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Multilateral Investment Guarantee Agency

Operations Evaluation Unit
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2004 REVIEW OF DEVELOPMENT EFFECTIVENESS IN MIGA

Document of the Multilateral Investment Guarantee Agency

Abbreviations and Acronyms

ARIS	Romanian Agency for Foreign Investment
CAS	Country Assistance Strategy
CDP	Community Development Plan
CODE	Committee on Development Effectiveness
EA	Environmental Assessment
EIA	Environmental Impact Assessment
ECG	Evaluation Cooperation Group
EHS	Environmental, Health and Safety
ERR	Economic Rate of Return
EU	European Union
EVP	MIGA's Executive Vice President
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FRR	Financial Rate of Return
FY	Fiscal Year
IC	Investment Climate
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IPI	Investment Promotion Intermediary
IPP	Independent Power Producer
ISO	International Organization for Standardization
MDG	Millennium Development Goals
OED	Operations Evaluation Department (IBRD/IDA)
OEG	Operations Evaluation Group (IFC)
OEU	Operations Evaluation Unit (MIGA)
OPIC	Overseas Private Investment Corporation
PROESA	Comisión Nacional de Promoción de Inversiones (El Salvador)
PSD	Private Sector Development
RDE	Review of Development Effectiveness
RMC	Risk Management Committee (MIGA)
RP	Resettlement Plan
ROE	2003 Report on Operations Evaluation in MIGA
SME	Small and Medium-sized Enterprise
TA	Technical Assistance
WACC	Weighted Average Cost of Capital
WB	World Bank
WBG	World Bank Group

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1. OBJECTIVE AND SCOPE

1.1 The objective of the first Review of Development Effectiveness in MIGA (RDE) is to assess the development effectiveness of MIGA projects and services. It will also provide a baseline for future RDE reports. The report synthesizes the results from: evaluations of MIGA guarantee projects approved in FY96 through FY98; reviews of the *ex-ante* analysis of guarantee projects approved in FY04; and evaluations of technical assistance activities carried out in the FY98 to FY03 period.

1.2 OEU began evaluating guarantee projects in FY03 using the new methodology endorsed by the Committee on Development Effectiveness (CODE) for analyzing the development impact of guarantee projects.¹ For this report, OEU evaluated nine mature guarantee projects from a randomly selected sample, including their consistency with safeguard policies. OEU began evaluating TA activities in FY04 with two case studies.

1.3 In addition to the results of evaluated projects, the RDE includes a review of the quality at entry of 13 guarantee projects approved in FY04, similar to the analysis presented for FY03 projects in OEU's 2003 Report on Operations Evaluation (ROE). This RDE also draws on key findings from two OEU sector/thematic evaluations: Extractive Industries (especially its safeguard review of 11 projects) and Investment Climate Activities.

1.4 Given the small number of evaluations covered in this first RDE and the lack of an evaluation database, this report focuses on common issues and experiences that inform the extent to which the evaluated guarantee projects and TA activities have contributed to the achievement of MIGA's mandate of development effectiveness. The review of the *ex-ante* development impact assessments of FY04 projects addresses MIGA's progress in remedying the weaknesses in the underwriting process identified in the 2003 ROE.

1.5 Significant changes have occurred in MIGA since May 2004. MIGA's management began revamping both the processes and criteria for approving new guarantee projects as this report was being prepared. While the project evaluations this report is based on come from the cohort of guarantees issued between FY96 and FY98, and the review of *ex-ante* development impact assessments sample consists of projects approved in FY04 before these changes occurred, the findings presented in this report can identify areas of improvement for future projects.

¹ Cost-benefit based project impact analysis was to be applied both for underwriting as well as *ex-post* evaluation of guarantee projects beginning in FY03.

2. METHODOLOGY

A. Guarantee Project *Ex-Post* Evaluation

2.1 The evaluated projects come from a random sample selected among mature and still active projects guaranteed in the FY96-98 period.² The sample included nine MIGA projects in the infrastructure, agribusiness, manufacturing, services, and financial sectors. Each evaluation consisted of a review of MIGA files, interviews with MIGA and/or WBG staff, and a field mission. Since MIGA does not regularly supervise projects (other than selectively for environmental and social monitoring), OEU must collect primary data to establish what has happened to the project since its approval.³ This is the first time that *ex-post* Financial Rate of Return (FRRs) and Economic Rate of Return (ERRs) have been calculated for MIGA guarantee projects.

2.2 **Evaluation Dimensions.** As endorsed by CODE in 2002,⁴ OEU's evaluation methodology is harmonized with that of the IFC's Operations Evaluation Group (OEG). As a result, OEU's evaluation categories are similar to the ones used by OEG for IFC projects, adapted to MIGA's business as appropriate. OEU evaluated each project on two main dimensions: Development Outcome and MIGA's Effectiveness (see Box 1). In the evaluation of each dimension (and sub-categories) several quantitative and qualitative indicators have been used. (See Annex 1 for performance indicators and benchmarks.)⁵

2.3 The objective of the review of safeguards was to assess the extent to which evaluated projects were (and are) consistent with MIGA's safeguard policies and guidelines. It builds on OEU's review of safeguards in FY03 of a sample of 11 extractive industries projects,⁶ and focused on the consistency with environmental and social safeguards at two phases in the guarantee investment cycle:

² Project selection followed a random method with independent drawings to ensure that all projects had equal probability of being selected. OEU drew 15 projects (from 27 eligible guarantee projects) allowing for cancellations of guarantees or other developments (e.g., pre-claim situations) that could preclude an evaluation. OEU received feedback from MIGA Management on the status of projects in the sample before undertaking the evaluation program. This information was taken into account for the final selection of nine projects, which comprise one-third of the eligible population.

³ Other World Bank Group evaluation units base their independent evaluation base on monitoring/supervision and/or self-evaluation reports. OEU had to conduct a primary project evaluation in each of the nine cases.

⁴ In March 2002, CODE endorsed MIGA's new methodology, which adapts OEG's evaluation methodology to MIGA guarantee projects.

⁵ OEU does not yet have the indicators and the necessary data to evaluate the contribution of guarantees to MIGA's profitability. This third dimension will be addressed when a suitable approach has been developed by MIGA.

⁶ OEU's safeguards review in FY03 included to 11 extractive industries projects guaranteed by MIGA. It used current MIGA policies and guidelines as the basis for evaluation, rather than the WB policies that were in place at the time of approval of each guarantee, which enabled OEU to use the same evaluation criteria for all projects in the sample. See *Extractive Industries and Sustainable Development. An Evaluation of World Bank Group Experience*. World Bank. 2003.

Box 1. Evaluation Dimensions and Rating Definitions

Development Outcome—Assesses the development impact of the project through:

- **Business Performance** – Financial impact of the project on the project financiers;
- **Contribution to Economic Sustainability** – Net effect of the project on the host country economy, living standards, quality of life, and the project’s overall social and economic impacts;
- **Environmental, Health and Safety Effects (EHS)** – Project’s impact on the physical environment and on social, cultural and health and safety issues, including compliance with MIGA’s safeguard requirements and relevant policies; and
- **Private Sector Development Impact** – Project’s contribution beyond the project enterprise, e.g., impact on the inflow of foreign capital, on the sector, through demonstration effects, and on local businesses; and the extent to which the company is a corporate role model.

MIGA’s Effectiveness—Assesses the quality of MIGA’s work and project involvement through:

- **Strategic Relevance** – Project’s linkage and consistency with MIGA’s, the WBG’s, and the host country’s objectives and priorities;
- **MIGA’s Role and Contribution** – MIGA’s additionality, influence over project design, and synergy with partners; and
- **Assessment, Underwriting and Monitoring** – Quality and appropriateness of MIGA’s own work and interventions.

Rating Scales and Criteria. OEU adopted a four-point rating scale with rating benchmarks or criteria consistent with those used by OEG and best practice standards endorsed by the Evaluation Cooperation Group. The categories and definitions are:

- **Excellent (E)** – meets most high case expectations, has significant and quantifiable positive impacts, meets all key requirements and standards, represents sector/industry best practice;
- **Satisfactory (S)** – meets most base/low case expectations, has some measurable positive impacts, meets most key requirements and sector/industry standards, absence of significant shortcomings;
- **Partially Unsatisfactory (PU)** – fails to meet some base/low case expectations, some inconsistency with certain key requirements, some aspects of performance below sector/industry standards, limited measurable positive impacts but no lasting or significant negative impact;
- **Unsatisfactory (U)** – fails to meet most base/low case expectations, violates agreed requirements and sector/industry standards, inconsistent with some WBG and country objectives and priorities, intervention with no measurable positive impact or with significant impacts and possibly some negative impacts.

- *Consistency with Safeguards at Board Approval:* To what extent did a guaranteed investment comply or conform to the requirements of today’s MIGA safeguard policies and guidelines⁷ at the time of Board approval?
- *Consistency with Safeguards at Evaluation:* To what extent did a project fulfill or conform to the conditions and requirements of the safeguard policies and guidelines (now in force) during investment implementation (and at evaluation) and adequately implement the safeguard management/action plans that had been identified at approval?

2.4 This evaluation uses a set of basic criteria (summarized in Annexes 2 and 3) which reflect key safeguard policy requirements and the necessary steps involved in meeting

⁷ Any significant differences between the guidelines applicable at approval and current guidelines are highlighted in the evaluation of each project.

them.⁸ The criteria are based on MIGA's own specific environmental assessment and disclosure policies and procedures, as well as on the interim issue-specific safeguards,⁹ as approved by MIGA's Board in 1999 and 2002, respectively. MIGA's 2002 safeguard policies adapted World Bank safeguards to the private sector and to MIGA's business model. The safeguard review also evaluated separately MIGA's performance in ensuring that its safeguard policies are followed by a project until MIGA's guarantees are cancelled or expire.

B. Review of *Ex-Ante* Development Impact Analysis of FY04 Guarantee Projects

2.5 Until 2002 MIGA did not assess the development impact of its guarantee projects using rigorous economic tools. In February 2002, MIGA presented to CODE a Methodological Note that set out the framework for its future development impact analysis; which was subsequently endorsed by CODE.

2.6 The 2003 ROE¹⁰ reviewed the compliance with this Framework of the *ex-ante* development impact analysis during the underwriting of new guarantee projects issued in FY03. This review constituted a baseline for tracking future progress of the adoption and implementation of the framework for project impact analysis (using cost-benefit analysis as applicable).

2.7 FY04 was the second year for MIGA to implement this development impact analysis. This year's RDE updates the ROE for a representative sample of new guarantees issued in FY04. Standard project documentation was used as a basis for this review, consisting of Definitive Applications submitted by investors, the Underwriting Paper, the President's Report to the MIGA Board, and the Minutes of the Risk Management Committee (RMC) Meeting, when available.

2.8 The findings of this review are based on a sample of 13 projects selected randomly among 32 projects approved by MIGA's Board between June 20, 2003 and April 13, 2004.¹¹ In assessing compliance with the established development impact analysis, OEU used the same criteria as in the 2003 ROE. For regular projects, it assessed whether the *ex-ante* analysis provided the FRR as well as an adjusted FRR, identified distortions and externalities, and did an in-depth economic cost-benefit analysis when projects had substantial distortions. Compliance with the requirements for financial sector projects was reviewed based on the analysis of the financial resources provided, the impact on the structure of the host country's financial sector, and the anticipated use of the funds guaranteed by MIGA. For Small and Medium-sized Enterprises (SME) and South-South projects, it assessed whether the *ex-ante* analysis provided an FRR, and if significant distortions or externalities were identified, whether an economic cost-benefit analysis was conducted.

⁸ This methodology is based on a comprehensive evaluation methodology developed and tested in OED for the Extractive Industries Evaluation in 2003.

⁹ Conditions for application of MIGA's safeguard policies are shown in Annex 4.

¹⁰ *2003 Report on Operations Evaluation in MIGA*, pp. 16ff.

¹¹ This period of FY04 precedes the change in MIGA Management in May 2004.

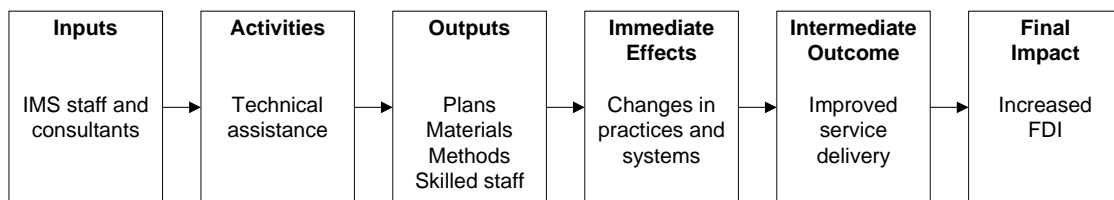
C. Technical Assistance Evaluation

2.9 MIGA's technical assistance (TA) aims to strengthen the capacity of investment promotion intermediaries (IPIs) and increase their effectiveness in attracting greater FDI to their countries. The TA provided by MIGA to IPIs includes one or more of the following: needs assessments (which normally constitute the first contact with client IPIs), strategic planning, preparation of marketing plans and promotional materials, website development, development of information systems, and staff training. Some interactions are short-term, focusing on one particular aspect of an IPI's operations; others extend over a long period and are designed to address the organization as a whole.

2.10 The evaluation of MIGA's TA includes an assessment of the outcome, impact, efficiency, and effectiveness of an intervention. OEU evaluated two TA projects in FY04. One case was chosen because it was also selected as a country case study for the joint evaluation of WBG Investment Climate Activities (FY05). The other was selected by OEU from a group of projects where MIGA had done in-depth and long-term interventions that would be suitable for piloting the new TA evaluation approach. The two evaluations are based on a file review, interviews with MIGA and WBG staff, and a field mission to discuss the project's outcome and impact with representatives of IPIs, government officials and foreign investors. The evaluations also included a survey designed by OEU and administered to IPI clients.¹²

2.11 In evaluating the TA activities, OEU used a method based on the logic model represented in Figure 1. There is generally more data and evidence for evaluating inputs, activities, outputs, and outcomes than for impacts, making it difficult to evaluate the final impact of the TA on FDI flows. There has been little empirical research on the link between investment promotion activities and FDI flows. In these two cases, IPI staff or investor views were also solicited about what would have happened if the IPI did not exist or MIGA had not supported it.

Figure 1. Program Logic Model for Evaluation of MIGA Technical Assistance



¹² Results from these two case studies have also been presented in the joint OED/OEG/OEU Evaluation of World Bank Group Investment Climate Activities (forthcoming).

3. EVALUATION RESULTS OF FY96-FY98 GUARANTEE PROJECTS

A. Development Outcome

3.1 The overall ratings for development outcome from the nine evaluated projects aggregated across the four development dimensions are presented in Table 1 below.

