Development Impact

There are signs that global economic activity is slowly picking up. These signs are supported by low interest rates, increased global liquidity, improved global financial conditions, the accelerating growth of global trade, and stronger domestic demand.

The World Bank's outlook for the global economic environment is predicting global growth to come in at a relatively weak 2.2 percent in 2013. It will gradually strengthen to 3.0 percent and 3.3 percent in 2014 and 2015. Importantly, according to the World Bank, the global economy is transitioning into what is likely to be a smoother and less volatile period.

Although acute risks in high-income countries are down, more modest downside risks linger as these economies continue to adjust. A slow acceleration in growth is expected in the next several years. In the meantime, as the developed world progresses toward recovery, developing economies remain the primary drivers of global growth—though we note that they are expanding more slowly than last year.

Foreign Direct Investment Trends

In this still somewhat fragile global environment, foreign direct investment (FDI) inflows to developing countries declined by an estimated 4.5 percent in 2012 to reach $670 billion. A rebound is anticipated for 2013, when FDI inflows into developing countries are forecast to bounce back to $719 billion. Flows to developing countries continue to account for a substantial share of global FDI: they reached 45 percent of inflows in 2012.

Of particular interest, FDI outflows from developing countries reached a new record in 2012—an estimated $238 billion—continuing the upward trend of recent years. They are forecast to be $275 billion in 2013. About a quarter of the outward FDI stock of developing countries goes into other developing countries ("South-South" investment). These South-South flows are outpacing traditional investment as a source of new FDI, as investors in Europe and the United States have felt the brunt of the recent economic slowdown and the crisis in the euro zone.

With respect to investor sentiment, the relative growth in developing countries continues to make these economies increasingly attractive to foreign investors. According to a 2012 Economist Intelligence Unit survey commissioned by MIGA for our annual *World Investment and Political Risk* report, investors remain optimistic about their prospects in developing countries. In fact, more than half of the survey's respondents expected to increase their investments there in the short term.

MIGA's Role

MIGA's insurance against noncommercial risks in developing countries is a powerful tool for many investors and lenders as they enter these markets. In many cases, MIGA guarantees help them address hesitations that may affect the decision to move forward with an investment, particularly in countries perceived as high-risk. Indeed, the presence of MIGA guarantees can often make the difference between a go and a no-go decision for some investments. Increasingly, MIGA guarantees are also being used as a credit-enhancement tool that helps clients secure financing with better terms and longer tenors.

MIGA promotes the flow of FDI into developing countries in service of our mission: supporting economic growth, reducing poverty, and improving people's lives. With our World Bank Group colleagues, we work with investors to structure projects in ways that benefit all parties and foster positive relationships with local communities. MIGA's collaboration with the World Bank and the International Finance Corporation (IFC) has borne fruit in several highly developmental projects including the Bujagali hydropower dam in Uganda commissioned this year and the Azito thermal power plant expansion in Côte d'Ivoire (see box 1). At a broader level, MIGA's collaboration across the World Bank Group ensures that the Agency's support to any investment is consistent with the Group's strategy for the host country. Our ability to leverage the Group's expertise on environmental and social standards is often a significant value to our clients and to the development impact of the investments we insure.

This year, MIGA is pleased to celebrate our 25th anniversary (see box 3). This milestone is a good occasion to reflect on our achievements up until now and oportunities for the next 25 years. Since our inception we have issued $30 billion in guarantees for projects in a wide variety of sectors, covering all regions of the world. Going forward, we will continue to focus on insuring projects where we have the most impact, especially those that are in line with our strategic priorities detailed next.

Strategic Focus

Four strategic priorities guide MIGA's work. These priorities have been shaped by the World Bank Group's mission to end extreme poverty and promote shared prosperity, the development needs of MIGA's member countries, and the need for the Agency to focus on its comparative advantage and complement other insurers.

MIGA's first priority is encouraging FDI into the world's poorest countries. In fiscal year 2013, 74 percent of our guarantee volume fell into this category. Examples that address this priority include MIGA's support to power generation in Uganda and Bangladesh, a commercial bamboo plantation in Nicaragua (see box 2), customs inspection services in Madagascar and Niger, and several agribusiness investments in Zambia.

Our strategic focus on conflict-affected and fragile economies underlines MIGA's key role in these countries' rebuilding efforts, particularly during the crucial period of transition as they seek to establish stability after years of turmoil. This focus also points to MIGA's ability to guarantee projects where other insurers may be off-cover. Three transformational projects in Côte d'Ivoire—detailed later in this report—show how MIGA is prepared to act as a catalyst for private sector investment very soon after conflict wanes. Also this year, our support to manufacturing projects in the West Bank and Gaza demonstrates the Agency's commitment to this priority area. Projects in conflict-affected and fragile countries and territories represented 41 percent of MIGA's new volume this year.

