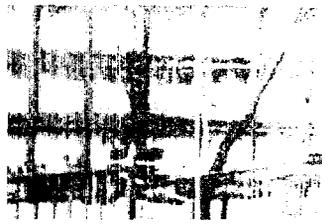




MULTILATERAL INVESTMENT  
GUARANTEE AGENCY  
WORLD BANK GROUP

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February 2001



# INVESTMENT INSURANCE and *Developmental Impact*

EVALUATING MIGA'S EXPERIENCE



GERALD T. WEST  
ETHEL I. TARAZONA



All photographs included in this publication correspond to MIGA evaluated projects and were taken during the course of monitoring visits. Cover (from top to bottom): ABN AMRO Bank Kazakhstan in Kazakhstan; Tecnologia em Componentes Automotivos Ltda. in Brazil; Jamaica Energy Partners in Jamaica; Coca-Cola Bishkek Bottlers in Kyrgyz Republic; Parmalat S.A. in Brazil; and ING Bank N.V., Manila Branch in the Philippines.

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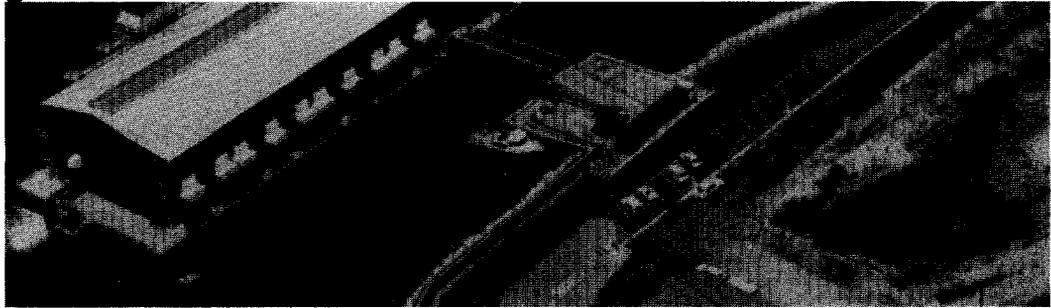
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# Preface



JAMAICA ENERGY PARTNERS, L.P.  
JAMAICA

The Multilateral Investment Guarantee Agency (MIGA) was created in April 1988 as a member of the World Bank Group. According to Article 2 of MIGA's establishing Convention:

"The objective of the Agency shall be to encourage the flow of investments for productive purposes among member countries, and in particular to developing member countries."

To achieve this objective, MIGA provides guarantees (or insurance) covering qualified foreign direct investment against the political risks of transfer restriction, expropriation, breach of contract, and war and civil disturbance in developing member countries. MIGA also carries out advisory and technical assistance to the governments of those countries to improve their ability to attract and retain foreign investment. Finally, MIGA provides an array of services to disseminate information on investment opportunities and business operating conditions in developing member countries.

Early in MIGA's history, it was recognized that it was critically important to attempt to measure and assess the developmental impact and effectiveness of MIGA's guarantee activities. For that purpose, MIGA systematically elicited detailed information about the estimated developmental impacts of every prospective MIGA-guaranteed investment. Many of these estimates were embodied in individual project reports conveyed to the MIGA Board of Directors before the issuance of a guarantee, and aggregated in the agency's annual reports and other publications. These estimates, for more than a score of variables, constitute multiple baselines from which evaluation of the actual impacts of the investment was undertaken.

This publication, based on several reports made to MIGA's Board of Directors, represents an attempt to convey to a larger audience an assessment of the actual impacts of a large sample (52) of MIGA-assisted investments. With one exception, every project was visited to verify the information to be analyzed. As expected, the actual impacts of these projects—in 27 countries and representing many sectors—vary widely. However, these variances should not mask the reality that, relative to the investment-specific anticipated impacts, these investments generally met or exceeded the original anticipated impacts. While there were anomalies and even outright

failures, the broad positive impact of these projects is quite evident. The single best indicator was the amount of Foreign Direct Investment (FDI) facilitated. Originally anticipated to be \$5.8 billion for these 52 projects, the actual amount of FDI which occurred was \$7.1 billion.

This analysis and publication was undertaken by the Operations Evaluation Unit (OEU), of MIGA with the support of many individuals. The report both encompasses and extends the analysis of the 1998 publication<sup>1</sup>. This publication represents one of the most comprehensive empirical evaluations of the developmental impacts of foreign direct investments ever undertaken by an investment insurer. Moreover, it is one of the few pieces of research that explores the nexus between private investment and development across multiple dimensions and time.

It is hoped that this publication will help the reader better understand how foreign private investment can have a positive effect on the development process, and how MIGA has contributed to that process.

Readers are invited to comment on the findings of this publication (see Chapter 7) and, more importantly, to offer counsel on the nature of future evaluation activities. Especially welcome are comments from the academic community on methodological issues and from individuals and organizations from MIGA's developing country members.

#### **Notes**

1. Gerald T. West and Ethel Tarazona: MIGA and Foreign Direct Investment: Evaluating Developmental Impacts. The World Bank. Washington, DC, 1998.

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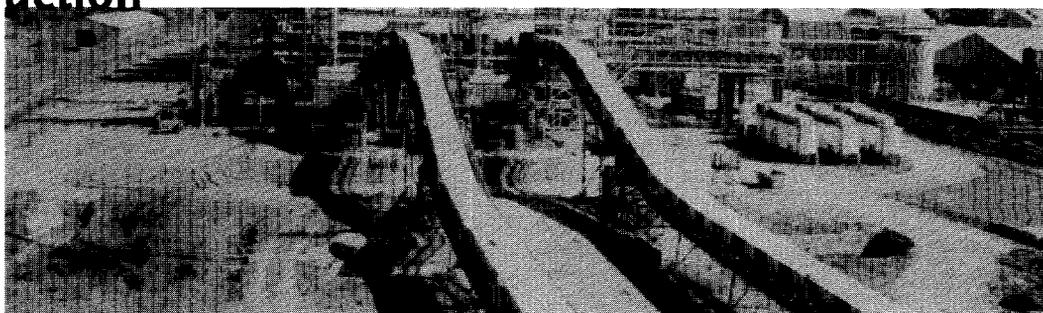
# Glossary



EQUATE PETROLEUM COMPANY K.S.C.  
KUWAIT

AA	ABN AMRO Bank, N.V.	MIGA	Multilateral Investment Guarantee Agency
AABK	ABN AMRO Bank Kazakhstan		
ADB	African Development Bank	NEMA	National Environmental Management Authority (in Uganda)
ADF	Allied Democratic Front (in Uganda)		
BRGM	Bureau de Recherches Géologiques et Minières	NRM	National Resistance Movement (in Uganda)
CDG	Country Development Group (in MIGA Guarantees Department)	OECD	Organization for Economic Cooperation and Development
Danida	Danish International Development Assistance Fund	OED	Operations Evaluation Department (IBRD)
DRC	Democratic Republic of Congo	OEG	Operations Evaluation Group (IFC)
EIB	European Investment Bank	OEU	Operations Evaluation Unit (MIGA)
FDI	Foreign Direct Investment	PROPARCO	Société de Promotion et de Participation pour la Coopération Economique de France
FFEM	Fonds Français pour l'Environnement Mondial		
FY	Fiscal Year	SEREM	Société d'Etudes, de Recherches et d'Exploitation Minières
GDP	Gross Domestic Product		
GNP	Gross National Product	SME	Small- and Medium-Sized Enterprise
HIPC	Heavily Indebted Poor Countries (Initiative)	UNCTAD	United Nations Conference on Trade and Development
IBRD	International Bank for Reconstruction and Development	VAT	Value Added Tax
IDA	International Development Association	WBCSD	World Business Council for Sustainable Development
IER	Investment Exposure Ratio		
IFC	International Finance Corporation		
ISO	International Organization for Standardization		
KCCL	Kasese Cobalt Company Limited		
MW	Megawatt		

# 1. Introduction



SOCIÉTÉ D'EXPLOITATION DES MINES D'OR DE SADIOLA  
MALI

Before issuing an insurance (guarantee) contract, MIGA reviews a prospective investment's eligibility for coverage using criteria established by the MIGA Convention and the Agency's Operational Regulations. One of the essential criteria is the investment's potential contribution to the development of the host country. During the application stage MIGA gathers information on the investment to assess its anticipated, or *a priori*, developmental impacts. The core of this report presents a *post facto* analysis of actual developmental effects attributable to a large sample of MIGA-guaranteed projects.

MIGA has regularly reported to its Board of Directors on the prospective developmental impacts of individual projects and, through its annual report, its potential aggregate effects. However, it obviously takes time for MIGA-insured projects to reach a stage where their actual developmental impacts can be evaluated. It is only within the past few years that MIGA has been able to monitor a sufficient number of projects to produce information that could be systematically analyzed and conveyed to its Board of Directors. In October 1998, a report on developmental effectiveness, *MIGA and Foreign Direct Investment: Evaluating Developmental Impacts*, was published and disseminated. That publication contained an analysis of 25 monitored projects that were considered mature enough to be evaluated at that time.

Building on the 1998 report, this publication seeks to:

- inform civil society, academia, and other interested parties on the evaluation work MIGA has undertaken in the ensuing two years;
- present information on the actual developmental impacts of 52 MIGA-guaranteed projects;

- demonstrate, using multiple paradigms, the extent to which private investments have contributed to economic and social development in their host countries; and
- invite public comment on future MIGA evaluation efforts.

Chapter 2 describes MIGA's development mandate as described in the agency's Convention and Operational Regulations, and broadly reviews its efforts to enhance its contribution to the development process. It also provides a brief overview of MIGA's growth over the last 12 years and notes the increasing regional and sectoral diversification of MIGA's portfolio. Chapter 3 provides an update of the evaluation work undertaken in the last two years. Chapter 4 presents the evaluation findings of developmental impacts across a sample of 52 evaluated projects. It also provides a comparison of anticipated versus actual benefits for some quantitative indicators as well as a thorough analysis of impacts within a multidimensional framework. Chapter 5 introduces a metric to measure MIGA's utilization of its resources. As an additional perspective, Chapter 6 presents two evaluative case studies. These in-depth studies feature a cobalt facility in Uganda and a commercial bank in Kazakhstan. Chapter 7 describes the lessons learned and lays out some of the evaluation tasks that lie ahead. Finally, the annexes provide an overview of MIGA's evaluation methodology and a complete list of projects evaluated.



## 2. MIGA's Purpose and Development Mandate



JAMAICA PRIVATE POWER COMPANY, LTD.  
JAMAICA

## Purpose and Rationale

MIGA's founders envisaged the creation of a special-purpose organization to supplement the activities of the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), and other international development finance institutions. To "encourage the flow of investment for productive purposes to developing member countries," MIGA was given a mandate to promote investment by providing political risk insurance, and by disseminating information on investment opportunities (see Articles 2 and 23 of the Convention). Moreover, MIGA was mandated specifically to complement national and regional investment insurance programs and private insurers (see the Preamble and Article 19 of the Convention).

Since its first contract of guarantee, MIGA has sought to ensure that the projects it assists are beneficial to host countries. Conforming to its Convention (Article 12d(i)) and the Operational Regulations (3.05-3.08), MIGA must satisfy itself that the prospective investment will contribute to a host country's development before issuing a guarantee (that is, an insurance contract). MIGA incorporates a summary of the prospective developmental impacts in all President's Reports to the Board and obtains concurrence from MIGA's Board of Directors before issuing a contract of guarantee. MIGA also seeks to complement the IBRD and IFC by taking into consideration both their broad activities in a country and the specific development objectives contained in the Country Assistance Strategy.

To understand "developmental effectiveness", it is useful to recall some of the constraints

and compromises that are found in MIGA's Convention and Operational Regulations.

A significant number of constraining parameters were specified in the Convention and the Operational Regulations with respect to how the agency can offer its guarantees. The agency was expected to respond swiftly to the applications of prospective private investors. MIGA's Operational Regulations (3.26) call for it to make prompt decisions—to the extent possible within 120 days of receipt of a Definitive Application for a guarantee.

In order to facilitate prompt underwriting decisions, the Operational Regulations (3.27 and 3.28) allow MIGA staff either to conduct its own assessment of the proposed investment or to rely on a statement by the host government that the proposed investment conforms to the laws, regulations, objectives, and developmental priorities of the country. Given the importance of the developmental impact of prospective investments, MIGA staff has done both, that is, conducted its own assessment and required a statement by the host country that the investment meets the country's developmental objectives.

Acting as a supplement to other international financial institutions and a complement to other investment insurers, MIGA was expected to facilitate productive private investment into its developing member countries. Unlike institutions providing debt and/or equity financing to a project, investment insurers have considerably less leverage to induce changes in a project's basic design or implementation. Therefore, like other insurers, MIGA tends to either approve or deny coverage to a foreign direct investment (FDI) in the form that the applicant proposes it. An exception arises when a project fails to adequately address potentially significant environmental

problems. In such cases, MIGA will ask the applicant to modify the project in accordance with MIGA policies and World Bank guidelines.

## MIGA's Growth and Diversification

MIGA has experienced rapid growth in membership. While 42 countries subscribed to MIGA's original capital in 1988, 154 countries have since completed membership requirements, which include the signature and ratification of the MIGA Convention and payment of a capital subscription. Another 12 countries are in the process of completing membership requirements.<sup>1</sup>

Since MIGA began operating in the summer of 1989, it has grown into an important catalyst of FDI flows into developing countries. The cumulative FDI facilitated by the agency between fiscal years (FY) 1990 and 2000 is estimated at \$36 billion (all amounts are represented in US dollars), supporting 307 investment projects. During fiscal years 1990-95, MIGA facilitated (by providing political risk insurance) an annual average FDI of \$1.3 billion. Since then, this average has increased to \$5.6 billion a year. In fiscal year 2000, MIGA facilitated about \$5.5 billion in FDI (see Table 1).

Since 1990, MIGA has issued 473 guarantees, 53 of them in fiscal year 2000. These guarantees have covered investments both to and from developing countries. Covered investments have originated in 33 different member countries, 14 of which are themselves developing countries: Argentina, the Bahamas, Brazil, Cyprus, Egypt, India, Korea, Malaysia, Panama, Saudi Arabia, Singapore, South Africa, Turkey, and Uruguay.

**Table 1**  
**MIGA's Guarantee Portfolio**  
**FY1990-2000**

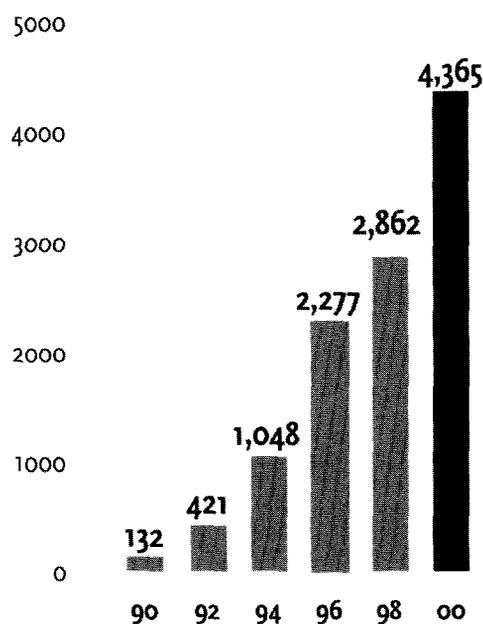
Fiscal Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Total
Number of Guarantees Issued	4	11	21	27	38	54	68	70	55	72	55	473
Amount of Guarantees Issued (\$ million)	132	59	313	374	372	672	862	614	830	1,310	1,605	7,145
Estimated FDI Facilitated (\$ billion)	1.0	0.9	0.6	1.8	1.3	2.3	6.5	4.7	6.1	5.2	5.5	36.0

Since fiscal year 1990, MIGA's guarantee portfolio has grown rapidly. MIGA's maximum aggregate liability has grown from \$132 million in the agency's first year of operations to \$4.4 billion in fiscal year 2000; its size has increased four fold since fiscal year 1994 (see Figure 1).

MIGA issued \$1.6 billion in coverage in fiscal year 2000, with cumulative coverage issued reaching \$7.145 billion by the end of the fiscal year (Table 1). These guarantees insured a total of 307 projects, an average of almost 26 new projects a year (34 in fiscal year 2000).

These projects have had important developmental effects on the host countries' economies. These developmental benefits ranged from the creation of jobs, to introducing modern technology, generating foreign exchange earnings, increasing government revenues, and developing local capital markets, to indirectly creating jobs, increasing human capital, and benefiting the surrounding community and project-related businesses. (See Chapter 4.)

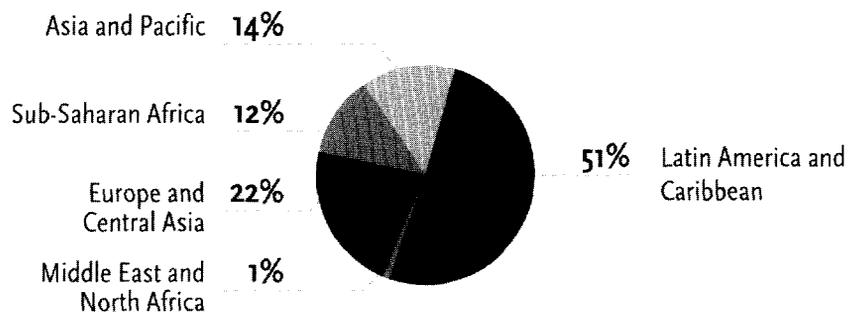
**Figure 1**  
**MIGA Gross Exposure**  
 (\$ billion)



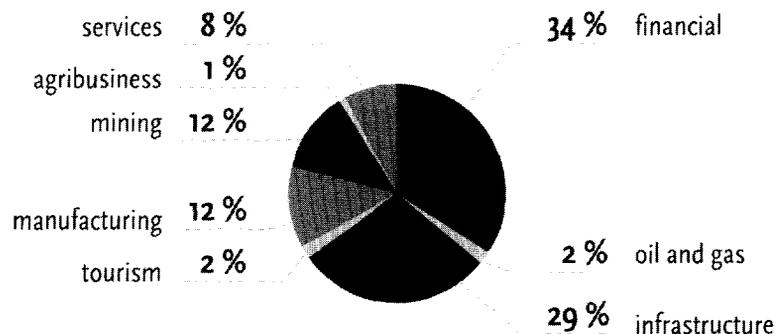
While MIGA's outstanding portfolio of insurance contracts continues to increase in size, it has remained regionally diverse. Figure 2 depicts the regional distribution of MIGA's current portfolio in terms of outstanding gross coverage. MIGA guarantees have covered investments in 75 different developing member countries.

Ten countries received MIGA-supported investments for the first time in fiscal year 2000 (seven of which are IDA-eligible)<sup>2</sup>: Albania, Armenia, Bosnia and Herzegovina, Croatia, Lesotho, the Former Yugoslav Republic of Macedonia, Moldova, Nicaragua, Swaziland, and Turkmenistan. In its effort to diversify its portfolio, MIGA

**Figure 2**  
**Regional Distribution of MIGA's Outstanding Portfolio**  
 as of June 2000



**Figure 3**  
**Sectoral Distribution of MIGA's Outstanding Portfolio**  
 as of June 2000



**Table 2**  
**MIGA Guarantees Outstanding in IDA-Eligible Countries**  
(As of June 30, 2000, Gross Liability)

Host Country	Percent of Total	Host Country	Percent of Total
Albania	0.04	Madagascar	0.03
Angola	0.48	Mali	0.81
Armenia	0.06	Moldova	0.06
Azerbaijan	1.50	Mozambique	2.57
Bangladesh	1.82	Nepal	0.75
Bolivia	1.77	Nicaragua	1.87
Bosnia and Herzegovina	0.48	Pakistan	3.29
Cape Verde	0.05	Sri Lanka	0.08
Côte d'Ivoire	0.34	Tanzania	2.73
Georgia	0.05	Uganda	1.09
Ghana	0.34	Vietnam	0.82
Guinea	0.07	Zambia	0.72
Guyana	0.70		
Honduras	0.39	<b>Total - 31</b>	<b>27.86</b>
Indonesia	1.29		
Kenya	0.97		
Kyrgyz Republic	1.72		
Lesotho	0.54	<b>No longer IDA-eligible</b>	
Macedonia, FYR of	0.43	China	2.77%

has sought to increase its exposure in sub-Saharan Africa, a region that has traditionally attracted little FDI. While this region accounted for only 8 percent of MIGA's outstanding portfolio on June 30, 1999, its share increased to 12 percent as of June 30, 2000; this represents a large surge in projects supported, given the simultaneous growth of the overall portfolio.

As Figure 3 notes, MIGA has facilitated private investments in many sectors, including telecommunications, energy generation, toll roads, hotels, pension funds, leasing, banking, gold mining, and food processing among others. Some previously underrepresented sectors have grown considerably in the past eight years. In fiscal year 2000, 29 percent of the insured

investments were in the infrastructure sector, compared with only 1 percent in 1992. The manufacturing sector has remained constant at 12 percent of the portfolio during the same period.

MIGA has been successful in supporting investments in many IDA-eligible countries, issuing \$1.7 billion in guarantees and facilitated an estimated \$8.1 billion of FDI in 35 IDA-eligible countries.<sup>3</sup> The share of guarantees in IDA countries in MIGA's outstanding portfolio is 27.9 percent (see Table 2).

MIGA also provides targeted and client-focused technical assistance and advisory services, which benefited 40 countries in fiscal year 2000. Most of these activities were related to capacity-building of investment promotion agencies in

developing countries, to internet-based dissemination of information on investment opportunities and business conditions, and to project design.

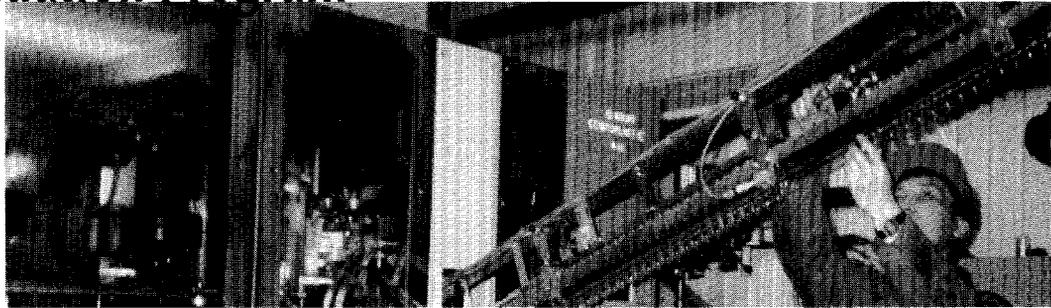
MIGA has also begun to venture into post-conflict areas, insuring projects in West Bank/Gaza and Bosnia and Herzegovina, for which trust funds have been established.

#### Notes

1. As of October 31, 2000. The IBRD currently has 182 member countries.
2. The International Development Association (IDA) is the World Bank's concessional lending facility, which concentrates its activities on countries with the lowest per-capita income.
3. Some of these countries, such as China, have since lost their IDA status.



### 3. Evaluation Program



COCA-COLA BISHKEK BOTTLERS  
KYRGYZ REPUBLIC

## Introduction

The conceptual framework used by MIGA's evaluation program was broadly endorsed by its Board of Directors in 1998. This framework was subsequently published and has received positive feedback from the academic and research community.

Over the past two years, improvements have been made to the evaluation program, including a larger sample of evaluated projects, improvements in the evaluation process, and improvements in the evaluation instruments. Each of these is discussed briefly below. (For a more detailed description, see Annex 1.)

In 1998, the Board of Directors identified two important areas that needed further attention: (1) to better assess MIGA's role in facilitating investments; (2) to measure some of the costs associated with achieving given developmental results. Improvements have been made in both areas. Presented below are the results of a client survey that addressed the question of MIGA's value to investors. A new metric designed to capture MIGA's role in facilitating FDI, the *Investment Exposure Ratio*, is also presented.

## Project Evaluation Design

### **INCREASED SAMPLE OF EVALUATED PROJECTS**

In 1998, MIGA committed to evaluate 20 to 25 more MIGA-assisted projects by June 2000, for a total of 45 to 50 projects. A total of 52 were evaluated; of those, 42 were active as of March 2000. This means that 75 percent of all active projects that received MIGA coverage between fiscal years 1990 and 1996 have been evaluated (see Table 3).<sup>1</sup> (For details of project selection, see Annex 1.)

The 52 mature projects evaluated are regionally and sectorally diversified (see Annex 2). They are located in 27 countries: Argentina, Bangladesh, Brazil, Bulgaria, China, Costa Rica, El Salvador, Guyana, Honduras, Indonesia, Jamaica, Kazakhstan, Kuwait, Kyrgyz Republic, Madagascar, Mali, Pakistan, Papua New Guinea, Peru, the Philippines, Saudi Arabia, South Africa, Trinidad and Tobago, Turkey, Uganda, Uzbekistan, and Venezuela. During fiscal year

**Table 3**  
**MIGA-Assisted Projects Evaluated\***

Fiscal Year	1990	1991	1992	1993	1994	1995	1996	Total	
Active projects **	0	2	8	5	7	16	18	56	
Active projects evaluated	0	2	8	3	6	11	12	42	75%
Other projects evaluated ***	0	1	0	0	4	3	2	10	

\* Active as of March 31, 2000

\*\* One project is not yet operational; however the investors still expect the project to go forward.

\*\*\* Contracts for these projects expired or were cancelled subsequent to the evaluation visit. This category also includes two projects evaluated after cancellation.

Note: Projects are only counted once, recorded at the time the first contract became effective.

2000, MIGA monitored all mature projects that were located in sub-Saharan Africa.

The evaluated projects are in industries as diverse as ecotourism, transportation, soft drink bottling, petrochemicals, mining, and banking. A total of 19 projects in the financial sector were monitored, which reflects MIGA's high exposure in this sector. Sectorally, the evaluation program also focused on mining projects, because of the potentially larger impacts these projects have in terms of social and environmental issues; a total of six projects in that sector were monitored since 1998. Four infrastructure projects involving power generation and telecommunications were also included in the sample.

Figures 4 and 5 depict the population of active<sup>2</sup> and mature projects by region and sector and compares them with the composition of the sample of evaluated

projects. As the figures show, the sample is quite representative.

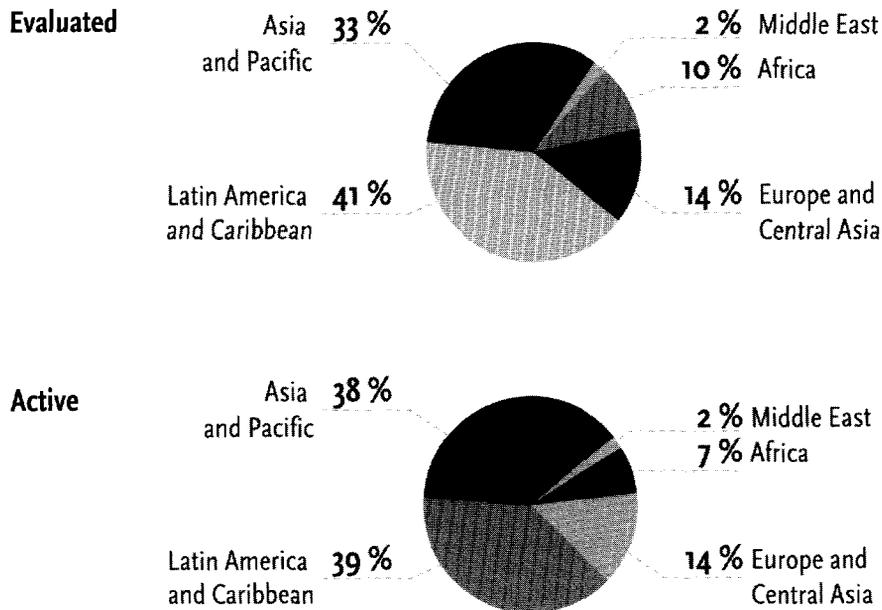
#### **Mix of Internal and External Evaluators**

MIGA has continued to apply a balanced approach to project evaluation, encompassing external and internal evaluators. Of the 52 projects evaluated, 35 (67 percent) were evaluated by MIGA staff. Of these, ten projects (17 percent) were visited by MIGA's environmental specialists. Fifteen projects (29 percent) were monitored by outside consultants and two projects were self-evaluated.

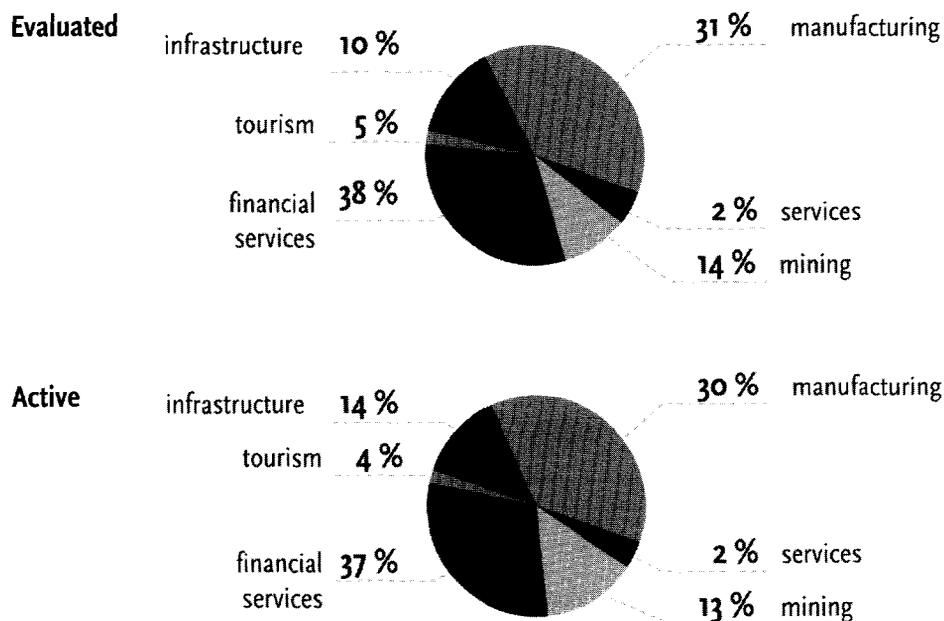
#### **IMPROVEMENTS IN THE EVALUATION INSTRUMENTS**

Several improvements in the evaluation instruments utilized were made over the last two years. The most notable was the addition of sector-specific "drop-in

**Figure 4**  
**Evaluated versus Active Projects by Region** (Projects guaranteed in FY90-96)



**Figure 5**  
**Evaluated versus Active Projects by Sector** (Projects guaranteed in FY90-96)



modules" to the general evaluation questionnaire.

The Project Monitoring Questionnaire was initially designed as a "universal" evaluation instrument intended to capture the developmental effects of a wide variety of investments in different sectors. However, it sometimes failed to adequately capture the particular impacts of projects in the financial, infrastructure, and mining sectors. Hence, enhancements to the questionnaire were viewed as an important element in the improvement of the entire evaluation system. The general questionnaire contains some valuable elements that needed to be preserved because they are applicable to all sectors. (It is also useful to maintain consistency with the data gathered for the 25 projects evaluated in the first round.) Thus, the changes in the questionnaire primarily related to gathering sector-specific information on development impacts.

