



World Bank Group
Multilateral Investment
Guarantee Agency

MIGA's Strategic Directions for FY05-08

Abbreviations and Acronyms

CAS	Country Assistance Strategy
ECA	Europe and Central Asia
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
IDA	International Development Association
IFC	International Finance Corporation
LAC	Latin America and the Caribbean
M&E	Monitoring and Evaluation
MENA	Middle East and North Africa
MIGA	Multilateral Investment Guarantee Agency
NEPAD	New Partnership for Africa's Development
OEU	Operations Evaluation Unit
PDF	Project Development Facility
PEP	Private Enterprise Program
PPP	Public-Private Partnership
PRG	Partial Risk Guarantee
PRI	Political Risk Insurance
PSD	Private Sector Development
SIP	Small Investment Program
SME	Small- and Medium-Sized Enterprise
TA	Technical Assistance

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Introduction

MIGA's Strategic Directions for FY05-08

In May 2005, MIGA undertook a comprehensive review of the activities, current situation and possible future directions of MIGA. The portion of the review that deals with future strategic directions for the future is extracted here.

MIGA's strategy for the next three years has been guided by: (a) an assessment of the current external environment, including trends in FDI flows around the world and the developing private market for political risk insurance; (b) an understanding of the Agency's comparative advantages within the political risk market, which help the agency add value for its clients and shareholders; and (c) the lessons learned from a review of the past five years of operations. Based on this analysis, Management's firm belief is that the Agency has an important role to play and a comparative advantage in promoting foreign direct investment to support development, focusing on four particular areas of operational priority: investment in infrastructure development; investment into frontier markets; investment in conflict-afflicted environments; and investment among developing countries, or south-south investment. In so doing, MIGA will remain a financially self-sustaining institution. In addition, Management proposes to increase cooperation with the other members of the World Bank Group with the objective of supplementing and complementing their activities.

Mission and Vision

MIGA's mission is to promote foreign direct investment (FDI) into developing countries, to support economic growth, reduce poverty and improve people's lives. To this end, the agency's vision is to be a multilateral risk mitigator, providing products and services that encourage potential investors into developing countries and provide the necessary comfort to alleviate concerns over political (noncommercial) risks. The agency's core business is the provision of political risk insurance¹. In addition, MIGA has a mandate to carry out complementary activities- including technical assistance activities (TA), mediation, and online services- to support productive FDI.

MIGA is committed to promoting projects that promise a strong development impact, and which are economically, environmentally, and socially sustainable. The agency is also dedicated to working with governments that are committed to policies and actions that improve their countries' investment climates. The institutions of the World Bank Group have identified two strategic pillars that are key to reducing poverty building a climate for productive investment, jobs, and sustainable growth, and empowering people to participate in development. By providing political risk insurance for foreign investments, technical assistance to developing countries, and other activities, MIGA is able to play a critical role in supporting these broad strategic priorities.

In all its undertakings, MIGA seeks to draw on the complementary strengths of the World Bank Group, leveraging the various products and services across the respective institutions for the benefit of host countries and private investors. MIGA staff seeks to excel in carrying out their activities by working to improve client services, partner with others, build capacity, and share and learn from experience.

Added Value for Stakeholders

MIGA's shareholders derive a number of benefits from the agency's activities. MIGA's core comparative advantage lies in its ability to:

- *Facilitate productive FDI* that is economically and financially viable and environmentally and socially sound.
- *Catalyze private investment to substitute for public investment* in sectors where suitably regulated private investment will improve efficiency,
- *Leverage global knowledge, experience, and best practices*, drawn from across the World Bank Group, to provide client governments with leading-edge thinking and solutions for attracting FDI.

For MIGA's private sector clients, the agency's comparative advantage lies in its:

- *Deterrence effect*, which as a member of the World Bank Group, enables the agency to provide additional leverage when it comes to protecting investments.
- *Mediation abilities*, which allow the agency to use its access to, and relationship with, governments to intervene to resolve investment disputes, thereby helping maintain investment in a country.

¹ The terms guarantees and political risk insurance are used interchangeably throughout this report.

- *Certification effect*, which assures that investments are fully compliant with best practices in international environmental and social standards.
- *Financial strength*, which derives from MIGA's strong balance sheet, stable stream of operating income, and established track record in preventing investment disputes from turning into claims, which in turn provides strong reassurance that valid claims can and will be paid promptly.
- *Country knowledge*, drawn from across the World Bank Group, which provides investors with the benefit of in-depth understanding of country risk environments, enabling stronger underwriting abilities and better advisory services.
- *Lower borrowing costs*, which will derive from the ability of financial institutions to benefit from lower capital risk weighting under the Basel II Capital Standards framework, attributable to loans guaranteed against transfer and convertibility risks by multilateral development banks.

