FY12-14 STRATEGY: ACHIEVING VALUE-DRIVEN VOLUME

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Abbreviations and Acronyms

$	US dollars
€	Euros
AMS	Agribusiness, Manufacturing and Services
BC	Basel Committee
BOC	Breach of Contract
BRIC	Brazil, Russia, India and China
CAFEF	Conflict-Affected and Fragile Economies Facility
CAR	Capital Adequacy Ratio
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ECA	Europe and Central Asia Region
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Services
FSI	Financial Sector Initiative
FY	Fiscal Year
GNI	Gross National Income
IBRD	International Bank for Reconstruction and Development
ICSID	International Center for the Settlement of Investment Disputes
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFI	International Financial Institutions
IRM	Integrated Risk Management
MDG	Millennium Development Goals
MENA	Middle East and North Africa Region
MIGA	Multilateral Investment Guarantee Agency
MP	MIGA Professional
MPP	MIGA Professionals Program
NHSFO	Non-honoring of a Sovereign Financial Obligation
OGMC	Oil, Gas, Mining and Chemicals
PCH	ProCredit Holding
PPP	Public-Private Partnership
PRI	Political Risk Insurance
TA	Technical Assistance

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Executive Summary

MIGA's FY12-14 Strategy arrives at an opportune moment for a development organization focused on mitigating political risk in order to promote foreign direct investment (FDI). The world economy is moving towards recovery following the global financial crisis, however the pace is often slow and the gains are uneven. Considerable fragility persists, and following on from the period of financial instability, the world is now experiencing an extensive degree of political uncertainty which has further adverse effects.

Meanwhile the world's development challenges remain immense and urgent, cutting across sectors and boundaries. In many instances, the need for financing remains one of the greatest constraints standing in the way of progress. However, available capital remains scarce and public resources around the globe are under enormous stress. The need for a robust and engaged private sector is therefore central to meeting these challenges and helping overcome poverty and inequality.

Following a sharp contraction during the financial crisis, FDI has begun to pick up in 2010, but it is expected to take three years to return to pre-crisis levels. At the same time, the distribution of these capital flows continues to be concentrated in a small number of middle income countries. Project sponsors and lenders are still nervous, and political risk is rated by investors as being the most significant medium-term impediment to making new investments in developing countries.

There is therefore clearly a very important role for the political risk insurance (PRI) industry to play, helping prospective investors manage their risk and feel sufficiently protected to proceed with productive investments. Within the PRI industry, MIGA continues to occupy an important niche. As a multilateral organization and member of the World Bank Group, MIGA is uniquely positioned to engage with host governments and help provide comfort to guarantee holders that their interests can be protected. Having direct access to senior government officials helps MIGA better understand project proposals and how they fit with a country's development agenda. The World Bank Group's relationship with the host country provides unparalleled global access to detailed country economic information and country risk profiles, which allows for an enhanced understanding of local conditions and plays a vital guiding role in MIGA's underwriting. Furthermore, the investment climate reform work undertaken by the World Bank Group's Foreign Investment Advisory Service (FIAS) leads to improved business operating conditions for potential investors. Not only does investment climate reform help reduce business costs and perceived risk, but it also facilitates an increase in awareness of opportunities for investment. Ultimately though, a strong relationship with the host country plays an invaluable role in monitoring active projects; and it is the ability to mediate disputes and help keep projects on course that clients value the most and which remains the foundation of MIGA's business model.

MIGA's experience over the past three year strategy period has been strongly influenced by the global financial crisis. The contraction of the international credit markets meant that many of MIGA's traditional areas of business were largely closed off over much of this time. Instead, the over-arching priority became providing support to the stricken financial sector, especially in the Europe and Central Asia region (ECA) which bore the initial brunt of the crisis. MIGA was able to engage heavily in addressing these challenges very quickly, under the broad framework of the IFI Action Plan. In FY11, the third and final year of the period, a resumption of more normal patterns is currently being seen.

The FY12-14 Strategic Focus

Looking ahead, MIGA's operational focus continues to be defined within the broader context of the World Bank Group's development agenda. In this respect, the priority areas that have been laid out for the World Bank Group within the context of the post-crisis directions serve as a crucial compass for MIGA.

Within this overarching framework, MIGA believes that its four existing priority areas – supporting investments in IDA Countries[1], South-South investments, investments into conflict-affected countries, and complex projects – remain fully relevant and represent the ways in which MIGA can make the most difference as a development agency. As well as being areas that offer significant development impact for host countries, these are areas which reflect MIGA's core comparative advantages within the PRI industry.

The rationale for selecting and retaining these four specific areas rests on two driving assessments - the degree of development impact that each potential project brings, and the level of additionality that MIGA can bring to bear versus other PRI providers.

IDA Countries. Putting a special focus on IDA countries remains an obvious choice for MIGA. The development impact of FDI into IDA countries is substantial: in resource-constrained environments, foreign investment brings support for private sector development, creates jobs, introduces new technologies and knowledge, generates tax revenues, provides linkages for domestic firms, and much else besides – all benefits that help close the gap between the poorest countries and the rest of the world. MIGA's additionality in IDA countries also remains clear, as IDA countries are frequently considered to be the higher risk by the international investment community and therefore the need for non-commercial risk mitigation is greater than elsewhere. MIGA's ties to IDA countries means that the Agency is especially well-positioned to understand the local investment environment and thus carry out informed underwriting, and MIGA's strong balance sheet and relationship with the host country means that MIGA is comfortable issuing long-term coverage that other providers will be much more hesitant to offer.

South-South Investment. The dramatic rise in South-South investment has been one of the most notable developments in global FDI flows over the past decade. MIGA's goal of filling market gaps means that MIGA has a natural role to play for developing country investors, most of whom will not have a national export credit agency that can provide political risk guarantees. The cumulative impact of such investment is truly significant as the benefits of a successful project that flow to the investor country remain within the developing world, thus creating further benefit. Successful South-South investments help strengthen economic integration between both countries, and very often are seen to play an important role in promoting regional economic integration.

Conflict-affected Countries. MIGA has a particularly relevant role to play in supporting investments into post-conflict and conflict-affected environments. Such countries often attract considerable donor goodwill once conflict ends, however inevitably aid flows eventually start to decline, and private investment becomes critical for reconstruction and growth. But investors' confidence must be restored to reverse the flight of private capital

[1] The International Development Association (IDA) is the part of the World Bank that helps the world's poorest countries. Eligibility for IDA support depends first and foremost on a country's relative poverty, defined as Gross National Income per capita below an established threshold and updated annually (in fiscal year 2011: $1,165).

and encourage new investment, and MIGA can play an important role in making this happen. In addition, if MIGA can help bring investors into projects that are high profile and have high national importance, this can have a powerful demonstration effect. And some projects, such as those in the telecom sector, can have a particularly high catalytic effect on general economic development as well as strong social impact.

Complex Projects. Complex projects – those that involve project finance, structured finance or other multi-sourced deals as well as those dealing with challenging environmental and social considerations, including projects in the infrastructure sectors and those in extractive industries – are especially well suited for MIGA's focus. Such projects are usually highly capital intensive, often involve multiple participants and invariably have a high degree of direct government engagement, and while difficult to launch and challenging to execute, bring with them transformational development impact when undertaken properly. MIGA can play a crucial role helping support these complex projects, bringing different parties together. One of the most valuable elements MIGA provides in these circumstances is access to the World Bank's environmental, social and governance standards – helping sponsors manage different conditions along best practice lines and providing demonstration that they are operating to the world's highest standards. Furthermore, MIGA's financial strength and unique shareholder relationship with the host country also provide the capacity and confidence to guarantee large amounts of investments for long periods. MIGA's ability to draw on its relationships with other insurers, fronting coverage and bringing in additional capacity through reinsurance, is a crucial additional dimension.

Other Areas. When considering these four priority areas it is important to underscore that there will be projects that fall outside these boundaries that will be highly suitable for MIGA's guarantee business. This is important for many reasons, not least of which is that it is essential for MIGA, as an insurance business, to build and maintain diversity in its portfolio.

Of particular relevance, it is important to highlight that MIGA considers supporting financial sector transactions as a vital tool of choice. Financial sector projects create strong development impact and they are the most efficient way for MIGA to provide support indirectly to mid-tier companies and domestic investors. From a developmental perspective, projects in the financial sector make a significant contribution to the host country, helping to deepen domestic credit markets, benefitting businesses and consumers. This is often the only route through which MIGA can help bring value to domestic SMEs. There are many other benefits associated with banking projects including that the major international banks typically also help spread international banking practices – an important consideration in the global governance effort.

Another example where MIGA can make an important contribution is supporting projects in Middle Income Countries (MICs). With the increase in South-South investment, MICs have become an increasingly significant investor base going into IDA countries. Helping to further develop these economies by introducing productive projects is therefore strengthening the environments which are yielding the investors of tomorrow. It is also true that MICs can be especially vulnerable in crises – the recent global financial crisis clearly demonstrated this. MIGA can play a stabilizing role by ensuring that adequate risk mitigations are in place that will help reassure investors and contribute to the retention of capital in the event of a systemic negative discontinuity.

Scaling Up Delivery

The principal challenge for MIGA over the next three-year period therefore is going to be on scaling up delivery to maximize impact. In this, MIGA aims to achieve "Value-driven Volume" – the focused growth of the business through concentration on development impact. MIGA seeks to be recognized in the market as the PRI provider of reference for "smart projects in difficult contexts", supporting high-value, innovative and creative projects.

Considerable progress has been made during the current strategic period to position MIGA to continue to grow its business. The early results already look positive, as MIGA estimates that the current fiscal year, FY11, will see the Agency issue close to $2.0 billion in new guarantee coverage, which would be fully a third higher than MIGA's average over the previous (FY06-10) five year period. Over the next three-year period, MIGA aims to build on this and in so doing grow the business in terms of both portfolio volume and generated development impact.

For the FY12-14 period addressed in this operational strategy, MIGA projects a solid growth path, with the Agency forecasting that it will maintain a minimum level of issuance of $2.0 billion each year, and in the high case scenario, approach $3.0 billion by FY14. The size of the overall portfolio will also increase in a commensurate manner.

In order to achieve these targets, MIGA will maintain its focus attention on strengthening critical organizational aspects. One of the most crucial areas will be continuing to expand MIGA's client base. Not only is this a reflection of the changing dynamics of the sources of FDI, it is also a business imperative. Getting geographically closer to prospective clients is going to be a part of this effort, as well as continually looking for ways to further streamline business processes to meet client needs and expectations. In this regard, MIGA expects to build on the early efforts undertaken to create a structured presence outside of Washington DC with MIGA's Asia Hub, and anticipates establishing a second Hub presence in Europe which will enhance MIGA's ability to service clients in the Africa, Europe and Central Asia (ECA) and the Middle East and North Africa (MENA) time zones.

MIGA will also further capitalize on the changes that have been made over the past two years to expand operational capacity. A concerted marketing effort has been underway as MIGA seeks to raise awareness in the market about its new capacities, and good early progress has been made. MIGA's expanded capacity arrives at an opportune moment. In the aftermath of the financial crisis, the private PRI industry has become more conservative and the need for multilateral providers has grown commensurately.

Understanding the full impact of guaranteed projects is another area where important progress has been made that will be built on going forward. In FY10, with valuable guidance from the Independent Evaluation Group (IEG), MIGA introduced a self-evaluation pilot program, whereby outcomes of MIGA-guaranteed projects are comprehensively reviewed by MIGA staff. Through such learning-by-doing, MIGA is developing an internal evaluation capacity which will help MIGA better direct its activities and enhancing the internal learning culture for MIGA's staff. MIGA has also taken steps to be able to measure and report *ex post* on the impact of the guaranteed projects across the whole portfolio, which will become an important means for better measuring MIGA's performance.

In order to deliver on this expanded mandate, MIGA will continue to review its organizational structure with a view to further strengthening business origination capabilities and overall staff productivity. Finding ways to move beyond headquarters to get closer to new clients and markets will be an important part of this agenda.

While executing this strategy, MIGA will continue to pay close attention to maintaining financial sustainability, which is a prerequisite for the organization's growth. This has been and will continue to be a matter of management priority. Trade-offs will need to be surfaced and carefully examined. And the various performance indicators that management uses to monitor and report on interim progress are to be strengthened and expanded.

Such considerations will be brought forward to the MIGA's Board for consideration at the appropriate moments, including in the context of the annual work program and administrative budget discussions. As a general matter however, MIGA believes that it will be necessary to increase its annual administrative budget over the strategy period in order to help meet additional costs principally associated with developing the aforementioned field presence. Extending MIGA's reach to draw in a new client base is a central tenet of MIGA's approach going forward, and thus MIGA believes that expending funds to develop this capacity represents an important investment in MIGA's future success.

At the same time, while exact amounts of future budgetary requirements will only become clear each year as part of the annual budget preparation exercise, MIGA will continue to manage its costs with great care recognizing that the Agency's budget will continue to be entirely funded through earned guarantee revenues. MIGA will continue to manage expenses according to the internal benchmark for managing expenses, whereby expenditures must be maintained at a level of 85 percent or below of the amount of premium revenue that MIGA earns and retains[2] (i.e., *net* premium revenue, after reinsurance). Underpinning this is the intrinsic incentive MIGA has to keep costs in check, since all expenditures must be recovered through premium income.

Conclusion

As MIGA looks ahead to the next three-year Strategic Period, the Agency has a clear sense of positive momentum. MIGA's portfolio stands at a record high; the array of products that MIGA has to offer is strong and, for the first time in a long time, commensurate with those of other PRI providers; MIGA's abilities to identify new clients and originate new business – areas of historical weaknesses – have been strengthened; and internal processes and organizational structures have been addressed to help improve efficiency and make MIGA more client-focused. While there naturally remain areas for improvement, the most important challenge today is to maintain the positive trends that have been built up over the past several years, and focus all efforts on scaling up performance and impact.

