Guarantee Program

Fiscal 1999 was a landmark year for the Guarantee Program. Coverage issued reached unprecedented levels. The doubling of MIGA's capital base will enable MIGA to significantly expand its guarantee capacity in the future. MIGA signed major collaborative agreements with a number of national and private insurers during the year which will facilitate a substantial increase in the amount of guarantee coverage that MIGA may issue in the future.

MIGA issued 72 guarantee contracts in fiscal 1999, totaling $1.3 billion in insurance coverage for projects in 29 developing countries and transition economies. These projects will have significant developmental impacts. MIGA's income from net premiums, fees, and commissions totaled $24.9 million. In addition, MIGA issued two commitment letters for $105.5 million in prospective coverage.

MIGA's total issued coverage reached $5.5 billion at the end of the fiscal year, covering investment projects in 65 developing countries and transition economies. The outstanding portfolio at the end of the year was $3.7 billion before reinsurance and net of cancellations *(Figure 1).* MIGA registered its first claim during the year (see *Legal Services*).

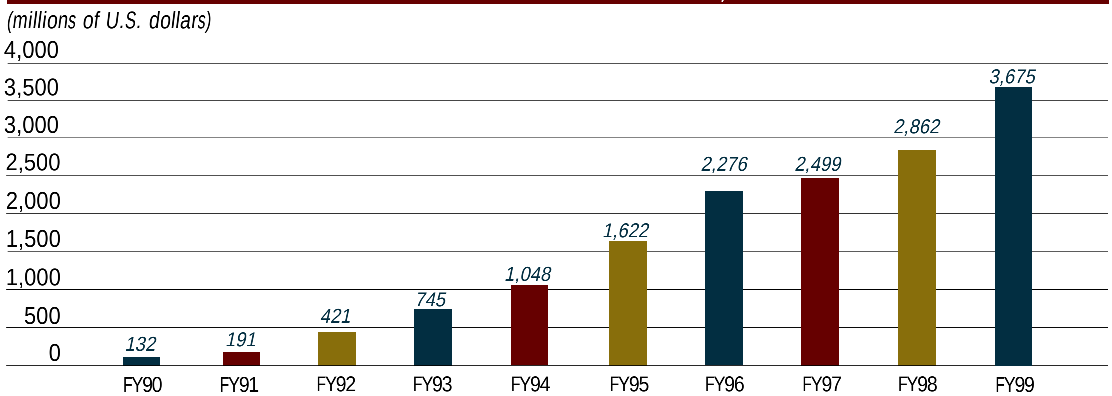
MIGA finalized its environmental assessment and disclosure policies. The policies were submitted for public comment, and responses were received from investors, financial institutions, members of the Berne Union, representatives of nongovernmental organizations, and others. After revisions the policies were approved by MIGA's Board of Directors. The policies will be implemented for all future applications for coverage.

MIGA published a study on "*MIGA and Foreign Direct Investment: Evaluating Developmental Impacts*", in fiscal 1999 which describes and assesses the impact of its guarantee activities on the developmental processes of its member countries.

MAIN CHARACTERISTICS OF THE GUARANTEE PROGRAM

MIGA's guarantee program insures new foreign investments, including the modernization, privatization, and expansion of existing projects, against the major political risks of

FIGURE 1. GROWTH OF GROSS EXPOSURE, FISCAL 1990–99



transfer restriction, expropriation, breach of contract, and war and civil disturbance. Eligible investments include equity, commercial bank loans, shareholder loans and loan guaranties, technical assistance, and management contracts.

As an international development institution and a member of the World Bank Group, prospective projects for MIGA coverage must be financially, economically, and environmentally sound. MIGA–insured investment projects contribute to safeguarding social interests and host country development needs such as export generation, job creation, and technology transfer.

Some noteworthy aspects of a MIGA guarantee are:

- Coverage is non-cancelable by MIGA (unless the client defaults on its contractual obligations), though it can be terminated by the insured client on any anniversary date following the third.
- A guarantee is long term, and can be issued for up to 15 (sometimes 20) years.
- A guarantee covers investments in and between developing member countries.

MIGA EXPANDS AVAILABILITY OF ITS INSURANCE COVERAGE

During the year MIGA used several mechanisms to increase the availability of its insurance coverage to meet the growing demand for its guarantee services to promote foreign direct investment to developing countries.