MIGA's Core Competencies

The added value that MIGA brings to stakeholders derives from the agency's core competencies, and these stem from its structure as a multilateral organization and member of the World Bank Group. This gives MIGA a unique position from which to catalyze foreign direct investment for development purposes.

Understanding risk and providing protection. MIGA has a unique vantage point from which to analyze, price, and manage political risk. Therefore, the agency can encourage investment decisions that are beneficial to all parties, and can provide advice to investors on which structure would best fit with MIGA's cover. MIGA's involvement and protection can encourage investments that might otherwise not go forward.

Resolving disputes and leveraging World Bank relationships. In the event that investments run into politically motivated difficulties, MIGA, due to its direct access to host governments (as its shareholders), is in a strong position to successfully mediate mutually agreeable resolutions in order to retain investments and restore projects to normal operations. With the interests of both countries and investors in mind, MIGA is able to play the role of an "honest broker." MIGA's "deterrence effect" is valued greatly by investors as they understand that host countries have more at stake than just individual projects, but potentially the much larger relationship with the World Bank Group. For host countries, resolution of disputes helps prevent reputational issues relating to the attractiveness of the country as an investment destination.

Financial strength. MIGA's strong financial position allows for claims to be paid quickly, and the agency's relationship with shareholder governments places it in a good position to seek recoveries when appropriate. These factors- the strong analytic capacity going into projects, the enhanced ability to resolve disputes, the ability to pay claims promptly and then recover losses- are unique to MIGA as an insurance provider, and they give MIGA the scope and confidence to be present in countries and sectors where other insurers may not be willing to go.

Integrated technical assistance. By working with member countries to create an environment where investment is encouraged, MIGA's TA activities can sometimes lead directly to guarantees. However, TA is focused on a broader objective to improve the quality and responsiveness of member countries to the needs of all foreign investors. MIGA's core competence when it comes to providing these services stems partly from its membership of the World Bank Group and partly from the holistic nature of the assistance provided. There are other organizations and private firms that offer similar capacity building and advisory services, although seldom as an integrated and comprehensive package of assistance such as MIGA provides. Because of its access to senior host government officials and detailed awareness of policy dialogues going on in countries, MIGA is able to target its interventions in ways that can maximize relevance and impact.

MIGA's New Business Model

The experiences and lessons of the past, along with changes in the investment environment, inform the agency's strategy going forward. At the end of FY04, a new management team launched a business model that maintains and improves MIGA's financial and operational sustainability over the long-term. It centers on MIGA's unique role as a multilateral risk mitigator, drawing on its governance structure to support development in ways that add value and complement the activities of others. This implies a focus on areas that public and private entities cannot serve as well, such as higher-risk markets, and other areas where MIGA has a unique comparative advantage.

Underpinning the new model is a belief that proactive measures by MIGA can make a difference in terms of affecting investor perceptions and decisions about investment. Greater availability of information about investment opportunities and local operating conditions makes market entry decisions quicker and easier for investors. And attractive tools to mitigate risks-particularly those risks beyond an investor's control- can make a difference between investments taking place or not.

MIGA's new business model consists of three principal elements which leverage the agency's comparative advantages and reinforce each other to form an integrated strategy proactive marketing and complementary products; a comprehensive risk management framework; and stepped-up collaboration with the World Bank Group (see Figure 4.1).

Figure 4.1 MIGA's New Business Model

I. Proactive Marketing and Complementary Product Lines

Integrated and complementary product lines add more value to clients and stakeholders.

Proactive client acquisition and retention across all classes of investors ensures that MIGA's products are provided when and where they are most needed.

II. Comprehensive Risk Management

Risk- based provisioning, Leveraging the WBG field offices competitive pricing, and risk and strengthening bonds with mitigation tools enable the agency to complement WBG programs better protect itself. creates synergies. Strengthened dispute resolution and mediation to identify and solve clients' concerns before they become claims.

III. Stepped-up Collaboration with World Bank Group

Fully utilizing WBG capacity and services for IT, HR, and cross supports enables MIGA to operate more efficiently and collaboratively as a member of the World Bank Group.

