2006 ANNUAL REPORT

WORLD BANK GROUP
Multilateral Investment Guarantee Agency

MIGA's Mission

To promote foreign direct investment into developing countries to support economic growth, reduce poverty, and improve people's lives.

Guarantees

Through its investment guarantees, MIGA offers protection for new cross-border investments, as well as expansions and privatizations of existing projects, against the following types of noncommercial risks:

- Currency inconvertibility and transfer restrictions
- Expropriation
- War and civil disturbance
- Breach of contract

As part of its guarantees program, MIGA provides mediation services for guaranteed investments to prevent potential claims situations from escalating and to keep investments going.

Technical Assistance and Information Services

MIGA helps countries formulate and implement strategies for attracting and retaining foreign direct investment through:

- Advice and tailored assistance to investment promotion intermediaries

- A suite of online services, offering free information on investment opportunities, business operating conditions, and business partners

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Fiscal Year 2006 Highlights

Table 1

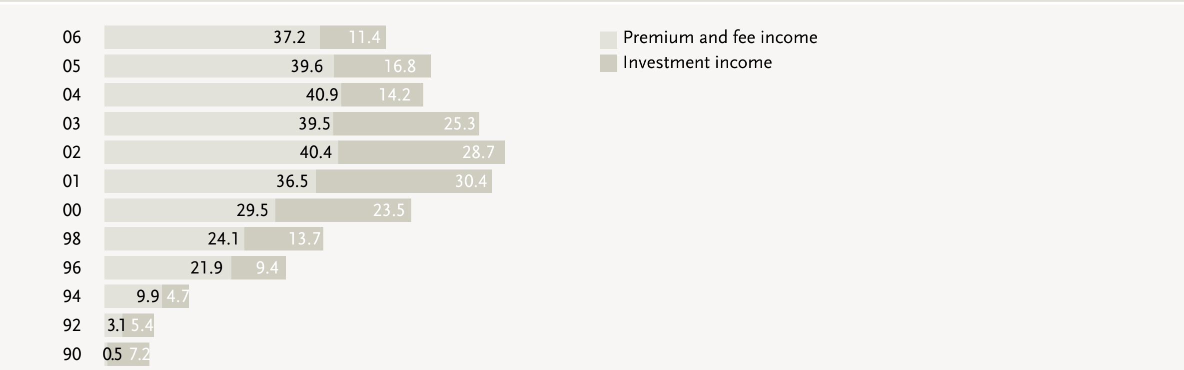
Guarantees Issued

	2002	2003	2004	2005	2006	Total FY90-06
Number of Guarantees Issued	59	59	55	62	66	839
Number of Projects Supported	41	40	41	41	41	527
New Projects [1]	33	37	35	33	34	
Projects Previously Supported [2]	8	3	6	8	7	
Amount of New Issuance, Gross ($ B)	1.2	1.4	1.1	1.2	1.3	15.3
Amount of New Issuance, Total ($ B) [3]	1.4	1.4	1.1	1.2	1.3	16.0
Gross Exposure ($ B) [4]	5.3	5.1	5.2	5.1	5.4	-
Net Exposure ($ B) [4]	3.2	3.2	3.3	3.1	3.3	-

[1] *Projects receiving MIGA support for the first time in fiscal year 2006 (FY06) (including expansions).*
[2] *Projects supported by MIGA in FY06 as well as in previous years.*
[3] *Includes amounts leveraged through the Cooperative Underwriting Program.*
[4] *Gross exposure is the maximum aggregate liability. Net exposure is the gross exposure less reinsurance.*

Figure 1

Earned Premium, Fees, and Investment Income (excluding other income), $ M



Membership

- In fiscal year 2006, the Solomon Islands and Antigua and Barbuda joined MIGA, bringing the agency's membership to 167

Operational highlights

MIGA provided the following coverage for projects in its priority areas: [1]

- 23 projects in frontier markets, totaling $481 million in guarantees
- 10 projects in conflict-affected countries, with $165 million in coverage
- 14 infrastructure projects, totaling $469 million in coverage
- 15 "South–South" investments [2] supported by $389 million in guarantees
- 13 guarantee projects (totaling $180 million) and 13 technical assistance projects in sub-Saharan Africa
- 21 guarantee projects (totaling $317 million) and 20 (including "blends") technical assistance projects in IDA–eligible countries (the world's poorest)

[1] *Some projects address more than one priority area.*
[2] *Investments made from one MIGA Part 2 member country to another.*

Other operational highlights include:

- FY06 guarantee projects by region: sub-Saharan Africa, 13; Latin America and the Caribbean, 13; Europe and Central Asia, six; Asia and the Pacific, six; Middle East and North Africa, three
- FY06 guarantee projects by sector: agribusiness, manufacturing and construction, nine; financial, 10; infrastructure, 14; oil, gas and mining, two; and tourism and services, six
- Nine projects supported through MIGA's Small Investment Program
- Four new host countries: Afghanistan, Iran, Mongolia, and Sierra Leone
- Portfolio of 45 technical assistance projects in 28 countries, along with several regional and global initiatives

Partnerships

- Secured facultative reinsurance from other insurers: $219 million for two projects
- Through the European Investor Outreach Program, cooperated with investment promotion intermediaries in the Western Balkans, chambers of commerce and industry associations in target markets, and development partners from countries interested in investing in the region
- Launched the Serbia Investment Promotion Program, a collaborative effort between MIGA and the European Agency for Reconstruction
- Together with the NEPAD (New Partnership for Africa's Development) Secretariat, launched a project to develop a database of all NEPAD-supported regional infrastructure, facilitation, and capacity-building projects in Africa
- With funding from the Swiss government, successfully concluded investment promotion work in four African countries (Ghana, Mozambique, Senegal, and Tanzania)
- Partnered with agencies such as the Austrian Development Agency, the UK's DfID, Islamic Corporation for the Insurance of Investment and Credit, and others on investment promotion outreach efforts around the world

World Bank Group Cooperation

- Coordinated across the World Bank Group on all potential projects to ensure full alignment of country and sectoral strategies
- Stepped up strategic discussions with the World Bank's Carbon Finance Group
- Worked closely with the World Bank Group on a number of projects, including the Kupol mining project in the Russian Federation
- Cooperated with the Foreign Investment Advisory Service (FIAS) on technical assistance work in Bangladesh, Cambodia, China, the Pacific Islands, Philippines, Sierra Leone, South Africa, and Tajikistan
- Together with the World Bank, implemented investment promotion activities in Afghanistan, Armenia, Bangladesh, Cambodia, China, Guatemala, Honduras, Mali, Mozambique, Nicaragua, Serbia, and Tajikistan
- Conducted joint technical assistance work with the International Finance Corporation (IFC) in China and the Philippines
- In partnership with the World Bank's Development Research Group, FIAS, and the World Association of Investment Promotion Agencies, conducted a worldwide survey of national and sub-national investment promotion agencies

Claims

- No claims paid in fiscal year 2006
- Three claims pending for investments in Argentina and the Kyrgyz Republic
- Monitoring and working to resolve about eight other investment disputes relating to investments guaranteed by the agency
- Successfully mediated a dispute involving a water investment in China. The project is now providing potable water to 450,000 people

Letter from the President to the Council of Governors

Paul Wolfowitz, president of the Multilateral Investment Guarantee Agency (MIGA) and chairman of its Board of Directors, submits to the Council of Governors on behalf of the Board of Directors, and in accordance with MIGA's bylaws, this report and audited financial statements for the fiscal year ending June 30, 2006.

MIGA's Annual Report covers a year that saw a revitalized global commitment to fighting poverty, aided by record levels of foreign direct investment (FDI) in all regions of the world. This important recovery in FDI—spurred by healthy global economic conditions and improved investment standards—is indeed reason for optimism.

That's because the private sector can and does play a critical role in reducing poverty, accounting for the vast majority of jobs in the developing world, generating an important source of tax revenue for governments, and providing essential infrastructure such as roads, clean water, and electricity—all of which drive economic growth and enable governments to focus limited resources on acute social needs.

But not all investors are comfortable with the noncommercial risks that often accompany investments in developing countries. MIGA's niche is that its political risk insurance helps to assuage investor concerns about the safety of investments and encourages them to open businesses in countries where they would otherwise not venture on their own.

This is most often in the so-called frontier markets (high-risk and/or low-income), where other insurers typically are unable to operate. In these cases, MIGA's political risk insurance provides a very important signal to the markets that private investments in such countries are in fact viable and profitable. The agency's technical assistance efforts also play a key role in helping these countries market investment opportunities and ensure that investment climates are attractive to foreign investors. During the fiscal year, MIGA supported 23 investments in such countries—representing 37 percent of its portfolio.

Over the past year, I witnessed first-hand the powerful role the private sector and MIGA can play in development through my travels to more than 30 countries, where I met with policy makers, business representatives, civil society leaders, and others. In Sierra Leone, for example, I saw how important jobs and basic infrastructure are to helping a country shift from post-conflict reconstruction to genuine economic recovery. MIGA's support for a telecom project there is helping that country, with one of the world's lowest teledensities, move towards recovery by enabling important gains to be made in telephone and Internet access.

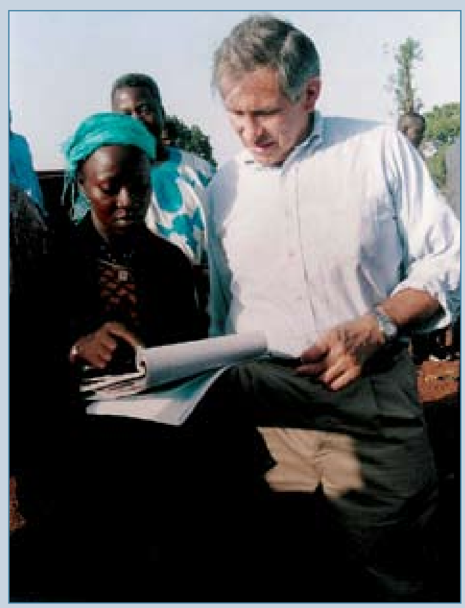
During my meetings in Russia, where talks centered on the need for regional development, among other things, I was pleased to see the work MIGA is doing to encourage Russian investments across the region. Promoting investment by nontraditional investors, a growing source of FDI, is another priority area for MIGA, which guaranteed 15 such projects during the year.

MIGA's strategic goals are aligned with those of the World Bank, and infrastructure is indeed a priority for the agency as well. Since its inception in 1988, MIGA has issued nearly $5 billion in investment guarantees for infrastructure projects—and facilitated roughly five times that amount in overall infrastructure investment. Outstanding exposure in the sector has grown from just four percent in 1994 to some 41 percent of its portfolio today. During FY06, the number of infrastructure investments guaranteed by MIGA almost doubled from the previous year, surging to a total of 14 projects.

MIGA is also stepping up its support of the World Bank Group's commitment to encourage clean energy development. The agency recently supported for the first time a project that will sell carbon credits gained by reducing greenhouse gas emissions. The deal has already generated a significant amount of investor and development interest.

These types of innovations and commitment to tailoring products to meet demand are helping MIGA achieve its mission of encouraging foreign direct investment to promote responsible and sustainable economic growth to make a positive difference in people's lives. And it is with the support of MIGA's shareholders and the broader development community that the agency is able to achieve its mandate. For this I would like to offer my thanks.

Paul D. Wolfowitz
June 30, 2006



Board Activities Highlights

A Council of Governors and a Board of Directors, representing 167 member countries, guide the programs and activities of the Multilateral Investment Guarantee Agency. Each country appoints one governor and one alternate. MIGA's corporate powers are vested in the Council of Governors, which delegates most of its powers to a Board of 24 directors. Voting power is weighted according to the share capital each director represents. The directors meet regularly at the World Bank Group headquarters in Washington, DC, where they review and decide on investment projects and oversee general management policies.

Directors also serve on one or more of five standing committees, which help the Board discharge its oversight responsibilities through in-depth examinations of policies and procedures. The Audit Committee advises the Board on financial management and other governance issues to facilitate Board decisions on financial policy and control issues. The Budget Committee considers aspects of business processes, administrative policies, standards, and budget issues that have a significant impact on the cost effectiveness of the Bank Group operations. The Committee on Development Effectiveness advises the Board on operations evaluation and development effectiveness with a view to monitoring progress towards MIGA's mission of poverty reduction. The Personnel Committee advises the Board on compensation and other significant personnel policy issues. In addition, directors serve on the Committee on Governance and Executive Directors' Administrative Matters.

MIGA's Board of Directors commended the progress made in fiscal year 2006, particularly in the areas of portfolio diversification by region and investments, entry into frontier markets, and South-South investment. To this end, the Board reviewed and concurred with investment guarantees for 32 projects. The Board also oversaw and reviewed MIGA's budgeting and planning process for the upcoming fiscal year. During the fiscal year, MIGA collaborated with the IBRD, IDA, and IFC in drafting several country assistance and partnership strategy documents that were considered by the Board. In addition to submitting quarterly financial reports, MIGA management presented two technical briefings to the Board discussing the World Bank Group's guarantee products and MIGA's technical assistance program. Last, the Board approved the Independent Evaluation Group's MIGA 2006 Annual Report, which reviews and assesses the agency's activities.

MIGA's Board of Executive Directors,
as of June 30, 2006

From left to right: (standing) Gino Alzetta, Zou Jiayi, Marcel Massé, Paulo F. Gomes, Jakub Karnowski, Jaime Quijandria, Mulu Ketsela, Dhanendra Kumar, Yoshio Okubo, Sid Ahmed Dib, Pierre Duquesne, Joong-Kyung Choi, Jennifer Dorn, Herwidayatmo, Mahdy Ismail Aljazzaf, Abdulrahman M. Almofahdi, Biagio Bossone; *(seated)* Otaviano Canuto, Thorsteinn Ingolfsson, Eckhard Deutscher, Alexey Kvasov, Jan Willem van der Kaaij, Tom Scholar. Absent: Luis Marti.

Message from the Executive Vice President

MIGA's mission is simple: to promote foreign direct investment into developing countries to support economic growth, reduce poverty and improve people's lives. How we do this is less simple, particularly in a shifting landscape that continuously impacts investor decisions and perceptions about the risks of investing in a given location.

Indeed, the external environment in which MIGA operates has been changing rapidly over the last several years. Foreign direct investment into developing countries reached record levels in 2005, following a precipitous decline earlier in the decade. This upward trend is expected to continue through 2006, fueled by an increase in the availability of capital at lower spreads. But not all developing countries have benefited, particularly those considered to be risky and where capital availability is limited.

The challenge today for many developing countries is to offset the exodus of traditional international investors who have pulled back from emerging markets—troubled by concerns about political risk, the perceived failure of privatizations in the 1990s, and shareholder pressure to focus on domestic markets. At the same time, the emergence of so-called South-South investors is making notable inroads on the investment landscape, now accounting for about a third of all FDI going into developing countries.

Our challenge in this environment is to re-engage traditional investors while supporting the growing trend of South-South investment, as well as encouraging FDI flows into the high-risk/low-income frontier markets. MIGA does this by mitigating the noncommercial investment risks faced by both groups, with a specific focus on countries where the perception of risk may be worse than the reality.

These efforts are reflected in our results during the fiscal year: a total of $1.32 billion in guarantees issued in support of 41 projects. Many of the contracts focused on MIGA's priority areas, including support for projects in sub-Saharan Africa, frontier markets, South-South investments, and conflict-affected countries.

We have also made considerable progress on diversifying our portfolio. During the fiscal year, we provided close to half a billion in guarantees in support of infrastructure projects—reflecting the strategic focus we have placed on the sector and our concerted efforts to engage South-South investors in infrastructure, as well as to encourage the return of traditional investors. At the same time, we decreased our support for financial sector projects, which have dominated our portfolio in recent years, while slightly increasing coverage for projects in oil, mining, and gas. Regionally, sub-Saharan Africa was home to the largest number of contracts issued, followed by Latin America and Europe and Central Asia. Guarantee activity rose significantly in the Middle East and North Africa.

Overall, our efforts to engage new clients and tailor our products to meet investor demand are showing positive signs, and are represented not only by the results in FY06, but also by the strong and diversified pipeline of potential business for the fiscal year ahead. There has been both a reestablishment of relationships with many traditional investors, and the development of relationships with new clients, particularly from the middle-income countries, and including smaller investors, who are essential to fill the gap.

This year saw a strong and encouraging start to our Small Investment Program (SIP), which is proving to be popular among smaller investors who find the streamlined underwriting process more user-friendly and appropriate to their needs. The faster process also makes the underwriting of very small projects—which tend to have a strong developmental impact—more viable for MIGA.

We were also pleased to offer support for the first time to a project that will sell carbon credits gained by reducing greenhouse gas emissions. The reductions, which can be sold under the Kyoto Protocol, will result from the conversion of methane gases to less harmful carbon dioxide at a landfill in El Salvador. The sale of credits will in turn help finance the project.

Also worth noting is that the agency guaranteed its first project in Afghanistan through the special Afghanistan Investment Guarantee Facility, created to encourage foreign investment in the reconstruction and economic growth in this conflict-affected country.

MIGA made significant inroads during the fiscal year in helping investors and developing countries tap the potential of capital markets to finance investments in emerging markets. For example, our support for the securitization of mortgages in Kazakhstan has been hailed as a groundbreaking deal, showing the market how local borrowers can access sophisticated new forms of financing to match their funding needs. Another emerging market project that raised funds from private capital sources with MIGA support is a toll road project in the Dominican Republic—a structured finance deal backed by future toll revenues. This is the first time that MIGA insurance has been used to cover a capital markets transaction (through a private placement) to finance an infrastructure project.

The results from our technical assistance (TA) program in FY06 have also been strong, with an active portfolio containing 45 projects in 28 countries, along with several regional and global initiatives. Included in these activities were projects ranging from an Enterprise Benchmarking Program, focusing this year on 11 countries in Africa, to investor outreach initiatives focusing on Tanzania, China, and the Western Balkans. The TA activities during the year reflected rising demand globally, with increasing diversity in the countries served and the types of assistance provided.

Looking ahead, MIGA's goal is to build on this momentum and keep growing our guarantees and our technical assistance portfolios, supporting projects that bring the highest possible developmental return.

Yukiko Omura
June 30, 2006

MIGA Officers and Managers









Peter D. Cleary
Director and General Counsel
Legal Affairs and Claims

Yukiko Omura
Executive Vice President

Philippe Valahu
Acting Director
Operations

Moina Varkie
Director
External Outreach
and Partners

Marcus Williams
Adviser
Strategy and Operations

Amédée S. Prouvost
Director and
Chief Financial Officer

Frank J. Lysy
Chief Economist and Director
Economics and Policy

Aysegul Akin-Karasapan
Director
Independent Evaluation
Group

W. Paatii Ofosu-Amaah
Vice President and
Corporate Secretary

Development Impact

MIGA and Infrastructure: Improving People's Lives

Infrastructure is about delivering the essential services that people need to maintain a basic standard of living, and that countries and businesses need for economic growth—access to clean water, sanitation, electricity, roads, and telecommunications. But for millions of people, these basic services are still beyond reach: 1.1 billion people lack access to clean water supply; 2.6 billion people live without adequate sanitation; and 1.6 billion people, mostly in sub-Saharan Africa and South Asia, lack access to electricity. And 3.5 billion of the world's population has never made a phone call.

Access to basic infrastructure provides extensive benefits. Investments in water and sanitation clearly lead to improved health. Proper transportation, electricity, and connectivity are relevant to industry, which provides jobs, and to education. Investments in telecommunications ultimately help build markets and connect buyers and sellers cheaply. Beyond the benefits to individuals, improved infrastructure is critical to a nation's overall economic growth.

Investment needs

From a high of $114 billion in 1997, infrastructure investment into developing countries with private participation bottomed out in the early 2000s, reaching just $57 billion in 2003. But private investment flows are starting to rebound, climbing to $64 billion in 2004. There is other good news: investors from developing countries accounted for 39 percent of infrastructure investment flows from 1998-2003. This is promising, offering the hope that this new, emerging group of investors will begin to fill the gap left by the exodus of traditional infrastructure investors—scared off in recent years by a spate of economic and political uncertainties. For now, the gains are distributed unevenly among sectors, with most of the funds going to telecommunications.

For developing countries, which have an estimated annual need for $230 billion investment in infrastructure that governments alone cannot fill, the challenge is to attract more private investment in all the subsectors of infrastructure. And even with the growing focus by the World Bank and other development agencies to ramp up lending for infrastructure investments, there remains an enormous investment shortfall.

While proposed solutions to this problem may vary, it is clear that impediments to investment in this capital-intensive sector are often of a political nature. The perceived failure of privatization efforts of the late 1990s, coupled with high-profile expropriatory actions and contractual breaches, tends to exacerbate traditional investors' perceptions of risks in emerging markets and exerts pressures to focus on their home markets.

The existence of these types of risks is precisely why an agency like MIGA exists. Our primary goal is to increase developmentally sustainable foreign direct investment, by mitigating such risks. One of MIGA's recent challenges in the face of the investment shortfall has been to engage nontraditional, or so-called "South-South," investors in infrastructure, to help these regional players tap the opportunities that are now opening up. The agency is also working to encourage the return of traditional infrastructure investors who have abandoned developing countries in search of safer investment climates.

MIGA and infrastructure

Infrastructure is a strategic priority for MIGA. Since its inception in 1988, MIGA has issued nearly $5 billion in investment guarantees for infrastructure projects (and facilitated roughly five times that amount in overall infrastructure investment), with outstanding exposure in the sector growing from just four percent in 1994 to some 41 percent of its portfolio today. MIGA targets investors of all sizes, with projects supported ranging from a $3 million investment in Sierra Leone's telecom sector to the $1.2 billion Nam Theun power project in Lao PDR.

MIGA's strategy builds on its market strengths: being able to encourage investments in the more difficult, frontier markets, as well as being able to support investments at the sub-sovereign level, which often involves inexperienced and therefore riskier partners. The agency has also placed a special focus on infrastructure in Africa, where, for example, its political risk insurance is helping nations move directly to cell phones and leapfrog the need for more expensive landline infrastructure.

Since its inception, MIGA has provided 119 contracts worth $3 billion in guarantee coverage for power projects; 59 contracts totaling $1.1 billion in guarantees for projects in the telecommunications subsector; 25 transportation contracts, worth $393 million in coverage; 12 contracts for water projects, totaling $225 million; and 10 contracts totaling $46 million for electricity, gas, sewerage, and sanitary services projects (see Table 2).

During fiscal year 2006 alone, MIGA issued $469 million in guarantees (25 contracts) for 14 infrastructure projects. Of these, two were in Asia and the Pacific, one in Europe and Central Asia, two in sub-Saharan Africa, one in the Middle East and North Africa, and a total of eight in Latin America and the Caribbean.

Power

The global need for power is enormous. The increased buying power of local citizens and rapid industrialization, as in China, are further fueling the demand for power. And as developing countries become locations of choice for companies in search of lower-cost operations, demand for power in these nations is skyrocketing. What this means for power companies and investors in the power sector is new markets.

But private investors in power projects around the world also know that there are significant and unique risks involved. Regulatory concerns and the potential for contract disputes add a level of uncertainty, as do political pressures to maintain rates in the face of rising energy costs. If project revenues are in local currency, transfer restrictions and inconvertibility are often a concern for power providers and lenders. And in some countries, the threat of war, terrorism, or civil disturbance poses a danger to physical assets.

MIGA's guarantees are well-suited to reduce power investment risks. They are designed to not only help companies feel comfortable with the risks they may perceive, but can also play a pivotal role in helping companies attract funds for large, capital-intensive investments.

Vietnam. In Vietnam, for example, MIGA is supporting the Phu My 3 power project, which involves a large amount of financing and multiple players, from investors to lenders and brokers to government agencies. The project—part of the Phu My power complex supported by the World Bank Group—is already providing 8-10 percent of the country's electricity, which is particularly important given the inability of hydroelectric and other power resources to keep pace with the country's growing energy needs.

Putting together such a complex deal would not have been possible without the appropriate allocation of risks, both commercial and noncommercial. MIGA provided several guarantees for the project: $43.2 million for the equity investment, $75 million for a non-shareholder loan, and $15 million to cover a financing swap agreement arranged by Calyon, the inter-creditor agent.

The investor chose MIGA because of its ability to help the project obtain a competitive interest rate on the international commercial market. At the same time, the lender chose MIGA because it valued the security and expertise the agency provided to protect the swap agreement.

The Phu My complex is expected to play an essential role in helping Vietnam meet its growing demand for electricity over the next few years. As a Build-Operate-Transfer (BOT) project, Phu My 3 is creating a roadmap for others in terms of how best to sequence a power plant transfer to the Vietnamese at the end of the 20-year contract. The project's success is expected to encourage other private investors to come into Vietnam, especially as the country's foreign investment environment becomes increasingly open to private players.

Turkey. In Turkey's capital city of Ankara in the late 1990s, electricity output matched consumption, and experts predicted that demand would soon outstrip supply. For a nation trying to attract foreign investment by showcasing its advantages as a lower-cost place to operate a factory, it was a major problem. In 1999, a devastating earthquake hit, followed by a financial crisis, making matters worse.

Into these challenging market conditions ventured SUEZ Energy International—the international energy division of SUEZ. And within a 26-month timeframe, the

company turned a greenfield site into a fully operational power plant that provides 770 MW of new gas-fueled electricity at reasonable rates while respecting environmental requirements.

The transaction, which was singled out for "Deal of the Year" honors by *Project Finance* magazine, involved a limited recourse financing structure that included French bank BNP Paribas and four major export credit agencies. The project was quite risky for banks, so it took a while to get it off the ground and to get the financing from lenders. MIGA played an important role, helping to hold together the deal's complex financing package by protecting the investment against political risks, while lowering the risk premium and reducing project costs.

The project represents the niche MIGA serves: helping developing countries kickstart capital-intensive and high-risk infrastructure projects with huge economic development payoffs. This project also exemplifies MIGA's efforts to re-engage traditional infrastructure investors who have largely abandoned these types of projects over the past decade.

Water

Despite the incredible need for basic water services, private financing for water supply and sanitation in developing countries has declined in recent years, reflecting in part the lack of appetite to bear the political risks associated with these projects. Investor losses in various regions—caused by contract breaches related to tariff adjustments, protests, exchange rate fluctuations, and currency devaluations—illustrate the reality of these risks.

Water and sanitation projects are also exposed to a unique set of risks related to the decentralization of service oversight from the national level to provincial and municipal authorities. Sub-sovereign regulatory and contractual risks can be greater than sovereign risks, as local authorities may have less experience and ability in dealing with the private sector and may lack a solid understanding of investors' needs.

Russia. As Moscow's population has grown, so has its thirst for water. But the existing water infrastructure has not been meeting needs. Eyeing a potentially strong business opportunity, German water company WTE Wassertechnik GmbH (WTE) investigated the possibility of building a new water treatment plant that would serve customers throughout Moscow.

Reluctant to move forward without additional insurance given their concerns about potential risks, the company turned to MIGA, which agreed to provide $56.4 million in guarantee coverage.

The deal is a public-private partnership, structured as a 13-year Build-Own-Operate-Transfer (BOOT) concession. The company financed and built a water treatment plant, which will soon begin operations. Water is being channeled from the Moskva River to a processing plant where it is filtrated using state-of-the-art technologies. The purified product is then distributed through the municipal water system by Mosvodokanal, the city-owned utility. The project is expected to increase Moscow's potable water supply capacity by 4 percent, improve local health, environmental, and safety conditions, and help create positive business externalities.

China. Over the past few years, MIGA has responded to a growing demand for its coverage for water projects in China. One such project, supported this fiscal year, involves a $40 million guarantee to Compagnie Générale des Eaux of France, covering its million direct equity investment in Shenzhen Water (Group) Company Ltd. The guarantee is long-term, providing coverage for half of a 30-year concession.

Shenzhen Water services 2.5 million customers with five water treatment plants and four wastewater treatment plants. The project processes raw water extracted by a state-owned company and treats sewage collected through the municipal wastewater collection network, supplying 90 percent of residential, commercial, and industrial customers in the Shenzhen special economic zone in Guangzhou province.

The project is expected to help the Chinese government address water resource problems that are particularly acute in fast-growing urban areas. MIGA's involvement was vital to private sector participation in the Shenzhen water sector, helping to reduce budget spending by the municipal government. For customers, having potable water will eliminate the need to boil or buy drinkable water. The participation of Compagnie Générale des Eaux, which operates water projects around the world, is expected to demonstrate to others the viability of investing in China's water sector.

Telecommunications

Driven by rapid technological change and the lower cost of cell phones versus fixed landlines, global demand for telecommunications continues to grow. While the rate of telecommunications growth in higher-income countries has tapered off, reflecting higher penetration rates and a maturing market base, growth in middle- and lower-income countries remains high. This is due mainly to the low rates of teledensity throughout the developing world and the relatively inexpensive alternative provided by cell phones.

Private investors in telecom projects around the world know there are significant and unique risks associated with these investments—relating, for example, to regulatory concerns, licensing and frequency allocations. The shadow of the 1990s telecom bust continues to loom large, making it more difficult for some to secure non-shareholder financing, especially in riskier markets.

Burundi. Africa is a huge, largely untapped market for cell phone users. The demand is enormous, particularly in a continent where challenging geography and enormous cost limits landline installation. The market is broad and deep, extending into rural villages and rapidly growing cities; into economically and politically stable nations as well as countries emerging from conflict.

Mauritius Telecom Ltd. found one such opportunity in Burundi, where teledensity is currently less than 1 percent. The company, a joint venture in which France Telecom owns a 40 percent stake, secured a MIGA guarantee to build, operate, and maintain a nationwide mobile telephony network using the GSM standard.

But any private investment in Burundi, an impoverished nation ravaged by a recent civil war, comes with challenges—and some considerable risk. MIGA is mitigating some of these risks with coverage to protect the company against transfer restriction, expropriation and war and civil disturbance.

Sierra Leone. This West African nation has just one landline for every 250 people, one of the lowest teledensities in the world, and until recently, no broadband network. That was until Sierra-Com, an Israeli telecommunications company, opened up shop with a MIGA guarantee to provide inexpensive, reliable telecommunication services.

Sierra-Com is bringing high-speed broadband wireless Internet and voice-over IP communications (allowing phone calls to be made over the Internet) to Sierra Leone, through its subsidiary IPTEL (PCS Holdings Sierra Leone Limited). Prior to IPTEL's entry into the marketplace, Internet access was provided by a slow dial-up service, and by a narrowband Internet service provider whose service was prone to stoppages due to electricity shortages.

Sierra-Com's $3 million investment is establishing a network using technologically advanced telecom equipment imported from Israel. Improved connectivity is expected to trigger additional new investment and catalyze overall economic growth.

Through an innovative new program aimed at encouraging smaller investors to consider projects in

Table 2

Infrastructure Contracts Issued from FY90 to FY06, by Region and Sub-Sector, $ M							
Region	**Electric, Gas & Sanitary Services**	**Power**	**Sewerage Systems**	**Telecom**	**Transportation**	**Water Supply**	**Total**
Asia and the Pacific		540		217	87	117	961
Europe and Central Asia		654		119		108	881
Latin America and the Caribbean	20	1,621		238	286		2,165
Middle East and North Africa	6		4	75			85
Sub-Saharan Africa	16	252		420	20		709
Total	**42**	**3,067**	**4**	**1,069**	**393**	**225**	**4,801**

Note: Figures include additional coverage provided to projects underwritten in previous fiscal years, but exclude Cooperative Underwriting Program contracts.

the developing world, MIGA has provided Sierra-Com a package of political risk insurance using a streamlined underwriting process that makes it quicker and easier for smaller firms to apply for guarantee coverage. The ease of MIGA's small investor process helped Sierra-Com act swiftly in response to an ideal market opportunity, while mitigating noncommercial risks.

Transportation

In an increasingly global marketplace, commerce is not limited by borders. Instead, trade depends on the ability to get goods to market, even as communities rely on transportation networks to connect them with homes, schools, businesses and healthcare. And with growing demand comes opportunity. But costs and uncertainties deter many private investors from seeking out business opportunities in the transportation sectors, such as road construction and operation, shipping ports and airport development, or expansion of public transportation, particularly in the developing world.

Transportation projects typically involve huge upfront costs, take longer to complete and are reliant on future cash flows to meet financial obligations and provide reasonable returns. In some emerging markets, macroeconomic, legal, institutional and regulatory concerns may add a level of uncertainty that can complicate deals even more and introduce still greater levels of risk. Transportation projects, such as toll roads, in many cases are also exposed to sub-sovereign risk as governments decentralize control of services from national to provincial and municipal authorities. These sub-sovereigns may have limited experience in dealing with the private sector or international banks, which adds another layer of complexity to project structuring.

Dominican Republic. During the fiscal year, MIGA provided $108 million in political risk insurance for the development of a toll road in the Dominican Republic. The insurance covers a $14 million equity investment in and $162 million bond issue for the project, Autopistas del Nordeste C. Por. A. Outside financing is coming from the issuance of $162 million in senior notes, underwritten by Morgan Stanley and rated by Fitch. The issuance, a structured finance deal backed by future toll revenues, marks MIGA's first-ever coverage of a capital markets transaction to finance an infrastructure project.

The project consists of the design, construction, operation, and maintenance of a 106-kilometer toll road that will connect Santo Domingo with the country's northeastern peninsula. Progress on the toll road has already led to investments in a free trade zone that is connected by the road to the international airport in Santo Domingo.

Other expected development impacts include growth in agribusiness, as farmers will have faster and cheaper access to markets in the capital, and tax generation estimated at $50 million over the life of the project. In addition, revenues generated by the project above a specific threshold will be paid to the government. The project is expected to create 2,465 jobs during the construction phase, and about 1,300 once operational.

Absent the bond issue, it would have been difficult for the project sponsors to obtain adequate financing for the period of time needed.

Operational Overview

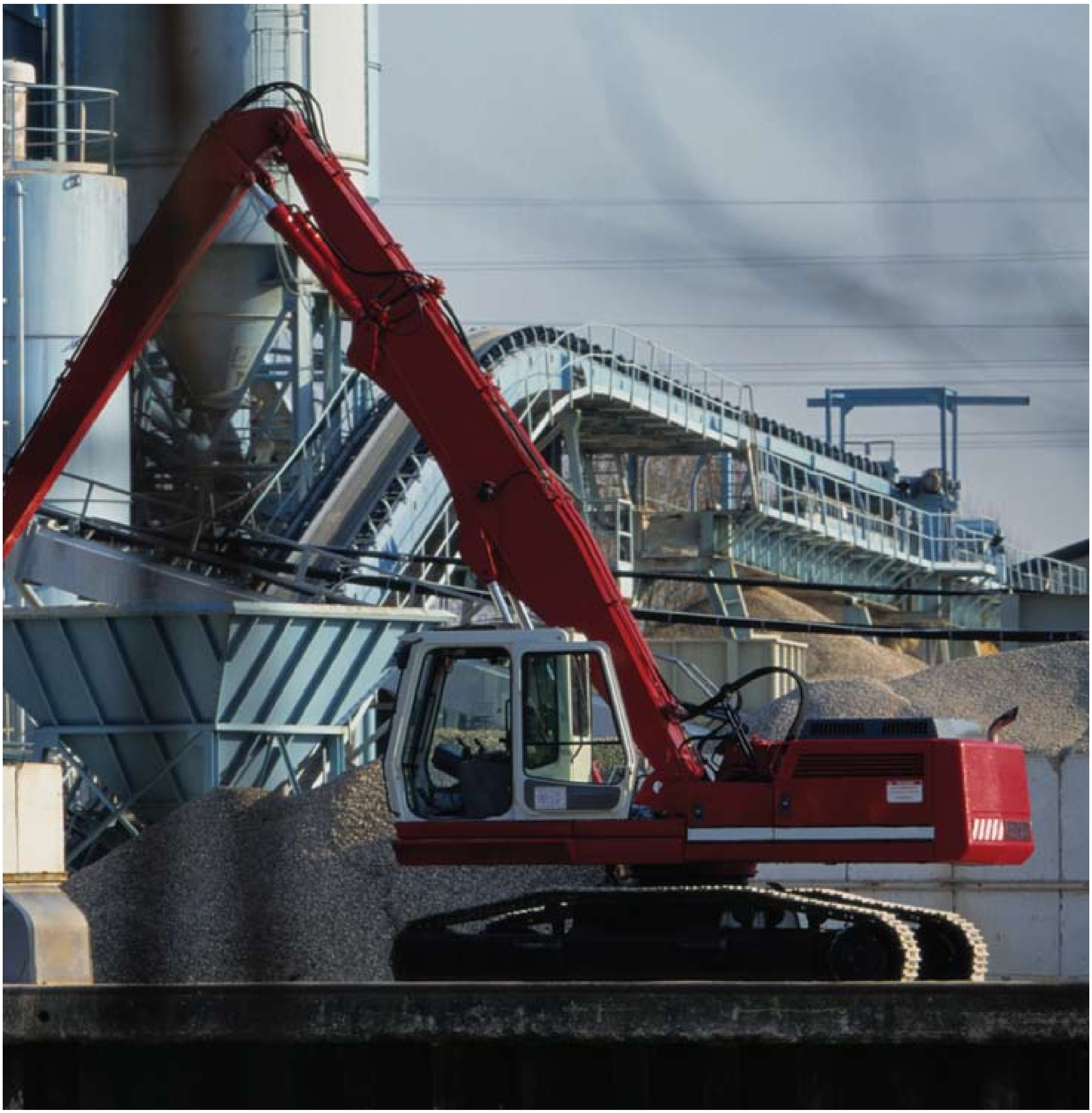
Guarantees

Technical Assistance

Online Dissemination of Investment Information

Legal and Claims

Regional Activities



Guarantees

Developing countries had reason for optimism in 2005, when net flows of foreign direct investment (FDI) into emerging economies climbed to an estimated $274 billion—the largest amount of FDI ever to reach the developing world. Flows increased in all regions, and reached a record level of $29 billion in Africa. The strong recovery reflects healthy global economic conditions and better compliance in developing countries with global investment standards. This upward trend is expected to continue through 2006, fueled by an increase in the availability of capital at lower spreads. But not all developing countries have been winners, particularly those perceived to be risky and where capital availability is limited.

At the same time, traditional investors continued to hedge when it came to investing in less developed countries, troubled by lower-than-expected earnings and disputed concessions, especially in the infrastructure sector. Investors chose instead to invest in more stable and developed markets. At the same time, the emergence of a new and growing force—so-called "South-South" investors—is making notable inroads on the investment landscape. Investment from developing countries now accounts for a third of all FDI going to developing countries.

MIGA's goal and challenge is multi-pronged, focused on re-engaging traditional investors while supporting the growing trend of South-South investment, as well as encouraging FDI flows into the high-risk/low-income frontier markets. MIGA does this by mitigating the non-commercial investment risks faced by both groups, with a specific focus on countries where the perception of risk may be worse than the reality. In these cases, MIGA's political risk insurance (PRI) provides a very important signal to the markets that private investments in such countries are in fact viable and profitable.

In fiscal 2006, MIGA issued $1.3 billion in guarantee coverage for 66 contracts in support of 41 projects. Many of the contracts focused on MIGA's priority areas: 23 were for projects in frontier markets, 15 supported South-South investments (see Box 1), and 10 were for projects in conflict-affected countries. The number of infrastructure investments guaranteed by the agency almost doubled from the previous year, surging to a total of 14 projects. (See Table 3.)

During the fiscal year, MIGA also supported 21 projects in IDA-eligible (the world's poorest) countries and 13 projects in sub-Saharan Africa, both special areas of focus. In terms of gross exposure, IDA-eligible countries accounted for 42 percent of the gross portfolio (see Table 4). Projects in sub-Saharan Africa account for 16 percent of outstanding exposure, well above the share of FDI that flows to the region.

Also in FY06, MIGA guaranteed nine projects in Afghanistan, Ecuador, El Salvador, Indonesia, Iran, Madagascar, Malaysia, and Sierra Leone under its Small Investment Program (SIP) (see Box 2). The SIP became fully operational this fiscal year, and is quickly proving to be popular among smaller investors who find the streamlined underwriting process more user-friendly and appropriate to their needs. The faster process also makes the underwriting of very small projects—which tend to have a strong developmental impact—more viable for MIGA. During the fiscal year, nine contracts worth $24 million in coverage were signed under the SIP. Three countries that received SIP deals were among the new host countries for MIGA-supported projects—Afghanistan, Iran, and Sierra Leone (see Table 3). During the fiscal year, MIGA also provided first-time coverage for a project in Mongolia.

MIGA also announced its first-time support for a project that will sell carbon credits gained by reducing greenhouse gas emissions. The reductions, which can be sold under the Kyoto Protocol, will result from the conversion of methane gases to less harmful carbon dioxide at a landfill in El Salvador. MIGA is supporting the project by providing $2 million in guarantee coverage. (See project brief in Operational Overview for more information.) The agency has been collaborating closely with the World Bank on supporting these types of projects that have a positive impact on the environment, and there seems to be an increasing interest in this product in the Latin America region.

The FY06 results bring total coverage issued since MIGA's inception to $16 billion, including amounts leveraged through the Cooperative Underwriting Program. Following a slight decrease in gross exposure in FY05, MIGA's outstanding business stood at $5.362 billion, an increase of $268 million (see Figure 2). Net exposure also rose, from $3.1 billion last fiscal year to $3.3 billion in FY06.

