

DEVELOPMENT THEMES

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In this Annual Report, four development themes are highlighted that showcase MIGA's unique role and market niche.

SUPPORTING BASIC INFRASTRUCTURE addresses the considerable developmental impacts that infrastructure projects bring to countries and communities. Infrastructure deals are typically large and complex, requiring careful risk management, and MIGA's guarantees are often a vital enabling factor, allowing the projects to go forward.

REBUILDING CONFLICT-AFFECTED COUNTRIES demonstrates the important role that MIGA can play in attracting foreign investment into challenging post-war environments, where capital and skills are critically needed, but where international investor confidence is low.

ENCOURAGING CROSS-BORDER INVESTMENT AMONG DEVELOPING COUNTRIES recognizes the role MIGA can play in supporting potential investors from developing countries who often do not have easy access to public or private insurance. These investors are therefore especially reliant on a multinational insurance provider such as MIGA.

STRENGTHENING INSTITUTIONAL CAPACITY illustrates how, through its technical assistance services, MIGA is well positioned to help countries improve their investment climate and better position themselves to attract FDI.



SUPPORTING BASIC INFRASTRUCTURE

Lack of infrastructure is inextricably linked to poverty. The numbers of “infrastructure poor” are vast, and growing, in every region of the developing world. The statistics are sobering: some 1.2 billion people currently lack access to safe, potable water. Inadequate sanitation, and the diseases it spreads, affects 2.4 billion people. An estimated 2.5 billion people remain without modern sources of energy, and unpaved roads limit access to jobs, schools, clinics, and markets.

Improved infrastructure—in the form of roads and other transportation, clean water supply, sanitation, and housing—can make an enormous difference to the lives and livelihoods of the poor. It can help create jobs and raise worker productivity. It can save time and human effort in transporting water, crops, wood, and other commodities. It can improve health, by reducing indoor air pollution and emissions in urban areas and making clean water available.

MIGA'S ROLE: Turning risks into opportunities

In *Voices of the Poor*, a World Bank study that expressed the thoughts of some 60,000 poor people from around the world, the serious gaps in access to basic services and infrastructure were identified as one of the most pressing problems and priorities in poor communities. Addressing these issues is a priority for The World Bank Group, vital to the completion of the Millennium Development Goals, which aim

to halve the proportion of people living in poverty by 2015.

A wide variety of constituencies must be involved as these complex issues are addressed. In particular, private capital is needed to augment scarce public sector resources, to improve and maintain basic infrastructure services in developing countries, and to allow governments to direct public resources towards other priorities, such as social expenditures. However, private investors remain concerned about the perceived political risks of doing business in many of these countries, since infrastructure investments typically involve complicated project structures, long gestation periods, contracts with governments, and large investment amounts.

MIGA is uniquely positioned to provide confidence to investors and to mitigate non-commercial risks in order to support vital private infrastructure investment. As part of The World Bank Group, MIGA draws on the extensive institutional knowledge of both sector and country issues. As a multilateral institution, where the host country governments are playing a dual role

as the Agency's shareholders, the promise of MIGA's mediation capacity in the event of a dispute situation provides a stabilizing influence during the project development stages. MIGA is also able to play a valuable arranging role, especially for larger projects, helping to structure an optimal public/private balance in an investment. MIGA guarantees can also help investors improve their access to financing, increase tenors of debt capital, and sometimes reduce capital and financing costs.

MIGA has a long record of supporting environmentally and socially responsible private investment in infrastructure. This work has helped governments provide better, less expensive infrastructure services to more of their citizens, including those who are often neglected because of the high cost of reaching them.

Since 1988, MIGA has issued 146 guarantees for infrastructure projects, with total coverage exceeding \$3.0 billion. The sector today represents 36 percent of MIGA's portfolio. MIGA-insured infrastructure projects span the globe, with guarantees ranging from \$1 million for a satellite communications system in Uganda to \$100 million for a power project in Brazil. A brief glimpse at just a few such projects, supported in recent years with MIGA guarantees, demonstrates a continuing impact.

In Ecuador, residents are no strangers to the problems that can affect access to water services. The poor have little access to potable, running water or proper sanitation. Many rely on truck deliveries of water, sold at high cost. In 2002, the city moved one step closer to safer, cheaper water with a MIGA-guaranteed project that is rehabilitating and expanding Guayaquil's municipal water services. This investment also marked the first time the Agency guaranteed against the wrongful call of a performance bond.