Change in Coverage Limits

The allowable limits of political risk insurance that MIGA may issue were raised from \$50 million to \$110 million per project, and from \$250 million to \$350 million per host country. Treaty reinsurance agreements signed with other insurers further increased MIGA's capacity to issue additional amounts of insurance coverage (*see following section*). These agreements allow MIGA to issue insurance coverage per project of up to \$200 million and per host country of up to \$620 million.

MIGA's Cooperative Underwriting Program (CUP)[1] and other forms of coinsurance and facultative reinsurance with public and private insurers allow MIGA to underwrite additional amounts of insurance coverage.

Treaty Reinsurance

During fiscal 1999, MIGA signed a treaty reinsurance agreement with a Bermuda-based private insurer, XL Insurance Ltd. (XL), and revised its agreement with ACE. Under the new agreements, ACE and XL will each reinsure up to \$50 million per project and \$150 million per country. These agreements substantially increase MIGA's ability to respond to the demand of its clients for insurance. MIGA had signed a treaty reinsurance agreement with ACE Insurance Company Limited (ACE) in fiscal 1997. The agreement was the first of its kind between a private political risk insurer and a multilateral agency.

The ACE group of companies provides insurance and reinsurance for a wide range of international clients through its operating subsidiaries in Bermuda, the United States, the United Kingdom, and the Republic of Ireland. XL Capital Ltd., through its wholly owned subsidiaries, including XL Insurance Company Ltd., XL Capital Products, and the Brockbank Group plc, provides insurance and reinsurance coverage and financial products worldwide.

1. The CUP, a form of coinsurance in which MIGA acts as the insurer-of-record among other participating underwriters, is designed to increase available investment insurance capacity for investors by encouraging private insurers to offer coverage in developing countries where they might not have guaranteed investments without the involvement of a multilateral institution such as MIGA.

On the occasion of the signing of the treaty reinsurance agreement with XL Capital Ltd., on February 22, 1999, in Bermuda: Mr. Roger Pruneau (seated on left), MIGA's Vice President, Guarantees, and Ms. Christina Westholm-Schröder (standing), Manager of Business Development and Syndications, with Mr. Brian O'Hara, Chairman and CEO of XL.

Facultative Reinsurance and Coinsurance

MIGA expanded its collaboration with private and national insurers through facultative reinsurance and coinsurance on a project-by-project basis, to increase insurance coverage capacity for investors. MIGA has signed facultative reinsurance agreements with several national insurance agencies such as EDC of Canada, COFACE of France, OPIC of the United States, SACE of Italy, EID / MITI of Japan, CESCE of Spain, and ECGD of the United Kingdom (see section on *Marketing MIGA*).

MIGA signed its first reinsurance agreement with ACE Global Markets' Syndicate 488/2488 of Lloyd's of London in fiscal 1999. The $31 million long-term (15 years) agreement with MIGA was groundbreaking for the Lloyd's market *(see project note on page 28).*

MIGA's collaboration with ACE Global Markets follows a coinsurance arrangement with Lloyd's of London's Brockbank Syndicate Management Ltd., under MIGA's Cooperative Underwriting Program.

For a financial sector project in Argentina, Sovereign Risk Insurance Ltd. of Bermuda and Zurich–American Political Risk of the United States reinsured MIGA for $96 million, under the CUP (*see project note on page 27*). The insured loans to the project will expand a mortgage facility that also supports the booming construction industry in the country.

Trust Funds

MIGA continues to administer two investment guarantee trust funds for Bosnia and Herzegovina and for the West Bank and Gaza to facilitate foreign investment in these areas. Several applications for guarantees have been received, initial underwriting has commenced on some of these projects, and the first guarantee for an investment in the West Bank and Gaza was issued during the fiscal year (*see page 36*).

BUSINESS PROCESS REVIEW

An internal business process review was initiated to streamline MIGA's guarantee process. The main objective of the review was to assist MIGA in fulfilling its development mandate by responding better to the needs of its clients, both investors and host developing countries, and ensuring a cost-effective and efficient underwriting process.

The comprehensive review led to the reorganization of MIGA's Guarantees Department into four industry sector groups: extractive industries (oil and gas, mining) and telecommunications; finance and syndications; infrastructure; and agribusiness, manufacturing and services. In addition, MIGA has created a specialized Country Development Group to focus on the foreign investment requirements and investment opportunities in member developing countries and transition economies. The reorganization is expected to allow MIGA to respond more effectively to trends in sectoral and country demands.