It is important to note that increases in gross exposure due to new business were offset by reductions, replacements, cancellations, and expiries during the year. Reductions are normal runoffs of the portfolio, while replacements reflect contracts that are reissued

Table 3

Projects Supported in Fiscal 2006

Host Country	Guarantee Holder	Investor Country	Sector	Amount $ M (incl. CUP)	Priority/ Area of Interest[1]
ASIA AND THE PACIFIC					
Afghanistan	DAGRIS, S.A.	France	Agribusiness	0.9	IDA, NHC, F, CA, SIP
Bangladesh	Orascom Telecom	Egypt, Arab Republic of	Infrastructure	78.3	INF, IDA, F, S-S
China	Compagnie Générale des Eaux	France	Infrastructure	40	INF
Indonesia	MTU Asia Pte. Ltd.	Singapore	Services	0.9	IDA, CA, S-S, SIP
Mongolia	Globull Investment and Development SCA	United States	Financial	20	IDA, NHC, F
Pakistan	Habib Bank AG Zurich, Switzerland	Switzerland	Financial	9.6	IDA, F
EUROPE AND CENTRAL ASIA					
Bosnia and Herzegovina	Raiffeisen Zentralbank Österreich AG	Austria	Financial	11.4	IDA, F, CA
Bulgaria	AES Bulgaria Holdings BV, Calyon Corporate and Investment Bank	Netherlands, France	Infrastructure	117.8	INF
Kazakhstan	First Kazakh Securitization Company, B.V.	Netherlands	Financial	75	
Russian Federation	Bema Gold Corporation, Société Générale SA, Mitsubishi Corporation (UK) Plc	Canada, France, UK	Mining	304.6	
Serbia and Montenegro	Raiffeisenbank a.s.	Czech Republic	Financial	57.3	F
Ukraine	Can-Pack S.A., Pol-Am-Pack S.A.*	Poland	Manufacturing	33.7	S-S
LATIN AMERICA AND THE CARIBBEAN					
Bolivia	Banco de Crédito del Peru	Peru	Financial	14.3	IDA, F, S-S
Brazil	Control y Montajes Industriales CYMI, S.A.	Spain	Infrastructure	21	INF
Brazil	Control y Montajes Industriales CYMI, S.A.	Spain	Infrastructure	9.8	INF
Brazil	Control y Montajes Industriales CYMI, S.A.	Spain	Infrastructure	10.6	INF
Brazil	Control y Montajes Industriales CYMI, S.A.	Spain	Infrastructure	5.7	INF
Brazil	Dragados Industrial S.A.	Spain	Infrastructure	23.1	INF
Dominican Republic	Organización de Ingeniería Internacional S.A., Autopistas del Nordeste (Cayman) Limited, Odinsa Holding Inc., Grodco S.C.A., Grodco Panama	Colombia, Cayman Islands, United Kingdom, Colombia, Panama	Infrastructure	107.6	INF, F, S-S
Ecuador	Prodenvases Crown S.A.	Colombia	Manufacturing	0.2	F, S-S, SIP
El Salvador	Biothermica Energie Inc.	Canada	Infrastructure	1.8	INF
El Salvador	Corporación Interfin, S.A.	Costa Rica	Financial	3.2	S-S, SIP
Jamaica	The Bank of Nova Scotia	Canada	Financial	41.8	
Nicaragua	Corporación Interfin S.A.*	Costa Rica	Financial	1.9	IDA, F, S-S
Uruguay	Abengoa, S.A.*	Spain	Infrastructure	0.6	INF

Table 3 (cont'd)

Projects Supported in Fiscal 2006

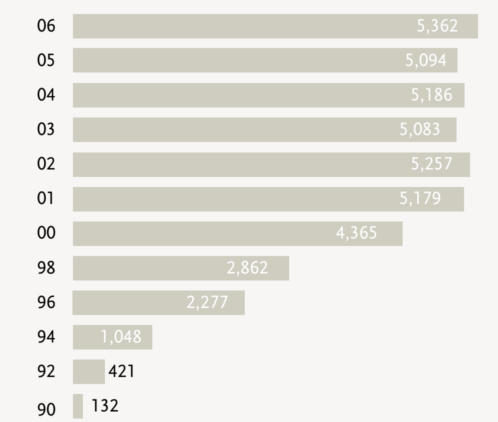
Host Country	Guarantee Holder	Investor Country	Sector	Amount $ M (incl. CUP)	Priority/ Area of Interest[1]
MIDDLE EAST AND NORTH AFRICA					
Iran, Islamic Republic	Itochu Corporation, National Petrochemical Public Limited, Cementhai Chemicals Co., Ltd.	Japan, Thailand	Oil and Gas	122.2	NHC, S-S
Iran, Islamic Republic	Cesur Packaging Corporation	Turkey	Manufacturing	5	S-S, SIP
Jordan	Infilco Degremeont, Inc., Suez Environment S.A.	United States, France	Infrastructure	4.1	INF
SUB-SAHARAN AFRICA					
Angola	Barloworld Equipment UK Limited	United Kingdom	Services	14.7	IDA, F, CA, SSA
Burkina Faso	DAGRIS*	France	Manufacturing	6.1	IDA, F, SSA
Ghana	PROPARCO	France	Financial	3.5	IDA, F, SSA
Ghana	Metro Ikram Sdn. Bhd.	Malaysia	Manufacturing	6.3	IDA, F, S-S, SSA
Kenya	Industrial Development Corporation of South Africa Limited, Mr. R. S. Chatthe	South Africa, UK	Agribusiness	6.7	IDA, F, S-S, SSA
Madagascar	DAGRIS, S.A.	France	Agribusiness	2.9	IDA, F, SIP, SSA
Madagascar	Louvre International Ltd.	Mauritius	Tourism	2.3	IDA, F, S-S, SIP, SSA
Nigeria	Ericsson Credit AB*	Sweden	Infrastructure	45	INF, IDA, F, CA, SSA
Nigeria	SGS Société Générale de Surveillance SA	Switzerland	Services	26	IDA, F, CA, SSA
Nigeria	Cotecna S.A.*	Switzerland	Services	54.9	IDA, F, CA, SSA
Sierra Leone	Sierra-Com Ltd.	Israel	Infrastructure	3.4	INF, IDA, NHC, F, CA, S-S, SIP, SSA
Sierra Leone	Intertek International Limited	United Kingdom	Services	5	IDA, F, CA, SIP, SSA
Uganda	MILLco Limited*	St. Kitts and Nevis	Agribusiness	3	IDA, F, CA, S-S, SSA

* *Additional coverage provided to projects underwritten in previous fiscal years and counted as a "new project" in previous fiscal years and as a "project supported" in FY06.*

1 *Projects in priority areas and other areas of interest, as follows: CA: conflict-affected country; F: frontier country; IDA: IDA-eligible country; INF: infrastructure; NHC: new host country; SSA: sub-Saharan African country; S-S: support to a South-South investment between MIGA Part 2 countries; and SIP: project underwritten under MIGA's Small Investment Program.*

Figure 2

Guarantees Portfolio, Gross Exposure $ M
as of June 30, 2006



due to new underwriting following a change either in the investment parameters or in the guaranteed amount. In fiscal 2006, 41 percent of all cancellations were due to clients' preference for self-insurance, which indicates possible improvements in their perception of political risk. Such cancellations illustrate that MIGA is achieving its ultimate mandate: encouraging foreign investors and lenders into markets they perceive as risky and supporting them until they feel comfortable enough with the risks to bear them on their own. A further 35 percent of the projects were cancelled because the underlying insured assets were no longer at risk, with the loans either being repaid or the projects sold to other investors.

Portfolio Diversification

Regional Diversification The regional breakdown of guarantees issued by MIGA in fiscal 2006 can be viewed from two perspectives: the number of guarantees issued and the value of the guarantees. In terms of number issued, sub-Saharan Africa was the top guarantee destination, with 21 contracts in support of 13 projects, totaling $180 million in coverage. Most of the contracts were small in dollar terms, with the exception of several large projects in Nigeria (one $45 million infrastructure project and two service sector projects totaling $81 million). Small investments are often an important driver of growth and can have a significant impact in developing countries. Two-thirds of MIGA's gross exposure in the region was comprised of projects in the agribusiness, manufacturing, services, and tourism sectors.

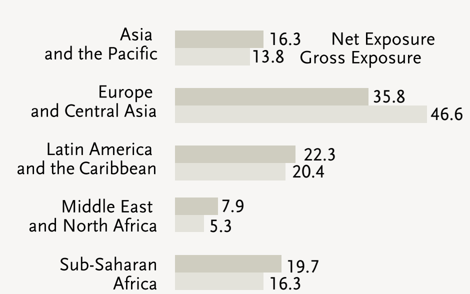
Latin America and the Caribbean generated the second highest number of guarantees, with 19 contracts in support of 13 projects, totaling $242 million in coverage. Among the projects were the Dominican Republic Toll Road Project, supported by a $108 million MIGA guarantee (see Box 3 on capital markets), and a series of electricity transmission lines in Brazil, which involved $70.4 million in MIGA coverage.

Europe and Central Asia (ECA) was the third most popular destination in terms of number of guarantees issued (10) in support of six projects, but at $599.8 million, accounted for the largest amount of coverage issued by MIGA during the fiscal year. Two large projects—the Kupol mining project in Russia ($305 million) and the Maritza power project in Bulgaria ($117.8 million)—accounted for the majority of the coverage. This represents an important shift in the agency's ECA portfolio, which over the past several years has been heavily weighted towards the financial sector. In fact, the agency guaranteed just three financial projects in the region in FY06. One of these transactions was a landmark mortgage-backed securitization in Kazakhstan, widely touted as an innovative instrument for encouraging capital flows into the region (see Box 3). MIGA insured a similar transaction in FY05 in Latvia that set a precedent and helped pave the way for this deal.

MIGA provided six guarantees for six projects in Asia and the Pacific during the fiscal year, totaling $150 million in coverage. Among these were two large infrastructure projects in Bangladesh and China, accounting for nearly 80 percent of the region's gross exposure. Of special note is that the agency guaranteed its first project in Afghanistan through the special Afghanistan Investment Guarantee Facility, created to encourage foreign investment in the reconstruction and economic growth in this conflict-affected country.

Figure 3

Outstanding Portfolio Distribution by Host Region, in Percent, as of June 30, 2006



Note: Percentages add up to more than 100 percent due to multi-country agreements. Refer to Financial Statements for more information.

Table 4

MIGA's Outstanding Guarantees Portfolio in IDA-Eligible Countries

IDA-eligible Countries	Gross Exposure ($ M)	% of Gross	Net Exposure ($ M)	% of Net
Serbia and Montenegro	393.0	7.3	171.7	5.2
Mozambique	264.1	4.9	147.5	4.5
Bosnia and Herzegovina	231.3	4.3	138.4	4.2
Ghana	183.8	3.4	157.6	4.8
Nigeria	149.2	2.8	126.8	3.8
Pakistan	140.8	2.6	113.5	3.4
Vietnam	128.6	2.4	52.2	1.6
Nicaragua	105.4	2.0	53.9	1.6
Lao PDR	89.6	1.7	44.8	1.4
Bangladesh	78.3	1.5	70.4	2.1
Moldova	61.1	1.1	30.5	0.9
Kenya	51.3	1.0	28.8	0.9
Indonesia	50.9	0.9	50.8	1.5
Uganda	43.5	0.8	22.9	0.7
Burkina Faso	43.0	0.8	38.7	1.2
Nepal	30.0	0.6	14.1	0.4
Mauritania	27.1	0.5	24.3	0.7
Mongolia	20.0	0.4	18.0	0.5
Côte d'Ivoire	18.8	0.3	18.8	0.6
Mali	16.2	0.3	14.6	0.4
Kyrgyz Republic	14.8	0.3	13.4	0.4
Angola	14.7	0.3	13.2	0.4
Bolivia	14.3	0.3	12.8	0.4
Guinea	14.0	0.3	14.0	0.4
Senegal	13.5	0.3	12.1	0.4
Albania	8.6	0.2	8.6	0.3
Sierra Leone	8.4	0.2	7.5	0.2
Madagascar	6.0	0.1	5.1	0.2
Congo, Democratic Republic of	3.3	0.1	3.0	0.1
Togo	1.7	0.0	1.7	0.1
Sri Lanka	1.7	0.0	1.7	0.1
Benin	1.0	0.0	0.9	0.0
Afghanistan	0.9	0.0	0.8	0.0
Burundi	0.9	0.0	0.8	0.0
Azerbaijan	0.9	0.0	0.8	0.0
Total	**2,231**	**42**	**1,435**	**43**

Box 1
Stimulating South-South Investment

Globalization has introduced new challenges and opportunities for companies in developing countries that are keen to make the most of their rapidly developing comparative advantages. The search for new markets and low-cost labor; the challenges of remaining viable and staying competitive; and opportunities abroad have led many companies in Brazil, China, India, Malaysia, South Africa, and elsewhere to expand their markets overseas.

According to the 2006 *Global Development Finance* report, companies from developing countries are contributing a greater proportion of FDI flows into other developing countries than ever before. Although capital flows between developing countries, also known as South-South flows, are still small in terms of size, this trend reflects the growing weight of developing countries in the global economy.

Supporting South-South investments is a priority for MIGA. In this fiscal year, MIGA issued guarantees for 15 South-South projects, helping the agency fulfill its mandate of facilitating cross-border investments among developing countries. These projects were worth $389 million in terms of guarantees issued.

The bulk of these investments originated from companies in middle-income countries, including, for example, a Malaysian firm investing in a housing project in Ghana, and an Egyptian firm investing in the telecommunications sector in Bangladesh (see table). The projects were distributed roughly evenly across sectors. Half of the investor countries in this category invested in developing countries in the same region or in close geographic proximity, such as a South African firm investing in Uganda, or a Colombian firm investing in Ecuador.

MIGA's Small Investment Program also witnessed a pattern of South-South investments—six of the nine projects guaranteed under the program this fiscal year originated from developing countries.

MIGA has also been playing a role in stimulating South-South investment exchanges by supporting investor outreach programs, investment roadshows, and capacity building for investment promotion intermediaries. In FY06, MIGA held marketing roadshows in Russia, Brazil and India to encourage more interregional investment.

MIGA has been particularly active in facilitating outward investment from China, through a multifaceted program that includes training of staff from Sinosure, China's export credit agency; marketing missions by guarantees staff; and awareness-raising among the business community through conferences and seminars on overseas investment trends. A survey of 150 Chinese firms jointly sponsored by MIGA and FIAS earlier this fiscal year found that more than half of the 251 overseas investments made by the surveyed firms to date were in developing countries. Their reasons for investing overseas were market access, resources, and strategic assets like technology, brands, and distribution channels.

South-South Projects Supported in FY06

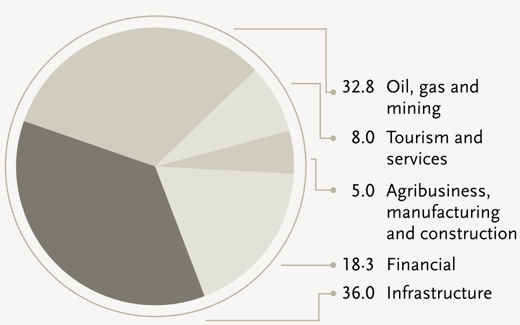
Investor Country	Host Country	Sub-sector	Gross Exposure ($ M)
Colombia/Panama	Dominican Republic	Transportation	107.6
Colombia	Ecuador	Manufacturing	0.2
Costa Rica	Nicaragua	Finance	1.9
Costa Rica	El Salvador	Finance	3.2
Egypt	Bangladesh	Telecommunications	78.3
Israel	Sierra Leone	Telecommunications	3.4
Malaysia	Ghana	Construction	6.3
Mauritius	Madagascar	Services	2.3
Peru	Bolivia	Finance	14.3
Poland	Ukraine	Manufacturing	33.7
Singapore	Indonesia	Services	0.9
South Africa	Kenya	Agribusiness	6.7
St. Kitts and Nevis	Uganda	Agribusiness	3.0
Thailand	Iran	Petrochemicals	122.2
Turkey	Iran	Manufacturing	5.0

Guarantee activity rose significantly in the Middle East and North Africa in FY06, compared with the previous fiscal year. The agency issued $131 million for 10 contracts covering three projects, up from just one contract the year before. This was due in large part to new business in Iran, which accounted for six of the 10 contracts. These involved $122 million in coverage for a petrochemical project, which aims to help the country ease its dependence on oil export revenues by focusing on the development of high-demand polymers.

Sectoral Diversification During the fiscal year, infrastructure accounted for the lion's share of guarantee activity, in terms of number of contracts issued (25), projects supported (14), and the amount of coverage ($469 million). This reflects the strategic focus placed on the sector over the past few years and concerted efforts to engage nontraditional, or South-South, investors in infrastructure, as well as to encourage the return of traditional investors into water and power projects. MIGA issued nine contracts in the financial sector, with coverage totaling $238 million. Contracts in the tourism and services sector (eight) totaled $103.8 million in support of six projects, while agribusiness, manufacturing, and construction accounted for 17 contracts for nine projects, worth $64.7 million—a reflection of the fact that investments in this sector are often of a smaller nature. In contrast, the oil, gas, and mining sector finished the fiscal year with seven contracts for two projects totaling $426.8 million in coverage—including $305 million in coverage for the Kupol gold mine in Russia. See Figure 4 for FY06 sectoral distribution of guarantees. To see how the fiscal year's activities impacted the agency's outstanding sectoral portfolio, see Table 5.

Figure 4

Guarantees Issued in FY06, by Sector, Percent of Gross Income, as of June 30, 2006



Investor and Host Country Diversification

The 10 largest host country exposures in MIGA's portfolio (see Table 6) constitute just over half of the agency's gross outstanding exposure. Seven ECA countries—Bosnia and Herzegovina, Bulgaria, Croatia, Romania, Russia, Serbia-Montenegro, Ukraine—together account for more than one-third of the total (40 percent). The top 10 list is almost identical to last year's. The Russian Federation rose from number seven to first place overall, having doubled its exposure from $271 million to $536.3 million in coverage during FY06, due to one large investment. Ghana and Mozambique were the top African host countries. Two post-conflict countries—Bosnia and Herzegovina and Serbia and Montenegro—remained on the top 10 list for the third consecutive year.

Environmental and Social Issues

During the fiscal year, MIGA worked closely with the IFC and World Bank on due diligence and monitoring of several projects, including the first monitoring mission of the West Africa Gas Pipeline Project, and on environment and social policy developments, paying particular attention to the IFC's process for reviewing its safeguard and disclosure policies. MIGA consulted with IFC specialists, clients, and civil society organizations on its own such policies during the fiscal year. These efforts will feed into MIGA's upcoming revision of its environmental, social, and disclosure policies, which will be completed in fiscal year 2007.

The fiscal year also saw MIGA's continued monitoring of social and environmental impact of the projects it supports. In addition to ensuring that all projects comply with MIGA's policies and standards at entry level, MIGA now monitors compliance throughout implementation as well. The agency's social and environmental specialists regularly visit all Category A projects, as well as some Category B projects, offering recommendations on corrective actions required in the event of compliance shortfalls. These monitoring exercises provide the agency with an opportunity to be more attentive to client needs and to provide guidance on social and environmental issues.

World Bank Group Cooperation

As an integral part of the World Bank Group, MIGA continued to place a strategic focus on strengthening its working relationship with the World Bank and the IFC. MIGA actively collaborates with World Bank Sector Boards and takes part in Country Assistance Strategy (CAS) discussions. In many countries—such as China, El Salvador, Egypt, Ghana, Indonesia, Madagascar, Mozambique, and Russia—World Bank country teams

Table 5

Outstanding Portfolio Distribution, by Sector, Gross Exposure, in Percent, as of June 30, 2006

	FY00	FY01	FY02	FY03	FY04	FY05	FY06
Infrastructure	29	29	36	41	38	39	41
Financial	34	36	35	29	35	39	33
Oil, gas and mining	14	14	12	12	11	9	14
Tourism and services	10	8	6	7	7	5	6
Agribusiness, manufacturing and construction	13	13	11	11	9	8	7
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Note: Figures in table might not add up to 100 due to rounding.

are working with MIGA to identify projects requiring guarantee assistance to bring in foreign investors. There has also been significant support on individual projects over the past year, such as the Kupol mining project in Russia. And MIGA has conducted a number of joint marketing missions with colleagues from the IFC. In the area of technical assistance, the majority of projects being conducted by MIGA are being done in conjunction with the IFC's Foreign Investment Advisory Service, and World Bank and IFC counterparts routinely make important contributions to MIGA's activities.

Carbon Fund MIGA has had active strategy discussions with the World Bank's Carbon Finance Group to capitalize on potential synergies. Although MIGA has not had many deals to date that would allow investors to benefit from potential carbon finance offsets, pipeline information is continuously shared to ensure that future opportunities are realized. In this light, MIGA has supported a waste management project in El Salvador this past year, which used a private carbon offset fund to help finance the project.

Project Finance and Guarantee (PFG) Department In FY06, staff from the World Bank's PFG department worked closely with MIGA on a number of infrastructure projects to present clients a single entry point within the World Bank Group and to market the various risk mitigation products available. Staff have also held numerous joint meetings with clients and country teams to try to structure solutions for projects in difficult markets.

Reinsurance

MIGA uses reinsurance for three main reasons: (1) to increase the amount of coverage MIGA can provide; (2) to manage the risk profile of the portfolio; and (3) to cooperate with other insurers as required under the agency's Convention. The primary benefits of reinsurance accrue to MIGA's clients, the investors who gain access to increased capacity to insure eligible projects in developing countries, and the recipient countries that benefit from higher levels of foreign direct investment.

Box 2

New Initiative Targets Smaller Investors and Businesses

Small and medium-size enterprises (SMEs)—businesses with less than 300 employees and less than $15 million in annual sales—are critical drivers of economic growth and poverty reduction. They generate employment; train poor, low-skilled workers; empower women; act as suppliers to larger companies; transfer technology; and promote innovation and entrepreneurship in many developing countries. Supporting these firms is a priority for MIGA.

While investing abroad can mean big profits to a small business, opportunities in uncharted territories are not without challenges, especially for smaller investors who are less able than their larger counterparts to absorb losses or navigate difficult investment terrain. At the same time, projects that need relatively smaller investments in developing countries often find it more difficult to access financing because sponsors are nervous about perceived credit risk, and do not want to compound the problem by taking on noncommercial risk.

During this fiscal year, MIGA responded to the unique needs of smaller investors and smaller businesses in developing countries by establishing a special guarantee program—the Small Investment Program (SIP)—designed to make it easier and faster for this special group of investors to obtain political risk insurance.

Investments in the non-financial sector are eligible for coverage under the SIP if they are related to the establishment of a small or medium-size enterprise, or made into an existing SME, in a developing member country. The maximum amount of guarantee coverage under the Small Investment Program is $5 million. What makes the SIP particularly attractive is the fact that MIGA can issue guarantees within 6-8 weeks of receiving a SIP application, depending on the availability of the necessary project information.

The simple underwriting process and reduced processing time have proved popular among smaller investors. During the fiscal year, nine projects—with a total book value of $24 million—received political risk coverage through the SIP.

The diversity of the SIP projects, in terms of regions and sectors, was impressive. Four of the projects are based in sub-Saharan Africa, two in Asia, two in Latin America, and one in the Middle East, including:

- a $3.15 million guarantee to support a company that leases tractors, commercial real estate, and telecommunications equipment to SMEs in El Salvador

- a $0.9 million guarantee to support the New Afghanistan Project for Cotton and Oil Development
- a $5 million guarantee to support a manufacturing plant in Iran that will produce and export large polypropylene bags
- a $3.4 million guarantee to support the establishment of a fixed line, state-of-the-art broadband wireless access and voice-over IP network in Sierra Leone

The SIP has also seen a higher than expected number of South-South investments from small investors: six of the nine investments came from developing countries.

Although tailored to encourage smaller investors to invest in SMEs in the developing world, the package does not restrict investors in terms of the size of the investing company. However, smaller investors with less than 375 employees get an extra benefit, because MIGA waives the application fee for companies that have less than $50 million in assets or $100 million in annual sales.

Such initiatives improve access to financing for SMEs in developing countries, and give peace of mind to the increasingly important small investors for their investments abroad. These foreign investors, many of whom are at the forefront of technological advances, are eager to apply their state-of-the-art technologies to projects overseas in exchange for greater market expansion and diversification.

Reinsurance arrangements with other insurers increase MIGA's capacity to support large projects. Because of its risk mitigation effect, MIGA's involvement encourages other insurers to participate in projects in frontier markets. It also enables other insurers to underwrite transactions with longer tenors than they would normally do. These insurers benefit from MIGA's expertise in risk analysis, dispute resolution, and claims handling and recovery procedures. At the end of fiscal 2006, $2.1 billion of MIGA's total gross exposure of $5.362 billion was reinsured. During fiscal 2006, MIGA placed a total of $940 million through facultative reinsurance.

Partners During fiscal 2006, MIGA entered into facultative reinsurance agreements, and thus leveraged additional capacity for MIGA projects, with more than 10 private insurance partners. It continues to work with its treaty reinsurance partners, ACE Bermuda Insurance Co. Ltd. and XL Re Ltd. MIGA cedes a portion of the contingent liability related to contracts of guarantee it underwrites to its treaty reinsurers through quota-share treaty reinsurance agreements.

During fiscal 2006, MIGA signed agreements with the Islamic Corporation for the Insurance of Investment and Export Credit, with ONDD, the Belgian Export Credit Agency, and with Export-Import Bank of Thailand. These agreements will allow MIGA to enter into facultative reinsurance or cooperative underwriting arrangements with these institutions on transactions that meet the eligibility requirements of MIGA and its partners.

Also during the year, Export Development Canada provided MIGA with $107 million in facultative reinsurance for the Kupol mining project in Russia, representing the largest amount MIGA has ever reinsured with a public partner. Together with the facultative reinsurance amounts ceded to private partners on the same project ($84 million), this was also the largest amount in absolute terms ever to be ceded by MIGA to insurance partners.

Figure 5

Outstanding Portfolio Distribution, by Investor Country, in Percent of Gross Exposure, as of June 30, 2006

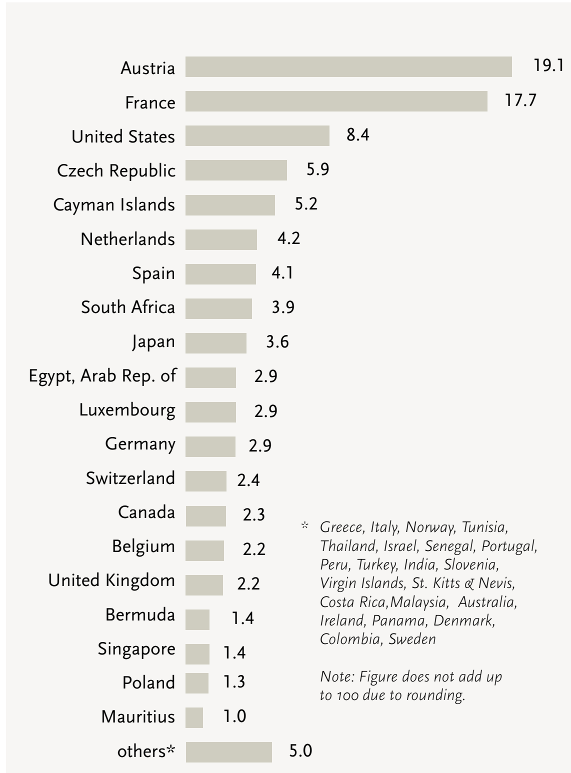


Table 6

Ten Largest Outstanding Country Exposures in MIGA Portfolio, as of June 30, 2006

Host Country	Gross Exposure ($ M)	% of Gross	Net Exposure ($ M)	% of Net
Russian Federation	536.3	10.0	210.9	6.4
Bulgaria	396.3	7.4	139.8	4.2
Serbia and Montenegro	393.0	7.3	171.7	5.2
Mozambique	264.1	4.9	147.5	4.5
Romania	261.6	4.9	121.4	3.7
Bosnia and Herzegovina	231.3	4.3	138.4	4.2
Brazil	227.1	4.2	112.7	3.4
Ghana	183.8	3.4	157.6	4.8
Ukraine	176.2	3.3	108.3	3.3
Croatia	163.8	3.1	64.5	2.0
Total	**2,833.6**	**52.8**	**1,372.7**	**41.5**

Box 3
Capital Markets Meet Emerging Market Investment Needs

MIGA made significant inroads during the last fiscal year in harnessing the vast resources of the capital markets to meet the investment needs of emerging market economies, and the risk-return appetites of private investors. The agency's $75 million guarantee contract with the First Kazakh Securitization Company, B.V., has been hailed by the financial press as a groundbreaking deal—the country's first true-sale securitization of mortgages.

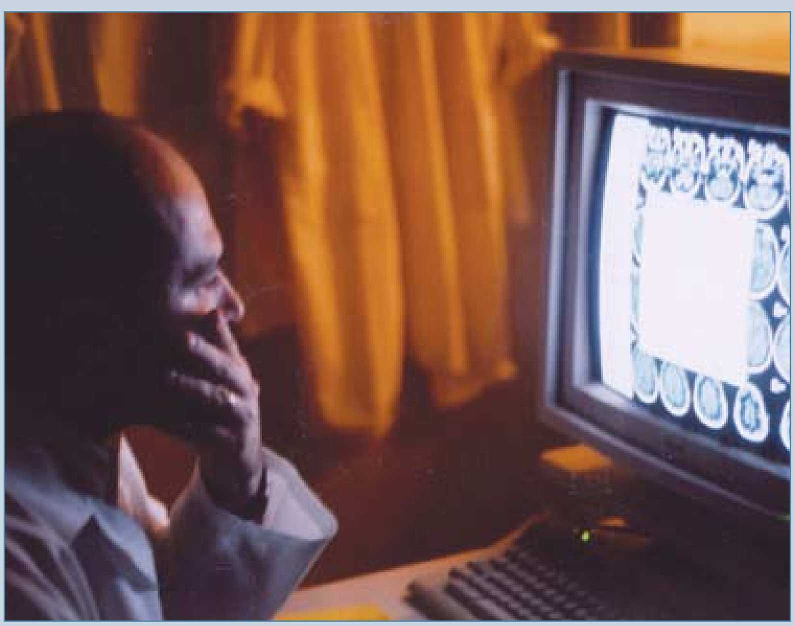
The deal involves the purchase of a portfolio of residential mortgages from BTA Ipoteka, the mortgage lending subsidiary of Bank TuranAlem, by First Kazakh Securitization Company—a special purpose vehicle funded by a multi-seller conduit sponsored by ABN Amro Bank of the Netherlands. The funds raised from investors who buy these mortgage-backed securities will enable Bank TuranAlem to expand its mortgage lending, making the mortgage market in Kazakhstan more competitive and transparent. MIGA's involvement in this project is expected to stimulate the capital markets in Kazakhstan by expanding the investor base beyond local investors in asset-backed securities.

MIGA supported this transaction by insuring a portion of the principal and interest payments generated by the mortgage portfolio against the risks of currency transfer restriction and expropriation for a period up to five years. MIGA's latest pioneering deal shows the market how local borrowers can access sophisticated new forms of financing to match their funding needs.

Another emerging market project that raised funds from private capital sources with MIGA support during FY06 is Autopistas del Nordeste C. Por. A., a toll road project in the Dominican Republic. MIGA has provided $108 million in political risk insurance to a group of investors for their $14 million equity investment in and $162 million bond issue for the project. MIGA's coverage is for up to 20 years against the risks of transfer restriction, expropriation, war and civil disturbance, and breach of contract. This is the first time that MIGA insurance has been used to cover a capital markets transaction (through a private placement) to finance an infrastructure project.

The Dominican Republic bond issue ultimately achieved a rating (B) above the sovereign ceiling for the country (B-). The senior secured notes—issued by Autopistas del Nordeste and launched by Morgan Stanley—drew strong demand from investors and were eventually 40 percent oversubscribed. The notes mature in 2026, and have a 13-year average life (see project brief for more information).

MIGA aims to improve access to financing options for developing countries by participating more and more in similar projects.



Box 4
Supporting Investments in Small States

The term "small states" refers to a diverse group of sovereign developing countries—some are islands or groups of islands, some are landlocked, and many have populations of 1.5 million or less. While some of these countries are quite wealthy, others are very poor and their development needs are stark. Countries belonging to the small states category are home to almost 30 million people. Thirty-three of these countries are MIGA members, and the agency is committed to supporting projects that promote sustainable development in these countries.

Following the December 2004 tsunami disaster in Asia, MIGA began looking into ways to help affected countries, both through support for foreign direct investors wanting to make a commitment in those countries, and through the provision of technical assistance to governments wanting to attract foreign direct investment into affected areas. It soon became clear that the need extended beyond tsunami-affected countries, and that MIGA could play a unique role in supporting many small and vulnerable states in their programs to manage the impacts of natural disasters. MIGA is now working with the World Bank on a natural disaster insurance scheme for Caribbean countries, in the form of a risk-sharing insurance.

The scheme would allow member countries to pool natural disaster risks by purchasing insurance polices against adverse natural events of specific return periods, with claims payments depending on parametric triggers. Because of the pooling of risks and economies of scale, the facility would offer competitive insurance coverage to participating countries. Research into the concept, including the viability of extending the scheme to other geographical regions, will continue in the next fiscal year.

The challenges faced by small developing countries are compounded not just by their size and vulnerability to natural disasters, but also by undiversified economies, limited resources, and small domestic markets, which make it difficult for these countries to achieve international competitiveness. MIGA recognizes that these countries need to be well-equipped to compete not only with developed countries, but also with each other to attract foreign direct investment. As part of MIGA's strategic objective to provide technical assistance to investment promotion intermediaries in member countries, the agency is working to enhance the capacity of small developing countries to provide information and advice that will attract foreign investors to these locations.

In this context, MIGA has been working with the island nations of the Pacific for several years, including most recently under the Investor Information Development Program—sponsored by the Development Gateway Foundation—providing advice and assistance on online information. In fiscal year 2006, MIGA collaborated with the Foreign Investment Advisory Service to include nine countries of the region in the IPA Performance Assessment Survey. A number of small states in the Caribbean are also participating in MIGA's Enterprise Benchmarking Program.

In addition, in this fiscal year MIGA issued a $41.8 million guarantee to the Bank of Nova Scotia of Canada for its investment in the Kingston Port Container Terminal in Jamaica. The expansion and modernization of the terminal will help the Port Authority not only remain competitive, but also position itself as the transshipment hub of the region. The expansion is expected to increase revenues by five percent annually for the next eight years, leading to a cumulative increase in net revenues of $362 million. To date, MIGA has issued 11 contracts in Jamaica.

Earlier, in the year 2000, MIGA issued two guarantees totaling $69.4 million for a project involving the construction and operation of electricity transmission lines interconnecting Mozambique, South Africa, and Swaziland. This was MIGA's first project in Swaziland. MIGA's net exposure for the project is currently $18.3 million.

In 1998, MIGA issued four guarantee contracts totaling $2.4 million in coverage for the development of a basalt quarry and the installation of a crushing plant to produce sand and gravel aggregates in the island of Santiago, the largest Cape Verdean island.

MIGA has also issued various guarantees covering investments made by Mauritian telecommunications companies in foreign countries, and is committed to continuing its efforts to improve investment climates and promote investment opportunities in small states throughout the world.

Technical Assistance

MIGA provides technical assistance to help governments and other intermediaries involved in promoting investment to improve their ability to respond effectively to investor needs. In fiscal 2006, demand for MIGA's technical assistance services continued to be strong—the agency's active technical assistance (TA) portfolio contained 45 projects in 28 countries, along with several regional and global initiatives. Twenty of the TA projects were implemented in 16 IDA-eligible countries.

Investment promotion intermediaries promote FDI through a combination of activities, with the goal of generating economic growth and creating jobs. They attract investors to specific locations; help existing investors solve problems encountered while operating within a country; encourage governments to make changes to increase a country's attractiveness as an investment destination; and help anchor investments to the domestic economy through supply and sourcing relationships.

MIGA helps investment promotion intermediaries develop their capacity to provide investors with information and advice, with the goal of reducing the transaction costs associated with site selection, as well as helping businesses get started. MIGA is one of the few organizations with the global experience to provide broad-based assistance that builds the institutional capacity of these investment promotion agencies (IPAs).

Country engagements typically begin with an institutional needs assessment that forms the basis for the development of a tailored technical assistance plan. The vast majority of MIGA's TA projects are based on partnerships, not just within the Bank Group, but with the broader development community.

2006 IPA Performance Review

Based on a pilot study completed in 2005, MIGA conducted a performance benchmarking study of the effectiveness of 114 investment promotion agencies from developing and transition economies around the world. The MIGA IPA Performance Review 2006 examines how effectively IPAs make investor information available and how they handle investor inquiries. Access to good-quality investment-related information is critical to investors during the site selection process, and the results of this study are being used to advise each participating agency of its performance relative to that of other IPAs and to industry best-practice standards.

The performance review consists of two components: First, each IPA's website was reviewed from the perspective of private investors' information requirements in screening locations as potential investment sites. The assessments covered website architecture and design (ease of use, etc.), the quality and relevance of information and content available on the website, and the use of the site as a marketing tool. Second, the study undertook a survey of each IPA's ability to handle specific investor enquiries. The study used a "mystery shopper" approach, in which anonymous investor enquiries were submitted to each IPA, and the IPA was assessed on the basis of the quality of its responses. The agencies were then judged on how easy it was to contact the IPA, the IPA's responsiveness to the inquiry, how well the inquiry was handled, the interim/holding response, the quality and content of the final response, and follow up.

The study also reviewed 12 selected developed country/region IPAs as best-practice benchmarks. Each participating agency received a copy of the global report and a specifically tailored report on its own performance benchmarked against global and regional averages, as well as best-practice levels.

MIGA and NEPAD

This year saw the launch of a new information dissemination initiative between MIGA and NEPAD, the New Partnership for African Development. MIGA is working with the NEPAD Secretariat to develop and implement an online project management and reporting system that will (1) allow development partners in Africa to securely share key information and documents on regional projects; and (2) disseminate updated information on these priority projects and relevant tenders to the business community and civil society through the NEPAD website, as well as through MIGA's investor information services.

The project design phase began in early FY06 with a series of meetings and workshops held in Botswana, Nigeria, South Africa, Tunisia, and Zambia to reach agreement among key stakeholders on the development and maintenance of the system, as well as to discuss information technology requirements and launch the software development effort. MIGA will facilitate the development of an integrated, multi-country database linked to individual project portals capable of being updated by the regional economic communities, international financial institutions, and project implementing agencies.

The pilot phase of this effort focuses initially on infrastructure projects, but will soon expand to incorporate regional facilitation, capacity-building, and research projects across a number of sectors.

MIGA and NEPAD began to roll out this new system in the summer of 2006 to facilitate information-sharing among the various development partners, including the regional economic communities, the African Development Bank, the Development Bank of Southern Africa, the World Bank Group, as well as other implementing agencies and donors.

Concurrently, MIGA is working with NEPAD to help it define appropriate capacity-building programs for project coordination and facilitation activities. These new initiatives will be implemented in cooperation with its partners, building on the functionality offered by the NEPAD Project Management System to enhance the preparation and implementation of regional projects and programs across the continent.

Serbia Investment Promotion Program

The Serbia Investment Promotion Program (SIPP) is an initiative funded by the European Agency for Reconstruction (EAR). Under the two-and-a-half year project, MIGA has been charged with implementing a range of capacity-building and investment promotion activities. The program's overall objective is to increase FDI flows into Serbia, thereby accelerating the country's transition to a market economy, underpinning the European Union accession process and creating long-term sustainable private-sector development.

SIEPA—the national trade and investment promotion agency—is the main beneficiary of this program. Specific project objectives include the development of institutional capacity within SIEPA; the effective promotion of Serbia as a competitive investment location; the reduction of economic disparities through the attraction of more FDI; the development of pilot schemes in the area of industrial zone development and supplier development; and the enhancement of prospects for Serbian SMEs to become approved suppliers to foreign investors.

Given the current negative perception of Serbia held by many potential investors, effective and extensive image-building is needed to focus on the country's assets and develop a more positive perception of Serbia. To that end, MIGA is overseeing the preparation and implementation of a proactive, sector- and territory-targeted promotional campaign featuring extensive outreach activities.

European Investor Outreach Program

The European Investor Outreach Program (EIOP) is MIGA's regional umbrella initiative—supported by the Austrian government—to promote FDI flows to the Western Balkans region. First launched as a two-year pilot initiative in 2004, EIOP Phase 1 was set up by MIGA as a regional platform designed to help the Western Balkans more effectively market foreign direct investment opportunities to European investors. The EIOP operates out of Vienna.

Under the lead of a small MIGA team, the EIOP is implementing an innovative and proactive approach to investment promotion for the entire region. The program seeks to identify, market, and facilitate concrete investment projects in the Balkans through direct engagement with prospective foreign investors. Outreach activities focus on a limited number of industry sectors, and are predominantly geared to select European target markets with strong business ties to the Western Balkans. Marketing activities are designed and implemented in close cooperation with investment promotion agencies and other partners in the EIOP beneficiary countries,[7] and are coordinated and closely linked with technical assistance programs supported by MIGA and other international and bilateral organizations in the region. The EIOP's efforts significantly complement and strengthen local private sector development efforts, ultimately enhancing local employment opportunities and contributing to improved political stability in the region.

