DEVELOPMENT IMPACT

After a slowdown in global activity in the second half of 2011 and then a marked improvement in market sentiment at the very beginning of 2012, in May euro-zone uncertainties again roiled financial markets around the world. This is a stark reminder that the after-effects of the global financial crisis have not yet fully played out. Financial market uncertainty and fiscal consolidation associated with the high deficits and debt levels of high-income countries are likely to be recurring sources of volatility.

Nevertheless, so far conditions in most developing countries are better than they were in the second half of 2011. This means that the real growth momentum remains there, as it was last year: according to the World Bank, in 2012 developing countries are expected to grow at 5.3 percent. This significant change to previous patterns of international economic growth is one of the fastest competitive transitions the world has ever witnessed.

FDI Trends

Foreign direct investment (FDI) inflows to developing countries rose by an estimated 23 percent to reach $625 billion in 2011. Most of the increase took place in the first half of the year. A decline is anticipated for 2012 to $518 billion, though the World Bank is forecasting a rebound in 2013.

Developing countries are also recipients of a bigger share of global FDI flows. Notably, many countries in sub-Saharan Africa are now regarded by investors as frontier emerging markets—Cape Verde, Ghana, Kenya, and Mozambique, to name a few. Over 50 percent of all FDI into developing countries in 2011 was directed into Asia, including destinations such as Bangladesh, Pakistan, and Sri Lanka.

In addition, South–South (one developing country to another) investment is outpacing traditional investment as a source of new FDI. As the traditional sources of investment in Europe and the United States have felt the brunt of the recent economic slowdown, a crop of new investors from countries such as Brazil, China, India, the Republic of Korea, Malaysia, Singapore, and South Africa has emerged. In 2011 outward FDI from Asia alone reached $127 billion.

MIGA's Role

These trends are particularly important to MIGA, as they dovetail with our mission to promote FDI in developing countries—and the Agency is actively tracking and responding accordingly. This year, we successfully delivered on recent product innovations that allow the Agency to underwrite different kinds of investments (see MIGA's Business). As we have seen increased opportunities in Africa, we have committed human resources to develop them. Noting the increase of public-private partnerships for infrastructure projects in Africa and Asia, MIGA has met with government authorities to make its value for these transactions known.

MIGA is also measuring investor sentiment. According to a recent MIGA survey, more than half of investors are contemplating an increase in their investments in emerging countries. Yet we note that, despite this enthusiasm, the awareness of noncommercial investment risk has also seen a resurgence.

This is not surprising. Shifts in opportunities toward riskier markets, in a generally more volatile world, come precisely at a time when shareholders and lenders—learning from events in the Middle East and North Africa and under the pressure of new regulations—have become much more aware of risk. How are these seemingly irreconcilable tensions on risk profiles playing out? The Agency's *World Investment and Political Risk 2011* report published in December found that investors were concerned primarily by the macroeconomic risk and the difficulty in obtaining financing, while their medium-term focus remains on political risk. More recently, some investors are paying closer attention to inequality and social tensions that can underlie apparent stability. Their risk analyses focus much more on political economy, jobs, and the availability of opportunities for the young.

In this context many investors are designing much more systematic risk-mitigation strategies. These involve local partnerships, better sourcing of information, more attention to fairness of contracts, environmental and social sustainability, returns to local communities, and engagement with organizations like MIGA that can help mitigate some of these risks. More than ever, our political risk insurance (PRI) can be leveraged to encourage the return of traditional investors and the entrance of new participants to a region.

Our volume of business in fiscal year 2012 reached a historically high level, continuing an upward trend from the previous year. From the Agency's perspective this points to the tendencies we just discussed: more interest in frontier markets coupled with greater awareness of risk results in increased business for political risk insurers.

Our *World Investment and Political Risk 2011* report underscores this trend, noting that the ratio of FDI to PRI grew from a low of 5 to 8 percent in the mid-1990s to a current level of 13 to 15 percent. MIGA plays an important role in this market, entering environments that may be off-cover for other insurers.

