MIGA REVIEW 2000

In Accordance with Article 67 of the MIGA Convention

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FOREWORD

A Message From MIGA’s Executive Vice President, Motomichi Ikawa

While the wise man is a descendant of the past he is a parent of the future.
– Herbert Spencer

MIGA was established in 1988, against the background of faltering foreign direct investments into developing countries in the 1980’s. The uniqueness of MIGA is that the Agency was created within the World Bank Group as a separate legal entity, with the sole objective of promoting and facilitating productive foreign investment flows into developing countries, through the provisions of political risk insurance (guarantees) and technical assistance. At the time that MIGA was established, national insurance schemes were already established in a number of developed countries. Technical assistance to developing countries was provided in some areas by other World Bank Group members.

Consequently, it is not surprising that MIGA’s founders decided to incorporate Article 67 into the Convention. This provision calls for periodic reviews of MIGA’s activities “with a view to introducing any changes required to enhance the Agency’s ability to serve its objectives.” “MIGA Review 2000” is the second such review, but this time it has been expanded to cover the Agency’s past activities, the present operating environment, and future strategic directions.

Conducting such a major strategy review at this point is both timely and significant. First, since there has been a significant expansion of the private insurance market in recent years, the role of a multilateral political risk insurer needs to be reassessed in that light. Second, since there are also new providers of technical assistance in the field of investment promotion in response to growing realization by developing countries for the need to promote foreign direct investment, MIGA’s distinct role needs to be well-articulated, while minimizing overlaps. Finally, since the Seattle WTO Meeting in late 1999, much attention has been focused on the roles of the Bretton Woods Institutions in addressing issues arising from globalization.

Listening to “the voices of the poor,” the World Bank Group has taken the leadership role in the fight against poverty in developing countries. With our sister organization, IFC, MIGA is an important private-sector arm of the World Bank Group. Today, MIGA is contributing to this goal and is uniquely positioned to address these issues from one important angle: the Agency enables a developing country to benefit from globalization by facilitating foreign direct investment into the country for productive purposes. Indeed, developing a globally viable and reliable private sector is a key to higher growth, which is vital to reducing poverty. In this respect, MIGA increasingly needs to be responsible for evaluating its effectiveness and efficiency in fulfilling developmental objectives, and for clearly defining its future roles and directions in a new and changing environment.

Since the last major review was conducted in fiscal 1994, MIGA’s activities have expanded significantly in most respects. By the end of fiscal 2000 (June 2000), the number of member countries had increased from 121 to 152. The amount of new guarantees issued each year
increased from US$372 million to US$1.6 billion. The number of countries benefiting from MIGA’s guarantees increased from 26 to 69, notably including 28 IDA-eligible countries. In addition, existing technical assistance services in hands-on capacity building have been strengthened, and new services, such as Internet-based information dissemination (IPA.net and PrivatizationLink), have been successfully launched, with tangible results. The staff size of the Agency doubled – from 65 to approximately 130 today. Perhaps most significantly, in 1999 last year, MIGA’s Council of Governors overwhelmingly approved a doubling of the Agency’s capital resources to US$2 billion, which is enabling MIGA to expand its operations, particularly to poorer countries and to assist larger, more complex infrastructure projects.

However, size and growth are not the most important indicators of MIGA’s success. It is the developmental impact of its activities that is quintessentially important to fulfilling its mission. MIGA makes considerable efforts to systematically evaluate the developmental impact of projects that are guaranteed. A summary result of one such large-scale review was published in 1998: “MIGA and Foreign Direct Investment: Evaluating Development Impacts.” I am pleased to confirm that significant positive developmental impacts were verified in all the projects that were examined.

In preparing this Review 2000, MIGA management consistently considered one significant question: What should our strategy be over the next five years to maximize our developmental impacts, add value to political risk insurance markets, and ensure high client satisfaction (both of investors and recipients of our technical assistance)? The operating environment for MIGA is dynamic. Client needs are always changing and are increasingly demanding. In charting its long-term strategy, MIGA should always endeavor to understand current market trends and anticipate potential developments.

In order to objectively identify MIGA’s unique public value (or competitive advantages) in such a changing market situation, and following the best practice of some globally operated corporations, MIGA commissioned an independent research firm to conduct extensive market and client surveys of both guarantee and technical assistance activities, without identifying MIGA by name. In conducting these surveys, MIGA paid particular attention to the development of the growing private political risk insurance market. Data on various issues are presented throughout this Review. The outcome of those market surveys was shared and discussed with MIGA’s Executive Directors prior to the formal Board Meeting. Because of the surveys’ objectivity, I believe strongly that the data and findings of the survey are of particular value to MIGA’s Berne Union Investment Insurance Committee colleagues. In addition, the Review significantly benefited from advice, suggestions and insights from a panel of experts from a wide range of fields that took place on June 5, 2000. MIGA management is thankful for their valuable contribution which is annexed to this report.

Along with our interviews and discussions with market participants, these surveys confirm that there is both a need and an opportunity for MIGA to continue to play a distinctive and unique role in catalyzing and facilitating foreign investment to developing countries. Particularly on the guarantee side of MIGA’s activities, despite the rapid expansion of the private insurance market at a rate of 20-30 percent per annum, with their market share being 50-60 percent of the whole political risk insurance market, there is considerable unmet demand for political risk insurance. In such a market environment, MIGA has sought, and will continue to seek to (1) leverage its unique and distinct role; and (2) create opportunities for investors while following the Convention requirement to cooperate with, and complement, national and private insurers.
Furthermore, the surveys found that users of political risk insurance (investors and lenders) find different strengths between private insurers and public insurers, including MIGA. According to their particular political risk insurance need, a foreign investor in developing countries in fact chooses an appropriate type of insurer – private provider, public provider, or a combination of both.

MIGA also needs to clarify its particular niches for its technical assistance activities as well. Given the increase in services and activities for investment promotion intermediaries provided by a number of public agencies and private-sector accounting and consulting firms, there is a need to focus MIGA’s resources on areas where there is a clear comparative advantage in producing actual investment flows into, and building capacity in, developing countries.

The Review 2000 concludes that MIGA should pursue a “multi-niche strategy:” serving various opportunities that are highly developmental, yet not sufficiently served by other private- or public-sector providers. We have reconfirmed the following “priority areas” under this strategic direction:

Guarantees:
- IDA-eligible countries, particularly Africa
- Category Two-to-Category Two investments (investments between developing countries)
- Small- and medium-sized enterprises (SMEs)
- Complex infrastructure projects

Technical Assistance:
- Capacity building of investment promotion intermediaries that generate actual investment flows
- Internet-based information dissemination services to facilitate investment flows

The Review notes that this strategic direction may present various challenges to MIGA, as many such opportunities may be difficult to identify and capture, and/or may prove risky. Therefore, in addition to enhancing MIGA’s own core business capabilities, the Review recognizes the critical importance of developing further partnerships with private insurers, public agencies and the World Bank Group. In fact, throughout this review period, MIGA has established an extensive network of collaboration with private and public insurers through reinsurance, coinsurance and the Cooperative Underwriting Program (CUP). Furthermore, the Review points out the need for MIGA to proactively consider new products and services that can deliver greater developmental impact and enhanced client satisfaction. To name one example: international capital markets will be an important area for MIGA in the future, and the Agency just recently issued a guarantee for the securitization of loan and lease receivables in the capital markets.

MIGA’s Council of Governors approved the Review at this year’s World Bank/IMF Annual Meetings in Prague. The Council of Governors also mandated that the next review be conducted
in fiscal 2005, when the results of our efforts along the strategic directions outlined in the Review 2000 will be reviewed and evaluated. With this approval, MIGA looks forward to continuing to expand and enhance its operations for greater developmental impact. We will be doing our utmost to reach out to as many developing member countries as possible, with a view to bringing them into the globalization process, so that globalized markets will work for all, including the poor.

Before concluding, I would like to express my personal thanks to James D. Wolfensohn, the President of the World Bank Group, whose guidance of the Agency has been an integral part of the Review. Earlier, he generously approved my participation, together with the Agency’s three Vice Presidents, in the Executive Development Program at Harvard Business School for six weeks. We benefited from exposure to current management thinking and practices among globally-operated corporations. For instance, the need for an independent and anonymous market survey and for establishing a “multi-niche” strategy were inspired by case studies of a European automobile manufacturer and a U.S. airline company, respectively.

Finally, I would like to express my appreciation to all MIGA staff who were involved in the MIGA Review 2000. This could have been an independent consultant report as in the previous periodic review, but this time MIGA opted for an interactive and participatory approach throughout the Agency to complete the report. Particularly, I would like to extend my appreciation to Jotaro Hamada, who organized the surveys which are a core part of the report and who acted as the focal point for drafting the paper. I also wish to acknowledge important contributions from all Vice Presidents and department heads, as well as Enrique Rueda-Sabater, Judith Pearce, Peter Jones and Cecilia Sager. Finally, I thank Janice Kane, Mary Ann Arouna and Dorothy Roxas for their able assistance throughout the writing and editing process.

November 2000
EXECUTIVE SUMMARY

BACKGROUND

1. This “MIGA Review 2000” is a comprehensive review of the activities, current situation and possible future directions of MIGA. It is conducted in accordance with Article 67 of the MIGA Convention, which states that “the Council shall periodically undertake comprehensive reviews of the activities of the Agency as well as the results achieved with a view to introducing any changes required to enhance the Agency’s ability to serve its objectives.”

2. The first five-year review took place on May 24, 1994. Resolution No. 48 was approved by the Council of Governors on August 23, 1994, and resolved as follows:

   THAT, the Council expresses its satisfaction with the growth of the guarantee program of MIGA and the reorientation of its technical assistance program during the period under review and encourages the Agency to continue efforts to increase the volume of insurance business done annually and the levels of premium income earned thereby and to continue its efforts to deliver high-quality technical assistance to its member countries.

   THAT, with a view to fostering the continued expansion of MIGA’s guarantee and technical assistance activities on a sound financial basis, the Board of Directors shall undertake a study of the measures to be adopted to assure capital and reserves adequacy into the future, putting into place prior to the next periodic review under Article 67 such measures as the Board shall deem necessary for these purposes.

   THAT, the next periodic review under Article 67 of the Convention shall be undertaken during fiscal year 2000, unless circumstances require that such a review be conducted earlier.

3. Preceding this Review, MIGA Management presented a Strategic Focus Paper to the Board in April 1999 in conjunction with the fiscal 2000 budget. The paper was built upon an evaluation of MIGA’s Technical Assistance activities and a review of Guarantee operations, presented to the Board in February 1998 and April 1999, respectively. It identified four guiding principles: Developmental Impact, Financial Soundness, Client Orientation, and Partnership.

4. Based on the progress made so far along these guiding principles, as well as feedback from the Board, MIGA Review 2000 was conducted with a more comprehensive scope and a longer-term perspective than these earlier efforts. In addition to the retrospective review of MIGA’s activities and accomplishments since the 1994 Review, it identifies emerging challenges for MIGA over the next five years, and suggests ways MIGA could proactively address these challenges.

5. In addition, several systematic market surveys were undertaken during fiscal 2000, in order to provide MIGA with objective, fact-based foundations for the discussion on long-term strategy development. They included a survey of investors and private insurer interviews for Guarantees, and a survey of investment promotion intermediaries for Technical Assistance. MIGA also held a
roundtable discussion by outside experts from various fields in order to hear their perspectives (Attachment: “Summary of Roundtable Discussion”).

6. MIGA’s operating environment in much of the last five years witnessed a strong growth of foreign direct investment flows to developing countries. However, it was interrupted by the global financial crisis that started in 1997. Recovery is observed today, but at a slower pace than before the crisis. In this context, demand for political risk insurance in recent years has grown rapidly during the decade. In addition, investors’ needs for political risk insurance have become increasingly complex because of the recent trends in privatization and project finance.

**REVIEW OF ACTIVITIES OF THE AGENCY**

7. Since the 1994 Review, MIGA has accomplished significant growth and expansion in almost every aspect of its operations. Between fiscal 1994 and 1999, the number of member countries increased from 121 to 149. (As of the end of fiscal 2000, the number was to 152).

8. MIGA’s financial capacity to serve its member countries is being strengthened most significantly by the General Capital Increase. The US$850 million capital increase was complemented by a grant transfer of US$150 million from the IBRD to MIGA.

**Guarantee Activities**

9. MIGA has achieved significant financial growth over the period of the Review. While complementing and cooperating with national and private insurers, MIGA has consistently diversified its portfolio and sought to enhance its developmental effectiveness. The political risk insurance market today recognizes MIGA as a unique and indispensable player.

10. **Growth and Diversification:** MIGA’s guarantee portfolio has expanded over time. Recently, in particular, portfolio growth has been following the growth path envisaged by the General Capital Increase exercise. Throughout the period, MIGA has placed special emphasis on facilitating productive capital flows to IDA-eligible countries, and African countries in particular. The amount of new guarantees issued more than tripled from US$372 million in fiscal 1994 to US$1.3 billion in fiscal 1999, or at an annual growth of 28.6 percent. In fiscal 2000, the amount reached US$1.6 billion. Gross exposure increased from US$1.0 billion to US$3.7 billion (and to US$4.4 billion in fiscal 2000), or a 28.5 percent annual growth over the same review period. The number of countries benefiting from MIGA’s guarantees increased from 26 to 69, notably including 28 IDA-eligible countries.

11. **Presence in the Market:** Through its increased and diversified guarantee activities, MIGA has become recognized among all parties concerned (investors, other political risk insurers, and host countries) as a unique and important provider of political risk insurance.

12. **Cancellations:** Cancellations of MIGA policies have become a more significant factor in planning for a sound and balanced portfolio. While MIGA has been protected from very early cancellations by the three-year minimum term, many investors have cancelled their guarantee contracts long before scheduled contract termination.
13. **Collaboration with Other Insurers:** MIGA has established an extensive network of collaboration with private insurers, as well as with national insurers and multilateral development banks. MIGA now regularly reinsures and coinsures with other private and public insurers, especially when large-scale projects need to be supported.

14. Treaty reinsurance has been arranged with two reinsurance companies, ACE Insurance Company and XL Insurance Limited, which reinsure MIGA for all contracts of guarantee that exceed US$10 million, and for periods of up to 20 years. Since the start of 1999, MIGA has mobilized more than US$600 million in additional capacity through the use of facultative reinsurance, and has been successful in reinsuring contracts for as long as 15 years. In 1997, MIGA introduced its Cooperative Underwriting Program (CUP), an innovative scheme of collaboration, designed to encourage private insurers to cover projects in developing member countries whose risks they might otherwise have been reluctant to assume. To date, MIGA has executed six contracts under the CUP in countries such as Brazil, Argentina, Turkey and Indonesia, for projects in the power generation, financial service, and telecommunication sectors, mobilizing US$445 million in additional capacity.

15. **Major Operational Considerations:** MIGA makes considerable efforts to evaluate systematically the developmental impacts of guaranteed investments. The first large-scale review efforts led to the September 1998 external publication of “MIGA and Foreign Direct Investment: Evaluating Development Impacts.” In addition, labor standards and environmental assessment and disclosure policies have been adopted during the review period. In fiscal 1999, MIGA and the IFC created the position of Compliance Advisor / Ombudsman (CAO) to address concerns of local communities that may be impacted by projects supported by MIGA and the IFC.

16. **Closer Cooperation with Other Parts of the World Bank Group:** Throughout the period, MIGA has made ever stronger efforts to work more closely with other parts of the World Bank Group on a wide range of policy, country and project matters, including the Country Assistance Strategy preparation, underwriting and project monitoring.

17. **Pursuit of Special Initiatives:** As the guarantee portfolio has grown and diversified, MIGA has been able to place even greater emphasis on developmental impact. In recent years, in addition to putting consistent emphasis on IDA-eligible countries, MIGA has vigorously pursued a selection of highly developmental projects, such as facilitation of investment flows among Category Two countries and small and medium enterprises (SMEs).

18. **New Initiatives:** MIGA also strives to address new and changing investor concerns. For example, MIGA has started to offer breach of contract coverage in fiscal 1999. This coverage was seldom offered before. MIGA signed guarantee contracts for two gas pipeline projects with multi-country coverage. Efforts have been made to facilitate foreign investment in post-conflict areas—two trust funds were established (Bosnia and Herzegovina, and West Bank and Gaza), and other opportunities are being considered.

**Technical Assistance Activities:**

19. MIGA’s Technical Assistance has, over time, undergone a strategic reorientation in order to optimize its value to clients. A solid range of services have been established in capacity building and information dissemination since a 1993 reorientation relative to the World Bank Group’s Foreign Investment Advisory Service (FIAS).
20. **The Convention and Historical Background:** The Convention sets out MIGA’s Technical Assistance mandate as follows: Article 2 states that the Agency shall “carry out appropriate complementary activities to promote the flow of investments to and among developing member countries.” More specifically, Article 23 states, “The Agency shall carry out research, undertake activities to promote investment flows and disseminate information on investment opportunities in developing member countries, with a view to improving the environment for foreign investment flows to such countries.”

21. MIGA’s activities focus on investment promotion intermediaries, sectoral ministries, and other investment intermediaries in developing member countries. On capacity building, client-focused, targeted activities benefited 47 countries during fiscal 1999. On information dissemination, the number of registrants in IPA\textit{net} (launched in 1995) and in PrivatizationLink (launched in 1998) nearly quintupled in only two years from 3,273 in June 1997 to 15,674 in June 1999 (and more than 19,000 today).

22. **Capacity Building:** Since a 1998 evaluation, MIGA has refocused its Technical Assistance on hands-on capacity building services for investment promotion agencies and other investment intermediaries in developing countries. Between fiscal 1994 and 2000, 63 percent and 38 percent of MIGA’s capacity building activities were for IDA-eligible countries and African countries, respectively.