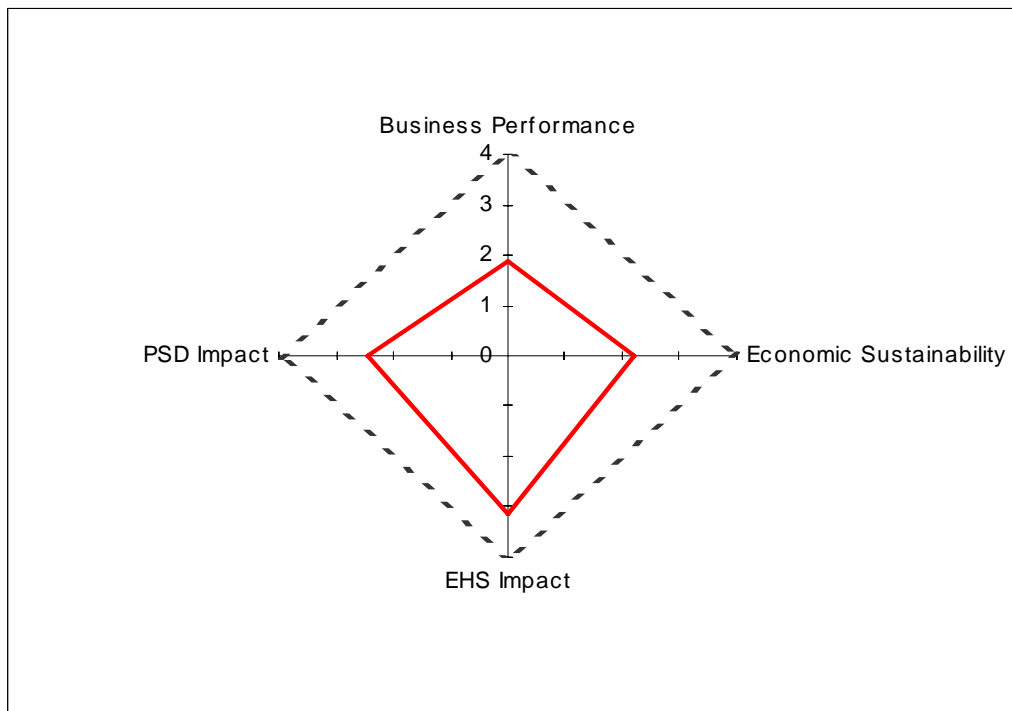
Table 1. Overall Development Outcome Ratings for Evaluated Guarantee Projects

Rating	Unsatisfactory	Partially Un-Satisfactory	Satisfactory	Excellent
No. of Cases	1	5	2	1

Source: Annex 5. FY96-98 Evaluated MIGA Projects. Summary of Evaluation Results

3.2 Each of the four subcategories (i.e., business performance; project's contribution to economic sustainability; environmental, health and safety effects; and private sector development impact) were also analyzed separately for all nine projects. Environmental, health, and safety effects (EHS) is the dimension with the highest average rating, while business performance is the dimension with the lowest average rating. The "development effectiveness diamond" in Figure 2 presents ratings averaged across the nine evaluated projects for each of the four dimensions of development outcome.

Figure 2. Average Development Outcome Ratings of Nine FY96-FY98 Guarantee Projects



A.1 Business Performance

3.3 The Business Performance dimension assesses a project's financial viability and its impact on the investor(s). It bears upon development effectiveness because a project's various development impacts depend on its long-term financial viability. Sufficient financial returns are also necessary to attract private investors.¹³

3.4 At evaluation, three projects had strong business performance (two with satisfactory and one with excellent ratings), while the remaining six (or two-thirds) were found to have weak financial performance (with unsatisfactory or partially unsatisfactory ratings). *Ex-post* FRRs could be calculated for six projects, and five of them fell short of expectations at the underwriting stage. Other *ex-post* business performance indicators (e.g., return on assets, sales volume, and debt service ratios) also fell below expectations at the time of Board approval. Optimistic assumptions for financial projections (and in some cases inadequate analysis) by investors—which were used as the basis for underwriting—were observed in almost all evaluated projects.¹⁴ For example, one project involved investing in an outdated technology in a protected sector; when it was exposed to increased competition after import tariffs were lowered, the project's business performance deteriorated.

3.5 Another important contributor to the weak financial performance of some of these projects was unanticipated macroeconomic/financial crises in the host countries, causing an overall deterioration of the business environment. Five of the sampled projects were affected, and for three of these projects this impact was significant enough to result in a less than satisfactory business performance.

A.2 Contribution to Economic Sustainability

3.6 This dimension assesses the net effect of the project on the local (and when relevant, national) economy, living standards, quality of life, and the project's social and poverty impacts. In evaluating a project's contribution to economic sustainability, OEU

¹³ OEU rated the Business Performance of the nine projects using an after-tax, real financial rate of return (FRR), when feasible, and comparing it to a hurdle rate of 10 percent (see Annex 1). This rate is equivalent to the discount rate used to adjust payment flows over time. IFC uses the weighted average cost of capital (WACC) as a benchmark for its projects. The average WACC for IFC projects evaluated in 1999-2002 was 9.8 percent in real terms. In three projects a meaningful FRR could not be calculated due to the lack of adequate data or non-applicability in the financial sector project. In those cases, OEU evaluated to what extent a project met its business and profit objectives. In addition to these two criteria, OEU considered other financial indicators such as net present value, return on assets, and debt service ratios.

¹⁴ See also Annex 6 on risks identified during underwriting and at evaluation.

considered its economic rate of return (ERR) as an indicator of economic benefits to society as a whole, as well as non-quantitative impacts.¹⁵

3.7 The nine evaluated projects have, to varying degrees, generated tax revenues, provided valuable products or services to upstream producers or directly to consumers, stimulated the local economy through procurement of goods and services from local suppliers, provided permanent jobs, and/or implemented social programs for the local community. In underwriting these projects, MIGA highlighted these expected effects to justify its decision to support the project (e.g., a power distribution project that sponsored a social program for low-income residents by providing subsidized electricity rates and electric meters to reduce illegal connections and reduce fire hazard).

3.8 Evaluation results for contribution to economic sustainability are presented in Table 2. Four projects (one infrastructure, two manufacturing and one financial) were rated satisfactory or above. Three of these projects also had good business performance ratings. The remaining five projects were rated partially unsatisfactory or below: two in infrastructure, two in manufacturing, and one in agribusiness. Flaws in project design, in the financing structure, and/or in the regulatory framework made two infrastructure projects vulnerable to the economic crises that affected their respective host countries (Annex 6). One agribusiness project in a highly protected market proved to be unsustainable despite investors' efforts to make additional investments in a locally untested agricultural method that may not have been suited to the host country. (In this case the ERR was below the FRR because of the high import tariffs to protect local production.)

Table 2. Quantitative and Qualitative Economic Impacts were Correlated in Evaluated FY96-98 Projects

Project Code	Economic Rate of Return	Qualitative Economic and Social Impacts	Overall Economic Contribution Rating
1	U	S	PU
2	U	U	U
3	Not calculated*	U	U
4	Not calculated*	PU	PU
5	S	S	S
6	S	S	S
7	E	E	E
8	Not applicable	S	S
9	U	S	U

* Unable to calculate ERR due to incomplete data.

¹⁵ In parallel with OEG's methodology, and the Evaluation Cooperation Group (ECG) Best Practice Standards, an "Excellent" rating was given to projects with an ERR of greater or equal to 20 percent and where the project objectives were largely surpassed; "Satisfactory" was given to projects that had an ERR greater or equal to 10 percent and when project objectives were broadly achieved; "Partially Unsatisfactory" was given if the ERR was greater than or equal to 5 percent and when one or more of the project's core objectives were not met; and an "Unsatisfactory" rating was given to projects that had an ERR of less than 5 percent and when most of its objectives were not met.

3.9 In most cases, the failure to deliver the anticipated economic benefits was linked to the projects' weak business performance. Conversely, for projects with satisfactory (or better) development impacts, financial success ensured that projects were able to make a positive contribution to economic sustainability. The five projects that were rated unsatisfactory in terms of business performance were also rated partially unsatisfactory or unsatisfactory in their contribution to economic sustainability (Table 3). Employment generation and other benefits offered by the projects, as well as expected tax receipts, were directly affected by their business performance. A downturn in business performance also undermined some of the social programs put in place by these private investors who were "good corporate citizens." In one instance, the social program designed to subsidize low-income groups in a transparent manner and encourage them to have legal electricity connections had to be discontinued because the project enterprise faced large losses (due to economic crisis) and could no longer afford the program.¹⁶ The agribusiness project that supported an out-growers program for farmers and a health center, and maintained a primary school for its employees and the local community, has not made any profit since it started operations. Thus, it is uncertain if these social and economic benefits will continue in the future. A manufacturing project discontinued all training and education programs for its employees after sales declined and it merged with a competitor.

Table 3. Business Performance often Aligns with Economic Contribution for Evaluated FY96-98 MIGA Projects

Project Code	Business Performance	Contribution to Economic Sustainability
1	U	PU
2	U	U
3	U	U
4	U	PU
5	PU	S
6	S	S
7	E	E
8	S	S
9	U	U

3.10 Robust business performance enabled two projects that were rated excellent and satisfactory to also receive the same ratings for their net contribution to society. A power project implemented an apprenticeship program provided generous employee benefits, and undertook regular community outreach (implemented through the employees' association) because income exceeded expectations. The community outreach program evolved as a result of the company's contribution to the employees' association. A food-processing project was able to generate several hundred jobs, provided incentives for the development

¹⁶ The program also did not yield the expected level of improvement in collection rates.

of local (upstream and downstream) industries, and encouraged additional investments by expanding capacity.

3.11 There is one exception in the sample where ratings for financial performance and economic sustainability did not move in tandem. A project with a partially unsatisfactory rating in its business performance because of past financial losses and for failing to meet several of its business objectives was rated satisfactory for its contribution to economic sustainability mostly due to taxes paid, while its other contributions to the host country were relatively modest.

A.3 Private Sector Development Impact

3.12 The Private Sector Development (PSD) dimension measures the impact of the project on the development of private enterprise beyond the project participants. Such impacts can include: demonstration effects, effects on local suppliers of goods and services, technology and know-how, employee training, contribution to domestic capital market development, project governance and reputation, extent to which project leads to more private ownership and stronger local entrepreneurship, greater competition or competitiveness, as well as impacts on competitors, new market entrants, and producers of complementary goods.

3.13 Considering all relevant indicators, more than half of the evaluated projects were rated less than satisfactory. The private sector development impact of one project was rated excellent, three satisfactory, four partially unsatisfactory, and one unsatisfactory. The project that was rated excellent played a pioneer role as an independent power producer, and reduced the supply-demand gap for electricity. Another power project had a demonstration effect, contributing to sector reform through privatization and also showing good corporate responsibility. A second satisfactory project had introduced a downstream retail distribution system, was a role model as a successful business, and had significant local procurement. Projects rated partially unsatisfactory have made only limited impacts on the local economy or the sector, and had no (or small) demonstration effects. The one unsatisfactory project served as a negative role model, having a suboptimal independent power producer arrangement, which was used as a blueprint for subsequent projects. There were also signs of inappropriate contracting procedures in this project.

A.4 Consistency with Safeguard Policies

3.14 This section summarizes the findings of a review to assess the consistency of the nine evaluated guarantee projects with current applicable MIGA environmental and social safeguard policies, and the adequacy of measures to mitigate any adverse environmental and social impacts. Of the nine projects, one is a category A, seven projects are category B, and one is a category C project.

3.15 Prior to adopting its own policies and guidelines, MIGA applied World Bank environmental and social policies¹⁷ and guidelines to its projects. Before establishing an in-house environmental unit in FY98, MIGA used specialized IFC staff to “ensure that [its projects] conform to the environmental standards adopted by other members of the World Bank Group.” The in-house environmental unit has been responsible for setting up procedures and formulating and revising policies for MIGA, and undertaking project assessments and selective monitoring.¹⁸ In 1999, the Board approved MIGA’s own specific environmental assessment (EA) and disclosure policies and procedures that reflect its business as an investment insurer for the private sector. These took effect with all new definitive applications received after July 1, 2000. In 2002, the Board also approved MIGA’s interim issue-specific Safeguard Policies. MIGA’s Web site¹⁹ notes: “In carrying out its review and evaluation, MIGA considers:

- the project’s ability to comply with the appropriate guidelines found in the World Bank Group’s *Pollution Prevention and Abatement Handbook*;
- compliance of the project with host country environmental requirements; and
- consistency of the project with MIGA’s safeguard policies regarding the following specific issues: natural habitats; forestry; pest management; dam safety; projects on international waterways; involuntary resettlement; indigenous peoples; and physical cultural resources.”

3.16 Given that MIGA’s own environmental unit was established in 1998, MIGA called upon IFC’s environmental staff for advice on many of the projects reviewed here. In some evaluated projects, IFC was also an investor and/or lender, and MIGA relied on IFC to carry out safeguard assessment and/or supervision on its behalf (and in some cases, MIGA relied on other multilaterals which were involved in the project).

A.4.1 Overall Results on Safeguard Consistency

3.17 As shown in Table 4, at Board approval, in 75 percent of the projects (or six out of eight category A and B projects) environmental and social safeguards were addressed at a level of satisfactory or better.²⁰ This ratio increased to 88 percent at the time of evaluation.

¹⁷ The World Bank has 10 safeguard policies, of which nine are covered in the present review: (OP/BP 4.01, *Environmental Assessment*; OP 4.30, *Involuntary Resettlement*; OD 4.20, *Indigenous Peoples*; OP 4.04, *Natural Habitats*; OP 4.37, *Safety of Dams*; OPN 11.03, *Cultural Property*; and OP/BP 7.50, *Projects on International Waterways*; OP 4.09, *Pest Management*; and OP 4.36, *Forestry*. OP/BP 7.60 *Projects in Disputed Areas*) was not applicable.

¹⁸ Shortly after MIGA established its in-house environmental unit, a review of the portfolio was conducted to identify “sensitive” projects from an environmental and social standpoint, as well as priorities for potential monitoring site visits.

¹⁹ In its description of *Framework for Safeguard Policies at MIGA*.

²⁰ For the Extractive Industries Evaluation, consistency of safeguard policies was rated using the following evaluation categories: high, substantial, modest, and negligible. This review keeps the same benchmarks but uses the labels: Excellent (E), Satisfactory (S), Partially Unsatisfactory (PU) and Unsatisfactory (U) for consistency with evaluation ratings used for other dimensions.

(This pattern is similar to the findings for the 11 extractive industries projects reviewed last year, where safeguard consistency ratios were 73 percent at Board approval and 88 percent at evaluation.) Twenty-five percent (or two Category A and B projects) were rated “excellent” for safeguard consistency at Board approval, a ratio that increased to 75 percent (six projects) at evaluation.

Table 4. Overall Ratings of Safeguard Performance of Evaluated FY96-98 Projects*

Project Code	EA Category	Project Safeguard Performance Ratings**		
		At Approval	At Evaluation	Overall Project
1	B	S	E	S
2	B	PU	E	S
3	A	E	E	E
4	B	S	E	E
5	B	S	E	S
6	B	PU	S	PU
7	B	E	E	E
8	C	N/A	N/A	N/A
9	B	S	PU	PU
Percentage of Projects Rated E or S		75	88	75
Percentage of Projects Rated E		25	75	38

*See Annexes 7 and 8 for project-specific details.