Going forward, MIGA intends to deploy its various products and services in an integrated and tailored way to respond to clients' needs. As a first and broad guiding principle, MIGA will focus on projects and activities that support the agenda of the World Bank. This means working closely with the Bank, investors, and host governments in a selected set of countries to identify projects and programs that fit within the context of country assistance strategies and World Bank regional strategies. It also means focusing on countries where there is a strong commitment to improving the investment climate. Projects that come to MIGA independent of its marketing efforts will continue to be supported provided they are developmentally sound and consistent with the broad World Bank objectives for a country, Within this context, MIGA intends to be active in a wide range of countries and sectors, both to support broad-based development in as many of its developing member countries as possible, and to maintain a strong and diversified portfolio.

Technical assistance and the agency's other complementary services are key to the risk mitigation solutions that MIGA brings to clients, and as such will be closely aligned to the operational priorities of the agency outlined below. The linkages between TA and guarantees are typically indirect- although in certain cases MIGA's TA work can and

does lead to requests for guarantees on investments that have come forward. More typically though, the TA work supports improvements in a country's FDI environment, and this yields a greater opportunity for guarantees business.

In the new business model, technical assistance will also increasingly be an integral part of tailored solutions being developed to address the specific investment attraction and retention needs of countries under stress.

Proactive Marketing and Country Interventions

Historically, MIGA has traditionally been perceived as a demand-driven institution, with investors and agencies selecting the agency, and not the other way around. Going forward, MIGA expects to be much more proactive in its approach to its operational priorities. This involves creating opportunities upstream by engaging host countries and the World Bank on policies and practices relating to FDI, and by targeting and cultivating investor clients early on in their investment decision-making deliberations.

Development of Collaborative Country Relationships

At the country level, MIGA will seek to develop a closer and more collaborative relationship with host countries to address key constraints that are holding back investments in priority areas, and then follow up with the provision of guarantee support. This will be done in close coordination with the World Bank and IFC, organized through the country assistance strategies and similar strategic processes, at the request of governments. The objective will be to identify the key issues that need to be addressed to create an environment conducive to productive investment in priority areas, where the World Bank Group can provide support to countries in developing a framework. For example, a government may seek to establish a framework that would support investment in private power generation through merchant plants. The World Bank, through both lending and non-lending activities, would be able to provide assistance, and MIGA would then be in a position to provide complementary support through the provision of guarantees.

MIGA would be actively involved up-front in the process, working with the authorities and with the Bank and IFC to ensure that the framework is not just reflective of good policy but also supportive of what investors need. This would ensure MIGA's early involvement, before investors have bid on the concession or other contracts, so that the bidding or investment decisions could be made in the knowledge that MIGA backing will in principle be available.

Due to staff and resource constraints, the approach will only be possible on a selective basis, in situations where conditions are ripe for such change. This will be determined through the country assistance strategy process. And the primary support to the authorities in the provision of policy advice and other assistance will remain with the World Bank. But the aim here will be to integrate more fully the complementary support

that MIGA can provide into this process, in a way that MIGA's traditional business model, of reacting to investor applications, did not allow.

And while this proactive strategy has particular application for infrastructure investments (one of the four operational priorities outlined above), the strategy is not constrained just to infrastructure. For some countries, the key issues might be in, for example, mining (dependent on adoption of a suitable mining code), oil and gas development (dependent on the concessioning system), pipelines (access policy), telecommunication networks (regulatory regimes), and special economic zones (supportive legal regimes). For others, the key opportunities may lie in support to suitable privatization programs.

Operational Priorities

MIGA's operational priorities have been identified taking into account a number of factors. Foremost are the development needs of the agency's developing member countries, but just as important are the demands of a changing FDI environment and PRJ market, as well as the desire to complement other insurers and institutions that provide similar services. With this in mind, and taking a hard look at MIGA's core competencies and comparative advantages, management proposes four operational priorities going forward:

- Investment in infrastructure development
- Investment into frontier markets
- Investment in conflict-afflicted environments
- Investment among developing countries (South-South investment)

It is important to note that in many respects, these priority areas are not necessarily new. In fact, there is a direct continuity from the four priority areas laid out in the multi-niche strategy articulated in the MIGA Review 2000. However, where there is an important distinction is in the way in which MIGA intends to focus on these areas, and the type of business that the agency will do under these priority areas. For MIGA to stay relevant as a development institution, it will need to enhance the quality of its interventions and the quality of business or FDI it facilitates. Quality improvements can be achieved through greater focus on project development impact both at the appraisal and implementation stages, and more selectivity in the types of projects the agency supports. The added value of MIGA's involvement will need to be clearly demonstrated for all projects. It is expected that enhanced collaboration with the World Bank will naturally lead to quality improvements.