The business process review also recommended technological improvements including a more efficient client tracking system, a project management system, and a streamlined guarantee registration process. Implementation of these recommendations will start in fiscal 2000.

COOPERATION WITH THE WORLD BANK GROUP

In its FY99 efforts to promote foreign direct investment in its member developing countries, MIGA worked closely with other parts of the World Bank Group. MIGA benefited from extensive policy and strategic consultations with its sister institutions, especially with respect to environment and disclosure policies and the evaluation of developmental impacts. With respect to responding to crisis situations in various parts of the world and to the ongoing challenge of promoting private investment in Africa, MIGA was an active participant in Group efforts. In addition, MIGA collaborated with IFC and IBRD on a number of projects (these are noted in seven project descriptions in the next section of the Annual Report).

SECTORAL DISTRIBUTION OF GUARANTEES

MIGA's portfolio is well diversified across several industrial sectors *(figure 2)*. Infrastructure is the fastest growing sector and has increased its share in the portfolio six fold in the past six years. Furthermore, about 36 percent of the 1,663 active applications are in the infrastructure sector, indicating a strong basis for continuing growth of guarantee coverage in this sector.

The financial sector accounts for the largest portion of the portfolio. It includes coverage of investments establishing branch banks and expanding financial services benefiting other sectors in the host economies.

MIGA has made special efforts to promote small and medium-size investments, which is reflected in its coverage of projects in the agribusiness, manufacturing, and tourism sectors.

FIGURE 2.
DISTRIBUTION OF THE PORTFOLIO BY SECTOR

(maximum contingent liability)

FISCAL 1999

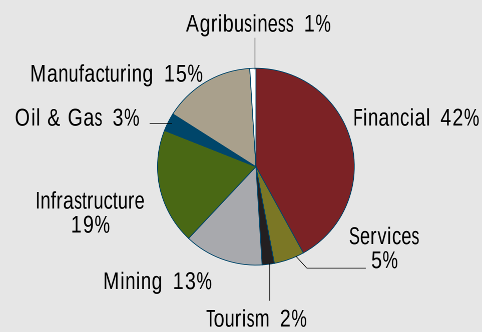


FIGURE 3.
PORTFOLIO DISTRIBUTION BY HOST REGION

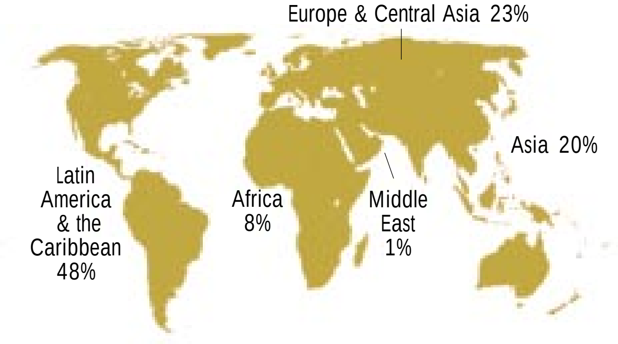


TABLE 1.
TOP FIVE HOST COUNTRIES IN MIGA'S PORTFOLIO

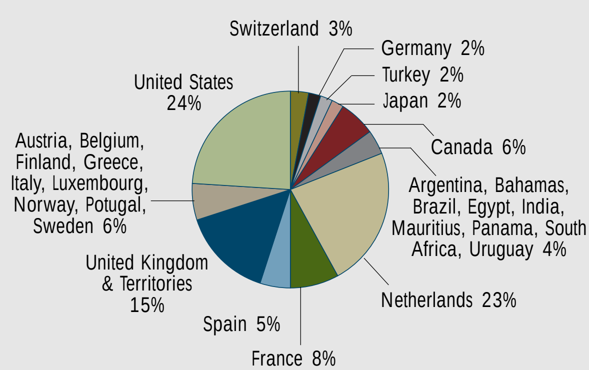
Host Country	*Gross Share of Portfolio (Percent)*	*Net Share of Portfolio (Percent)**
Argentina	11.9	8.1
Brazil	9.7	8.6
Russia	8.3	6.5
Turkey	6.8	6.1
Peru	6.4	6.6

* Net of treaty and facultative reinsurance.