[2] The relationship of administrative expenses to net premium revenue is one of the key KPIs that MIGA routinely monitors and reports to the Board on a quarterly basis.

I. MIGA's Mission and Mandate

1. The Multilateral Investment Guarantee Agency (MIGA or the Agency) was established in 1988, as the fifth and most recently created member of the World Bank Group. The Agency's mission is to promote foreign direct investment (FDI) into developing countries, to support sustainable economic growth, reduce poverty and improve people's lives. To this end, MIGA provides products and services that support investors going into developing countries and provide protection against potential political (non-commercial) risks. The Agency is owned today by 175 member countries.

Figure 1. The Institutions of the World Bank Group and Year of Establishment

1944	IBRD	International Bank for Reconstruction and Development
1960	IDA	International Development Agency
1956	IFC	International Finance Corporation
1966	ICSID	International Center for the Settlement of Investment Disputes
1988	**MIGA**	**Multilateral Investment Guarantee Agency**

2. MIGA's core business is the provision of political risk insurance to guarantee cross-border investment for private investors and lenders into developing member countries. The Agency is focused on the private sector, and creating partnerships with the public sector. In addition, MIGA carries out complementary activities – including technical assistance activities (TA),[3] dispute resolution, and knowledge services – to support productive FDI.

3. MIGA is committed to promoting projects that promise a strong development impact and are economically, environmentally, and socially sustainable. The Agency is also dedicated to working with governments that are committed to policies and actions that improve their countries' investment climates. In all its undertakings, MIGA draws on the complementary strengths of the World Bank Group, leveraging the various products and services across the respective institutions for the benefit of host countries and private investors. MIGA's work is strongly aligned with development goals and priorities of the World Bank.

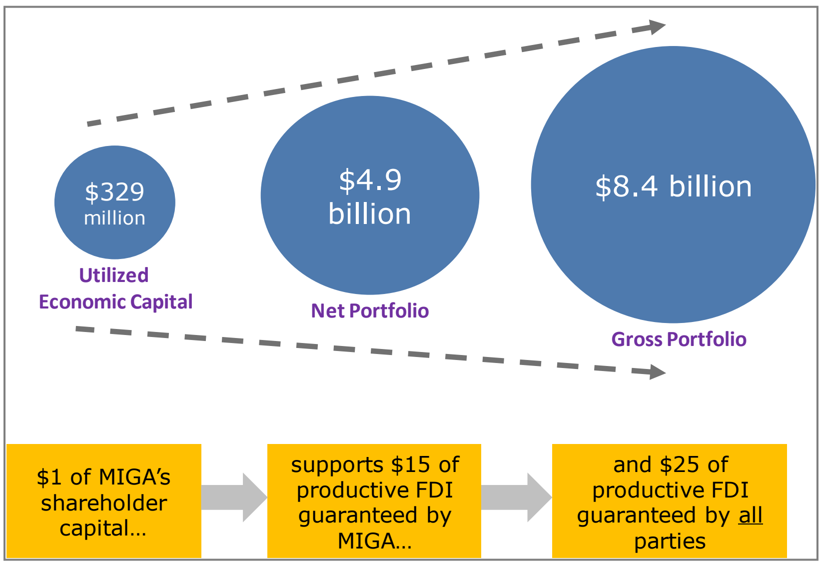
4. MIGA has approximately $1 billion of operating capital, which is comprised of the shareholder's paid-in capital, retained earnings and the portfolio reserve.[4] This capital is used to underwrite MIGA's book of guarantees and is very effectively leveraged. MIGA maintains

[3] In FY07, MIGA formally integrated its technical assistance services into the Foreign Investment Advisory Service (FIAS), a World Bank Group entity, to more seamlessly combine MIGA's investment promotion work with the investment climate reform work of FIAS. The integration created a more coordinated, single interface for clients, donors, and other partners. MIGA continues to provide support through transfers from its Administrative Budget.

[4] Additionally, MIGA's shareholders have pledged a further $1.5 billion in callable capital which would be available if necessary.

an Economic Capital Consumption model which defines the amount of capital the Agency must possess in order to support its outstanding business. Currently, approximately $330 million of the available operating capital is being used, or "consumed", to support MIGA's net outstanding portfolio of approximately $4.9 billion. This means that every $1 of shareholders' capital is being leveraged to support close to $15 of guaranteed FDI into developing countries on MIGA's books. When this figure is adjusted to account for the full amount of coverage that MIGA provides including that which the Agency reinsures with other PRI providers, this total amount of FDI supported by every $1 of the Agency's capital increases to $25.50.

Figure 2. Leveraging MIGA's Capital



5. In pursuing its goals, MIGA is mandated to operate on a financially self-sustaining basis. While not seeking to maximize financial returns, MIGA's full operating costs are paid for entirely through earned premium revenue, with the surplus each year being held in retained earnings. In addition, MIGA also receives income on its invested capital, which is fully retained[5] as a contribution to growing the Agency's capital position. Ever since its fifth year of operations – 1994 – MIGA has been able to cover its full administrative budget with the revenue earned through premiums.[6]

6. MIGA performs its activities with approximately 110 staff members and consultants, the majority of whom are based at the World Bank Group headquarters in Washington, DC. On occasion in the past, MIGA has placed individual staff members in locations outside of Washington to act as representatives. In FY11, MIGA created its first structured overseas presence with the establishment of a business hub in Asia, consisting of six staff members, with responsibility for new business origination and local underwriting.

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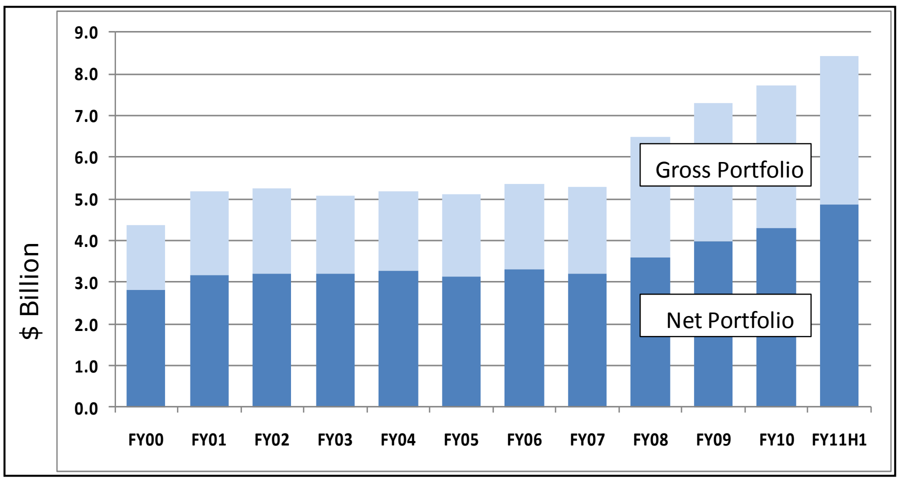
[5] MIGA's investment portfolio is used to provide liquidity for claims and to provide for capital growth, as specified in MIGA's 2004 and 2010 investment policy documents (MIGA/R2010-0029, "Review of MIGA's Investment Policy", May 27, 2010). To date, MIGA's investment funds have only been used to contribute to capital growth.

[6] Prior to 1994, MIGA relied on income generated from its investment portfolio to help meet operating expenses.

7. Since its establishment in 1988, MIGA has issued more than $23 billion of guarantees[7] in support of over 620 projects in more than 100 member countries. Over the years, MIGA has paid just six claims and has successfully resolved more than 90 disputes that had the potential to develop into payable claims. The Agency's unequalled record at resolving such disputes forms the basis of one of its comparative advantages in the PRI marketplace.

8. Following several years of strong growth, driven by a number of factors, MIGA's portfolio today stands at an all-time record high, with the gross portfolio standing at $8.4 billion as of mid-year FY11, and the net portfolio—the amount that MIGA retains against its own balance sheet after reinsurance—standing at $4.9 billion.

Figure 3. MIGA's Outstanding Portfolio, FY00-11H1 ($ billions)



[7] This includes amounts issued under the Cooperative Underwriting Program.

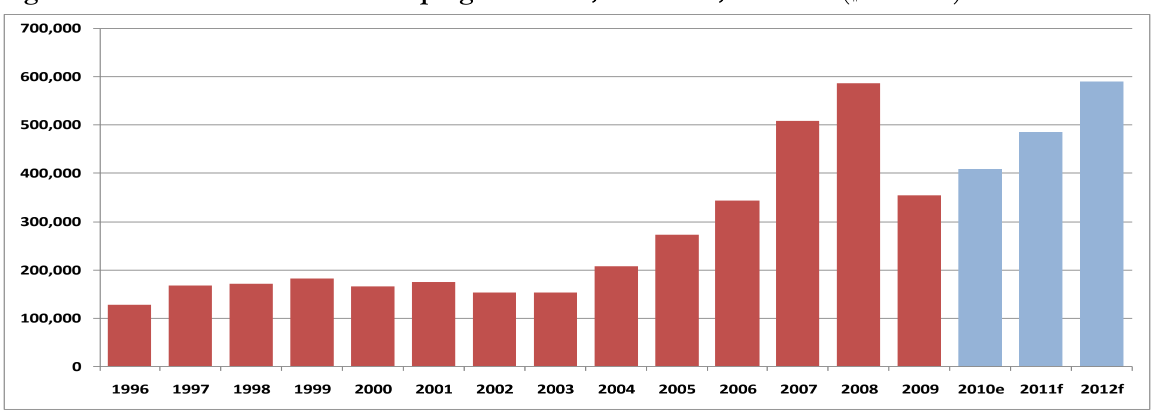
II. The External Operating Environment

9. The world economy today is emerging from its severe downturn during the financial crisis, and there are positive signs of growth. Much of this is being led by developing countries, which have increasingly become the primary engine for growth in the world's economy. Related to this recovery, FDI flows have also begun to rebound.

10. Although showing some resilience during the initial phase of the global financial crisis, FDI flows to developing countries dropped by an average 40 percent in 2009—a similar level to the declines observed in developed countries. All developing regions suffered, but the decline was uneven. East Asia and the Pacific, Europe and Central Asia, and Latin America and the Caribbean all experienced declines in FDI of more than 40 percent; the decline in FDI flows to East Asia and the Pacific was steeper than the decline following the Asian crisis of 1998–1999, and China recorded a record 47 percent drop to $78 billion. Less affected, however, were South Asia, sub-Saharan Africa, and the Middle East and North Africa, thanks in part to natural resource investments.

11. The preliminary estimates for 2010 however suggest solid year-on-year growth, and the forecasts for 2011 and 2012 predict that this recovery will continue to a point that could bring aggregate amounts back to pre-crisis levels by 2013. The forecasts also estimate that the developing world's share of global FDI, which has steadily risen over the past decade and equaled approximately 37 percent of the total in 2009, will continue to rise.

Figure 4. Net FDI inflows to developing countries, 1996-2009, 2010-12F ($ millions)



12. The global economic recovery, however, remains fragile and uneven, as there continue to be areas of considerable concern, including the European debt crisis, which persists, the ongoing turmoil in the Middle East, as well as the recent disasters that have beset Japan, the world's third largest economy. Considerable uncertainty remains about the long-term effects of such events and the overall sustainability of global growth.

13. The recovery in FDI, which is the critical driver of MIGA's business, will continue to be heavily influenced by general economic prospects and perceptions of risk versus return. Perhaps just as importantly, the distribution of FDI within developing countries will continue to be volatile and uneven, with the BRIC countries (Brazil, Russia, India and China) receiving close to 50 percent of all inward FDI. At the other end of this scale, IDA countries collectively receive on average between just 5-10 percent of all inbound FDI to developing countries.

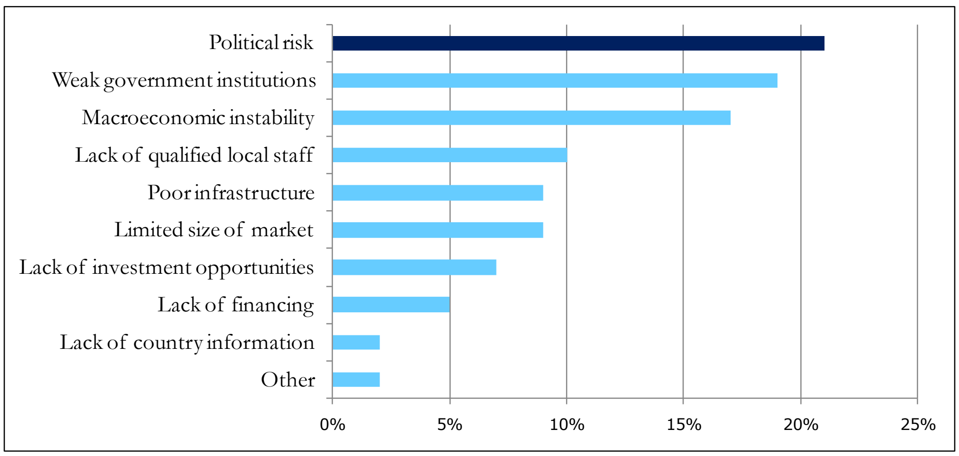
Table 1. BRICs, IDA Share of Total FDI to Developing Countries

	2003	2004	2005	2006	2007	2008	2009
Share to BRICs	49.8%	48.1%	39.5%	41.3%	38.9%	45.9%	54.8%
Share to All IDA countries	8.60%	5.40%	5.20%	7.50%	5.50%	5.30%	7.20%

Source: World Investment Report 2010 (UNCTAD)

14. There are many reasons for the uneven distribution of FDI, including the varying availability of investment opportunities as well as the distinct differences in host country investment climates. However, uncertainty and instability continue to be arguably the greatest deterrents. MIGA's 2010 "World Investment and Political Risk" report, which drew on the results of a survey[8] of 194 international executives, highlighted the persistence of investor concerns about political risk in developing countries.