In fiscal year 2000, MIGA staff inaugurated the use of questionnaires with customized "drop-in modules" for the financial, power, and mining sectors. The financial sector module incorporated comments from MIGA's Board and selected recommendations made by Dr. Dimitri Plionis<sup>3</sup> in 1998. The power sector module incorporated major items contained in the IBRD's "Power Sector Performance Monitoring Indicators," prepared in May 1995 by the Industry and Energy Department Power Development, Efficiency and Household Fuels Division. An IFC staff member helped refine the module to make it more suitable for private power projects. The mining sector module was adapted from the IBRD's "The Use of Sectoral and Project Performance Indicators in Bank-Financed Industry and Mining Operations," prepared in April 1995.

The questionnaires with the "drop-in

modules" were used in the monitoring of the projects evaluated in fiscal year 2000. The feedback received from investors has been positive since it gave them a better understanding of MIGA's goals. (For example, in seeking to assess a project's macroeconomic effects, the variable of "value of exports generated" was changed to "value of electricity produced" for power sector projects,<sup>4</sup> while this item was deleted from the financial sector module.) This change enabled non-export generating projects to be evaluated in terms of their broader value-added to the economy. The quality of data that was collected using these revised questionnaires has enhanced the analysis of the projects' developmental impacts.

## **IMPROVEMENTS IN THE EVALUATION PROCESS**

Some improvements in the evaluation process made over the last two years are worth noting.

### **More time devoted to preparation**

One of the lessons learned in the initial round of evaluations was that additional preparation was needed for the monitoring visit. Although MIGA evaluations staff had communicated well in advance of visits with investors, some misunderstandings arose, which, on occasion, precluded the monitoring officers from promptly obtaining complete information about the project. The monitoring officer occasionally spent considerable time with investors explaining objectives, helping them with the questionnaire (especially on its applicability to their project), and then asking for additional relevant data. Given the short duration of the site visit, the time spent by the monitoring officer to assist the investors in filling out the questionnaire could have

been better employed in assessing other, more difficult areas like downstream and upstream effects. It was clearly important that investors understand as early as possible what MIGA requires. Once the investors understood what was expected from them, they tended to cooperate more fully. Thus, in the last two years more time and effort was devoted to preparing the investor for the evaluation visit. The added time spent with clients in the preparatory stage has resulted in significant efficiency gains: project site visits were conducted more efficiently, and more and better information was procured.

Another significant improvement in the process was the increased attention given to prepare the monitoring officer before his/her departure to the project site. A systematic approach applied in the preparation and training sessions has yielded better evaluation results and ensured consistency across monitoring officers.

### **More coordination with partner organizations**

Coordination with the IBRD and IFC was also given greater emphasis in the preparation stage in order to identify project-related and country-specific issues that may have affected the project's developmental impacts. MIGA evaluation staff consulted IBRD and IFC staff in the preparatory stage of monitoring visits and shared documents with both institutions. This coordination included meetings with IBRD/IFC staff at headquarters and field offices and was particularly important in seven projects evaluated in which the IFC and IBRD are involved.<sup>5</sup> In some instances, monitoring reports have been exchanged between MIGA's and IFC's evaluations departments, such as in the case of Kumtor Gold Company in the Kyrgyz Republic, for

which IFC had recently conducted some environmental supervision.

As detailed in Annex 1, meetings with IBRD or IFC resident representatives in the country offices were an important part of MIGA monitoring visits. These meetings served to solicit additional views of some of the benefits and costs associated with MIGA-supported projects. At the same time, they provided an opportunity to discuss the IBRD's Country Assistance Strategy and how MIGA's activities have contributed to that strategy.

### **Participation of environmental officers**

In fiscal year 2000, MIGA environmental officers actively participated in the evaluations program. While acting as evaluators for developmental effectiveness, they also conducted environmental reviews of projects deemed to be sensitive. To ensure adequate coverage of environmental issues, they reviewed the sample of all projects to be evaluated to identify any environmental issues for monitoring. Moreover, they assumed the responsibility of rating all projects on the environmental effects dimension. This cooperation has proved to be extremely efficient and beneficial for the entire evaluation process.

### **Training of MIGA staff**

All incoming guarantee underwriters are trained on how to assess developmental impacts and on the evaluation process through workshops. In fiscal year 2000, two training sessions were offered to new staff. The purpose of the training was to: (1) make guarantee underwriters better understand the nature of MIGA's evaluation program; (2) heighten awareness of developmental issues; and (3) enhance data collection during the *a priori* stage and, consequently, improve the quality and comparability of subsequent evaluations.

## Clients' Evaluation of MIGA's Value

Since the mid-1990s, MIGA has used client surveys to test investors' satisfaction with its guarantee services and to find out how the agency's performance compares with other investment insurance providers. The surveys also served to identify areas where improvements are needed and investors' demands for products and services had changed.

In the fall of 1998, an external consultant conducted a confidential and anonymous survey of current MIGA clients. A total of 138 MIGA clients were surveyed on a wide range of questions. The rate of response was 41 percent.

The survey also provided useful information on assessing MIGA's role in facilitating foreign direct investment. In particular, clients were asked the following question on a scale of 1 (absolutely critical) to 5 (not necessary):

**"How important was it for your firm to secure MIGA coverage before proceeding with the investment (circle one number)?"**

	<i>absolutely critical</i>		<i>not necessary</i>		
	1	2	3	4	5
Number	18	20	7	4	3
Percent	35	38	13	8	6

Seventy-three percent of the MIGA clients who replied answered the question with either "absolutely critical" or "critical." Given this result, it is logical to infer that

MIGA's guarantees are an essential component of the investment decisions of companies. It is also clear that a substantial number of projects would not have gone forward without MIGA coverage. However, from this survey, it is not possible to determine exactly which investments would not have occurred.

## Other Evaluation Efforts

In fiscal year 2000, MIGA participated in a World Bank Group joint country evaluation for the first time. The IBRD, IFC, and MIGA sent staff members to Kazakhstan in March 2000 to assess the results of the World Bank Group's assistance. MIGA specifically evaluated its projects in Kazakhstan and helped identify some of the key factors that constrain further private investment (see Box 1).

The IBRD had supported the macroeconomic stabilization program of Kazakhstan after it joined the World Bank in 1992. Subsequently, Kazakhstan successfully liberalized prices and foreign trade, embarked upon legal reform (civil code, bankruptcy law), rapidly privatized state-owned enterprises, and reformed the financial sector. The pace of implementation of reforms in Kazakhstan was generally higher than in other Central Asian republics.

Nevertheless, the results of transition have been mixed as economic growth has stagnated and a number of social indicators have deteriorated compared with the pre-transition conditions. This outcome can be attributed to several external factors such as the decline in the price of oil and other raw materials in the mid-1990s, the ruble depreciation of August 1998, and the Asian financial crisis of 1997.

## Box 1

### MIGA-supported Projects in Kazakhstan

Even though MIGA's involvement in Kazakhstan has been modest, with a guarantee volume of \$35.5 million, its activities are nevertheless viewed positively by MIGA evaluation staff and by the country. Through its guarantee program, MIGA facilitated foreign direct investment of \$96 million and helped to create an estimated 470 new jobs in the country.

The evaluations of two mature projects found that their developmental impacts had been very positive. MIGA's support for ABN AMRO Bank Kazakhstan, an investment by the Dutch bank with participation of the IFC, has become a success story (see Chapter 6). It was the first modern commercial bank in the country and has helped to attract other foreign investors.

The other evaluated project, Coca-Cola Almaty Bottlers, a bottling and distribution company, has also been successful. In addition to employing 299 people, it provides jobs to wholesalers and distributors throughout Kazakhstan. Coca Cola Almaty Bottlers is engaged in close cooperation with nearby Coca Cola Bishkek Bottlers in the Kyrgyz Republic. Both are majority-owned by Efes Sinai Yatirim Ve Ticaret A.S. of Turkey, which has since started similar businesses with MIGA support in Russia, Azerbaijan, and Turkmenistan.

The joint country assistance evaluation noted that MIGA-assisted investments had very positive impacts, but that there was a lack of awareness of MIGA's guarantees and business services programs in Kazakhstan. Kazakhstani policy-makers encouraged MIGA to play a more active role in the country. MIGA concluded that in order to better inform them of agency's programs, it should increase its marketing efforts with respect to government officials, IBRD, and IFC field staff.

The joint evaluation of World Bank Group assistance to Kazakhstan was a valuable learning experience for all parties. The exposure to the processes and methodology of IBRD and IFC allowed MIGA evaluation staff to incorporate elements in its own evaluation program and benefit from some synergies. The findings of the joint evaluation will be incorporated into the new Country Assistance Strategy for Kazakhstan.

Country-specific obstacles to economic growth and to increases in foreign investment persist. Corruption, government interference with private businesses, arbitrary tax enforcement, a small banking sector, a weak regulatory framework, and a

poorly functioning judiciary all detrimentally affect Kazakhstan's potential for economic development. Moreover, these factors constrain the flow of FDI, hence limiting the scope for a more substantial MIGA involvement.

### Notes

1. Thirty-four percent of all active and cancelled/expired projects insured during fiscal years 1990 to 1996 were monitored (52 out of 151 projects).
2. All projects active on March 31, 2000.
3. In response to queries from some Board members, MIGA commissioned a study by Dr. Dimitri Plionis of the developmental impacts of MIGA-assisted financial projects. This study was published as an attachment to the 1998 publication.
4. Measured in terms of plant cost: (plant cost per Kwh) x (annual electricity generated in Kwh); or in terms of revenue (output price per Kwh) x (annual electricity generated in Kwh).
5. Seven of the projects evaluated directly involved IFC: ABN AMRO Bank Kazakhstan, ELCOSA-Honduras, Crescent Greenwood-Pakistan, Jamaica Energy Partners, Société d'Exploitation des Mines d'Or de Sadiola-Mali, Kumtor Gold Company-Kyrgyz Republic, and Kasese Cobalt Company-Uganda.



## 4. Project Evaluation Findings



P.T. HOKURIKU UNITED FORGING INDUSTRY  
INDONESIA

## Introduction

The 52 projects evaluated represent a high percentage of active and mature<sup>1</sup> projects, and are representative of MIGA's entire active portfolio. These project evaluation findings are solidly grounded on data that was collected by MIGA staff and external consultants who went to the field and visited the project site.<sup>2</sup> Thus, the approach is one that is based on first-hand information and is oriented to the specific investment.

The project data obtained through the evaluation exercise is complex and covers many aspects ranging from the status of project operations to environmental and demonstration effects (see Annex 1 on methodology). This multifaceted data gives evaluations staff an unusual opportunity to use different evaluation methods, to aggregate the information in different ways, and to consider multiple measures of developmental impacts. Two broad perspectives for evaluating developmental impacts are presented below: a verification of *a priori* versus *post facto* impacts, and an application of a multidimensional evaluation framework which rates each project in ten dimensions on a four-point scale.

### *Post-facto* Verification of Anticipated Impacts

MIGA has presented anticipated developmental impacts of each proposed projects to its Board of Directors since its first guarantee. The objective of this section is to report, on an aggregate basis, the results of verifying the extent to which these developmental results were realized. It is important to note that this verification is only possible due to the systematic gathering of *a priori* data. Given the conceptual and practical difficulties of building counter-factual scenarios, this *a priori* data provides invaluable baseline information.

## INVESTMENT FLOWS

As noted, MIGA was mandated to "encourage the flow of investments for productive purposes among member countries, and in particular to developing member countries."<sup>3</sup> Thus, the first aim of this evaluation was to verify whether or not the agency had achieved its objective of encouraging FDI flows to developing countries. To that effect, the *a priori* estimate of FDI at the time the MIGA guarantee was issued was compared with the actual FDI facilitated (at the time of the evaluation) for each of the 52 projects.

As Table 4 reflects, foreign direct investment facilitated was 21 percent higher than originally anticipated, reflecting additional inflows of funds.

Thus, MIGA's leverage effect has been greater than anticipated. The amount actually facilitated, about \$7.1 billion, was 5.4 times the amount of the original MIGA coverage (\$1,297 million)<sup>4</sup> that was issued to these guarantee holders. Moreover, none of the projects underwritten in fiscal years 1990 to 1996 has resulted in a claim loss.

**Table 4**  
**Anticipated and Actual Project Investment**  
(52 MIGA-evaluated Projects)  
\$M

Anticipated	Actual	Difference
5,810.5	7,056.2	1,245.7 (+21%)

## OTHER DEVELOPMENTAL IMPACT MEASURES

Developmental impacts of MIGA projects range from the introduction of modern technology and significant foreign exchange earnings to the provision of technical training and social services. Very few of these impacts are of a quantitative nature and can be aggregated across sectors. In an effort to find common and comparable units of measurement, three measures were selected and presented in the 1998 publication: taxes and duties paid, exports generated, and number of new jobs directly created. These measures are of value to further "verify" the degree to which anticipated impacts have actually been realized.

While these measures are, in theory, comparable and use the same unit of account (for example, dollars or number of jobs), in practice, they do not, in themselves, adequately measure the complex impacts a project can have. Thus, neither individually nor collectively do they represent an adequate evaluation of these projects' developmental impacts. (This underlines the importance of the second set of evaluations presented below.) However, these three measures are useful aggregate indicators of the extent to which actual impacts meet anticipated impacts.

Of the three indicators presented in Table 5, the initial estimates supplied by the investors regarding one of the indicators have been conservative forecasts of the actual impacts; the other two have been slightly optimistic. Initial estimates were modestly lower in exports generated and number of jobs directly created. The investments' impact in terms of taxes paid was greater than anticipated at the time of the underwriting. These mixed results could be partially due to the fact that anticipated data were estimated on the basis of five-year

**Table 5**  
**Selected Developmental Impacts**  
**(A Priori versus Post Facto, based on 52 Evaluated Projects)**

<b>\$ Millions (unless stated otherwise)</b>	<b>Anticipated</b>	<b>Actual</b>	<b>Difference</b>
Annual taxes and duties paid to the government	209.9	275.3	65.4 +31%
Annual exports generated*	1,702.6	1,619.7	(82.9) -5%
Number of new jobs directly created	16,220	15,509**	(711) -4%

\* Includes only the 18 export-generating projects.

\*\* Includes one project that had expatriate labor from other developing countries.

forecasts, and many of these projects have not been in operation for that period of time. Indeed, the average "age" of the 52 evaluated projects is 4.3 years. It is expected that the impacts will be greater once the five-year operational period for each project is reached.<sup>5</sup>

### **Taxes and duties paid**

The amount of annual taxes and duties paid to the host government averaged \$275.3 million over the first five years of operation, versus an expected \$209.9 million. Thus, actual figures are 31 percent higher than anticipated. This result is mainly due to higher-than-expected tax payments of a few large enterprises.

### **Exports generated**

Annual export revenues generated by the 18 exporting projects have averaged \$1,619.7 million, compared with an anticipated value

of \$1,702.6 million. The actual figure is \$82.9 million (or about five percent) less than anticipated. The analysis excludes projects in the financial, infrastructure, and tourism sectors and those manufacturing companies that focus on domestic markets. The negative deviation is largely due to a single project—Equate Petrochemical Company-Kuwait—which started production in November 1997 and was estimated to generate \$550 million in exports by the fifth year of operation. In 1998 and 1999, it generated exports of \$270 million and over \$400 million, respectively. Exports are forecast to be over \$550 million during 2000 and are expected to rise well above the original estimate by the fifth year of operation. Had this project been excluded from the sample, the aggregate exports generated amount would have been 10 percent higher than the anticipated level.

### Jobs created

While more than 15,500 jobs were verified to have been created, this is about four percent lower than anticipated. The case of an employment measure is quite complex when dealing with different industrial sectors. This indicator only measures the "net" jobs directly created (that is, "on payroll") as a result of the project, and not indirect job creation. Thus, many relevant changes in an industry in a particular country, not contemplated at the time of project design, may not be captured by this measure.

Deviating from their original plans, some companies have found it more appropriate or efficient to shift some of their operations to joint ventures or to outsource parts of their production. The jobs created in joint ventures or through outsourcing were not scored as constituting direct employment. An investor's flexibility in adjusting the project design to a changing business environment is an expression of a deeper understanding of the host country's markets and regulations as a project matures. For instance, SPAIPA (São Paulo Interior e Paraná Industrias de Bebidas S.A.) - Brazil chose to outsource about 300 jobs as part of a company restructuring. Catalina Lighting-China formed many very specialized joint ventures with other local companies, thereby creating 1,300 jobs indirectly, rather than concentrating employment in its own facilities. (However, neither of these numbers are not included in the sum of 15,509.)

In general, large "greenfield" mining and manufacturing operations have usually exceeded their estimations of job creation. Not surprisingly, some acquisitions, modernizations, expansions, or a combination of these have tended to lead to a decrease in the workforce. In one case, a supplier of automotive parts for car

manufacturers located in a relatively poor region of Brazil was sold by Volkswagen and Ford during its disassociation from Autolatina do Brasil in 1995. At that time, the company employed 2,036 workers. As a result of the modernization process, made possible mostly due to MIGA support, the company became efficient and competitive. One thousand thirty-eight jobs were maintained.<sup>6</sup> The methodological problem is very clear: should one equate a "job saved" with a "job created"? And how should a "saved" job through a privatization be tallied? In the case of this Brazilian project, there was a need to be consistent across the whole sample; hence this project (and similar projects) was scored zero. It should be noted that if the 1,038 jobs had been counted as "created," the overall *post facto* job creation statistic would have shifted significantly.

Several other project- and country-specific reasons have contributed to the divergences between actual and anticipated figures. In some instances investors have adapted initial project designs to take into account changes caused by external factors, such as the regulatory framework, or by variations of relative demand for the goods and services provided. The evolution of the regulatory framework and increased competition from new market entrants were named by Sinopec-Honeywell-China as a significant factor, while downward adjustments of demand expectations were cited by many others. One bank sharply reduced its workforce in line with a general downsizing trend throughout the financial sector in Brazil over the last ten years, which saw total employment fall by almost 50 percent. Finally, some other projects suffered from an economic slowdown in the aftermath of various financial crises in the late 1990s,<sup>7</sup> which constrained employment growth. Manufacturing projects monitored

recently in Brazil, Central Asia, and China were particularly affected in this way. One can reasonably expect these companies to rebound and create more employment as growth returns to most of these regions.

The differences between anticipated and actual creation of employment also demonstrate that business conditions and assumptions vary over time. At the time of application for a MIGA guarantee it is difficult for anyone to predict an accurate number of jobs that will exist five years later. The developmental impact of MIGA projects in terms of employment should not be viewed as disappointing, in light of the explanations provided above. On the contrary, estimated downstream and upstream employment effects associated with the projects and increased competition in some sectors mean that the overall employment effects far exceed the number of jobs MIGA helped to directly create.

Thus, it was found that investors tended to provide conservative estimates of anticipated developmental benefits. In the aggregate, actual developmental impacts on a range of measures presented above have met investors' original estimates. Hence, the overall contribution to economic development was even more successful than initial estimates suggested.

## A Multidimensional Approach

### INTRODUCTION

As noted at the beginning of this chapter, the study used two approaches for evaluating developmental impacts. The second, presented below, is the application of a multidimensional evaluation framework that assesses each project in ten dimensions based on a four-point scale. Before presenting these assessment results, it is

important to note some of the underpinnings of this approach.

In 1998, MIGA presented a typology of developmental impacts. This has proved useful in illustrating, conceptualizing, and classifying these type of impacts. It has been used in the evaluation of the 52 projects presented in this report and in training sessions given to MIGA guarantee officers and outside parties. This introduction presents a brief summary of that framework. (A more complete discussion can be found in the original publication.)<sup>8</sup>

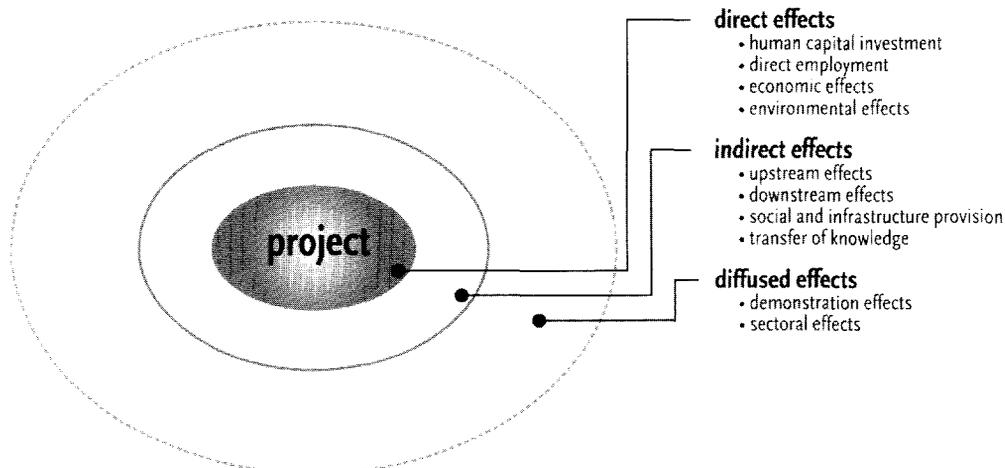
For analytical purposes, it is useful to distinguish between three types of developmental effects: direct effects, indirect effects, and diffused effects (see Figure 6). This typology distinguishes the degree to which developmental impacts can be identified and measured.

Direct effects usually can be systematically measured in terms of, for example, the project's investment in human capital, its creation of employment, its contribution to government tax revenues, and exports generated (direct economic effects). As expected, the causal nature of the connection between the investment and these effects is usually clear and direct. (These effects also include environmental impacts.)

On the other hand, indirect effects usually are by-products of the project's business activities, and the causal connection to the investment is often more difficult to measure. Such effects include upstream and downstream effects (which include indirect employment generation), provision of social and physical infrastructure, and the transfer of knowledge.

Diffused effects include impacts on the industry sector and demonstration effects. These and other developmental impacts can influence many socioeconomic entities

**Figure 6**  
**Types of Developmental Impacts**



before diffusing into a host country's economy as a whole. (Table 6 gives a summary of these impacts in 52 evaluated projects.)

The assessment of developmental impacts is based on quantitative and qualitative data collected during the evaluation process (detailed in Annex 1). Every project is assessed on each of the ten dimensions using a "without the project" counterfactual scenario. To reflect the degree of the impact, one of four scores was used: outstanding, substantial, minimal, and negative. An outstanding score is reserved for a profound impact in the dimension considered. A substantial score is assigned to an impact that is considered to be important and recognizable. A minimal impact, while positive, is understood to be marginal. A negative score is assigned when the evaluation reveals a detrimental effect in a given dimension. The assessment under the environmental dimension is an exception; the evaluative scores used are superior, above average, average, and failure. In this case,

each project is assessed on its ability to mitigate environmental impacts. When the measurement of a particular impact is not feasible, the score untraceable is used. Similarly, when an impact is not applicable or not subject to be assessed, a not measured label is noted.

This subsection summarizes in Table 6 the evaluation findings of 52 projects that have been evaluated up to June 2000.<sup>9</sup> The evaluation of the 25 original project assessments remained consonant with their previous assessment, except for ABN AMRO Bank Kazakhstan. As a result of a March 2000 site visit, the ratings for this project have changed to reflect new information gathered. This subsection also synthesizes the individual project outcomes based on the ten developmental impact dimensions.

### **DIRECT EFFECTS**

Some developmental impacts are directly attributable to the existence of the MIGA-supported investment project. A direct

**Table 6**  
**Developmental Impacts of 52 MIGA-Assisted Projects, by Sector**

Country	Project Enterprise	Direct Effects				Indirect Effects				Diffused Effects	
		Direct Employment	Human Capital Investment	Macro Economic Effects	Environmental Effects	Downstream Effects	Upstream Effects	Transfer of Know-how Technical Efficiency	Social/ Infrastructure Provision	Demonstration Effects	Sectoral Impact
<b>MANUFACTURING</b>											
Bangladesh	KAFCO	■■■	■■■	■■■	■■■	■■	■■■	■■■	■■■	■■■	■■■
Brazil	Parmalat	■■	■■	■	■	■■	■■	■■	■■	■	■
Brazil	SPAIPA	*	■■	■	■■	■■	■■	■■	■■	■	■
Brazil	Tecnologia em Componentes Automotivos	*	■■	■	■■■	■	■■	■■	■■	■	■
Bulgaria	Ekko Limited	■	■■	■	■	■■	■■	■■	■■	■■	■■
China	Suzhou Lederle	■■	■■■	■	■■	■■	■■	■■	■■	■■	■■
China	Pharmaceutical Company										
China	Sinopec-Honeywell (Tianjin)	■	■■	*	■■	■■	■	■■■	■■	■■	■■
China	Shanghai Sunnen Products	■	■	■	■■	■■	■■	■■	■■	■	■■
China	Shenzhen Jiadianbao Electric Products Company	■	■	■	■■	■	■■■	■■■	■	■■	■■
China	CPM-Zhengchang Liyang Machinery Company	■	■	■	n.m.	n.m.	n.m.	n.m.	n.m.	*	■
Indonesia	PT Hokuriku United Forging Industry	■■	■■■	■■	■■	■	■	■■	■■	■	u.t.
Kazakhstan	Coca-Cola Almaty Bottlers	■■	■■	■■	■■	■■	■■	■■	■	■■■	■■■
Kuwait	Equate Petrochemical Company	■■■	■■■	■■■	■■■	■	■■■	■■■	■■	■■■	■■
Kyrgyz Republic	Coca-Cola Bishkek Bottlers	■■	■	■■	■■	■	■■	■■	■	■■	■■■
Pakistan	Crescent Greenwood	■■■	■■■	■■	■■■	■■	■■■	■■■	■■■	■■■	■■■
Peru	Volvo Truck Corporation	■■	■■	■	■	■■■	■■	■■	■■	■	■
Saudi Arabia	Saudi Guardian International Float Glass	■■	■■	■■	■■	■■	■■	■■	■■	■■	■■
South Africa	Ferro Serv (Pty) Ltd.	■■	■■	■	■	■	■	■■	■	■	■
Trinidad & Tobago	Arcadian Trinidad Ammonia Ltd.	■	■■■	■■■	■■	■■	■■■	■■■	■■	■■■	■■
<b>FINANCIAL SECTOR</b>											
Argentina	Citibank NA	u.t.	■■	■■	n.m.	■■	u.t.	■	n.m.	■	■■
Argentina	ING Bank	u.t.	■■	■	n.m.	u.t.	u.t.	■	n.m.	■	u.t.
Argentina	Banco de Boston	■■■	■■■	■■	n.m.	■■■	■■	■■■	n.m.	■■■	■■■
Brazil	ING Bank	u.t.	■■	■	n.m.	■■	u.t.	■	n.m.	■	■
Brazil	BankBoston Leasing	■	■■	■	n.m.	■■■	u.t.	■■	n.m.	■■	■■
Brazil	BankBoston NA	u.t.	■■	■	n.m.	u.t.	u.t.	■	n.m.	■	■
Brazil	Lloyds TSB Bank	*	■■	■	n.m.	■■	u.t.	■	■	■	■
El Salvador	Citibank NA	■	■■	■	n.m.	■■	u.t.	■	■	■■	■
Kazakhstan	ABN-AMRO Bank	■■■	■■■	■■	n.m.	■■■	■■	■■■	n.m.	■■■	■■■
Pakistan	Société Générale	■■■	■■■	■■	n.m.	■■	■■	■■■	n.m.	■■	■■
Pakistan	Banque Indosuez	u.t.	■■	■	n.m.	u.t.	u.t.	■	n.m.	■	■
Pakistan	Citibank NA	u.t.	■■	■	n.m.	u.t.	u.t.	■	n.m.	■■	■■
Pakistan	Bank of America NT and SA	■■	■■	■	n.m.	u.t.	u.t.	■	n.m.	■	■
Peru	ING Bank/ AFP Integra	■■	■■■	■■	n.m.	■■	u.t.	■■	n.m.	■■	■■■
Peru	Citibank NA/Profuturo	■■	■■■	■■	n.m.	■■	u.t.	■■	n.m.	■■	■■■
Philippines	ING Bank N.V., Manila Branch	■■	■■	■	n.m.	■■■	■	■■	■■■	■■	■■■
South Africa	HBZ Bank Ltd.	■■	■■	■	n.m.	■■	■	■■	■	■■	■
Turkey	Citibank NA	■■	■■	■	n.m.	■■	u.t.	■	n.m.	■	■
Venezuela	ING Bank	u.t.	■■	■	n.m.	■	■	■	n.m.	■	■■
<b>MINING</b>											
Guyana	Omai Gold Mines Ltd	■■■	■■■	■■■	■	■■	■■■	■■	■■■	■■■	■■■
Kyrgyz Republic	Kumtor Gold	■■■	■■■	■■■	■	■■	■■	■■■	■■■	■■■	■■■
Mali	Sadiola	■■	■■■	■■■	■	■	■■■	■■	■■■	■■■	■■
P.N. Guinea	Lihir Gold Ltd.	■■■	■■■	■■■	■	■■■	■■	■■	■■■	■■■	■■■
Uganda	Kasese Cobalt	■■	■■■	■■■	■	■	■■■	■■■	■■■	■■■	■■■
Uzbekistan	Newmont-Zarafshan	■■■	■■	■■	■■	■	■■	■■	■■	■	■
<b>INFRASTRUCTURE</b>											
Honduras	ELCOSA	■■	■■■	■■	■	■■■	■■	■■■	■■■	■■■	■■■
Jamaica	Jamaica Private Power Company	■■	■■	■■	■	■■	■■	■	■■	■■	■■■
Jamaica	Jamaica Energy Partners	■■	■■	■■	■	■■■	■	■■	■■	■■■	■■■
Pakistan	Pakistan Mobile Communications Ltd.	■■	■■	■	n.m.	■■	■	■■■	■	■	■■
<b>TOURISM AND OTHER SERVICES</b>											
Costa Rica	Costa Rica Marriott Hotel	■■■	■■■	■	■■	■■	■■	■	■	■■	■■
Costa Rica	Dosel S.A. (Rain Forest Aerial Tram)	■■	■■	■■	■■■	■■	■■	■	■■	■■■	■■■
Madagascar <sup>+</sup>	Holding Savana	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Turkey	SAS Partners	■	■■■	■■	■■	■■	■■	■■■	n.m.	■■	■■■

<sup>+</sup> Investment not yet made. See Chapter 4, Limitations of the Multidimensional Evaluation Approach.

**LEGEND**

Overall effect is outstanding: ■■■  
 Overall effect is substantial: ■■  
 Overall effect is minimal: ■  
 Overall effect is negative: (\*)  
 Overall effect is untraceable: u.t.  
 Overall effect is not measured: n.m.

**LEGEND FOR ENVIRONMENTAL EFFECTS (Mitigating Environmental Impacts)**

Superior: ■■■  
 Above average: ■■  
 Average: ■  
 Failure: (\*)  
 Untraceable: u.t.  
 Not measured: n.m.

causal relationship between a given investment project and these outcomes can be described in terms of direct employment, human capital investment, macroeconomic effects, and environmental effects.

