MIGA

DIRECTIONS IN DEVELOPMENT

MIGA

The First Five Years and Future Challenges

The World Bank
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Contents

Abbreviations and Notes

FDI	Foreign direct investment
FIAS	Foreign Investment Advisory Service
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IPA	Investment promotion agency
MIGA	Multilateral Investment Guarantee Agency
OECD	Organization for Economic Cooperation and Development

All dollar amounts are current U.S. dollars, unless otherwise indicated.

Foreword

This brochure, based on work completed by Rutherford M. Poats, briefly summarizes MIGA's original concepts and purposes and the evolution of its business in the initial five years of operations since its inception in April 1988.[1]

Although MIGA provides technical assistance to promote foreign direct investment through its Investment Marketing Services (IMS) Department, its core business is investment risk insurance (guarantees), as its name implies.

A guarantee agency is different from a lending agency in many ways:

- The scale of business in terms of balance sheet or employees is often smaller in the former than in the latter.
  - Readers are simply reminded of the fact that a lending agency has to borrow from depositors or from the capital market in order to lend, with a small margin, to clients. In other words, its balance sheet has to grow in order for it to stay in business.
  - On the other hand, a guarantee agency primarily operates on the basis of capital and reserves derived from retained earnings.
- Since a guarantee agency is not usually engaged in the process of project formulation such as financial or technical feasibility studies, the number of staff employed in the project appraisal can be fewer in the case of an insurance business. It can also dispense with much of the expertise usually required in a financial business but not required in the insurance business.
- The amount of the guarantee extended is usually smaller than the corresponding financing for a project.
  - If one project can be financed by one lending agency, there may be two or three guarantors if the project is seen as too big from the guarantors' risk management point of view.

1. MIGA undertook the first quinquennial review of its business as required under Article 67 of MIGA's Convention. The review was completed on August 1, 1994. Mr. Poats, the former chairman of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD), participated in this exercise as an external reviewer/consultant.

- In the case of financiers, they can ask for collateral from their clients for their loan, but guarantors cannot. Therefore, they want to share the risk with coinsurers.
- MIGA at present does not insure any single project beyond $50 million. This is usually believed to be sufficiently large enough for an equity investment.

- Smaller equity investment projects can deliver much greater developmental impact than the bigger loan projects. The equity investment facilitated by guarantees will allow host countries to have businesses which will remain in the economy for a long time, employing people and bringing in new technology. The amount of investment will reduce the country's foreign exchange borrowing requirement. Not only that, if we consider the annual outlay of the newly established business in terms of salary and purchase of goods and services in the domestic economy, the total economic impact should be much larger than the usual loan project.
- Small can be beautiful in another way. In most developing countries, notably in the case of economies in transition, it is considered most important to establish an efficient market economy. This is the reason why privatization is urged in most of these countries. During the process of privatization, the establishment of a number of small businesses (foreign or joint venture) which know how to play in the marketplace will be far more important than the privatization of a big national enterprise which tends to transform the relevant sector into a state of monopoly and oligopoly. What is needed here is an efficient competitive process, and what counts is not the scale of the business, but the number of market players who contribute to efficient market practices.

As explained in the above, the relative smallness of the guarantee business vis-à-vis the loan business does not prevent the former from being as effective an instrument as the latter for development purposes. MIGA is still small, yet its business has expanded rapidly to place it among the five largest investment risk insurers in the world, all within five years of its history.

MIGA intends, and is certainly able, to continue to play an important role in development, as a member of the World Bank Group.

Akira Iida
Executive Vice President
MIGA

July 1994

MIGA's Growing Role in Investment Promotion

One of the most important initiatives taken by the World Bank during the past twenty years was the creation of the Multilateral Investment Guarantee Agency (MIGA). After a protracted gestation, MIGA has emerged as an important player in the World Bank Group's promotion of private sector development. Rising demand for its investment insurance and technical services has confirmed the hopes of its founders and has begun to exceed some of their expectations.

Concept

The creation of MIGA was a response to the twin debt crises of the 1980s and the accompanying realization that sustainable economic growth in many developing and transitional countries would require stimulation of private enterprise and foreign direct investment. The World Bank's management, supported by most of the Bank's Executive Directors, acted in 1983–85 to meet this challenge. They seized the opportunity created by a turnaround in the attitudes of the political leaders of many countries toward the role of private enterprise in development. The founding governments shared a conviction that the heavily indebted countries needed to rely to a greater extent than in the past on private enterprise and foreign private investment—an expandable resource for growth that would not compound their debt problems. The same prescription would enable other, less indebted countries to avoid the debt trap.

At that time, annual net flows of foreign direct investment (FDI) to developing countries had fallen to $8 billion–$9 billion, and even this small amount was concentrated in a few countries, mainly in East Asia. Many national and multilateral agencies were already providing inducements for foreign direct investment, some through investment insurance, some through project finance, and some by giving technical assistance to governments on means of attracting FDI. Parallel with these efforts, bilateral investment protection treaties were being extended to additional countries, while discussions in United Nations fora on an international agreement governing the rights and duties of host countries and foreign investors remained deadlocked.

The case for a new entrant into this crowded field rested on the proposition that a World Bank affiliate, offering operational and advisory services in investment promotion and protection, would more effectively engage the political and financial interests of both developing and industrial countries in the common cause of development through private investment. It would encourage foreign investment both directly and indirectly. Directly, it would fill gaps in the existing supply of investment insurance against the noncommercial risks prevalent in developing countries, thereby making investment opportunities in those countries more competitive with alternatives in industrial countries. Indirectly, the joint decision of both home and host countries of foreign investors to create and support such an agency and share its financial risks would enhance mutual confidence among the parties to international investment. In the course of both its guarantee operations and its technical and legal advisory services, the new Bank Group affiliate would be likely to help strengthen international standards of fair treatment of the rights of both investors and host governments. Thus it would achieve, over time, some of the objectives of the abortive attempt to negotiate a global compact on international private investment.