Figure 5. Medium-Term Constraints to FDI



Source: The MIGA-EIU Political Risk Survey 2010 conducted by the Economic Intelligence Unit for the MIGA 210 World Investment and Political Risk Report

15. The survey showed that political risk is considered the single most important constraint for investment into developing countries over the medium term. Over the next three years, respondents noted that they expected to be more constrained by political risk than by macroeconomic instability, limited financing, poor infrastructure, or small market size. Additionally, investors ranked weak government institutions (including red tape and corruption), which have a direct bearing on political risk, as the second main constraint to investments into developing countries in the medium term.

16. The recent, and ongoing, political turmoil in the Middle East, which has occurred during the first months of 2011, will have only heightened such concerns. The disruptions in countries that where there had been a perception of steadiness has dramatically underscored the recognition that past stability is not a good predictor of future calm.

17. Clearly then, there is an important role for the PRI industry to play in helping attract investment into developing countries by mitigating political risks. During the financial crisis, the PRI industry was hard hit, with new coverage issued in 2009 declining by 35 percent

8 The survey was conducted in June 2010 in partnership with the Economist Intelligence Unit.

from the previous year. However, 2010 saw a strong rebound and expectations are for this growth to be sustained as FDI flows pick up once again.

18. Within the market, MIGA's share has remained fairly consistent over the past five years, in the neighborhood of 2.5 percent in terms of the volume of new coverage, and in the range of 5 percent of the share amongst public providers.[9]

19. In the last year or so there has seemingly been little change in available capacity to underwrite investment PRI, both for public and private insurers. There was one high-profile exit from the market during the crisis,[10] but since then several new private entrants have joined. Looking ahead, the general expectation is that there will not be much material change in capacity in the short term.

20. However, most of the private market capacity is directed at short to medium term deals in better-rated countries, and the appetite for providing cover in countries where political risk is perceived to have deteriorated has diminished. This opens opportunities for MIGA to provide guarantees in these locations, and to use its abilities to draw in capacity into these places through reinsurance and at times coinsurance.

[9] Estimates derived from data from The Berne Union – the leading association for export credit and investment insurance worldwide.

[10] Chubb, the US insurance conglomerate, elected to completely exit the PRI market in 2010 to concentrate on its other lines of insurance business.

III. MIGA's Value Proposition

21. As MIGA reviews its positioning within the market with a view to achieving optimal results, it is necessary for the Agency to have a clear sense of its relative position with respect to other PRI providers, particularly the relative strengths that form the basis of MIGA's comparative advantage. The Agency undoubtedly derives its unique strengths from its membership in the World Bank Group and from its structure as an international organization with shareholders representing most countries of the world. Such a structure affords MIGA with a broad range of practical advantages over its commercial counterparts.

Figure 6. MIGA's Comparative Advantages

Member of the World Bank Group		
Access & Convening Power	**Products**	**Dispute Resolution Capability & Financial Strength**
• Direct relationship with host governments • Proprietary country knowledge & expert risk analysis • Relationships with other IFIs, ECAs and CSOs • Reinsurance mobilization capacity	• Able to guarantee large amounts over long periods • Coverages offered are broad and robust • Valuable 'certification' effect • Diverse staff base bringing a global perspective	• Mediation strength & excellent dispute resolution record – ability to get troubled projects back on track • Strong balance sheet gives confidence that claims can be paid immediately

Access and Convening Power

22. One of the key advantages MIGA's shareholder structure confers is the unique position MIGA has to engage with host country governments both during the underwriting phase that leads up to the issuance of a guarantee, and afterwards once a guarantee is in place. Having direct access to senior government officials helps MIGA better understand project proposals and how they fit with a country's development agenda. A strong relationship with the host country also can play an invaluable role in monitoring an active project.

23. The World Bank Group's relationship with the host country also provides unparalleled global access to detailed country economic information and country risk profiles. Country assessments that are unavailable to private sector PRI providers inform MIGA's due diligence and underwriting process, allowing for an enhanced understanding of local conditions. Furthermore, the investment climate reform work undertaken by FIAS with budgetary support from MIGA leads to improved business operating conditions for potential investors. Not only does investment climate reform help reduce business costs and perceived risk, but it also facilitates an increase in awareness of opportunities for investment.

24. As a member of the World Bank Group, MIGA is able to draw on its relationship with other international financial institutions (IFIs) and national institutions, such as export credit agencies (ECAs), in ways that bring benefits to both clients and host countries. Especially in complex projects where other IFIs or ECAs are present, the strong linkages that exist between such organizations often play a major role in enhancing cooperation and the aligning of objectives. This phenomenon is only increasing as there is increasing convergence

amongst the IFIs around many policies and practices.[11] The World Bank also has a broad network of contacts and relationship with civil society which can be extremely helpful to MIGA, especially when the Agency is engaging in a difficult project that involves sensitive issues.

25. MIGA's membership in the World Bank Group also generates confidence in other insurers that MIGA is well positioned to understand and properly price project risks *ex ante*, and to manage these effectively during the course of a contract. This allows MIGA to attract facultative and treaty reinsurance, thus leveraging its guarantee capacity while simultaneously managing the portfolio's risk exposure.

Products

26. One of MIGA's most valuable attributes is the ability to offer large amounts of coverage over extended periods, and to be able to do this in high-risk destinations. This capability is especially important when it comes to providing coverage for infrastructure projects, which typically are capital intensive and long-term in nature. MIGA's ability to cover a twenty-year power off-take agreement, for example, often represents an essential criterion in making sure a project in a difficult environment goes forward, as no other PRI providers can extend such terms. In addition, by providing PRI to lenders, MIGA facilitates borrowing and can improve loan terms to the benefit of sponsors and host countries.

27. The recent Amendments to the MIGA's Convention allowed the Agency to catch up to the rest of the industry in terms of product offerings. More importantly, the products that MIGA does offer are considered by clients to be strong and robust. In addition to MIGA's ability to enforce its guarantees, the terms themselves are widely considered to be expansive and client friendly. MIGA's expropriation coverage, for example, has been recognized within the PRI industry as being one of the strongest covers available.

28. Very often, MIGA's involvement in a project brings with it an implicit World Bank Group 'seal of approval' for a project, which, for many guarantee holders, holds intrinsic value. Projects that are faced with difficult environmental or social issues benefit greatly from a public indication that the sponsor is developing the project in accordance with MIGA's Performance Standards. This facilitates stakeholder relationship management and, at times, may even draw in third-party financing.

29. MIGA's delivery of its products is facilitated by having a thoroughly diverse staff base in terms of both nationality and experience. As is the case for the rest of the World Bank Group, MIGA's staff members originate from across the world and from a wide range of professional backgrounds. Such breadth, which is unique within the PRI industry, contributes greatly to the Agency's culture and the maintenance of a global corporate perspective.

Dispute Resolution Capability and Financial Strength

30. Arguably MIGA's most valued attribute, however, is the Agency's dispute resolution capacity. Drawing on its institutional relationship with the host government, MIGA will become quickly and actively involved with projects that run into political difficulties. More

[11] Such as the Policy and Performance Standards on Social and Environmental Sustainability, which were developed by the IFC and adopted by the EBRD and MIGA (as well as, among others, the Equator Banks).

often than not, MIGA can use its position as an intermediary between the government and the investor to help bring about a satisfactory solution to a particular problem that allows the project to get back on course. MIGA's "deterrence effect" is valued greatly by investors as they understand that host countries have more at stake than just individual projects, but potentially the much larger relationship with the World Bank Group. For host countries, resolution of disputes helps prevent reputational issues relating to the attractiveness of the country as an investment destination.

31. MIGA has a very strong record for successfully mediating disputes. Since 1988, MIGA has issued guarantees for more than 620 projects. Of these, more than 90 projects have entered at least into pre-claim status at one time or another. Throughout this, MIGA has only been required to pay six claims. It is further worth noting that four of these six were claims paid for damages sustained by projects under MIGA's war and civil disturbance coverage – events that were beyond the direct control of the respective host governments.

Table 2. MIGA's Claims History

Fiscal Year Paid	Gross Amt Paid	Host Country	Sector	Applicable Coverage
1999	$15,000,000	Indonesia	Infrastructure (Power)	Expropriation
2004	$145,000	Nepal	Infrastructure (Power)	War & Civil Disturbance
2004	$558,000	Argentina	Agribusiness	Expropriation
2009	$491,000	Kenya	Manufacturing	War & Civil Disturbance
2009	$13,000	Madagascar	Tourism	War & Civil Disturbance
2011	$600	Afghanistan	Finance (Banking)	War & Civil Disturbance

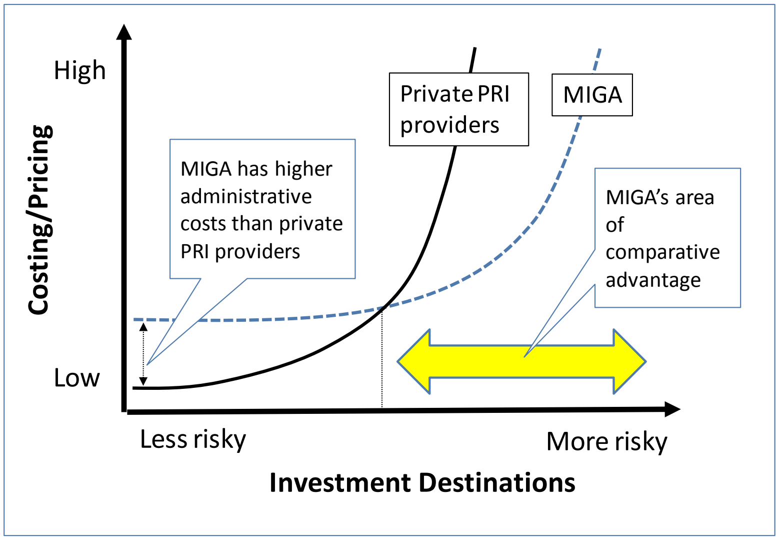
32. Finally, MIGA enjoys a strong financial position due to the shareholders' capital that has been placed in the Agency. In turn, this allows clients and partners to have confidence that, in the event of a claim, MIGA will have adequate resources to make timely payments in the magnitude required. It is also recognized that MIGA will seek to recover its losses from a host government in cases where an adverse government action has led to MIGA having to pay a claim. This provides additional confidence in the Agency's capital position. Consequently, MIGA is able to issue extremely large guarantees, over extended periods, and bring in reinsurance capacity as needed.

33. Collectively, these factors – the strong analytic capacity going into projects, the enhanced ability to resolve disputes, the ability to pay claims promptly and then recover losses – are unique within the PRI industry, and they give MIGA the scope and confidence to be present in countries and sectors where others are not willing to go.

MIGA's Niche

34. The sum effect of these various comparative advantages points to the position in the market where MIGA can bring most value – the frontiers. These are the places that have the most difficult time attracting investment, and where the relative impact of successful projects is frequently the greatest. And as a development institution, being relevant in the areas of greatest development need is central to MIGA's mandate.

Figure 7. MIGA's Niche in the Marketplace



35. This positioning of MIGA is largely supported by the Agency's operating approach and cost structure. As a development institution, MIGA typically has additional requirements when it comes to reviewing prospective projects and underwriting that other providers do not, such as the need for economic impact analysis and environmental and social studies. These considerations add both time and expense to MIGA's processes, which in turn must be recovered through the premiums MIGA charges. Consequently, MIGA is typically not a low cost provider in many places where there are alternative providers, such as for simpler projects in easier environments. Rather, MIGA becomes more viable from a pricing perspective in the under-served destinations where risks are perceived to be greater.

IV. Experience over the FY09-11 Strategy Period

36. MIGA's FY09-11 Strategy[12] identified four main areas of operational priority for guarantees support: investments in IDA countries; investments in conflict-affected countries; investment in complex projects, (mostly in infrastructure and the extractive industries); and South-South investments. These areas were identified and chosen based on matching MIGA's institutional strengths with the demands of the marketplace.

Table 3. Classification Criteria Defining MIGA's Priority Areas

MIGA Priority Area	Defined as
IDA Countries	• Countries that are officially recognized as IDA eligible by the World Bank; eligibility depends first and foremost on a country's relative poverty, defined as GNI per capita below an established threshold[13] and updated annually
South-South investment	• Investors domiciled in a developing country
Conflict-affected countries	• The harmonized list of Fragile Situations produced by the World Bank with the Asian Development Bank and the African Development Bank
Complex projects	• Project finance or structured finance or other multi-sourced deals • Deals with challenging environmental considerations and social issues classified as 'Category A' • Infrastructure deals, including those in the transport, power, water and sanitation, telecom sectors • Extractive industries deals, including those in the oil, gas, mining sectors

37. It should be emphasized that there is no rank ordering in terms of most- to least-important priority for MIGA. Nor are these priority areas intended to be the Agency's exclusive targets. As a multilateral organization, MIGA firmly holds the view that it needs to be a full service provider, available to support developmentally productive projects throughout the world, without limitation of sectors or destinations. This is vital not just because the Agency is a development institution with a responsibility to bring its services to bear for all eligible potential recipients, but also because as a business operating on a largely commercial basis, it is necessary to maintain a diverse portfolio.

38. In addition, from a practical standpoint, the PRI business is essentially sponsor-driven, meaning that the ability of PRI providers to direct where they will be operationally active is largely driven by the investment intentions of others. This is an important distinction in the business model of an insurer compared to an institution that provides credit, for example.

Results in Strategic Priority Areas

39. Over the first two and a half years of the three year strategy period, MIGA had undertaken a total of 68 projects, accounting collectively for $3.64 billion in new guarantees coverage. Of these 68 projects, 45, or 66 percent, addressed at least one of the four priority areas, and many projects addressed more than one such area. These 45 projects in total

[12] MIGA/SecM2008-0021, "MIGA's Operational Directions FY09-11"
[13] In Fiscal Year 2011 this threshold equals $1,165 per annum per capita

accounted for just over $1.16 billion of new issuance, or 32 percent of the total coverage issued by MIGA over the period.