MIGA received approval from our Board of Directors this fiscal year to create a Conflict-Affected and Fragile Economies Facility to even further deepen the Agency's support to this priority area. In addition to MIGA guarantees, the facility will use donor contributions and guarantees to provide an initial loss layer to insure investment projects in difficult contexts. The facility was launched in June, together with the governments of Canada and Sweden, which committed funding in support of this initiative. Discussions are advanced with other potential donors to support the facility.

Another priority area where we have a distinct competitive advantage is complex projects. This year, in addition to issuing guarantees for oil and gas as well as power generation investments in Côte d'Ivoire, MIGA supported power generation in Angola. These complex projects are often transformational for countries and may increasingly include the participation of several parts of the World Bank Group. In these cases, MIGA guarantees can complement IFC financing and the World Bank's lending and guarantee instruments to bring the full suite of products to bear so that these projects can be realized. MIGA's support to complex projects accounted for 69 percent of 2013's volume.

As South-South investments become an increasingly important source of FDI, MIGA continues to support them as another strategic priority. This year, 13 percent of our business involved FDI from one developing country to another. Examples of MIGA-insured South-South investments include a manufacturing plant in Libya and a power project in Kenya.

Put together, projects in MIGA's priority areas accounted for 82 percent of new business volume for 2013.

From a regional perspective, MIGA focused on sub-Saharan Africa as well as the Middle East and North Africa this year.

BOX 1

Mobilizing Investment in Côte d'Ivoire

The West African nation of Côte d'Ivoire is eager to rebuild its infrastructure and reclaim its reputation as a regional economic power. MIGA is playing a significant role in mobilizing the massive amount of private sector investment that is needed to help Côte d'Ivoire meet its ambitious goals. Together, MIGA's guarantees in support of three large transformational infrastructure projects are mobilizing more than $2 billion in foreign direct investment.

In fiscal year 2012, MIGA provided investment guarantees for the construction of the Henri Konan Bedié toll bridge. This was an important breakthrough for Côte d'Ivoire as this public-private partnership had to be put on hold for more than 15 years as a result of the civil conflict the country experienced. Construction of the bridge is now well under way and the opening is planned for December 2014. Every element of the bridge, including the 100-ton concrete columns, is being built in Côte d'Ivoire—the construction site also functions as a factory where 800 workers will be employed at its peak.

In fiscal year 2013, MIGA issued guarantees for two investments that will help Côte d'Ivoire meet its growing demand for energy. The government is aiming to boost electricity output by around 80 percent over the next six years. Even considering the recent conflict, Côte d'Ivoire's power sector has a solid track record by regional standards and already exports electricity to several neighboring countries. The Azito thermal power plant was commissioned in 2000 and provides the state power utility with more than a third of its electricity. This independent power producer continued to deliver electricity throughout the crisis, and at times, employees guarded the plant around the clock.

With financing from the International Finance Corporation and a MIGA guarantee of $116 million covering equity sponsor Globeleq, the company has broken ground on a project to convert its existing simple-cycle plant to combined-cycle, increasing total capacity from 290 to approximately 430 megawatts. This means that the company will be able to increase its output substantially without using any additional gas.

Moving up the electricity supply chain, MIGA is also backing the offshore gas facility that delivers dry natural gas directly to Côte d'Ivoire's power plants, including Azito. Foxtrot International's oil and gas production platform in the Gulf of Guinea has a daily production capacity of between 110 and 120 million cubic feet of natural gas, more than half the national output. Foxtrot currently operates six gas wells, and the new investments backed by MIGA will allow drilling of seven new wells by the end of 2014. The company will also construct a new platform in its Marlin gas field, which is expected to go online in 2015. This project is further supported by an IDA partial risk guarantee of $60 million, back-stopping payments under a Gas Supply and Purchase Agreement between the government and the investors.

Taken together, these newly mobilized investments of more than $2 billion will keep the lights on, get people to work and school faster, generate employment, and potentially bring countless benefits through community development programs.

Sub-Saharan Africa is a top priority for the World Bank Group and MIGA guarantees play a significant role in mobilizing developmentally beneficial FDI to the region. The Agency has a strong focus on closing the energy and infrastructure gaps that are exacerbated by limited public funding sources. The World Bank estimates that Africa needs to spend $38 billion a year to address its infrastructure deficit. By facilitating access to private capital and using innovative structures like public-private partnerships, MIGA has helped direct investment toward projects that affect large parts of the continent's population. Fifty-four percent of MIGA's volume was for projects in the region this year.