MIGA was designed to mitigate political risks as well as to provide financial compensation to investors for losses caused by covered risks that actually eventuated during the long term of a foreign direct investment. Its advisory services to developing and transitional countries were aimed at improving both the countries' attractiveness to foreign investors and their operational effectiveness in attracting or "promoting" inward flows of FDI.

Single Purpose

On October 11, 1985, the Bank's Board of Governors endorsed to interested governments the Convention (charter) of the proposed Multilateral Investment Guarantee Agency. The Convention defined a single purpose: "to enhance the flow to developing countries of capital and technology for productive purposes under conditions consistent with their developmental needs, policies and objectives, on the basis of fair and stable standards for the treatment of foreign investment." MIGA was designed to serve this purpose by three means:

1. Providing guarantees—that is, political risk insurance—to foreign investors in Category II members (self-declared developing countries) against specified noncommercial risks, thereby encouraging particular investments
2. Advising and assisting Category II members to improve their attractiveness to and means of attracting foreign investment, there-

by promoting more broadly the flow of foreign investment to these developing and transitional countries

3. Promoting the adoption of legal assurances of fair treatment of foreign investments by host countries and the amicable settlement of disputes between foreign investors and their host governments.

Members were free to choose whether to enter as Category I (industrial nations) or Category II. Countries in transition from socialist to market economies were expected to opt for Category II in order to receive MIGA-insured investments and MIGA's technical services.

Finance and Administration

The Convention establishes an agency affiliated with but financially independent of the International Bank for Reconstruction and Development (IBRD)—a relationship similar to that of the International Finance Corporation (IFC) to the IBRD. Membership is voluntary and has been open from the outset to all members of the Bank and to Switzerland. An initial capital stock of 1 billion SDRs was planned, with essentially automatic increases for countries not on the original list of potential members. Of the capital subscription, 10 percent must be paid in cash, and a further 10 percent is paid by depositing a promissory note with the member's central bank for use by MIGA in meeting any financial obligations. As is the case with the IFC, the president of the World Bank is also the president of MIGA. The Agency's executive vice president is its chief operating officer. Most of MIGA's Directors also represent their countries on the Boards of the Bank and the IFC.

MIGA's Niches

MIGA's Guarantee Program is required by the Convention to complement rather than supplant national and regional investment insurance programs and private insurers of political risks, provided that they effectively encourage foreign investment. MIGA's niches in the global market for investment insurance were foreseen as:

1. Augmenting the capacity of another insurer by coinsurance or reinsurance
2. Insuring investment in a country restricted or excluded by the policies of other insurers
3. Serving investors who, because of residence, ownership, or planned sources of procurement, do not have access to other official insurers capable of serving their needs
4. Providing similar coverage to investors of different nationalities

in a multinational syndicate, thereby affording convenience in insurance contracting and in claims settlement
5. Providing coverage of certain forms of investment not offered by other insurers or on terms designed to be more effective in encouraging an investment than are offered by other insurers.

In addition to filling these gaps in the supply of investment insurance, MIGA was expected to develop a niche market among investors in projects of acute vulnerability to changes in host government policies or commitments. It was thought that an insurance service jointly established by home and host governments might be able to deter unfair or illegal treatment of these investors. This expectation was reinforced by the Convention's requirement that MIGA obtain the host government's consent to the issuance of a MIGA guarantee of investment in a proposed FDI project. (Appendix A contains a discussion of coverages and eligibility criteria.)

MIGA's niches in the crowded field of technical assistance for investment attraction were less clearly defined by its Convention and Operational Regulations. The key provision of the Convention (Article 23) states:

> The Agency shall carry out research, undertake activities to promote investment flows and disseminate information on investment opportunities in developing member countries, with a view to improving the environment for foreign investment flows to such countries. The Agency may, upon the request of a member, provide technical advice and assistance to improve the investment conditions in the territories of that member.

Thus MIGA has a mandate to engage in technical and advisory activities designed to enhance Category II members' attractiveness to and means of attracting foreign investment. This is a broad field that potentially encompasses a wide range of advisory and technical services also provided by the Bank, the IFC, the Foreign Investment Advisory Service (FIAS), and others. Much of MIGA's fledgling period was spent in finding its appropriate, supportable, and market-driven niche in technical assistance.

Initially, the Agency provided advisory services primarily through FIAS, then a joint IFC–MIGA facility. MIGA also undertook during its early years a limited number of direct technical assistance operations in, or in support of, investment promotion. Recently the division of labor between FIAS and MIGA has been defined, with FIAS taking responsibility for advising MIGA's Category II members on how to improve their attractiveness to FDI while MIGA assists them in improving their operational programs of promoting FDI inflows. Overlaps are inherent, however. Both agencies are concerned with improving the relevant institutions of Category II countries. The work of investment promotion feeds back into policymaking and vice versa. Hence, close collaboration between these two Bank Group facilities is essential.

Startup

It took thirty months after endorsement of the Convention by the Bank's Board of Governors on October 11, 1985, to get the minimum number of members required, but on April 12, 1988, MIGA came into existence. A year later only one-fourth of the countries that had been assigned shares had completed the process of becoming new members, and many of the countries that were the largest sites of foreign investment were still missing. MIGA began operations in the summer of 1989 with less than a dozen staff members—some of them on loan from the IBRD.

The immediate challenges were to simultaneously increase country membership; recruit permanent staff; develop the necessary marketing materials, procedures, and systems to attract and process investor applications; and design a technical assistance program. Several constraints thwarted the swift development of MIGA's programs. Slow growth in membership adversely affected investment income, and this, in turn, constrained staff growth; slow acquisition of staff constrained the country membership drive, the marketing of MIGA's Guarantee Program to potential investors, and the actual issuance of guarantee contracts that would yield income.

