MESSAGE

from the Executive Vice President

Fiscal 2002 has been a challenging year for MIGA, and indeed for everyone in the development community. A confluence of events, including September 11th, 2001, a troubled world economy, and the financial crisis in Argentina, have combined to have a significant negative impact on investor confidence and FDI flows to developing countries. Project financing has been harder to obtain, and the combination of economic and political uncertainty has led to many projects being put on hold. The result has been a decline in the level of worldwide investment flows into developing countries.

For MIGA, the turbulence in this general operating environment has led to a decline in the volume of guarantees this fiscal year, particularly in the first half of the year. Nevertheless, the Agency was able to support a significant number of projects, especially in our priority areas, and we have continued to diversify our guarantees portfolio, both by region and sector. For the year, MIGA supported 33 projects, issuing 58 guarantees totaling $1.357 billion of coverage (including the amount insured through the Cooperative Underwriting Program). Of these projects, 14 were in IDA-eligible countries, which now represent 29 percent of the gross portfolio; nine were in sub-Saharan Africa; 11 were for South-South projects, where the investor is from a developing country; and 11 were investments involving small- and medium-sized enterprises (SMEs). This past year also saw MIGA providing first-time coverage for projects in four new countries, bringing the total number of member countries that have hosted MIGA-supported projects to 82.

The demand for MIGA's technical assistance increased markedly during fiscal 2002—emphasizing the important role that MIGA can play in helping countries compete for limited FDI flows. Some 34 technical assistance projects encompassing 77 activities in 27 countries were undertaken during the year, reflecting continued strong demand for MIGA's hands-on investment promotion assistance. The year also saw the launch of FDI Xchange, a customized e-mail update service linked to MIGA's suite of online services, and the undertaking of an extensive survey of international investors, which was published in January 2002.

In fiscal 2002, MIGA continued to strengthen partnerships with national export credit agencies and international financial institutions; this was reflected by the signing of 12 additional Memoranda of Understanding. The Agency also continued to develop its targeted marketing campaign, including building an effective presence in the field. Stakeholder feedback continues to show that an on-the-ground presence is key to identifying and underwriting projects in priority areas. MIGA's experience has shown that this presence strengthens ties with member governments, local investment communities, other insurers and our development partners, while enabling MIGA to engage more effectively with the NGO community and local media.

MIGA established its first long-term presence in Africa, with the opening of the southern Africa office in Johannesburg in March 2002. The office will focus on encouraging investments into the region. Meanwhile, the Paris office, which was established in the second half of fiscal 2001, has allowed MIGA to strengthen its ties with one of our largest investor bases—the European business community. Elsewhere, MIGA continued to have full-time representation in Tokyo, and part-time representation in Turkey, Thailand and India. These offices have played an important role in building greater awareness of MIGA activities among small- and medium-sized companies, which have, in the past, proven difficult for the Agency to reach.

MIGA underwent a reorganization in January 2002, to strengthen its regional focus. The Guarantees Department was renamed the "Underwriting Department," to reflect its operational focus, and underwent several internal changes to better reach and serve clients. Country risk functions were transferred to a newly established Finance and Risk Management Department. In addition, responsibility for country assistance strategy coordination with The World Bank Group was moved to the Policy and Environment Department. A new Agency-wide Corporate Relations Unit was created, reflecting MIGA's growing public profile. Finally, the Operations Evaluation Unit became fully independent.

Also during the year, MIGA continued with efforts to enhance its risk and financial management capabilities, building on an earlier project initiated in fiscal 2001, to better model MIGA's portfolio risk. This work will continue in the coming fiscal year, so that MIGA's risk and financial management capabilities continue to ensure long-term financial sustainability. COSO attestation of the reliability of MIGA's financial reporting was first implemented during the year, and a workshop for the newly created Finance and Risk Management Department was conducted. [3]

As of fiscal year end, 67 countries had subscribed to MIGA's General Capital Increase, resulting in an actual increase of $601.2 million in MIGA's capital. [4] At the recommendation of the Board of Directors, the Council of Governors adopted a resolution extending for another 12 months the initial three-year subscription period, which was to have expired in March 2002. This extension will give countries, particularly developing countries, more time to subscribe so that they can maintain their voting shares and help achieve the parity of voting power required by MIGA's Convention. The overall number of MIGA member countries, meanwhile, increased to 157, as Chad, the Syrian Arab Republic, and the Federal Republic of Yugoslavia completed their membership requirements.

Looking ahead to the coming fiscal year, the possibility for ongoing volatility in the global markets remains very real. Uncertainty continues to be a prevailing characteristic of the world investment environment, and the return of previous levels of FDI flows into developing countries may take considerable time.

The role of a multilateral agency supporting investment into developing countries takes on even greater importance in such circumstances. Accordingly, even as we have witnessed deals around the world taking longer to close, we have concurrently seen an increase in the levels of both inquiries and applications for MIGA guarantees, demonstrating the special assurance that investors are seeking as they venture into emerging markets. At the same time, as the events of the last year have led to tightening in the political risk insurance and reinsurance markets, the importance of MIGA's countercyclical role in the marketplace has been underscored. The tighter general conditions mean a renewed emphasis on public providers.

As we go forward, MIGA stands ready to meet renewed investor demand for political risk insurance from multilateral institutions, as well as to work actively to effect cooperation between public and private providers. In so doing, we will continue with our commitment to focusing on the Agency's priority areas of supporting Africa, IDA, South-South investment, small- and medium-sized enterprises, as well as complex infrastructure projects. We will also continue to work strenuously to help countries attract FDI in key sectors through our investment marketing services.

Our conviction is that MIGA was created to make a difference at times such as these.

Motomichi Ikawa
June 30, 2002

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MIGA OFFICERS

Left to right

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