**Rating categories for consistency are: Excellent (E); Satisfactory (S); Partially Unsatisfactory (PU); and Unsatisfactory (U).

A.4.2 Findings on Safeguard Consistency Prior to Board Approval

3.18 At Board approval, the only safeguard criterion that was addressed across the board at an “excellent” level was the one dealing with MIGA’s Environmental, Health, and Safety (EHS) Guidelines and corresponding host country regulations. This has received consistently more focused attention than the other criteria. (See Table 5.)

3.19 The environmental assessment requirement was met for the category A project in the sample. (This was also the case in the extractive industries category A projects reviewed in the Extractive Industries Evaluation.) However, for several B projects, environmental assessments were insufficient for making a fully informed decision. In this sample, one large B project did not have an environmental assessment or a visit by an environmental specialist prior to Board approval. Another B project involved the expansion of an existing facility was approved without a prior environmental or health and safety audit. (It was subsequently discovered that the plant was not in full compliance with the host country or MIGA’s environmental standards/guidelines.) MIGA’s EA policy indicates the need for an independent environmental audit when there is an existing

facility. For another project, MIGA requested, but did not receive, an updated EIA prior to Board approval.

Table 5. Safeguard Criteria Performance Ratings of MIGA’s Evaluated Projects at Board Approval are Highest for EHS Guidelines for Evaluated FY96-98 MIGA Projects

Safeguard and Guidelines Criterion	Applicable to (number of projects)	Average score	Overall Performance Rating ²¹
EHS Guidelines or host country regulations comprehensively addressed	8	3.3	E
Comprehensive E&S baseline survey	3	3.0	S
Adequate EAP proposed	8	3.0	S
Public disclosure / consultation addressed	1	3.0	S
Comprehensive Environmental Assessment ²²	8	2.9	S
Adequate analysis of feasible alternatives	8	2.8	S
Project investor's EMS adequate	8	2.6	S
Specific Safeguards: <ul style="list-style-type: none"> • Comprehensive and implementable RP/CDP prepared • Comprehensive and implementable IPP prepared • Natural Habitats protected or offsets provided • Comprehensive Dam Safety measures proposed • Cultural Property protection proposed • Pest Management provisions propos 	5	2.4	PU

Rating categories are: Excellent (E); Satisfactory (S); Partially Unsatisfactory (PU); and Unsatisfactory (U).

3.20 Only one project (a category A) in the sample was subject to public consultation and disclosure per MIGA’s policy.²³ However, the guarantee was approved six months prior to the completion of the EA, contrary to EA disclosure policy at the time.²⁴

3.21 Across the nine projects, the weakest areas in relation to safeguard consistency prior to Board approval were not applying all relevant safeguards or not meeting fully the requirements of specific safeguards (Table 5). This finding is again similar to the findings

²¹ An average score of 3.3 – 4.0 is classified as “Excellent (E)”

An average score of 2.5 – 3.2 is classified as “Satisfactory (S)”

An average score of 1.7 – 2.4 is classified as “Partially Unsatisfactory (PU)”

An average score of 1 – 1.6 is classified as “Unsatisfactory (U)”

²² An EA may include: an environmental impact assessment; environmental audit; and hazard or environmental risk assessment or a combination of these instruments.

²³ Unlike IFC, MIGA’s procedures do not require public disclosure of its B projects. IFC prepares an Environmental Review Summary (ERS) for all of its B projects, which it submits to the World Bank’s Info Shop (after review and approval by the project sponsor) for public release 30 days before Board presentation.

²⁴ Project files indicate that the IFC environmental specialist reviewing the project on behalf of MIGA pointed out that information provided was inadequate for assessing the environmental impacts of the project.

for extractive industries projects. The natural habitats and resettlement policies were the policies with the lowest ratings (as in the Extractive Industries Evaluation). In one case, destruction of critical natural habitat was not compensated by setting aside or protecting an equivalent area, while in another case the EIA study did not recognize the presence of an endangered plant species on the proposed development site. The presence of squatter farmers on land owned by another sponsor should have called for the resettlement policy to be applied, but no action was taken to prepare a resettlement plan, and there was no follow up by MIGA (or IFC on behalf of MIGA) to ensure that the farmers had been adequately compensated.

A.4.3 Findings on Safeguard Consistency at Evaluation

3.22 For this sample, consistency with safeguards improved substantially during implementation as compared to the Board approval stage (see Table 6). The most noticeable contributor to this was the establishment by several investors of Environmental and Health and Safety (EHS) Management Systems meeting international standards. As a result, environmental action/management plans (EAPs/EMPs) as agreed with MIGA before approval was implemented effectively, and most projects complied with MIGA's EHS guidelines and host country environmental standards. The Corrective Action Plans (CAPs) (resulting from environmental audits of existing facilities) that were prepared prior to (and in one case subsequent to) Board approval were either fully implemented by the time of evaluation or well in progress. In five cases, projects were out of compliance with some aspects of MIGA's EHS guidelines/policies for some period during implementation, but MIGA was not aware of these situations, even though its contracts of guarantee required such compliance.

Table 6. Safeguard Criteria Performance Ratings were Satisfactory or Better for Evaluated MIGA FY96-FY98 Projects

Safeguard and Guidelines Criterion	Applicable to* (number of projects)	Average score	Overall Performance Rating ²⁵
EAP/EMP fully implemented by investor	8	3.3	E
EHS Guidelines or host country regulations fully met	8	3.3	E
Investor's project implementation EMS effective	8	3.3	E
E&S monitoring fully implemented by investor	8	3.1	S
Continuing public disclosure and consultation	1	3.0	S
Full compensation of PAPs	5	2.8	S
RP/CDP fully implemented			
IPP fully implemented			
Natural Habitats protected or offsets provided			
Dam Safety measures implemented			
Cultural Property protected			
Pest Management measures implemented			

* One is a category C project.

3.23 The improvement in safeguard performance during implementation has mainly been the result of responsiveness of MIGA's clients in meeting the expectations of the safeguard policies (as also found in the Extractive Industries Evaluation). As can be seen in Table 7, 75 percent of MIGA's clients in the sample were highly responsive and took steps to improve their EHS performance, and while the remaining 25 percent were somewhat less responsive, they were still willing to make improvements over time.

Table 7. MIGA Clients Have Been Responsive in Improving Environmental Performance

Project Code	Responsiveness of Investors to Improve EHS Performance*
1	High
2	High
3	High
4	High
5	High
6	Medium
7	High
8	N/A
9	Medium

*The following criteria was used: "High": Timely setting up of EHS Management Systems to international standards; "Medium": Some delays in improving EHS Management Performance; "Low": Negligible improvements in EHS Management Performance.

²⁵ An average consistency score of 3.3 – 4.0 is classified as "Excellent (E)"
 An average consistency score of 2.5 – 3.2 is classified as "Satisfactory (S)"
 An average consistency score of 1.7 – 2.4 is classified as "Partially Unsatisfactory (PU)"
 An average consistency score of 1 – 1.6 is classified as "Unsatisfactory (U)".

3.24 Investors' lack of awareness of their environmental and social obligations was noted in at least two evaluated projects. In one case, the investor was not aware of the obligation to meet the requirements of the natural habitats policy in regard to the protection of a forest area impacted by the project (which was also an important source for revenue for a group of vulnerable low income households). The investor was also unaware of the presence of an important local shrimp hatchery whose drawing of seawater within two kilometers of the investor's seawater discharge had potential implications for the hatchery's operation. In another case, the investor was made aware by local experts of a rare plant species on its property and took care to protect it and further its propagation.

3.25 **Environmental Categorization.** For the most part, the nine evaluated projects were categorized appropriately according to the MIGA EA safeguard policy, but in one case involving large time slice investments, prudence would have suggested an A categorization (see Table 8).

Table 8. Environmental Categorization and EHS Follow-up in Nine Evaluated MIGA FY96-98 Projects

Project Code	EA Category	Appropriate Categorization	Adequate EHS Requirements in Contract of Guarantee?	Adequate EHS Follow-up by MIGA?	MIGA's Effectiveness in Safeguards
1	B	Doubtful – A may be more appropriate	Phase 1 – No Phase 2 – Partially	No	PU
2	B	Yes	Yes	Partially	S
3	A	Yes	No	No	U
4	B	Yes	Partially	Partially	PU
5	B	Yes	Partially	No	PU
6	B	Yes	Partially	No	PU
7	B	Yes	Yes	No	S
8	C	Yes	N/A	N/A	N/A
9	B	Yes	Yes	No	S

3.26 **MIGA's effectiveness in ensuring safeguards compliance.** Currently for ensuring its clients' compliance with safeguard policies after guarantee approval,²⁶ MIGA relies on its ability to terminate a guarantee (or deny a claim) if projects are not in compliance.²⁷ MIGA therefore needs to be able to determine whether a project is in compliance with its safeguards. This evaluation looked at MIGA's actions to ensure

²⁶ In July 2003, MIGA formalized an environmental monitoring policy for "sensitive" projects, which includes all category A and category B extractive industries projects.

²⁷ Since 1999, all contracts of guarantee include a clause giving MIGA the right to terminate the contract if the project does not comply with MIGA's environmental policies and guidelines.

safeguards compliance in three areas: (i) inclusion of legal/contractual requirements for safeguards in MIGA's contract of guarantee; (ii) reporting by the guarantee holder on its safeguard performance; and (iii) follow-up monitoring by MIGA of the guarantee holder's safeguard performance.²⁸ MIGA has different requirements for category A and category B projects for reporting by clients and follow up/monitoring; for category B projects (which include a wide spectrum from complex infrastructure projects to simple manufacturing projects) there are no reporting or follow-up requirements in MIGA's safeguard procedures.

3.27 OEU's sample included one category A and seven category B projects. Using MIGA's own procedures, three projects (out of eight) had adequate actions by MIGA in these three areas (as applicable). As noted in Table 8, incorporating applicable safeguard requirements in the Contract of Guarantee was done adequately in 38 percent of the evaluated projects. The seven category B projects had partially or fully adequate EHS requirements written into contracts of guarantee, but it was judged that follow-up was not adequate in five of the cases and only partially adequate in the remaining two projects.

3.28 However, the category A project in the sample did not include any requirements for annual environmental monitoring reports from the investor. There were no environmental monitoring reports on file (even though the investor provided independent quarterly monitoring reports to its shareholders and lenders), and there was no follow-up (or site visits by MIGA or IFC staff on its behalf) to ensure that MIGA's safeguard policies were being adequately addressed. While this meant that MIGA was potentially exposed to environmental risks in this project, fortunately, the evaluation found the project to be in compliance with MIGA safeguard policies.²⁹

3.29 While by definition category A projects are riskier, with more complex environmental issues, some category B projects can also have significant environmental impacts. The evaluation found that out of the seven category B and one category A projects, five evaluated projects had some actual negative environmental impacts, e.g., loss of natural habitat and endangered flora, land degradation, water pollution and hazardous waste (Table 9). In four of these cases, the deficiencies could have been identified and addressed upfront before Board approval. In one case, a follow-up EIA, which was required for a project expansion, should have identified and remedied unsustainable agricultural practices leading to land degradation. Since MIGA does not normally carry out post-Board approval monitoring or follow-up action of the EHS requirements for category B projects, in these cases, MIGA was not aware that they were not in full compliance with its safeguard policies.

²⁸ For category A projects, MIGA and IFC have similar requirements for reporting by their clients and for follow-up monitoring of their performance. But for category B projects, IFC requires annual monitoring reports from its clients and regularly assesses these reports, whereas MIGA does not have similar requirements. For B projects MIGA rarely carries out site visits during implementation to independently review compliance with its safeguard policies.

²⁹ No other multilateral or bilateral institutions were involved in the financing or guaranteeing of this operation.

Table 9. Environmental Impacts of Nine Evaluated FY96-98 MIGA Projects

Project Code	EA Category	Actual or Potential Environmental and Health and Safety Impacts During Life of Project			
		Actual Negative Impacts	Potentially Significant Negative Impacts*	Potentially Low Negative Impacts	Beyond Compliance - Doing Good
1	B		X		
2	B	X			
3	A	X	X		
4	B			X	
5	B				X
6	B	X			
7	B	X			
8	C				
9	B	X			

* This column indicates projects which due to their large scale and scope could result in significant negative impacts if not adequately managed by the investors as has been the case up until the evaluation of these projects.

B. MIGA's Effectiveness

3.30 MIGA's effectiveness is determined by the quality of MIGA's work and involvement in the project through three sub-categories: (i) strategic relevance; (ii) MIGA's role and contribution; and (iii) MIGA's assessment, underwriting, and monitoring. Figure 3 presents the average ratings for MIGA's effectiveness for nine evaluated projects. On average, strategic relevance received the highest rating (which is close to the maximum rating) while the lowest rating, on average, is for MIGA's assessment, underwriting and monitoring.

3.31 A majority of the evaluated projects have an overall satisfactory rating (five out of nine) in MIGA's effectiveness (see Table 10). The remaining four projects are either partially unsatisfactory or unsatisfactory. When each of the three dimensions (strategic relevance, MIGA's role and contribution and MIGA's assessments) is analyzed separately, some important observations emerge, as discussed below.

Figure 3. Average MIGA Effectiveness Ratings Based on Nine FY96-FY98 MIGA Guarantee Projects

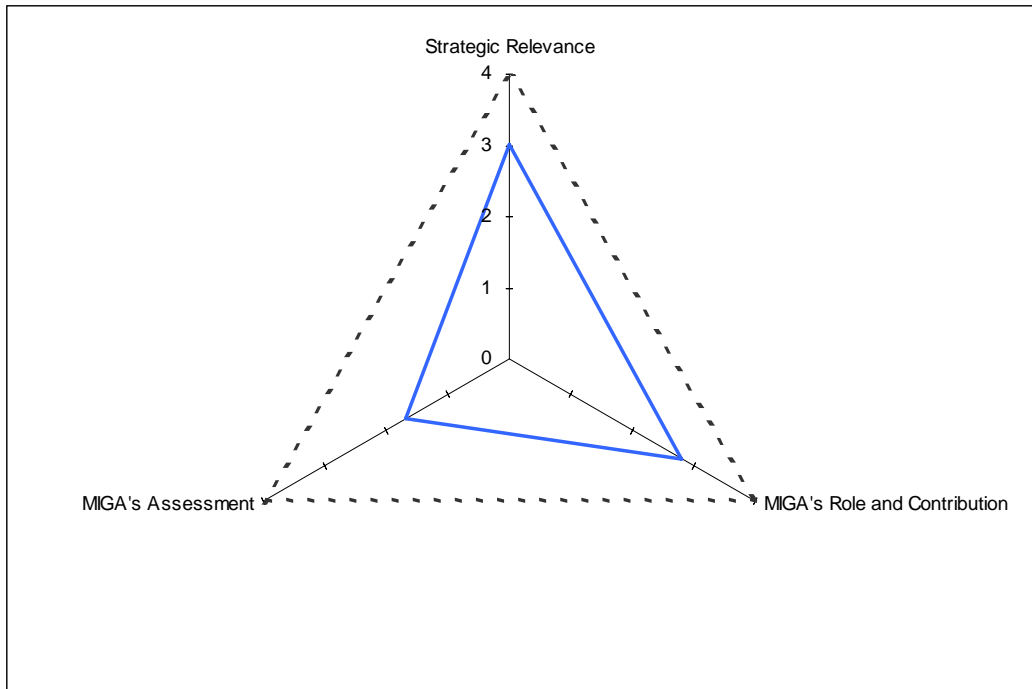


Table 10. MIGA's Effectiveness Ratings for FY96-98 MIGA Evaluated Projects

Project Code	Strategic Relevance	MIGA's Role & Contribution	Assessment, Underwriting, & Monitoring	Overall MIGA Effectiveness
1	E	S	PU	S
2	PU	PU	U	PU
3	U	U	U	U
4	S	E	U	PU
5	S	S	PU	S
6	S	S	PU	S
7	E	S	S	S
8	S	S	PU	S
9	E	S	U	PU

Source: Annex 5 - FY96-FY98 Evaluated MIGA Projects. Summary of Evaluation Results

B.1 Strategic Relevance

3.32 For this category, OEU considered how well these projects fit MIGA's mandate and strategy, the host country's priorities, and the WBG's Country Assistance Strategy (CAS), (in particular the PSD strategy) at the time of guarantee approval. Since MIGA did

not have an articulated and explicit strategy covering the FY96-98 period³⁰ that reflected regional, sectoral, and other priorities, this aspect did not play a large role in the rating.

