



guarantees  
program

## INSURING INVESTMENTS, ENSURING OPPORTUNITIES

Innovation, flexibility, outreach to clients and partners. These are the hallmarks of MIGA's guarantees program, which in fiscal 2001 forged a strategic path focused on promoting investment into the world's poorest countries, in Africa, among developing countries, and in small and medium-size enterprises.

This was a path that led to positive results. Fiscal 2001 yielded 66 contracts of guarantee in 28 developing member countries, for an all-time high in coverage. The increase in contracts reflects an effort to underwrite smaller projects with a high developmental impact. These results are also a solid indication of MIGA's commitment to using investment guarantees to encourage FDI—and ultimately improve people's lives and reduce poverty.

### GUARANTEES REACH RECORD NUMBERS WHILE PRIORITY AREAS SEE PROGRESS

MIGA's guarantee coverage once again struck new heights, reaching \$2 billion in fiscal 2001 and offering protection against political risks for investments in 28 developing countries. This represents a 25 percent increase in the amount of coverage over the previous year. This number grows to \$2.15 billion when considering amounts covered by other insurers through the CUP (see box 6). The outstanding portfolio at the end of the year was \$5.2 billion before reinsurance and net of cancellations (see figure 4). Net premium income, fees, and commissions totaled \$36.5 million.

MIGA issued first-time guarantees for projects in Jordan, Panama, and Togo as it worked to fulfill its goal of regional diversification and to reach countries that have not been significant beneficiaries of FDI. Efforts to promote South-South investments—those among developing countries—also bore fruit: 12 guarantees were issued to investors from Brazil, Israel, Mauritius, Panama, Singapore, South Africa, and Turkey for investments in Brazil, Ecuador, Kazakhstan, Mozambique, Nicaragua, and Vietnam.

The agency also provided guarantees for 18 projects in support of SMEs. Fifteen guarantee contracts totaling \$186 million were issued for projects in Africa. And 26 contracts totaling \$396 million were issued for projects in IDA-eligible countries: Mozambique (6), Bosnia and Herzegovina (5), Guinea (3), Zambia (2), Togo (2), Albania, Angola, Kyrgyz Republic, Moldova, Nicaragua, Pakistan, Tanzania, and Vietnam (one each). Contracts issued for these projects accounted for 24 percent of MIGA's fiscal year gross issuance (see box 1).

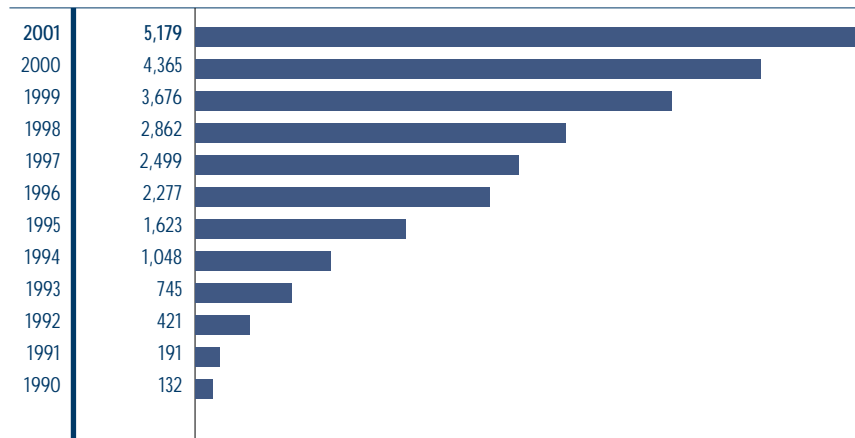
box 5 WHAT IS THE GUARANTEES PROGRAM?

In today's interconnected global economy, businesses increasingly recognize that investment opportunities exist in emerging economies. But for multinational companies and small and medium-size businesses alike, concerns about uncertain policy environments and perceptions of political risk often inhibit investment. As a result, FDI tends to go to a handful of countries, leaving the world's poorest economies largely ignored and many attractive investment opportunities unexplored. MIGA's guarantees program works to address these concerns by offering political risk insurance to investors.

