



Independent Evaluation Group-MIGA 2007 Annual Report

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Document of the Independent Evaluation Group (MIGA) (IEG-MIGA)

Abbreviations and Acronyms

AR	Annual report
AMS	Agribusiness, manufacturing, and services
AROE	Annual Report on Operations Evaluation
CAO	Compliance Advisor/Ombudsman
CDP	Community development plan
CODE	Committee on Development Effectiveness
EA	Environmental assessment
EHS	Environmental health & safety
EI	Extractive industries
EMS	Environmental management system
ERR	Economic rate of return
ESA	Environmental or social assessment
EVP	Executive Vice President (MIGA)
FDI	Foreign direct investment
FIAS	Foreign Investment Advisory Service
FRR	Financial rate of return
FSAP	Financial Sector Assessment Program
FY	Fiscal year
IDA	International Development Association
IEG-MIGA	Independent Evaluation Group (MIGA)
IFC	International Finance Corporation
IPA	Investment promotion agency
IPP	Indigenous peoples plan
KPI	Key performance indicator
MATR	Management Action Track Record
MIC	Middle income country
MIGA	Multilateral Investment Guarantee Agency
MYEF	Multi-Year Evaluation Framework for MIGA: FY03-07
M&E	Monitoring and evaluation
NGO	Nongovernmental organization
OEU	Operations Evaluation Unit (Former name of IEG-MIGA)
PPP	Public-private partnership
PRC	Project Review Committee
PRI	Political risk insurance
PSD	Private sector development
QAE	Quality at entry
RAP	Resettlement action plan
RP	Resettlement plan
RDE	2004 Review of Development Effectiveness in MIGA (OEU)
ROE	2003 Report on Operations Evaluation in MIGA (OEU)
SIP	Small Investment Program
SME	Small and medium enterprise
SMI	Small and medium investor
TA	Technical assistance
WBG	World Bank Group (IBRD/IDA, IFC and MIGA)

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Executive Summary

Since 2003, MIGA's Independent Evaluation Group has synthesized in its annual reports evaluation findings on MIGA guarantees, services, and other activities, as well as findings from joint IEG evaluations presented to the Committee on Development Effectiveness (CODE) and the Board.

The 2007 Annual Report examines the quality of MIGA's work in assessing and underwriting new guarantee projects to ensure development effectiveness in its operations. The report's content is similar to an Annual Report on Operations Evaluation, which focuses on the Agency's systems for quality assurance, monitoring, and evaluation, rather than findings of ex-post evaluations of development effectiveness of MIGA projects, which will be the topic of the 2008 annual report.

The report presents findings of quality at entry assessments of MIGA projects underwritten between January 2005 and June 2006 to determine how well MIGA has implemented its own policies and guidelines. A new element in this report is an analysis of the expected relative contribution of these recent projects to MIGA's profitability. The report also presents an early assessment of the implementation of MIGA's Small Investment Program, which was initiated in FY06. The report's findings provide the basis for an update of MIGA's Management Action Track Record (MATR), which consolidates and retires previous IEG-MIGA recommendations, as agreed with CODE last year.

MIGA's systems for quality assurance during underwriting, monitoring, and evaluation

MIGA needs to fulfill its role as a development institution and remain financially sound. Since 2004, MIGA has improved its policies and procedures for ensuring that the projects it underwrites have a sound development rationale. Most of these changes occurred in 2004 and 2005 when MIGA adopted a new business model and strategic directions. They stressed for the first time MIGA's mandate as a development institution. MIGA has increased collaboration within the World Bank Group in line with its strategy; provided guidance to underwriters on the requirements for analyzing the expected development impact of proposed guarantee projects, added skills and capacity to assess economic and social aspects of its projects, and scaled up assessment and monitoring of environmental and social aspects in its projects.

However, a self-evaluation system is lacking, and MIGA has made limited progress in implementing a framework for monitoring project outcomes. The monitoring of environmental and social aspects of projects has been the main area of improvement. Although MIGA approved a framework for monitoring outcomes of projects in 2005, implementation has been slow, and to date, no formalized monitoring reports are available. MIGA prepares closing notes for cancelled guarantees, but these do not

systematically cover project outcomes. Progress has been significant in monitoring the environmental and social aspects of projects through increased field visits.

Independent evaluation

Since FY03, IEG has adapted its product mix to address issues relevant to MIGA, and to inform CODE and the Board. It remains the main source of information on the development effectiveness of MIGA. IEG-MIGA evaluations have had a positive impact on key developments in MIGA, as is evident in MIGA's 2005 strategy, with its greater focus on development effectiveness; in greater attention to environmental and social assessment and monitoring; and in the integration of MIGA's technical assistance (TA) into the Foreign Investment Advisory Service (FIAS). As the Multi-Year Evaluation Framework (MYEF), which has guided IEG's evaluation work during FY03-07, comes to a close, the focus of IEG's future work will respond to the following challenges and opportunities: broadening IEG's evaluation base, evaluation of projects with cancelled guarantees, and increased dissemination of findings and learning.

Quality of MIGA's analysis of new guarantee projects

MIGA's work quality in analyzing project viability and impact during underwriting is relevant for project outcomes. Findings from previous ex-post evaluations support this relationship, which is linked to project selectivity: as an insurer, MIGA has little influence on project design, and it is important that it selects projects with potential for high development impact, underpinned by its work during underwriting.

MIGA's analysis of the strategic relevance of projects and its institutional collaboration within the World Bank Group has improved. The reviewed projects analyzed well their support of MIGA's strategic priorities (infrastructure, frontier countries, south-south investments, and conflict-afflicted countries). They were also aligned with country and WBG strategic priorities. IEG ex-post evaluations show that strategic relevance of projects was a critical but not sufficient factor for satisfactory development outcomes. Since 2004, MIGA has significantly stepped up collaboration with the World Bank and IFC, at institutional, policy, strategy and operational levels. MIGA participates in several sector boards, MIGA technical assistance was recently integrated into FIAS, and the proposed environmental and social policy and performance standards will align MIGA's policies with the IFC's. At the operational level, there is increased information sharing, working across institutions on joint projects, and more systematic consultations with Bank Group staff.

MIGA improved its analysis of the financial viability of projects. Relevant sector issues for projects are more systematically considered, and almost all projects presented an expected financial rate of return. However, the underlying assumptions and commercial risks were not presented in decision documents for many projects, although the information for assessing business viability was available in MIGA files.

Analyzing the expected development impact of projects using a cost-benefit approach remains a shortcoming, with only modest improvements since 2004. Four of these were best practices in terms of presenting a full cost-benefit analysis in the decision documents, consistent with the ERR presented. Two additional projects that presented

ERRs had the supporting documents in files for an adequate analysis (not included in the Board documents), thus also complying with analytical requirements. The remaining projects lacked key elements of the analysis called for by MIGA's own requirements and guidelines, in particular identifying potential economic costs (such as trade protection, monopoly rights, and externalities). In particular, the development impact analysis of some of the projects involving concessions, which are complex and can affect many stakeholders, lacked required depth and rigor.

Feedback from staff suggests that most underwriters consider the guidelines for analyzing the development impact more as a general framework rather than a practical tool for day-to-day application; and they are not familiar with the specific requirements MIGA has in place. They noted that, instead, they use other indicators (such as country risk analysis) that they consider suitable.

MIGA's analysis of environmental and social issues in the majority of recent projects adequately met its requirements during underwriting, and the analysis of social aspects has been significantly improved. The gaps in compliance with environmental and social requirements were mainly in the projects underwritten under the Small Investment Program (with 70 percent of these projects meeting environmental and social requirements). Compared to previous years, MIGA has made notable progress in strengthening its upstream involvement in projects, particularly in addressing social issues; stepping up project visits during underwriting; better coordinating with partners on environmental and social assessment and monitoring; and making more effective use of Contracts of Guarantee to identify applicable safeguard policies and guidelines, and requirements for remedial action. However, MIGA does not yet ensure the early establishment of Environmental Management Systems by project sponsors.

MIGA is preparing to adopt a policy and performance standards for environmental and social sustainability that will harmonize MIGA policies with the IFC's. This is an important positive step, but the challenge lies in their implementation. MIGA will have an opportunity to strengthen the environmental and social assessment and monitoring of Category B projects. It will also have an opportunity to move beyond safeguard compliance to promote higher standards for sustainable development in its projects.

Expected contribution of projects to MIGA's profitability

IEG analyzed the expected (ex-ante) contribution of 46 recently approved projects to MIGA's profitability. The method was adapted from the approach used in the IEG-MIGA 2006 Annual Report in analyzing the ex-post results of relative profitability of evaluated projects. This report focuses on the ex-ante rather than ex-post relative profitability. This analysis provides information on how expected profitability is distributed among these recent projects and the factors driving it.

The size of MIGA's exposure was the most important factor in the profitability ranking of recent projects. The expected profitability and expected premium income are highly concentrated for the 46 projects assessed: The three projects at the top of the profitability ranking account for 20 percent of the expected premium. By contrast, the 56 percent of projects ranked at the lowest section of the profitability ranking account for only 13 percent of the total expected premium. The three highest ranked projects were in

frontier countries. Frontier country projects are no less profitable than those in the non-frontier countries. However, projects underwritten under the Small Investment Program, with small coverage and premiums, were expected to make low contributions to MIGA's profitability.

MIGA's Small Investment Program

MIGA began to implement the Small Investment Program (SIP) in FY06 to enhance its role in supporting small and medium enterprises (SMEs). Twenty percent of MIGA projects in FY06 were SIP projects. The program, with a coverage limit of US\$5 million, targets small and medium investors (SMIs) investing in SMEs in developing countries. It offers standardized terms with a lower fixed premium rate by country, and a streamlined underwriting process to make it more accessible to small investors and cost efficient for MIGA. IEG reviewed all 13 SIP projects issued since the inception of the program until March 2007. The review focused on the design of the program and whether these first projects have met the original intent, objectives and eligibility requirements. It is not an evaluation of project or program outcomes since these projects are very recent and their development impact cannot yet be assessed.

While the objective of the program is SME development and capturing the SMI market segment for MIGA, its eligibility criteria leave room for interpretation, which can dilute the SIP's original objective. Large investors are not excluded as long as they invest in SMEs, although the special terms and low premiums are specifically designed for small and medium investors. The standardized insurance package with low premium rates and streamlined underwriting were intended for simple, low-risk projects in the agribusiness, manufacturing, and services (AMS) sectors and financial intermediaries serving SMEs. However, other sectors are not specifically excluded. The policy does not clearly define project characteristics to be considered simple or low-risk. In addition, the SME definition is broad enough to include larger, high-profile projects in terms of share of sector or country.

The 13 SIP projects reviewed are consistent with MIGA's operational priorities. Most are in the sectors and regions targeted by the program. The projects are broadly consistent with country priorities or country assistance strategies. The majority of projects are in the agribusiness, manufacturing and services, as well as in Africa and Asia—the main targets of the SIP.

These SIP projects include some large investors and projects with greater scope. One third of investors benefiting from the special SIP terms were not SMIs. Five projects had features of a regular guarantee project (such as government licenses, concessions or public-private partnerships) or part of sector privatization programs. The overall scope of some projects was large as defined by the investor's business plans, or in terms of market share, geographical coverage, and project activities.

Quality of MIGA's work in SIP projects: the streamlined process is intended to reduce underwriting costs and burden to small investors. However, it also results in little documentation on the analysis of the project's financial viability and expected development impact. While all SIP projects showed at least a 10 percent internal rate of return (a requirement), information on their calculation was not available in most cases.

Given that a detailed development impact analysis is not required under the SIP, the information and documentation on expected impact—costs and benefits—is very limited. In particular, the projects involving concessions or privatization would have benefited from following MIGA’s guidelines for regular guarantees. While underwriting costs per projects are not available, staff estimates that cost and time of processing SIP projects did not significantly differ from comparable regular guarantee projects, and noted that for less experienced small investors the process could be more time consuming as they need more support from MIGA staff.

Implementation of existing IEG recommendations

IEG had 52 outstanding recommendations to MIGA management from previous reports since 2003. As agreed with CODE last year, IEG-MIGA undertook a review of all recommendations made to MIGA over the FY03-06 period. These were related to seven areas: (1) strengthening of MIGA’s development impact analysis of new guarantee projects; (2) monitoring and self-evaluation; (3) social and environmental safeguards; (4) leveraging partnerships and collaboration within the WBG; (5) contribution of projects to MIGA’s profitability; (6) MIGA’s online information services; and (7) MIGA’s technical assistance activities.

Based on the findings of this report, IEG retired 24 recommendations that MIGA has substantially implemented, or that are no longer relevant. More than half of previous recommendations (28) remain outstanding because they have not been fully implemented and require further effort by MIGA. Some of these remaining recommendations overlapped, and thus they were consolidated in the 2007 Management Action Track record (MATR) attached to this report. These outstanding 14 recommendations mostly relate to the remaining gaps identified in this report.

MIGA has been more successful in implementing recommendations related to establishing the institutional prerequisites for improving project assessments during underwriting, and in assessing and monitoring environmental and social safeguards. However, progress has lagged behind in implementing those recommendations related to the actual project impact analysis and monitoring, and thus those are still outstanding in the MATR.

New recommendations

Previous IEG recommendations have addressed some of the issues identified in this report. The existing recommendations related to the remaining gaps are retained in the 2007 MATR (Annex 9). In addition, IEG makes the following new recommendations to address areas not covered earlier in the 2007 MATR:

Quality Assurance for Consistent Application of the Guidelines for Development Impact Analysis

1. **Quality Assurance.** MIGA should strengthen its quality assurance especially before the project decision documents are finalized to ascertain that the analysis of project impacts is consistent with MIGA requirements and guidelines; is well documented; and adequately reflected in the decision documents.

2. **Quality at Entry Self Assessment.** To enhance institutional learning, in FY08 MIGA should carry out, on a pilot basis, a quality at entry self-assessment of a sample of new guarantees underwritten in FY07. IEG would provide the methodology, benchmarks and templates and will independently review and validate MIGA’s self-assessments.

3. **Tools.** MIGA should adopt practical tools to guide the underwriting teams—such as sector-specific checklists and templates—in implementing its requirements and guidelines for development impact analysis.

Small Investment Program (SIP)

4. **Objectives and Eligibility Criteria.** MIGA should tighten the SIP eligibility criteria to ensure that the program is fully focused on its intended clients—small investors and small and medium sized enterprises. The program should explicitly exclude infrastructure, oil, gas and mining sectors; it should also exclude projects with concession arrangements, as these are more appropriate for MIGA’s regular guarantee instrument, in line with MIGA guidelines for assessing project impacts.

5. **Development Impact Analysis.** MIGA should improve the quality and the documentation of the development impact analysis of SIP projects to justify MIGA’s support for them.

INDEPENDENT EVALUATION GROUP-MIGA 2007 ANNUAL REPORT

1. PURPOSE AND SCOPE

1.1. *IEG-MIGA's 2007 Annual Report (2007 AR) focuses on the quality assurance, monitoring, and evaluation systems MIGA has in place to ensure development effectiveness.* This report's content is similar to an Annual Report on Operations Evaluation (AROE), which focuses on the Agency's systems for quality assurance, monitoring and evaluation, rather than the findings of ex-post evaluations of development effectiveness of MIGA projects. The latter will be the topic of the 2008 annual report. IEG-MIGA reported on these issues in its 2003-2005 annual reports. (See themes of IEG-MIGA Annual Reports in Annex 1.)

1.2. The report reviews MIGA's systems for quality assurance in underwriting, monitoring and self-evaluation and carries out a quality at entry assessment of recent MIGA projects to determine how well MIGA has implemented its own policies, requirements and guidelines. The quality at entry assessment covers all projects underwritten between January 2005 and June 2006. A new element of the assessment this year is an analysis of the expected relative contribution to portfolio profitability of these recent MIGA projects. The report also presents a thematic review of the Small Investment Program, which was implemented in FY06 and is directed at small and medium enterprises. The report's findings are also the basis for updating the implementation status of outstanding IEG recommendations. As requested by the Committee on Development Effectiveness (CODE) last year, the report presents an updated and consolidated Management Action Track Record (MATR) based on progress by MIGA.

1.3. *The assessment of the quality of MIGA's work in underwriting recent projects builds on IEG's experience with similar assessments in 2003-2005.* In FY03, MIGA adopted new CODE-approved requirements that introduced a cost-benefit method for analyzing the expected development impact of projects during underwriting, and in 2004 MIGA issued guidelines to supplement these requirements. IEG's review of the quality at entry in recent guarantee projects focuses on MIGA's progress in implementing these requirements.

1.4. *Since this is an ex-ante assessment, it does not evaluate project outcomes,* but rather assesses the quality of MIGA's work during underwriting, and the extent to which MIGA has applied its own strategies, policies, guidelines, and procedures to ensure its development effectiveness. It identifies improvements as well as remaining gaps and areas needing further efforts and offers recommendations for the future.

1.5. *While previous IEG assessments of quality at entry used a sampling approach, the 2007 AR covers all new MIGA projects underwritten from January 1, 2005, to June 30, 2006, to present a robust and comprehensive baseline for findings and updating the*

MATR.¹ In this period, 46 guarantee projects were underwritten, corresponding to 77 guarantee contracts. Of these, 32 were new projects (9 of which were underwritten under the Small Investment Program), and 14 involved modifications of existing projects.² For the SIP review, in order to do a more complete assessment, IEG also included four SIP projects underwritten in FY07 (through March 2007), bringing the total number of SIP projects covered to 13 (and the total number of projects assessed to 50). (See Annex 3 for process and Annex 4 for instruments.)

1.6. ***The report is organized in seven sections.*** Section 2 of this report presents the findings of a review of MIGA's strategy, systems, procedures, and guidelines to ensure the achievement of its development and financial objectives. Section 3 summarizes findings of IEG's assessment of MIGA's analysis of expected development impact of recent guarantee projects. Section 4 provides findings of the projects' expected profitability, adapting a method introduced in the 2006 AR for ex-post guarantee evaluations. Section 5 summarizes results from the early implementation of the Small Investment Program (SIP), focusing on the achievement of MIGA's objectives and the projects' consistency with the SIP requirements and procedures. Finally, Sections 6 and 7 contain conclusions and recommendations. The updated and consolidated MATR based on the review of all previous IEG recommendations is attached as Annex 9.

¹ The OEU 2005 Annual Report covered project underwritten during the period up to December 2004; this report covers the subsequent period.

