

World Bank Group

The Multilateral Investment Guarantee Agency (MIGA)

FY2005 Appropriation	FY2006 Scheduled Request	FY2006 Arrears Request	FY2006 Total Request
\$0	\$0	\$1,714,515	\$1,714,515

The Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group, was chartered in 1988 to encourage foreign direct investment by providing investment insurance (guarantees) against non-commercial risks (i.e., expropriation, transfer restrictions, currency inconvertibility, and political violence) in developing countries. It provides political risk insurance products similar to OPIC's, but without OPIC's U.S. investor eligibility requirements. OPIC has reinsured and co-insured U.S. investment projects in developing countries with MIGA.

The U.S. has no current payments due to MIGA. Arrears to MIGA are \$8.15 million to pay the remainder of the U.S. share of the 1998 General Capital Increase. The Administration is requesting \$1.7 million in FY06 to help clear these arrears.

Key Facts:

- The U.S. is the largest shareholder in MIGA with 31,304 shares or nearly 16.5 percent of the voting power, at the end of WBFY04.
- U.S. investors are the second-largest group of MIGA insurees, accounting for 13.1 percent of MIGA's portfolio. As such:
 - Through June 30, 2004, MIGA had issued a total of 160 contracts (about 23% of total contracts) to U.S. investors for about \$2.1 billion in coverage to support investment projects in 36 developing countries. While it is difficult to accurately determine the amount of foreign direct investment (FDI) that MIGA projects facilitate, information submitted by the U.S. companies suggests that these contracts have facilitated more than \$7.6 billion of FDI.
 - As of June 30, 2004, outstanding coverage for U.S. investors totaled \$679.5 million in 18 developing countries
- During WBFY04, MIGA issued 55 new guarantee contracts, totaling \$1.1 billion in gross coverage. Sixteen developing member countries benefited from these new MIGA guarantees. Twenty contracts were issued in IDA-eligible countries for \$436 million, representing 41% of MIGA's gross issuance that year in dollar terms.
- To date, MIGA has issued 656 guarantees worth \$12.8 billion and has facilitated over \$50 billion in FDI in 85 developing countries.

- MIGA's total gross exposure outstanding as of end-WBFY04 was \$5.2 billion.

MIGA is a financially prudent underwriter, and has a well-diversified portfolio in geographic and sector terms. Its most active sectors include infrastructure (38 percent), financial services (35 percent), manufacturing (9 percent), mining (11 percent), and other services.

There are currently claims pending against MIGA relating to investments in Argentina, and MIGA is working to resolve a dispute between investors and the government regarding an air cargo complex in the Kyrgyz Republic. MIGA is working actively with the investor and the host government to reach a mutually beneficial resolution. MIGA has paid two claims since its inception in 1988. The first claim, paid in 2000, was fully reimbursed by the government of Indonesia. The second claim was paid in August 2004 for a guerrilla attack on a hydroelectric power plant in Nepal. The Claims Committee recently agreed to pay a claim relating to another investment in Argentina.

Priority Sectors

In WBFY2004, despite global political turbulence and continuation of a weak environment for FDI in emerging markets, MIGA continued to be successful in supporting its four priority sectors, small- and medium-sized enterprises (SMEs), South-South investments (intra-developing country), IDA-eligible countries and sub-Saharan Africa, which are underserved by other insurers.

- MIGA's emphasis on Africa and IDA-eligible countries produced tangible results. MIGA issued guarantees for 20 projects in IDA-eligible countries (worth \$436 million), including four new projects in Sub-Saharan Africa (worth \$126.8 million). As of WBFY04, MIGA had gross exposure of \$692 million, or 13 percent of its portfolio, in Sub-Saharan Africa and \$1.7 billion, or 33.7 percent, in IDA-eligible countries.
- MIGA has steadily increased the number of South-South investments guaranteed from three in 1998 to eight in 2004, which is below the peak of 12 in 2002. This trend demonstrates MIGA's outreach to investors who are not eligible for guarantees from OECD insurers. In 2004, South-South investments included sizable infrastructure projects, such as a telecommunications project in Nigeria and a gas pipeline in Mozambique, as well as a beverage can plant in Ukraine.
- MIGA coverage for small and medium-sized enterprises helps to broaden the base of foreign investors in a country. In WBFY04, MIGA issued coverage for 14 projects supporting small and medium-sized enterprises, including a guarantee of only \$450,000 for a rice growing project in Mozambique.

Looking forward, the new Executive Vice President, Yukiko Omura, wants to see even more activity by MIGA in Sub-Saharan African and the Middle East and North Africa, where FDI has generally lagged. She has stated her intent to promote a more proactive approach by MIGA and to ensure that it remains flexible enough to react to market demands.

Supporting U.S. Objectives

Trade liberalization

MIGA's guarantees and technical assistance complement the U.S. focus on trade liberalization.

- MIGA technical assistance in Ghana, Mozambique, Senegal and Tanzania has focused on helping to attract investors who can take advantage of export opportunities through the Africa Growth and Opportunities Act (AGOA), and the EU Cotonou Agreement.
- MIGA has supported the development of the African Trade Insurance Agency, a new agency that will provide noncommercial risk insurance for investors in Africa. Founding members include Burundi, Kenya, Malawi, Rwanda, Tanzania, Uganda, and Zambia.