23. In addition, assisted by the Government of Japan, the Promote Africa Program was launched in 1998 in Namibia, with a field presence in Togo (and Cameroon through a cooperative arrangement with UNECA), to provide on-the-ground technical assistance to Sub-Saharan African countries in their efforts to promote foreign direct investment.

24. Greater collaboration with the Private Sector Development unit in the Africa Region of the World Bank Group is providing MIGA with opportunities to cooperate at the project identification stage, supervise consultants, and directly work with new or existing investment promotion intermediaries.

25. **Development of Internet-based Services in Information Dissemination:** As was stressed in the 1998 evaluation, MIGA has identified and developed a niche on the Internet for the mobilization and dissemination of content of particular interest to the international investment community. In addition, MIGA has assisted a number of investment promotion intermediaries to leverage the Internet into their overall investment marketing and investor outreach strategy.

26. **IPA\textit{net},** launched in 1995 with support from the Government of Japan, is one of the first Internet-based services to feature information on international business operating conditions, laws and regulations, as well as specific project and privatization opportunities in emerging markets. **PrivatizationLink** was launched in 1998 as MIGA’s second online resource, which is a more specialized information service featuring detailed profiles of enterprises slated for divestiture in emerging markets.

27. **Synergy between Technical Assistance and Guarantees:** In pursuit of the common goal of facilitating investment to developing countries, MIGA’s Technical Assistance and Guarantees activities have become increasingly interrelated in recent years, through, for example, the “mobile office,” the Promote Africa Program and the Internet-based information dissemination services.
Mediation and Claims Activities:

28. During the review period, MIGA’s Mediation and Claims activities included successful settlements of investment disputes in several cases, other claims avoidance activities, and technical assistance. The first claim in MIGA’s history was filed, and eventually paid in fiscal 2000.

29. Investment Dispute Settlement Activities: MIGA is encouraged by its Convention to use its good offices to facilitate the settlement of disputes between investors and member countries related to operations not guaranteed by MIGA. In keeping with this mandate, MIGA’s Legal and Claims Department staff provided legal advice and guidance to parties from several member countries that sought creative negotiated approaches to the resolution of investment disputes in which they were involved.

30. Claims Avoidance Activities: In a number of cases in the period covered by this review, MIGA’s Legal and Claims Department has undertaken claim avoidance activities in member countries where disputes had arisen with insured investors. In these instances, MIGA was able, through intensive negotiations, to persuade the host country involved to take action that would ameliorate the situation complained of, and avoid a claim.

31. First Formal Claim: The first claim in 12 years of operation was filed in March 1999. The claim was brought by an investor (guarantee holder) in Indonesia, as a consequence of the postponement of a power project. MIGA and the host government made intensive efforts to find a solution that would be acceptable to all parties involved. MIGA paid the claim on June 16, 2000; negotiations with Indonesia continue.

EXTERNAL CHALLENGES AND OPPORTUNITIES

32. Through various surveys, discussions with outside experts, or MIGA counselors, and internal management deliberations, MIGA has recognized several emerging challenges for the next three to five years in the field of foreign direct investment promotion in general, and the political risk insurance industry in particular.

33. Potential Volatility in Rapid Growth: The political risk investment insurance industry has been growing rapidly at the rate of 20-40 percent a year. However, the industry growth is susceptible to volatility due to the cyclical nature of the insurance business and/or potential occurrence of major claims and losses by insurers. This potential volatility poses two types of challenges for MIGA: to play a counter-cyclical catalytic capacity if necessary, and to ensure availability of sufficient reinsurance capacity to support its future growth.

34. Growth of Private Insurers: One of the driving forces behind this rapid growth of the political risk insurance market is the increasing capabilities of private insurers to meet the insurance needs of investors and lenders. Today, approximately 50-60 percent of the market is served by private insurers, and MIGA has played an instrumental role in developing the private market. As stipulated in its Convention, MIGA believes it needs to continue strengthening its collaborative relations with private insurers and ensure it complements their activities.
35. **Broader Partnership Opportunities with Public Agencies:** A wide range of opportunities are available for MIGA to collaborate with other public agencies. In particular, export credit agencies in Category Two countries and multilateral development banks are increasingly interested in investment insurance.

36. **Diverse Investor Needs and Unmet Needs:** Investor needs for political risk insurance are significantly diverse, and this is reflected in their differentiated use of private and public insurers. Some investors have sophisticated risk management needs with a demand for large capacity, while others have relatively simple needs. Sizable unmet needs for political risk insurance still exist among investors, in terms of both the degree of risk mitigation and capacity availability for certain country markets.

37. **Linkage to Capital Markets:** A linkage between political risk insurance and capital markets as a potential means of transferring risks has emerged in recent years. Despite uncertainties in the pace of development in political risk insurance, this is an area where MIGA believes it can make a pioneering contribution to the entire political risk insurance industry through insurance of bond issuance in the short term and, potentially, portfolio “securitization” in the long term.

38. **Diversity of Investment Promotion Intermediaries:** The majority of developing countries, including transition economies, have established investment promotion intermediaries. However, their capabilities, resources, and commitment vary significantly. The investment environment—business, legal and regulatory—also affects the effectiveness of these intermediaries. MIGA’s service will continue to take this diversity into consideration, mindful of MIGA’s limited resources.

39. **Increasing Importance of the Internet in Investment Promotion:** The advent of the World Wide Web has brought about profound changes in the world business environment, particularly in the ways in which organizations market themselves and employ information in their operations. The increased use of Internet-based communication channels in international business has significant implications for organizations involved in attracting foreign investment to their country, region or municipality.

40. **Unexplored Opportunities:** During MIGA’s 12 years of operations, the political risk insurance industry has undergone a significant evolution. In this new industry environment, it would be worthwhile for MIGA to examine some unexplored areas of activity. Under MIGA’s Convention and Operational Regulations, there are unexplored areas that MIGA can pursue in the long term (possibly in partnership with the private sector) for which positive developmental impact could be expected. Some examples may include insurance for non-commercial risks other than political risk, reinsurance for private insurers, and research and knowledge dissemination.

### MIGA’s Comparative Advantages

41. MIGA’s future strategy should be based on the institution’s comparative advantages that are not only unique but, more importantly, valuable to clients in meeting their needs. MIGA has tried to play a unique role in its endeavors to promote foreign direct investment
to developing member countries by enhancing the comparative advantages (or public value) of its services to its clients.

42. Such advantages must be tested, and recognized by outside parties, such as clients and other insurers. Through surveys and discussions with outside partners and experts, MIGA has identified the following five areas of comparative advantage:

43. **Underwriting Rigor**: Both investors and private insurers recognize MIGA’s high quality of underwriting. Political risks are thoroughly analyzed, leveraging the network within the rest of the World Bank Group, and environmental, labor and other concerns are addressed beforehand.

44. **Problem Prevention and Resolution Capability**: MIGA’s capability to resolve problems is highly regarded both by peer insurers and investors. Problem prevention and resolution will be increasingly important in order for MIGA to be able to serve frontier countries or highly complex projects.

45. **High Visibility among Major Investors**: Investors have a very high unaided awareness of MIGA as a political risk insurance provider. This is comparable with national insurers such as OPIC, but much higher than most private insurers.

46. **Practical Applicability in Investment Promotion**: MIGA’s comparative advantage in capacity building lies in its ability to provide practical solutions to client organizations through its network to investors. Investment promotion intermediaries clearly recognizes this strength of MIGA relative to other technical assistance providers.

47. **Expertise in the Use of the Internet for Investment Promotion**: With the launch of **IPA.net** in 1995, MIGA has been one of the first development agencies to offer an Internet-based information service targeted to its core constituency, and has maintained cutting-edge capability since then.

**PROPOSED FUTURE DIRECTIONS: MULTI-NICHE STRATEGY**

Setting Future Directions

48. Given the rapid growth in the market of political risk insurance that is driven by private insurers, changing needs of international investors, and the growing importance of investment promotion for developing countries, MIGA sees the need to clearly define its unique and distinctive role in catalyzing and facilitating foreign investment with high developmental effectiveness.

49. This direction will require MIGA to identify and serve a number of highly developmental “niche” areas through guarantees and technical assistance. A comprehensive pursuit of such “multi-niche” opportunities will be essential both for generating sizable developmental impact, and for MIGA’s future growth and financial soundness.

50. In Guarantees, these niches typically include opportunities that few other insurers, except MIGA, are able or willing to serve, or are investment opportunities that would not be realized without MIGA’s involvement. The Country Assistance Strategy process will continue to help MIGA define such niche opportunities.
In Technical Assistance, which includes capacity building and information dissemination, MIGA’s focus will be to develop and deliver practical services where MIGA has comparative advantages.

At the same time, MIGA-wide synergy will continue to be pursued, especially in areas such as joint marketing and outreach, information sharing, and the pursuit of special initiatives, including an SME strategy.

This multi-niche strategy will deliver significant developmental impact to many developing member countries through Guarantees and Technical Assistance. However, the strategy may entail that risks (perceived or real) for Guarantees may be higher, and the identification of, and outreach to, these niches may be more difficult and/or costly than the current range of MIGA services.

To meet these challenges, especially for Guarantees, MIGA must first enhance the competence of its core business functions, such as marketing, underwriting, risk management and claims, as an insurance organization.

Second, vigorous pursuit of operational synergy within the entire World Bank Group will be essential, for both Guarantees and Technical Assistance.

Third, collaboration with outside partners—private and national insurers, multilateral development banks and export credit agencies in developing countries—is important. It will effectively mobilize outside capital (especially from the private sector), while enabling MIGA to capture niche opportunities in an efficient manner.

At the same time, MIGA will continue to strive for even higher client satisfaction levels among investors, investment promotion intermediaries and host governments. Moreover, in responding to changes in the external environment, MIGA will explore opportunities to develop new products and services that better meet client needs and deliver greater developmental impact. In particular, exploring MIGA’s involvement in international capital markets will be an important strategic theme for MIGA over the next three to five years.

The multi-niche strategy will be pursued through the following six categories of initiatives. These initiatives are in line with the four Guiding Principles: Developmental Impact, Financial Soundness, Client Orientation, and Partnership. Specific programs under these initiatives are as follows:

Defining Multi-niches (Priority Areas)

1. In Guarantees, MIGA will focus its efforts on target countries and sectors where MIGA’s involvement is indispensable (IDA-eligible countries, Category Two to Category Two, SMEs, and complex infrastructure projects, among others) and those identified by the Country Assistance Strategy process, by accelerating ongoing efforts and introducing new initiatives to fulfill its developmental mandate.

1-a) Increased emphasis on IDA-eligible countries and African countries.
1-b) Promotion of investments related to small- and medium-sized enterprises (SMEs).
1-c) Promotion of Category Two to Category Two investments.
1-d) Increased facilitation of complex infrastructure projects.

2. In Technical Assistance, MIGA will intensify its capacity building and Internet-based information dissemination activities to effectively promote foreign direct investment by fully leveraging advanced information technologies and know-how, complementary to Guarantee activities.

2-a) Capacity building that delivers actual investment flows.
2-b) Continued upgrading of knowledge activity through Internet-based services.

Effective and Efficient Pursuit of Multi-niches

3. MIGA will enhance the competence of its own core functions as an insurance organization: marketing approach, underwriting process, financial and risk management techniques, claims deterrence and administration, and external communications.

3-a) Development of an integrated marketing strategy.
3-b) Enhancement of underwriting and financial risk management.
3-c) Enhancement of claims prevention and resolution.
3-d) Improvement of external communications.

4. MIGA will vigorously pursue synergy and collaboration with the rest of the World Bank Group—especially through the Comprehensive Development Framework and the Country Assistance Strategy, and in the form of joint products—based on MIGA’s increased capacity.

4-b) Operational synergy and collaboration with other World Bank Group units.

5. MIGA will enhance its current efforts to develop partnerships with other insurers and multilateral development banks in ways that leverage its comparative advantages. In particular, MIGA will expand the mechanisms by which it collaborates with private insurers, while at the same time be ready to mitigate or offset the impact of potential capacity contractions caused by major claims, or the insurance industry’s cyclicality.

5-a) Greater complementarity with private and public insurers.
5-b) Greater collaboration with export credit agencies in developing countries.
5-c) Greater collaboration with multilateral development banks and other international agencies.
5-d) Greater preparedness for potential contractions in the political risk insurance market.

Continuous Improvement and New Opportunities

<table>
<thead>
<tr>
<th>6.</th>
<th>MIGA will continue to adapt to the changing and new needs and expectations of clients, for whom its services are vital. In addition, MIGA will develop a capital market strategy to meet the emerging risk mitigation needs of clients and to better utilize resources.</th>
</tr>
</thead>
<tbody>
<tr>
<td>6-a)</td>
<td>Continuous improvement of client satisfaction.</td>
</tr>
<tr>
<td>6-b)</td>
<td>Development of new guarantee products.</td>
</tr>
<tr>
<td>6-c)</td>
<td>Support of information technology (IT) sectors in developing countries</td>
</tr>
<tr>
<td>6-d)</td>
<td>Establishment of new activities, especially research/knowledge dissemination.</td>
</tr>
<tr>
<td>6-e)</td>
<td>Development of MIGA’s capital market strategy.</td>
</tr>
</tbody>
</table>

59. **Financial Implications:** The pursuit of the multi-niche strategy will pose various financial challenges for MIGA. The timely subscription of the General Capital Increase is imperative for MIGA to expand its necessary underwriting capacity, while strengthening its financial resilience by building sufficient reserve. In addition, projects in multi-niche areas tend to be smaller in size, and their underwriting is typically more complex and costly. Therefore, efficiency improvement of the underwriting operation will be an important issue for MIGA in future.

60. **Organizational Implications:** In order to ensure high effectiveness and efficiency in its pursuit of developmental impacts through the multi-niche strategy, MIGA’s organization needs to be aligned to its future strategic directions. In addition, given the increasing importance of a healthy awareness of various risks, a COSO exercise (comprehensive assessment of the adequacy of the internal control structure) is underway for the first time in MIGA, and has highlighted various strengths of, and challenges for, the organization.

61. Important organizational themes for MIGA will include MIGA-wide collaboration, developmental effectiveness, World Bank Group synergy, corporate style and culture, and risk management and internal control.
1. INTRODUCTION AND BACKGROUND

MIGA CONVENTION

1.1. This “MIGA Review 2000” is a comprehensive review of activities, current situation and possible future directions of MIGA, and is conducted in accordance with Article 67 of the MIGA Convention.

1.2. Article 67 of MIGA’s Convention states that “the Council shall periodically undertake comprehensive reviews of the activities of the Agency as well as the results achieved with a view to introducing any changes required to enhance the Agency’s ability to serve its objectives.”

1.3. The first five-year review took place on May 24, 1994. Resolution No. 48 was approved by the Council of Governors on August 23, 1994, and resolved as follows:

(a) THAT, the Council expresses its satisfaction with the growth of the guarantee program of MIGA and the reorientation of its technical assistance program during the period under review and encourages the Agency to continue efforts to increase the volume of insurance business done annually and the levels of premium income earned thereby and to continue its efforts to deliver high-quality technical assistance to its member countries.

(b) THAT, with a view to fostering the continued expansion of MIGA's guarantee and technical assistance activities on a sound financial basis, the Board of Directors shall undertake a study of the measures to be adopted to assure capital and reserves adequacy into the future, putting into place prior to the next periodic review under Article 67 such measures as the Board shall deem necessary for these purposes.

(c) THAT, the next periodic review under Article 67 of the Convention shall be undertaken during fiscal year 2000, unless circumstances require that such a review be conducted earlier.

STRATEGIC FOCUS PAPER/GUIDING PRINCIPLES

1.4. In response to Board interest expressed during the fiscal 1999 budget discussion, MIGA Management presented a “Strategic Focus Paper” to the Board in April 1999 in conjunction with the fiscal 2000 budget.

1.5. The paper identified four guiding principles: Developmental Impact, Financial Soundness, Client Orientation, and Partnership.

(a) The key purpose of the Strategic Focus Paper was to present to the Board a broad perspective on the vision of MIGA’s future development and prioritize various MIGA activities.

(b) The paper was built upon an evaluation of MIGA’s Technical Assistance activities and a review of Guarantee operations, presented to the Board in February 1998 and April 1999, respectively.
(c) The paper also was positioned to serve as preparation for this MIGA Review 2000 by obtaining feedback and input from Board members.

(d) What follows (box below) is a top-line excerpt from the Board Paper in April 1999 that elaborated the four guiding principles.

**1. Developmental Impact**

- MIGA will seek to increase foreign direct investment flows to developing countries with a view to optimizing its developmental impact through the provision of guarantees and technical services, which complement other activities of the World Bank Group.
- MIGA will continue to ensure its projects are developmentally and financially sound, and that its portfolio is balanced.
- MIGA will broaden the range of its Investment Marketing Services’ products and deepen the level of its assistance, to ensure that it is moving its clients up the “ladder of effectiveness.”
- MIGA will be more proactive in the Country Assistance Strategy process.

**2. Financial Soundness**

- MIGA will maintain its financial soundness through prudent underwriting, sound risk management, strong internal controls, and continued portfolio diversification.
- MIGA will improve its financial resilience through the accumulation of reserves and the maintenance of claims-paying liquidity.

**3. Client Orientation**

- MIGA will be more client oriented by improving responsiveness to client risk mitigation needs, and streamlining its operations to ensure delivery of its products and services to clients in the most timely way possible.
- MIGA will develop a comprehensive marketing/communication strategy, which entails the collaborative efforts of Guarantees and Technical Assistance.

