MIGA Annual Report 2004

30604

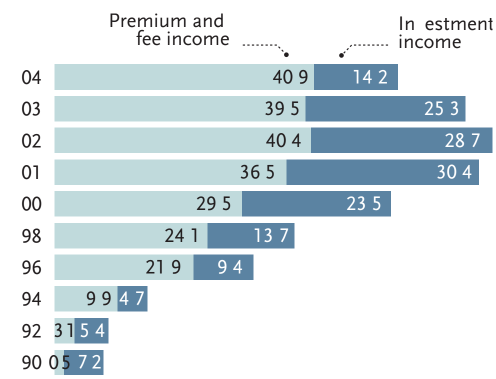
Fiscal 2004 Highlights

Table 1 Guarantees Issued

	2000	2001	2002	2003	2004	Total FY90-04
Number of Guarantees Issued	53	66	58	59	55	711
Number of Projects Supported	37	46	33	37	35	453
Amount of New Issuance, Gross ($ B)	1.6	2.0	1.2	1.4	1.1	12.8
Amount of New Issuance, Total ($ B)[1]	1.9	2.2	1.4	1.4	1.1	13.5
Gross Exposure ($ B)[2]	4.4	5.2	5.3	5.1	5.2	-
Net Exposure ($ B)[2]	2.8	3.2	3.2	3.2	3.3	-

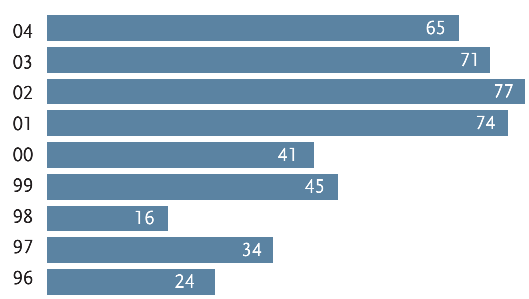
[1] *Includes amounts leveraged through the Cooperative Underwriting Program (CUP).*
[2] *Gross exposure is the maximum aggregate liability. Net exposure is the gross exposure less reinsurance.*

Figure 1 Earned Premium, Fee and Investment Income*, $ M



* *Excludes other income*

Figure 2 Number of Technical Assistance Activities



Membership

In fiscal 2004, the Islamic Republic of Iran and Suriname joined MIGA, bringing the number of member countries to 164.

All dollar amounts used in this Annual Report are current US dollars unless otherwise specified.

Coverage for Priority Areas[1]

- 20 projects and 35 technical assistance activities in IDA-eligible countries[2]
- 14 projects for small and medium enterprises (SMEs)[3]
- 8 "South–South" projects[4]
- 4 projects and 28 technical assistance activities in sub-Saharan Africa

Highlights

- First guarantee coverage for investors from the Czech Republic and Poland
- Three water projects supported—two in China and one in Russia
- 16 projects supported in conflict-affected countries
- 65 technical assistance activities conducted in 29 countries, along with regional and global initiatives
- New technical assistance work initiated in Afghanistan, China, Mali, Paraguay, South Africa and Tajikistan
- The European Investor Outreach Program launched with co-funding from the Austrian government
- FDI Promotion Center launched

Partnerships

- Five new cooperation agreements signed with: the African Trade Insurance Agency (ATI), Banque de Développement des États de l'Afrique Centrale (BDEAC), Export Guarantee Fund of Iran (EGFI), Jordan Loan Guarantee Corporation (JLGC) and Servizi Assicurativi del Commercio Estero of Italy (SACE)
- Facultative reinsurance provided: to MIGA—$238 million for seven projects; and by MIGA—$4.0 million for one project
- Training programs held for MIGA's partners from Europe and Canada. Regional training program held in Iran

Cooperation with World Bank Group

- Worked with the Foreign Investment Advisory Service in China, Fiji, the Pacific Islands and Tajikistan
- Conducted investment promotion activities in Armenia, Honduras, Iraq and Mozambique with the World Bank
- Worked with the World Bank to promote private sector business opportunities in Afghanistan
- Board approval for joint MIGA-IDA Guarantee Facility, co-guaranteed by the Agence Française de Développement, to support investments in West Africa
- Collaborated with the International Finance Corporation (IFC) and the World Bank on the Sasol oil and gas project in Mozambique
- Worked with IFC on technical assistance projects in China and Panama

Claims

- Resolved six disputes involving investors insured by MIGA to the satisfaction of all parties