### Direct Employment

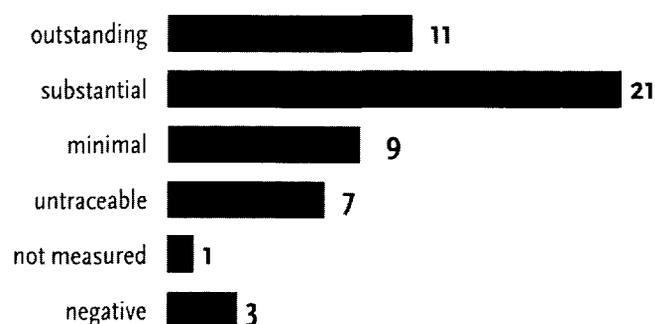
The creation of new jobs is a crucial indicator of developmental impact as it contributes directly to the alleviation of unemployment in developing countries. Unemployment and underemployment constitute major obstacles to achieving sustainable growth and development as well as a source of huge income disparities and cause of poverty. Moreover, the creation of new jobs often provides additional benefits for workers, from on-the-job training and social benefits, such as health care, to generating household income.

Direct employment can be measured in terms of the number of local employees<sup>10</sup> hired in conjunction with a "greenfield" operation. For expansions, acquisitions, and privatization projects, the incremental increase (or decrease) in the number of employees compared with the number of existing jobs prior to the changes in size and ownership is considered.

Thirty-two of the 52 projects (or 62 percent) were evaluated as either outstanding or substantial because they led to a sizeable net increase of direct employment in the host countries. Most of these projects are in the manufacturing and mining sectors, highlighting the generally larger direct employment impact of these operations. For example, Zarafshan Newmont-Uzbekistan, an enterprise that processes low-grade gold ore stockpiled by an Uzbek gold mine, was rated outstanding in terms of job creation. During the project's construction phase, it created jobs for approximately 300 to 400 people, with a peak of 800 workers, mostly from local

contractors. After shifting into operational status, the project now employs 750 local residents.

**Figure 7**  
**Direct Employment**



Although nine of the projects had positive impacts in creating jobs, the impact was very small in relation to the sector or the region, and thus, they were rated as having a minimal impact. For example, Sinopec-Honeywell, a joint venture in China that provides process management and control systems, was rated as having minimal effects on employment. About 40 Chinese nationals were employed during the project's start-up phase. After five years of operation, the enterprise employed 82 people. In 1999, Sinopec-Honeywell restructured, focusing on control technology engineering, removing the sales and marketing group into Honeywell's wholly owned subsidiary. The joint venture currently employs 55 Chinese engineering and support staff.

For seven financial sector projects the effect was untraceable due to the difficulties of attributing to MIGA's support the

number of jobs created in existing bank branches. This poses a serious methodological problem. For example, ING Bank Manila Branch's headcount increased from 30 to approximately 194 since MIGA first provided coverage. Many different factors have contributed to this growth, as ING was able to build upon its reputation as one of the first foreign banks to obtain a banking license in the Philippines. The merger between ING and Barings further strengthened the branch. While MIGA assistance has certainly contributed to the bank's growth over the recent years, it is inappropriate to claim that MIGA was the major force behind this success. Consequently, the increase in employment at ING Bank Manila Branch is not included in the total number of jobs created.

For the first time, the impact of three MIGA-assisted projects in the direct employment category was rated as negative. This was due to a net reduction of jobs subsequent to the initiation of the project (that is, not a reduction of anticipated job creation, but the net loss in the number of jobs as a result of the project's implementation). This concept is narrowly applied and does not take into consideration any efficiency gains to the overall economy as a result of improvements in processes or methods. For example, the jobs created in joint ventures or through outsourcing were not considered as constituting direct employment. However, an investor's flexibility in adjusting project design to a changing business environment may be an expression of a deeper understanding of the host country's markets and regulations and may become more common as projects mature.

All three negative ratings relate to projects in Brazil that were forced to reduce their employment due to sector contraction, restructuring, or "re-engineering." For

instance, SPAIPA chose to outsource about 300 jobs as part of a company restructuring. In another case, Tecnologia em Componentes Automotivos SA (TCA), a supplier of automotive parts for brand car manufacturers, was sold by Volkswagen and Ford during its disassociation from Autolatina do Brasil to TCA SA of Argentina in 1995. As a result of the modernization process, made possible mostly due to MIGA support, the company became more efficient and competitive. Some jobs were maintained, but, due to the net reduction in overall employment, this project was assigned a negative rating in terms of direct job creation. A third case was a financial sector project in Brazil that received a negative rating after reducing its workforce by about 40 percent, mirroring an overall contraction in that country's financial sector.

It should also be noted that almost all projects create additional employment either upstream or downstream (see next section on indirect effects for more details). However, it is difficult to estimate the exact number of indirect jobs created in connection with a MIGA-supported project. Some studies suggest that, due to multiplier effects, up to ten indirect jobs will be created in the host country's economy for each job directly associated with an FDI project.<sup>14</sup> Enterprises create demand for the production and transportation of their production inputs and enable other companies to further use or distribute their output. Workers' wages and benefits also help to sustain other people's livelihoods as they spend their money on goods and services. While the scope of indirect job creation is likely to differ from sector to sector and country to country, the potential positive contribution of MIGA-supported foreign investments to a country's development in this domain is considerable.

Additionally, projects in the financial

sector tend to create new consumer products which, in turn, create new jobs in existing bank branches or can be expected to produce many more jobs through on-lending of funds. MIGA has therefore made an effort, for the first time, to arrange meetings during monitoring visits with clients of banks receiving coverage. Even though the fungibility of funds means that this approach is not free from methodological problems, the first experiences with Citibank-El Salvador and ING Bank-Philippines have been very positive (see Box 6). The respective visits have revealed that funds were used for several interesting projects involving infrastructure and knowledge transfer. These findings have encouraged MIGA's Operations Evaluation Unit to continue arranging visits with bank clients on future monitoring missions, where appropriate, to improve the understanding of the indirect employment effects of financial sector projects.

### **Human Capital Investment**

Fostering the development of human capital plays a critical role in the alleviation of poverty. Through the acquisition of knowledge, individuals are provided with the necessary tools—whether through training, formal education, or research and development—that will allow a society to sustain development. The essence of human capital is that investments are made in human resources to improve their productivity.

Training programs implemented by investors insured by MIGA are a cost-effective and efficient means of developing human capital. While raising the knowledge level of workers through formal education is vital, it also requires considerable amounts of time and capital; on-the-job training

provides more skill-specific courses structured primarily to fulfill skilled manpower needs. Often, employees were brought to industrialized countries for training that otherwise would be too expensive to arrange.

There are several factors and variables that are taken into account when evaluating the degree of human capital investment facilitated in projects it supports. The principal considerations applied as the criteria for measurement are access to training for both existing and new employees or, in certain cases, non-employees; the range and depth of training courses offered; the average number of staff-hours devoted to training; the amount or percentage share of training cost in the annual budget; and evidence of an increase in productivity as a result of training. The presence of a technical agreement or a Total Quality Management program was also considered as further evidence of the enterprise's commitment to human capital development.

More than 90 percent (47 of 52) of the projects evaluated have contributed positively to improving human capital through general and specific training courses for their staff. Of these, about 38 percent demonstrated outstanding efforts in their commitment to advancing and improving the productivity of their workforce. The key attributes that distinguished the 17 projects rated outstanding from the rest were the allocation of a larger proportion of their annual budget and staff-hours to training; the depth of the coursework; the structure of the training program (career advancement outlook versus basic training); and clear evidence of improved labor productivity as a result of the training courses offered. (For examples, see Figure 8 below.)

Four projects were rated as having

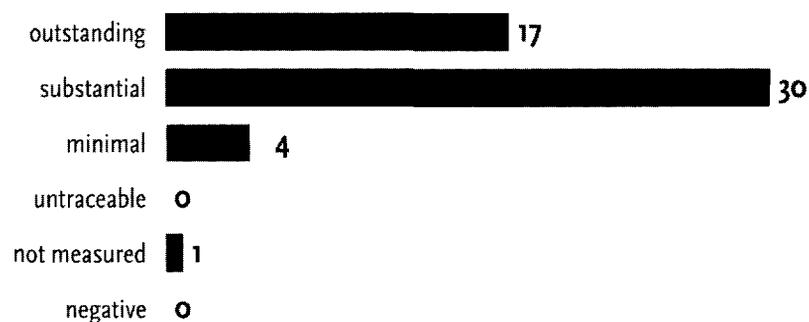
minimal human capital effects: Catalina Lighting, Ingersoll Rand, and Sunnen, all in China, and Coca-Cola Bishkek Bottlers in the Kyrgyz Republic. Of the four, Ingersoll Rand, Sunnen, and Coca-Cola Bishkek Bottlers lacked sufficient structure, organization, and depth of their training programs that would lead to a higher rating on this dimension. Catalina Lighting, on the other hand, in addition to its standard orientation program provided to new staff and on-the-job training, also offers detailed training courses (that is, human resource management, team building, language skills, ISO rules and procedures, etc.) to its front-line workers. In this case, the impact of human capital development was rated minimal because of the relative magnitude of the resources devoted to training. Projects that were rated minimal in human capital investment effects, all from the manufacturing sector, represented enterprises that were either relatively small in size, which are by definition limited in their capacity, or were projects that manufactured highly labor-intensive products that did not require extensive training.

The results of the evaluation suggest that human capital investment effects are not sector-specific. In general, however, as may be expected, the degree of impact, or the difference in employee capabilities prior to and after receiving training was substantially larger in scope for "greenfield" projects than for expansion, modernization, and privatization projects. For example, employees hired in the new mining projects in Mali and the Kyrgyz Republic benefited by receiving comprehensive training sessions that converted the participants from members of an agrarian economy into capable skilled workers. The benefits of training resulting from MIGA guarantees become less evident for expansion projects

such as Citibank-El Salvador, where there was already an existing skilled labor pool supporting the operations of the project. In such a case, human development directly attributed to the MIGA-supported investment can only be measured on an incremental basis.

In order to accurately assess the true value of any given training program, one needs to differentiate growth through increases in inputs (for example, capital and technology)—factors that are subject to diminishing returns—and growth through increases in output per unit of input (for example, knowledge and best practice). If the project-specific training program is able to increase labor productivity by increasing knowledge of their employees, the investment will not only work to benefit the

**Figure 8**  
**Human Capital Investment**



project enterprise in itself, but contribute further to the long-term development and growth in the quality of the host country's population.

### **Macroeconomic Effects**

An enterprise is considered to have a positive macroeconomic impact on the host country if it has a positive effect on the country's balance-of-payments (for example, through import substitution effects or export-oriented production), generates taxes and foreign exchange revenues, or supports sustainable macroeconomic policies.<sup>12</sup>

### **Box 2**

#### **Human Capital Investment**

#### **Omai Gold Mines Ltd.-Guyana and Equate Petrochemical Company-Kuwait**

##### **Omai Gold Mines-Guyana**

This new gold mine has been rated outstanding for its efforts in training its 1,000 employees, dedicating about eight percent of total gross salary to training purposes. The training program has an annual budget of \$500,000 and encompasses areas such as mill and mine procedures, accounting, health and safety, leadership and management, as well as the use of computer software. While some of the training takes place overseas, Omai is closely cooperating with the University of Guyana in organizing local training courses. Omai's involvement with the university is emphasized by its support for the faculty and students. Funds have been made available for the expansion of a faculty building, to augment faculty pay and for research purposes. Students have been offered training internships with the prospect of obtaining full scholarships during the academic year. Omai is also advising the university on the possible introduction of a mining and geology program. As a result of Omai's training efforts, the share of expatriates in the total workforce has decreased from 15 percent to 8 percent over the 1993-98 period. In terms of environmental performance, the mine had to cease operations briefly in 1995 due to a spill at the tailings dam. Design improvements and other remedies were implemented, and commercial activities resumed the following year with the government's approval. MIGA continues to monitor the mine's environmental compliance on a regular basis.

##### **Equate Petrochemical Company-Kuwait**

The training budget in fiscal year 1999 for this outstandingly rated petrochemical plant was \$1.3 million. In order to effectively address specific needs, the training programs have been designed to offer specialized courses to further develop staff skills. For instance, technical staff receive proprietary process technology and operational safety training. Operational personnel are required to undergo a rigorous certification program in their core technical skills, which involves annual exams and refresher training. Besides skill-specific courses, the project enterprise also offers more general training sessions for new workers.

Nearly half of the projects monitored (24 out of 52) have a substantial or outstanding impact on the economy of the host country (see Figure 9). In general, the macroeconomic effects are greater, the larger the size of the operation relative to the economy. For example, it was found that mining operations and certain manufacturing projects tend to have a far greater immediate macroeconomic impact. This is particularly true for export-oriented projects, such as gold mining in the Kyrgyz Republic and Mali, cobalt production in Uganda, and petrochemicals in Kuwait.

Effects from financial sector projects are often too small to generate sizeable tax revenues or induce significant balance-of-payments improvements. Hence, most of these projects were considered to have only minimal effects. However, notwithstanding their limited size, the benefits of these incremental investments in forging a modern banking system and developing new products should not be underestimated. By encouraging savings and providing credit, managing pension plans and providing mortgages, they will enhance the intermediary functions of the financial system and promote the monetization of the economy, a process that, in turn, strengthens the economy as a whole. (These effects are more appropriately measured under other dimensions such as sectoral effects.)

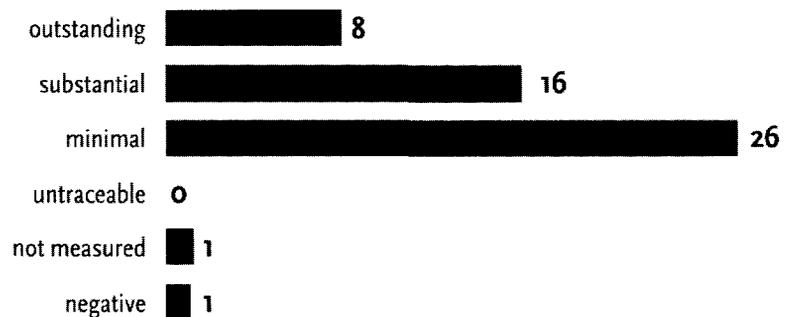
The impact of many other projects is limited, in part because they are relatively small in size. In fact, five projects monitored (Rain Forest Aerial Tram-Costa Rica, Ekko Limited-Bulgaria, Sinopec-Honeywell-China, Sunnen Products-China, Ingersoll-Rand-China) have a project cost of \$5 million or less. Contributions by small companies to a country's macroeconomic situation are, by definition, limited. However, these companies are often

considered indispensable for a country's development strategy because they frequently represent the most flexible, innovative, and fastest-growing segments of an economy. Over time, these enterprises can be expected to change the structure of the local economy and to render it more dynamic and competitive.

For infrastructure projects, the study considered the value added to the country in, for example, the amount of electricity generated rather than export revenues in determining macroeconomic impact.

The existence of tax holidays and other host government incentives can create methodological problems as tax incentives cause tax receipts of the government to occur later than anticipated. Taking into account that projects usually do not yield any taxes during the construction phase, a tax holiday can easily push the start of tax payments beyond the initial project monitoring by MIGA. (This phenomenon lessens, of course, in subsequent years.)

**Figure 9**  
**Macroeconomic Effects**



**Box 3**  
**Direct Effects of a Major Mining Operation in Sub-Saharan Africa**  
**Société d'Exploitation des Mines d'Or de Sadiola-Mali**

In fiscal year 1996, MIGA issued a contract of guarantee totaling \$50 million to investors in an open-pit gold mine and treatment plant in Sadiola, because of the anticipated economic and developmental benefits to Mali. The mine was the first MIGA-supported project in Mali and remains one of the agency's largest covered investments in Africa.

The project was visited in November 1999 to evaluate its developmental impacts and to monitor project-related environmental issues. This joint MIGA-IFC project had impressive direct effects on the host country's development:

- The mine produces about 65 percent of the country's current gold output.
- It generated about \$167 million in export revenues in 1999. This figure represents 60 percent of the country's mining sector export earnings.
- It created more than 300 new jobs for employees from Mali and other developing countries, well in excess of what had been anticipated.
- The company has made a particular effort to train Malians to assume management and leadership positions.
- It provided many specific training courses both on- and off-site.
- The project pays wages well above the national average.

In addition to these tangible direct effects, the long-neglected social infrastructure in nearby communities was improved by the establishment of medical clinics and schools. These continue to be supported by the Sadiola project and are available to the staff and the local community. \$5.4 million was spent on a resettlement plan for two nearby villages, which resulted in a considerable upgrading of the housing and living conditions of the local population. Additionally, the company made contributions to a community development fund and initiated a micro-credit lending program.

The Sadiola mine has also benefited local businesses by giving preference and incentives to regional suppliers of production inputs. Since the technology used by the operation is relatively new to Mali, there is great potential for transferring skills and technology to future Malian mining projects. The mine has also encouraged regional cooperation and generates cross-border benefits for Senegal. Necessary production inputs are either sourced in Senegal or are being transported via its infrastructure. In Mali, the Sadiola project has encouraged follow-up investments by its international shareholders, involving the expected development of a new gold mine.

## Environmental Effects

Environmental performance of investments is considered a critical component in assessing developmental effects and thus is explicitly evaluated. In fiscal year 2000, all 16 new projects with environmental components were evaluated in cooperation with MIGA environmental specialists. Previously evaluated projects are shown here, but their ratings were not revised. While the basis for the assessment of environmental impacts has not changed, the labeling of the categories has been modified in this report. Environmental assessment categories are now labeled superior, above average, average, and failure

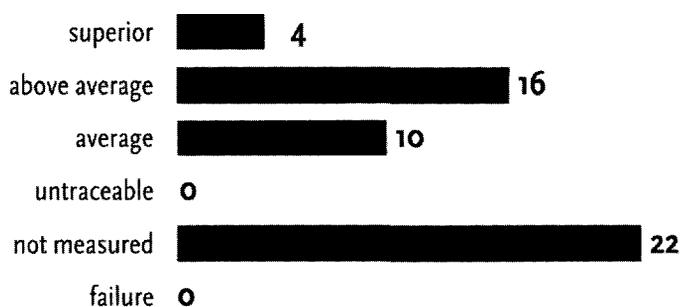
MIGA requires, at a minimum, that all investments comply with local environmental laws and regulations, and with relevant MIGA environmental guidelines. (MIGA's environmental guidelines are those found in the World Bank Group's Pollution Prevention and Abatement Handbook, or those used by the IFC for industrial sectors that are currently not included in the handbook.)

During the evaluation process, the projects were categorized according to their success in mitigating environmental impacts, using as benchmarks MIGA's environmental guidelines and policies, as well as the standards of the host country. One of three acceptable ratings, or categorizations, is possible: average, above average, and superior. (Projects found to be unacceptable in performance are subject to potential cancellation by MIGA; in most cases, however, MIGA prefers to work closely with the project sponsor to establish a plan and schedule of corrective actions. Although cancellations have occurred, they are rare because MIGA and the guarantee holder generally prefer to find solutions that correct the shortcomings.)

To understand the environmental

ratings, it should be noted that a project rated as average on the environment is one that typically complied with local environmental regulations, and was also successful in meeting MIGA environmental guidelines on an ongoing basis. Such projects may have had some effects that could not be fully mitigated, but the performance was within the allowable limits established (as well as the guidelines). Projects were categorized as above average if they fully avoided a significant contribution to local environmental problems while being successfully operated. A superior project was expected to significantly reduce or reverse impacts to the environment, that is, perform well beyond the expected levels of compliance and mitigation. Such projects not only avoid significant adverse impacts on the environment, but also provide

**Figure 10**  
**Environmental Effects**



significant improvements to local environmental conditions, or to environmental awareness.

A high standard of performance had been set for the superior category, with the previous ratings given to an ecotourism venture and two other projects. Out of the 16 projects reviewed in this second round of projects, only one, an automobile accessory plant in Brazil, was judged to merit placement in the superior category (see Box 4). This investment modernized an existing facility, and an important component of the project was directed specifically toward environmental improvements.

**Box 4**  
**Example of Environmental Performance**  
**TCA-Brazil**

In fiscal year 1996, MIGA issued two contracts of guarantee to Tecnologia em Componentes Automotivos S.A. (TCA) of Argentina and Lloyds TSB Bank plc, respectively, to support TCA's investment in its plant in Jaboatão dos Guararapes in Brazil. The project encompassed the modernization of TCA Brazil to implement new technology for the production of wire harnesses for Volkswagen and Ford automobiles assembled in Brazil. The investment also reduced workers' exposure to health risks, including a program to substitute benign products for potentially toxic components used at the assembly line. The company's modernization plans included expansion of the wastewater treatment system, as well as physical and administrative improvements to support its goal of obtaining ISO 14001 accreditation.

Most projects evaluated in fiscal year 2000 fell into the above average category, including "greenfield" projects that significantly mitigated their environmental impacts through compliance with MIGA environmental policies and guidelines. This applied to mining projects in Uganda and Uzbekistan, a power project in Jamaica, a hotel in Costa Rica, and a petrochemical plant in Kuwait. The two mining projects are unusual in that the investments were not directly engaged in mining per se; rather, the investments are building facilities to process stockpiled ores that were previously mined. In the case of Uganda, the project actually has produced a significant cleanup of an existing environmental problem that had been caused by improperly engineered and abandoned stockpiles, and the solid wastes from the process are now being deposited in a properly designed and operated disposal area. Thus, the net effect of this project is deemed beneficial to the environment.<sup>13</sup> The above average category also included projects with inherently minimal or no impacts to the environment; these were, for example, light-assembly operations and beverage blending facilities.

Projects that have not been consistently successful in mitigating environmental impacts but have invested significant resources and efforts in an ongoing effort to improve their performance, or that met the minimum requirements of complying with local laws and World Bank environmental guidelines and policies, were placed in the average category. These included a mining project in Mali, a power project in Jamaica, and a food processing project in Brazil.

**INDIRECT EFFECTS**

In order to more completely assess the developmental impacts a specific project has in its host country, it is critical that an

attempt be made to measure and evaluate indirect effects—defined as the by-products of a project’s business activities and causally connected to the investment. Although these effects are often difficult to quantify, they are nevertheless an integral part of the development process that needs to be addressed. Examples of indirect impacts include downstream (or forward) linkages, upstream effects (or backward linkages), transfers of knowledge and technical efficiency, and social and physical infrastructure provision.

### Downstream Effects

Downstream effects refer to the benefits to other businesses or economic agents that use the project’s output as a source of input into their own production processes. This includes those companies that benefit from consumption by the project enterprise’s employees. The type of spin-offs created by a project can typically include: employment in other service companies, retail stores, banks, real estate businesses, transportation companies, and restaurants.

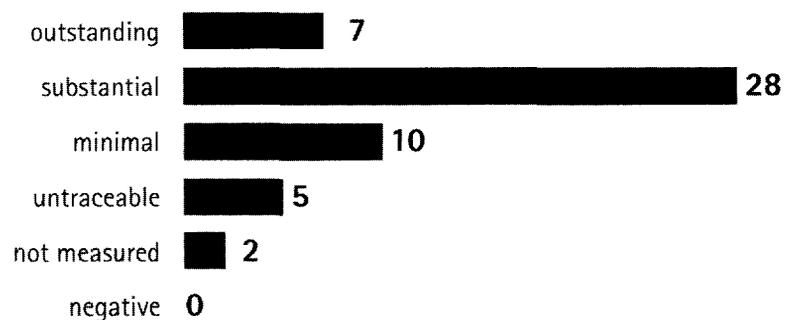
The evaluation results revealed that 67 percent (or 35) of the projects evaluated had substantial or outstanding downstream impacts (see Figure 11). Manufacturing and infrastructure projects tend to have more "tangible" downstream effects, while financial projects tend to have downstream effects that are more "intangible" but, in some cases, greater in scope. In particular, it was found that the projects in electricity generation had outstanding downstream effects due to the availability and use of electricity in many industries and businesses. For example, the power projects in Honduras (ELCOSA) and in Jamaica (Jamaica Energy Partners and Jamaica Private Power Company) reduced power shortages that had hindered many businesses’ operations (see Box 5). Although

it is impossible to quantify each project’s contributions, their positive impacts on the development of other businesses are unquestionable.

Financial investments that develop a specific financial product or earmark MIGA guaranteed funds for a specific purpose have more identifiable forward linkages than those investments associated with a simple expansion of branch banking operations. The latter present a more difficult methodological problem because they would require extensive analysis of an institution’s entire portfolio.

As mentioned, evaluations staff made a special effort in fiscal year 2000 when evaluating a financial sector project to arrange visits with projects that had received funds guaranteed by MIGA. The experience has been very positive. In the Philippines, ING Bank Manila Branch has had some outstanding downstream impacts. Among

**Figure 11**  
**Downstream Effects**



others, the bank disbursed loans to help support further development and improvement of the capital region's Mass Rail Transit (MRT) system. Specifically, the bank supported the construction and development of line 3 of the transit system, which traverses the main North-South arterial road of the Manila metropolitan area. Since its completion in July 2000, MRT has been well patronized by the riding public, alleviating traffic congestion and reducing airborne pollutants in the process. In the case of Citibank-El Salvador, some of the downstream effects are linked to an important information technology improvement that affects businesses operations in the country (see Box 6).

### **Upstream Effects**

The benefits to suppliers of goods and services (for example, subcontractors)

through the purchase of inputs used in the production process were also considered as part of the developmental impacts of projects. These backward linkages can be measured in terms of the annual value of goods and services purchased locally by the project enterprise for operations and management as well as the number of workers employed by these suppliers or subcontractors.

The evaluation of upstream effects of the 52 projects MIGA monitored revealed that 71 percent (or 37) exhibited positive results, while 15 projects were either untraceable or not measured (see Figure 12). Past and current monitoring efforts reveal a consistent pattern of outstanding and substantial upstream effects stemming from the mining, manufacturing, and services sectors. Out of the 19 financial sector projects monitored, only three projects had substantial upstream effects,

### **Box 5 Downstream Effects of a Power Project ELCOSA-Honduras**

This privatized, diesel-based power plant provided a much-needed and reliable source of energy to alleviate the shortages of electric generation for Honduras, an IDA-member country. At the time of the investment in 1995, the country was faced with a growing (12 percent) national consumption rate that required an increase in electricity supply by 60 megawatts (MW) per year to meet demand. Additionally, hydroelectricity was Honduras' main source of energy, making the infrastructure vulnerable to the vagaries of the weather. Originally designed to generate 60 MW of energy, the ELCOSA plant expanded its production capacity to 80 MW to meet demand. This diesel power plant is a reliable source of energy production since its output is less dependent on external factors.

The success of the ELCOSA plant has attracted two additional independent power producers to the country, with one plant modeling its operations after ELCOSA. When ELCOSA began its operations, Honduras had a private generation capacity of no more than 1MW; at the time of monitoring, however, the installed capacity of independent power producers totaled 300 MW.

**Box 6**  
**Downstream Effects of Financial Services Activities**  
**Citibank-El Salvador**

In 1996, MIGA provided a \$9.9 million guarantee to Citibank for its shareholder loan to its branch in El Salvador. The loan was to increase Citibank-El Salvador's overall lending operations, but specifically also to focus on local companies that were expanding their operations and needed long-term finance for the acquisition of equipment and systems.

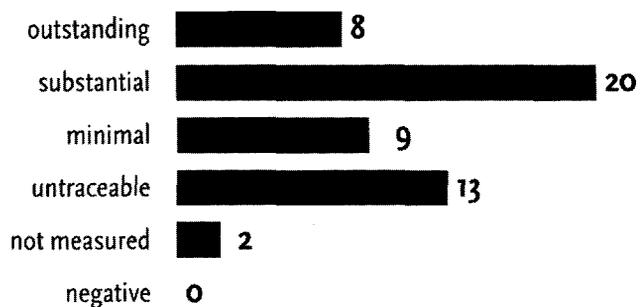
In February 2000, a MIGA evaluations officer visited Citibank-El Salvador, which helped arrange meetings with some of the companies that had benefited from the Citibank loans facilitated by MIGA coverage. One of these borrowers is Agrícola Industrial Salvadoreña, S.A. (Agrisal), a Salvadorian conglomerate that employs about 4,300 people and encompasses 22 companies in a variety of sectors, ranging from soft drinks to agribusiness.

Agrisal used its loan to procure the necessary hardware to create an integral system based on SAP software—a first in El Salvador. This system will be applied to a wide range of business functions such as accounting, controlling, treasury, suppliers, materials, resource planning, inventory management, and services. Introduction of the SAP system began in 1998 and is ongoing, using a phased approach, with 19 staff from across Agrisal being seconded to the SAP implementation team. In the end, SAP will be applied across all 22 Agrisal companies, resulting in significant productivity gains and savings.

while the effects of the remaining projects were either minimal or untraceable.

As has been documented in the past, non-financial sector projects generally have a high percentage of local procurement of goods and services. Manufacturing and infrastructure projects, for example, tend to rely on local subcontractors for repair and maintenance services, transportation, construction equipment and supply, office supplies, and janitorial services. Nevertheless, upstream effects are not always evident and are often dependent on other factors, including project size, the nature of local procurement, and the number of suppliers benefited. Catalina Lighting-China and Sadiola-Mali are examples of outstanding projects in this regard (see Box 7). In some cases, however, investors were unable to identify local

**Figure 12**  
**Upstream Effects**



suppliers that could provide the appropriate inputs, so that they had to import almost all of their raw materials from their home country. Sinopec-Honeywell-China, for example, imports 80 percent of its inputs because the advanced technology used in Honeywell's automation and control systems is not available in China.

In general, financial sector projects have relatively smaller upstream effects, given the sector's low procurement relative to other sectors. This is not to say that projects supporting the expansion of bank branch operations, for example, do not have some upstream effects. (However, as is the

case with some downstream effects, other variables cannot be easily controlled to measure the upstream effects attributable to the project's implementation with any confidence.)

### **Transfer of Knowledge**

Knowledge can be defined in terms of technical knowledge (that is, knowledge of technologies and their potential) and socioeconomic knowledge. The following elements are considered in the definition: the creation and acquisition of knowledge; the adaptation and diffusion of knowledge;

## **Box 7**

### **Upstream Effects**

#### **Catalina Lighting-China and Sadiola-Mali**

##### **Catalina Lighting–China**

In order to accommodate large account customers that value one-stop shopping, this manufacturer of lighting fixtures helped finance and invest in five additional joint ventures designed to provide custom inputs to diversify the project enterprise's product lines. The joint-venture partners are local entrepreneurs for whom Catalina Lighting has played an active role in channeling the appropriate transfer of technology and quality control standards necessary to meet sales requirements in their market. In addition to working with several joint-ventures, the company also outsources inputs from more than 300 different suppliers. It is estimated that with the five joint ventures and the utilization of local suppliers, Catalina Lighting is contributing indirectly to the creation of approximately 7,300 new jobs. Although these upstream effects are quite significant, new direct employment is only estimated to be 150.