**4. Partnership**

- MIGA will seek further partnerships with multilateral development banks, national insurers, private sector entities, civil society and international development agencies.
- MIGA will continue its effective mediation services in investment disputes. MIGA will maintain its reputation both within the investor community and among member countries as an objective mediator.

1.6. Based on the progress made so far along these guiding principles, as well as feedback from the Board, MIGA Review 2000 was conducted with a more comprehensive scope and a longer-term perspective than these earlier efforts.
(a) In addition to the retrospective review of MIGA’s activities and accomplishments since the 1994 Review, MIGA Review 2000 identifies emerging challenges for MIGA over the next five years, and suggests ways MIGA could proactively address these challenges.

(b) Also, some Board members specifically requested a systematic survey of the private insurance market and an elaboration of MIGA’s role in the area of SMEs (small- and medium-sized enterprises). This review addresses these requests.

SURVEYS CONDUCTED

1.7. In order to provide MIGA with objective, fact-based foundations for the discussion on long-term strategy development, several systematic efforts were undertaken during fiscal 2000. MIGA also invited several outside experts as “counselors” and held a roundtable discussion to hear their perspectives on the market trends and MIGA’s strategy.

1.8. The following activities were conducted in order to view the present and future environment in an objective manner, identify MIGA’s uniqueness, and explore opportunities to enhance partnerships.

(a) **Investor Survey (December 1999–February 2000)**: Without identifying MIGA, a comprehensive survey was conducted by an outside professional research firm to objectively understand issues such as investors’ usage pattern of political risk insurance, key purchasing factors, performance evaluation of private, national and multilateral insurers, levels of satisfaction, among many others. This survey of key decision-makers of political risk insurance purchasing collected responses from 152 investors worldwide, including both MIGA users and non-users, and was conducted during 20-minute phone calls.

(b) **Private Insurer Interviews (October–December 1999)**: A series of on-site interviews with private sector insurers and brokers were conducted by a MIGA staff member. The topics included perspectives on future development of political risk insurance business, changing client needs, roles of insurance brokers, influence of capital markets, perceptions of MIGA, and unexplored opportunities for private-public cooperation.

(c) **Survey of Investment Promotion Agencies and Related Agencies (February–April 2000)**: On the Technical Assistance side, a similar survey was conducted for investment promotion intermediaries through phone interviews by the outside research firm, without identifying MIGA. The purpose was to objectively assess the level of client satisfaction and expectation relative to other providers of similar service. Of 120 investment promotion intermediaries in developing countries, 43 of them (35 percent) were interviewed on their use of technical assistance services, as well as how they view the Internet as an investment promotion tool. Interviews were conducted in five languages.

(d) **Online Survey of PrivatizationLink Users (December 1999)**: An online survey targeted to the users of MIGA's PrivatizationLink (Internet-based dissemination of information related to privatization) was undertaken to assess user satisfaction with the current service and to identify potential new features and functionalities. The results of the survey were also incorporated into a planned upgrade of the Web site. Nearly 500
users (7 percent of total registrants in PrivatizationLink) responded, one-third of whom were from developing countries.

(e) **Questionnaire to Export Credit Agencies in Developing Countries (November 1999):** MIGA also asked representatives from developing country export credit agencies to fill out a short questionnaire at the occasion of the Berne Union meeting in October 1999. It included questions about their stance toward export and investment insurance activities, and expectations of cooperation with MIGA. Six export credit agencies responded.

1.9. Furthermore, in June 2000, MIGA held a “Roundtable” of outside counselors in order to hear their views on the current situation of the market, its possible evolution, and MIGA’s role within it. MIGA invited 14 such counselors, including those from developing countries, from a wide range of fields: investors, insurance, academia, multilateral development banks, think tanks, and the Berne Union.

**OPERATING ENVIRONMENT:**

**FOREIGN DIRECT INVESTMENT AND DEMAND FOR POLITICAL RISK INSURANCE**

1.10. Most of the 1990s witnessed a strong growth of foreign direct investment flows. However, it was interrupted by the global financial crisis that started in 1997. In this context, demand for political risk insurance has grown rapidly during the decade.

1.11. Foreign direct investment flows significantly increased during most of the 1990s, in sharp contrast to stagnant growth in much of the preceding decade. It became the principal source of external financing for developing countries.

(a) In the early 1980s, net flows of foreign direct investment averaged only US$19 billion a year. Interactions between foreign investors and host governments were marred by mutual suspicion. Between 1978 and 1983, more than 40 expropriations in 29 countries in Africa, Latin America, and Asia were recorded.

(b) In recent years, the amount of flows increased from US$89 billion in 1994 to US$183 billion in 1999, equal to 2.8 percent of GDP (Exhibit 1).

- The annual growth rate was 23.0 percent before the financial crisis.
- The share of foreign direct investment in total long-term flows dramatically increased from 24 percent in 1990, to 40 percent in 1994, and to 68 percent in 1999.
- Associated with this growth, many developing countries began making efforts to promote foreign investment inflows by reducing and removing regulatory restrictions and in other ways enhancing the attractiveness of their economies.

(c) However, foreign direct investment inflows have been concentrated in a dozen developing countries.

- The top five developing countries accounted for about 60 percent, and the top 10 countries absorbed over 70 percent of the flows (although many of those countries are highly populated). A number of IDA-eligible countries have not yet attracted the necessary foreign direct investment flows as an engine for economic growth.
• A sound policy environment is critical, but differences in policy environments alone do not explain the disparities in foreign direct investment flows into developing countries.

• Therefore, particularly in the case of IDA-eligible countries that have implemented policy reforms, there is a need to support investment promotion intermediaries with a specific public mandate to develop and implement strategies for attracting and retaining foreign investment.

(d) The share of foreign direct investment flows between developing countries (or “Category Two to Category Two” investment flows) has remained below 10 percent of the total flows.

(e) The growth trend of foreign direct investment was abruptly interrupted by the global financial crisis which started in 1997. Recovery is observed today, but at a slower pace than before the crisis.

• The contraction was most severe in Asia (an 11 percent decline between 1997 and 1998) and Eastern Europe (5 percent decline). However, Latin America and Africa managed to maintain a slower but positive growth in inflows of foreign direct investment (5 percent and 3 percent growth, respectively).

• Foreign direct investment flows to developing countries are expected to increase moderately over the next few years, as the global economy continues to recover from the financial crisis. However, this increase is likely to be at a slower rate than before the crisis. Slower growth prospects, and increased uncertainty in the global economy, have discouraged investors from making new long-term commitments.

Foreign direct investment (FDI) to developing countries grew significantly in the 1990s; today, two-thirds of the total net flow is FDI.

Exhibit 1: FDI Flows to Developing Countries

Net Inflows (US$ billions)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>24</td>
<td>35</td>
<td>48</td>
<td>66</td>
<td>89</td>
<td>105</td>
<td>131</td>
<td>165</td>
<td>163</td>
<td>183</td>
<td></td>
</tr>
</tbody>
</table>

Share of FDI in Total Net Long-term Flows*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>24%</td>
<td>29%</td>
<td>31%</td>
<td>30%</td>
<td>40%</td>
<td>41%</td>
<td>42%</td>
<td>49%</td>
<td>53%</td>
<td>68%</td>
<td></td>
</tr>
</tbody>
</table>

* Including official flows, debt flows (Bank lending, bonds and others), equity flows, and FDI.
Source: Global Development Finance 2000
Demand for political risk insurance in recent years has largely followed the growth trend of foreign direct investment flows. Investors’ needs have become increasingly complex because of the recent trends in privatization and project finance.

- Between 1993 and 1998, the amount of foreign direct investment flows to developing countries doubled; as did MIGA’s issued guarantees and insurance coverage by Berne Union members (Exhibit 2).

- Investor sensitivity to political risk has increased in general over the last five years. Approximately half of the investors surveyed expressed that political risk is more of a concern today than five years ago and one-third said “no change” (Exhibit 3).

- Privatization, now accounting for 21 percent of total foreign direct investment, and private sector financing of infrastructure projects have created new challenges for political risk management in the last decade. For example, as the threat of traditional expropriation subsides, the new threat of so-called creeping expropriation has become a major concern to investors.

**Exhibit 2: Trends of FDI Flows and Investment Insurance**

Index: 1993 = 100

- Continuing trend of privatization
- Private participation in complex infrastructure projects
- Recurrent emerging market economic crises

*“Guarantees issued” for the Berne Union not available.

Nearly 50% of the investor survey respondents say that political risk is more of a concern today than 5 years ago, while 36% see “no change.”

**Exhibit 3: Investor Concern with Political Risk**  
(Compared with 5 years ago)

<table>
<thead>
<tr>
<th>Description</th>
<th>Total N = 152</th>
<th>MIGA Clients N = 64</th>
<th>Non-clients N = 88</th>
</tr>
</thead>
<tbody>
<tr>
<td>DK/NA</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Less of a concern</td>
<td>16%</td>
<td>11%</td>
<td>19%</td>
</tr>
<tr>
<td>No change</td>
<td>36%</td>
<td>37%</td>
<td>36%</td>
</tr>
<tr>
<td>More of a concern</td>
<td>47%</td>
<td>52%</td>
<td>43%</td>
</tr>
</tbody>
</table>

Source: Investor Survey
2. REVIEW OF ACTIVITIES OF THE AGENCY

EXPANSION OF MIGA’S ACTIVITIES SINCE THE LAST REVIEW

2.1. Since the 1994 Review, MIGA has accomplished significant growth and expansion in almost every aspect of its operations.

2.2. Membership and Financial Growth: Between fiscal 1994 and 1999, the number of member countries increased from 121 to 149. (As of the end of fiscal 2000, the number increased to 152). Total assets grew from US$232 million to US$632 million (and US$721 million in fiscal 2000), or at 22 percent per annum (Exhibit 4). Earned premium income also grew from US$10 million to US$25 million (and to about US$30 million in fiscal 2000), or at 20 percent per annum (Exhibit 5).

2.3. Guarantees: The number of guarantees issued per year nearly doubled from 38 in fiscal 1994 to 72 in fiscal 1999 (and 53 in fiscal 2000). By March 31, 2000, MIGA had underwritten nearly 300 projects covered by over 450 individual guarantees in just over 10 years of existence. During the same five-year period, the amount of new guarantees issued more than tripled from US$372 million to US$1.3 billion, or at an annual growth of 28.6 percent. In fiscal 2000, the amount reached US$1.6 billion.

2.4. Gross exposure increased from US$1.0 billion to US$3.7 billion (and to US$4.4 billion in fiscal 2000), or a 28.5 percent annual growth. At the same time, net exposure increased at a significantly slower rate, from US$1.0 billion in fiscal 1994 to US$2.8 billion in fiscal 2000, due to the use of reinsurance arrangements (Exhibit 6). The number of countries benefiting from MIGA’s guarantees increased from 26 to 69, notably including 28 IDA-eligible countries.

MIGA has accomplished significant growth over the last 5 years.

Exhibit 4: Expansion of MIGA’s Activities

<table>
<thead>
<tr>
<th>Members</th>
<th>Total assets</th>
<th>Earned premium</th>
<th>Number of guarantees issued</th>
<th>Amount of guarantee</th>
<th>Gross exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>121</td>
<td>$232 M</td>
<td>$10 M</td>
<td>38</td>
<td>$372 M</td>
<td>$1,048 M</td>
</tr>
<tr>
<td>149</td>
<td>$632 M</td>
<td>$25 M</td>
<td>72</td>
<td>$1,310 M</td>
<td>$3,675 M</td>
</tr>
</tbody>
</table>

Source: MIGA Annual Reports
MIGA’s premium income grew over time since 1994.

Exhibit 5: Growth of Premium Income
US$ millions

Source: MIGA Guarantees Department

MIGA’s gross exposure significantly increased over time, while its net exposure increased at a slower rate due to the use of reinsurance.

Exhibit 6: Growth of Guarantee Exposure
US$ billions

Source: MIGA Guarantees Department

2.5. **Technical Assistance**: Client-focused, targeted capacity building activities benefited 47 countries during fiscal 1999. The number of registrants in IPAnet (launched in 1995) and in PrivatizationLink (launched in 1998) nearly quintupled in only two years from 3,273 in June 1997 to 15,674 in June 1999 (and to over 19,000 in June 2000).
MAJOR EVENT: GENERAL CAPITAL INCREASE

2.6. MIGA’s financial capacity to serve its member countries is being strengthened most significantly by the General Capital Increase.

2.7. To support MIGA’s continued growth in response to expanding demand for its services, the Development Committee recommend in April 1997 that the Council of Governors vote for a general capital increase. In April 1999, the voting period closed with a strong vote in favor of the capital increase.

2.8. The US$850 million capital increase was complemented by a grant transfer of US$150 million from the IBRD to MIGA.

2.9. A three-year subscription period was established—starting in April 1999. By June, 2000, 34 member countries have subscribed 15,851 shares, or US$172 million. The pace of subscriptions to date is slower than anticipated but member countries have indicated that they remain committed to the agreed capital increase target and timing.

REVIEW OF GUARANTEE ACTIVITIES

2.10. MIGA has achieved significant financial growth over the period of the Review. While complementing and cooperating with national and private insurers, MIGA has consistently diversified its portfolio and sought to enhance its developmental effectiveness. The political risk insurance market today recognizes MIGA as a unique and indispensable player.

2.11. Growth and Diversification: MIGA’s guarantee portfolio has expanded over time. Recently, in particular, portfolio growth has been following the growth path envisaged by the General Capital Increase exercise. Throughout the period, MIGA has placed particular emphasis on facilitating productive capital flows to IDA-eligible countries, and African countries in particular (Exhibit 7).

(a) By the end of 1999, MIGA’s guarantees have facilitated foreign investments amounting to US$9.6 billion in 28 IDA-eligible countries (this figure includes China). The total guarantees outstanding for these countries amount to US$1.2 billion at the end of fiscal 2000, accounting for about 27 percent of MIGA’s current portfolio on a gross exposure basis (and 31 percent on a net exposure basis). In fiscal 1999 alone, approximately US$1.3 billion of foreign investment was facilitated in IDA-eligible countries.

(b) African countries accounted for 12 percent of the portfolio in fiscal 2000, or US$503 million on a gross exposure basis.

(c) During the global financial crisis of the late 1990s, MIGA sought to respond quickly to the situations in some countries. As a result, the financial sector share in MIGA’s portfolio increased. When the crisis was over, the financial sector share returned to lower levels, causing a 5 percent decline in its share of the portfolio.
(d) On the other hand, in response to growing investor needs, the share of the infrastructure sector in MIGA’s guarantee portfolio increased from 3 percent in 1993 to 18 percent in fiscal 1999. In fiscal 2000, the share of the infrastructure sector significantly increased to 28 percent of the portfolio.

(e) Over time, the guarantee portfolio has been diversified both in terms of country, region and sector. In terms of country, on a net exposure basis between fiscal years 1994 and 2000, the share of the top 10 countries dropped from 73 percent to 48 percent. The share of the top five countries dropped from 51 percent to 33 percent (Exhibit 8). Regionally, the portfolio has also shifted.

(f) In terms of sector distribution, the combined share of financial, manufacturing, and mining sectors today is about 62 percent, down from 87 percent in fiscal 1994. Sectoral diversification reflects the growing importance of infrastructure projects, particularly in the power and telecommunications sectors (Exhibit 9). At the same time, the increasing number of large, complex infrastructure transactions is requiring more sophisticated underwriting and has led MIGA clients to request enhanced expropriation coverage.

2.12. **Presence in the Market:** Through its increased and diversified guarantee activities, MIGA has become well-known among all parties concerned (investors, other political risk insurers, and host countries) as a unique and important provider of political risk insurance.

(a) MIGA is one of the best-known providers of political risk insurance among major investors.

(b) Approximately 60 percent of MIGA’s clients believe that MIGA’s insurance coverage was “essential” to their overseas projects, which is comparable to investors using national insurers in developed countries (Exhibit 10).
MIGA’s portfolio concentration to the top 10 host countries has lowered to 50% today on a net basis.

**Exhibit 8: Top 5 and Top 10 Country Concentration**

Net exposure

<table>
<thead>
<tr>
<th>Year</th>
<th>Top 5 Countries</th>
<th>6-10th Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>92</td>
<td>71%</td>
<td>40%</td>
</tr>
<tr>
<td>93</td>
<td>63%</td>
<td>30%</td>
</tr>
<tr>
<td>94</td>
<td>51%</td>
<td>27%</td>
</tr>
<tr>
<td>95</td>
<td>40%</td>
<td>33%</td>
</tr>
<tr>
<td>96</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>97</td>
<td>22%</td>
<td>35%</td>
</tr>
<tr>
<td>98</td>
<td>17%</td>
<td>37%</td>
</tr>
<tr>
<td>99</td>
<td>20%</td>
<td>37%</td>
</tr>
<tr>
<td>2000</td>
<td>19%</td>
<td>36%</td>
</tr>
</tbody>
</table>

Source: MIGA Guarantees Department

The portfolio has also been diversified in terms of sector concentration.

**Exhibit 9: Sector Diversification**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Net Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>6%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>23%</td>
</tr>
<tr>
<td>Mining</td>
<td>29%</td>
</tr>
<tr>
<td>Oil&amp;Gas</td>
<td>35%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>39%</td>
</tr>
<tr>
<td>Agribusiness</td>
<td>32%</td>
</tr>
<tr>
<td>Tourism</td>
<td>37%</td>
</tr>
<tr>
<td>Services</td>
<td>40%</td>
</tr>
<tr>
<td>1994</td>
<td>3%</td>
</tr>
<tr>
<td>95</td>
<td>1%</td>
</tr>
<tr>
<td>96</td>
<td>1%</td>
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<td>97</td>
<td>2%</td>
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<td>98</td>
<td>3%</td>
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<tr>
<td>99</td>
<td>3%</td>
</tr>
<tr>
<td>00*</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: MIGA Guarantees Department
Other political risk insurers, both public and private, seek MIGA participation and cooperation in particular projects to leverage MIGA’s special assets: its ability to cover investors from many different countries and its special status as a member of the World Bank Group.