The foreign investment decisionmaking process within firms normally stretches over many months, if not years. Thus, even after firms became aware of MIGA's Guarantee Program, swift utilization of the program coverage was unlikely, since MIGA could only insure new investments (those for which an application had been submitted to MIGA before the investment had been irrevocably committed). It was therefore not surprising that after three years of existence on paper, MIGA's achievements contrasted poorly with its founders' expectations. However, during this period the groundwork was being laid for more rapid growth.

Takeoff

In its fourth year (fiscal 1992), the Agency showed signs of fulfilling its potential. Country membership rose to near the 100 mark, and the guarantee business began a surge of growth that continues today. Early in fiscal 1993 the first steps were taken to reorient MIGA's technical assistance activities with a view to helping more of the membership achieve lasting gains in their efforts to attract FDI. Management was improved and better integrated. Operational and supervisory procedures affecting the Agency's responsiveness to clients were simplified. Internal management information systems were modernized.

All these positive developments became more pronounced during Year 5 (fiscal 1993), when twenty-seven guarantees and five commitments were issued, covering $479 million of investment. The projects covered by guarantees issued that year were expected to entail $1.9 billion of total investment. Insurance written in Year 6 (fiscal 1994) surpassed the pace of the preceding year, reaching $372.6 million in thirty-eight guarantee contracts, plus $167 million in four letters of commitments (see figure 2 in appendix B).

In the past two years MIGA has issued insurance contracts and commitments averaging about $500 million annually on portions of foreign investors' exposures in new projects. This puts it among the five largest investment risk insurers in the world. Total investments in projects thus far encouraged by MIGA's insurance will exceed $6 billion when completed. In short, MIGA has become a major insurer of foreign investment against noncommercial risks.

Further growth in this service is foreshadowed by an increasing number of applications, totaling 766 as of June 30, 1994. The prospective investors represented forty-four member countries, including twenty-two developing nations, on proposed investments in virtually every Category II country and in a broad diversity of sectors.

Technical assistance is also being extended to a rising proportion of developing and transitional countries. In the five years ending June 30, 1994, FIAS assisted seventy-four countries to improve their attractiveness to FDI. during the same period MIGA directly provided technical services to forty-four member countries. MIGA's newly renamed Investment Marketing Services is now offering a package of technical services that could simultaneously assist all Category II countries, provided they or donors fund its costs.[1]

Membership

Support for further growth in both of MIGA's services is coming, in part, from expansion of the potential market. The Agency's country membership has now surpassed early expectations (see figure 1 in appendix B). As of June 30, 1994, investments in 102 Category II countries were eligible, on host country membership grounds, for MIGA

1. The Investment Marketing Services Department was formerly called the Policy Advisory Services (PAS). It had also been engaged in the policy advisory function, but MIGA withdrew from this function as of July 1, 1994, to avoid duplication with IBRD, the IFC, and FIAS. Instead, MIGA refocused its technical assistance activities on the investment and marketing functions. See pp. 10–11.

insurance, and 26 additional developing and transitional countries were in the process of becoming members. The nineteen industrial countries that have joined account for the bulk of all FDI flows to non-OECD countries, and the present Category II members have been receiving most of total global flows of FDI to non-OECD countries. At the time of MIGA's establishment, most Latin American countries shunned membership; now Latin America's traditional resistance to participation in an international investment insurance program has been almost completely overcome, with the important exception of Mexico. Nearly all the countries of the former Soviet Union and Central and Eastern Europe have either joined MIGA or taken steps toward joining—a development wholly unforeseen when MIGA was created. India, the Philippines, South Africa, and Venezuela, which originally declined membership, have joined as Category II countries.

Market Reputation

Growth in demand for MIGA guarantees is also foreshadowed by positive comments by its contract holders and potential insurers. A 1994 survey of all of MIGA-insured investors by an independent consultant found that thirty-two out of thirty-four contract holders who replied (anonymously) said they would use MIGA again if they needed investment insurance. The same number said they would recommend MIGA to other investors.

Diversification

The guarantee services' inevitable initial concentration on a few countries has given way to better diversification. The breadth of prospective coverage as indicated by applications has been noted above. The proposed investments are in a growing variety of productive activities. The original expectation that MIGA would be particularly useful to foreign private investors in electric power and other energy supply projects and in projects to privatize telecommunications has recently been strongly confirmed by applicants for insurance. Other major sectors represented are manufacturing, oil and gas, tourism, finance, mining, construction, agribusiness, and forestry (see the lower panel of figure 4 in appendix B). While experience indicates that only a small fraction of the projects mentioned in preliminary applications will ultimately become MIGA-insured investments, this very large and diverse set of possible investments foreshadows a broader distribution of the benefits of the service and, from the perspective of risk management, an improved portfolio.

As of June 30, 1994, MIGA had guarantees in force on investments in twenty-four countries: Argentina, Bangladesh, Brazil, Bulgaria, Cameroon, Chile, China, the Czech Republic, Ghana, Guyana, Hungary, Indonesia, Jamaica, Kazakhstan, Madagascar, Pakistan, Peru, Poland, Russia, Tanzania, Trinidad and Tobago, Turkey, Uganda, and Uzbekistan (see the upper panel of figure 4 in appendix B). Insured investors were from Belgium, Canada, Denmark, France, Germany, Japan, Luxembourg, the Netherlands, Norway, Saudi Arabia, Singapore (site of an investor company eligible on ownership criteria), Spain, Switzerland, the United Kingdom, and the United States.