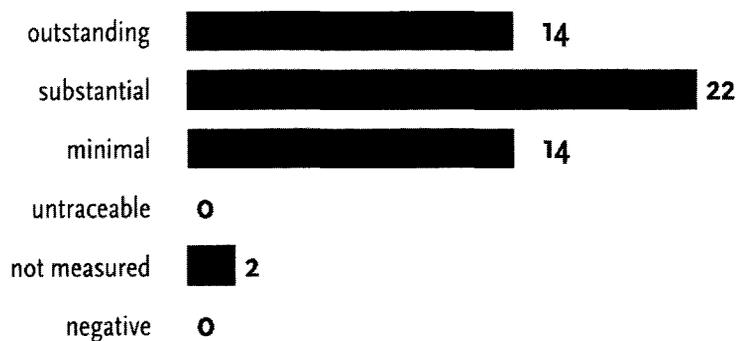
##### **Sadiola–Mali**

This gold mining plant has had positive upstream effects in both the host country and beyond. It is estimated that the project annually procures about \$20 million worth of mining equipment, machinery, fuel, and labor from both domestic and regional suppliers. The plant purchases cement, fuel, and shipping services from Senegal, mining and mill equipment from South Africa, and carbon from Sri Lanka. In addition to actively procuring domestically for mining goods and services, Sadiola has also made efforts to work with the local Chamber of Commerce in order to help develop local suppliers.

and the use of knowledge. By attracting foreign direct investment and participating in international trade, a host country is given the opportunity to access new and existing techniques and skills that may not be available domestically. New knowledge and skills are initially transmitted by training a select group of workers and later disseminated to the rest of the labor force. Transfer of knowledge also occurs through technology sales or licensing, or through labor mobility.

During the course of the evaluation, it was found that 69 percent (or 36) of the projects evaluated have facilitated important

**Figure 13**  
**Transfer of Knowledge**



**Box 8**

**Transfer of Knowledge**

**Sinopec-Honeywell-China and Kumtor Gold Company-Kyrgyz Republic**

**Sinopec-Honeywell-China**

This systems technology firm introduced, installed, and supported process management and control systems for the hydrocarbon processing industry of China. These highly capital-intensive plant management systems were designed to improve plant efficiency and productivity. The majority of Honeywell Inc.'s investment arrived in the form of technology, bringing in all the hardware and software skills from the United States in its first year of operation. The products offered include process control, safety and security monitoring, and management systems.

**Kumtor Gold Company-Kyrgyz Republic**

This large gold mining operation in Kyrgyz Republic has introduced advanced technologies and gold metallurgy processing techniques to its staff. For example, Cameco Corporation of Canada, the investor, has brought into the country international best practices in management styles, cost management reporting systems, computerized geological reserve modeling, computerized mine scheduling, process control computers, and advanced mining equipment. In addition to infrastructure support, technological know-how and new machinery were also applied throughout the entire mining process from grinding, flotation, thickening, cyanidation, stripping, and electrowinning, to metallurgy. As the largest private sector employer in the Kyrgyz Republic, employing over 1,300 persons, the project enterprise has had a significant impact in exposing and transferring the know-how and technology necessary for development and growth.

transfers of knowledge to developing countries. Of these, about 27 percent (or 14) have made outstanding contributions in importing technology and technical skills to the host country; these are primarily projects in the manufacturing, mining, and infrastructure sectors. The SPAIPA beverage manufacturing modernization project in Brazil, for example, implemented high-speed bottling/canning machines, new packaging devices, and a state-of-the-art systems management computer system. These have dramatically increased the productivity and efficiency of the plant. During the years spanning the introduction of the new technology, productivity has increased from 32 case units per person-hour to 84 case units per person-hour. Sinopec-Honeywell-China and Kumtor Gold Company-Kyrgyz Republic are two additional projects that have effectively transferred technical skills and best practices through the introduction of modern technology (see Box 8).

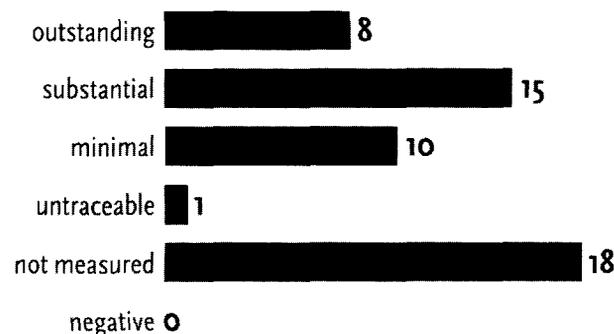
Financial sector projects, particularly investments in general banking services or expansion of branch banking operations, tend to have minimal effects in transferring new technical skills to the host country. However, this is not always the case. For example, at one time, HBZ Bank Ltd. was the only foreign bank in South Africa to concentrate its operations on funding small- and medium-sized enterprises (SMEs). It was therefore necessary for the institution to effectively introduce new management skills in order to begin operations. Since this particular project's predominant interest was to serve the SME community, it was also able to provide a transfer of niche talent and know-how. Those financial investments that are earmarked for a specific purpose or those that introduce new financial products tend to facilitate the transfer of financial knowledge into the host country.

### Social and Physical Infrastructure Provision

In considering the project's impact on the provision of social and physical infrastructure, the following elements were assessed: (1) workers' wages compared with country-specific and sector-specific averages; (2) provision of benefits in addition to those required by law; (3) provision of basic social goods and services where the state could not otherwise provide them (especially in IDA countries); (4) the number of women and minority workers hired; (5) the provision of social infrastructure directly associated with the project and to the surrounding community; and (6) for power projects, electrification for previously under-served communities. This category essentially measures the extent to which the project directly or indirectly contributes to raising living standards of the more vulnerable groups in the host country.

The results show that more than 44 percent of all projects evaluated (or 23 out of 52) have substantial and outstanding effects on the provision of social and physical infrastructure. Power projects are ranked very highly since they generally create the

**Figure 14**  
**Social and Infrastructure Provision**



physical infrastructure necessary to generate and distribute electricity; this directly serves to improve living standards. For 18 projects (35 percent), most of them in the financial sector, the impact was not measured due to the difficulties involved in determining the contributions directly associated with financial sector projects (see, however, the ABN-AMRO Bank Kazakhstan case study in Chapter 6).

Many companies provide basic benefits to their employees, such as health care, food services, and transportation (these are in effect direct subsidies). Some projects, especially mining operations, go beyond the standard package in paying wages as much as 100 percent higher than that of average industrial workers in the host country (for example, Zarafshan Newmont-Uzbekistan). These projects are also more likely to provide roads, electricity, and other physical infrastructure to adjacent communities (for example, Kasese Cobalt Company-Uganda, Sadiola-Mali). Catalina Lighting-China offers free housing for 1,800 of its 2,600 workers and is currently expanding its dormitories. Medical facilities accessible to staff and local communities are supported by Kumtor Gold Company-Kyrgyz Republic, Sadiola-Mali, and Kasese Cobalt Company-Uganda. Both Citibank-El Salvador and ING Bank Manila-Philippines have been exemplary in employing women at the managerial level. At ING Bank Manila Branch 55 percent of the managers are female.

Many larger projects are actively supporting students by providing scholarships to children of employees or to former employees to pursue higher education, usually undergraduate or graduate studies. For example, Kumtor Gold Company-Kyrgyz Republic is providing funds for Kyrgyz nationals to study in the United States.

In some instances, financial sector projects have facilitated the construction of physical infrastructure. Through its lending activities, ING Bank Manila Branch has provided financing for some key infrastructure projects in the Philippines. Among these is the Metro Rail Transit Corporation, a private sector entity granted the franchise to build, and subsequently lease to the government, line 3 of the Mass Rail Transit system of the capital region. Other projects financed include hydro and natural gas power plants that not only help diversify the power generation mix toward lower cost fuels, but also promote the use of environmentally friendly indigenous resources. The bank also provided financing for the network expansion of a cellular phone company.

#### *Corporate citizenship*

As a result of these 52 project evaluations, it became evident that another dimension, not previously measured, was consistently emerging: corporate citizenship. While it was indirectly captured in earlier project evaluations, it was only explicitly addressed in the later ones. The definition endorsed by the World Business Council for Sustainable Development<sup>14</sup> is useful in this respect, effectively setting a new agenda for businesses that links economic and social development. Sponsorship of social and cultural programs benefiting the surrounding community was found to be more a norm than an exception for MIGA-supported projects.

Although this report does not assess corporate citizenship, it is important to describe some of the findings. Numerous examples of investors becoming heavily involved in community or charity activities were found. Sinopec-Honeywell-China helped finance and construct the Hope School for children in Hebei Province in

## Box 9 Example of Corporate Citizenship SPAIPA-Brazil

SPAIPA (São Paulo Interior e Paraná Industrias de Bebidas S.A.), Brazil's second largest soft drink bottler and distributor, operates in the states of Paraná and São Paulo, primarily in the city of Curitiba and in smaller, regional cities in both states. It has nearly 3,000 employees at its five bottling plants and 25 distribution centers, and had gross sales of \$300 million in 1999.

In 1996, SPAIPA benefited from three MIGA guarantees, totaling \$20.25 million, covering investments by Gribal S.A. of Uruguay as well as loans provided by Lloyds TSB Bank plc and BankBoston to expand the company's operations. The total investment in the expansion was US\$69.0 million.

That same year, SPAIPA launched a recycling program that has served as a model for other bottlers and has had significant positive impacts for the local communities. Reflecting the innovative approach of both SPAIPA and the city of Curitiba to environmental issues, SPAIPA also developed a highly maneuverable, electric cargo-handling vehicle, called "Ecocargo", that is now being used for distributing drinks in densely populated urban areas.

### **The Recycling Program**

Following the lead of recycling efforts initiated by recycling companies themselves in Brazil's three largest cities, SPAIPA became the first bottler in Brazil to initiate a partnership with local schools, the local recycler (LATASA) and the government of Paraná. In June 1996, it launched the Escola (School) program in Curitiba, and quickly expanded it to cover three other cities (Maringa, Aracatuba, and São José do Rio Preto). Currently, over 1,900 institutions with 300,000 students participate.

Under the Escola program, schoolchildren in participating schools (both private and public) collect aluminum cans for recycling. SPAIPA collects the cans and delivers them to LATASA, the national recycler. The schools, in turn, receive much-needed equipment for their efforts. The schools choose from a long list of "prizes," which include items such as fans, water fountains, copiers, computers, wheelchairs, and sports supplies.

When a school enrolls in the program, SPAIPA employees visit the school and explain the program and the environmental benefits of recycling. This meshes with efforts of the governments of Paraná state and the city of Curitiba to promote environmental awareness from the earliest possible age. In all, SPAIPA makes about 800 presentations on recycling and the environment each year.

To date, the schools have received equipment worth over \$365,000 in exchange for the nearly 66 million aluminum cans (or 981 tons) collected. SPAIPA has spent approximately \$150,000 of its own budget to support the recycling effort and has hired four additional staff to support the program.

In recognition of the success of its aluminum can recycling effort, and aware of the growing popularity of plastic polyethylene terephthalate (PET) bottles, SPAIPA introduced a new recycling initiative in April 2000 on a trial basis. Under this new initiative, SPAIPA is also collecting PET bottles (in Curitiba) and delivering them to a private recycling plant in São Paulo.

### **Conclusion**

This program is a good example of the types of indirect impacts of MIGA-guaranteed projects that may often go unnoticed by MIGA and others, and that go far beyond anything required by the local authorities. SPAIPA's ongoing, innovative efforts are not only contributing to a better environment in São Paulo and Paraná states, but also to a better understanding of environmental issues, particularly among the segment of society that will be most affected by those issues: the area's children. In addition, through their participation in the program, these children are contributing to improving their own schools by earning much-needed equipment for their institutions.

China. Parmalat-Brazil finances the Aldeia Myriam e Melchiorre Tanzi project, a home for orphaned and abandoned children. It is currently providing shelter, food, health care, and training to about 130 children. Meanwhile, SPAIPA-Brazil is involved in a recycling project with local schools and is raising awareness among students of environmental issues (see Box 9). SPAIPA provides an interesting example of how businesses act to live up to their dual function as both economic and social entities. It is also an indication that some businesses can assume a more important role in society, embracing the concept of corporate citizenship, at a time when the scope of government is diminishing.

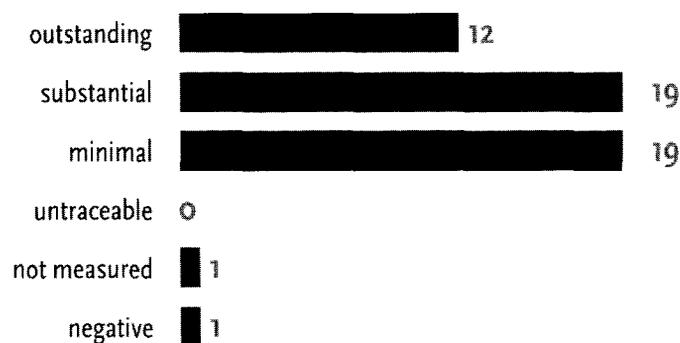
### DIFFUSED EFFECTS

Diffused effects relate to impacts that have a weak causal relationship with the investment project and are thus difficult to measure with any degree of accuracy or confidence—although there is usually some evidence to indicate its extent. The diffused effects considered in this report are demonstration and sectoral effects. These effects are often important and relevant to MIGA projects because, while many investments are small in size relative to the country or region, they often have other pioneering or risk-taking characteristics that draw the attention of other businesses or potential investors. This dimension can be used to partially assess the catalytic role of MIGA-supported projects.

### Demonstration Effects

A project is considered to have a positive demonstration effect if it serves as an example or model to both domestic and foreign investors. High ratings are reserved for projects that venture into a difficult or new market or introduce an innovative

**Figure 15**  
**Demonstration Effects**



project structure. New investments in countries that have recently experienced political turmoil or an economic crisis are considered to have an especially high demonstration effect. Evidence of a positive demonstration effect exists if follow-up investment has occurred by other investors or by the same parent company in the host country or other developing countries.

About 60 percent of the projects evaluated (31 out of 52) have had outstanding or substantial demonstration effects. The effects of 19 other projects were minimal. The projects considered as models include a fertilizer processing company, a residential mortgage program, power generation plants, a pharmaceutical company, an ecotourism project, a garment factory, an airline catering company, a petrochemical company providing value-added products, a soft drink bottling company, and a mining project.

There are several reasons why a project was given an outstanding rating. Jamaica Energy Partners received an outstanding rating because the project not only served to alleviate the serious unmet demand for electricity, but also because the entire risk was borne by private investors (something new in Jamaica). The project demonstrated a

higher willingness on the part of some foreign investors to accept the risk associated with investing in Jamaica's power sector where a few months earlier another power project was severely delayed by the extreme caution of participating banks. In another case, following its investment in the Sadiola deposit in Mali, a South African mining company decided to invest in exploiting a different gold deposit in the country. Moreover, Mali has subsequently attracted FDI from other mining companies.<sup>35</sup> ABN AMRO's investment in Kazakhstan to open the first foreign-owned full service bank in the country has paved the way for other financial institutions. At the same time, its early presence has allowed ABN AMRO Bank to influence the market conditions in Kazakhstan. The bank is now advising the government on a broad range of policy issues. (See case study in Chapter 6.)

The use of retained earnings is often an indicator as to whether the company is expanding its operations in the host country. For example, HBZ Bank-South Africa, ABN AMRO Bank Kazakhstan, and Catalina Lighting-China have increased their presence by opening additional branches and subsidiaries, respectively. Projects receiving high marks for their demonstration effects are all considered examples and precedent-setters because they use innovative techniques, induce follow-up investments by the same parent company in developing countries or because they influenced competitors' product development strategies.

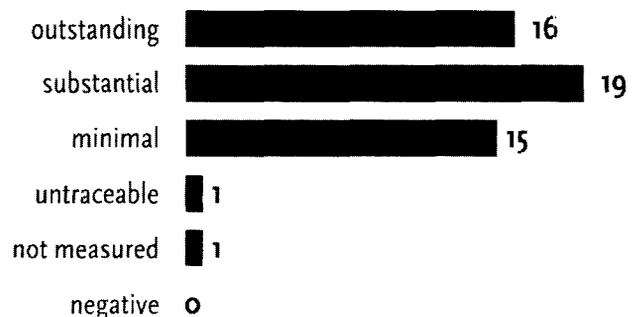
However, one project received a negative rating with respect to demonstration effects. MIGA insured Ingersoll-Rand's portion of a joint venture in China in 1994. In 1996, the parent company made the decision to exit this line of business worldwide; while the sale was completed, the new buyer elected not to

purchase this particular investment in China. In 1997 and 1998, Ingersoll-Rand continued to operate the plant while seeking another buyer; after unsuccessful efforts, the decision was made to transfer ownership to the host country partner. The domestic partner has significantly scaled back or stopped operations in the project facility at this time. Hence, among the possible ratings for the project on this dimension, negative is the most appropriate.

### Sectoral Impact

This category seeks to measure the impact of a project on its respective sector in the host country. Sectors considered in this evaluation are infrastructure and power, manufacturing, mining, financial services, tourism, and other services. For example, finance projects are evaluated on the basis of whether they offered new services and instruments, decreased the cost of capital, or improved the terms of loans. A high emphasis was placed on projects that contribute to the development of local capital markets (for example, the

**Figure 16**  
**Sectoral Impact**



establishment of local stock markets, an increase in the amount of investable funds, or creation of demand for new financial instruments).

For non-financial projects, the relative size of the enterprise vis-à-vis the business sector, the effects on quantity and quality of goods or services provided in the sector, and the impact on sectoral policies were taken into account. Export-oriented projects were also evaluated for their competitiveness compared with others and the share of their products on the world market. For power projects, the evaluation considered the project's contribution to the host country's total power-generating capacity, as well as the quality, reliability, and size of service area.

More than two-thirds of all projects monitored (35 out of 52) have had a significant impact on their respective sectors. Sixteen projects had outstanding sectoral impacts because of their contribution to the country's sectoral policies, the total gross investment in the sector, the share of employment in the sector, and/or the improvement of availability and quality of goods and services provided by the sector. Apart from five financial sector projects that have clearly contributed to the development of capital markets, these include two soft drink bottling and distribution companies, which have improved the quality of products across the whole sector; two power projects in Jamaica, which together account for almost one quarter of the country's total power generation capacity and have greatly increased the availability and reliability of service; and a mining project in Uganda, which has added an industrial dimension to a predominantly artisanal sector, reviving the sector's former importance for the country's employment and export revenues.

In the realm of financial services, some

banks have introduced innovative instruments, such as private pension funds (Integra, ING Bank's investment in Peru), residential mortgages (BankBoston-Argentina), and leasing. In general, foreign bank branches offer longer loan tenors, lower credit interest rates, and partially foreign exchange operations. By providing new or better products, they induce their competitors to adjust their product range, quality and pricing.

### **LIMITATIONS OF THE MULTIDIMENSIONAL EVALUATION APPROACH**

The conceptual framework underlying the evaluation approach utilized in this section clearly is useful from many perspectives, especially with respect to capturing and presenting the multidimensional developmental impacts of MIGA-facilitated investments. However, its application across this large and heterogeneous sample of 52 projects in 27 countries and many sectors also reveals some shortcomings. Awareness of such shortcomings obviously creates an opportunity to further refine and improve this framework in the future.

For example, it was noted that the 11 larger projects (total investment size above \$100 million) tend to have had more profound developmental impacts (that is, they were rated higher in more dimensions than smaller projects.) The 23 medium-sized projects (\$20-\$100 million in investment) tend to have mostly substantial effects or performed about average, and the 17 smaller projects (up to \$20 million) have mostly minimal effects. These results may be influenced by a bias inherent in the current evaluation framework that favors a multidimensional impact; large investment projects are more likely to have such impacts than smaller and less complex projects.

There are notable exceptions to this tendency; some of the smallest projects received very high ratings. Nonetheless, this tendency should be viewed as an argument that better metrics should be devised to assess the developmental impacts of smaller projects.

Evaluation of this larger and more heterogeneous sample of projects also revealed some interesting challenges in terms of how certain anomalous projects could and should be assessed. The case of Holding Savana's proposed investment in the construction and operation of several hotels in Madagascar is such an example. MIGA initially issued about \$1.2 million of coverage to this French-based hotel chain in June 1991. As of February 2000, the hotels had not yet been constructed. Although the amount of coverage has been somewhat reduced in the intervening years, the investor has essentially paid annual premiums to MIGA for an investment that has not yet been made. At the time of the evaluation, the project could be termed a complete failure in development terms. However, there is evidence that the investor remains interested in proceeding with the investment; hence, some positive developmental benefits may yet occur. Meanwhile, there has been little cost to MIGA—the project has posed minimal risk of loss for nine years and MIGA has collected annual premiums. The capacity "tied up" in the project was not needed for other projects in Madagascar (there were none), or even for a project in some other country, since MIGA had excess guarantee capacity at the time.

While such an anomaly constitutes a stimulus to improve one's assessment framework, it also may simply remain an unresolved evaluation challenge. (There is no other guarantee in MIGA's portfolio similar to the Holding Savana case.)

## **GENERAL OBSERVATIONS**

### **Impact on Low-Income Countries**

One special concern was the type of impacts that MIGA projects have had in IDA-eligible countries. Out of the 27 countries where project evaluations were conducted, nine (or 33 percent) are IDA-eligible.<sup>16</sup> Out of 15 projects located in IDA-eligible countries, seven were rated outstanding in two or more evaluation dimensions. These projects are large mining operations, one power project, and large manufacturing plants, all with substantial employment and macroeconomic effects on their host countries. In contrast, three financial sector projects located in IDA-eligible countries were not rated favorably (mostly minimal or untraceable). (One tourism project was rated as "not measured" because it has not been constructed yet. Thus, no effects, either positive or negative, have been realized.) In the aggregate, the data suggest that MIGA-supported projects can have very substantial impacts in IDA countries, especially when they are in the real sector.

### **Developmental Impacts in Different Sectors**

Mining, infrastructure, and tourism projects had more profound impacts on the host countries than projects in manufacturing and the financial sectors. The former group obtained higher ratings across many dimensions in the multidimensional framework, demonstrating a stronger magnitude of impacts and a broader range of benefits.

Mining projects had outstanding impacts in many dimensions, in particular for their creation of new jobs, macroeconomic effects, and provision of social and infrastructure benefits. Additionally, most projects had substantial effects in all other dimensions except for environmental effects. This result is not surprising given the large size of these

investments, which often require investors to incur sunk costs to develop an associated infrastructure and to train staff. Once these projects moved to operational status, they benefited the country through new jobs, continuing training efforts, and transfer of know-how, as well as export and tax revenues.

Infrastructure projects, in general, were most successful in terms of downstream effects, by supplying indispensable inputs, for example, electricity, to the host country, benefiting both local businesses and the population at large. These projects also promoted the transfer of technology and know-how and had profound demonstration and sectoral effects.

Tourism and other services projects were particularly beneficial in the area of human capital investment as well as for their environmental, demonstration, and sectoral effects.

In the manufacturing sector, due to the occurrence of smaller projects, evaluated projects tended to create relatively fewer jobs and generated fewer macroeconomic benefits. These projects made invaluable contributions by providing human capital investment, transferring technology, and by generating upstream, demonstration, and sectoral effects.

Financial projects have yielded their most important impacts in the area of human capital investment, downstream effects, and sectoral impact. Though most of them are small in terms of total employment, the majority of financial projects have introduced new services and products or catered their services to a new clientele. They have thus proved their innovative value to the host country by supporting the development of modern monetized economies with a diversified range of financial products.

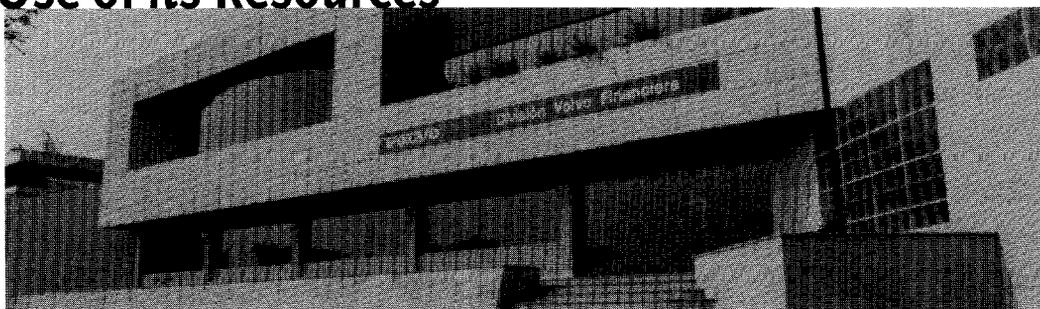
## Notes

1. The maturity of a project is defined as a duration of project operations sufficient to yield meaningful results for evaluation purposes. This period varies from sector to sector. In general, a project is expected to have at least two years of full operations before it is scheduled to be visited. (See Annex 1 on methodology.)
2. There were two exceptions: one project in Africa, although guaranteed in fiscal year 1991, has not yet been constructed, thus only the investors were interviewed. Another project in China was evaluated only by mail because the investor was in the process of scaling back its participation in the project.
3. MIGA Convention, Article 2.
4. As of May 31, 2000, MIGA had received a total of \$69.4 million in premium income from the 95 contracts corresponding to these 52 projects.
5. This is certainly the case of one large gold mining project monitored. The exports recorded are considerably lower than the anticipated average for the first five years. This is mainly due to the short time that the mine had been in operation when monitored (11 months).
6. Job reductions are not included in the calculation of actual jobs created. The benchmark is the number of new jobs anticipated. If the investor anticipates a reduction in employment, then the number of new jobs is zero for statistical purposes. Such projects therefore continue to pose a methodological problem.
7. Including the Asian financial crisis of 1997, the Russian debt and currency crisis of 1998, and the Brazilian devaluation of January 1999.
8. See West, Gerald T. and Ethel Tarazona. *MIGA and Foreign Direct Investment: Evaluating Developmental Impacts*. World Bank. Washington, DC, 1998.
9. These findings include 25 projects presented in the 1998 publication.
10. In some instances, MIGA has considered not only the number of jobs created for local

- citizens, but also expatriates from other developing countries. Expatriate workers from any (developed) country were excluded.
11. See Foreign Direct Investment in Transitional Economies: The Coca-Cola Systems in Poland and Romania. College of Business Administration, University of South Carolina. Columbus, SC, 1995.
  12. This support is viewed as a complement to host country government efforts and/or World Bank Group policies and strategies in the host country.
  13. This project was the subject of a case study; see Chapter 6.
  14. The World Business Council for Sustainable Development has defined corporate citizenship as a move to hold companies accountable for operations that have an environmental and social impact. It is a concept that is linked to shifts in public opinion as well as moral management. See McIntosh, M. et al.: "Corporate Citizenship Is For All Organizations" in: World Development: Aid and Foreign Direct Investment 1999/2000. Published by Kensington Publications Ltd. in conjunction with the World Business Council for Sustainable Development (WBCSD).
  15. According to the Financial Times, April 29-30, 2000, p. 8, AngloGold is currently developing Yatela and bought a stake in Morila, which are both located in Mali.
  16. During fiscal years 1990 to 1996 MIGA projects were insured in 14 IDA-eligible countries. This statistic includes China, which was an IDA-eligible country at the time when the sample was drawn.



## 5. Assessing MIGA's Role and the Use of its Resources



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## MIGA's Role

Assessing the agency's role with respect to a project's developmental impact is obviously important. Several steps have been taken, as part of a business process review implemented during fiscal year 2000, to lay a better foundation for subsequent evaluation of MIGA's role. Specifically, a new underwriting document contains an expanded section on developmental impacts that includes three separate components: (1) the role of the World Bank Group; (2) MIGA's role; and (3) project impact.

With respect to MIGA's role, underwriters are instructed to assess the project vis-à-vis MIGA's strategy. Apart from the analysis of MIGA's involvement in the country to date, the previous projects, the exposure, and the sectoral contribution, underwriters are expected to provide a rationale for MIGA's involvement (for example, MIGA's catalytic role, an investor from a developing country, a small-sized investor, support for recovery from economic crisis or conflict, first MIGA-supported project in the country or a sector, an innovative investment or investment insurance structure, etc.). This expanded set of *a priori* rationales has been very beneficial not only for underwriting decisions, but will also be valuable in subsequent years when these investments mature and are evaluated *post facto*.

## Utilization of MIGA's Resources: The Investment Exposure Ratio

During the first round of evaluating the developmental impacts of 25 projects, it became evident that MIGA's effectiveness should be addressed more specifically (that is, to try to capture some of the costs associated with achieving given development results). In this respect, the Operations Evaluation Unit began its exploration of how one might measure the effects of MIGA's utilization of its resources, including the multiplier mechanisms that have helped the agency to fulfill its mission.

The challenges for a development institution to measure its "inputs" as well as the "outputs" of its assistance are quite complex. It is relatively easy to become bogged down in the theoretical, conceptual, and methodological challenges of such measurement efforts. In addition to the normal complexities associated with such a task, MIGA faces many special challenges. On the "output" side, while the literature on the measurement of developmental impacts is voluminous, little of it attempts to produce a single, integrated measure of "development." Second, on the "input" side, while there are relatively standardized measures (for example, the amount of the grant or loan, and the value of other contributions) no one utilizes contingent liability assumed. Third, beyond mere nomenclature adjustments, there is a unique requirement to adjust concepts to fit the activities of an investment insurer. For example, the cancellation of a loan or a grant after two years is generally not positive from a development perspective since it means an activity did not take place, or the borrower was unwilling or unable to carry out his obligations. However, from the perspective of an investment insurer, the "cancellation"

of a contract can be a positive event in development terms—conditions may have improved considerably in the country. It often means that private investment was facilitated, insurance premiums were paid, liabilities for any future losses became zero, and insurance capacity was "freed up" to be used to assist other investments.

Notwithstanding the many difficulties, there is value in measures that attempt, in a more holistic fashion, to capture an assessment of MIGA's value. An illustration of the type of measure that evaluations unit is considering to assess the use of MIGA's resources and resulting impacts is the Investment Exposure Ratio (IER). The IER is defined as the total investment facilitated for a guaranteed project divided by MIGA's net exposure, both in US dollars.

$$\text{Investment Exposure Ratio (IER)} = \frac{\text{total investment facilitated}}{\text{net exposure}}$$

The IER presents some benefits: First, the total investment facilitated is a measure of the multiplier effect of MIGA assistance. In some cases, the MIGA guarantee has covered most of the investment; in other cases, it has helped to mobilize investment four to five times the guaranteed amount. Second, the net exposure reflects the actual use of MIGA resources (or contingent liability assumed). Third, the IER is also useful to trace MIGA's exposure (and the amount of investment leveraged) over time from the issuance of the guarantee to the

time the investment was evaluated. This ratio can be viewed as an indicator of the efficient use of MIGA's resources—that is, *ceteris paribus*, the higher the amount of total investment facilitated, the better the use of MIGA's guarantee authority. Similarly, the smaller the guaranteed amount (in net terms), the more guarantee capacity is available for MIGA to guarantee other eligible projects.