Host countries have become much more aware of the value of MIGA’s product, which not only has enabled many private sector projects to go forward, but has also ensured that those projects meet developmental, social and environmental standards which will support the host countries’ long-term development. This helps explain why such a large (and increasing) number of Category Two countries have become MIGA members.

2.13. Cancellations: Cancellations of MIGA policies have become a more significant factor in planning for a sound and balanced portfolio (Exhibit 11). While MIGA has been protected from very early cancellations by the three-year minimum term, many investors have cancelled their guarantee contracts long before scheduled contract termination.

The most frequent reason for canceling a MIGA contract was that the investor was comfortable with the risk and was self-insuring. Other reasons included: replacing MIGA with private coverage; the project did not move forward, the project was facing financial difficulties or was sold; or there was a change in corporate policy/strategy.

While early cancellations may at times be beneficial (when they reflect increased investor confidence in a given Category Two country, or when they make additional capacity available in tight markets such as Brazil), they are also problematic.
First, since the cancellations are unscheduled, they make portfolio management more difficult.

Second, given that cancellations usually take place in those markets perceived to be least risky, they increase the danger of *ex post facto* adverse selection, leading to a higher portfolio risk profile.

Finally, some cancellations may indicate that investors are not finding enough added value in MIGA's product (while this does not appear to be a major problem, it is one that MIGA will carefully monitor in the future).

2.14. **Collaboration with Other Insurers:** MIGA has established an extensive network of collaboration with private insurers, as well as with national insurers and multilateral development banks, through treaty reinsurance, facultative reinsurance, coinsurance, and its Cooperative Underwriting Program (CUP).

2.15. Over the past five years, MIGA has systematically worked to increase and enhance its cooperation with these insurers, with a view to achieving several objects:

(a) leveraging MIGA's scarce capacity through treaty and facultative reinsurance;

(b) limiting MIGA's exposure (and freeing up capacity) in the most sought-after markets, hence better balancing its portfolio;

(c) extending and educating the private market in underwriting for projects in Category Two countries through the CUP and other coinsurance arrangements; and

(d) ensuring that MIGA's products and services are providing value-added to its clients and are complementary to those offered by public and private insurers.
2.16. **Treaty Reinsurance**: Treaty reinsurance has been arranged with two reinsurance companies. The original treaty was entered into with ACE Insurance Company in April 1997, and was the first of its kind between a private insurer and a multilateral agency. In December 1998 it was replaced with a new treaty, and the program was expanded to include XL Insurance Limited.

(a) Under the terms of the new treaties, both ACE and XL reinsure MIGA for all contracts of guarantee that exceed US$10 million, and for periods of up to 20 years.

(b) In tandem with the General Capital Increase, this allows MIGA to issue contracts of guarantee of up to US$200 million per project and US$620 million per country.

2.17. **Facultative Reinsurance**: Since the start of 1999, MIGA has mobilized over US$600 million in additional capacity, through the use of facultative reinsurance, and has been successful in reinsuring contracts for as long as 15 years.

(a) Active private-sector participants in this program include Chubb & Son, Sovereign Risk, Zurich US, Unistrat, Munich Re, and nine of the major political risk insurers (syndicates) at Lloyd’s of London. MIGA continues to actively expand its panel of facultative reinsurers, of which Unistrat and Munich Re are the latest examples.

(b) MIGA is also active with public insurers and has signed facultative reinsurance agreements with a number of national insurers: EDC of Canada, COFACE of France, SACE of Italy, EID/MITI of Japan, GIEK of Norway CESCE of Spain, ECGD of the United Kingdom and OPIC of the United States.

(c) MIGA also has provided facultative reinsurance to OPIC, EID/MITI, EDC, and CESCE.

2.18. **Coinsurance**: MIGA regularly coinsures with other private and public insurers, often to support large-scale projects. Examples include:

(a) Antamina in Peru where MIGA worked alongside EDC, OND, Zurich US, and Sovereign Risk;

(b) BCP S.A. in Brazil with AIG, OPIC and EDC; and

(c) Minera Alumbrera in Argentina which included, on one policy, participation by EFIC, EDC, OND, and ECGD, in addition to MIGA. (This project paved the way for other projects which multiple public insurers may coinsure together.)

2.19. **Cooperative Underwriting Program (CUP)**: In 1997, MIGA introduced an innovative scheme of collaboration, designed to encourage private insurers to cover projects in developing member countries whose risks they might otherwise have been reluctant to assume. The CUP program is also available for use with public insurers as a risk management tool.

(a) The CUP is a "fronting" arrangement, whereby MIGA is the insurer-of-record and issues a Contract of Guarantee for the entire amount of insurance requested by an investor, but retains only a portion of the exposure for its own account. Host country approval is obtained for the full amount of the coverage. The remainder is underwritten by one or more private insurers using MIGA's contract wording. The premium rates, claims payments, and recoveries are all shared on a pari passu basis.

(b) It offers participants the comfort of having MIGA: (i) serve as a mediator if a dispute arises between the insured investor and the host country; and (ii) seek remedies if mediation fails.
(c) The CUP allows MIGA to provide the investor with coverage for very large projects, which otherwise would not be possible. For example, in the BCP S.A. project mentioned above, MIGA arranged US$175 million of additional capacity under the CUP, including seven Lloyd’s syndicates, Chubb & Son, and Unistrat Corporation.

(d) To date, MIGA has executed six contracts under the CUP, in countries such as Brazil, Argentina, Turkey and Indonesia for projects in the power generation, financial service, and telecommunications sectors. The additional coverage arranged for these deals totals US$445 million, most of which has been provided since the start of 1999. MIGA expects demand for this product to continue to increase.

2.20. **Major Operational Considerations:** MIGA makes considerable efforts to evaluate systematically the developmental impacts of guaranteed investments. The first large-scale review efforts led to the September 1998 external publication of “MIGA and Foreign Direct Investment: Evaluating Development Impacts.” In addition, labor standards and environmental assessment and disclosure policies have been adopted during the review period.

2.21. **Assessment of Developmental Effectiveness:** The study presented MIGA’s evaluation methods and processes, and verification of the *ex post facto* developmental impact of 25 MIGA-supported projects.

(a) A combination of MIGA staff and outside consultants conducted the evaluation.

(b) The endeavor included site visits and systematic gathering of data, so that comparisons could be made between the estimated developmental impact at the time of underwriting and the *ex post facto* impacts of these projects examined.

(c) The findings revealed a consistent positive developmental impact for all 25 projects in areas such as human capital investment, job creation, technology transfer, capital market development, ancillary business development, poverty alleviation, social effects and the environment.

(d) The impact of these projects was greater than anticipated at the time of underwriting. For example, 5,796 new local jobs were created while the initial estimate was 5,026. Actual total investment was 14 percent higher than anticipated, reflecting additional inflows of funds.

(e) Largely due to increased production, taxes paid to the host governments were 63 percent higher than anticipated. Also, exports generated were 13 percent higher.

2.22. **Labor Standards:** MIGA’s Board approved a report entitled “Labor Standards for Projects Guaranteed by MIGA,” which led to the introduction of amendments to the MIGA Contract of Guarantee concerning labor standards. New provisions were introduced in the guarantee contract requiring that the guarantee holder and/or the project enterprise refrain from employing harmful child labor and/or using forced labor.

2.23. **Environmental Assessment and Disclosure Policy:** MIGA’s Board approved new environmental assessment and disclosure policies in May 1999. These have been implemented starting with definitive applications received in fiscal 2000.

(a) The environmental assessment policy formalizes the approach to environmental review that MIGA has been utilizing in recent years.
The disclosure policy encompasses public disclosure of environmental information by MIGA for projects defined as Category A (environmentally and socially sensitive projects). MIGA also expanded its in-house capacity to monitor and evaluate potential and insured projects' environmental effects.

Throughout the period, MIGA has continued its cooperative relationship with the IFC with respect to environmental reviews. This allows both parties to leverage scarce resources by avoiding duplication of efforts, while still paying careful attention to a given project's environmental impacts.

MIGA-IFC Compliance Advisor / Ombudsman: In fiscal 1999, MIGA and the IFC created the position of Compliance Advisor / Ombudsman (CAO) to address concerns of local communities that may be impacted by projects supported by MIGA and the IFC. The position, reporting directly to President James Wolfensohn, is the first of its kind in a multilateral institution. The first CAO was selected for the position and assumed her responsibilities in July 1999. Subsequent to extensive consultations with governments, NGOs, the Board of Directors, and senior Management of MIGA and the IFC, the CAO has developed guidelines, eligibility criteria, and processes and procedures for managing complaints to the Office of the CAO. During the first year, MIGA benefited from the CAO’s advice and counsel on the management of potential problems.

Closer Cooperation with other Parts of the World Bank Group: Throughout the period, MIGA has made ever stronger efforts to work more closely with other parts of the World Bank Group on a wide range of policy, country and project matters, including the Country Assistance Strategy preparation, underwriting and project monitoring.

Despite its very limited staff resources, MIGA has greatly increased its level of input into the Country Assistance Strategy process, in particular, recognizing the importance of joint coordination of development assistance efforts.

MIGA has also worked closely with the World Bank’s Private Sector Development Group and with the IFC to ensure that the World Bank Group’s efforts are complementary, effective and efficient.

Pursuit of Special Initiatives: As the guarantee portfolio has grown and diversified, MIGA has been able to place even greater emphasis on developmental impact. On top of putting consistent emphasis on IDA-eligible countries, a selection of highly developmental projects has been vigorously pursued in recent years.

Facilitation of Investment Flows among Category Two Countries: Article 23 of the Convention states, “(c) The Agency shall give particular attention in its promotional efforts to the importance of increasing the flow of investment among developing member countries.”

In fiscal 2000, MIGA facilitated six investment projects from Category Two countries to other Category Two countries.

Today, MIGA is well-positioned to pursue such activities further through greater cooperation with export credit agencies in developing countries.

Small- and Medium-sized Enterprises (SMEs): MIGA has paid particular attention to strong developmental impact through the promotion of SME projects. Since 1993, MIGA has
facilitated more than 50 projects that are smaller than US$5 million. This represents 11 percent of its total number of contracts.

(a) Currently, more than 100 MIGA guarantees below US$5 million have been issued with a cumulative volume of US$207 million, or 5.6 percent of its gross portfolio. During the current fiscal year, an additional five small- and medium-sized projects were guaranteed.

(b) MIGA has also created a special task force within its Country Development Group with the aim of promoting SMEs and collaborating closely with MIGA’s Technical Assistance side and the new IBRD/IFC department for SMEs. Moreover, marketing and technical assistance are also being designed increasingly to support the process of assisting SMEs.

(c) However, given that the average SME project size is typically less than one-seventh of MIGA’s average project size, underwriting and provisioning costs significantly exceed the premium income in this area.

2.29. **New Initiatives:** MIGA also strives to address new and changing investor concerns through various initiatives, such as trust funds in post-conflict areas, offering breach of contract coverage and multi-country coverage.

2.30. **Trust Funds in Post-Conflict Areas:** Efforts have been made to facilitate foreign investment in post-conflict areas. Two trust funds were established, and other opportunities are being considered in order to utilize MIGA’s underwriting, claims and recovery expertise and to supplement MIGA’s available insurance capacity in these areas. Investments are underwritten by MIGA against funds contributed (or callable) by or from sponsors.

(a) **Bosnia and Herzegovina:** The European Union Investment Guarantee Trust Fund for Bosnia and Herzegovina was established in 1997 at the initiative of the European Union and totals 10 million ECU (or approximately US$10 million).

(b) **West Bank and Gaza:** In fiscal 1997, the West Bank and Gaza Investment Guarantee Trust Fund was created to provide guarantees for eligible investments in the West Bank and Gaza. The Trust Fund presently has US$21 million, with contributions from the Palestinian Authority, the Government of Japan and the European Investment Bank. To date, MIGA has extended coverage up to US$5 million for one investment project in the West Bank.

2.31. **Breach of Contract:** As more private investors have become involved in the infrastructure sector over the last few years, breach of contractual obligations by the host government has become a concern. In response to this development, MIGA has more frequently offered breach of contract coverage.

(a) In the past, certain forms of breach of contract were covered under the risks of “expropriation” coverage by a number of national insurers and MIGA. As a matter of fact, MIGA’s applicable rules contemplate two possibilities of covering breach of contract: either under expropriation coverage (in a very limited way) or as a separate risk (“denial of justice”) coverage.

(b) Subsequently, in response to the growing market demand for coverage of specific contractual obligations by the host government, particularly in the infrastructure sector involving sub-sovereigns, MIGA has started to offer breach of contract coverage under “denial of justice” to provide investors with at least a minimum degree of comfort.
2.32. **Multi-country Coverage:** In fiscal 1999, MIGA signed guarantee contracts for two gas pipeline projects with multi-country coverage, i.e., coverage against actions by the host government of one country that may affect assets of the same project located in another country. One project involved a natural gas pipeline from Bolivia to Brazil, and the other from Argentina to Chile.

**REVIEW OF TECHNICAL ASSISTANCE ACTIVITIES**

2.33. **MIGA has established a solid range of services in capacity building and information dissemination since a 1993 reorientation relative to the Foreign Investment Advisory Service (FIAS).** MIGA activities focus on investment promotion intermediaries, sectoral ministries, and other investment intermediaries (public, quasi-public and private) in developing member countries.

2.34. **The Convention:** The Convention sets out MIGA’s Technical Assistance mandate as follows:

(a) Article 2 states that the Agency shall “carry out appropriate complementary activities to promote the flow of investments to and among developing member countries.”

(b) Article 23 more specifically states, “The Agency shall carry out research, undertake activities to promote investment flows and disseminate information on investment opportunities in developing member countries, with a view to improving the environment for foreign investment flows to such countries. The Agency may, upon the request of a member, provide technical advice and assistance to improve the investment conditions in the territories of that member.”

2.35. **Historical Background:** MIGA’s Technical Assistance has, over time, undergone a strategic reorientation in order to optimize its value to clients.

(a) In 1988, a joint venture agreement was formulated between IFC and MIGA, assigning to FIAS the responsibility for MIGA’s technical assistance mandate. (FIAS was originally formed in 1986, largely out of the FDI-related activities of IFC’s Development Department.)

(b) In 1989, the Policy and Advisory Services unit was established in MIGA, focusing on investment promotion activities such as country investor guides, conferences, seminars and executive development programs.

(c) However, in 1993, a reorientation of MIGA’s Technical Assistance was undertaken and MIGA discontinued its support for FIAS.

- MIGA reduced its direct work with clients to generalized investment promotion skills training in order to focus on developing an information dissemination vehicle. It also emphasized direct promotional activities in the form of multi-country, single sector conferences.

- FIAS continued to be responsible for advising member governments on the laws, policies, institutions and programs designed to attract and retain foreign investment.

(d) The 1998 evaluation found that MIGA was effectively carrying out its technical assistance mandate.
• It recommended strengthening MIGA’s IPAnet and related Internet-based information dissemination facilities.

• It also recommended that MIGA’s Technical Assistance should shift its focus to enhance capacity of national investment promotion intermediaries to formulate and implement strategies for undertaking successful investment promotion activities.

2.36. **Capacity Building Activities:** Since the 1998 evaluation, MIGA has refocused its Technical Assistance on hands-on capacity building services for investment promotion agencies and other investment intermediaries in developing countries.

(a) The 1998 evaluation of MIGA’s Technical Assistance products and services revealed that clients felt a need for more tailored assistance in investment promotion skills and for longer-term involvement by MIGA.

(b) Between fiscal 1994 and 2000, 63 percent and 38 percent of MIGA’s capacity building activities were for IDA-eligible countries and African countries, respectively.

2.37. Some tools were developed in line with this reorientation: a Needs Assessment Framework and an Investment Promotion Toolkit.

(a) A comprehensive **Needs Assessment Framework** has been developed to review and benchmark clients against an array of 59 competencies found in international best practice, and to provide the basis for tailored advice and assistance.

(b) An **Investment Promotion Toolkit** has been developed, comprising a comprehensive array of modules codifying best practice in all major aspects of foreign direct investment promotion, from agency startup through investment generation and onto services to anchor investments. It enables MIGA to tailor advice and assistance suited to the needs of specific clients.

2.38. In addition, assisted by the Government of Japan, the Promote Africa Program was launched in 1998 in Namibia, with field presence in Togo (and Cameroon through a cooperative arrangement with UNECA), to provide on-the-ground technical assistance to Sub-Saharan African countries in their efforts to promote foreign direct investment.

(a) Most recently, the program has emphasized the facilitation of investments from developing countries. Collaboration with the UNDP in organizing the 1999 Africa-Asia Business Forum in Kuala Lumpur was an example. This event brought together 200 African and Asian companies, with a view to facilitate business partnerships between the two regions.

2.39. Greater collaboration with the Private Sector Development unit in the Africa Region of the World Bank Group is providing MIGA with opportunities to cooperate at the project identification stage, supervise consultants, and directly work with new or existing investment promotion intermediaries.