This fiscal year, investor outreach activities were implemented in Austria, Germany, Greece, Slovenia, and Switzerland. Results include investment announcements by two investors, with another four companies expected to announce their decisions soon, leading to a combined total of more than 500 new jobs and projected investments of €29 million. These investments, to take place in Bosnia and Herzegovina, Croatia, and Serbia, are in the construction, food, packaging, metal processing, and consumer products sectors. Fifteen site visits have been facilitated by EIOP so far this year, presenting a serious level of investor interest. A project pipeline of 48 companies is currently being serviced under EIOP, with approximately 24 companies having expressed an advanced level of interest.

[7] *The EIOP currently covers Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia, Serbia and Montenegro (including Kosovo).*

Enterprise Benchmarking Program

Also during the fiscal year, two studies were undertaken and a new publication released under MIGA's Enterprise Benchmarking Program (EBP), an innovative tool that gauges a country's ability to compete with other potential sites and locations for foreign investment. The program provides a comparative analysis of a country's competitiveness by sector. The end result is a practical snapshot of conditions and opportunities that provides investors with a key tool to organize their site selection research, while saving valuable time and money needed to conduct the detailed analysis on their own. Policymakers and investment promotion intermediaries benefit from the data as well.

Working with the IFC's China Project Development Facility, MIGA produced the "Snapshot Sichuan" publication. The report highlights the competitiveness of the underdeveloped western region of China in key sectors, and gives an indication of how it measures up in cost to better-known locations on the coast. The wide-ranging Africa benchmarking study, covering 11 countries and six sectors, was also completed, with country analyses distributed to each of the client governments, and a combined snapshot report now under preparation (see Box 5). In collaboration with the Commonwealth Secretariat, a benchmarking analysis of four countries in the Caribbean and Central America is currently underway, examining competitiveness in tourism, offshore services, and agribusiness. The program is an offshoot of MIGA's "Snapshot Asia," a 2003 report that examined two industry sectors in six Asian countries.

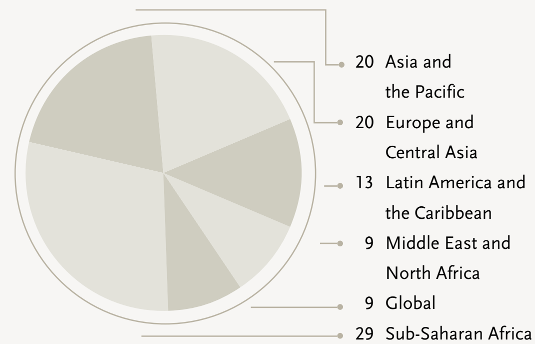
MIGA's program is closely coordinated with the investment climate work of the World Bank and IFC, and seeks to complement the World Bank Group's analytic and policy dialogue tools, such as the Investment Climate Assessments and the Doing Business indicators. The benchmarking methodology is being updated and revised to reflect the experiences in implementing it over the past months, and to ensure that it is generating data that is useful and used by our clients.

Investor Research Facilitation

There is a basic common set of market and investor intelligence needed by most investment promotion intermediaries (IPIs) in their efforts to attract and retain investors, and MIGA aims to facilitate access to intelligence sources in a way that reduces costs and duplication of efforts. This year, MIGA launched an effort to complement its in-country TA interventions by enhancing knowledge transfers in the areas of targeting and investment generation. MIGA's efforts facilitate IPIs' access to intelligence sources required to streamline their investment promotion efforts by negotiating favorable group access rates to commercial market intelligence sources. The negotiated access rates are available to about 70 least-developed and developing countries.

Figure 5

TA Portfolio Distribution by Region, in Percent,
as of June 30, 2006



E-course

During fiscal year 2006, MIGA created its first e-learning course, "Managing Effective Investment Promotion Campaigns." The course builds on one of the most-used modules of MIGA's Toolkit, dealing with investor targeting and investment promotion. Supported by the World Bank Institute, a self-paced online version of the course is now available. MIGA is working in cooperation with the Asian Institute of Management to plan a pilot version of the course, targeting national and subnational investment promotion agencies in the Philippines.

Regional

MIGA recently launched discussions with the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) to explore the development of a joint initiative to benefit investment promotion intermediaries in the ICIEC member countries of the Middle East and North Africa, South Asia, and sub-Saharan Africa. Specifically, ICIEC will support MIGA in undertaking needs assessments in a range of countries, starting in Sudan and Cameroon. In addition, ICIEC will provide assistance in ongoing MIGA technical assistance programs, initially in Mozambique, Senegal, and Sierra Leone.

Box 5
Africa Enterprise Benchmarking

MIGA's Enterprise Benchmarking Program for Sub-Saharan Africa comprised studies carried out in 11 countries: Ghana, Kenya, Lesotho, Madagascar, Mali, Mauritius Mozambique, Senegal, South Africa, Tanzania, and Uganda. The studies reviewed the following sectors for most of the countries: apparel, textile manufacturing, call centers, tourism, horticulture, and food and beverages processing.

The findings for each country are being appraised in-country with each investment promotion intermediary, and will be used as a basis for discussion with private sector representatives and the donor community, as well as to strengthen the IPIs' investment promotion positioning and capacity to carry out promotional activities. General observations emerging from the study follow:

- *Africa is yet to be discovered by international investors*. The number of foreign investment projects in "mobile investment" sectors is still relatively limited. (Mobile investment refers to investment that can locate at multiple locations—such as car plants, clothing factories, etc.—leading locations to compete for it.) Despite the fact that the program selected sectors with high international mobility in terms of operation locations, the study found relatively few fully foreign-owned operations in Africa.

- *A large proportion of foreign investments originate in neighboring countries*. In addition to international investors, the study observed an important role played by neighboring countries as a source of investment; among other factors, continuous regional economic integration and the growth potential of regional markets played a significant role in this phenomenon. Identifying potential investors is an important aspect of developing an investment targeting strategy.

- *Most of the countries studied still find themselves in the "pre-site selection" stage*. While the application of site selection methodology assumes that the countries studied have a potential of being "shortlisted" by international investors, the profiles of existing investors suggest that most of the countries have not matured enough to enter this phase. This issue should be addressed with the development of effective investment promotion messages.

- *Information is hard to come by*. Providing accurate, relevant, and timely information to prospective investors is one of the critical factors in determining whether a location will be shortlisted for investment. An easily accessible source pool for such information is absent in the services provided by the IPIs of most countries. MIGA sees ample opportunity to provide hands-on capacity building, while continuing its support through its online information dissemination tools.

- *Attractive investment opportunities do exist*. The study encountered a number of projects that are thriving, which highlights the potentials of the benchmarked sectors. As current investments in the studied sectors are limited, a "first move" advantage is available for those investors that look to profit from a relatively untapped market.

Online Information Dissemination

MIGA's online investor information services continue to be one of the most comprehensive sources of information on investment climate issues and business opportunities in developing countries. These services experienced consistently increased usage during the fiscal year. The number of registered members for all online services now exceeds 26,000. The top five countries—by number of registered users receiving customized email updates on a regular basis—are Canada, India, South Africa, the United Kingdom, and the United States. Website traffic continued to increase this fiscal year, with more than 79,000 visitors a month (on average) in FY06 compared with a monthly average of 68,000 in FY05.

Online Information on FDI

In FY06, MIGA began the process of repositioning its online information services to improve the dissemination of information relevant to investment decisions and FDI issues, while continuing to support investment promotion agencies and intermediaries. The process resulted in the consolidation of IPA*net*, PrivatizationLink and FDI Xchange into one integrated portal site—FDI.net (www.fdi.net). This consolidation will help the agency provide better coordinated online support through the corporate website (www.miga.org), FDI.net (www.fdi.net), FDI Promotion Center (www.fdipromotion.com), and the upcoming PRI-Center (www.pri-center.com).

FDI.net has been designed and branded to fit MIGA's corporate image and promote its strategic areas of focus, as well as make information more accessible and relevant to target audiences. The portal will feature "spotlight" pages developed in partnership with relevant entities within the World Bank Group, NEPAD, and other organizations. These pages will highlight topics of particular interest to distinct groups of investors, especially areas in line with the agency's strategic objectives, including privatization, infrastructure, and private-public partnership opportunities in sub-Saharan Africa.

Users of FDI.net will continue to receive customized email alerts and a revamped electronic newsletter that will draw attention to pertinent content in the portal, as well as latest FDI-related issues. In FY06, an interactive tool was implemented to help users locate public and international organizations that provide financing, political risk insurance, and information on business environments, among other things. Content development, especially at the sector level, will be given renewed emphasis, as the new content strategy will seek to leverage better existing and new partnerships. The site will serve not just as an information resource for investors, but also as a promotional tool for the agency's partners, as well as MIGA's own products and services.

In FY06, the number of registered users of MIGA's online knowledge-sharing and learning portal for investment promotion professionals—the FDI Promotion Center—continued to increase (currently approaching 4,000). The Russian language version of the portal was launched during this fiscal year. The Russian portal incorporates local case studies and best practices, and is expected to be used by the National Agency for Investment in the Russian Federation to train investment professionals and officials in the region. Preparations are underway for an Arabic language version of the portal. FDI Promotion Center continues to expand its content offerings to include new modules, as well as e-learning courses for investment promotion practitioners.

Online Political Risk Insurance Center

Considerable progress was made in FY06 in the development of a new online service, the Political Risk Insurance Center or PRI-Center, which aims to disseminate information on FDI and PRI issues in an easy-to-use virtual space for practitioners, investors, and other interested parties. PRI-related information is currently not easily or widely available, or is too costly to obtain, and the value of PRI as a risk mitigation tool is therefore not always understood well by investors. The site is conceived as a free, one-stop shop providing political risk management and insurance resources that combine the knowledge and expertise of industry players with regard to country risk analysis, research and tools, best practices, as well as directories and news. The concept and development of the center has benefited from inputs from the Berne Union [2] investment committee, as well as the findings of a MIGA-run online survey distributed to 3,500 individuals in the investor community. The pilot site is currently being developed, with a launch expected early in the next fiscal year.

[2] *The Berne Union, or officially, the International Union of Credit and Investment Insurers, is an international organization and community for the export credit and investment insurance industry.*

Legal and Claims

MIGA's Legal Affairs and Claims Department assists member countries on matters related to foreign investments, provides legal advice to underwriters regarding the issuance of insurance coverage, negotiates insurance policies with investors and handles claims for compensation brought under contracts issued by MIGA. The department also makes its mediation facilities selectively available to investors and member countries.

MIGA actively seeks to resolve disputes that may adversely impact investments guaranteed by the agency. This is a significant value added that a MIGA guarantee brings to an investment, in addition to the coverage it provides. Guarantee holders are required to notify MIGA of disputes and other difficulties that might give rise to a claim under their contracts. Once so notified, MIGA actively uses its good offices to resolve these disputes.

MIGA's claims resolution efforts are generally welcomed by both parties to a dispute, since neither wants to see matters deteriorate to the point at which a claim is made. The objective of actively seeking a settlement to a dispute is twofold: one is to ensure that the investment continues in the host country and is able to realize its full potential; and second, to avoid negatively affecting the investment reputation of the host country. In these efforts, MIGA relies heavily on the cooperation and willingness of investors and developing member countries.

MIGA did not pay any claims during fiscal year 2006, but is actively seeking to resolve three pending claims involving issues of expropriation. These claims are in Argentina and the Kyrgyz Republic. There is continuing work on another Argentine claim, which was partially paid in February 2005, to determine whether the guarantee holder has met the conditions applicable to further payment on the claim. As of June 30, 2006, the Claims Committee had determined that the investor had met this burden with respect to part of the remaining claim, and payment will likely be made in early fiscal 2007.

MIGA is also closely monitoring and actively working to resolve the problems of eight other disputes relating to investments guaranteed by the agency in Argentina, Guatemala, the Kyrgyz Republic, Mauritania, Nicaragua, Senegal, and Venezuela. Four of these involve issues related to expropriation; three involve breach of contract; and two involve transfer convertibility issues.

During the last fiscal year, MIGA successfully mediated a settlement of a dispute involving an investment in China, through the cooperation and goodwill of both the foreign investor and the Chinese authorities. As a result, the investment project—a water treatment plant—was recently commissioned and is providing potable water to 450,000 people in Deqing County in the Province of Zhejiang.

In selected circumstances, MIGA encourages the settlement of disputes between investors and member states even when the agency is not involved as a guarantor. Mediation, which is voluntary, informal, and inexpensive, is increasingly recognized as an attractive alternative for the resolution of investment disputes. The purpose of MIGA's involvement is to help resolve outstanding disputes that may act as an impediment to future foreign investment. For example, MIGA helped Ethiopia, at the government's request, to resolve issues relating to the resolution of the outstanding claims that date back to expro priatory actions of the Mengistu government more than 30 years ago. The resolution of the majority of these long-standing foreign investment claims should encourage the flow of additional investment into Ethiopia.

Regional Activities

Asia and the Pacific

The economies of East Asia and the Pacific continued to expand in 2005 albeit at a slower pace, growing by 8.8 percent compared with 9.9 percent in 2004.

Although the countries of East Asia remain the most significant destination for capital flows to Asia as a whole, net FDI rose only slightly in 2005 to $67.3 billion, in contrast to the vigorous growth seen in previous years. China still remained the largest recipient of FDI, at approximately $51 billion, but its rate of growth also tapered. Investors are showing some concerns over declining profit margins from increased competition and potential overheating of the economy. In contrast to China, FDI inflows to other Asian countries increased sharply, with Indonesia receiving $4 billion, largely related to the continued privatization of state assets and acquisition of private firms. Malaysia and Thailand also received substantial flows.

Net FDI in South Asia also grew in 2005, reaching $7.1 billion. In India, investment rose in industries such as cement, sugar, plastics and rubber, and hotels. In Pakistan, privatization and resource-related FDI led growth. Other countries, such as Bangladesh, also benefited from FDI flows in attractive sectors, such as telecommunications and manufacturing.

During the fiscal year, MIGA provided six guarantees and undertook five technical assistance projects in the region. At year-end, MIGA's gross guarantee exposure stood at $740 million, 13.8 percent of the agency's outstanding portfolio.

Guarantees

Country	**Activities**
Afghanistan  	Project: The New Afghanistan Project for Cotton and Oil Development (NAPCOD) Guarantee Holder: DAGRIS, S.A. MIGA has issued a $0.9 million guarantee to DAGRIS, S.A. for its equity investment in the New Afghanistan Project for Cotton and Oil Development (NAPCOD). DAGRIS of France owns 60 percent of the company. The guarantee is for a period of up to seven years and covers against the risks of currency transfer restriction, expropriation, and war and civil disturbance. The project is the first investment in Afghanistan to be guaranteed by MIGA. MIGA's coverage marks the first use of the Afghanistan Investment Guarantee Trust Fund (AIGF), a special fund for the country aimed at assisting Afghanistan in its reconstruction efforts by stimulating foreign direct investment through a program of political risk insurance. An additional guarantee, administered by MIGA, was provided for the project through the AIGF. The NAPCOD project is expected to create sustainable growth in the cotton sector of the country by providing the technical and financial assistance that will enable cotton growers in northern Afghanistan to increase the production of cotton. The NAPCOD is a joint venture between DAGRIS, S.A., majority-owned by the French government, and the government of Afghanistan. The project will produce, collect, and gin cotton, as well as refine the cotton seeds to produce animal feed and high-value oil. It is expected to create around 300 permanent jobs, in addition to stimulating local businesses that supply goods to the cotton industry. All of NAPCOD's cotton production is destined for export, which should help improve the country's balance of payments. MIGA's participation in the project is aligned with several agency priorities: encouraging investment in conflict-affected nations, and improving access to financing options for local SMEs. NAPCOD was underwritten through MIGA's new Small Investment Program (SIP), which makes it quicker and easier for smaller firms to apply for a standardized package of risk coverages. This is the fourth investment covered under the program.

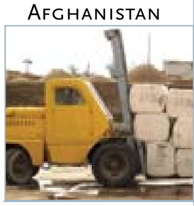
Guarantees

Country	Activities
Bangladesh	Project: Sheba Telecom Ltd. Guarantee Holder: Orascom Telecom Holding SAE MIGA has issued a $78.3 million guarantee to Orascom Telecom Holding SAE, a company organized under the laws of Egypt, covering its equity investment in Sheba Telecom Ltd. in Bangladesh. The guarantee is for a period of up to 15 years and covers against the risks of transfer restriction, expropriation and war and civil disturbance. Orascom made this investment through its wholly owned subsidiary Orascom Telecom Ventures, which is incorporated in the British Virgin Islands. The project involves the acquisition, operation and maintenance of a national mobile telephone network based on GSM technology. The company offers countrywide services. Since acquiring Sheba, Orascom has upgraded the network and re-branded the company as Banglalink. Orascom has rapidly deployed new network infrastructure, set up a distribution network, and offers high-quality mobile services at competitive prices. By supporting this project, MIGA aims to help the government address the acute shortage of reliable telephone services in the country. Bangladesh has an extremely low teledensity of less than 1 percent. Landline telephony is exorbitantly expensive for the majority of Bangladeshis, with connection charges as high as $150 and the average wait for a connection ranging from 10-13 months. Sheba expects to increase its number of customers from the current one million to more than six million by 2012. The project will expand access to telecommunications throughout the country, thereby facilitating commerce in rural and urban areas. The national government will receive a 1 percent share of the project's annual revenue in addition to $20 million annually in corporate and other taxes. Consumers will benefit from better and cheaper cellular service. Sheba's actions have prompted other operators to improve their networks, and the increased competition has caused rates to fall by 25-30 percent. The company also employs and trains 350 local staff and about 2,000 people through exclusive dealers of Sheba service.
China	Project: Shenzhen Water (Group) Company Ltd. Guarantee Holder: Compagnie Générale des Eaux MIGA has issued a guarantee of $40 million to Compagnie Générale des Eaux of France, covering its equity investment in Shenzhen Water (Group) Company Ltd. in the People's Republic of China. The coverage is for a period of up to 15 years against the risk of expropriation. This project processes raw water extracted by a state-owned company and treats sewage collected through the municipal wastewater collection network. The project supplies 90 percent of residential, commercial, and industrial customers in the Shenzhen special economic zone in Guangzhou province. The company currently supplies tap water but intends to start providing fully potable tap water by 2012. Shenzhen Water services 2.5 million customers with five water treatment plants and four wastewater treatment plants. It has a daily water supply capacity of 1.9 million tons and a wastewater disposal capacity of 1.5 million tons. The company currently treats 75 percent of its wastewater, the largest percentage and the first system of such a scale in any city in China, and plans to expand its coverage in the coming years in line with the goals set by the Shenzhen municipality. The project will help the Chinese government address water resource problems that are particularly acute in fast-growing urban areas. MIGA's involvement is vital to ensure private sector participation in the Shenzhen water sector, helping to reduce budget spending by the municipal government. For customers, having fully potable water will eliminate the need to boil or buy drinkable water. The participation of Compagnie Générale des Eaux, which operates water projects around the world, is expected to have a demonstration effect on China's water sector.

Guarantees

Country	Activities
Indonesia	Project: PT MTU Detroit Diesel Indonesia Guarantee Holder: MTU Asia Pte. Ltd. In 2003, MIGA issued two guarantees to MTU Asia Pte. Ltd. (MTU Asia) of Singapore covering its $0.6 million equity investment in, and $1.8 million shareholder loan to, PT MTU Detroit Diesel Indonesia (PT MDDI), in Indonesia. MTU Asia is a wholly owned subsidiary of MTU Friedrichshafen of Germany, one of the largest suppliers of diesel engines worldwide. PT MDDI is 99 percent owned by MTU Asia and 1 percent owned by PT Daimler Chrysler Indonesia (see FY03 Annual Report). In FY06, MIGA issued another $0.89 million in guarantees to MTU Asia, covering its additional capital investment of $1 million into PT MDDI. The new capital will be used to expand MDDI's operations by establishing a workshop for selling spare parts and for providing service and maintenance of diesel engines in Balikpapan, Kalimantan East, Indonesia. The expansion is in response to customer demand for a service workshop in Balikpapan. This expansion is expected to create 35 new jobs, 34 of which will be local hires and one of which will be a technical expatriate who will oversee day-to-day operations. Technical training will be provided for technicians in either the Jakarta or Singapore workshops. In addition to creating employment in Balikpapan, PT MDDI will provide health insurance to all employees and their immediate family members. The project is also expected to generate approximately $50,000 a year in tax revenues for the government of Indonesia. The project was underwritten using MIGA's streamlined procedures for small and medium-size investors under its new Small Investment Program.
Mongolia	Project: Trade and Development Bank Guarantee Holder: Globull Investment and Development SCA MIGA has issued $20 million in guarantees to Globull Investment and Development SCA covering its $22.23 million equity investments and future retained earnings in the Trade and Development Bank of Mongolia (TDB). The coverage, which is up to 10 years, protects against the risks of transfer restriction, expropriation, and breach of contract. The project was financed by the International Finance Corporation and Asian Development Bank, who became shareholders of the TDB. The project will support the Mongolian government's privatization efforts and the development of the country's financial markets. Already, TDB has built strong brand awareness among Mongolian consumers and businesses. The new owners will infuse both cash and expertise, thereby helping TDB diversify into a broader range of financial products to meet growing demand. The bank has increased staff, raised staff salaries and continues to expend significant amounts on training and education for its employees, making TDB one of the country's top employers in terms of compensation and training. This project is helping to expand the country's fledgling private banking sector, while bringing in a much-needed dose of foreign direct investment to this isolated nation. Mongolia, with a relatively small economy and difficult investment climate, has struggled to attract new FDI since its independence following the break-up of the former Soviet Union. The election of a new coalition government in 2004 has paved the way for a wide range of reforms, including privatization of the financial sector and new laws that are improving the business climate. The bank's success should spur new growth and additional competition, as foreign investors see that such projects can reap a strong investment return and as Mongolian authorities build the kind of legislative and regulatory infrastructure that encourages business development and new investment. The guarantees complement Mongolia's new Country Assistance Strategy, which focuses on economic restructuring, improvements in the financial and banking sector, and encouraging private development. MIGA's effort in Mongolia is part of a cross-agency collaboration that includes work of the IFC and ADB with other Mongolian banks. The project is MIGA's first in the country, and reflects a key agency goal of bringing new foreign investment into IDA countries.

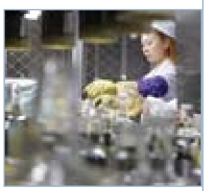
Guarantees	
Country	**Activities**
Pakistan	Project: Habib Bank AG Zurich, Pakistan Branches Guarantee Holder: Habib Bank AG Zurich MIGA has issued $9.66 million in guarantee coverage to Habib Bank AG Zurich of Switzerland for its capital investment in Habib Bank AG Zurich, Pakistan Branches. The guarantee is for up to 15 years and covers against the risks of transfer restriction and expropriation. This is MIGA's fifth contract in support of Habib Bank AG Zurich's operations in Pakistan. The investment aims to help Habib continue its expansion in Pakistan, bringing the bank's number of branches to 25. Habib's presence has a strong demonstration effect on the country's banking sector, with its emphasis on good corporate governance and its stable capital base, high liquidity, and close cooperation with regulatory bodies. Other expected development impacts include increased technological innovation and knowledge transfer. MIGA's support to Habib supports the World Bank Group strategy for Pakistan's financial sector, which aims to increase competition and expand access to financial services.

Technical Assistance	
Country	**Activities**
Afghanistan 	MIGA continued to work with the World Bank's South Asia region in developing the institutional support component of a Private Sector Development (PSD) loan. The project design builds on the technical assistance that MIGA has already provided to the Afghan Investor Service Agency, including a needs assessment and performance benchmarking. For the PSD loan, MIGA developed terms of reference for the IPI advisory and staff positions, and advised on project structure and content with regard to industrial estate development.
Bangladesh	MIGA has been supporting a multi-donor Private Sector Development Support Program for Bangladesh. The program is centered around a World Bank PSD loan currently in preparation. MIGA has been leading the World Bank Group's efforts to help the country's Board of Investment, considered key to the PSD loan, to become a competitive investment promotion and facilitation agency. This effort includes an agreed three-year technical assistance program to build the Board of Investment's capacity, as well as strategic advice on organizational, staffing, and FDI market issues, and advice to the South Asia Enterprise Development Facility on the institutional assessment of the Bangladesh Export Processing Zone Authority.
Cambodia	Building on work from the last fiscal year, MIGA has identified a work program in support of the Council for the Development of Cambodia, which has been incorporated in a World Bank PSD loan currently being implemented. Under this project, MIGA and FIAS are providing support to the council on its investment promotion strategy, and in FY06 worked on developing an action plan to enhance investment generation, investor servicing, and aftercare services. That plan is now being implemented under MIGA/FIAS supervision.

Technical Assistance

Country | **Activities**

China



MIGA continued to strengthen its relationships with the government of China this year, as well as its working partnerships with the World Bank Group, in efforts to attract new investment to lesser developed regions of China. Throughout FY06, MIGA worked together with the World Bank and IFC to develop the China Country Partnership Strategy for the period 2006-2010. MIGA also joined IBRD, IFC, FIAS, and China Project Development Facility (CPDF) for the first China Private Sector Development day, to discuss areas for future collaboration among the World Bank Group to promote private sector development in the country.

At the national level, MIGA has been working with FIAS to provide investment promotion support to the Ministry of Commerce. In addition to advising the ministry on investment promotion guidelines and strategic planning, MIGA is now working with FIAS and the ministry to develop a multi-year technical assistance program aimed at developing a national investment promotion strategy and a resource center for the country's less developed regions.

At the provincial level, MIGA has been working with IFC's CPDF and the World Bank in Sichuan and Heilongjiang provinces. MIGA and CPDF completed an FDI competitiveness benchmarking exercise in Sichuan province, profiling 10 municipalities and five sectors, with regard to their potential interest to investors, and comparing Sichuan with key cities on the coast. The study will serve as input for the Sichuan Investment Promotion Bureau and local bureaus to develop a promotional strategy, and as a compendium of information for potential investors. "Snapshot Sichuan" is available in print and online. MIGA also conducted training in tourism investment promotion for the Sichuan Provincial Tourism Bureau. At the request of three investment promotion agencies in Heilongjiang province, MIGA conducted a needs assessment and also helped develop an investment promotion TA program.

Over the past year, MIGA has placed considerable effort on promoting Chinese outward investment. Following up on the "Go Global" conference convened with the government of China and IFC in Beijing last June, MIGA and FIAS jointly conducted a survey of 150 established or potential Chinese overseas investors. The firms surveyed are providing valuable insight to MIGA on motivations and possible investment locations for these companies. The final report was presented in a workshop in June. MIGA also collaborated closely with government agencies on promoting Chinese outward investment, and provided training on political risk insurance for Sinosure, China EXIM Bank, and the China Development Bank. MIGA is also collaborating with the World Bank Africa region on a study of Africa-Asia Trade and Investment to be published in FY07.

Philippines

MIGA is providing technical assistance to help the Board of Investment Philippines design and implement a Strategic Investor Aftercare Program. In response to some disinvestments from the Philippines in recent years, the Board of Investment's new aftercare program will seek to build longer-term relationships with strategically important existing foreign investors identified as having either further growth potential or as being at risk of contraction or disinvestment. The new program will also provide the Board with important information on investors' problems to inform the country's investment climate reform processes. This technical assistance program builds on an earlier MIGA capacity-building program in the country, conducted under the Miyazawa Initiative.

In addition, at the request of the Philippine Department of Trade and Industry, MIGA undertook an engagement with the Build Operate Transfer (BOT) Center. This entity coordinates BOT projects on behalf of the government, including project development, promotion of project investment, and project monitoring. MIGA's involvement included an institutional needs assessment and training on the agency's products and services. This assignment was the first time that the MIGA needs assessment framework had been applied to a project preparation facility, and represents a new area of synergy between the technical assistance and political risk mitigation services that MIGA provides.

Europe and Central Asia

Net FDI flows to Europe and Central Asia reached a record $76 billion in 2005, up from the previous record of $64 billion in 2004. The region accounted for much of the increase in FDI to developing countries in 2005. High commodity prices were main drivers of significant increases in FDI in the resource-rich countries of the region, particularly the Russian Federation, Kazakhstan, and Azerbaijan. The favorable environment for cross-border mergers and acquisitions and a new wave of privatizations in new members of the European Union (EU) and EU accession countries played an important role in the high level of FDI flows to these countries. In particular, among the countries in the first wave of the recent EU expansion, the Czech Republic, Hungary, and Poland continued to receive high levels of investment, also due to buoyant corporate profits and substantial reinvested earnings. Romania and Bulgaria, which signed their EU accession treaties in April 2005, also received large amounts of investment. Progress on the privatization of the telecom and financial sectors, along with the opening of EU accession negotiations, brought FDI flows to Turkey to an all-time high. Net private debt flows to the region continued to increase in 2005, a trend that has been established for some years. New bank lending was particularly strong.

During the fiscal year, MIGA provided 10 guarantees and undertook eight technical assistance projects in the region. At year-end, MIGA's gross guarantee exposure stood at $2.5 billion, 46.6 percent of the agency's outstanding portfolio.

Guarantees

Country	Activities
Bosnia and Herzegovina	Project: Raiffeisen Leasing d.o.o. Sarajevo Guarantee Holder: Raiffeisen Zentralbank Österreich AG MIGA has issued €9.5 million in guarantees to Raiffeisen Zentralbank Österreich AG (RZB) of Austria covering its €10 million shareholder loan to Raiffeisen Leasing d.o.o. Sarajevo of Bosnia and Herzegovina. The guarantee is for five years, and covers the risks of transfer restriction and expropriation of funds. This is the third in a series of MIGA-guaranteed projects with RZB's subsidiary leasing company in Bosnia and Herzegovina. The new investment will help the leasing company continue its remarkable growth trajectory—in 2004 Raiffeisen Leasing worked with close to 300 customers and gained 13 percent market share after only one year in operation. With the new funding, the company plans to diversify its asset base, broadening its leasing portfolio beyond vehicles to heavy machinery and equipment. Bosnia and Herzegovina has registered high growth rates recently, with economic growth driven largely by increased domestic and foreign investment in heavy industry and strong export growth. However, smaller local companies continue to have a hard time getting in on these new—and growing—economic opportunities. They may lack the credit history to borrow funds or the financial wherewithal to purchase the capital equipment needed to add production capacity. Leasing is seen as a viable option for such firms, but the leasing market in Bosnia and Herzegovina remains in its early stages. This new round of expansion, financed by RZB's loan, will open up more opportunities for manufacturers and exporters, particularly small and medium-size companies. MIGA's participation in the project is aligned with several agency priorities: encouraging investment in post-conflict nations, and improving access to financing options for local SMEs. The project also addresses one of the World Bank Group's strategic development goals for Bosnia and Herzegovina—the promotion of sustainable private sector-led growth.

Guarantees

Country | **Activities**

Bulgaria

Project: AES-3C Maritza East 1 EOOD
Guarantee Holder: AES Bulgaria Holdings BV, Calyon Corporate and Investment Bank

MIGA has issued €99 million in guarantees for the construction of a new power plant in Bulgaria. The guarantees cover €89 million in loans and interest on loans syndicated by Calyon of France, and a €10 million equity investment by AES Bulgaria Holdings BV, wholly owned by US-based AES Corporation. The guarantees are for 16 years and cover the risks of expropriation (loans only) and war and civil disturbance (loans and equity). MIGA's involvement played an important role in the project's ability to mobilize long-term commercial bank funding.

The private project company, AES-3C Maritza East 1 EOOD, will finance, build, own, and operate a 600 MW (net) lignite coal-fired power plant adjacent to the old Maritza East 1 power plant, near the municipality of Galabovo, about 270 km southeast of Sofia. The nearby Maritza East Mines will supply the lignite under a 15-year purchase agreement. The €1.1 billion plant, a base-load facility, will connect to the Bulgarian power grid for distribution throughout the country. NEK, the state-owned grid operator, will purchase the electricity under a 15-year agreement.

The environmentally compliant, efficient, state-of-the art facility will support future demand for electricity as the nation's economy grows, while utilizing Bulgaria's only indigenous fuel source. Once operational in 2009, AES Maritza East 1 will replace inefficient and environmentally incompliant thermal capacity. The plant is expected to create significant direct and indirect job opportunities in the region of Galabovo.

The project promotes the restructuring and privatization of the power sector, a cornerstone of Bulgaria's medium-term reform program supported by the World Bank Group.

Kazakhstan

Project: BTA Ipoteka Mortgage Securitization
Guarantee Holder: First Kazakh Securitization Company, B.V.

MIGA has issued $75 million in guarantee coverage to the First Kazakh Securitization Company, B.V., for a mortgage-backed securitization in Kazakhstan. MIGA is insuring a portion of the principal and interest payments generated by the mortgage portfolio against the risks of currency transfer restriction and expropriation. This was a groundbreaking deal—the country's first true-sale securitization of mortgages—and MIGA's third capital markets transaction.

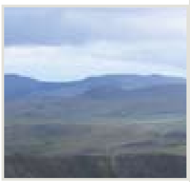
First Kazakh Securitization Company—a newly created special purpose vehicle located in the Netherlands, and funded by a multi-seller conduit sponsored by ABN Amro Bank, N.V.—purchased the portfolio of residential mortgages from BTA Ipoteka, the consumer lending subsidiary of Bank TuranAlem. MIGA's guarantees were instrumental in helping obtain international commercial paper funding for the transaction.

This innovative capital markets transaction represents an important step in the development of the country's financial sector. The project is expected to help increase the availability of housing finance and introduce an important new capital markets instrument to the arsenal of funding sources available to Kazakhstan's financial institutions, both banks and non-banks. Developmentally, the project will improve access to mortgage financing for middle-income borrowers and contribute towards making the mortgage market more competitive and transparent.

The 1998 Russian treasury default and the Asian financial crisis—coupled with years of severe economic depression, devaluation and inflation—led to a severe flight of foreign capital investment from Kazakhstan in the late 1990s. There have been positive changes in the economy since then. MIGA's support, along with these changes, is playing a critical role not just in encouraging the growth of capital markets in Kazakhstan, but also in building market confidence. MIGA's participation in the project addresses one of the main priorities envisaged in the World Bank Group's Country Assistance Strategy for Kazakhstan—supporting the diversification of its economy and improving its competitiveness.

Guarantees

Country	Activities
Russian Federation	Project: Kupol Guarantee Holder: Bema Gold Corporation, Société Générale SA, and Mitsubishi Corporation MIGA has issued $305 million in guarantees to Bema Gold Corporation of Canada, Société Générale SA of France on behalf of itself and Bayerische Hypo- und Vereinsbank AG of Germany, and Mitsubishi Corporation (UK), covering their respective equity investment in and loans to the Chukotka Mining and Geological Company for the development of the Kupol gold project in the Russian Federation. The guarantees cover a portion of Bema's $122.8 million equity investment and $361 million in non-shareholder loans from the banks and from Mitsubishi. The guarantees are for eight years, and protect against the risks of transfer restriction, expropriation, and war and civil disturbance. Export Development Canada has reinsured MIGA's gross exposure for $130 million, thus limiting net exposure to $110 million. Bema will develop the Kupol property, which contains a high-grade gold and silver deposit, for the extraction and processing of the metals. Average annual production of the mine is estimated at 550,000 ounces of gold and 4.7 million ounces of silver. The ore will be processed through primary crushing and grinding, conventional gravity separation, whole ore leaching, and precipitation to produce doré bars. The bars will be refined into bullion gold for sale. The Kupol project is expected to stimulate economic development in the remote, desolate Chukotka region of Siberia, where unemployment has jumped 50 percent since the breakup of the Soviet Union and where poverty is widespread. Once fully operational, the mine will employ 600 mostly local workers, who will earn wages at the high end of the local pay scale. The company plans to invest $3 million over eight years to help local communities, including indigenous populations, with healthcare, job training, and support for SMEs. Once operational, the mine should attract additional foreign direct investment, given the region's significant untapped natural resources, while generating an estimated $345 million in taxes over an initial mine life of up to December 2014. MIGA's involvement was the critical piece needed to put together the financing package, which lenders said would not have been possible without political risk coverage. The project supports the World Bank Group's poverty reduction strategy for the region.
Serbia and Montenegro	Project: Raiffeisenbank a.d. Guarantee Holder: Raiffeisenbank a.s. MIGA has issued a €47.5 million guarantee to Raiffeisenbank a.s. of the Czech Republic covering its €50 million non-shareholder loan to Raiffeisenbank a.d. of Serbia and Montenegro. The guarantee is for six years and covers against the risks of transfer restriction and expropriation. The loan will help the bank expand its medium-term lending to Serbia's corporate sector, which is dominated by small and medium-size enterprises. This is the fifth such project with RZB that MIGA has guaranteed in this nation, which is still working to emerge from the political upheaval and civil war of the 1990s. MIGA's focus on finance projects in a country with a young and limited financial sector will help deepen and expand the market, which is currently dominated by banking. The credit sub-sector lags behind considerably—and the lack of available credit is one of the primary obstacles to local small business growth. The country's relatively undeveloped financial infrastructure also prevents foreign investors from taking more notice of this well-located southeastern European nation. Enhancements to Raiffeisenbank's medium-term lending capacity will open the door for more businesses to secure credit with longer loan periods, enabling expansion to meet growing demand. The MIGA guarantee complements Serbia and Montenegro's Country Assistance Strategy, which focuses on creating a more dynamic private sector and on poverty reduction. The project also reflects MIGA's efforts to rebuild post-conflict nations, and to support small and medium-size business growth through improved access to finance.



Guarantees

Country	Activities
Ukraine	Project: Can-Pack Ukraine Ltd. Guarantee Holder: Can-Pack S.A., Pol-Am-Pack S.A. MIGA issued two guarantees totaling $33.7 million to Can-Pack S.A. and its subsidiary Pol-Am-Pack S.A., both of Poland, for their investment in Ukrainian subsidiary, Can-Pack Ukraine Ltd. The contracts replace a previous contract issued to Can-Pack S.A. in 2003, reflecting Can-Pack's transfer of 47 percent control of Can-Pack Ukraine to Pol-Am-Pack. The guarantees cover the investors' equity investment in the project. The coverage protects against the risks of expropriation, war and civil disturbance, and transfer restriction. The project involves the operation of an aluminum beverage can production plant. MIGA is also providing coverage for a shareholder loan, and a management and technical assistance contract for the project under guarantees issued in 2003. For more information, visit www.miga.org/canpack1.

Technical Assistance

Country	Activities
Armenia	This year saw the conclusion of MIGA's participation in the World Bank-led Foreign Investment and Export Facilitation Learning and Innovation Loan (LIL). The project aimed at testing the responsiveness for prospective investment and exports through the establishment of a lead agency to streamline transaction processing and implement a promotion strategy. Through this agency—the Armenian Development Agency (ADA)—the project helped develop skills, operational systems, and procedures to facilitate private business needs. The project comprised three major components: investment infrastructure and staff skill development; institutional capacity building for investor and exporter servicing; and an investment/export generation component. Project wrap-up activities this year included an outreach effort by ADA to the eastern United States and MIGA participation in a World Bank Group supervision mission and follow-up. MIGA reassessed ADA's institutional capabilities as part of the project completion report.
Croatia	Last year, MIGA established the Croatian Investment Promotion Outreach Alliance (CIPO) under the umbrella of the European Investor Outreach Program. CIPO is a formal partnership between MIGA, USAID, and the Istrian Development Agency to support and strengthen implementation of MIGA's EIOP activities in Croatia. The Istrian Development Agency, CIPO's main partner, represents a network of several regional development agencies across the country. Under the project, MIGA has established a Croatia-specific investor outreach and marketing desk in the EIOP project office in Vienna, and the alliance is also funding capacity-building and training activities for Croatia.
Georgia	Late last fiscal year, MIGA responded to a request for assistance from the Georgian Minister of Economic Development, and together with the World Bank Group, conducted a needs assessment of the Georgian National Investment and Export Promotion Agency (GNIEPA). This year, MIGA presented its report to GNIEPA, agreed with the stakeholders on next steps, and discussed the possibility of further MIGA technical assistance. The report stressed positive initial developments in GNIEPA and an evident commitment from the government to promote foreign direct investment. MIGA also participated in the 8th Annual Conference of the America-Georgia Business Council, and provided GNIEPA with a detailed roadmap for formulating a strategy and seeking and coordinating donor support.

Technical Assistance

Country	Activities
Macedonia	During the fiscal year, MIGA undertook a project in Macedonia, funded by the Austrian Development Agency, targeting the newly established Macedonian investment promotion agency, MACinvest. The project consisted of three components: capacity-building support to MACinvest; a financial contribution towards Macedonia's participation in a MIGA enterprise benchmarking study of the Western Balkans; and the design of an investor targeting strategy and installation of a client-relationship-management system within MACinvest, linked to EIOP's system in Vienna. The project paved the way for a larger, longer-term support program for MACinvest, managed and funded by EAR, and fully coordinated with MIGA's work. MIGA concluded its assistance at the end of the fiscal year.
Serbia and Montenegro	In addition to participating in MIGA's EIOP initiative, Serbia also saw the launch of a major investment-promotion initiative, the Serbia Investment Promotion Program (see above), guided by MIGA. In Montenegro this year, EAR and MIGA reactivated an earlier-conceived EAR/MIGA investment promotion project in Montenegro. The project will be implemented with the newly established Montenegrin Investment Promotion Agency as the main beneficiary. The project design involves a 12-month program to support the new agency in its start-up phase, including the development of a start-up strategy and work plan, skills development and training, website development, and the design of marketing materials, as well as support of research and investor outreach activities. In Kosovo, MIGA held talks with Kosovo's newly established investment promotion agency, centered on current institutional arrangements and the nature of existing investment promotion activities in Kosovo. The agency held training sessions to familiarize investment promotion agency staff with MIGA's online tools for investment promotion.
Tajikistan	Work continued under the MIGA/FIAS investment climate and facilitation project in Tajikistan. The project is a two-year effort, financed by the Swiss government, and aims to strengthen the country's investment climate and investment facilitation capacity. Recently, a number of chapters that will form the core of a diagnostic assessment report have been prepared and are currently being translated into Russian. A series of video conferences is planned to discuss the report's findings and recommendations with government counterparts and other stakeholders in the coming months.
Regional	See results on the EIOP, above.