3.33 In terms of overall consistency or complementarity with the WBG CAS objectives and country priorities, the majority of projects (seven out of nine) were relevant at the time of underwriting, and three had excellent ratings. The excellent ratings were given to two projects in the infrastructure sector (one of which is located in an IDA country) and to one agribusiness project. On the other hand, two out of the nine projects did not support the WBG strategies for the country (i.e., their ratings are either partially unsatisfactory or unsatisfactory).

3.34 Given that MIGA projects are often small and MIGA's role and products are complementary to the WB and IFC, strategic relevance can be enhanced if MIGA activities reflect CAS objectives. However, the upstream involvement of MIGA in the design of a CAS is very recent; it started on a pilot basis in FY03 for three countries, long after this sample of projects was underwritten.

B.2 MIGA's Role and Contribution

3.35 MIGA's role and contribution reflect primarily MIGA's core business as an insurer of political risk to enable projects in risky environments to proceed. However, MIGA has neither defined clearly nor monitored its additionality. Accordingly, OEU has considered MIGA's additionality as an insurer, and its role in leveraging and complementing partners. It also considered MIGA's contribution to its clients by applying WBG environmental and social safeguards to the design and implementation of their investment projects. The results from nine project evaluations indicate that in the majority of projects MIGA has made important contributions. Seven out of the nine projects evaluated show a satisfactory or better rating for MIGA's role and contribution (Table 10).

3.36 **Value Added in Safeguard Policies.** One area (in addition to its role as insurer) where MIGA could add value to guarantee projects is in the application of safeguard policies (also a finding of the Extractive Industries Evaluation for MIGA). Among the nine evaluated projects,³¹ in one case MIGA played a crucial role in ensuring that the project complied with MIGA's environmental guidelines. Given concerns during the appraisal stage about high lead concentration found in the treated effluent, MIGA's intervention meant that potentially damaging impacts were averted. The contract of guarantee specified the two EHS guidelines that applied to the operation and incorporated a clause specifying the necessary measures that the guarantee holder had to meet in order to comply with the guidelines.

³⁰ In 1997, MIGA presented to the Board a paper listing the type of development impacts the Agency would assess but it did not give guidance to operational staff about applying them to project selection. In 2000, when MIGA presented the *MIGA Review 2000*, it specified for the first time a list of priorities and a strategy for guarantee projects.

³¹ In all of the evaluated projects, MIGA relied on IFC's environmental specialists in carrying out the due diligence prior to Board approval because they were approved or in the process of approval prior to the setting up of MIGA's environmental unit.

3.37 In the majority of cases MIGA relied on its multilateral or bilateral partners to assume responsibility for ensuring compliance with its safeguard policies during implementation. Table 11 indicates that five of the nine projects reviewed also had other international development partners involved in the project, with IFC involved in three out of the nine projects. For five of the seven category B projects, MIGA relied on other multilateral or bilateral organizations to carry out environmental monitoring, and in most of these cases, MIGA did not follow up directly with the project investors to satisfy itself that the projects were in compliance with MIGA's safeguard policies. In one case MIGA required (after Board approval and after the facilities were constructed) the sponsor to provide a report on the handling and storage of hazardous materials in its facilities and to certify that it met international standards.

3.38 MIGA's partnerships with other international agencies have provided safeguards due diligence oversight and value added to projects. For example, many of the deficiencies identified in an EHS Audit required by the Overseas Private Investment Corporation (OPIC) for a Phase 1 investment program were addressed in the Corrective Action Plan that was developed at the request of the Inter-American Development Bank (IDB) for Phase 2. The sponsor has a program to achieve ISO 14001 and ISO 18001 certifications for all of its operations by 2005. In another case a commercial insurer required a health and safety audit of a project facility, which resulted in many safety improvements and led the investor to achieve ISO 18001 certification of its health and safety management system. While partner institutions provided a high level of EHS value added to the project sponsors in three projects, their impact was low or medium in two cases. MIGA could make even better use of its partnerships with other international agencies in providing safeguards oversight to its projects.

3.39 In three evaluated projects (one category A and two category B) MIGA was the only multilateral or bilateral agency involved (Table 11), and its EHS value added in these projects ranged from low to medium. In one case, the investor applied the sectoral environmental guidelines to improve the project's EHS design and operation, while in a similar case an existing waste water treatment plant had to be upgraded to meet MIGA's environmental guidelines, thereby preventing pollution of an important water source. On another project, however, MIGA missed an opportunity to use its influence with the investor to make compensation/protection arrangements for loss of important critical natural habitat.

Table 11. MIGA Often Relies on Its Partners to Add Value in EHS Performance

Project Code	EA Category	Multilateral or Bilateral Partner	EHS Value Added	
			Partner	MIGA
1	B	OPIC/IDB	High	Low
2	B			Medium
3	A			Low
4	B			Medium
5	B	IFC	High	Low
6	B	EBRD	Low	Low
7	B	IFC	High	Low
8	C			N/A
9	B	IFC	Medium	Low

B.3 Adequacy of Project Impact Assessment, Underwriting, and Monitoring

3.40 This section assesses the adequacy of project impact assessments and the underwriting process at entry to ensure that the projects support MIGA’s mandate of development effectiveness. The projects evaluated were approved in the FY96-98 period. While the mandate and policies have remained largely the same since FY96, their application has been evolving. Accepted practices at that time reflected the Agency’s greater focus on the business side and its business model as an insurer, rather than on the Agency’s development mandate. The MIGA Convention (Article 12) requires the Agency to satisfy itself that the projects it guarantees will be economically sound, contribute to the development of the host country, comply with host country laws and regulations, and be consistent with the declared development objectives of the host country. MIGA’s Operational Regulations (Chapter III, Section II: *Economic Soundness and Contribution to Development*) outline the requirements for underwriting work.

3.41 In the FY96-98 period MIGA had not yet put in place many of its “quality assurance” processes and systems (such as senior management reviews of projects, a standardized country risk assessment system, and the environmental unit). The accepted practice for MIGA was to rely almost exclusively on the private sector clients’ representations for a project’s financial projections, and also for expected performance and impact. MIGA formalized only in 1999 the information requirements for underwriting a guarantee (such as project’s objectives, rationale for MIGA involvement, financial viability, and development impact) in a template for underwriting, and through Operational Procedures for the Guarantees Department.

3.42 In order to evaluate the adequacy of MIGA’s assessment and underwriting, this evaluation has applied these current standards (embedded in these two documents) and “good practice” (rather than FY96-98 accepted practices).

3.43 Evaluation findings suggest that for these nine projects, MIGA's project impact assessments and underwriting at entry were not adequate for ensuring their development effectiveness. In all cases but one, evaluated projects received a below satisfactory rating (Table 10), in terms of the quality and appropriateness of MIGA's own work and interventions. One power project was rated satisfactory, but even in this case there were some gaps in MIGA's assessment.³²

3.44 The main shortcomings were in the project impact assessments. In most cases, there was no verification of assumptions, and documentation was insufficient to assess adequately a project's viability and/or development impact. In some cases, key documents were missing (e.g., power purchase agreements, environmental assessments), and it was not possible to ascertain if this information had ever been requested from the investor or obtained from other sources. In many cases, MIGA did not sufficiently define the project's scope and business objectives (e.g., an expansion project did not contain sufficient documentation on what the expansion plan entailed).

3.45 In general, little attention was paid to the soundness of the financial assessment for these projects. For the most part, financial information submitted by the investors was not backed up in MIGA's underwriting documents by a market or sector assessment. While the documents in some cases contained financial rates of return, the critical underlying assumptions were not included. In one project, the revenue projection was based on a single month's peak sales that have not been achieved since the project started implementation. In two other projects, financial data covered only part of the concession period and not the life of the project. For joint MIGA-IFC projects, financial estimates only covered the time horizon of IFC's investment/lending.

3.46 In all evaluated projects, while the risks MIGA insured (i.e., specific political risks) were addressed, there were shortcomings in assessing risks for financial viability and the development impact of the project (with implications for MIGA's business, such as cancellations of guarantees or disputes between investors and host country governments). The participation of another WBG entity or other international development agencies was usually associated with more diligent and comprehensive analysis. In such cases, MIGA relied on their analysis, and did not prepare separate financial and economic assessments.

3.47 Monitoring the development impact of its projects remains a challenge for MIGA, since as an insurer it does not have a system or program of post-approval monitoring (other than selective monitoring of environmental and social conditions). For most of the evaluated projects, files were often not updated and were incomplete, even when the contract of guarantee required investors to submit updates to MIGA.

³² The underwriting decision was taken and guarantee was approved before the final version of a key project (legal) documentation was obtained and incorporated into project assessment.

4. ASSESSMENT OF *EX-ANTE* DEVELOPMENT IMPACT ANALYSIS OF FY04 GUARANTEE PROJECTS

A. Methodology and Sample

4.1 Under the methodology for project assessments endorsed by CODE in 2002, most guarantee projects (other than financial sector operations) for which the Definitive Application was received after July 1, 2002 should include a full regular analysis, consisting of a Financial Rate of Return (FRR) and a tax-adjusted FRR, while a full economic cost-benefit analysis should be conducted when substantial distortions and/or externalities exist. In addition to this assessment of financial viability and the project's economic contribution, the methodology requires that MIGA assess a project's development impact in terms of the benefits accruing to non-financiers and according to its consistency with the PSD strategy as well as with MIGA's environmental, health, and social policies.

4.2 For three groups of projects, these requirements are modified in part: (1) financial sector projects; and (2) SME projects and (3) South-South investments. For financial sector projects, the methodology requires that the project's *ex-ante* appraisal should consider the impact on "the structure of the financial sector, the resources provided and the resource allocation of the intermediaries supported among other factors" instead of an FRR. Projects classified as SME and South-South investments³³ should continue to be assessed under the pre-FY03 methodology unless there would be evidence of significant distortions or externalities, in which case the projects would undergo an economic cost-benefit analysis (summarized in Annex 9).

4.3 For this analysis, OEU selected randomly 13 projects among the 32 projects approved by the MIGA Board between June 20, 2003 and April 13, 2004. (Table 12 shows the sample composition.) In one case, the Definitive Application had been received before July 1, 2002, and for this project the methodology would not apply.

³³ SME projects are defined to meet two of the following three criteria: (a) up to 300 employees; (b) total assets of up to US\$15 million; and (c) up to US\$15 million in annual sales.

Table 12. Composition of FY 2004* Sample Projects for the Assessment of *Ex-Ante* Development Impact Analysis

Project Classification	TOTAL
Subject to Full Regular Analysis	7
Application received before July 1, 2002	1
Financial sector	2
SME and/or South-South**	3
Total Sample	13

*Includes three projects approved by the Board in June 2003.

**Projects in these areas are not subject to cost-benefit analysis unless significant distortions are identified.

B. Compliance with the Methodology

4.4 *Was an FRR included and used to analyze financial viability?* Annex 10 shows the extent to which the thirteen FY04 sample projects complied with the established project impact analysis. All eleven non-financial sector projects (including the three SMEs)³⁴ complied with the requirement to include an FRR analysis, and eight (also including three SMEs) even incorporated sensitivity analyses in the project documents. The two financial sector projects included in the FY04 sample also contained more information on the financial sector and on the allocation of funds than was shown in last year's set of reviewed financial projects.

4.5 *Did the projects list all distortions and externalities affecting the projects?* OEU conducted only a desk review of key documents and has therefore not been in a position to identify independently all possible areas of distortions. Accordingly, OEU only determined compliance with the requirement based on the representations in the Underwriting Paper or President's Report concerning the distortions or externalities affecting the project.

4.6 This analysis indicated that improvements may be needed in the identification of distortions or externalities affecting economic impact.³⁵ Six of the seven regular projects (supposed to be covered in full by the required methodology) contained a statement that there were no such distortions affecting project performance, while one project identified

³⁴ All non-financial sector projects, including SMEs and South-South projects, are required to examine the FRR of the project. The CODE-endorsed methodology requires that during appraisal, MIGA will examine the FRR for all prospective guarantors.

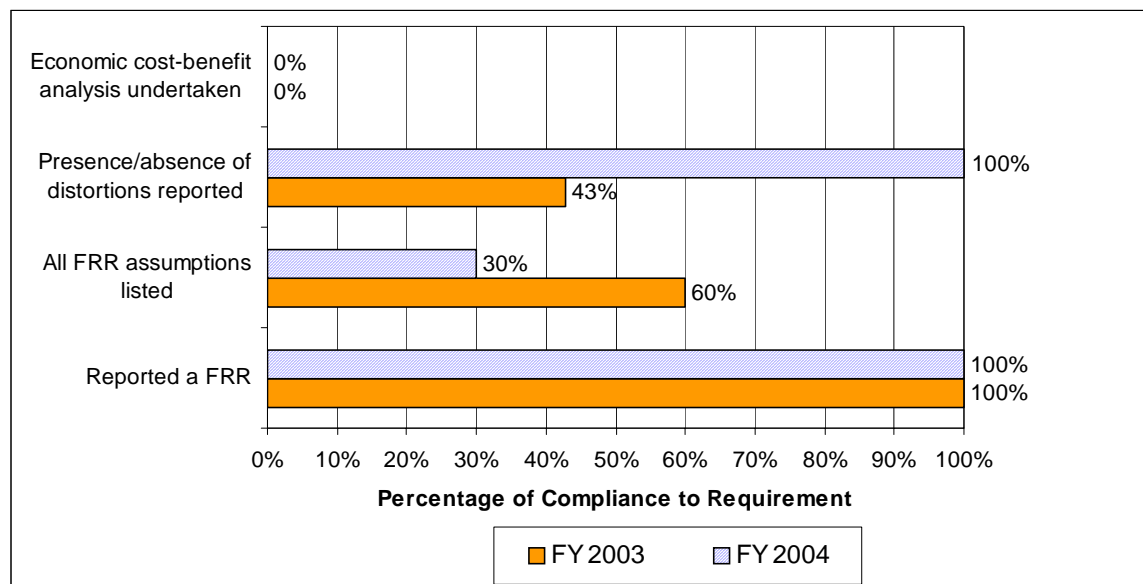
³⁵ The CODE-endorsed methodology requires MIGA to undertake a separate economic cost-benefit analysis on non-financial sector projects in those cases where substantial distortions or externalities might cause the quality of the economic impact to differ from the project's commercial quality.

distortions beyond tax incentives. Two of the three SME/South-South projects in the sample also reported specifically the absence of any subsidies or trade barriers that would affect the project.

