Nabico), is a joint venture with a British holding company and the only producer of bicycles in Tanzania. The project enterprise will modernize Nabico's production line to reduce operating costs, increase profitability, and encourage development of local competition.

MIGA coverage of \$714,286 will insure Avon's investment against the risk of war and civil disturbance.

## **AGRIBUSINESS**

## **Uganda**

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### **Afriproduce Limited**

MIGA issued two contracts of guarantee totaling \$6.5 million in coverage to Afriproduce Limited for its investments in the construction of a coffee processing facility in Uganda.

The project enterprise, Ugacof, wholly-owned by Afriproduce, has introduced cost-effective drying and processing techniques to produce coffee. Local and foreign contractors participated in the construction of the plant, and local contractors were employed for the civil works, including shipment of the production output and construction of a railway siding to link the project to the existing railway network. A German company has provided the machinery to dry, grade, bulk and bag the coffee beans. A North American company has provided a coffee color sorter.

Local families in the nearby villages will benefit from a 24-hour clean water supply from a new borewell and hand-pump provided by Ugacof. MIGA insurance will cover the investment against the risks of expropriation, transfer restriction, and war and civil disturbance.

## FINANCIAL SECTOR

In four guarantee contracts, MIGA signed \$247 million in coverage, for banking projects by investors from the Netherlands, Spain, United Kingdom, and the United States. The financial sector accounts for the majority portion of MIGA's guarantee activities, forming 39 percent of the portfolio (\$1.2 billion) in outstanding issued coverage.

### Brazil

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#### Lloyd's Bank, Plc

MIGA issued a \$29.7 million guarantee to cover a shareholder loan to Lloyds Bank, Plc, for an investment in its subsidiary in Brazil. The guarantee covers against the risks of transfer restriction and expropriation.

The loan will expand the wholesale banking activities of Lloyd's Bank Plc (Brazil), and increase the availability of medium-term loans to a variety of economic sectors in Brazil, especially infrastructure and industrial, which currently suffer from an acute shortage of medium-term financing.

### Argentina

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#### Banco Santander, S.A.

MIGA issued a \$109.3 million guarantee to Banco Santander, S.A., for its shareholder loan to Banco Rio de la Plata S.A. (Banco Rio).

The contract highlighted MIGA's increasing cooperation with private insurance providers in extending investment guarantees to foreign investors. Sovereign Risk Insurance Ltd. of Bermuda and Zurich-American Political Risk of the United States, reinsured MIGA for \$96 million. The contract was MIGA's first with Sovereign and its second contract with Zurich-American. The guarantee covers Banco Santander's loan against the risks of transfer restriction and expropriation.

The loan will be used to develop and expand a mortgage facility, Superhipoteca, which will charge lower down-payments. The facility also offers longer-term mortgages (of up to 15 years) than is currently offered by Argentine mortgage providers (up to 10 years). Superhipoteca is expected to facilitate the construction, purchase, and rehabilitation of residential property in Argentina and have significant upstream and downstream employment effects in the construction industry.

## Philippines

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### ABN AMRO N.V.

MIGA issued a \$22.5 million guarantee to ABN AMRO N.V. for its shareholder loan to its branch in Manila. The guarantee covers the loan against the risks of transfer restriction and expropriation.

The shareholder loan will allow ABN AMRO to expand its local operations to keep pace with the growing demand for banking services in the country. The project will contribute to developing the country's foreign trade by increasing lending to industrial corporate clients that manufacture a wide range of goods for exports. In particular, it will help to develop small- and medium-sized companies that specialize in the export of primary raw agricultural commodities, canned food, fabrics, footwear, household utensils, and industrial tools.

Local staff will receive training in areas of financial control, credit analysis and general banking operations both on site and abroad.

### Conclusion

Mr. Pruneau commented that, building on the solid achievements of the first ten years of its existence, MIGA would focus on how to better serve its client investors and recipient countries in the future. "In the next ten years, MIGA will expand its outreach to an increasing number of developing member countries by easing the application system and guarantee process to better serve clients' needs - both investor and recipient country - through more speedy issuance of investment guarantees."