Contributions to Development

Holders of MIGA guarantees have stated that the total amounts of investment in their projects, from all sources, will exceed $6 billion. The portions of investment in these projects insured by MIGA total $1,041 million (net of cancellations). Project sponsors estimate that their projects will create directly about 18,820 new jobs in the host countries, and most of the projects are likely to have substantially larger indirect employment benefits (see figure 3 in appendix B). The insured investments will also make important contributions to the host countries' foreign exchange earnings and savings. Most of the projects in the MIGA portfolio will not make large payments of tax revenues and dividends to host countries in the first five years after investment because of startup expenses and tax concessions offered as incentives to invest. Many applicants cited other common benefits to host economies, such as introduction of better production technologies and managerial practices and access to foreign markets. In addition, investments facilitated by MIGA guarantees continue to stimulate domestic economies through payment of salaries and the purchase of goods and services during the life of the business. Therefore, the total economic impact of a guarantee project may exceed that of a much larger loan financing. These factors cannot be quantified, and their actual impact on the host countries can only be assessed over a much longer period than the covered projects have been in operation.

Effectiveness in Encouraging Investment

The basic test of MIGA as a whole is whether it encourages increased and more beneficial flows of foreign investment to Category II countries. This purpose was expected to be served both directly and indirectly by the creation and operation of a multilateral agency. The available evidence indicates that these expectations have been realized, even though it is difficult to isolate the influence of insurance and technical assistance or the more general influence of membership in a multilateral agency for this purpose from the many other, usually more important, factors that affect decisions on direct foreign investment.

- *Statements of customers.* A poll by an independent consultant of all MIGA-insured investors, conducted in March 1994, asked respondents to rate the importance of MIGA's protection to their decisions to make the covered investments. Nineteen of the replies received from thirty-four contract holders rated the insurance "absolutely critical" or near that end of the rating scale, and fifteen replies termed it "useful" or better.
- *Actions of other insurers.* Evidence of MIGA's contribution to the encouragement of foreign investment can be seen in the actions of other insurers. The national insurance agencies of Canada, Japan, and the United States and a private U.S. underwriter have contracted with MIGA for reinsurance, and several other reinsurance arrangements are currently being negotiated. For the majority of the reinsured investments, eligibility requirements or other underwriting rules such as capacity limits would have prevented the primary insurer's providing adequate protection to the investors without MIGA's participation as reinsurer. Another indication of MIGA's influence has been the revision by several national agencies of their terms of coverage in line with MIGA's example. Planners of national investment insurance agencies in Malaysia, Russia, and Turkey have come to MIGA for advice and models during their drafting of underwriting policies and standard contracts.
- *Recipients' evaluations of technical assistance.* Investment promotion officials of many assisted countries have credited MIGA and FIAS with helping them to attract investments and improve their operations.

Constraints

MIGA was designed to be financially self-sustaining; the Agency's expenses were to be funded out of its income from its investments and premiums. But slow growth in country membership hindered capital growth and hence investment income. A period of low yields on investment income also curtailed capital growth. The result was a challenge for MIGA's management: how to expand MIGA's guarantee business and fulfill the purposes for which the Agency was created while tightly controlling administrative costs.

Because of tight controls on costs and, especially, growth in the guarantee business, which has yielded higher levels of premium, MIGA's income has steadily grown over the past five years (see figure 5 in appendix B). However, higher levels of contingent liability have meant that management has had to be prudent in its underwriting and adopt policies which ensure that its portfolio is not concentrated in any one project or country (see figure 6 in appendix B). This in effect restricts the availability of higher amounts of coverage to investors in some circumstances and acts as a constraint on MIGA's potential income from premiums. This fact, together with the need to build reserves, has made the activities of MIGA in the investment promotion and advisory area increasingly dependent on user fees and donations for covering costs.

Increasing demand by both investors and governments for MIGA's services has forced MIGA's management to focus on the proper balance in its programs and to find additional means of stretching its insurance capacity. This could yield higher income, thus building capital and reserves and fueling further growth in all MIGA's programs. Immediate action is being planned to exploit the Agency's potential catalytic influence on other providers of investment insurance and technical services. These "new directions," outlined below, will both enhance benefits to members and postpone the need for additional financial contributions from members.

New Directions

The currently planned operational innovations in the guarantee service include:

- Giving priority in marketing and in the issuance of insurance to projects sponsored by companies of Category II countries, particularly where MIGA's total insurance exposure is nearing country ceilings
- Sponsoring the formation of coinsurance syndicates among private insurers prepared to participate alongside MIGA in covering new foreign investments against certain risks
- Seeking reinsurance as well as coinsurance by national (official) agencies so as to minimize MIGA's use of its own insurance capacity to encourage projects
- Cooperating with interested agencies and governments in the creation of "sponsorship funds" that would augment MIGA's financial capacity to insure investments in otherwise restricted situations while continuing to employ MIGA's underwriting services and privileged position.

In technical assistance, MIGA is concentrating on helping the investment promotion agencies (IPAs) of Category II countries to become more effective and to undertake some major operations. This entails new initiatives, including:

- Organizing an international IPA Network, or association, which will hold its first meeting in Madrid in connection with the 1994 Annual Meetings of the Bank and Fund

- Establishing electronic links among the IPAs and other private and public participants in the global investment marketplace so as to facilitate exchange of information and experience among them
- Providing a package of management information software and training to assist IPA administrations.

International Investment Trends

Investment flows to MIGA's Category II members, as a whole, have increased dramatically in the past ten years. From a low point in the mid-1980s, when the decision was made to create MIGA, total flows of FDI to developing countries rose from about $9 billion annually to $36 billion in 1992, according to an IFC study. (These data are net, after deducting return flows of capital, dividends, and interest to the investors' countries.) Portfolio investment in the most rapidly growing industrial sectors of developing countries increased faster in percentage terms, according to incomplete reports by the major securities firms that are primarily involved. FDI flows to 118 developing countries included in the IFC study have grown at an annual rate of 23 percent in the past five years, reaching 37 percent in 1991 and 33 percent in 1992. Preliminary information on FDI flows in 1993 and 1994 suggest that this trend has continued. More than 80 percent of the recorded flows in 1988–92 went to the more dynamic economies in Latin America and East Asia.