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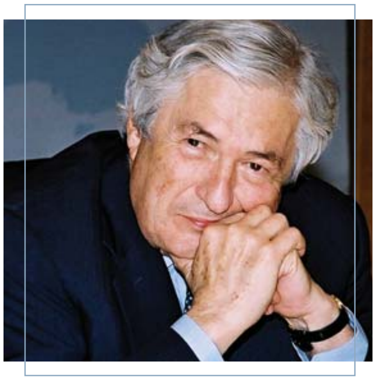
[1] *Some projects address more than one priority area.*

[2] *The International Development Association (IDA), a member of the World Bank Group, helps the world's poorest countries reduce poverty by providing "credits"—which are loans at zero interest—and grants.*

[3] *A small and medium enterprise meets two of the following three conditions: up to 300 employees; total assets of up to $15 million; and total annual sales of up to $15 million.*

[4] *Investments made from one developing country to another developing country.*

Letter from the President to the Council of Governors



James D. Wolfensohn, 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, 2004.

Foreign direct investment (FDI) into developing countries fell for the second consecutive year in 2003, as war, terrorism and economic crises dissuaded many foreign investors from venturing into difficult or uncertain markets. The decline comes at a time when the need for private investment in developing countries has never been more urgent. While some progress has been made in the global fight against poverty, many countries in Africa, Latin America and the Caribbean and Europe and Central Asia have seen the proportion of poor people growing or falling only slightly in recent years. As two billion more people, mainly in developing countries, are added to the global population in the next 25 years, there is a great risk that the world's poor will be left further behind.

The institutions of the World Bank Group have identified two strategic pillars that are key to reducing poverty: building the climate for investment, jobs and sustainable growth, and empowering people to participate in development. By providing political risk insurance for foreign investments and technical assistance to developing countries, MIGA plays a critical role in supporting this strategy.

Against the backdrop of falling FDI flows, MIGA was able to support a greater proportion of projects in the poorer countries eligible for financing from the International Development Association (IDA) and the small and medium enterprise sector in fiscal 2004. In addition, MIGA provided guarantees for 16 new projects in conflict-affected countries. Recognizing the importance of safe drinking water, the Agency also substantially grew its exposure in the water sub-sector.

MIGA's technical assistance program remained in high demand in fiscal 2004, as governments sought to compete fiercely in attracting and retaining scarce FDI inflows. Half of the 29 countries assisted in fiscal 2004 are IDA-eligible, and 28 activities took place in sub-Saharan Africa. To help investment promotion intermediaries—especially in remote areas—access state-of-the-art tools for attracting FDI, MIGA launched the web-based FDI Promotion Center.

Fiscal 2004 has also been notable for a change of leadership at MIGA. I would like to thank Mr. Motomichi Ikawa for his dedicated service as executive vice president of the Agency for six years. Much of MIGA's growth and evolution happened during his tenure, with member countries increasing from 145 to 164 and gross exposure increasing from $2.9 billion to $5.2 billion. In addition, Mr. Ikawa led the successful effort to double MIGA's capital base.

I would also like to warmly welcome Ms. Yukiko Omura, who joined MIGA as the new executive vice president in May of this year. Ms. Omura brings to her new position a unique combination of many years of investment banking experience and a commitment to development issues, including the global fight against HIV/AIDS. Her dynamic leadership will be crucial in repositioning the Agency to more effectively promote FDI, especially into difficult places such as conflict-affected countries, and to fully utilize the network of partnerships that MIGA has—within the World Bank Group and outside.

Ms. Omura's appointment comes at a time when the fight against poverty demands that the institutions of the World Bank Group scale up their development impact. I have full confidence that MIGA, under her guidance, will make a positive difference in the lives of poor people by broadening and deepening the flow of productive investments into developing countries.