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#### NEW INITIATIVES

##### MIGA and Development Impact

MIGA recently released a study on "MIGA and Foreign Direct Investment: Evaluating Developmental Impacts". It addresses the developmental impacts of the Agency's guaranteed projects and contains a number of case studies to demonstrate the benefits of MIGA-insured investments to developing countries. The study compares estimated future developmental impacts of twenty-five MIGA-insured projects, elicited from investors, with post-facto results of operations. The evaluation revealed, in many cases, that the initial results were far exceeded by actual results.

To obtain a copy of the publication,  
please call 1-202-473-2941,  
e-mail: [books@worldbank.org](mailto:books@worldbank.org),  
or visit the World Bank's web-site at:

<http://www.worldbank.org/html/extpub/Publications.html>

## MIGA and the Environment

MIGA's Convention requires prospective investments to be environmentally sound and sustainable. Pursuant to this requirement, MIGA's Draft Environmental Assessment and Disclosure Policies and Environmental Review Procedures were discussed on several occasions by the Agency's Management and Board of Directors. These policies and procedures were made available for public comment in December 1998. Comments received from the public will be reviewed, and modifications to the policies will be made as required.

The [Environmental Assessment and Disclosure Policies](#) documents are now available on MIGA's web-site.

and in the World Bank's InfoShop at:

<http://www.worldbank.org>

(under Publications / InfoShop)

If you have any questions or comments, please call: 1-202-473-6167.

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## MIGA's African Mining Symposium Continues a Tradition of Success

Despite lower world prices for mineral commodities such as gold and copper, the turnout at MIGA's Fifth Annual Mining Investment Symposium was high. Some of the biggest names in the international mining industry were on hand at the meeting in Marrakech, Morocco, including Rio Tinto, BHP, Anglo American and Placer Dome, as well as a broad range of medium and small companies. These firms were attracted by the "one stop shopping" opportunity afforded by the presence of key public and private sector decisionmakers from the mining sector in 25 African countries.

Business opportunities were plentiful, as companies and countries came together in one-on-one meetings to discuss new and existing exploration and mining projects. Africa's rich mineral resources and the increasingly attractive legal and regulatory framework for mining investment formed the basis for dialogue between countries seeking to harness foreign capital, technology and management know-how to develop a strong private sector mining industry and companies seeking high-grade mineral deposits that could return high rewards to shareholders.



*Motomichi Ikawa, Executive Vice President, MIGA, and His Excellency Youssef Tahiri, Minister of Energy and Mines of Morocco, preside at the official opening ceremony.*



*Mamadou Barry of MIGA and Fred Barnard of Mining Evaluation Profiles confer.*

Underlying the negotiations, however, was a firm commitment on the part of the countries to ensure that mining development takes place in a manner that affords maximum protection to the environment and guards the rights of communities in which the mining activity takes place. Companies also emphasized their corporate responsibility to protect the environment and respect the rights of indigenous peoples. In fact, the two-day mining symposium was preceded by a private Roundtable Dialogue between senior level country representatives and mining companies executives that focused on these issues and stressed the need for the equitable sharing of benefits between host countries and investors.

Over the past four years, MIGA has placed the spotlight on Africa as a continent with significant potential for new business opportunities, particularly in the mining sector. MIGA has been instrumental in spurring increased exploration expenditures and new mining development by international mining companies through:

- Encouragement of legal and regulatory reform to create more attractive conditions for investment.
- Assistance to African countries in developing strategies for attracting investment.
- A catalytic role in bringing together countries and private sector investors in a marketplace environment.

Growing foreign direct investment in mining has also contributed to increased opportunities and access to capital for domestic investors in mining.