Through its investment guarantees, MIGA offers protection against four types of noncommercial risk associated with FDI: currency inconvertibility and transfer restrictions, expropriation, war and civil disturbance, and breach of contract. Guarantees are available for many types of investments going into developing member countries, such as new cross-border investments, multicountry projects, as well as expansions and privatizations of existing projects. In the past year, MIGA also issued coverage for capital markets transactions and performance bonds for the first time.

The agency's top-rated insurance has many other benefits, allowing investors and lenders to venture into new markets with confidence and potentially achieve investment grade ratings or higher for emerging market securities. Financial institutions also benefit by being able to leverage their country limits and thus reduce country risk provisioning and transaction costs.

figure 4 GROWTH OF GROSS EXPOSURE, FY90-01, US\$ M



### EFFORTS CONTINUE TO DIVERSIFY PORTFOLIO

At the sectoral level, MIGA’s portfolio saw some modest distribution shifts (see figure 5). In terms of gross coverage, oil and gas projects showed the largest increase, growing from 2 percent of the portfolio in fiscal 2000 to 5 percent in fiscal 2001. The agribusiness and financial sectors also claimed a larger portfolio share, with coverage climbing by 2 percent for each. Coverage for the mining, manufacturing, and services sectors decreased slightly, while infrastructure and tourism stayed just about even.

Change was also visible when it came to subsectors. A shift in gross coverage for financial projects reflected the agency’s push to support mortgages and loans intended primarily for SMEs, as well as MIGA’s landmark coverage for a securitization deal of loan and lease receivables in Brazil. Within infrastructure, the transportation subsector also grew, increasing from just 0.1 percent of gross coverage in fiscal 2000 to more than 2 percent of the total.

Likewise, a glance at the regional distribution of MIGA’s portfolio would probably not reveal some of the important changes going on beneath the surface. For years, Latin America has accounted for a large share of the portfolio, and at 57 percent in fiscal 2001 continued to do so. But within the region, Central America and the Caribbean have grown and now total nearly 12 percent of the agency’s gross coverage, with new projects being insured in countries such as the Dominican Republic, Guatemala, and Nicaragua.

The agency’s gross exposure in Africa stayed even at 12 percent, but the number of contracts and projects both grew, reflecting an ongoing effort to support smaller investments in the region. MIGA’s commitment is clearly demonstrated by its issuance of 15 contracts for eight projects in Angola, Guinea, Mozambique, Tanzania, Togo, and Zambia. In fact, Tanzania and Mozambique are now the eighth- and ninth-largest countries in MIGA’s portfolio, respectively, and together account for 6.7 percent of gross exposure.

Even though Asia claimed a smaller share of the gross portfolio in fiscal 2001, coverage there grew in absolute terms. The agency insured two important projects in the region, including a large infrastructure project in the Philippines and telecommunications project in Vietnam. The Middle East and North Africa, too, saw an increase in representation, nearly doubling its share of MIGA’s portfolio with the Jordan potash project.

