

2009 ANNUAL REPORT



World Bank Group
Multilateral Investment
Guarantee Agency

MIGA'S MISSION

TO PROMOTE FOREIGN DIRECT INVESTMENT INTO DEVELOPING COUNTRIES TO SUPPORT ECONOMIC GROWTH, REDUCE POVERTY, AND IMPROVE PEOPLE'S LIVES.

GUARANTEES

Through its investment guarantees, MIGA offers protection for new cross-border investments, as well as expansions and privatizations of existing projects, against the following types of non-commercial risks:*

- Currency inconvertibility and transfer restriction
- Expropriation
- War and civil disturbance
- Breach of contract
- Non-honoring of sovereign financial obligations

As part of its guarantees program, MIGA provides dispute resolution services for guaranteed investments to prevent disruptions to developmentally beneficial projects.

TECHNICAL ASSISTANCE

MIGA helps countries define and implement strategies to promote investment through technical assistance services managed by the World Bank Group's Foreign Investment Advisory Services (FIAS).

ONLINE KNOWLEDGE SERVICES

MIGA helps investors identify investment opportunities and manage risks through online investment information services—FDI.net and PRI-Center—offering information on investment opportunities, business operating conditions, and political risk insurance.

* This report uses the terms "guarantees" and "insurance" interchangeably. The terms "non-commercial risk" and "political risk" are also used interchangeably throughout the report.

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SUMMARY OF WORLD BANK GROUP ACTIVITIES

THE WORLD BANK GROUP, ONE OF THE WORLD'S LARGEST DEVELOPMENT INSTITUTIONS, IS A MAJOR SOURCE OF FINANCIAL AND TECHNICAL ASSISTANCE TO DEVELOPING COUNTRIES AROUND THE WORLD. ITS MEMBER INSTITUTIONS WORK TOGETHER AND COMPLEMENT EACH OTHER'S ACTIVITIES TO ACHIEVE THEIR SHARED GOALS OF REDUCING POVERTY AND IMPROVING LIVES. THE BANK GROUP SHARES KNOWLEDGE AND SUPPORTS PROJECTS IN TRADE, FINANCE, HEALTH, POVERTY, EDUCATION, INFRASTRUCTURE, GOVERNANCE, CLIMATE CHANGE, AND IN OTHER AREAS TO BENEFIT PEOPLE IN DEVELOPING COUNTRIES.

The World Bank Group committed \$58.8 billion in fiscal year 2009 to help countries struggling amid the global economic crisis, a 54 percent increase over the previous fiscal year and a record high for the global development institution.

The World Bank, comprising IDA and IBRD, committed \$46.9 billion in loans and grants to its member countries. IDA commitments to the world's poorest countries were \$14.0 billion, \$2.8 billion higher than the previous year. IBRD commitments in fiscal 2009 totaled \$32.9 billion, an increase of \$19.4 billion from the previous year.

IFC committed \$10.5 billion and mobilized an additional \$4.5 billion for private sector development in developing countries. \$4.4 billion of the total went to IDA countries.

MIGA issued \$1.4 billion in guarantees in support of investments in the developing world. Of the total, \$1.2 billion was in the financial sector in light of the need to support continued lending by banks.

WORLD BANK GROUP COOPERATION

Joint projects and programs of the Bank Group's institutions focus on promoting sustainable development by expanding financial markets, issuing guarantees to investors and commercial lenders, and providing advisory services to create better investment conditions in developing countries. Working together, the World Bank, IFC, and MIGA catalyze projects that make resources available to clients through greater innovation and responsiveness. Highlights of fiscal year 2009 World Bank, IFC, and MIGA collaboration include:

- A financial sector recapitalization program for Eastern and Central Europe under which the largest multilateral investors and lenders in the region—the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) Group, and the World Bank Group—pledged to provide up to €24.5 billion (\$31 billion) to support the banking sector and to fund lending to businesses hit by the global economic crisis
- A joint initiative for Africa under which the World Bank Group,

the African Development Bank (AfDB), EIB, and the Agence Française de Développement (AFD) pledged to support the private sector in the region and to fund lending to the real economy