4.7 In reviewing this requirement, however, OEU observed that for all the six regular projects that stated having no distortions, three projects only noted the absence of tax holidays or special tax incentives as the basis for their absence of distortions. Other possible types of distortions were apparently not considered, including possibly subsidized electricity and water charges, trade protection, and the interest rate regimes. The existence or absence of such distortions in the sampled projects was not verified independently by OEU in its desk review and will be reviewed separately.

4.8 *Did the projects apply cost-benefit analysis where required to assess economic sustainability?* MIGA's framework requires a cost-benefit analysis where there are substantial distortions and externalities, and an adjusted FRR in most other cases. One regular project noted distortions, and thus, was required to conduct a full cost-benefit analysis, which was not performed. A SME project that mentioned distortions (i.e., exemptions from import duties and tax holiday) did not provide an adjusted FRR or cost-benefit analysis as required. Table 13 below compares the FY04 *ex-ante* quality at entry results with those of the 2003 ROE.

Figure 4. Compliance with Required Project Impact Analysis Has Improved for Sample Evaluated Projects Approved in FY04



4.9 *Assessment of Business Performance.* Although all projects reported a financial rate of return, the assessment of financial viability still reflected some weaknesses. Only

three out of the ten cases³⁶ clearly noted the assumptions used. Assumptions underpinning projects' revenues were not documented in most cases, and the capacity to service debt and recover cost was not well documented. The analysis of a power generation project did not include a discussion of the demand for electricity, the number of potential consumers, rates, or impact on the end-user tariffs. The analysis of a water supply project did not consider the incremental impact on water rates that consumers would have to pay and whether customers could pay the higher water tariffs. The analysis of a second water project was not based on project revenues, but on the good payment record of the off-taker in two previous projects not covered by MIGA guarantees. Revenue collection and cost recovery were not dealt with adequately in a tax survey project.

4.10 Assessments of demand, investment or marketing plans, and capital expenditure programs were usually not presented. Only one project in the sample incorporated nearly all of the necessary elements by providing a concise and coherent market and sector analysis, which supported the determination that the project is financially viable. Four projects presented a partial market and sector analysis, while eight of the thirteen reviewed projects provided insufficient analysis to demonstrate their financial viability. Assessments of investors' investment strategies, demand projections, marketing plans, and capital expenditure plans were lacking, even for expansion projects.

4.11 MIGA's framework for development impact analysis does not require a FRR/adjusted FRR or cost-benefit analysis for financial sector projects. However, it *does* require an assessment of the resource allocation policies of the financial intermediaries, the rationale for the on-lending programs of the financial intermediaries,³⁷ and their impact on the structure of, and on competition within, the financial sector. In the two sampled financial sector projects, the lending/leasing to SMEs was presented as a broad objective, but the rationale was incomplete for the allocation of funds to the target sectors. Few details were provided about the actual demand for financing by SMEs and the target sectors in the host country, the program of the financial intermediary for lending to these sectors, the quality of the lending/leasing portfolio, and the profitability of lending to these sectors. In one case, the SME definition encompassed large corporations in the host country.

4.12 *Assessment of PSD Impact.* MIGA described sufficiently in nearly all cases the social development impact of the sampled projects at the local community level and on the broader sectoral and social/physical infrastructure of the host country. However, the assessments were almost always descriptive, and further improvement is therefore desirable in quantifying such impacts (where possible).

4.13 The *ex-ante* assessments mostly (for seven out of ten regular projects) provided little information on project beneficiaries and stakeholders. Benefits to stakeholders (other

³⁶ Out of the 13 projects in the sample, two financial sector projects and one project that pre-dates the CODE-endorsed methodology are excluded from the requirement to calculate an FRR.

³⁷ An example is a financial sector project that recently received MIGA support. The *ex-ante* assessment did not provide details of how the target sectors had been performing, on whether the bank would lend to new or existing clients, and more importantly, how the portfolio was performing.

than the government) were in most cases not quantified, and in some cases not described. Project analyses generally did not discuss (or quantify) the projects' negative impacts, risks, or costs, and all the projects failed to identify any parties that could be affected negatively. In the sampled projects possible risks often not addressed included the affordability of tariffs charged by the project,³⁸ the government's fiscal risk in cases where the government is the buyer of the good or service, lost revenue due to import substitution, implicit or explicit subsidies, relocation/resettlement costs, and losses to local industries if the project enterprise should capture additional local market share. Exceptions were usually in the context of environmental impact and in a few cases, the projects' overall risk profile, but these analyses were not integrated into the development impact assessment. The development impact section tended to discuss only the project's potential benefits. (Economic costs and risks were seldom mentioned, even for mining and a solid waste project.)

4.14 *Strategic Relevance and MIGA's Role and Contribution.* For the sampled projects, MIGA described clearly in the underwriting papers the relevant aspects of the CAS and the WBG's programs in the country. However, over half of the reviewed projects were not well linked with either the CAS or sectoral priorities of the WBG. In these cases, while the CAS objectives were listed, there was no clear linkage to prospective MIGA project. Four projects established the strategic relevance enumerating CAS and sector objectives as well as the MDGs, and by connecting the projects to the objectives stated in these documents.

4.15 MIGA justified clearly its rationale for participating in the projects in most cases, but the project objectives were not stated explicitly enough to provide a benchmark for assessing the project's performance at a later stage. MIGA justified its participation in the sample projects more in terms of the projects' general development impacts than on the basis of their linkage to the WBG's or MIGA's own priorities and strategies. Relatively little attention was paid to lessons learned from the WB's and MIGA's experience in the country or in the sector as in the cases of projects in the extractive industries, infrastructure and financial sectors. More typically, the lessons learned were limited to the claims history of the host country, contained in the Legal Information Sheet of the Underwriting Paper. Closer attention paid to linking a project's strategic relevance and lessons of experience to the development impact could enhance MIGA's value-added in the projects that it supports.

4.16 *Overall Findings.* OEU's analysis shows some areas of improvement in MIGA's application of project impact assessment methodology from FY03 to FY04. In particular, the reporting improved on FRR assumptions and in noting distortions that may affect the projects. However, there are significant gaps in the interpretation of the methodological requirements, including the discussion and documentation of distortions and the use of economic cost-benefit analysis.

³⁸ In the cases of the four infrastructure and an oil and gas project reviewed, which involved concession contracts with government or sub-sovereign entities, the analysis did not include the agreed wholesale and retail tariffs, and did not assess whether the end-users would be able to afford the final tariffs. Affordability is crucial in determining the financial viability and economic sustainability. However, it should be noted that private investors would normally undertake this analysis.

5. EVALUATION OF MIGA TECHNICAL ASSISTANCE PROJECTS

A. Outcomes and Impacts of Two Evaluated TA Projects

5.1 During FY98-03, MIGA provided technical assistance to about 63 countries for capacity building and institutional strengthening of Investment Promotion Intermediaries (IPIs). OEU began evaluations of MIGA capacity building activities in FY04, and this section summarizes findings on the effectiveness of MIGA's assistance from two case studies (in El Salvador and Romania).³⁹

5.2 *Conditions for MIGA's Engagement and Nature of TA.* The two cases differ with respect to depth and duration of MIGA's involvement; the nature of assistance; the country's commitment to implementation; investment climate; and institutional framework, and thus, in outcomes and impacts of MIGA's assistance.

5.3 In El Salvador, MIGA has provided longer-term and more in-depth assistance for a country that has been pursuing a comprehensive reform program (supported by the WB), with private sector development and improving the investment environment as important government priorities. This enabled MIGA to provide more intensive assistance. In Romania, MIGA's involvement and input were much more limited, due largely to country conditions. While MIGA provided an initial needs assessment (a diagnostic tool to assess the infrastructure in place for investment promotion and the capacity of the country to attract FDI), thereafter the institutional structure for investment promotion underwent frequent changes, and the roles and responsibilities of different agencies dealing with aspects of investment promotion were never defined clearly. Accordingly, MIGA did not continue its assistance beyond the initial stage.

5.4 *Outcomes.* Based on in-country interviews, in both cases MIGA's recommendations and assistance were considered very useful by IPI staff and induced changes in capabilities and practices of the IPI. However, MIGA had a more substantial and longer-term involvement in El Salvador, and the outcomes have also been more discernable and positive than in the case of Romania.

5.5 In El Salvador, MIGA has helped since 2000 to strengthen the capacity of the then newly established IPI (PROESA), which implemented many of MIGA's recommendations, and adopted the basic approach to investment promotion propagated by MIGA. PROESA staff also received significant training. An OEU survey and interviews show that the government and foreign investors view the IPI very positively. PROESA has established itself as a highly professional agency, has mounted a major image building campaign ("El Salvador Works"), has so far provided services to about 90 potential investors, and has generated a number of concrete leads. The vast majority (84 percent) of investors

³⁹ See *An Evaluation of MIGA Investment Climate Activities*. OEU. (Forthcoming)

interviewed were satisfied with its assistance. Furthermore, most investors (93 percent) considered PROESA's services to be of "good" or "excellent" quality.⁴⁰

5.6 MIGA played an instrumental role as an advisor during the early phase of PROESA's operations, addressing concerns of its board and succeeding in sustaining government support. MIGA staff established strong relationships with PROESA staff and board members. PROESA staff noted the responsiveness of MIGA's team and the high quality of their assistance. This assistance was widely credited with helping PROESA establish credibility and legitimacy within the government and with investors, and allowed the new agency to get a head start. MIGA was credited for providing a "blueprint" for the nascent institution and helped with its implementation.

5.7 While there were few benefits from MIGA's work in Romania in the early phase (2000-2001) because its initial recommendations were not implemented, the eventual formation of ARIS (Romanian Agency for Foreign Investment) is attributed to MIGA's advocacy for an independent IPI. In the later phase (2002-2003), MIGA's re-engagement and work with ARIS, which consisted mainly of a needs assessment and a draft strategic plan, resulted in several positive outcomes. At the same time, MIGA did not emphasize sufficiently several important issues that ARIS faced: weak relationships with other government entities with similar responsibilities, and a poor governance structure, which severely hampers its effectiveness. The institutional framework in Romania for issues relating to investment promotion has changed frequently, and several government entities have been competing with ARIS in implementing aspects of its investment promotion mandate. ARIS does not have any links with the Business Environment Department in the Ministry of Economic Development and Prognosis, an entity supported by FIAS. Given these findings, MIGA's cautious approach, offering only limited services in Romania, was appropriate and borne out by subsequent events. The case of Romania is illustrative for the difficulties MIGA can encounter in its engagement with a country and the dependence of the success of its interventions on the capacity and willingness of the host country to implement recommendations.

5.8 ARIS is perceived by some stakeholders as struggling to gain credibility, having little visibility, and lacking needed resources and structures. Nevertheless, even within the limitations of the existing institutional framework, MIGA's assistance seems to have had some positive outcomes in terms of ARIS's effectiveness in serving its clientele. A small sample of foreign investors rated ARIS's overall effectiveness quite highly, and about half stated that ARIS's services were of major importance in their decision to locate in Romania (yet a strong majority of respondents stated that they would have invested in Romania without ARIS's services).

5.9 *Impact.* A recent FIAS study concluded, based on empirical evidence, that there is a positive relationship between investment promotion and FDI.⁴¹ However, when assessing the impact of MIGA's interventions on increased FDI flows to the host countries

⁴⁰ OEU surveyed 62 IPI clients in El Salvador (34 responses) and 15 in Romania (10 responses).

⁴¹ Morisset, Jacques and Kelly Andrews-Johnson: *The Effectiveness of Promotion Agencies at Attracting Foreign Direct Investment*. World Bank, 2003.

(or improvements in the investment climate), it is important to note the limited role of IPIs in general. They can help shape the image of a country, but their mandate does not encompass a responsibility for policies affecting FDI. Investment decisions are influenced by many factors outside the control of IPIs, such as the macroeconomic situation, the legal and regulatory framework, and conditions in factor and final markets. It is therefore inherently difficult to measure any direct improvements in FDI flows as a result of MIGA's TA.

5.10 OEU's surveys of IPI clients for the two country cases did not show strong evidence that the IPIs have had significant impacts on investment decisions so far. Broad majorities of respondents (79 percent and 90 percent, in El Salvador and Romania, respectively)⁴² indicated that they would have invested in the country even in the absence of an IPI. According to responses of surveyed investors, the IPIs' main added value was in helping to reduce the time required to open operations—thus reducing the cost of doing business (50 percent of respondents), and increasing the likelihood of the success of the investment in the country (50 percent)—which involved closing the information gap. However, investments take time and it may therefore be too early to determine the impact of these IPIs on FDI flows.

5.11 The evaluation found that investment flows in El Salvador were mainly driven by reform policies, trade liberalization initiatives, and privatization efforts by the government, which reduced costs and minimized risks. The government took specific steps to create a more favorable investment climate. Foreign investors stated that they were drawn to El Salvador because of the political and currency stability, and its physical infrastructure. According to the investor representatives surveyed, investment promotion efforts were not in themselves a determinant. In Romania, investor interest resulted mainly from the prospect of EU accession, and related improvements in the business environment and macroeconomic performance.

5.12 *Sustainability.* In terms of the sustainability of the impacts of MIGA assistance, both IPIs depend on visibility, credibility, and support from the highest level of government and the private sector. In the case of El Salvador, the IPI appears to have political support, but it currently lacks budget autonomy and many of its staff move to take jobs with foreign companies. The Romanian IPI has inadequate funding and staffing, and it is still struggling to gain credibility and support from the private sector, and to define its role among various government agencies. The sustainability of impacts to date of MIGA's technical assistance is therefore considered likely in El Salvador, but modest in Romania.

B. Strategic Relevance, Work Quality, and Efficacy of MIGA's Technical Assistance Activities

5.13 *Strategic Relevance.* MIGA's work in El Salvador and Romania was relevant. In El Salvador, it supported the government priority of attracting private investment; an objective that was also supported by the Bank (with a Competitiveness Enhancement

⁴² Surveys were administered to current general managers or directors of companies, who may not have been the ones making the site selection decisions for the firms.