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### **New IMS Workshop on Investment Promotion Via the Internet**

MIGA's Investment Marketing Services Department (IMS) recently conducted a newly developed workshop on investment promotion through Internet channels for the staff of Tunisia's Foreign Investment Promotion Agency (FIPA). This two-day workshop, "Investment Promotion in the Information Age", was designed to help management and staff of investment promotion intermediaries to adapt to the on-line environment and exploit new marketing channels available through the Internet. Through MIGA's hands-on training approach, FIPA participants learned how to update their traditional investment promotion techniques to leverage the capabilities of the World Wide Web,

reviewed how other intermediaries are utilizing this medium, and enhanced their skills in conducting market and company research on-line.

For developing countries facing increased competition for foreign investment flows, the Internet opens new opportunities to reach potential investors and close the "information gap" these investors frequently encounter. In addition, investment promotion intermediaries are now able to more cost-effectively gather essential information on investment flows, sectoral trends and details of potential target companies in support of their investment marketing operations.

The course builds on IMS' in-house experience of operating *IPAnet* and *PrivatizationLink* as well as MIGA research on the Internet activities of investment promotion intermediaries worldwide. The target audience is the management and staff of investment promotion organizations that are currently designing, implementing and/or updating their Internet marketing strategies.

For further information contact:

**John R. Wille**

Program Manager - Information Products and Services

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### ***IPAnet* a Finalist in Financial Times Business Web Site Competition**

**MIGA's Investment Promotion Network** (*IPAnet*) was selected as a finalist by the Financial Times in its "Business Web Site of 1998" competition. This award is given annually to Web sites which "demonstrate an effective and impressive use of Internet technology to achieve commercial advantage - against the yardsticks of business transformation, innovation and measurable financial benefit." *IPAnet* was among five finalists in the public sector category - other categories include large organizations, small and medium-sized organizations, the finance sector and not-for-profit organizations. Although not selected as the winner, the selection as a finalist demonstrates the private sector's growing interest in *IPAnet's* services.

*IPAnet* was also featured as the Financial Times Web Site of the Week in April of this year - at that time the FT characterized *IPAnet* as "well on its way to success, with a service growing in scope, reach, and influence among banks, investment agencies and companies around the world." With over 12,000 registrants from more than 180 countries worldwide, *IPAnet* has become established as an Internet focal point for the international investment community.

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### **MIGA and Austrian DFI to collaborate on PrivatizationLink in Eastern Europe and Russia**

Detailed information on enterprises being privatized in Eastern Europe and the Russian Federation will become more readily available as the result of a joint initiative between Finanzierungsgarantie G.m.b.H. (FGG) and MIGA's Investment Marketing Services Department (IMS). FGG will be supporting MIGA's deployment of **PrivatizationLink** in

the region as a means to disseminate information on privatization-related investment opportunities. This online service, launched this past June by IMS, provides detailed profiles of state-owned enterprises being privatized in developing countries and economies in transition, as well as related information on the laws and regulations governing these transactions.

FGG is a development financing and consulting institution owned by the Austrian Ministry of Finance. This agency insures the economic risk of direct investment projects within the framework of the East-West Fund, a state guarantee program available to Austrian companies participating in international investment projects. Originally designed to support the process of economic reform in the countries of Central & Eastern Europe, the Fund is now active worldwide and will be contributing to PrivatizationLink's work program.

Under the collaborative agreement signed in October, FGG and IMS will jointly pursue a program of technical assistance aimed at expanding PrivatizationLink's reach within Eastern Europe and the former USSR. Initial field work is slated for Bosnia-Herzegovina, Slovakia, Russia and Romania, where the FGG/IMS team will work with privatization and investment promotion agencies. The objective is to enable them to gather and disseminate - through PrivatizationLink - detailed profiles on state-run companies being offered to domestic and foreign investors, as well as, background information on their privatization programs.

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### **The Role of Political Risk Insurance in Project Finance** *MIGA Seminar at IMF-World Bank Group Annual Meetings*

MIGA sponsored a seminar on the Role of Political Risk Insurance in Project Finance, in conjunction with the IMF-World Bank Group Annual Meetings in Washington, D.C., in October 1998. The seminar drew a wide audience of some 400 private executives, government officials, and members of the press. The distinguished panel included representatives of the financing, insurance, and banking industry, and the session was chaired by Mr. Malcolm Stephens, former Secretary General of the Berne Union and former Chief Executive of the Export Credits Guarantee Department of the United Kingdom.