Subsequent to a testing in fiscal year 1999, MIGA applied the Investment Exposure Ratio in fiscal year 2000 to the entire sample of 52 evaluated investments (see Table 7). On an aggregate basis, it should be highlighted that the *post facto* ratio (at the time of the project's evaluation) is greater than the *a priori* (at the time of underwriting) ratio by 50 percent (6.73 vs. 4.48).<sup>1</sup> This is an indication that the actual multiplier effect in these evaluated projects was found to be considerably higher than expected at the time of the underwriting.

The change in the IER from the time MIGA issued the guarantee to the time the project was evaluated masks some interesting phenomena. In general terms, the change suggests that the original decision made by management and endorsed by the Board of Directors on a project's prospective development impacts for a given amount of risk was quite conservative. With respect to the numerator, some investors underestimated the attractiveness of the opportunities in the host developing countries and increased their commitment either through additional external resources or through reinvested retained earnings. With respect to the denominator, several factors affected the net MIGA exposure statistic. First, some debt investment was repaid and MIGA exposure declined commensurately. Second, some investors became comfortable enough with the risks associated with their investment—

**Table 7**  
**Investment Exposure Ratio (IER)**  
(52 Monitored Projects)

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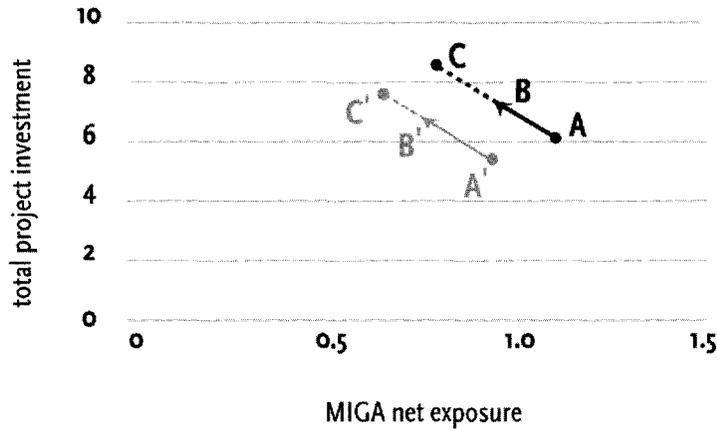
<b>I. Initial Investments</b>	
Estimated Total Investment to be Facilitated	\$5,810.1 million
Guarantee Coverage at Time of Issuance (net)	\$1,295.6 million
<b><i>a priori</i> IER</b>	<b>4.48</b>
<b>II. Monitored Investments</b>	
Actual Total Investment Facilitated	\$7,055.7 million
Guarantee Coverage on day monitored (net)	\$1,048.3 million
<b><i>post facto</i> IER</b>	<b>6.73</b>

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or the risks actually declined—that they chose to self-insure and reduced or cancelled their MIGA coverage. Third, some investors made the decision to cancel their coverage because of other reasons: their project was sold, or they chose to pursue another risk mitigation strategy. For a combination of such reasons, the denominator in the IER appears likely to naturally fall over time. However, it clearly fell at a faster rate than originally anticipated. (The average time between issuance of the MIGA guarantee and the evaluation across the 52 monitored projects was 4.3 years, much shorter than the average contract.)

Figure 17 depicts some of the dynamics of the IER from another perspective. Point A represents the *a priori* IER—that is, the anticipated investment to be facilitated corresponding to a level of guarantee coverage at the time of issuance. Point B is the *post facto* IER or the actual investment

**Figure 17**  
**Investment Exposure Ratio Trends**



facilitated and the corresponding guarantee coverage on the day monitored. The position of point B (higher and to the left to A) conveys that the actual IER is higher than the anticipated due to both higher investment facilitated and lower coverage held by investors. This dynamic suggests that a third point C is likely to be achieved in

a few more years when investment is likely to increased further and coverage is likely to decrease.

This pattern is paralleled if the *a priori* and *post facto* IERs are calculated only for the subset of 42 projects with guarantees outstanding as of March 31, 2000. Points A', B' and C' in Figure 17 illustrate the IERs for this subset of projects.

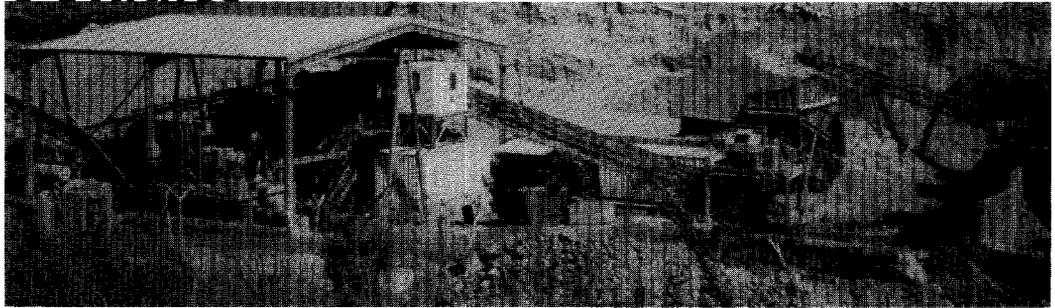
The calculation of the IER on an *a priori* and *post facto* basis has been possible due to the extensive empirical data that has been gathered at a project level. This ratio is one example of the many perspectives that one can take to assess the use of MIGA's resources, and clears the path for future exploratory work.

**Notes**

- 1 The difference between *a priori* and *post facto* ratios is even greater if the IER is calculated only for the 42 active projects as of March 31, 2000. In this case, the *post facto* ratio (at the time of the project's evaluation) is greater than the *a priori* (at the time of underwriting) ratio by 54 percent (7.22 vs. 4.69).



## 6. Case Studies



FERROSERV (PTY) LTD.  
SOUTH AFRICA

## Introduction

Encouraged by the value of earlier case studies, two in-depth analyses of projects were undertaken in 2000. The case study approach<sup>1</sup> permits the presentation of developmental impacts of MIGA-supported projects in a more detailed and holistic way.

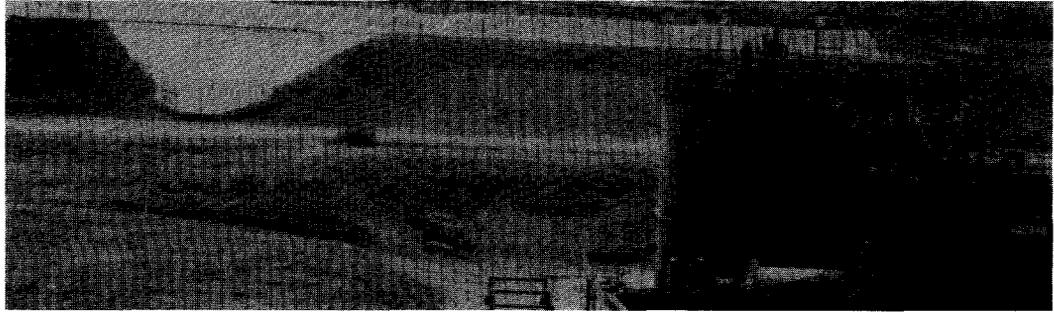
The evaluation approach of conducting site visits to obtain first-hand project information often generates abundant material and provides a good basis to conduct such in-depth analyses. A case study enables one to place a project into a country and sectoral context to demonstrate how that project has impacted or benefited the people and the economy. Moreover, it offers an opportunity to elaborate on many facets of a project. It can complement other evaluation approaches used in this publication, which are inherently constrained due to the need for abstraction and standardization to make projects comparable across sectors and countries. Case studies, describe impacts in the context of a specific project and provide a deeper understanding of the effects of the project.

This chapter features case studies of Kasese Cobalt Company Ltd. in Uganda, which processes existing stockpiles of low-grade ore, and ABN AMRO Bank Kazakhstan, one of the first international banks to offer modern banking services in Kazakhstan. While the former was written by an external consultant to MIGA, the latter was prepared by MIGA's evaluations staff.

The Kasese cobalt plant is noteworthy as a large, high-profile investment by a leading mining company at a relatively early stage of Uganda's reform program after years of internal conflict and economic mismanagement. Its efforts to improve the environment in the area and clean up the legacy of a closed copper mine are substantial. The case study of ABN AMRO describes the large impact of a relatively small project in shaping the conditions of banking and financial market regulation in a transition economy. ABN AMRO offers crucial and innovative services to international corporate clients in the country, thereby facilitating the establishment of other foreign companies in the country. Apart from its role as an important financial intermediary, the bank is heavily involved in the pension reform in Kazakhstan that international donors, including the IBRD, have supported. Drawing on its know-how in the field of asset management, ABN AMRO Bank not only advised the government of Kazakhstan in the field of pension fund legislation, but is also the most important provider of pension funds in the country. Finally, both cases demonstrate how the different members of the World Bank Group have effectively worked together.

# Case Study 1

## Kasese Cobalt Company Ltd. Uganda



KASESE COBALT COMPANY LTD.  
UGANDA

### INTRODUCTION<sup>2</sup>

Kasese Cobalt Company Limited (KCCL) is one of the largest projects in MIGA's portfolio in Africa. It is a prime example of how private and public resources can be combined to make a significant contribution to the development process. After several years of planning and construction, in November 1999 the project began to produce high-quality cobalt from stockpiled concentrates generated by an old mining operation in southwestern Uganda. As the project nears full operational status, it is beginning to generate significant developmental benefits for an economically depressed area in a highly indebted, poor country.

Recently, the Uganda Investment Authority named the KCCL project the 1999 gold award recipient for "Investor of the Year" in recognition of the crucial role the project is playing in the country's economic development. As a joint venture between the

Ugandan government and a combination of multilateral and private foreign investors, the project will provide a wide range of direct and indirect benefits to the country. MIGA's and IFC's involvement in KCCL, and the Ugandan government's cooperative approach to the project, have encouraged other private and public investment in the enterprise. The climate for foreign investment in Uganda has also improved since the World Bank Group's involvement with KCCL.

MIGA's evaluation found that many estimated developmental impacts of the project are being realized. This case study of KCCL's developmental impacts and of MIGA's role and effectiveness in that process first provides background on the project and places it within the context of the World Bank Group's activities in Uganda and the country's broader political, economic, and security environment. A description of the country's mining industry and of the world

cobalt market is subsequently presented. After MIGA's initial estimates of the developmental effects of this investment are reviewed, the case study provides an analysis of the currently realized economic and developmental effects. This analysis evaluates the project's primary direct effects, including economic effects, creation of jobs, investment in human capital, and environmental impact. Subsequently, the project's indirect effects on social development, poverty reduction, infrastructure improvements, and transfer of knowledge, as well as upstream and downstream effects on the host country, are examined. The diffused impacts of KCCL, such as its demonstration effect on foreign investment and its effect on Uganda's mining sector, are also evaluated. Finally, the report assesses MIGA's role and added value in the project as well as its suitability for this type of public-private venture.

## **PROJECT BACKGROUND**

In October 1992, MIGA issued two contracts of guarantee totaling \$10 million of coverage for the equity investments of Barclays Metals Limited of the United Kingdom (Barclays) and the French government-owned Bureau de Recherches Géologiques et Minières (BRGM) and for associated loan financing of the Kasese Cobalt Company Limited against the events of transfer restriction, expropriation, and war and civil disturbance. KCCL was formed in 1992 as a joint venture with the government of Uganda to process existing stockpiles of cobalt sulphide concentrate into high-quality cobalt and other metals for sale in Europe and North America.

The project was established on the basis of a "Development Agreement" among Uganda's Ministry of Natural Resources, Kilembe Mines Limited (a state-owned enterprise which held 45 percent of KCCL's

initial shareholding), and the following foreign investors: Barclays, BRGM, and the French-government owned Société d'Etudes, de Recherches et d'Exploitations Minières (SEREM). The agreement provided access to a million-ton cobalt sulphide stockpile, left over from mining, milling, and copper smelting operations at the Kilembe mines between 1956 and 1977. The stockpiles and the tailings from the original mining operations had been inadequately maintained since the mine's decommissioning in the late 1970s. Highly acidic leaks from the stockpiles and tailings lagoons had consequently damaged vegetation in Queen Elizabeth National Park, contaminated area rivers, and spilled into a shallow bay on nearby Lake George.

After the creation of the company, a series of corporate reorganizations and financial restructurings occurred, with Barclays, BRGM and SEREM selling their respective interests in KCCL to the Compagnie Minière Internationale Or SA (Mine Or) of France. Mine Or in turn assigned its shares to another French-incorporated company, La Source Compagnie Minière SAS (La Source). Modifications to the MIGA contracts were approved in 1995 and 1997 to reflect these changes. A third contract of guarantee was issued in October 1995 to provide coverage of \$3.6 million for a shareholder loan from La Source. In 1997, LaSource, jointly owned by Normandy Mining Limited (Normandy) and BRGM, sold its shares in KCCL to Banff Resources Limited of Canada (Banff), a company listed on the Vancouver Stock Exchange, which became the majority owner of KCCL (63 percent of equity). This sale also resulted in a backward takeover of Banff by LaSource. In mid-2000, Normandy LaSource, a French-based, wholly owned subsidiary of Normandy, held a controlling interest (86 percent) in Banff. The

remainder of equity ownership in KCCL is currently held by the Ugandan government through Kilembe Mines Limited (25 percent), the International Finance Corporation (8%), and PROPARCO, a subsidiary of the French government's Agence Française de Développement (4 percent). Loan financing for the construction phase of the project was secured from the European Investment Bank (EIB) and the Société de Promotion et de Participation pour la Coopération Economique de France (PROPARCO), IFC, and the Standard Corporate Merchant Bank of South Africa. The Royal Bank of Scotland plc provided a bank guarantee in support of the EIB loan. In October 1997, MIGA issued two contracts of guarantee totaling \$49.4 million to cover Banff's equity investment and the loan guaranty of Banff and LaSource in the event of expropriation and war or civil disturbance, replacing the earlier three contracts. A third contract, a negotiated attachment to the above mentioned loan guarantee, will provide coverage of \$12.6 million for the loan guaranty of the Royal Bank of Scotland plc in the future.

The project's initial budget was estimated at \$110 million, the bulk of which has gone to engineering and feasibility costs and the construction of a new plant, equipment, and a power station. The project's infrastructure centers around a new \$26.2 million processing plant, designed to recover high grade cobalt cathode (99.8-99.95 percent) through a natural, state-of-the-art biological oxidation technology known as bioleaching and a solvent extraction process known as electrowinning. The 922,000 ton stockpile has an average cobalt concentration of 1.38 percent and is estimated to yield 2.2 million pounds (1,000 tons) of cobalt cathode per year for a duration of eleven years. A pre-existing limestone quarry on site near the

Hima River will provide the main neutralizer to plant effluents. The project also involves construction of a new \$20 million, 10 MW hydroelectric power station on the Mubuku River, which provides power to the processing plant.

## **COMPLEMENTARITY WITH THE WORLD BANK GROUP**

The World Bank's overall strategy focuses on poverty reduction through rapid economic growth, improving social services, and regionally targeted public investment. MIGA's involvement with the KCCL project is consonant with the World Bank Group's assistance strategy for Uganda. Since 1990, the World Bank has been a leading donor to Uganda, disbursing more than \$1.6 billion of a committed \$1.8 billion in highly concessional loans and other aid.<sup>3</sup> In recognition of the country's track record on economic reform, Uganda was one of the first countries to qualify for debt reduction under the Heavily Indebted Poor Countries (HIPC) Initiative. Under the enhanced HIPC initiative, designed to bring debt to sustainable levels, Uganda will begin receiving approximately \$2 billion in debt service relief, nearly half of which is provided by the World Bank.

Because Uganda is a predominantly agricultural society, the World Bank's assistance strategy places considerable emphasis on opening market access for rural development, through agribusiness stimulation and infrastructure improvements. Enlarging and diversifying the country's export base is also a high priority. The World Bank's Environmental Support Program for the country aims at rural poverty reduction, developing management systems for protected areas, and stimulating nature-based tourism.<sup>4</sup> As a project in a remote, economically

depressed rural area, in the vicinity of protected lands, KCCL makes a number of important contributions to this broader developmental strategy.

Since Uganda became a member of MIGA in 1992, the country has benefited from MIGA's guarantees, technical assistance, and advisory services. MIGA contributes to the World Bank's assistance strategy by encouraging growth through stimulating productive foreign investment into the country. In addition to the KCCL mining project MIGA has provided coverage to projects in agribusiness, manufacturing, and infrastructure, facilitating some \$22 million in foreign direct investment into the country.<sup>5</sup>

The KCCL project also shows how World Bank Group resources can be combined effectively. MIGA's early involvement with the project in 1992 provided an enabling environment for IFC to lend its support to KCCL. Once MIGA issued initial coverage of \$10 million for the project, IFC supported KCCL in 1996 with a loan of \$16 million. IFC also took an equity stake of \$3.6 million (8 percent) in the ownership of the company. KCCL is currently the largest single investment in both debt and equity within IFC's Uganda portfolio, which is valued at just under \$50 million.<sup>6</sup> It is also IFC's first investment in Uganda's mining sector. MIGA's renewed willingness to provide coverage in 1997 was viewed as critical for securing additional equity and debt finance beyond funds committed by IFC. Finally, IFC's involvement in the project allowed MIGA to benefit from IFC's environmental assessment expertise during the evaluation process and in ongoing environmental monitoring of the project.

## **POLITICAL AND ECONOMIC BACKGROUND**

With an average per capita GNP of \$310 and more than \$3.4 billion of outstanding long-term debt, Uganda is one of the world's poorest, most highly indebted countries.<sup>7</sup> Recently, however, a consistent record of economic policy reform on the part of President Yoweri Museveni's government has brought the country considerable macroeconomic stability and international attention. Between 1988 and 1998, per capita GNP increased an average of 3.7 percent per annum, while GDP has grown more than 7 percent per year on average since 1990, making it one of the decade's fastest growing economies on the African continent.<sup>8</sup>

Uganda's recent economic achievements have come in the wake of decades of political turmoil and economic decline. After gaining independence in 1962, Uganda had a relatively sound economy with one of Africa's better developed infrastructures. Successive military-led seizures of power and periods of authoritarian rule, however, created a difficult environment for economic growth and foreign investment. Under the oppressive Amin regime (1971-79), enterprises were widely expropriated, and Uganda's citizens of Asian descent, representing a high percentage of the country's commercial class, were forced to leave the country. Plagued by constant internal security threats and gross economic mismanagement during these years, the state quickly saw its resources drained from the most basic investments and infrastructure maintenance. Through much of the 1970s and 1980s, the civil service, health, and education systems fell into decay, and the economy stagnated, with per capita GNP and economic growth rates dropping steeply, while inflation increased dramatically.

After a brief attempt at statist intervention when Museveni's National Resistance Movement (NRM) came to power in 1986, the government decided to pursue reform in cooperation with international financial institutions. The 1987 Economic Recovery Program, carried out in consultation with the IMF, established rehabilitation plans to address long neglected areas of production and infrastructure. The government set budgetary controls, tightened monetary policy, liberalized the exchange rate and introduced limited privatization. Steady progress in achieving macroeconomic stabilization accelerated in 1992, as the government further devalued the Ugandan shilling, initiated a liberalization of trade barriers, reformed its investment law, and broadened its privatization program to all sectors of the economy. Uganda consequently began to emerge as a recognized policy reformer in the region. Foreign direct investment has subsequently shown a marked increase. Inflation, which was around 200 percent in 1987 and averaged over 33 percent in the early 1990s, has been brought down to under ten percent. The budget deficit has also been reduced from over four percent of GDP in the period 1989-94 to an average of less than two percent of GDP during the period 1995-1998. With the deepening of macroeconomic stabilization since 1996, the government has increasingly pursued an anti-poverty strategy of economic growth.<sup>9</sup>

Barriers to growth, investment, and poverty reduction nonetheless remain. Infrastructure and the taxation system are among the most frequently cited sources of frustration for investors in Uganda.<sup>10</sup> The road and railway systems have proven inadequate for efficient commercial flows, and power outages are frequent. Low

domestic tax revenues due to poor tax collection and heavy defense spending have limited the government's economic and social programs. Since the country's balance-of-payment problems were addressed mainly through international assistance, Uganda's debt burden has grown over the last decade; fortunately, the HIPC initiatives should begin to bring debt relief. However, the economy continues to lack diversification, with coffee providing more than half of the country's export revenues and agriculture comprising more than 40 percent of GDP.

Although the likelihood of expropriation and transfer restriction has diminished over the period of economic reform, the political risks of war and civil disturbance in Uganda continue to run high. After more than four years of friction with Sudan along Uganda's northern border, relations between the two countries have finally begun to improve with the signing of a peace agreement and the re-establishment of working diplomatic relations in December 1999. But ongoing clashes between Ugandan and Rwandan forces around Kisangani, inside the Democratic Republic of Congo (DRC), have become an increasingly significant international security concern and a potential source of wider regional instability in central Africa. Further escalations could threaten Uganda's southwestern borders. Since 1996, Uganda's southwest has also been the subject of sporadic, cross-border rebel attacks by the anti-government Allied Democratic Front (ADF), a small grouping of mainly Islamist forces based in the Rwenzori Mountains along the DRC border. Since the beginning of 2000, the Ugandan army has made progress in weakening the rebels by capturing a number of the ADF's prominent commanders.

## **THE MINING SECTOR IN UGANDA**

Although the mining sector provided around 30 percent of Uganda's export earnings during the 1950s and 1960s, the industry rapidly declined during the political and economic turmoil of the 1970s. Large-scale industrial mining, much of which was nationalized under the Amin regime, practically disappeared, leaving much of the sector to artisanal operations and small-scale prospecting. The showcase of Uganda's industrial mining industry were the Kilembe copper mines in southwestern Uganda, which provided the basis for the KCCL project's stockpile of cobalt-rich concentrates. At the height of production, the Kilembe mines employed over 6,000 workers and made copper the country's third-largest export earner, behind only coffee and cotton. Amin's government seized the mine from a Canadian company, and operations were progressively reduced to a care and maintenance basis between 1977 and 1982. Throughout the 1980s and much of the past decade, Uganda's mining sector contributed little more than 1 percent to GDP.

The sector's decline, however, was not an indication of the state of the country's mineral resources, which remain diverse, plentiful and largely under-explored and under-exploited. Among the commercial-level metallic mineral deposits found in the country are gold, tantalite, copper, iron ore, and nickel. Additional mineral sources believed to be attractive for commercial investment in the country include phosphate, salt, tin, diatomite, gypsum, mica, vermiculite, and tungsten. Gold is currently the leading mineral export earner for the country, and as recently as 1997, was the country's largest non-coffee export.<sup>11</sup> Due to the intensity of copper mining in Uganda during the past, there is also

potential for the development of cobalt production from mineral stockpiles, smelter slags, and tailings, along the lines KCCL has undertaken.

To encourage foreign investment in the sector, the Ugandan government and the Uganda Investment Authority have actively promoted mining over the course of the 1990s. They have attempted to attract foreign investors with a number of incentives in taxation, licensing, and import duty exemptions. This strategy was enhanced by the special fiscal regime accorded to the mining sector in the Income Tax Act of 1997. The government has issued over 30 mining licenses since 1992 worth more than \$210 million. Although the sector still remains off its highs from the 1950s and 1960s, the minerals industry has shown consistent, if somewhat erratic, growth rates since 1992, ranging from just under 4 percent to more than 50 percent. The sector now contributes to over 7 percent of Ugandan exports, due primarily to recent investments in gold mining. The sector's share of GDP has now increased to around 3 percent.<sup>12</sup> KCCL is Uganda's first producer of cobalt.

## **INITIAL ESTIMATES OF DEVELOPMENT IMPACT**

At the time MIGA issued its initial guarantees in 1992, world cobalt production had contracted as a result of civil war in Zaire (present-day Democratic Republic of Congo), the world's largest cobalt producer. The relatively high price of cobalt at the time and expectations that demand would remain strong globally throughout the period of the project made KCCL a technically, economically, and financially viable project on track to become a profitable enterprise with a positive economic and developmental impact on Uganda and its weakened mining

sector. At the time of initial MIGA underwriting in 1992, KCCL's profitability was anticipated to be strong. Based on \$15 per pound cobalt prices, export revenues over the life of the project were estimated at \$385 million, providing a high return on equity.

Contributions to development were expected to be quite significant. The contribution to host government revenues from duties, taxes, and dividends over the first five years was estimated to average more than \$50 million per year, and the project's impact on the country's balance-of-payments was estimated at an average of just under \$100 million per year.<sup>13</sup> The project was expected to create more than 200 new jobs for local workers, some of whom were to receive commercial and marketing training. The introduction of the bioleaching process was also seen as a significant technological innovation and source of knowledge transfer, as it was the first application of that process to cobalt production. As the largest employer in the depressed Kasese region, the project was expected to generate significant effects on businesses in the local economy and a measure of social development among those gainfully employed there. Substantial infrastructure benefits, including improved access to water, an on-site health center and a school, were also associated with the project, although there were also concerns that the project's attraction of more residents to Kasese might place additional strains upon the local resources and infrastructure.

One of the most significant initial estimates of the KCCL project's developmental impacts lay in its environmental effects. The lack of adequate environmental safeguards for the storage of the stockpiled concentrates that were left on site from the copper mining since the mid-1950s had created a critical environmental situation. Processing the cobalt from the stockpiled concentrates was anticipated to

alleviate a major source of effluent pollution, the site's most negative environmental impact. Additionally, the use of the natural bio-oxidation process and the implementation of tighter environmental and worker safety standards throughout the production and storage process were estimated to alleviate additional sources of water and air pollution and solid waste.

## **EVALUATION OF ECONOMIC AND DEVELOPMENT IMPACTS**

In April 2000, a MIGA staff member visited Uganda to collect information and data to assess the project's impact as part of MIGA's project evaluation process. At the project site, the officer met with KCCL managers and staff scientists. The project's staff was particularly cooperative with MIGA's evaluation efforts during the visit, especially in providing information for MIGA's Project Monitoring Questionnaire, which is the primary data basis for this report. In addition to visiting the project site, the staff member traveled to Kampala for meetings with representatives from KCCL and the Ugandan Ministry of Energy and Mineral Development.

## **OPERATIONAL STATUS OF THE PROJECT<sup>14</sup>**

Delays in construction and cost overruns have modified some initial projections. Initially, the project was estimated to begin cobalt production in 1995-96, after two phases of plant construction and feasibility studies. Full-capacity operations, producing 1,000 tons of cobalt per year, were originally expected to start in 1997-98. After intermittent delays, construction of the main plant began in September 1997. The project undertook commissioning on a progressive basis in 1999, and, according to

senior KCCL staff, production will reach full capacity at the targeted recovery and quality levels by the end of 2000. As of April 30, 2000, the plant was producing at 60 percent of capacity, and more than 165 tons of high-quality cobalt cathode had been produced and sold, primarily on European markets.

The time overruns were chiefly attributed to mechanical, manufacturing, and security problems. Manufacturing defects in three power plant turbines led to delays of several months, forcing the company to turn to temporary sources of power from on-site diesel generators and from the Ugandan power grid. Air dispersal to the bacteria in the bio-oxidation tanks has also proved to be inadequate, reducing the rate of cobalt dissolution and recovery. The level of cobalt purity obtained reached 99.7 percent (compared with a target of 99.8 percent) by April 2000, and the recovery rate had attained 80 percent (compared with a target of 92 percent). Modifications of this equipment have pushed production back an additional four months and raised costs. The initial projected cost of \$110 million has now reached an estimated total of \$145 million.

The principal security problem in the region arises from the terrorist activities of the ADF, which has been in armed opposition to President Museveni since 1996. An attack by ADF soldiers on Kasese Town in August 1998 led to a major slowdown of plant construction. The attack resulted in 12 deaths among police and civilians, including two employees of one KCCL contractor. Some of the contractors subsequently abandoned the site. Since the attack, the government of Uganda has made a firm commitment to enhancing the region's security. In late 1999, President Museveni made a high-profile visit to Kasese to reassure the local population and project management. A highly respected military commander has been appointed to oversee a

new 3,000-strong military contingent in the area, and recently a number of high-profile arrests have been made of the ADF's leadership. To improve security at the project site, KCCL has also hired Gray Security Services, a South African company experienced in industrial and mining security activities. Gray Security Services is working closely with the Ugandan security forces. Their detailed analysis of incidents in the vicinity of the project site during the first four months of 2000 suggests that threats to security are declining. There are also indications that support for the ADF among the local population is low and weakening.

## **DIRECT EFFECTS**

### **Economic Effects**

KCCL provides Uganda with one of the most significant infusions of private foreign investment since independence in 1962. As the largest mining initiative in the country since the de-commissioning of the Kilembe copper mines, the project has made a substantial contribution to the development of Uganda's mining sector. Since KCCL is also the country's first cobalt producer, it will provide an important source of growth and diversification not only to the country's minerals industry, which has traditionally been dominated by gold mining, but also to its export base, which depends heavily upon coffee.

Cost overruns of \$35 million and a longer-than-anticipated reliance upon expatriate labor will, however, delay some anticipated benefits to Uganda's economy. Delays in construction and operations have pushed back the project's expected contributions to government revenues and the country's balance-of-payments. The project's potential for profitability nevertheless remains strong at current cobalt prices. Initial production estimates

remain unchanged and KCCL's overall production costs remain relatively low. The project still anticipates producing about 1,000 tons of high-quality cobalt per year for 11 years, an amount that would supply over 3 percent of the current world cobalt market.<sup>15</sup> When operations reach full capacity, KCCL now estimates that it will provide \$35.3 million in foreign exchange revenue per year to the government.<sup>16</sup>

A key variable in the project's economic effects will be the price of cobalt on the world market. According to the Cobalt Development Institute, cobalt prices have been relatively volatile over the last decade, ranging from \$7 per pound to over \$30 per pound. Prices soared to record highs during the early and mid-1990s, with averages above \$20 per pound for the high-grade cobalt cathode (99.8 percent purity), which KCCL intends to produce.<sup>17</sup> This sudden up-turn in the cobalt market was due to steady growth in demand for superalloys, cobalt's primary end-use in products such as aircraft turbines and batteries for computers and cellular phones. Civil war in the Democratic Republic of Congo (former Zaire), traditionally the world's leading cobalt producer, also contributed to this market volatility. In the late 1990s, prices started to decline, however, as world supply grew, notably from Australia and Zambia, and began to outpace demand. Production from Zambian and Australian sources is expected to continue to increase in the coming years. Given this pattern of growth in world cobalt production, industry sources suggest that it will be difficult for the market to sustain the price of \$15 per pound initially estimated for the life of the project.<sup>18</sup>

Even if cost overruns and market uncertainties reduce these return estimates somewhat, the project will nevertheless clearly contribute to Uganda's tax base and its trade balance. Currently, KCCL contributes more than \$100,000 annually in social

security and employee wage taxes to the government. For the first ten months of below-capacity production, KCCL paid over \$200,000 in customs duties and import commissions; its contributions will increase substantially once full capacity operations begin. The Ugandan government also stands to benefit directly from eventual earnings in a number of years because of its 25 percent stake in KCCL's equity through its ownership of Kilembe Mines Limited.