James D. Wolfensohn
June 30, 2004

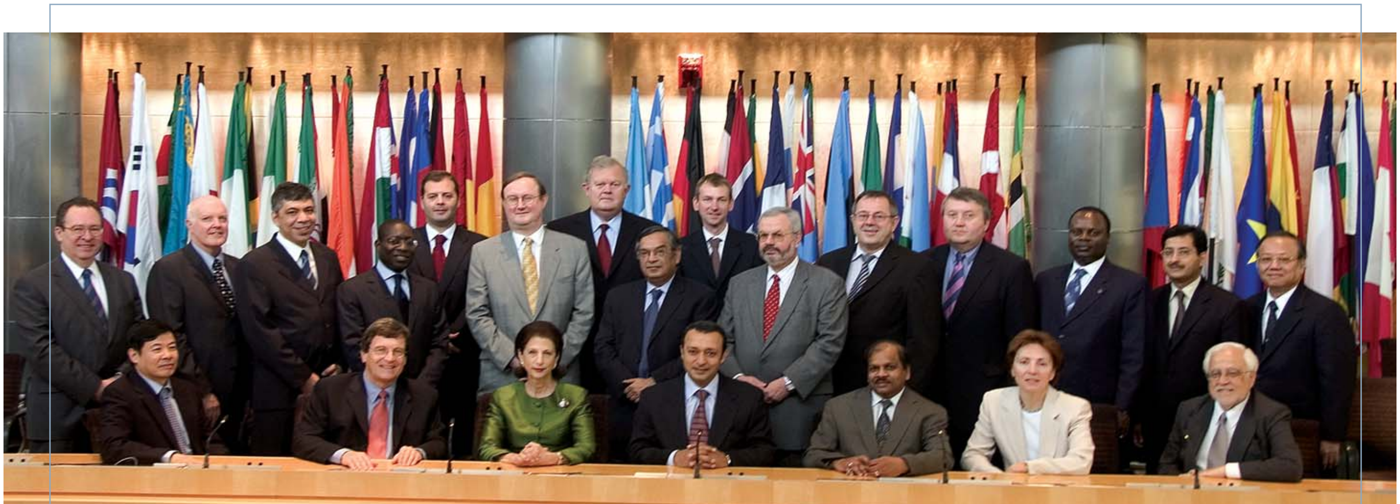
Board Activities Highlights

The Multilateral Investment Guarantee Agency's 164 member countries, through a Council of Governors and a Board of Directors, guide its programs and activities. 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, D.C., 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. 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 (CODE) advises the Board on operations evaluation and development effectiveness with a view to monitoring progress towards the World Bank Group'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 (COGAM).

During fiscal 2004, MIGA's Board of Directors concurred with or approved 39 individual investment guarantee operations. It also oversaw and reviewed MIGA's budget and planning process. In addition, the Board took note of a report establishing MIGA's Small Investment Program (SIP) and approved a waiver of the requirement to circulate to the Board reports of guarantees issued under the SIP prior to their approval by the President. The Board approved MIGA's contribution to the creation of a joint guarantee facility—involving IDA, the Agence Française de Développement and MIGA. The facility supports investments in West African states that are members of the Banque Ouest-Africaine de Développement (BOAD). In addition, the Board approved a waiver of the requirement to circulate to the Board reports of guarantees issued by the facility prior to their approval by the President. The Board approved and submitted to the Council of Governors a proposal to achieve voting power parity between MIGA's Category One (developed) and Category Two (developing) member countries.

MIGA's Board of Executive Directors, as of June 30, 2004



Standing, left to right: Per Kurowski, Terry O'Brien*, Otaviano Canuto, Paulo F. Gomes, Nuno Mota Pinto*, Pierre Duquesne, Thorsteinn Ingolfsson, Tanwir Ali Agha, Tom Scholar, Gino Pierre Alzetta*, Eckhard Karl Deutscher, Alexey G. Kvasov, Louis A. Kasekende, Abdulrahman M. Almofadhi*, Rapee Asumpinpong
Seated, left to right: Guangyao Zhu, Pietro Veglio, Carole Brookins, Mahdy Ismail Aljazzaf, Gobind Nauth Ganga*, Tamara Solyanyk*, Alieto A. Guadagni
Absent: Chander Mohan Vasudev, Masakazu Ichikawa*
* Alternate

Message from the Executive Vice President

I am honored to have been appointed as executive vice president of MIGA in May of this year and to work with an organization that supports the World Bank Group's mission of reducing poverty by catalyzing foreign direct investment into the developing world.

As president Wolfensohn frequently emphasizes, the scale of the development challenge is indeed daunting—but not nearly as steep as the price of failure. About 1.2 billion people still live on less than $1 a day, between 2 and 2.5 billion people do not have access to sanitation, 1.5 billion people have no access to clean water, and as many do not have access to electricity. Success can only be achieved through a concerted and increased commitment by multilateral organizations and the governments of developing and developed countries alike.

Although a small agency, MIGA has a broad mandate—to promote productive foreign direct investment (FDI) flows into developing countries. As we have seen in many of these countries, economic growth through the development of a thriving private sector is one of the most important ways out of poverty. Foreign direct investment plays an important role in providing private capital, creating jobs, bringing technical expertise and managerial know-how, and connecting developing countries to global markets.

In recent years, FDI into developing countries has been declining markedly. From an all-time high of $180 billion in 1999, FDI flows into developing countries have fallen by more than 25 percent. This comes at a time when developing country investment needs—especially in basic infrastructure—are growing. The problem is even more acute than these broad statistics indicate, because more than 60 percent of FDI into developing countries goes to just five countries. While East Asia, the EU accession countries, and a few Latin American states have attracted the lion's share of investment, the vast majority of countries—especially in Africa and in conflict-affected areas—have not been able to attract and retain significant amounts of FDI.