The coincidence of the commencement of MIGA's operations and the surge of investment during the same years is, of course, just that—a coincidence. Very few of the investments influenced by MIGA could have produced actual flows of capital by 1992, the most recent year covered by the data. What the data do confirm is the strong response by corporations and banks of the industrial countries to the changes in the investment climates of many countries since the mid-1980s. MIGA's creation both responded to and reinforced that historic transformation of the global investment market. The high rates of growth in demand for MIGA's services by investors and by public officials of Category II countries attest to the timeliness of MIGA's development and the prescience of its founders.

Appendix A. The Guarantee Program

MIGA's Guarantee Program provides long-term protection against four types of political risks to eligible investors on their qualified investments in Category II member countries (that is, self-declared "developing countries").

Covered Risks

Coverages may be purchased either individually or in combination against losses arising from:

- *Currency transfer* resulting in the inability of investors or lenders to convert and transfer local currency into foreign exchange
- *Expropriation*, that is, acts by the host government that reduce or eliminate ownership of, control over, or rights to insured investment, whether the acts are direct or indirect
- *War and civil disturbance* (including politically motivated acts of sabotage and terrorism) resulting in damage to or destruction or disappearance of tangible assets
- *Breach of contract* by a host government, provided the investor obtains an arbitral award or judicial sentence for damages and is unable after a specified period to enforce it.

Eligible Investments

MIGA can insure new investments originating in any member country and to be made in any Category II country, including expansion, modernization, or financial restructuring of existing projects and acquisitions that involve the privatization of state enterprises. Forms of eligible investments include equity, shareholder loans, loan guaranties issued by equity investors, loans to unrelated borrowers in certain circumstances, and technical assistance, management, and franchising and licensing agreements, provided they have terms of at least three years and the investor's remuneration is tied to the project's operating results. The investment project must be found by MIGA to be economically, financially, and environmentally sound and likely to contribute to the host country's economic development.

Eligible Investors

MIGA insures investors who are nationals of a member country other than the country in which the investment is to be made. A corporation is eligible if it is either incorporated in and has its principal place of business in a member country or if it is majority owned by nationals of member countries. State-owned corporations are eligible if they operate on a commercial basis.

Appendix B. MIGA's Growth and Impact on Development

Note: Except for figure 5, which contains projections for fiscal 1995, all figures show status as of June 30 of each year.

Figure 1. Membership

With 121 member countries (102 of which are Category II countries) after five years, MIGA already embraces most of the developing and transitional economies in need of FDI flows.

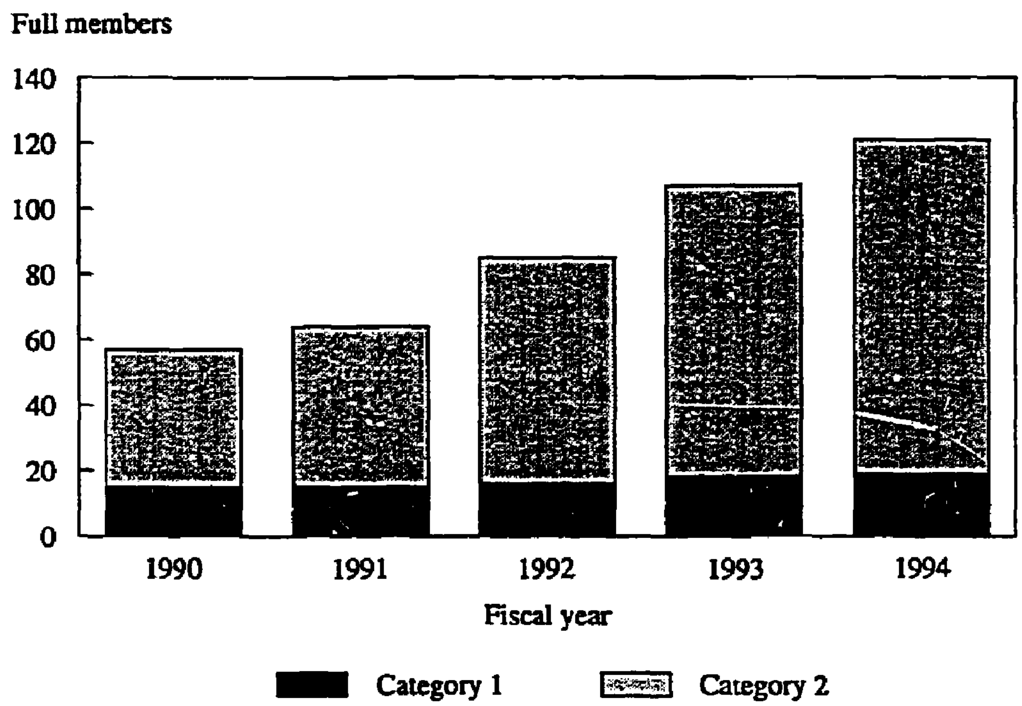


Figure 2. Guarantee Volumes

The Agency is growing rapidly: with more than 100 guarantee contracts, valued at more than $1 billion, now in force, it is among the five largest political risk underwriters in the world.