Latin America and the Caribbean

The economies of Latin America continued to show considerable momentum in 2005, although the pace of regional growth dropped slightly to 4 percent during the year, down from 5.9 percent in 2004. Net FDI to the region stabilized at $59 billion, a result of economic recovery in the United States and resource-seeking investors taking advantage of high commodity prices. The impact of improved competitiveness, resulting from enhanced macroeconomic stability, was discernable in the increased investments in manufacturing, while FDI in services stalled. Performance across countries was uneven, however, with countries such as Brazil, Mexico, and Colombia absorbing the lion's share of FDI, while other countries, particularly those experiencing internal political uncertainties, failed to see improvements in FDI flows.

During the fiscal year, MIGA provided 19 guarantees and undertook six technical assistance projects in the region. At year-end, MIGA's gross guarantee exposure stood at $1.095 billion, 20.4 percent of the agency's outstanding portfolio.

Guarantees

Country	Activities
Bolivia	Project: Banco de Crédito de Bolivia Guarantee Holder: Banco de Crédito del Peru MIGA has issued a $14.25 million guarantee to Banco de Crédito del Peru, covering its $15 million shareholder loan to Banco de Crédito de Bolivia (BCB). The guarantee is for six years and protects against the risks of transfer restriction and expropriation. With the loan, Banco de Crédito de Bolivia, one of the country's top banks, will be able to strengthen its financial position. The loan gives the bank increased access to longer-term funding, allowing the bank more flexibility to improve the asset-liability match in its corporate and mortgage portfolio and to maintain its strong liquidity. The bank provides both corporate and retail financial services. The loan comes at a time when Bolivia's banking sector is dealing with a four-year recession, coupled with a challenging operating environment and a loss of liquidity due to currency mismatches. The new loan will help strengthen a bank that has consistently ranked among the country's top four. In turn, the anticipated improvement in performance should help reaffirm the viability of Bolivia's banks—a lynchpin of any well-functioning economy. The project aligns with the World Bank Group's assistance strategy for Bolivia, focusing on strengthening and restructuring the financial and corporate sectors in the face of recent difficult political and macroeconomic conditions.
Brazil	Project: Nordeste Transmissora de Energia S.A. Guarantee Holder: Dragados Industrial S.A. MIGA has provided $23.1 million in investment insurance to Dragados Industrial S.A. (Grupo ACS Dragados) of Spain for its investment in the construction of an energy transmission line in Brazil. MIGA's coverage is against the risks of currency transfer restriction and breach of contract, for up to 15 years. This project is part of a larger undertaking involving the construction of five energy transmission lines in different parts of Brazil to reduce existing infrastructure bottlenecks in the country's energy sector. Each of the lines involves a concession agreement with Brazil's federal electricity regulatory agency for the construction, operation, and maintenance of the transmission line. The concessions were subject to international competitive bidding. (cont'd)

Guarantees

Country	Activities
Brazil	(cont'd) The Xingó-Campina Grande transmission line, sponsored by Nordeste Transmissora de Energia SA, involves the construction and operation of a 193-kilometer transmission line from an existing substation in the state of Sergipe to the state of Pernambuco, and a 186-kilometer transmission line from Pernambuco to the state of Paraíba. The project is expected to significantly improve the reliability of power delivery to the Northeast power grid. The project responds to a need to compensate for low investment levels in the country's energy sector, a result of austerity programs in the 1980s. Given that most of Brazil's energy is produced by hydroelectric dams subject to fluctuations in water levels due to drought, the interconnected electrical system will allow for a more efficient and reliable delivery of energy. The project will operate under a Brazilian program that calls for public-private partnerships in its electric energy concessions. Investments undertaken through the program, instituted in 1999, have resulted in an estimated 20 percent increase in electrical capacity and the generation of about 25,000 jobs. The five new transmission lines underwritten by MIGA will account for about 25 percent of overall electricity transmission. Other development impacts include the generation of taxes and royalties, purchase of local materials, creation of competition, expanded public access to electricity, and job training. The project is in line with the World Bank Group's Country Assistance Strategy, which aims, among other things, to help Brazil become more competitive by improving its infrastructure.
Brazil	Project: Artemis Transmissora de Energia S.A., Sul Transmissora de Energia, Munirah Transmissora de Energia, Uirapuru Transmissora de Energia Guarantee Holder: Control y Montajes Industriales CYMI, S.A. MIGA has provided $47.1 million in investment insurance to Control y Montajes Industriales S.A. of Spain for its investments in the construction of four energy transmission line in Brazil. MIGA's coverage for all four projects is against the risks of currency transfer restriction and breach of contract, for up to 15 years. The projects are part of a larger undertaking involving the construction of five energy transmission lines in different parts of Brazil to reduce existing infrastructure bottlenecks in the country's energy sector. The transmission lines cover different parts of the country and vary in terms of both length and capacity. Each of the lines involves a concession agreement with Brazil's federal electricity regulatory agency for the construction, operation, and maintenance of the transmission line. The concessions were subject to international competitive bidding. The Salto Santiago-Cascavel transmission line, sponsored by Artemis Transmissora de Energia SA, will build and operate a 371-kilometer transmission line in the state of Paraná. The project will be an inter-connector between the South and the Southeast regional grids. The Uruguiana-Santa Rosa transmission line project by Sul Transmissora de Energia comprises the construction and operation of a 363-kilometer transmission line in the state of Rio Grande do Sul. The project is expected to significantly improve the reliability of the power grid in the Western part of the state. The Camaçari-Sapeaçu transmission line project by Munirah Transmissora de Energia comprises the construction and operation of a 105-kilometer transmission line in the state of Bahia. The project will be an important inter-connector between the Furnas and the Companhia Hidroeletrica de São Francisco power grids in Northeast Brazil. (cont'd)

Guarantees

Country	Activities
Brazil	(cont'd) The Uirapuru Transmissora de Energia transmission line comprises the construction and operation of a transmission line in the state of Paraná. The project is expected to significantly improve the reliability of the state's power grid. The projects respond to a need to compensate for low investment levels in the country's energy sector, a result of austerity programs in the 1980s. Given that most of Brazil's energy is produced by hydroelectric dams subject to fluctuations in water levels due to drought, the interconnected electrical system will allow for a more efficient and reliable delivery of energy. The projects will operate under a Brazilian program that calls for public-private partnerships in its electric energy concessions. Investments undertaken through the program, instituted in 1999, have resulted in an estimated 20 percent increase in electrical capacity and the generation of about 25,000 jobs. The five new transmission lines will together account for about 25 percent of overall electricity transmission. Other development impacts include the generation of taxes and royalties, purchase of local materials, creation of competition, expanded public access to electricity, and job training. The projects are in line with the World Bank Group's Country Assistance Strategy, which aims, among other things, to help Brazil become more competitive by improving its infrastructure.
Dominican Republic 	Project: Autopistas del Nordeste C. Por. A. Guarantee Holder: Organización de Ingeniería Internacional S.A., Autopistas del Nordeste (Cayman) Limited, Grodco S.C.A., Odinsa Holding Inc., and Grodco Panama MIGA has provided $108 million in political risk insurance for the development of a toll road in the Dominican Republic. The insurance covers a $14 million equity investment in and $162 million bond issue for Autopistas del Nordeste C. Por. A. for up to 20 years against the risks of transfer restriction, expropriation, war and civil disturbance, and breach of contract. The investors (see guarantee holders above) are jointly providing equity for the project. The project consists of the design, construction, operation, and maintenance of a 106 kilometer toll road that will connect Santo Domingo with the country's northeastern peninsula. The project is consonant with the World Bank Group's strategy of restoring economic growth and competitiveness in the country, given the highly positive economic impact in terms of reducing transportation costs and providing the infrastructure needed to further develop the tourist area of Samaná. The project is expected to lower transportation costs by reducing distance and travel time from 220 kilometers and four hours to 120 kilometers and 1.5 hours respectively. Progress on the toll road has already led to investments in a free trade zone that is connected by the road to the international airport of Santo Domingo. Other development impacts include growth in agribusiness, as farmers will have faster and cheaper access to markets in the capital, and tax generation estimated at $50 million over the life of the project. In addition, revenues generated by the project above a specific threshold will be paid to the government. The project is expected to create 2,465 jobs during the construction phase, and about 1,300 once operational. MIGA's participation in the project is aligned with several agency priorities: catalyzing private sector investment in frontier markets and scaling up support for urban infrastructure projects in developing countries.

Guarantees

Country | **Activities**

Ecuador

Project: Productora de Envases Crown del Ecuador
Guarantee Holder: Prodenvases Crown S.A.

MIGA has provided $193,500 in investment insurance to Prodenvases Crown S.A. from Colombia for their $215,000 equity investment in Productora de Envases Crown del Ecuador S.A. MIGA's coverage is against the risks of currency transfer restriction, expropriation, and war and civil disturbance for a period of up to seven years.

The investor is a Colombian manufacturer, Prodenvases Crown, specializing in the production of metallic containers throughout the region. Prodenvases Crown S.A.'s investment is financing a metallic paint can assembly line in Guayaquil, Ecuador. The project enterprise, Productora de Envases Crown del Ecuador S.A., will manufacture, assemble, and commercialize metal and plastic cans for the industrial and food sectors in Ecuador. Staff from Colombia installed the necessary equipment for the project, which is expected to deliver technology transfer benefits. From July 2005, when the plant began operations, to the end of the year, sales reached $441,000. Sales for 2006 are expected to reach $1 million.

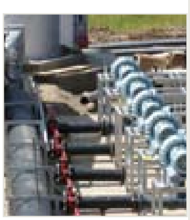
The project represents Prodenvases Crown S.A.'s seed investment in Ecuador and is likely to lead to further expansion if this project yields expected benefits.

MIGA's support for the project is in line with the World Bank Group's Country Assistance Strategy for Ecuador, which aims to lay the foundations for diversified and sustainable economic growth in the country, and increase opportunities and access to economic resources.

The project was underwritten through MIGA's Small Investment Program .

El Salvador

Project: BioEnergia S.A.
Guarantee Holder: Biothermica Energy Inc.



MIGA is providing its first-ever support for a project that will sell carbon credits gained by reducing greenhouse gas emissions. The reductions, which can be sold under the Kyoto Protocol, will result from the conversion of methane gases to less harmful carbon dioxide at a landfill in El Salvador. MIGA is supporting the project by providing $1.8 million in guarantee coverage to Canadian company Biothermica Energy Inc. The guarantee covers the risks of expropriation, war and civil disturbance, and breach of contract—including the breach of the Salvadoran government's commitments under a letter of approval for the carbon emission reductions under the Clean Development Mechanism of the Kyoto Protocol.

The first phase of the project involves the construction and operation of facilities for capturing and flaring gas generated by municipal waste at a landfill that serves metropolitan San Salvador. The landfill currently receives 500,000 tons of solid waste a year, generating some 7,500 tons a year of methane gas. With the landfill slated to expand to meet the entire country's municipal waste disposal needs, methane gas emissions are expected to double within the next decade. The global warming potential of methane is 21 times higher than that of carbon dioxide. Phase two of the project will involve the construction of a 4 MW landfill gas power plant.

Emission reductions from the captured gas are expected to be between 140,000 and 190,000 tons of carbon dioxide equivalent a year from 2006-2012. The guarantee holder, Biothermica Energy Inc., has completed the Kyoto Protocol validation process and has agreed to sell carbon credits to a private carbon fund on delivery of the certified emission reductions.

This groundbreaking deal signals that projects in smaller developing countries can indeed cash in on the benefits of reducing greenhouse gases, and also illustrates how carbon finance can work in a sector that developing countries can easily tap into. MIGA aims to increase its support for projects that mitigate harmful practices associated with global warming.

Guarantees

Country	Activities
El Salvador	Project: Arrinsa Leasing S.A. Guarantee Holder: Corporación Interfin S.A. MIGA has issued a $3.15 million guarantee to Corporación Interfin S.A. of Costa Rica for its $4 million equity investment in Arrinsa Leasing S.A. of El Salvador. The guarantee provides a standardized package of coverage against the noncommercial risks of transfer restriction, expropriation, and war and civil disturbance, for a period up to 10 years. The guarantee was issued under MIGA's Small Investment Program. The project will allow Corporación Interfin, the new owner of Arrinsa, to expand the company's leasing portfolio to include a wide range of assets such as tractors, commercial real estate, and telecommunications equipment and facilities. Interfin's established track record as a banking, asset management and brokerage firm throughout Central America will bring needed expertise, sophisticated financial management, and a broader reach for Arrinsa. This will help position Arrinsa to better serve its target market of small and medium-size enterprises that might not have the cash or the credit history to purchase equipment outright. The company's offices and equipment depots are scattered throughout the country, allowing increased access for customers—many of them small industrial contractors or farmers—who live outside the major metropolitan areas. This project is expected to enhance prospects for smaller companies that have limited access to financing, enabling them to participate in and contribute to the economy. Other project benefits include the introduction of modern farming equipment to improve agricultural yields and the expansion of the transportation services sector with the financing of trucks, taxis, and buses. MIGA's involvement in the project is consistent with the Country Assistance Strategy for El Salvador and addresses several MIGA priorities: supporting South-South investments, as well as investment in SMEs and in projects that improve access to finance for SMEs.
Jamaica	Project: The Bank of Nova Scotia Jamaica Limited Guarantee Holder: The Bank of Nova Scotia MIGA has issued a $41.8 million guarantee to the Bank of Nova Scotia of Canada covering its $44 million shareholder loan to its subsidiary, the Bank of Nova Scotia Jamaica Limited. The coverage is for a period of up to 15 years against the risks of transfer restriction, expropriation, and breach of contract. This project will support the Kingston Port Container Terminal in Jamaica. The shareholder loan to the Bank of Nova Scotia Jamaica is earmarked to support the Port Authority of Jamaica in the fourth phase of its container terminal expansion. The expansion plans include completing more than 500 meters of new berths, paving 37 hectares of container storage space and acquiring four new cranes, valued at $22 million. A fifth phase of the expansion is scheduled for 2005-06. By the end of the fourth phase, the terminal is expected to handle 1.5 million 20-foot containers annually—a 20 percent increase above its current capacity. The expansion and modernization will help the Port Authority not only remain competitive but also position itself as the transshipment hub of the region. Already 90 percent of the port's traffic is international transshipment. The project fits into the government's overall strategy of fostering and maintaining economic growth, which has suffered from infrastructure constraints. The expansion is expected to increase revenues by five percent annually for the next eight years, leading to a cumulative increase in net revenues of $362 million. The project is also consistent with MIGA's priority of supporting investment in infrastructure.

Guarantees

Country	Activities
Nicaragua	Project: Financiera Arrendadora Centroamericana, S.A. Guarantee Holder: Corporación Interfin, S.A. MIGA has issued additional coverage of $1.9 million to Corporación Interfin, S.A. (Interfin) of Costa Rica for its equity investments in, and shareholder loans to, Financiera Arrendadora Centroamericana, S.A. (Finarca) of Nicaragua. The equity investment is guaranteed for a period of 15 years, and the shareholder loan for a period of 10 years. Both provide coverage against the risks of transfer restriction, expropriation, and war and civil disturbance. The project consists of the expansion of Finarca's lease financing program, which will mainly be devoted to small and medium-size enterprises (SMEs). The project is expected to contribute to the country's financial services by increasing the financing options available to SMEs. For more information on the project, visit www.miga.org/finarca1.
Uruguay	Project: Teyma Uruguay S.A. Guarantee Holder: Abengoa S.A. MIGA has issued additional coverage of $574,750 for Abengoa S.A.'s guaranty to Fleet National Bank for its loan to Teyma Uruguay S.A. in Uruguay. The terms and conditions, and tenor of the guarantee remain unchanged. For more information, visit www.miga.org/abengoa1.

Technical Assistance

Country	Activities
Colombia	MIGA launched a three-year technical assistance program with Bogotá's Chamber of Commerce last year. Initial activities included an assessment of the region's capacity to attract FDI, and the development of a business plan for an investment promotion agency covering Bogotá and the region of Cundinamarca. This year, MIGA spearheaded an effort to involve key stakeholders in the project. The agency—created with direct contributions from the Chamber of Commerce of Bogotá and the District Council—represents MIGA's first sub-national promotion initiative supported by a close public-private partnership. MIGA also worked with stakeholders to analyze investment opportunities in several key sectors, including manufacturing, agribusiness, and services. This work will identify sub-sectors in which Bogotá and Cundinamarca have a comparative advantage, and will allow the agency to launch activities quickly when it is formally constituted by the end of the year.
El Salvador	MIGA completed its technical assistance program with PROESA, the country's national investment promotion intermediary, this fiscal year. Over the life of the project, MIGA participated in the institutional development of the investment promotion intermediary, right from the establishment of the agency in 2000 to the restructuring of operations in 2004-05. MIGA's final activities in PROESA involved restructuring the agency, and defining its strategic and institutional framework in preparation for the future. In addition to reviewing its needs and El Salvador's competitive position in light of the signing of the Central American Free Trade Agreement (CAFTA), MIGA helped set out the framework PROESA should follow after the technical assistance program is phased out. MIGA maintains regular communication with management, and will continue to provide informal ad hoc assistance to PROESA to ensure its continued success.

Technical Assistance

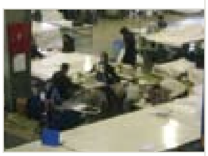
Country	Activities
Guatemala	MIGA is continuing to support Invest in Guatemala (IIG) in its efforts to attract FDI. This project is closely tied to a competitiveness program and lending operations supported by the World Bank. This year's work focused on four central issues: guidance through the budget process, which included an assessment of current agency performance and needs for the upcoming year; organization of CAFTA Investment Promotion Tours to the US; training for newly hired market intelligence personnel at IIG; and intensive support for the agency's sector promotion initiatives. Last year, IIG was responsible for facilitating over $66 million in new FDI in the above sectors. When fully operational, these investments are expected to generate over 3,500 direct jobs and facilitate approximately 8,000 indirect jobs.
Honduras	MIGA is cooperating with the World Bank to implement an FDI-related component under a Trade and Competitiveness Loan in Honduras. Activities under the project increased significantly this year. In conjunction with staff at FIDE, the national investment promotion intermediary, specialists reviewed the light manufacturing and agribusiness sectors to determine which sub-sectors in Honduras have the highest potential to attract investors. The passage of CAFTA has increased the profile of Central America, and in this favorable context, FIDE will be able to use lists of companies generated under MIGA's guidance to launch proactive investment promotion campaigns. Each sector study will generate a list of over 1,000 companies with needs that match what Honduras has to offer as an investment location.
Nicaragua	MIGA has provided support to ProNicaragua, the country's investment promotion agency, since its inception in 2002. MIGA's work was supported by a World Bank Learning and Innovation Loan. In the past four years, ProNicaragua has established itself as a fully functioning, effective national investment promotion agency, which has achieved substantial results in attracting FDI. This fiscal year saw the conclusion of MIGA's long-term technical assistance program with Nicaragua. MIGA is currently preparing a project-closure report, which will evaluate the impact of its program in the country. The closure report will also provide ProNicaragua with a series of recommendations on its continuing operations such as pitfalls to avoid, techniques to ensure institutional sustainability through the next presidential elections, and policy guidelines to improve operations.
Regional	As part of MIGA's Global Enterprise Benchmarking Program, the agency is conducting a regional benchmarking exercise, funded by three donors: the Commonwealth Secretariat (Eastern Caribbean region), the Andean Development Corporation (Andean region), and the Inter-American Development Bank (Central America). The objective of the enterprise benchmarking is to provide participating countries with information on which industries they are most likely able to compete internationally, and then to benchmark individual country performance against competitors for key markets. Regional countries participating in the benchmarking studies include Antigua and Barbuda, Bolivia, Colombia, Costa Rica, Dominica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Peru, and St.Lucia.

Middle East and North Africa

Net FDI in the Middle East and North Africa increased from $5.3 billion in 2004 to $8.6 billion in 2005, more than a 60 percent increase. The rapid increase in FDI was a result of several privatizations in the region and resource-related FDI in the oil producing countries. Average GDP growth in the region for 2005 is estimated at 5.1 percent, a small increase over 2004. The main drivers of growth have been high oil prices and strong oil demand. Many non-oil producing countries in the region benefited from spillover effects of higher oil prices that include increased exports, tourism receipts, and investment and remittance flows. Reforms in selected countries have also contributed to increases in FDI flows. Both the Arab Republic of Egypt and Tunisia received significant levels of FDI in energy and in energy services. Despite the increase in FDI flows, prospects in the region are still largely determined by political developments, large public sectors, and investor perceptions of the region.

During the fiscal year, MIGA provided 10 guarantees and undertook four technical assistance projects in the region. At year-end, MIGA's gross guarantee exposure stood at $285.48 million, 5.3 percent of the agency's outstanding portfolio.

Guarantees

Country	Activities
Iran  	Project: Cesur Shirkete Guarantee Holder: Cesur Packaging Corporation MIGA has issued a $5 million guarantee to Cesur Packaging Corporation of Turkey for its $5.23 million equity investment in, future retained earnings in, and shareholder loan to Shirkete Goni Bafi ve Beste Bendiye Cesur. Cesur Packaging of Turkey owns 48 percent of the company, while investors of dual Turkish and Iranian nationality own the remaining shares. The guarantee protects against the risk of war and civil disturbance, for a period up to 10 years. It represents one of the first guarantees issued under MIGA's new Small Investment Program. The investment involves the establishment of a fully integrated manufacturing facility for the production and export of large polypropylene containers. The bags, known as flexible intermediate bulk containers, or big and jumbo bags, are used primarily for packaging food and chemical products. The new, vertically integrated and highly automated plant will produce up to two million bags per year, 80 percent of which will go to European markets. The facility will be constructed on a five-hectare site, strategically located in the Sofian Industrial Investment Area in Tabriz, East Azerbaijan, within easy access to major highways and rail transport. The project is expected to help diversify Iran's economy, which is over-reliant on oil, while introducing state-of-the-art, lean manufacturing techniques that can be replicated for use in other industrial facilities. MIGA's participation in the project supports several agency priorities, including support for South-South investments and smaller investors.
Iran	Project: Mehr Petrochemical Company (JV) Guarantee Holders: Cementhai Chemicals Co., Ltd., National Petrochemical Public Company Limited, Itochu Corporation MIGA has issued $122 million in guarantee coverage for a joint venture petrochemical project, its first coverage ever for a project in Iran. The guarantees cover investments by Cementhai Chemicals Co., Ltd. and National Petrochemical Public Company Limited, both of Thailand, and Itochu Corporation of Japan, totaling $27.1 million, $7.1 million, and $8.6 million, respectively. The guarantees also cover a $96 million shareholder loan from Itochu to the project enterprise, Mehr Petrochemical Company (JV). Coverage is for 15 years against the risk of breach of contract for both the equity and the shareholder loan investments. MIGA is also covering Cementhai Chemicals and NPCT against the risk of war and civil disturbance. MIGA's guarantee to Itochu complements a political risk guarantee provided by Japan's national insurer, NEXI. (cont'd)

Guarantees

Country	Activities
Iran	(cont'd) Iran holds the second largest natural gas reserve in the world, at roughly 15 percent. In an effort to diversify the country's exports away from oil, the Iranian government is developing the South Pars gas field, a giant offshore gas reserve in the Persian Gulf. The gas will be processed at a nearby gas separation complex located in the Pars Special Economic/Energy Zone—established to develop gas, petrochemicals, and other related industries—which will provide a cost-effective supply for the production of polyolefins. Polyoelfins, including high-density polyethylene (HDPE), are low-cost, versatile polymers used in a broad range of applications, from automotive parts to carpets, and from packaging of milk, juice, and laundry detergent to trash bags. Demand for HDPE is on the rise in most parts of the world, particularly in Northeast Asia, where demand is expected to grow by an average of 7 percent a year through 2009. Meanwhile, the Middle East is fast becoming the world's largest exporter, due to the comparatively low cost of producing polyoelfins. The MIGA-guaranteed petrochemical project involves the construction and operation of a high-density polyethylene plant with a capacity of up to 300,000 metric tons per year. The project plans to export the HDPE primarily to China. The plant will occupy 13.1 hectares in the petrochemical development area of the special economic zone. The project will contribute to government revenues through the use of natural gas from the South Pars gas field as the primary source for the feedstock. The project also supports development of the free zone, and ultimately job creation. In addition, the cross-border lending and role of the project sponsors will subject the joint venture to high standards of corporate governance, which is expected to have a strong demonstration effect. This project is aligned with MIGA's priority of supporting investments among developing countries.
Jordan	Project: As-Samra Wastewater Treatment Plant Company Ltd. Guarantee Holder: Infilco Degrémont, Suez Environnement S.A. MIGA has issued guarantees to Infilco Degrémont Inc. and Suez Environnement S.A. covering their investment in As-Samra Wastewater Treatment Plant Company Limited. The investment is for the construction of a wastewater treatment plant, under a 25-year build-operate-transfer (BOT) agreement in Jordan. The guarantees, totaling $4.1 million, cover an equity investment in the water plant and a performance bond. MIGA's guarantee is for a period of up to 15 years against the risk of breach of contract. The project consists of the design, construction, operation, maintenance, and financing of a new wastewater treatment plant in As-Samra. The new plant is built on the site of an existing overloaded and inadequate water treatment system. The construction of the plant is divided into two phases, with phase 1 designed to satisfy the local demand through 2015, and phase 2 consisting of an expansion of the plant to meet demand from 2015 to 2025. MIGA's guarantee is for phase 1 only. This project supports a critical need in one of the 10 most water-deprived countries in the world. The scarcity of water in Jordan is one of the biggest impediments to sustainable economic growth in the country. The MIGA-supported plant will have an average daily capacity of 267,000 m3 of water, and will treat wastewater from the Amman and Zarqa areas (with a combined population of approximately 2.3 million people). The use of treated wastewater will free up drinking water by decreasing agricultural and industrial use of potable water. The treatment plant will also address and rectify a serious environmental issue by processing wastewater. Currently, poorly treated water is being discharged into clean water. In addition to improving the water quality, the plant will help improve the health and environmental conditions in surrounding areas. This is not only the first BOT project in Jordan, but also the first public-private partnership in financing and management of a public infrastructure project in the country. MIGA's participation in the project is consistent with the agency's strategic focus on infrastructure. The project also meets MIGA's objective of increasing its exposure in the Middle East and North Africa region.

Technical Assistance	
Country	**Activities**
Egypt	MIGA continued its technical assistance to Egypt to help develop the institutional capacity of the General Authority for Free Zones and Investment (GAFI). This long-term, in-depth program includes nine modules covering topics such as institutional promotional capacity building; business plan; general promotional strategy development; and the development of sub-sectoral strategies. MIGA provided feedback and recommendations to GAFI, based on an institutional review, and discussed implementation. Subsequently, GAFI carried out activities, focusing on, among other things, web design and content development, investor information systems, and organizational structure revisions.
Jordan	MIGA conducted a needs assessment of the Jordan Investment Board (JIB), following a request from JIB and the country's Ministry of Industry and Trade. The assessment established a framework for potential future cooperation with JIB, and will help MIGA develop a technical assistance program for the country.
Lebanon	At the request of IDAL—the country's investment promotion agency—MIGA conducted a needs assessment of the agency's capacity to attract FDI to Lebanon. The assessment will be discussed in depth with IDAL and serve as a framework for future cooperation between MIGA and Lebanon in the area of investment promotion. It is also expected to facilitate the development of a technical assistance proposal in the near future.
West Bank/ Gaza	Following up on a MIGA needs assessment of the Palestinian Investment Promotion Agency (PIPA) in 2005, and at the request of the Palestinian Authority's Minister of Economy, MIGA organized and conducted a two-day strategic retreat for PIPA. The retreat focused on formulating an emergency one-year plan for PIPA to attract investments, particularly in the areas from which Israel has withdrawn, and on identifying the human and financial resources necessary for the plan. The retreat was attended by the Minister of Economy (who is also the Chairman of PIPA), and by approximately 30 leading public and private stakeholders. PIPA is currently implementing the emergency plan, and has approached MIGA for additional assistance, both at a broader strategic level and in certain specific areas such as preparation for investor conferences.
Regional	MIGA recently launched discussions with The Islamic Corporation for the Insurance of Investment and Export Credit—ICIEC—to explore the development of a joint initiative to benefit investment promotion intermediaries in the ICIEC member countries of the Middle East and North Africa, South Asia, and sub-Saharan Africa. Specifically, ICIEC will support MIGA in undertaking needs assessments in a range of countries, starting in Sudan and Cameroon. In addition, ICIEC will provide assistance in ongoing MIGA technical assistance programs, initially in Mozambique, Senegal, and Sierra Leone.

Sub-Saharan Africa

The economy of sub-Saharan Africa is estimated to have grown by 4.1 percent in 2005, slightly slower than in 2004, with virtually all countries recording positive growth rates. Years of difficult structural reforms, the development of intra-regional trade, and a fall in the incidence of conflicts have been key contributing factors to this expansion. FDI in sub-Saharan Africa increased significantly in 2005, mainly because of two large acquisitions in South Africa. The other countries in the region that continued to receive high levels of FDI were resource-rich countries, notably Nigeria and Angola, where FDI was concentrated in the oil and gas sector.

During the fiscal year, MIGA provided 21 guarantees and undertook 13 technical assistance projects in the region. At year-end, MIGA's gross guarantee exposure stood at $872.9 million, 16.3 percent of the agency's outstanding portfolio.

Guarantees

Country	Activities
Angola	Project: Barloworld Equipamentos Angola Limitada Guarantee Holder: Barloworld Equipment UK Limited MIGA has issued a $14.7 million guarantee to Barloworld Equipment UK Limited, a subsidiary of Barloworld Limited of South Africa, covering its $16.34 million equity investment in and shareholder loan to Barloworld Equipamentos Angola Limitada of Angola. The coverage, for three years, protects against the risks of transfer restriction, expropriation and war and civil disturbance. This is a replacement for a guarantee on the investor's equity investment in the project that was originally issued in 1999. An additional guarantee protecting the investor's shareholder loan expired in June 2004 following repayment of the loan. Barloworld Equipment is expanding its earthmoving equipment dealership in Angola, which includes the construction of a permanent facility just south of Luanda, the nation's capital. The expansion involves the construction of a permanent facility to replace the pre-fabricated buildings on its current site in an industrial complex. The expansion also will allow Barloworld Equipment, the exclusive dealership for Caterpillar earthmoving and power generation equipment in Angola, to move into the rental market with the establishment of the Cat Rental Store. The company also sells forklift equipment, and has a customer base that includes the mining and construction industries. The growth of Barloworld Equipment will help in the reconstruction and rebuilding efforts for a country only recently at peace. Angola's civil war ended in 2002 following 27 years of violence and upheaval. Post-conflict challenges remain, including a limited foreign direct investment base to contribute tax revenues that could fund reconstruction. There remains a significant lack of basic infrastructure such as roads, and residential and commercial buildings—many of which were destroyed during the conflict. The increased availability of heavy construction equipment will help pick up the pace of the rebuilding effort, while encouraging new investment in the country's natural resources. Barloworld Equipment's expansion into the rental market will also give smaller local contractors, with limited access to capital, the ability to take advantage of growing demand for construction services. MIGA's participation in this project reflects several of the agency's strategic goals, including investment in an IDA-only country, and rebuilding in a post-conflict nation.

Guarantees

Country | **Activities**

Burkina Faso

Project: Société Cotonnière du Gourma, Burkina Faso
Guarantee Holder: Agro-Industries Sud S.A.

MIGA has issued four guarantees for a total of $6.1 million to Agro-Industries Sud S.A. (DAGRIS) of France, covering its loan guarantee to local financial institutions to enable them to extend loans to local entities to finance the acquisition of shares in the project enterprise, Société Cotonnière du Gourma, Burkina Faso. The guarantee covers against the risks of breach of contract, expropriation, and war and civil disturbance for a period of up to four years.

The project consists of (1) the acquisition of the cotton ginning assets of the former monopoly, Société des Fibres Textiles, in the eastern region of the country by a commercial operator; (2) the modernization and expansion of the cotton ginning capacity in eastern Burkina Faso; and (3) the promotion of local entrepreneurship through the financing of the acquisition of shares in the project enterprise, Société Cotonnière du Gourma, by local cotton growers and Burkinabé investors.

The expansion aspect of the project will consist of upgrading an existing cotton ginning plant in Fada, thus increasing capacity from 23,000 million tons to 35,000 million tons in the first year of operation. In addition, a new ginning unit will be constructed and operational by end of the second year of operation in Diapaga.

The project is part of the government's efforts to liberalize the cotton sector by allowing commercial operators to purchase assets and operate in what was previously a monopoly area. The project is also expected to contribute to the improvement of public finance management by shifting a significant part of the cotton sector's financial risk from the former monopoly, in which the government has a 35 percent stake, to a private sector company.

MIGA's support of the project is expected to strengthen the country's export-oriented growth, which is consistent with the World Bank Group's strategy to help Burkina Faso. MIGA's participation in the project is also aligned with several agency priorities, including supporting the poorest in Africa.

Ghana

Project: Meridian Development Limited
Guarantee Holder: Metro Ikram Sdn. Bhd.

MIGA has issued $6.3 million in guarantees to Metro Ikram Sdn. Bhd. of Malaysia covering its $2 million equity investment in and $4 million shareholder loans (plus $1 million in interest) to Meridian Development Limited in Ghana. The guarantees are for five years and cover against the risks of transfer restriction, expropriation, war and civil disturbance, and breach of contract.

With Metro's investment, Meridian will develop and build the first phase of a large affordable housing project as a joint venture with Ghana's Social Security National Insurance Trust (SSNIT). This first phase will result in the construction of approximately 1,000 homes in the crowded Accra-Temma metropolis. Once complete, the new neighborhood will feature a variety of housing styles offered at a wide range of prices, from two-bedroom, low-cost houses to three-bedroom, medium-cost houses to four-bedroom, premium single family homes. Later stages of the project include the construction of up to 100,000 homes throughout Ghana. The MIGA guarantees cover the first stage, which is considered a pilot for the future.

The project comes at a time when Ghana, like other sub-Saharan countries, is experiencing rapid urban population growth. The country's housing sector has not been able to keep up with demand, particularly in affordable price ranges. Some estimates suggest that close to one million families in urban Ghana are looking to purchase homes, and this number could soar even higher as earning power increases. Meridian is a critical private investment that will help address the housing shortage, while demonstrating to other private investors that such projects can bring a strong rate of return when risks are properly mitigated.

(cont'd)

Guarantees	
Country	**Activities**
Ghana	(cont'd) The Meridian project is the first step in a multi-pronged government-backed approach to resolving Ghana's housing crunch. The effort is aimed at making more housing options available and adding to the housing stock while tackling some of the overarching legal, regulatory, and financial issues that are preventing growth in Ghana's private housing market. Concurrent with Meridian's pilot phase, MIGA, in conjunction with the Public-Private Infrastructure Advisory Facility, is embarking on a broad study of Ghana's housing market. The goal is to develop a better understanding of these fundamental market and institutional deficiencies. Ultimately, it is hoped that the study will pave the way for reforms that will make the Ghanaian housing sector a more compelling investment proposition. Meanwhile the IFC is working to develop Ghana's primary mortgage market and housing finance sector.
Ghana	Project: Barclays Bank Ghana Ltd. Guarantee Holder: Société de Promotion et de Participation pour la Coopération Economique MIGA has issued $3.5 million in guarantees to Société de Promotion et de Participation pour la Coopération Economique of France, covering its nonshareholder loan to Barclays Bank Ghana Ltd. to enable the local bank to provide long-term financing to a company in the tourism industry. The funding will finance the construction of a new hotel (Atlantic Holiday Resort) in Accra. The guarantee is for a period of seven years and covers against the risk of currency transfer restriction. The hotel is expected to have a number of direct and indirect benefits for the local economy. These include providing higher-quality accommodations at a reasonable price, thereby leading other hotels in the city to improve their standards to remain competitive and attracting more tourists. In addition, the hotel will create an estimated 50 new jobs over the next three years, and is expected to fuel the growth of local businesses involved in transportation, food and hospitality, and tour operation. The tourism industry is the third highest foreign exchange earner in Ghana, with average earnings of over $400 million per year. Ghana is an IDA-eligible country. MIGA's participation in the project is aligned with several agency priorities, including supporting the poorest in Africa. MIGA's guarantee also complements the World Bank Group's Country Assistance Strategy for Ghana, which aims to eliminate poverty by stimulating private sector development.
Kenya	Project: Kibos Sugar and Allied Industries Limited Guarantee Holder: Mr. R. S. Chatthe; Industrial Development Corporation of South Africa Limited MIGA has issued $6.7 million in guarantees to Mr. R. S. Chatthe, a United Kingdom national, and the Industrial Development Corporation of South Africa Limited covering their $.5 million equity investment in, and $6.5 million non-shareholder loan (including $.5 million in interest) to, Kibos Sugar and Allied Industries Limited of Kenya. The investment is for a new sugar factory in Kibos, less than 10 kilometers east of Kisumu. The guaranteed percentages are up to 90 percent for the equity and about 95 percent for the non-shareholder loan, for a period of up to eight years against the risks of expropriation, transfer restriction, and war and civil disturbance. (cont'd)

Guarantees

Country	Activities
Kenya	(cont'd) The project involves establishing a greenfield sugar factory and 2,000 hectares of irrigated sugarcane estates. The factory will also support small growers in the project area who will cultivate up to 2,000 hectares of sugarcane as feedstock for the factory. The sugar is expected to be supplied to the Kisumu market and to surrounding rural areas within a 100 km radius via wholesalers and traders representing a total market size of approximately 4.5 million people. The project is expected to revitalize the sugarcane farming industry in the Kisumu region. In the last five years, sugar consumption in Kenya has grown, while local production has failed to meet current demand. The local industry is mainly state-owned and suffers from outdated technology and a lack of inward investment. This has led to the decline and stagnation of regional sugarcane industries as local farmers, who relied on income from the cultivation of cane at one time, have turned to uneconomic subsistence farming. In the Kisumu region, the closure of the local mill in Miwani in 2001 and subsequent neglect of local sugarcane production led to a negative impact on the local economy. The MIGA-supported project is anticipated to rejuvenate the economy of the sugarcane farming industry in the Kisumu region. The project will operate with new technology and an experienced team to manage the project from inception to operation. The project is expected to contribute to Kenya's self-sufficiency in the production and supply of sugar domestically and reduce the country's reliance on imported sugar. This will represent an important source of foreign exchange savings through the substitution of sugar imports. It is also expected to create 250 permanent jobs in the factory and 3,416 permanent and annualized jobs in the cultivation of cane. More importantly, these jobs will be created in rural areas, thus alleviating absolute poverty. The project is consistent with MIGA's strategic objective of increasing the agency's presence in Africa. In addition, the project is aligned with MIGA's priorities of supporting South-South investments, and the World Bank Group's Country Assistance Strategy in Kenya, which aims to reduce poverty in the poorest rural areas, strengthen communities, and support increased agricultural productivity and competitiveness.
Madagascar	Project: HASYMA Cotton Ginning Guarantee Holder: DAGRIS, S.A. MIGA has issued two guarantees totaling €2.6 million to DAGRIS, S.A. to cover its equity investment in, and shareholder loan to, Hasy Malagasy S.A. (HASYMA), an enterprise engaged in cotton ginning and providing technical and financial assistance to Malagasy cotton growers. MIGA's guarantee is for a period of up to eight years and covers against the risks of currency transfer restriction, expropriation, and war and civil disturbance. In Madagascar, DAGRIS's project involves the privatization of HASYMA, the majority state-owned cotton monopoly. Its ultimate aim is to create sustainable growth in the cotton sector. The project is expected to contribute towards the expansion of the cotton industry in Madagascar by modernizing and expanding the cotton ginning capacity of HASYMA; and by providing technical advice, assistance, and incentives to local cotton producers and selected domestic private investors. HASYMA will promote the production of cotton seed; purchase and gin seed cotton; and market cotton fiber, seeds, and by-products on the local and international markets. The project is expected to create new permanent jobs, in addition to stimulating local businesses that supply goods to the cotton industry. The project is expected to provide livelihoods for around 35,000 farm families. MIGA's guarantees complement Madagascar's Country Assistance Strategy, which focuses on promoting broad-based growth by encouraging private sector growth in the country. MIGA's participation in the project is also aligned with the agency's aim to improve access to financing options for local SMEs. HASYMA was underwritten through MIGA's Small Investment Program.