figure 5 OUTSTANDING PORTFOLIO DISTRIBUTION, by sector, percent, FY01

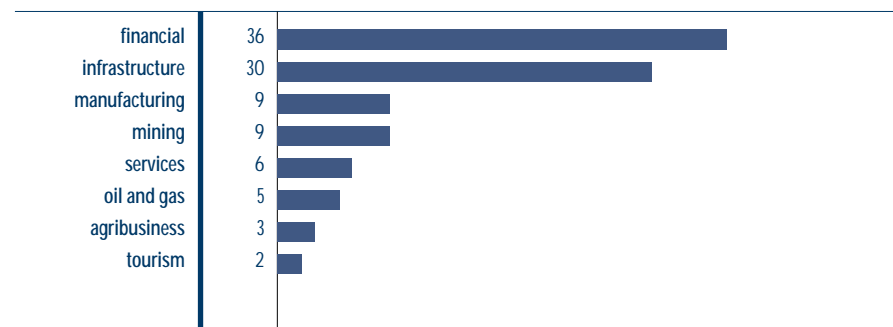
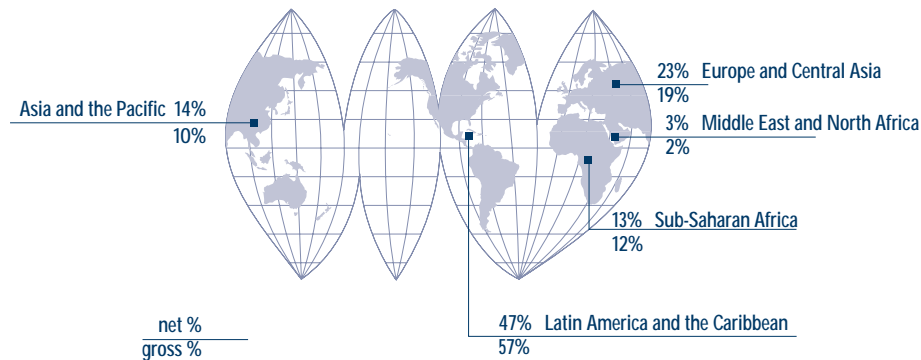


figure 6 OUTSTANDING PORTFOLIO DISTRIBUTION, by host region, FY01



Coverage was also strong in Europe and Central Asia, where MIGA issued 19 guarantees for 12 projects in Albania, Bosnia and Herzegovina, Kazakhstan, Kyrgyz Republic, Moldova, Romania, the Russian Federation, and the Slovak Republic.

#### DEMAND INCREASES AS REGIONAL AWARENESS GROWS

This progress was due in part to the agency’s ongoing series of in-depth regional visits, known as its “mobile office” program. In fiscal 2001, MIGA conducted seminars and meetings in Asia, Latin America, Southeastern Europe, and West Africa. This outreach has enabled MIGA to raise its profile and bring about a better awareness of its activities among stakeholders and members of various local business communities, and has been particularly helpful in promoting investments among developing countries.

During a visit to the West African countries of Mali, Senegal, and Ghana, MIGA staff listened to many high-level government officials and business representatives discuss local investment priorities and challenges. The key message coming out of the trip was that investment needs to be stepped up for West Africa to develop its full potential, and MIGA is well placed to bring more foreign investors and local businesses together. In addition to the consultation, the group visited project sites sponsored by MIGA and IFC to get a first-hand look at the business operating and investment environment.

An agency trip to East Asia and the Pacific Rim took staff experts to eight countries—Australia, Cambodia, China, Japan, the Republic of Korea, the Philippines, Singapore, and Thailand—to talk about the value of political risk insurance for investments in the region and elsewhere. In addition to formal seminars, staff met with representatives of financial institutions, potential investors, and those involved in

promoting investment opportunities. The trip was particularly timely, given persistent investor concerns in the wake of the financial crisis, as well as untapped business opportunities in the region, as in Thailand, MIGA's newest member country. One of the trip's focal points was to promote South-South investments.

A mobile office to Central America and Colombia provided another platform for getting the word out about MIGA and its services. The trip came at a good time, given the region's emergence from a two-year recession spawned by the backlash from the global financial crisis of the late 1990s. Agency staff held seminars on guarantee products for potential investors in Barranquilla, Colombia, and in Guatemala City. In addition, MIGA representatives met one-on-one with investors and companies in those countries as well as in Belize, Costa Rica, El Salvador, Honduras, and Nicaragua. One of the mission's focal points was to promote investments among developing countries. Follow-up meetings have produced cooperation arrangements to support business development in the region.

MIGA completed its outreach activities for the fiscal year with a series of seminars and meetings on the West Coast of the United States and in Greece, Italy, Spain, and Slovenia.