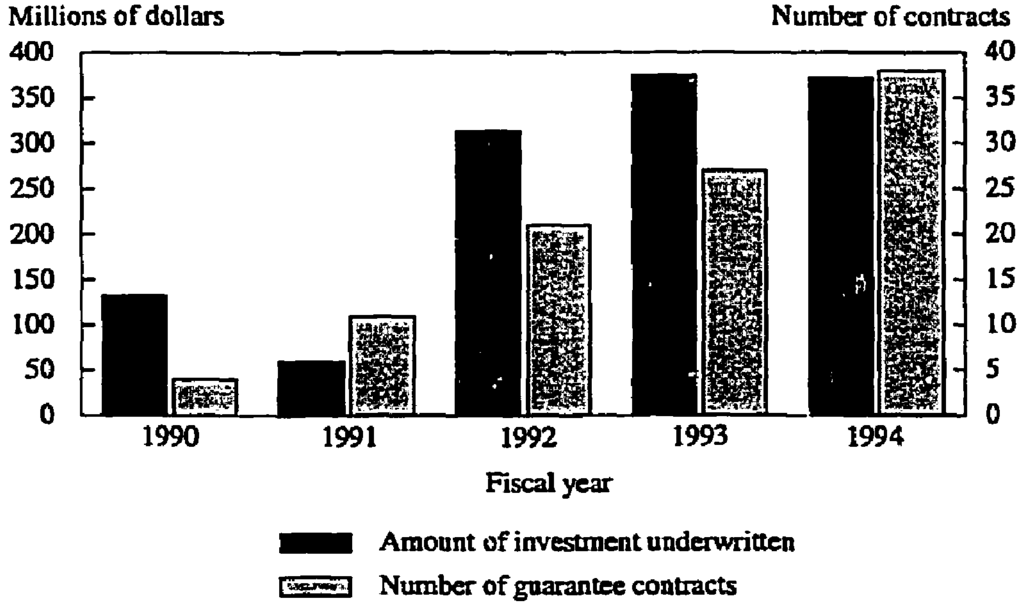


Figure 3. Cumulative Developmental Impact

MIGA's impact on development is already substantial. The total amount of foreign direct investment facilitated by MIGA exceeds $6 billion, and more than 18,000 new jobs have been created by these investments.

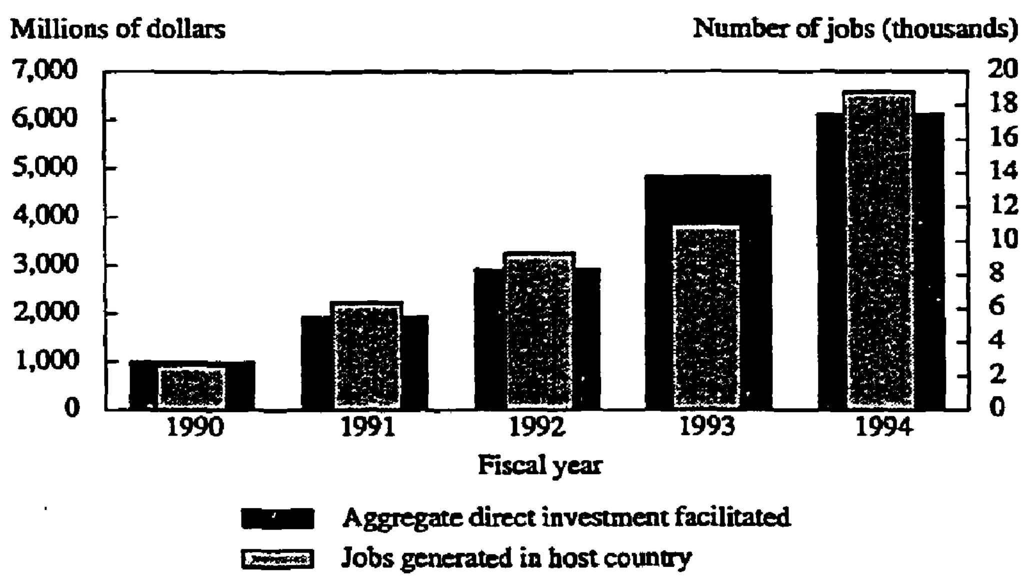
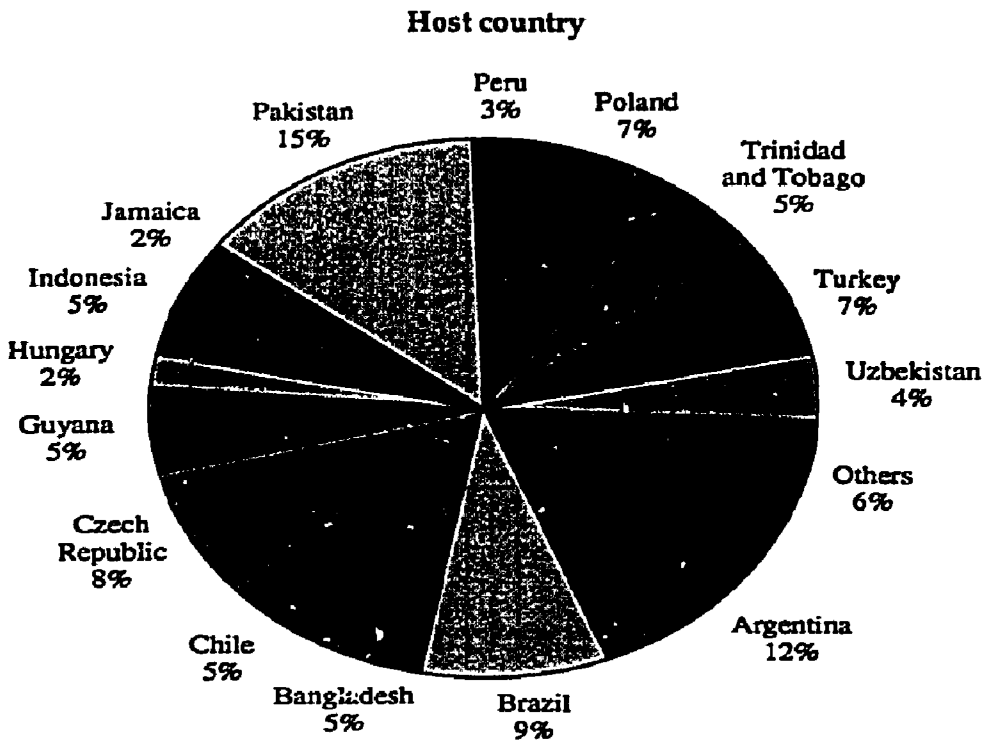


Figure 4. Executed Guarantee Contracts (by Amount Insured), as of June 30, 1994

The spread of these guaranteed investments across developing countries and across industry sectors is widening.