Table 4. MIGA's Results in Priority Areas, FY09-11H1

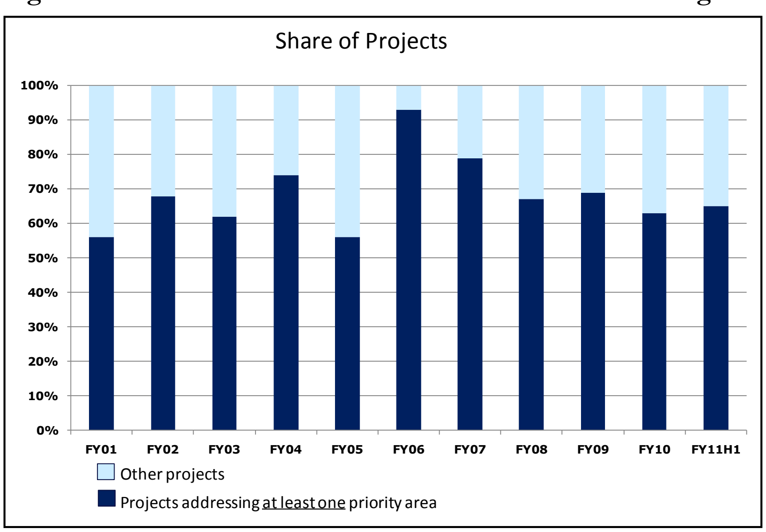
Priority Areas	No. of Projects Supported	Amt of Guarantees Issued ($ m)	% of All Projects	% of Total Issuance
IDA-eligible countries	30	704.7	44%	19%
South-South investments	20	219.2	29%	6%
Conflict-affected countries	12	240.1	18%	7%
Complex projects	11	728.5	16%	20%
Total Projects Addressing at Least One Priority Area	**45**	**1,162.8**	**66%**	**32%**

* Some projects address more than one priority area, so figures will not sum

40. When looking at how MIGA's business over the current strategy period has matched up against areas of strategic priority, there is a notable gap between the proportion of projects (66 percent) by count and the corresponding proportion of their value from new issuance (32 percent). A number of factors account for this disparity.

41. First, projects that address the Priority Areas tend to be smaller in size than those in MIGA's portfolio that do not fall within any of the priority areas. Over the FY09-11H1 period, MIGA's average guarantee size for all projects was $53.6 million. However, within this, the average size of MIGA's guarantees for the sub-set of projects addressing one or more priority areas was $25.8 million, whereas the average guarantee size for all other projects underwritten by MIGA was $107.8 million.

Figure 8. Share of MIGA's New Business in Areas of Strategic Priority, Number of Projects

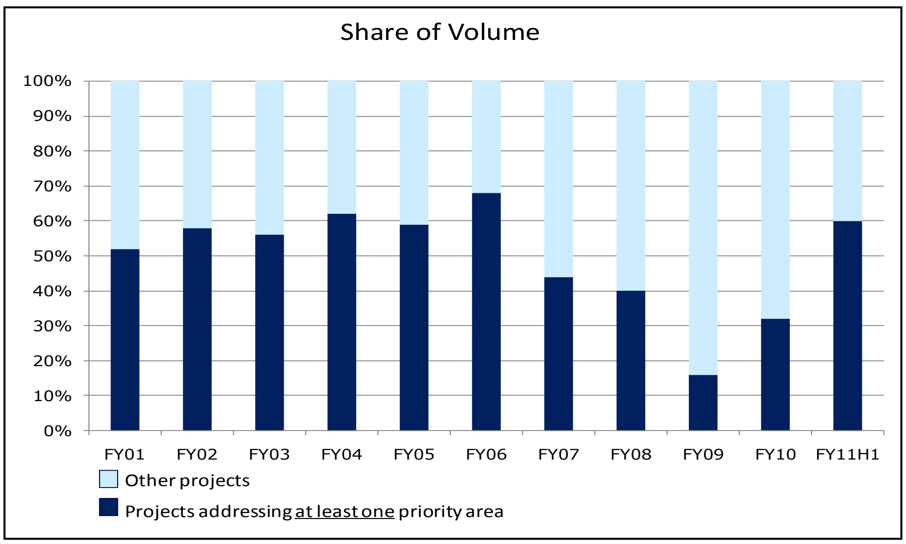


42. In addition, three of MIGA's four priority areas – providing guarantee support for investment projects into IDA Countries, conflict-affected countries and South-South investments—tend to be considerably smaller in nature than the other types of projects MIGA supports. Over the current strategy period, the average size of MIGA's guarantees

into IDA countries, conflict-affected countries and for South-South investments has been just $23.5 million, $20.0 million and $11.0 million respectively.

43. The one exception traditionally has been Complex Projects, where investment amounts and guarantee sizes tend to be much greater. Indeed, the average MIGA guarantee over the FY09-11H1 period in support of Complex Projects was $66.2 million. However, MIGA's volume performance into Priority Areas during the current strategy period has been notably affected by the global financial crisis, which led to a dramatic constriction in the number of infrastructure projects undertaken in developing countries. Over the current strategy period, MIGA has underwritten fewer than four Complex projects per year – a sharp contrast to the FY05-08 period when MIGA provided guarantee support to almost 10 such projects each year. Had MIGA been faced with a more typical profile of new business, that included a greater share of the larger Complex Projects, then the portfolio composition would likely have shown more success in the priority areas as a proportion of total issuance.

Figure 9. Share of MIGA's New Business in Areas of Strategic Priority, Volume



44. One positive development has been a comparative rebound in these figures in the first half of FY11, indicating a return of investment into infrastructure and extractive industry projects that will hopefully prove to be sustainable.

Lessons Learned

45. Arguably the most notable economic characteristic of the FY09-11 strategy period to date has been the major disruption to world markets resulting from the global financial crisis. At the time that MIGA's current three-year strategy was being prepared, in the second half of FY08, FDI flows to developing countries had been increasing strongly and by most estimates at that time were strongly poised for the future. In fact, one of the biggest concerns was the excess of liquidity which created such heavy competition among banks to find borrowers. Thus, projects that in more stringent times would likely not have been viewed as viable were, in that climate, receiving serious consideration from lenders anxious to put their capital to work. One implication of this effect for MIGA and other PRI providers was that the competition ultimately tightened lending spreads and profit margins leaving little room for insurance premiums. There were many occasions where MIGA encountered lenders who would have ordinarily sought PRI coverage for a loan but who

recognized that pricing a PRI premium into their spread would have made their loan proposal uncompetitive, and thus they either lent without cover, or declined to put forward an offer.

46. When the financial crisis took hold and became widely recognized for what it was, in the summer months of 2008, the effect on MIGA's new business was significant. June 2008 had seen MIGA complete its most successful fiscal year ever in terms of the amount of new guarantees volume, issuing a record $2.1 billion in new coverage, $730 million higher than in the previous year. As FY09 began, MIGA had an extremely strong pipeline of potential business for the next twelve months. (Undoubtedly, MIGA's prospective business pipeline needs to be viewed cautiously since there are invariably possible projects which fall away for one reason or another – this is partly a consequence of the aforementioned reality that, being an insurer, MIGA is not driving the agenda in the projects that it is involved in – but notwithstanding a natural level of skepticism, this was a healthy situation.)

47. However, just a few months later by the time that Lehman Brothers declared bankruptcy in early September 2008, it was clear that MIGA's business was going to follow a very different path in the months and possibly years ahead. Pipeline projects that were well underway were being put on hold at best, or, in many cases, cancelled altogether; and the flow of prospective new business, other than in the suddenly threatened financial sector, completely dried up.

48. One of the principal lessons that MIGA has drawn therefore from the past two and a half years has been that it is essential to maintain flexibility in the face of drastically changing conditions. As it became apparent that all the near-term demand for PRI coverage was coming from systemically important banks active in Eastern Europe and Central Asia, MIGA shifted its focus accordingly and was able to redeploy underwriting capacity not fully utilized at that time in other sectors towards the Financial Sector. This allowed MIGA to invest considerable time and attention to working with other members of the international development community to put together a coordinated response that helped address the critical needs of the moment. (This response ultimately took the form of the Joint IFI Action Plan – Reference Box 1.) Over the FY09-FY10 period, providing much needed support to the financial sector clearly became the area where MIGA's involvement was able to make the greatest impact, and as such became essentially a short-term, tactical priority which facilitated rapid response not just from MIGA but for the World Bank Group as a whole.

49. One of the reasons that MIGA was able to quickly deploy considerable amounts of coverage to support new lending from European banks to their subsidiaries in developing countries was because MIGA and its products were already well known to these institutions. The value of having strong institutional relationships became all the more evident at a time of stress. RZB and Unicredit had been MIGA clients for many years by the time the financial crisis arrived, and their familiarity and successful track record with working with MIGA played an important role in their ability and willingness to rely on MIGA's guarantees to support the extension of funds to their subsidiaries. At the same time, MIGA benefitted greatly during the severe downturn from having core clients.

Box 1. MIGA's Financial Sector Initiative

At the height of the global financial crisis, in February 2009, three IFIs —the EBRD, the EIB Group, and the World Bank Group (IBRD, IFC, MIGA)—came together to deliver a uniquely coordinated and targeted financial assistance to crisis-hit Central and Eastern Europe and Central Asia. They launched the Joint IFI Action Plan, committing to deliver assistance of up to €24.5 billion in 2009-2010 to support banking sector stability and lending to the real economy in that region.

In parallel, MIGA has prepared and submitted to the Board a Financial Sector Initiative (FSI), a framework document laying out MIGA's proposed response to the global financial crisis. The initial focus of the FSI was on the hardest hit countries in the Eastern European and Central Asian region, where MIGA secured the Board's endorsement to allocate $1 billion of the Agency's net capacity to support investments of systemically important European banks in their subsidiaries in ECA. MIGA's net capacity could be further leveraged up to $2-3 billion in the private market. The Financial Sector Initiative has essentially become MIGA's framework for implementing the multilateral Joint IFI Action Plan in ECA and overall crisis response in other regions.

Consistent with expectations, most of the demand under the Financial Sector Initiative came from ECA. MIGA delivered $1,862 billion of signed guarantees under the Joint IFI Action Plan (or the ECA part of the FSI). MIGA has issued 21 guarantees in support of 17 financial institutions—14 banks and 3 leasing companies—in 13 countries. MIGA has mobilized $708 million of market capacity in the form of reinsurance and supported the rest from its own balance sheet.

MIGA played an important role in helping parent banks mobilize IFI support as such support was conditional upon shareholders funding a portion of subsidiary needs. While the parent banks were prepared to provide such funding, some of them were constrained by their internal country risk limits. MIGA's coverage has helped them to address this limitation. Under the Joint IFI Action Plan, MIGA was the only IFI that provided political risk guarantees in support of shareholder funding. While MIGA received a large number of requests for coverage early in the initiative, many banks faced with tight and volatile funding environments have ultimately opted for the IFI loan products as opposed to political risk guarantees. MIGA's guarantees were complementary in that they helped banks leverage IFI loans.

Key Strategic Initiatives FY09-11

50. During the FY09-11H1 strategy period, MIGA has undertaken a number of important steps that have been essential in positioning the Agency to deliver on its mandate to best effect. Several of the most notable such initiatives are as follows:

Expanding MIGA's Product Line

51. **Amending MIGA's Convention.** In FY11, MIGA's Council of Governors approved substantial changes to the Agency's Convention. These changes were the first since MIGA's establishment and were undertaken in order to help modernize MIGA so that it might be able to insure more productive investments and thereby increase its development impact.

52. The most important change was the modification enabling MIGA to insure project debt even when not insuring a portion of the equity investment. This is a crucial step for MIGA in its relationship with lenders – previously MIGA had to turn away business when lenders were concerned about project risk, but the equity investor was not eligible or interested in purchasing coverage. This meant there were cases where prospective lenders to projects had chosen not to proceed, resulting in increased transaction and borrowing costs for the sponsors, which negatively affected project performance and development impact. In addition, the amendments enable MIGA to provide PRI to new foreign investors in cases of the simple acquisition of existing investments. Previously, the Agency was unable to provide

cover for brownfield acquisitions, despite the potential developmental benefits of having a new private sector operator. MIGA will also be able to insure eligible investments in cases where an investor is seeking coverage for a pool of existing and new projects.

53. While not changing the Agency's core requirements – that a project being supported through a MIGA guarantee must be financially and economically viable, environmentally sound, and consistent with the development objectives of the host country – the amendments have increased MIGA's ability to participate in broader ranges of investment transactions. (Reference Box 8.)

54. **Updating MIGA's Operational Regulations.** MIGA's Operational Regulations, which are defined by the Board of Directors, are drawn from the Agency's Convention and govern how MIGA implements its day-to-day business. When creating MIGA, it is clear that the founders envisioned that the Operational Regulations would be updated periodically to ensure MIGA kept pace with changing circumstances. In practice however, such changes had not taken place except with respect to minor procedural matters.

55. In April 2009, working closely with the Agency's Board of Directors, MIGA was able to achieve a comprehensive overhaul of its Operational Regulations, effecting twelve changes[14] that included: introducing a new form of coverage (the Non-honoring of Sovereign Financial Obligations); enhancing existing coverages (to both Breach of Contract, which was extended to include coverage for state-owned enterprises, and War & Civil Disturbance, which was extended to include temporary business interruption); expanding the scope of eligible investments; and clarifying several important definitions and procedural steps. At the time, these changes represented the most significant expansion of MIGA's business toolkit since inception in 1988, and gave an important indication of MIGA's commitment to adapt to changing market needs to deliver on its development mandate.