Originally, the government provided the project with a number of investment incentives, which have been overtaken by policy changes. An exemption on taxes and duties for the first six years of production, for example, has been replaced by the accordance of special status under a new value added tax (VAT) regime. The government has confirmed its commitment to providing equivalent levels of support, through different modalities, but company officials anticipate further changes in the future and are concerned about their impacts.

### **Direct Employment Effects**

The creation of new jobs by the project has been better than anticipated. At the peak of the project's construction phase in 1998, 800 people were employed by KCCL contractors. As the project shifts into normal operations, it will provide employment to 326 local workers, of whom 276 are unskilled or semi-skilled, 16 clerical or administrative, 33 professional or technical, and one managerial. The project has thus generated over 28 percent more local jobs than initially forecast in its application for a MIGA guarantee. Seasonal temporary and part-time manual laborers are also periodically employed from the local area at KCCL, at rates ranging from 50 to 70 employees each month. At present, 39 expatriates from Australia, South Africa, and the United Kingdom work in operations at

the managerial, professional, and technical levels, significantly more than initially estimated, though the company plans gradually to reduce its dependence on expatriates as production reaches full capacity.

Because regional employment had fallen since the decommissioning of the area's largest employer, the government-owned Kilembe copper mines, the project's estimated job creation effects were one of its attractive developmental features. Even though direct employment effects have been better than anticipated, operations will cease once KCCL finishes processing the remaining sulphide stock and any other stocks that may become available on site. Job losses will be somewhat mitigated if the government proceeds, as anticipated, to incorporate operations at the Mubuku power station into the Uganda Electricity Board's infrastructure. Ultimately, however, the direct employment creation effect of the project is mainly medium term.

### **Investment in Human Capital**

Although reliance upon expatriate labor in more highly skilled positions has been greater and lasted longer than anticipated, the project is developing a training program that will team local "understudies" with each professional, technical, and managerial position. The program aims to provide back-up staff and to facilitate the gradual replacement of expatriates with Ugandans. KCCL has recently recruited an expatriate training officer to establish this project training section, and a program is currently under development. The company's recruitment strategy has concentrated on semi-skilled and unskilled laborers, but the company has made a concerted effort to attract employees with potential for skill upgrading. Initially, the company committed itself to reducing its dependence

on expatriate labor once operations reached full capacity, with the intention of training locals to assume managerial capabilities whenever possible. The highest level attained by a local staff member is currently human resources manager.

### **Environmental Impact: Addressing Inherited Environmental Problems**

The anticipated environmental impacts of the project are among KCCL's major benefits. By processing stockpiled concentrates left over from earlier copper mining operations, the project will help alleviate a significant source of metals contamination and erosion in the area. During the years of operations at the Kilembe mines between 1956 and 1977, over one million tons of cobalt sulphide concentrates, produced as a by-product from copper mining, were stockpiled in a series of lagoons near Kasese Town. Few environmental precautions were taken during stockpiling. In addition to the stockpiled concentrates, the tailings from earlier milling operations also were inadequately stabilized and, after decommissioning of the mine, only minimally maintained.

The consequences on the surrounding environment have been severe. The sulphide minerals in the concentrates and tailings have slowly oxidized, producing acidic conditions. Acidic leaks from the stockpiles and tailings have seeped into the groundwater. The stockpiles eroded, especially during the spring and fall rainy seasons, washing large quantities of suspended materials, cobalt concentrate, and heavy metals such as iron, copper and nickel downslope. This erosion has produced acidic "discharge trails" into Queen Elizabeth National Park, affecting local streams, a papyrus swamp, and a shallow area of Lake George known as Hamukunga Bay.

KCCL inherited this difficult environmental situation. The project has invested \$2.5 million in a rehabilitation and closure plan to stabilize the remains of the stockpiles and to put the tailings from the cobalt extraction process into properly engineered tailings lagoons, by constructing lined and bunded dams. Since the beginning of operations last year, the project has started to remove the major source of contamination in the area, and it promises to reduce hazards further by replacing the existing stockpiles, which currently are in the form of lagoons (that is, wet storage), with dry storage for the wastes arising from the project. These modifications are greatly reducing the environmental risks associated with the site.

Not only is the project removing one of the major sources of pollution from the area, but it has also become the catalyst for a number of unanticipated, innovative micro-pollution control projects. Revegetation schemes and a wetlands project are currently being implemented, with assistance from international developmental and environmental funds. The French government's Fonds Français pour l'Environnement Mondial (FFEM) has provided grant funding for a plan to revegetate 200 hectares of land within Queen Elizabeth National Park previously damaged by deposited solids from discharges originating on the KCCL site. Through grants from the Danish International Development Assistance fund (Danida), the Danish Ministry of Foreign Affairs is currently supporting a wetlands project that is building reed beds to "polish" discharges to a higher level of treatment than initially anticipated, before they reach more sensitive areas downstream in Lake George. Additionally, about ten percent of land originally disturbed by construction of the hydroelectric power station has already

been revegetated, and the company is systematically storing topsoil at the Hima limestone quarry in order to facilitate revegetation there at a later stage. Whether funded through outside grants or by the company itself, these environmental projects are being implemented by the staff under the leadership of the company's chief chemist. Without the project's willingness to undertake and, in many cases, to conceptualize these innovative measures, it is unlikely that donor funding would have been secured to support them.

Because of the delays in beginning production, it remains too early to conduct a proper assessment of the environmental effects of full-capacity operations. The biological oxidation process is natural and environmentally friendly, and no adverse environmental effects are anticipated to arise from the process. Independent environmental due diligence, contracted by one of the project's major loan financiers in 1997, indicated a few matters that deserve to be closely monitored as operations achieve full capacity. Because emissions will arise from plant operations, and dust and noise pollution will be associated with the company's quarrying, the impact of the project on air quality will require further evaluation. Additionally, the capacity and stability of the new tailings dams need to be regularly monitored in order to verify that their capacity is sufficient during the entire life of the project. Finally, MIGA also initially estimated that poaching within the national park could potentially increase as an indirect result of more people coming into the area. It is still too early to determine whether this concern will be realized.

In the meantime, the company has begun to monitor the project's impact on water quality. The power station that has been built off the Mubuku River has facilitated several infrastructure

improvements, but it may have also created some potentially adverse environmental effects. A significant amount of water is being diverted from the river to produce power for the plant. This could increase sediment levels in the river and potentially cause some problems if the reject canal is run at too high a flow rate and erosion takes place, causing solids to return to the Mubuku river. Since the Hima River is also anticipated to carry some solids from the limestone quarry, ongoing efforts at sediment control are necessary. However, to date, there has been no return of water from the quarry to the river.

The company is periodically discharging liquid effluents from the tailings into the Rukoki River. KCCL has undertaken these discharges in regular consultation with the Ugandan National Environmental Management Authority (NEMA). NEMA has received regular reports from company staff on environmental effects of the project, and the first NEMA-approved discharge occurred in March 2000. Regular independent monitoring will be necessary as production increases to full capacity to insure that effluents meet World Bank environmental guidelines, especially with respect to acidity and the concentration of residual heavy metals.

The company's cooperation with NEMA mirrors a broader track record of receptiveness on the part of KCCL management to meet environmental standards. The company has repeatedly demonstrated its willingness to cooperate whenever concerns have been raised about the project's potential environmental impacts, whether by locals or by other project investors.<sup>19</sup> By removing the main source of pollution in the area and by experimenting with other environmentally friendly measures, KCCL is having a significant positive impact on the local environment,

better than initially anticipated. Determining whether the effects of full operations will continue to be clearly positive will require ongoing monitoring within MIGA's evaluation process.

### **Worker Safety**

The project places a strong emphasis on worker safety and security. KCCL takes advantage of training programs offered by business associations in Kampala and other urban centers. Since the project's beginnings, there have been no work-related fatalities among employees. Personnel orientation training focuses on workplace safety issues, and the project is encouraging its employees to adopt sound safety habits, including extensive use of hard hats despite high outside temperatures.

## **INDIRECT EFFECTS**

### **Social Development and Infrastructure**

The KCCL project is fostering social development and infrastructure improvements in the community. Several anticipated benefits have already been realized. In addition to providing employment in an economically depressed region and reducing an environmental hazard to the area's residents, the project is improving basic infrastructure, such as access to clean water and low-cost power. The project has also attracted unanticipated international support for a series of community projects currently being developed with the help of KCCL staff.

Wages are comparable to the national level for similar skill levels. Wage levels are monitored regularly and were recently restructured and increased by up to 60 percent. The company estimates that economic activities valued at approximately \$600,000 are injected annually into the local economy from employees' wages.

Their wages help foster the surrounding local service economy, including housing, shops, and restaurants.

The Mubuku River hydroelectric power station generated a mixture of impacts on local society. A resettlement occurred as a result of the construction and stabilization of a canal diverting water from the river to the station and of the clearing of land for the installation of a major power line. Mouchel Consulting Limited, a British environmental consulting firm, noted in a recent monitoring report that KCCL's Resettlement Action Plan had been implemented in compliance with the resettlement guidelines of the Organization for Economic Cooperation and Development (OECD), the African Development Bank (ADB), and the World Bank Group.<sup>20</sup>

At the same time, the power station and associated works have enhanced some local infrastructure. By installing standpipes along the canal, the project has improved access to water for residents in several communities within the Mubuku district. The project has built additional footbridges and crossing points over the canal and river as well as watering points for cattle alongside the canal. Most significantly, the power station is expected to become a low-cost source of additional power for the Ugandan national power grid. Since only 7 MW of power are required for full operations, 30 percent of the 10 MW capacity of the power station has been allocated to the Uganda Electricity Board. After the project, the station will be fully integrated into the national electricity grid, helping to reduce one of the country's chief infrastructure weaknesses.

There are a few social programs that directly benefit the project's local employees. KCCL initially provided a small donation to a local clinic operated by the

Church of Uganda to help bring its standards to an acceptable level. The company pays the medical costs for approved visits by KCCL staff. The anticipated plans to provide a school have not yet materialized. However, KCCL has attracted unanticipated community development funding from the European Investment Bank (EIB) for several local improvement projects, made possible through a share of interest payments due to EIB from KCCL. Projects currently being considered for financing under this fund, a \$1.2 million interest subsidy, include a modernization of local health centers in Bugoye, Mukathi, and Muhokya to improve local maternity and children's health services, and the construction of four bridges over local rivers to improve roads and infrastructure.

### **Downstream and Upstream Effects**

As anticipated, KCCL's presence in the region has had upstream effects on local suppliers of goods and services, mainly small enterprises hiring no more than five employees. During the construction phase, the project made significant use of local contractors and suppliers. Since moving into the operational phase, the need for such services has fallen. Local purchases in Kasese Town include food stuffs for the employee mess, hardware supplies and vehicle repair. It is also possible that KCCL's clean-up efforts and environmental micro-projects in the area will help to make Queen Elizabeth National Park a more attractive destination for nature tourism, a targeted area of economic development for Uganda.

Downstream, the disposable income of KCCL employees produces benefits for local service industries and providers of basic consumer goods. They may also give a boost to the local housing sector. Since the retention of more highly paid expatriate

employees has been longer than expected, their continued presence provides indirect add-on benefits to the local economy as well.

### **Transfer of Knowledge**

The project uses a natural, environmentally friendly biological oxidation process known as bioleaching to begin the process of extracting cobalt from the sulphide. After initial phases of experimenting with the technology in pilot plants, KCCL became the first enterprise to apply bioleaching to cobalt processing, making the project a source of technological innovation. In addition to being an environmental best practice, bioleaching is also a relatively low-cost solution. Consequently, over the medium and longer term, other cobalt and high-quality minerals producers may begin to adopt this new technology. Involvement in the operations of this innovative process is also enhancing the skills of employees. Additionally, through the FFEM- and Danida-funded community development projects discussed above, KCCL staff is proving to be a valuable source of knowledge and expertise to the local community in areas such as water management and environmental clean-up.

### **DIFFUSED EFFECTS**

#### **Demonstration Effects**

As noted, the project received the "Investor of the Year" award in 1999 from the Uganda Investment Authority. Reports on the project have repeatedly appeared in business and trade journals such as Mining Magazine, the Economist Intelligence Unit's annual country reports, International Projects 500, and the South African-based business information service Mbendi. The use of the environmentally friendly bioleaching process has garnered the project

attention as well. As a joint venture between a state-owned enterprise (Kilembe Mines Limited) and foreign investors, KCCL is also demonstrating to outside investors that the government of Uganda, as both a shareholder and a host government, is committed to providing a predictable, cooperative, and supportive business environment for foreign investment in the country.

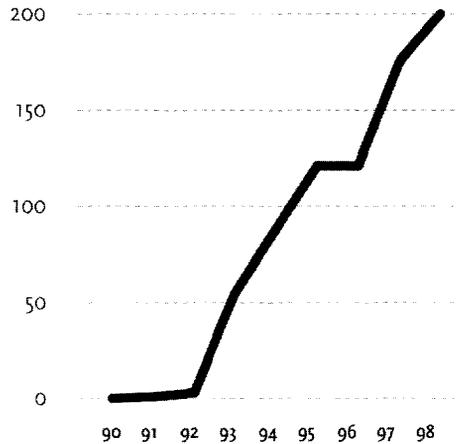
FDI in Uganda had been very low until 1992, when the government accelerated its major economic reform initiative. Subsequently, the atmosphere for foreign private investment has improved substantially. Foreign capital inflows have increased dramatically, from \$3 million in 1992 to \$200 million in 1998, making Uganda one of Africa's top seven "front-runners" in attracting FDI.<sup>21</sup>

With more than \$140 million invested in the project, KCCL accounts for over 10 percent of Uganda's private foreign investment in the 1990-1998 period. It has contributed to the enhancement of Uganda's investment image by sending a positive signal to other potential investors. The project has also been a clear example of collaborative foreign investment among private companies and banks, as well as multilateral and developmental institutions, many of which had little previous involvement with the Ugandan economy or its government.

#### **Sectoral Impact**

By producing an estimated 3 percent of the world cobalt market per year, KCCL promises to increase substantially the mining sector's contribution to the national economy and to Uganda's export base. Since the full decommissioning of the Kilembe copper mines in the early 1980s, mining and mineral production have only minimally contributed to Uganda's economy. In 1996-97, for

**Figure 18**  
**Uganda: Foreign Direct Investment**  
 1990-1999/2000



Source:  
*The World Bank Group,*  
*Global Development Finance*  
 (1998, 2000)

example, mining accounted for less than three percent of Ugandan GDP.<sup>22</sup> As Uganda's first cobalt producer, KCCL is beginning to diversify mineral production activities within a sector long dominated by gold and, on a more limited basis, iron ore, phosphate, salt, tin, and tungsten. Although mining is unlikely to overtake coffee as Uganda's main export earner, when KCCL becomes fully operational, it will have notable effects on the mining sector's share of GDP and its contribution to export revenues.

The government's cooperation with KCCL has attracted further interest in the development of Uganda's mining sector. The southwestern region of the country, where KCCL is located, is one of the most mineral-rich areas of the country. Several foreign investors and joint venture companies have begun to explore for copper, nickel, cobalt,

tantalite, and gold reserves. The number of prospecting and mining licenses issued by the government has increased markedly since KCCL entered the country. One of the positive outcomes of KCCL's presence in Uganda is a refinement of the country's geological map.

### MIGA'S ROLE

Due to the perception of unusually high levels of risk associated with KCCL, MIGA's provision of political risk insurance was critical. As a project in a land-locked, highly indebted poor country in one of sub-Saharan Africa's most volatile regions, it was not viewed favorably by private sector risk insurers in the early 1990s. Given Uganda's history of domestic political instability and nationalization in the industrial sector and at the Kilembe mines in particular, coverage against the risks of expropriation, transfer restriction, and war and civil disturbance was deemed essential for the project to go forward. The multinational character of the project, including the involvement of the Ugandan government and a mixture of public and private financial sources from France, the UK, Canada, and Australia, also made a multilateral insurer such as MIGA well-suited to this task.

In the exploratory stages, foreign investors found the project's technical viability and potential for commercial success particularly strong. They were able to reach agreement with the government about the appropriate investment incentives and ownership structure of the company. Because of the perception of the risks involved, the foreign investors felt that obtaining political risk coverage was critical for securing the debt financing needed to meet the project's anticipated costs during its feasibility, construction, and operational phases. After assessing the project's viability, analyzing the company's estimations of its developmental

effects, and reviewing the associated economic, political and security risks involved, MIGA determined that it would be the appropriate guarantor of the initial equity investment and of the requisite loan financing from future debt providers. Subsequently, a range of multilateral, public, and private investors committed the necessary loan financing, and MIGA displayed the necessary flexibility to adapt its guarantee package for the project accordingly. During the April 2000 evaluation visit, MIGA staff confirmed that both the government and the foreign investors involved found it unlikely that KCCL could have proceeded without MIGA's coverage from the outset of the project. MIGA's decision to insure the project in 1992 and to amend its contracts subsequently also helped provide an enabling environment for IFC to become a committed participant in KCCL.

Although continued evaluation will be necessary before a complete assessment of the success of MIGA's involvement in the KCCL project can be made, it is clear that the MIGA decision to provide coverage has been effective. Ongoing due diligence, including a 1997 on-site visit by a MIGA underwriting officer, allowed MIGA to determine that, despite the emergence of new, unanticipated security threats from the ADF rebels in the areas of southwestern Uganda surrounding the company site, the risk posed to MIGA and to the project remained acceptable.

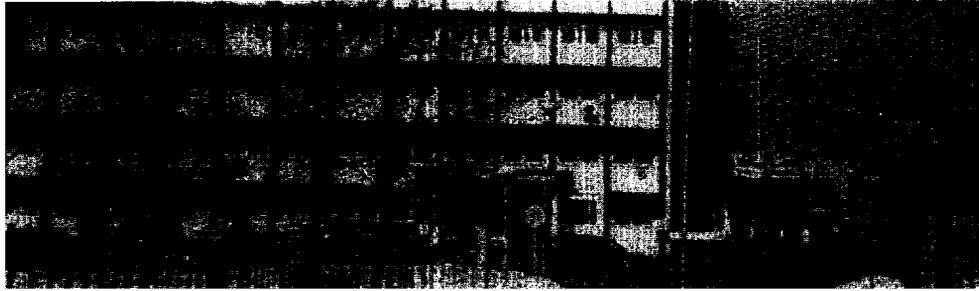
KCCL was MIGA's first project in Uganda and one of the earliest guarantees in its African portfolio. Since 1990, MIGA has issued 67 contracts of guarantee in sub-Saharan Africa, providing \$619 million in coverage and facilitating almost \$3.9 billion in FDI.<sup>23</sup> MIGA's field-based marketing initiative PROMOTE AFRICA and its legal expertise in investment dispute resolution are among the technical assistance programs offered to help the region attract foreign direct

investment and develop the capacity necessary to maintain it. MIGA has also joined the United Nations Conference on Trade and Development (UNCTAD), the UN Development Program (UNDP), and the International Chamber of Commerce (ICC) in a joint initiative, "Focus on the New Africa," which works to market investment opportunities in African countries.<sup>24</sup> MIGA's Investment Marketing Services encourage investment facilitation in Africa's mining sector, in particular by sponsoring the annual African Mining Investment Symposium in which government officials, including Uganda's, and leading mining executives regularly take part.

Since becoming involved with KCCL, MIGA has underwritten 11 other contracts of guarantee in Uganda, providing coverage to facilitate \$68.6 million of total FDI into the country. In addition to KCCL, MIGA's Uganda portfolio has included projects in agribusiness, manufacturing, and telecommunications, which have stimulated more than 2,100 new jobs in Uganda. MIGA has issued \$83.6 million in coverage in the country, making Uganda one of the largest beneficiaries within MIGA's Africa portfolio and representing 13.5 percent of total MIGA coverage issued in sub-Saharan Africa. Involvement with the KCCL project gave MIGA the confidence to underwrite additional projects in Uganda, and deepened the agency's ability to assess the risks and monitor the developmental impacts of projects within the broader context of Uganda's political, economic, and security environment. KCCL also encouraged MIGA to provide additional assistance to African countries, which have traditionally been a modest portion of MIGA's total portfolio.<sup>25</sup>

# Case Study 2

## ABN AMRO Bank Kazakhstan



ABN AMRO BANK KAZAKHSTAN  
KAZAKHSTAN

### PURPOSE

The purpose of this case study<sup>26</sup> is to examine how a MIGA-insured project contributes to the development of a host country through sectoral and demonstration impacts. These effects are relevant since many of the investments in MIGA's portfolio are small in size relative to the country or region, but often have other characteristics such as pioneering or "risk-taking" that attract the attention of other investors. ABN AMRO Bank Kazakhstan (AABK), profiled in this case study, represents a \$10 million investment. It was the first international commercial bank to begin operations in the country.

This case study draws on information obtained directly from AABK and others between fiscal years 1998 and 2000.

### PROJECT BACKGROUND

In fiscal year 1994, MIGA provided political risk insurance to ABN AMRO Bank N.V. (AA) of the Netherlands for an equity investment in its majority-owned subsidiary, AABK. AABK is a joint venture with Kazkommertsbank, a local private bank (29 percent), and the International Finance Corporation (20 percent). MIGA's guarantee provided coverage against the risks of expropriation and transfer restriction up to an amount of \$4.59 million for a period of five years. AA's total investment in its Kazakhstani subsidiary amounted to \$5.1 million, equivalent to 51 percent of AABK's equity. At that time and for several years thereafter, AABK was the only major foreign bank to operate in Kazakhstan. It was initially to concentrate on short-term, self-liquidating trade finance,

documentary credits, foreign-exchange transfers, and performance guarantees. In the longer term, AABK was expected to serve corporate clients with a full range of basic commercial banking operations. Since its establishment in 1994, AABK has played a pioneer role in the financial sector and has provided important direct and indirect benefits to the host country.

The investor, ABN AMRO Bank N.V., is wholly owned by ABN AMRO Holding N.V., a financial holding company registered in the Netherlands, whose origins date back to 1824. As a result of the bank's extensive history of autonomous growth, coupled with strategic acquisitions and mergers, it has become a global player in the world financial markets. It provides a full range of banking services through its 900 domestic branches and 2,500 global offices. At the end of 1999, AA Holding N.V. had consolidated assets of \$462 billion with a profit of \$2.59 billion, a 21.7 percent increase in profits from 1998. The current group employs approximately 108,600 people worldwide. In terms of assets, AA ranks among the top ten banks in the world and the top four in Europe. It is a leading bank in the field of project finance with offices in 76 countries.

## **COMPLEMENTARITY WITH THE WORLD BANK GROUP**

Kazakhstan became a member of the IBRD in July 1992, following its independence. The centerpiece of the first Country Assistance Strategy of the World Bank Group in July 1993 was to provide support for the structural reform program the government of Kazakhstan had inaugurated that year. The key objectives of World Bank assistance were macroeconomic stabilization through balance-of-payments support, as well as structural reforms such as enterprise restructuring, privatization, and financial sector development.

Accordingly, financial sector reform was supported by an IBRD Financial Sector Adjustment Loan totaling \$180 million, which was approved in June 1996. The strong emphasis on the development of a functioning financial sector is underlined by the fact that this loan accounts for about 10 percent of total IBRD commitments to Kazakhstan from 1993 until March 2000.

World Bank support for the financial sector was seen as crucial at the beginning of a difficult transition process from a centrally planned economy where credit was allocated according to plan targets and interest rates reflected political, not market, values. Successful institution-building in the financial sector, encompassing decentralized decision-making processes through financial intermediaries and the introduction of new instruments, was a precondition for the real sector transition to take place. Kazakhstan's financial sector, at that time, was considered to be ineffectual because of its over-dependence on central-bank financing, poor portfolio quality and governance problems, a shortage of banking skills, a lack of modern banking technology, and an absence of competition.

World Bank support has played an important role in Kazakhstan's transition process. Over the last seven years, the IBRD has approved 21 loans amounting to \$1.8 billion<sup>27</sup> in the form of technical assistance, adjustment and investment loans covering the financial sector, agriculture, infrastructure, health, legal reform, and pension reform.

Over the last seven years, IFC has supported 17 investments in 13 projects in Kazakhstan, totaling \$388 million in financing. Eleven of these projects, equivalent to \$136 million, have since been disbursed, rendering Kazakhstan an important host country in IFC's portfolio.<sup>28</sup> IFC's support for the financial sector is

impressive; it is involved in four of the five biggest banks (ABN AMRO Bank, Kazkommertsbank, Turan-Alem Bank, EXIM Bank),<sup>29</sup> which together account for nearly 70 percent of all deposits.

In 1993, the government of Kazakhstan approached IFC to help establish a Western-style commercial bank in Kazakhstan. IFC selected ABN AMRO as a suitable investor for a "best practices" model for other banks in the country. IFC's strategy, in line with the World Bank's Country Assistance Strategy, consisted of building the necessary institutional framework for private sector growth. In the financial sector, it adopted a three-pronged approach of technical assistance, institution building, and resource mobilization to develop Kazakhstan's nascent financial markets. AABK was ideally suited to enable IFC to pursue these goals. In emphasizing AABK's model role in the economic reform program both through its visibility and in providing essential banking services to international joint ventures and local companies, IFC's Board approved the project in September 1993.

In August 1993, Kazakhstan became a member of MIGA; this was particularly timely since it occurred at the beginning of the ambitious structural reform program. At the time of AA's application for a guarantee, in February 1994, MIGA had not yet insured any projects in Kazakhstan.

During the project's underwriting phase, MIGA assessed the anticipated benefits to Kazakhstan and the development of its financial sector. AABK was considered a priority project because it supported the objectives established by the World Bank Country Assistance Strategy. MIGA conducted its own analysis of the project's viability and of the benefits and risks associated with it. Estimated developmental impacts were very encouraging: the bank's very existence was expected to foster growth in Kazakhstan's business sector and the modernization of the banking sector. In particular, the bank was to focus on international joint ventures and local export companies. It was anticipated that it would serve as a model to other foreign banks considering an investment in the country. Since AABK would be the first major foreign commercial bank, its establishment was expected to increase the availability of bank products, to introduce new products and to increase competition with the existing, state-run banks. Furthermore, the participation of a Kazakhstani bank (Kazkommertsbank) was seen as positive for its potential for spill-over of best practices and know-how to other financial institutions in the country. Intensive training for an anticipated workforce of 57 people was foreseen in areas identified as being underdeveloped or non-existent in the country, such as credit analysis, international accounting, treasury operations, and computerization of banking services. The training program was designed to take place both in the country as well as at AA's head office in Amsterdam

**Table 8**  
**Kazakhstan Banking Sector Overview**

	1995	1996	1997	1998	1999
Total number of banks	130	101	82	71	55
State-owned	4	5	5	1	1
Foreign-owned (partly/wholly)	0	7	20	23	22
Total branches	1,036	949	582	446	426

Sources: IMF; Kazakhstan Weekly News

and other offices within the bank's international network.

Taking into account these benefits, and after thorough analysis of the risks associated with the requested coverage against expropriation and transfer restrictions, MIGA decided to issue the requested guarantee. In its decision, MIGA considered the government's determination to push through economic reform and the positive long-term prospects for the country, given its abundance of oil, gas and mineral resources, a well-trained work force, and its low external debt.

AABK benefited from the cooperation of all three institutions of the World Bank Group. While the IBRD supported the financial sector with a major loan initiative, IFC invested \$2 million in exchange for a 20 percent equity share in the bank in October 1993. MIGA issued a political risk insurance contract against the risks of expropriation and transfer restriction in June 1994. Subsequently, IFC followed with a \$7.5 million credit line (1996) and took part in a rights issue, worth \$2.6 million in 1997, indicating its continued commitment to the project. IFC's involvement was seen as a source of comfort to all parties in the joint venture. Together with MIGA, it was expected to play the role of the "honest broker" between the other parties if needed. The MIGA guarantee was considered indispensable given the pioneering role of the investment and the perceived risks associated with it.

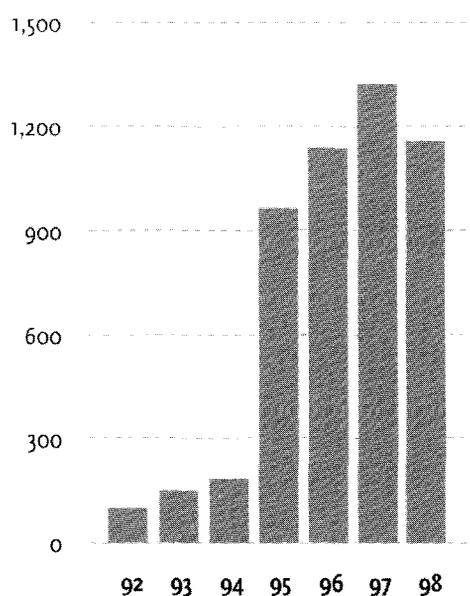
The 1997 Country Assistance Strategy for Kazakhstan shifted the focus to private sector-led growth. IBRD lending in fiscal years 1998 and 1999 focused on a Pension Reform Structural Adjustment Loan totaling \$300 million in commitments,<sup>39</sup> which represents 41.6 percent of total IBRD lending during that period. At the same time, drawing on AA's vast international

resources and know-how as a custodian bank, AABK became one of the pioneers in setting up private pension funds as envisaged by the reform legislation.

## THE FINANCIAL SECTOR

The financial sector of Kazakhstan is still in the early stages of development. Since its independence in 1991, the country has made significant progress in establishing financial policies, creating a legal framework, and developing key components of the financial infrastructure such as accounting systems, banking supervision capacity, and corporate governance. More recently, with increased assistance from the

**Figure 19**  
**Kazakhstan Foreign Direct Investment**  
**(\$ million)**



Source: The World Bank Group,  
*Global Development Finance*  
(2000)

IBRD and the International Monetary Fund, the financial sector reforms have shifted their focus to promoting the restructuring of the banking system. In order to foster a robust financial sector, reforms have concentrated on developing the securities markets, the stock exchange, and other complementary institutions. Non-bank financial institutions such as insurance and leasing companies are still underdeveloped, and are likely to be on the agenda for the next phase of financial sector reforms.

Despite the efforts put forth, Kazakhstan's financial sector remains underdeveloped and has only a small role in sustaining the real economy. As of November 1999, the total assets of commercial banks were estimated to be \$2.1 billion, an increase of 63.5 percent from 1998, but representing a feeble 13.6 percent of the 1999 GDP.<sup>31</sup> The structure of the banking system can be characterized by a high concentration of ownership and lending. An internal World Bank report noted that with respect to the ownership, as of end-January 1998, two banks (one state-owned and the other private) accounted for more than 50 percent of assets and deposits.<sup>32</sup> However, the number of banks in which the government held shares fell from 73 in 1996 to five in 1998. The entry of foreign banks was eased and 22 Kazakhstani banks now have foreign participation. With respect to the concentration of lending, the share of the largest 20 borrowers in the loan portfolios of the five major banks ranged from 43 percent to 74 percent. These five banks account for about 70 percent of total loans in the banking system.