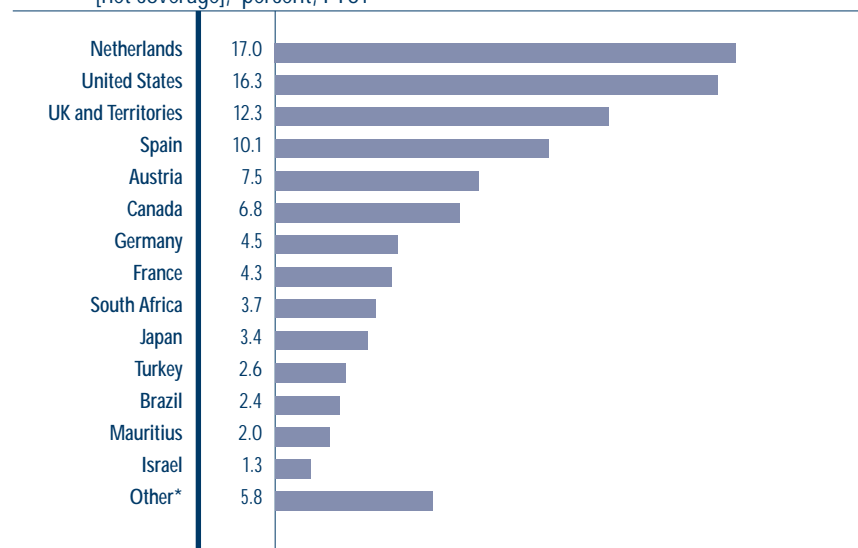
The strong support MIGA received from IFC during many of these trips underscores the close working relationship the agency has developed with the World Bank Group on private sector development.



photos | above, women washing clothes on the banks of the Niger River in Segou, Mali. MIGA-supported projects in Africa often convey many development benefits, including access to clean, running water. right, Roger Pruneau, MIGA's Vice President of Guarantees; Mamadou Sidibé, Director General of "Somapil"; William Dadzie, MIGA; Mossadeck Bally, President of the West Africa Enterprise Network; and Bakary Camara, Director General of Safcar Cekar and Jutheau, visiting a small, locally owned kitchenware factory in Bamako, Mali.



figure 7 OUTSTANDING PORTFOLIO DISTRIBUTION, by investor country [net coverage], percent, FY01



\* Argentina, Belgium, Cyprus, Denmark, Finland, Greece, India, Italy, Luxembourg, Norway, Panama, Portugal, Singapore, Sweden, Switzerland, Uruguay (<1% each)

table 2 TEN LARGEST COUNTRY EXPOSURES IN MIGA'S PORTFOLIO, FY01

host country	percentage share of outstanding portfolio			
	gross exposure US\$ M	% of gross	net exposure* US\$ M	% of net
Brazil	888.5	17.2	312.1	9.9
Argentina	693.6	13.4	258.7	8.2
Peru	271.4	5.2	157.4	5.0
Russian Federation	263.5	5.1	144.2	4.6
Ecuador	210.4	4.1	129.4	4.1
Colombia	192.9	3.7	118.9	3.8
Dominican Republic	181.4	3.5	123.1	3.9
Tanzania	175.2	3.4	70.5	2.2
Mozambique	171.3	3.3	129.6	4.1
Turkey	157.9	3.1	87.2	2.8
<b>total</b>	<b>3,206.1</b>	<b>62.0</b>	<b>1,531.1</b>	<b>48.6</b>

\* Net of treaty and facultative reinsurance.

### AGENCY LEVERAGES ITS COVERAGE

During the fiscal year, MIGA's reinsurance, coinsurance, and trust funds allowed it to leverage its own coverage to serve more clients, both investors and host countries.

**Reinsurance and coinsurance** Reinsurance continued to be important in reducing the agency's exposure to loss, as well as allowing MIGA to encourage private sector insurers to participate in transactions with a positive developmental impact they would probably not insure otherwise. MIGA's resolution of its first claim ever has greatly reinforced partners' confidence in its ability to avoid losses by recovering claims and in the value of the "MIGA franchise."