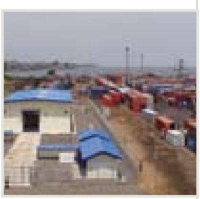
Guarantees

Country	Activities
Madagascar	Project: Grand Hotel du Louvre, Madagascar Guarantee Holder: Louvre International Ltd. MIGA has issued a €1.8 million guarantee to Louvre International Ltd. of Mauritius to cover its equity investment in Grand Hotel du Louvre of Madagascar. MIGA's guarantee is for a period of up to five years and covers against the risks of currency transfer restriction, expropriation, and war and civil disturbance. Louvre International's project in Madagascar involves the acquisition of Grand Hotel du Louvre, which operates the Hotel du Louvre, and Société Immobilier d'Antaninarenina S.A., which owns the building and land where the hotel is located. Hotel du Louvre is an existing 3-star hotel situated in the heart of the Malagasy capital, within 100 meters of the Presidential Palace and the Ministry of Finance. The acquisition has brought the hotel operating company and the building under the same ownership, which will give the new owners further incentive to modernize and upgrade the hotel. The current supply of accommodation in Antananarivo, the capital of Madagascar, does not meet the growing demand of tourists visiting the country—up 58 percent in 2004 compared with 2003. The hotel's target clientele includes business travelers and tourists from France, Mauritius, and Asian countries. The acquisition, modernization, and expansion of the hotel will provide business travelers and tourists with higher-quality accommodations at a reasonable price. This will have a demonstration effect as other hotels in the city also improve their standards to remain competitive, thereby attracting greater numbers of tourists to the country. In addition, the modernization and expansion of the hotel is expected to have a number of direct and indirect benefits for the local economy. The expansion of the hotel is expected to create more than 35 permanent jobs, the majority of which will be filled locally. The project is expected to generate an estimated €735,000 in taxes during the next five years. The hotel will also support the growth of local industries like transportation, food and hospitality, and tour operation. The modernization and expansion of the buildings will be carried out with locally available materials and the local workforce. MIGA's guarantee complements Madagascar's Country Assistance Strategy, which focuses on promoting broad-based growth by encouraging private sector growth in the country. MIGA's participation in the project is also aligned with several agency priorities, including the promotion of South-South investment exchanges, improving access to financing options for local SMEs, and supporting IDA-eligible countries in Africa.
Nigeria	Project: Vee Networks Limited Guarantee Holder: Ericsson Credit AB MIGA has issued a $45 million guarantee to Ericsson Credit AB covering its non-shareholder loan of $73.7 million, including interest, to Vee Networks Limited in Nigeria. The guarantee is for a period of up to eight years and covers against the risks of currency transfer restriction, expropriation, and war and civil disturbance. This contract replaces an earlier (2002) contract of guarantee issued to Ericsson for the project, previously known as Econet Wireless Limited. The project involves the installation, operation, and maintenance of a countrywide GSM mobile telephone network, under a 15-year license. Vee Networks Limited was the first GSM operator to commence operations in Nigeria and has an active subscriber base in excess of 2.7 million. For more information, visit www.miga.org/econet.

Guarantees

Country	Activities
Nigeria	Project: Scanning Nigeria Ltd. Guarantee Holder: SGS Société Générale de Surveillance SA MIGA has issued a $26 million guarantee to SGS Société Générale de Surveillance SA covering its equity investment in SGS Scanning Ltd. in Nigeria. The guarantee is for a period of up to 15 years and covers against the risks of breach of contract, currency transfer restriction, and war and civil disturbance. The project involves the verification and inspection on the government's behalf of goods imported into Nigeria. The project company will procure, install, and operate x-ray scanners; design, implement, and maintain a computerized risk management system; transfer all data into the Automated System for Customs Data approved by UNCTAD; and design cargo handling procedures in conjunction with Nigerian agencies. A seven-year build-own-operate-transfer agreement with the Nigerian government will allow the project company to provide these services in the Onne seaport, Port Harcourt seaport and airport, and Idiroko land border. The project is expected to facilitate trade; contribute to the development of investments in the country; and increase port efficiency by reducing the number of containers that have to be inspected physically, resulting in a significant reduction of port congestion. A direct and positive impact is also expected on revenue collection, due to better assessment of duties and taxes, and fewer opportunities for graft and smuggling. In addition, more than 350 customs service officers and other local staff are expected to receive appropriate training during the project. By supporting this project, MIGA will help the government of Nigeria to further reform and modernize customs in the country. The project is also expected to contribute towards greater transparency in Nigeria's import goods valuation and screening processes. The project addresses one of MIGA's priority areas: it is an investment in an IDA country in Africa, where some of the world's poorest live. The project is also consistent with the World Bank Group's Country Partnership Strategy in Nigeria, the main thrust of which is to support the government's reform efforts to remove obstacles to growth and development.
Nigeria	Project: Cotecna Destination Inspection Limited, Nigeria Guarantee Holder: Cotecna S.A. MIGA has issued two guarantees for a total of $54.9 million to Cotecna S.A. of Switzerland for its $67.2 million equity investment in Cotecna Destination Inspection Ltd. Nigeria. The guarantee contracts replace a previous contract issued (in 2003) to Cotecna S.A., reflecting changes in the form of investment. Originally, the financial structure included a $20 million equity contribution, a $10 million shareholder loan, as well as loans from various financial institutions totaling $25 million. Under the new structure, Cotecna will fund the project through equity contributions amounting to $67.2 million. The coverage is for a period of seven years and against the risks of breach of contract, expropriation, transfer restriction, and war and civil disturbance. The project involves the establishment of container X-ray scanning centers in six ports, four airports and four land-border sites in Nigeria. For more information, visit www.miga.org/cotecna1.

Guarantees

Country	Activities
Sierra Leone	Project: PCS Holding Sierra Leone Ltd. Guarantee Holder: Sierra-Com Ltd. MIGA has issued a $3.4 million guarantee to Sierra-Com of Israel for its equity investment in PCS Holding Sierra Leone Ltd. of Sierra Leone. Sierra-Com owns 85 percent of the company, while a local Sierra Leonean partner, Firstcom, owns the remaining 15 percent. The guarantee is a standardized package that protects against the risks of transfer restriction, expropriation and war and civil disturbance, for a period up to three years. It represents the first guarantee issued under MIGA's Small Investment Program. The investment involves the establishment of fixed line, state-of-the-art broadband wireless access and a voice-over IP network (allowing phone calls to be made over the Internet) in Sierra Leone, a nation with one of the lowest teledensities in the world. The project enterprise, PCSH, will offer broadband Internet at speeds of up to 2MBps and reliable local and international telephone service, filling a void in the country, where the only available Internet service is slow and connections spotty. The company will initially operate from three sites in the capital, Freetown. To keep the network running despite regular power outages across the country, PCSH is installing its own system of back-up generators. Sierra Leone is among the most impoverished nations in Africa, with a recent history of violent conflict and with multiple development needs. It is expected that the availability of low-cost, high-speed Internet and wireless capabilities will encourage more local business start-ups and more foreign direct investment, an important part of the effort to build up the country's economic base and reduce poverty. MIGA's participation in the project supports several agency priorities: encouraging new investment in conflict-affected nations, assisting smaller investors, and supporting local small business development. The World Bank is also active in the country, through new efforts to reform the country's telecommunication laws, a process that will help ensure the integrity and viability of the licensing agreement.
Sierra Leone 	Project: SL Intertek Guarantee Holder: Intertek International Limited MIGA has provided a $5 million guarantee to Intertek International Limited of the United Kingdom for their $3.09 million equity investment in SL Intertek. MIGA's coverage is against the risks of currency transfer restriction, expropriation, and war and civil disturbance for a period of up to 10 years. The policy was issued under MIGA's Small Investment Program. The project involves the installation of a scanner and provision of container scanning services for the port of Freetown, Sierra Leone, as well as advice on port security compliance for the ports of Freetown, Nitti, and Kissy in Sierra Leone under a 10-year build-own-operate-transfer (BOOT) concession. The BOOT component of the project is underpinned by a training program for local staff. For the implementation of the project, Intertek has formed a joint-venture with Port Maritime Security International and the British Government's Revenue and Customs Department. The main objectives of the project are to scan all imports and exports to reduce smuggling, enhance government revenues, and improve internal security. The project will improve Sierra Leone's anti-smuggling capabilities by detecting, controlling, and preventing the movement of prohibited goods, thereby ensuring more effective enforcement and protecting local industries from illegal importation of foreign goods. (cont'd)

Guarantees

Country	Activities
Sierra Leone	(cont'd) The MIGA-supported project will help the country comply with new international security requirements prescribed by the International Ship and Port Facility Security code of the International Maritime Organization. Compliance with the international framework is expected to facilitate exports from Sierra Leone to international markets. The country's exports would be denied access to trading partners' port facilities otherwise. MIGA's participation in this project is aligned with several agency priorities—Sierra Leone is an IDA-eligible, post-conflict country. MIGA's support for the project is in line with the World Bank Group's Country Assistance Strategy for Sierra Leone, which aims to achieve sustainable economic growth and reduction of poverty levels by supporting private sector development in the country.
Uganda	Project: Kyoga Ltd. Guarantee Holder: MILLco Limited MIGA has issued a $2.97 million guarantee to MILLco Limited covering its equity investment in Kyoga Ltd. The guarantee replaces a previous contract (issued in 2005) to Afriproduce of the British Virgin Islands for its investment in Ugandan subsidiary Ugacof. The new guarantee contract reflects the sale of Ugacof's processing and warehousing facilities to Kyoga Ltd., which is owned by MILLco. The guarantee tenor remains unchanged (expiring in 2010). The coverage protects against the risks of expropriation, transfer restriction, and war and civil disturbance. The project involves the operation of a coffee processing facility in Uganda. For more information, visit www.miga.org/afriproduce1.

Technical Assistance	
Country	**Activities**
Ghana	Ghana was a participant in the MIGA-Swiss Partnership, an investment facilitation program co-funded by the Swiss government that successfully concluded this fiscal year. Under the initiative, MIGA is helping Ghana identify opportunities to integrate better into the international economy, with particular attention paid to opportunities generated by the privileged trade access agreements with the EU and the United States. This year under the initiative, MIGA co-financed an investment outreach program to China. In support of this program, staff participated in apparel investment fairs in China, accompanying and coaching a Ghanaian delegation, as well as helping Ghanaian efforts to attract more investment from China. Results of this effort include several planned fact-finding visits by Chinese investors to Ghana and an investment promotion seminar attended by more than 100 investors. MIGA is also co-sponsoring with the government of Ghana and the World Bank a major study of the information and communication technology sector in Ghana. Last, the agency met with the Ghana Investment Promotion Center to discuss the findings of MIGA's benchmarking exercise, which examined six key industries in the country.
Mali	MIGA is implementing a multi-year program to advise the government of Mali on the establishment of an investment promotion agency to help the country disseminate information on its investment opportunities, and to guide investment efforts. As part of this effort, MIGA advised the government on the creation of an institutional framework, organizational structure, and selection and appointment of a chief executive officer for the agency. With financing from USAID, Mali also participated in MIGA's enterprise benchmarking exercise. Preliminary results were discussed at a workshop hosted by USAID in February, and attended by about 80 participants from both the private and public sectors.
Mozambique	MIGA is working with the World Bank Group on an Enterprise Development Project in Mozambique, providing recommendations and monitoring progress of the country's Investment Promotion Center. A central element of the project, considered to be the main private sector development program in Mozambique today, is the installation of industrial infrastructure in the Beluluane zone. Some of the project's innovative features include direct support to enterprises, on a matching-grant basis, targeting competitiveness improvement, delivery of advisory and consultancy services, enhanced market access, a credit line, and a social component designed to help firms in the fight against HIV/AIDS. The project provides assistance to key government and private sector institutions delivering services to the private sector. Mozambique was also a participant in the MIGA-Swiss Partnership.
Senegal	Through the MIGA-Swiss Partnership, MIGA supported two major outreach programs organized by the country during the fiscal year; one in the ICT sector (France), and one in the apparel and textile industry (Turkey). The outreach programs have resulted in investments and ongoing follow-up. MIGA is also assisting APIX, Senegal's national investment promotion agency, in its capacity-building efforts. MIGA helped APIX secure USAID funding to install an effective electronic investor tracking system to facilitate APIX investment promotion efforts. In addition, Senegal is a participating country in MIGA's Enterprise Benchmarking Program.
Sierra Leone	MIGA agreed this year to undertake an integrated technical assistance program, along with FIAS and the International Trade Center (ITC, WTO/UNCTAD), to help restructure and build the capacity of the Sierra Leone Export Development and Investment Corporation (SLEDIC). The primary deliverables expected from the joint intervention are improvements in the investment climate and the dismantling of the still existing (but defunct) SLEDIC. The corporation is expected to be replaced by a dynamic institution with two trade and investment promotion functions. (cont'd)

Technical Assistance	
Country	**Activities**
SIERRA LEONE	(cont'd) MIGA's work under this project is supported by a grant from the Department for International Development of the United Kingdom and comprises one component of a program by the three agencies to: improve the business climate and facilitate private sector development in Sierra Leone; build capacity in the public and private sectors to maximize the impact of private sector reform and to improve productivity; and promote growth via private sector development. Work this year concentrated on reaching an agreement with the Ministry of Trade and Industry on the restructuring and capacity-building program for SLEDIC, and taking part in a multi-agency program that aims to develop a new investment promotion structure for the country. This program represents an innovative approach to addressing the needs of conflict-affected countries, and relates closely to MIGA's PRI business, including the new SIP program.
SOUTH AFRICA	MIGA began a joint project with FIAS to help the South African Department of Trade and Industry develop a strategy and structure to promote inward investment into the country. MIGA's role focuses on delivering an investment promotion strategy and work program to the department to guide the restructuring of the country's national investment promotion program. Work during the fiscal year included the launch of fieldwork, an assessment of FDI flows into South Africa, and a needs assessment for three regional investment promotion intermediaries.
TANZANIA	As part of its "Investing in Development" publication series, MIGA finalized an in-depth case study on tourism in Tanzania this year. The study provides useful insights and discussion points on how to conduct an effective investor outreach program. MIGA's assistance to Tanzania in the tourism sector falls under the umbrella of the MIGA-Swiss Partnership. The Tanzania tourism outreach program has had far-reaching effects in supporting the growth of the industry in Tanzania. In addition to various investments—including a landmark privatization of a major hotel that had a positive demonstration effect for other investments—this program has mobilized, supported, and encouraged considerable reform of the investment environment in the industry.
UGANDA	During the fiscal year, MIGA agreed to provide technical assistance to the Uganda Investment Promotion Authority. The program aims to help the authority implement effective outreach programs to draw the attention of the international investment community to opportunities offered in Uganda, and to offer assistance to potential investors in taking advantage of these opportunities. The program is funded through a grant from the Austrian Development Agency and is modeled after the successful MIGA-Swiss Partnership initiative, which financed investor outreach programs in Ghana, Senegal, Tanzania, and Mozambique. The Uganda project was formally launched in February, concurrently with MIGA's presenting its draft Uganda benchmarking report to authorities in the country.

Technical Assistance

Country	Activities
Regional	MIGA undertook several high-profile regional initiatives in Africa during the fiscal year, including the launch of its new Database Development Project with NEPAD, and the launch of its new global Enterprise Benchmarking Program (see Operational Overview section for more). During the year, MIGA also concluded activities under the MIGA-Swiss Partnership. MSP was a three-year technical assistance program to strengthen investment promotion intermediaries in four selected fast-reforming African countries—Ghana, Mozambique, Senegal, and Tanzania—to profile their investment attractions to the international investment community to attract investment. MIGA worked with the intermediaries and with relevant private-sector associations and government bodies in each country to profile and market investment attractions and to disseminate this information to the international investment community in order to attract investment. The program built the intermediaries' capacity to assist investors, establish supplier and investment linkage programs, and provide post-investment follow-up. The program's focus fell on those industries in the selected countries deemed most likely to attract investments in the near term, and special attention was given to industries offering new opportunities arising from increased African trade access to the US market through the African Growth and Opportunities Act and to European markets through the Cotonou and Everything But Arms Agreements.

Independent Evaluation Group

Compliance Advisor/Ombudsman

Independent Evaluation Group

The Independent Evaluation Group's main role is to assess the development effectiveness of MIGA programs, guarantee projects, and technical assistance. It reports directly to MIGA's Board of Directors and is independent from MIGA management and operations.

The former Operations Evaluation Unit changed its name to Independent Evaluation Group (MIGA), or IEG-MIGA, clarifying the independent role of the unit and reflecting closer cooperation with the evaluation departments of the World Bank and the International Finance Corporation. The Board of Directors also approved new terms of reference, strengthening the independence of the unit.

In its fourth year of operation, the group presented its 2006 Annual Report to the Board's Committee on Development Effectiveness, focusing on the development effectiveness of MIGA guarantees and online information services, and making recommendations to strengthen the quality of MIGA's work and impact.

IEG continued to assess guarantee projects and technical assistance activities, and concluded an evaluation of MIGA's online dissemination services (IPA*net*, PrivatizationLink, FDIXchange, and the FDI Promotion Center). It began to assess MIGA's financial soundness and the effectiveness of its legal and claims services. In fulfilling its dual role to promote learning and ensure accountability for results, the group discussed the findings of all project-level evaluations with MIGA staff and management.

IEG's main findings and recommendations can be accessed at www.miga.org/ieg.

Compliance Advisor/Ombudsman

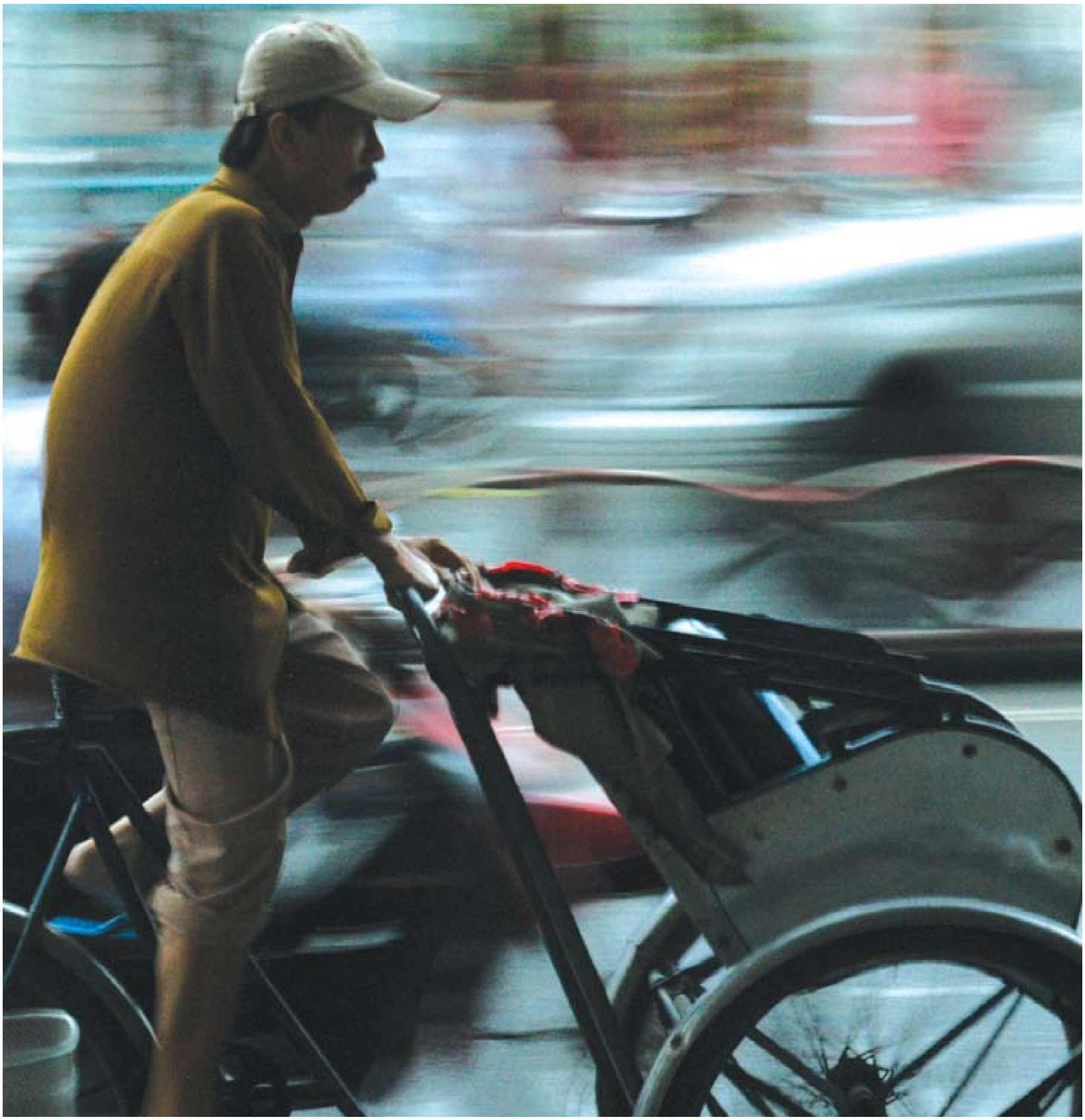
The IFC/MIGA Compliance Advisor/Ombudsman (CAO) is an independent recourse mechanism that reports directly to the President of the World Bank Group. The post was established in 1999. Its mandate is to help the International Finance Corporation and MIGA address complaints by people affected by projects in a manner that is fair, objective, and constructive, and to enhance the social and environmental outcomes of projects in which these organizations play a role.

The CAO has three distinct roles: the ombudsman role, which responds to complaints by persons who are affected by projects and attempting to resolve fairly the issues raised using a flexible problem-solving approach; the compliance role, which oversees audits of IFC's and MIGA's social and environmental performance, particularly in relation to sensitive projects, to ensure compliance with policies, guidelines, procedures, and systems; and the advisory role, which provides a source of independent advice to the President and the management of IFC and MIGA in relation to broader environmental and social policies, guidelines, procedures, strategic issues, trends, and systemic issues.

During FY06, the CAO received and accepted for investigation one complaint on a project where joint MIGA and IFC support was being considered (Uruguay pulp mill) and mediated a complaint received in late fiscal year 2005 (Antamina mining project in Peru). The CAO also conducted two compliance audits—Uruguay pulp mills and Dikulushi mining project in the Democratic Republic of Congo, the latter at the request of the President of the World Bank Group—regarding MIGA's due diligence on projects where MIGA is providing or considering support. Details for these activities can be found on the CAO website, www.cao-ombudsman.org.

Management's Discussion and Analysis (FY06)

Financial Statements



Management's Discussion and Analysis (FY06)

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MANAGEMENT'S DISCUSSION AND ANALYSIS (FY06)

OVERVIEW

Established in 1988, the Multilateral Investment Guarantee Agency (MIGA) is an international organization and a member of the World Bank Group, which also includes the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), and the International Centre for Settlement of Investment Disputes (ICSID). MIGA is a legal entity separate and distinct from IBRD, IDA, IFC and ICSID, with its own charter (the "Convention"), share capital, financial structure, management, and staff. Its membership, which currently stands at 167, is open to all countries that are members of the IBRD.

MIGA's mission is to promote foreign direct investment (FDI) into developing countries, support economic growth, reduce poverty and improve people's lives. To this end, the agency's vision is to be a multilateral risk mitigator, providing products and services that encourage potential investors to enter developing countries and provide the necessary comfort to alleviate concerns over political (non-commercial) risks. The agency's core business is the provision of political risk insurance. In addition, MIGA has a mandate to carry out complementary activities—including technical assistance activities, mediation, and online services—to support productive FDI.

MIGA is committed to promoting projects that are economically, environmentally, and socially sustainable, and promise a strong development impact. The agency is also dedicated to working with governments that are committed to policies and actions that improve their countries' investment climates. By providing political risk insurance for foreign direct investment, technical assistance, and other activities, MIGA is able to play a critical role in supporting the World Bank Group's broad strategic priorities.

Since its creation in 1988 and through the end of fiscal year 2006 (FY06), MIGA has issued $16.0 billion in guarantee coverage (including amounts issued under the Cooperative Underwriting Program), in support of 527 projects in 95 member developing countries. The agency has also conducted hundreds of technical assistance activities in member countries, as well as multiple programs at regional and global levels.

MIGA is financially self-sustaining, and its activities are supported by a robust capital base. The agency is able to fund its administrative budget, while maintaining the strength of its balance sheet, through a combination of premium income and investment income.

MIGA prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP) and International Financial Reporting Standards (IFRS).

DEVELOPMENT ACTIVITIES

Summary of Business Segments

MIGA seeks to fulfill its mission in developing member countries by offering political risk insurance, technical assistance, online dissemination of information and investment dispute mediation.

Political Risk Insurance (PRI)

MIGA provides investment guarantees against certain noncommercial risks (i.e., political risk insurance) to eligible foreign investors for qualified investments in developing member countries. Coverage is offered against the risks of (1) transfer restriction and inconvertibility, (2) expropriation, (3) breach of contract, and (4) war and civil disturbance, and investors may choose any combination of these coverages (see Box 1). MIGA insures new cross-border investments originating in any MIGA member country, destined for any developing member country. Types of investments that can be covered include equity, shareholder and nonshareholder loans, and loan guarantees, provided the loans have a minimum maturity of three years. Other forms of investments—such as technical assistance and management contracts, or franchising and licensing agreements—may also be eligible. Table 1 contains a summary of cumulative guarantees issued in member countries.

Box 1

Risks Covered by MIGA's Guarantees

MIGA provides political risk insurance to eligible investors and lenders against noncommercial risks such as:

- **Transfer restriction and inconvertibility**—risk of inconvertibility of local currency into foreign exchange for transfer outside the host country. Currency depreciation is not covered.
- **Expropriation**—risk of partial or total loss of the insured investment as a result of acts by the host government that may reduce or eliminate ownership of, control over, or rights to the insured investment.
- **War and civil disturbance**—risk of damage to, or the destruction or disappearance of, tangible covered assets caused by politically motivated acts of war or civil disturbance in the host country including revolution, insurrection, coups d'état, sabotage and terrorism.
- **Breach of contract**—risk of being unable to obtain or enforce an arbitral or judicial decision recognizing the breach of an obligation by the host government.

Table 1

Cumulative Guarantees Issued in Member Countries				
	FY06	**FY05**	**FY04**	**FY03**
Cumulative Guarantees Issued ($ B)[1]	16.0	14.7	13.5	12.4
Host Countries[2]	95	91	85	85

[1] *Includes Cooperative Underwriting Program contracts.*
[2] *FY06 includes four new host countries: Afghanistan, Iran, Mongolia and Sierra Leone.*

During FY06, MIGA supported 21 projects in IDA-eligible countries and 13 projects in sub-Saharan Africa, which are special areas of focus for the agency. In terms of exposure, IDA-eligible countries accounted for 42 percent of the gross portfolio as of June 20, 2006, while coverage for projects in sub-Saharan Africa accounted for 16 percent. Table 2 details the regional distributions of MIGA's gross and net guarantee exposures over the past three years. The total gross and net exposures as of June 30, 2006 amounted to $5.4 billion and $3.3 billion compared with $5.1 billion and $3.1 billion respectively at the end of FY05.

Table 2

Regional Distribution of Gross and Net Exposure									
	Gross ($ M)			**Net ($ M)**			**Total Net Exposure (%)**		
	FY06	**FY05**	**FY04**	**FY06**	**FY05**	**FY04**	**FY06**	**FY05**	**FY04**
Africa	873	840	692	651	606	433	19.7	19.3	13.3
Asia	740	670	672	540	471	486	16.3	15.0	14.9
Europe and Central Asia	2,500	2,303	1,973	1,185	1,225	1,201	35.8	39.0	36.9
Latin America and Caribbean	1,095	1,257	1,736	738	757	989	22.3	24.1	30.3
Middle East and North Africa	285	154	243	262	144	215	7.9	4.6	6.6
Adjustment for Master Agreement	-130	-130	-130	-65	-65	-65	-2.0	-2.0	-2.0
Total	**5,362**	**5,094**	**5,186**	**3,310**	**3,138**	**3,259**	**100.0**	**100.0**	**100.0**

Note: Figures may not add up due to rounding.

MIGA cooperates with national and private investment insurance schemes through coinsurance and reinsurance arrangements to provide investors broader investment insurance coverage and to enhance capacity and effectiveness. Under the Cooperative Underwriting Program, MIGA does not assume the credit risk of the private or public insurer.

Technical Assistance (TA)

MIGA's technical assistance program focuses on addressing the basic operational challenges faced by investment promotion intermediaries (IPIs) in developing member countries. During the fiscal year, MIGA took important steps to redefine the program to be better oriented to meet client needs, as well as to emphasize the specific role that MIGA's TA products play in the larger context of the World Bank Group's TA product line. In FY06, MIGA refocused the TA program from being structured on a purely regional basis to being organized around two product families centered on attracting FDI: (1) diagnostic services and (2) implementation services. The diagnostic team utilizes a small number of high-impact analytical tools which can be delivered either in combination with one another, or separately as required by clients. The implementation team delivers TA in three main functional areas: (1) institutional development, (2) investment promotion capacity-building and facilitation, and (3) product development. This reorientation has allowed MIGA's TA staff to be deployed globally depending on the need for technical expertise, rather than to be unnecessarily restricted to a particular geographic region.

In FY06, the demand for MIGA's TA services continued to be strong—the agency's active TA portfolio contained 45 activities covering 28 countries, along with several regional and global initiatives. Twenty TA projects were implemented in 16 IDA-eligible countries, and 13 projects were carried out in sub-Saharan African countries. The ongoing demand for TA was reflected in the 23 country requests registered during the fiscal year. There was increased interest in the promotion of FDI related to the infrastructure sector, with either the continuation or coming on-stream of several projects involving industrial estate and special economic zone components. Other new initiatives with regard to information dissemination of investment opportunities in the sector are developing through the NEPAD online initiative that MIGA is spearheading.

Trust-funded operations grew significantly during FY06 with (1) the receipt of €2,250,000 from the EU to launch the €4.5 million Serbian Investment Promotion Program (SIPP), (2) a contribution of €397,000 from the Austrian Development Agency (ADA) to help the Uganda Investment Authority implement effective outreach programs, (3) a €1,000,000 contribution from the Austrian Ministry of

Finance to partially fund Phase 2 of the European Investor Outreach Program (EIOP), and (4) a $100,000 grant from the United States Agency for International Development to support Mali's efforts to establish an effective investment promotion structure.

Online Dissemination of Information

In FY06, MIGA's online information services were repositioned to contribute to the agency's new strategic direction, particularly to support proactive marketing of the guarantees program and disseminate knowledge on FDI issues. The process resulted in the consolidation of MIGA's online services under four pillars: (1) the redevelopment of www.miga.org, the corporate website, (2) the development of FDI.net, an integrated site aimed at investors, (3) the refinement and localization (translation) of FDI Promotion Center, a specialized website aimed at IPIs, and (4) the development of PRI Center, a pilot site aimed at investors, political risk practitioners and other interested users. These changes also responded to the findings of an evaluation review by the Independent Evaluation Group (IEG), which highlighted the importance of redefining the objectives of the services, and recommended repositioning and consolidating MIGA's various sites. The first phase of the repositioning process was completed in FY06, although special website features will continue to be developed in FY07. The new sites are expected to be more user-friendly and will highlight content that specifically focuses on priority areas, such as infrastructure in sub-Saharan Africa. The sites will also provide more opportunities to support the marketing of MIGA's guarantee products.

Investment Dispute Mediation

Article 23 of the MIGA Convention mandates the agency to seek to remove impediments to the flow of investment to developing member countries, and encourage the settlement of disputes between investors and host governments. Pursuant to these mandates, the agency has selectively offered mediation services to help resolve disputes between investors (not guaranteed by MIGA) and host countries that inhibit the flow of additional investment to the host country.

In general, MIGA seeks reimbursement for its out-of-pocket expenses and utilizes its own staff to mediate a small number of investment disputes annually. The amicable resolution of these disputes is the primary performance indicator and is evidenced by acknowledgement letters from the parties involved; the resolution of these disputes should subsequently facilitate the flow of investment to host countries.

Outlook and Challenges

Market Positioning

MIGA has focused on building and diversifying the guarantee portfolio—both in terms of sectors and regions—by undertaking proactive marketing efforts around the globe that target both traditional and new investors, particularly those from middle-income countries (including South-South investments). The challenge today for many developing countries is to find new investors. Many traditional international investors have pulled back from emerging markets (especially in infrastructure) because of increased perceptions of risk, the perceived failure of privatizations in the 1990s, and shareholder pressure to focus on domestic markets (in the power sector, for example). Given the liquidity in today's market and the increased interest by investors for new sources of financing, MIGA has provided support to a number of structures that are being developed in the capital markets. This includes a PRI-covered private placement to finance an infrastructure project with a bond issue—addressing the point that in many markets traditional commercial bank lending is not available for tenors required by infrastructure projects—and PRI-backed mortgage and asset securitizations.

New Business Model

At the end of FY04, MIGA management launched a business model that builds on its comparative advantages and strengthens its financial and operational sustainability over the long-term. It centers on MIGA's unique role as a multilateral risk mitigator, drawing on its governance structure to support development in ways that add value and complement the activities of others. This implies a focus on areas that public and private entities cannot serve as well, such as higher-risk markets, and other areas where MIGA has a unique comparative advantage. MIGA's new business model consists of three principal elements which leverage the agency's comparative advantages and reinforce each other to form an integrated strategy: proactive marketing and complementary products; a comprehensive risk management framework; and stepped-up collaboration with the World Bank Group (WBG).

Operational Priorities

In 2006, MIGA continued to implement the strategy that was endorsed by its Board of Directors (as outlined in the Strategic Directions 2006-2008 paper), and which focuses on:

- *Supporting investments between MIGA Part 2 countries (South-South investments).* Companies from developing countries are contributing a greater proportion of FDI flows into other developing countries. For these investors, political risk insurance can make a difference in the decision to go ahead, and MIGA has thus targeted these South-South investments.
- *Supporting investments in infrastructure expansion and rehabilitation.* Ongoing and near-term efforts are focused on growing the pipeline of business in the infrastructure sector to increase the proportion of new business in infrastructure to 35-40 percent.
- *Increasing FDI in conflict-affected environments.* MIGA continues to look at the possibility of establishing a new PRI facility for Africa in order to accelerate the recovery of the private sector and increase FDI flows to conflict-affected countries in the region. The facility would be financed through a combination of donor contributions and concessional lending from multilateral institutions.
- *Supporting growth in other frontier markets.* The near-term emphasis is in growing the business in the Middle East and North Africa (MENA), diversifying the base of the guarantee business in Europe and Central Asia (ECA), supporting investors from key countries like Brazil, China, India, and Turkey, and supporting client countries' abilities to seize investment opportunities created by regional trade liberalization efforts in Latin America and the Caribbean (LAC).

MIGA focused much of its new business efforts in FY06 on supporting infrastructure projects and diversifying its exposure from the financial services sector. The results of these efforts can be seen in MIGA's outstanding guarantee portfolio. By the end of FY06, infrastructure's share of the gross portfolio had grown by 2 percent and financial services had reduced by 6 percent. Moreover, there was strong growth in the oil, gas, and mining sector, which posted a 5 percent increase over the previous year, while agribusiness, manufacturing, and services maintained much of its position, declining by just 1 percent.

FUNDING SOURCES

Equity

Total shareholders' equity as reported in MIGA's balance sheet as of June 30, 2006 was $743 million compared with $710 million as of June 30, 2005. This increase of $33 million primarily reflects the increase in retained earnings and in subscription from new and existing members.

MIGA's equity base ensures the financial sustainability of the agency, over both the short-term and longer-term. The subscribed capital and retained earnings determine the agency's statutory underwriting capacity. The Council of Governors and the Board of Directors have set the maximum amount of contingent liability that may be assumed by MIGA as 350 percent of the sum of its unimpaired subscribed capital and retained earnings, 90 percent of reinsurance ceded by MIGA with private insurers, and 100 percent of reinsurance ceded with public insurers. As of June 30, 2006, MIGA's underwriting capacity was $10,216 million, as follows:

Table 3

Current Underwriting Capacity ($ M)	
Subscribed capital	$ 1,882
Retained earnings	381
Accumulated other comprehensive income	3
Insurance portfolio reserve (net)	120
Total	**2,386**
350% of subscribed capital, retained earnings, other comprehensive income and reserve	8,353
90% of reinsurance ceded with private insurers	1,708
100% of reinsurance ceded with public insurers	155
Statutory Underwriting Capacity—June 30, 2006	**$ 10,216**

As of June 30, 2006, MIGA's gross exposure of $5,362 million and net exposure of $3,310 million represented 52.5 percent and 32.4 percent of MIGA's statutory underwriting capacity.

MIGA uses the ratio of operating capital over net exposure to measure its risk-bearing capacity. Operating capital includes paid-in-capital, retained earnings, and the insurance portfolio reserve, net of the corresponding reinsurance recoverable. MIGA management's objective is to have sufficient operating capital to sustain losses associated with claims and to support the ongoing business without facing a significant risk of having to avail of the callable capital. Table 4 shows the ratio of operating capital to net exposure over the past three years. This ratio remained stable at 26.1 percent in FY06 compared with 26.4 percent in FY05 and 24.9 percent in FY04.

Table 4

Risk-Bearing Capacity (FY04-06, $ M)			
	FY06	**FY05**	**FY04**
Net Exposure	3,310	3,138	3,259
Insurance portfolio reserve—net [1]	120	120	235
Retained earnings and accumulated other comprehensive income	384	361	228
Paid-in Capital	359	349	348
Operating Capital	863	830	811
Operating Capital/Net Exposure	26.1%	26.4%	24.9%

[1] *In FY04, this was shown as general claims reserves.*

Capital

MIGA derives its financial strength primarily from the capital it receives from its shareholders. In FY06, Antigua and Barbuda, and the Solomon Islands completed their membership requirements, bringing the total number of member countries to 167.

MIGA's Convention established MIGA's authorized capital stock (membership shares) at 100,000 shares—equivalent to $1,082 million—with a provision that the authorized capital stock shall automatically increase upon the admission of a new member to the extent that the total number of authorized shares are sufficient to allow subscription by the new member. As of June 30, 2006, the authorized shares increased to 105,087, equivalent to $1,137 million, subscribed by 167 member countries. Of the membership shares subscribed, 20 percent or $227.4 million had been paid-in and the remaining 80 percent or $909.6 million was subject to call when needed by MIGA to meet its obligations. Of the paid-in capital, $109 million was in promissory notes. The notes are denominated in freely convertible currencies and are due on demand to meet MIGA's obligations. Since inception, MIGA has not encashed any of the promissory notes.

On March 29, 1999, MIGA's Council of Governors approved a General Capital Increase (GCI) of 78,559 shares, equivalent to $850 million. The subscription period ended on March 28, 2003. On March 17, 2003, the Council of Governors approved an amendment to the GCI resolution allowing eligible countries to reserve the GCI shares allocated to them by submitting an instrument of contribution before the end of the GCI subscription period, and requesting such countries to subscribe to their GCI shares as soon as possible. The reserved shares are issued and corresponding voting power accrues when the subscription process reaches completion, i.e., when the requisite payment has been received. No time limit has been set for the payment of the reserved shares. As of June 30, 2006, cumulative subscriptions to the GCI totaled 68,878 shares, equivalent to $745.2 million, and GCI shares reserved through instruments of contribution totaled 7,384 shares, equivalent to $79.9 million. Of the GCI shares subscribed, $131.5 million has been paid-in and $613.7 million is callable.

Table 5

Summary of General Capital Increase (as of June 30, 2006)

	Part 1		Part 2		All Countries	
	Number	$ M	Number	$ M	Number	$ M
Fully subscribed	22	329.1	85	285.8	107	614.9
Partly subscribed	1	130.3			1	130.3
Total Subscribed	23	459.4	85	285.8	108	745.2
Reserved through						
instrument of contribution		38.9	26	41.0	26	79.9
Total Subscribed and Reserved	23	498.3	111	326.8	134	825.1
Allocated	23	498.3	138	351.7	161	850.0
Subscribed (%)		92.2		81.3		87.7
Subscribed and reserved (%)		100.0		92.9		97.1

As of June 30, 2006, MIGA's total subscribed capital amounted to $1,882.3 million, of which $358.9 million was paid-in and $1,523.4 million was callable. Since its inception, no call has been made on MIGA's callable capital. Any calls on unpaid subscriptions are uniform on all shares. If the amount received by MIGA on a call is insufficient to meet the obligations which necessitated the call, MIGA may make further calls until the amounts received are sufficient to meet such obligations. The liability of a member on a call or calls is limited to the unpaid balance of its capital subscription.

LIQUIDITY AND INVESTMENT MANAGEMENT

The investment of MIGA's liquid assets plays an important role in supporting risk-taking in underwriting. Although substantial drawdowns of the investment portfolio have not occurred in the past, they should be expected to happen from time to time, given the nature of MIGA's underwriting business. As a result, management deems the following three main rationales as appropriate for MIGA's investment strategy.

- *Providing liquidity for identified claims.* MIGA must be able to draw on the investment portfolio to pay for claims and potential claims that it has already identified. MIGA keeps track of projects where the investor is experiencing problems or is involved in a dispute with government authorities, and the investment portfolio must allow for payment of claims on a pre-recovery basis.
- *Providing liquidity for unidentified claims.* MIGA also needs to be prepared to pay for claims that have not yet been identified at the contract level. Even though the precise amount of such claims is unknown, it is possible to construct portfolio models to estimate the most likely aggregate size of such claims, as well as to estimate their maximum size at a given confidence level. The agency recently developed an economic capital model that provides for the structuring of the investment portfolio to cover claims that are not yet identified at the contract level, but can be estimated statistically.
- *Providing capital growth.* While the investment portfolio at any given time must be managed to ensure MIGA's ability to pay identified and unidentified claims, the rate of return on the portfolio also plays a crucial role in enhancing MIGA's future financial strength.