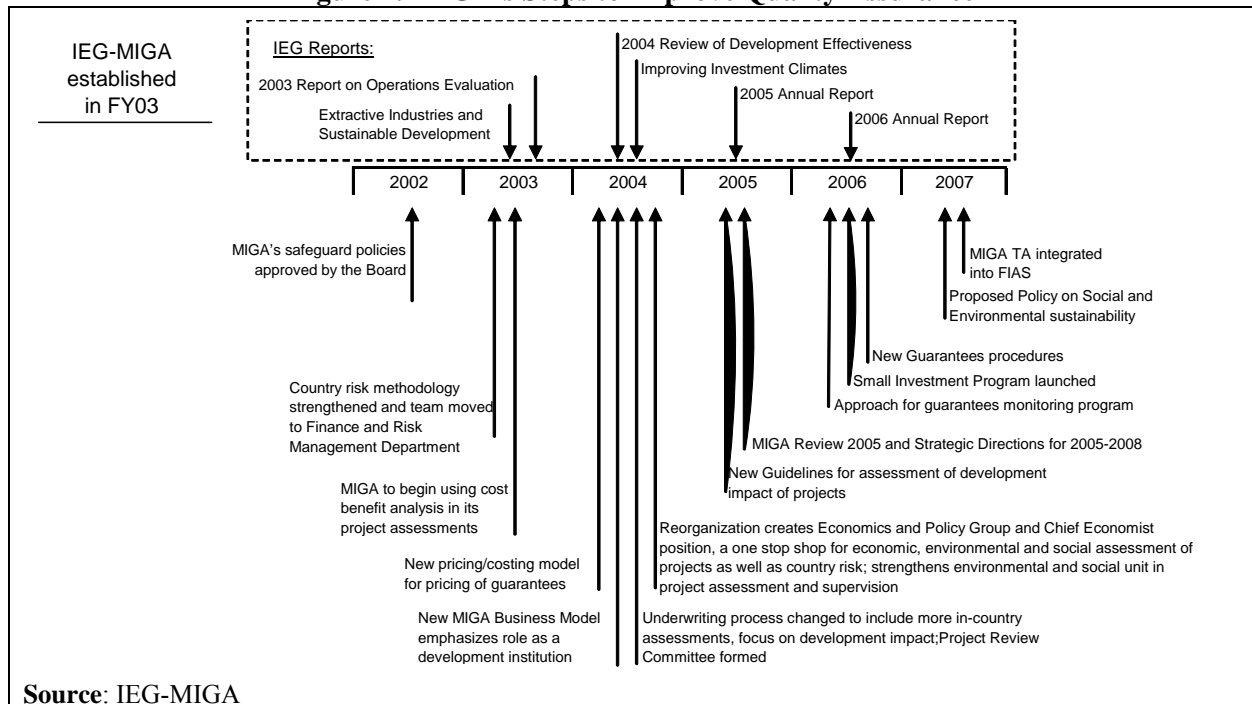
² These are amendments of existing MIGA guarantee contracts to reflect changes in the amount of coverage, project enterprise name and/or ownership (that is, "modification of prior concurrence"). In a few cases, these modifications also included changes in project scope.

2. QUALITY ASSURANCE, MONITORING, AND EVALUATION SYSTEMS FOR DEVELOPMENT EFFECTIVENESS

2.1. *While fulfilling its role as a development institution, MIGA must also remain a financially sound guarantee agency.³ MIGA’s business model, strategy, policy, quality assurance systems, and procedures need to support its dual objectives of financial soundness and development effectiveness.* This section describes the status of quality assurance and monitoring systems and procedures in MIGA, highlighting new elements since the 2005 AR, and identifies remaining gaps.

2.2. *IEG’s last review of MIGA’s systems in 2005 noted significant improvements although some components were still not in place.* IEG’s 2003 Review on Operations Evaluation (ROE) noted that quality assurance, monitoring, and ex-post evaluation should complement each other, forming an “accountability and learning” cycle, to improve the effectiveness of MIGA’s future operations. The changes implemented since then were mostly linked to the introduction of MIGA’s new business model in 2004. Figure 1 below shows the steps MIGA has taken to introduce improvements and changes since 2002. It also shows the IEG evaluations that provided inputs to some of these changes. As part of implementing the business model, MIGA has introduced changes in its internal organization, processes, and guidelines, to support a more holistic project analysis, and give greater emphasis to development effectiveness during underwriting. In 2005, IEG found that despite the positive changes, which were broadly consistent with previous IEG recommendations, MIGA did not have in place all the components of the accountability and learning cycle.

Figure 1: MIGA’s Steps to Improve Quality Assurance



³ MIGA Convention, Preamble.

A. MIGA's Mandate, Strategy, and Business Model

2.3. *MIGA has a clear development mandate—its Convention requires the Agency to fulfill this mandate through promoting foreign direct investment (FDI) in economically sound projects.* Unlike most other providers of political risk insurance, MIGA is a development institution created to facilitate foreign investment in developing countries for economic development.⁴ In order to achieve this goal, MIGA must satisfy itself that the projects it guarantees are economically sound, will contribute to the development of the host country, and are consistent with MIGA's environmental policies.⁵ These provisions require it to assess the financial and economic viability of proposed projects. However, as a political risk insurer, MIGA has limited ability to influence project design and outcomes since its relationship with projects is more removed than would be the case for a lending institution. Thus, the selection of projects with high potential for development impact, through sound analysis during underwriting, is critical for MIGA to fulfill its development mandate.

2.4. *MIGA's current Strategy and Business Model support its development mandate.* MIGA's May 2004 mission statement notes that "MIGA's mission is to promote foreign direct investment into developing countries, in order to support economic growth, reduce poverty and improve people's lives"; and explicitly states for the first time MIGA's objective to promote "projects with the greatest development impact, that are economically, environmentally and socially sustainable."

2.5. MIGA's 2005-08 Strategic Directions identified four priorities: to support investments in infrastructure development, frontier markets, conflict-afflicted environments, and between developing countries (south-south investment). In addition MIGA's FY07 business plan and budget document identified Africa as a special focus. The strategy also endorsed stepped-up collaboration with the World Bank Group. If successfully implemented these priorities and principles would be supportive of MIGA's developmental role as a member of the Bank Group.⁶

B. Quality Assurance during Underwriting

2.6. *Most improvements in MIGA's quality assurance systems and procedures took place in 2004 and 2005,* when MIGA strengthened policies, guidelines, and processes for quality assurance during underwriting. Consistent with its business model and strategy and requirements for underwriting agreed with CODE, the new guidance given to underwriters in 2004 stressed the focus on development effectiveness. Only a few additional changes have been made since IEG's last review in the 2005 AR. These include new guarantee procedures, a proposed new policy and performance standards for environmental and social sustainability, and the merger of MIGA technical assistance (TA) with the Foreign Investment Advisory Service (FIAS).

⁴ This mandate is derived from the *MIGA Convention*. See Preamble and Articles 2 and 12.

⁵ *MIGA Convention* Article 12, and *MIGA's Operational Regulations*, Section II and Chapter III.

⁶ As MIGA's current strategic directions will be completed in FY08, in next year's IEG-MIGA annual report will assess the relevance and effectiveness of MIGA operational priorities, the strategic alignment of operations, and lessons learned from implementing the strategy.

2.7. ***MIGA's collaboration with the World Bank and IFC has increased since 2004, which represents an important change in the way MIGA operates.*** MIGA has made significant strides in collaborating with the Bank and IFC—in line with its strategy—at institutional, policy, strategic and operational levels. Examples at institutional level are MIGA's participation in several sector boards and the integration of MIGA's technical assistance services into FIAs; and at the policy level, the new proposed environmental and social policy and performance standards harmonized with the IFC's. Increased collaboration is also evident in ensuring that MIGA projects are consistent with the Bank Group strategies, in information sharing and collaboration, working across institutions for joint projects, and more systematic consultations with Bank Group staff.

2.8. ***MIGA's requirements and guidelines for underwriting guarantees incorporate development impact analysis.***⁷ In 2004, MIGA added a focus on social and economic aspects in the underwriting process and strengthened these skills. It also issued guidelines to underwriters on how to analyze the expected development impact of proposed projects, to further clarify the FY03 requirements endorsed by CODE.

2.9. ***In October 2005, MIGA approved the new Guarantee Procedures, formalizing the business model and procedures introduced in 2004.*** The new procedures define the role of the Project Review Committee (PRC), which was introduced in 2004, describe the division of responsibilities within the underwriting team, and outline clearance requirements.⁸ The PRC, consisting of MIGA senior management, meets as needed on new guarantee proposals early in the underwriting process to provide guidance to underwriting teams. In practice, the PRC often gives the go-ahead for projects, subject to addressing the issues identified in a satisfactory manner by the underwriting team; it often meets more than once on some projects (such as those in infrastructure or oil and gas sectors). Currently, before MIGA's Executive Vice President (EVP) approves the final clearance, the Board document is cleared by two sector team leaders in MIGA's Operations Group, the General Counsel, the Director of Operations, and the Advisor to the EVP. A final clearance is not required by the Chief Economist (a member of the PRC).

2.10. ***The procedures also specify the division of labor within the underwriting team for analyzing the proposed guarantee project:*** the analysis of the financial viability of the project is the primary responsibility of the underwriter, while the risk management officer leads the economic cost-benefit analysis, including the economic rates of return. The two team members work closely with each other and coordinate with the Bank and IFC as needed. The procedures also refer to MIGA's new guidelines for development impact analysis. However, MIGA has not yet issued a new template that is consistent with these guidelines to serve as a check-list for the underwriting team and help establish minimum quality requirements for an adequate analysis.

⁷ The main elements of the underwriting process include the project analysis (ex-ante analysis of risks, financial viability, and development impact and risks, environmental and social due diligence); coordination with the World Bank and IFC country or sector teams; premium pricing; and preparation of the contract of guarantee. An underwriter (project team leader), risk management officer, environmental and/or social specialist, lawyer, and a syndications specialist (where needed) form the underwriting team.

⁸ Procedures issued in October 2005. In practice, MIGA management has made some adjustments in clearances which are not reflected yet in written procedures.

2.11. ***MIGA implemented a Small Investment Program (SIP) with streamlined underwriting requirements in 2006.*** The program is intended for projects in which MIGA insures \$5 million or less and it focuses on small and medium investors (SMIs) and small and medium-size enterprises (SMEs) as recipients. For this program MIGA adopted a streamlined underwriting process, with reduced paper work and approvals, to shorten the processing time to 60 days. Unlike regular guarantees, SIP projects do not require Board concurrence (either formal or on a no-objection basis), and are not subject to PRC reviews. The approval of guarantees is delegated to the Director of Operations, who bases the approval on the recommendation of a SIP Review Committee (consisting of the project team and chaired by the Director of Operations). SIP projects are subject to the same environmental and social due diligence as regular projects, and Category A projects cannot be underwritten under the program. Section 5 presents findings of IEG's review of all SIP projects underwritten through March 31, 2007.

2.12. ***Project Risk Analysis and Pricing: MIGA is currently reviewing its 2004 pricing and costing model, in particular the cost allocation assumptions for projects.*** Based on the three year experience, MIGA's review focuses on whether the assumptions are still valid in the face of changing market conditions, and on the resulting premium rate structure. IEG recommended in its 2006 AR that MIGA improve its ability to capture the costs associated with underwriting, processing, and monitoring of individual guarantees to obtain more accurate per project cost information which is not currently available. MIGA uses the pricing model for projects with coverage higher than \$40 million. For projects with coverage below \$40 million, MIGA uses pricing tables that are periodically updated. For SIP projects (with a coverage \$5 million or less), standardized lower premium rates are used, which only differ by country.

2.13. ***Since 2004, MIGA has strengthened its environmental and social due diligence, stepped up site visits during underwriting, and recruited a social specialist, to ensure that social aspects are adequately addressed early in the underwriting process.***⁹ While improvements on the social aspects are evident, the treatment of environmental aspects, in particular of Category B projects, has not changed significantly.

2.14. ***MIGA is proposing a new policy on environmental and social sustainability and performance standards and a new disclosure policy, which are expected to be in place in FY08.*** The proposed new policies and performance standards, harmonized with those of IFC, are consistent with previous IEG recommendations. If implemented well, they would further improve MIGA's due diligence and environmental health and social (EHS) compliance results, and introduce disclosure for all new projects prior to issuing a guarantee. The establishment of a trust fund in January 2007, offering technical assistance to clients investing in Africa who require support for implementing MIGA's environmental and social requirements (such as small and medium and south-south investors) is a positive step, and is in line with an IEG recommendation.¹⁰ IEG will assess MIGA's progress in implementing the new policies and initiatives.

⁹ All seven new Category A projects underwritten during FY05-07 (up to March 31, 2007) were visited by environmental or social specialists. Six of the 37 Category B projects were also visited. The number of projects with such upstream site visits increased from four in FY05 and to seven in FY06.

¹⁰ MIGA has obtained a grant from the Government of Japan for technical assistance targeted to investors for projects in Africa, to help them comply with MIGA's environmental and social policies and

C. Monitoring and Self-Evaluation

2.15. ***MIGA does not have a self-evaluation system for guarantee projects. While it has begun to monitor environmental and social issues, it has not made significant progress in monitoring project outcomes.*** Previous IEG reports noted the need for MIGA, as a development institution, to gather knowledge about the outcomes of its operations. Until now, IEG-MIGA has remained the main source of information on the development outcomes of MIGA projects. Good practice standards established by the Working Group for Private Sector Evaluation require both self-evaluation and independent evaluation functions, operating in a complementary relationship. A 2005 benchmarking of multilateral institutions' evaluation systems found that MIGA achieved the highest percentage point increase since 2003 (23 percent to 73 percent) as a result of the establishment of IEG-MIGA, which follows the good practice standards. However, the report also noted that further improvements would not be possible until MIGA meets the requirements for self-evaluation systems.

2.16. ***MIGA approved a monitoring framework in 2005, but its implementation has been modest.*** The framework entailed: (1) the preparation of project monitoring files for all new guarantees, including the identification of appropriate performance indicators and an appropriate monitoring framework; (2) a structured monitoring program, starting in 2006 with a sample of 12 guarantee projects; and (3) the preparation of closing notes for all cancelled or expired guarantees. Although site visits of selected projects have been conducted, MIGA does not yet have standardized project monitoring reports, available to be used as part of a management information system and MIGA project files.

2.17. ***MIGA now produces Guarantee Closing Notes, but they lack information on project outcomes.*** The Guarantee Closing Note as introduced in MIGA in response to an IEG recommendation in 2003 for more systematic collection of information on project outcomes for all cancelled and expired guarantees. After initial delays, MIGA now prepares closing notes for cancelled guarantees, though not yet for expired ones. The notes contain information on reasons for cancellation and the project status at the time of contract cancellation. However, information on project outcomes and the development impact of closed guarantees is not presented. This remains a challenge: the quality of information collected by MIGA at the time of cancellation varies, with very few providing any information on project results (such as financial performance, sector updates).¹¹

2.18. ***Environmental and social monitoring is now more systematic.*** Environmental and social specialists visited 26 projects in FY05 and eight during FY06. (In the first half of FY07, five additional projects were visited.) Of the projects still active on March 31, 2007, 11 out of 17 Category A projects (65 percent) and 19 out of 80 active Category B projects (24 percent) has been visited by MIGA specialists.

requirements, such as environmental assessments and resettlement plans. This fund is open to both existing and proposed projects.

¹¹ IEG reviewed all guarantee closing notes for cancellations and expirations as recorded in FY06. Thirty-six projects were cancelled early by guarantee holders (relating to 48 Contracts of Guarantee), and guarantees expired for seven projects. Closing notes were prepared for all but one cancelled project (which continued under MIGA coverage through a modification of prior concurrence). No closing notes were prepared for contract expirations.

2.19. ***Management information systems are needed.*** In recent years, MIGA has strengthened its country risk analysis framework, and the guarantee portfolio database. However, MIGA does not have a management information system to provide information on both development and financial objectives. IEG's 2003 ROE noted the absence of systems and operational and risk indicators to support management decision making. MIGA does not currently use a corporate scorecard that combines both development and business indicators targeted to achieving its dual mandate.

D. Information Services and Technical Assistance

2.20. ***MIGA consolidated existing online services and launched a new service dedicated to political risk insurance.*** IEG evaluated MIGA's online information services, and noted in the 2006 AR the need for these to be better aligned with MIGA's core insurance business to ensure their continuing relevance to current and potential new users. IEG's recommendations informed MIGA as it began internal strategy discussions regarding these services, consolidating some of the existing ones in the past year.

2.21. ***In 2007, MIGA's TA activities for investment promotion were integrated into the FIAS, building on the collaboration that already existed.*** As a major shareholder of FIAS, MIGA will be represented on its supervisory board and will contribute to the FIAS budget. The integration is consistent with IEG recommendations in its 2004 evaluation, *Improving Investment Climates*,¹² and could help improve the strategic selectivity of TA operations and monitoring of their outcomes and impacts, as well as increase cost effectiveness—which were the areas for improvement noted in IEG recommendations.

E. Independent Evaluation

2.22. ***Since it was established in FY03, IEG-MIGA has been the main source of evaluative information on MIGA's development effectiveness.*** During FY03-07, IEG's evaluation has been guided by the Multi-Year Evaluation Framework (MYEF) endorsed by CODE in 2002. In this period, IEG's evaluation scope expanded to cover guarantee evaluations, quality at entry assessments for guarantees, evaluation of technical assistance activities, online information services, and profitability of guarantees. IEG also developed methodologies for each of these areas. For its guarantee evaluations, IEG uses a rigorous cost-benefit method, and for the evaluation of technical assistance and online information services a logical framework approach, developed in collaboration with other IEG units, or its partners in the Working Group on Private Sector Evaluation (WGPSE).¹³ IEG also disseminated findings to contribute to learning in MIGA. IEG's work to date has included ex-post guarantee evaluations, quality at entry reviews, and participation in IEG sector, thematic, or country evaluations, including *Extractive Industries and Sustainable Development* (2003), and *Improving Investment Climates* (2004). IEG's Annual Reports since 2003 have synthesized IEG evaluation findings on MIGA guarantees, services, and other activities, as well as results from joint thematic evaluations discussed at CODE and the Board.

¹² *Improving Investment Climates: An Evaluation of World Bank Group Assistance*. The World Bank 2006.

¹³ The WGPSE, a subgroup of the Evaluation Cooperation Group, consists of the evaluation units of multilateral financial institutions with private sector operations. Its goal is to harmonize evaluation standards and methods among its members.

2.23. ***IEG has adapted its product mix to address issues relevant to MIGA, and to inform CODE and the Board.*** IEG's product mix includes both ex-post evaluations of mature projects and quality at entry reviews of recently approved guarantees to provide feedback on development outcomes and quality of MIGA's work and current practices. IEG evaluations have had a positive impact on major developments in MIGA, as is evident from the greater focus on development effectiveness in MIGA's 2005 strategy, increased attention to environmental and social assessment and monitoring of guarantee projects, and the integration of MIGA technical assistance into FIAS.