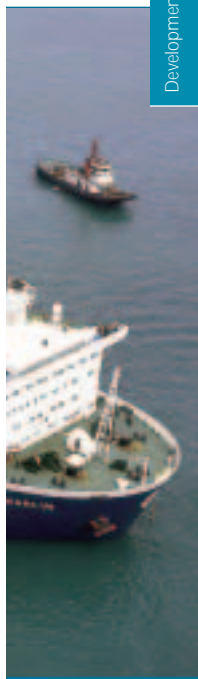
In the Philippines, getting to and from a job, the market, or school can involve battling severe traffic congestion and air pollution with attendant economic costs. A new project to extend and rehabilitate the North Luzon Expressway—Southeast Asia's oldest toll road and a key artery—improves traffic flows and efficiency, moving industrial traffic away from heavily congested areas, helps clean the metro environment, and reaches communities not adequately serviced by road networks. MIGA guarantees are insuring the Manila North Tollway project, a vital component of the Central

Luzon Growth Corridor project and part of the Philippines Economic Development Plan.

In Moldova, power outages frequently paralyzed this city of 700,000 for close to eight years following the break-up of the Soviet Union. Outside the capital, some survived without electricity, heat, and water for up to 20 hours a day. The situation had reached a crisis point by the beginning of 2000, at a time when the country's per capita income had declined to \$400 a year. That year, MIGA provided coverage to an electricity privatization project that was a key part of an energy sector overhaul. By April 2000, power shortfalls and blackouts had ended in the areas served. Three-quarters of the country's residents could count on electricity 24 hours a day—an incredible turnaround in just three months.

In Brazil, power outages, illegal connections, fire, electrocution and unfulfilled economic opportunities are unfortunate facts of life for residents of Rocinha, one of Latin America's largest slums. A concerted effort to address infrastructure inadequacies is making inroads into this exceedingly complex problem. An ongoing program to upgrade the city's electricity system, guaranteed in part by MIGA, includes efforts to provide essential power services at low cost.

In rural Guatemala, a lack of electricity severely limits economic opportunity and contributes to the generational cycle of poverty. A MIGA-supported project to privatize two state-run power distribution companies will expand service to more than 220,000 new customers in underdeveloped rural areas. The work includes a critical transfer of skills and technology, widespread use of metering and the installation of modern information systems.





REBUILDING CONFLICT-AFFECTED COUNTRIES

Countries emerging from conflict typically face multiple challenges in rebuilding homes, schools, factories, banks, communications networks, and other key infrastructure. The currency is weak, human resources diminished, and key institutions seriously impaired, all factors leading to profound, extensive poverty. In fact, of the 39 countries the World Bank currently considers to be conflict-affected, 30 are among the world's poorest.

Donor assistance alone is not enough to completely rebuild a country after conflict. The private sector is critical in helping to lay the foundation for sustainable growth. With the destruction of local industry and private sector capacity, foreign direct investment is essential. FDI brings much-needed capital for investment, fosters critical technology transfer, employment, and valuable links to international markets, while stimulating local markets. These are valuable peace dividends—and an incentive for keeping the peace.

Unfortunately, war all but destroys a country's attractiveness as an FDI location. Once a conflict ends, the legacy remains to haunt the country, deterring investors despite good business opportunities. One of the biggest deterrents to investment is the threat of resumed violence. The enforcement of laws, which may be missing or incomplete, is another major concern. For large infrastructure projects, investors also may be troubled by perceived risks of expropriation and breach of contract by governments.

MIGA'S ROLE: Mitigating risks and lifting investor confidence

MIGA plays an important role in post-conflict situations by providing coverage for just these types of risks. Agency guarantees are particularly important immediately after the war ends, when investors require the comfort that insurance provides and the private sector is needed to help cement an often fragile peace. Equally important, the projects supported by MIGA help foster confidence by the international business community, thus helping to attract even more investment. Such projects can be an impetus for improving the adherence to laws, regulations, and procedures to help enhance the investment climate.