Important transactions in fiscal 2001 were supported under the CUP and facultative (per project) reinsurance programs. These include an oil and gas project in Brazil that combined a CUP agreement with Chubb and facultative reinsurance by the Lloyd's market; the completion of a gold mine transaction in Tanzania, which constituted the biggest MIGA facultative reinsurance project to date; a manufacturing project in Jordan, for which MIGA concluded its first facultative reinsurance contract with Finnvera of Finland and in which the European Investment Bank and the Islamic Development Bank acted as lenders; and coverage of a loan by Banco Santander Central Hispano to support medium-term financing of SMEs by Banco Galicia in Argentina, for which MIGA concluded its first facultative reinsurance agreement with AIG.

#### box 6 WHAT IS THE COOPERATIVE UNDERWRITING PROGRAM?

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In 1996, MIGA created a special product to encourage private insurers to offer political risk coverage for projects in developing member countries where insurers may not have been comfortable or willing to offer insurance on their own. Through the CUP, MIGA helps allay insurer concerns by acting as the insurer-of-record and issuing a contract of guarantee for the entire amount of insurance requested by an investor, but retaining only a portion of the exposure. The remainder is underwritten by one or more private insurers. The premium rates, claims payments, and recoveries are all shared on a proportional basis.

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table 3 FACULTATIVE REINSURANCE OBTAINED BY MIGA

\* indicates new partners in FY01

investment insurer	country
ACE Global Markets, Lloyd's Syndicate 2488	UK
Alleghany Consortium, Lloyd's Syndicate 376*	UK
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 Corporation (EDC)	Canada
Finnvera Plc*	Finland
Garanti-Institutte for Eksportkredit (GIEK)	Norway
Global Re, B.V., captive insurer of Philips Electronics N.V.	Netherlands
Münchener Rückversicherungs-Gesellschaft	Germany
National Union First Insurance Co. of Pittsburgh (AIG)*	USA
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO)	Netherlands
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 Brockbank War and Political Risks Consortium, Lloyd's Syndicates 588, 861, and 1209	UK

table 4 FACULTATIVE REINSURANCE PROVIDED BY MIGA

\* indicates new partner in FY01

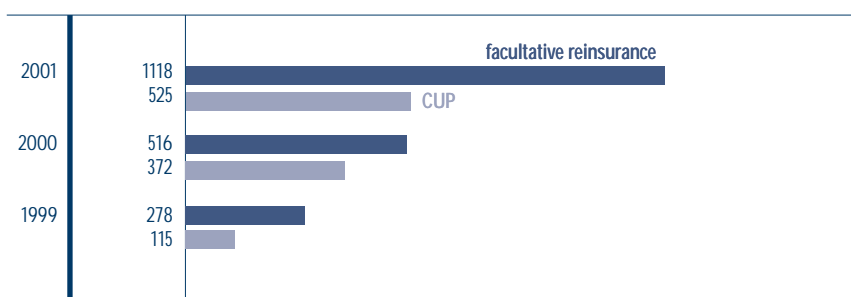
investment insurer	country
Compañía Española de Seguros de Crédito a la Exportación (CESCE)	Spain
Export Development Corporation (EDC)	Canada
Ministry of International Trade and Investment (MITI)	Japan
Nordia Insurance Company (Pan Financial, Inc.)	USA
Österreichische Kontrollbank A.G. (OeKB)*	Austria
Overseas Private Investment Corporation (OPIC)	USA

table 5 COOPERATIVE UNDERWRITING PROGRAM PARTICIPANTS

\* indicates new partners in FY01

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 Syndicate 623*	UK
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
S.J. Catlin, Esq., and Others, Lloyd's Syndicates 1003 and 2003	UK
Steadfast Insurance Company (Zurich)	USA
XL Brockbank War and Political Risks Consortium, Lloyd's Syndicates 588, 861, and 1209	UK

figure 8 CUMULATIVE AMOUNTS OF CAPACITY MOBILIZED, US\$ M



*note: Facultative reinsurance refers only to reinsurance obtained by MIGA. While some facultative reinsurance and CUP capacity had been mobilized earlier, both programs became mainstream MIGA products in 1999. Hence, all data is cumulative as of fiscal 1999.*