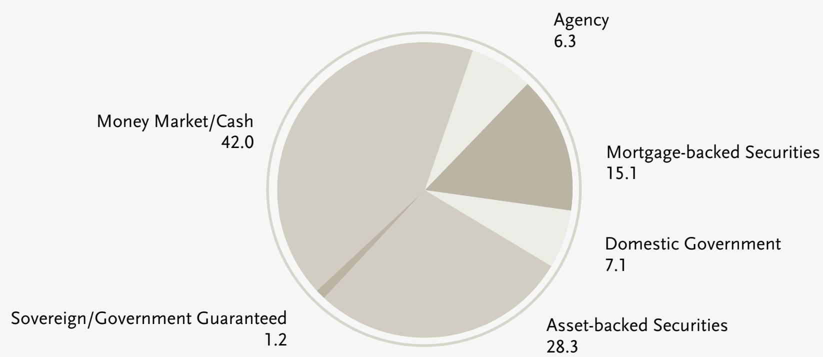
MIGA's investment portfolio is managed in two tranches under the Investment Authorization approved by the Board in June 2004, with these three objectives in mind. Tranche 1 is managed with a risk tolerance of 1 percent probability of annual capital loss over a one-year horizon and Tranche 2 is managed with a 1 percent probability of annual capital loss over a three-year horizon. Within these Board-approved risk constraints, MIGA management may apply additional risk parameters based on the agency's financial needs and income dynamics. Management sets the investment policy, including risk tolerance and asset allocation, with the analytical support of IBRD's Treasury. Portfolio management activities, including trading, risk analytics and reporting, are executed by IBRD's Treasury under an Investment Management Agreement and the associated Investment Management Guidelines between MIGA and IBRD.

The bulk of MIGA's portfolio is in US dollars, and the composition of the US dollar holdings is detailed in Figure 1. During FY06, the USD investment portfolio consisted of cash and varying asset classes—treasury securities, agency securities, mortgage-backed securities and asset-backed securities. In addition, the portfolio included cash and government securities denominated in other currencies. The investment portfolio is currently classified as "trading securities." Overall, the management of the portfolio generated a return of 1.5 percent in FY06.

In addition, MIGA maintains one credit facility for the purpose of managing liquidity. As of June 30, 2006, this credit facility amounts to $50 million. This credit facility will expire in early FY07. The agency has reviewed its liquidity needs and decided not to renew this facility.

Figure 1

Portfolio Composition of MIGA's US Dollars Holdings, in Percent



RISK MANAGEMENT

Controlled acceptance of political risks in developing countries is MIGA's primary business, and the underwriting of those risks requires a strong and comprehensive risk management framework that analyzes, measures, mitigates and controls the risk exposures. It is also essential to understand the risk exposures on an enterprise-wide perspective.

Risk Management Organization

The responsibility for approving MIGA's risk management policies lies with the Board of Directors. The committee of the Board that deals with risk management issues is the Audit Committee.

While the Executive Vice President assumes the responsibility for overall risk management with the support of the senior management team, the responsibility for the design and operational implementation of the risk management framework, including the reinsurance function, lies with the Finance and Risk Management Group under the leadership of the Director and Chief Financial Officer, in coordination with colleagues across the agency.

The Legal Affairs and Claims Group handles claims and dispute situations. The Economics and Policy Group analyzes country risk and maintains MIGA's internal country ratings.

Risk Landscape and Risk Management per Category

MIGA broadly distinguishes three types of risks: insurance risk, investment risk, and operational and other risks.

Insurance risk can be divided into two categories:

1. Claims risk, the largest risk for MIGA, is the risk of incurring a financial loss as a result of a claimable political risk event in developing countries.
2. Reinsurance non-performance risk is the risk that reinsurers fail to pay their share of risk-taking in case of a claim.

Investment risk includes the following types of risk:

1. Market risk is exposure to the fact that MIGA's invested assets are being impacted by changes in financial market risk factors, such as movements in interest and foreign exchange rates.
2. Prepayment risk for mortgage-backed security holdings is the uncertainty related to unscheduled prepayment in excess of scheduled principal repayment.

3. Spread risk arises from differences in the relative prices of corporate bonds, mortgage-backed securities, asset-backed securities and treasury bonds.
4. Credit risk is the risk of incurring a financial loss due to adverse changes in the creditworthiness of issuers of fixed-income assets.

Operational and other risks inherent in MIGA's business undertaking:

1. Operational risk is the potential for loss resulting from inadequate or failed internal processes or systems, human factors or external events, and includes business interruption and system failure, transaction processing failures and failures in execution of legal, fiduciary and agency responsibilities.
2. Other forms of risk comprise of legal risk, human resource risk, and reputational risk.

The management of the major kinds of risk is described below:

- *Claims risk management.* Claims risk arises from the underwriting activities of the agency. Political risk assessment forms an integral part of MIGA's underwriting process, and includes the analysis of both country-related and project-related risks.

  Country risk assessment is a combination of quantitative and qualitative analysis, assessing the probability of a claimable event taking place as captured in a comparative rating scale. Ratings are assigned individually to each risk for which MIGA provides insurance coverage in a country. Country ratings are reviewed and updated every quarter. Country risk analysis forms the basis of the underwriting of political risk guarantees, setting of premium levels, and provisioning for claims.

  The project-specific risk assessment process is performed by a cross-functional team from MIGA's Operations, Policy and Economics, and Legal Affairs and Claims Groups. Based on the analysis of project-specific risk factors within the country context, the final project risk ratings can be higher or lower than the country ratings per coverage. The decision to issue a guarantee is subject to approval by MIGA's senior management, followed by endorsement by the Board of Directors.

  In order to prevent excessive risk concentration, MIGA sets exposure limits per country and per project. In addition, MIGA's reinsurance program, including treaty and facultative reinsurance, helps manage the risk profile of the portfolio. Finally, MIGA's risk-based pricing framework provides the basis to ensure ex-ante that sufficient premium income can be expected to provide appropriate compensation for both standalone and concentration risks of guarantee contracts underwritten by the agency.

- *Reinsurer non-performance risk management.* Non-performance risk exposure arises from MIGA's reinsurance program. MIGA requires that reinsurers be rated by at least two of the four major rating agencies (Standard & Poor's, A.M. Best, Moody's and Fitch), and that the ratings be above a minimum threshold. In addition, MIGA may also place reinsurance with public insurers of member countries that operate under and benefit from the full faith and credit of their governments, therefore representing a negligible counterparty risk to MIGA.

  MIGA has established limits at both the project and portfolio levels, which restrict the amount of reinsurance. The project limit states that MIGA may reinsure no more than 90 percent of any project. The portfolio limit states that MIGA may not reinsure more than 50 percent of its aggregate gross exposure (excluding reinsurance placed with public insurers that benefit from the full faith and credit of the relevant member country).

- *Investment risk management.* MIGA's investment portfolio is exposed to the risk of loss of portfolio value resulting from adverse fluctuations in interest rates and foreign currency exchange rates, spreads, convexity, and prepayment. Because the portfolio is invested in fixed income securities, the primary investment risk for MIGA is interest rate risk. Other risks are small, although prepayment risk may become more important due to the gradual increase in MIGA's MBS holdings. To manage investment risks in the investment portfolio, MIGA has defined investment guidelines for portfolio managers, which includes a series of constraints and limits.

  MIGA's investment portfolio does not have any significant credit risk exposure. MIGA invests only in fixed income securities with high credit quality. The Investment Authorization stipulates that government or agency sponsored debt securities be AA-rated or above, time deposits be A-rated or above, and corporate debt securities be AAA-rated.

- *Operational risk management.* Operational risk is intrinsic to financial institutions and is an important component of the agency-wide risk management framework. The most important types of operational risk involve breakdowns in internal controls and corporate governance.

  MIGA attempts to mitigate key operational risks by maintaining a system of internal control. Since 2000, MIGA, in line with IBRD/IDA and IFC, has used a COSO based integrated internal control framework. In FY04, MIGA adopted the same operational risk management system (Horizon) as IBRD and uses it to strengthen the annual review process and enhance management's ability to monitor the operational risks with a higher degree of detail and consistency. Key risks and controls in financial reporting were assessed and documented in Horizon, and the results were examined through the internal quality assurance review process. Controls were generally found to be both in place, and effective. The opportunity for further improvements exists in processing and governance, for which action plans were established.

  Since FY01, MIGA has, like the Bank and IFC, conducted an annual review of its internal controls over external financial reporting under the COSO framework, and management has issued its annual assertion that it maintains an adequate system of internal control over external financial reporting, and has received an attestation to this effect from the external auditor. The work underlying MIGA management assertion has been consistent with the auditing standard (AT501) of the American Institute of Certified Public Accountants (AICPA). Moreover, since FY05, MIGA has been taking a number of steps to strengthen the scope and depth of work done to support the management assertion, and is considering best practice standards on internal controls over external financial reporting. MIGA has prepared a plan to implement the best practices suggested by the new auditing standard (AS 2) of the Public Company Accounting Oversight Board (PCAOB) by FY08.

  During FY06, MIGA was advised by its external auditor that the auditing firm's standards for giving its attestation to management's internal controls assertion have been raised to be more closely equivalent to the requirements of AS 2. In light of this, and after considering the level of effort needed to meet the higher standards during the remaining months of the fiscal year, management decided not to seek the attestation of the external auditor.

The agency will continue its annual COSO review, and with its effort to strengthen the process along its original plan. The review will provide the basis for management to continue to make its assertion. MIGA will again seek the attestation of the external auditor to management's assertion when it has adopted the best practices standard suggested by AS 2.

With regard to information technology, all MIGA Online Services applications have been migrated during FY06 to a new web cluster infrastructure that is configured and adherent to the information security policy and procedures of the World Bank Group. In addition, the increased collaboration with the World Bank has allowed MIGA to leverage its consolidated technology infrastructure and have access to a larger pool of specialized skill sets to support the agency's information systems. The integration of MIGA's new client relationship management system (MIGA Contacts Database) with the agency's core financial system (Guarantee Database) has facilitated staff members' access to client information. Finally, MIGA has acquired online subscriptions to an external AML/CFT database service and has implemented an automatic Integrity Search and Reporting System that runs on the MIGA CRM system.

- *Legal risk management.* Legal risks arise primarily from changes in the legal parameters of MIGA's member countries as a result of legislation or court decisions that may affect MIGA's activities. There are also legal risks associated with MIGA being involved in legal disputes and arbitration proceedings, especially in the context of claim resolution or settlement.

  MIGA manages these risks by monitoring current and prospective future developments by way of ongoing discussions with member countries' representatives on the Board of Directors and Council of Governors. MIGA also shares information and analyses with other members of the World Bank Group, the IMF and the United Nations. In addition, MIGA actively participates as a member of the Berne Union in discussions and analyses of the changes in the operating investment environment in its member countries.

ENTERPRISE-WIDE RISK MODELING

During FY05, MIGA completed the project to develop an Economic Capital Model, based on the latent factor model of the Merton framework in credit risk modeling. The model is used to manage MIGA's political insurance portfolio risks. The capital requirement determined by the model is then compared with MIGA's available operating capital, to assess MIGA's capital adequacy. In addition, the model allocates the Economic Capital to particular regions, countries, sectors, covers, or individual contracts, based on their respective risk contribution.

The Economic Capital framework is also utilized for the purpose of managing MIGA's investment portfolio. Furthermore, it is used to evaluate concentration risk in MIGA's guarantee portfolio and to support decision making in pricing new large projects, or new projects in countries with large exposure. MIGA is in the process of developing an Economic Capital reporting structure that will help underwriters and senior management in their decision-making process.

CRITICAL ACCOUNTING POLICY

The footnotes to MIGA's financial statements contain a detailed summary of MIGA's significant accounting policies. Described below are those significant policies where MIGA management is required to make estimates and parameters when preparing the agency's financial statements and accompanying notes to conform to both IFRS and US GAAP. Accounting estimates generally involve the development of parameters by management based on judgments about the outcome of future conditions, transactions or events. Because the outcome of future events is not known, actual results could differ from those estimates in a variety of areas. The area which management views as most critical with respect to the application of estimates and parameters is the establishment of its loss reserves.

Reserve for Claims

MIGA's provisioning methodology builds on portfolio risk quantification models that use both individually assessed loss probabilities for projects at risk and rating-based loss probabilities that are applied to the entire guarantee portfolio. Under this methodology, for the purpose of presentation in the financial statements, MIGA's reserve consists of two primary components: the Specific Reserve and the Insurance Portfolio Reserve. These components are defined based on the degree of probability and the basis of estimation.

Reserves are shown on a gross basis on the liability side of the balance sheet, and reinsurance assets on the asset side. A detailed summary of MIGA's provisioning policy can be found in the Notes to Financial Statements—Note A.

Pension and Other Postretirement Benefits

MIGA participates along with IBRD and IFC in a number of pension and postretirement benefit plans that cover almost all of their staff members. All costs, assets and liabilities associated with these plans are allocated between IBRD, IFC and MIGA based upon their employees' respective participation in the plans. The underlying actuarial assumptions, fair value of plan assets and funded status associated with these plans are based on financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions. For further details, please refer to Notes to Financial Statements—Note F.

RESULTS OF OPERATIONS

Operating Income and Net Income

FY06 operating income was at $17.2 million. The decline of $6.9 million in the FY06 operating income was primarily due to 1) a decline in net premium income, and 2) a decrease in investment income. FY06 net income declined by $107.8 million to $23.2 million as a result of a much smaller release of provision for claims compared to that in FY05. Table 6 below shows the breakdown of MIGA's operating income and net income.

Table 6

Analysis of Operating Income and Net Income ($ M)			
	FY06	**FY05**	**FY04**
Total Guarantees Issued [1]	1,302	1,226	1,076
Gross Exposure	5,362	5,094	5,186
Net Exposure	3,310	3,138	3,259
Premium Income	52.9	57.1	57.9
Premium Ceded	(20.5)	(23.9)	(23.2)
Fees and Commissions	4.8	6.4	6.2
Net Premium Income	37.2	39.6	40.9
Income from Investments	11.4	16.8	14.2
Administrative and Other Expenses	(31.3)	(32.3)	(29.6)
Operating Income	17.2	24.1	25.6
Translation Gain	2.7	...	...
Release of Provision for Claims	3.4	106.8	62.4
Net Income	23.2	131.0	88.0
Operating Capital	863	830	811
ROOC[2] (before provisions)	2.0%	2.9%	3.2%
ROOC (after provisions)	2.7%	15.7%	10.9%

Note: numbers may not add up due to rounding.

1 *Including Cooperative Underwriting Program contracts.*

2 *Return on Operating Capital.*

FY06 versus FY05

MIGA issued $1.3 billion in guarantees during FY06, $76 million higher than in FY05. However, the premium income decreased by $4.3 million despite an increase of $268 million in gross exposure. This was primarily due to expiries and cancellations of aged contracts that were written at higher premium rates in prior years. Similarly, the premium amount ceded to reinsurers decreased by $3.4 million in FY06—in line with the decrease in premium income—despite an increase in the reinsurance portfolio of $96 million. Fees and commissions, a function of premium income, also decreased during FY06.

During FY06, MIGA's investment portfolio generated $11.4 million of investment income, compared with $16.8 million in FY05. On an economic basis, the return reached 1.5 percent in FY06, compared with 2.7 percent in FY05. This decrease in investment return was primarily due to sharply rising interest rates, which pushed down prices on fixed-income securities.

In FY06, administrative and other expenses decreased marginally to $31.3 million, compared with $32.3 million in FY05.

Net income in FY06 was $23.2 million compared with $131 million in FY05.[2]

FY05 versus FY04

Operating income in FY05 was $24.1 million, which was $1.4 million lower compared with that in FY04. While MIGA issued $1.23 billion in guarantees during FY05—$150 million more than FY04—the premium income decreased by $0.8 million. This was mainly due to a decrease in gross exposure resulting mostly from $1.31 billion worth of cancellations and reductions in FY05, compared with $0.97 billion in FY04. In addition, the premium amount ceded to reinsurers increased by $0.7 million in FY05, as the amount reinsured increased slightly between FY04 and FY05.

In FY05, administrative and other expenses increased by $2.7 million compared with FY04, largely due to (1) several one-time and step-up expenses associated with a corporate realignment, (2) the strengthening of information technology systems to achieve closer integration with IBRD's system architecture, and (3) an increase in World Bank Group charges as a result of MIGA's systematic efforts to leverage off the World Bank Group's infrastructure, experience and economies of scale with respect to corporate and support functions.

During FY05, MIGA implemented a new investment policy and the agency's investment portfolio generated $16.8 million of investment income, including a one-off adjustment-related $3.2 million unrealized loss. On an economic basis, the return reached 2.7

2 *In FY05, net income was substantially higher, largely as a result of a release of provision for claims of $106.8 million due to the adoption of the provisioning methodology.*

percent in FY05 compared with 0.99 percent in FY04. This significant increase in investment return was due to several factors, including a more favorable interest rate environment and changes in both the strategic asset allocation and the portfolio benchmarks associated with the implementation of the new investment policy.

In FY05, net income was significantly impacted by a substantial release of provision for claims of $106.8 million, largely as a result of the adoption of the new provisioning methodology.

CORPORATE GOVERNANCE

General Governance

Board Membership
In accordance with MIGA's Convention, members of MIGA's Board of Directors are appointed or elected by their member governments. Directors are neither officers, nor staff of MIGA. The President is the only management member of the Board of Directors, serving as a non-voting member (except casting a deciding vote in case of an equal division) and as Chairman of the Board. The Directors have established several committees including:

- Committee on Development Effectiveness
- Audit Committee
- Budget Committee
- Personnel Committee
- Ethics Committee
- Committee on Governance and Administrative Matters

The Directors and their committees function in continuous session at the principal offices of MIGA, as business requires. Each committee's terms of reference establishes its respective roles and responsibilities. As committees do not vote on issues, their role is primarily to serve the full Board of Directors in discharging its responsibilities.

Audit Committee

Membership
The Audit Committee consists of eight members of the Board of Directors. Membership on the committee is determined by the Board of Directors, based upon nominations by the Chairman of the Board, following informal consultation with the Directors. In addition, membership of the committee is expected to reflect the economic and geographic diversity of MIGA's member countries. Other relevant selection criteria include seniority, continuity and relevant experience. Some or all of the responsibilities of individual Committee members are performed by their alternates or advisors. Generally, committee members are appointed for a two-year term; reappointment to a second term, when possible, is desirable for continuity. Audit Committee meetings are generally open to any member of the Board who may wish to attend, and non-committee members of the Board may participate in the discussion. In addition, the Chairman of the Audit Committee may speak in that capacity at meetings of the Board of Directors, with respect to discussions held in the Audit Committee.

Key Responsibilities
The Audit Committee is appointed by the Board to assist it in the oversight and assessment of MIGA's finances and accounting, including the effectiveness of financial policies, the integrity of financial statements, the system of internal controls regarding finance, accounting and ethics (including fraud and corruption), and financial and operational risks. The Audit Committee also has the responsibility for reviewing the performance and recommending to the Board the appointment of the external auditor, as well as monitoring the independence of the external auditor and meeting with it in executive session. The Audit Committee participates in oversight of the internal audit function, including reviewing the responsibilities, staffing and effectiveness of internal audit. The committee also reviews the annual internal audit plan. In the execution of its role, the committee discusses financial issues and policies which have a bearing on the institution's financial position and risk-bearing capacity with management as well as the external and internal auditors. The Audit Committee monitors the evolution of developments in corporate governance and the role of audit committees on an ongoing basis and revised its terms of reference in FY04.

Communications
The Audit Committee communicates regularly with the full Board through distribution of the following:

- The minutes of its meetings.
- Reports of the Audit Committee prepared by the Chairman, which document discussions held. These reports are distributed to the Directors, Alternates, World Bank Group senior management and the senior management of MIGA.
- "Statement(s) of the Chairman" and statements issued by other members of the committee.
- The Annual Report to the Board of Directors, which provides an overview of the main issues addressed by the committee over the year.

The Audit Committee's communications with the external auditor are described in the Auditor Independence section of this report.

Executive Sessions
Members of the Audit Committee may convene in executive session at any time, without management present. Under the Audit Committee's terms of reference, it meets separately in executive session with the external and internal auditors.

Access to Resources and to Management
Throughout the year, the Audit Committee receives a large volume of information, which supports the preparation of the financial statements. The Audit Committee meets both formally and informally throughout the year to discuss financial and accounting matters. Directors have complete access to management. The Audit Committee reviews and discusses with management the quarterly and annual financial statements. The committee also reviews with the external auditor the financial statements prior to their publication and recommends them for approval to the Board of Directors.

The Audit Committee has the capacity, under exceptional circumstances, to obtain advice and assistance from outside legal, accounting or other advisors as deemed appropriate.

Code of Ethics
MIGA strives to foster and maintain a positive work environment that supports the ethical behavior of its staff. To facilitate this effort, the World Bank Group has in place a Code of Professional Ethics—Living our Values. MIGA has adopted the code, which applies to all staff (including managers, consultants, and temporary employees) worldwide.

This code is available in nine languages on IBRD's website, www.worldbank.org. Staff relations, conflicts of interest, and operational issues, including the accuracy of books and records, are key elements of the code.

In addition to the code, an essential element of appropriate conduct is compliance with the obligations embodied in the Principles of Staff Employment, Staff Rules, and Administrative Rules, the violation of which may result in disciplinary actions. In accordance with the Staff Rules, senior managers must complete a confidential financial disclosure instrument with the Office of Ethics and Business Conduct.

Guidance for staff is also provided through programs, training materials, and other resources. Managers are responsible for ensuring that internal systems, policies, and procedures are consistently aligned with MIGA's ethical goals. In support of its efforts on ethics, MIGA offers a variety of methods for informing staff of these resources. Many of these efforts are headed by the following groups:

- The Office of Ethics and Business Conduct (OEBC) provides leadership, management and oversight for MIGA's ethics infrastructure including the Ethics HelpLine, a consolidated conflicts of interest disclosure/resolution system, financial disclosure, ongoing training to both internal and external audiences, and communication resources.
- The department of Institutional Integrity (INT) is charged with investigating allegations of fraud and corruption in projects benefiting from World Bank Group funding or guarantees worldwide. The Department also investigates allegations of misconduct by MIGA staff, and trains and educates staff and clients in detecting and reporting fraud and corruption in MIGA-guaranteed projects. The department reports directly to the President and is composed of professionals from a range of disciplines including financial analysts, researchers, investigators, lawyers, prosecutors, forensic accountants, and staff with operational experience across the World Bank Group.

MIGA has in place procedures for the receipt, retention and treatment of complaints received regarding accounting, internal control and auditing matters, including close collaboration with OEBC and INT.

Auditor Independence

In February 2003, the Board of Directors adopted a set of principles applicable to the appointment of the external auditor for the World Bank Group. Key features of those principles include:

- Prohibition of the external auditor from the provision of all non audit-related services
- All audit-related services must be pre-approved on a case-by-case basis by the Board of Directors, upon recommendation of the Audit Committee
- Mandatory rebidding of the external audit contract every five years
- Prohibition of any firm serving as external auditors for more than two consecutive five-year terms
- Mandatory rotation of the senior partner after five years
- An evaluation of the performance of the external auditor at the mid-point of the five-year term

In FY04, MIGA's external auditor, Deloitte and Touche, began a new five-year term and will have served 11 years as auditor upon completion of that term, pursuant to a one-time grandfathered exemption from the above-referenced ten-year limit. Even within a five-year term, the service of the external auditors is subject to recommendation by the Audit Committee for annual reappointment and approval of a resolution by the Board of Directors.

As standard practice, the external auditor is present as an observer at virtually all Audit Committee meetings and is frequently asked to present its perspective on issues. In addition, the Audit Committee meets periodically with the external auditor in private session without management present. Communication between the external auditor and the Audit Committee is ongoing, as frequently as is deemed necessary by either party. MIGA's auditors follow the communication requirements with audit committees set out under US Generally Accepted Auditing Standards and International Standards on Auditing. In keeping with these standards, significant formal communications include:

- Quarterly and annual financial statement reporting
- Annual appointment of the external auditors
- Presentation of the external audit plan
- Presentation of control recommendations and discussion of the COSO attestation and report
- Presentation of a statement regarding independence

In addition to committee meetings, individual members of the Audit Committee have independent access to the external auditor.

World Bank Group
Multilateral Investment Guarantee Agency

Management's Report Regarding Effectiveness of Internal Controls Over External Financial Reporting

8/7/2006

The management of the Multilateral Investment Guarantee Agency (MIGA) is responsible for the preparation, integrity, and fair presentation of its published financial statements and all other information presented in the accompanying Management's Discussion and Analysis. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and International Financial Reporting Standards and, as such, include amounts based on informed judgments and estimates made by management.

The financial statements have been audited by an independent accounting firm, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and committees of the Board. Management believes that all representations made to the independent auditors during their audit were valid and appropriate. The independent auditors' report accompanies the audited financial statements.

Management is responsible for establishing and maintaining effective internal control over external financial reporting for financial presentations in conformity with both accounting principles generally accepted in the United States of America and International Financial Reporting Standards. The system of internal control contains monitoring mechanisms, and actions are taken to correct deficiencies identified. Management believes that internal controls for external financial reporting, which are subject to scrutiny by management and the internal auditors, and are revised as considered necessary, support the integrity and reliability of the external financial statements.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

MIGA assessed its internal control over external financial reporting for financial presentations in conformity with both accounting principles generally accepted in the United States of America and International Financial Reporting Standards as of June 30, 2006. This assessment was based on the criteria for effective internal control over external financial reporting described in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this assessment, management believes that MIGA maintained effective internal control over external financial reporting presented in conformity

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with both accounting principles generally accepted in the United States of America and International Financial Reporting Standards.

The Board of Directors of MIGA has appointed an Audit Committee responsible for monitoring the accounting practices and internal controls of MIGA. The Audit Committee is comprised entirely of Directors who are independent of MIGA's management. The Audit Committee is responsible for recommending to the Board of Directors the selection of independent auditors. It meets periodically with management, the independent auditors, and the internal auditors to ensure that they are carrying out their responsibilities.

The Audit Committee is responsible for performing an oversight role by reviewing and monitoring the financial, accounting and auditing procedures of MIGA in addition to reviewing MIGA's reports. The independent auditors and the internal auditors have full and free access to the Audit Committee, with or without the presence of management; to discuss the adequacy of internal control over external financial reporting and any other matters which they believe should be brought to the attention of the Audit Committee.

Paul Wolfowitz
President

Yukiko Omura
Executive Vice President

Amédée Prouvost
Director and Chief Financial Officer

Report of Independent Accountants

Deloitte.

Deloitte & Touche LLP
Suite 500
555 12th Street NW
Washington, DC 20004-1207
USA

Tel: +1 202 879 5600
Fax: +1 202 879 5309
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

President and Board of Governors
Multilateral Investment Guarantee Agency

We have audited the accompanying balance sheet of the Multilateral Investment Guarantee Agency, as of June 30, 2006 and 2005, including the statement of subscriptions to capital stock and voting power and the statement of guarantees outstanding as of June 30, 2006, and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the two fiscal years in the period ended June 30, 2006. These financial statements are the responsibility of the Multilateral Investment Guarantee Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Multilateral Investment Guarantee Agency, as of June 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America and International Financial Reporting Standards.

Deloitte & Touche LLP

August 7, 2006

Member of
Deloitte Touche Tohmatsu

BALANCE SHEET
June 30, 2006 and June 30, 2005
Expressed in thousands of US dollars

	2006	2005
Assets		
CASH	$ 5,771	$ 14,311
INVESTMENTS—Note B	772,835	985,971
NONNEGOTIABLE, NONINTEREST-BEARING DEMAND OBLIGATIONS	108,960	108,854
OTHER ASSETS		
Receivable for investment securities sold	337,255	33,072
Estimated reinsurance recoverables	26,052	24,300
Prepaid pension	20,283	18,151
Miscellaneous	11,288	13,147
	394,878	88,670
TOTAL ASSETS	$ 1,282,444	$ 1,197,806
Liabilities and Shareholders' Equity		
LIABILITIES		
Payable for investment securities purchased	$ 327,004	$ 263,506
Accounts payable and accrued expenses	18,226	25,551
Unearned premiums and commitments fees	16,003	19,130
Reserve for claims—Note E		
Specific reserve for claims	57,299	59,800
Insurance portfolio reserve	120,879	120,000
Reserve for claims—gross	178,178	179,800
TOTAL LIABILITIES	539,411	487,987
CONTINGENT LIABILITIES—Note D		
SHAREHOLDERS' EQUITY		
Capital stock—Note C		
Authorized capital (183,646 shares—June 30, 2006; 183,546 shares-June 30, 2005)		
Subscribed capital (173,965 shares—June 30, 2006; 168,808 shares-June 30, 2005)	1,882,301	1,826,503
Less uncalled portion of subscriptions	1,523,354	1,477,430
	358,947	349,073
Payments on account of pending subscriptions	175	67
	359,122	349,140
Retained earnings	380,476	357,244
Accumulated other comprehensive income	3,435	3,435
TOTAL SHAREHOLDERS' EQUITY	743,033	709,819
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,282,444	$ 1,197,806

The notes to financial statements are an integral part of these statements.

STATEMENT OF INCOME

For the fiscal years ended June 30, 2006 and June 30, 2005
Expressed in thousands of US dollars

	2006	2005
INCOME		
Income from guarantees		
Premium income	$ 52,879	$ 57,140
Premium ceded	(20,488)	(23,864)
Fees and commissions	4,772	6,354
Total	37,163	39,630
Income from investments—Note B	11,352	16,842
Translation gains	2,673	-
TOTAL INCOME	51,188	56,472
EXPENSES		
Release of provision for claims—Note E	(3,374)	(106,849)
Administrative expenses—Notes F, G and H	30,846	30,330
Other expenses	484	1,995
TOTAL EXPENSES	27,956	(74,524)
NET INCOME	$ 23,232	$ 130,996

STATEMENT OF COMPREHENSIVE INCOME

For the fiscal years ended June 30, 2006 and June 30, 2005
Expressed in thousands of US dollars

	2006	2005
NET INCOME	$ 23,232	$ 130,996
OTHER COMPREHENSIVE INCOME (LOSS)		
Translation adjustment	-	(1,474)
Unrealized gain on investments	-	3,153
Total	-	1,679
TOTAL COMPREHENSIVE INCOME	$ 23,232	$ 132,675

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the fiscal years ended June 30, 2006 and June 30, 2005
Expressed in thousands of US dollars

	2006	2005
CAPITAL STOCK		
Balance at beginning of the fiscal year	$ 349,140	$ 347,624
New subscriptions	9,874	1,516
Payments on account of pending subscriptions	108	-
Ending Balance	359,122	349,140
RETAINED EARNINGS		
Balance at beginning of the fiscal year	357,244	226,248
Net income	23,232	130,996
Ending Balance	380,476	357,244
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance at beginning of the fiscal year	3,435	1,756
Other comprehensive income	-	1,679
Ending Balance	3,435	3,435
TOTAL SHAREHOLDERS' EQUITY	$ 743,033	$ 709,819

The notes to financial statements are an integral part of these statements.

STATEMENT OF CASH FLOWS

For the years ended June 30, 2006 and June 30, 2005
Expressed in thousands of US dollars

	2006	**2005**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 23,232	$ 130,996
Adjustments to reconcile net income to net cash		
(used in) provided by operating activities:		
Net claims paid	-	(1,457)
Release of provision for claims	(3,374)	(106,849)
Net decrease (increase) in investments	215,918	(255,407)
Increase in other assets	(304,375)	(37,913)
Increase in payable for investment securities purchased	63,498	263,506
Translation gains	(2,673)	-
(Decrease) increase in accounts payable and accrued expenses	(7,332)	9,788
(Decrease) increase in unearned premiums and commitment fees	(3,266)	1,013
Net cash (used in) provided by operating activities	(18,372)	3,677
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital subscription payments	9,899	1,373
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(67)	160
Net (decrease) in cash	(8,540)	5,210
Cash at beginning of the fiscal year	14,311	9,101
CASH AT END OF THE FISCAL YEAR	$ 5,771	$ 14,311
SUPPLEMENTAL DISCLOSURES OF NONCASH ITEMS:		
Transfer of investment portfolio from Available-for-sale to Trading	$ -	$ 747,188

The notes to financial statements are an integral part of these statements.

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

As of June 30, 2006
Expressed in thousands of US dollars

	Subscriptions—Note C				Voting power	
Members	Shares [1]	Total Subscribed	Amount Paid-in	Amount Subject to Call	Number of Votes	% of Total
Afghanistan	118	$ 1,277	$ 255	$ 1,022	387	0.18
Albania	102	1,104	210	894	371	0.17
Algeria	1,144	12,378	2,350	10,028	1,413	0.65
Angola	187	2,023	405	1,618	456	0.21
Antigua and Barbuda	50	541	108	433	319	0.15
Argentina	2,210	23,912	4,539	19,373	2,479	1.13
Armenia	80	866	173	693	349	0.16
Australia	3,019	32,666	6,201	26,465	3,288	1.50
Austria	1,366	14,780	2,806	11,974	1,635	0.75
Azerbaijan	115	1,244	249	995	384	0.18
Bahamas, The	176	1,904	362	1,542	445	0.20
Bahrain	136	1,472	279	1,193	405	0.19
Bangladesh	599	6,481	1,230	5,251	868	0.40
Barbados	120	1,298	246	1,052	389	0.18
Belarus	233	2,521	504	2,017	502	0.23
Belgium	3,577	38,703	7,347	31,356	3,846	1.76
Belize	88	952	181	771	357	0.16
Benin	108	1,169	222	947	377	0.17
Bolivia	220	2,380	452	1,928	489	0.22
Bosnia and Herzegovina	80	866	173	693	349	0.16
Botswana	88	952	181	771	357	0.16
Brazil	2,606	28,197	5,353	22,844	2,875	1.31
Bulgaria	643	6,957	1,321	5,636	912	0.42
Burkina Faso	61	660	132	528	330	0.15
Burundi	74	801	160	641	343	0.16
Cambodia	164	1,774	337	1,437	433	0.20
Cameroon	107	1,158	232	926	376	0.17
Canada	5,225	56,535	10,732	45,803	5,494	2.51
Cape Verde	50	541	108	433	319	0.15
Central African Republic	60	649	130	519	329	0.15
Chad	60	649	130	519	329	0.15
Chile	855	9,251	1,756	7,495	1,124	0.51
China	5,530	59,835	11,359	48,476	5,799	2.65
Colombia	770	8,331	1,582	6,749	1,039	0.47
Congo, Democratic Republic of	596	6,449	1,224	5,225	865	0.40
Congo, Republic of	115	1,244	236	1,008	384	0.18
Costa Rica	206	2,229	423	1,806	475	0.22
Côte d'Ivoire	310	3,354	637	2,717	579	0.26
Croatia	330	3,571	678	2,893	599	0.27
Cyprus	183	1,980	376	1,604	452	0.21
Czech Republic	784	8,483	1,610	6,873	1,053	0.48
Denmark	1,265	13,687	2,598	11,089	1,534	0.70
Dominica	50	541	108	433	319	0.15
Dominican Republic	147	1,591	318	1,273	416	0.19
Ecuador	321	3,473	659	2,814	590	0.27
Egypt, Arab Republic of	809	8,753	1,662	7,091	1,078	0.49
El Salvador	122	1,320	264	1,056	391	0.18
Equatorial Guinea	50	541	108	433	319	0.15
Eritrea	50	541	108	433	319	0.15
Estonia	115	1,244	236	1,008	384	0.18
Ethiopia	123	1,331	253	1,078	392	0.18
Fiji	71	768	154	614	340	0.16
Finland	1,057	11,437	2,171	9,266	1,326	0.61

The notes to financial statements are an integral part of these statements.

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER (CONT'D)

As of June 30, 2006
Expressed in thousands of US dollars

	Subscriptions—Note C				Voting power	
Members	Shares [1]	Total Subscribed	Amount Paid-in	Amount Subject to Call	Number of Votes	% of Total
France	8,565	92,673	17,593	75,080	8,834	4.04
Gabon	169	1,829	347	1,482	438	0.20
Gambia, The	50	541	108	433	319	0.15
Georgia	111	1,201	240	961	380	0.17
Germany	8,936	96,688	18,355	78,333	9,205	4.21
Ghana	432	4,674	887	3,787	701	0.32
Greece	493	5,334	1,013	4,321	762	0.35
Grenada	50	541	108	433	319	0.15
Guatemala	140	1,515	303	1,212	409	0.19
Guinea	91	985	197	788	360	0.16
Guyana	84	909	182	727	353	0.16
Haiti	75	812	162	650	344	0.16
Honduras	178	1,926	366	1,560	447	0.20
Hungary	994	10,755	2,042	8,713	1,263	0.58
Iceland	90	974	195	779	359	0.16
India	5,371	58,114	11,032	47,082	5,640	2.58
Indonesia	1,849	20,006	3,798	16,208	2,118	0.97
Iran, Islamic Republic of	1,659	17,950	3,590	14,360	1,928	0.88
Ireland	650	7,033	1,335	5,698	919	0.42
Israel	835	9,035	1,715	7,320	1,104	0.50
Italy	4,970	53,775	10,208	43,567	5,239	2.39
Jamaica	319	3,452	655	2,797	588	0.27
Japan	8,979	97,153	18,443	78,710	9,248	4.22
Jordan	171	1,850	351	1,499	440	0.20
Kazakhstan	368	3,982	756	3,226	637	0.29
Kenya	303	3,278	622	2,656	572	0.26
Korea, Republic of	791	8,559	1,625	6,934	1,060	0.48
Kuwait	1,639	17,734	3,367	14,367	1,908	0.87
Kyrgyz Republic	77	833	167	666	346	0.16
Lao People's Democratic Republic of	60	649	130	519	329	0.15
Latvia	171	1,850	351	1,499	440	0.20
Lebanon	250	2,705	514	2,191	519	0.24
Lesotho	88	952	181	771	357	0.16
Libya	549	5,940	1,188	4,752	818	0.37
Lithuania	187	2,023	384	1,639	456	0.21
Luxembourg	204	2,207	419	1,788	473	0.22
Macedonia, FYR of	88	952	181	771	357	0.16
Madagascar	176	1,904	362	1,542	445	0.20
Malawi	77	833	167	666	346	0.16
Malaysia	1,020	11,036	2,095	8,941	1,289	0.59
Maldives	50	541	108	433	319	0.15
Mali	143	1,547	294	1,253	412	0.19
Malta	132	1,428	271	1,157	401	0.18
Mauritania	111	1,201	228	973	380	0.17
Mauritius	153	1,655	314	1,341	422	0.19
Micronesia, Fed. States of	50	541	108	433	319	0.15
Moldova	96	1,039	208	831	365	0.17
Mongolia	58	628	126	502	327	0.15
Morocco	613	6,633	1,259	5,374	882	0.40
Mozambique	171	1,850	351	1,499	440	0.20
Namibia	107	1,158	232	926	376	0.17
Nepal	122	1,320	251	1,069	391	0.18
Netherlands	3,822	41,354	7,850	33,504	4,091	1.87

The notes to financial statements are an integral part of these statements.

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER (CONT'D)

As of June 30, 2006
Expressed in thousands of US dollars

	Subscriptions—Note C				Voting power	
Members	**Shares [1]**	**Total Subscribed**	**Amount Paid-in**	**Amount Subject to Call**	**Number of Votes**	**% of Total**
Nicaragua	180	1,948	370	1,578	449	0.21
Nigeria	1,487	16,089	3,054	13,035	1,756	0.80
Norway	1,232	13,330	2,531	10,799	1,501	0.69
Oman	166	1,796	341	1,455	435	0.20
Pakistan	1,163	12,584	2,389	10,195	1,432	0.65
Palau	50	541	108	433	319	0.15
Panama	231	2,499	474	2,025	500	0.23
Papua New Guinea	96	1,039	208	831	365	0.17
Paraguay	141	1,526	290	1,236	410	0.19
Peru	657	7,109	1,350	5,759	926	0.42
Philippines	484	5,237	1,047	4,190	753	0.34
Poland	764	8,266	1,653	6,613	1,033	0.47
Portugal	673	7,282	1,382	5,900	942	0.43
Qatar	241	2,608	495	2,113	510	0.23
Romania	978	10,582	2,009	8,573	1,247	0.57
Russian Federation	5,528	59,813	11,355	48,458	5,797	2.65
Rwanda	132	1,428	271	1,157	401	0.18
St. Kitts & Nevis	50	541	108	433	319	0.15
St. Lucia	88	952	181	771	357	0.16
St. Vincent and the Grenadines	88	952	181	771	357	0.16
Samoa	50	541	108	433	319	0.15
Saudi Arabia	5,528	59,813	11,355	48,458	5,797	2.65
Senegal	256	2,770	526	2,244	525	0.24
Serbia and Montenegro	407	4,404	836	3,568	676	0.31
Seychelles	50	541	108	433	319	0.15
Sierra Leone	132	1,428	271	1,157	401	0.18
Singapore	272	2,943	559	2,384	541	0.25
Slovak Republic	391	4,231	803	3,428	660	0.30
Slovenia	180	1,948	370	1,578	449	0.21
Solomon Islands	50	541	108	433	319	0.15
South Africa	1,662	17,983	3,414	14,569	1,931	0.88
Spain	2,265	24,507	4,652	19,855	2,534	1.16
Sri Lanka	478	5,172	982	4,190	747	0.34
Sudan	206	2,229	446	1,783	475	0.22
Suriname	82	887	177	710	351	0.16
Swaziland	58	628	126	502	327	0.15
Sweden	1,849	20,006	3,798	16,208	2,118	0.97
Switzerland	2,643	28,597	5,429	23,168	2,912	1.33
Syrian Arab Republic	296	3,203	608	2,595	565	0.26
Tajikistan	74	801	160	641	343	0.16
Tanzania	248	2,683	509	2,174	517	0.24
Thailand	742	8,028	1,524	6,504	1,011	0.46
Timor-Leste	50	541	108	433	319	0.15
Togo	77	833	167	666	346	0.16
Trinidad and Tobago	358	3,874	735	3,139	627	0.29
Tunisia	275	2,976	565	2,411	544	0.25
Turkey	814	8,807	1,672	7,135	1,083	0.49
Turkmenistan	66	714	143	571	335	0.15
Uganda	233	2,521	479	2,042	502	0.23
Ukraine	1,346	14,564	2,765	11,799	1,615	0.74
United Arab Emirates	656	7,098	1,347	5,751	925	0.42
United Kingdom	8,565	92,673	17,593	75,080	8,834	4.04

The notes to financial statements are an integral part of these statements.