By partnering with public and private insurers, MIGA can extend the amount of coverage made available for projects in conflict-affected countries. Trust funds, which are funded by donors, have also played an important role in enabling MIGA to support these countries while helping the Agency to

manage its own risks. MIGA currently administers investment guarantee trust funds for Bosnia and Herzegovina and the West Bank and Gaza, and is now gauging investor and donor interest in establishing a fund for Afghanistan.

To date, MIGA has issued 85 contracts totaling \$1.5 billion in guarantee coverage for 17 projects in countries affected by conflict—ranging from a dialysis center in Bosnia and Herzegovina to a soap factory in Angola. In fiscal 2002 alone, MIGA issued ten guarantee contracts totaling \$143.3 million in coverage for investments in conflict-affected countries, including a banking project in Bosnia and Herzegovina and two telecommunications projects in Nigeria. For many of these projects, MIGA's presence has been critical in getting the investment off the ground. Several of these recent MIGA-guaranteed projects have played a strong role in helping countries break the conflict cycle and move on to a path of sustainable development.

In Bosnia and Herzegovina, the collapse of the country's banking system was a by-product of the three-year war, which brought such massive human and physical devastation. MIGA has made a special effort to help restore this sector, which plays such a critical role in every economy. Hypo Alpe-Adria-Bank of Austria has been an active force in the rebuilding of the country's banking system. With MIGA's support, Hypo has been able to expand the services of its Bosnian branch, and offer lower-interest, longer-term capital to local investors. Bank clients are engaged in a variety of sectors, including the production of furniture and construction materials. Because most of the country's factories were destroyed in the war requiring the importing of many goods, such loans will catalyze domestic production, a critical aspect of reconstruction.

In Mozambique, MIGA has been a strong supporter of Mozambique's recovery following its 17-year war, with guarantees issued for seven projects, totaling \$190.3 million in coverage. MIGA is guaranteeing projects in several sectors, including a project that is rehabilitating the country's largest sugar estate, seen as key to supporting the reconstruction effort. The first MIGA-backed project in Mozambique was for "Mozal"—the \$1.3 billion aluminum smelter, which was the largest foreign investment in the country's history. Mozal signaled to foreign

investors that a mega-project could work in Mozambique, giving the country credibility as an investment destination. It played an important role in creating a blueprint for the country's internal rules and procedures relating to FDI.

MIGA's involvement in the country continued in fiscal 2002, with the support of two more projects. One of these, an SME project, involves the management of automotive transport fleets. In addition to helping local businesses, which are able to access the vehicles for commercial purposes, the project enterprise is also providing vehicles for aid organizations active in the country. MIGA also remains closely engaged with the country with its investment marketing services, providing capacity building assistance in investment promotion efforts and advisory services in free zone development.

WORKING TO GET INVESTMENT IN THE DOOR

MIGA takes a holistic approach to its work in conflict-affected countries, recognizing that the ability to offer risk-mitigating guarantees is only the first step. Investors still need to learn about business opportunities. But conflict-affected countries typically face many other constraints, such as unsupportive legal and regulatory frameworks, as they try to attract investment. In countries with such weak frameworks, the national investment promotion agency is generally viewed as the conduit for attracting investment. Yet these agencies often lack the capacity to provide this key information.

Since its inception, MIGA has provided capacity-building and information dissemination services to 23 conflict-affected countries, including Cambodia, Croatia, Guatemala, Mozambique, the Philippines, and the Federal Republic of Yugoslavia, to develop and extend their investment promotion capabilities. This assistance typically includes customized, hands-on training, help with market research, and online information dissemination.





ENCOURAGING CROSS-BORDER INVESTMENT AMONG DEVELOPING COUNTRIES

A major priority for MIGA is to encourage “South-South” investment—that is, financial flows among developing countries. These investments create benefits on multiple fronts, for both investor and host countries. They spur local private sector development, helping developing country investors become players in the global marketplace, and promote regional integration and development.

In most developing countries, political risk insurance is limited or nonexistent, and investors are often unfamiliar with the service. Where programs do exist, capacity is often restricted, particularly when it comes to investments into developing markets considered to be risky. Coverage from private providers is often scarce or unavailable in such countries and domestic private insurance markets typically do not exist. MIGA, therefore, has a unique role to play in supporting these cross-border investments.