MIGA's Strategic Focus

Our focus is reflected in our four strategic priorities, which were shaped by the development needs of MIGA's member countries, the demands of a changing FDI environment and PRI market, and the need for the Agency to focus on its comparative advantage and complement other insurers.

Our first priority is encouraging FDI into the world's poorest countries and, in fiscal year 2012, 41 percent of our guarantee volume fell into this category. This year, the average size of MIGA-supported projects in the poorest countries increased significantly. Examples that address this priority include power-generation projects in Ghana, Kenya, and Rwanda.

Another MIGA priority is fostering South-South investments, which represented 22 percent of this year's volume. As with the previous strategic priority, the average size of MIGA-supported South-South projects increased significantly. Examples of MIGA-insured South-South investments include manufacturing in Turkmenistan and hydropower in Pakistan.

Our strategic focus on conflict-affected countries underlines MIGA's key role in these countries' rebuilding efforts, particularly during the crucial period of transition as they seek to establish stability after years of conflict. This focus also points to MIGA's ability to guarantee projects where other insurers may be off-cover. The development of Medjool date farms in the West Bank demonstrates MIGA's attention to this priority area, as does our continued support (through new guarantees issued this year) for MTN Afghanistan as it delivers essential telecommunications services despite the country's tenuous security situation. Projects in conflict-affected and fragile countries and territories represented 13 percent of MIGA's volume this year.

Examples of our work with complex projects, another priority area, include hydropower plants in Albania and Pakistan, a gas development project in Uzbekistan, a toll bridge in Côte d'Ivoire (see box 1), transportation in Panama, and three wastewater treatment plants in China. MIGA's support to complex projects accounted for 60 percent of 2012's volume.

Put together, projects in MIGA's priority areas accounted for 70 percent of new business volume.

MIGA is also committed to projects that are strongly aligned with the development goals and priorities of the World Bank, including sustained support to middle-income countries and to responsible agribusiness as the food crisis endures (see box 2). In all its activities MIGA actively draws on the complementary strengths of the Bank Group, leveraging knowledge, products, and services across the respective institutions for the benefit of host countries and private investors.

The impact on MIGA's business from this year's increased regional and sectoral diversification is discussed in more detail later in this report. Here, the development results are worth noting: in fiscal year 2012 MIGA's business in sub-Saharan Africa doubled to account for 24 percent of new business volume, and 14 out of the 17 projects supported are in IDA-eligible countries. This year's portfolio shows a substantial increase in infrastructure projects that can have a transformational nature, helping to bring power, transportation, and more efficient technologies to countries in need of sustained and sustainable investment. By mobilizing private capital that has wide developmental impact, MIGA not only fulfills its mandate, but it also frees up the limited resources of host governments—so that these resources can be used for the provision of other services.

MIGA Responds to Current Events

Encouraging and maintaining developing-country FDI when it might otherwise decline often requires nimble responses to events as they unfold. In many instances, MIGA plays a counter-cyclical role to accomplish this—for example, supporting banks that are tempted to deleverage in times of stress, entering projects when other insurers exit, and being among the first actors to engage as a country emerges from conflict.

This fiscal year we continued our focus on the Middle East and North Africa (MENA), given events in that region. Despite the region's uncertainties—compounded by the fact that many countries in the MENA region have

traditionally relied on investment from Europe, which is grappling with its own financial challenges—the need for investments that create jobs and opportunity is greater than ever. MIGA views this as an important moment for the Agency to step up and fill in gaps that the private sector cannot address.

To demonstrate our commitment to the MENA region, we actively began our mobilization of $1 billion in insurance capacity to retain and encourage FDI there, an initiative the Agency announced at the end of fiscal year 2011. The Agency has targeted existing and inbound FDI in order to ensure that political risk insurance market capacity is maintained and to bolster the efforts of national export credit agencies. MIGA made significant progress on this front, as it issued guarantees in Jordan, Morocco, and Tunisia (see box 3) totaling $432.9 million. Our demonstrated ability to guarantee projects that are compliant with Islamic finance also bolsters our ability to support investments in the region.