Technical Assistance Project in 1995) and FIAS (which helped develop a one stop shop for foreign investors). In Romania, which has been lagging behind other transition countries in Central and Eastern Europe in terms of FDI inflows, the Bank's emphasis was to support economic reforms to reduce poverty. The uneven progress in this regard has had negative impacts on the business environment, identified in FIAS's administrative barrier study (1999). The Romanian government has now also identified changes in the business environment as one of its development priorities, in order to attract foreign and domestic investors in new SMEs and in privatizing state-owned enterprises.

5.14 *Quality of TA Work.* OEU found that the quality of MIGA's TA work in the two evaluated projects was generally high, and the recommendations and advice MIGA gave to investment promotion intermediaries were mostly relevant. Moreover, the interviewed IPI staff generally considered MIGA's assistance very useful, and they rated highly the responsiveness of MIGA's staff. However, in one instance MIGA did not diagnose an important issue constraining the effectiveness of the IPI.

5.15 OEU's evaluation has identified shortcomings in MIGA's TA management. At the time of evaluation MIGA did not conclude contracts or agreements with its TA clients to define the scope of work, objectives, and cost-sharing arrangements. While it has recently started to manage its projects more systematically through its annual work program, at the time of evaluation, MIGA had not established a monitoring system for its TA activities to track project progress, results, and costs.

5.16 *Efficacy.* In both of these country cases, the host countries received assistance from several entities of the WBG with respect to private sector development and FDI. OEU found little overlap or gaps in the actual delivery of assistance to the clients, but the coordination and information sharing between the institutions could be improved further.

6. FINDINGS AND RECOMMENDATIONS

A. Summary of Findings

1. *Three of nine evaluated projects guaranteed in FY96-98 had satisfactory or better development outcomes. Unsatisfactory outcomes of the remaining projects were mainly linked to poor business performance.*

6.1 The only project rated excellent in development outcome had a strong financial performance, contributed to economic sustainability, and had a clear PSD impact and high rating in safeguards compliance. In this project, MIGA benefited from partnerships with the World Bank and the IFC. In contrast, a project rated “unsatisfactory” failed in all evaluation dimensions except for its compliance with MIGA safeguard policies and guidelines. This project was weakened by a non-competitive bidding process, and created excess supply at a high cost of production, burdening the off-taker, the host government, and consumers. The weak regulatory environment and governance issues in the country negatively affected the project’s development outcome.

6.2 Most of the evaluated projects were underperformers, particularly from a business perspective. Business performance was the weakest among all the development outcome dimensions due to initial optimism about business prospects and/or subsequent unexpected economic crises that affected some of the host countries during 1998 to 2001. The unanticipated crises exacerbated inherent weaknesses in these projects’ optimistic business and financial models. In most cases, MIGA’s underwriters did little verification of the soundness of the financial assessment of guarantee projects, as was the accepted practice at the time when these projects were approved (FY96-98).

2. *Projects’ contribution to economic sustainability is linked to their business performance.*

6.3 Business performance was a direct determinant of sustainable economic benefits to society, which was captured in the ERR and qualitative factors. Deteriorating business performance in a few instances resulted in the discontinuation of social/community programs initiated by some of the investors. In one project, the ERR was lower than the FRR because the product is protected from competition by high tariffs. One project was rated excellent for its PSD impact, primarily due to its positive demonstration effect.

3. *The consistency of evaluated projects with environmental and social safeguards was mostly satisfactory at approval (with some gaps) and improved over time.*

6.4 The review of safeguards for nine projects showed that the majority of projects had a satisfactory compliance or better: the share of projects with satisfactory or better compliance was 75 percent at Board approval and increased to 88 percent at evaluation. This result is similar to the findings of the Extractive Industries Evaluation.

6.5 This means there is room for improvement in ensuring consistency with MIGA's safeguards prior to Board project approval. Identifying all applicable safeguards or meeting the requirements of specific safeguards were the weakest aspects of safeguard consistency prior to Board approval. There were five projects with deficiencies in applying safeguard policies. The natural habitats (applicable in two cases) and resettlement policies (applicable in one case) were the policies that resulted in the lowest ratings (also the case in the Extractive Industries Evaluation).

6.6 The evaluation of seven category B projects (three of which were joint MIGA-IFC projects) showed that there are important differences in how category B projects are treated by IFC and MIGA. MIGA's B projects were not subject to public disclosure, regular reporting on safeguards performance by investors, and ongoing monitoring by MIGA. There were five cases in which MIGA was not aware of non-compliance with some aspects of its safeguard policies or guidelines during some stages of project implementation due to inadequate information at the time of Board approval and lack of follow-up.

4. Most evaluated projects were strategically relevant. MIGA's role and contribution has been satisfactory in most evaluated projects. However, their ex-ante project assessments were mostly unsatisfactory.

6.7 *Strategy.* The achievement of MIGA's development mandate has been difficult to verify because MIGA's mandate, strategies, and operational objectives were not consistently and clearly linked to the development objectives of the supported projects, which also were often not well articulated. MIGA's strategy document, *MIGA Review 2000*, was prepared after the Board approval of evaluated projects (FY96-98). However, most projects were generally supportive of WBG strategies and/or host-country priorities at that time.

6.8 *Role and Contribution.* Results from project evaluations show that MIGA made important contributions in most of the projects, primarily as a political risk insurer facilitating investments, but also in some cases by improving projects' environmental performance through its safeguard policies, and by mediating disputes between investors and host countries.

6.9 *Assessment, Underwriting and Monitoring.* The findings from the sample of evaluated projects suggest that MIGA's work in FY96-98, for the most part, was not adequate for ensuring MIGA's mandate of development effectiveness. This finding reflects the standards used to evaluate this dimension, which were evolving throughout this period. The major shortcomings in this area were in project assessments. In most cases, there was no verification of assumptions, and insufficient documentation to adequately assess a project or to warrant a decision to guarantee it. In some cases, the key documents were missing, without evidence that the information was ever requested from the investor. Files did not contain updated information on the project even when the contract of guarantee required such information from the investor. As a consequence, in a few cases MIGA was not informed of material changes in project agreements.

6.10 While most guarantee clients have been highly responsive in improving safeguards compliance after guarantee approval, MIGA's own actions in ensuring its clients' compliance with safeguard policies have not been sufficient for all projects. MIGA's work in this regard was rated satisfactory or excellent in 38 percent of the projects. In the evaluated projects, only in very few cases was there any follow up by MIGA to check and satisfy itself that guarantee holders were meeting safeguard requirements or the environmental or health and safety regulatory requirements of the host country.

5. *MIGA benefited from and relied on partnerships within the WBG and with other institutions (MDBs and insurers). However, MIGA's own accountabilities in terms of safeguards due diligence and development impact analysis were not clearly established.*

6.11 MIGA's partnerships with other multilateral agencies helped reduce transaction costs and duplication of efforts. However, MIGA could make better use of these partnerships at the underwriting stage and following the issuance of the contract of guarantee, in terms of obtaining relevant information on these projects' performance. In all evaluated cases, there were shortcomings in identifying projects' potential risks that could affect business and developmental outcomes. Proper coordination, and regular sharing of relevant documentation and information was lacking, and thus, the benefits of partnerships were not utilized to the full extent.

6.12 As was found in the Extractive Industries Evaluation, the projects that received high ratings on compliance with safeguard policies, were projects with the involvement of other multilateral or bilateral institutions. Some of the investors/clients also had their own high environmental and/or social standards. However, the review of safeguards found that MIGA could make a better use of its partnerships with other international agencies in providing safeguards due diligence oversight and value added to its projects.

6. *Development Impact Analysis in new projects continues to be weak.*

6.13 Compliance with the required development impact analysis for a sample of 13 projects guaranteed in FY04 improved somewhat compared to projects guaranteed in FY03. Financial rates of return were included and the absence of distortions noted in the Underwriting Paper for seven regular and three SME or South-South projects included in the sample. In ten projects, alternative scenarios for their financial analysis were mentioned, and some cases attempted to account qualitatively for the projects' economic costs and benefits. However, the quality at entry of the FY04 sample shares several of the weaknesses identified in the FY03 sample, including the discussion and documentation of distortions. Assumptions used in assessing project's financial viability were not reported in most cases. Moreover, in most cases the market analysis and sector context did not complement or support the project's financial viability. Direct linkage of the project objective with WBG strategies was often missing.

B. Recommendations

Recommendation 1: MIGA's Development Effectiveness Analysis

1.a MIGA should improve the application of the *ex-ante* project impact analysis to ensure that the projects it supports are sound and have positive and sustainable development impact. As recommended in the 2003 ROE, MIGA should consistently apply project impact analysis as required to all applicable guarantee projects in the underwriting process.

1.b Areas for greater attention and improvement include: (1) explicitly stating the project's rationale and justification for MIGA's involvement; (2) explicitly identifying the project cost and its components; (3) identifying potential distortions beyond tax holidays, positive or negative externalities for each sector or type of project, and verifying these items with the project sponsors; (4) discussing sector policy issues relevant to the project; (5) undertaking cost-benefit analysis when required to ascertain that the project is economically viable; and (6) identifying clearly the assumptions used in calculating FRRs and adjusted FRRs.

Recommendation 2: Environmental and Social Safeguard Policies

2.a MIGA should make greater effort to improve projects' safeguards compliance prior to their approval by the Board. In particular, the information required for Environmental Assessments (EA) should be adequate and special attention should be paid to applying the resettlement and natural habitat policies, when required.

2.b MIGA should consider the harmonization of its policies and procedures for category B projects with IFC. The recommended review for category B projects might include: (1) MIGA's Environmental Assessment (EA) policy with appropriate requirements for an EA; (2) MIGA's public disclosure policies; (3) Regular reporting requirements on EHS performance for sponsors; and (4) Guidance on treatment of projects which are part of large high risk projects with broader implications.

Recommendation 3: Monitoring of Active Projects

3.a MIGA should implement a cost-effective monitoring program to follow up on development effectiveness of its guarantee projects and obtain updated information about the performance of these projects.

3.b MIGA should scale up its regular environmental portfolio reviews to pay greater attention to monitoring safeguard performance of projects during implementation. New projects should incorporate provisions in their contracts of guarantee as appropriate for regular reporting of safeguard performance to formalize this requirement.

3.c MIGA should improve its project documentation system to facilitate monitoring of projects' development performance and safeguard compliance. This system will facilitate any follow up on requirements and provide a complete database for future reference and tracking.

Recommendation 4: Partnerships and Accountability

4.a Given MIGA's small scale and role as an insurer, cost-efficient sharing of information and documentation obtained by partners during the underwriting phase and project implementation should be improved. This information will enable MIGA to better assess and monitor the performance of its projects to fulfill its fiduciary responsibilities.

4.b MIGA should maximize benefits from cooperation with other multilateral or bilateral development institutions for assuring safeguard compliance at approval and during implementation, to minimize transaction costs, and to improve safeguard performance of projects. In particular, due diligence on environmental and social safeguard compliance needs to be well coordinated with multilateral or bilateral partners. MIGA should also take necessary steps to minimize reputation and other business risks that may arise from partnerships. Where MIGA relies on a partner's work and standards for safeguard compliance, it should satisfy itself that the standards and practice are at par with MIGA's policies and guidelines, and that accountabilities of partners are clearly established.

ANNEXES

Annex 1. Project Rating Guidelines

Indicator	Guidance	Benchmarks	Definition
DEVELOPMENT OUTCOME			
1. Business Performance			
<i>a) FRR</i>	Compare after-tax FRR with 10 percent hurdle rate (HR).	Excellent:	FRR \geq HR + 2.5percent
		Satisfactory:	FRR = HR
		Partially Unsatisfactory:	FRR \geq HR – 2 percent
		Unsatisfactory:	FRR < HR -2 percent
<i>b) if FRR cannot be calculated</i>	Judge performance relative to project's business/profit objectives. The guiding principle should remain the project's incremental financial impact on the project enterprise.	Excellent:	Objectives largely surpassed
		Satisfactory:	Objectives broadly achieved
		Partially Unsatisfactory:	One or more of the core objectives not met
		Unsatisfactory:	Most objectives not met
<i>c) Other financial indicators such as net present value, return on assets, debt service ratios, etc. to complement FRR</i>			
2. Project's Contribution to Economic Sustainability			
<i>a) Non-quantified benefits and costs</i>	Whether the project had any direct impact - positive or negative - on the poor or on living standards in the local community. Whether the project had any other contributions to international development goals. Or, whether the non-quantified benefits are sufficient to affect a project's overall assessment.	Excellent:	Objectives largely surpassed
		Satisfactory:	Objectives broadly achieved
		Partially Unsatisfactory:	One or more of the core objectives not met
		Unsatisfactory:	Most objectives not met
<i>b) Quantifiable benefits and costs</i>	Relates to the project's economic effects on its input and output markets. Consider domestic and international competition and how prices and quantities are determined in relevant markets. Economic costs and benefits include taxes paid to the government, consumer surplus, other divergence of financial and opportunity cost, effects on	Excellent:	ERR \geq 20 percent

	competitors, and benefits to suppliers, including labor.		
		Satisfactory:	ERR \geq 10 percent
		Partially Unsatisfactory:	ERR $>$ = 5 percent
		Unsatisfactory:	ERR $<$ 5 percent
3. Environmental, Health and Safety (EHS) Effects	REFER TO CRITERIA FOR CONSISTENCY Annexes 7 and 8		At Board Approval
			At Evaluation
4. Private Sector Development Impact			
	Consider the relevant indicators below:	Excellent:	Impact is significant and meaningful relative to country and sector
	a) Extent to which local suppliers of goods and services benefit from the project's operations	Satisfactory:	Some positive impact beyond the project enterprise
	b) Extent to which businesses are using the project's output as their input	Partially Unsatisfactory:	No noticeable impact beyond the project enterprise
	c) Extent to which new technology and know-how was introduced	Unsatisfactory:	Negative impact on the country and sector
	d) Quality and scope of employee training (development of local management skills, percentage of administrative budget, staff-hours, etc.)		
	e) Extent to which the project stimulated follow-up investments and/or other feasibility studies		
	f) Contribution of project to domestic capital market development (pioneering listing on stock exchange, enhanced disclosure standards, introduction of international accounting standards, etc.)		
	g) Company's governance, reputation, and business practices as a corporate role model and quality investment asset		
	h) Extent to which project-related technical assistance, activities, goods and services bring about changes in the enabling environment		
	i) Project's impact on enhanced private ownership		
	j) Project's impact on stronger local entrepreneurship		
	k) Extent to which the project led to greater competition and competitiveness		

	l) Identify and discuss the project's impacts on competitors, new entrants, and producers of complementary goods.			
MIGA's EFFECTIVENESS				
1. Strategic Relevance				
	a) Consistency of the project with MIGA's sector/thematic strategy/priorities.	Excellent:	The project's objectives were fully consistent with (a) and (b)	
	b) Consistency of the project objectives with CAS and the country's key development priorities	Satisfactory:	The project's objectives were mostly consistent with (a) and (b)	
		Partially Unsatisfactory:	The project's objectives were partially consistent with (a) and (b)	
		Unsatisfactory:	The project's objectives contradict (a) or (b)	
2. MIGA's Role and Contribution				
	a) MIGA's additionality	Excellent:	MIGA's role was essential for the project to go ahead and MIGA clearly contributed to its success.	
	b) Promotion of good practices	Satisfactory:	MIGA's role and contribution were positive in most areas.	
		Partially Unsatisfactory:	MIGA's role and contribution fell short in at least one area.	
		Unsatisfactory:	MIGA's role and contribution fell short in key areas.	
	c) Effective partnership and coordination arrangements with other sponsors			
	3. MIGA's Assessment Underwriting/Monitoring			
		a) Quality of MIGA's assessment	Excellent:	Comprehensive and high quality assessment, underwriting and monitoring
		b) Quality of MIGA's underwriting with respect to assessment of risks affecting the project and the methods, process and procedures put in place to diminish the project's risk profile.	Satisfactory:	Good quality assessment, underwriting and monitoring of most areas
Partially Unsatisfactory:			Some gaps/inconsistencies in the quality of assessment, underwriting and monitoring of key areas.	
Unsatisfactory:			Major gaps/inconsistencies in the quality of assessment, underwriting and monitoring.	
	c) Adequacy and timeliness of MIGA's monitoring			