(a) **In Ghana**, MIGA is partnering with the World Bank on a US$50 million trade and investment project to improve the infrastructure and institutions to catalyze economic growth. MIGA is now responsible for guiding implementation of the capacity-building component for participating investment promotion institutions. The assistance focuses on investment generation skills-building as well as designing and implementing an outbound campaign to attract targeted investment projects in select overseas markets.
(b) **In Cote d'Ivoire**, MIGA is responding to a government request to assist in the capacity building of the country’s investment promotion agency, CEPICI, as well as to help foster foreign direct investment in the tourism sector. A joint mission with the Africa Region’s Private Sector team was recently completed, which laid the groundwork for the design and delivery of targeted capacity building assistance to CEPICI in preparation for investment generation during the period prior to the December 2000 elections.

(c) In 1999, MIGA also visited **Rwanda** to review and help assess the country's strategy for creating a national investment and trade promotion capability as part of the Country Assistance Strategy for Rwanda. MIGA’s assessment of the prospects for the country to attract foreign investment and recommendations on the proposed Rwanda Investment Authority were included in the strategy. These proposals have now been taken up in an IDA credit for the country, with implementation supervised by MIGA.

2.40. **Development of Internet-based Services in Information Dissemination:** As was stressed in the 1998 evaluation, MIGA has identified and developed a niche on the Internet for the mobilization and dissemination of content of particular interest to the international investment community.

2.41. **IPAnet**, launched in 1995 with support from the Government of Japan, is one of the first Internet-based services to feature information on international business operating conditions, laws and regulations, as well as specific project and privatization opportunities in emerging markets. It catalogs more than 8,000 Web documents relating to foreign direct investment, classified by country, investment topic and sector, and its service is being updated continuously.

2.42. **PrivatizationLink** was launched in 1998 as MIGA’s second online resource, which is a more specialized information service featuring detailed profiles of enterprises slated for divestiture in emerging markets, sourced directly from privatization agencies and packaged with relevant background information, such as governing legislation and bidding procedures. The initiative has been further advanced in collaboration with the Europe and Central Asia and the Africa Regions of the World Bank Group, and some donors (Canada and Austria).

2.43. MIGA has developed content partnerships with several private sector providers of online international business information, such as Northern Light and Trade Compass.

2.44. MIGA also led the planning of the private sector component of the Global Development Gateway currently being designed by the World Bank Group.

2.45. In addition, MIGA has assisted a number of investment promotion intermediaries to leverage the Internet into their overall investment marketing and investor outreach strategy.

(a) This assistance included detailed assessments of existing Web sites of investment promotion intermediaries; onsite workshops with staff of investment promotion intermediaries; joint design of effective Web presence; and the integration of the Internet into their investor communications approaches.

(b) In addition, MIGA has undertaken a collaborative effort with the World Bank/IMF Joint Libraries to catalog sector-specific resources on the Internet and thereafter provide training to staff of investment promotion intermediaries on how to use this new medium to conduct research and target potential investors in their priority sectors.
2.46. **Synergy between Technical Assistance and Guarantees:** In pursuit of the common goal of facilitating investment to developing countries, MIGA’s Technical Assistance and Guarantees activities have become increasingly interrelated in recent years.

(a) The “mobile office,” which is a temporary office in a particular country or region to strengthen links with investment communities, has demonstrated that joint investment promotion efforts by Technical Assistance (both information dissemination and capacity building) and Guarantees are highly complementary and effective in benefiting many host and investor countries.

(b) The Promote Africa Program was originally initiated as a Technical Assistance activity. However, when it comes to a stage of attracting investment, it has inevitably called for a closer linkage with Guarantees.

(c) Internet-based information dissemination activities are becoming an integral part of marketing and outreach activities. Capacity building activities have recently enabled investment promotion intermediaries to map out research on potential investors to underpin targeting exercises. Resulting interest by private investors can be facilitated by MIGA’s guarantees.

(d) Initiatives are underway to synchronize and exchange information between the two departments in MIGA’s country targeting efforts, reflecting the shared objectives of stimulating foreign direct investment and contributing to poverty alleviation, and to integrate MIGA input into the World Bank’s Country Assistance Strategies and Comprehensive Development Framework.

**REVIEW OF MEDIATION AND CLAIM ACTIVITIES**

2.47. During the review period, MIGA’s Mediation and Claims activities included successful settlements of investment disputes in several cases, other claims avoidance activities, and technical assistance. The first claim in MIGA’s history was filed, and eventually paid in fiscal 2000.

2.48. **Investment Dispute Settlement Activities:** MIGA is encouraged by its Convention to use its good offices to facilitate the settlement of disputes between investors and member countries related to operations not guaranteed by MIGA. In keeping with this mandate, MIGA’s Legal and Claims Department staff provided legal advice and guidance to parties from several member countries that sought creative negotiated approaches to the resolution of investment disputes in which they were involved.

(a) MIGA’s objective in these cases was to resolve disputes before they reached a level that required formal arbitration.

(b) MIGA’s role as a mediator appears to fill an important void in international law remedies currently available to foreign investors in their disputes with host countries. Since diplomatic solutions are not always possible, and formal arbitration is costly, mediation is increasingly recognized as a viable, inexpensive, informal and effective alternative for the resolution of investment disputes.
2.49. **Claim Avoidance Activities:** In a number of cases in the period covered by this review, the Legal Department has undertaken claims avoidance activities in member countries where disputes had arisen with insured investors. In these instances, MIGA was able, through intensive negotiations, to persuade the host country involved to take action that would ameliorate the investment dispute, and avoid a claim.

2.50. **Technical Assistance Activities in the Legal Area:** MIGA’s Legal Affairs and Claims Department assists member countries on matters related to foreign investment, including dispute mediation, negotiation of investment-related treaties and, in some cases, drafting of investment-related legislation.

2.51. **Filing of the First Formal Claim:** The first claim in 12 years of operation was filed during fiscal 1999. MIGA eventually paid the claim in June 2000.

   (a) The claim was brought by an investor (guarantee holder) in Indonesia, as a consequence of a Presidential Decree which resulted in the suspension of a number of power projects in Indonesia, including that of the guarantee holder, due to the economic crisis that Indonesia and other Asian countries went through.

   (b) MIGA and the authorities of Indonesia made intensive efforts to find a solution that would be acceptable to all parties involved.

   (c) On June 16, 2000, however, MIGA paid the full amount of US$15.0 million due under the terms of its guarantee contract. A portion of this amount was reimbursed to MIGA by the reinsurers.

   (d) MIGA has commenced a series of new discussions with the host government in order to pursue its recovery rights.
3. EXTERNAL CHALLENGES AND OPPORTUNITIES

3.1. Through various surveys, discussions with outside experts, or “MIGA counselors,” and internal management deliberations, MIGA has recognized several emerging challenges for the next three to five years in the field of foreign direct investment promotion in general, and the political risk insurance industry in particular.

POTENTIAL VOLATILITY IN RAPID GROWTH

3.2. The political risk insurance industry has been growing at a spectacular rate, but potential volatility still remains.

3.3. The global market for political risk insurance for investment currently enjoys a significantly rapid growth of 20-30 percent annually in terms of premium income (Exhibit 12). The market size is estimated to be as large as US$25-30 billion in annual gross coverage. Premium income by Berne Union members, mostly composed of public insurers including MIGA, has grown at 17 percent per year between 1992 and 1997.

3.4. From the demand side, investor concerns about political risk have generally increased over the last five years.

(a) About half of investors surveyed plan to increase their spending on political risk insurance for investment. Of these investors, 43 percent plan to increase their spending by more than 20 percent in the next two years.

The political risk insurance industry is growing today at a very rapid rate: 20-30 percent a year.

Exhibit 12: Comments on the Industry’s Rapid Growth

- “… the private sector political risk insurance capacity is growing at a pace of 20-30% a year.” (Project Finance, March 1999)
- “Premium income quadrupled in the last 9 months (including trade credit insurance).” - insurer
- “Between this year and next year, our premium income is growing at about 40 percent.” - insurer
- “Premium income doubled in two years, tripled over the last 3 years” (indicating an annual growth of over 40 percent.)” - insurer
- “The global political risk insurance industry is growing at an annual rate of 25-30 percent.” - broker

Source: Project Finance (March 1999); Private insurer interviews
(b) Another driving force is the growth of complex infrastructure projects along with the continuing trend of privatization.

(c) Moreover, banks have become more comfortable than in the past about buying political risk insurance, especially from the private sector.

3.5. From the supply side, the “soft” market or excess capacity supply in general commercial insurance in recent years works strongly in favor of the growth of the private political risk insurance sector, as much insurance capacity has been pursuing the growth and profitability of political risk insurance (Exhibit 13).

(a) The commercial (property and casualty) insurance industry is more than US$120 billion in premiums, with flat to negative growth and negative underwriting profitability.

(b) The political risk insurance for investment is less than US$1 billion in market size measured by premiums, with a 20-30 percent growth and high underwriting profitability, due to the relative absence of claims in recent years.

3.6. However, as many private players point out, the industry growth is susceptible to volatility due to the cyclical nature of the insurance business and/or potential occurrence of major claims and losses by insurers.

(a) The commercial insurance business (and also the political risk insurance business) has historically been cyclical in nature. Once the market “hardens” (higher price and profitability), capital may flow away from the political risk insurance, causing reinsurance capacity constraints for insurers (Exhibit 14).

(b) In addition, there were occasions in the past, such as in the late 1980s, when political risk insurance capacity drastically shrank as some private insurers retreated from the market due to high losses (Exhibit 15). Similar events may occur again at some point in the near future.

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**Exhibit 13: Commercial Insurance and Political Risk Insurance**

<table>
<thead>
<tr>
<th>Premium growth</th>
<th>Profitability</th>
</tr>
</thead>
<tbody>
<tr>
<td>0% to negative</td>
<td>Combined ratio = (Loss+Expense)/Premium; The lower, the more profitable</td>
</tr>
<tr>
<td>20-40%</td>
<td>Loss and expense</td>
</tr>
<tr>
<td></td>
<td>Underwriting profit</td>
</tr>
<tr>
<td></td>
<td>100-120%</td>
</tr>
</tbody>
</table>

* The lower, the better

Source: Literature search, Sigma, interviews;
Industry participants point out the risk of capacity contraction due to the cyclical nature of the general insurance industry.

Exhibit 14: Interview Comments about Cyclicality

- “Cyclicality of general commercial line insurance affects the capital availability in the political risk insurance; it should not be surprising if we see a drop in 2-3 years.” - broker
- “When the currently soft commercial line insurance gets recovered, risk capital allocation to political risk insurance will shrink, resulting in severe capacity constraint.” - insurer
- “Reinsurance capacity may be a potential growth constraint for the industry - insurer
- “Capacity has been coming in to political risk coverage due to the soft market in commercial lines, but there may be some retreating of capital due to potential large-scale claims. London market has hardened after an Indonesian claim.” - insurer
- “The market growth will sooner or later slow down due to a possible recovery of commercial line property market. Historically, when commercial lines had excess capital, it went to catastrophe, including political risks.” - insurer

Source: Private insurer interviews

In addition, historically, political risk insurance has experienced volatility … capacity may easily disappear due to major claims, as in the late 1980s.

Exhibit 15: Era Analysis of Political Risk Insurance

<table>
<thead>
<tr>
<th>Origin - 1970s</th>
<th>1980s</th>
<th>1990s</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Lloyd’s of London in PRI since 1800s</td>
<td>• 75% of private capacity still through/by Lloyd’s</td>
<td>• Resurgence of interest in PRI, driven by FDI flows; larger reinsurance capacity</td>
</tr>
<tr>
<td>• US AID after WW II to rebuild Europe, creation of OPIC in 1970s</td>
<td>• $70-100 million coverage available by private sector</td>
<td>• New players in late 1990s - Zurich, Sovereign; Chubb returned</td>
</tr>
<tr>
<td>• Private sector from late 1970s: AIG, CIGNA, Exporters and Chubb</td>
<td></td>
<td>• Private sector willing to offer long-term coverage</td>
</tr>
<tr>
<td>• Many foreign companies expropriated</td>
<td></td>
<td>• High growth and low claim period continued until recently</td>
</tr>
</tbody>
</table>

• Significant losses occurred in late 1980s as a result of contract frustration claims
• Reinsurance treaties difficult to renew; lower capacity limits
• CIGNA, Chubb, and others withdrew from the market

Source: Literature search, private insurer interviews

(c) However, it should also be noted that market participants today are generally more confident on the viability of private insurers, with much experience and capability, than in the past.
3.7. This potential volatility poses two types of challenges for MIGA:

(a) First, MIGA, as a multilateral public insurer, will need to be ready for such a situation by providing counter-cyclical catalytic capacity in order to minimize the potentially negative effect on foreign direct investment flows to developing countries.

(b) Second, as MIGA’s use of reinsurance reaches the level of 33 percent of gross portfolio, any cyclical contraction in the reinsurance market may have an adverse effect on MIGA’s future underwriting capacity.

GROWTH OF PRIVATE INSURERS

3.8. One of the driving forces behind this rapid growth of the political risk insurance market is the increasing capabilities of private insurers to meet the insurance needs of investors and lenders. As stipulated in its Convention, MIGA needs to continue strengthening its collaborative relations with private insurers and to ensure it complements their activities.

3.9. In recent years, there has been a significant increase in the activities of private insurers, whose businesses are growing annually at around 30-40 percent. Collectively, they are estimated to account for approximately 50-60 percent of the market (Exhibit 16).

(a) Major players include Lloyd’s of London, AIG, Zurich US, Chubb & Son, and Sovereign Risk Insurance.

- If the current industry growth continues, the premium share of private insurers could be as large as 60-70 percent by the end of the next five-year period.

About 50-60% of the market is served by private insurers today.

Exhibit 16: Market Structure of Political Risk Insurance

<table>
<thead>
<tr>
<th>(Investment insurance; annual premium income)</th>
<th>US$ millions; late 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recent market entrants</td>
<td></td>
</tr>
<tr>
<td>AIG</td>
<td>$150 (~150)</td>
</tr>
<tr>
<td>Sovereign</td>
<td>$50 (~50)</td>
</tr>
<tr>
<td>Chubb</td>
<td>$20 (~20)</td>
</tr>
<tr>
<td>Others</td>
<td>$10-20?</td>
</tr>
<tr>
<td>MIGA Share = 4-6%</td>
<td>$400-430</td>
</tr>
<tr>
<td>Public total</td>
<td>$300 (-300)</td>
</tr>
<tr>
<td>All other public</td>
<td>~270 (~270)</td>
</tr>
<tr>
<td>Total</td>
<td>700-730</td>
</tr>
</tbody>
</table>

Some figures may still include export insurance, insurance in OECD countries, or coverage for existing projects.

Source: IRMI’s Political Risk Insurance Guidebook; private insurer interviews; Berne Union Yearbook; MIGA analysis.
• However, it should also be remembered that a great deal of their capacity may be provided to projects that would not be eligible for MIGA coverage, e.g., existing investments, or investments in OECD countries.

(b) What is also significant is that private insurers today are more willing to offer long-term coverage (over 10 years) with a greater capacity than in the past.

• Traditionally (until a few years ago), coverage by private insurers had been limited to three to five years on a roll-over basis, in contrast to longer-term coverage by public insurers.

• It is by working with MIGA that private insurers such as Lloyd’s of London have been willing to extend the tenors and scope of coverage. In this respect, MIGA has been instrumental in developing the private market to what it is today.

(c) Investors feel more comfortable using private insurers for their investment than in the past. About 75 percent of investors surveyed said that they have “no concerns” about using private political risk insurers (Exhibit 17). Some insurers appear to have diversified portfolios globally, to include coverage in some African countries.

(d) Private and public insurers (including MIGA) can complement one another as investors clearly view different sets of competencies for each category (Exhibit 18). As discussed later, “natural selection” between private and public insurers by investors occur, based on their needs.

• Viewed by investors, private insurers generally have strengths in the types of risk covered, flexible product design, fast order processing and general risk management expertise.

• In contrast, investors view the strengths of public insurers and MIGA in the tenor of coverage, understanding of host countries, track record, and relationship with host country governments.

(e) However, there appear to be somewhat ambivalent perceptions of MIGA by some private insurers: a high expectation as an insurance partner, but at the same time a quiet nervousness about MIGA’s market strategy.

3.10. Article 21 of MIGA’s Convention states, “The Agency may enter into arrangements with private insurers in member countries to enhance its own operations and encourage such insurers to provide coverage of non-commercial risks in developing member countries on conditions similar to those applied by the Agency.”

(a) MIGA will continue to seek new collaborative alliances with them without being viewed as competing. In this respect, MIGA will continue to develop practical working arrangements (such as commissions and CUP fees) with private insurers, especially for projects with high developmental impact.

(b) In addition to the existing major political risk insurers in the private sector, a few other major reinsurers have expressed an interest in providing long-term coverage, and specifically in collaborating with MIGA. In fact, in fiscal 2000, MIGA has concluded its first transaction with Munich Re.
(c) As MIGA increases its outreach and marketing activities, greater care needs to be taken to identify projects or sectors where MIGA’s unique involvement as a multilateral insurer is needed and justified.

The majority of investors do not have concerns about using private insurers; about 60-70% of investors always consider both private and public insurers.

Exhibit 17: Investor Willingness to Use Private Insurers

Investor Perceptions on the Use of Private Insurers

- Have concerns: 26%
- Do not have concerns: 74%

N = 152

Types of Insurers Considered in Purchasing

- Always consider both public and private: 65%
- Sometimes consider only one type: 28%
- Do not have concerns: 28%

DK/NA

- N = 152
- MIGA clients: 64

Source: Investor Survey

In investors’ view, MIGA is similar to, but better than, national insurers (strong at past track record, policy terms, host country relationship, etc.), but MIGA is significantly different from private insurers (strong at flexible product design, fast processing, unique products, etc.).