56. Since then, in February 2011, the Board has again amended the Operational Regulations to reflect the changes required by the Convention Amendments. [15]

Innovating for Clients

57. In addition to bringing on line new forms of coverage to help meet evolving client needs, MIGA has focused in recent years on pushing forward its internal culture to emphasize bringing innovative support to its clients.

58. A different example is the guarantee support that MIGA has provided in FY11 to ProCredit Holding (PCH) of Germany, a provider of finance to micro-, small-, and medium-sized enterprises in Latin America, Eastern and Central Europe, and Africa. MIGA is providing guarantees to PCH – a new client introduced to MIGA by the IFC – to cover the mandatory reserves that their various subsidiaries are holding with local central banks. With this coverage, PCH can obtain capital relief on its capital adequacy ratio set by the German banking authorities. This in turn frees up PCH funds for more useful deployment in the form of lending. This was the first time that MIGA had used its cover for such a structure.

[14] MIGA/R2009-0014, "Proposed Changes to MIGA's Policies and Operational Regulations"
[15] MIGA/R2011-0006, "Amending MIGA's Operational Regulations to Implement the Convention Amendments"

Box 2. Innovating Through the Master Contract Structure

In FY09, MIGA developed a Master Contract Structure to support a private equity fund to raise risk capital for future cross-border investments in East Africa. This project was presented to the Board in January 2009 for endorsement, at which time management noted that MIGA expected to replicate the structure for other similar investors.

Under the terms of the Master Contract, MIGA agreed to reserve capacity and fix a premium to assist the Fund in raising capital from financiers uncomfortable with the political risks perceived in the region. MIGA screened the Fund's structure, social and environmental processes and provided upfront guidance to the client's investment managers regarding MIGA's underwriting requirements. The Master Contract structure was seen by the client as an innovative and productive arrangement which has created important certainty for them, and which allowed MIGA to perform underwriting and due diligence activities more efficiently.

Building on the positive experience of this initial venture, the Master Contract approach has subsequently been replicated with other clients..

Enhancing Business Development Capabilities

59. **Launch of MIGA's Asia Hub.** Recognizing the need for MIGA to be closer to prospective new clients, especially those physically located far from MIGA's headquarters, in August 2010 MIGA established its Asian Hub – a small team stationed in Asia, empowered to bring in new prospective business and conduct local underwriting. The presence of staff in the region is helping MIGA more effectively service Asian clients and to put the Agency in a much better position to participate in the region's markets and to benefit from the strength of Asian investment. This is also one of the relevant ways in which MIGA is working to provide more support for South-South investment, and offers in particular a chance to build on the increasing interest of Asia investors looking for opportunities in IDA countries in Africa, as well as elsewhere.

60. **MIGA-IFC Cooperation.** In FY10, IFC and MIGA laid important groundwork for closer collaboration through the signing of a new business development agreement that provides a formal mechanism for IFC staff to originate business on behalf of MIGA. Under the terms of the agreement, the IFC will receive monetary compensation if a business lead provided by IFC results in MIGA signing a guarantee with the referred investor. A new business unit, the IFC-MIGA Business Development and Partnerships unit, has been set up to oversee implementation of the agreement.

61. The first twelve months of this program, dating back to the fourth quarter of FY10, have shown considerable promise. During this period, MIGA has closed 17 projects brought forward through this program, totaling over $250 million in new coverage. These projects have taken place in 16 different countries, 11 of which are IDA countries.

62. **Agents and Finders Program.** In FY10, MIGA launched its Agents and Finders Program to expand MIGA's marketing network and field presence. The aim of the Program is to reach out to potential new clients in locations where MIGA is not present through carefully-selected and well-positioned intermediaries. These agents and finders have a good understanding of the Agency's products and requirements, and can identify investors and projects that might benefit from MIGA's guarantees. A low cost mechanism for MIGA to extend its reach, agents (who have an exclusive relationship with MIGA for the PRI market) and finders (who retain the right to work with a variety of PRI providers) are compensated for their efforts entirely on a success-fee basis. MIGA provides training to the Program

participants, to ensure there is a thorough understanding of MIGA's products and requirements, as well as consistency of marketing information and application materials.

63. Since the program's inception, MIGA has successfully closed two new projects in Africa, amounting to $11.4 million in guarantees. Looking ahead, there are currently several projects in the active pipeline that are being worked on which were brought forward by either agents or finders, and it is expected that the program will continue to grow and become an integral part of MIGA's outreach and client relationship efforts.[16]

64. **West Bank and Gaza.** In July 2010, MIGA appointed a local representative for the Agency in the West Bank and Gaza. This person will be the point of contact for MIGA's West Bank Gaza Guarantee Trust Fund and will also focus on business development and work with local and foreign investors to assist them in managing the political risks associated with their projects in the West Bank and Gaza. There are already a number of projects that are currently being considered that have resulted from this engagement..

Improving Business Efficiency

65. In response to feedback from clients and partners, MIGA has taken important measures to simplify processing and reduce turnaround time. MIGA has reviewed its end-to-end guarantee business process from the point in time that a client asks for a guarantee up until the moment when that guarantee is actually signed. The review highlighted numerous possible areas for improvement.

66. MIGA has introduced new streamlined guarantee procedures aimed at increasing efficiency and enhancing client service. Application procedures have been streamlined to reduce response time, and the early screening of new enquiries has been simplified to similarly provide faster feedback to clients. Underwriting guidelines have been modernized, the process of screening projects and final approval by the Project Review Committee has been streamlined, and overall transaction documentation is being revamped to increase efficiencies. A key objective of this streamlining effort is also to improve teamwork to maximize synergy in guarantee transaction team activities.

Formal Recognition of MIGA under Basel II Framework

67. Following MIGA's active engagement on the issue, in 2010 the Basel Committee (BC) formally determined that MIGA meets the criteria[17] set out in its Basel II Framework to merit the same treatment as a select group of Multilateral Development Banks.

68. This determination means that a private bank using MIGA insurance to protect against the risk of currency convertibility and transfer restrictions may use the borrower's local currency rating for risk weighting purposes. Typically, the local currency risk rating is more favorable than the foreign currency ratings of such borrowers which would otherwise be required. This, in turn, lowers the cost of such loans, encouraging the flow of investments to developing countries.

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[16] As of March 2011, the network included a total of 42 companies and individuals (Five Agents and 37 Finders) MIGA will be undertaking a formal internal review of the Agents and Finders Program in FY12.

[17] The BC has stated that bank supervisors "may allow banks to apply a 0% risk weight to claims on MIGA in accordance with paragraph 59" of the Basel II Framework. This can permit banks, when taking on MIGA coverage, to use lower risk weights on exposures to emerging markets borrowers.

Building Integrity Due Diligence

69. **Reputational Risk Management.** Recognizing the severely detrimental effects that occur when projects are affected by corruption, in FY11 MIGA established a formal function to institutionalize its approach to assessing and managing integrity risk issues. A Corporate Reputational Risk Management function was established and has developed internal guidelines for the integrity due diligence that MIGA performs on its clients. In addition, it has delivered relevant training for MIGA staff involved in underwriting and portfolio management. In its integrity due diligence, MIGA works closely with the World Bank and the IFC, including in such areas as the World Bank Group-wide coordinated response to working with intermediate jurisdictions, developing the Group wide cross-debarment mechanism and the World Bank Group's governance and Anti-Corruption strategy.

Developing MIGA's Knowledge and Learning Agenda

70. **The World Investment and Political Risk Report.** As part of its mandate to promote productive FDI into developing countries, MIGA seeks to foster a better understanding of investors' perceptions of political risk as well as the role of the PRI industry in mitigating these risks. To this end, in 2009 MIGA produced for the first time its World Investment and Political Risk Report, drawing on research conducted in conjunction with the Economist Intelligence Unit, which collected and assessed information about market sentiments with regard to FDI going into developing countries.

71. The first publication drew upon a survey of investors carried out during the depths of the financial crisis in early- to mid-2009. It also included a survey of investors based in Brazil, China, India, and the Russian Federation to address issues related to potentially differing perspectives in terms of risk perception from more traditional investors based in OECD countries and investors in these emerging economies. The second report in 2010 added an emphasis on a particular situation of political stress which investors may face; namely, the existence of conflict in the host country of their investments. Both reports have been well received externally.

72. Historically it has been difficult to gather comprehensive and consistent trend data on investor tolerances and approaches to dealing with non-commercial risks, and MIGA believes that it can play a valuable role for the industry in helping collect, aggregate and disseminate such information. The World Investment and Political Risk Report, which will be an annual publication, aims to meet this need and to become a high-profile report that will bring attention to MIGA and the PRI industry as a whole.

73. MIGA has also launched a research agenda on the political risk insurance markets which it intends to deliver as a global public good. Here, MIGA has begun to expand its footprint in academic research through a partnership with the Paris School of Economics, focusing on how the PRI industry can affect governance in developing countries.

74. As well as producing insight for public dissemination, one of the driving purposes of MIGA's knowledge agenda is to provide greater understanding and better analysis for internal needs. In this way, MIGA's due diligence capabilities can continuously improve by developing a greater insight into risk triggers and broader political economy issues which affect political risk to foreign investors.

Integrated Risk Management

75. The management of risk is at the core of MIGA's business and is engrained in the day-to-day operations of the Agency. This includes identifying and prioritizing risks, and designing methods for managing them. For example, political risk assessment forms an integral part of MIGA's underwriting process, and includes the analysis of both country-related and project-related risks. MIGA utilizes a widely recognized risk management tool, the economic capital model, in the active management of concentrations of exposures, in the selective transferring of guarantee exposure through reinsurance, in its provisioning framework, and in the risk-based pricing of its products.

76. MIGA's risk assessment, however, lacked integration that provided a holistic view of the risks faced in the Agency. Consequently, in FY10, MIGA implemented an Integrated Risk Management (IRM) Program[18] designed to shift from an isolated "silo" approach of managing risks within the various parts of the organization, to a concerted Agency-wide approach, with streamlined objectives, strategies, and tools for managing the risks. A baseline Agency-wide risk assessment was carried out which enabled the prioritization of risk areas and internal control issues, and the establishment of corresponding action plans and risk owners. This work is ongoing, and represents the foundation of MIGA's strengthened approach to managing its overall risks. At the World Bank Group level, MIGA continues to coordinate with the IRM teams at IBRD and IFC and will be an active participant in Group-wide efforts for integrated risk monitoring and reporting, working with the recently appointed Group Chief Risk Officer.

Developing and Maintaining Internal Capacity

77. MIGA works actively to maintain a highly-skilled workforce along with an entrepreneurial culture that provides challenges and opportunities for staff. MIGA's success and sustainability depend to a large extend on how well it builds an efficient, effective and highly motivated team.

78. In FY10, MIGA introduced a formal Staff Learning Program (SLP) to ensure that learning and training opportunities exist to keep staff members equipped to achieve professional excellence. The SLP is responsible for developing and maintaining the set of core competencies necessary for different professional roles with the Agency, and for overseeing the internal training agenda. This has included the introduction of a Staff Learning Catalogue (which complements the World Bank's Learning Catalogue), which is tailored to address the specific technical needs of MIGA's staff.

79. The program's aim is to make sure that MIGA, through its staff, is able to adapt with changing market needs and at the cutting edge of relevant knowledge. The emphasis on learning and skills development helps staff members be effective in their dealings with clients and partners, and contributes to an effective, team-based, multicultural environment.

80. In addition, in 2010 MIGA established the MIGA Professionals Program (MPP) as a vehicle for attracting new and diverse talent to the Agency to work in entry-level professional position for non-renewable two-year terms. This program is open to applicants under 35 years of age with an advanced degree and a minimum of five years working experience in the relevant field. The first two MIGA Professionals (MPs) were hired in 2010, and the selection of the second year's MPs is currently underway.

[18] AC2010-0111, "MIGA's Integrated Risk Management Report"

81. This program, as well as offering an opportunity for MIGA to identify talented young professionals, represents an excellent channel for the Agency to market itself at graduate schools and with young professionals. As well, in the first two years, the program has specifically targeted identifying candidates from either sub-Saharan Africa or from the World Bank Group's nationalities of focus. The program thus makes an important contribution towards MIGA maintaining workplace diversity.

V. Priority Areas & Objectives for FY12-14: Achieving Value-Driven Volume

The Forward-looking Focus

82. MIGA's operational focus continues to be defined within the broader context of the World Bank Group's development agenda. In this respect, the priority areas that have been laid out for the World Bank Group within the context of the post-crisis directions serve as a crucial compass for MIGA.

83. As MIGA looks ahead to its next three-year Strategic Period, it is guided by these broad priorities at the Group level, juxtaposed with an understanding of the Agency's inherent comparative advantages, which define the places and projects where MIGA is in greatest demand and can offer the most value. The external environment has and will continue to change constantly, but even as it has, MIGA's core comparative advantages have held remarkably true. By virtue of its multilateral structure, the Agency is perfectly positioned to operate most effectively at the frontiers of the PRI market.

84. MIGA therefore believes that it is appropriate for its four prevailing strategic priority areas to remain in place, namely:

- IDA Countries
- South-South investments
- Conflict-affected countries
- Complex projects

85. The rationale for selecting and retaining these four specific areas rests on two further assessments - the degree of development impact that each potential project brings, and the level of additionality that MIGA can bring to bear versus other PRI providers.