This difficult operating environment has led to mixed results for the Agency in fiscal 2004. While the total amount of guarantees issued fell slightly, to $1.1 billion, a greater proportion of projects supported were in the poorer countries eligible for financing from the International Development Association (IDA). Indeed, MIGA's effectiveness as a development agency lies in the fact that it can play a role in supporting sound private investments in environments which would otherwise be considered by investors to be excessively risky. In such situations, MIGA can manage the risks better, particularly in relation to the private insurance sector, and hence be able to provide coverage where others cannot. This role is particularly relevant when FDI flows are declining or flat.

MIGA can also provide added value in complex transactions, particularly in infrastructure. We have seen continued investor interest and concern about water projects in particular. MIGA's ability to cover sub-sovereign risk can mitigate political concerns and encourage investment in this sub-sector. We have been building our base of experience, insuring three water projects in the past year, two in China and one in Russia. We also see opportunities to work with investors in small infrastructure projects. Specifically, we have worked with the World Bank, the Agence Française de Développement, and Banque Ouest-Africaine de Développement (BOAD) to establish a joint guarantee facility in West Africa that will support smaller infrastructure projects in the sub-region.

MIGA increased its support for the small and medium enterprise sector by supporting 14 new projects in fiscal 2004. Although this sector accounts for most private sector activity in developing economies, smaller foreign companies have particular problems in identifying cross-border risks and opportunities, and in finding adequate risk mitigation instruments. MIGA's activities in fiscal 2004 reflect the continuing efforts that the Agency has made, and will continue to make, in supporting this underserved sector.

MIGA also plays an important role in encouraging FDI into conflict-affected countries—this is where we are most needed, since the perception of political risk is usually very high, and risk mitigation capacity is quite limited. Bosnia and Herzegovina and Serbia and Montenegro now rank among our top ten beneficiary countries. In fiscal 2004, MIGA supported 16 new projects in conflict-affected countries.

Going forward, I am committed to improving our regional distribution, particularly in sub-Saharan Africa and the Middle East and North Africa, the two regions that have received the least FDI, and where the Agency's performance has remained below expectations, despite extensive outreach efforts.

We are operating in a changing environment, where the demands from both host countries and the private sector are evolving. If MIGA is to continue to play a leading role in promoting and catalyzing foreign direct investment, the Agency must both adapt to these changes and ensure that the projects it supports contribute to sustainable development even more effectively. To this end, I have undertaken a number of changes in MIGA's organization, structure and priorities that will allow the Agency to be more nimble, efficient and innovative.

The merging of MIGA's technical assistance and guarantees units into one operational department, based in Washington, D.C., will allow more proactive outreach to our diverse but interrelated clients—host countries and foreign investors. With both activities now in one unit, MIGA will be better able to serve member countries through unparalleled insight into what investors look for when considering an investment and who those investors might be. At the same time, MIGA will be able to provide potential investors with the additional comfort that MIGA's staff are working in continuous and close coordination with the relevant host country to ensure that the right conditions exist, not just to attract, but also to retain foreign investment.

In addition, a comprehensive risk management framework will support MIGA's underwriting activities by holistically assessing project risks, actively managing the risk exposure of the Agency's portfolio and proactively working to resolve potential claims before they arise. We will also be working even more closely with our development partners, both within the World Bank Group and outside.

MIGA's technical assistance work is a valuable resource that can benefit the Agency's guarantees business. This is especially relevant for difficult or frontier markets, where the Agency has been particularly active. In fiscal 2004, MIGA undertook 35 technical assistance activities in IDA-eligible countries. The Agency also launched the European Investor Outreach Program, based in Vienna, which aims to increase investor awareness of the Western Balkans, a region whose image suffers from past conflicts. MIGA's online activities support the Agency's operations by linking investors with host countries through providing a single reference point for investment opportunities. Also, the launch of the FDI Promotion Center, an online portal that builds on MIGA's well-known Investment Promotion Toolkit, extends the reach of MIGA's training capabilities and knowledge sharing.

The best way to serve our shareholders is to focus even more closely on our clients and partners. Our goals must be to leverage MIGA's unique strengths in opening up difficult or frontier markets; to ensure that MIGA supports projects which contribute to sustainable development; and to ensure that the products we offer our host countries and investor clients are relevant to the changing market environment.