### Trust funds

MIGA continued to administer two investment guarantee trust funds for Bosnia and Herzegovina and for the West Bank and Gaza to facilitate foreign investment into these areas.

**Bosnia and Herzegovina Trust Fund** In partnership with the European Commission, MIGA established the EU Investment Guarantee Trust Fund for Bosnia and Herzegovina three years ago. As part of this effort, a marketing representative was placed in Sarajevo to raise awareness about MIGA among foreign investors. The representative also played a role in discussing with the Bosnian authorities and international donor community the improvements to and needs of the investment climate. This work paid off with the signing of a guarantee for a project in fiscal 2000, and four more in the past fiscal year: one for investments guaranteed by Austria's export credit agency and reinsured by the trust fund for the Bosnian branch of the Austrian bank ÖVAG, one by the Raiffeisenbank of Austria, one for an investment by Hypo-Alpe-Adria Bank, also Austrian, and another for a Dutch investment in a medical dialysis facility in the Republika Srpska. Total MIGA and EU coverage of Bosnian FDI exceeds \$70 million.

**The West Bank and Gaza Investment Guarantee Trust Fund** This trust fund was created to provide political risk insurance administered by MIGA and in cooperation with the Palestinian Authority. Fund contributors are the Palestinian Authority, the European Investment Bank, and the government of Japan. MIGA has received applications for approximately \$20 million in potential new investments in the West Bank and Gaza in infrastructure, manufacturing, real estate, services, telecommunications, and tourism.

**Southeastern Europe Trust Fund** MIGA has been working to establish a political risk guarantee trust fund for Southeastern Europe, with a special focus on SMEs, to be financed by the donor community.

### THE FUTURE

MIGA's challenge in the face of a changing global economy is to remain an industry leader in facilitating FDI that is environmentally, socially, and developmentally sound, especially into those countries that need it most. To do so, MIGA will continue to be innovative and flexible in the types of projects it supports and the products and services it provides, while seeking to mobilize its partners to increase the availability of political risk insurance.

Fiscal 2001 saw important developments along these fronts that will enhance the agency's ability to address its strategic priorities. The years ahead will see continued efforts in this regard, including stronger marketing and expanded outreach to international investors through mobile offices and field representation, closer partnerships and alliances with national and private insurers, and expanded collaboration with the private insurance industry through coinsurance and treaty and facultative reinsurance.

table 6 MIGA'S GUARANTEES PORTFOLIO IN IDA-ELIGIBLE COUNTRIES

host country	gross exposure US\$ M	% of gross	net exposure US\$ M	% of net
Albania	8.6	0.17	8.6	0.27
Angola	21.8	0.42	21.8	0.69
Armenia	2.7	0.05	2.7	0.09
Azerbaijan	40.6	0.78	40.6	1.29
Bangladesh	79.5	1.54	64.9	2.06
Bolivia	14.6	0.28	14.6	0.46
Bosnia and Herzegovina	46.0	0.89	46.0	1.46
Cape Verde	2.2	0.04	2.2	0.07
Côte d'Ivoire	12.9	0.25	12.9	0.41
Georgia	2.1	0.04	2.1	0.07
Guinea	51.5	0.99	51.5	1.63
Guyana	30.6	0.59	30.6	0.97
Honduras	14.1	0.27	14.1	0.45
Indonesia	56.5	1.09	53.0	1.68
Kenya	42.2	0.81	23.4	0.74
Kyrgyz Republic	50.7	0.98	45.7	1.45
Lesotho	23.8	0.46	23.8	0.75
Macedonia, FYR of	17.3	0.33	17.3	0.55
Madagascar	1.3	0.03	1.3	0.04
Moldova	63.8	1.23	33.2	1.05
Mozambique	171.3	3.31	129.6	4.10
Nepal	19.1	0.37	11.4	0.36
Nicaragua	80.8	1.56	40.4	1.28
Pakistan	96.8	1.87	80.0	2.53
Sri Lanka	3.2	0.06	3.2	0.10
Tanzania	175.2	3.38	70.5	2.23
Togo	7.4	0.14	7.4	0.24
Uganda	42.8	0.83	33.3	1.05
Vietnam	20.0	0.39	15.0	0.48
Zambia	33.3	0.64	33.3	1.06
<b>total (30)</b>	<b>1,232.70</b>	<b>23.80</b>	<b>934.4</b>	<b>29.61</b>
<i>No longer IDA-eligible</i>				
China	113.1	2.18	80.0	2.54