Exhibit 18: Correspondence Map: Insurer Image

Performance attributes (order of importance to investors)

1. Types of Risks Covered
2. Available Capacity Per Project
3. Past Track Record of Reputation
4. Flexible Product Design
5. Types of Insurers Considered in Purchasing
6. Fast Order Processing
7. Understanding of Host Country
8. Claims Handling
9. Relationship with Host Country's Gov't
10. Risk Management Expertise
11. Political Clout
12. Company Name & Visibility
13. Relationship with Underwriter
14. Having Unique Products
15. Availability of Packaged Insurance
16. IDEAL

Example:

Private insurers are positioned closer to 4 (flexible product design) than MIGA is, which means private insurers are viewed better than MIGA on this attribute.

Source: Investor Survey
3.11. A wide range of opportunities are available for MIGA to collaborate with other public agencies. In particular, agencies in Category Two countries and multilateral development banks are increasingly interested in investment insurance.

3.12. National insurers in Category One countries have had a need on a number of occasions to diversify risks with other insurers, particularly with MIGA, for larger and more complex projects.

(a) MIGA has so far concluded memoranda of understanding for cooperation with eight national insurers: EFIC of Australia, EKF of Denmark, COFACE of France, Export-Import Bank of India, SIMEST of Italy (lender), EID/MITI of Japan, MECIB of Malaysia, and ECICS of Singapore.

(b) Also, as mentioned in the preceding chapter, MIGA has signed facultative reinsurance with many national insurers.

(c) Based on these achievements, the next challenge is how MIGA can standardize modes of cooperation with other national insurers, including legal documentation and fee structures.

3.13. Furthermore, a growing number of Category Two public insurers in recent years have shown interest in entering the political risk insurance market. However, they are often constrained by limited resources and experience.

(a) Despite their interest in investment insurance, the short-term priority of most Category Two public insurers is in export credit insurance. Their immediate policy needs are job creation and securing foreign exchange through exports and inward investment.

(b) Many of them, however, have showed interest in enhancing cooperation with MIGA, potentially in the form of staff training, coinsurance and reinsurance.

(c) In this respect, MIGA has signed a memorandum of understanding with Singapore Trade Development Board designed to, among other things, increase business in partnership with ECICS, the Singapore credit and investment insurer. ECICS is not an active issuer of investment insurance but would like to do more with MIGA to help outward bound Singapore investments, with MIGA’s help.

3.14. Collaboration with multilateral development banks has become increasingly important, especially from the standpoint of promoting investments in large complex projects, investments from Category Two countries, and investments related to SMEs.

(a) MIGA has already collaborated with the European Bank of Reconstruction and Development and the Inter-American Development Bank.

(b) Other multilateral development banks, such as the Asian Development Bank and the African Development Bank, are interested in participating in political risk insurance as part of their strategies to facilitate foreign direct investment.

(c) MIGA is also working very closely with the European Investment Bank, and some bilateral lenders, such as DEG of Germany, to provide insurance in markets they would not otherwise go to, especially in Africa.
3.15. **DIVERSE INVESTOR NEEDS AND UNMET NEEDS**

Investor needs for political risk insurance are significantly diverse, and this is reflected in their differentiated use of private and public insurers. Some investors have sophisticated risk management needs with a demand for large capacity, while others have relatively simple needs.

3.16. Investors’ usage patterns among private and public insurers differ according to their needs. A division of labor, or a “natural selection” process, exists between private and public insurers, as some investors primarily use either private or public insurers (Exhibit 19). Complementarity between private and public insurers also exists.

(a) There are **investors using primarily private insurers** who typically have simple (or less demanding) insurance needs. Investors in this category tend to be small in size (more than half of them with less than US$500 million in annual revenues), and their spending on political risk insurance is also smaller on average than other categories of investors.

(b) There are **investors using primarily public insurers** (including MIGA) who generally emphasize capacity, price, types of risk, and claims handling as important purchasing factors. The company size in terms of annual revenues varies.

(c) Finally, there are **investors who use both private and public insurers** whose needs are complex, and who tend to be larger in size and spend two to three times more on political risk insurance than other categories of investors.
• They seek product flexibility and long-term coverage, in addition to concerns about the types of risk, capacity, and the insurer’s track record. They extensively use brokers, apparently searching for capacity or advanced risk management packages.

• Many of them plan to increase their spending on political risk insurance in the next five years. They are more likely to use coinsurance between public and private insurers.

• In addition, these users of political risk insurance expect different (and therefore complementary) sets of strengths between private and public insurers (Exhibit 20).

3.17. Sizable unmet needs for political risk insurance still exist among investors, in terms of both the degree of risk mitigation and capacity availability for certain country markets.

(a) A significant number of investors (30-40 percent) believe that only a “minority” of their political risk is mitigated by the insurance products currently available, indicating potential unmet needs (Exhibit 21).

(b) A number of investors have faced capacity constraints in certain countries (such as Brazil, Turkey and Russia) where the availability of additional capacity is limited due to the existing high exposure (Exhibit 22).

(c) On both accounts, investors who use both private and public insurers are more likely to have such unmet needs.
Unmet needs appear to exist, most importantly among "Private+Public" users who say only “minority of political risks” is covered by current PRI.

**Exhibit 21: Degree of Political Risk Mitigation by Current PRI**

<table>
<thead>
<tr>
<th></th>
<th>N = 152</th>
<th>N = 60</th>
<th>N = 24</th>
<th>N = 37</th>
</tr>
</thead>
<tbody>
<tr>
<td>All political risk</td>
<td>11%</td>
<td>13%</td>
<td>4%</td>
<td>14%</td>
</tr>
<tr>
<td>minority political risk</td>
<td>34%</td>
<td>25%</td>
<td>29%</td>
<td>43%</td>
</tr>
<tr>
<td>majority political risk</td>
<td>46%</td>
<td>53%</td>
<td>67%</td>
<td>41%</td>
</tr>
<tr>
<td>DK/NA</td>
<td>9%</td>
<td>9%</td>
<td>0%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Investor Survey

Investors, especially those using both private and public insurers, are facing capacity constraints. Brazil, Turkey, and Russia are the top 3 countries.

**Exhibit 22: Countries Where Investors Experienced Capacity Constraints**

- Brazil: 16
- Turkey: 13
- Russia: 8
- Mexico: 5
- China: 5
- Indonesia: 4
- Venezuela: 4
- Argentina: 4
- Congo: 3
- Colombia: 3
- Peru: 3
- Pakistan: 2
- Algeria: 2
- Korea: 1
- Other Africa: 8
- All other: 7

Of 51 investors:
- "Private+Public": 23
- "Mostly Public": 11
- "Mostly Private": 7
- (unknown: 19)

Source: Investor Survey
3.18. In general, a number of large companies are increasingly practicing sophisticated risk management, utilizing not only traditional insurance, but all kinds of financial instruments.

(a) Many of them try to optimize business risk management through traditional insurance, self-/captive-insurance, finite insurance or risk bundling, mostly in general property and casualty insurance, but also gradually in political risk insurance.

(b) In particular, the use of self-insurance is an increasingly important trend in political risk insurance (Exhibit 23).

- Nearly half of those investors who are going to increase future spending on political risk insurance plan greater use of self-insurance. Many private insurers recognize this trend toward self-insurance as a major competitive pressure.
- In the infrastructure sector, it is estimated that up to 30-50 percent of the risks may be self-insured, due to the ongoing trend of industry consolidation.
- In addition, some companies and banks have started to thoroughly evaluate the economic justification for all their commercial insurance coverage by comparing their historical premium payments and actual claim payments received. They may stop using insurance if they conclude they are paying too much premium for the risks covered.

(c) Investor interest is fairly high in new political risk insurance products, such as finite risk products, in which 44 percent of investors expressed interest (Exhibit 24). MIGA should be prepared to meet such advanced needs by some clients, in collaboration with private insurers.

### Exhibit 23: More Self-insurance Over the Next 5 Years?

<table>
<thead>
<tr>
<th></th>
<th>N = 152</th>
<th>N = 77</th>
<th>N = 74</th>
</tr>
</thead>
<tbody>
<tr>
<td>DK/NA Less</td>
<td>14%</td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>About the same</td>
<td>7%</td>
<td>8%</td>
<td>14%</td>
</tr>
<tr>
<td>More</td>
<td>49%</td>
<td>31%</td>
<td>42%</td>
</tr>
<tr>
<td>Total</td>
<td>30%</td>
<td>47%</td>
<td>11%</td>
</tr>
</tbody>
</table>

**Interview quotes**

- “Self-insurance is the biggest competition (but not captives)” - *insurer*
- “The biggest competitor is self-insurance. Many companies still don’t know enough about political risk and just internally retain such risks. Large companies, on the other hand, review past premium payments and selectively self-retain risks.” - *insurer*
- “The trend toward self insurance is happening in political risk insurance. The driving forces are commoditization of products and familiarity of clients.” - *broker*
- “Self-insurance is not much of a threat today, unlike 10 years ago, when it was actively pursued when capacity was scarce.” - *insurer*

Source: Investor Survey; private insurer interviews
• The concept of finite risk insurance is based on the spreading of risks for an individual contract holder over time, not on the law of large numbers. This is a combination of self-insurance and traditional insurance, as premium payments may be invested in a fund. If the loss experience is good, the insured will receive back the premiums paid and investment income (less expenses) at the end of the policy period.

3.19. Understanding the diverse, and sometimes advanced, needs of investors will enable MIGA to identify its unique and distinctive role in the political risk insurance market without overlapping the role played by other insurers.

3.20. Consequently, MIGA will intend to (1) develop a targeted marketing strategy; (2) narrow down the performance gap relative to the expectations of target clients; (3) consider developing new political risk insurance products; and (4) consider possible patterns of private-public cooperation to better fulfill investors’ unmet needs for political risk insurance.

3.21. A linkage between political risk insurance and capital markets as a potential means of transferring risks has emerged in recent years. Despite uncertainties in the pace of development in political risk insurance, this is an area where MIGA can make a pioneering contribution to the entire political risk insurance industry, by leveraging its unique position and comparative advantages.

3.22. Convergence between insurance and the capital markets is one of the major emerging trends in the field of risk management in general.

**LINKAGE TO CAPITAL MARKETS**

Exhibit 24: Potential Interest in New Products

Some investors have strong interest in new types of PRI products; especially nearly half of the survey respondents expressed strong interest in finite insurance.

Source: Investor Survey

**Bundled insurance**

<table>
<thead>
<tr>
<th>Very interested</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
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<tr>
<td>14%</td>
<td>6%</td>
<td>7%</td>
<td>2%</td>
<td>9%</td>
<td>16%</td>
<td>16%</td>
<td>12%</td>
<td>11%</td>
<td>28%</td>
<td></td>
</tr>
</tbody>
</table>

**Finite PRI**

<table>
<thead>
<tr>
<th>Very interested</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>6%</td>
<td>4%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>16%</td>
<td>16%</td>
<td>8%</td>
<td>14%</td>
<td>45%</td>
</tr>
</tbody>
</table>
3.23. Political risk insurance and capital markets are coming closer to each other in the form of insurance coverage for long-term bond issuances through private placements and public offerings.

(a) Capital market financing, such as bonds, is expected to play an increasingly important role in the future in infrastructure development in developing countries, in part substituting for, and in part complementing, bank lending.

(b) Public and private insurers, such as OPIC, Zurich US and Sovereign Risk, have started to insure political risk for bonds issued by companies in developing countries so that the issuer can enjoy a rating higher than that of the host country, and thus lower its funding costs.

(c) MIGA has already insured a number of projects that have been privately placed in international capital markets without the need for a formal rating.

- MIGA completed one transaction that was formally rated, which covers the securitization of receivables.
- MIGA’s unique status removes the sovereign risk constraint on the credit rating of the project, being able to exceed the foreign currency ceiling of the host country and taking it up to, or in excess of, the base investment grade rating.

3.24. “Securitization” (or risk transfer to capital markets through insurance-linked securities) of political risk insurance may also be feasible, which could be one way of delivering development impact by effectively utilizing private sector resources. However, as of today,
there are significant barriers, which would require rigorous financial engineering and structuring.

(a) Portfolio securitization, in concept, will free up capacity, creating new headroom without increasing an insurer’s own risk capital. By mobilizing the capital of private-sector institutional investors, more developmentally effective projects can be underwritten, than would financially be possible with MIGA’s existing capital base.

(b) In an area that is somewhat closer to political risk, there were early cases of European export credit agencies securitizing the sovereign risks of receivables of the Paris Club debt (not insurance contracts) that they had guaranteed.

- In 1998, SACE securitized US$650 million of its Paris Club obligations (global) in the form of floating rate notes (FRN) in four tranches.
- Shortly thereafter, COFACE securitized a total of over US$1 billion of Polish debt that was transferred under Paris Club.

(c) However, risk transfer through insurance-linked securities by-and-large is still nascent, if not untested, especially for the types of political risks that MIGA covers.

- In addition, in the current market environment, there are lower-cost alternatives such as reinsurance; although future cyclicality may make the use of the capital markets economically attractive.
- Challenges include specifying covered risk events, measuring the losses, modeling, managing policy cancellation risk, high front-end costs of documentation and structuring work, among others. These are significant, but not technically impossible to overcome.

3.25. The time is ripe for MIGA to develop its capital market strategy, as this relatively recent movement is expected to develop further in the near future. Operating in the capital markets requires MIGA to acquire new skills and capabilities to allow it to deal with investment banks, institutional investors and rating agencies. It will also increase the need for MIGA to obtain a formal credit rating.

**DIVERSITY OF INVESTMENT PROMOTION INTERMEDIARIES**

3.26. The majority of developing countries, including transition economies, have established investment promotion intermediaries. However, their capabilities, resources, and commitment vary significantly. The investment environment—business, legal and regulatory—also affects the effectiveness of these intermediaries. MIGA’s service should continue to take this diversity into consideration, mindful of MIGA’s limited resources.

3.27. According to a 1999 report by UNCTAD, there are 103 national investment promotion intermediaries now in the World Association of Investment Promotion Agencies.

(a) Some were created as free-standing agencies, while others were established within relevant government ministries.
(b) There are other organizations that, while not directly charged with investment promotion, have a strong interest in seeing it take place. They include sectoral ministries, industry associations, business chambers and some public-private partnerships.

(c) The majority of these investment promotion intermediaries most highly value technical assistance in their efforts to identify and target potential investors. Other important services include investment promotion strategy development, and industry analysis.

3.28. However, capabilities, resources, and commitment to promote foreign investment significantly vary country-by-country. Many are relatively new and lack experience. Significant diversity also exists among investment promotion intermediaries in terms of governmental mandate, commitment of staff and funding adequacy.

(a) For example, an estimated 40 percent of the 103 current members of the World Association of Investment Promotion Agencies are agencies that were established during the 1990s, primarily in the Newly Independent States and transition economies.

(b) Likewise, most investment promotion intermediaries in Sub-Saharan Africa were created during the same period— with the notable exception of countries such as Mauritius and Ghana, which have led the way in policy liberalization.

(c) Elsewhere, many of the investment promotion intermediaries of Latin America and the Caribbean were established in the 1980s, often with support from the United States, to facilitate regional development efforts such as the Caribbean Basin Initiative.

(d) Some investment promotion intermediaries their needs for service only in identification and targeting of investors, while other agencies would like assistance in a wider range of service areas, including investment promotion, staff training and use of technology and the Internet.

3.29. Several public and private organizations provide technical assistance services to investment promotion intermediaries, with differences and similarities in their portfolios and client bases.

(a) In addition to MIGA, investment promotion intermediaries use various public agencies, regional development banks, private consultant and accounting firms, and bilateral governmental assistance.

- On average, each investment promotion intermediary has used about two providers for technical assistance over the last two years. Areas of technical assistance services to some degree overlap among those providers, in the perception of the users of those services (Exhibit 25).

- However, each organization has a different emphasis: MIGA’s focus, in clients’ perception, is on development of investment promotion strategies; other public agencies focus on, for example, policy and organization development, sector analysis, or staff training.

(b) When investment promotion intermediaries choose technical assistance providers, important selection criteria include the understanding of host country needs, knowledge and expertise, and the ability to provide practical solutions (Exhibit 26).
Areas of technical assistance services somewhat overlap among MIGA, FIAS and UNIDO, but each organization has a different emphasis.

**Exhibit 25: User Perception of Services Provided**

<table>
<thead>
<tr>
<th>Category</th>
<th>MIGA N = 20</th>
<th>Public provider A N = 20</th>
<th>Public provider B N = 11</th>
<th>Public provider C N = 8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment promotion strategy</td>
<td>35%</td>
<td>27%</td>
<td>13%</td>
<td>63%</td>
</tr>
<tr>
<td>Training of staff</td>
<td>10%</td>
<td>25%</td>
<td>0%</td>
<td>38%</td>
</tr>
<tr>
<td>Use of the Internet</td>
<td>25%</td>
<td>25%</td>
<td>0%</td>
<td>25%</td>
</tr>
<tr>
<td>Capacity building of staff</td>
<td>25%</td>
<td>20%</td>
<td>0%</td>
<td>20%</td>
</tr>
<tr>
<td>Organization development</td>
<td>25%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Analysis of investors and sectors</td>
<td>39%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Direct assistance in marketing</td>
<td>15%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Use of IT in internal operations</td>
<td>15%</td>
<td>20%</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>PR and image building</td>
<td>15%</td>
<td>20%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Investment Promotion Intermediaries Survey

**Exhibit 26: Selection Criteria for Service Providers**

Evaluation of MIGA’s performance is high, especially on knowledge and expertise, ability to provide practical solutions, and understanding of technology.