In addition, MIGA's concerted efforts to promote its West Bank and Gaza Investment Guarantee Trust Fund yielded results this year, as the Agency issued guarantees in the agribusiness and manufacturing sectors in the West Bank and Gaza respectively.

We increased our efforts to reach out to investors, lenders, and governments around the world to make it clear we are open for business in the MENA region. The Agency has shared its global experience of managing political risks, in particular by sponsoring conferences in investment capitals that focus on the region. MIGA cosponsored a conference with the Dubai International Financial Centre and the Islamic Corporation for Insurance of Investments and Export Credits in Dubai that was particularly well-received. MIGA's Executive Vice President also visited countries in the region and met with government officials, private sector representatives, and others to underline the importance of developmentally beneficial FDI. In addition, MIGA surveyed investors doing business in the region for our *World Investment and Political Risk 2011* publication; the results are discussed later in this report.

In fiscal year 2012 MIGA also collaborated with the Deauville Partnership, an initiative among international financial institutions that aims to help create macroeconomic stability, social cohesion, and more equitable growth in the MENA region.

Another part of the world that received targeted attention from MIGA is Europe and Central Asia. While the effects of the euro-zone crisis on the largest economies of Western Europe have received most of the world's attention, the crisis has also affected populations in emerging European countries, particularly the poorest in Central and Southeastern Europe. As a result, MIGA joined the rest of the World Bank Group in an effort to expand support available to the region. As part of this effort, MIGA announced its plan to increase its exposure there by $1 billion over the next two years. As the Agency has already issued $928 million in guarantees in fiscal year 2012, we have nearly achieved that goal.

MIGA and the Environment

Sound environmental performance, sustainability with respect to natural resource management, and social responsibility are critical to an investment's success and its contribution to the host country's development. MIGA adheres to performance standards for these issues and the Agency's environmental and social specialists evaluate the potential impacts of MIGA-supported projects, advising clients as to how to minimize and mitigate them.

MIGA has also contributed to environmental and social policy initiatives within the World Bank Group, including the *Environment Strategy: Toward a Green, Clean and Resilient World for All*. This underscores an integrated approach in this area across all the institutions of the World Bank Group, and it sets out a new development path that supports growth while focusing on sustainability and inclusiveness. The strategy also brings a greater focus on private sector involvement in environmental management.

The Agency also hosted a panel discussion on the role of the private sector in sustainable growth as part of the World Bank Group's Sustainable Development Network Forum 2012. MIGA's initiative brought this angle to the forum's more general sustainable growth discussion.

MIGA's Development Effectiveness

MIGA uses three different pillars to assess the development impact of our work: development impact metrics, project self-evaluation, and original research.

MIGA recently introduced the following development impact metrics that can be measured portfolio-wide: new jobs directly created, the value of training budgets, the value of locally procured goods, taxes and fees paid to the government, the value of community investment, and the amount of investment leveraged.

Since fiscal year 2011, the Agency has required that guarantee holders report on their project's performance across these indicators on the third anniversary of the signing of a MIGA contract of guarantee. We look forward to having these results next fiscal year.

In addition, MIGA continues to emphasize drawing developmental lessons from its completed projects and apply them to current and future work by implementing a vigorous program for self-evaluations. This organizational learning tool is allowing the Agency to fully absorb the

lessons of our work, while increasing accountability to shareholders and other stakeholders.

In fiscal year 2012, MIGA completed seven evaluations for guaranteed investments in Brazil, Burkina Faso, the Central African Republic, China, Costa Rica, the Russian Federation, and Senegal. The projects were rated on the following criteria: business performance, economic sustainability, private sector development impact, development outcome, environmental and social outcomes, strategic relevance, and MIGA's effectiveness.

Carried out by MIGA's economists, environmental and social specialists, and underwriters, and independently validated by the Independent Evaluation Group (IEG), the evaluations aim to increase awareness and learning among operational staff. These efforts are in addition to evaluations conducted by IEG discussed later in this report as well as ongoing monitoring of projects by MIGA staff.

