



World Bank Group
Multilateral Investment Guarantee Agency

Foreign Direct Investment and MIGA

Yukiko Omura
Executive Vice President
January 13, 2005

FDI: The Big Picture

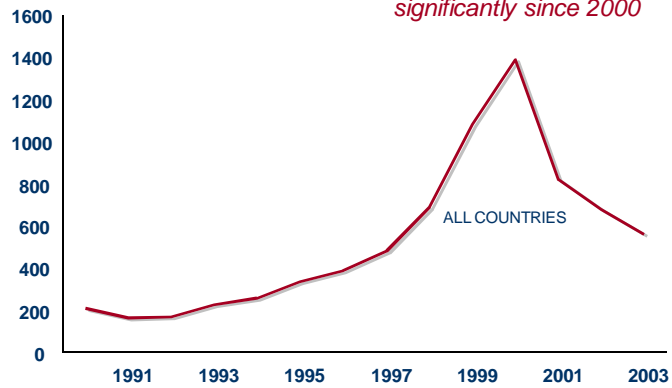
- Global inflows of FDI were an estimated \$547 billion in 2003
- This was up from \$209 billion a decade earlier, but down from an all-time high of \$1.4 trillion in 2000
- FDI has well surpassed Official Development Assistance, which has fallen relative to rich-country income by 30% in the past 30 years—down to \$68 billion in 2003
- Developing countries received \$152 billion in FDI in 2003—a 27% share of all foreign direct investment



Global Flows of Foreign Direct Investment

FDI inflows

\$ billion



3

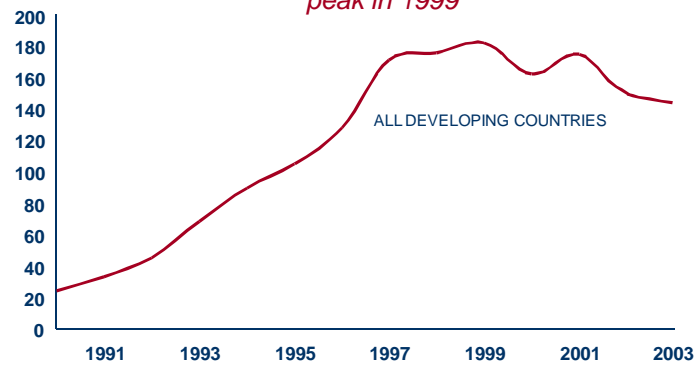
Source: UNCTAD statistical database



FDI Flows to Developing Countries

Net FDI inflows

\$ billion



4

Source: Global Development Finance database



Declining FDI Due to Host of Factors

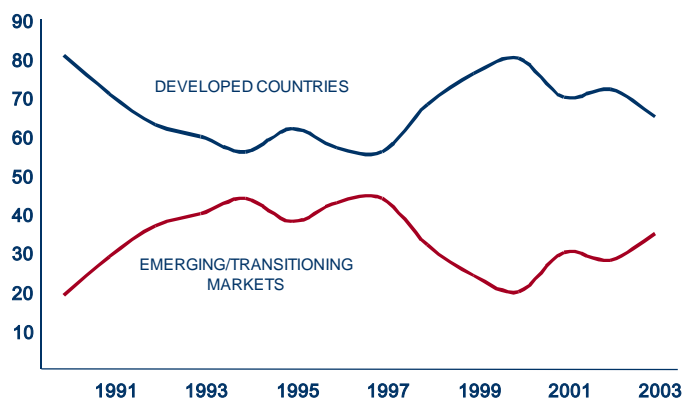
- Financial crises in Latin America
- Depressed growth in OECD countries
- September 11th and conflict around the world
- First wave of privatization ended in many larger emerging markets
- Foreign investors embroiled in disputes with host country governments

5



But Developing Countries Are Gaining an Increasing Share of Global FDI

Percentage share
of global FDI flows



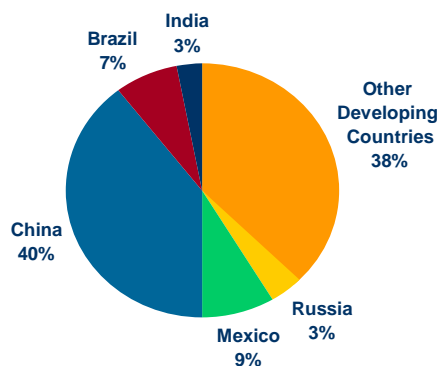
6

Note: Estimates include Singapore, Taiwan, and Hong Kong
Source: UNCTAD, AT Kearney