MIGA'S ROLE: **Working with partners and filling gaps**

MIGA collaborates with national and multinational investment insurers in developing countries through formal cooperation agreements (Table 2), to promote coinsurance and reinsurance. This collaboration expands the amount of insurance available and

leverages knowledge of the local market. The Agency also helps build the institutional capacity of insurers by providing training in underwriting, country risk assessment, and contract negotiation. These partnerships have the potential to boost MIGA's efforts in supporting South-South investments.

Over the past decade, MIGA's guarantee program has been involved in 37 South-South projects, providing almost \$1 billion in total coverage. Beyond the amounts insured by MIGA, these projects have collectively accounted for an estimated \$5 billion in additional FDI. Of the 37 projects that the Agency has supported, investors have hailed from 17 different developing countries, and have directed their investments into 23 different host countries.

MIGA has pursued a targeted marketing campaign, assisted by the mobile office program and with the help of field offices, to identify and tap these opportunities. In recent years, MIGA's support for South-South

TABLE 2 NATIONAL AND MULTINATIONAL INVESTMENT INSURERS FROM DEVELOPING COUNTRIES WITH WHICH MIGA SHARES A MEMORANDUM OF UNDERSTANDING

Export Credit Insurance Corporation of South Africa, Ltd.	South Africa	June 2002
Banco Nacional de Desenvolvimento Economico e Social (BNDES)	Brazil	March 2002
Securadora Brasileira de Credito a Exportação S/A	Brazil	March 2002
Export Credit Guarantee Corporation of India, Ltd. (ECGC)	India	February 2002
Trade and Investment Development Corporation of Philippines (TIDCORP)	Philippines	February 2002
Slovene Export Corporation (SEC)	Slovenia	December 2001
African Development Bank (AfDB) *		November 2001
Export-Import Bank of Thailand (EXIM)	Thailand	November 2001
Fundación ProBarranquilla	Colombia	October 2001
Korea Export Insurance Corporation (KEIC)	Korea	May 2001
People's Insurance Company of China (PICC-SINOSURE)	China	November 2000
Islamic Corporation for the Insurance of Investments and Export Credit (ICIEC) *		October 2000
Malaysia Export Credit Insurance Berhad (MECIB)	Malaysia	May 2000
Export Credit Bank of Turkey	Turkey	October 1999
ECICS Credit Insurance Ltd.	Singapore	November 1998
Inter-Arab Investment Guarantee Corporation (IAIGC) *		February 1997
Export-Import Bank of India	India	March 1996

* Denotes a regional multilateral organization

investments has grown, to the point where in fiscal 2002, a full third of the new projects underwritten fell into this category. Among these were the following:

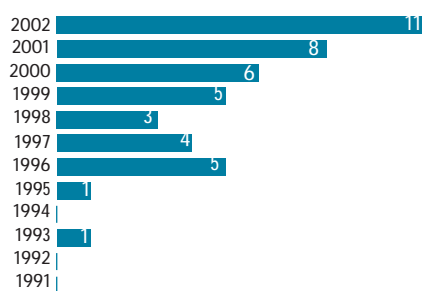
In Benin, where less than 1 percent of the population has access to a phone, MIGA has guaranteed a telecommunications project by a Lebanese investor. The project will improve pricing and quality through competition, generating substantial tax revenues and other fees, and profiting local businesses. MIGA's role was vital, since Lebanon does not have an investment insurance program.

In Bosnia and Herzegovina, a project by a Slovenian investor is expanding the general services of a local bank. MIGA is reinsuring coverage by the Slovene Export Corporation (SEC), which has an official cooperation agreement, signed with the Agency in December 2001. This marks the first such collaboration between the two organizations, and will enable SEC to augment capacity to insure additional projects in the region.

In Mauritania, MIGA is supporting a Tunisian company that has invested in a telecom project, which is helping to address the acute shortage

of reliable phone service in the country. Participating in the deal, through MIGA's Cooperative Underwriting Program, was Compagnie Tunisienne pour l'Assurance du Commerce Extérieur (COTUNACE), Tunisia's national insurer. By joining forces for this project, the two institutions were able to provide the full amount of coverage that the investor required to proceed with the deal.