Also the agency can further scale up its business if it can expand its product offerings and be more closely aligned with the guarantees programs of the World Bank. MIGA must have the flexibility to meet changing investor and country client requirements in order to move beyond what is a mature market for the current set of guarantee products.

Infrastructure development is an important priority for MIGA, given the estimated

need for \$230 billion a year solely for new investment (maintenance needs are of a similar magnitude) to deal with the rapidly growing urban centers and underserved rural populations in developing countries. There has been a steep fall in private infrastructure investment in these countries since the end of the 1990s, from a high of \$128 billion in 1997 to just \$47 billion in 2002. But increased private investment will be an important part of the overall effort to meet infrastructure needs, and since the possibilities of local private or public investment are typically limited, FDI becomes crucial.

Infrastructure is an area where MIGA has extensive experience. On average, a third of MIGA's portfolio has been in the infrastructure area. The agency has been actively engaged at the national and sub-national level, and MIGA's experience with sub-sovereign infrastructure complements well other World Bank Group products and initiatives in existence or under development.

To have even more impact in this area, MIGA must look at engaging governments early on in the concession process, in coordination with the World Bank, to attract a broader swath of quality investors and make the investments more attractive to insurers. MIGA also needs to encourage innovative thinking and bring the private sector's perspective to the dialogue on what public-private arrangements are necessary to bring private players back. The agency will also be working more upstream with key clients to develop an investment pipeline that target priority countries.

Investment in Frontier Markets

Frontier markets- high-risk and/or low-income countries/markets- represent both a challenge and an opportunity for the agency. These markets typically exist in low-income, perceived high-risk countries or regions of countries, and often feature high levels of corruption, poor governance, and political instability, But policies in some frontier markets may indeed be quite sound. These are the markets that have the most need and stand to benefit the most from foreign investment, but which most investors are wary of and therefore attract little foreign business. These are also markets where other insurers are not prepared to enter, or will only go in at high premiums and short tenors.

Investors have little reliable and timely information on costs and operating conditions in many frontier markets and lack an investment track record. They also perceive risks to be excessively high and need risk mitigation instruments. Governments and institutions in frontier markets often need to work to reform business environments. There may also be a lack of knowledge and understanding necessary to identify potential investors, and lack the experience to promote investment and showcase opportunities when they do arise. They need to build capacity to better understand needs of investors in new markets.

MIGA is well-positioned to insure political risks for investments in these countries, which are not well-served by either the private or public market. The agency's comparative advantages-from its relationship as a multilateral to the member governments to its extensive country knowledge and ability to deter and manage risk-make it attractive for investors and insurers to come to MIGA when considering

investments into frontier markets. MIGA will continue to rely on sound due diligence and effective risk management in encouraging FDI into these markets, while tapping the agency's technical assistance and online information services to help countries improve their image, as well as get the word out about investment opportunities

SMEs

SMEs are an integral part of MIGA's frontier market strategy. A number of initiatives have been developed which are geared towards encouraging SME growth: the Small Investment Program (SIP); the West African Capital Markets project that is designed to support small infrastructure projects; and the Afghanistan Investment Guarantee Facility (AIGF), where SMEs are a main priority. In addition, MIGA is looking into new products to support SME development, such as the possibility of providing local guarantees (e.g., in the context of the PRI Fund for Conflict-Affected Countries in Africa, as described later in this section). There are also important potential linkages between SIP and other World Bank Group SME development programs. MIGA is hoping to link SIP with initiatives of the Bank and IFC with respect to their MSME programs, especially when foreign partnerships with local SMEs are being sought and promoted.

These initiatives illustrate how MIGA envisions a closer collaboration with the IFC's Project Development Facilities (PDFs) to leverage their expertise on the ground with the agency's knowledge of investor targeting and outreach, as well as to link their SME programs with MIGA's Small Investment Program. MIGA also plans closer collaboration with the Bank's Private Sector Development group, linking the agency's diagnostic tools with PSD's work on the ground to enhance information flows to investors and improve policy dialogue.

Investment into Conflict-Affected Countries

Another operational priority for the agency is to support investments in conflict affected countries. Issues are similar to, but more extreme than, those for frontier countries. Such countries can be seen as a subset of frontier countries. While these countries tend to attract considerable donor goodwill once conflict ends, aid flows eventually start to decline, making private investment critical for reconstruction and growth. But the business community's confidence must be restored to reverse the flight of private capital and encourage new investment, and MIGA can play an important role in making this happen.