*President James D. Wolfensohn of the World Bank opening the Program of Seminars.*



*Mr. Motomichi Ikawa, MIGA's EVP, addressing the MIGA-sponsored seminar on the Role of Political Risk Insurance in Project Finance. The panelists are (seated right to left): Messrs. Malcolm Stephens, Mac Johnston, Ellis Juan, William Chew, Brian Duperrault, and Richard Allen.*

## Issues

The panel discussed several issues concerning the increasing use of political risk insurance as a risk-mitigating mechanism in structuring large projects in developing countries. The discussion focused on the need for investment insurance in project financing, the costs, benefits and value-added to project financiers and developers in purchasing this protection, and the use of political risk insurance as a means to improve ratings. The panel also reviewed future trends in the insurance industry, such as changes in tenors and costs, reinsurance and coinsurance among investment insurers, and alternative risk transfer techniques.

## Seminar Introduction

Mr. Motomichi Ikawa, MIGA's Executive Vice President, opened the session noting that the seminar coincided with the celebration of MIGA's tenth anniversary in 1998. "Ten years ago, few people believed in, or anticipated, the usefulness of a multilateral political risk insurer. Today, MIGA is one of the largest political risk insurers in the world," he said.

Mr. Stephens provided a brief overview of the insurance industry and its evolution from a nascent market only two decades ago to a highly sophisticated industry today. "This is an important and interesting time for insurers and the insured. There is a whole new group of uncertainties, a lot of change, new and complex challenges, but several opportunities too."

## Global Changes and Political Risk Insurance

The discussants stressed the fact that the dynamic and ever-changing global situation called for close collaboration between all parties involved in project financing, and among public, private and multilateral insurers.

"It is a time when insurers learn more about their insured parties and the insured learns more about their insurers," Mr. Stephens noted, in the context of discussing the current problem and potential claims in South-east Asia and Russia. He noted the potential for change in the insurance marketplace, with public and private insurers facing the possibility of large claims.

Representing the consumers of political risk insurance were Mr. Richard Allen, President of Wärtzilä Power Development, Inc., and Mr. Ellis Juan, Senior Vice President and Head of Project Finance at Santander Investment. They analyzed the private sector's requirements as purchasers of investment insurance. Mr. Allen emphasized the "pre-emptive" dimension of official agencies such as MIGA, their ability to negotiate with governments and resolve problems so that a claim is not required, as an important ingredient in structuring a project finance deal in the current period of fast-changing economic and political systems globally. This has created an increasing demand for insurance by foreign investors in emerging markets over the past couple of decades. It has also enforced the evolution of the traditional insurance product itself to adequately suit the varying needs of lenders, equity investors, insurers, and multilateral institutions such as MIGA.

"The growing volatility of international capital markets has significantly changed the environment in which political risk insurance operates," Mr. Allen commented. "The various players in the marketplace have to work closely with each other to develop innovative ways of mitigating this new form of political risk in order to bring investors back into emerging markets."

### **Cooperation Between Insurers**

In response, Mr. Brian Duperrault, President and Chief Executive Officer of ACE Limited, a private insurance company in Bermuda, pointed out that ACE's collaboration with MIGA, through a treaty reinsurance agreement concluded in 1997 was a product of ACE's desire to diversify from catastrophe reinsurance, to evolve with the changes in the marketplace, by developing an international focus. "It is the first and only time, to my knowledge, that a private insurer provided matching terms (with a multilateral insurer), in this case, 15 years," he said. The agreement underlined the need for such cooperation as beneficial to the private and public insurers. The agreement with ACE allowed MIGA more flexibility in achieving its development mandate by increasing its underwriting capacity.