Since the introduction of the consolidation program in 1995, the quality of the banking sector has seen improvement. Under this agenda, all banks were mandated to adopt international banking standards, including the 8 percent

capital adequacy ratio set by the Bank for International Settlements (BIS). The program has drastically changed the face of the banking sector and has reduced the number of banks in Kazakhstan from 130 in 1995 to only 55 in 1999 (see Table 8). Although laws against access for foreign banks still remain—restricting the combined capital of all foreign banks to 25 percent of the total banking capital—the key component stifling competition and development of the sector can be attributed to the relatively small size of the market. Lack of sufficiently defined local regulations and tax frameworks coupled with the Russian financial crisis have undermined the confidence of local citizens and the corporate community regarding the reliability of the financial market. Despite the remarkable improvements in the quality of the assets of the banks, the sector as a whole fails to effectively fulfill its intermediary function.

Notwithstanding the various shortcomings in the country's basic infrastructure and the Russian ruble crisis, Kazakhstan experienced steady increases in foreign direct investment from 1992 to 1998 (see Table 2). The country's rich endowment of natural resources, coupled with the government's strong support for the development of its key sectors, successfully attracted foreign investment.

## **DEVELOPMENTAL EFFECTS**

AABK conducted a self-evaluation at MIGA's request in December 1997, revealing that it had very positive developmental impacts on the country. An independent consultant to MIGA rated the project as "high" in the following categories: development of the local financial sector, transfer of technology and know-how, and development of capital markets. The project was rated "medium" for living standards,

and "medium/high" in complementarity with government development programs and with programs of other development institutions.<sup>33</sup>

Concurrent with this evaluation, a separate MIGA assessment found the project to have "outstanding" effects in terms of employment, human capital investment, transfer of knowledge, demonstration effect, financial and capital markets; its economic, downstream, and upstream effects were rated "beneficial."

In March 2000, the project was visited by MIGA evaluations staff. During this site visit, the original developmental impacts based on the 1997 self-evaluation were not only validated, but they were found to be even more striking. Subsequently, the project's rating, already included in the 1998 report on MIGA's developmental impacts,<sup>34</sup> was re-scored in 2000. The initial assessment of downstream effects associated with the project was upgraded from "substantial" to "outstanding," taking into consideration the active intermediary role of the bank in Kazakhstan and the benefits it has provided to many local firms in the form of working capital. Hence, the project was rated "outstanding" in six out of eight categories measured. (This is broadly in line with IFC's project evaluation, which put AABK in the top group of 14 projects that have received a rating of "highly successful.")

In meetings with government officials in Kazakhstan, the MIGA evaluator found that officials repeatedly referred to AABK as an exemplary bank and an "incubator" for other banks. They emphasized that AABK contributed in two key ways to the development of the country: it transferred banking know-how and skills to the local labor force and has markedly improved the quality of financial services available in Kazakhstan. Officials also praised the

crucial role AABK played in setting up private pension funds in support of the 1998 pension reform.

### **Sectoral Impact and Transfer of Technology and Know-How**

As the first major international bank to invest in the country, AABK is credited with introducing into Kazakhstan banking services of international standard and quality, particularly in the field of treasury, corporate lending, and corporate finance. Overall, the establishment of AABK has had a beneficial impact on fostering the development and efficacy of Kazakhstan's banking services. Government reform initiatives and implementation of banking legislation have forced other banks to either drastically restructure and improve or to stop operating. From 1995 to 1999, the country experienced a dramatic drop in the total number of banks (by 57 percent), as many local banks were unable to meet the stringent international standards imposed by the government.

While many banks now offer a range of services at comparable terms and similar quality, AABK continues to introduce new products and services to the market, such as loans covered by export credit agencies, issuance of local bonds, and the management of private pension funds. Additionally, AABK has developed a management information system and legal documentation for various banking products.

### **Presence in the Financial Sector**

As of January 2000, AABK was the fourth largest bank in Kazakhstan in terms of total assets and is projected to become the third largest within the next two years. With \$181 million in total assets, it is the largest foreign bank. Kazkommertsbank, a private local bank that holds a 29 percent stake in AABK,

is the largest bank in Kazakhstan with over \$522 million in assets. Kazkommertsbank has a 21 percent share of all assets, while AABK and Citibank hold 7 percent and 2 percent, respectively. In terms of net profit, however, AABK is ranked second, generating about \$16 million in 1999, while recording the highest return on assets and equity, namely 11.7 percent and 46.8 percent respectively.

### Productivity

These figures become more significant when one compares how AABK, with limited resources, is able to consistently achieve profits and maintain its competitiveness relative to other, much larger banks. Breaking down net profits per employee, AABK's staff of 150 contributes an average of \$107,000 per head to the company. In comparison, Kazkommertsbank and Halyk Savings Bank<sup>35</sup> staff contributed a modest \$10,500 and \$5,000 per head in profits (see Table 9). Average salaries of banks in Kazakhstan's financial sector appropriately reflect the relative productivity level of their staff, with AABK offering the highest salaries (about four times the average salary of the six largest commercial banks in Kazakhstan). The high performance of AABK's staff can be attributed to advantages in modern technology, comprehensive training, and a generous compensation package. As the market continues to develop, AABK's effective best practice management techniques will serve as a model in reshaping and setting the standard for Kazakhstan's financial market.

### New Products and Services

In addition to providing commercial banking services, AABK has contributed to the development of Kazakhstan's financial

sector by facilitating the introduction of new products and services in handling government securities and managing pension funds. In 1996, AA was selected from among 17 international banks to launch Kazakhstan's first Eurobond issue. The December 1996 issuance of a three-year bond, totaling \$200 million, was a critical move toward developing the country's capital markets. *The Financial Times* noted, "for many investors it [the bond issuance] was the only way of getting exposure to Kazakhstan."<sup>36</sup> The deal attracted international attention given that the government's primary reason for introducing the bond was to open its financial markets to foreign corporate borrowers in an attempt to attract potential

**Table 9**  
**Productivity of Kazakhstani Banks (1999)**

Bank	Net Profits per Employee (\$)
ABN AMRO	107,800
Kazprombank	19,900
Almaty Merchant	13,700
Kazkommertsbank	10,500
Halyk	5,000
Turan-Alem	3,700
CenterCredit	2,000

Source: Kazkommertsbank (2000).

investments and not necessarily to generate capital. The event provided a platform to raise awareness among the international community on the country's improving economic fundamentals. In addition to debuting the bond, AABK assisted in the smooth facilitation of capital flow transactions into the country by becoming the first bank to arrange syndicated borrowings for a Kazakhstani private company. Overall, AABK has played a significant role in both providing capital to support domestic commercial activities as

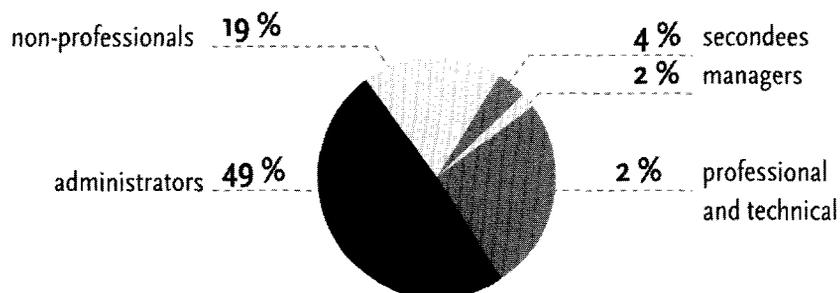
well as improving the country's access to international capital markets.

### Investment in Human Capital and Direct Employment Effect

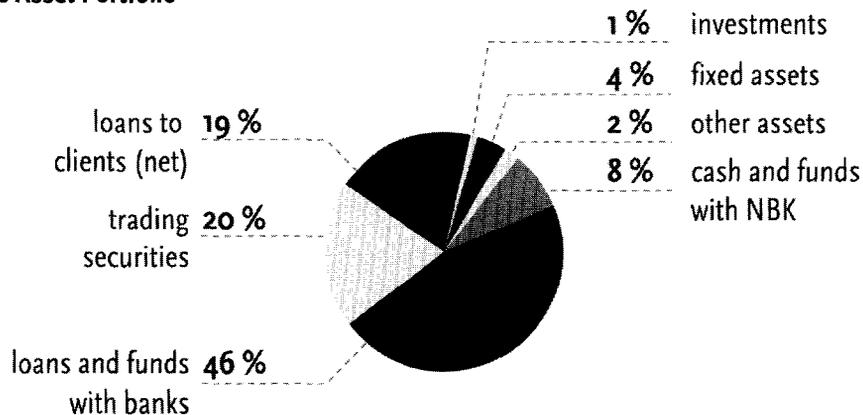
#### *Investment in Employees*

The bank's employees, and ultimately the people of Kazakhstan, have benefited from the presence of AABK through the bank's efforts to invest in its staff. As evidence, the amount of the budget allocated for training has steadily grown and will reach \$300,000

**Figure 20**  
**AABK's Staff**  
1999



**Figure 21**  
**AABK's Asset Portfolio**



in 2000. Breaking the figure down, AABK will invest approximately \$2,000 per employee in 2000 for training and career development. The diverse and extensive training programs offered by AABK have led to a gradual substitution of professional expatriate staff by local employees; for example, in 1996, AABK employed six expatriates in the category technical/professional, while in 1999, there was only one expatriate despite the overall growth of AABK staff. In 1997, approximately 90 percent of the bank's staff of 118 were local citizens. By 1999, the concentration of local staff increased even more, totaling 96 percent of the bank's staff.

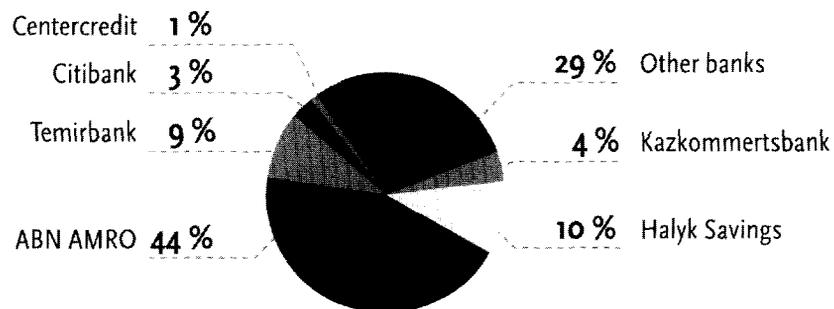
*Comprehensive Training Programs*

More than 100 Kazakhstani employees at all levels within the organization have received training. In some cases, the skills acquired by AABK employees have been diffused into the financial sector, as a number of staff have left AABK to take up positions, often at a senior level, with local Kazakhstani banks. There is a clear "spill-over" effect of expertise and know-how to other organizations, which will ultimately benefit

the entire local banking sector.

The content and focus of the training programs have changed and advanced with the increasing maturity of the branch. Initially, new employees were offered basic courses—computer software, credit analysis, and corporate finance—skills necessary to maintain the daily operations of a commercial bank. However, with AABK's maturity, the scope has become more comprehensive, with courses in asset management, pension fund management, and consumer lending. These advanced training courses were introduced to meet new demands and reflect the profound changes in the Kazakhstani financial sector. In addition to in-house training, AA also has a special international consultancy unit, which offers a wide range of specialized services to monetary authorities, private and state-owned banks, and other financial institutions. These services include strategic planning and controlling, marketing, human resources and training, risk management, internal audit, automation and operations, treasury, and asset/liability management.

**Figure 22**  
**Interbank Loans**  
1999



### *New Job Creation*

Although it was originally anticipated that the bank would create 57 jobs by 1999, AABK has grown at a consistent pace, registering an estimated total of 108 jobs in 1997, 130 in 1999, and 150 by 2000. These employees work in all divisions of the bank including sales, marketing, credit analysis, international accounting, treasury operations, and administration. The increase of 20 employees between 1999 and 2000 was almost exclusively in the category of professional, technical, and administrative positions (see Figure 20).

### **Downstream Effects**

Although limited in size, AABK offered a diverse portfolio of goods and services to local commercial businesses in Kazakhstan. As illustrated in Figure 21, approximately 19 percent (\$26 million) of AABK's assets are allocated for loans to clients while another 20 percent (\$28 million) is set aside for trade securities transactions. The figure illustrates a well-balanced asset portfolio. Taking a closer look at the figures provides a better understanding of the dynamics of AABK's operations.

At the time of this evaluation, AABK offered the lowest average interest rate on commercial loans (11.6 percent, compared with Kazkommertsbank's 18.4 percent and Citibank's 20.8 percent). Its commercial loan portfolio was \$40 million in August 2000. In addition, AABK has been successful in attracting corporate deposits. In 1999, it was the leading bank and accounted for a 14 percent share of total corporate deposits of Kazakhstan's banking sector (\$131 million), compared with Kazkommertsbank's 13 percent. AABK succeeded in catering to local clients; this is evidenced by a comparison of its operating capacity relative to other local banks. With only one full-service commercial bank

branch in Atyrau, AABK has been able to attract a 14 percent share or \$132 million of all corporate deposits in the entire banking sector, compared with Kazkommertsbank, which retains 13 percent (\$124 million) of the market with a network of 19 branches. Citibank, with one branch, holds \$33 million of corporate deposits, representing 3 percent of the total market.

A majority of AABK's resources are directed toward being an intermediary for local and multinational businesses. The presence of AABK has facilitated local commercial investments and activities by making available high-quality banking services. In order to smoothly financial activities (for example letters of credit) or to obtain working capital loans, businesses rely on banks.

AABK's services have also had downstream impacts on government activities and operations. Twenty percent of the subsidiary's total assets were used to facilitate the capital flow of state securities. AABK's 1999 market share of state securities within the entire banking system was 22 percent (\$54.9 million), second only to Halyk Savings Bank, which holds 41 percent (\$101 million) of the market.

In terms of resource allocation, AABK focuses the bulk of its services on distributing loans and making funds available to other banks within the local banking sector. In 1999, 46 percent (\$64 million) of its asset portfolio contributed to sustaining and supporting Kazakhstan's banking sector. AABK dominated the interbank loan market by commanding a 44 percent market share in January 1999 (see Figure 22). In comparison, Halyk Savings Bank, second to AABK, held 10 percent of the market.

While it is difficult to quantify the direct downstream impacts of AABK's activities, it is unquestionable that the services provided

have benefited local businesses and consumers.

### **Demonstration Effect**

As a result of being the first international bank to begin commercial operations, AABK had a significant impact in shaping the market conditions of the Kazakhstan's banking sector by setting precedents and introducing international standards on financial systems, controls, management, marketing, and best practices. The investment had the full support of the government of Kazakhstan, which viewed AABK as the "prototype" financial institution, intended to serve as the "best practice" model for local banks.

After the launch of AABK's operations, a series of banking reform legislation, such as the Consolidation Bill of 1995 and the Pension Reform law of 1997, was enacted by the government of Kazakhstan in its efforts to develop a sound domestic financial sector. Due to the number of bold financial reforms that followed AA's investment, it can be argued that, to some degree, AABK's presence in the country played a catalytic role in encouraging the government's reform-oriented approach to financial reform. As a testament to the quality of AA's services, it has received the Central European Magazine's award for "Best Foreign Bank of the Decade in Central and Eastern Europe and Asia" and Euromoney's award for "The Best Foreign Bank in Kazakhstan."

The success of AABK's investment in Kazakhstan has attracted other international banks to the country. As of June 2000, three more major international banks have established commercial operations in Kazakhstan—Citibank, HSBC, and Société Générale. Other regionally focused foreign banks have also established branches in Kazakhstan, including four Turkish, one

Chinese, and one Russian bank. While serving as a model for other foreign investors, the success of AABK's operations has prompted AA to reinvest much of its retained earnings to expand further its operations in Kazakhstan. As of December 1999, no dividends had been paid to AABK shareholders and the amount of reinvested retained earnings reached \$24.8 million. AA hopes to establish at least three more branches in the country within the next two years. Currently, AABK operates a full-service commercial bank branch in Atyrau, and a head office in Almaty.

### **Pension Fund Services**

In June 1998, the IBRD approved a \$300 million Pension Reform Adjustment Loan to support a 1997 law that provided for a transformation of the country's pay-as-you-go pension system to a fully-funded system. AA was among those entities that advised the government on the drafting of the 1997 pension legislation. The existing system suffered from three overarching problems: (1) a structure of benefits characterized by early retirement ages, special privileges, and high replacement rates; (2) excessively high payroll taxes; and (3) a continually declining revenue base. The new pension system mandated a 10 percent contribution from employees' wages to go toward either a state or non-state managed accumulative pension fund. The fund will keep the accumulated assets exclusively under one authorized bank custodian, which reports on all operational activities and transactions of its assets to the fund.

The ABN AMRO Asset Management Company (AAAMC) was created specifically to support the new pension fund law, which went into effect in January 1998. AAAMC began its operations on February 1998. AABK and three local investors, Hurricane

Kumkol Munai, GEOTEX, and BIKO, are the shareholders of the new company. The development of AAAMC complements AABK's goal of becoming a "universal bank" equipped with both broad financial services and knowledge of the local investment market. Although regarded among its competitors as a late entrant into the pension fund market, AABK's research and development team conducted an extensive analysis of the market to efficiently develop a comprehensive fund package. As a result, AAAMC, with accrued assets of more than \$50 million, is the market leader in terms of return on pension assets and the number of pensions funds under management, supervising one third (five of 15) of the available pension funds.<sup>37</sup> AAAMC is one of seven asset management companies that currently operate in Kazakhstan. In line with AABK's overall policy, all management practices are based on international standards for procedures, accounting, and reporting methods (with the entire operations running on a custom-made advanced software program designed to accommodate various account sizes and forms). Establishing itself as a leader in the recently founded pensions market, AAAMC's corporate structure and operations has helped establish the standard for pension fund management in Kazakhstan.

In addition to serving as a model, MIGA has assessed several other key development contributions attributable to AAAMC. In terms of impacts on the "real economy," AAAMC's prudent, risk-averse strategy of investing all accumulated assets into government securities (for example, Eurobonds and National Bank of Kazakhstan notes) has helped to make additional capital available to the government for discretionary expenditure and reform programs. AAAMC has invested

in its human capital by training portfolio managers and other professionals in AA's offices. Sectorally, AAAMC has contributed to the broadening of the local capital market by developing new products and diversifying the pensions market portfolio. The introduction of supplementary products by AAAMC, such as life and pension assets insurance, has assisted in strengthening the market as well as yielding benefits to consumers.

### **MIGA'S ROLE AND CONCLUSIONS**

The project has yielded positive benefits to the country, beyond what MIGA had expected at the underwriting stage.

The project, the first major international bank to open a subsidiary in Kazakhstan and the only such bank for four years, has made valuable contributions to the development of the financial sector. AABK continues to play a leading role in the country's financial sector. It is ranked as the fourth-largest bank in terms of assets and deposits and has gained a reputation as a pioneer institution since the early transition years. AABK has introduced know-how, international standards, and new banking instruments to the country, which it could not have acquired with its existing state-run banks. AABK has been especially effective in providing finance to joint ventures and new corporations. The project has created a significant number of jobs, in excess of the initially estimated figures. Training efforts and transfer of skills have been extensive and exemplary, benefiting other financial institutions. AABK has played a pioneering role in supporting the government's efforts to reform the financial sector and the state pension system. AABK pays wages above the level of its competitors and has reinvested all its retained earnings in the expansion of its local operations. As a result,

it is rated one of MIGA's most successful projects in terms of developmental effectiveness. Moreover, at the time of the application for a political risk insurance, the investor considered MIGA's involvement essential for the decision to proceed with the project.

Since supporting ABN AMRO Bank MIGA has issued four more contracts of guarantee to three projects in Kazakhstan, facilitating an estimated \$96 million in foreign direct investment and helping to create about 470 jobs. Coca-Cola Almaty Bottlers, a soft drink bottler and distributor, has also received high ratings for its positive developmental impacts. It is highly regarded for providing modern manufacturing and distribution techniques to the country and for promoting regional cooperation. Despite the relatively small size of MIGA's portfolio in Kazakhstan, the agency's contributions to the development of the country are viewed positively by the government and other institutions.

#### Notes

1. "A case study is a method for learning about a complex instance, based on a comprehensive understanding of that instance obtained through extensive description and analysis of that instance taken as a whole and in its context." See "Case Study Evaluations," OED Working Paper Series No. 2. World Bank. Washington, DC. May 1999, p. 3.
2. This case study was written by Joshua M. Humphreys, external consultant to OEU. Research assistance for this case study was provided by Stephan R. Wegner and other MIGA staff. The author would also like to thank Gerald T. West, Ethel I. Tarazona, Enrique Rueda-Sabater, Harvey D. Van Veldhuizen, Judith Pearce, and Stephan Wegner of MIGA as well as Tony Salter of KCCL for their useful comments on earlier versions of the paper, and Judith

Pearce, John Middleton, John Kittridge, Mamadou Barry, William Dadzie, Ritva Reinikka, and Wei-Jen Leow, for their comments on various aspects of the project.

3. World Bank staff estimates, based on IDA disbursements and commitments (1990-99). See also World Bank, *Global Development Finance 2000*, vol. 2, p. 567.
4. World Bank, "Memorandum of the President of the International Development Association to the Executive Directors on a Country Assistance Strategy of the World Bank Group for the Republic of Uganda," April 30, 1997. World Bank, "Memorandum of the President of the International Development Association to the Executive Directors on a Country Assistance Strategy of the World Bank Group for the Republic of Uganda," May 9, 1995.
5. As of June 30, 2000.
6. Committed, as of March 31, 1999.
7. As of 1998. World Bank, *African Development Indicators 2000*, p. 6. World Bank, *Global Development Finance 2000*, vol. 2, *Country Tables*, p. 566.
8. Based on 1995 prices, the average annual percentage growth for sub-Saharan Africa for the same period was only 2 percent. World Bank, *African Development Indicators 2000*, pp. 6, 17.
9. World Bank, *African Development Indicators 2000*, p. 189. International Monetary Fund, *International Financial Statistics*, April 1999, June 2000.
10. Reinikka, Ritva and Jakob Svensson, "Confronting Competition: Investment Response and Constraints in Uganda." Unpublished paper, Development Research Group. World Bank. Washington, DC. 2000.
11. Contributing to over 18 percent of non-coffee exports between 1994-95 and 1998-99, according to IMF staff estimates. See also The Economist Intelligence Unit, *Uganda, Country Profile 2000*, pp. 49-51, based on data from the Ugandan Ministry of Finance, Planning and Economic Development.
12. U.S. Geological Survey, *Minerals Yearbook*

- 1997, vol. 3—Area Reports: International. Africa Matters, Australian Department of Foreign Affairs and Trade, available at [www.dfat.gov.au/geo/africa/mining.html](http://www.dfat.gov.au/geo/africa/mining.html), accessed May 10, 2000. Uganda Investment Authority, available at [www.uganda.co.ug/invest/6.htm](http://www.uganda.co.ug/invest/6.htm), accessed May 11, 2000.
13. Based on a cobalt price of \$15 per pound.
  14. After completion of this case study President Yoweri Museveni commissioned the cobalt plant in a ceremony attended by several hundred guests on September 29, 2000. He defended his government's decision to privatize state-owned companies as a way to develop Uganda into an industrialized country. (See: New Vision. "Museveni Commissions Multi-billion Shilling Cobalt Plant." September 30, 2000.)
  15. According to the Cobalt Development Institute, 1999 world cobalt production was 30,716 tons. Cobalt News 2 (2000), pp. 7-8.
  16. Based on a cobalt price of \$16 per pound.
  17. Cobalt News 2 (2000), pp. 7-8. U.S. Geological Survey, Mineral Industry Survey (May 2000). U.S. Geological Survey, Mineral Commodity Summaries (2000).
  18. U.S. Geological Survey, Minerals Yearbook, vol. 1 (1998). Engineering and Mining Journal (March 2000), p. 19. and Mining Annual Review (December 1999).
  19. See, for example, "Uganda's Kasese Cobalt Assures Public on Environment," New Vision (Kampala), 15 September 1997, distributed via Africa News Online, [www.africanews.org/business/stories/19970915\\_feat4.html](http://www.africanews.org/business/stories/19970915_feat4.html), accessed May 11, 2000.
  20. Mouchel Consulting Limited, Mubuku III Hydropower Scheme. RAP: Implementation Report. April 2000.
  21. UNCTAD, Foreign Direct Investment in Africa: Performance and Potential, 1999, p. 21. Global Development Finance 2000, vol. 2: Country Tables.
  22. U.S. Geological Survey, Minerals Yearbook 1997, vol. 3, Area Reports: International.
  23. MIGA staff estimates as of June 30, 2000.
  24. MIGA, MIGA and the New Africa: Partnership for Investment. World Bank. Washington, DC. 1999.
  25. As of June 30, 2000, 11.5 percent of MIGA's outstanding portfolio (on a gross basis) is in sub-Saharan Africa, up from only 6 percent a year earlier.
  26. This case study was prepared by Ryuichiro J. Hanawa and Stephan R. Wegner of MIGA's Evaluations Department under supervision of Ethel I. Tarazona and Gerald T. West in July 2000. Otbert de Jong and Timur Issatayev of ABN AMRO Bank Kazakhstan and Olga Sclovscia of MIGA's Guarantees Department contributed to this study by providing valuable project information.
  27. As of March 31, 2000.
  28. Data as of 1999.
  29. The fifth bank out of this group, Halyk, is a state-owned savings bank.
  30. Of which \$100 million had been disbursed as of March 31, 2000.
  31. Compared with more than 50 percent in the European Union.
  32. The World Bank Group. Kazakhstan Joint Private Sector Assessment. Washington, DC. 1998.
  33. Plionis, Dimitri, Study of the Developmental Impacts of MIGA-Assisted Financial Projects. Washington, DC. June 25, 1998.
  34. Gerald T. West and Ethel Tarazona, MIGA and Foreign Direct Investment. Evaluating Developmental Impacts. Washington, DC. 1998.
  35. The second largest bank in Kazakhstan in terms of assets.
  36. Middelmann, Conner, "Kazakhstan and Israel Prepare Debut Deals" Financial Times. December 3, 1996.
  37. As of June 2000.

## 7. Conclusions and Future Challenges



CITIBANK, N.A. (EL SALVADOR) AND STAFF FROM AGRISAL SAP PROJECT  
EL SALVADOR

# Conclusions

## EVALUATION RESULTS

After evaluating 52 MIGA-supported projects, it is clear that the Agency has broadly fulfilled its mission of facilitating productive investments in developing countries. These projects have generally made meaningful contributions to the economic development of their host countries. In particular, the contribution of private investment to the development process was important in at least two ways: economic growth and technical efficiency. MIGA's catalyst role was also found to be an important element to private sector development in many of the 27 developing host countries where projects were evaluated.

In general, investors' original estimates of impacts at the time of application for a guarantee have been met or exceeded in actuality. In particular, the total amount of investment facilitated in these 52 projects was found to be 21 percent greater (\$7.0 billion versus an anticipated \$5.8 billion). Moreover, the ratio of investment facilitated to MIGA's net exposure (a leverage measure) was found to have improved considerably (by 50 percent) from the time of the issuance of the MIGA guarantee to the time of the site visit (from 4.48 to 6.73).

The multidimensional evaluation framework used in this report permits a holistic view of the developmental impacts of foreign investments. The great diversity of impacts includes "direct" dimensions such as human capital investment, "indirect" measures such as upstream and downstream effects, and "diffused" effects such as demonstration effects. This multidimensional evaluation has yielded encouraging results. While most projects evaluated were found to have had positive impacts on the development process of their host countries, the degree and nature of such impacts varied considerably from project to project.

The holistic approach to evaluation has also helped to systematically uncover unanticipated developmental impacts that would have been very difficult to assess with rigid or narrow evaluation schemes. In fact, many examples of community involvement, secondary projects, or sectoral impacts found in these projects would have been ignored with other approaches.

This approach also allowed evaluators to look for and assess any evidence of negative impacts. Only a few such cases were found among the 52 projects evaluated. With one exception, the overall balance was positive in the projects evaluated.

### **EVALUATION PROGRAM**

There were many benefits from the multi-year evaluation program completed in fiscal year 2000. It provided a clear sense of direction and evaluation priorities. It was also flexible enough to allow for unexpected evaluation opportunities to be pursued.

The project evaluation process, tested and improved during the latest round of evaluations, was found to be cost-effective and appropriate for an institution like MIGA. The staged process (see annex on methodology) provided clear guidance to evaluators; it was designed to allow thorough and independent assessments of the development impacts of MIGA-guaranteed projects.

Many synergies in carrying out the evaluation mandate were found and utilized during the evaluation process. The participation of MIGA environmental staff as evaluators was extremely beneficial, as they helped to sharpen the analysis of environmental effects and identify areas of potential concern. Environmental staff benefited from this participation as it permitted them to conduct their own due diligence and monitor some

environmentally sensitive projects. Another synergy exploited was the use of IFC environmental supervision reports and IBRD sectoral and country studies.

Increased cooperation with the evaluation departments of IBRD and IFC has allowed MIGA evaluations staff to benefit from some of their counterparts' evaluation methods, instruments, and processes, and to better discern what is applicable and inapplicable to MIGA's situation. Also, the cooperation has served to identify areas in which MIGA can contribute to the enhancement of the assessment of private sector activities within the World Bank Group (for example, the joint country assistance evaluation for Kazakhstan).

### **EVALUATION FUNCTION**

MIGA institutionalized its evaluation function in July 2000. To ensure clearer independence, accountability, and feedback of results, the Operations Evaluations Unit was established, reporting directly to MIGA's Executive Vice President. Following the model of the IFC's Operations Evaluations Group, the department's scope has been extended to cover all of MIGA's operations—both guarantees and technical assistance and advisory services.

### **PROJECT EVALUATION**

Two different evaluation approaches were utilized. However, while applying this framework, some areas worthy of further work have been identified. For example, there was evidence that good corporate citizenship was the norm rather than the exception among MIGA-guaranteed projects. While some exploratory work has been undertaken as to whether this is a dimension worthy of measurement and

evaluation, it is clear that further research needs to be conducted on the extent to which it can be assessed.

Another area where further attention is warranted is the assessment of MIGA's role and effectiveness. During the process of extending the framework to more adequately capture this concept, many difficulties were encountered in trying to transfer lending institutions' methods to those of an investment insurer. It was found that there was little or no previous work in this area and that the agency will need to more extensively consult with national counterparts and other multilateral entities to develop methodologies appropriate for an investment insurer.

The evaluation instruments were tested, incrementally improved, and found to fulfill the evaluation objectives. This is particularly noteworthy given MIGA's special status as an insurer with a developmental mandate. The four Project Monitoring Questionnaires developed in-house were successfully tested in this period; they represent unique approaches to the evaluation of the developmental impacts of private investments facilitated by a political risk insurer.