- An initiative to spur economic growth in Latin American and Caribbean countries under which IBRD, IFC, and MIGA are coordinating a crisis response in partnership with the Inter-American Development Bank and the Inter-American Investment Corporation (IDB/IIC), Corporación Andina de Fomento (CAF), the Caribbean Development Bank (CBD), and the Central American Bank for Economic Integration (CABEI)
- Representatives of the World Bank Group's board and senior management from IBRD, IFC, and MIGA visited Iraq in April to discuss the country's investment potential and underscore the Bank Group's commitment to assisting in its sustainable economic recovery
- Country partnership strategies and interim strategy notes across all regions that support growth and development

The World Bank Group comprises five closely associated institutions:



International Bank for Reconstruction and Development (IBRD), which lends to governments of middle-income and creditworthy low-income countries



International Development Association (IDA), which provides interest-free loans, or credits, and grants to governments of the poorest countries



International Finance Corporation (IFC), which provides loans, equity, and technical assistance to stimulate private sector investment in developing countries



Multilateral Investment Guarantee Agency (MIGA), which provides political risk insurance or guarantees against losses caused by noncommercial risks to facilitate foreign direct investment (FDI) in developing countries



International Centre for Settlement of Investment Disputes (ICSID), which provides international facilities for conciliation and arbitration of investment disputes.

FISCAL YEAR 2009 HIGHLIGHTS

IN FISCAL YEAR 2009, THE TOTAL AMOUNT OF GUARANTEES ISSUED FOR PROJECTS IN MIGA'S DEVELOPING MEMBER COUNTRIES REACHED \$1.4 BILLION, REPRESENTING A DECLINE FROM 2008 WHEN THE AGENCY ISSUED A RECORD AMOUNT OF NEW GROSS EXPOSURE. THE DECLINE IN NEW BUSINESS RESULTED FROM THE REDUCED INVESTMENT FLOWS STEMMING FROM THE GLOBAL ECONOMIC CRISIS. AT THE SAME TIME, THE PARTICULARLY LOW CANCELLATION OF EXISTING BUSINESS UNDERSCORED THE IMPORTANCE CLIENTS PLACED ON MIGA'S COVERAGE, ESPECIALLY IN THESE DIFFICULT TIMES. AS A RESULT OF LOW RUN-OFF, MIGA'S OUTSTANDING PORTFOLIO GREW BY A SIGNIFICANT \$800 MILLION LAST YEAR TO \$7.3 BILLION.

TABLE 1 Guarantees Issued	2005	2006	2007	2008	2009	FY90-09
Number of Guarantee Contracts Issued	62	66	45	38	30	952
Number of Projects Supported	41	41	29	24	26	600
New Projects ¹	33	34	26	23	20	-
Projects Previously Supported ²	8	7	3	1	6	-
Amount of New Issuance, Gross (\$B)	1.2	1.3	1.4	2.1	1.4	20.2
Amount of New Issuance, Total (\$B) ³	1.2	1.3	1.4	2.1	1.4	20.9
Gross Exposure (\$B) ⁴	5.1	5.4	5.3	6.5	7.3	-
Net Exposure (less reinsurance) (\$B) ⁴	3.1	3.3	3.2	3.6	4.0	-

¹ Projects receiving MIGA support for the first time in FY09 (including expansions).

² Projects supported by MIGA in FY09 as well as in previous years.

³ Includes amounts leveraged through the Cooperative Underwriting Program (CUP).

⁴ Gross exposure is the maximum aggregate liability. Net exposure is the gross exposure less reinsurance.

This year, MIGA's operating income was \$50.6 million, compared with \$55.0 million in fiscal year 2008. The decrease of \$4.4 million was primarily due to a decrease in investment income. Fiscal year 2009 net income decreased by \$34.5 million compared to fiscal year 2008, primarily due to currency translation losses. (See Management's Discussion and Analysis for details)

FIGURE 1 Earned Premium, Fees, and Investment Income,* \$M



FISCAL YEAR 2009 HIGHLIGHTS *(cont'd)*

Membership

The agency's total membership stands at 174. In fiscal year 2009, MIGA welcomed two new members into the agency—Iraq and Kosovo. Mexico has completed most of the necessary steps towards membership and is expected to become a full member of the agency in early fiscal year 2010.