MIGA has a demonstrated ability to provide not just cover for important projects in environments that are perceived high-risk, but to mobilize private sector capacity for investments in these countries. MIGA's guarantees have helped mobilize initial investments with powerful demonstration effects. MIGA's Trust Fund for Bosnia helped mobilize post war investments, including a number of high-visibility transactions. The agency has now created the AIGF with IDA, DfID and its own money to mobilize investments into Afghanistan. In addition MIGA is working closely with the World Bank Group to evaluate options for revitalizing the Guarantee Trust Fund for the West-Bank

and Gaza, and evaluating options for creating a business interruption cover that would help businesses address one of their largest risks currently not covered by any provider. In addition to what the agency can do on the PRI side, MIGA also plans to collaborate closely with the Bank on developing specific solutions to address short- and medium-term investment needs in these countries through its TA program. In addition, MIGA will coordinate with the Bank to ensure that, for example, appropriate telecommunications and broadband capabilities, and private sector and skills development support, are fully integrated in MIGA programs.

Companies from developing countries are starting to contribute a greater proportion of FDI flows into other developing countries. While firms from Asia have led the investment trend, there is a base of investors from a number of other developing countries, with financial ability and know-how, who can make investments into other developing countries. For these investors, political risk insurance can make a difference in the decision to go ahead or not. But often in their countries, the private insurance market is not sufficiently developed or national export credit agencies lack the ability and capacity to offer political risk insurance. Moreover, the investor perception of risks vary considerably.

MIGA therefore sees a number of opportunities to help investors from developing countries become global players. The agency will identify countries that have a solid base of investors, and be proactive in marketing and developing close relationships with them. Moreover, in order to penetrate local markets meaningfully, MIGA will partner with local business and public organizations, as well as leverage the expertise and contacts of the country offices of the World Bank and IFC. In addition, MIGA will provide training programs on project appraisal, underwriting, and country risk analysis to help local export credit agencies improve their ability to service the demands of their clients wanting to expand overseas.

Regional Opportunities

SubSaharan Africa. Sub-Saharan Africa will be MIGA's most important regional priority in the years ahead. MIGA's portfolio in Africa has averaged around 14 percent of gross exposure over the last five years. By the end of FY08, MIGA will build up the elements of its outreach program, and enhance its collaboration with the World Bank Group and other multilaterals and partners, so that the agency is aiming to quadruple its annual commitments from its FY04 base.

Africa is a challenging environment in which to promote investment. The region's slow growth, low productivity, and small size of individual economies with limited integration, make it difficult to generate investor interest. In addition, countries across the continent are perceived as being highly unstable by the investor community - nearly one in every five countries in the region is now classified as a conflict-affected country by the World Bank. MIGA's FDI benchmarking efforts in Africa suggest that the region cannot compete for scarce investor dollars in sectors such as tourism, agribusiness, and

manufacturing unless the region significantly upgrades the quality, reliability and costs of its infrastructure.

MIGA has developed an aggressive plan to deploy its products to calm investor perceptions and concerns about risk, and help move these countries into contention as plausible investment destinations. The agency is already working closely with the World Bank and the IFC to identify regional and national infrastructure projects that are critical to regional development, and also plan to collaborate with traditional donors in the region on smaller projects with shorter lead times. MIGA has also committed to work upstream with the World Bank Group to help develop national legal frameworks that will make such investments possible, and to work with investors to structure these transactions for maximum impact. In combination with the PRG cover, the agency intends to mobilize significant private sector insurance capacity to cover the large regional transformational projects that are needed if the region's markets are to begin working in a more integrated fashion

In addition, MIGA plans to implement the initiative by BOAD (Banque Oest Africaine de Développement—) to improve local capacity to support infrastructure investment, and to develop collaborative relationships with NEPAD and other regional players to help disseminate information online about infrastructure and other investment opportunities. MIGA will also be cooperating closely with the African Development Bank and major investment promotion institutions in the region to help identify and facilitate investment into infrastructure projects

Regional integration and addressing the problems of the conflict-affected countries is going to be critical to enhancing the overall attractiveness of the region to investors. There is an urgent need to upgrade infrastructure and make the investments that will support growth and create jobs. Attracting that investment will require special solutions, such as the PRI Fund for Conflict-Affected Countries in Africa which MIGA intends to develop with donor support. MIGA will also work with the World Bank on the development of industrial estates, which can insulate investors from the infrastructure shortfalls and operational uncertainties that would otherwise affect them in these environments. The implementation of MIGA's SIP program will also provide an important new mechanism to support the development of new markets in Africa. Sectorally, many of the projects in conflict-affected countries are in the extractive industries and, as such, it will be important for MIGA to work with those that are commercially viable and in accordance with World Bank Group safeguards and standards.