**Annex 2. MIGA Safeguard Policies
Criteria for Consistency at Approval**

Criterion	Requirements
Comprehensive Environmental Assessment	Applies to both majority and minority owners and lenders (designated herein as “sponsors”) – required for all ‘As’ and for ‘Bs’ if host country legislation requires: (i) includes natural environment, social aspects, human health and safety, major hazards, transboundary/global and cumulative/induced impacts; (ii) prevent, minimize, mitigate or compensate for adverse environmental and social impacts and enhance positive impacts; (iii) potential for independent environmental advisory panel in case of highly risky or contentious project; (iv) properly defined area(s) of project impact; (v) for expansion or modernization projects the entire plant is subject to an EA (usually including an environmental audit); (vi) privatization projects require environmental audits; (vii) EAs (including environmental audits) to be carried out or reviewed by independent consultants; and (viii) compliance host country or MIGA environmental and health and safety standards or guidelines.
Adequate analysis of feasible alternatives	Proper analysis of project alternatives including: (i) without project alternative; (ii) where appropriate other sector alternatives; (iii) alternative sittings for facilities and routings of infrastructure corridors; (iv) alternative technologies and mitigation arrangements; and (v) analysis of feasible alternatives.
EHS Guidelines or host country’s regulations adequately addressed	Identification and application of appropriate EHS Guidelines and host country’s environmental and health and safety regulations that apply to the project and an analysis of the project’s compliance with these guidelines and regulations.
Comprehensive E&S baseline survey	Full description (with adequate support data) of the climatic, geological, topographical, physical, chemical, biological and socio-cultural-economic environment of the area of project impact as a basis for an adequate analysis of project impacts and future monitoring of the efficacy of the mitigation measures incorporated into the project.
Adequate EAP or EMP proposed	A detailed plan of the set of mitigation, monitoring and reporting measures proposed to be taken during project implementation to eliminate adverse environmental or social impacts, offset them, or reduce them to acceptable levels – required for all ‘As’ and ‘Bs’.
Project Sponsor’s EMS adequate	Comprehensiveness of environmental, social and safety management system proposed by the sponsor (including contractors) to fully implement the EAP or EMP, as well as appropriateness of proposed measures to strengthen these arrangements.
Public disclosure/consultation addressed	(i) consultation with local affected parties and local interest groups during EA process; (ii) disclosure of information in a timely manner and in a language and form understandable and accessible to local groups; (iii) for “A” projects final EA reports disclosed locally and through the World Bank Info-shop at least 60 days before MIGA Board approval.

Comprehensive and implementable RP/CDP prepared	<p>(i) avoid or minimize involuntary physical resettlement or economic displacement; (ii) directly affected and displaced persons should be: (a) informed of their options and rights regarding land acquisition and resettlement as well as alternatives that are available; (b) compensated for their losses at full replacement cost prior to the actual move; (c) assisted with the move and supported during the transition period in the resettlement site; and (d) assisted in their efforts to improve their former living standards, income earning capacity, and production levels, <i>or at least to restore them</i>. Particular attention should be paid to the needs of the poorest groups to be resettled; (iii) land, housing, infrastructure, and other compensation should be provided to the adversely affected population, indigenous groups, ethnic minorities, and pastoralists who may have usufruct or customary rights to the land or other resources taken for the project. The absence of legal title to land by such groups should not be a bar to compensation; (iv) alternative or similar resources provided to compensate for the loss of access to community resources; (v) in new resettlement sites or host communities improve, restore or maintain accessibility and levels of service for the displaced persons and host communities (vi) minimize impacts on host communities including consultation with these communities; (vii) consult and involve affected people in planning, and implementation; (viii) community level impacts require preparation of community development programs to improve the economic and social well-being of the affected communities as well as the affected households; (ix) preparation of a resettlement plan (RP), or other resettlement instrument (e.g., resettlement framework) as agreed with MIGA; and (x) disclosure of RPs involving more than 50 households or 250 people.</p>
Comprehensive and implementable IPP prepared	<p>Appropriate identification of indigenous groups in project area, namely those having: (a) close attachment to ancestral territories and the natural resources in them; (b) self-identification and identification by others as members of a distinct cultural group; (c) presence of customary social and political institutions; (d) economic systems primarily orientated to subsistence production; and (e) and indigenous language. Ensure: (i) avoidance and mitigation of adverse impacts; (ii) informed participation of the indigenous peoples themselves; (iii) culturally appropriate compensatory measures or social and economic benefits; and (iv) in consultation with indigenous peoples preparation of an Indigenous Peoples Plan (IPP).</p>
Natural habitats protected or offsets provided	<p>(i) Project does not significantly convert/degrade a critical habitat; (ii) natural habitats are correctly identified; (iii) alternative analysis examines alternatives to significant conversion; (iv) if conversion cannot be avoided, impact are minimized, mitigated and offset requirements are examined.</p>
Comprehensive Dam Safety measures proposed	<p>New Dams: Safety measures from design to operation for dam and associated works, including for: (i) dams >15 meters in final height; (ii) for</p>

	<p>special case (flood prone, seismic area, difficult foundations, toxic materials, etc.) dams between 10 and 15 m; and (iii) for dams initially under 10 m if expected to become large dams during construction, require the following: (a) reviews by independent expertise throughout design and construction of dam and for start of operations; (b) plan for construction, supervision and quality assurance, plan for instrumentation, an O&M plan, and an emergency preparedness plan; (c) construction by fully qualified companies under proper supervision; (d) periodic safety inspections after completion of construction;</p> <p>Existing Dams:</p> <p>(i) independent dam specialist(s) to evaluate safety status, performance history and owner’s operation/maintenance procedures; and (ii) specify remedial works or safety-related measures to upgrade dam to an acceptable standard of safety.</p> <p>Tailings Dams and Ash Lagoons:</p> <p>(i) this policy applies to such dams in excess of 10 m if: (a) the impoundment is cross-valley structure; or (b) after construction of a starter dam, the impoundment structure is made of whole tailings; or (c) standard testing methods indicate net acid generating potential of tailings or ash. However generic safety measures designed by qualified engineers are adequate for such dams less than 10 m in height, if tailings or ash have no net acid generating potential and impoundment is : (a) located in relatively flat terrain, highly arid areas or in permafrost zones; and (b) not subject to inflow from streams or rivers: (ii) stream diversions and spillways to be designed for 100 yr flood; and (iii) preparation of closure and abandonment plans.</p>
Cultural Property protection proposed	<p>(i) avoid harm to significant, non-replicable cultural property or with the help of qualified experts mitigate such impacts if loss is judged to be minor or otherwise acceptable; (ii) sponsor addresses protection/management of cultural property in project area including “chance finds”; (iii) sponsor meets host country regulations/laws (or adheres to best practice in the absence of host country laws); and (iv) sponsor consults with relevant stakeholders in documenting presence and significance of physical cultural resources.</p>

The set of requirements for each criterion of safeguard policy compliance were rated according to the following scale:

Excellent (E): the set of requirements were fully met, or expected to be fully met, with no shortcomings

Satisfactory (S): the set of requirements generally were met, or expected to be met, with only minor shortcomings

Partially Unsatisfactory (PU): the set of requirements were met, or expected to be met, but with significant shortcomings

Unsatisfactory (U): the set of requirements were not met, or expected not to be met, due to major shortcomings

**Annex 3. MIGA Safeguard Policies
Criteria for Consistency at Evaluation**

Criterion	Requirements
EAP or EMP fully implemented	Assess how effectively the EAP or EMP has been implemented by the sponsor and note any gaps and deficiencies. Note how well EAP or EMP implementation progress has been documented and reported in a timely manner. Note any deviations from the original plan and if these were appropriate considering the circumstances.
E&S monitoring implemented	Assess if the EAP's or EMP's E&S monitoring plan has been implemented according to the timing proposed. Assess if the monitoring results are substantiating the effectiveness of the E&S mitigation measures or not. Note if the results are being used to take corrective measures if needed.
Sponsor's project implementation EMS effective	Determine if the sponsor has implemented the environmental, social and safety management system proposed in the EAP or EMP. Assess the effectiveness of the proposed institutional strengthening measures to improve this system and whether the system has active sponsor management support. Assess its sustainability in the longer term.
Continuing public disclosure and consultation	Determine the extent to which project affected groups and other stakeholders continue to be consulted and involved during the implementation phase of the project. Assess if there have been any complaints by project affected people and how these complaints were dealt with by the investor.
Full compensation of PAPs	Assess if displaced persons have been: (a) compensated for their losses at full replacement cost prior to the actual move; (b) assisted with the move and supported during the transition period in the resettlement site; and (c) assisted in their efforts to improve their former living standards, income earning capacity, and production levels, or at least to restore them.
RP/CDP fully implemented	Determine if the RP/CDP has been fully implemented by the sponsor. Assess if the sponsor has adequately monitored and evaluated the activities set forth in the RP/CDP. If upon termination of the contract of guarantee the RP/CDP has not been fully implemented assess what follow up actions the sponsor proposes to meet the objectives of the plan and if these are adequate.
IPP fully implemented	Determine if the IPP has been fully implemented by the sponsor. Assess if the sponsor has adequately monitored and evaluated the activities set forth in the IPP. If upon termination of the contract of guarantee the IPP has not been fully implemented, assess what follow-up actions the sponsor proposes to meet the objectives of the plan and if these are adequate.
Natural Habitats protected or offsets provided	Assess if sponsor has taken all necessary measures to limit any significantly conversion/degradation of critical natural habitat and/or provide offset requirements as proposed in the EA. Assess the sustainability of these measures once the project has been implemented.
Dam Safety measures implemented	For new dams covered by the policy, assess if the safety measures recommended by the independent dam expert(s) throughout investigation, design and construction of dam and start-up of operations were implemented. Evaluate effectiveness of plans for construction, supervision and quality assurance, as well as for

Criterion	Requirements
	instrumentation, O&M and emergency preparedness. Assess the results of periodic safety inspections after completion of construction. For existing dams, assess if the safety measures proposed by the independent dam specialist(s) have been implemented as proposed and note any deviations.
Cultural Property protected	Assess if appropriate measures were taken by the sponsor to avoid harm to significant, non-replicable cultural property and provide protection/management of cultural property in project area including “chance finds” according to best practice or host country regulations/laws.
Contract of Guarantee for implementation of safeguard policies/ guidelines adequate	Assess if the following requirements have been met in contract of guarantee: (i) Specification of safeguard policies and EHS guidelines that apply to the project; (ii) MIGA ensures that contract of guarantee includes an obligation to carry out the EAP/EMP and includes as additional conditions specific measures under the EAP/EMP, as appropriate for facilitating effective monitoring on EMP implementation; and (iii) the sponsor’s obligations to carry out the RP/CDP and/or IPP (or other instrument agreed with MIGA) and to keep MIGA informed of implementation progress are provided for in the contract of guarantee.
Reporting on safeguard policies by sponsor adequate	Determine if MIGA has specified a comprehensive set of safeguard policy performance indicators that are appropriate for the project under implementation. Assess the timeliness and effectiveness of the reporting of indicators and their evaluation by the sponsor and MIGA, noting any deficiencies.
M&E of safeguard policies by MIGA adequate	MIGA reviews regular monitoring reports on safeguard compliance provided by the sponsor and notes any areas of concern for follow up with sponsor. MIGA bases supervision of the projects environmental/social/safety aspects on the findings and recommendations of the EA, including measures set out in the legal agreements, any EMP and other project documents, and ensures that supervision missions contain adequate environmental and social expertise. During supervision MIGA reviews sponsor’s implementation progress (incl. progress reports) and assesses Borrower’s compliance with agreed environmental actions, particularly the implementation of environmental and social mitigation, monitoring and management measures. If compliance is unsatisfactory, MIGA discusses with sponsor actions necessary to correct non-compliance and follows up on the implementation of such actions.