Operational Highlights

MIGA provided coverage for projects in the following areas in FY09:

	Number of projects supported	Share of projects supported (%)	Amount of guarantees issued (\$M)
Priority area¹			
Conflict-affected countries	3	12	10.0
Infrastructure	3	12	108.3
“South-South” investments ²	13	50	55.1
IDA-eligible countries ³	12	46	105.5
Region			
Asia and the Pacific	3	12	77.1
Europe and Central Asia	11	42	1,215.9
Latin America and the Caribbean	2	8	33.9
Middle East and North Africa	0	0	0
Sub-Saharan Africa	10	38	50.1
Sector			
Agribusiness, manufacturing, and services	8	31	38.3
Financial	15	58	1,230.5
Infrastructure	3	12	108.3
Oil, gas, and mining	0	0	0
Total	26	100	1,377.0

¹ Some projects address more than one priority area.

² Investments made from one MIGA developing member (Category Two) country to another.

³ The world's poorest countries.

FISCAL YEAR 2009 HIGHLIGHTS *(cont'd)*

Other highlights include:

Added new coverage: non-honoring of sovereign financial obligations

Enhanced breach of contract and war and civil disturbance coverages

Supported ten projects through MIGA's Small Investment Program

Monitored situations related to potential disputes or claims in 15 countries, and worked to facilitate amicable resolutions. Paid two claims under war and civil disturbance coverage

Signed master contract of guarantee for a \$100 million initiative to support investment in small and medium-size enterprises in sub-Saharan Africa

Partnerships

Entered into facultative reinsurance agreements and leveraged additional capacity for MIGA projects, with ten private sector insurance partners, and one public sector insurer

Partnered with the World Bank, IFC, EBRD, and the EIB to launch a €24.5 billion (\$31 billion) facility in support of the banking sector in Eastern and Central Europe

Signed treaty agreement for reinsurance with Hannover Re

Partnered with the EIB, the Government of Japan, and the Palestinian Authority to launch the enhanced West Bank and Gaza Investment Guarantee Trust Fund

LETTER FROM THE PRESIDENT TO THE COUNCIL OF GOVERNORS

THIS HAS BEEN A YEAR OF TESTING FOR THE WORLD BANK GROUP AND OUR ABILITY TO RESPOND TO THE NEEDS OF OUR CLIENTS. FINANCIAL CRISIS HAS SPIRALED INTO AN ECONOMIC AND UNEMPLOYMENT CRISIS, WHICH COULD BECOME A SOCIAL AND HUMAN CRISIS WITH POLITICAL IMPLICATIONS. IN THIS FAST-MOVING AND UNCERTAIN ENVIRONMENT, MIGA'S 2009 ANNUAL REPORT REFLECTS HOW THE AGENCY IS LEANING FORWARD TO SERVE OUR CLIENTS WITH FLEXIBILITY AND INNOVATION.

For MIGA, the challenge this year has been promoting foreign direct investment (FDI) into developing countries at a time when investment flows are slumping. While many investors shied away from projects because of the difficult investment climate, those who have been doing business recognized the need for the kind of political risk guarantees MIGA provides.

This year, MIGA provided \$1.4 billion in guarantees for a range of projects—down from the agency's banner year of \$2.1 billion in guarantees in 2008. But MIGA also experienced far fewer cancellations of existing coverage this year than in previous years.

In responding to the crisis, MIGA has been a partner in many of the World Bank Group's efforts to mobilize resources—including financing, hedging products and guarantees, knowledge services, and partnerships to provide rapid assistance to countries most in need. At the same time, MIGA has continued to focus on its core business: supporting projects that create jobs, provide water, electricity, and other basic infrastructure,



rebuild collapsed financial systems, generate tax revenues, and transfer skills and technological know-how.

Most significantly, MIGA launched an initiative this year to support financial flows from banks to their subsidiaries in countries hardest hit by the financial crisis. While global in nature, the initiative has been particularly helpful to economies in Central and Eastern Europe, allowing banks to carry on doing business that supports a range of activities.

MIGA is also supporting projects to help the most vulnerable. This year, the agency entered into an innovative contract to facilitate up to \$100 million of investments to small and medium-size enterprises in sub-Saharan Africa—businesses which account for most of the continent's jobs. MIGA joined the IBRD and IFC in partnership with other multilateral agencies and regional institutions to help spur economic growth in Eastern and Central Europe, Central Asia, Africa, and Latin America and the

Caribbean, and to help position these regions for recovery.