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER (CONT'D)
As of June 30, 2006
Expressed in thousands of US dollars

	Subscriptions—Note C				Voting power	
Members	**Shares** [1]	**Total Subscribed**	**Amount Paid-in**	**Amount Subject to Call**	**Number of Votes**	**% of Total**
United States	32,564	352,342	67,406	284,936	32,833	15.00
Uruguay	202	2,186	437	1,749	471	0.22
Uzbekistan	175	1,894	379	1,515	444	0.20
Vanuatu	50	541	108	433	319	0.15
Venezuela, R.B. de	1,427	15,440	3,088	12,352	1,696	0.77
Vietnam	388	4,198	797	3,401	657	0.30
Yemen, Republic of	155	1,677	335	1,342	424	0.19
Zambia	318	3,441	688	2,753	587	0.27
Zimbabwe	236	2,554	511	2,043	505	0.23
Total—June 30, 2006 [2]	173,965	$ 1,882,301	$ 358,947	$ 1,523,354	218,888	100.00
Total—June 30, 2005	168,808	$ 1,826,503	$ 349,073	$ 1,477,430	215,173	100.00

Note: Amounts aggregating (1) $108,200 was received on May 31, 2006 from Guinea-Bissau, which completed MIGA membership requirements on July 12, 2006 and was consequently declared a member of MIGA, and (2) $67,000 was received from Niger, which is in the process of completing its membership requirements.

1 *Subscribed shares pertaining to the General Capital Increase include only those shares for which the subscription process has been completed, i.e., for which required payment has been received.*

2 *May differ from the sum of individual figures shown because of rounding.*

The notes to financial statements are an integral part of these statements.

STATEMENT OF GUARANTEES OUTSTANDING
As of June 30, 2006
Expressed in thousands of US dollars, unless otherwise noted

	Gross Exposure—Note D					
Host Country	US Dollars	Euro	Japanese Yen	Total	Reinsurance—Note D	Net Exposure [1]
Afghanistan		942		942	94	848
Albania	8,585			8,585		8,585
Angola	14,700			14,700	1,470	13,230
Argentina	48,034			48,034	19,459	28,574
Azerbaijan	863			863	86	777
Bangladesh	78,265			78,265	7,826	70,438
Belarus	26,824			26,824	2,682	24,141
Benin	1,026			1,026	103	923
Bolivia	14,250			14,250	1,425	12,825
Bosnia and Herzegovina		231,337		231,337	92,918	138,420
Brazil	130,114	96,966		227,080	114,420	112,660
Bulgaria		396,293		396,293	256,536	139,757
Burkina Faso		43,025		43,025	4,303	38,723
Burundi	911			911	91	820
Chile	18,500			18,500		18,500
China	124,800	5,977		130,777	19,115	111,662
Colombia	62,415			62,415	31,208	31,208
Congo, Democratic Republic of	3,330			3,330	333	2,997
Costa Rica	98,738			98,738	14,980	83,758
Côte d’Ivoire		18,760		18,760		18,760
Croatia		163,805		163,805	99,274	64,532
Czech Republic		5,403		5,403	540	4,863
Dominican Republic	157,327			157,327	28,463	128,865
Ecuador	32,654			32,654	19	32,634
Egypt, Arab Republic of	6,401			6,401	640	5,761
El Salvador	4,950			4,950	495	4,455
Ghana	183,843			183,843	26,287	157,556
Guatemala	105,923			105,923	52,605	53,317
Guinea	14,019			14,019		14,019
Indonesia	50,891			50,891	134	50,757
Iran, Islamic Republic	127,192			127,192	12,719	114,473
Jamaica	138,461			138,461	13,989	124,472
Jordan	4,095			4,095	410	3,686
Kazakhstan	81,525			81,525	8,153	73,373
Kenya	51,309			51,309	22,520	28,789
Kuwait	50,000			50,000		50,000
Kyrgyz Republic	14,772			14,772	1,389	13,383
Lao PDR	89,638			89,638	44,819	44,819
Latvia	4,104			4,104	410	3,694
Madagascar	728	5,315		6,043	896	5,148
Mali	16,200			16,200	1,620	14,580
Mauritania	16,795	10,259		27,054	2,705	24,349
Moldova	61,092			61,092	30,546	30,546
Mongolia	20,007			20,007	2,001	18,006
Mozambique	255,513		8,627	264,140	116,627	147,514
Nepal	30,001			30,001	15,941	14,061
Nicaragua	105,407			105,407	51,526	53,882
Nigeria	149,203			149,203	22,380	126,823
Pakistan	110,443	30,042	344	140,829	27,364	113,465
Peru	78,512			78,512	22,494	56,018
Philippines	67,879			67,879	5,833	62,046
Romania	119,165	142,437		261,602	140,207	121,395
Russian Federation	467,118	69,156		536,274	325,398	210,876
Senegal		13,450		13,450	1,345	12,105

The notes to financial statements are an integral part of these statements.

STATEMENT OF GUARANTEES OUTSTANDING (CONT'D)

As of June 30, 2006
Expressed in thousands of US dollars, unless otherwise noted

	Gross Exposure—Note D					
Host Country	**US Dollars**	**Euro**	**Japanese Yen**	**Total**	**Reinsurance—Note D**	**Net Exposure** [1]
Serbia and Montenegro		392,966		392,966	221,309	171,657
Sierra Leone	8,384			8,384	838	7,545
South Africa	12,300			12,300		12,300
Sri Lanka	1,686			1,686		1,686
Swaziland	27,993		8,627	36,620	18,310	18,310
Syrian Arab Republic	97,800			97,800	9,780	88,020
Thailand	84,638			84,638	42,319	42,319
Togo		1,724		1,724		1,724
Turkey	135,000			135,000	67,500	67,500
Turkmenistan	2,826			2,826		2,826
Uganda	43,470			43,470	20,547	22,923
Ukraine	176,230			176,230	67,921	108,309
Uruguay	1,306			1,306	131	1,176
Venezuela, R.B. de	19,800			19,800	5,940	13,860
Vietnam	128,646			128,646	76,413	52,234
	3,986,601	1,627,859	17,599	5,632,059	2,177,805	3,454,254
Adjustment for Dual-Country Contracts [2]						
Argentina/Chile	-18,500			-18,500		-18,500
Lao PDR/Thailand	-84,638			-84,638	-42,319	-42,319
Mozambique/Swaziland	-27,993		-8,627	-36,620	-18,310	-18,310
	-131,131		-8,627	-139,758	-60,629	-79,129
Adjustment for Master Agreement [3]						
	-129,895			-129,895	-64,948	-64,948
Total—June 30, 2006	3,725,575	1,627,859	8,972	5,362,405	2,052,228	3,310,177
Total—June 30, 2005	3,481,602	1,597,869	14,971	5,094,443	1,956,147	3,138,296

1 *May differ from the sum of individual figures shown because of rounding.*

2 *For contracts where there are two host countries, MIGA is at risk for losses in both countries up to the maximum amount of liability under the contract. As such, the aggregate exposure is reported in both host countries and adjustment is made to correct for double-counting.*

3 *Adjustment for master agreement accounts for MIGA's maximum exposure to loss with a single investor being less than the sum of the maximum aggregate liabilities under the individual contracts.*

The notes to financial statements are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

PURPOSE

The Multilateral Investment Guarantee Agency (MIGA), established on April 12, 1988, is a member of the World Bank Group which also includes the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), and the International Development Association (IDA). MIGA's activities are closely coordinated with and complement the overall development objectives of the other World Bank Group institutions. MIGA is designed to help developing countries attract productive foreign investment by both private investors and commercially operated public sector companies. Its facilities include guarantees or insurance against noncommercial risks and a program of advisory services and technical assistance to support member countries' efforts to attract and retain foreign direct investment.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES

Basis of Preparation

MIGA's financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) and with accounting principles generally accepted in the United States of America (US GAAP). The policy adopted is that considered most appropriate to the circumstances of MIGA having regard to its legal requirements and to the practices of other international insurance entities. On August 7, 2006, MIGA's Board of Directors approved the financial statements for issue.

Accounting and Reporting Developments

The International Accounting Standard Board (IASB) issued International Accounting Standard (IAS) 32 "Financial Instruments: Disclosure and Presentation," which became effective for annual periods beginning on or after January 1, 2005. For MIGA, IAS 32 became applicable for the year ended June 30, 2006. In applying IAS 32, MIGA considered whether MIGA shares are appropriately classified as equity or should be reclassified as a financial liability. Based on a review and analysis of the relevant provisions of the Convention establishing the Agency (the "Convention"), MIGA concluded that member shares are appropriately classified as equity under IAS 32 since MIGA does not have an obligation to repurchase the shares of a member at the time of withdrawal.

The IASB revised standard (IAS 39) "Financial Instruments: Recognition and Measurement" was issued in December 2003 and is applicable for annual periods beginning on or after January 1, 2005. MIGA has determined that the application of the revised standard does not have a material impact on its financial statements.

The IASB issued International Financial Reporting Standard (IFRS) 4 "Insurance Contracts" in March 2004 to achieve convergence of widely varying insurance industry accounting practices around the world. IASB has divided the insurance project into two phases. Phase 1 is effective for annual periods beginning on or after January 1, 2005 and aims at introducing improved disclosures for insurance contracts. In line with these requirements MIGA has included additional disclosures that identify and explain the amounts in the financial statements arising from insurance contracts. Phase 2 of the project, originally scheduled for 2007, is now expected to come into effect between 2008 and 2009 and will address issues relating to insurance accounting.

The International Accounting Standards Board ("IASB") has revised International Accounting Standard (IAS-21) "The Effects of Changes in Foreign Exchange Rates" that provides additional guidance for determining the functional and presentation currencies. This standard became applicable for annual periods beginning on or after January 1, 2005. MIGA has reviewed and analyzed the standard and concluded that it would not be able to meet all the relevant criteria required by the standard if it continues to classify currencies of all its member countries as functional currencies. Based on this conclusion, MIGA decided to prospectively make a change from multiple functional currencies to a single functional currency, the United States Dollars (US dollars or $), starting from July 1, 2005. As a result of this change, MIGA's foreign currency translation adjustment will be recorded in the income statement, instead of in the statement of other comprehensive income as was done in the prior years. The foreign currency translation adjustment gain as of June 30, 2006 is $2.6 million, which has been added to the net income of this year.

The IASB issued a new standard (IFRS 7) "Financial Instruments: Disclosures" and revised standard (IAS 1) "Presentation of Financial Statements" that are to be applied for fiscal years beginning on or after January 1, 2007. MIGA is currently examining the impact that these standards may have on MIGA's financial statements.

Use of Estimates

The preparation of financial statements in conformity with International Financial Reporting Standards and accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates.

Significant judgments have been made in areas which management views as most critical with respect to the establishment of its loss reserves, the determination of net periodic income from pension and other post retirement benefits plans, and the present value of benefit obligations.

The significant accounting policies employed by MIGA are summarized below.

Investments

As part of its overall portfolio management strategy, to diversify its credit exposure to commercial banks and to obtain higher returns, MIGA invests in government and agency obligations, asset-backed securities and time deposits according to its credit risk and maturity policies. Government and agency obligations include highly rated fixed rate bonds, notes, bills and other obligations issued or unconditionally guaranteed by governments of countries or other official entities including government agencies or by multilateral organizations. MIGA also enters into exchange traded futures and options transactions to manage its investment portfolio. The purposes of these transactions are to enhance the return and manage the overall duration of the portfolio. With respect to futures and options, MIGA generally closes out most open positions prior to expiration. Futures are settled on a daily basis.

MIGA has classified all investment securities as trading. Investments classified as trading securities are reported at fair value using trade-date accounting. The unrealized gains or losses are included in income.

Nonnegotiable, Noninterest-bearing Demand Obligations on Account of Subscribed Capital

Payments on these instruments are due to MIGA upon demand and are held in bank accounts which bear MIGA's name. Accordingly, these instruments are carried and reported at face value as assets on the balance sheet.

Impairment of reinsurance assets

MIGA assesses at balance sheet date whether there is an objective evidence that reinsurance asset is impaired and makes provision for such impairment. Objective evidence may be in the form of observable data that comes to the agency's attention periodically. If an impairment is determined, the carrying amount of the reinsurance asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

Reserve for Claims

MIGA's reserve consists of two primary components, the Specific Reserve and the Insurance Portfolio Reserve. These components are comprehensive and mutually exclusive with respect to risk of losses that may develop from each guarantee contract, and from the contingent liability portfolio as a whole.

The Specific Reserve is calculated based on contract-specific parameters that are reviewed every quarter by MIGA Management for contracts that have known difficulties. The Insurance Portfolio Reserve is calculated based on the long-term historical experiences of the political risk industry.

Assumptions and parameters used in the calculations are intended to serve as the basis for an objective, reasonably conservative and arms-length valuation of insurance liabilities with a specified level of prudence. Key assumptions, including frequency of claim, severity, and expected recovery have been quantitatively derived from the political risk insurance industry's historical claims data. The principal sources of data used as inputs for the assumptions include the Berne Union and the Overseas Private Investment Corporation (OPIC). The historical analysis of the data from those sources is further augmented by an internal econometric scoring analysis in order to derive risk-differentiated parameters with term structure effects over time. The historical and econometric analyses cover periods that are over 30 years, and the derived parameters are considered stable in the short term; however the analyses are reviewed annually. Short-term risk changes are captured by changes in internal risk ratings for countries and contracts on a quarterly basis.

For the purpose of the presentation of the financial statements, insurance liabilities (or reserves) are presented on a gross basis and not net of reinsurance. Therefore, MIGA's reserve is shown on a gross basis on the liability side of the balance sheet, while establishing reinsurance assets on the asset side.

Currency Translation

Assets and liabilities not denominated in US dollars are expressed in US dollars at the exchange rate prevailing as of June 30, 2006. Income and expenses are translated at the rates of exchange prevailing at the time of the transaction. Translation gains and losses are credited or charged to income.

Valuation of Capital Stock

Under the MIGA Convention, all payments from members subscribing to the capital stock of MIGA shall be settled on the basis of the average value of the Special Drawing Rights (SDR) introduced by the International Monetary Fund, as valued in terms of United States dollars for the period January 1, 1981 to June 30, 1985, such value being equal to $1.082 for one SDR.

Revenue Recognition

Premium amounts received on direct insurance contracts and reinsurance contracts assumed can be annual, semi-annual or quarterly and are recorded as unearned premium. Premiums are recognized as earned on a pro rata basis over the contract period. A receivable for premium is recorded when the contract has been renewed and coverage amounts have been identified.

MIGA cedes reinsurance in the normal course of business by obtaining treaty and facultative reinsurance to augment its underwriting capacity and to mitigate its risk by protecting portions of its insurance portfolio. Premiums ceded (net of commission) follow the same approach as for direct insurance contracts and are recognized as expensed on a pro rata basis over the contract period.

Fee income for MIGA primarily consists of arrangement fees, annual fees, renewal fees, and commitment (offer) fees.

NOTE B—INVESTMENTS

MIGA classifies all investment securities as trading and report them at fair value with unrealized gains or losses included in earnings. The unrealized loss included in investment income for the fiscal year ended June 30, 2006 is $5,052,880 ($3,269,840—June 30, 2005).

A summary of the trading portfolio as of June 30, 2006 and as of June 30, 2005 is as follows:

In thousands of US dollars

	Fair Value	
	2006	**2005**
Government obligations	$ 114,436	$ 269,210
Time deposits	334,314	325,331
Asset-backed securities	324,085	391,430
Total	$ 772,835	$ 985,971

MIGA manages its investments on a net portfolio basis. The following table summarizes MIGA's net portfolio position as of June 30, 2006 and June 30, 2005:

In thousands of US dollars

	Fair Value	
	2006	**2005**
Investments—trading	$ 772,835	$ 985,971
Cash held in investment portfolio[1]	24	8,732
Receivable from investment securities sold	337,255	33,072
Accrued interest [2]	3,455	3,100
Payable for investment securities purchased	(327,004)	(263,506)
Net investment portfolio	$ 786,565	$ 767,369

1 *This amount is included under Cash in the Balance Sheet*
2 *This amount is included under Miscellaneous assets in the Balance Sheet*

Investments are denominated primarily in United States dollars with instruments in non-dollar currencies representing 13.50 percent (9.03 percent—June 30, 2005) of the portfolio.

NOTE C—CAPITAL STOCK

The MIGA Convention established MIGA's authorized capital stock at 100,000 shares with a provision that the authorized capital stock shall automatically increase on the admission of a new member to the extent that the then authorized shares are insufficient to provide the shares to be subscribed by such member. As of June 30, 2006, the initial authorized capital stock increased to 183,646 (183,546—June 30, 2005) shares. The Convention further states that 10 percent of the members' initial subscription be paid in cash, in freely convertible currencies, except that developing member countries may pay up to a quarter of the 10 percent in their own currencies. An additional 10 percent of the initial subscription shall be paid in the form of nonnegotiable, noninterest bearing promissory notes. The notes are denominated in freely convertible currencies and are due on demand to meet MIGA's obligations. The remaining 80 percent is subject to call when required by MIGA to meet its obligations.

On March 29, 1999, the Council of Governors approved a General Capital Increase (GCI) resolution increasing the authorized capital stock of MIGA by 78,559 shares to be subscribed by members during the subscription period ending March 28, 2002. Of the additional capital, 17.65 percent is to be paid in cash, in freely usable currency. The remaining 82.35 percent is subject to call when required by MIGA to meet its obligations. On May 6, 2002, the Council of Governors adopted a resolution to extend the GCI subscription period to March 28, 2003. On March 17, 2003, the Council of Governors approved an amendment to the GCI resolution allowing eligible countries to subscribe to the GCI shares allocated to them by submitting an Instrument of Contribution before the GCI deadline of March 28, 2003, and requesting such countries to pay for their GCI shares as soon as possible. The reserved shares will be issued and corresponding voting power will accrue when the subscription process has been completed.

During the year ended June 30, 2006, 5,157 shares were subscribed by member countries. As of June 30, 2006, MIGA's authorized capital stock comprised 183,646 shares of which 173,965 (168,808—June 30, 2005) shares had been subscribed. Each share has a par value of SDR10,000, valued at the rate of $1.082 per SDR. Of the subscribed capital, $358,947,000 ($349,073,000—June 30, 2005) has been paid in; and the remaining $1,523,354,000 ($1,477,430,000—June 30, 2005) is subject to call. Of the amounts paid in, as of June 30, 2006, $108,960,000 ($108,854,000—June 30, 2005) is in the form of nonnegotiable, noninterest-bearing demand obligations (promissory notes). A summary of MIGA's capital stock as of June 30, 2006 and June 30, 2005 is as follows:

	Initial Capital		**Capital Increase**		**Total**	
	Shares	**(US$000)**	**Shares**	**(US$000)**	**Shares**	**(US$000)**
As of June 30, 2006						
Authorized	105,087	$ 1,137,041	78,559	$ 850,008	183,646	$ 1,987,049
Subscribed	105,087	$ 1,137,041	68,878	$ 745,260	173,965	$ 1,882,301
As of June 30, 2005						
Authorized	104,987	$ 1,135,959	78,559	$ 850,008	183,546	$ 1,985,967
Subscribed	104,987	$ 1,135,959	63,821	$ 690,543	168,808	$ 1,826,503

NOTE D—GUARANTEE PROGRAM AND CONTINGENT LIABILITIES

Guarantee Program

MIGA offers guarantees or insurance against loss caused by noncommercial risks (political risk insurance) to eligible investors on qualified investments in developing member countries. MIGA insures investments for up to 20 years against four different categories of risk: currency inconvertibility and transfer restriction, expropriation, war and civil disturbance, and breach of contract. Currency inconvertibility and transfer restriction coverage protects the investor against inconvertibility of local currency into foreign exchange for transfer outside the host country. Currency depreciation is not covered. Expropriation coverage protects the investor against partial or total loss of the insured investment as a result of acts by the host government that may reduce or eliminate ownership of, control over, or rights to the insured investment. War and civil disturbance coverage protects the investor against losses from damage to, or the destruction or disappearance of, tangible coverage assets, as well as a total loss due to business interruption extending for a period of at least 365 days, caused by politically motivated acts of war or civil disturbance in the host country including revolution, insurrection, coups d'état, sabotage and terrorism. Breach of contract coverage protects the investor against the inability to obtain or to enforce an award arising out of an arbitral or judicial decision recognizing the breach of an obligation by the host government. Investors may insure projects by purchasing any combination of the four coverages. MIGA guarantees cannot be terminated unilaterally by the guarantee holder within the first three years from the date of issuance without payment of a termination fee. MIGA cannot terminate the contract unless the guarantee holder defaults on its contractual obligations to MIGA.

Premium rates applicable to issued contracts are fixed for five years. Payments against all claims under a guarantee may not exceed the maximum amount of coverage issued under the guarantee.

MIGA also acts as administrator of some investment guarantee trust funds. MIGA, on behalf of the trust funds, issues guarantees against loss caused by noncommercial risks to eligible investors on qualified investments in the countries specified in the trust fund agreements. Under the trust fund agreements, MIGA, as administrator of the trust funds, is not liable on its own account for payment of any claims under contracts of guarantees issued by MIGA on behalf of such trust funds.

Contingent Liability

The maximum amount of contingent liability of MIGA under guarantees issued and outstanding as of June 30, 2006 totaled $5,362,405,000 ($5,094,443,000—June 30, 2005). A contract of guarantee issued by MIGA may permit the guarantee holder, at the start of each contract period, to elect coverage and place amounts both on current and standby. MIGA is currently at risk for amounts placed on current. The maximum amount of contingent liability is MIGA's maximum exposure to insurance claims, which includes standby coverage for which MIGA is committed but not currently at risk. As of June 30, 2006, MIGA's actual exposure to insurance claims, exclusive of standby coverage is $3,002,964,000 ($2,511,244,000—June 30, 2005).

Reinsurance

MIGA assumes and cedes reinsurance in the normal course of business. All reinsurance is assumed and ceded on a proportionate basis. MIGA obtains treaty and facultative reinsurance to augment its underwriting capacity and to mitigate its risk by protecting portions of its insurance portfolio, and not for speculative reasons. However, MIGA is exposed to reinsurance non-performance risk in the event that reinsurers fail to pay their proportionate share of the loss in case of a claim. MIGA manages this risk by requiring that reinsurers be rated by at least two of the four major rating agencies (Standard & Poor's, A.M. Best, Moody's and Fitch), and that such ratings be above a minimum threshold. In addition, MIGA may also place reinsurance with public insurers of member countries that operate under and benefit from the full faith and credit of their governments, therefore representing a negligible counterparty risk to MIGA. MIGA has established limits, at both the project and portfolio levels, which restrict the amount of reinsurance that may be ceded. The project limit states that MIGA may cede no more than 90 percent of any individual project. The portfolio limit states that MIGA may not reinsure more than 50 percent of its aggregate gross exposure.

Of the $5,362,405,000 outstanding contingent liability (gross exposure) as of June 30, 2006 ($5,094,443,000- June 30, 2005), $2,052,228,000 was ceded through contracts of reinsurance ($1,956,147,000—June 30, 2005). Net exposure amounted to $3,310,177,000 as of June 30, 2006 ($3,138,296,000—June 30, 2005).

MIGA can also provide both public (official) and private insurers with facultative reinsurance. As of June 30, 2006, total insurance assumed by MIGA, primarily with official investment insurers, amounted to $154,440,000 ($38,828,000—June 30, 2005).

Premiums relating to direct, assumed, and ceded contracts for the fiscal years ended June 30, 2006 and June 30, 2005 were as follows:

In thousands of US dollars

	2006	2005
Premiums Written		
Direct	$ 48,923	$ 57,812
Assumed	279	672
Ceded	(19,831)	(24,214)
Premiums Earned		
Direct	52,545	56,508
Assumed	334	632
Ceded	(20,488)	(23,864)

Portfolio Risk Management

Controlled acceptance of political risk in developing countries is MIGA's core business. The underwriting of such risk requires a comprehensive risk management framework to analyze, measure, mitigate and control risk exposures.

Claims risk, the largest risk for MIGA, is the risk of incurring a financial loss as a result of a claimable political risk event in developing countries. Political risk assessment forms an integral part of MIGA's underwriting process, and includes the analysis of both country-related and project-related risks.

Country risk assessment is a combination of quantitative and qualitative analysis. Ratings are assigned individually to each risk for which MIGA provides insurance coverage in a country. Country ratings are reviewed and updated every quarter. Country risk assessment forms the basis of the underwriting of insurance contracts, setting of premium levels, and provisioning for claims.

Project-specific risk assessment is performed by a cross-functional team. Based on the analysis of project-specific risk factors within the country context, the final project risk ratings can be higher or lower than the country ratings of a specific coverage. The decision to issue an insurance contract is subject to approval by MIGA's Senior Management and concurrence by the Board of Directors.

In order to avoid excessive risk concentration, MIGA sets exposure limits per country and per project. The maximum net exposure which may be assumed by MIGA is $420 million in each host country and $110 million for each project.

As approved by the Board of Directors and the Council of Governors, the maximum aggregate amount of contingent liabilities that may be assumed by MIGA is 350 percent of the sum of MIGA's unimpaired subscribed capital and its retained earnings, and insurance portfolio reserve plus such portion of the insurance ceded by MIGA through contracts of reinsurance as the Board of Directors may determine. Accordingly, as of June 30, 2006, the maximum level of guarantees outstanding may not exceed $10,216,000,000.

Portfolio Diversification

MIGA aims to diversify its guarantee portfolio so as to limit the concentration of exposure to loss in a host country, region, or sector. The portfolio shares of the top five and top ten largest exposure countries provide a convenient indicator of concentration risk. The gross and net exposures of the top five and top ten countries as of June 30, 2006 and June 30, 2005 are as follows:

In thousands of US dollars

	June 30, 2006		June 30, 2005	
	Exposure in Top Five Countries	Exposure in Top Ten Countries	Exposure in Top Five Countries	Exposure in Top Ten Countries
Gross Exposure	$ 1,851,275	$ 2,833,571	$ 1,696,246	$ 2,879,135
% of Total Gross Exposure	34.5	52.8	33.3	56.5
Net Exposure	$ 827,359	$ 1,467,334	$ 833,557	$ 1,503,645
% of Total Net Exposure	25.0	44.3	26.6	47.9

A regionally diversified portfolio is desirable for MIGA as an insurer, because correlations of claims occurrences are typically higher within a region than between regions. When a correlation is higher, the probability of simultaneous occurrences of claims will be higher.

The regional distribution of MIGA's portfolio as of June 30, 2006 and June 30, 2005 is as follows:

In thousands of US dollars

	June 30, 2006			June 30, 2005		
	Gross Exposure	Net Exposure	% of Total Net Exposure	Gross Exposure	Net Exposure	% of Total Net Exposure
Africa	$ 872,891	$ 650,826	19.7	$ 840,270	$ 605,770	19.3
Asia	739,562	540,023	16.3	669,936	471,510	15.0
Europe and Central Asia	2,499,502	1,184,634	35.8	2,303,176	1,224,863	39.0
Latin America and the Caribbean	1,094,857	737,703	22.3	1,256,755	757,319	24.1
Middle East and North Africa	285,488	261,939	7.9	154,201	143,781	4.6
Adjustment for Master Agreement [1]	(129,895)	(64,948)	(2.0)	(129,895)	(64,948)	(2.0)
	$ 5,362,405	$ 3,310,177	100.0	$ 5,094,443	$ 3,138,296	(100.0)

[1] Adjustment for master agreement accounts for MIGA's maximum exposure to loss with a single investor being less than the sum of the maximum aggregate liabilities under the individual contracts.

The sectoral distribution of MIGA's portfolio as of June 30, 2006 and June 30, 2005 is shown in the following table:

In thousands of US dollars

	June 30, 2006			June 30, 2005		
	Gross Exposure	Net Exposure	% of Total Net Exposure	Gross Exposure	Net Exposure	% of Total Net Exposure
Infrastructure	$ 2,197,496	$ 1,377,203	41.5	$ 2,004,065	$ 1,226,996	39.1
Financial	1,744,761	952,193	28.8	1,970,628	1,082,226	34.5
Tourism and Services	318,465	275,502	8.3	285,461	243,363	7.8
Manufacturing	284,289	247,219	7.5	326,020	294,434	9.4
Oil and Gas	338,538	230,118	7.0	324,188	146,461	4.7
Mining	400,218	155,827	4.7	113,686	79,854	2.5
Agribusiness	78,638	72,115	2.2	70,395	64,962	2.1
	$ 5,362,405	**$ 3,310,177**	**100.0**	**$ 5,094,443**	**$ 3,138,295**	**100.0**

NOTE E—CLAIMS

Reserve for Claims

Starting in the quarter ending September 30, 2004, MIGA adopted a new provisioning methodology. This methodology builds on portfolio risk quantification models that use both individually assessed loss probabilities for projects at risk and rating-based loss probabilities that are applied to the entire guarantee portfolio. Consequently, in the first quarter of the fiscal year ended June 30, 2005, a release of provision for claims of $112,945,000 was recorded, of which $92,427,000 was attributable to the change in methodology.

MIGA's gross reserve for claims as of June 30, 2006 amounted to $178,178,000 ($179,800,000—June 30, 2005) and estimated reinsurance recoverables amounted to $26,052,000 ($24,300,000—June 30, 2005). MIGA has not recorded any reinsurance asset impairment since there is no objective evidence, to suggest, that it may not receive all amounts due to it under the terms of reinsurance contracts.

An analysis of the changes to the gross reserve for claims for the fiscal year ended June 30, 2006 and for the fiscal year ended June 30, 2005 appears below.

In thousands of US dollars

	June 30, 2006	June 30, 2005
Balance, beginning of the fiscal year	$ 179,800	$ 407,900
Release of provision for claims—net of reinsurance	(3,374)	(106,849)
Estimated reinsurance recoverables	1,752	(120,400)
Claims paid—net	-	(1,457)
Translation adjustment	-	606
Balance, end of the fiscal year	$ 178,178	$ 179,800

Specific Reserve for Claims

The specific reserve for claims is composed of reserves for notified claims and reserves for contracts where a claimable event has been reported but no claim has been filed. The parameters used in the specific reserves, i.e., claim probability, severity and expected recovery, are assessed for each contract placed in the specific reserves on a quarterly basis. As of June 30, 2006, the specific reserves amounted to $57,299,000 ($59,800,000—June 30, 2005). The following table shows how the estimates of the specific reserves for each reporting period have developed over the past five years:

In thousands of US dollars

Reporting Period	FY02	FY03	FY04	FY05	FY06	Total
Estimate of cumulative claims:						
At end of reporting period	121,800	9,900	37,800	27,610	1,062	
One year later	68,600	4,600	23,550			
Two years later	3,000	4,530				
Three years later	5,650					
Estimate of cumulative claims as of June 30, 2006	5,775	3,279	8,343	40,380	1,062	58,839
Cumulative payments		(1,540)				(1,540)
Specific reserves as of June 30, 2006	5,775	1,739	8,343	40,380	1,062	57,299

Notified Claims

Included in Specific Reserve for Claims as of June 30, 2006 are two pending claims for which specific liability has not yet been determined.

The first claim was received on July 13, 2004 and concerns two contracts related to a project in the Kyrgyz Republic. The amount of loss was not specified in the claim. The maximum aggregate liability under the contracts is $0.9 million. The waiting period expired on June 29, 2005. The claim determination period of 180 days, which was to expire on May 15, 2006, has been extended to July 15, 2006 by the guarantee holder due to the willingness of the government to accept MIGA's mediation services to facilitate a joint settlement of both disputes. MIGA is currently preparing the logistics for the mediation process, which is expected to take place in the first week of August in Paris.

The second claim received on December 22, 2005 relates to a project in Argentina. The maximum aggregate liability under the contract is $5 million. On July 18, 2002, MIGA received a letter stating that the client was "facing a situation of de facto expropriation." In a letter to the client dated June 30, 2005, MIGA clarified that the client would have to file a formal claim by December 31, 2005, or any claim based on the facts of January 2002 would be deemed withdrawn with prejudice. In a letter dated January 6, 2006, MIGA determined that the response sent by the client on December 22, 2005 constituted a filed claim and informed the client that MIGA would proceed to assess the merits of the claim.

Claims Payable

On January 10, 2005, MIGA made a determination to pay in full the expropriation claim received on January 13, 2004 for losses related to a project in Argentina. The total claim amounts to $1,395,778, of which $558,311 (representing 40 percent) was paid on February 24, 2005. The payment of the remaining $837,467 (representing 60 percent) is recorded in "Accounts payable and accrued expenses" in the liability section of the balance sheet for the fiscal years ended June 30, 2006 and June 30, 2005. The remaining payment was contingent upon the guarantee holder fulfilling certain obligations in accordance with the contract of guarantee and a legal opinion about the counter guarantor's obligation toward the guarantee holder. The Claims Committee has determined that the guarantee holder has fulfilled its obligations under the contract of guarantee and the legal opinion has been received. MIGA is in the process of determining the amount of compensation to be paid given that the applicable CER (one of the two indexes used to adjust pesified debts for inflation) might result in an amount lower than $837,467.

NOTE F—PENSION AND OTHER POST RETIREMENT BENEFITS

MIGA, IBRD and IFC participate in a defined benefit Staff Retirement Plan (SRP), a Retired Staff Benefits Plan (RSBP) and a Post-Employment Benefits Plan (PEBP) that cover substantially all of their staff members.

The SRP provides regular pension benefits and includes a cash balance plan. The RSBP provides certain health and life insurance benefits to eligible retirees. The PEBP provides pension benefits administered outside the SRP.

MIGA uses June 30, measurement date for its pension and other post retirement benefit plans. The amounts presented below reflect MIGA's respective share of the costs, assets, and liabilities of the plans.

All costs, assets and liabilities associated with these plans are allocated between MIGA, IBRD and, IFC based upon their employees' respective participation in the plans. In addition, MIGA and IFC reimburse IBRD for their proportionate share of any contributions made to these plans by IBRD. Contributions to these plans are calculated as a percentage of salary.

The following table summarizes the benefit costs associated with the SRP, RSBP, and PEBP for MIGA for the fiscal years ended June 30, 2006 and June 30, 2005:

In thousands of US dollars

	SRP		RSBP		PEBP	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Benefit Cost						
Service cost	3,506	3,073	520	440	189	158
Interest cost	5,995	6,381	534	424	139	119
Expected return on plan assets	(9,343)	(9,204)	(643)	(512)		
Amortization of prior service cost	85	176	(10)	(10)	5	5
Amortization of unrecognized net loss (gain)	517		260	94	74	(18)
Net periodic pension cost	760	426	661	436	407	264

The expenses for the SRP, RSBP and PEBP are included in Administrative Expenses. The following table summarizes the projected benefit obligations, fair value of plan assets, and funded status associated with the SRP, RSBP and PEBP for MIGA for the fiscal years ended June 30, 2006 and June 30, 2005.

In thousands of US dollars

	SRP		RSBP		PEBP	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Projected Benefit Obligation						
Beginning of year	98,084	83,255	5,587	1,535	1,662	904
Service cost	3,506	3,073	520	440	189	158
Interest cost	5,995	6,381	534	424	139	119
Employee contributions	735	813	68	116	4	8
Benefits paid	(2,802)	(4,038)	(191)	(445)	(189)	(137)
Actuarial loss (gain)	(31,823)	8,600	3,060	3,517	1,434	610
End of year	73,695	98,084	9,578	5,587	3,239	1,662

Fair Value of Plan Assets						
Beginning of year	100,698	95,956	3,435	2,160		
Employee contributions	735	813	68	116		
Actual return on assets	12,365	5,249	4,300	1,129		
Employer contributions	2,710	2,718	843	474		
Benefits paid	(2,802)	(4,038)	(191)	(445)		
End of year	113,706	100,698	8,455	3,435		
Funded Status						
Plan assets in excess of (less than) projected benefit obligation	40,011	2,615	(1,123)	(2,152)	(3,238)	(1,663)
Unrecognized net loss (gain) from past experience different from that assumed and from changes in assumptions	(20,232)	15,129	900	1,756	1,896	560
Unrecognized prior service cost	571	656	157	147	36	41
Prepaid (accrued) pension cost	20,350	18,400	(66)	(249)	(1,306)	(1,062)

The prepaid SRP and RSBP costs are included in Prepaid Pension Cost on the balance sheet.

Assumptions

The actuarial assumptions used are based on financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions. Changes in these assumptions will impact future benefit costs and obligations.

The expected long-term rate of return for the SRP assets is a weighted average of the expected long-term (10 years or more) returns for the various asset classes, weighted by the portfolio allocation. Asset class returns are developed using a forward-looking building block approach and are not strictly based on historical returns. Equity returns are generally developed as the sum of expected inflation, expected real earnings growth and expected long-term dividend yield. Bond returns are generally developed as the sum of expected inflation, real bond yield, and risk premium/ spread (as appropriate). Other asset class returns are derived from their relationship to equity and bond markets. The expected long-term rate of return for the RSBP is computed using procedures similar to those used for the SRP. The discount rate used in determining the benefit obligation is selected by reference to the year-end AAA and AA corporate bonds. Actuarial gains and losses occur when actual results are different from expected results. Amortization of these unrecognized gains and losses will be included in income if, at the beginning of the fiscal year, they exceed 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. If required, the unrecognized gains and losses are amortized over the expected average remaining service lives of the employee group.

The following tables present the weighted-average assumptions used in determining the projected benefit obligations and the net periodic pension costs for the fiscal years ended June 30, 2006 and June 30, 2005.

Weighted average assumptions used to determine projected benefit obligation:
In percent

	SRP		**RSBP**		**PEBP**	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Discount rate	6.50	5.25	6.50	5.25	6.50	5.25
Rate of compensation increase	6.80	5.90				
Healthcare growth rates—at end of fiscal year			7.60	6.80		
Ultimate healthcare growth rate			5.00	4.25		
Year in which ultimate rate is reached			2012	2012		

Weighted average assumptions used to determine net periodic pension cost:
In percent

	SRP		**RSBP**		**PEBP**	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Discount rate	5.25	6.25	5.25	6.25	5.25	6.25
Expected return on plan assets	7.75	7.75	8.25	8.25		
Rate of compensation increase	5.90	6.40				
Healthcare growth rates—at end of fiscal year			6.80	7.30		
to year 2012 and thereafter			4.25	4.75		

The medical cost trend rate can significantly affect the reported postretirement benefit income or costs and benefit obligations for the RSBP. The following table shows the effects of a one-percentage-point change in the assumed healthcare cost trend rate:

In thousands of US dollars

	One percentage point increase	**One percentage point decrease**
Effect on total service and interest cost	$ 200	$ (200)
Effect on postretirement benefit obligation	2,000	(1,600)

Investment Strategy

The investment policy for the SRP and the RSBP is to optimize the risk-return relationship as appropriate to the respective plan's needs and goals, using a global diversified portfolio of various asset classes. Specifically, the long-term asset allocation is based on an analysis that incorporates expected returns by asset class as well as volatilities and correlations across asset classes and the liability profile of the respective plans. This analysis, referred to as an asset-liability analysis, also provides estimates of potential future contributions and future asset and liability balances. Plan assets are managed by external investment managers and monitored by IBRD's pension investment department. The pension plan assets are invested in diversified portfolios of public equity, fixed income, and alternative investments. The fixed-income and public equity asset classes are rebalanced on a monthly basis.

The following table presents the weighted-average asset allocation as of June 30, and the respective target allocation by asset category for the SRP and RSBP:

In percent

	SRP			RSBP		
	Target Allocation 2006	Plan Assets 2006	Plan Assets 2005	Target Allocation 2006	Plan Assets 2006	Plan Assets 2005
Asset Class						
Fixed Income	40%	40%	40%	30%	30%	31%
Public Equity	35	35	40	30	33	37
Alternative Investments	25	25	20	40	37	32
Total	100%	100.0%	100%	100%	100.0%	100%
Alternative Investments include:						
Private Equity	up to 12%	8.3%	7.1%	up to 28%	12.3%	11.2%
Real Estate	up to 8%	4.7	4.0	up to 18%	4.1	3.7
Hedge Funds	up to 12%	12.0	8.7	up to 23%	20.5	16.8

Estimated Future Benefits Payments

The following table shows the benefit payments expected to be paid in each of the next five years and subsequent five years. The expected benefit payments are based on the same assumptions used to measure the benefit obligation as of June 30, 2006.