Distribution of FDI in Emerging Markets

More than 60% of FDI into emerging markets is concentrated in 5 countries

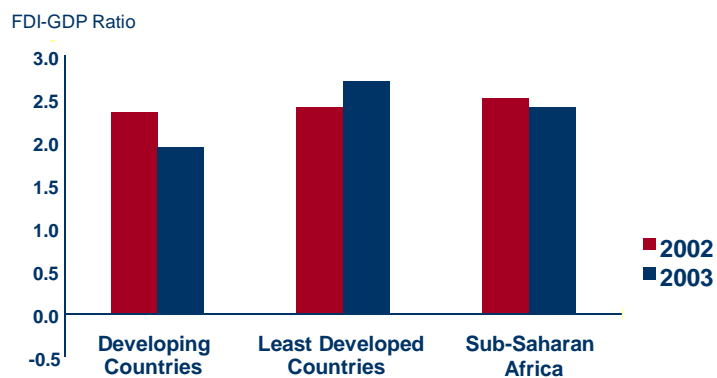


7

Source: Global Development Finance 2004, '03 estimates



Despite FDI concentration, poor countries receive sizeable share of FDI



8

Source: Global Development Finance 2004, World Bank



FDI Based on Country Income and Risk

Only 12% of FDI into developing countries goes to high-risk/low-income countries

		Country Risk	
		High	Low
Income per Capita	High	30%	27%
	Low	12%	31%

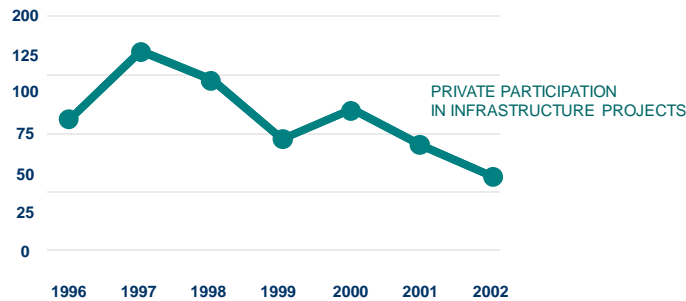
9

Source: MIGA, risk definitions from Institutional Investor
Note: Figures represent FDI into MIGA-eligible developing countries



Fall in Infrastructure Investment US\$B

Private participation in infrastructure projects in developing countries has fallen nearly two-thirds since 1997



10

Source: Public Policy for the Private Sector, World Bank



Prospects for 2004 More Promising

- Cross-border mergers and acquisitions, combined with higher economic growth, improved corporate profitability, and higher stock valuations, point to a recovery of FDI flows in 2004
- Investors are more willing to make overseas investments compared to 2003, according to AT Kearney's FDI Confidence Index

11



Factors Affecting FDI Trends

- Economic growth
- Emerging market needs
- Investment climate in developing countries
 - more free trade agreements
 - increased regional integration
 - regulatory changes favorable to FDI
 - improved credit ratings in emerging markets

12



Factors Affecting FDI Results

RESULTS

COUNTRY POLICIES	Good FDI policies	High FDI performance	Low FDI performance
	Bad FDI policies	<p>Many countries fit into this quadrant, e.g., China, after it opened up, Singapore, Mauritius, Botswana</p>	<p>Are there any examples of countries in this quadrant? (Perhaps Lithuania.) If so, then marketing might help.</p>
		<p>FDI drawn despite poor policy due to high profitability in sectors such as mining, and oil and gas, e.g., Libya, Angola and Equatorial Guinea</p>	<p>Many countries in this quadrant, by choice. Countries have to decide to change</p>

13



Development Needs Today

- 1.7 billion people live on less than a dollar a day
- 10+ million children die each year from preventable illnesses
- Economic burden of HIV/AIDS, etc., is enormous
- Billions lack access to safe drinking water and sewage treatment
- Children can't attend school because basic infrastructure is missing
- Impact of recent tsunami will be felt for many years
- And on and on...

14



Needs Translate into Opportunities

- Governments cannot fund it alone
- Estimated annual need for new infrastructure: over \$230 billion*
- Rapid urban growth demands massive investment in water, power, roads, and telecommunications

15

* World Bank Policy Research Working Paper 3102, July 2003



The Solution Isn't Complicated

- Foreign investors are an important pillar of development:
 - Provide water, power, and other basic infrastructure
 - Rebuild collapsed financial systems
 - Generate taxes
 - Help countries tap natural resources in an environmentally sustainable way
 - Provide jobs, transfer skills, spur local investment, etc.
- The private sector frees up governments to focus on pressing social needs

16



But Risks Exist

- Financial crises in a number of regions have confirmed that classical political risks do exist
- Recent investor experience includes:
 - Repossession of privatized assets
 - Defaults on government obligations
 - Revocation of concessions given by previous governments
 - Frustrations due to inadequate legal & regulatory frameworks
- Risk arena widening, as sub-sovereign partners increasingly involved

17



As Seen by Recent Events

(Just the last seven years)

- 1997 Indonesian government cancels 27 power purchase agreements (MIGA's first claim)
- 1998 Russian Government issues a 90-day moratorium on private foreign capital payments
- 2001-2 Argentina financial crisis