2.24. ***As the Multi-Year Evaluation Framework comes to a close, the focus of IEG's future work will respond to the following challenges and opportunities:***

- ***Broadening IEG's evaluation base.*** Given that MIGA does not have a monitoring and self evaluation system comparable to that of the IFC or the Bank/IDA to regularly follow up on development outcomes of its projects (except for compliance with environmental and social policies and guidelines), IEG-MIGA's evaluation model is based on primary evaluation with data gathering in the field, rather than validating self-evaluations done by operational departments. The costs involved impose a limit on the number of project evaluations. The trade-off between quantity/coverage and quality/depth of evaluations will have to be carefully balanced, given resource constraints. When MIGA adopts a self-evaluation system on which IEG can base its evaluations, IEG can build on these and broaden its evaluation coverage. Within MIGA's current evaluation model, IEG plans to increase the number of guarantee evaluations per year to improve the general applicability of findings. Similarly, quality at entry assessments could be undertaken by MIGA and validated by IEG with greater learning benefits.
- ***Evaluation of projects with cancelled guarantees.*** Under the MYEF, cancelled guarantees were excluded from IEG evaluations. Given that a large share of MIGA guarantees is cancelled before the projects reached maturity for evaluation, this was identified as a source of potential bias. In response, IEG has modified the eligibility criteria for ex-post evaluations to also include cancelled guarantees. This will require developing a streamlined method based on a desk review of available project information.
- ***Effective dissemination of findings and learning.*** IEG will need to manage the different information needs of MIGA staff, CODE and the Board. While CODE has expressed satisfaction with the dissemination of IEG evaluation activities, internal dissemination to MIGA staff could be strengthened and better targeted to be more useful and timely for the work of underwriters. IEG's evaluation methodologies are generally understood by most MIGA managers and staff. However, given the staff turnover in MIGA, IEG will need to share more frequently its methods with staff.

3. MIGA'S EX-ANTE ANALYSIS OF NEW GUARANTEE PROJECTS

A. Background and overall findings

3.1. *IEG carries out two types of assessments of guarantee projects, at different points in the project cycle:* (1) assessment of the quality of MIGA's work at entry in analyzing expected project impacts—soon after the contract of guarantee is signed—**as presented in this report**; and (2) *ex-post* evaluation of project outcomes when they reach the required maturity. IEG's approach for assessing the quality of MIGA's work and its methodology for ex-post evaluation are complementary. They have three dimensions: (1) *MIGA's effectiveness*, (2) *development outcome*, (3) *contribution of individual projects to MIGA's profitability*.¹⁴ This section presents IEG's findings on the first two dimensions, specifically, MIGA's quality of work at entry (during underwriting) with regard to MIGA's effectiveness and the analysis of the projects' financial viability and expected development impact (see **Error! Reference source not found.**). Section 4 discusses the third dimension.

Box 1: IEG's Assessment of the Quality of Entry of New MIGA Guarantee Projects

Objective. The IEG assessment provides information on current practices during underwriting to underpin the relevance, viability, and impact of the projects MIGA supports.

Coverage. In previous reports, IEG used a sampling method. This year, IEG conducted a streamlined quality at entry (QAE) assessment, covering the entire population of newly guaranteed projects. A total of 46 projects guaranteed from January 1, 2005, to June 30, 2006, were assessed, plus 4 SIP projects covered until March 2007. These 50 projects include 23 new regular projects, 14 modifications of contracts of existing projects, and 13 SIP projects. Each section of the report uses the relevant subset of projects: The QAE assessment in Section 3 covers the 23 new projects (not previously guaranteed by MIGA), to which the underwriting requirements are applicable. For environmental and social issues, 33 projects with environmental and social components (all new projects including SIPs and modifications of existing projects) were reviewed. Section 4, on the contribution of projects to portfolio profitability, includes 46 projects—regardless of their type—issued during the same time period (January 1, 2005, to June 30, 2006). Finally, the assessment of SIP projects includes all 13 projects to date. See Annex 2 for the profile of these projects and project coverage in each section.

Approach. IEG assessed the quality at entry of guarantee projects using MIGA's own requirements and guidelines for MIGA underwriting teams to analyze the expected development impact of guarantee projects. MIGA's current guidelines for assessing development impact complement and clarify the analytical requirements for underwriting MIGA adopted in 2002. The key elements of the 2002 requirements are: non-financial sector projects should include a financial rate of return (FRR), as well as a full economic cost-benefit analysis (with an economic rate of return, ERR) when substantial economic distortions or externalities exist. In addition, the analysis should consider a project's development impact in terms of the costs and benefits for different stakeholders and expected contribution to private

¹⁴ IEG-MIGA's evaluation method is harmonized with the approach used by IEG-IFC and the Working Group on Private Sector Evaluation.

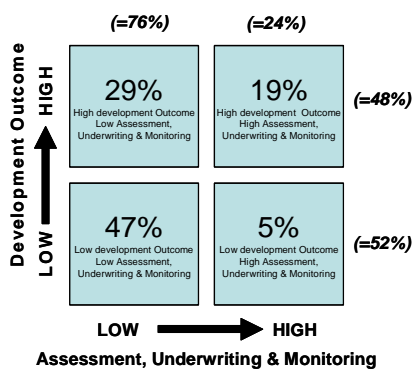
sector development. Financial sector projects are required to provide a sectoral context, analyzing the impact on the financial sector structure and the resource allocation of the intermediaries supported, among other factors. The guidelines further specify issues to consider or analyze for projects with government concessions; and in the financial sector (introducing the use of an economic indicator). In addition, MIGA is required to ensure the consistency of projects with its environmental health and social policies and guidelines and to follow its review procedures. The questionnaires used by IEG are attached in Annex 3. IEG also interviewed project teams about their experiences and the challenges in implementing the development impact methodology during underwriting (see Annex 5).

3.2. *The quality of MIGA’s work during underwriting is relevant for project development outcomes* (see Box 2). Findings from previous ex-post evaluations support this relationship, which is linked to project selectivity: as an insurer, MIGA has little influence on project design, and it is important that it selects projects with potential for high development impact, underpinned by its work during underwriting. MIGA has made improvements in almost all dimensions since 2004, although at different degrees. For the 23 new projects assessed, the most important remaining gaps are the analysis of development impact (or the mainstreaming of MIGA’s cost-benefit methodology).¹⁵ Among the 23 new projects assessed, four projects stand out as best practice in presenting a full cost-benefit analysis, and in particular, one could serve as a model for future projects (see Box 3).

Box 2: MIGA’s Quality of Work is Relevant for Project Development Outcomes

Ex-post evaluation findings from 21 projects in the 2006 AR showed that the quality of MIGA’s work during underwriting and monitoring is associated with the project’s development outcome. As shown in Figure 2, a substantial share of projects with low ratings for work quality also had low ratings for development outcome (lower-left quadrant), while the majority of projects rated high for work quality also had high development outcomes (upper-right quadrant).

Figure 2: Development Outcome and MIGA’s Work Quality



There is a strong business case for MIGA to pay attention to the development impact of guarantee projects. The 2006 AR also found that projects that do not contribute to economic development can also become targets for adverse host government actions. As a political risk insurer, however, MIGA’s relationship with projects is more removed than that of a lending institution. MIGA has limited scope for influencing project design and outcomes. By selecting financially and economically sound projects at the outset, conducting sound analysis, and monitoring safeguards during implementation, MIGA can increase the likelihood of supporting projects with better outcomes, which are also good for its own financial soundness.

Sources: IEG-MIGA 2006 Annual Report.

¹⁵ IEG–MIGA 2006 Annual Report, page 16.

B. MIGA's Analysis of Strategic Relevance and the Agency's Added Value

3.3. *MIGA's analysis of the strategic relevance of its projects and its collaboration with the World Bank Group—both important for development outcomes—have improved.* IEG found that the projects are well aligned with country and WBG strategic priorities. In almost all cases, MIGA indicated how the project fits with the Country Assistance Strategy (CAS), and consulted with the Bank and IFC on macroeconomic and sector issues as needed. This is an improvement compared to earlier IEG findings from ex-post evaluations, which noted cases that either contradicted WBG strategies, or were not a priority for the country. The projects are also generally in line with MIGA's own operational priorities: 12 projects involved infrastructure development, six were located in frontier countries, six were south-south investments, one was in a conflict-afflicted country, and four were in Sub-Saharan Africa (some of these priorities overlap).

3.4. *In line with MIGA's 2005 strategy, increased collaboration with the World Bank Group is now more evident and common.* WBG collaboration is also addressed in the IEG evaluation of the World Bank's Support to Middle-Income Countries (MIC evaluation), which notes that such collaboration can happen at strategic, institutional, and operational levels. Since 2004 MIGA has stepped up collaboration at all three levels (see para.2.7). At the strategic level, while MIGA's inputs are limited to CAS preparation, there is now a more systematic effort to ensure the consistency of its projects with the CAS priorities; and examples of operation-specific collaboration are more common and proactively done. MIGA could continue to build on these successful examples and increasingly leverage information from the WB and IFC for the analysis of the development impact of its projects.¹⁶

3.5. *Strategic relevance is critical—but not sufficient—for satisfactory development outcomes of MIGA projects.* Ex-post evaluation of mature projects (included in the 2006 AR) showed that projects not consistent with WBG strategies had low development outcomes. However, projects that were consistent with WBG strategies were equally likely to have high or low development outcomes, indicating that other factors (such as project risks, economic costs and benefits) beyond strategic relevance are also important for ensuring high development outcomes.¹⁷

3.6. *MIGA does not always explicitly define the value it adds to a given project.* In the majority of projects (74 percent of 23 projects) political risk coverage was either critical for the investments to proceed or was a condition for lenders to provide funds and overcome country limits and risks, particularly for projects in conflict-afflicted countries. However, in more than half of the projects MIGA did not define the particular value it brings to the project, which distinguishes it from other possible

¹⁶ The MIC evaluation also notes that the main factor inhibiting further cooperation include incompatible timelines for projects, differences in organizational culture and prevailing staff incentives *Development results in Middle-Income Countries. An evaluation of World Bank's Support*, The World Bank 2007.

¹⁷ *Ibid.* Para. 6.6.

insurance providers.¹⁸ Eleven projects explicitly mentioned the applicable core competencies as MIGA's value-added to the investors.¹⁹

3.7. ***The business objectives of projects are now better defined.*** Almost all projects clearly stated in MIGA decision documents²⁰ the project's scope and business objectives, which previous IEG reports found were often lacking in earlier MIGA projects. This improvement was facilitated by the recent inclusion of a clause in MIGA's contract of guarantee, requiring a legal description of the investment project. This is helpful for quality control, and for monitoring and evaluation.

C. MIGA's Analysis of Expected Development Impact at Entry

3.8. ***The viability of a project at entry is an important element for positive outcomes: MIGA regularly presents financial indicators for a project's business performance; it has also strengthened information on the expected business performance of projects since 2004.*** As required by MIGA guidelines, all non-financial sector projects included a financial rate of return (FRR) and some of the financial sector projects also presented appropriate financial viability indicators (see Figure 3).²¹ Nearly all the projects have the necessary information and financial models from the investors or from the partners to analyze the projects' business performance.

3.9. However, underlying assumptions and risks affecting the financial analysis are not always provided in decision documents.²² IEG found that in the majority of cases, MIGA files had the relevant background information including the assumptions underlying the estimated FRR, key commercial risks or sensitivity analyses; however, these were not systematically always reflected in the final decision documents. One-third of the projects specified the assumptions underlying the FRR in underwriting documents, in a manner consistent with the project's business plan and the sector context. In addition, one third of the projects discussed commercial risks adequately. Most (16) projects also had sensitivity analyses, but the drivers behind the alternative scenarios were not adequately explained.

3.10. ***Relevant sector issues, especially for financial sector projects, are taken into consideration more systematically.*** In its 2004 AR, IEG recommended that MIGA pay

¹⁸ In order to complement its quality at entry review, IEG sent an email-based survey to investors of all (50) projects reviewed. Investors were asked to comment on the reasons for seeking MIGA insurance cover and to what extent it added value to their investments. Only seven investors responded. Given the small rate of response, the results are not statistically significant. However, it is worth noting that among the responding investors, all noted MIGA's "deterrence effect" as an important value added/additionality in choosing MIGA as their political insurance provider. Some investors also mentioned MIGA's mediation abilities and its certification effect.

¹⁹ Specifying MIGA's core competencies for each case is not a requirement. Yet due to increased management attention to this, recent projects are now expected to explicitly discuss it. Source: Interviews with MIGA staff.

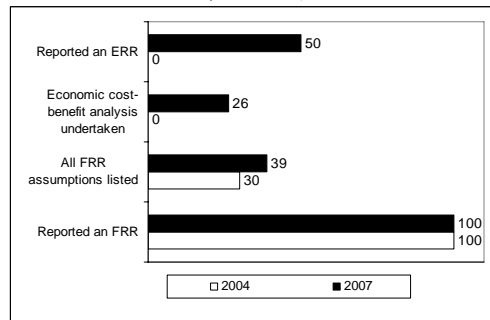
²⁰ Decision documents refer to the Contract of Guarantee, President's Report, Underwriting paper, memo and minutes of meetings of the Project Review Committee for regular guarantee projects and/or the SIP Review Committee (SRC) for SIP projects.

²¹ For financial sector projects, return on equity or return on assets were used for general banking projects.

²² In 2004, IEG recommended that MIGA should identify clearly the assumptions used in calculating financial projections, FRRs, and adjusted FRRs.

attention to and discuss sector policies and issues relevant to the project. This recommendation has now been broadly implemented, as 87 percent (20 out of 23) of the projects incorporated relevant sector background and policies. These aspects of the development analysis are also important for MIGA’s project risk analysis, as part of its insurance business.

Figure 3: Progress in Compliance with Project Analysis Requirements Since 2004 for Non-financial Sector Projects
(Percent)



3.11. *Since 2004, there has been progress in applying a cost-benefit approach for analyzing the economic impact of real sector projects. However, the approach has not yet been mainstreamed and requires further attention by MIGA.* As shown in Figure 3, there has been progress since 2004²³ when IEG had not found any projects that presented an economic rate of return (ERR) or a full cost-benefit analysis in the projects reviewed. Among the projects reviewed in this report, 50 percent (9) presented an economic rate of return. These included four best practice projects (an agribusiness, two power generation, and one mining project) in terms of presenting a full cost-benefit analysis in the decision documents, together with an ERR. Among the four financial sector projects one included an economic return on invested capital (EROIC) as required by the guidelines.

3.12. *MIGA’s requirements for cost-benefit analysis to ensure adequate treatment of development issues were not met consistently across projects.* MIGA guidelines note that the objective of the cost-benefit analysis requirement is not a simplistic and mechanical calculation of an ERR. Rather, it is to contribute to the decision on whether the project is beneficial to society or not, and calculation of an ERR is a proven useful tool to understanding the project’s major costs and benefits to make such a determination. Out of the 18 real sector projects for which cost-benefit analysis was applicable, a total of five (including the best practices) complied with presenting a full cost-benefit analysis in decision documents. The remaining projects had varying degrees of quality of analysis. In three cases, while the ERR had the supporting documents in files to conduct cost-benefit analyses, these were not reflected in Board documents. Another three projects did not present an ERR but some information was available in MIGA²⁴. Seven projects lacked such information or analysis.

²³ Results included in *2004 Review of Development Effectiveness in MIGA*. OEU, August 19, 2004.

²⁴ IEG was unable to independently ascertain the degree to which this information had been used in the analysis.

Box 3: A Best Practice Case for Quality at Entry

MIGA's analysis and underwriting of a project that involved the establishment of a greenfield sugar production, processing, and sales center covered all the elements specified in its guidelines and by IEG's recommendations. The comprehensive sector analysis covered demand, regional and local market conditions, and competition from regional and local companies and imports. The files also indicate proper due diligence as MIGA closely scrutinized and verified the assumptions underlying the FRR with both the investor and with other sources. The analysis of economic costs and benefits went beyond the calculation of an ERR and covered all aspects relevant for the project, including international, regional and domestic factors that could affect the price of the product. The commercial risk analysis took into account the likely impact of both domestic factors and regional agreements. Lessons learned from a similar MIGA guarantee project in another country were taken into account to ensure that this project could avoid problems the other project had encountered after the issuance of MIGA guarantee. The analysis was comprehensive and consistent, and matched the characteristics of the project.

3.13. All projects included some qualitative descriptions of anticipated development benefits, such as consistency with macroeconomic or sectoral policies; expected improvement in infrastructure; increased access to finance, trade, or livelihoods of the affected population. But, the analysis of potential economic costs, such as economic distortions and negative externalities, was often missing from decision documents. To ensure that MIGA supports operations which contribute to the development of society, as intended by its requirements and guidelines, both costs and benefits need to be considered.

3.14. *While two of the best practices were among the infrastructure projects that involved concessions or the government as a client, the analysis of several others did not assess costs (in addition to the benefits) to various stakeholders, as required by MIGA guidelines.* Projects with concessions, which can affect a range of stakeholders, require depth and rigor in assessing their anticipated development impacts. MIGA's guidelines for projects involving concessions require: (1) a closer review to ensure that its special structure was appropriate for the country; (2) that it was competitively bid (or if not, that the resulting price was reasonable); (3) that the project has a positive social return; and (4) that the project is consistent with the country's macroeconomic policies. The guidelines add that, to justify MIGA's involvement, it is important to note that these four questions address different issues and that there is a need to answer all four affirmatively. These are consistent with the previous IEG recommendation for projects with concessions. Out of the ten projects with concessions and four projects in which the government is the client²⁵, three projects were analyzed with respect to all four aspects. The remaining 11 projects addressed competitive bidding and/or consistency with macro policies; however, analysis of "a positive social return", especially of the implications for end-users (i.e., the consumer segments affected by the project, especially the poor) was not addressed in most cases.

²⁵ MIGA presented five related infrastructure projects (transmission lines) in one Board report; however each one had a different location and project ID as well as different environmental and social clearances. IEG followed MIGA's classification of five separate projects.

3.15. ***Feedback from MIGA staff indicates that they consider the guidelines as a general framework and they do not strictly follow the methodological requirements endorsed by CODE.*** IEG sought feedback through structured interviews with all MIGA underwriters (12) and risk management officers (5) who worked on these 23 projects regarding the reasons for not fully applying the cost-benefit analysis in line with MIGA guidelines across projects. The majority (80 percent) of staff preparing the decision documents was not fully familiar with all aspects of specific requirements for development impact analysis (see Annex 5). They consider the guidelines more as a general framework, rather than a practical tool for day-to-day application, and thus nearly all the staff interviewed saw the cost-benefit analysis as optional. Staff perceived development impact analysis as important and they also noted that managers place high importance on the developmental aspects of projects. In practice, the absence of a commonly understood and accepted minimum standard for development impact analysis, and a final quality control following the PRC contribute to the analytical gaps.

3.16. ***MIGA is increasingly referring to lessons learned from similar projects guaranteed in the past.*** This is an improvement over earlier practices. IEG has previously noted the importance of this aspect for better risk assessment, pricing of premium, or seeking improvements in the project design and development impact analysis.²⁶ Half (11 out of 22 where lessons would be applicable) of the projects incorporated some lessons of experience in underwriting documents. These mainly relate to claim history in the host country, but five of them had more general lessons linked to development results or project performance. Lessons were especially relevant for financial sector projects that were linked to previous MIGA guarantees for the same project enterprise, and MIGA incorporated lessons learned from past performance of the financial institutions in these cases.

D. Assessment of Environmental and Social Issues at Entry

3.17. ***IEG assessed how well MIGA's requirements for environmental and social aspects were met for recent guarantee projects prior to Board approval.*** IEG's assessment of environmental and social issues covered 33 projects with environmental and social components that were guaranteed during this period. This included the SIP projects, and projects with modifications of prior concurrence, when such issues were present. The criteria used included the appropriateness and adequacy of:

- Environmental and social assessment
- Proposed Environmental Action Plan
- Investor's EHS management systems
- Public disclosure/consultation (for Category A projects)
- Addressing applicable Specific Safeguards
- Provisions in Contracts of Guarantee for compliance with EHS/social requirements.