FIGURE 4 NUMBER OF SOUTH-SOUTH PROJECTS SUPPORTED BY MIGA





STRENGTHENING INSTITUTIONAL CAPACITY

Increased flows of foreign direct investment can support economic development in a struggling nation. Such investment can mean more—and better—jobs, improvements in infrastructure, access to technology, and the realization of local and national development objectives. However, if developing nations are to succeed in expanding FDI flows, they must have in place an attractive legal and regulatory environment and be equipped with the skills and tools to support pro-active marketing of an investment location. For developing member countries committed to achieving success, MIGA provides technical assistance to help them compete in the international market.

MIGA'S ROLE: Knowledge sharing and ensuring the efficient flow of information

MIGA's work emphasizes the transfer of best practice in FDI promotion through hands-on operational assistance to investment promotion intermediaries. These organizations are often the first contact point between foreign investors and the host government, and play a vital role in gathering and presenting information, trouble-shooting potential projects, and shepherding development efforts through to actual investment. MIGA helps bridge the development gap by working with investment promotion staff to develop and implement tailored strategies to attract FDI, and to build needed marketing skills.

A key constraint on the investment promotion efforts of developing countries and emerging markets worldwide is inadequate information flow between the potential host

country and the investor community. For example, a corporate site selection team may be aware of a nation's good geographic location, but unaware of the strong work ethic, good educational system and available real estate. MIGA helps the country make this connection through traditional means—strategic planning, training, conferences, seminars—and via its suite of online services.

MIGA continually assesses and renews approaches to capacity building and information dissemination in support of the investment promotion community. MIGA staff approach the FDI challenge from multiple angles, to better serve a broad client base, with a spectrum of needs, interests, and abilities. The past year was one of the Agency's most successful in terms of its capacity building efforts, which created new partnerships, and leveraged established relationships. Some highlights from the past fiscal year are noted here.

In Armenia, MIGA is playing a vital role in support of the government's efforts to reform the business climate and to make Armenia a more conducive place for foreign investment. The project aims to complement ongoing reforms by creating the Armenian Development Agency (ADA) to address the needs of foreign investors, and by supporting an outreach program to attract foreign investor interest.

Working with the World Bank, MIGA has provided leadership in developing a Learning and Innovation Loan (LIL), encompassing a multi-year capacity building program to enhance the ADA's ability to promote Armenia as a location for foreign investment. MIGA advised the government on the establishment and operations of the agency, and has delivered training modules on market research and promotion techniques. This early assistance has given the ADA a more sound and effective footing to initiate activities.

In Nicaragua, since late 2000 MIGA has provided technical assistance to the national investment promotion agency, the Center for Exports and Investment (CEI), and has worked with the World Bank to define and include a long-term program in support of FDI. In line with the government's desire to increase job growth and based on the results of an earlier needs assessment, MIGA designed a technical assistance program to improve the effectiveness of the CEI. Results to date have far exceeded expectations, as Nicaragua has attracted over \$470 million in FDI, creating close to 7,700 jobs, plus thousands more in indirect employment.

Thailand is the first country in which MIGA initiated a capacity-building program under the Miyazawa Initiative, a Japanese-funded program to promote economic recovery in the countries most affected by the 1998 Asian financial crisis. Since 2000, MIGA's work with Thailand's Board of Investments has focused on affecting a shift from operating as a reactive

agency—concerned principally with handling investor inquiries and converting these to investments—to designing and implementing its own promotional strategy. The scope of MIGA's technical assistance focused on investor targeting, coupled with skills development via seminars and focused training programs in automobile manufacturing and parts, electronics, and agribusiness sectors.

In Mozambique, MIGA has supported the Mozambique Investment Promotion Center (CPI), under the MIGA-Swiss Partnership.⁵ Through the CPI, MIGA is also advising Mozambique in its free zone development efforts under the World Bank-funded Enterprise Development Project. Free zones have proven to be effective development mechanisms in some instances, serving as focal points for foreign investment by providing the infrastructure, facilities, and investment incentives to attract export-oriented industries. MIGA is working with the CPI to move forward with the Beluzone free zone near the Mozal aluminum smelter. The Beluzone site is attractive to suppliers of goods and services to Mozal and will feature an industrial park where local businesses that link to free zone firms will be encouraged to locate. The launch phase of the zone is already underway.

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