

MESSAGE FROM THE EXECUTIVE VICE PRESIDENT



OVERVIEW

Fulfilling its mandate to facilitate productive foreign direct investment into developing countries, MIGA completed another successful year of operations, with strong demand for all its services. We also forged a new strategic path for the future.

In fiscal 2001, during the Annual Meetings in Prague, the Council of Governors approved the periodic review of MIGA's activities, which is mandated by its Convention. The "MIGA Review 2000"⁴ is built on the central pillars of developmental impact, financial soundness, client orientation, and partnerships.

Based on an extensive market survey, and in an attempt to intensify MIGA's unique role in the World Bank Group, the review gave greater emphasis to certain "priority areas": Africa, IDA-eligible countries, South-South investments, investments in SMEs, and complex infrastructure projects. These areas have been identified both because of their development impact and because they are not generally supported by other agencies or investment insurers.

In the second year of the subscription period for the General Capital Increase, MIGA expanded its activities, both in quantitative and qualitative terms. Following the new strategic direction, significantly more projects were insured in the priority areas. For example, Africa—which accounts for about two percent of FDI flows into developing countries—stands at 12 percent of MIGA's gross guarantees portfolio and more than 13 percent of the net portfolio. To better support its efforts in Africa, MIGA also launched a new Europe-Africa office in Paris. Further reflecting these priorities, 19 of the 28 countries receiving long-term, in-depth technical assistance for investment promotion agencies in the past fiscal year were IDA-eligible.

MIGA also introduced a number of new products, both for investors and investment promotion intermediaries. Most notably, we issued first-time coverage for a water project and a performance bond (in Ecuador), and for a capital markets transaction (in Brazil). The agency also launched new tools for developing country investment promotion intermediaries, such as the Investment Promotion Toolkit and FDI Xchange.

MIGA published a new, in-depth review of the development impacts of MIGA-guaranteed projects, *Investment Insurance and Development Impact—Evaluating MIGA's Experience*. The review highlights what has remained constant throughout the changes in MIGA's environment, namely that productive foreign direct investment is crucial to sustained growth in developing countries. To more fully assess the effects of MIGA activities, an independent Operations Evaluation Unit was created during the fiscal year.

As part of its implementation of the COSO exercise,⁵ designed to improve MIGA's internal controls and risk management, the agency held Control Self-Assessment workshops, in which approximately 90 percent of staff participated. Following up on the workshops, an interdepartmental task force presented recommendations on improving the agency's internal controls, organization, and culture; these were unanimously endorsed by MIGA management and are being implemented.

MIGA is now entering the third and final year of the subscription period of its General Capital Increase, approved by the Council of Governors in March 1999. As of June 30, 2001, \$330 million of the \$850 million increase had been received, with contributions from 51 member countries. The overall number of MIGA member countries, meanwhile, increased to 154, as Thailand and the Central African Republic completed the membership requirements.

FISCAL 2001 SUMMARY

In fiscal 2001, MIGA issued 66 guarantees, covering 46 projects and representing \$2 billion of gross issuance. After cancellations, reductions, and replacements, gross exposure increased to nearly \$5.2 billion, up 19 percent from fiscal 2000, while net exposure stood at just under \$3.2 billion, a 12 percent increase from the previous year.

These MIGA-guaranteed projects are expected to facilitate \$5.2 billion in FDI, bringing the estimated cumulative amount of FDI facilitated since MIGA's inception to more than \$41 billion. This year, MIGA provided first-time coverage for projects in Jordan, Panama, and Togo. In total, 78 developing countries have benefited from hosting MIGA-guaranteed projects since the agency began operations.

Of particular note have been our efforts in the priority areas mentioned above. Guarantees were issued for 18 projects in IDA-eligible countries; they now represent 30 and 24 percent of the net and gross portfolios, respectively. Eight of those 18 projects were in Sub-Saharan Africa. Twelve guarantee contracts for eight projects were issued to investors from developing member countries (Brazil, Israel, Mauritius, Panama, Singapore, South Africa, and Turkey). In addition, 18 investments into SMEs were supported.

Fiscal 2001 has also been a banner year for cooperation with other investment insurers. We mobilized \$153 million in additional capacity through the CUP, while adding five new private partners to the program. Overall, 13 private insurers have now become MIGA CUP partners. We also engaged extensively in partnerships with national and private providers of political risk insurance through facultative (project-specific) reinsurance, which mobilized \$602 million of capacity. Facultative reinsurance was provided by one official insurer and nine private insurers and reinsurers. Additionally, MIGA continued to benefit from its treaty reinsurance arrangements with ACE and XL insurance companies. Both facultative and treaty reinsurance play a key role in mobilizing additional investment insurance capacity for projects in developing countries and in reducing the agency's exposure.

MIGA also worked more broadly with official insurers and development finance institutions, especially from developing countries. We signed Memoranda of Understanding with the People's Insurance Company of China, the Korea Export Insurance Corporation, the Islamic Corporation for the Insurance of Investment and Export Credit of Saudi Arabia, PricewaterhouseCoopers Deutsche Revision AG of Germany, Finnvera of Finland, the Finanzierungsgarantie-Gesellschaft of Austria, and

the Export Credit Insurance Organization of Greece. Additionally, the agency provided training at MIGA's offices for staff of eight national insurers. The partnerships with, and training of, investment insurers from developing countries should encourage South–South investments, while collaboration with official finance agencies of developed nations is expected to facilitate investments into SMEs in developing countries.

MIGA has also worked closely with the rest of the World Bank Group to maximize synergies and avoid overlap between various service providers. In particular, MIGA has been closely coordinating its provisioning of technical assistance with the World Bank/IFC's Foreign Investment Advisory Service (FIAS) to provide a “one-stop shop” for host country clients.

MIGA strengthened its delivery of in-field technical assistance, undertaking some 59 project activities in support of FDI promotion efforts worldwide. The agency convened the Sixth Annual African Mining Investment Symposium in Burkina Faso, marking the first time this international event was held in Sub-Saharan Africa. This unique event brings together interested investors from around the world and relevant government officials from all parts of Africa.

New tools for online investment promotion, such as the FDI Xchange and IPAworks, developed this past year, underscore the agency's role as a pioneer in using the Internet to promote FDI flows. By providing instant e-mail notification of potential investment opportunities to investors, FDI Xchange will enable users to immediately link with all relevant information. In addition to completely updating its PrivatizationLink Web site, MIGA also launched a site specifically dedicated to publicizing privatizations in Russia (PrivatizationLink Russia), in a joint effort with the Russian government and several other partners.

Having paid its first claim at the end of the previous fiscal year, MIGA continued to work with the government of Indonesia and reached an agreement on repayment of the claim. I am happy to report that Indonesia and the agency have been able to come to an acceptable solution that allows the agency to reopen its services, on a case-by-case basis, in that country.

Our legal team has also continued to provide investment dispute mediation services to nonguarantee holders. In addition to the six successful resolutions in which the agency has been involved since its inception, MIGA is currently working with the government of Ethiopia to help resolve more than 70 long-standing claims by foreign investors.

As MIGA prepares for a new fiscal year, I am confident that our innovations and improvements—involving new products, partnerships and approaches for all of the agency's programs—will lead to better, more effective services for our clients. As a result, we will be able to facilitate more FDI, particularly in the priority areas, and play our part in the fight against global poverty.

Motomichi Ikawa
June 30, 2001