This fiscal year we also continued our focus on the Middle East and North Africa (MENA). The region's recent uncertainties are compounded by the fact that many countries have traditionally relied on investment from Europe, which has been grappling with its own financial challenges. As a result, the need for capital that creates jobs and opportunity is greater than ever. For MIGA, this has been an important moment for the Agency to fill in gaps that the private sector cannot address. At the end of fiscal year 2011 we made a commitment to mobilize $1 billion in insurance capacity to retain and encourage FDI into the region. With $605.8 million of guarantees in MENA issued since then, MIGA is making strong progress toward that goal. This year, MIGA supported five projects in the region, including two manufacturing projects through the West Bank and Gaza Investment Guarantee Trust Fund. These projects will bring jobs and business activity to this difficult context.

Lowering Carbon Footprints

Countries are making significant investments and developing expertise in renewable energy and efficiency as well as low-carbon urban transport. The private sector is essential to delivering solutions to support these countries' efforts. Yet, high up-front costs and perceived political risks often affect investors' decisions to move forward in many markets.

From geothermal energy in Kenya, waste-to-energy in China, and hydropower in Albania, Angola, and Pakistan—MIGA is supporting energy transformation by insuring sustainable power investments in all regions of the world. MIGA has also recently supported mass transit projects in Panama and Turkey.

This fiscal year the Agency signed guarantees for a wind energy project in Nicaragua in addition to projects in Côte d'Ivoire and Bangladesh that involve the conversion of power plants from simple-cycle to combined-cycle. The latter projects produce more electricity for those countries without additional use of gas, resulting in significant carbon dioxide emissions avoidance per year.

Environmental and Social Standards

Sound environmental performance, sustainability with respect to natural resource management, and social responsibility are critical to an investment's success and its contribution to the host country's development. MIGA applies a comprehensive set of performance standards for all guaranteed investments and the Agency's environmental and social specialists evaluate the potential impacts of MIGA-supported projects, advising clients as to how to minimize and mitigate them. In an effort to achieve harmonization across the private-sector arms of the World Bank Group, MIGA is updating its policy and performance standards following a similar review undertaken by the IFC.

The MIGA-administered Environmental and Social Challenges Fund for Africa financed by the Japanese government continues to serve as a mechanism to provide technical advice to cross-border investors in the region. The fund is open on a case-by-case basis to investors already receiving MIGA guarantees or being considered for support. Through it, investors can receive expert advice from MIGA and external consultants with the aim to ensure that projects improve their environmental and social performance. This fiscal year, the Environmental and Social Challenges Fund for Africa supported two MIGA projects in Ethiopia: africaJUICE developed a fair trade farmers union and National Cement created a robust environmental and social management system.

Development Effectiveness

By having a better understanding of the development outcomes of the investments that MIGA insures, the Agency is able to focus our efforts more sharply and achieve a higher level of impact. As a result, we continue to strengthen and measure our development effectiveness, as well as learn valuable lessons from previous projects that can be applied to our current work.

This fiscal year is the third anniversary of the launch of MIGA's Development Effectiveness Indicator System (DEIS) devised to measure and track the development impact of projects that the Agency insures. Through this, MIGA measures a common set of indicators across all projects: investment supported, direct employment, training expenditures, locally procured goods, and community investments. We also measure sector-specific indicators. Results show that MIGA mobilized $5.4 billion in investment in fiscal year 2013, representing nearly double the value of guarantees issued.

The DEIS also puts into place a process to measure projects' actual development outcomes three years from the time of contract signing. Starting in fiscal year 2014, we will begin reporting this data for the cohort of active guarantees that MIGA signed in fiscal year 2011.

BOX 2

When Business is Good for the Environment: Ecoplanet Bamboo in Nicaragua

More than 17 percent of carbon dioxide emissions result from forest deforestation, making it the third largest source of greenhouse gas emissions. Substituting hardwoods for a sustainable alternative would be an easy way to reduce emissions.

MIGA-supported EcoPlanet Bamboo has plans to create a steady and significant supply of raw material to industries that use traditional wood. Its investment in Nicaragua, backed by MIGA guarantees of $27 million, is financing the purchase and conversion of degraded land into commercial bamboo plantations for the sale and export of bamboo fiber. The company plans to establish a pre-processing facility for the production and sale of its Forest Stewardship Council-certified bamboo fiber. The fiber will be targeted for U.S. and multinational timber manufacturers for use in industries such as laminates and composites for construction and furniture, pulp and paper production, and the generation of renewable energy.

MIGA's insurance was critical to this client: "Put simply, MIGA's backing gave us the ability to double our investment in Nicaragua," said EcoPlanet Bamboo CEO Troy Wiseman.

The development profile of this investment is very strong: it is bringing jobs to one of the poorest regions of the country, the remote Southern Atlantic Autonomous Region. The relatively new project's impact on the local economy—including employment generation, land improvement, and workers' skills upgrading—is already evident. The company's initial investment into Nicaragua has generated over 300 jobs in a region with high unemployment and has restored 4,800 acres of degraded land into bamboo plantations—improving biodiversity and reducing pressure on surrounding forests. EcoPlanet Bamboo is diligent about sourcing from local suppliers and creating indirect employment. The company's philosophy ensures that women are an important part of its workforce and that contributions to the local communities foster good relations, support education, and improve livelihoods.