While infrastructure development and conflict-affected countries remain areas of special focus, they will not be MIGA's exclusive interventions in the region. Nearly all the countries in the region are underperforming in terms of attracting FDI, and MIGA will support these countries in a number of different ways. For example, MIGA will work closely with the World Bank in developing the capacity of investment intermediaries to promote and facilitate investments in their countries, including by drawing attention to recent investment climate improvements.

Asia and the Pacific. The Asia and Pacific region now accounts for almost 40 percent of the developing world's total FDI. But most of that investment is focused in China. And even within China, that investment is highly concentrated in the coastal areas.

The region is characterized by a relatively high level of economic growth and a highly heterogeneous group of countries: from two economic and demographic giants- China and India- to the small island states in the Pacific. The challenges of attracting and retaining FDI are therefore quite different in each country. The region is also home to an increasingly important class of new players in the FDI arena: investors from China, India, Malaysia, Thailand, and other countries, who are looking for opportunities overseas. New players from Part 1 countries, such as the smaller utilities in Japan and Singapore, also represent targets of opportunities.

In order for MIGA to expand its activities and diversify its base of operations in the region, it will need to develop solutions (with the World Bank and the IFC) that are specifically tailored for each country's needs. It will also require that MIGA change the way it reaches out to investors from the region, placing far more emphasis on working with local partners and local export credit guarantee agencies to encourage South-South investments.

MIGA's program for the region will focus on a number of key areas. Supporting infrastructure development- particularly water and power- will be given high priority, and MIGA will do this by creating fully integrated offerings with the World Bank's guarantee program, as well as other complementary products from the ADB, to support large and complex infrastructure transactions. MIGA's ability to syndicate guarantees, along with the World Bank's ability to obtain a counter-guarantee, can powerfully combine to facilitate FDI in infrastructure. MIGA will also apply its expertise in the areas of sub-sovereign risk and public-private partnerships (PPPs) to more fully leverage infrastructure potential and support for the Millennium Development Goals.

MIGA's close collaboration with the World Bank will enable it to bring investors' perspectives to host country dialogues and policy deliberations. MIGA's Enterprise Benchmarking Program, in combination with FIAS' value chain analysis, gives the World Bank and developing countries a powerful view of what investors expect and what countries need to do to influence investor site selection decisions. MIGA will continue to work closely with the World Bank and IFC to enhance the information flow on, and competitiveness of, the region to foreign investors.

The region's conflict-affected environments will also require tailored solutions, such as the special guarantee facility created to mobilize private sector investments in Afghanistan. MIGA will look to consolidate and disseminate lessons learned from this experience for other conflict-affected countries.

MIGA will design and implement a South-South business development program. An important area where MIGA can add value is in helping local export credit guarantee

agencies, such as in China and India, to improve the quality of their underwriting and then support their efforts to serve the emerging class of South-South investors through coinsurance or reinsurance.

The dissemination of information via MIGA's online services is expected to help draw attention to investment opportunities in the region. This will be particularly important for the post-tsunami reconstruction effort, as MIGA aims to inform the international business community about the individual country reconstruction programs and the resulting investment and public-private partnership opportunities

The agency also plans to develop targeted distance learning opportunities, building on the online FDI Promotion Center in collaboration with partners in Korea, Japan, the Philippines, and through the World Bank Institute facilities. In addition, MIGA will seek to create a regional investor outreach program, modeled on the Vienna-based European Investor Outreach Program (EIOP), to serve and support the investment promotion efforts of the small Pacific states. This program will also enable the agency to develop a stronger pipeline of guarantee business for underserved areas in the Pacific region.

By the end of FY08, MIGA expects to have increased its guarantee commitments to Asia. Collaborative relationships with key partners in the region, such as the Asian Development Bank, local export credit guarantee agencies, business groups, financial intermediaries and investment promotion agencies, will be critical to achieve this.

Europe and Central Asia. As a region, ECA has performed remarkably well over the past few years as a destination for foreign investment, attracting over 40 percent of the global FDI flows to developing countries. However, within the region, the picture varies greatly, and a large number of countries continue to under-perform in terms of attracting FDI to their economies. While in particular the countries in close geographical proximity to the European market continue to benefit from strong interest of European and North American investors, a range of smaller countries in South Eastern Europe, the Caucasus region and in Central Asia are lagging behind.

Within the region itself, investment flows are moving increasingly towards the East, with companies from the EU accession countries becoming more active as investors across the region. Intra-regional investment as well as investment from nontraditional FDI source countries is also picking up, with a new class of investors, for example, from Russia and Kazakhstan and several Asian countries, entering the market. In response to the varied circumstances encountered in the region, MIGA will continue to support further FDI growth in ECA with a multi-faceted, tailored approach that will continue to take into account the level of development and the specific needs of the individual countries.