Yukiko Omura
June 30, 2004

MIGA's Management Team

(*Left to right*)

Luis Dodero
General Counsel and
Vice President,
Legal Affairs and Claims

Frank Lysy
Chief Economist and Director,
Economics and Policy

Moina Varkie
Chief, External Outreach and
Partners

Yukiko Omura
Executive Vice President

Tessie San Martin
Director,
Operations

Amédée Prouvost
Chief Financial Officer and
Director,
Finance and Risk Management

Marcus Williams
Special Assistant to the EVP

MAKING A DIFFERENCE

For most developing countries, official development assistance and local private resources are not sufficient to stimulate economic growth and provide the opportunities needed for improved quality of life. With the right regulatory and policy climate, foreign investment is vital for bringing access to what is needed—capital, technology and managerial and environmental best practices—to spur development.

MIGA's mission is to enable developing countries build up their local economies, reduce poverty and improve people's lives through promoting foreign direct investment. MIGA does this in two ways: its political risk insurance makes a difference between a productive foreign investment going ahead or not; and its technical assistance activities help equip countries with the tools necessary to attract and retain foreign investments.

MIGA-sponsored projects cover a range of sectors that convey many direct benefits to host countries, including local job creation, skills transfer and a general positive impact on the economy through fiscal revenues and export earnings.

A significant portion of the Agency's portfolio is in support of financial services and infrastructure, fundamental building blocks of economic development. Within the infrastructure sector, MIGA has been increasingly in demand for water projects, because the Agency is able to provide guarantees at the sub-sovereign level—the level at which the vast majority of water concessions are handled. In fiscal 2004, MIGA supported two water projects in China and one in Russia. These projects ensure the supply of safe and reliable drinking water—a Millennium Development Goal—helping reduce child mortality and the risk of disease. Without this basic service, economic activity cannot thrive.

MIGA's increasing efforts to integrate its activities with the Country Assistance Strategies (CASs) of the World Bank Group will further enhance the Agency's development impact. As each CAS is prepared in consultation with government officials, civil society organizations, development partners and other stakeholders, MIGA is better able to ensure that its technical assistance activities and guarantee projects are consistent with country priorities and supportive of partner initiatives. During fiscal 2004, MIGA collaborated closely with World Bank Group country teams to develop innovative approaches to facilitate FDI in Indonesia, Kenya, Mozambique and Tanzania.

The development themes discussed in this year's annual report focus on two important areas where MIGA has been active in promoting foreign direct investment. The first describes MIGA's support for small and medium enterprises. Smaller companies constitute most of the private business sector in developing countries and a thriving SME sector is therefore critical to creating long-term employment and alleviating poverty. The second theme highlights MIGA's efforts to help countries assess their competitiveness and develop improved strategies to attract and retain appropriate FDI.

Reaching out to Small and Medium Enterprises

Small and medium enterprises (SMEs) can jump-start economic growth in even the poorest of countries. Indeed, they offer what is often the only hope of a better livelihood for millions of entrepreneurs and workers in developing countries. In Africa, according to the United Nations Industrial Development Organization, SMEs constitute some 90 percent of all private commercial enterprises currently in operation. But SMEs face enormous obstacles, particularly in developing countries where lack of access to finance, insufficient internal resources and management capabilities, and legal and regulatory barriers pose significant challenges.

Foreign direct investment (FDI) can play an important role in SME development, either through joint ventures with local partners or through the establishment of wholly foreign-owned enterprises. FDI brings access to finance, new technologies, modern business practices and market links for smaller companies. To date, the bulk of MIGA's support for SMEs—more than 70 percent—has been through the provision of guarantees to financial institutions that lend to SMEs. FDI into the financial sector of developing countries has not only helped improve access to capital by SMEs, but has introduced new technologies, better services and new products in the banking systems of these countries.

Raiffeisen Bank S.A. Romania (RBRO), whose lending operations are supported by long-term loans from its Austrian parent, Raiffeisen Zentralbank Österreich AG (RZB), has been a beneficiary of MIGA's SME focus. Cumulatively, MIGA has provided guarantees worth around €80 million against the risks of currency transfer restrictions and expropriation of funds for RZB's loans and interest repayments to its Romanian subsidiary. A site visit and review of RBRO's operations in fiscal 2004 confirmed that the bank is having a positive development impact. Its operations have helped improve the access of the Romanian SME sector to term financing and has provided a wide range of financial products and services to clients throughout the country through an extensive branch network. The bank has also introduced new products—such as leasing—along with modern methods of cash management to the Romanian financial sector. SMEs currently account for more than 70 percent of RBRO's total lending portfolio.