In addition, IEG reviewed the extent to which recent projects implemented outstanding IEG recommendations related to environmental and social issues (see Figure 6). The list

²⁶ OEU 2005 Annual Report. Paragraph 5.21.

of issues and questions used for the assessment (based on MIGA’s requirements and IEG previous recommendations) is in Annex 4.

3.18. ***MIGA’s review of the majority of recent projects adhered to its requirements for addressing environmental and social issues.*** IEG’s assessment shows that 86 percent of all assessed projects (including SIP) adhered to MIGA’s review procedures at entry at a satisfactory level (Figure 4). All of infrastructure (11) and (non-SIP) agricultural, manufacturing, and services (6) projects were adequately processed by MIGA with regard to EHS issues. Deficiencies were noted in one oil, gas and mining project.²⁷

Figure 4: Satisfactory Environmental and Social Quality at Entry by Sector (percent)

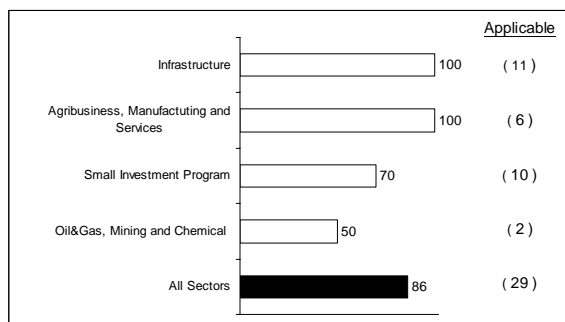
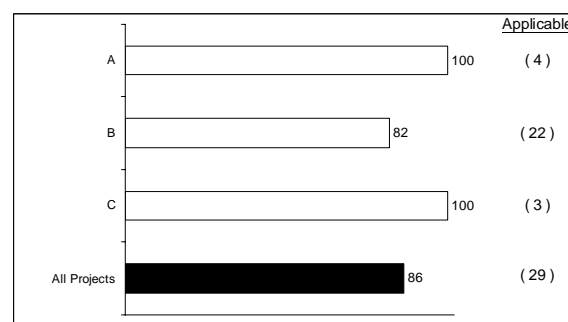


Figure 5: Satisfactory Environmental and Social Quality at Entry by Project Category (percent)



Note: Graphs exclude MIGA projects reviewed as extensions to prior projects.

3.19. ***For all Category A and C projects, MIGA adequately addressed EHS issues,*** while shortcomings were noted for four Category B projects, three of which were SIP projects (Figure 5). Overall, 82 percent of all Category B projects (22) adhered to MIGA’s review. According to current MIGA policies, Category B projects are not subject to public disclosure, or regular monitoring on safeguards performance (only selected high-risk B projects are being monitored).

3.20. ***Seventy percent of the SIP projects met the MIGA requirements at a satisfactory level before Board approval. SIP projects are required by MIGA policy to adhere to the same policies and review procedures for their environmental category as any regular MIGA project.***²⁸ The shortcomings related to the use of outdated environmental audits, Environmental Impact Assessments (EIAs) not covering the full scope of the project, absence of environmental and social assessments prepared by guarantee holders, and lack of investors’ environmental management systems.

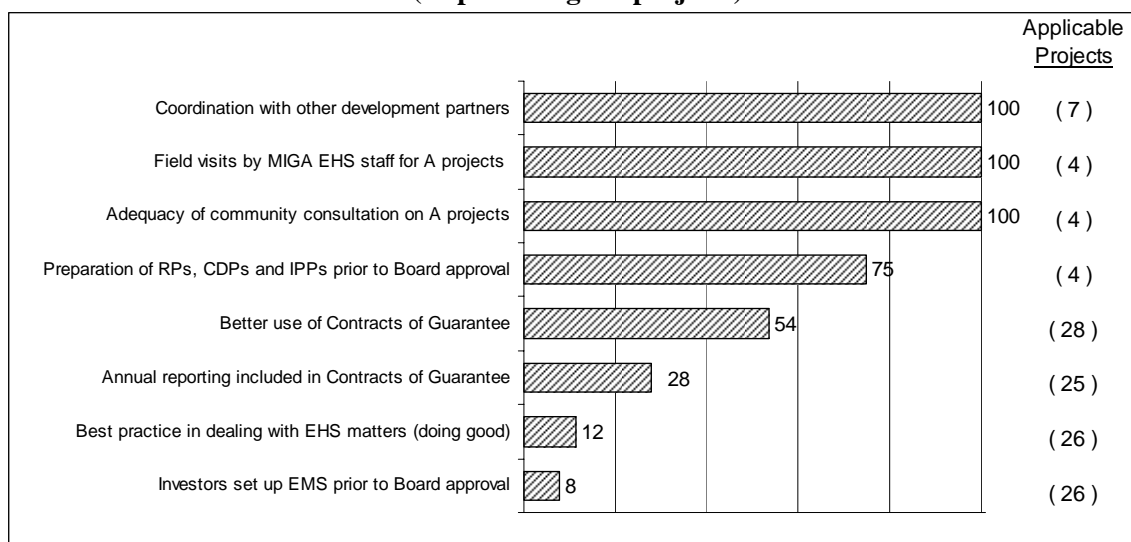
3.21. ***MIGA consistently and effectively coordinated with other development partners on EHS issues in projects where other partners were involved.*** MIGA has fully internalized this earlier IEG recommendation and cooperated effectively with development partners on all of the projects in which such partners were involved. (See Figure 6 for paragraphs below.)

²⁷ There were only two oil and gas projects in the sample.

²⁸ Category A projects are not eligible under the SIP.

3.22. *More Category A projects are visited by MIGA environmental and social staff.* Conducting site visits early in the due diligence process for A projects and some high-risk B projects was an IEG recommendation to ensure that Environmental, health and safety (EHS) issues are thoroughly addressed. In many cases, this would involve visits by both environmental and social specialists to adequately address safeguard issues. All four Category A projects in this group and three Category B projects were visited by either an environmental or social specialist.

**Figure 6: Implementation of EHS Recommendations in Previous IEG-MIGA Reports
(In percentage of projects)**



3.23. *There have been notable improvements in the way MIGA ensures that relevant specific safeguard policies are addressed, with the greatest improvement in social safeguard policies, since MIGA recruited a social specialist in 2004.* In three out of four cases involving land acquisition, resettlement, compensation, and community development issues were addressed comprehensively and resettlement action plans were prepared in a timely manner before Board approval. A good example is a toll road project where a resettlement action plan was prepared and agreed with affected people, with MIGA's help, leading to improved provisions for compensation and resettlement assistance. In earlier IEG evaluations²⁹ this had been identified as an area MIGA needed to strengthen. The progress and current practices show that MIGA has largely implemented this recommendation. Similarly, the Dam Safety policy was well addressed in all four cases where it was applicable.

3.24. *Community consultations on Category A projects were sufficient in all relevant cases, representing a significant improvement.* MIGA's current policy requires that Category A projects be adequately disclosed in a local language and that

²⁹ *Extractive Industries and Sustainable Development: An Evaluation of World Bank Experience: Volume IV – MIGA's Experience 2005.* This report was the first thorough independent review of MIGA's EHS performance, and subsequent IEG evaluation reports found many of its recommendations to be relevant and valid for MIGA projects in other sectors.

meaningful consultation be held with people affected by a project. In all five Category A projects the public consultation process was adequately done.

3.25. ***MIGA now makes better use of its contracts of guarantee to reference appropriate safeguards and guidelines, but it also needs to include EHS reporting requirements.*** Contracts of guarantee were used in 54 percent of the projects to explicitly reference relevant MIGA safeguards, as consistent with an earlier IEG recommendation. IEG also recommended that MIGA include key reporting requirements for EHS monitoring in the contract of guarantee for relevant projects, but only 28 percent of Category A and B projects were found to have done so. While this is still modest, it is an important step forward for MIGA as it signals to clients MIGA's commitment to enforce its safeguard policies and EHS guidelines.

3.26. ***Good practices: IEG found three projects that went beyond compliance with MIGA's safeguard policies and EHS guidelines to "doing good."*** In one case, MIGA was directly responsible for encouraging this initiative. It involved the selection of a reputable NGO to manage a social fund for a community development program, initiated under an extractive industries project. The other two projects involved the World Bank, EBRD, and USAID. MIGA's current framework and business model differ from the IFC and World Bank, with its "do no-harm" rather than "do-good" social and environmental perspective. Thus, these examples show MIGA's potential for "doing good."

3.27. ***Upstream attention to setting up Environmental Management Systems (EMS) has remained insufficient.*** Only for 8 percent of projects where EMS would be required, had investors set up an EMS prior to signing the MIGA contract. In very few cases did investors provide adequate documentation to MIGA in support of their proposed EMS. In the remaining cases, MIGA does not have sufficient confidence that its EHS standards could be adequately addressed in all projects. Effective environmental management systems are essential to mitigating risk of failure in compliance, and thus ensuring sustainable outcomes.

3.28. ***MIGA will adopt a new policy and performance standards on environmental and social sustainability and a new disclosure policy, harmonized with those of IFC.*** These policies are consistent with IEG recommendations. Previous IEG evaluations highlighted: (1) the inadequacy of MIGA's environmental and social policies to support the sustainable development in guarantee projects; (2) various shortcomings in the application of MIGA's environmental and social policies; and (3) lack of harmonization with IFC, especially with regard to Category B projects, which often have complex EHS issues.

3.29. ***The proposed policy and performance standards represent a major step forward as they would incorporate social and environmental sustainability in MIGA's core business, but the real challenges lie in their implementation.*** Given the progress noted, MIGA's preparedness has improved since 2005 for the adoption of the new policy and standards. However, IEG findings also show areas for attention for the implementation of the new performance standards. In particular:

- For most Category B projects, MIGA complied with current requirements in EHS assessments.³⁰ However, the new performance standards will imply increased work from MIGA in Category B projects.
- The new performance standards also imply an improvement of EHS performance in MIGA projects to achieve best industry benchmarks; thus, “doing good” will no longer be the exception under the new policy framework.
- MIGA clients would need to address the new requirements for environmental management systems (which requires MIGA proficiency in ISO 14000 and ISO 18000 in assessing and auditing these systems) The baseline performance in this regard is very low, with only 8 percent (see paragraph 3.27) of projects with adequate EHS Management Systems in place.
- Monitoring reporting by its clients, especially for B projects is also an area for improvement. Baseline performance by MIGA in these two areas is also low at 28 percent (see paragraph 3.25).

³⁰ MIGA recently obtained Japanese Trust Fund resources to assist its clients in Africa to strengthen their work on EHS.

4. EXPECTED CONTRIBUTION OF PROJECTS TO MIGA'S PROFITABILITY

A. Background

This section presents an analysis of the expected (or ex-ante) relative contribution of 46 recent projects to MIGA's profitability. The method used was adapted from the approach used in the 2006 AR to analyze ex-post the relative profitability of evaluated mature projects. All projects underwritten during the period January 2005 - June 2006 were included in the analysis.³¹ The contribution of individual projects to MIGA's profitability is one of the three dimensions of IEG's evaluation framework for guarantees (see paragraph 3.1) along with development outcome and MIGA's effectiveness (see Box 4 and Annex 6 for method).³²

Box 4: IEG Method for Ranking Projects by their Expected Contribution to MIGA's Profitability

The IEG method ranks projects by their expected contribution to portfolio profitability. In order to rank and compare the projects' relative contributions to portfolio profitability, the method estimates an expected premium revenue (taking the MIGA's actual premium in the contract as given using an expected duration period) and attributable (estimated) administrative cost for each project. Given the absence of accurate cost information for the underwriting of individual guarantees, IEG estimates the cost (underwriting and ongoing) of a project based on specific project characteristics, namely the type and number of coverage per project, social/environmental complexity, sector, and coverage size. The ratio of these two values (the revenue/cost measure) is used as an index to rank projects in terms of their relative contribution to portfolio profitability for this group of projects (see also Annex 6).

While the focus of last year's report was on actual/ex-post findings, this report's focus is on the expected, or ex-ante, relative contribution of new projects to MIGA's portfolio profitability. The expected contribution of a project to portfolio profitability could differ from its actual (as determined by an ex-post analysis) due to: (1) the *duration of the guarantee coverage*: a guarantee could be cancelled earlier than the period in the contract, effectively changing the duration of both premium income stream and administrative cost period; (2) *higher administrative costs during guarantee period*: a guarantee could experience a dispute or an actual claims process, or more intensive attention on possible environmental and social issues, incurring higher costs than originally expected. IEG's ex-ante and ex-post methodologies take into account these possible differences. Otherwise, the methodology used in ex-ante and ex-post analysis is essentially the same.

4.1. ***This analysis provides information on how expected profitability is distributed among the 46 projects and the factors driving it.*** It will also serve as a basis for comparison in the future, when IEG carries out ex-post evaluations of the same projects

³¹ This includes 23 regular and 9 SIP projects and 14 modifications of prior concurrence (which involve changes to existing MIGA contracts for on going projects). These modifications of prior concurrence have generally lower underwriting costs since they do not have to undergo a completely new underwriting process.

³² This differs from IFC's profitability, which as a lender or investor, is more closely linked to the projects' own business performance.

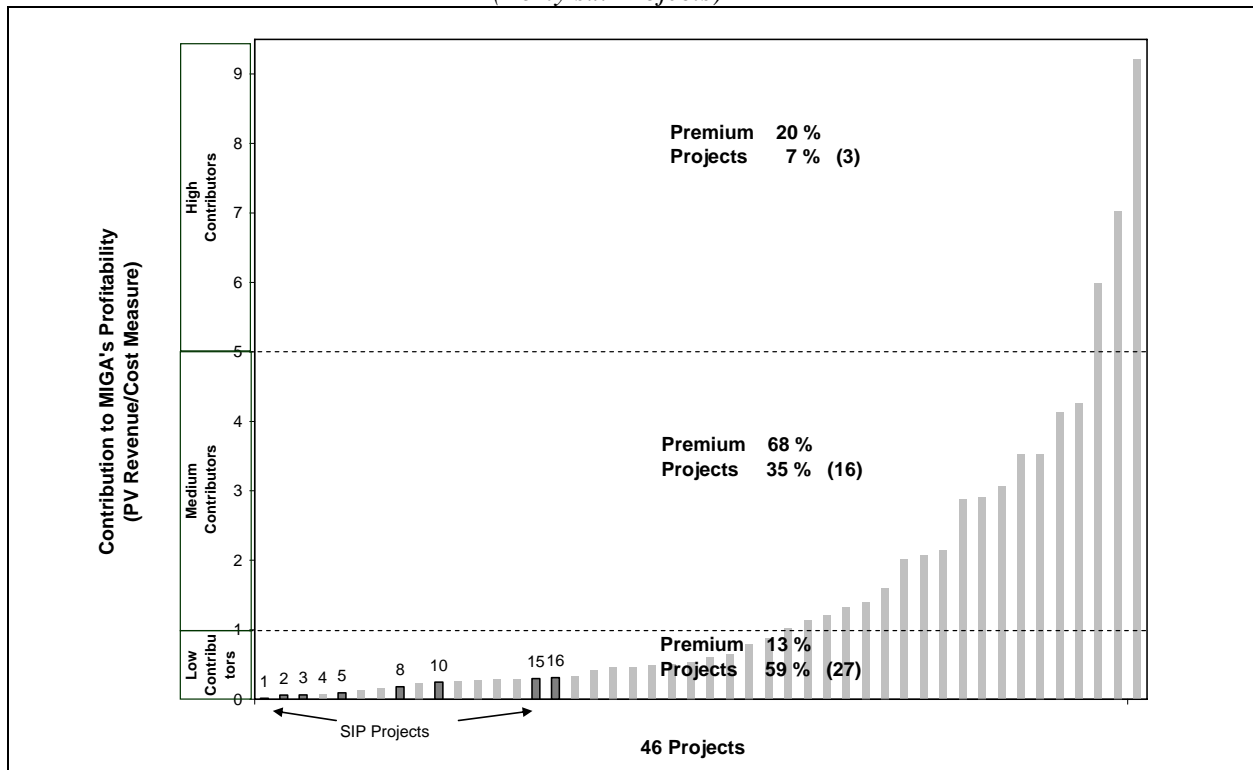
when they mature, using actual revenues and costs. The 2006 AR has noted that MIGA should aim at supporting projects with a win-win combination of high development outcome and high contribution to profitability. (Ex-post results from the 2006 AR are shown in Box 5.) It also recommended that MIGA improve its project-level cost accounting to make such analysis more accurate and useful.

B. Findings

4.2. *Projects underwritten by MIGA during FY05-06 showed wide variation in their expected profitability ranking.*³³ Among the 46 recent projects covered, those with larger exposures and correspondingly larger net premiums had the highest rankings. This variation in the expected profitability of the 46 projects is illustrated in Figure 7.

4.3. *Relative contribution to profitability and expected premium income are highly concentrated for these 46 projects.* Twenty percent of the expected premium income from these 46 projects is earned from just three projects (7 percent) at the top of the profitability ranking, whereas 56 percent of projects ranked at the lowest section of Figure 7 together account for only 13 percent of the total expected premium.

Figure 7: Relative Contribution to MIGA's Profitability
(Forty six Projects)

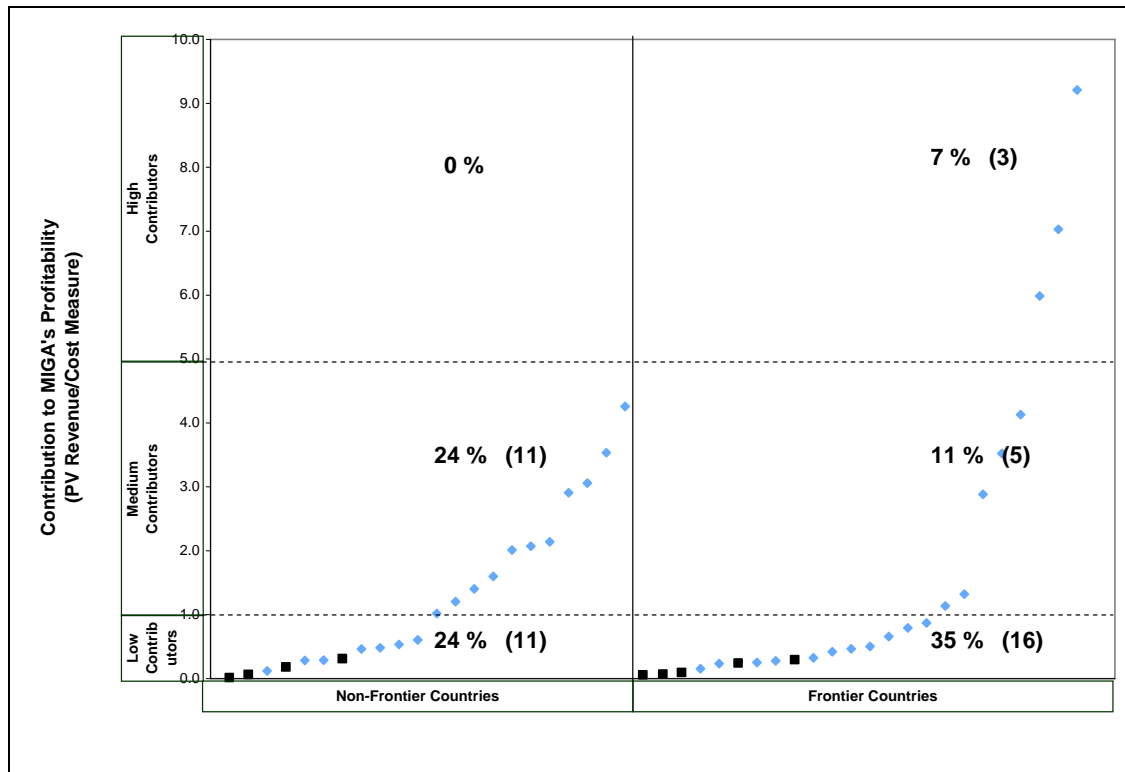


4.4. *The size of MIGA's exposure was most closely linked to the projects' expected profitability ranking.* As was expected, both the size of MIGA's exposure (or the

³³ All results discussed here refer to relationships found within this sample of projects. To extrapolate these findings to other samples or to the entire portfolio requires careful consideration of the methodology and assumptions used.

maximum aggregate liability) and the annual net premium (which reflects both size of exposure and risk factors) had the strongest impact on the profitability ranking of projects.³⁴ (Total project size was not as relevant since what matters most is the size of the portion of the investment that MIGA insures.) On the other hand, factors that differentiated the administrative costs of projects, such as the project's sector or its environmental category, were not significant for the profitability ranking.