The set of requirements for each criterion of safeguard policy compliance were rated according to the following scale:

Excellent (E): the set of requirements were fully met, or expected to be fully met, with no shortcomings

Satisfactory (S): the set of requirements generally were met, or expected to be met, with only minor shortcomings

Partially Unsatisfactory (PU): the set of requirements were met, or expected to be met, but with significant shortcomings

Unsatisfactory (U): the set of requirements were not met, or expected not to be met, due to major shortcomings

Annex 4. Conditions for Application of MIGA’s Safeguard Policies

Safeguard Policy	Conditions
Environmental Assessment – “A” category (May 1999)	Adverse environmental and social impacts that are sensitive, diverse or unprecedented and likely to be significant beyond the project fence line
Environmental Assessment – “B” category (May 1999)	Projects whose impacts are limited in number, less adverse than those of Category “A”, and can be addressed by compliance with MIGA’s environmental guidelines or through application of recognized pollution prevention and abatement measures (or recognized best management practices)
Natural Habitats (Interim 2002 policy)	Significant conversion or degradation of natural habitats, or loss or modification of habitat in protected areas
Involuntary Resettlement (Interim 2002 policy)	Involuntary taking of land resulting in (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income source or means of livelihood
Indigenous Peoples (Interim 2002 policy)	Conflicts with or adverse impacts on indigenous peoples, tribes or ethnic minorities whose social and economic state restricts their capacity to assert their interests and rights in land and other productive resources
Dam Safety (Interim 2002 policy)	Safety of new or existing dams, including tailings dams > 10 meters in height
Forestry (Interim 2002 policy)	Sustainable forestry practices
Cultural Property (Interim 2002 policy)	Adverse, irreversible impacts on cultural or natural sites having archeological, paleontological, historical, religious or unique natural aesthetic value
Pest Management (Interim 2002 policy)	Significant use of pesticides
Projects on International Waterways (Interim 2002 policy)	Notification of projects with significant and adverse impacts on international waterways in respect to the quantity and quality of water flows to other riparian states, or will significantly and adversely affect present or likely future water use by other riparian states

**Annex 5: FY96-FY98 Evaluated MIGA Projects
Summary of Evaluation Results**

INDICATORS	PROJECTS								
	1	2	3	4	5	6	7	8	9
<i>DEVELOPMENT OUTCOME</i>	<i>PU</i>	<i>PU</i>	<i>U</i>	<i>PU</i>	<i>PU</i>	<i>S</i>	<i>E</i>	<i>S</i>	<i>PU</i>
Business Performance	U	U	U	U	PU	S	E	S	U
Project's Contribution to Economic Sustainability	PU	U	U	PU	S	S	E	S	U
Environmental, Health and Safety Effects	S	S	E	E	S	PU	E	N/A	PU
Private Sector Development Impact	S	PU	U	PU	PU	S	E	PU	S
<i>MIGA EFFECTIVENESS</i>	<i>S</i>	<i>PU</i>	<i>U</i>	<i>PU</i>	<i>S</i>	<i>S</i>	<i>S</i>	<i>S</i>	<i>PU</i>
Strategic Relevance	E	PU	U	S	S	S	E	S	E
MIGA's Role and Contribution	S	PU	U	E	S	S	S	S	S
MIGA's Assessment/Underwriting/Monitoring	PU	U	U	U	PU	PU	S	PU	U

Ratings:

- Excellent (E)
- Satisfactory (S)
- Partially Unsatisfactory (PU)
- Unsatisfactory (U)

**Annex 6. Potential Risks of Guarantee Projects at Underwriting
and at Evaluation of MIGA Evaluated Projects
(Based on 9 FY96-FY98 MIGA Projects)**

Project Code	Flagged at Underwriting					Identified at <i>Ex-Post</i> Evaluation				
	Country Macro	Sector	Client	Project	Environment & Social Safeguards	Country Macro	Sector	Client	Project	Environment & Social Safeguards
1		✓				✓	✓			
2						✓	✓			
3	✓	✓	✓		✓	✓	✓	✓		
4	✓	✓	✓	✓		✓	✓	✓	✓	
5				✓		✓			✓	
6	✓			✓	✓	✓			✓	✓
7		✓					✓			
8						✓				
9		✓		✓			✓		✓	✓

Risk Factor Definitions:

Country: Heritage Foundation/Wall Street Journal Index of Economic Freedom overall rating above 3.5 and/or major macro-economic crisis within the past 3-5 years

Sector: reform in progress; known reform policy issues; vulnerability to global, political or climatic conditions (agribusiness, monopolistic sector); complex and large projects (oil and gas, power, transport, water supply)

Client: inexperienced with business line; weak prior performance; doubtful business reputation including governance issues; poor financial capacity; minority shareholder and/or investor with little financial stake or commitment

Project: Greenfield; repeater (a mitigating factor); weak market assumptions or lack of inherent competitive advantage in market

Environment and Social Safeguards: Category A and others when safeguard compliance is of concern; history of weak compliance by country/sector/client.

Annex 7. Safeguard Policy Consistency Ratings of MIGA Projects at Approval

Project No.	1	2	3	4	5	6	7	8	9
EA Category	B	B	A	B	B	B	B	C	B
Comprehensive Environmental Assessment**	PU	PU	E	S	PU	S	E		S
Adequate analysis of feasible alternatives	S	PU	S	S	PU	PU	E		S
EHS Guidelines or host country regulations comprehensively addressed	S	S	E	E	S	PU	E		S
Comprehensive E&S baseline survey			S			S	S		
Adequate EAP proposed	S	S	E	S	S	PU	S		S
Project investor's EMS adequate	PU	PU	S	S	S	PU	E		PU
Public disclosure/consultation addressed			S						
Comprehensive and implementable RP/CDP prepared									U
Comprehensive and implementable IPP prepared									
Natural Habitats protected or offsets provided			PU				U		
Comprehensive Dam Safety measures proposed	E								
Cultural Property protection proposed									
Pest Management provisions proposed									S
Average Score	2.8	2.4	3.3	3.2	2.6	2.3	3.3		2.6
Overall Rating of MIGA	MS	MU	S	MS	MS	MU	S		MS

*An EA may include: an environmental impact assessment; environmental audit, and hazard or environmental risk assessment or a combination of these instruments.

E=Excellent; S=Satisfactory; PU= Partially Unsatisfactory; U=Unsatisfactory.

Excellent: the set of requirements were fully met, or expected to be fully met, with no shortcomings.

Satisfactory: the set of requirements generally were met, or expected to be met, with only minor shortcomings

Partially Unsatisfactory: the set of requirements were met, or expected to be met, but with significant shortcomings.

Unsatisfactory: the set of requirements were not met, or expected not to be met, due to major shortcomings.

Scoring system used the following values: E=4; S=3; PU=2; U=1

An average score of 3.3-4.0 is classified as "Excellent" (E)

An average score of 2.5-3.2 is classified as "Satisfactory" (S)

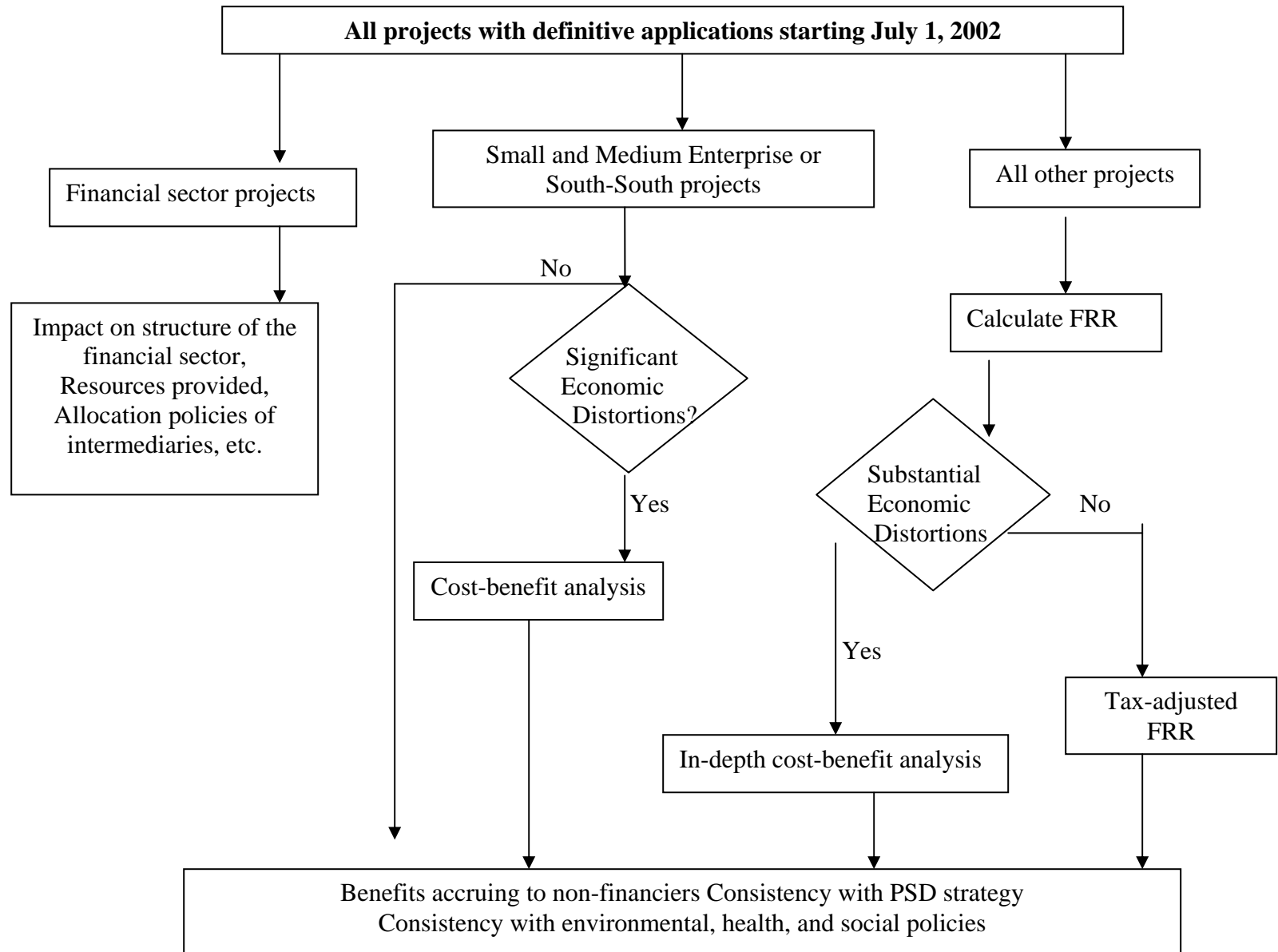
An average score of 1.7-2.4 is classified as "Partially Unsatisfactory" (PU)

An average of 1-1.6 is classified as "Unsatisfactory" (U)

Annex 8. Safeguard Policy Consistency Ratings of MIGA Projects at Evaluation

Project No.	1	2	3	4	5	6	7	8	9
EA Category	B	B	A	B	B	B	B	C	B
EAP/EMP fully implemented by investor	S	E	E	E	S	PU	E		PU
EHS Guidelines or host country regulations fully met	S	S	E	E	E	PU	E		PU
EAS monitoring fully implemented by investor	S	S	S	S	S	S	E		S
Investor's project implementation EMS effective	E	E	S	S	E	S	S		PU
Continuing public disclosure and consultation			S						
Full compensation of PAPs									
RP/CDP fully implemented									PU
IPP fully implemented									
Natural Habitats protected or offsets provided			S				S		
Dam Safety measures implemented	E								
Cultural Property protected									
Pest Management measures implemented									PU
Average Score at Evaluation	3.4	3.5	3.3	3.5	3.5	2.5	3.6		2.2
Rating of Project at Evaluation	E	E	E	E	E	S	E		PU
Overall Average Score for Project	3.1	2.9	3.3	3.3	3.0	2.4	3.4		2.4
Overall Rating of Project	S	S	E	E	S	PU	E		PU
Contract of Guarantee for implementation of safeguards policies/guidelines adequate	PU	S	U	PU	PU	PU	S		S
Reporting on safeguard policies by investor adequate	N/A	N/A	N/A	N/A	N/A	N/A	N/A		N/A
M&E of safeguard policies by MIGA adequate	N/A	N/A	N/A	N/A	N/A	N/A	N/A		N/A
Average Score	2.0	3.0	1.0	2.0	2.0	2.0	3.0		3.0
Overall Rating of MIGA	PU	S	U	PU	PU	PU	S		PU

Annex 9. New Methodology for Ex Ante Development Report Analysis



**Annex 10. Review of Compliance of FY04 Approved Projects with Agreed Project Impact Analysis
(Sample = 13 Projects)**

CODE	DA received after July 1, 2002	Financial sector project	SME project	South-South project	With FRR*		Presence/absence of distortions and externalities mentioned		Applicable Methodology	
					Required	Complied	Required	Relevant assertion	Required	Complied
1	Before				NA	Yes although not required ^{a/}	NA	Not covered (also mentioned presence of tax incentives)	NA	NA ^{c/}
2	After				Yes	Yes	Yes	Without special tax incentives	FRR	Yes
3	After				Yes	Yes	Yes	With subsidy (also mentioned absence of special tax exemption)	Cost-Benefit Analysis	No
4	After				Yes	Yes	Yes	Without tax holidays	FRR	Yes
5	After				Yes	Yes	Yes	Without subsidies or tax incentives	FRR	Yes
6	After		Yes	Yes	Yes	Yes	Yes ^{b/}	With tax holidays	Adjusted FRR	Yes
7	After		Yes		Yes	Yes	Yes ^{b/}	With tax incentives (mentioned absence of import duties)	Adjusted FRR	Yes
8	After			Yes	Yes	Yes	Yes	With exemptions from taxes and import duties (mentioned absence of subsidies and trade barriers)	Adjusted FRR (Cost-Benefit Analysis (?))	No
9	After				Yes	Yes	Yes	General statement about absence of distortions	FRR	Yes
10	After	Yes		Yes	NA	NA	NA	NA	Sector Context; Fund Allocation	Yes
11	After				Yes	Yes	Yes	General statement about absence of distortions	FRR	Yes
12	After				Yes	Yes	Yes	Without special tax exemptions	FRR	Yes
13	After	Yes			NA	NA	NA	NA	Sector Context; Fund Allocation	Yes
TOTAL	12	2	2	3	10	11	10			10

^{A/} Included a FRR, adjusted FRR although not covered by the requirements of the Methodological Note.

^{B/} SME and South-South projects require an adjusted FRR and if the project has significant distortions, an economic cost-benefit analysis needs to be conducted.

^{C/} Although not covered by the methodology, the analysis did include an adjusted FRR and sensitivity analysis.

* All projects are required to calculate a FRR.

Annex 11. Implementation of Recommendations from OEU's 2003 Report on Operations Evaluation in MIGA (ROE)

The 2003 ROE included an assessment of the compliance of MIGA underwriting documents with the requirements of the new project impact analysis agreed with CODE. The report found that MIGA had only made limited progress in this regard in FY03 and made the following recommendations:

- 1. “Application of new methodology for *ex-ante* assessment of development impact.** MIGA should apply the new methodological requirements to all guarantee projects in the underwriting process, except where specifically exempted.
 - In particular, MIGA needs to identify relevant distortions systematically and analyze their potential impact and implications for a project's benefits, cost, and overall development impacts, using cost-benefit analysis.
 - MIGA should build on current good practices, to improve quality at entry and mainstream the new methodology.

- 2. In order to strengthen the analytical basis of *ex-ante* assessment of development impact, MIGA should build capacity in this area,** including by providing training to underwriters in calculating adjusted FRRs, undertaking economic cost-benefit analysis, and integrated/holistic development impact analysis, as envisaged in the Methodological Note.”

MIGA Management responded to these recommendations as follows:

“The Methodological Note, endorsed by CODE in 2002, set out a number of new analytical requirements for the assessment of projects commencing July 1, 2002 (both on an *ex-ante* and *ex-post* basis). The OEU report reviews a sample of guarantee projects both before (10 cases) and after (9 cases) that date. Several shortcomings were identified that led to the apparent inadequate and inconsistent application of the requirements of the new methodology in the first year of implementation.

Management would like to acknowledge that it has not provided adequate training to underwriters in FY03 to apply the new methodology in a consistent and well-documented fashion. It intends to remedy this deficiency early in FY04 with the assistance of the IFC and input from the OEU. This should improve performance, if not completely remedy the deficiencies that were identified in the OEU report; particular attention will be paid to better documenting the research and analysis that was undertaken. Management fully intends to adhere to the letter and the spirit of the Methodological Note.”

Progress to Date

MIGA did provide a training session on development impact assessment to all underwriters in October 2003. In FY04 MIGA made little progress over FY03 in implementing the new project impact analysis. Analysis done by OEU included in this report suggests that while there was modest improvement in some areas (see Table 13), MIGA did not conduct any full cost-benefit analysis in any of the projects reviewed by OEU.