FIGURE 4.
OUTSTANDING PORTFOLIO BY INVESTOR COUNTRY

(gross exposure)

FISCAL 1999



GEOGRAPHICAL DISTRIBUTION OF GUARANTEES

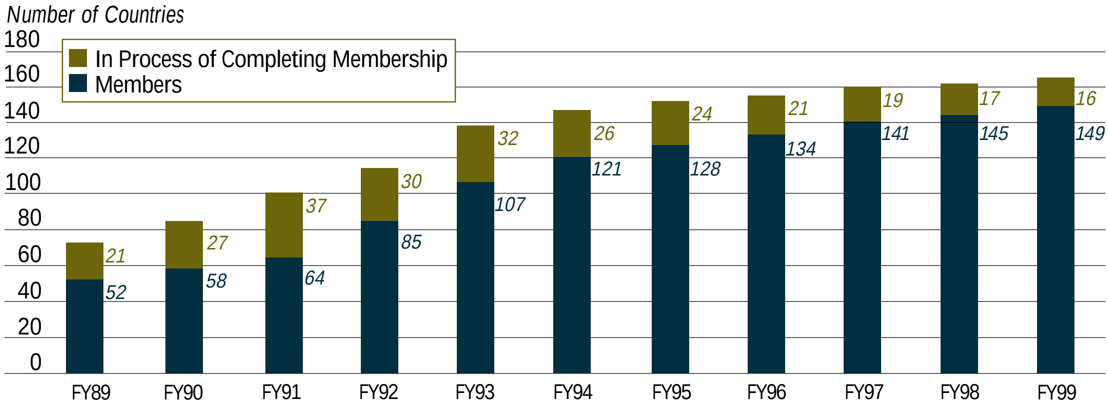
The Latin America and Caribbean Region continued to account for the largest portion (48 percent) of MIGA's guarantee portfolio *(figure 3)*. Seventeen countries in the region benefited from MIGA–insured investments, including Argentina, Brazil, and Peru, which are among the top five countries in the overall portfolio *(table 1)*.

Fifteen countries in Eastern Europe and Central Asia account for 23 percent of the guarantee portfolio. MIGA's portfolio in Asia includes Pakistan and China, which rank seventh and eighth in percentage of outstanding coverage and are among nine countries in the region that hold 20 percent of the total portfolio. Africa and the Middle East account for the remaining nine percent of MIGA's guarantee portfolio; this includes the first MIGA–insured projects in Côte d'Ivoire and Zambia.

MIGA has insured investment projects by companies from 29 industrial and developing member countries. Investors from the United States hold the highest share of MIGA's guarantee portfolio, followed by investors from the Netherlands, the United Kingdom and Territories, France, and Canada *(see figure 4)*. MIGA continued its strong efforts to encourage investments *between* its developing member countries. The Agency promoted 5 investments from developing countries to developing countries in fiscal 1999. The cumulative total of coverage issued to investors from developing member countries is now more than $256 million. Turkey ranks among the top ten investor countries in MIGA's portfolio and is among the top five recipients of MIGA–insured investments.