Table 5. Basis for MIGA's Priority Areas

Priority Area	Development Impact	MIGA's Additionality
IDA Countries	Urgent need for private sector development to drive growth, bring jobs, build tax revenues, transfer skills etc.	MIGA understands poorest countries well and comfortable operating in these environments
South-South Investments	Powerful and far-reaching multiplier effects from economic integration between developing countries	MIGA acts as "national" PRI provider for those countries without an ECA Better positioned to work with nontraditional investor base
Conflict-Affected Countries	FDI a rare source of capital Lack of strong governments means private sector often best suited to provide crucial services	Perceived risks typically too high for other PRI providers Valuable demonstration effects
Complex Projects	Infrastructure projects catalyze myriad development gains Lack of public financing options means private investment is crucial	MIGA can bring together multiple stakeholders & offer long tenors at fixed prices MIGA BOC coverage espec. relevant MIGA can easily front large deals

86. **IDA Countries.** Putting a special focus on IDA countries remains an obvious choice for MIGA. The development impact of FDI going into IDA countries is substantial. As previously noted, IDA countries receive a woefully small share of cross-border investment

funds, and yet these funds, when they do enter IDA countries, are crucially important. In resource-constrained environments, foreign investment brings support for private sector development, creates jobs, introduces new technologies and knowledge, generates tax revenues, provides linkages for domestic firms, and much else besides – all benefits that help close the gap between the poorest countries and the rest of the world.

87. MIGA's additionality in IDA countries also remains a clear proposition. IDA countries are frequently considered to be the higher risk situations by the international investment community and therefore the need for non-commercial risk mitigation is greater than in other cases. MIGA's ties to IDA countries given the World Bank's close engagement in these countries means that the Agency is especially well-positioned to understand the local investment environment and thus carry out informed underwriting. In addition, MIGA's strong balance sheet and relationship with the host country means that MIGA is comfortable issuing long-term coverage that other providers will be much more hesitant to offer.

88. **South-South Investment.** The dramatic rise in South-South investment has been one of the most notable developments in global FDI flows over the past decade. The cumulative impact of such investment is truly significant as the benefits of a successful project that flow to the investor country remain within the developing world, thus creating further development impact. Successful South-South investments help strengthen economic integration between both countries, and very often are seen to play an important role in promoting regional economic integration.

89. MIGA's goal of filling in gaps in the market means that MIGA has a natural role to play for investors coming from developing countries, most of whom will probably not yet have a national export credit agency that can provide political risk guarantees. Unlike South investors, investors coming from developed countries are often able to draw on historical ties between their government and the host government. Such ties can play a vital role in giving a prospective investor the confidence to move forward with an investment plan. Investors coming from a country that does not have a track record of making investments will not have these advantages. MIGA's additionally is bringing forward for a South investor a relationship with the host government that they otherwise would not have.

90. **Conflict-affected Countries.** MIGA has a particularly relevant role to play in supporting investments into post-conflict and conflict-affected environments. Such countries often attract considerable donor goodwill once conflict ends, however inevitably aid flows eventually start to decline, and private investment becomes critical for reconstruction and growth. But investors' confidence must be restored to reverse the flight of private capital and encourage new investment, and MIGA can play an important role in making this happen. In addition, if MIGA can help bring investors into projects that are high profile and have high national importance, this can have a powerful demonstration effect. And some projects, such as those in the telecom sector, can have a particularly high catalytic effect on general economic development as well as strong social impact.

91. Building a strong investment climate is important in all countries, but it takes on heightened importance in conflict-affected countries. Here, the work of FIAS is extremely important and MIGA can build on and benefit from this work when offering guarantees to sponsors in countries where FIAS is actively involved.

92. **Complex Projects.** The typical nature of infrastructure projects as well as those in the extractive industries - which are usually highly capital intensive, often involve multiple participants and invariably have a high degree of direct government engagement - are a strong match for MIGA's focus. Complex projects of these types, while difficult to launch and challenging to execute, bring with them transformational development impact when executed properly. Infrastructure is the foundation for any economy, supporting all forms of enterprise and society. And oil, gas and mining projects can bring much needed resources to countries that too often have far too few other natural alternatives.

93. MIGA can play a crucial role helping support these complex projects, bringing different parties together. One of the most valuable elements MIGA provides in these circumstances is access to the World Bank's environmental, social and governance standards – helping sponsors manage different conditions along best practice lines and providing demonstration that they are operating to the world's highest standards.

94. Furthermore, MIGA's financial strength and unique shareholder relationship with the host country also provide the capacity and confidence to guarantee large amounts of investments for long periods, which provides measurable additionality. MIGA's ability to draw on its relationships with other insurers, fronting coverage and bringing in additional capacity through reinsurance, is a crucial dimension.

95. **Other Areas.** When considering these four priority areas it is important to underscore that there will be projects that fall outside these boundaries that will be highly suitable for MIGA's guarantee business. This is important for many reasons, not least of which is that it is essential for MIGA, as an insurance business, to build and maintain diversity in its portfolio.

96. Of particular relevance – it is important to highlight that MIGA considers supporting financial sector transactions as a vital tool of choice. Financial sector projects create strong development impact and they are the most efficient way for MIGA to provide support indirectly to mid-tier companies and domestic investors. It is critical that MIGA remains actively involved in the financial sector, as previously noted. From a developmental perspective, projects in the financial sector make a significant contribution to the host country, helping to deepen domestic credit markets, benefitting businesses and consumers. This is often the only route through which MIGA can help bring value to domestic SMEs. There are many other benefits associated with banking projects including that the major international banks typically also help spread international banking practices – an important consideration in the global governance effort.

97. The financial sector is also critical for MIGA as a business line – as noted, it has been the most important sector for MIGA in terms of the volume of new business issued during the current strategy period and is an important contributor to MIGA's revenues. It was also the area where MIGA was able to react very quickly in the face of the financial crisis and actively contribute towards the restoration of economic stability. As previously noted, MIGA's ability to engage quickly at that time though the IFI Action Plan was possible in large part because of the strong existing relationships MIGA had with the banks concerned.

98. Another example where MIGA can make an important contribution is supporting projects in Middle Income Countries (MICs). With the increase in South-South investment, MICs have become an increasingly significant investor base going into IDA countries.

Helping to further develop these economies by introducing productive projects is therefore strengthening the environments which are yielding the investors of tomorrow.

99. It is also true that MICs can be especially vulnerable in crises – the recent global financial crisis clearly demonstrated this. MIGA can play a stabilizing role by ensuring that adequate risk mitigations are in place that will help reassure investors and contribute to the retention of capital in the event of a systemic negative discontinuity. It is very important to help make sure that MICs keep moving upward on the development path, so that lower MICs move to being upper MICs, and upper MICs move to full development. It is also imperative to take steps that help prevent slippage.

100. MIGA can also contribute important value for second-tier companies, from both developed and developing countries, which are often best-positioned to invest in non-industrial countries.

Alignment with World Bank Group Priorities

101. Aligning MIGA's work with that of the World Bank Group remains crucially important for the Agency. This is important from a development perspective, since supporting projects that fit within the larger Group context helps capitalize on and support existing efforts. It also makes good sense from a business perspective, as supporting projects that are in line with the activities of the World Bank in that country represents a strong risk mitigant. MIGA consequently is strongly guided in its work by the World Bank's Country Assistance Strategies, and participates in the development of many of these.

102. At a high-level, there is strong complementarity between MIGA's priority areas and those laid out by the World Bank as it positioned itself in the aftermath of the global financial crisis. The projects that MIGA supports through its guarantee program contribute to meeting all five of the critical pillars where the World Bank aims to focus its engagements, as outlined in its Post-Crisis Directions framework.

Table 6. MIGA's Priorities within Context of World Bank Group's Post-Crisis Directions

	Redoubling efforts to meet the MDGs	Fostering multi-polar growth & integrating rising econ. Powers	Responding effectively to complex global interactions	Promoting environmentally & socially sustainable development	Managing risks & anticipating potential shocks & new crises
IDA Countries	Particularly relevant (47 of 49 SSA countries are IDA). Important opportunities for support for infrastructure, agribusiness.	MIGA's work with investors from IDA countries supports such integration, & often includes a regional dimension (i.e. in telecoms sector)	Assist poorest countries attract new sources of investment finance, diversify investors & create broader investment networks	Particularly relevant in energy, water, urban development. Ensure new investors (South-South) employ environmental & social standards	Assisting poorest countries to integrate & resist shocks, diversify investors & create robust infrastructure systems. Contributing to food security.
Complex Projects	Particularly relevant in water, energy, transport sectors, and a priority for the SSA region in particular	MIGA supports investments by emerging economic powers, diversifying sources of invest-ment for poor countries	MIGA supports regional integration which reduces vulnerability of global interaction	Particularly relevant in extractive industries. Also energy, water, urban. Ensure investors employ env. & soc. standards	Complex infrastructure projects, e.g. water, power, reduce risk & vulnerability of the poorest in crisis situations
South-South Investments	A new source of investment in the poorest countries	Strongly relevant as new economic linkages are created	Recognizes that newly emerging powers are changing the global economic landscape	Ensure new investors (South-South) employ environmental & social standards	Mostly through diversification of sources of investment for poor countries
Conflict-Affected & Fragile (CAF) Countries	Highly relevant as conflict-affected countries are particularly challenged with respect to MDGs	Marginal relevance	MIGA's support to investors in CAF countries decreases probability of relapse, reduces instability	MIGA's support for investments in modern infrastructure decrease stress on local environment	MIGA's support to investors in CAF countries decreases probability of relapse, reduces instability
Finance sector as a tool to reach down-market	MIGA's way of indirectly supporting smaller growth-providing firms in poorer countries	Support to banks from middle income countries as they move abroad. Promoting int'l integrity & gov. standards	Ability to respond rapidly to emerging crises	Supports growth, but less able to influence environmental & social outcomes as direct support to infrastructure	Ability to respond rapidly to emerging crises

103. There also exists very close alignment with the IFC's five strategic focus areas focusing – on IDA countries and other Frontier markets; supporting and addressing climate-change and ensuring environmental and social sustainability activities; focusing on food security and physical and social infrastructure; developing local financial markets; engagement through the financial sector; and promoting South-South investments and long-term client partnerships. The strong complementarity between MIGA and IFC's respective areas of focus will increase opportunities for collaboration and joint effort. The establishment of the previously mentioned IFC-MIGA Business Development Unit will play an important functional role in bringing the institutions together on such complementary projects.

Achieving Value-Driven Volume

104. As MIGA moves forward, its ambition is to maximize its potential as a development organization. This can be achieved by increasing the amount of new guarantees coverage by making sure that the projects that the Agency does support – whether in Priority Areas or not – are strong projects that generate high impact.

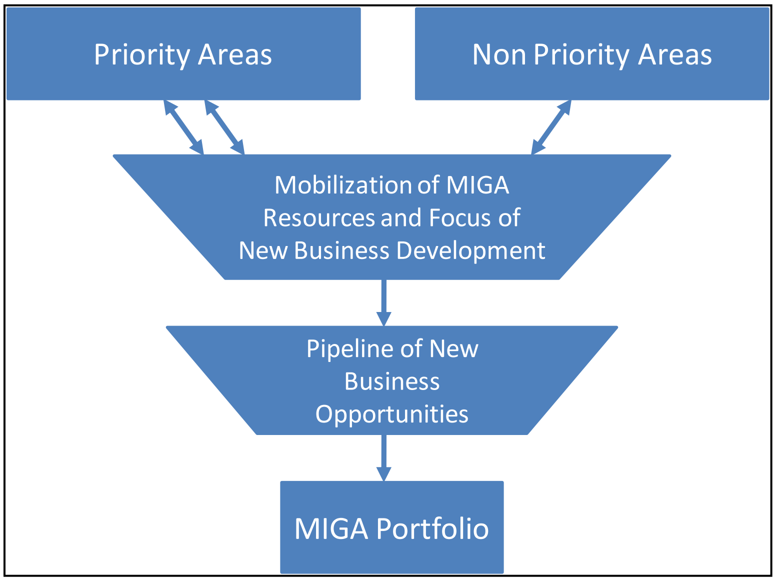
105. MIGA's aim is to achieve "Value-driven Volume" – the focused growth of the business through concentration on development impact. MIGA's aim is to be the PRI provider of reference for "smart projects in difficult contexts" supporting high-value, innovative and creative projects. Involvement in such projects will demonstrate MIGA's value added to other investors and host countries, and will highlight the benefits of well-structured projects even in uncertain destinations.

106. A prime consideration is making sure that while operating as a development institution, MIGA also operates as a professionally-run and self-sustaining business. One of the Agency's inherent strengths is this requirement to sell its products and services in the open market and thus be able to pay for itself and cover each year's full operating costs. MIGA thus faces pressure to remain relevant to customers' needs and adaptive to changing market conditions. At the same time, the need to recover costs provides an internal discipline to keep expenses in check and resist bureaucratic expansion that is not tied to providing added value for fee-paying clients.

107. The question of project selectivity is an important one. MIGA puts forward the notion of Priority Areas, which suggests a certain degree of self-determination. It is important however to keep in that the driving impetus behind the investments MIGA guarantees comes from the project sponsor, and that the Agency itself cannot initiate any investment activity. MIGA can make choices about which projects it chooses to support, but it can only consider those projects that have first chosen to work with MIGA. This is clearly therefore a restricting factor – and was a reality that was dramatically underscored for MIGA in 2008 and 2009 during the financial crisis.

108. What MIGA can do, however, is place itself in 'the path of' the types of projects and sponsors with whom it would like be involved. This is in fact a key factor that helps influence and direct of MIGA's marketing and business origination efforts. MIGA concentrates its outreach efforts and mobilizes its resources to try to attract the types of customers and projects that most directly match up with the Agency's goals as a multilateral development institution. This is where MIGA's identified priority areas

Figure 10. MIGA's Project Selection Process



Optimizing Risk

109. Over the past few years, MIGA has begun to consciously extend its tolerance for risk. The Agency's extraordinarily robust claims record, especially when juxtaposed with the Agency's underutilization of its capital, would suggest that MIGA has additional scope on this spectrum. There are several ways in which this has and can continue to be put into practice.