In thousands of US dollars

	SRP	RSBP	PEBP
July 1, 2006 – June 30, 2007	2,694	145	214
July 1, 2007 – June 30, 2008	2,987	172	223
July 1, 2008 – June 30, 2009	3,327	203	237
July 1, 2009 – June 30, 2010	3,641	238	252
July 1, 2010 – June 30, 2011	3,958	274	283
July 1, 2011 – June 30, 2016	25,381	2,030	1,581

Expected Contributions

MIGA's contribution to the SRP and RSBP varies from year to year, as determined by the Pension Finance Committee, which bases its judgment on the results of annual actuarial valuations of the assets and liabilities of the SRP and RSBP. The best estimate of the amount of contributions expected to be paid to the SRP and RSBP for MIGA during the fiscal year beginning July 1, 2006 is $2,000,000 and $500,000, respectively.

NOTE G—SERVICE AND SUPPORT FEE

MIGA contributes its share of the World Bank Group's corporate costs, which include the Council of Governors and the Board of Directors, the President's office, the Corporate Secretariat, the Internal Auditing Department, the Department of Institutional Integrity, and the Conflict Resolution Services. In addition, MIGA obtains certain administrative and support services from IBRD in those areas where services can be most efficiently provided by IBRD. These include human resources, information systems, and administrative services as well as investment management and treasury operations. Payments for these services are made by MIGA to IBRD based on negotiated fees, charge backs and allocated charges where charge back is not feasible. Total fees paid by MIGA to IBRD for the fiscal year ended June 30, 2006, were $6,429,000 ($5,185,000—June 30, 2005).

NOTE H—ESTIMATED FAIR VALUES

The estimated fair values of MIGA's cash and nonnegotiable, noninterest-bearing demand obligations approximate their carrying values. The estimated fair value of MIGA's investments shown in Note B is based on market quotations. The estimated fair values are only indicative of individual financial instruments' values and should not be considered an indication of MIGA's fair value.

Appendices

APPENDICES

Governors and Alternates
Directors and Alternates: Voting Power
Signatories to MIGA's Convention
Subscriptions to the General Capital Increase
MIGA Member Countries
Facultative Reinsurance Obtained by MIGA
Facultative Reinsurance Provided by MIGA
Cooperative Underwriting Program Participants
Guarantee Clients
Contacts
Abbreviations
Photo Credits

Governors and Alternates

As of June 30, 2006

Member	Governor	Alternate
Afghanistan	Anwar ul-Haq Ahady	Wahidullah Shahrani
Albania	Ardian Fullani	Fatos Ibrahimi
Algeria	Mourad Medelci	Abdelhak Bedjaoui
Angola	Ana Dias Lourenco	Job Graca
Antigua and Barbuda	(vacant)	(vacant)
Argentina	Felisa Josefina Miceli	Martin Redrado
Armenia	Vahram Nercissiantz	Karen Chshmarityan
Australia	Peter Costello	Teresa Gambaro
Austria	Karl-Heinz Grasser	Kurt Bayer
Azerbaijan	Elman S. Rustamov	Heydar Babayev
Bahamas, The	James H. Smith	Ruth R. Millar
Bahrain	Ahmed Bin Mohammed Al-Khalifa	Mahmood Hashem Al Kooheji
Bangladesh	M. Saifur Rahman	Khawaja Ghulam Ahmed
Barbados	Mia A. Mottley	Grantley W. Smith
Belarus	Andrei V. Kobyakov	Anatoly I. Sverzh
Belgium	Didier Reynders	Franciscus Godts
Belize	Mark A. Espat	Carla Barnett
Benin	Pascal I. Koupaki	Moudjaidou I. Soumanou
Bolivia	Carlos Villegas Quiroga	Luis Alberto Arce Catacora
Bosnia and Herzegovina	Adnan Terzic	Dragan Doko
Botswana	Baledzi Gaolathe	Wilfred Jiwa Mandlebe
Brazil	Guido Mantega	Henrique de Campos Meirelles
Bulgaria	Plamen Oresharski	Dimitar Kostov
Burkina Faso	Hamade Ouedraogo	Lene Sebgo
Burundi	Dieudonne Ngowembona	Leon Nimbona
Cambodia	Keat Chhon	Aun Porn Moniroth
Cameroon	Polycarpe Abah Abah	Daniel Njankouo Lamere
Canada	James Michael Flaherty	Robert Greenhill
Cape Verde	Joao Pinto Serra	Leonesa do Nascimento Lima Fortes
Central African Republic	Sylvain Maliko	Edmond Gbegouda Gnikpingo
Chad	Mahamat Ali Hassan	Sobdibet Hinsalbet
Chile	Andres Velasco Branes	Alberto Arenas de Mesa
China	Jin Renqing	Li Yong
Colombia	Alberto Carrasquilla	Santiago Montenegro Trujillo
Congo, Democratic Republic of	Marco Banguli	Jean-Claude Masangu Mulongo
Congo, Republic of	Pierre Moussa	Pacifique Issoibeka
Costa Rica	Guillermo Zuniga Chaves	Francisco de Paula Gutierrez
Côte d'Ivoire	Paul Antoine Bohoun Bouabre	Charles Koffi Diby
Croatia	Branko Vukelic	Ana Hrastovic
Cyprus	Michael Sarris	Christos Patsalides
Czech Republic	Bohuslav Sobotka	Miroslav Singer
Denmark	Ulla Toernaes	Carsten Staur
Dominica	Swinburne Lestrade	Rosamund Edwards
Dominican Republic	Hector Manuel Valdez Albizu	Juan Temistocles Montas
Ecuador	Diego Borja Cornejo	Ruben Flores
Egypt, Arab Republic of	Mahmoud Mohieldin	Fayza Abulnaga
El Salvador	Eduardo Zablah-Touche	William J. Handal
Equatorial Guinea	Jaime Ela Ndong	Jose Ela Oyana
Eritrea	Berhane Abrehe	Martha Woldegiorghis
Estonia	Aivar Soerd	Renaldo Mandmets
Ethiopia	Sufian Ahmed	Abi Woldemeskel
Fiji	Jone Yavala Kubuabola	Tevita Banuve
Finland	Eero Heinaluoma	Peter Nyberg
France	Thierry Breton	Xavier Musca
Gabon	Casimir Oye-Mba	Christian Bongo
Gambia, The	Mousa G. Bala Gaye	Abdou B. Touray
Georgia	Aleksi Aleksishvili	Irakli Chogovadze
Germany	Heidemarie Wieczorek-Zeul	Thomas Mirow
Ghana	Kwadwo Baah-Wiredu	Anthony Akoto Osei

Member	Governor	Alternate
Greece	George Alogoskoufis	Plutarchos Sakellaris
Grenada	Anthony Boatswain	Lennox J. Andrews
Guatemala	Marcio Rolando Cuevas Quezada	Maria Antonieta de Bonilla
Guinea	Madikaba Camara	Eugene Camara
Guyana	Bharrat Jagdeo	Saisnarine Kowlessar
Haiti	Daniel Dorsainvil	Raymond Magloire
Honduras	Hugo Rolando Noe Pino	Yani Rosenthal Hidalgo
Hungary	Tamas Katona	Zsuzsanna Varga
Iceland	Valgerdur Sverrisdottir	Arni M. Mathiesen
India	P. Chidambaram	A. K. Jha
Indonesia	Sri Mulyani Indrawati	Burhanuddin Abdullah
Iran, Islamic Republic of	Davoud Danesh Ja'fari	Mohammad Khazaee Torshizi
Ireland	Brian Cowen	Tom Considine
Israel	Stanley Fischer	Yaron Zelekha
Italy	Mario Draghi	Ignazio Angeloni
Jamaica	Omar Lloyd Davies	Wesley George Hughes
Japan	Sadakazu Tanigaki	Mitoji Yabunaka
Jordan	Suhair Al-Ali	Maher Madadha
Kazakhstan	Karim Massimov	Marat A. Kusainov
Kenya	Amos Kimunya	Joseph Kanja Kinyua
Korea, Republic of	Duck-Soo Han	Seongtae Lee
Kuwait	Bader Meshari Al-Humaidhi	Bader Mohamed Al-Saad
Kyrgyz Republic	Akylbek Japarov	Kurmanbek M. Ukulov
Lao People's Democratic Republic	Chansy Phosikham	Phouphet Khamphounvong
Latvia	Oskars Spurdzins	Aigars Stokenbergs
Lebanon	Sami Haddad	Fadi Makki
Lesotho	Timothy T. Thahane	Moeketsi Majoro
Libya	Ahmed A. Menesi	Ali Ramadan Shnebesh
Lithuania	Zigmantas Balcytis	Ramune Vilija Zabuliene
Luxembourg	Luc Frieden	Jean Guill
Macedonia, former Yugoslav Republic of	Nikola Popovski	Maksud Ali
Madagascar	Haja Nirina Razafinjatovo	Henri Bernard Razakariasa
Malawi	Goodall E. Gondwe	David Faiti
Malaysia	Abdullah Ahmad Badawi	Izzuddin bin Dali
Maldives	Qasim Ibrahim	Abdullah Jihad
Mali	Abou-Bakar Traore	Mahamadou Zibo Maiga
Malta	Tonio Fenech	Alfred Camilleri
Mauritania	Mohamed Ould El Abed	Isselmou Ould Sidi El Moctar
Mauritius	Rama Krishna Sithanen	Krishnanand Guptar
Micronesia, Federated States of	Nick L. Andon	Lorin Robert
Moldova	Valeriu Lazar	Dumitru Ursu
Mongolia	Nadmid Bayartsakhan	Ochirbat Chuluunbat
Morocco	Fathallah Oualalou	Rachid Talbi Alami
Mozambique	Aiuba Cuereneia	Pedro Conceicao Couto
Namibia	Andrew Ndishishi	Ericah Brave Shafudah
Nepal	Ram Sharan Mahat	Bhoj Raj Ghimire
Netherlands	Gerrit Zalm	Agnes van Ardenne
Nicaragua	Mario Jose Flores	Mario Arana Sevilla
Nigeria	Nenadi E. Usman	Olusegun O.O. Ogunkua
Norway	Erik Solheim	Anne Margareth Fagertun Stenhammer
Oman	Ahmed Bin Abdulnabi Macki	Mohammed bin Nasser Al-Khasibi
Pakistan	Nawid Ahsan	Tanwir Ali Agha
Palau	Casmir E. Remengesau	Lawrence Alan Goddard
Panama	Carlos A. Vallarino	Orcila Vega de Constable
Papua New Guinea	Bart Philemon	Simon Tosali
Paraguay	Ernst F. Bergen S.	Jorge von Horoch
Peru	Fernando Zavala Lombardi	Waldo Mendoza Bellido
Philippines	Margarito B. Teves	Manuel A. Roxas II
Poland	Jacek Tomorowicz	Agnieszka B. Rudniak-Jancewicz
Portugal	Fernando Teixeira dos Santos	Carlos Costa Pina
Qatar	Yousef Hussain Kamal	Abdullah Bin Soud Al-Thani
Romania	Sebastian Vladescu	Cristian Popa
Russian Federation	Aleksei Kudrin	German O. Gref
Rwanda	James Musoni	Monique Nsanzabaganwa
St. Kitts and Nevis	Denzil Douglas	Janet Harris

Member	Governor	Alternate
St. Lucia	Kenny D. Anthony	Len Ishmael
St. Vincent and the Grenadines	Ralph E. Gonsalves	Christian Martin
Samoa	Nickel Lee-Hang	Hinauri Petana
Saudi Arabia	Ibrahim A. Al-Assaf	Hamad Al-Sayari
Senegal	Abdoulaye Diop	Cheikh Hadjibou Soumare
Serbia and Montenegro	Igor Luksic	Mladjan Dinkic
Seychelles	Lekha Nair	Francis Chang Leng
Sierra Leone	John O. Benjamin	Samura Kamara
Singapore	Tharman Shanmugaratnam	Peter Ong
Slovak Republic	Ivan Miklos	Elena Kohutikova
Slovenia	Andrej Bajuk	Andrej Kavcic
Solomon Islands	Bartholomew Ulufa’alu	Shadrach Fanega
South Africa	Trevor Andrew Manuel	Elias Lesetja Kganyago
Spain	Pedro Solbes M.	David Vegara Figueras
Sri Lanka	Mahinda Rajapaksa	P. B. Jayasundera
Sudan	El Zubair Ahmed El Hassan	Lual A. Deng
Suriname	Humphrey S. Hildenberg	Stanley B. Ramsaran
Swaziland	Meshack M.L. Shongwe	Ephraim Mandla Hlophe
Sweden	Par Nuder	Carin Jamtin
Switzerland	Oscar Knapp	Walter Hofer
Syrian Arab Republic	Amer Hosni Lutfi	(vacant)
Tajikistan	Negmatdzhon K. Buriyev	Maruf N. Saifiyev
Tanzania	Juma Alifa Ngasongwa	Gray S. Mgonja
Thailand	Thanong Bidaya	Suparut Kawatkul
Timor-Leste	Maria Madalena Brites Boavida	Aicha Bassarewan
Togo	Yandja Yentchabre	Gilbert Bawara
Trinidad and Tobago	Conrad Enill	Alison Lewis
Tunisia	Mohamed Nouri Jouini	Abdelhamid Triki
Turkey	Ibrahim H. Canakci	Memduh Aslan Akcay
Turkmenistan	Geldymurad Abilov	(vacant)
Uganda	Ezra Suruma	C. M. Kassami
Ukraine	Stanislav Stashevsky	Arseniy Yatsenyuk
United Arab Emirates	Mohammed Khalfan Bin Khirbash	Jamal Nasser Lootah
United Kingdom	Hilary Benn	Gordon Brown
United States	John W. Snow	Josette S. Shiner
Uruguay	Danilo Astori	Carlos Viera
Uzbekistan	Fakhritdin A. Saidakhmedov	Bakhrom B. Ashrafkhanov
Vanuatu	Willie Jimmy Tapangararua	Simeon Athy
Venezuela, Republica Bolivariana de	Ramon Rosales	Jorge Giordani
Vietnam	Le Duc Thuy	Phung Khac Ke
Yemen, Republic of	Abdulkarim I. Al-Arhabi	Mutahar Abdulaziz Al-Abbasi
Zambia	N’gandu Peter Magande	Chibiliti Evans Chibiliti
Zimbabwe	Herbert M. Murerwa	Willard L. Manungo

Directors and Alternates: Voting Power

As of June 30, 2006

Director	Alternate	Casting votes of	Total Votes	% of Total
ELECTED BY THE VOTES OF THE SIX LARGEST SHAREHOLDERS				
(vacant)	Jennifer Dorn	United States	32,833	15.07
(vacant) [1]	Kenichi Tomiyoshi	Japan	9,248	4.24
Eckhard Deutscher	Walter Hermann	Germany	9,205	4.22
Pierre Duquesne	Alexis Kohler	France	8,834	4.05
Tom Scholar	Caroline Sergeant	United Kingdom	8,834	4.05
Zou Jiayi	Yang Jinlin	China	5,799	2.66
ELECTED BY THE VOTES OF OTHER SHAREHOLDERS				
Jan Willem van der Kaaij (Netherlands)	Anca Ciobanu [2] (Romania)	Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Macedonia (former Yugoslav Republic of), Moldova, Netherlands, Romania, Ukraine	11,820	5.42
Gino Alzetta (Belgium)	Melih Nemli (Turkey)	Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey	11,601	5.32
Mathias Sinamenye (Burundi)	Mulu Ketsela (Ethiopia)	Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Malawi, Mozambique, Namibia, Nigeria, Seychelles, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe	11,597	5.32
Marcel Masse (Canada)	Gobind Ganga (Guyana)	The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines	10,216	4.69
Thorsteinn Ingolfsson [3] (Iceland)	Svein Aass [4] (Norway)	Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden	8,118	3.73
Biagio Bossone (Italy)	Nuno Mota Pinto (Portugal)	Albania, Greece, Italy, Malta, Portugal, Timor-Leste	8,034	3.69
Mahdy Ismail Aljazzaf (Kuwait)	Mohamed Kamel Amr (Arab Republic of Egypt)	Bahrain, Egypt (Arab Republic of), Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Yemen (Republic of)	8,027	3.68
Paulo F. Gomes (Guinea-Bissau)	Louis Philippe Ong Seng (Mauritius)	Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Congo (Democratic Republic of), Congo (Republic of), Cote d'Ivoire, Equatorial Guinea, Gabon, Guinea, Madagascar, Mali, Mauritania, Mauritius, Rwanda, Senegal, Togo	7,936	3.64
Otaviano Canuto (Brazil)	Jeremias N. Paul, Jr. (Philippines)	Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Philippines, Suriname, Trinidad and Tobago	7,495	3.44
Sid Ahmed Dib (Algeria)	Shuja Shah (Pakistan)	Afganistan, Algeria, Ghana, Iran (Islamic Republic of), Morocco, Pakistan, Tunisia	7,287	3.34
Dhanendra Kumar (India)	Zakir Ahmed Khan (Bangladesh)	Bangladesh, India, Sri Lanka	7,255	3.33
Joong-Kyung Choi (Republic of Korea)	Terry O'Brien (Australia)	Australia, Cambodia, Korea (Republic of), Micronesia (Federated States of), Mongolia, Palau, Papua New Guinea, Samoa, Vanuatu	6,749	3.10
Herwidayatmo (Indonesia)	Nursiah Arshad (Malaysia)	Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Nepal, Singapore, Thailand, Vietnam	6,676	3.06

Directors and Alternates: Voting Power (cont'd)

As of June 30, 2006

Director	Alternate	Casting votes of	Total Votes	% of Total
Pietro Veglio (Switzerland)	Jakub Karnowski (Poland)	Azerbaijan, Kyrgyz Republic, Poland, Serbia and Montenegro, Switzerland, Tajikistan, Turkmenistan, Uzbekistan	6,473	2.97
Luis Marti (Spain)	Jorge Familiar (Mexico)	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Spain, Venezuela (Republica Bolivariana de)	6,401	2.94
Jaime Quijandria (Peru)	Alieto Guadagni (Argentina)	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay	5,899	2.71
Abdulrahman M. Almofadhi (Saudi Arabia)	Abdulhamid Alkhalifa (Saudi Arabia)	Saudi Arabi	5,797	2.66
Alexey G. Kvasov (Russian Federation)	Eugene Miagkov (Russian Federation)	Russian Federation	5,797	2.66

In addition to the directors and alternates shown in the foregoing list, the following also served after June 30, 2005:

Director	End of period of service	Alternate director	End of period of service
Yahya Abdullah M. Alyahya (Saudi Arabia)	April 30, 2006	Akbar Ali Khan (Pakistan)	August 2, 2005
John Austin (New Zealand)	August 14, 2005	Anthony Requin (France)	October 11, 2005
Robert Holland, III (United States)	August 26, 2006	Tamara Solyanyk (Ukraine)	November 30, 2005
Ad Melkert (Netherlands)	February 28, 2006		
Yoshio Okubo (Japan)	June 14, 2006		
Chander Mohan Vasudev (India)	November 14, 2005		

Note: Antigua and Barbuda (319 votes), Maldives (319 votes) and Solomon Islands (319 votes) became members after the 2004 Regular Election of Directors.

[1] Makoto Hosomi (Japan) elected effective July 14, 2006.

[2] To be succeeded by Claudiu Doltu (Romania) effective July 24, 2006.

[3] To be succeeded by Svein Aass (Norway) effective July 1, 2006.

[4] To be succeeded by Pauli Kariniemi (Finland) effective July 1, 2006.

Signatories to MIGA's Convention

As of June 30, 2006

Afghanistan
Albania
Algeria
Angola
Antigua and Barbuda
Argentina
Armenia
Australia
Austria
Azerbaijan
Bahamas, The
Bahrain
Bangladesh
Barbados
Belarus
Belgium
Belize
Benin
Bolivia
Bosnia and Herzegovina
Botswana
Brazil
Bulgaria
Burkina Faso
Burundi
Cambodia
Cameroon
Canada
Cape Verde
Central African Republic
Chad
Chile
China
Colombia
Congo, Democratic Republic of
Congo, Republic of
Costa Rica
Côte d'Ivoire
Croatia
Cyprus
Czech Republic
Denmark
Djibouti*
Dominica
Dominican Republic
Ecuador
Egypt, Arab Republic of
El Salvador
Equatorial Guinea
Eritrea
Estonia
Ethiopia
Fiji
Finland
France
Gabon
Gambia, The
Georgia
Germany
Ghana
Greece
Grenada
Guatemala
Guinea
Guinea-Bissau*
Guyana
Haiti
Honduras
Hungary
Iceland
India
Indonesia
Iran, Islamic Republic of
Ireland
Israel
Italy
Jamaica
Japan
Jordan
Kazakhstan
Kenya
Korea, Republic of
Kuwait
Kyrgyz Republic
Lao People's Democratic Republic
Latvia
Lebanon
Lesotho
Liberia**
Libya
Lithuania
Luxembourg
Macedonia, FYR of
Madagascar
Malawi
Malaysia
Maldives
Mali
Malta
Mauritania
Mauritius
Micronesia, Fed. States of
Moldova
Mongolia
Morocco
Mozambique
Namibia
Nepal
Netherlands, The
New Zealand *
Nicaragua
Niger*
Nigeria
Norway
Oman
Pakistan
Palau
Panama
Papua New Guinea
Paraguay
Peru
Philippines
Poland
Portugal
Qatar
Romania
Russian Federation
Rwanda
St. Kitts & Nevis
St. Lucia
St. Vincent and the Grenadines
Samoa
Saudi Arabia
Senegal
Serbia and Montenegro
Seychelles
Sierra Leone
Singapore
Slovak Republic
Slovenia
Solomon Islands
South Africa
Spain
Sri Lanka
Sudan
Suriname
Swaziland
Sweden
Switzerland
Syrian Arab Republic
Tajikistan
Tanzania
Thailand
Timor-Leste
Togo
Trinidad and Tobago
Tunisia
Turkey
Turkmenistan
Uganda
Ukraine
United Arab Emirates
United Kingdom
United States
Uruguay
Uzbekistan
Vanuatu
Venezuela, R.B. de
Vietnam
Yemen, Republic of
Zambia
Zimbabwe

* *Non-member country.*
** *Country that has deposited its Instrument of Ratification but not yet completed membership requirements.*

Subscriptions to the General Capital Increase

As of June 30, 2006

Part 1	Shares Subscribed	Amount $
Australia	1,306	14,130,920
Austria	591	6,394,620
Belgium	1,547	16,738,540
Canada	2,260	24,453,200
Czech Republic	339	3,667,980
Denmark	547	5,918,540
Finland	457	4,944,740
France	3,705	40,088,100
Germany	3,865	41,819,300
Greece	213	2,304,660
Ireland	281	3,040,420
Italy	2,150	23,263,000
Japan	3,884	42,024,880
Luxembourg	88	952,160
Netherlands	1,653	17,885,460
Norway	533	5,767,060
Portugal	291	3,148,620
Slovenia	78	843,960
Spain	980	10,603,600
Sweden	800	8,656,000
Switzerland	1,143	12,367,260
United Kingdom	3,705	40,088,100
United States	12,045	130,326,900
Subtotal	**42,461**	**459,428,020**

Part 2	Shares Subscribed	Amount $
Albania	44	476,080
Algeria	495	5,355,900
Argentina	956	10,343,920
Bahamas, The	76	822,320
Bahrain	59	638,380
Bangladesh	259	2,802,380
Barbados	52	562,640
Belize	38	411,160
Benin	47	508,540
Bolivia	95	1,027,900
Botswana	38	411,160
Brazil	1,127	12,194,140
Bulgaria	278	3,007,960
Cambodia	71	768,220
Chile	370	4,003,400
China	2,392	25,881,440
Colombia	333	3,603,060
Congo, Democratic Republic of	258	2,791,560
Congo, Republic of	50	541,000
Costa Rica	89	962,980
Côte d'Ivoire	134	1,449,880
Croatia	143	1,547,260
Cyprus	79	854,780
Ecuador	139	1,503,980
Egypt, Arab Republic of	350	3,787,000
Estonia	50	541,000
Ethiopia	53	573,460
Gabon	73	789,860
Ghana	187	2,023,340
Honduras	77	833,140
Hungary	430	4,652,600
India	2,323	25,134,860
Indonesia	800	8,656,000
Israel	361	3,906,020
Jamaica	138	1,493,160
Jordan	74	800,680
Kazakhstan	159	1,720,380
Kenya	131	1,417,420
Korea, Republic of	342	3,700,440
Kuwait	709	7,671,380
Latvia	74	800,680
Lebanon	108	1,168,560
Lesotho	38	411,160
Lithuania	81	876,420
Macedonia, FYR of	38	411,160
Madagascar	76	822,320
Malaysia	441	4,771,620
Mali	62	670,840
Malta	57	616,740
Mauritania	48	519,360
Mauritius	66	714,120
Morocco	265	2,867,300
Mozambique	74	800,680
Nepal	53	573,460
Nicaragua	78	843,960
Nigeria	643	6,957,260
Oman	72	779,040
Pakistan	503	5,442,460
Panama	100	1,082,000
Paraguay	61	660,020
Peru	284	3,072,880
Qatar	104	1,125,280
Romania	423	4,576,860
Russian Federation	2,391	25,870,620
Rwanda	57	616,740
St. Lucia	38	411,160
St. Vincent and the Grenadines	38	411,160
Saudi Arabia	2,391	25,870,620
Senegal	111	1,201,020
Serbia and Montenegro	176	1,904,320
Sierra Leone	57	616,740
Singapore	118	1,276,760
Slovak Republic	169	1,828,580
South Africa	719	7,779,580
Sri Lanka	207	2,239,740
Syrian Arab Republic	128	1,384,960

Subscriptions to the General Capital Increase (cont'd)

As of June 30, 2006

Part 2	Shares Subscribed	Amount $
Tanzania	107	1,157,740
Thailand	321	3,473,220
Trinidad and Tobago	155	1,677,100
Tunisia	119	1,287,580
Turkey	352	3,808,640
Uganda	101	1,092,820
Ukraine	582	6,297,240
United Arab Emirates	284	3,072,880
Vietnam	168	1,817,760
Subtotal	**26,417**	**285,831,940**
Total	**68,878**	**745,259,960**

Summary	Shares Subscribed	Amount US$
% of Total GCI	81.68%	
Completed—Part1	30,416	329,101,120
Completed—Part2	26,417	285,831,940
Completed	56,833	614,933,060
Partial—Part 1	12,045	130,326,900
Partial—Part 2	-	-
Partial	12,045	130,326,900
Total—Part 1	42,461	459,428,020
Total—Part 2	26,417	285,831,940
Total	**68,878**	**745,259,960**

MIGA Member Countries (167)

Industrialized Countries (24)

Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, Norway, Portugal, Slovenia, Spain, Sweden, Switzerland, United Kingdom, United States

Developing Countries (143)

ASIA AND THE PACIFIC

Afghanistan, Bangladesh, Cambodia, China, East Timor, Fiji, India, Indonesia, Korea, Republic of, Lao People's Democratic Rep., Malaysia, Maldives, Micronesia, Federated States of, Mongolia, Nepal, Pakistan, Palau, Papua New Guinea, Philippines, Samoa, Singapore, Solomon Islands, Sri Lanka, Thailand, Vanuatu, Vietnam

EUROPE AND CENTRAL ASIA

Albania, Armenia, Azerbaijan, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, Cyprus, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Macedonia, FYR of, Moldova, Poland, Romania, Russian Federation, Serbia and Montenegro, Slovak Republic, Tajikistan, Turkey, Turkmenistan, Ukraine, Uzbekistan

LATIN AMERICA AND THE CARIBBEAN

Antigua and Barbuda, Argentina, Bahamas, The, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, Venezuela, R. B. de

MIDDLE EAST AND NORTH AFRICA

Algeria, Bahrain, Egypt, Arab Republic of, Iran, Islamic Republic of, Israel, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Tunisia, United Arab Emirates, Yemen, Republic of

SUB-SAHARAN AFRICA

Angola, Benin, Botswana, Burundi, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Congo, Democratic Republic of, Congo, Republic of, Côte d'Ivoire, Equatorial Guinea, Guinea-Bissau, Eritrea, Ethiopia, Gabon, Gambia, The, Ghana, Guinea, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Nigeria, Rwanda, Senegal, Seychelles, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Togo, Uganda, Zambia, Zimbabwe

Countries in the Process of Fulfilling Membership Requirements (5)

Industrialized Countries: New Zealand

Developing Countries: Djibouti, Guinea-Bissau, Liberia, Niger

Facultative Reinsurance Obtained by MIGA

Investment Insurer	Country
ACE Global Markets, Lloyd's Syndicate 2488	UK
A.F. Beazley, Esq., and Others, Lloyd's Syndicates 2623 and 623	UK
Alleghany Consortium, Lloyd's Syndicate 376	UK
AXIS Specialty Ltd.	Bermuda
C.N.R. Atkin Esq., and Others, Lloyd's Syndicate 1183	UK
Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE)	France
Cox Insurance Holdings PLC., Lloyd's Syndicate 2591	UK
Export Credits Guarantee Department (ECGD)	UK
Export Development Canada (EDC)	Canada
Finnvera Plc	Finland
Garanti-Institutte for Eksportkreditt (GIEK)	Norway
Global Re, BV, captive insurer of Philips Electronics N.V.	Netherlands
Great Northern Insurance Company (Chubb & Son)	USA
Israel Foreign Trade Risks Insurance Corporation (IFTRIC)	Israel
Liberty Syndicate Management, Lloyd's Syndicate 4472	UK
M.D. Reith and Others, Lloyd's Syndicate 1414	UK
Münchener Rückversicherungs-Gesellschaft	Germany
National Union Fire Insurance Co. of Pittsburgh (AIG)	USA
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO)	Netherlands
Oesterreichische Kontrollbank A.G. (OeKB)	Austria
S.J. Catlin, Esq., and Others, Lloyd's Syndicates 1003 and 2003	UK
Sovereign Risk Insurance Ltd.	Bermuda
Steadfast Insurance Company (Zurich)	USA
The Goshawk War and Political Risks Consortium, Lloyd's Syndicate 9132	UK
XL London Market Ltd., Lloyd's Syndicate 1209	UK
Export Finance and Insurance Corporation (EFIC)	Australia
Servizi Assicurativi del Commercio Estero (SACE)	Italy
Wellington Underwriting Agencies Limited, Lloyd's Syndicate 2020	UK

Facultative Reinsurance Provided by MIGA

Investment Insurer	Country
Compañía Española de Seguros de Crédito a la Exportación (CESCE)	Spain
Export Development Canada (EDC)	Canada
Export Credit Insurance Organization (ECIO) of Greece	Greece
Nippon Export Investment Insurance (NEXI)	Japan
Nordia Insurance Company (Pan Financial, Inc.)	USA
Österreichische Kontrollbank A.G. (OeKB)[1]	Austria
Overseas Private Investment Corporation (OPIC)	USA
Slovenska izvozna druzba (SID)	Slovenia

[1] *MIGA's facultative reinsurance was from the EU trust fund for Bosnia and Herzegovina.*

Cooperative Underwriting Program Participants

Investment Insurer	Country
ACE Global Markets, Lloyd's Syndicate 2488	UK
A.D. Hicks, Esq. and M.H.Wheeler, Esq. and Others, Lloyd's Syndicate 1007	UK
A.F.Beazley, Esq. and Others, Lloyd's Syndicates 623 and 2623	UK
AXIS Specialty Limited	Bermuda
Compagnie Tunisienne pour l'Assurance du Commerce Extérieur (Cotunace)	Tunisia
Cox Insurance Holdings PLC., Lloyd's Syndicate 2591	UK
General Security Insurance Company (Unistrat)	USA
Great Northern Insurance Company (Chubb & Son)	USA
Gulf Insurance Company U.K. Limited (Citicorp/Travellers)	UK/USA
H.H. Hayward, Esq., and Others, Lloyd's Syndicate 1084	UK
Hiscox Syndicates Limited, Lloyd's Syndicate 33	UK
Kiln 510 Combined, Lloyd's Syndicate 510	UK
Liberty Syndicate Management, Lloyd's Syndicate 282	UK
M.D. Reith and Others, Syndicate 1414 at Lloyd's (Ascot)	UK
S.J.Catlin, Esq., and Others, Lloyd's Syndicates 1003 and 2003	UK
Pacific Indemnity Company (Chubb & Son)	USA
Steadfast Insurance Company (Zurich)	USA
The Goshawk War and Political Risks Consortium, Lloyd's Syndicate 9132	UK
XL London Market Ltd., Lloyds Syndicate 1209	UK

Guarantee Clients

Abengoa
ABN AMRO Holding N.V., The Netherlands
Accelon (Pty) Limited
AES Bulgaria Holdings BV
Agro Industrial Investment and Development SA
Alpos d.d. (Inc.)
Alstom Power Norway AS
Ama International
AMA SpA
Antoine Boulos and Gabriel Boulos
Anvil Mining Limited
Autopistas del Nordeste (Cayman) Limited
Baltic-American Enterprise Fund (BalAEF)
Baltic-American Mortgage Trust 2004-1
Banco Credito de Bolivia
Bank Austria Creditanstalt AG
Bank Hapoalim BM
Bank of Nova Scotia (The)
Barloworld Equipment UK Limited
Bema Gold Corporation
Bergenshalvoens Kommunale Kraftselskap AS
BHP Billiton
Biothermica Energie Inc.
BNP Parisbas
Calyon Corporate & Investment Bank
Can-Pack S.A.
CDC Globeleq
CEFLA Capital Services SpA
Cementhai Chemicals Co., Ltd.
Cesur Packaging Corporation
Cobra Instalaciones y Servicios, SA
Compagnie Générale des Eaux
Conduit Capital Partners
Control y Montajes Industriales CYMI, SA
Cooperative Centrale Raiffeisen-boerenleenbank BA (Rabobank)
Corporación Interfin, SA
Cotecna SA
DAGRIS
Darco Environmental Pte.Ltd.
Dole Food Company, Inc.
Dragados Industrial SA
EDF International
Efes Breweries International BV
Efes Sinai Yatirim Holding AS
El Paso Energy International Corp.
El Paso Power Company
Elecnor, SA
Emporia Bank of Greece SA
Energy Investors Funds II, L.P.
EPED Holding Company
Ericsson Credit AB
Eskom Enterprises
Euromedic Diagnostics BV
Export Credit Insurance Organization (ECIO)
Export Development Canada
Fatoglu Gida Sanayi Ve Ticaret AS
FINREP HANDEL Ges.m.b.H.
First Kazakh Securitisation Company B.V.
Fortis Bank
France Cables et Radio Vietnam
Fraport AG
GE Energy (Norway) AS
GE.POR.TUR. s.a.s.
Geosurvey International, L.L.C.
Globull Investment and Development SCA
Grodco Panama
Grodco S.C.A.
Grupo Isolux Co. Corsan S.A.
Guinea Investing Company Limited (GICL)
Habib Bank AG Zurich
HYDELEC
Hydra-Co Enterprises, Inc.
Hypo Alpe-Adria-Bank AG
I&P Capital (Indian Ocean) Ltd.
I.T.I. S.R.L.
ICICI Bank

Guarantee Clients (cont'd)

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Industrial Development Corporation of South Africa Ltd.
Infilco Degrémeont, Inc.
ING Bank
ING Bank N.V.
International Dialysis Centers BV
International Energy Partners
International Water Services (Guayaquil) B.V.
International Wireless Communications, Inc.
Intertek International Ltd.
Investcom Global Ltd.
Investcom Holding (Luxembourg) SA
Itochu Corporation
Joseph Fermon
Kenmare Resources PLC
Kimberly-Clark Corporation
Kingdom 5 KR 71 Limited
Kjaer Group AS
Komatsu Ltd.
KfW—Kreditanstalt für Wiederaufbau
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Millco Limited
Mitsubishi Corporation
Mitsubishi Corporation (UK) Plc
Mitsubishi International Corporation
Mitsui & Co., Ltd.
MTU Asia Pte Ltd.
National Petrochemical Public Limited
Noranda Inc.
Odinsa Holding Inc.
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PROPARCO
Radisson Hotels International, Latin America,
Raghbir Sineh Chatthe
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Raiffeisenbank a.s.
Raiffeisenverband Salzburg
Rockfort Power Associates, Inc.
RZB Vienna
Salvintur—Sociedade de Investimentos Turísticos
Sasol Gas Holdings (Pty) Ltd.
Sasol Petroleum International (Pty) Ltd.
Scotia Bank (Cayman Islands) Ltd.
Scotia Mercantile Bank
Scotiabank & Trust (Cayman) Ltd.
Scudder Latin America Power
SembCorp Utilities Pte Ltd.
Sena Development Ltd.
Sena Holdings Limited
SGS Société Générale de Surveillance SA
Sierra-Com Ltd.
Sithe International, Inc.
SN Power Holding Singapore PTE Ltd.
Société Générale SA
Société Marromeu Ltd.
Sojitz Corporation
Sonatel
Standard Corporate and Merchant Bank
State Bank of India
Société de Promotion Financière & Investissement
Suez Environment S.A.
Suez Tractebel S.A.
Sungrain Holding S.A.
Sunnen Products Company
Teck Corporation
Teleinvest Limited
Tokyo Electric Power Company International BV
Touton SA
Union Carbide Corporation
Union Fenosa Internacional SA
Urbaser, SA
Wartsila Power Development, Inc.
West African Gas Pipeline Company Ltd.
WestLB AG
WTE Wassertechnik GmbH

Contacts

Executive Vice President
Yukiko Omura
yomura@worldbank.org

Acting Director
Operations
Philippe Valahu
pvalahu@worldbank.org

Director and General Counsel
Legal Affairs and Claims
Peter D. Cleary
pcleary@worldbank.org

Chief Financial Officer and Director
Finance and Risk Management
Amédée S. Prouvost
aprouvost@worldbank.org

Chief Economist and Director
Economics and Policy
Frank J. Lysy
flysy@worldbank.org

Director
External Outreach and Partners
Moina Varkie
mvarkie@worldbank.org

GUARANTEES

Agribusiness, Manufacturing, Services, and Tourism
Nabil Fawaz
nfawaz@worldbank.org

Financial
Ileana Boza
iboza@worldbank.org

Infrastructure
Philippe Valahu
pvalahu@worldbank.org

Oil, Gas, Mining, and Chemicals
Nick Halkas
nhalkas1@worldbank.org

Reinsurance
Marc Roex
mroex@worldbank.org

Small Investment Program
Hal G. Bosher
hbosher@worldbank.org

TECHNICAL ASSISTANCE

Diagnostics
Rodrigo Ortiz
rortiz@worldbank.org

Implementation
David Bridgman
dbridgman@worldbank.org

BUSINESS INQUIRIES

Michael Durr
migainquiry@worldbank.org

Abbreviations

ADA	Armenian Development Agency
ADB	Asian Development Bank
AIGF	Afghanistan Investment Guarantee Facility
BOOT	Build-Own-Operate-Transfer
BOT	Build-Operate-Transfer
CAFTA	Central American Free Trade Agreement
CAO	Compliance Advisor/Ombudsman
CAS	Country Assistance Strategy
CIPO	Croatian Investment Promotion Outreach Alliance
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPDF	China Project Development Facility
EAR	European Agency for Reconstruction
EBP	Enterprise Benchmarking Program
ECA	Europe and Central Asia
EIOP	European Investor Outreach Program
EU	European Union
FIAS	Foreign Investment Advisory Service
FDI	Foreign Direct Investment
GAFI	General Authority for Free Zones and Investment
GCI	General Capital Increase
GNIEPA	Georgian National Investment and Export Promotion Agency
GSM	Global System for Mobile Communication
HDPE	High-density polyethylene
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEG	Independent Evaluation Group
ICIEC	Islamic Corporation for the Insurance of Investment and Export Credit
IFC	International Finance Corporation
IIDP	Investor Information Development Program
IIG	Invest in Guatemala
IPI	Investment Promotion Intermediaries
JIB	Jordan Investment Board
LIL	Learning and Innovation Loan
NAPCOD	New Afghanistan Project for Cotton and Oil Development
NEPAD	New Partnership for Africa's Development
OPIC	Overseas Private Investment Corporation
PIPA	Palestinian Investment Promotion Agency
PEBP	Post Employment Benefits Plan
PRI	Political Risk Insurance
PSD	Private Sector Development
PT MDDI	MTU Detroit Diesel Indonesia
ROOC	Return on Operating Capital
RSBP	Retired Staff Benefits Plan
RZB	Raiffeisen Zentralbank AG
SIPP	Serbia Investment Promotion Program
SIP	Small Investment Program
SLEDIC	Sierra Leone Export Development and Investment Corporation
SME	Small and Medium-Size Enterprise
SSA	Sub-Saharan Africa
SRP	Staff Retirement Plan
TDB	Trade and Development Bank of Mongolia
USAID	United States Agency for International Development

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Printed on recycled paper with soy-based ink.

www.miga.org

World Bank Group
Multilateral Investment
Guarantee Agency
1818 H Street, NW
Washington, DC 20433
USA

t. 202.458.4798
f. 202.522.0316

ISBN-10: 0-8213-6839-7
ISBN-13: 978-0-8213-6839-8
e-ISBN: 0-8213-6840-0
DOI: 10.1596/978-0-8213-6839-8