FACTS ABOUT MIGA

COUNTRY MEMBERSHIP, FISCAL 1989–99

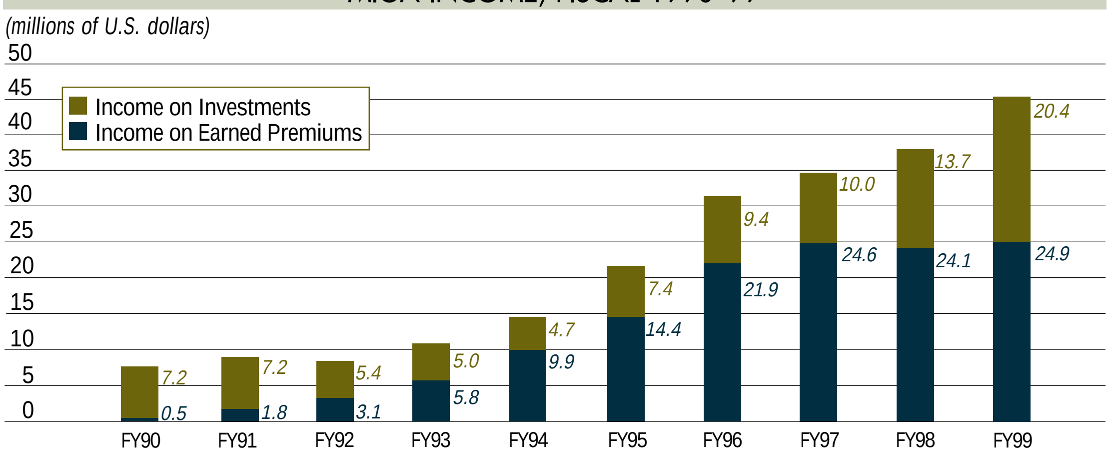


MIGA'S GUARANTEE PORTFOLIO AND FDI FACILITATED, FISCAL 1990–99

Category	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*Total*
Number of Guarantees Issued	4	11	21	27	38	54	68	70	55	72	420
Amount of Guarantees Issued (millions of U.S. dollars)	132	59	313	374	372	672	862	614	830	1,310	5,538
Estimated FDI Facilitated (billions of U.S. dollars)	1.0	0.9	0.6	1.8	1.3	2.3	6.5	4.7	6.1	5.2	30.4

Source: Gerald T. West and Ethel I. Tarazona, *MIGA and Foreign Direct Investment: Evaluating Developmental Impacts*, The World Bank, 1998.
Note: For consistency purposes, MIGA has applied the same measurement standards currently used for projects guaranteed by MIGA in previous fiscal years. This has resulted in slightly different statistics for FDI facilitated in fiscal years 1991, 1992, and 1993 from what was published earlier by MIGA.

MIGA INCOME, FISCAL 1990–99



MIGA GUARANTEES ISSUED IN 28 IDA-ELIGIBLE COUNTRIES

During fiscal 1999, MIGA covered new projects in 12 IDA-eligible member countries. Overall, MIGA guarantees have facilitated investments in 28 IDA-eligible member countries, and total issued coverage in these countries is $1.2 billion. Guarantees outstanding in 25 IDA-eligible countries[1] in fiscal 1999 total $911 million, which represents about 25 percent of MIGA's current guarantees portfolio.

	MIGA Guarantees outstanding (as of June 30, 1999)*	
Country	*Millions of dollars*	*Percentage of portfolio*
Pakistan	147.1	4.0
China	132.8	3.6
Bangladesh	83.1	2.3
Bolivia	77.1	2.1
Kyrgyz Republic	75.2	2.0
Uganda	59.5	1.6
Mali	50.0	1.4
Mozambique	42.8	1.2
Viet Nam	36.0	1.0
Nepal	32.8	0.9
Guyana	30.6	0.8
Equatorial Guinea	24.0	0.7
Angola	20.8	0.6
Honduras	20.2	0.6
Azerbaijan	19.2	0.5
Ghana	18.0	0.5
Cote d'Ivoire	16.3	0.4
Kenya	4.7	0.1
Sri Lanka	4.7	0.1
Tanzania	4.2	0.1
Guinea	4.0	0.1
Cape Verde	2.4	0.1
Georgia	2.1	0.1
Zambia	1.8	0.05
Madagascar	1.6	0.04
Total	**$911.0**	**24.8**

* In addition, MIGA guarantees covered investments in Cameroon, Egypt, and Vietnam.

1. The International Development Association (IDA) is the World Bank Group's concessional lending facility, which concentrates its activities on very poor countries.

POLICY DEVELOPMENTS AT MIGA

Environmental Assessment and Disclosure Policies

MIGA's Board of Directors approved new environmental assessment and disclosure policies in May. The approval followed extensive discussions with the Board in 1998 and a 50-day public comment period early in 1999. Public comments from investors, financial institutions, Berne Union counterparts, and members of civil society were a valuable contribution to MIGA's finalization of a policy appropriate for a development institution, a member of the World Bank Group, and a provider of political risk insurance to foreign investors.

The environmental assessment policy formalizes the approach to environmental review that MIGA has been utilizing in recent years. The disclosure policy encompasses public disclosure of environmental information by MIGA for projects defined as Category A, which means they are considered environmentally and socially sensitive. The approved policies and the procedures for implementing them will apply to new definitive applications received after June 30, 1999. Additional information on MIGA's environmental and disclosure policies and procedures is available on MIGA's Web site at **http://www.miga.org.**

FIRST MIGA–IFC COMPLIANCE ADVISOR/OMBUDSMAN

MIGA and the International Finance Corporation (IFC) created the position of Compliance Advisor and Ombudsman to address the concerns of local communities that may be impacted by projects supported by MIGA or the IFC. The position, a vice presidential level post reporting directly to President James D. Wolfensohn, is the first of its kind in a multilateral development institution. It has been created to advise senior management on issues arising from the new policies on environmental assessment and disclosure of information, and is an effort to create more effective mechanisms of accountability for the management of the two organizations.