Figure 8: Frontier Countries and Contribution to MIGA's Portfolio Profitability
(46 projects guaranteed during January 1, 2005- June 30, 2006)



4.5. *Some of the frontier country projects are among the highest ranked and as a group they are not less profitable than those in the non-frontier countries.*³⁵ A comparison of projects in frontier and non-frontier countries shows that both are equally likely to be high contributors to portfolio profitability.³⁶ In fact, all three top-ranked projects are located in frontier countries (see Figure 8). This finding suggests that MIGA can pursue expanding its role in frontier countries as a development priority, without sacrificing the Agency's objectives for financial soundness.

³⁴ Regressions of annual net premium against profitability scores, and exposure against profitability scores, reveal strong correlations between these factors and a project's profitability ($R^2 = .77$ for profitability and annual net revenue; $R^2 = .43$ for profitability and exposure).

³⁵ Frontier countries are defined as low-income countries with high risk, and are one of MIGA's current strategic priorities (see para. 2.4f)

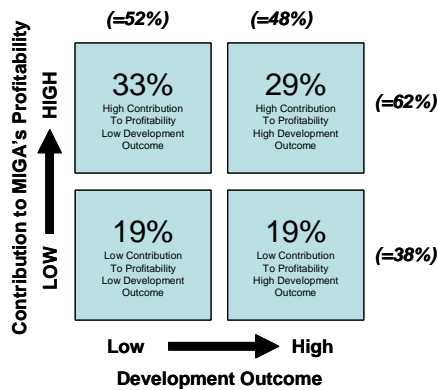
³⁶ However, the distribution of projects and profitability scores in the remaining projects did not show a marked link between frontier countries and higher profitability. An analysis with a greater sample is required to confirm whether any such link exists.

4.6. *Small Investment Program (SIP) projects are expected to be low contributors.* SIP projects on average were concentrated in riskier countries than MIGA’s regular guarantee projects. The SIP offers coverage of up to \$5 million, and by definition, all projects underwritten under the SIP have small coverage and low net premiums. Despite the estimated cost savings from a streamlined underwriting process designed for the program, the SIP projects were found to cluster at the bottom of the profitability ranking. This is consistent with the finding that coverage size and net premiums are most closely tied with the profitability ranking (as noted above). Actual project level costs are not available in MIGA, and staff estimated that the cost savings for underwriting a SIP is around 20 percent compared to a regular project; even when 80 percent cost saving is assumed their profitability ranking did not change significantly. (Darkened squares in Figure 8 denote SIP projects.)

Box 5: Development Outcome and Contribution to MIGA’s Profitability

MIGA can consider, ex-ante, both objectives of strong development outcomes as well as maintaining financial soundness to select projects with the potential of a “win-win” combination.

Figure 9: Development Outcome Ratings and Contribution to MIGA’s Profitability



Source: IEG-MIGA 2006 Annual Report

IEG’s 2006 AR presented a comparison of the contribution of mature projects to MIGA’s profitability and their ex-post (actual) development outcome ratings for a sample of 21 mature projects evaluated by IEG. Twenty-nine percent of evaluated projects had the desirable “win-win” combination of high contribution to MIGA’s profitability and high development outcome, as shown in the upper-right quadrant of Figure 9. At the same time, 19 percent of projects were rated low both in development outcome and in their contribution to MIGA’s profitability, as shown in the bottom-left quadrant of Figure 9. They contribute little to either fulfilling MIGA’s development mandate or contributing to its financial sustainability.

5. SMALL INVESTMENT PROGRAM (SIP) PROJECTS

A. Background

5.1. *MIGA's Small Investment Program became operational in FY06. The program was intended to enhance MIGA's role in Small and Medium Enterprise (SME) development.*³⁷ *Twenty percent of MIGA projects in FY06 were SIP projects.* The program, with a coverage limit of US\$5 million, targets small and medium investors (SMIs) investing in SMEs in developing countries.³⁸ In order to make political risk insurance more accessible to SMIs it offers standardized terms with a fixed premium rate by country, and a streamlined underwriting process. These features were expected to make the underwriting more cost-effective for MIGA and less cumbersome for small investors, generating a large volume of simple, straightforward SIP projects for MIGA, albeit with a small coverage (and a small income stream) per project.

5.2. *IEG assessed MIGA's early experience with the SIP.* IEG's assessment focuses on the program design and criteria, and whether the first group of projects are consistent with the original intent, objectives, and eligibility criteria, as defined in the Board document. It is not an evaluation of project or program outcomes since these projects are very recent and their development impact cannot yet be assessed.³⁹ The assessment includes all 13 SIP projects underwritten since FY06 through the third quarter of FY07, corresponding to 20 Contracts of Guarantee, for a net exposure of US\$30 million.⁴⁰ (See Annex 8 on SIP projects.)

5.3. *The SIP Board document states the objectives, focus, and eligibility criteria. The eligibility criteria leave room for interpretation, which can weaken the original intent of the program and its focus on SMEs and SMIs, as noted below.* (Features of SIP projects are summarized in Annex 7.)

- *The program does not limit eligibility to small investors (SMIs), although it is designed for them.* As a result, the program, designed specifically based on SMI characteristics, is in principle also open to large investors (such as holding companies and subsidiaries of conglomerates) as long as they invest in an SME, offering them the special terms and low premium rates.
- *The standardized insurance terms with low premium rates and streamlined underwriting were intended for simple, low-risk projects* with the premise that SMEs generally carry lower levels of political risks because they are less visible, strategically less important, and therefore less of an expropriation target. However, the policy does not define the type of projects that might be excluded,

³⁷ Since inception, MIGA has aimed to support SMEs, through guarantees for investors or through other financial intermediaries. MIGA estimates that it had provided \$1.04 billion of guarantee coverage to SME projects from FY97 to FY03.

³⁸ Note that the size of the total investment in the project can be above US\$5 million, as long as the MIGA coverage does not exceed this ceiling.

³⁹ IEG reviewed MIGA project files, the SIP Board document and internal procedure documents and interviewed underwriting staff.

⁴⁰ Nine projects were underwritten in FY06 and four in FY07.

nor does it specify a threshold or project characteristics to be considered simple, and low-risk.

- ***Projects in agribusiness, manufacturing, and services (AMS), as well as financial intermediaries serving SMEs, are targeted under the SIP.*** However, sectors such as infrastructure, oil, gas and mining are not explicitly excluded in the Board paper.

B. Findings

5.4. ***This first group of SIP projects reflects MIGA’s operational strategies: supporting investments in frontier countries, conflict-afflicted countries, and south-south investments. The majority of projects were in the sectors and regions targeted by the program and were broadly consistent with country priorities or Bank Group strategies.*** Ten projects were in the agribusiness, manufacturing, and services (AMS) sectors, the main targets of the SIP.⁴¹ As intended, most projects (10) were in Africa and Asia. In addition, nine projects were in frontier countries, eight were south-south investments, and five were in countries that either just came out of conflict⁴² or were still experiencing internal strife—all are MIGA strategic priority areas.

5.5. ***SIP projects, especially in conflict-afflicted countries, have potentially significant demonstration effects.*** Examples include a pharmaceutical manufacturing project that could improve the availability, quality, and access to essential medicines to the host country’s citizens, and a port screening services project to minimize smuggling and to help the host country comply with international trade regulations. In some cases, MIGA played an important role by assisting the investor in structuring the deal for the project successfully. Another such good example was MIGA’s support of a project in a country that is still in conflict, with a positive signalling effect to the FDI community.

5.6. ***Some large investors have benefited from the special SIP insurance terms as the program does not exclude them*** (see Table 1). Nine⁴³ of the 13 projects had sponsors that met MIGA’s definition of a small investor. The remaining four are larger companies or government entities acting on commercial basis, benefiting from the considerably lower premium rates, which were designed to reach the untapped SMI market.⁴⁴

5.7. ***Five out of 13 SIP projects have features more suitable for a regular guarantee.*** Three SIP projects involved concession agreements with the host

⁴¹ One of the ten AMS projects was originally classified by MIGA as an infrastructure project. However, given that it involves no construction of physical assets, MIGA now considers it a services sector project.

⁴² Project classifications overlap. Five projects are located in host countries that are classified as both post-conflict and frontier countries.

⁴³ In one of these cases classified as SMI by MIGA, the investor is a subsidiary of a large financial company and another case, the investor is a holding company comprised of a group of individuals and one represented by a large telecommunication company.

⁴⁴ In two agribusiness projects, the investor was a foreign government entity, operating on a commercial basis that had global operations. This guarantee holder was provided grants by its bilateral aid agency and the project enterprises were structured as joint-ventures with the host governments. In the case of two financial sector projects, two services and another infrastructure project, the guarantee holders’ number of employees, total assets and annual sales exceeded MIGA’s definition of SMI.

government,⁴⁵ one project was the result of the privatization of a state-owned enterprise and retained the monopoly over an industry,⁴⁶ and the remaining one was awarded the license to provide and operate telecommunication services in the host country.⁴⁷ Projects involving these kinds of contractual obligations with the government to provide a service or rehabilitate a bankrupt state-owned firm under conditions of significant market power would benefit from in-depth analysis during underwriting. The amount of MIGA maximum aggregate liability for the projects averaged US\$2 million, limiting MIGA's liability. However, IEG has previously found that projects with such features were more likely to experience investor-government disputes.⁴⁸ A similar project underwritten as a regular MIGA guarantee would be subject to MIGA guidelines and require a cost-benefit analysis (including the analysis of the concession) with more extensive documentation in the files.

5.8. ***While MIGA coverage was small, the overall scope of some projects was large in terms of their share of sector.*** The project enterprises covered as defined in the contract of guarantee were small, legally conforming to the SME criteria and definition. However, in five cases, the investors' business plans reflected a larger project scope for the overall investment (beyond what was insured by MIGA) in terms of market share, geographical coverage, and project activities. In two of these, the projects described in the contract involved the expansion, and operation of an entire sector in smaller economies originally operated by the government. These projects are high profile rather than "less visible, strategically less important" SMEs for which the SIP insurance package was designed, as stated in the Board paper. One high-profile SIP case was a sector privatization that will affect the livelihood of more than 35,000 households.

⁴⁵ One project involved a build-operate and transfer concession; the second project had a lease/develop, manage and operate concession agreement with an option to full privatization; and the third project was awarded the concession to rehabilitate, manage and expand the capacity of two state-owned agribusiness companies with the host government as a partner in the joint-venture.

⁴⁶ The project involved the privatization of the country's cotton industry. However, the government still owns a minority share in the project enterprise.

⁴⁷ The telecommunication license authorized the project enterprise to operate telecom network and provide broadband internet services for 15 years.

⁴⁸ Sixty percent of a sample of evaluated MIGA projects with concessions experienced investor-government disputes. See Box 1, page 8. *IEG-MIGA 2006 Annual Report*. May 31, 2006.

Table 1: SIP Eligibility Criteria and Objectives against the 13 SIP Projects Reviewed

	SIP eligibility requirement or SIP objective	Description	IEG findings (Total 13 SIP projects)
Regional focus	SIP Objective	Africa and Asia	10 projects are located in the Africa and Asia regions <i>2 in LAC; 1 in MENA</i>
Sectoral focus	SIP Objective	Agribusiness, Manufacturing and Services (AMS)	10 projects are in the AMS sector <i>which includes one telecom services project</i> <i>3 in financial sector</i>
Project Characteristics	For Streamlined Underwriting Procedure	Low risk projects (simple)	<i>3 had concession agreements, 1 with a Telecom license and 1 privatization.</i>
Environmental category	SIP Eligibility Requirement	Category B and C projects only	All conform to Environmental classification. <i>9 Category B and 4 Category C</i>
Investments in SMEs	SIP Eligibility Requirement	<i>Must meet two out of the three indicators:</i> <ul style="list-style-type: none"> • Number of employees: $10 \leq 300$ • Total Assets: US\$0.1 million \leq US\$15 million • Total Sales: US\$0.1 million \leq US\$15 million 	13 projects met the SME definition <i>One project involved the privatization and reorganization of the country's cotton industry affecting 35,000 households.</i>
Investments by SMIs	SIP Objective	<i>Must meet two out of the three indicators:</i> <ul style="list-style-type: none"> • Number of employees: ≤ 375 • Total Assets: \leq US\$50 million • Total Annual Sales: \leq US\$100 million 	9 projects involved SMIs <i>Four investors are large companies or government entities acting on a commercial basis</i> <i>MIGA classified two investors which are part of large holding companies as SMIs</i>

5.9. *The streamlined process was intended to reduce underwriting costs and the burden on small investors. However, it also results in little documentation on project's financial viability and the analysis of expected development impact.* The requirement of a background check on the investor is an important and useful feature of SIPs as a risk mitigant for less known investors. Unlike regular MIGA guarantees, however, SIP projects do not require Board document or approval; internal clearances and analytical requirements are significantly reduced. They are not required to follow the guidelines for development impact analysis.

- a. *SIP projects require at least a 10 percent internal rate of return (IRR).* Twelve out of the 13 projects attested an IRR of at least 10 percent in the Underwriting checklist. However, in six projects the evidence provided did not support the IRR mentioned in the checklist due to limited documentation or inconsistencies.
- b. *A detailed development impact analysis is not required for SIPs and the information on projects potential impact is very limited.* The majority of SIP projects mainly noted employment and training benefits only. A few more recent SIP projects

also included some qualitative descriptions of expected economic impact. While the SIP Application Form asks investors to provide relevant information (such as import tariffs, quotas, and subsidies, etc.), and so far seven have furnished the requested information. The development impact analysis is particularly lacking in projects involving privatization, concessions or licences as noted above. Most SIP projects (70 percent) adhered to MIGA's environmental and social due diligence requirements. However, shortcomings in some Category B projects were noted (discussed in Section 3.D).

5.10. *By design, given their small coverage and low net premium income, SIP projects have lower profitability rankings compared to regular projects, despite the streamlined process, reducing administrative costs.* Given that project-level administrative cost information is not available, the actual underwriting cost per project cannot be calculated. However, IEG interviews with underwriting staff to compare the underwriting effort for SIP and regular projects indicate that the underwriting cost for the SIP projects did not significantly differ from a comparable regular guarantee project. The main time savings come from not preparing a formal Board document and related meetings. There were no significant time savings in conducting the EHS and social due diligence. Staff noted that with many of the less experienced, small investors need more support. MIGA staff estimated the average cost saving for SIP projects to be around 20 percent, as compared to the underwriting of a regular guarantee (see Section 4).⁴⁹

⁴⁹ Assuming much higher cost savings (80 percent) did not change this result.

6. CONCLUSIONS

6.1. This report reviews MIGA's systems and processes for quality assurance, monitoring, and self-evaluation and assessed the quality of MIGA's work during underwriting in projects underwritten during January 2005-June 2006. The findings show the following:

A. Areas of Improvement

➤ *Since 2004, MIGA has put in place many of the institutional requirements to improve its ability to insure projects with high development effectiveness.*

6.2. MIGA aligned its business model and strategy, incorporating greater emphasis on its development mandate and collaboration with the World Bank Group. It adopted an organizational structure consistent with a more holistic approach by including economic and social aspects, and strengthened in-house skills. It also issued guidelines to clarify analytical requirements during underwriting and introduced an improved country risk assessment system. These were followed by the more recent merger of MIGA's TA activities with FIAS and the proposed new environmental and social performance standards, harmonizing MIGA policies with those of IFC.

6.3. MIGA has made progress in collaborating with the World Bank and IFC in line with its 2005 Strategic Directions. As a result, all projects reviewed were consistent with WBG strategies. There are increasing examples of information sharing and collaboration, working across institutions for joint projects, and more systematic consultations with Bank Group staff. However, there is room for better and more effective collaboration within the WBG.

➤ *MIGA's current practices during underwriting show improvements in the quality of work in some important aspects.*

6.4. Attention to strategic relevance of projects in the country, sector and the WBG context has improved. MIGA now regularly assesses the strategic relevance of projects with respect to country priorities and Bank Group strategies—a necessary condition for their development effectiveness. It also takes a more proactive stance for consultation and collaboration with partners (including the WBG) on new projects, a positive trend that should continue. It also systematically addresses relevant sector wide issues, which is important for projects' business performance.

6.5. Due diligence of environmental and social aspects of projects during underwriting has improved. MIGA intensified site visits during underwriting to ensure that environmental and social aspects are adequately addressed up-stream. Improved quality of MIGA's work to address social and environmental aspects during underwriting also reflects these upstream project visits. MIGA is also using the contract of guarantee more proactively to specify the EHS requirements and policies applicable for each project.

B. Areas requiring attention and action by MIGA

- *Systematic monitoring and self-evaluation by MIGA during implementation to gauge the impact of its guarantees is lacking.*

6.6. Despite various efforts to put in place a monitoring system, MIGA's project monitoring framework to track project outcomes made little progress in implementation and remains a challenge. MIGA carried out some project visits, but no monitoring reports are yet available. In addition, the Guarantee Closing Notes that MIGA began to prepare for all cancelled guarantees—in response to a 2003 IEG recommendation—still do not systematically provide information on projects' development outcomes.

6.7. The absence of a self-evaluation system also has implications for IEG's evaluation work, which currently requires in-depth ex-post evaluations at project level, with the need to obtain information from primary sources (with visits of projects and stakeholders). Good practice standards among multilateral institutions indicate that self-evaluation and independent evaluation systems should be complementing each other.