110. Perhaps most significantly, MIGA has begun to consciously take on greater amounts of political risk in projects that offer the possibility of strong development impact. One of the clearest embodiments of this has come with the expansion MIGA's capacity to offer coverage against the non-honoring of a sovereign financial obligation. Such coverage entails a greater amount of financial risk for MIGA – a fact that is reflected in the greater consumption of the Agency's economic capital.

111. Another important way in which MIGA can take on more risk is by choosing to be involved with certain projects even when there may be important uncertainties about outcomes and impacts, as well as by being more involved in the highest risk countries. Traditionally, MIGA has tended to require a high-degree of understanding about what kind of an overall effect a project will have before providing support. When dealing with complicated project proposals, it has been easier and even "safer" for a development institution to wait for studies and impact assessments to be completed before making a decision about whether or not to get involved. But such studies take time, are often expensive and sometimes are more theoretical than practical. Very often, especially when sponsors are being innovative and pushing out into uncharted territories, it is not possible to know all the answers *ex ante*. It frequently turns out that the most efficient and sensible thing for the sponsor is to actually engage in the project in some limited form and thus be able to learn from doing. But investors are still exposed to political risks even when just undertaking the early phases of a project. (For example, the host government may contract to reimburse an investor for the cost of feasibility studies in the event that a concession based on those studies is subsequently awarded to a different company; the original investor is exposed to the risk that this contract might not be honored.)

112. There is considerable opportunity for MIGA to get more involved in such situations. By getting involved at earlier stages, such as pilots and feasibility stages, MIGA can play a crucial role in helping get projects off the ground that otherwise might not happen. (Reference Box 3.) Such early engagement also means that MIGA is in a far stronger position to influence subsequent project stages and help make sure that the World Bank Group's standards are built into the design.

Box 3. Example of MIGA's Early Involvement in a Project

An example of MIGA supporting a project at an unusually early stage involves the Weda Bay Nickel project in Indonesia.

In August 2010, MIGA issued a three-year guarantee of $207 million to Strand Minerals (Indonesia) Pte. Ltd of Singapore, for its equity investment in the PT Weda Bay Nickel Project. Strand Minerals is jointly owned by Eramet SA of France and Mitsubishi Corporation of Japan. MIGA is supporting the sponsor as they conduct exploration and feasibility studies for a prospective nickel-cobalt mine and related processing plant on the remote Halmahera Island. The studies are necessary to determine whether the project is indeed financially viable, and to be able to more accurately assess what the project's overall impact will be, including assessment of the environmental and social impacts. Once the studies are complete, it will be possible for all parties involved, to take a final decision on whether and how best to proceed with the full project.

This was the first time that MIGA has provided guarantee support for a project of this type while still in the feasibility stage. The role MIGA plays with this selected early engagement strategy is more than just the provider of political risk insurance but also assists the sponsor to design a robust project that complies with global best practice. Key risks are identified in areas such as Environmental, Social and Concession arrangements and mitigants around these risks are adopted early in the project life cycle.

113. Another important area in which MIGA can better manage its risk/return balance is through taking a different approach to reinsurance. Reinsurance is a crucial tool, as it is one of the most effective means MIGA has for managing the total portfolio. Reinsurance provides a way for MIGA to manage sector, country and project exposure, as well as being the way to introduce additional insurance capacity.

114. However, from a business perspective it can be argue that MIGA has been overly conservative in this regard. Especially given the considerable capital headroom that MIGA still possesses, it is possible that MIGA could keep more exposure on its own balance sheet. Currently MIGA makes reinsurance decisions at the start of a project when contracts are issued. Instead, MIGA could adopt a practice of retaining more coverage at the outset, and then sell down exposure during the project cycle if aggregate ceilings are in danger of being reached. This would allow MIGA to retain more earned premium, which in turn would pave the way for the Agency to grow more quickly.[19]

115. The question for MIGA is one of trying to optimize its risk decisions – finding the correct balance between the risk taken and the possible rewards. As MIGA contemplates being more active in terms of taking on risk, it is critical to proceed with due care and to have a clear understanding of exactly what the true risk exposure is on any project and how it can be effectively mitigated. And at the same time, there must equally be a clear sense of the potential development impact to be gained. But as MIGA has developed increasingly sophisticated tools to measure and monitor risk, there is scope for being more risk tolerant.

[19] MIGA is currently revisiting its reinsurance program and will be presenting recommendations to the Board in the near future. As part of this, MIGA is also reviewing internal country and project exposure limits.

116. In order to support MIGA's initiatives of business development, product flexibility and innovation (in line with the revised Convention and Operational Regulations) and associated growth, MIGA's risk management tools will need to be reviewed and strengthened. The recent Integrated Risk Management Report has highlighted areas for attention and efforts will be directed toward action plans and implementation. Areas that will be the focus of attention include: (i) risk governance, both internal within MIGA as well as new initiatives relating to the appointment of the new World Bank Group Risk Officer; (ii) review and revision of provisioning, pricing and capital parameters for existing and new products; (iii) review and revision of risk tolerance and risk appetite levels including reinsurance parameters; (iv) developing action plans and implementation of recommendations arising from Internal Audit as well as Internal Control of Financial Reporting; and (v) strengthening information technology systems to provide for enhanced portfolio tracking needs. These are significant initiatives and will need commensurate resources.

117. MIGA must continue to keep pushing itself forward, always paying attention to its development role and the value-added that it brings for clients. Despite recent improvements in streamlining procedures and reducing turnaround times, MIGA still imposes higher-than-typical transaction costs for clients when compared to most other PRI providers, both before and after the issuance of a guarantee, which can have a deleterious effect on attracting business. And most of all, MIGA must continue to focus on filling the gaps in the market and leveraging the impact of the other members of the World Bank Group, and the international development community.

Sectoral Approach

118. The support MIGA can provide in priority areas will in practice be delivered through a sectoral dimension. MIGA operations are structured along sectoral lines. The various sectors each offer different opportunities for contributing to Group priorities. One very important piece of ongoing work is the strengthening of linkages that connect MIGA's strategic priorities with sectoral work programs, particularly in terms of marketing and outreach efforts. As the Agency seeks to scale up delivery and generate greater impact in key areas, it is necessary to make sure that MIGA is positioned to engage with the most relevant and advantageous mix of prospective clients and projects.

119. The **Infrastructure** sector remains critical for MIGA, just as it remains an urgent development challenge. As governments face lower levels of credit and higher borrowing costs as a result of the crisis, the need for finding effective ways to attract financing is greater than ever. Infrastructure projects tend to be "complex" and therefore ones where MIGA can provide strong value-added. Many infrastructure projects also occur in conflict-affected countries, which again speaks to MIGA's comparative advantages.

120. A core element of MIGA's approach for the Infrastructure sector over the forthcoming FY12–14 strategy period is developing stronger relationships with a select group of financial institutions and companies actively engaged in the water and transport sectors. This will build on such efforts that are already underway. In particular, MIGA is developing these relationships to learn about opportunities sooner and to be present in the earlier structuring phases of complex projects. As the market is becoming familiar with MIGA's recently introduced new coverages, MIGA sees increasing opportunity arising in the area of municipal finance. There are also significant opportunities for MIGA to be active in supporting public-private partnerships (PPPs). MIGA can play an especially important role

in the infrastructure sector in IDA countries, given the long-term nature of most infrastructure deals and lack of appetite for issuing such coverage in the private markets. While being of vital importance throughout the world, infrastructure needs are particularly pressing in SSA.

121. In the **Power** sector, MIGA will continue to focus on all aspects of the business value chain—namely generation, transmission, distribution and marketing—where MIGA has developed a solid track record. Since MIGA's risk mitigation products can have a significant impact on planned investments given regulatory uncertainties in many markets, specific types of projects will be actively pursued, particularly those based on renewable energy technology and that address climate change issues. Here too, MIGA will continue to be highly relevant in IDA countries, as well as potentially in conflict-affected countries.

122. Leveraging partnerships and capitalizing on the Agency's convening power is another area where MIGA can build on its unique institutional strengths and enhance impact. MIGA can achieve more by getting closer to host government partners. Especially with the new products and capabilities that MIGA can now offer, there is a greater role for the Agency to work with governments that are proactively managing the ways in which they are bringing in foreign private capital, in PPP programs for example.

123. MIGA's **Oil, Gas, Mining and Chemicals** (OGMC) sector will focus on expanding sustainable initiatives related to origination and successful completion of transactions with significant development impact. In the extractive industries, MIGA will continue its recent approach of offering guarantee support to projects during the feasibility and planning stages, where the Agency has an opportunity to positively impact formulation of environmental and social policies and guidelines at early stages of project development. The oil and gas production and mid-stream (pipelines, natural gas liquefaction and transport) and downstream (refining & distribution of oil products and petrochemicals) investments, which have a greater need for PRI, will be a particular target. MIGA will also continue to work closely with OGMC counterparts in the IFC, focusing where appropriate on bringing joint approaches to clients and projects in which the combined strength of both entities can create significant development impact and add value to stakeholders.

124. OGMC projects are almost invariably "complex" in nature, and many occur in IDA countries and conflict-affected countries – all areas where MIGA can bring considerable added value.

125. In the **Telecommunications** sector, MIGA's objective remains to support building connectivity and reducing the digital divide between the developing and developed countries; all regions are equally important even though a special effort will focus on South-South investments. MIGA intends to pursue its efforts to build close working relations with major operators (and the Export Credit Agencies of the countries where those operators are based), and to develop selectively stronger relations with cable providers, equipment suppliers and infrastructure sharing companies. In response to market demand, MIGA is currently looking into offering a portfolio approach for telecom operators invested in multiple emerging markets.

126. As previously mentioned, the **Finance** sector represents an enormously important area for MIGA, in large part because it is through support of intra-bank shareholder loans that MIGA is able to indirectly bring benefit to the smaller companies and domestic investors that are the in-country borrowers. MIGA intends to pursue diversification efforts of the

financial sector portfolio, developing business in new regions and with new clients in order to support and deepen domestic financial systems. MIGA will focus its business development efforts on MICs. It also plans to build on its new capital optimization product and portfolio approach. There will also be a focus on bring MIGA's PRI to debt capital markets for certain cases of bond issuances; this is an area where MIGA has had limited but successful experience in the past. In the nearer term, MIGA stands ready to support banks in the Middle East, where there could be demand for institutions seeking to strengthen risk management of their country exposures. In the medium term, the new Basel III rules will impact banks' regulatory capital, and it is likely that medium-sized banks will be in greater need of risk mitigation instruments.

127. In the **Agribusiness, Manufacturing and Services** sectors (AMS), MIGA's focus over the next three year period will be centered on developing a strong pipeline of projects in agribusiness and manufacturing. This aligns with the World Bank Group's focus on enhancing food security and helping vulnerable countries address food price risks. MIGA believes several of its new products – particularly the Temporary Business Interruption coverages – can play an important role increasing MIGAs' presence in these sectors. Additionally, MIGA's increased capacity to provide coverage on existing investments should also open up new business opportunities in AMS.

Key Regional Initiatives

128. In response to recent events and heightened perceptions of risk, MIGA believes it can play an increased role in supporting investments in the MENA region. The full impact of political disruptions in many countries across the region will be hard to quantify, but it is clear there has already been a negative effect on FDI flows. The implementation of a number of projects has already been affected, as the ability to raise financing as well as to attract private sector commitments has declined. Restoring private investors' confidence is an important part of medium- to long-term economic and social development of the region.

129. MIGA can contribute to addressing these challenges in two important ways: by sharing knowledge of political risk management and mitigation to investors thorough targeted outreach and structured knowledge sharing, and by providing direct support to private sector clients, including financial institutions, seeking political risk insurance for new and existing investments into various sectors of the MENA region.

130. As necessary, especially in response to crises, MIGA is able to quickly pull together such initiatives to bring concentrated attention to bear on specific regional basis where there is an important near-term need.

Table 7. Regional Relevance of MIGA's Priority Areas, Examples

	Sub-Saharan Africa	**Middle East & North Africa**	**Europe & Central Asia**	**East Asia Pacific**	**South Asia**	**Latin America & Caribbean**
IDA Countries	Particularly relevant - 47 of 49 SSA countries are IDA	Less applicability	Poorer Central Asian countries but limited importance elsewhere	Some applicability	Less applicability	Less applicability
Complex Projects	Infrastructure projects (power, transport) enhancing regional integration	Infrastructure, especially water resource management and electric power interconnection	Regional integration projects. Water, gas transport, mining	Power, including hydro-power	Most notably power generation	Hydro-electric power and water treatment
South-South Investments	Significant possibilities for investments from BRICs and other MICs	Supporting both inward and outward MENA investors and investments	Supporting investments within region (e.g. into Central Asia)	Helping MICs move up the value chain. Mostly outbound investment	Support for regional investors moving to Africa, Asia	Strong potential for intra-regional investment
Conflict-Affected & Fragile Countries	Majority of conflict-affected countries are in SSA	Important role to play in current crisis	Less applicability	Some applicability	Some applicability	Less applicability
Finance sector as a tool to reach down-market	Need to better support African banks	Strong relevance in countries with expanding middle class. Developing regional banks.	Strong relevance especially in post crisis context	Need to expand MIGA's reach to regional banks	Potential to support outward investment	Less applicability

VI. Scaling Up Delivery

131. Rather than changing MIGA's focus then, the major thrust of the next three year period will rather be on scaling up delivery. The main feature of the strategy therefore becomes about enhancing execution. Considerable work has been underway in MIGA over the past few years, as the Agency has taken great steps to modernize itself. The early results already look positive, as MIGA estimates that the current fiscal year, FY11, will see the Agency issue close to $2.0 billion in new guarantee coverage, which would be fully a third higher than MIGA's average over the previous (FY06-10) five year period.