<table>
<thead>
<tr>
<th>Importance to IPAs</th>
<th>MIGA</th>
<th>Public A</th>
<th>Public B</th>
<th>Public C</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understanding of country needs</td>
<td>9.14</td>
<td>8.25</td>
<td>7.44</td>
<td>8.00</td>
<td>8.20</td>
</tr>
<tr>
<td>Knowledge &amp; expertise</td>
<td>8.91</td>
<td>8.86</td>
<td>7.89</td>
<td>7.83</td>
<td>8.60</td>
</tr>
<tr>
<td>Practical solutions</td>
<td>8.60</td>
<td>8.54</td>
<td>7.25</td>
<td>8.80</td>
<td>7.25</td>
</tr>
<tr>
<td>Cost of service</td>
<td>8.44</td>
<td>8.10</td>
<td>7.15</td>
<td>7.80</td>
<td>8.00</td>
</tr>
<tr>
<td>Investor networking</td>
<td>8.33</td>
<td>8.33</td>
<td>7.86</td>
<td>6.67</td>
<td>8.00</td>
</tr>
<tr>
<td>Understanding of technology</td>
<td>8.24</td>
<td>8.00</td>
<td>8.00</td>
<td>8.60</td>
<td>8.20</td>
</tr>
<tr>
<td>Experience/track record</td>
<td>8.05</td>
<td>8.31</td>
<td>7.88</td>
<td>6.83</td>
<td>8.75</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>8.02</td>
<td>8.23</td>
<td>7.00</td>
<td>8.00</td>
<td>7.60</td>
</tr>
<tr>
<td>Existing relationship</td>
<td>7.78</td>
<td>7.73</td>
<td>7.80</td>
<td>7.44</td>
<td>7.50</td>
</tr>
</tbody>
</table>

Source: Investment Promotion Intermediaries Survey
3.30. MIGA makes its best effort to meet a growing demand for its service from host country governments. But with a staff of about 10-13 for the entire Technical Assistance activities, MIGA will need to prioritize which of the 103 investment promotion intermediaries and other potential clients to assist, and how.

(a) As demand further increases, MIGA needs to prioritize its services with a view to ensuring the effectiveness of its activities.

(b) MIGA will need to gradually focus its attention on countries where there is a strong commitment to improving the investment climate, thereby enabling MIGA’s services to produce concrete results on the ground.

(c) Furthermore, given the diversity of client needs, the type and breadth of MIGA’s services should continue to be tailored to the different needs of clients. The Needs Assessment Framework is expected to help MIGA achieve this objective.

**INCREASING IMPORTANCE OF THE INTERNET IN INVESTMENT PROMOTION**

3.31. The advent of the World Wide Web has brought about profound changes in the world business environment, particularly in the ways in which organizations market themselves and employ information in their operations. The increased use of Internet-based communications channels in international business has significant implications for organizations involved in attracting foreign investment to their country, region or municipality.

3.32. For developing countries facing increased competition for foreign investment flows, this new medium opens new opportunities to reach potential investors and close the “information gap” these investors frequently encounter.

3.33. In addition, investment promotion intermediaries now can more cost-effectively gather essential information on investment flows, competitors, sectoral trends and details of potential target companies in support of their investment marketing operations.

3.34. Today, national investment promotion intermediaries in more than 140 countries operate Web sites, and hundreds of regional and municipal investment promotion agencies now use the Web to facilitate their investor outreach efforts.

(a) Of the 42 investment promotion intermediaries in developing countries, all but two of them have a web site. They see cost effectiveness in information dissemination and ability to have dialogue with investors as the primary benefits of the Internet.

(b) There appears room for improving the usefulness of these sites in fulfilling those intermediaries’ objectives. About 20 percent of them had success stories of serious investors making initial contact via the Web (Exhibit 27).

(c) These online services also provide desktop access to investors to information on business opportunities and on relevant legal, regulatory and business environment.
UNEXPLORED OPPORTUNITIES

3.35. During MIGA’s 12 years of operations, the political risk insurance industry has undergone a significant evolution. In this new industry environment, it would be worthwhile for MIGA to examine some unexplored areas of activity. Under MIGA’s Convention and Operational Regulations, there are unexplored areas that MIGA can pursue in the long term (possibly in partnership with the private sector) for which positive development impact could be expected.

3.36. Article 2 of the Convention states, “the Agency shall: (a) issue guarantees, including coinsurance and reinsurance, against non-commercial risks in respect of investments in a member country which flow from other member countries; and (b) carry out appropriate complementary activities to promote the flow of investments to and among developing member countries; ...”

3.37. In this regard, potential new areas that MIGA may be able to consider in the medium- and long-term include:

(a) **Insurance for Non-commercial Risks other than Political Risk:** MIGA’s Convention does not describe what constitutes “non-commercial” risk except for the four areas (currency transfer, expropriation and similar measures, breach of contract, and war and civil disturbance). Operational Regulation 1.53 states that other specific non-commercial risks may be covered at the joint request of an investor and a host country if the Board so approves by special majority.
Theoretically, this may include coverage for environmental risks, kidnap and ransom, strikes, consumer boycotts, intellectual property rights and weather, provided that these will contribute to increasing foreign direct investment flows.

Such services may be best delivered in alliance with private insurance companies that have the underwriting expertise and/or the necessary financial resources.

(b) **Reinsurance for Private Insurers**: Paragraph 5.09 of the Operational Regulation states that the Agency may issue reinsurance in respect of guarantees for specific investments issued by a private insurer whose principal place of business is in a member country (subject to other provisions of the Convention and Operational Regulations).

- MIGA may be able to offer significant value-added when a private insurer is interested in MIGA coverage for its projects in IDA-eligible countries, projects relating to SMEs or rural development, or projects that MIGA cannot otherwise underwrite cost-effectively on its own.

- In such a case, however, it is critically important for MIGA to devise a scheme that enables it to retain underwriting ownership/control.

- Only one such reinsurance deal has been done in MIGA’s history, due to the challenges outlined above.

(c) **Research and Knowledge Dissemination**: Research is specifically mentioned in Article 23 (a) of the Convention as one of the activities that MIGA shall carry out. At present, there are relatively few research activities being undertaken.

- Examples include the developmental effectiveness assessment report (mentioned above) and *ad hoc* participation in, and hosting of, conferences on political risk insurance.

- MIGA will consider strengthening research activities that are closely related to guarantees, investment promotion, or other FDI-related subjects, which are of high practical value to its members.

(d) **Political Risk Coverage for Bid Bonds and Performance Bonds**: In project finance projects, project sponsors and lending banks will be concerned to secure the performance of contractors, subcontractors and suppliers by requiring bonding from banks or surety companies. The types of bonds that might be required include bid bonds and performance bonds, among others. MIGA will study the possibility of providing coverage for the non-commercial risks of these credit enhancement mechanisms in large-scale infrastructure projects under the Convention and Operational Regulations.
4. MIGA’S COMPARATIVE ADVANTAGES

RATIONALE

4.1. MIGA’s future strategy should be based on the institution’s comparative advantages that are not only unique but, more importantly, valuable to clients in meeting their needs.

4.2. MIGA has tried to play a unique role in its endeavors to promote foreign direct investment to developing member countries by enhancing the comparative advantages (or public value) of its services to its clients.

(a) This orientation is rooted in the historical vision of MIGA. The founders of MIGA envisioned the establishment of an independent legal entity within the World Bank Group whose sole objective was to promote productive investment in developing countries.

(b) This has been particularly important and necessary for MIGA in light of the fact that this mandate can be fulfilled by other multilateral and bilateral agencies.

(c) In the years to come, MIGA’s services should be driven by those comparative advantages that it has established over time. In addition, such advantages will be enhanced, refined, or newly acquired if necessary, to better meet emerging client needs.

MIGA’S ADVANTAGES

4.3. Such comparative advantages must be tested, and recognized by outside parties, such as clients and other insurers. Through surveys and discussions with outside partners, MIGA has identified the following five areas of comparative advantage:

4.4. Underwriting rigor. Both investors and private insurers recognize MIGA’s high quality of underwriting. Political risks are thoroughly analyzed, leveraging the network within the rest of the World Bank Group, and environmental, labor and other concerns are addressed beforehand.

(a) For private insurers, it is reassuring that they can have access to high quality transactions through MIGA and this, therefore, is one of the important motivations for them to cooperate with MIGA.

- Through the interviews, five insurers/brokers recognized this as MIGA’s strengths (Exhibit 28).

(b) MIGA always obtains a host country approval for a condition for the issuance of the guarantee, as stipulated by Article 15 of the Convention.

(c) MIGA’s unique role requires rigorous underwriting, which takes time and other resources—and this contrasts with the quick response time of private insurers. However:

- The Business Process Review that was introduced in fiscal 2000 is expected to improve MIGA’s efficiency and effectiveness of the underwriting process; and
Private insurers recognize MIGA’s underwriting expertise.

Exhibit 28: MIGA’s Underwriting Rigor

- “MIGA’s value-added includes the deterrent (umbrella) effect and the ability to access high quality deals which have been meticulously underwritten. MIGA’s underwriting is exhaustive and uses information sources not available to the private sector.” - insurer
- “In addition to the “umbrella” effect, MIGA’s competitive advantage is its rigorous, sophisticated underwriting. It is much more sophisticated than underwriting by any of the private insurers” - broker
- “I highly value MIGA’s service and underwriting expertise.” - insurer
- “We could leverage MIGA’s infrastructure – system, good underwriting expertise” - insurer

Source: Private insurer interviews

- For investors using MIGA, fast processing is less important than other purchasing factors such as types of risks covered, capacity per project, and track record and reputation, according to the investor survey.

(d) Maintaining and strengthening MIGA’s underwriting expertise will be critical in order to underwrite highly developmental, but highly complex investment projects. Underwriting rigor is also important from the standpoint of preemptive front-end loss management through detailed analysis of risks and appropriate pricing of them.

4.5. Problem Prevention and Resolution Capability: MIGA’s capability to resolve problems is highly regarded both by peer insurers and investors.

(a) Many private insurers consider this a key difference between themselves and MIGA.

- Through the interviews, six insurers/brokers recognized this as MIGA’s strengths (Exhibit 29).

(b) Investors surveyed generally gave MIGA high ratings (higher than 7.5 on a 1-10 scale) on political clout and relationships with host country governments.

(c) Problem prevention and resolution will be increasingly important in order for MIGA to be able to serve frontier countries or highly complex projects. This capability is also a major incentive to mobilize capital of private insurers into highly developmental projects in which they would otherwise not underwrite without joining forces with MIGA.
A number of private insurers recognize MIGA’s problem prevention and resolution capability, or deterrent effect, as its unique advantage.

**Exhibit 29: MIGA’s Problem Prevention and Resolution Capability**

- “MIGA’s value-added includes the deterrent (umbrella) effect. Deterrent effect is obvious, with the backing of the World Bank group.” - insurer
- “MIGA’s value is the deterrence effect.” - insurer
- “MIGA’s value added included the loss recovery capability, name value, access to best client base, and host country relationship.” - insurer
- “MIGA’s unique advantage is its ability of problem resolution. With its World Bank network, MIGA can quickly muster expertise and experts and deal with the problem.” - insurer
- “MIGA’s legal dispute resolution capability, based on its talent pool and expertise, is real and should be mobilized more actively in future.” - insurer
- “The key added value of MIGA, or being part of the WBG, is the deterrence” - broker

Source: Private insurer interviews

4.6. **High Visibility among Major Investors:** Investors have a very high unaided awareness of MIGA as a political risk insurance provider. This is comparable with national insurers such as OPIC, but much higher than most private insurers. The next challenge is to increase MIGA’s visibility among investors in Category Two countries and in some Category One countries where national investment insurance schemes are less developed.

(a) Over 70 percent of investors surveyed in the United States and in Europe showed unaided awareness of MIGA, two to three times higher than the awareness of well-known private insurers such as AIG and Lloyd’s of London (Exhibit 30). (“Unaided” awareness means the first few names that an investor mentions without being given choices.)

(b) Among those investors who use mostly public insurers and who use both private and public insurers, 85 percent and 81 percent, respectively, know MIGA, while investors whose needs can be met by private insurers showed an unaided awareness of 21 percent.

(c) At the same time, 80 percent of MIGA’s non-clients surveyed in the United States and 90 percent of non-clients in Europe knows MIGA.

(d) However, MIGA’s recognition is not as high among companies in developing countries (and some Category One countries) as in the United States or some European countries. Increased and targeted efforts are necessary to strengthen communications in this area, especially in view of promoting investments between Category Two countries.

(e) High visibility is important for MIGA’s strategy so that, whenever investors have insurance needs that only MIGA could satisfy, they will inquire about MIGA’s service.
4.7. **Practical Applicability in Investment Promotion** MIGA’s comparative advantage lies in its ability to provide practical solutions to client organizations through its network to investors. Investment promotion intermediaries clearly recognize this strength of MIGA relative to other technical assistance providers.

(a) **MIGA** has been developing the necessary comparative advantages in capacity building, for the last two years since the implementation of the 1998 reorientation. To date, MIGA received one of the highest ratings in client satisfaction with the service (Exhibit 31).

- In particular, MIGA received the highest ratings among other technical assistance providers on the ability to deliver practical solutions and investor networking.
- MIGA also receives high ratings from clients on its knowledge and expertise (See Exhibit 26).

(b) In a relatively short period of time, MIGA has built these areas of competence through staffing and product development.

- MIGA has started to recruit staff with front line experience in investment promotion and agency management, or in consulting to private sector investors.
- MIGA recently developed new tools that have enabled it to accurately assess and define the needs of the client, so that a solution geared to addressing these needs can be developed.

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Exhibit 30: Investors’ Awareness of Political Risk Insurers

<table>
<thead>
<tr>
<th></th>
<th>Unaided awareness (without being given names)</th>
<th>Total awareness (after given the names)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIGA OPIC</td>
<td>66%</td>
<td>82%</td>
</tr>
<tr>
<td>Lloyd’s AIG</td>
<td>24%</td>
<td>94%</td>
</tr>
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<td>36%</td>
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Source: Investor Survey

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<tr>
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<td>36%</td>
<td>63%</td>
</tr>
</tbody>
</table>

Source: Investor Survey
Continued development and improvement of these advantages will be especially important for three reasons:

• First, the potential expectations of MIGA by investment promotion intermediaries are high, as demonstrated in strong interest by non-users of MIGA services.

• Second, most of these intermediaries, especially those that are relatively new and inexperienced, still do not clearly recognize which organization is the best provider of technical assistance for their particular needs.

• Third, MIGA should continue to differentiate its services from those provided by other agencies such as FIAS and UN organizations, so that they can be complementary to the benefit of the clients.

4.8. Expertise in the Use of the Internet for Investment Promotion: With the launch of IPAnet in 1995, MIGA was one of the first development agencies to offer an Internet-based information service targeted to its core constituency, and has maintained cutting-edge capability since then.

(a) MIGA’s strengths in the use of the Internet for investment promotion in developing countries are clearly recognized outside the World Bank Group.

• IPAnet was selected as a finalist by the *Financial Times* for its Business Web Site of the Year Award in 1998. Subsequently, PrivatizationLink was also short-listed for the award in that newspaper’s 1999 competition.

• Among investment promotion intermediaries, one of the key user groups, service recognition of IPAnet is comparable to the Economist Intelligence Unit, and higher than ISI Emerging Markets, two of the major information services covering businesses in emerging markets (Exhibit 32).
• On PrivatizationLink, 18 percent of users rated the content as “excellent,” and 63 percent as “good.” With regard to the usability, 26 percent rated it as “excellent” and 62 percent as “good” (Exhibit 33). Moreover, in several countries, companies advertised through PrivatizationLink were successfully sold to foreign investors (Exhibit 34).

• MIGA is viewed by investment promotion intermediaries as the leading provider of technical assistance in the area of technology applications to investment promotion.

(b) MIGA also enjoys a unique position in its ability to access key information from a wide range of sources, particularly, the World Bank Group, private sector business information providers and government ministries and investment promotion intermediaries of member countries.

• MIGA’s unique capabilities in this field have been built over time through its extensive network with both investors (through guarantees and other activities) and host country organizations (through technical assistance).

• The online content offered is sourced and packaged by MIGA specifically to meet the information needs of cross-border investors in the most cost-effective manner.

• In addition, through its technical assistance services, MIGA is in a position to assist member governments to improve the scope and quality of the information that those developing countries provide to potential investors, further enhancing the quality of the online contents.

The awareness of IPAnet by investment promotion intermediaries is high and comparable to EIU.

**Exhibit 32: Awareness of Internet Services by Investment Promotion Intermediaries**

<table>
<thead>
<tr>
<th>Service</th>
<th>Total (N = 43)</th>
<th>MIGA clients (N = 20)</th>
<th>Non-clients (N = 20)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPAnet</td>
<td>56%</td>
<td>65%</td>
<td>48%</td>
</tr>
<tr>
<td>EIU (Economist Intelligence Unit)</td>
<td>54%</td>
<td>55%</td>
<td>52%</td>
</tr>
<tr>
<td>ISI Emerging Markets</td>
<td>26%</td>
<td>30%</td>
<td>22%</td>
</tr>
<tr>
<td>PrivatizationLink</td>
<td>16%</td>
<td>5%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Source: Investment Promotion Intermediaries Survey
On the information dissemination side, user reactions to MIGA’s PrivatizationLink are generally favorable both in terms of contents and usability.