table 7 MEMORANDA OF UNDERSTANDING FOR GUARANTEES

MIGA and . . .	date signed
Export Credit Insurance Organization, Greece	June 2001
Korea Export Insurance Corporation (KEIC), Rep. of Korea	May 2001
PwC Deutsche Revision AG Wirtschaftsprüfungsgesellschaft (PwC), Germany	December 2000
People's Insurance Company of China (PICC), China	November 2000
FINNVERA PLC, Finland	October 2000
Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), Saudi Arabia	October 2000
Finanzierungsgarantie-Gesellschaft m.b.H. (FGG), Austria	October 2000
Eksport Kredit Fonden, Denmark	May 2000
Malaysia Export Credit Insurance Berhad	May 2000
Società Italiana per le Imprese all'Estero, Italy	November 1999
Export Credit Bank of Turkey	October 1999
Export Finance and Insurance Corporation, Australia	May 1999
Export, Import and Investment Insurance Department of the Ministry of International Trade and Industry, Japan	April 1999
ECICS Credit Insurance Ltd., Singapore	November 1998
Inter-Arab Investment Guarantee Corporation	February 1997
Export-Import Bank of India	March 1996
Compagnie Française pour le Commerce Extérieur, France	December 1994
Islamic Development Bank (IDB), Saudi Arabia	July 1994



photo | Topi Vesteri, Director, Major Customers and Export Credit Guarantees Unit, Finnvera, and MIGA EVP Motomichi Ikawa review the MOU documents.

box 7 MIGA HELPS NEW AFRICAN TRADE AND INVESTMENT PROMOTION AGENCY

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In its ongoing efforts to support FDI flows into developing countries, and particularly into Africa and among African countries, MIGA has been providing advice and other assistance to the nascent African Trade Insurance Agency (ATI), which is expected to be formally launched in the second half of 2001.

ATI's objective is to facilitate trade and investment into Africa, and from African nations into other parts of the developing world, by providing insurance against a variety of noncommercial risks. ATI may also provide insurance against commercial risks in Africa. Membership is open to all African countries, with the initiative being launched by Burundi, Kenya, Malawi, Rwanda, Tanzania, Uganda, and Zambia. Other African countries have already expressed interest in joining this new agency. ATI will cooperate with private risk insurers to provide insurance products tailored to the needs of the market, and has appointed a highly respected Lloyd's underwriter as its first managing director. Users are expected to include African and non-African firms and banks selling and financing goods and services to participating African nations, as well as African firms from member states trading with or investing in non-African developing nations.

MIGA will continue to support this endeavor by providing ongoing training for ATI staff, secondment of MIGA staff to ATI's Nairobi headquarters, and support of ATI's membership drive. The World Bank, for its part, will provide credits to participating countries to back up ATI-issued insurance policies. By addressing head-on the risk perceptions of firms doing business in Africa, this African-led initiative is an important step in increasing the continent's share of FDI flows to developing countries, which has remained low, despite significant economic liberalization.

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