One of RBRO's SME clients is Altipo Construction Ltd. (Altipo), a company involved in importing, assembling and installing windows. Altipo started operations in 1997 with three employees. Today the company employs some 80 workers and in 2003 had an annual turnover of €1.6 million. The company needed fast access to financing in order to maintain its growth and turned to RBRO for a loan in 2003. "With RBRO we found the flexibility and willingness to offer solutions that would help our company grow," says Sorin Boureanu, Altipo's General Manager.

PHOTO | Altipo Construction Ltd., Romania

PHOTO | Banja Luka Dialysis Center, Bosnia and Herzegovinia

Box 1
SME Support in Conflict-Affected Countries

There are unique challenges involved in investing in SMEs in conflict-affected countries, and MIGA's experience demonstrates that insurance can play a critical role in easing investors' concerns about the threat of renewed violence, lack of foreign exchange and the potential that laws will not be enforced.

To date, MIGA has promoted FDI into several conflict-affected countries, including Azerbaijan, Bosnia and Herzegovina, Nigeria and Serbia and Montenegro. In fiscal 2004, the Agency supported 16 new projects in conflict-affected countries. One of these involves a €1.3 million guarantee to the International Dialysis Centers B.V. (IDC) of the Netherlands for its investment in a new renal dialysis facility in the Republika Srpska area of Bosnia and Herzegovina. This was the third guarantee to IDC. The previous two, totaling $1.3 million, were provided in fiscal 2001 for the creation and management of a renal dialysis facility in the city of Banja Luka.

The new facility will provide high-quality dialysis services for up to a quarter of all dialysis patients living in the Republika Srpska area. Using state-of-the-art medical equipment, the facility will help to improve patients' life expectancy and quality of life. The hospital that houses the new treatment center is also expected to benefit from refurbishments associated with the new facility. In addition, the project will supply a medical waste and water treatment unit and is already providing extensive technical, medical and managerial training to facility staff.

IDC's experience in Bosnia and Herzegovina is compelling—both for the impact the project has already made on a country ravaged by war and poverty, and for the power of a small investor to make a significant difference to a community. The new clinic replaced an existing dilapidated facility, where services were poor and dangerous for patients. Today, the quality of treatment has undergone a complete turnaround.

As the first private investor in the health care sector in the Balkans, IDC is paving the way for others, developing successful models that can be replicated elsewhere. "This is a story about change," says Dr. Vlastimir Vlatkovic, the clinic's medial director. "We have a rush here, not just to cure patients but also to educate them and change their way of thinking. This is very important in a post-war country, where many people have the impression that no one cares about them."

To date, MIGA has supported 117 projects that directly benefit SMEs—14 projects in fiscal 2004 alone. One such project is in Uganda, where the SME sector has played a key role in the country's remarkable turnaround. In fiscal 1999, MIGA issued two guarantees worth $6.5 million in coverage, for an investment by Afriproduce Ltd. (a UK-based company) in Ugacof Ltd., a Ugandan coffee processing facility. The insurance covers the company against the risks of transfer restriction, expropriation, and war and civil disturbance. This support was critical at a time when Uganda was still facing economic difficulties. A site visit to the country in fiscal 2004 showed the project's significant impact on the local economy. The company has introduced cost-effective processing techniques to produce coffee for export, and buys the bulk of its coffee beans from small-scale farmers, paying cash on delivery. The company has made regular contributions to local schools and installed a facility to give the local community better access to water. With more than 200 employees on its payroll, the enterprise has been successful in encouraging knowledge transfer, training and a merit-based system of employment. A significant number of management and supervisory positions are held by women.

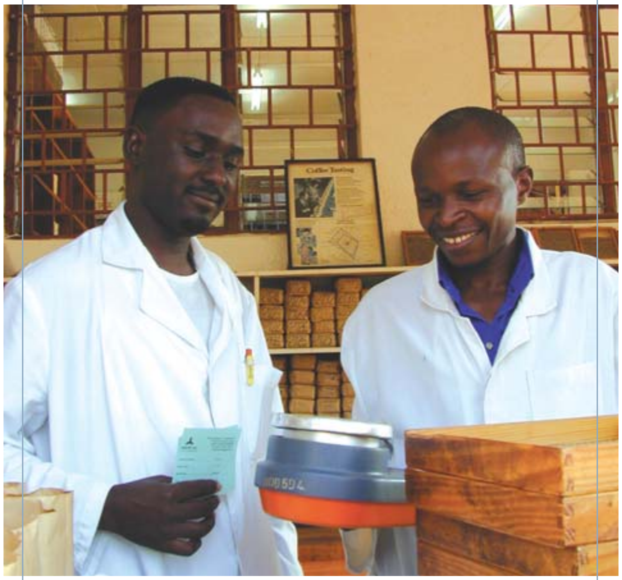


PHOTO | Ugacof Ltd., Uganda

The development of SMEs requires more than just investment in the form of FDI or local financial support. Technical assistance is critically needed, not just for small businesses, but for the intermediaries that serve them, and the government authorities that have the power to remove bureaucratic hurdles and enact laws to create small business-friendly environments.