On the relationship between project lenders and insurers, Mr. Mac Johnston, Principal of FMJ International Risk Services, LLC, emphasized a critical issue involving the conflict of rights between the insurers and project lenders over equity securities. "I consider them (project lenders and political risk insurers) the odd couple of international finance. They have a reason to co-habit because if you don't have insurance, you don't have a project to lend to, and lenders are always 'running for cover' The issue of pledge of shares also creates a catch-22 situation which threatens to make the use of political risk insurance increasingly difficult and cumbersome," he said. He called on MIGA and other insurers to resolve the issue as soon as possible.

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### **Mobilizing Investments in South Africa and Turkey**

As part of its initiative to strengthen links with the investment communities in its developing countries, MIGA set up temporary "mobile" offices in Turkey and South Africa, in October and November 1998. These mobile offices, as with previously

successful efforts in India and the Caribbean, helped to establish contact with several prospective local clients interested in investing in the respective regions.

## South Africa

The mobile office was located in the IFC's Johannesburg, South Africa office, from October 19 to November 5. Mr. Motomichi Ikawa, Executive Vice President of MIGA, and Mr. Roger Pruneau, Vice President of Guarantees, hosted a reception and seminar for executives from business associations, companies and financial institutions, in South Africa and neighboring African countries.

The seminar included presentations on MIGA's role in promoting private foreign investment in developing countries, especially its efforts in Africa, through its insurance product and investment marketing services. It highlighted a recent MIGA-insured project in Mozambique involving a South African investor. A joint presentation conducted by the Industrial Development Corporation of South Africa Limited, the Credit Guarantee and Insurance Corporation (CGIC) of South Africa, and MIGA, emphasized the significance of cooperation between regional insurers and multilateral institutions in facilitating investments between developing countries.

The \$1.3 billion aluminum smelter project, Mozal, near Maputo, was one of the largest foreign investments in Mozambique. In fiscal 1998, MIGA insured the Industrial Development Corporation of South Africa Limited for its guaranty of a \$40 million loan by the European Investment Bank, and CGIC insured equity in the project.

MIGA staff also visited private sector representatives in the neighboring cities of Cape Town, Durban, and Port Elizabeth. They also traveled to Botswana, Mozambique, Namibia, Swaziland, and Tanzania, to meet with more than 100 private sector representatives in these countries.

## Turkey

The temporary office was hosted for a two-week period in October, in the facilities of the Istanbul Chamber of Industry (ISO). MIGA staff met with clients and potential investors, such as financial institutions, local and foreign investors, and multinational corporations. Presentations on MIGA's role in the region were made to representatives of leading local and foreign corporations in Turkey, including the Foreign Economic Relations Board, the Istanbul Chamber of Industry, the Aegean Business Association, and the Foreign Investor's Association in Turkey, YASED.

Turkey is one of the top ten recipients of MIGA insurance for both in-bound and out-bound foreign investments. MIGA currently has \$118 million in gross exposure for investments in Turkey, and \$70 million in coverage for Turkish investments outside the country. The visit generated a number of applications from prospective investors for investments into and out of Turkey, and expanded future opportunities for MIGA-insured projects in the Europe and Central Asia region.

MIGA staff greatly appreciate the excellent amenities offered by the IFC in Johannesburg and ISO in Istanbul, and thank the local staff involved in making these offices a great success.

## Future

MIGA plans to continue this initiative to target its client base and supplement its activities at headquarters in Washington, D.C. The next mobile office is scheduled to be held in Japan, in April.

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### **HOW.TO.CONTACT.MIGA**

#### **Telephone/Facsimile:**

##### **Guarantees**

Telephone: (202) 473-8058 / Facsimile: (202) 522-2630

##### **Investment Marketing Services**

Telephone: (202) 473-0394 / Facsimile: (202) 522-2650

#### **Address:**

##### **FOR MAILING:**

MIGA  
1818 H Street, N.W.  
Washington, D.C. 20433  
U.S.A.

##### **FOR VISITS:**

MIGA  
1800 G Street, N.W., Suite  
1200  
Washington, D.C. 20433  
U.S.A.

#### **For information via the Internet:**

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