Ms. Meg Taylor has been appointed to this position and will assume her responsibilities with the start of the new fiscal year in July, 1999. Ms. Taylor's appointment is the result of joint efforts by MIGA and the IFC, their shareholders, members of civil society, and the business community to find a workable and constructive approach to dealing with environmental, social and other concerns of individuals directly affected by MIGA and IFC projects.

Ms. Meg Taylor, Compliance Advisor / Ombudsman

EVALUATION OF DEVELOPMENT IMPACTS

Management's efforts to evaluate the development impacts of guaranteed investments were conveyed to the Board in a major report in July 1998. Board members broadly endorsed the report's approach and methodology and recommended that these results be conveyed to a larger audience. As a result, a publication, *"MIGA and Foreign Direct Investment: Evaluating Development Impacts"*, was produced and disseminated in September 1998. This study describes MIGA's new evaluation process and presents information on the development impact of 25 MIGA–supported projects that were examined during the first round of project evaluation. MIGA has made considerable progress in verifying, *post facto,* the developmental effects of the projects which it has guaranteed. The publication has been well received by MIGA's shareholders, its national insurance counterparts, and the academic community.

In fiscal 1999, MIGA continued its program of project site visits and evaluations. As of June 1999, a total of 32 projects have been evaluated. The preliminary results are very encouraging as they have verified that all 32 projects evaluated have positively impacted on the development of the host countries.

MARKETING MIGA TO MOBILIZE INVESTMENTS

As part of its initiative to strengthen links with the investment communities in its industrial and developing member countries, MIGA set up temporary mobile offices in Japan, South Africa, and Turkey in fiscal 1999, and also visited Australia.

The objectives of the activities in Australia and Japan were two–fold: to target prospective investors interested in investing in MIGA's developing member countries, and to establish closer ties with the national insurers of the respective countries—EFIC of Australia and EID / MITI of Japan.

The objectives of the mobile offices in South Africa and Turkey were to meet with prospective local investors seeking investment insurance and technical assistance for their investments in other countries in their regions.

Mr. Angus Armour, General Manager Export Finance of EFIC, and Mr. Motomichi Ikawa, Executive Vice President of MIGA, shake hands after the signing of a Memorandum of Understanding for cooperation between the two agencies.

Australia

Australian investors became eligible for MIGA insurance coverage when Australia completed its membership requirements in February 1999. A MIGA delegation visited Australia to meet with Australian investors interested in investing in developing countries. The team, led by MIGA's Executive Vice President Motomichi Ikawa, held seminars and workshops to discuss how MIGA's guarantee program can protect Australian investors against political risks. MIGA staff met with Australian companies and potential investor groups in Sydney and Melbourne.

MIGA signed a Memorandum of Understanding for cooperation with Australia's EFIC on May 18. The agreement will enable the two agencies to provide increased insurance coverage for Australian investments in developing countries and transition economies. MIGA and EFIC agreed to cooperate on an exchange of information related to trade and investment opportunities, to organize joint workshops and seminars on investment insurance and foreign investment, and to share knowledge through training programs and other collaboration on investment promotion activities.

Japan

MIGA operated mobile offices in Tokyo and Osaka in the first two weeks in April. The Tokyo mobile office brought together the three Executive Vice Presidents who directed MIGA's work since its creation: Messrs. Yoshio Terasawa (1988–1992), Akira Iida (1992–1998), and Motomichi Ikawa (1998–present). The trip was covered extensively by the local and foreign media.

The MIGA delegation met with senior management of major Japanese trading companies, financial institutions, and prospective Japanese investors interested in investing in developing countries. MIGA noted the high level of interest and enthusiastic reception by Japanese investors, and the meetings resulted

Mr. Motomichi Ikawa (left), and Mr. Yukio Kitazume, Chairman of the Board of EID/MITI, signed a Memorandum of Understanding on cooperation, in Tokyo, on April 6, 1999.

in a great demand for follow-up seminars and meetings on specific projects. A briefing on MIGA's services and activities was organized for commercial attachés of embassies in Tokyo. MIGA staff also met with representatives of prominent Japanese government institutions, such as the Ministry of Finance, the Japan Development Bank, Japan Eximbank, the Overseas Economic Cooperation Fund, the Japan Trade Information Center, Keidanren, the Japan Machinery Center for Trade & Investment, and EID/MITI.