In a major milestone for both the forestry and climate change arenas, last November EcoPlanet Bamboo became the first company to receive carbon validation through the Verified Carbon Standard for its bamboo plantations in Nicaragua. In a country and category that have traditionally not benefitted from significant carbon finance, this achievement solidifies the social and environmental impacts that the company is making locally, regionally, and internationally.

MIGA continues to improve its measurement of development effectiveness. The Agency is also collaborating with other development finance institutions in an effort to standardize indicators.

Another useful tool in enhancing MIGA's understanding of development effectiveness is the Agency's self-evaluation program. These evaluations include in-depth monitoring of project results looking at the following criteria: business performance, economic sustainability, private sector development impact, development outcomes, and environmental and social outcomes. These are undertaken in addition to evaluations conducted by the World Bank's Independent Evaluation Group (IEG)—discussed later in this report—and ongoing monitoring of projects by MIGA staff. This year, the Agency conducted self-evaluations of six projects.

This past year, IEG conducted an evaluation on *World Bank Group Support for Innovation and Entrepreneurship* in developing countries. The report underscored that innovation is not only critical for economic growth, but is also becoming increasingly important for addressing major development challenges, such as those related to inclusion and sustainability. IEG found many cases where MIGA's support for firm-level technology upgrading (through technology transfer, technology diffusion, and acquisition of new technology) helped promote innovation, skills development, and growth of the private sector. The report also highlighted how MIGA's guarantees helped jump start FDI in post-conflict situations, and supported South-South technology transfer and knowledge flows.

MIGA and Corporate Integrity

According to one recent estimate, $20-$40 billion is siphoned from developing countries each year as a result of corruption. Corruption also adds to the cost of doing business in many countries, undermines their investment climate, and weakens their rule of law. This recognition of the impact of corruption has inspired the conventions, laws, and policies that now govern business activities around the world, MIGA's clients, as well as host and originating countries.

Applying high standards of corporate integrity is an important way MIGA supports positive sustainable FDI. MIGA developed an integrity strategy in 2011 to help safeguard the development impact of investments we insure. In 2012, MIGA formalized a framework as part of our underwriting process to identify potential risks associated with unethical or illegal activities such as bribery, corruption, fraud, collusion, and money laundering. MIGA's integrity due diligence requires consideration of the specifics of the transaction, but always includes an analysis of the project structure, its licensing or tendering process, and potential integrity or reputational risks presented by the project enterprise and the project's participants.

MIGA's integrity due diligence procedures help reduce the possibility of corruption in projects we support. In addition, the Agency's anti-corruption provisions are integrated into our contract of guarantee. MIGA expects our clients and partners to abide by national laws, comply with relevant trade and procurement rules, and also adhere to World Bank Group anti-corruption standards.

In 2012, information about projects supported by MIGA was included in a newly developed mobile application that enables users to confidentially report concerns of fraud and corruption in its projects to the World Bank Group's Integrity Vice Presidency. The mobile application also enables users to identify projects based on country, type of activity, or keyword and send images. In addition, the mobile application provides access to the World Bank Group's list of debarred firms and individuals.

Box 3
MIGA History

The idea for a multilateral political risk insurance provider was floated long before MIGA's establishment—as far back as 1948. But it was not until September 1985 that this idea started to become a reality. At that time the World Bank's Board of Governors began the process of creating a new investment insurance affiliate by endorsing the MIGA convention that defined its core mission: "to enhance the flow to developing countries of capital and technology for productive purposes under conditions consistent with their developmental needs, policies and objectives, on the basis of fair and stable standards to the treatment of foreign investment."

On April 12, 1988 an international convention established MIGA as the newest member of the World Bank Group. The Agency opened for business as a legally separate and financially independent entity. Membership was open to all IBRD members, and the Agency began with capital stock of $1 billion. MIGA's original 29 members were: Bahrain, Bangladesh, Barbados, Canada, Chile, Cyprus, Denmark, Ecuador, Egypt, Germany, Grenada, Indonesia, Jamaica, Japan, Jordan, Korea, Kuwait, Lesotho, Malawi, Netherlands, Nigeria, Pakistan, Samoa, Saudi Arabia, Senegal, Sweden, Switzerland, United Kingdom, and United States.

MIGA was created to complement public and private sources of investment insurance against non-commercial risks in developing countries. MIGA's multilateral character and joint sponsorship by developed and developing countries were seen as significantly enhancing confidence among cross-border investors.

Today, MIGA's mission remains straightforward: to promote foreign direct investment into developing countries to support economic growth, reduce poverty, and improve people's lives.