MIGA's capacity building activities help strengthen the facilitation, servicing and policy advocacy functions of investment intermediaries. As a result, SMEs benefit from more relevant and effective services and from improvements in the investment climate. In addition, MIGA's online information dissemination services, such as FDI Xchange and IPA*net*, provide a cost-effective mechanism to channel up-to-date information to and from SMEs.

Scaling up to Support Small and Medium-Sized Investors (SMIs)

Recent experience shows that smaller companies with an eye toward expansion overseas can power the economic development of a region through their support of SMEs. The economic success of the southern provinces of China came about largely because of the highly efficient cross-border SMI alliances and joint ventures involving mainland Chinese businesses and Hong Kong-based SMIs. In Europe, a large number of cross-border partnerships have emerged involving German and Austrian SMIs that outsource to SMEs in eastern European nations such as the Czech Republic, Hungary and Poland. And in Africa, smaller South African businesses are beginning to invest in attractive SME opportunities in neighboring countries. But evidence suggests that many SMIs are unable to invest in developing countries because they are unable to access the right types of financial products from financial institutions and are underserved by insurers. Many are also simply unaware that political risk insurance products exist.

To support a potentially growing source of FDI, MIGA developed a Small Investment Program (SIP) in fiscal 2004. The SIP offers a simplified guarantees product, involving a standardized package of risk coverages and a quicker and more efficient underwriting process. It addresses many of the problems relating to underwriting processes and information requests that SMIs have encountered in working with MIGA in the past. The pilot program will be implemented in close cooperation with external partner institutions such as commercial banks and export credit agencies. The program aims to encourage more South-South investments, as well as increase SMI investments in countries and regions that have not yet benefited significantly from FDI flows.

Benchmarking Country Competitiveness

As companies emerge from the belt-tightening and downsizing trends of the past few years, new investments in developing countries will be cautious and carefully considered. A company will seek to mitigate risks by gathering as much quality information as possible on a country's business climate and government policies, specific industry factors, investment promotion services, infrastructure and labor.

Site selection teams typically consider hundreds of factors as part of an increasingly rigorous due diligence process designed to secure new locations that offer the optimal mix of least cost and best value. As they evaluate and compare investment options, some factors will be easily quantifiable, such as expenses that fall directly to the bottom line, including labor costs, taxes and build-out or leasing costs. Others require more qualitative judgment, such as an assessment of the condition of roads and the efficiency of government services.

With competition for FDI as intense as ever, investment promotion agencies in developing countries must have a firm grasp on what investors are seeking. They must work harder to understand what sets them apart, what they can offer and what might make them the location of choice for firms evaluating a variety of investment options.

MIGA has launched a series of regional analyses to benefit both investors and host countries by benchmarking the critical factors foreign investors evaluate when considering locations for their offshore projects.

The benchmarking studies provide investors with a "snapshot" of the business operating environment that they would have difficulty finding elsewhere. The studies will help them make more informed decisions about their investments and how to mitigate any associated risks. MIGA developed a new methodology for the studies, incorporating factors that companies consider when they conduct their own location comparative analyses. Benchmarks were established against which quantitative comparisons can be made across a range of critical factors, such as political and social stability, labor costs and availability, and regulatory environment. The analyses are designed to supplement the vast amount of diagnostic work already undertaken by the World Bank Group and to offer insight into investor priorities, such as which infrastructure improvement and reforms are most important.

> MIGA's study enables fine-tuned, targeted marketing programs that position a country's strategic advantages from the perspective of the investor.

A business that relies on its interface with customers in another country, for instance, will value information regarding availability of an ample pool of trained local managers, reliable electricity for phone and computer systems, a labor supply with strong language skills and safe commuter transportation for night shift workers.

The studies provide a benefit to government officials in host countries as well with insight into where their countries lag behind in the competition for foreign investment and will help build better-targeted national marketing campaigns.

The first in the series, Benchmarking FDI Competitiveness in Asia, looks at the electronics and shared services industries in six Asian countries—China, Indonesia, Malaysia, the Philippines, Thailand and Vietnam—and offers recommendations to help these countries attract more foreign investment in these sectors.