The third pillar of assessing MIGA's development impact, our research and knowledge agenda, is detailed later in this report.

Box 1 — Rebuilding Côte d'Ivoire's Infrastructure

This year MIGA supported the construction and operation of the Henri Konan Bedié Toll Bridge and access roads in Côte d'Ivoire.

The project, which was originally initiated in 1996 but placed on hold due to the prolonged civil conflict in the country, represents an important milestone in the country's efforts to rebuild its infrastructure.

The project is structured as a public-private partnership and is being implemented under a 30-year build-operate-transfer concession agreement. It involves the financing, design, construction, operation, and maintenance of the bridge over the Ebrié lagoon and access roads to the north and south between the residential area of Riviera and the industrial area of Marcory. This is the first public-private partnership since the country's civil war.

MIGA is providing $145 million in guarantees covering equity investments and subordinated loans from Bouygues Travaux Publics of France and the Pan African Infrastructure Development Fund of South Africa, subordinated and senior loans from Africa Finance Corporation of Nigeria, and senior loans from BMCE Bank International Plc of the United Kingdom and FMO of the Netherlands. MIGA's coverage of the minimum revenue guarantee was essential to securing financing for the investment and the Agency is covering all private sector lenders to the project.

The construction of the bridge is a high priority for the country's government, as Abidjan's existing bridges and infrastructure are under severe strain and unable to manage the city's growing traffic. Once completed, the new bridge will significantly reduce travel times, improve overall mobility, and alleviate chronic traffic congestion in Abidjan. The project will also provide important demonstration effects for further private sector initiatives in a country that has been severely affected by prolonged civil strife.

Box 2 — Contributing to Food Security in Southern Africa

The pressing need for increased food production in sub-Saharan Africa is underscored in Zambia, where incomes and living standards have been on the rise, resulting in a growing consumer demand for meat and poultry products.

Trucks from the country's leading beef and poultry producer move up and down Zambian roads. According to a World Bank and UK AID study, Zambia's beef and dairy industries offer unrealized potential for wealth and job creation, but their success hinges on a variety of factors, including access to affordable, high-quality feedstock. MIGA client Chayton Africa, a producer of maize, wheat, and soya, is helping Zambia realize its potential to be the region's breadbasket.

Chayton Africa made its first investment in Zambia in 2010, acquiring two existing commercial farms and a contract farming business in the Mkushi farm block in the country's Central Province. To date, it has leased six existing commercial farms totaling just over 4,000 hectares with 1,250 hectares being farmed and 430 hectares under irrigation. The company, known as Chobe Agrivision, operates a fully-irrigated farming model, which allows double cropping: it achieves two harvests a year by growing wheat during the winter and a rotation of maize and soya in summer. Neil Crowder, Chayton Africa's Chief Executive Officer, notes, "Zambia has massive potential. But right now, only 1.1 percent of the potential fertile Guinea Savannah agricultural area is cropped. We believe that with more efficient agricultural practices such as crop rotation and zero tillage, soil and water management, and technological improvements, Zambia—and indeed all of Africa—can capitalize on an abundance of sunshine and fertile land to feed its growing population."

Chayton Africa, which started as a private equity vehicle, approached MIGA in 2009 to help mobilize resources for their investment in what remains a very challenging fundraising environment. "We had a vision for a sustainable agricultural business in Southern Africa and our challenge was to convince investors that there was a strong and viable market in the region," says Crowder. "We sought the MIGA cover to assuage any concerns investors may have had about political risk." In 2010, MIGA signed a conditional guarantee with Chayton Capital LLP in support of its planned investments in Zambia and Botswana. Under this contract, MIGA would provide political risk cover for the fund's planned investments. MIGA covered Chayton's first investment in Zambia in June 2011. And this year, MIGA provided an additional $9.5 million in investment guarantees covering Chayton's expansion and capital expenditures.

Now in its second year of production, Chobe Agrivision is hitting its stride and looking toward the future. The company is developing staff and skills so the venture can grow from a grassroots start-up to expanding production to 10,000 hectares under irrigation. It also has big plans for the community, including the construction of a new school.