Many countries in the region are considered frontier countries and/or countries recovering from conflict, including the countries of the Western Balkans, and their need for capital to rebuild essential infrastructure and manufacturing bases is significant. However, investor appetite is limited due to lingering negative investor perceptions as

well as ongoing concerns regarding the stability and transparency of the investment and business climate. A further trend in the region is the decentralization of infrastructure projects, where projects such as water, sanitation, power plants, and urban road systems involving PPP structures are awarded by sub-sovereign entities such as provinces and municipalities. However, many export credit agencies have problems providing insurance on a sub-sovereign level, which has resulted in market deficiencies. MIGA will address these issues through expanded, more proactive marketing of its guarantee services to narrowly targeted investors groups of investors, closer collaboration with export credit agencies in Western Europe and within the region, as well as better integration of its activities in the country and sub-regional strategies of the World Bank and the IFC.

In order to support the development of infrastructure in conflict-affected and frontier countries in the region, MIGA will focus on strengthening its in-house expertise on subsovereign infrastructure projects, and will develop a network of partners in the region (eg., Balkans Infrastructure Development Facility, and national and local investment intermediaries) to help identify upcoming infrastructure opportunities. The promotion of intra-regional investment flows will be tied in with technical assistance activities for countries that do not yet offer an investment climate favorable enough to attract investors from the traditional FDI source countries in Europe or North America. A number of joint programs that include investment climate as well as investment facilitation/institutional development components have recently been designed with FIAS and are currently being implemented successfully in Azerbaijan and Tajikistan

Latin America and the Caribbean. After a significant decline following the Argentina crisis, FDI growth resumed in 2004, but flows continued to be concentrated in relatively few countries (notably Brazil and Mexico). There are a number of positive factors that make the region attractive to investors, however. While some countries have been affected by high profile protests and have moved to expand public participation in the economy, the region remains largely open to FDI, and regional integration has created the catalyst for flows between countries in the region. This is demonstrated by the increased levels of mergers and acquisitions and investments by regional multinationals.

Political stability in most of the region has also improved considerably in recent years. Yet many investors, particularly those traditional players in infrastructure, continue to be very cautious about the region. Moreover, LAC does not have as many local players with the potential to go cross-border as is the case in other regions, such as Asia. Thus, while things may have improved on the ground, perceptions continue to abound, about the risks of investing in the region. Thus, the challenge remains to increase the flow of information about investment opportunities and to diversify the foreign investment base in both existing and new sectors.

MIGA can actively support both the larger countries of the region where market size is the primary determinant for FDI attraction, and the smaller countries that are competing for FDI. This particularly includes support for the region's infrastructure, financial services and natural resource potential. Countries such as Brazil are expanding their PPP programs to address infrastructure needs, and MIGA will work with these countries.

Given the growing development of local capital markets, coupled with the growth of interregional investments, MIGA can also help support longer-term financing through capital markets and credit enhancement products. In infrastructure and public services, the privatization of large existing enterprises has essentially come to an end, and MIGA has refocused its attention on the need to partner with public and private organizations to deliver tailored support, such as by providing guarantees for sub-sovereign risk and technical assistance.

MIGA will prioritize its TA interventions and seek to develop new innovative guarantees products to assist the region's frontier markets to diversify and seek out higher value-added FDI. For example, the development and implementation of risk management instruments and technical assistance that fulfill the needs of free zones, industrial parks, and the newly emerging special economic zones are based on the premise that sub-regions such as Central America can no longer compete solely on cost and must improve the overall package offered to investors.

In relation to South-South investment, MIGA will increase its profile among the region's local investors in order to encourage more interregional investment, for example by building on the robust investment markets in countries such as Brazil and Chile to support companies wishing to expand regionally.

MIGA will expand its collaboration with the World Bank, particularly on country assistance strategies and sector work in terms of TA, MIGA has already significantly expanded its reach and capacity to respond to client needs through its close work and cooperation with World Bank-led competitiveness programs. MIGA will continue to complement the Bank's work on the investment environment and business climate by working with a small number of highly motivated countries and regions to capitalize on reforms made in the area of foreign investment attraction. MIGA has successfully partnered with the World Bank in Honduras, Guatemala, and Nicaragua, and with the IFC in Panama on the Howard Special Economic Zone. These partnerships will be expanded to include Ecuador and Peru, among others. Enterprise benchmarking programs will be structured for Central America, the Caribbean, and the Andean countries, with funding assistance from the Commonwealth Secretariat and the Inter- American Development Bank.