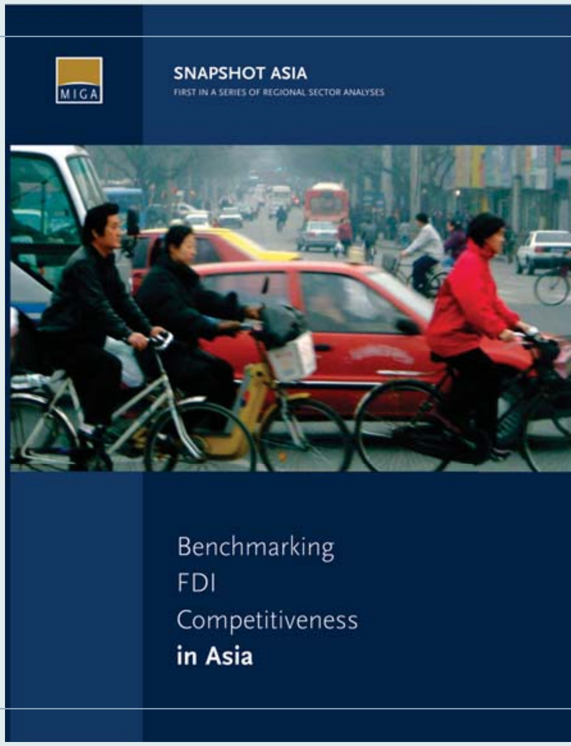
For the study, researchers drew from multiple data sources, including publicly available sources of information about labor and real estate costs, utilities, market access, taxes, transportation and shipping infrastructure, as well as business and living conditions. They also interviewed 64 companies operating in the participating countries and asked respondents to rate various aspects of these factors based on their own experiences.

Benchmarking analysis captures the dynamics of the competitve environment, and brings insight into the complex site selection decision of investors

The study reveals a competitive landscape in which the six countries can differentiate their locations as distinctive "products" for potential investors. No one country emerged as the clear leader in all factors and both sectors, nor did any country appear to be in a position not to be able to compete for FDI. The study suggests, however, that there is ample opportunity for individual countries to focus on their comparative strengths in both sectors and develop niche markets. Strengths commonly identified were large pools of available skilled or unskilled workers, relatively low labor costs, and a proficiency in the English language—all important factors for "back office" trades. Weaknesses included challenges relating to power and transportation infrastructure, government transparency and procedures, lack of language or technical skills, and underdeveloped supplier networks.

China, for example, boasts the best-developed supply base among the countries surveyed, offering low-cost labor and low real estate and construction costs. There are challenges, however, including onerous labor regulations that burden employers with heavy costs, and perceived differences in business culture. Meanwhile, Vietnam's relatively well-educated workforce and ample supply of low-cost unskilled labor have helped attract a base of major Japanese and Korean electronics manufacturers. However, underdeveloped infrastructure, a shortage of management-level employees, and an inadequate base of supporting industries were identified as challenges.

Benchmarking FDI Competitiveness in Asia was funded by the Miyazawa Initiative, a special program under the Japanese foreign assistance program intended to promote economic recovery in the countries most affected by the Asian financial crisis of the late 1990s. The study serves as the pilot for a broader competitive benchmarking program which will include analyses of industry sectors in Africa, Southeast Europe and the Middle East. Already, demand for the studies is strong. At the request of provincial officials in China's Sichuan province, MIGA will undertake a comparative study of 12 municipalities using the benchmarking methodology. The work will involve close collaboration with International Finance Corporation (IFC) and its China Project Development Facility, which builds the capacity of local small businesses through technical assistance and training.



Foreign Direct Investment Costs and Conditions for the Electronics and Shared Services Industries in Six Countries

This study of foreign direct investment costs and conditions in China, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam was funded under the Miyazawa Initiative, a special component of the Japanese foreign assistance program intended to promote economic recovery in the countries most affected by 1997 Asian financial crisis. The efforts of the Multilateral Investment Guarantee Agency (MIGA) under this initiative also supported capacity building in the national investment promotion intermediaries of Korea, Thailand and the Philippines, and raised awareness of the importance of non-commercial risk insurance in fostering the flow of foreign direct investment.

A copy of this publication is available at www.ipanet.net/snapshotasia.

Benchmarking Methodology

MIGA's benchmarking process is comprised of three phases: desktop research, field interviews and interpretation of results.

Desktop Level Research – Phase I
etermine osts
etermine onditions
Identif o rces
om ile ata
Enter ata into Model

Fieldwork Interviews – Phase II
Inter iews with Foreign In estors
Fine-tune osts and onditions
om ile Results
Enter ata into Model

Interpretation of Results – Findings
Normalize ata
Benchmarking Analysis
om etiti e Analysis
Re ort Results