MIGA has also focused on internal changes. At a time of financial crisis, promoting FDI depends on moving quickly to meet the emerging needs of clients. I want to commend MIGA's Board of Directors for recognizing these needs, and approving changes this year to the agency's day-to-day business operations. This will enhance MIGA's operational flexibility and procedural efficiency, and should lead to more business while strengthening MIGA's position as a self-standing enterprise.

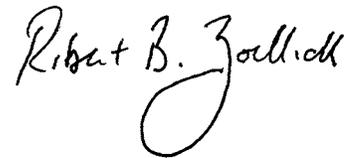
It will take all our efforts, as one World Bank Group—working with governments, the private sector, and our multilateral partners—to deliver on our commitments to meet both

In responding to the crisis, MIGA has been a partner in many of the World Bank Group's efforts to mobilize resources—including financing, hedging products and guarantees, knowledge services, and partnerships to provide rapid assistance to countries most in need.

immediate needs, and, in the medium and longer terms, build foundations for recovery and growth while helping to overcome poverty and improve lives.

So I want to thank the dedicated and highly accomplished staff at MIGA for their hard work and commitment to their clients in these challenging times. I also want to express my appreciation to Izumi Kobayashi, MIGA's Executive Vice President, who came to the position last November, and is already guiding an excellent team with judgment and experience.

And I look forward to the support of MIGA's shareholders and partners as we continue to work toward creating an inclusive and sustainable globalization.



Robert B. Zoellick
June 30, 2009

BOARD ACTIVITIES HIGHLIGHTS

During fiscal year 2009, MIGA's Board of Directors reviewed and concurred with investment guarantees for 28 projects. The Board oversaw and reviewed MIGA's budgeting and planning process for the upcoming fiscal year and approved changes to the agency's Operational Regulations. The changes to the Operational Regulations are the most extensive in MIGA's history and are discussed in detail later in this report.

The Board discussed two reports prepared by the Independent Evaluation Group (IEG). IEG's MIGA 2009 annual report reviewed the implementation of MIGA's strategy in IDA countries and engagement in conflict-affected countries. The report also evaluated MIGA's technical assistance activities being delivered

through the Foreign Investment Advisory Services. The Board also discussed a joint IEG study, *World Bank Guarantee Instruments 1990-2007*.

MIGA submitted quarterly financial reports and collaborated in drafting World Bank Group country assistance and partnership strategies that were considered by the Board.

A Council of Governors and a Board of Directors, representing 174 member countries, guides MIGA's activities. Each country appoints one governor and one alternate. MIGA's corporate powers are vested in the Council of Governors, which delegates most of its powers to a Board of 24 directors. Voting power is weighted according to the share of capital each director represents. The directors meet regularly

at the World Bank Group headquarters in Washington, DC, where they review and decide on investment projects and oversee general management policies.

Directors also serve on one or more of several standing committees:

- Committee on Development Effectiveness
- Audit Committee
- Budget Committee
- Personnel Committee
- Ethics Committee
- Committee on Governance and Administrative Matters

These committees help the Board discharge its oversight responsibilities through in-depth examinations of policies and procedures.



MIGA'S BOARD OF EXECUTIVE DIRECTORS, AS OF JUNE 30, 2009

From left to right: (seated) Carolina Rentería, Jim Hagan, Jiayi Zou, Alexey Kvasov, Susanna Moorehead, Michael Hofmann, Giovanni Majnoni; (standing) Toga McIntosh, Sun Vithespongse, Abdulhamid Alkhalifa, Dante Contreras, Rudolf Treffers, Eli Whitney Debevoise, Svein Aass, Louis Philippe Ong Seng, Pulok Chatterji, Samy Watson, Merza Hasan, Toru Shikibu, Michel Mordasini, Sid Ahmed Dib, Gino Alzetta, Ambroise Fayolle, José Alejandro Rojas Ramírez (not pictured) Abdulrahman Almofadhi

MESSAGE FROM THE EXECUTIVE VICE PRESIDENT



THIS PAST FISCAL YEAR WAS CHALLENGING FOR MIGA DUE TO UNCERTAINTY RESULTING FROM THE GLOBAL ECONOMIC CRISIS AND REDUCED INVESTMENT FLOWS. INDEED IT WAS DIFFICULT FOR MANY INSTITUTIONS THAT RELY ON PRIVATE INVESTMENT, AND FOR DEVELOPMENT, AS ACCORDING TO RECENT WORLD BANK PROJECTIONS, FOREIGN DIRECT INVESTMENT (FDI) FLOWS TO DEVELOPING COUNTRIES ARE EXPECTED TO DECLINE BY 30 PERCENT IN 2009 TO APPROXIMATELY \$385 BILLION.