World Bank Group Collaboration and Outside Partnerships

- Better coordination within the World Bank Group on private sector development is a U.S. priority. MIGA cooperates with the IFC and the World Bank and contributes to Country Assistance Strategies.
- MIGA also collaborates with the World Bank, the Foreign Investment Advisory Service and the IFC in the design and implementation of investment promotion components of private sector projects, including new initiatives in China, Fiji, the Pacific Islands, Tajikistan, Armenia, Honduras, Mozambique, Iraq, and Afghanistan.
- Consistent with U.S. calls for increased partnerships, MIGA collaborates with national insurers (such as OPIC). In WBFY04 and the second half of FY04, MIGA signed Memoranda of Understanding with six additional national investment insurers and development agencies including the Croatian Bank for Reconstruction and Development (HBOR), Banque de Développement des Etats de l'Afrique Centrale (BDEAC), Jordan Loan Guarantee Corporation (JLGC), Export Guarantee Fund of Iran (EGFI), Istituto per i Servizi Assicurativi del Commercio Estero (SACE) of Italy, and the Africa Trade Insurance Agency (ATI). This brings the total number of public institutions with whom MIGA has signed Memoranda of Understanding to thirty-eight.

Client Outreach

In the past few years MIGA opened field offices in Paris, Singapore, and Johannesburg in an effort to bring MIGA closer to its clients and facilitate marketing. However, results were disappointing in terms of new business, and costs were very high. EVP Omura has decided to close the offices in Paris and Singapore and transfer those personnel back to Washington, where they will be reassigned to MIGA's global activities.

Commitments from 1998 General Capital Increase

To meet preconditions for U.S. participation in the 1998 MIGA General Capital Increase, MIGA committed to create an inspection function, adopt environmental and information disclosure policies; and adopt contract language on core labor standards.

Inspection Function

In mid-1999, MIGA established a Compliance Advisor/Ombudsman (CAO) jointly with the IFC, to serve as an Inspection Function and to promote greater accountability and transparency. The CAO's duties include:

- Assessing compliance with operational policies and procedures,
- Providing advisory services to senior Bank management,
- Investigating complaints made against projects, and
- Developing guidelines, eligibility criteria, and processes and procedures for dealing with complaints.

MIGA Environmental, Evaluation and Information Disclosure Policies

In WBFY02, the World Bank Board approved the continued use of MIGA's environmental assessment and disclosure policies and implementing procedures first introduced in FY00. These are posted on MIGA's Internet web site, along with notices of the availability at the World Bank InfoShop in Washington of Environmental Impact Assessments for sensitive projects. MIGA has also implemented safeguard policies on specific issues, including natural habitats, forestry, pest management, safety of dams, projects on international waterways, involuntary resettlement, safeguarding cultural property, and indigenous peoples. MIGA plans to update these policies following the IFC's currently ongoing revision of its safeguards.

Starting in WBFY03, MIGA's Operations Evaluation Unit (OEU), which monitors and measures the development effectiveness of MIGA guarantees and technical assistance services, became independent (i.e., report directly to the MIGA Board). OEU is overseen by the Director-General of Operations Evaluation for the World Bank Group.

Efforts to Improve Internal Controls

- MIGA uses the internal controls system in place throughout the World Bank Group. The Internal Audit Department and the external auditor review MIGA's management controls annually. The Board Audit Committee reviews their observations and recommendations and discusses them with MIGA management.
- Coverage of the World Bank's Anti-Corruption and Fraud Investigation Unit and telephone hotline includes MIGA.

Core Labor Standards

In 1998, MIGA adopted a policy prohibiting the use of harmful child labor and forced labor in projects it supports, and requiring MIGA insurees to adhere to all domestic laws in host countries having core labor standards. In addition, MIGA adopted language in its standard contracts (the General Conditions for Equity Investments) requiring borrowers to exercise due diligence to comply with these requirements. These policies are consistent with the IFC's labor standards.

In 2003, a Review of IFC's Safeguards Policy noted that the Labor Policy does not treat the right to collective bargaining and freedom to organize and recommended that these issues be examined. IFC management responded that gap areas identified in the Review, including on core labor standards, will be addressed by updating the current safeguard policies. Treasury is using the opportunity of the update to support the incorporation of all the core labor standards into the IFC safeguards policy and the establishment of formal procedures to screen projects and programs funded by the IFC for any potential negative impact on the workers' rights incorporated in these standards. We will then press for adoption of the same standards by MIGA.

Technical Assistance and Advisory Services

In addition to guarantees, MIGA offers long-term technical assistance to help countries attract foreign investment and promote exports. MIGA assists countries in establishing investment promotion agencies and programs. In WBFY04, MIGA implemented 35 technical assistance activities in IDA-eligible countries.

Information Dissemination

MIGA uses new technologies to disseminate information on investment opportunities and business operating conditions in developing member countries. Services include:

- **FDIexchange**, a free e-mail service that delivers customized information about investment opportunities to its users. In January 2003, MIGA launched the FDIexchange's Investor Information Development Program to provide capacity-building assistance to MIGA member countries. Initial projects are being implemented in Bosnia, Guatemala, Kenya, Malta, Mongolia and Turkey.
- **IPAnet Web site**, or Investment Promotion Network (<http://www.ipanet.net>), an online clearinghouse of investment opportunities and business information in emerging markets worldwide.
- **PrivatizationLink** (<http://www.privatizationlink.com>), a Web-based source of data on privatization programs in emerging markets worldwide.
- **Regional specific information services:**
 - Russia.privatizationlink.org highlights investment opportunities in Russia.

- African Connection Telecoms Databank offers business and regulatory information on Africa's telecommunications sector.

In 2002, USAID formed a partnership with MIGA to distribute information resources from USAID's Global Trade & Technology Network (GTN) through FDIexchange. The U.S. Commerce Department Business Information Service for the Newly Independent States (BISNIS) also provides content to FDIexchange.