132. **Indicative Business Projections.** Over the next three-year period, MIGA aims to build on this and in so doing grow the business in terms of both portfolio volume and generated development impact. For the FY12-14 period addressed in this operational strategy, MIGA projects a solid growth path for new business, which will see the Agency maintain a minimum level of issuance of $2.0 billion each year, and in the high case scenario, approach $3.0 billion by FY14. These forecasts are based on ongoing assessments of market needs juxtaposed against MIGA's new and existing capabilities, and are supported by the prospective deal flow that MIGA already sees in its forward-looking pipeline.

Table 8. FY12-14 Forecast New Business Volumes ($ millions)

Gross New Issuance	FY12	FY13	FY14
High	2,400	2,600	3,000
Mid (Baseline)	2,200	2,400	2,600
Low	2,000	2,200	2,400

133. In tandem with the solid increase projected for annual new issuance over the next three years, the estimates for growth of the Agency's total portfolio are also positive. Projections for the future development of both the gross and net portfolios are shown in Table 10 driven off the baseline forecast for annual new business volume. These estimations indicate steady increases in the premium income that will be generated from the portfolio, with the aggregate rate across the portfolio trending upwards, reflecting MIGA's expectations to diversify the portfolio to draw in more coverage for infrastructure and other complex projects which typically command higher premium rates.

Table 9. FY12-FY14 Projected Exposures and Income ($ millions)

Baseline	FY11	FY12	FY13	FY14
Gross New Issuance	2,000	2,200	2,400	2,600
Ending Gross Exposure	9,127	9,510	9,538	10,044
Ending Net Exposure	5,203	5,395	5,373	5,633
Gross Premium Income	74	85	88	95
Net Premium Income	49	57	58	61
Net Investment Income	9	20	20	20
Total Income (before expenses, provision, translation adjustment)	58	77	78	81

Key Steps

134. As previously noted, one of MIGA's greatest weaknesses in the past has been in proactively developing new business. Considerable steps have been taken to remedy this, which MIGA needs to continue developing. Within this, MIGA must also strengthen the linkages that exist between overall corporate strategy and new business origination. Considering again the question of selectivity, MIGA must continue to work on developing effective means for placing itself in the path of the right projects – those that are going to generate the greatest amount of development impact.

135. **Expanding the Client Base.** Linked to this, MIGA must continue to expand its client base. Not only is this a reflection of the changing dynamics of the sources of FDI, it is also a business imperative for the Agency. MIGA cannot afford to have too great a dependency on a small number of clients. Getting geographically closer to prospective clients is going to be a part of this effort, as well as continually looking for ways to further streamline business processes to meet client needs and expectations.

136. In this regard, MIGA expects to build on the early efforts undertaken to create a structured presence outside of Washington DC with MIGA's Asia Hub. The early indications from just over six months of operations have been positive, and the Asia team has begun to produce a pipeline of prospective new business. It is clear from the early experience that there are solid opportunities for MIGA in the region, particularly in the areas of providing support for infrastructure financing, working with regional ECAs, providing innovative structures for existing PRI users, and finding new ways to engage with project intermediaries, such as financial arrangers.

137. As further lessons are drawn from the Asia Hub experience on moving business origination and underwriting resources outside headquarters to better access and serve a wider array of clients, MIGA expects to replicate the experience elsewhere. In particular, MIGA is considering establishing a second Hub presence in Europe in FY12 which will enhance MIGA's ability to service clients in the Africa, ECA and MENA time zones.[20]

138. **Capitalizing on MIGA's New Capacity.** One of the most important responsibilities that MIGA faces is capitalizing on the changes that have been made over the past two years to expand MIGA's operational capacity. A concerted marketing effort has been underway as MIGA seeks to raise awareness in the market about these new capacities, and good early progress has been made. To give one such example, one of the most important outcomes of the changes made to MIGA's Operational Regulations in 2009 was the introduction of the MIGA's fifth coverage, to protect against the Non-honoring of a Sovereign Financial Obligation (NHSFO). Through the third quarter of FY11, three noteworthy projects – two metro projects in Turkey and a power project in Ghana – have been successfully taken to the Board for concurrence. Each of these cases represents support that MIGA provided as a condition precedent for the project, without which it would not have gone forward. And in all cases, the projects addressed MIGA's priority areas.

139. With regard to the amendments made to the MIGA Convention in November 2010, again there is evidence of solid demand, and there are a number of prospective deals in the business pipeline that are eligible for MIGA's coverage because of the expansion that now permits MIGA to provide coverage for lenders even when not covering a related equity

[20] The proposal for establishing a second regional MIGA Hub, to be based in Europe, will be discussed with MIGA's Board of Directors in the context of the FY12 Administrative Budget and Work Program.

portion (i.e. stand-alone debt coverage). MIGA, and the market, had long considered this to have been the most serious constraint that the Agency faced when trying to grow its business.

140. MIGA's expanded capacity arrives at an opportune moment. In the aftermath of the financial crisis, the private PRI industry has become more conservative and the need for multilateral providers has grown commensurately. This is especially true for non honoring coverage (e.g. for infrastructure projects).

Table 10. Capitalizing on MIGA's Expanded Capacity

MIGA'S Key Expanded Capacities	New types of opportunity	Examples of MIGA support to investors
Non-honoring of Sovereign Financial Obligations	Support for private sector financing of public sector projects run on a commercial basis	Water treatment investments by a state-owned utility, financed by offshore bonds
Enhanced Breach of Contract Coverage	Much more flexible provision of support, e.g. (a) authorizing payment to guarantee holders when governments refuse to engage in arbitration; and (b) guaranteeing commercially run state-owned enterprises without an explicit government backstop.	Covering a power purchase agreement between a national power company and a private sector power generating company
Enhanced War and Civil Disturbance Coverage	Ability to provide coverage for temporary business interruption resulting from war and civil disturbance. Cover for violence in the host country directed against the investor's government or nationality.	Proving cover to a hotel investing in a post-conflict country, against temporary closure of the port or airport
Acquisition of existing assets	Clarifying the definition by which the date of project implementation is established; expanding coverage for the acquisition of existing assets; simplification of preliminary application submission.	Persuade an investor in MNA not to relinquish investment in current environment. Providing portfolio insurance cover for several investments in several different countries
Clarifications regarding eligibility and other issues	Greater flexibility on premium rates, guarantee tenors, geographical cover.	Ability to cover lowest rated countries by pricing appropriately

141. **Mobilizing Resources.** One of the areas where MIGA believes it can make the biggest contribution in this regard is in attracting investment into conflict-affected destinations – one of MIGA's priority areas. The Agency's comparative advantage in such environments is possibly greater here than anywhere else. Despite often the presence of legitimate investment opportunities offering genuine commercial returns – in addition to considerable development impact – investors and lenders unsurprisingly are typically extremely hesitant. Further, the tolerance for private PRI providers to offer mitigation is very limited. MIGA can play an important role here helping to encourage FDI whilst also bringing in PRI capacity through reinsurance and coinsurance. Box 4 discusses briefly one way in which MIGA believes it can mobilize additional resources in order to more effectively and creatively fulfill this possibility.

Box 4. MIGA's Development of the Conflict-Affected and Fragile Economies Facility

Historically, MIGA has been active in supporting cross-border investments into conflict-affected and fragile economies. However, the Agency has noted market failure in the provision of certain other complementary products, such as (i) medium and long-term export credit and (ii) investment by local companies and support for existing assets. As a result, MIGA is designing a Conflict-Affected and Fragile Economies Facility (CAFEF) to address this unmet demand from private sector investors and commercial banks.

The envisioned design is as follows: CAFEF is targeting $500 million in initial capacity, which will be supported by a first-loss layer of $100 million and an excess loss layer of $400 million – thus leveraging the donor contribution five times. The first loss layer will be provided by donors in the form of cash grants or guarantees including a $10 million grant contributed from MIGA. The excess of loss layer will be concluded through a special reinsurance treaty with private reinsurers. Subsequently, MIGA intends to scale up the Facility depending on market demand and donor support.

This Facility will complement private sector channels rather than compete with them. While MIGA will have the authority to source and execute transactions directly in the context of the Facility, the Agency plans to engage export credit agencies, commercial banks, multilateral political risk providers and private insurance companies as partners to originate and execute transactions. MIGA will also be the agent for the Facility, with a core team overseeing its administration.

MIGA plans to structure the Facility under a broad World Bank Group initiative for CAFE and is seeking inputs from various groups within the World Bank, including country teams, technical assistance units and the IFC. MIGA is currently developing the market analysis, structure and operational aspects of the Facility and engaging in discussions with potential donors with the intention of having a first closing of the Facility in the Fall of 2011.

CAFEF will support projects that meet MIGA's Environment, Social and Integrity criteria, that have a positive developmental impact and that are financially and economically viable. Investment and trade are critically important in CAFE and in particular can be engines for growth, job creation, stability and reintegration into the global economy which can reduce the chance of relapse to conflict. Trade and investment are key for rebuilding efforts following the end of conflict, bringing much needed private capital, employment, technology, and skills to productive use. CAFEF will adhere to the principles of "Do No Harm". A key additionality is its enabling of investment projects and trade transactions that would not have taken place in the absence of the risk mitigation options offered by the Facility. In addition the CAFEF will play a catalytic role by mobilizing ECAs, commercial banks and insurance companies and private reinsurers

Enhancing Understanding of Development Impact

142. Understanding the full impact of guaranteed projects is another area where important progress has been made that will be built on going forward. In FY10, MIGA introduced a self-evaluation pilot program, whereby outcomes of MIGA-guaranteed projects are comprehensively reviewed by MIGA staff. The program and the evaluation guidelines have been designed with valuable guidance from the Independent Evaluation Group (IEG). In the pilot's first eighteen months, more than 70 percent of front-line MIGA staff – senior underwriters, economists and environmental and social specialists) have gained hands on experience conducting project evaluations. Through such learning-by-doing, MIGA is developing an internal evaluation capacity which was largely non-existent before 2008.

143. Going forward, MIGA expects to gradually increase the proportion of guarantees it evaluates, with IEG's role shifting from directly undertaking project evaluations to validating the findings from MIGA-led evaluations. MIGA also expects to simplify and streamline evaluations to contain the costs of the self evaluation program without sacrificing coverage or quality. MIGA will work closely with IEG in identifying specific opportunities for

streamlining procedures and better tailoring evaluation protocols and methodologies to MIGA's political risk insurance products and business model. In the spirit of enhancing the internal learning culture, a more formalized process for disseminating results and absorbing lessons learned will be put in place for MIGA's staff.

144. Starting in FY11, MIGA has begun to report on portfolio-wide impact of the development outcome of its guaranteed projects. MIGA has recognized that it has become increasingly necessary to assess the development outcomes of its guaranteed projects. There are significant opportunities to be learnt from better understanding project results and in addition, there is an increasing demand from internal and external stakeholders for more complete information. Consequently, this fiscal year, MIGA has introduced a series of development metrics – which cover: direct employment figures; training budgets; the value of locally produced good; taxes and fees paid; community investment amounts; and investment leveraged – for all new projects. The requirement for a guarantee holder to report on these measurements is now a contractual requirement in MIGA's standard contract of guarantees.

145. These tools are complementary[21] and are based upon the same stakeholder analysis methodology utilized by MIGA and the IFC to assess the development impact of a project.

Better Deployment of Resources to Deliver on the Strategy

146. In order to deliver on this expanded mandate, MIGA will continue to review its organizational structure with a view to further strengthening business origination capabilities and overall staff productivity. Finding ways to move beyond headquarters to get closer to new clients and markets will be an important part of this agenda.

147. While executing this strategy, MIGA will continue to pay close attention to maintaining financial sustainability, which is a prerequisite for the organization's growth. This has been and will continue to be a matter of management priority. Trade-offs will need to be surfaced and carefully examined. And the various performance indicators that management uses to monitor and report on interim progress will be strengthened and expanded.

148. Such considerations will be brought forward to the MIGA's Board for consideration at the appropriate moments, including in the context of the annual work program and administrative budget discussions. As a general matter however, MIGA believes that it will be necessary to increase the annual administrative budget over the strategy period in order to help meet additional costs principally associated with developing the aforementioned field presence. Extending MIGA's reach to draw in a new client base is a central tenet of MIGA's approach going forward, and thus MIGA believes that expending funds to develop this capacity represents an important investment in MIGA's future success.

149. At the same time, while exact amounts of future budgetary requirements will only become clear each individual year as part of the annual budget preparation exercise, MIGA will continue to manage its costs with great care recognizing that the Agency's budget will

[21] MIGA's Development Metrics are quantitative indicators intended to cover all projects and which summarize project outputs. They are easy to up-date and very useful at providing a snapshot, but not at determining causality or project impact. Self Evaluations are selective, in-depth analysis, which are particularly useful for determining causality and impacts.

continue to be entirely funded through earned guarantee revenues. MIGA maintains an internal benchmark for managing expenses, whereby expenditures must be maintained at a level of 85 percent or below of the amount of premium revenue that MIGA earns and retains[22] (i.e. *net* premium revenue, after reinsurance). Underpinning this is the intrinsic incentive MIGA has to keep costs in check, since all expenditures must be recovered through premium income. The reality that higher costs today translate into higher prices for potential clients tomorrow, thereby diminishing the attractiveness of MIGA's services, ensures that MIGA will continue to maintain disciplined cost consciousness.

Conclusion

150. As MIGA looks ahead to the next three-year Strategic Period, the Agency has a clear sense of positive momentum. MIGA's portfolio stands at a record high; the array of products that MIGA has to offer is strong and, for the first time in a long time, commensurate with those of other PRI providers; MIGA's abilities to identify new clients and originate new business – areas of historical weaknesses – have been strengthened; and internal processes and organizational structures have been addressed to help improve efficiency and make MIGA more client-focused. While there naturally remain areas for improvement, the most important challenge today is to maintain the positive trends that have been built up over the past several years, and focus all efforts on scaling up performance and impact.

[22] The relationship of administrative expenses to net premium revenue is one of the key KPIs that MIGA routinely monitors and reports on to the Board on a quarterly basis.