Given the difficult external environment, MIGA's volume of new business declined year on year, from \$2.1 billion in guarantees in fiscal year 2008 to \$1.4 billion in support of 26 projects in developing countries. This included ten projects in sub-Saharan Africa, which continued to be a priority for MIGA. However, our portfolio grew by \$800 million this year to \$7.3 billion, in part due to a lower level of portfolio run-off. We have observed that existing guarantee holders have been more inclined to maintain coverage as the emphasis on actively managing all types of risk has increased in the current environment.

Despite the challenging circumstances, we have worked hard to position MIGA for the future and the economic recovery that we all hope will begin in 2010. This past fiscal year we fine-tuned our organizational structure, expanded our product offerings, and improved our service to meet client needs. We continued to focus on achieving strong development impact, particularly in those regions most severely affected by the economic slowdown. In this regard, we participated in World Bank Group regional initiatives aimed at

strengthening the financial sector and small and medium-size enterprises (SMEs).

More specifically, the agency provided guarantees for ten loans to banks in Europe and Central Asia to assist in their recapitalization. This support was significant in securing much needed capital in the face of the ongoing crisis. We also provided political risk insurance to support ten SME projects to help facilitate foreign investment at a time of scarce capital, the largest number yet through the Small Investment Program designed to reach out to an important and underserved investor class. We also entered into an innovative umbrella contract for such projects in sub-Saharan Africa that we believe will demonstrate strong impact on the ground, and we hope to be able to replicate this approach in other regions. In sub-Saharan Africa we paid two small claims relating to losses under MIGA's war and civil disturbance coverage.

In fiscal 2007, we noted that our ability to adapt our products to meet the demands of a changing political risk insurance marketplace faced limitations. I am pleased to say that this

fiscal year we achieved an important milestone for the agency: our Board of Directors approved the adoption of amendments to MIGA's Operational Regulations. These changes, which represent the most significant upgrading of MIGA's toolkit in 21 years, enable MIGA to offer more flexibility and will help us better respond to market needs. In addition, we are moving quickly to resolve other constraints resulting from our founding Convention, and hope to make progress in this regard during the next fiscal year.

As the economic crisis unfolded, we increased our close cooperation with other parts of the World Bank Group, and private and public partners, to

leverage resources and maximize economic growth and development. Going forward, we want to do even more, reaching out to our Bank Group colleagues in country offices, and to project sponsors and the investment community around the world. As part of this effort, we plan to launch a new flagship report in fiscal 2010 that will be a compilation of industry thought and perspective on political risk that we hope will appeal to a broad sector and encourage interest and debate.

In closing, I would like to take this opportunity to state what an honor it has been to have been asked to serve as MIGA's Executive Vice President. I also want to thank our staff for their professionalism and dedication, and

offer my appreciation for their support as I entered the agency and the World Bank Group. I look forward to the year ahead confident that we have the people, the resources, and the commitment to succeed in our mission to improve people's lives.



Izumi Kobayashi
June 30, 2009

MIGA OFFICERS AND MANAGERS



IZUMI KOBAYASHI
Executive Vice President



JAMES P. BOND
Chief Operating Officer



EDITH P. QUINTRELL
Director, Operations



PETER D. CLEARY
Director and General Counsel, Legal Affairs and Claims



FRANK J. LYSY
Chief Economist and Director, Economics and Policy



KEVIN W. LU
Chief Financial Officer and Director, Finance and Risk Management



CHRISTINE I. WALLICH
Director, IEG - MIGA



MARCUS S. D. WILLIAMS
Adviser, Strategy and Operations



KRISTALINA GEORGIEVA
Vice President and Corporate Secretary