- *The analysis of potential development impact of projects is of uneven quality, as MIGA's analytical requirements are not systematically applied across projects during underwriting.*

6.8. The quality of MIGA's work during underwriting matters for the development outcomes of its projects, as MIGA has to base its project selection on sound development rationale. From an insurance business perspective, projects that do not contribute to economic development can also become targets for adverse government actions, leading to insurance claims. MIGA needs to review the incentives and accountabilities to ensure that all projects it insures have been well analyzed for their potential development impact, providing a sound rationale for MIGA's involvement using its guidelines for assessing development impact.

6.9. While all non-financial sector projects included an FRR, and close to half also had an ERR figure, a cohesive analysis of development impact—as specified in MIGA's FY03 analytical requirements and 2004 guidelines—is missing in most cases. The majority of projects either presented partial qualitative description of project benefits or information on expected development impact of projects. In particular, there is little attention to potential economic costs due to distortions (such as trade protection, monopoly, or licence privileges) and externalities, which are not often analyzed. Since MIGA first introduced economic cost-benefit analysis in FY03 as a requirement in underwriting, there has been progress. Yet, mainstreaming its application across projects has not materialized. IEG interviews with MIGA staff indicate that, while staff are committed to MIGA's development mandate, obtaining economic data from investors and other stakeholders is difficult, and MIGA lacks more detailed and practical guidelines to assist them in the application of the economic cost-benefit analysis.

- ***Experience in implementing MIGA's Small Investment Program (SIP) shows that the policy objectives, eligibility criteria, and actual implementation need to be consistent.***

6.10. SIP is intended to support small and medium enterprises (SMEs) and to serve the small investors (SMIs) market segment. It has the potential to play an important role in SME development, and the 13 SIP projects were strategically relevant for the host countries, consistent with MIGA priorities, some with potentially significant demonstration effects.

6.11. However, the current SIP eligibility criteria are not defined tightly enough, to focus on the intended users. Among 13 SIP projects, while the majority was consistent with the original intent and objectives, some were not. By targeting small investors, small enterprises, and simple projects in its SIP policy, MIGA aimed to match the special insurance terms with low premiums to the expected low risk and low cost of SIP projects. However, some SIP projects involved concessions and sector privatizations, and there were cases where MIGA insured small portions of projects with a much larger scope. The streamlined SIP due diligence process is not adequate to analyze and document the projects' expected development impact. Although the underwriting process was streamlined, cost savings were not significant.

- ***There are some remaining weaknesses in the environmental and social review, particularly for Category B projects.***

6.12. The weaker areas in the EHS work are: (1) setting up Environmental Management Systems early on (prior to Board approval) to ensure that the capacity is in place to implement and monitor MIGA's EHS policies and take remedial actions, as these affect the ability of projects to operate successfully in financial, economic, and social terms; and (2) paying attention to SIP (Category B) projects to ensure they fully follow MIGA's EHS requirements during underwriting.

- ***IEG's analysis gives information on the relative expected contribution of projects to MIGA's portfolio profitability.***

6.13. The IEG analysis shows wide variation in the relative expected profitability of 46 projects. The size of MIGA's exposure and net premium income levels were most closely tied to their expected profitability ranking. In addition, the relative contribution of profitability and expected premium income are highly concentrated among fewer projects within this group. It is particularly notable that some of the frontier country projects are ranked the highest, and as a group they are not less profitable than those in the non-frontier countries. Finally, SIP projects are ranked low in terms of their relative contribution to MIGA's portfolio profitability, given their smaller coverage and low premium rates.

C. Issues Going Forward

- ***MIGA is preparing to adopt new Environmental and Social Policy and Performance Standards and Disclosure Policy, harmonized with those of IFC.***

6.14. The new policy and standards represent a major positive shift for MIGA as they incorporate social and environmental sustainability in MIGA's core business objectives, reinforcing MIGA's development mandate. The policies respond to previous IEG recommendations. However, challenges lie in their successful implementation and they require adequate preparation by MIGA, in particular: (1) improvements in EHS assessment in Category B projects; (2) adding value to investors' proposals by assisting clients to identify ways to "do good"; (3) to be proficient in ISO 14000 and ISO 18000 auditing to assess proposed systems and the performance of existing Environmental and Health and Safety Management Systems; and (4) improvements in requirements for annual monitoring reporting by its clients, especially for Category B projects.

- ***In light of MIGA's dual mandate, the expected contribution of a project to portfolio profitability should be considered together with a project's anticipated development impact.***

6.15. While MIGA does not aim to maximize profit, it does have to maintain financial soundness. Therefore, MIGA should aim to select projects with win-win combinations of high development impact and high contribution to portfolio profitability. MIGA is currently reviewing the cost allocation parameters in its pricing model to ensure that pricing of its guarantees are in line with risks, costs, and market conditions, especially for projects with large coverage.

- ***MIGA needs to decide on the future direction and how to shape the SIP beyond its initial pilot phase.***

6.16. If MIGA intends to continue to use SIP to target SME development, its eligibility criteria need to be tightened to better serve this purpose. Otherwise, the Program would serve as a "small coverage" instrument open to all investors, sectors and types of projects. The policy, eligibility criteria, pricing and insurance terms need to be consistent with the objectives, to ensure that there is no mismatch between the intent and the projects it supports; clearly identifying projects which would be better suited for MIGA's regular guarantee program, with an appropriate analysis as well as insurance terms and pricing structure.

7. RECOMMENDATIONS

A. New Recommendations

Previous IEG recommendations (discussed below) have addressed some of the issues identified in this report. The existing recommendations related to the remaining gaps are retained in the 2007 MATR (Annex 9). In addition, IEG makes the following new recommendations to address areas not already covered in the remaining recommendations in the 2007 MATR:

Quality Assurance for Consistent Application of the Guidelines for Development Impact Analysis

1. **Quality Assurance.** MIGA should strengthen its quality assurance especially before the project decision documents are finalized to ascertain that the analysis of project impacts is consistent with MIGA requirements and guidelines, is well documented, and is adequately reflected in the decision documents.
2. **Quality at Entry Self Assessment.** To enhance institutional learning, in FY08 MIGA should carry out, on a pilot basis, a quality at entry self assessment of a sample of new guarantees underwritten in FY07. IEG would provide the methodology, benchmarks and templates and will independently review and validate MIGA's self-assessments.
3. **Tools.** MIGA should adopt practical tools to guide the underwriting teams—such as sector-specific checklists and templates—in implementing its requirements and guidelines for development impact analysis.

Small Investment Program (SIP)

4. **Objectives and Eligibility Criteria.** MIGA should tighten the SIP eligibility criteria to ensure that the program is fully focused on its intended clients—small investors and small and medium sized enterprises. The program should explicitly exclude infrastructure, oil, gas and mining sectors; it should also exclude projects with concession arrangements, as these are more appropriate for MIGA's regular guarantee instrument, in line with MIGA guidelines for assessing project impacts.
5. **Development Impact Analysis.** MIGA should strengthen and improve the quality and the documentation of the development impact analysis of SIP projects that underpin MIGA's support for them.

B. Progress in Implementing Existing Recommendations

7.1. *Since 2003 IEG has made recommendations to MIGA in the Extractive Industries and Investment Climate evaluations and its previous annual reports. Based on the progress achieved to date by MIGA, 14 recommendations from previous IEG reports remain outstanding.* As agreed with CODE last year,⁵⁰ IEG-MIGA undertook a review of all 52 recommendations made to MIGA management in FY03-06, listed in the 2006 MATR. Those recommendations targeted seven areas: (1) strengthening of MIGA's ex-ante analysis of guarantee projects in underwriting; (2) monitoring and self-evaluation; (3) social and environmental safeguards; (4) leveraging partnerships and collaboration within the Bank Group; (5) contribution of projects to MIGA's portfolio profitability; (6) MIGA's online information services; and (7) MIGA's technical assistance.

7.2. *Based on its assessment of the quality of MIGA's work in underwriting, and its review of quality assurance and monitoring systems, IEG retired 24 recommendations that MIGA has substantially implemented, or are no longer relevant given institutional changes.* The remaining recommendations addressing similar or complementary issues were grouped and are still listed in the updated MATR, which now consists of 14 consolidated recommendations.

7.3. *MIGA has been most successful in implementing recommendations related to establishing the institutional prerequisites for improving project assessments during underwriting, and assessing and monitoring environmental and social safeguards. However, progress in implementing recommendations related to the actual project impact analysis and monitoring has lagged behind, and thus they still appear in the MATR.*

7.4. IEG retired 19 recommendations that have been implemented by MIGA, and another five that were no longer relevant (primarily legacy issues in extractive industries projects, as well as those relating to collaboration between MIGA's technical assistance activities and FIAS). More than half of previous recommendations (28) remain in the MATR because they have not been fully implemented and require further effort by MIGA. Twenty-three of the outstanding recommendations were consolidated into nine, as they partially overlapped or addressed related issues. The content of the recommendations, however, was not changed. As a result, there are 14 outstanding recommendations. (Annex 9 contains the 2007 MATR.) The level of progress and rationale behind IEG decisions to retire or retain the recommendations related to seven areas are summarized below.

Strengthening Ex-ante Assessments during Underwriting

7.5. Based on the findings in Section 3 of this report, previous recommendations relating to the implementation of the method for project impact analysis during underwriting are still valid. These include: consistent application of cost-benefit analysis, and the need for MIGA to satisfy itself that underlying business models, terms, and tariffs

⁵⁰ See recommendation 6 in *IEG-MIGA's 2006 Annual Report*.

in projects involving concessions are sound. The recommendations to build capacity to improve the analysis of project impacts and leveraging information from bilateral or multilateral partners were retired since MIGA has implemented them.

Social and Environmental Safeguards Policies, Guidelines, and Monitoring

7.6. MIGA has made substantial progress in implementing this group of recommendations, including:

- Strengthening the upstream involvement of environmental and social issues in MIGA's underwriting.
- Requiring field visits to Category A projects during due diligence.
- Associating itself with sponsors committed to sustainable development.
- Coordinating its environmental and social assessment and monitoring with partners.
- Ensuring that projects had prepared and agreed on resettlement and community development plans before Board approval of the guarantee.
- Addressing security issues in extractive industries projects.
- Making more effective use of its contract of guarantees to identify applicable safeguard policies and guidelines, and requirements for remedial action (for example, Environmental Management Plans, Indigenous Peoples Plans).

IEG retains recommendations related to the harmonization of assessment and monitoring requirements of Category B projects with those of IFC, inclusion of EHS reporting requirements in MIGA's contracts of guarantee, requiring investors to set up environmental management systems prior to Board approval, and moving beyond safeguard compliance to promote sustainability. As noted in Sections 2 and 3, MIGA's proposed new policy and performance standards are consistent with these remaining recommendations. IEG expects that with the implementation of the new policy and performance standards MIGA will make further progress toward addressing these. IEG will review progress periodically to update the MATR.

Monitoring Development Effectiveness

7.7. Since MIGA made limited progress in implementing a monitoring framework for its guarantee projects IEG retains the recommendation related to the implementation of a cost-effective monitoring system (Section 2). In addition, the recommendation for guarantee closing notes has only partially been implemented: while MIGA now prepares guarantee closing notes for each cancelled guarantee, these do not systematically record information on project outcomes, achievement of objectives, lessons learned, and development impacts, nor do they cover expired contracts as was recommended.

Project's Contribution to MIGA's Profitability

7.8. IEG recommended in 2006 that MIGA improve its ability to capture the cost of underwriting and managing individual guarantee projects to better assess the contribution of guarantees to MIGA's overall profitability. This has not yet been implemented and thus is retained. IEG will continue to track progress in this area.

Information Services

7.9. IEG recommended that MIGA undertake a strategic review of these services to ensure the future relevance of its offerings and to better align them with MIGA's core business, as well as introduce a more robust performance monitoring approach. The strategic review and development monitoring system is ongoing, and IEG will continue to assess progress.

Technical Assistance

7.10. The recent integration of MIGA TA into FIAS addressed the recommendation of better coordination within the WBG (with FIAS). FIAS's new strategic directions, which are under preparation, are expected to address some remaining IEG recommendations on TA activities, which included improvement of strategic selectivity and monitoring of outcomes and defining MIGA's comparative advantage. IEG will undertake a review of MIGA TA for investment promotion in FIAS in FY09. The previous recommendation related to securing additional external funding to complement MIGA TA's own resources is no longer relevant and is retired, given the ability to finance these activities from the FIAS Trust Fund and expected efficiency gains in managing donor funds.

ANNEXES

Annex 1: Themes of Past IEG-MIGA Annual Reports

The *2003 Report on Operations Evaluation* in MIGA, the first in the series, reviewed quality assurance, monitoring, and evaluation systems, as well as the strategies, policies, systems, processes, and practices in place to meet MIGA's development mandate and its ability to remain financially sound. The report took stock of current systems and practices, described new initiatives, and identified areas to be addressed in the future.

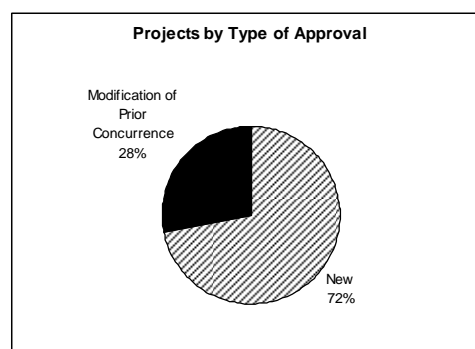
The *2004 Review of Development Effectiveness* in MIGA presented independent assessments of the development effectiveness of a sample of guarantee and technical assistance activities. It drew on ex-post evaluations of 9 projects guaranteed in FY96-FY98. It reviewed the ex-ante development impact analysis done for 13 guarantee projects approved in FY04. Finally, it assessed MIGA technical assistance activities carried out in the FY98 to FY03 period, including two country case studies. The report formulated lessons learned based on its findings.

The *OEU 2005 Annual Report* reviewed the status of MIGA's quality assurance, internal monitoring and evaluation systems, and processes relative to the achievement of its development mandate. It highlighted changes in those systems since the 2003 report, especially since MIGA's reorganization in 2004. The report also updated the implementation of previous IEG recommendations, reviewed the quality at entry of the development impact assessments of a sample of 2005 guarantees, and analyzed cancellations of MIGA guarantees.

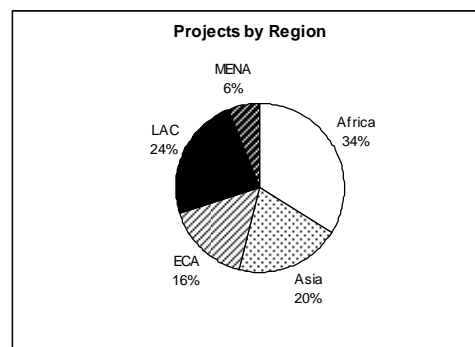
The *IEG-MIGA 2006 Annual Report* synthesized the results MIGA guarantee project evaluations undertaken by IEG-MIGA in FY03-05. It presented the aggregate results of 21 ex-post evaluations of projects underwritten between FY96-FY02. It identified emerging lessons and highlighted areas requiring attention by MIGA management and focused on common issues and themes emerging from evaluated projects. In addition, the report presented findings from an evaluation of MIGA's online information dissemination services and updated the status of previous IEG recommendations.

Annex 2: Composition of Projects selected for Quality at Entry Assessment in FY07

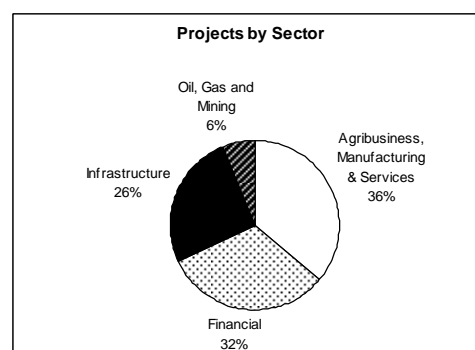
	Number of projects	% Share of total projects
By Approval		
New	36	72%
Modification of Prior Concurrence	14	28%
<i>Total</i>	<i>50</i>	<i>100.00%</i>



By Region		
Africa	17	34%
Asia	10	20%
ECA	8	16%
LAC	12	24%
MENA	3	6%
<i>Total</i>	<i>50</i>	<i>100.0%</i>



By Sector		
Agribusiness, Manufacturing & Services	18	36%
Financial	16	32%
Infrastructure	13	26%
Oil, Gas and Mining	3	6%
<i>Total</i>	<i>50</i>	<i>100.0%</i>



By Type of MIGA Guarantee Product and By Approval		
<i>Regular Guarantee</i>	<i>37</i>	<i>74%</i>
New	23	46%
Modification of Prior Concurrence	14	28%
<i>Small Investment Program (SIP)</i>	<i>13</i>	<i>26%</i>
New	13	26%
Modification of Prior Concurrence		
<i>Total</i>	<i>50</i>	<i>100%</i>

Project Coverage by Sections

	Ex-ante analysis of new guarantee projects (Chapter 3)	Ex-ante analysis of environmental and social issues (Chapter 4)	Contribution to MIGA's profitability (Chapter 5)	Assessment of SIP projects (Chapter 6)
Regular guarantees	✓	✓	✓	
Modification of prior concurrence		✓ (1)	✓	
Small Investment Program 2006		✓	✓	✓
2007 Q1		✓		✓
Number of projects	23	33	46	13

(1) Only projects with significant EHS issues were included

Annex 3. Quality at Entry assessment process and procedures for the IEG-MIGA FY07 Annual Report

IEG followed these steps in undertaking the quality at entry assessment:

- 1. Adapted the quality at entry assessment methodology to the objectives of the FY2007 Annual Report (September 2006).**
 - The methodology was adapted to assess projects against MIGA's own policies and guidelines and track MIGA's progress against the 2006 Management Action Track Record.
 - Coverage included all projects approved by MIGA Board and had contracts of guarantee issued from January 1, 2005 to June 30, 2006.
 - Among the 46 projects issued under the during this period, there were 9 projects issued under the Small Investment Program (SIP) and to fully cover all projects under this program in the assessment, 4 more SIP projects issued up to March 30, 2007 were reviewed.
- 2. Streamlined the quality at entry assessment instrument (September 2006).**
 - Identified key issues from the 2006 Management Action Track Record (MATR) and formulated a list of questions for regular guarantee projects.
 - A separate set of questions were prepared for the 13 projects under the Small Investment Program (SIP) using the SIP Board documents and procedures.
- 3. Undertook information collection (September 2006 to March 2007)**
 - IEG collected and reviewed project documents from IRIS and MIGA central and EHS files such as the guarantee application forms, internal memos and minutes of meetings, MIGA underwriting documents, Board paper, and contract(s) of guarantee. IEG also reviewed the business plans, financial model, environmental studies submitted by the investor and email correspondences.
- 4. Randomly selected benchmark projects for each major sector to compare quality of work across projects and ensure consistency of the assessment (October 2006)**
 - Benchmark projects were selected for each sector: two infrastructure, one financial, one mining, and one agriculture, manufacturing and services sector.
- 5. Completed the initial phase of the desk review (October 2006 to March 2007)**
 - All IEG-MIGA staff examined the project files, provided their assessment and internally discussed the preliminary assessments.
 - Issues and data gaps were identified for each project to be discussed with MIGA underwriters and risk management officers.
 - Finally, the assessments were compared across all projects and best and good practice projects among the "new" projects were identified and used as final comparators.
- 6. Fact-checking and discussions with MIGA Underwriters and Risk Management Officers involved in the projects assessed (April to May 2007).**
 - Two-step interview of underwriters and ROMs were conducted one on one basis. These covered: (1) their familiarity, experience in the use of, incentives in using, and opinion regarding the relevance of the CODE endorsed development impact methodology and the December 2004 development impact guidelines; and (2) fact-checking of IEG initial assessments and requested missing information.
- 7. Discussions with individual managers on overall findings (April-May 2007).** IEG briefed individual managers on key findings.
- 8. IEG one-stop review (May 2007).** Draft report discussed for IEG and peer reviewer comments Draft Report Discussion with Senior Management (May/June 2007)