MIGA signed a Memorandum of Understanding with Japan's national insurer EID/MITI. After the signing of the agreement, MIGA and EID/MITI held their first working session, in which both institutions outlined recent developments and their respective positions in certain countries.

South Africa

The mobile office in South Africa was located in the IFC's Johannesburg office from mid-October to early November 1998. MIGA's Executive Vice President Motomichi Ikawa and Vice President, Guarantees, Roger Pruneau hosted a seminar for senior executives of business associations, companies, and financial institutions in South Africa and neighboring countries.

The seminar included presentations on MIGA's role in promoting private foreign investment in developing countries, especially its efforts in Africa, through its guarantee and investment marketing services. A joint presentation conducted by the Industrial Development Corporation of South Africa Limited, the Credit Guarantee and Insurance Corporation (CGIC) of South Africa, and MIGA emphasized the importance of cooperation between regional insurers and multilateral institutions in facilitating investments between developing countries.

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

MIGA staff also visited private sector representatives in the cities of Cape Town, Durban, and Port Elizabeth. In addition, they met with more than 100 private sector representatives in Botswana, Mozambique, Namibia, Swaziland, and Tanzania.

Turkey

MIGA held a mobile office in Turkey for two weeks in October 1998 at the facilities of the Istanbul Chamber of Industry. MIGA staff met with clients and investors, financial institutions, and multinational corporations from Denmark and France. Presentations on MIGA's role in the region were made to representatives of leading local and foreign corporations in Turkey, as well as to participants from the Foreign Economic Relations Board, the Istanbul Chamber of Industry, the Aegean Business Association, and the Foreign Investor's Association in Turkey (YASED).

MIGA's portfolio in Turkey exemplifies the special efforts made by the agency to encourage investments into, as well as between, developing countries and transition economies. Turkey is one of the top 10 recipients of MIGA insurance for inbound and outbound foreign investments. MIGA currently has $250.5 million in gross exposure for investments in Turkey, and $86.8 million in coverage for Turkish investments outside the country. The visit generated a number of applications from prospective investors for investments into and out of Turkey and expanded the opportunities for MIGA–insured projects.

MIGA SEMINAR: ROLE OF POLITICAL RISK INSURANCE IN PROJECT FINANCE

MIGA sponsored a seminar on the "Role of Political Risk Insurance in Project Finance" in conjunction with the 1998 IMF–World Bank Group Annual Meetings held in Washington, D.C., in October. The seminar drew a wide audience of several hundred private sector executives, government officials, banking representatives, and members of the press. The panelists represented the finance, insurance, and banking industries. They discussed several issues concerning the increasing use of political risk insurance as a risk-mitigating mechanism in structuring large international projects. The session was chaired by Mr. Malcolm Stephens, former Secretary General of the Berne Union and former Chief Executive of the Export Credits Guarantee Department of the United Kingdom.

The discussion focused on the current and projected need for investment insurance in project financing; the costs, benefits, and value added to project financiers and developers in purchasing this protection; and the use of political risk insurance by rating agencies as a means to assess risk. The panel also reviewed some future trends, such as changes in tenors and costs, reinsurance and coinsurance among investment insurers, and alternative risk transfer techniques. The panel emphasized that the dynamic and ever changing global economic climate called for close collaboration among all parties involved in project financing, and among public, private, and multilateral insurers.

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

THE FUTURE

Fiscal 1999 was marked by several groundbreaking developments that will significantly enhance MIGA's ability to provide insurance coverage for investments in its developing member countries.

The increase in capital resources and expanded project and country limits will allow MIGA to meet the rising demand for its guarantee products.

Closer alliances with national and private insurers and expanded collaboration with the private insurance industry through treaty and facultative reinsurance and coinsurance will help to diversify MIGA's liability and allow increased coverage capacity to serve the clients' needs.

Expanding MIGA's outreach to the investor community through mobile offices will assist MIGA's efforts to fulfill its mandate of promoting foreign direct investments in developing countries.

A reorganized Guarantees Department will allow MIGA to meet the organizational challenge of keeping pace with the rapid changes in the foreign investment marketplace and better serving its clients' needs.