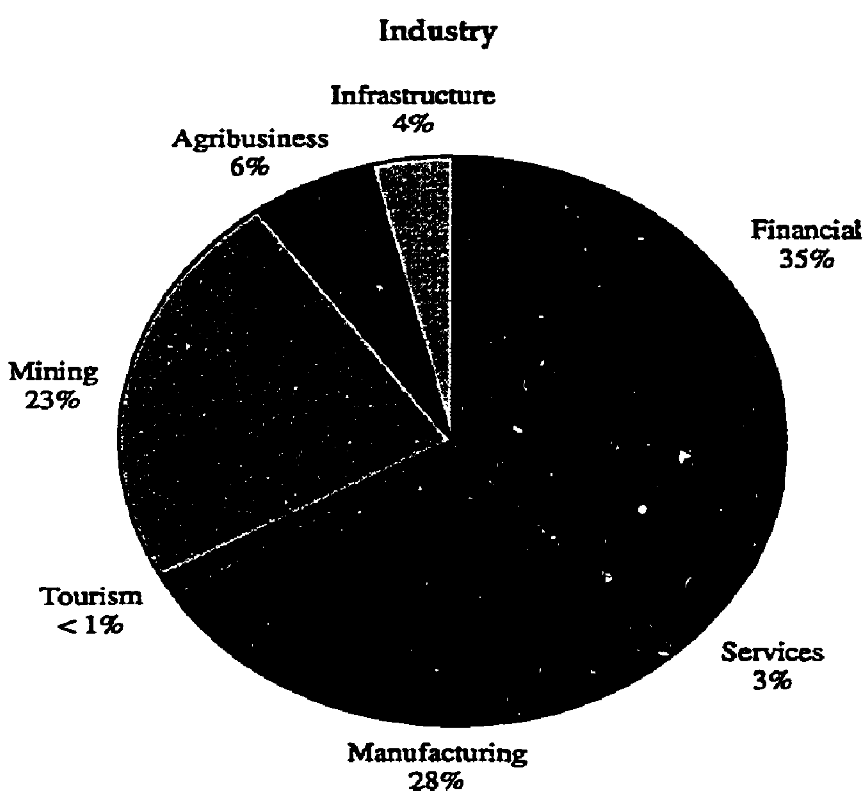
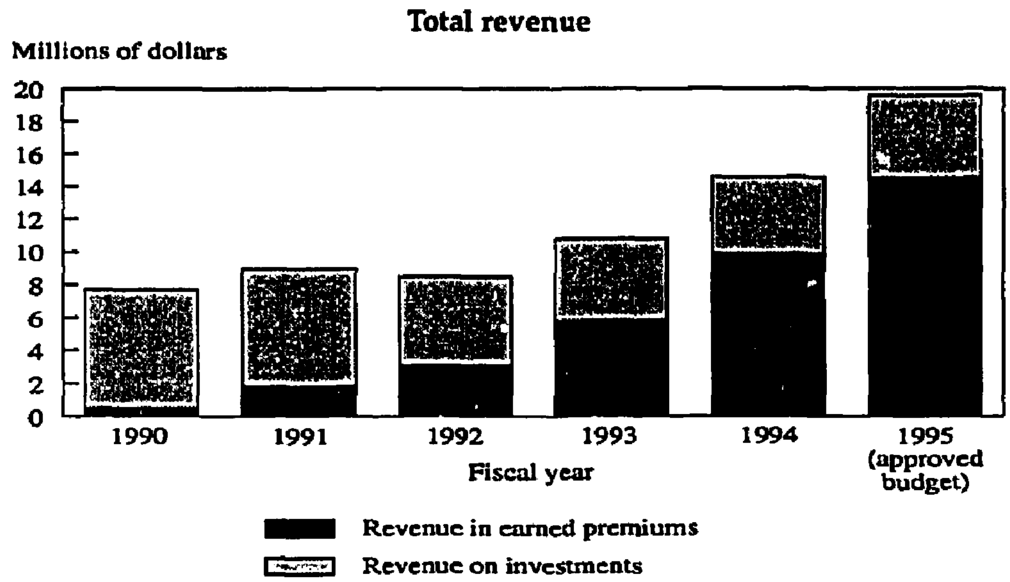
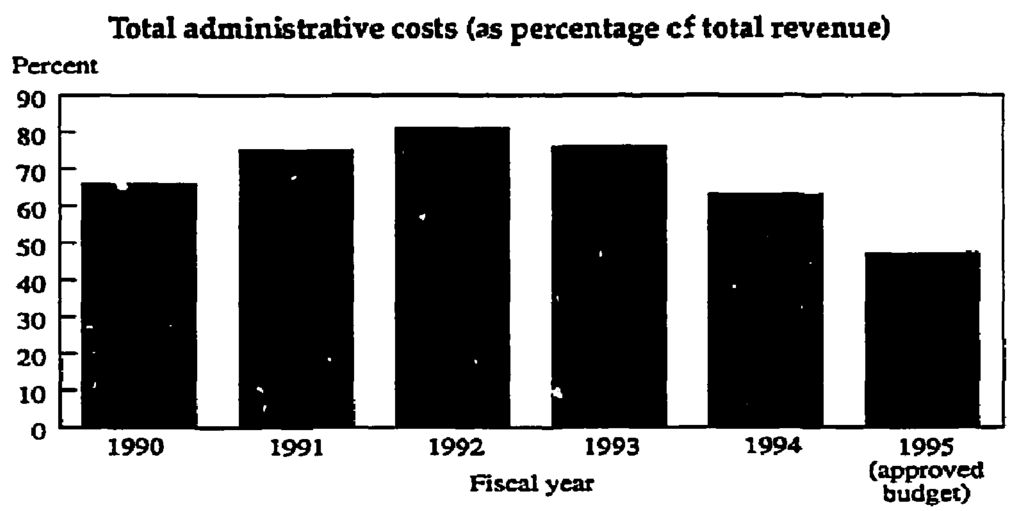