Annex 4: Streamlined Quality at Entry Assessment Datasheets
STREAMLINED QUALITY AT ENTRY QUESTIONNAIRE USED
IN THE ASSESSMENT OF MIGA GUARANTEE PROJECTS
FOR THE IEG-MIGA FY2007 ANNUAL REPORT

ITEMS	DEFINITION
Project Code	
Project Enterprise Name	Name of Project Enterprise as stated in the contract of guarantee
Project ID	MIGA Project ID
Contract Number	Contract numbers linked to the Project Enterprise
Host Country	
Type of Board Authorization	New or Modification of Prior Concurrence
MIGA Sector Classification	
MIGA Region Classification	
Clear justification of MIGA's support	Clear statement in the Board Memo and in the Underwriting Paper on the reasons for MIGA's support of the project.
Total Project Cost and Components Identified	Disclosed the total project cost in the Underwriting Paper and summary of major project cost components - not only the planned investment amount to be made by the MIGA investor.
Clear statement of project development objectives	Clear statement of project development objectives in the Board Paper and the Underwriting Paper.
Mainstreaming of current good practices in business performance and economic contribution analysis	For purposes of the FY07 Annual Report, mainstreaming of current good practices refers to the consistency in the application of cost-benefit analysis or the required analysis for financial sector projects.
Full application of cost-benefit analysis or required analysis for financial sector projects	Analysis in the Board Memo and Underwriting Paper took into consideration the financial viability and economic contribution of the project using FRR, ERR for real sector projects; EROIC and other appropriate indicators for financial sector projects as required by the development impact methodology and the guidelines. In addition, the Underwriting Paper also included an analysis of the distortions, externalities for both real and financial sector projects.
Included a FRR or appropriate financial performance indicators for financial sector projects	The Board Memo and Underwriting Paper mentioned a FRR for real sector projects and indicators appropriate for financial sector projects.
Disclosure of FRR assumptions or financial performance indicators for financial sector projects	Assumptions and drivers underpinning the FRR or financial sector project indicators were disclosed in the Underwriting Paper.
Identification and analysis of commercial risks	Commercial risks that are likely to affect the project's financial performance were identified and analyzed.
Incorporated sensitivity analysis	Alternative viability scenarios were incorporated in the analysis and linked to commercial risks that are likely to affect the project.
Analysis of sector context and policy issues	The sector context/development and policy issues that are likely to affect the project were analyzed in the Board Memo or Underwriting Paper.
Overall business performance analysis	Consistency and coherence of the overall business performance analysis with (1) clarity, consistency of the assumptions, (2) with FRR and other quantitative financial viability indicators, (3) assessment of commercial factors that are likely to affect business performance, (4) coherence and appropriateness of qualitative analysis of cost-revenue.

ITEMS	DEFINITION
Identification and analysis of distortions, subsidies, and externalities	Distortions, subsidies, negative and positive externalities that would diminish the project's economic contribution were identified and analyzed in the Board Memo and the Underwriting Paper. Distortions beyond tax holidays, positive or negative externalities were identified and verified with the project sponsors.
Analysis included an ERR/EROIC	The Board Memo and Underwriting Paper mentioned an ERR for real sector projects and an EROIC for financial sector project.
Overall economic contribution analysis	Consistency and coherence of the overall analysis of the project's economic contribution with (1) economic context and rationale; (2) clarity, consistency of the assumptions; (3) identification of important and relevant distortions and externalities; (4) included an ERR or EROIC, qualitative description with some measurable indicators; and (5) coherence and appropriateness of the qualitative analysis of both economic costs-benefits.
Good practice analysis of PPP/concession type projects	The analysis in the Board Memo and the Underwriting Paper incorporated all 4 of the requirements listed in paragraph 19 of the December 2004 guidelines for PPP-type, concession type or projects with licenses, joint-ventures with either the host government or sub-sovereign entity.
Information available to conduct cost-benefit analysis in project files but not incorporated in the analysis	Information or data is available in the project files to conduct the cost-benefit analysis (FRR, ERR) but not done or reflected in the Board Memo or Underwriting Paper.
Adequacy of project documentation	The availability of documents in the projects files that MIGA requested and obtained from the investor to undertake development impact assessment -- for example: business plan, financial model.
Information sharing and collaboration with partners	Evidence of information sharing and collaboration with other bilateral, multilateral partners at underwriting and any monitoring arrangements in the contract of guarantee.
Other bilateral or multilaterals agencies involved/MIGA Partner	Name of other bilaterals or multilaterals involved in the project.
Integration of Lessons Learned	Whether MIGA's analysis incorporated lessons learned from MIGA's experience in the country or sector for similar types of
Others	
MIGA's value-added to project	MIGA's value-added in the project beyond provision of political risk insurance
MIGA's value-added to investor	MIGA's value-added to the investor based on the MIGA's competitive advantage as written in the MIGA's FY05 Strategy.

**STREAMLINED QUALITY AT ENTRY QUESTIONNAIRE USED IN THE
THE ASSESSMENT OF SMALL INVESTMENT PROGRAM (SIP) PROJECTS
FOR THE IEG-MIGA FY2007 ANNUAL REPORT**

ITEMS	DEFINITION/BASIS
Project Code	
Project Enterprise Name	Name of Project Enterprise as stated in the contract of guarantee
Project ID	MIGA Project ID
Contract Number	Contract numbers linked to the Project Enterprise
Host Country	
Project Classification	
Region	
SIP Priority Region	
Sector	
SIP Priority Sector	
Project Type	
MIGA Environmental Category	
SIP Eligible Environmental Category	
Compliance to SME criteria	Based on MIGA's definition of SME: two out of the three indicators on the number of employees, total assets and total annual sales
Project Enterprise's number of employees	
Project Enterprise's total assets (million)	
Project Enterprise's total annual sales (million)	
Compliance to SMI criteria	
Investor Company's number of employees	
Investor Company's total assets (million)	
Investor Company's total annual sales (million)	
Sufficiency of due diligence conducted	
Kind of background check conducted	
Credit Quality/History Check Conducted	
Other references	
Consultations with WB and IFC country/field offices	
IRR requirement (at least 10%)	
FRR assumptions and consistency	
Business Plan and Financial Projections provided by the investor	Basis for determining that the IRR is at least 10 percent
Identified project cost and components	
Estimated total project cost (in million)	
Estimated total project revenue (first 5 years; in million)	
Identification and analysis of distortions	
Verification of distortions	Evidence whether distortions indicated in the SIP application was

ITEMS	DEFINITION/BASIS
	verified
Clarity of project development objectives statement	Clear statement of project development objectives in the SIP Underwriting Checklist.
Quality of project documentation	Availability of documents in the projects files that MIGA requested and obtained from the investor as basis of IRR and other expected development impacts. For example: business plan, financial model, audited financial statements.
Frontier Country	
Submitted as MIGA Regular Guarantee	If the project was submitted first as a regular MIGA project before project was processed as under the SIP.

**STREAMLINED QUESTIONNAIRE ON EHS AND SOCIAL IMPACTS USED
IN THE ASSESSMENT OF MIGA NON-SIP AND SIP PROJECTS
FOR THE IEG-MIGA FY2007 ANNUAL REPORT**

1. Analysis of Environment, Health, and Safety (EHS) and Social Impact

Guidance Note: This category will be assessed in terms of the adequacy and compliance of the environmental assessment with MIGA guidelines outlined below. Table 2 below provides the indicators that may be used in assessing the analysis of the EHS impact, where appropriate. For details refer to IEG’s Quality at Entry Evaluator’s Guide.

Table 2: Assessment of EHS and Social Impacts

Environmental Assessment Category							
	Criteria	If Applicable, was it identified?		Availability of Adequate Documents		Adequacy of Analysis	
		Yes	No	Yes	No	Yes	No
Environmental Safeguard Policies and Guidelines ⁵¹							
Appropriate detail of environmental assessment ⁵²							
Adequate Environmental Action Plan proposed							
Sponsor’s EHS management system adequate							
Public disclosure/consultation adequately addressed (Category A projects only)							
Adequately addressed Specific Safeguards							
Appropriate provisions in contract of guarantee for compliance with EHS/social requirements							

Issues Identified:

Additional Comments:

⁵¹ See Annex 1 of the IEG QAE Evaluator’s Guide.

⁵² An EA may include: an environmental impact assessment; environmental audit; and hazard or environmental risk assessment or a combination of these instruments. IEG understands an “EA document” encompasses all forms of records, documents and e-mail/fax clarifications as well as possibly a specific document labeled “Environmental Assessment”, as appropriate for the specific project under review. If it is an “A” project then there will be at least one or more specific documents which have been disclosed to the public through the WBG Information Center.

2. Based on recommendations from EI Evaluation and IEG-MIGA Annual Reports⁵³

A. General Issues for All Project Categories

	YES	NO
(a) Has MIGA EHS gone beyond strict interpretation of Safeguards to add value to its projects (particularly Extractive Industries projects) (<i>EI 1a</i>)?		
(b) Have other resources (lenders, partners) been mobilized by MIGA to complement its review of Safeguards prior to Board approval? (<i>EI 1b</i>)		
(c) Has MIGA made better use of Contracts of Guarantee in support of safeguard objectives? (<i>EI 2c</i>)		
(d) Have annual EHS reporting requirements been incorporated into MIGA's contract of guarantees? (<i>EI 2c</i>)		
(e) Has MIGA required investors to improve their EHS assessments and arrangements prior to Board presentation where these have proven to be deficient? (<i>EI 1b</i>)		
(f) Have investors been required by MIGA to set up EHS Management Systems prior to Board Approval? (<i>EI 1b</i>)		
(g) Has MIGA associated with investors committed to sustainable development (i.e., taking EHS seriously)? (<i>EI 1</i>)		
(h) Has MIGA coordinated/collaborated well with partners on EHS matters? (<i>FY04 RDE 4a and 4b</i>)		
(i) Has MIGA shown any improvement in the way it deals with EHS issues in B projects? (<i>FY06 AR, 7.1</i>)		
(j) Have security arrangements of investors been adequately assessed from a social perspective to ensure the rights of individuals impacted by the project?		

B. For Category A Projects Only

	YES	NO
(a) Have all Category A projects involved visits by EHS specialists prior to Board approval (especially social specialists) and as early as possible? (<i>EI 1b</i>)		
(b) Have Resettlement Plans, Community Development Plans and Indigenous Peoples Plans been prepared prior to Board Approval? (<i>EI 1b</i>)		
(c) Have communities been adequately consulted in category A projects (especially Extractive Industry) and to what extent has MIGA insisted on incorporating Community Development Programs in such projects?		

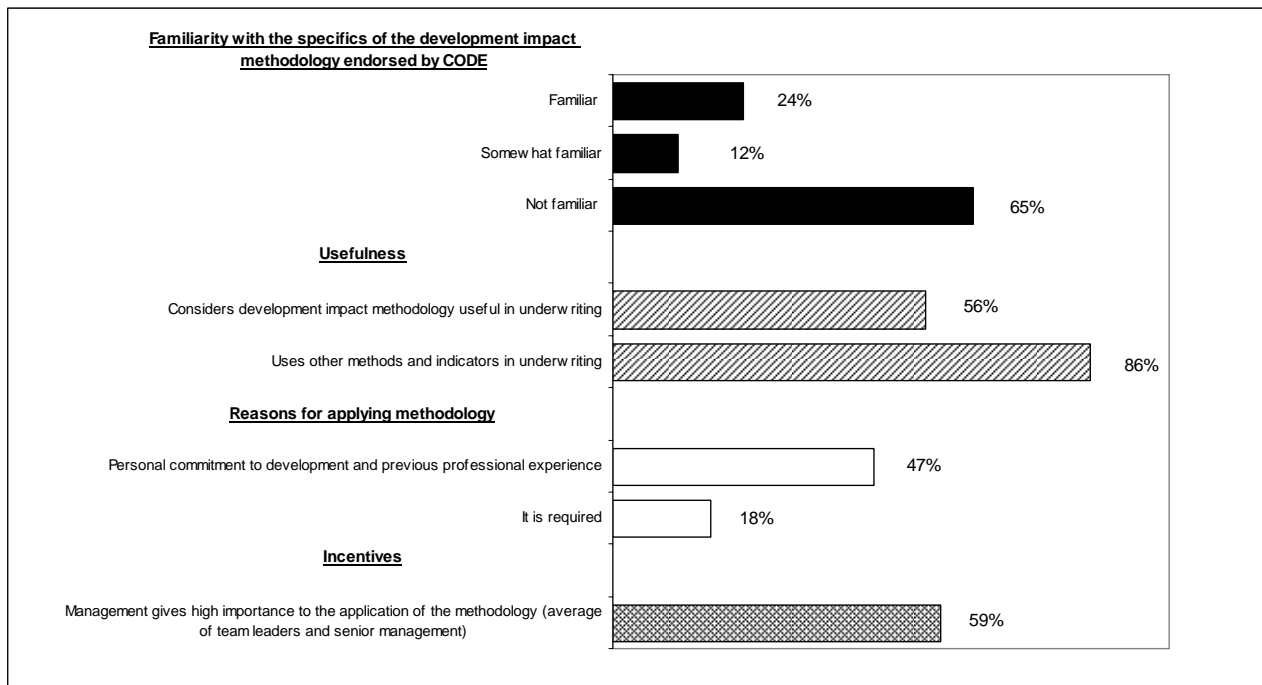
⁵³ To facilitate the cross reference with each numbered recommendation in different IEG-MIGA reports, the following abbreviations are used: *ROE* for 2003 Report on Operations Evaluation in MIGA; *RDE* for 2004 Review of Development Effectiveness in MIGA; *EI* for Extractive Industries and Sustainable Development: An Evaluation of World Bank Group Experience (2004); *IC* for Improving Investment Climates: An Evaluation of World Bank Group Assistance (2005), *2005 AR* for Operations Evaluation Unit : 2005 Annual Report; *2006 AR* for Independent Evaluation Group-MIGA 2006 Annual Report.

Annex 5: IEG Interviews of MIGA Underwriters and Risk Management Officers

IEG conducted structured interviews of MIGA Underwriters and Risk Management Officers to better understand the underlying reasons for not consistently applying the cost-benefit analysis in line with MIGA’s guidelines across the projects reviewed. IEG interviewed all 12 current Underwriters and all 5 Risk Management Officers involved in the 36 new guarantee projects.

The questions focused on their familiarity with the development impact methodology and the guidelines and on their experience in using them in their day-to-day work. In addition, IEG asked questions about their opinion regarding the practicality of the methodology and guidelines to MIGA projects, their perceived constraints and motivations in using them. Finally IEG asked if they were using other indicators or an approach, different than MIGA’s guidelines to assess the project. Their responses are illustrated in Figure 10 below.

Figure 10: Feedback from Underwriters and Risk Management Officers about MIGA’s Development Impact Methodology



Annex 6: Contribution to MIGA's Profitability Method

I. Method Used in Ex-Ante Evaluation, FY2007

- Revenue and cost cash-flows are estimated for each project, and then discounted from their estimated date of occurrence back to the effective date of project inception.
- The estimated revenues and cash flows form the profitability index. This index is used to create a ranking of projects by their expected relative profitability.

$$\text{Profitability Index} = \frac{\text{Revenue Measure}}{\text{Cost Measure}}$$

$$\text{Revenue Measure} = \sum_{t=0}^n \frac{(PD_t - RC_t)(1 - RCPP_i) + (CC_t)}{(1+i)^t}$$

$$\text{Cost Measure} = \sum_{t=0}^n \frac{IC_{it}}{(1+i)^t} + \frac{OC_{it}}{(1+i)^t}$$

Where PD	=	Expected premium
RC	=	reinsurance ceded
RCPP	=	risk component as a percentage of premium
CC	=	ceding commission
IC	=	estimated initial cost
OC	=	expected ongoing cost
i	=	project i
t	=	year t

II. How the method differs from the ex-post evaluation presented in AR 2006

- This year (in the 2007 AR), an ex-ante evaluation was carried out on a sample of 46 projects underwritten FY05-06. All revenues and costs related to the 46 projects evaluated are future expected amounts (projected revenues and costs).
- Last year (in the 2006 AR), an ex-post evaluation was carried out on a sample of 21 projects underwritten in FY96-02. The analysis used some historic data on costs and revenues up to the time at which the evaluation was carried out, combining this with estimated amounts (projected revenues and costs) for the remaining years of a project according to the contractual expiration date or actual cancellation date.

The ex-ante and ex-post evaluation methodologies differed in the following ways:

2006 AR (ex-post):

- used historic data on contracts and net premiums up to date of evaluation, making estimated projections of net premiums to be received in the future based on this data

- applied risk load costs (RCCP) only to future revenue beyond date of evaluation, not to revenue already received up to that date⁵⁴
- used either actual duration of projects (for projects that were cancelled prior to evaluation date), or expected duration according to contractual expiration date.

2007 AR (ex-ante):

- used net premium figures from project inception as expected net premium revenue to be received during entire life of project
- applied risk load costs (RCCP) to entire life of project revenue
- used cancellation-probability adjusted durations for all projects.

III. Key Assumptions

- Expected net premium used excludes the risk load associated with each project (RCCP). The risk loads are generated by the costing model and expressed as a percentage of premium. Consequently, the accuracy of the profitability calculations rests partially on the accuracy with which the costing model measures the risk-related costs of projects.
- For guarantee coverage duration, instead of the period specified in the contract this analysis used an estimated duration based on a linear regression of actual durations versus contractual durations. Specifically, for all contracts that were cancelled in MIGA's history, a regression was run of contractual durations against actual durations of cancelled contracts.
- Based on staff feedback, SIP projects are given a 20 percent reduction in administrative and underwriting costs (both initial and ongoing) vis-à-vis regular projects, to represent the impact that the SIP streamlining process has on reducing their costs for MIGA. The analysis was complemented considering an 80 percent reduction in administrative and underwriting costs.
- The initial underwriting cost was removed from the cost basis for the eight projects which received new coverage under a modification to a prior concurrence by the Board (in order to reflect the fact that these projects were underwritten in previous years and so involved marginal additional costs).

⁵⁴ A RCCP table assigns a risk cost to each project, representing the percent of the cost basis of the total premium accounted for by the following risks: expected loss, capital cost or "risk load", cancellation option cost, and average cancellation costs.