Middle East and North Africa. MIGA places great emphasis on scaling up its involvement in the Middle East and North Africa. Population levels are increasing rapidly today 58 percent of the population is less than 25 years old- and this is bringing with it escalating structural pressures. This rapid population growth, the strong urbanization trend, and the rising labor force are creating an ever-worsening unemployment problem. It is estimated that the region needs to generate some 5 million jobs per year for the next 20 years to address this issue. There are severe water scarcity problems as well, and conflict and political insecurity remain the region's defining characteristics to much of the world.

Many countries in the region are dominated by the public sector and are often heavily protected and inward-looking, with the private sector having little role to play other than in the resources sector. The private sector is often not dynamic, with highly regulated labor markets. The problematic investment climates in many countries deter investors- especially those from outside the region- who are concerned with governance issues, unfriendly regulatory environments, and the history of conflict that exists in many countries. Furthermore, the dissemination of information on investment opportunities for foreign investors, particularly for smaller investments, is not efficient. And while the potential exists for intra-regional investments, the absence of both strong agencies that provide political risk insurance and the lack of awareness of and belief in the product, means that investors are hesitant to make long-term investments.

Private capital is essential to create employment, finance the rising infrastructure needs, generate growth, and reduce poverty in the region. An important aspect of MIGA's strategy in the region will be to work with governments to help build the capacity needed to promote investment opportunities and attract investors. Countries in the region have identified the importance of attracting FDI as a source of capital, technology, markets, and employment generation. Due to the competitive nature of attracting FDI, new agencies are being created or existing agencies revamped to actively pursue potential investors. MIGA is ideally positioned to provide value-added solutions in these countries. Through the application of risk mitigation instruments and technical assistance, MIGA will aid client countries to reduce the barriers to entry to FDI while increasing institutional capacity to compete for FDI.

This will be complemented by information product tools. The creation of an Arabic version of the FDI Center will strengthen the capacity of investment promotion agencies to attract and facilitate investments, and MIGA will itself scale up its efforts to disseminate investment opportunities in the region through its own online service, IPAnet. In addition, MIGA will establish close collaboration with PEP-ME as well as the Bank programs on investment climate.

To address the issue of lack of recognition, capacity, and credibility of political risk insurance among regional investors, MIGA will strengthen its partnership with the Islamic Development Bank and will engage in increased joint marketing initiatives and roadshows with this and other partners. In order to encourage smaller overseas investors into the region, particularly from Europe, MIGA will make efforts to structure a partnership with the European Investment Bank for the region, focused on use of the SIP.

MIGA can play a catalytic role in facilitating much-needed infrastructure development. At the regional level, this capacity will be complemented through its ability to provide subsovereign risk. To increase the level of awareness of MIGA among local investors with regional investments, MIGA will build on strengthening relationships with key entities such as banks, brokers, and local development institutions. MIGA will also engage the World Bank in identifying key transactions where the guarantees of both institutions can be packaged to reduce investor costs and improve the quality and transparency of the process. Finally, developing special guarantee facilities for conflict-

affected countries in the region will be explored, and reviving the one for the West Bank and Gaza will be an important part of MIGA's focus on facilitating investments in the area.

MIGA aims to increase the level of guarantee commitments to the region over the next few years. This will require increased marketing activities and partnership development. Key partners, such as the Islamic Development Bank, as well as regional export credit guarantee agencies, with which MIGA has memoranda of understanding, will be leveraged more effectively. In addition, cooperation with the World Bank country offices will be important in identifying transactions. Finally, partnering with investment promotion intermediaries will provide an outreach platform to local investors.

Monitoring and Evaluation

5.41 Monitoring and evaluation (*ME&E*) is critical to tracking the efficiency and effectiveness of MIGA's operational activities. In recent studies, OEU pointed out the need to develop a MIGA system. Progress was made during the review period in several key areas identified, such as in monitoring environmental and social safeguards, defining and tracking the TA work program. Nevertheless, there is still much to be done, and work is underway to create a coherent and integrated M&E system across the agency. This system will consist of evolving MIGA's approach to *ex-ante* project and program appraisal to ensure consistency with the agency's strategy and to maximize development impact; introducing a monitoring system and metrics to ensure an effective mechanism to help manage projects and programs as they are implemented; and an *ex-post* evaluation methodology to ensure that lessons are drawn from operational experiences. A final M&E proposal and development plan is expected by the end of FY05.