The complexity and quality of data collected confirmed that the multidimensional and disaggregated approach to collecting information was not only appropriate, but actually beneficial to testing alternative evaluation methods. Given that the project evaluations covered five sectors in 27 countries, the data obtained is complex, multidimensional, and heterogeneous. Discussions with academic methodologists have confirmed that this approach will allow much greater flexibility in reassessing the projects, especially as additional data are gathered in subsequent years of monitoring. Operations Evaluation Unit will have unique future opportunities

for extensive analyses of the developmental impacts of private sector investment because of the wealth of project-related data.

## Future Evaluation Challenges

Based on the benefits of this multi-year program, the Board of Directors, the OEU, and MIGA management believe it is appropriate to prepare another multi-year evaluations program to commence in July 2001, subsequent to consultation with MIGA's multiple stakeholders. To do so, it will be necessary to consult systematically with many parties before formulating such a program, including the Board of Directors, especially those members on the Committee for Development Effectiveness (CODE), the evaluations departments of IBRD and IFC, national investment insurance agencies (to examine their evaluation practices with respect to private sector investment), private investors (that is, MIGA's clients), to better understand the burden of MIGA's information requests, MIGA's management (to better understand the type and nature of preferred forms of evaluation feedback), and civil society (to better understand and address some of their concerns).

While synthesizing and integrating inputs from all these sources will be difficult, it will be necessary if a sound multi-year evaluation program is to be formulated, with both core elements—providing for the evaluation of MIGA products as well as joint evaluation efforts with IBRD, IFC, and other institutions—and variable elements—to allow unanticipated evaluation opportunities to be seized. These consultations will also allow MIGA to better understand how it can contribute to current international efforts to harmonize evaluation methods at multilateral development institutions.

As a result of a recent organizational

change within MIGA, which expands the Operations Evaluations Unit's responsibilities to non-guarantee operations, new efforts to specifically evaluate some of MIGA's technical assistance activities under its Investment Marketing Services will be undertaken. Building on work previously undertaken on the effectiveness of technical assistance and advisory activities, the challenge will be to develop further impact metrics and methodologies.

In fiscal year 2001, there will also be a review of ways to address several considerations relating to developmental effectiveness, including whether an individual performance measurement and evaluation system can be devised that

recognizes and rewards more explicitly the underwriting of projects with significant developmental impacts.

The fast pace at which underwriting decisions are made which consequently change the composition of MIGA's portfolio underlines the importance of more timely evaluation feedback. The key to providing useful and relevant inputs for making decisions about whether to underwrite new projects is early information about lessons learned from similar projects. In the next fiscal year, the Operations Evaluations Unit will test ways to improve the timeliness and relevance of inputs into operational decisions.

#### **Box 10** **Invitation for Discussion and Feedback**

We welcome feedback, comments and suggestions from readers. The authors would appreciate counsel from representatives of civil society, academics, and others interested in the subject of this report or the material presented. In particular, comments are sought on the appropriateness of MIGA's approach as an insurer to the evaluation of developmental impacts, as well as on the evaluation methods presented in this report. MIGA plans to incorporate the suggestions—where appropriate—in the next phase of its project evaluation program. Comments may be directed to the authors directly via mail, fax, or email:

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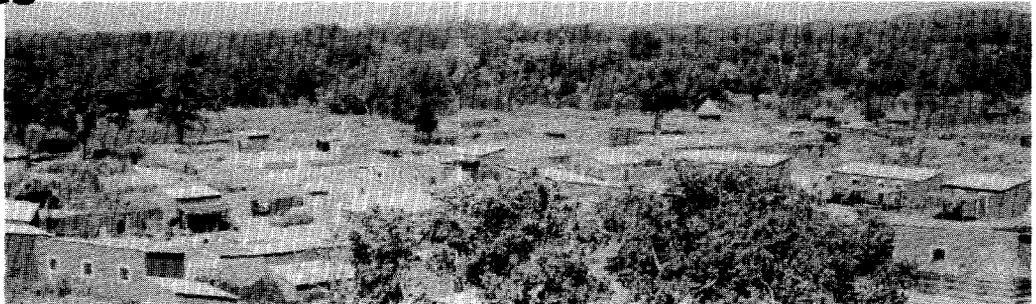
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# Annexes



SOCIÉTÉ D'EXPLOITATION DES MINES D'OR DE SADIOLA  
MALI

# Annex 1 - Methodology of MIGA's Project Evaluation Program

## SELECTION OF PROJECTS FOR EVALUATION

Projects are selected for evaluation on the basis of two requirements. First, at least one contract of guarantee relating to the project has to be active in MIGA's current outstanding portfolio. Second, the project has to be sufficiently "mature" in order to produce meaningful data for evaluation purposes. Hence, only those projects whose contracts have been effective for at least two years and which remain operational are considered for the evaluation sample. This time period is sufficient for most projects to secure financing, be constructed, and become fully operational. However, given the increasing number of complex investments, projects may be allowed to mature even longer before conducting site visits, especially in cases of larger infrastructure or mining projects, which generally require more time for completion.

Evaluations staff has used discretion to defer some of these projects to a subsequent round of monitoring when their developmental effects can be more fully appraised. This is reflected in the relatively low number of infrastructure projects monitored. It is anticipated that some projects monitored at a relatively early stage of coming into operation will be reevaluated in a few years' time to update the preliminary findings.<sup>1</sup> In coming years, the Operations Evaluation Unit will also consider revisiting previously monitored projects after a certain period of time.

All projects monitored over the last two years have been both active and mature,<sup>2</sup> except Holding Savana-Madagascar, for which construction has yet to begin.

## SELECTION OF MONITORS

The evaluation program draws both on internal MIGA staff and external consultants. This mixed approach has been chosen because of the multiple benefits it yields: the costs of the monitoring program are kept reasonably low; it is viewed as an important participatory and motivational incentive to MIGA staff; and finally, it enhances feedback of results. At the same time, the use of external monitors ensures that evaluation findings are sufficiently impartial. In general, clients' self-evaluations are not relied upon in an effort to establish common objective standards for evaluations across the entire sample.

To use MIGA financial resources efficiently, monitoring trips of staff and consultants were designed in a way to include the evaluation of several projects located in the same country or region.

The benefits of involving underwriting staff in the project evaluation effort are already apparent. Internal guidelines ensure that no staff directly linked to the original underwriting of a given project will be allowed to monitor the same project. (None of the 52 projects evaluated were monitored by an individual who was responsible for the original underwriting of the project.) Site visits conducted by MIGA staff clearly boost morale when they are able to confirm the tangible developmental effects of the project. Even if a project is discovered to be below average in its impacts, it can nonetheless lead to a better understanding of the problems a similar project may encounter.

Participation of MIGA staff in the evaluation program has been viewed as crucial to help internalize results and to improve the staff's sensitivity to the analysis of developmental effects

during the underwriting process. The Operations Evaluations Unit provides substantial training to staff members in preparation of a project evaluation on general development topics, evaluation methods, and project-specific issues.

On the other hand, the use of outside consultants for evaluation purposes helps to ensure impartial and objective judgment of the impacts of MIGA-assisted projects. External evaluators with no link to MIGA operations contribute a fresh and independent perspective to the evaluation program.

Since the inception of MIGA's monitoring program, 35 projects (67 percent) were evaluated by MIGA staff and 15 (29 percent) by external consultants.<sup>3</sup>

One project slated for monitoring, Ingersoll-Rand Company-China, provided MIGA with a self-evaluation in lieu of accommodating a site visit because of unusual circumstances. On the other hand, MIGA was able to validate findings of an earlier mailed-in questionnaire (ABN AMRO Bank Kazakhstan) through a site visit.<sup>4</sup>

## **PROJECT EVALUATION PROCESS**

The MIGA project evaluation process is cost-efficient and appropriate for an institution of MIGA's size and nature. It is designed to provide thorough and independent assessments of the developmental impacts of MIGA-assisted projects. (Improvements during the last two years appear shaded in Figure 23 below.)

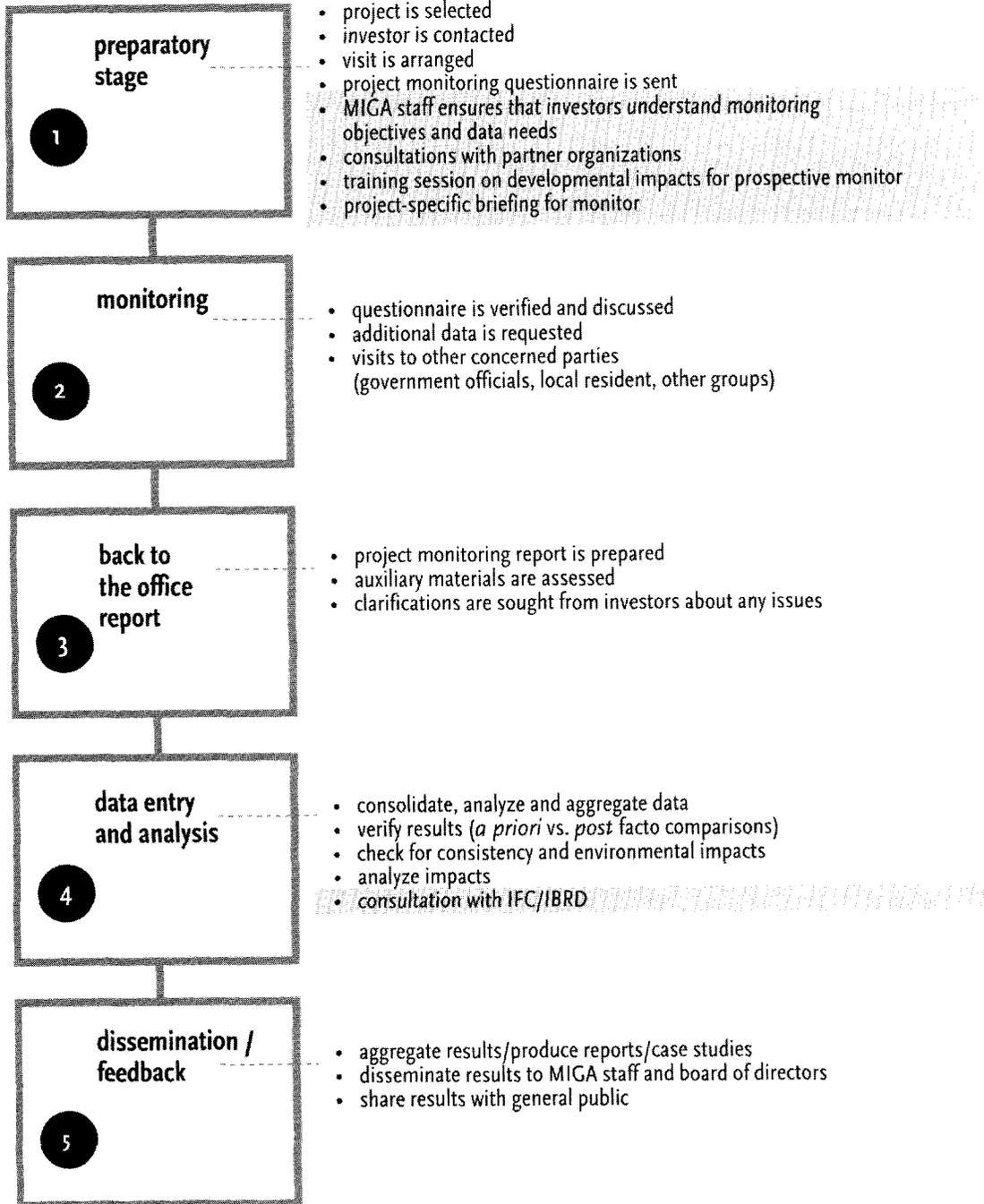
### **Preparatory Stage**

To facilitate the gathering of information, to minimize the burden on the clients, and to ensure consistency of information elicited from investors, a Project Monitoring

Questionnaire was developed and is sent to the investors in advance of the actual monitoring visit. This questionnaire closely follows the pattern of questions in the original definitive application submitted when an investor first applied for a MIGA guarantee, but leaves ample room for comments and qualitative statements the investor might want to share with MIGA. In the first round of monitoring, that is, before 1998, MIGA designed the questionnaire as a "universal" evaluation instrument intended to capture the developmental effects of a wide variety of investments in different sectors. This questionnaire was useful for gathering cross-sectoral information, but failed to fully capture the particular impacts of projects in the financial sector, infrastructure, and other services. In fiscal year 2000, MIGA designed and utilized new customized "modules" in the questionnaire for the first time. The different modules for mining, power, and financial projects were used to avoid burdening investors with meaningless questions and yet capture developmental effects specific to all projects in a given sector. Investor reactions to this modular approach have been quite positive.

An important part of this stage is the preparation of monitors for their evaluation tasks. This is accomplished in three ways: first, a briefing book is prepared for the evaluator with complete information about the project to be evaluated. Second, an evaluations issues memorandum is prepared, which highlights certain areas identified by evaluations staff as particularly important beyond the standard project questionnaire. Third, every prospective site visit is preceded by a thorough briefing session on general issues of developmental effectiveness and the monitoring visit. This session is followed by a customized briefing on issues specific to the respective project.

**Figure 23**  
**Project Evaluation Process**



On many, but not all, occasions, MIGA staff and/or the monitor have consulted IBRD/IFC officials at the Washington headquarters in preparation for the monitoring visit to discuss the World Bank's country strategy and programs.

### **Monitoring Visit**

The monitoring visit is the most important part of the evaluation process because it serves to retrieve primary data at the project site. The monitor visits the site to get a first-hand impression of the project's operation. During the meetings with the investors or their local representatives, the details of the Project Monitoring Questionnaire and other project-specific issues are discussed. In most cases, the monitor will meet the project's general manager to discuss general issues and then proceed to the finance and human resources managers and the environmental officer to discuss issues related to their specific fields of expertise. The monitors are encouraged to visit infrastructure, social, or educational facilities that have been built in conjunction with the MIGA-supported project in order to appraise more fully the project's impacts on the host country. They are further encouraged to investigate upstream or downstream linkages to the project if relevant. Whenever appropriate, monitors will meet with other interested parties, such as local government and non-governmental officials, business and Chamber of Commerce representatives, labor union leaders, and resident representatives of IBRD and IFC.

### **Back to Office Stage**

Upon their return, the monitors submit a detailed project monitoring report, sharing their general impressions on the project and supplying specific answers to the questions raised at the briefing

session. The report usually contains the questionnaire, photographs taken at the site, and secondary documentation (for example, environmental studies, annual reports, financial statements, press coverage of the project, etc.). Evaluations staff follows up with the investor if more detailed information is needed on any aspects of the project.

### **Data Analysis Stage**

The data contained in the questionnaire and in additional information gathered during the site visit is checked for consistency, consolidated, analyzed, and aggregated by evaluations staff, so that it cannot be traced back to the individual project enterprise. In cooperation with in-house environmental specialists, evaluations staff follow up on outstanding environmental issues where needed.

MIGA currently applies two perspectives for evaluating projects: (1) a verification of *post facto* results obtained during the monitoring visits with anticipated (*a priori*) developmental impacts for several variables; and (2) a multidimensional assessment of projects, which scores all monitored projects according to their impacts on ten different dimensions. To obtain these scores, evaluations staff assess the absolute impact of each project on a "without the project" counter-factual scenario. Projects are rated as having either outstanding, substantial, minimal, or negative effects to reflect the degree of the impact; the effects might also be untraceable or not measured.<sup>5</sup> An outstanding score is reserved for a profound impact of a project in the respective dimension. A substantial impact is considered to be important and recognizable. Minimal impacts are still measurable and positive, but have only marginal effects on the host country. The ratings take into account the relative weight

of the contributions to the host country. Projects evaluated in previous years may be re-rated if relevant new information becomes available or new measurement techniques are utilized.

Post-evaluation consultations with the IBRD and IFC are conducted wherever joint projects are involved, since exchange is in the interest of all three institutions.

### **Dissemination and Feedback Stage**

The purpose of the annual reports on MIGA's developmental effectiveness is to share the results of the project evaluations with the Board of Directors, management, and staff. In 1998 and 2000, the findings of MIGA's evaluation work were shared with the general public in the form of a publication.

### **COOPERATION FROM INVESTORS**

The project evaluation is intended to be a cooperative effort between investors and MIGA. The investors are responsible for answering the questions in the questionnaire, meeting the monitor, and supplying additional data as needed. The general success of the evaluation effort depends on the degree of cooperation and involvement of the investor. In general, the data provided in the questionnaire and supplementary confidential documents will be aggregated with the information obtained from other investors, so that the effect of a single project is no longer traceable. Consonant with its Convention and with industry practice, MIGA emphasizes the complete confidentiality of the information requested. For publication of project-specific information (such as in this report), prior investor consent is secured. With the exception of a few rare cases, MIGA has received outstanding cooperation from clients in its evaluation efforts.

### **Notes**

1. This is the case with two mining projects (Lihir-Papua New Guinea and Kasese-Uganda), which have been assessed on a preliminary basis prior to becoming fully operational.
2. Ingersoll Rand-China, a project selected for monitoring in fiscal year 2000 and evaluated in March 2000, was subsequently cancelled in April 2000.
3. Two additional projects, or 4 percent of the sample, were self-monitored.
4. ABN AMRO Bank Kazakhstan mailed in a completed a project monitoring questionnaire in December 1997. The results of this self-evaluation were included in a previous MIGA evaluation report. Following a site visit in March 2000, the project has been re-evaluated and its impacts have been re-rated.
5. Environmental effects are rated as failure, average, above average, superior, not measured, and untraceable, to assess each project's success in mitigating environmental impacts.



## Annex 2 - Projects Evaluated

Host Country	Guarantee Holders	Project	Project Description	Monitoring Visit Date	Contract Dates
Argentina	BankBoston, N.A.	Buenos Aires Branch of the First National Bank of Boston	Financing facility for medium-term residential mortgages	Apr 97	Jun 92
Argentina	Argentina Citibank, N.A.	Citibank, N.A. Buenos Aires Branch	Financing facility for privatized companies	Apr 97	May 93
Argentina	ING Bank, N.V.	ING Bank Buenos Aires Branch	Multipurpose financing facility for Argentine companies	Dec 97	Nov 92
Bangladesh	Marubeni and Chiyoda Corporations	KAFCO	Construction and operation of a fertilizer processing plant	Sep 96	Feb 91 Oct 92
Brazil	Middenbank Curaçao N.V.	ING Bank, N.V. São Paulo Branch	Expansion of branch banking operations	Apr 97	Sep 93
Brazil	BankBoston, N.A.	Leasing Bank of Boston, S.A., Arrendamento Mercantil (LBB)	Medium-term US\$ financing for equipment purchase and leasing	Dec 97	Oct 93
Brazil	BankBoston, N.A.	The First National Bank of Boston, São Paulo	Expansion of branch banking operations	Dec 97	Aug 93
Brazil	Lloyds TSB Bank Plc	Lloyds TSB Bank	Expansion of branch banking operations	Nov 99	Nov 94
Brazil	Gribal S.A., Lloyds TSB Bank Plc and BankBoston, N.A.	SPAIPA	Expansion of soft drink and beer bottling facilities	Nov 99	Jun 96
Brazil	Tecnologia em Componentes Automotivos S.A. (formerly Puerto Seco S.A.) and Lloyds TSB Bank Plc	Tecnologia em Componentes Automotivos Ltda. (TCA)	Acquire and modernize TCA to produce wire harnesses and coil springs	Nov 99	Jun 96
Brazil	Parmalat S.p.A	Parmalat Brasil S.A.	A bakery plant designed to produce biscuits and cookies	Nov 99	Dec 95

Host Country	Guarantee Holders	Project	Project Description	Monitoring Visit Date	Contract Dates
Bulgaria	Barlows Tractor International Ltd.	Ekko Ltd.	Establishment of heavy equipment dealership	Oct 98	Jun 94
China	American Cyanamid Company	Suzhou Lederle Pharmaceutical Company	Pharmaceutical manufacturing and marketing facility	Jun 96	July 93
China	Catalina Lighting, Inc.	Shenzhen Jiadianbao Electrical Products Company	Acquisition and expansion of a manufacturer of lamps, light fixtures, flashlights, and electric instruments	Mar 00	Apr 95
China	Honeywell, Inc.	Sinopec-Honeywell (Tianjin) Ltd.	Sale, installation, and support of process management and control systems	Mar 00	Oct 94
China	Sunnen Products Company	Shanghai Sunnen Products Company Ltd.	Assemble and sell machine tools, including honing machines, abrasives, and lubricants	Mar 00	July 94
China	Ingersoll-Rand China Ltd.	CPM-Zhengchang Liyang Machinery Company Ltd.	Assemble, manufacture, and market equipment to process animal food Mailed in questionnaire	Mar 00	Apr 95
Costa Rica	Marriott International, Inc. and Bank of Nova Scotia	Hotelera Cali S.A. (Costa Rica Marriott Hotel)	Construct and operate a hotel in San José	Jun 99	Dec 94
Costa Rica	Bank of Nova Scotia and Conservation Tourism, Ltd.	Dosel S.A. (Rain Forest Aerial Tram)	Ecotourism and research facility	Nov 96	Nov 94
El Salvador	Citibank, N.A.	Citibank, N.A. (El Salvador)	Expansion of branch banking operations	Jan-Feb 00	Oct 95
Guyana	Cambior Inc. Export Development Corporation	Omai Gold Mines Ltd	Construction and operation of Omai Gold Mines	Mar 99	Dec 91
Honduras	Wärtsilä NSD Power Development Corporation, Scudder Latin America Trust, Illinova Generating Co., ING Bank and Mees Pierson N.V.	ELCOSA	Build, operate, and own 60 MW electric power plant	Mar 99	Nov 94 Dec 94 Aug 94

Host Country	Guarantee Holders	Project	Project Description	Monitoring Visit Date	Contract Dates
Indonesia	Komatsu Ltd.	P.T. Hokuriku United Forging Industry	Metal forging manufacturing plant	Nov 97	Jun 92
Jamaica	Hydra-Co Enterprises, Inc., International Energy Partners, L.P., Rockfort Power Associates, Inc., Energy Investors Fund II L.P., USEC-Precursor, Inc.	Jamaica Private Power Company Ltd.	Build, own, and operate a 60 MW low-speed diesel power station	Jun 99	Oct 94
Jamaica	Wärtsila Diesel Development Corporation Inc., Illinova Generating Company, Boeing Capital Corporation, Barge Energy LLC, and Scudder Latin American Power	Jamaica Energy Partners, L.P.	Build and operate a 74 MW barge-mounted diesel power plant	Dec 99	Sep 95 Dec 95 Dec 96
Kazakhstan	ABN AMRO Bank N.V.	ABN AMRO Bank Kazakhstan	Establishment of bank branch	Mailed questionnaire in Oct 97, visited in Mar 00	Jun 94
Kazakhstan	Efes Sinai Yatirim Ve Ticaret A.S.	Coca-Cola Almaty Bottlers	Produce, distribute, and sell soft drinks	Mar 00	Aug 95
Kuwait	Union Carbide Corporation	Equate Petroleum Company K.S.C.	Produce ethylene, polyethylene, and ethylene glycol	Mar 00	Sep 95
Kyrgyz Republic	Efes Sinai Yatirim Ve Ticaret A.S.	Coca-Cola Bishkek Bottlers Closed Joint Stock Company	Produce, distribute, and sell soft drinks	Nov 99	Mar 96
Kyrgyz Republic	Cameco Corporation	Kumtor Gold Company	Develop and operate Kumtor gold mine	Oct 99	Aug 95
Madagascar	Holding Savana, S.A.	Nosy Hotel, S.A	Construct and operate three hotels (investment has not gone forward)	Feb 00 (to investors)	Jun 91

Host Country	Guarantee Holders	Project	Project Description	Monitoring Visit Date	Contract Dates
Mali	AngloGold	Société d'Exploitation des Mines d'Or de Sadiola	Construction and operation of open-cast gold mine and ore treatment plant	Nov 99	Nov 95
Pakistan	Société Générale	Société Générale	Expansion of branch banking operations	Jun 96	Dec 91 Feb 93
Pakistan	Greenwood Mills Inc.	Crescent Greenwood Ltd.	Construction and operation of integrated denim facility	Jun 97	Feb 95
Pakistan	Bank of America NT & SA	Bank of America NT & SA	Expansion of branch banking operations	Jun 97	Mar93
Pakistan	Motorola International Development Corporation	Pakistan Mobile Communications Ltd.	Installation and operation of a cellular phone system	Jun 97	Aug 93 Mar94
Pakistan	Banque Indosuez	Banque Indosuez Karachi	Expansion of branch banking operations	Jun 97	May 92 Aug 93
Pakistan	Citibank, N.A.	Citibank, N.A. Pakistan	Expansion of branch banking operations	Jun 97	Mar92
Papua New Guinea	RTZ Overseas Holding Limited and Union Bank of Switzerland	Lihir Gold Ltd.	Construction and operation of Lihir gold mine	Sep 98	Aug 95
Peru	Citibank, N.A., Citibank Overseas Investment Corporation	Profuturo S.A.	Equity participation in private pension management company	Dec 97	Sep 93
Peru	ING Bank, N.V.	Administradora de Fondos de Pensiones Integra S.A.	Equity participation in private pension management company	Dec 97	July 94
Peru	Volvo Truck Corporation	Volvo Peru S.A.	Financing of equipment leasing	Dec 97	July 95
Philippines	ING Bank, N.V.	ING Bank N.V., Manila Branch	Expansion of branch banking capacity	Jan 00	Dec 95

Host Country	Guarantee Holders	Project	Project Description	Monitoring Visit Date	Contract Dates
Saudi Arabia	Guardian Glass Investments, S.A.	Saudi Guardian International Float Glass Co. Ltd.	Construction and operation of float glass manufacturing facility	Apr 97	Aug 95
South Africa	Habib Bank AG Zurich	HBZ Bank Ltd.	Establish a commercial bank	Dec 99	Apr 96
South Africa	Harsco Corporation/ MultiServ International N.V.	FerroServ (Pty) Ltd.	Steel slag processing plant	May 97	Mar95
Trinidad & Tobago	Arcadian Partners, L.P./PCS Nitrogen, Inc.	Arcadian Trinidad Ammonia Ltd.	Privatization of a fertilizer producer	May 97	Mar94
Turkey	SAS Partners/Gate Gourmet Holding Ltd.	Usas Ucak Servisi Anonim Sirketi	Privatization of airline catering and airport restaurant facilities	Nov 97	Jun 91
Turkey	Citibank, N.A.	Citibank, N.A. (Turkey)	Privatization and export financing facility	Nov 97	Oct 91
Uganda	Banff Resources Ltd. and LaSource SAS	Kasese Cobalt Company Ltd.	Construct and operate plant to produce cobalt from existing tailings	Apr 00	Oct 92 Oct 96 Oct 97
Uzbekistan	Newmont Gold Company	Zarafshan-Newmont Joint Venture	Processing of gold-bearing ore stockpiles	Mar 00	Sep 94
Venezuela	ING Bank, N.V.	ING Bank, N.V. Caracas	Establish a new bank branch	Nov 98	Jun 95



## Annex 3 - MIGA Member Countries

(As of December 31, 2000, 154 Countries)

### Industrialized - 22

Australia	Denmark	Greece	Japan	Portugal	United Kingdom
Austria	Finland	Iceland	Luxembourg	Spain	United States
Belgium	France	Ireland	Netherlands	Sweden	
Canada	Germany	Italy	Norway	Switzerland	

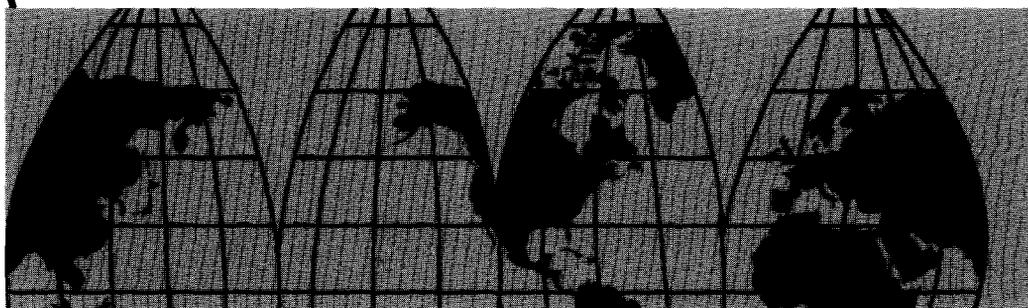
### Developing - 132

<b>AFRICA</b>	Mauritius	Democratic Rep.	Lebanon	Kazakhstan	Colombia
Angola	Mozambique	Malaysia	Libya	Kyrgyz Republic	Costa Rica
Benin	Namibia	Micronesia, Federated	Malta	Latvia	Dominica
Botswana	Nigeria	States of	Morocco	Lithuania	Dominican Republic
Burundi	Senegal	Mongolia	Oman	Macedonia, FYR of	Ecuador
Burkina Faso	Seychelles	Nepal	Qatar	Moldova	El Salvador
Cameroon	Sierra Leone	Pakistan	Saudi Arabia	Poland	Grenada
Cape Verde	South Africa	Palau	Tunisia	Romania	Guatemala
Central African Republic	Sudan	Papua New Guinea	United Arab Emirates	Russian Federation	Guyana
Congo, Democratic Republic of	Swaziland	Philippines	Yemen, Republic of	Slovak Republic	Haiti
Congo, Republic of	Tanzania	Samoa		Slovenia	Honduras
Côte d'Ivoire	Togo	Singapore	<b>EUROPE/CENTRAL ASIA</b>	Turkey	Jamaica
Equatorial Guinea	Uganda	Sri Lanka	Albania	Turkmenistan	Nicaragua
Eritrea	Zambia	Thailand	Armenia	Ukraine	Panama
Ethiopia	Zimbabwe	Vanuatu	Azerbaijan	Uzbekistan	Paraguay
Gambia, The	<b>ASIA/PACIFIC</b>	Vietnam	Belarus		Peru
Ghana	Bangladesh	<b>MIDDLE EAST/ NORTH AFRICA</b>	Bosnia-Herzegovina	<b>LATIN AMERICA/ CARIBBEAN</b>	St. Kitts and Nevis
Guinea	Cambodia	Algeria	Bulgaria	Argentina	St. Lucia
Kenya	China	Bahrain	Croatia	Bahamas, The	St. Vincent and the Grenadines
Lesotho	Fiji	Egypt, Arab Republic of	Cyprus	Barbados	Trinidad and Tobago
Madagascar	India	Israel	Czech Republic	Belize	Uruguay
Malawi	Indonesia	Jordan	Estonia	Bolivia	Venezuela, R. B. de
Mali	Korea, Republic of	Kuwait	Georgia	Brazil	
Mauritania	Lao People's		Hungary	Chile	

### Countries in the process of fulfilling membership requirements developing - 12

<b>AFRICA</b>	<b>ASIA/PACIFIC</b>	<b>MIDDLE EAST/ NORTH AFRICA</b>	<b>EUROPE/CENTRAL ASIA</b>	<b>LATIN AMERICA/ CARIBBEAN</b>
Chad	Solomon Islands	Syrian Arab Republic	Tajikistan	Antigua and Barbuda
Gabon			Yugoslavia, Federal Republic of	Suriname
Guinea-Bissau				
Liberia				
Niger				
Rwanda				

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