Annex 7: Comparing MIGA's Regular Guarantee and Small Investment Programs

	Regular Guarantee Program	Small Investment Program
MIGA guarantee amount (project exposure limits)	≤\$180 million per project	≤ US\$5 million per project but must be tied to investments in SMEs
EHS eligibility/requirement	MIGA's existing environmental procedures and safeguard policies are applicable	MIGA's existing environmental procedures and safeguard policies are applicable
<i>EHS category</i>	Categories A, B and C	Category B and C
Guarantee coverage offered	Transfer restriction; expropriation; war & civil disturbance; breach of contract	Transfer restriction, expropriation and war & civil disturbance offered as a package with a single premium
Guarantee contract duration	≥ 3 years ≤ 15 years (but may be extended for another 5 years)	Up to 10 years (but may be extended for another 5 years)
Type of contract of guarantee	Regular Guarantee Contract	SIP Guarantee Contract (streamlined)
Underwriting procedures and instruments		
<i>Underwriting period</i>	Decision must be made within 120 days of receipt of Definitive Application that meets all the requirements	Underwriting and contract issuance within a maximum period of 2 months
<i>Underwriting instruments used</i>	Regular Guarantee Application Form and Underwriting Paper	SIP Guarantee Application Form and SIP Underwriting Checklist
<i>Contract of guarantee used</i>	MIGA Regular Guarantee Contracts for Equity and for Loans	1 SIP Guarantee Contract for both equity and shareholder loan
Clearance process	Project Review Committee (PRC)	SIP Review Committee (SRC), but project may be presented to the PRC if issues are not resolved
Perspective of MIGA's due diligence	Project-finance perspective	Character-based
Approving authority	President under the direction of the MIGA Board	Director of MIGA Operations
Pricing	Premium based on expected loss (risk cost), opportunity cost of capital, costs arising from probability of cancellation, and administrative expenses	Single premium based on an estimate of direct costs and country risk premium. Overhead costs are not considered. The total premium is simplified in 5 standard rates

**Annex 8: Profile of SIP Projects Reviewed by IEG
(13 projects)**

ITEMS	Number of projects	% of total
1. By Sector		
Agribusiness	2	15.4%
Manufacturing	2	15.4%
Financial	3	23.1%
Services (a)	6	46.2%
2. By Region		
Africa	6	46.2%
Asia	4	30.8%
LAC	2	15.4%
MENA	1	7.7%
3. By MIGA Environmental Category		
Category B	9	69.2%
Category C	4	30.8%
4. By Project Type (Joint Venture with Host Government, PPP, Concession, Host Government License, Private Sector only)		
With Concession Agreement	3	23.1%
Privatization	1	7.7%
Awarded Telecom License	1	7.7%
Private Sector Participation Only	8	61.5%
5. By Size of Project Enterprise (b)		
SME	13	100%
6. By Size of Investor Company (c)		
SMI	9	69.2%
Large	4	30.8%

(a) One project, which involved the provision of a fixed line, state-of-the art broadband wireless access and voice-over IP network, was reclassified by MIGA from Infrastructure to Services (after the meeting with IEG on June 7, 2007). Prior to this, the project was classified as an infrastructure project (sub-sector “Telecommunications”) in all MIGA databases, internal documents, and web-site.

(b) One project involved the privatization and reorganization of a bankrupt state-owned enterprise and the modernization and expansion of country’s cotton industry. Covering nearly half of the country, the project enterprise will potentially affect an estimated 35,000 farm families.

(c) One investor is a holding company established specifically to hold the shares in the project enterprise. The capital structure of the holding company is comprised of 3 separate groups of foreign investors, with each held by three telecom and media companies and their owners. These group of investors have extensive telecom operations world-wide. The second investor company is a subsidiary of a financial group with extensive regional operations.

Annex 9: 2007 Management Action Track Record

Recommendation	References to old recommendations ⁵⁵	Status of implementation of IEG recommendations (IEG assessment): High, Medium, Low	Priority (High, Medium, Low)	MIGA Management comments
<i>Development Impact Assessment:</i>				
<p>1. MIGA should consistently apply the <i>ex-ante</i> project impact analysis for underwriting guarantees, including providing more focused training and incentives, to ensure that the projects it supports are sound and have positive and sustainable development impact.</p> <p>Areas for greater attention and improvement include: (1) explicitly identifying the project cost and its components; (2) consistently identifying potential distortions and externalities, and verifying these items with the project sponsors; (3) undertaking cost-benefit analysis when required sufficient to ascertain that the project is economically viable; and (4) identifying clearly the assumptions used in calculating FRRs and adjusted FRRs.</p>	<p>ROE 1; RDE 1a and 1b, EI 3a.i</p>	<p>Medium</p> <p>Progress has been made</p>	<p>High</p>	<p>Management agrees that development impact should be carefully assessed and is confident that the ex-ante analysis is being done, along the lines laid out by IEG. Guidelines have been issued, staff has been trained, and there has been increased Management attention and oversight since the 2004 changes. The primary issue now, based on IEG's review, is the extent to which details on the analysis (such as on the ERR and the assumptions being made) should be presented explicitly in MIGA Board and Underwriting Papers. The practice has been to keep detailed information in project files and to provide a short summary in Board papers. Guidance will be sought from the Board on how much detail is desired.</p>

⁵⁵ To facilitate the cross reference with each numbered recommendation in different IEG-MIGA reports, the following abbreviations are used: *ROE* for 2003 Report on Operations Evaluation in MIGA; *RDE* for 2004 Review of Development Effectiveness in MIGA; *EI* for Extractive Industries and Sustainable Development: An Evaluation of World Bank Group Experience (2004); *IC* for Improving Investment Climates: An Evaluation of World Bank Group Assistance (2005), *2005 AR* for Operations Evaluation Unit : 2005 Annual Report; *2006 AR* for Independent Evaluation Group-MIGA 2006 Annual Report.

Recommendation	References to old recommendations ⁵⁵	Status of implementation of IEG recommendations (IEG assessment): High, Medium, Low	Priority (High, Medium, Low)	MIGA Management comments
<p>2. MIGA needs to develop rules of engagement for all projects involving concessions and similar agreements. Considering that MIGA often gets involved in projects as an insurer after such agreements have been negotiated and signed, it needs to satisfy itself that the underlying business model, terms given to the concession holders, and tariffs are sustainable and reflect sound economic policy in order to ensure a positive development impact.</p>	2006 AR 2	Medium Progress has been made	High	Management agrees and, in fact, in all projects involving concessions and similar agreements, staff are required to: (i) ensure that these were awarded through an open and competitive process; (ii) ensure that the risks between the Government and the investors are properly shared; (iii) ensure that the agreements are in line with standard practice for that particular industry; (iv) ensure that they are in line with whatever sector reforms the World Bank may be pursuing in that particular country; (v) verify the affordability factor when there are tariffs which consumers will have to face; (vi) ensure that the agreement provides “value for money” for the Government; and (vii) verify the mechanisms for addressing potential disputes. These are but some of the factors that go into the analysis when a concession or other such agreement is involved. These considerations are routinely discussed in the course of PRC deliberations
<i>Environmental and Social Safeguard Policies, Guidelines, and Monitoring:</i>				
<p>3. <i>Setting up of Environmental Management Systems prior to Board approval</i> MIGA should make sustained efforts in working with clients to improve projects’ safeguards compliance prior</p>	RDE 2.a; EI1b.ii; EI 2d.ii	Low Some progress has been made	High	Environmental Management Systems are not prepared just once (before financing for a project has even been arranged), but rather are prepared and then updated in the course of the project cycle, from project

Recommendation	References to old recommendations⁵⁵	Status of implementation of IEG recommendations (IEG assessment): High, Medium, Low	Priority (High, Medium, Low)	MIGA Management comments
<p>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. MIGA should also require sponsors to set up environmental and social project management systems at a sufficiently early stage to effectively monitor impacts, including during the construction stage.</p>				<p>preparation, through construction, to operation, and then closure. Hence MIGA requires, in the same way as IFC does, that an EMS system be prepared and updated over the course of the project cycle, as warranted by the project. By nature, it is rarely even possible, and even more rarely desirable, to have an EMS prepared before financing is secured (and MIGA guarantees are part of what is required for financing to be secured).</p> <p>Thus, while MIGA Management fully agrees that EMS systems should be established (and then kept up to date) at the appropriate and early enough time to ensure compliance with safeguard policies, it is rare that this time is prior to MIGA Board approval.</p>
<p>4. <i>Reporting requirements on environmental and social issues included in Contracts of Guarantee</i></p> <p>MIGA's contract of guarantee should consistently incorporate provisions, as appropriate, for regular reporting of safeguard performance during project implementation.</p>	<p>RDE 3.b, EI 2d.i</p>	<p>Medium</p> <p>Progress has been made</p>	<p>Medium</p>	<p>MIGA Management agrees that Contracts of Guarantee should include provisions for regular reporting of safeguard implementation, as well as other environmental and social conditions, when this is specifically warranted due to the nature of the project. And the MIGA Contracts do. But this should not be a blanket requirement for all projects. And separately, standard Contract language does allow MIGA to obtain monitoring information as required. Imposing a regular</p>

Recommendation	References to old recommendations ⁵⁵	Status of implementation of IEG recommendations (IEG assessment): High, Medium, Low	Priority (High, Medium, Low)	MIGA Management comments
				reporting requirement on investors in projects where such regular reporting is not warranted would be an unnecessary cost on such investors and therefore a deterrent to working with MIGA.
<p>5. <i>Implementation of the harmonization of MIGA's environmental and social policies for Category B projects with those of IFC.</i></p> <p>MIGA should make improvements in environmental and social assessments of Category B and strengthen their supervision to ensure their compliance with environmental and social safeguard policies and guidelines, with attention paid to:</p> <p>(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.</p>	2006 AR 1; RDE 2.b	Low To be implemented	High	As the IEG Report notes, MIGA Management has indeed proposed to the Board a new set of <i>MIGA Policies and Performance Standards on Social and Environmental Sustainability</i> , and on <i>Disclosure of Information</i> . These are fully harmonized with those of IFC, for all projects and not just for Category B projects.
<p>6. <i>Beyond safeguard compliance to doing good</i></p> <p>MIGA should proactively promote with its clients the potential benefits it brings to extractive industries and other complex projects through its internationally recognized and comprehensive set of safeguard policies and its environmental and social impact mitigation services. MIGA's engagement with these projects should move beyond compliance with its environmental and social safeguard policies toward the promotion of</p>	EI 1 and 1a; EI 1b.iii	Low Some progress has been made	Medium	A Trust Fund supported program has been established to provide such advice to investors into Africa. This is a pilot test of the demand for such assistance, as well as whether it can be provided in the context of insurance, as opposed to from a lender or equity investor. If successful and there is a need, it is hoped that funds will be available to allow this to expand to all Regions.

Recommendation	References to old recommendations⁵⁵	Status of implementation of IEG recommendations (IEG assessment): High, Medium, Low	Priority (High, Medium, Low)	MIGA Management comments
sustainable development, by providing advice on environmental and social issues to bring projects closer to best practices in the industry.				
<i>Monitoring Development Effectiveness:</i>				
7. MIGA should implement a cost-effective monitoring system to follow up on development effectiveness of its guarantee projects and obtain updated information about the performance of these projects.	RDE 3a; EI 3b	Medium Progress has been made	Medium	In Calendar Year 2006, Management introduced a pilot Monitoring and Evaluation program for guarantees, in line with recommendations made by CODE. The results of these findings are to be discussed with Management in Q4 of FY07 and will serve as a basis for future monitoring programs.
8. Guarantee Closing Reports. MIGA should ensure that closing notes are consistently prepared for all closed projects and summarize the achievement of project objectives, lessons learned, and developmental and other impacts for institutional learning, analysis, and accountability, and to aid strategy formulation.	ROE 3	Low Progress has been made for cancelled guarantees but not for expires Development impacts are not yet included	High	As IEG points out, closing notes are being produced for cancelled guarantees. The challenge, going forward, is to expand the program to other projects which expire, keeping in mind that investors' interest (once they have terminated their relationship with MIGA) may be at odds with our own information collection efforts.
<i>Projects' Contribution to MIGA's Profitability:</i>				
9. MIGA should improve its ability to capture costs associated with underwriting, processing, and monitoring individual guarantees. This information would facilitate IEG's ex-post evaluation of the contribution of individual guarantee projects to	2006 AR 3	Low Not yet implemented	Medium	Management agrees. The findings in this report on profitability are largely driven by the use of a cost allocation methodology different from MIGA's costing/ pricing model. Management believes that it is

Recommendation	References to old recommendations ⁵⁵	Status of implementation of IEG recommendations (IEG assessment): High, Medium, Low	Priority (High, Medium, Low)	MIGA Management comments
profitability.				important to strengthen the ability to capture costs associated with guarantees and to adopt a balanced methodology to reflect these costs in MIGA pricing mechanism. Management is currently taking two initiatives to achieve these goals: (1) strengthen the RM practice including rationalizing the TRS system and making it mandatory for all MIGA staff as of July 1 2007 so that the system will be able to capture costs related to various aspects of guarantee business. (2) conduct a major review of MIGA's pricing mechanism, a significant part of which is to identify a sound methodology to allocate direct and overhead costs in order to reduce cross-subsidy between projects of different sizes, with different numbers of covers, from different sectors, etc.
<i>Information Services:</i>				
10. MIGA should undertake a strategic review of its information dissemination services, involving users and target users, strategic partners (including other World Bank Group sites), and comparators, in order to ensure its future relevance, and to better align them with its guarantee business. This involves assessing the relevance of its current and future planned services with respect to offerings of comparators and	2006 AR 4	Medium Progress has been made	High	During FY07, the online services team undertook a major repositioning of its services to contribute to the agency's new strategic direction, support proactive marketing of the guarantees program and disseminate knowledge on FDI issues. The process, which was informed by extensive analysis of comparators as well as user

Recommendation	References to old recommendations ⁵⁵	Status of implementation of IEG recommendations (IEG assessment): High, Medium, Low	Priority (High, Medium, Low)	MIGA Management comments
<p>possible gaps in information services and audiences served. This strategic review should also anticipate the impact of evolving technologies on the information dissemination services and their aggregation service model in the long term, and include a client segmentation analysis to determine how to target user communities, build relationships with strategic partners, and serve MIGA's strategic priorities. It should also facilitate a consistent identity across the currently separate MIGA brands.</p>				<p>surveys, resulted in a consolidation of MIGA's online services under four pillars: (i) the redevelopment of MIGA.org, the corporate Web site; (ii) the development of FDI.net, an integrated site aimed at investors; (iii) the refinement and localization (translation) of FDI Promotion Center, a specialized Web site aimed at investment promotion intermediaries; and (iv) the development of the PRI-Center, which targets a specialized audience interested in political risk management and insurance, and provides greater visibility and recognition of MIGA as a knowledge leader in the industry. The concept of the PRI-Center is based on feedback received from members of MIGA staff, members of the Berne Union technical committee, as well as from a MIGA-run online survey distributed to 3,500 individuals investor community.</p>
<p>11. MIGA should adopt a more robust performance monitoring approach for the information dissemination services that integrates and analyzes user insights, site performance metrics, and content to refine and improve the services. This involves tracking regularly how well content provided by its services matches what user segments demand.</p>	2006 AR 5	Low Not yet implemented	Medium	<p>During FY07, MIGA took steps to adopt a more robust performance monitoring approach to its information dissemination services. A conceptual design and development of a refined M&E approach for MIGA's information dissemination services is being developed. This includes a review and introduction of a new measuring tool—a web analytics software—which has</p>

Recommendation	References to old recommendations⁵⁵	Status of implementation of IEG recommendations (IEG assessment): High, Medium, Low	Priority (High, Medium, Low)	MIGA Management comments
				been completed. It also includes the development of an indicator set, implementation schedule and reporting strategy for the various stakeholders. This will be completed by the end of FY07. The online team is working jointly with the former IEG consultant who undertook the review of the Information Dissemination Services (IDS), and during FY08 will implement a new performance monitoring approach.
<p>Technical Assistance:</p> <p>Given the recent reorganization of MIGA's Technical Assistance services into FIAS, IEG retains a few relevant recommendations for follow-up by MIGA management.</p>				
<p>12. Comparative Advantage and Strategy</p> <p>The technical assistance (TA) services should endorse and implement a clear and coherent strategy for selecting clients to ensure high effectiveness, development impact, and complementarity with other donors and the private sector. Within this strategy, they should exercise better selectivity of clients to improve the effectiveness of resource use and impact.</p>	IC 1a and 1b	Medium Progress has been made	High	MIGA TA has continued to pursue the MIGA 2005 strategic objectives in its client selection, with a particular emphasis on frontier markets and conflict affected countries. Going forward, selection criteria will align with the FIAS FY08-11 strategy document, wherein development impact, complementarity and effective use of resources are each highlighted and tracked
<p>13. Monitoring and Research on Effectiveness of Investment Promotion</p> <p>The TA services should put in place a monitoring system to track the progress and impacts of TA activities. In addition, they should facilitate or</p>	IC 2 and 5	Medium Progress has been made	Medium	An improved monitoring system is now being developed as part of the FIAS M&E framework. In terms of research, considerable progress has been made. In FY07 MIGA published its 2 nd IPA

Recommendation	References to old recommendations⁵⁵	Status of implementation of IEG recommendations (IEG assessment): High, Medium, Low	Priority (High, Medium, Low)	MIGA Management comments
commission research to establish whether investment promotion activities have an impact on overall investment flows, in order to assess the likely impact of its TA program.				Performance Review, providing essential baseline data on the information handling capabilities of clients and others in some 114 developing countries benchmarked against global best practice leaders. In addition, MIGA TA has undertaken two separate case studies (i) on the effectiveness of targeted investment promotion in Chile; and (ii) the link between IPA capabilities and FDI attraction, in conjunction with DEC; and has also contributed to a FY07 AFR Flagship study on Chinese investment in Africa which examined investment patterns and influences, including the role of institutions. The two case studies will be published in early FY08
<p>14. Cost Effectiveness and Relationships with Clients</p> <p>The TA services need to improve cost measurement tools and tracking systems for their activities to be able to assess their cost efficiency in the future. They should also formalize their relationships with client countries for in-depth technical assistance through formal contracts, including arrangements for sharing costs. These should clearly define the scope of work, costs, objectives, and indicators of success.</p>	IC 3b and 4	Medium Progress has been made	Medium	MIGA TA has continued to operate on an annual financial program, developed from the project level up, which is maintained and monitored against budget throughout the year. Steps were taken in FY07 to further formalize relationships with clients which, in some instances, were based on exchange of letters rather than defined scopes of work with agreed upon outcomes. Within FIAS, a recent COSO exercise revealed the need for improvements in management information systems, including in this area. FIAS management is placing a similar emphasis on the need to establish

Recommendation	References to old recommendations⁵⁵	Status of implementation of IEG recommendations (IEG assessment): High, Medium, Low	Priority (High, Medium, Low)	MIGA Management comments
				objectives and agree upon desired results with clients at the onset of the project, and to monitoring and report on progress, from both the RM and M&E perspectives.