18



MIGA Has a Critical Role to Play

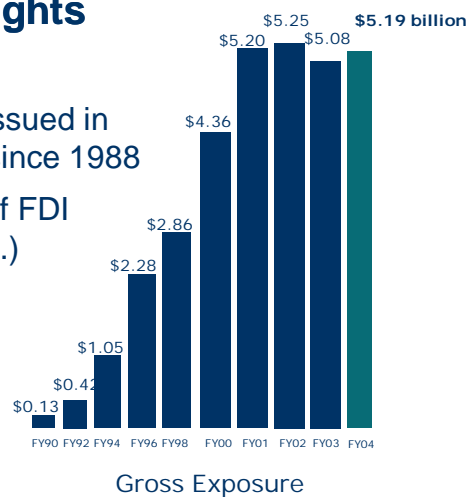
- Public funds and domestic private investment are not enough to support economic growth
- MIGA was created in 1988 to promote investments into developing countries, through:
 - Political risk guarantees (expropriation, transfer restriction, breach of contract, war and civil disturbance)
 - Technical assistance and information dissemination to governments and investors
 - Investment dispute mediation

19



Portfolio highlights

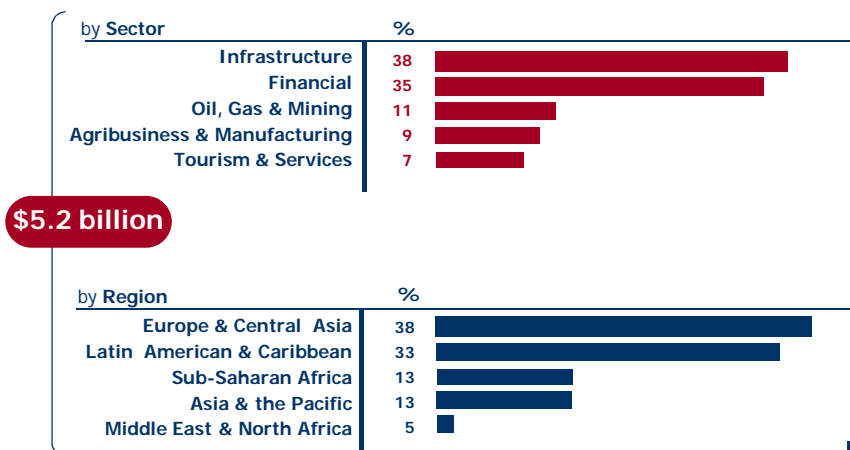
- \$12.8 billion issued in 85 countries since 1988
- \$51.1 billion of FDI facilitated (est.)



20



Gross Exposure as of June 30, 2004



21



FY04 Top Host Countries

Six Largest Outstanding Country Exposures (gross)

	%	\$M
Brazil	12.1	626
Bulgaria	6.8	353
Romania	6.4	331
Mozambique	6.0	311
Russian Federation	5.2	269
Bosnia and Herzegovina	3.9	203
Total	40.4	2,093

22



MIGA's Unique Strengths

- World Bank Group member (shareholders include 164 investor and host countries)
- Brings security and credibility to transactions and can literally transform a “no-go” into a “go”
- Deters government actions that may adversely affect investments
- Acts as intermediary to resolve investment disputes
- Able to manage risks in difficult or frontier markets (42% of portfolio in these countries)

23



MIGA's Development Priorities

- Focusing on sustainable development to the benefit of investors and host countries alike
- Opening up difficult or frontier markets, especially in conflict-affected countries
- Supporting infrastructure projects (e.g., sub-sovereign risk)
- Promoting cross-border investments between developing countries

24



Strong Record in Conflict-Affected Countries

- Provides coverage in countries where other insurers are often not willing to go
- Guarantees are important immediately after war's end
- Guarantees can help make a project more attractive in terms of risk
- Projects help attract even more investment and encourage the return of flight capital
- Projects sometimes act as impetus for improving rules and regulations that make for a more attractive investment climate
- Established new Afghanistan guarantee trust fund

25



A Leader on Complex Transactions

- MIGA covers complex deals, involving, for example:
 - sub-sovereign risk, which is increasingly common in infrastructure projects in developing countries (e.g., Ecuador water project)
 - interest rate swap, as it did for a group of lenders for a power plant in Vietnam.
 - capital markets guarantee for residential mortgage-backed securities in Latvia, which moved up the sovereign ceiling three notches and allowed investors to segregate investment from credit risk.

26



And Industry Partner

- Private insurers account for roughly half of the PRI market
- The public sector (national export credit agencies) and MIGA make up the rest
 - MIGA holds a 4-6%, and growing, market share
- MIGA complements public and private insurers (e.g., EDC, OPIC, etc.)
 - Coinsurance
 - Cooperative Underwriting Program (CUP)
 - Reinsurance
- Can act as lead arranger with private and public insurers

27



Putting It All Together

- Developing countries benefit from foreign investment, when it's done right
- Investment needs today are greater than ever
- Investors are more optimistic about investing abroad, but recognize the noncommercial risks
- With appropriate risk management, there are tremendous opportunities for investors to make profitable, productive investments that will benefit people in the developing world

28



Conclusion

- Challenges are immense, but so are the opportunities
- Good returns can be made with appropriate risk management
- To do our part, we need to act as a catalyst to open up markets to FDI and support projects that will have the strongest development impact possible
- And leverage partnerships for development