Figure 5. MIGA Revenues and Costs

MIGA is profitable and is becoming more cost-efficient.





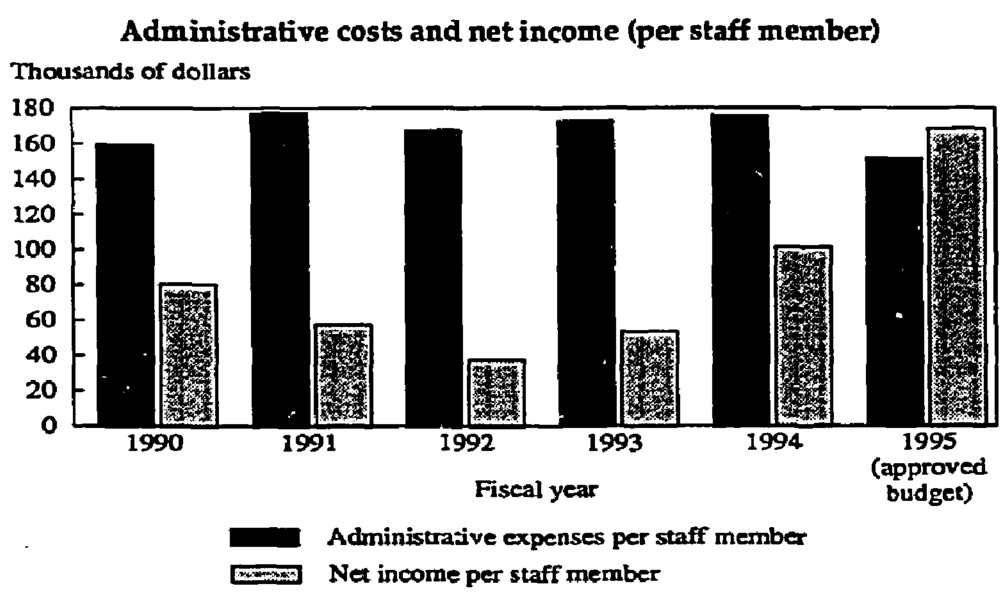
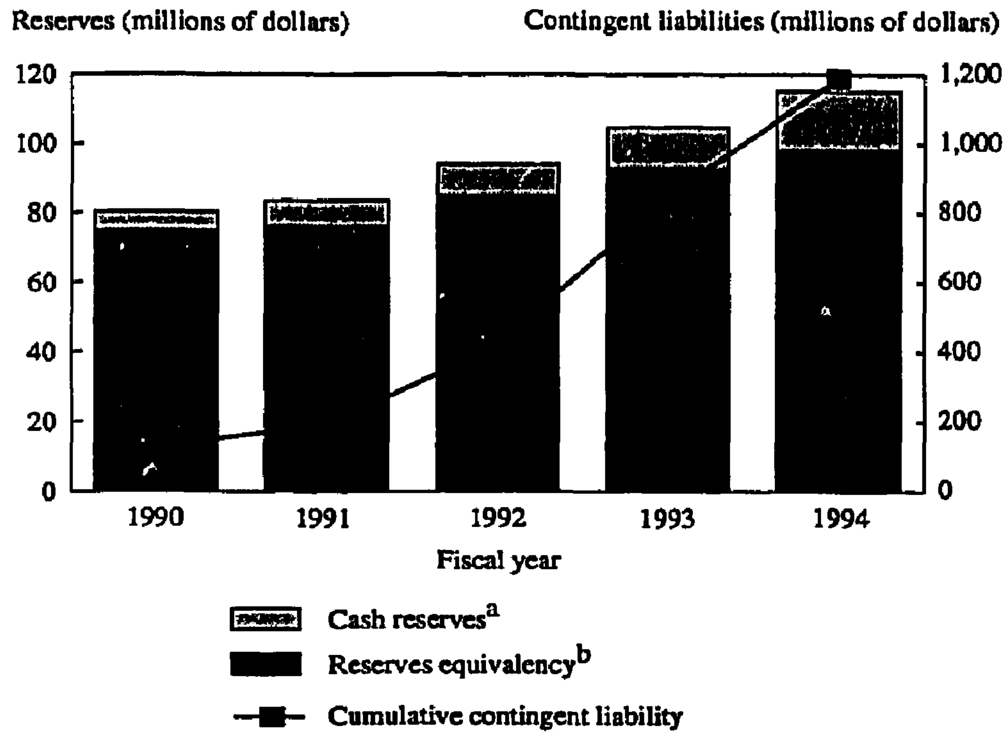


Figure 6. Cumulative Contingent Liabilities and Reserves

Reflecting its larger guarantee business, MIGA's total exposure is increasing, and its reserves are building.



a. Without translation adjustment for the effect of exchange rate fluctuation.
b. Note portion of MIGA's paid-in capital.
Note: As of June 30, 1994, MIGA has received no claims.