**Exhibit 33: User Assessment of PrivatizationLink**

<table>
<thead>
<tr>
<th>Content</th>
<th>Poor</th>
<th>Fair</th>
<th>Good</th>
<th>Excellent</th>
</tr>
</thead>
<tbody>
<tr>
<td>N = 476</td>
<td>26%</td>
<td>17%</td>
<td>63%</td>
<td>18%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Usability</th>
<th>Poor</th>
<th>Fair</th>
<th>Good</th>
<th>Excellent</th>
</tr>
</thead>
<tbody>
<tr>
<td>N = 476</td>
<td>4%</td>
<td>11%</td>
<td>62%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Source: PrivatizationLink User Survey

In many countries, companies advertised through PrivatizationLink were successfully sold to foreign investors.

**Exhibit 34: Examples of Privatization Deals Facilitated**

<table>
<thead>
<tr>
<th>Country</th>
<th>Company</th>
<th>Investor country</th>
<th>Committed investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moldova</td>
<td>Neptun-Nord JSC</td>
<td>N.A.</td>
<td>$ 3.4 million</td>
</tr>
<tr>
<td></td>
<td>Agropetrol</td>
<td>U.S.A</td>
<td>$ 10.3 million</td>
</tr>
<tr>
<td></td>
<td>Piele J.S.C.</td>
<td>Italy</td>
<td>$ 1.5 million</td>
</tr>
<tr>
<td>Armenia</td>
<td>Hotel Yerevan</td>
<td>Italy</td>
<td>$ 6-8 million</td>
</tr>
<tr>
<td></td>
<td>Administrative Building of Yerevan Municipality</td>
<td>Canada/U.S.A</td>
<td>N.A.</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>Ak-Tyuz</td>
<td>Israel</td>
<td>N.A.</td>
</tr>
</tbody>
</table>
5. PROPOSED FUTURE DIRECTIONS: 
MULTI-NICHE STRATEGY

SETTING FUTURE DIRECTIONS

5.1. Given the rapid growth in the market of political risk insurance that is driven by private insurers, changing needs of international investors, and the growing importance of investment promotion for developing countries, MIGA sees the need to clearly define its unique and distinctive role in catalyzing and facilitating foreign investment with high developmental effectiveness.

5.2. This direction will require MIGA to identify and serve a number of highly developmental “niche” areas through guarantees and technical assistance. A comprehensive pursuit of such “multi-niche” opportunities will be essential both for generating sizable developmental impact, and for MIGA’s future growth and financial soundness (Exhibit 35).

(a) In Guarantees, these niches typically include opportunities that few other insurers, except MIGA, are able or willing to serve, or are investment opportunities which would not be realized without MIGA’s involvement. The Country Assistance Strategy process will continue to help MIGA define such niche opportunities.

(b) In Technical Assistance, which includes capacity building and information dissemination, MIGA’s focus will be to develop and deliver practical services where MIGA has comparative advantages.

(c) At the same time, MIGA-wide synergy will continue to be pursued, especially in areas such as joint marketing and outreach, information sharing, and the pursuit of special initiatives, including an SME strategy.

5.3. This multi-niche strategy will deliver significant developmental impact to many developing member countries through Guarantees and Technical Assistance. However, the strategy may entail that risks (perceived or real) for Guarantees may be higher, and the identification of, and outreach to, these niches may be more difficult and/or costly than the current range of MIGA services.

(a) To meet these challenges, especially for Guarantees, MIGA must first enhance the competence of its core business functions, such as marketing, underwriting, risk management and claims, as an insurance organization.

(b) Second, vigorous pursuit of operational synergy within the entire World Bank Group will be essential, for both Guarantees and Technical Assistance.

(c) Third, collaboration with outside partners—private and national insurers, multilateral development banks and export credit agencies in developing countries—is important. It will effectively mobilize outside capital (especially from the private sector), while enabling MIGA to capture niche opportunities in an efficient manner.

5.4. At the same time, MIGA will continue to strive for even higher client satisfaction levels among investors, investment promotion intermediaries and host governments. Moreover, in
responding to changes in the external environment, MIGA will explore opportunities to develop new products and services that better meet client needs and deliver greater developmental impact. In particular, exploring MIGA’s involvement in international capital markets will be an important strategic theme for MIGA over the next three to five years.

**Exhibit 35: Summary Overview**

- **External environment**
  - Rapid market growth (20-30%) driven by private insurers (50-60% share)
  - Changing needs of investors
  - Potential market volatility (capacity contraction)
  - Diversity among investment promotion intermediaries
  - Role of the Internet

- **Multi-niche Strategy**
  - MIGA’s unique and distinctive role
  - Opportunities not realized without MIGA

- **Guiding Principles**
  - Developmental effectiveness
  - Financial soundness
  - Client orientation
  - Partnership

- **MIGA’s advantages**
  - Underwriting rigor
  - Problem prevention and resolution
  - High visibility among major investors
  - Use of the Internet in investment promotion
  - Practical applicability in capacity building services for IPAs

**Programs**

5.5. **The multi-niche strategy will be pursued through the following six categories of initiatives.** These initiatives are in line with the four Guiding Principles: Developmental Impact, Financial Soundness, Client Orientation, and Partnership. Specific programs under these initiatives are as follows:

**Defining Multi-niches (Priority Areas)**

1. **In Guarantees, MIGA will focus its efforts on target countries and sectors where MIGA’s involvement is indispensable (IDA-eligible countries, Category Two to Category Two, SMEs, and complex infrastructure projects, among others) and those identified by the Country Assistance Strategy process, by accelerating ongoing efforts and introducing new initiatives to fulfill its developmental mandate.**

   1-a) Increased emphasis on IDA-eligible countries and African countries.
   1-b) Promotion of investments related to small- and medium-sized enterprises (SMEs).
   1-c) Promotion of Category Two to Category Two investments.
1-d) Increased facilitation of complex infrastructure projects.

2. In Technical Assistance, MIGA will intensify capacity building and Internet-based information dissemination activities to effectively promote foreign direct investment by fully leveraging advanced information technologies and know-how, complementary to Guarantee operations.

   2-a) Capacity building that delivers actual investment flows.
   2-b) Continued upgrading of knowledge activity through Internet-based services.

Effective and Efficient Pursuit of Multi-niches

3. MIGA will enhance the competence of its own core functions as an insurance organization: marketing approach, underwriting process, financial and risk management techniques, claims deterrence and administration, and external communications.

   3-a) Development of an integrated marketing strategy.
   3-b) Enhancement of underwriting and financial risk management.
   3-c) Enhancement of claims prevention and resolution.
   3-d) Improvement of external communications.

4. MIGA will vigorously pursue synergy and collaboration with the rest of the World Bank Group—especially through the Comprehensive Development Framework and the Country Assistance Strategy, or in the form of joint products—based on MIGA’s increased capacity.

   4-b) Operational synergy and collaboration with other World Bank Group units.

5. MIGA will enhance its current efforts to develop partnerships with other insurers and multilateral development banks in ways that leverage its comparative advantages. In particular, MIGA will expand the mechanisms by which it collaborates with private insurers, while at the same time be ready to mitigate or offset the impact of potential capacity contractions caused by major claims, or the insurance industry’s cyclicity.

   5-a) Greater complementarity with private and public insurers.
   5-b) Greater collaboration with export credit agencies in developing countries.
   5-c) Greater collaboration with multilateral development banks and other international agencies.
   5-d) Greater preparedness for potential contractions in the political risk insurance market.
Continuous Improvement and New Opportunities

6. MIGA will continue to enhance its capability of effectively meeting the changing and new needs and expectations of clients, for whom MIGA’s services are vital. In addition, MIGA will develop a capital market strategy to meet the emerging risk mitigation needs of clients and to better utilize resources.

6-a) Continuous improvement of client satisfaction.  
6-b) Development of new guarantee products.  
6-c) Support of information technology (IT) sectors in developing countries.  
6-d) Establishment of new activities, especially research/knowledge dissemination.  
6-e) Development of MIGA’s capital market strategy.

IMPLEMENTATION

5.6. These programs will be implemented with detailed action plans, as described below, with the Agency-wide and the World Bank Group-wide synergies in mind. Some of the activities are elaborated with some detail, but MIGA will always seek to maintain its flexibility, adaptability, and agility of its operations in order to keep up with the changing environment and meet client needs.

Defining Multi-niches (Priority Areas)

1-a) Increased emphasis on IDA-eligible countries, particularly African countries.

1. Many IDA-eligible countries and some recently graduated IDA-eligible countries have made significant efforts to improve the policy environment for attracting foreign direct investment and to develop a framework of enabling capital markets. In recent years, a number of sound investment opportunities have emerged in these countries, not only in traditional sectors such as mining and agriculture, but also in the infrastructure and service industries.

2. However, investors still perceive significant political risks and uncertainties in many of these countries. Financial institutions are often required to make substantial provisioning for such investments. In addition, many private insurers are still unwilling to underwrite risks in these countries.

3. In these cases, MIGA can be instrumental in acting in a catalytic role to encourage participation by other insurers and, by assisting a “frontier” investment, to signal an improved business environment for potential future foreign investors.

4. To those countries where sufficient reform efforts have been made to improve the investment climate, MIGA will continue to extend its outreach through a comprehensive marketing strategy including mobile offices, synergies between Guarantees and Technical Assistance projects, cooperation with national agencies, and increased collaboration with local offices within the World Bank Group.
5. As the Promote Africa Program comes to an end during the next five-year review period, a renewed outreach program to Africa is vital. Concrete steps will be implemented in collaboration with the Africa Vice Presidencies of the World Bank and the African Development Bank.

6. Also, subject to its financial considerations, MIGA will examine the introduction of incentive mechanisms to encourage participation by other insurers in these countries by way of, for example, targeted brokerage fees, reinsurance ceding commissions and CUP fees. Consideration will also be given to the possibility of reinsuring private insurers (as allowed in the Convention) for projects in IDA-eligible countries, subject to MIGA’s underwriting standards and requirements. Another possibility would be to offer a global (or regional) insurance policy to certain investors for their investments in those countries.

1-b) Promotion of investments related to small- and medium-sized enterprises (SMEs).

1. Promoting foreign direct investment in the SME sector is critical in many developing countries economically (i.e., through job creation and technology transfer) and socially, (i.e., through local market building and community development). However, the SME sector is typically underserved with financial and non-financial assistance. Political risk insurance of SME projects is not an attractive business for commercial insurers: while generating smaller premium income, insurance and reputational risks can be higher than for other projects. In addition, SMEs often require larger underwriting resources.

2. Since 1993, MIGA has issued over 50 guarantees to international investors in small and medium-sized enterprises in 26 member countries, of which 17 are in IDA-eligible countries. SME business has accounted for more than 11 percent of MIGA’s contracts since 1992, and more than 26 percent of MIGA’s contracts currently cover amounts below US$2 million.

3. In the context of the World Bank Group’s comprehensive strategy for SMEs, which was discussed by the Board of Executive Directors on May 25, 2000, MIGA is currently reviewing its role in the SME sub-sector. The aim is to further facilitate the access of SMEs to MIGA insurance in a cost-effective way. MIGA will closely cooperate with the newly created SME department of the World Bank and IFC in this endeavor.

4. In practical terms, MIGA will explore ways to streamline underwriting of SME projects and adapt its procedures to make them more suitable for SME underwriting. The aim would be to limit the amounts of time and effort expended by MIGA on attempting to address risks that, in practice, are not likely to be the major cause of potential claims, while focusing more on risks that may be more relevant for SME underwriting (e.g., reputation risks). In addition, MIGA would also explore ways to help potential SME clients to reduce the hassle factor and transactional costs in obtaining MIGA insurance. For example, SME clients sometimes do not have the immediate resources to spare to do additional work that may be required to meet MIGA’s environmental requirements, which could serve as one of the disincentives for making use of MIGA guarantee. On top of the continuing efforts to spend additional staff time in this endeavor, MIGA will explore developing appropriate ways of addressing this and other related issues in SME underwriting without compromising the commitment to environmental standards.
5. MIGA furthermore plans to enhance its partnerships both within the World Bank Group and outside. With respect to the former, MIGA and the World Bank are discussing ways to strengthen the cooperation between MIGA and local guarantee agencies under World Bank-supported trade guarantee facilities, both in South Eastern Europe, and Africa. In addition, MIGA plans to explore the possibility of “channeling” insurance through Project Development Institutions, in cooperation with the IFC. In terms of outside partnerships, MIGA recently signed a Memorandum of Understanding with SIMEST of Italy, and will explore such agreements with other development finance institutions. All of these collaborations would help MIGA increase its outreach to SMEs, while reducing the underwriting costs involved. MIGA will also consider making efforts to pursue synergies with private sector institutions which have a strong local presence with a focus on SMEs.

6. MIGA’s Technical Assistance services will also play a significant role. Through its working relationship with FGG of Austria, MIGA is engaging the interest of outward-investing SMEs in appropriate sized enterprises available for investment through privatization or other means. This type of relationship will be expanded to potentially strong relationships with other international financial institutions. MIGA will also plan to leverage its existing online information dissemination services. Through its involvement in the recent Development Marketplace winning proposal, SMExchange, MIGA will pursue cost-effective marketing to SME clients who are not easy to reach through traditional methods.

7. Finally, MIGA’s outreach to SMEs will benefit from a MIGA-wide marketing strategy that will help to increase the awareness of MIGA products among staff in the World Bank Group, including staff based in resident missions, who have a more direct relationship with local communities, including local SMEs.

8. With all these solid action plans, MIGA expects to be able to increase the number of SME projects it can support in the next five-year period. SME coverage underwritten by MIGA’s sector groups may increase proportionately with the total number of guarantees issued. Underwriting by a special team is expected to further enhance MIGA’s involvement in SMEs, which is dependent on successful collaborations with the rest of the World Bank Group and other external partners.

1-c) Promotion of Category Two to Category Two investments.

1. In general, in a country where there is a well-developed national investment insurance scheme, investors are familiar with political risk insurance. However, in a country where there is no such scheme, most investors are not accustomed to using such insurance. This is often a difficulty in Category Two countries where investors are showing growing interest in investing in other Category Two countries. Other national insurers cannot provide insurance for companies in Category Two countries. Coverage by private insurers is also extremely limited to date, as these investments are often not viewed as attractive business opportunities from a risk/return perspective.

2. Therefore, this is another important niche area where MIGA can leverage its resources. With MIGA’s limited ability to outreach to those projects, however, collaboration with export credit agencies in these Category Two countries will be crucial in order to effectively serve this investor segment.
3. MIGA will redouble its efforts to increase the number of Category Two to Category Two projects over the next five years. Following the successful experiences of mobile offices in India, South Africa and Turkey among others, MIGA will strengthen its host country-oriented marketing programs to seek contacts with potential outbound investors in a developing country, in addition to recipients of inbound foreign investment. In this respect, MIGA will focus its attention on intra-regional investment flows. MIGA will also expand training and technical assistance activities toward export credit agencies in developing countries, so that these agencies can learn about political risk insurance and develop the capability to offer it.

4. In addition, MIGA’s Technical Assistance program can complement and facilitate the development objectives of the Guarantees activities in this niche area. The Global Investment Exchange, a Web-based e-mail service planned for deployment in the fall, will provide an important new tool to stimulate business-to-business contacts between Category Two countries.

1-d) Increased facilitation of complex infrastructure projects.

1. MIGA’s involvement is very often sought, together with national and private insurers, by investors who are involved with complex infrastructure projects. Those projects are highly capital-intensive, with long pay-out periods of 10 to 20 years. Structuring tends to be highly complex to ensure non-recourse financing by sharing and managing various risks among the many parties involved in a project. Due to the social nature of infrastructure development, project economics and viability are susceptible to local political pressures concerning tariff setting, taxation, universal service provision, and even corruption. State-owned enterprises and sub-sovereign entities are often involved, which further increases the perception of political risks.

2. In the past 10 years, private-sector participation in infrastructure development has experienced significant growth. However, the economic crisis in Asia and events in Pakistan and Indonesia have reduced investor confidence and led to record demand for MIGA’s services in other regions. This demand is likely to continue for several years. Overall, MIGA’s infrastructure exposure is expected to increase further.

3. While the power subsector will remain important, it is expected that other areas, especially water and transportation, will increase their share within the sector as privatization in Category Two countries proceeds. Special emphasis will be placed on water projects globally, and on infrastructure projects in Africa.

4. Additionally, the coverage of bond issues and the offering of breach of contract coverage are expected to contribute to MIGA’s infrastructure business.

2-a) Capacity building that delivers actual investment flows

1. MIGA will continue to strengthen its “hands-on” approach to capacity building of investment promotion intermediaries to enhance their ability to induce actual investment flows. This capacity building will strengthen MIGA’s focus on activities such as equipping management and staffs of such agencies with the knowledge and analytical tools that will help them: (a) identify and target potential investors for desired enterprise or specific greenfield investments; (b) define sectors of competitive advantage, through understanding what drives
investment in those sectors and where the competitors for such investment are located; (c) identify and eliminate barriers to investment in chosen sectors; (d) prepare project presentations to investors, and (e) follow up on investment leads generated through such activities.

2. As clearly expected by clients, an ability to deliver practical solutions will continue to be essential for MIGA’s capacity building services. To ensure continuous improvement and monitor quality control of outputs, MIGA will systematically measure and evaluate its performance with respect to building the capacity of client agencies and will track the success of clients in achieving investment results.

3. MIGA will continue to work with Private Sector Development units within the regions of the World Bank to define, supervise, and, in some cases, implement foreign direct investment components of private sector development projects. Where appropriate, MIGA will also join forces with other international agencies or engage specialized development consultants to deliver in-country support for activities such as investor identification, marketing, investment generation, and post-investment servicing.

4. Also, in order to enhance the effectiveness and economics of the operation, MIGA needs to develop an appropriate fee structure acceptable to clients, in exchange for the delivery of real value. MIGA presently employs a “sliding scale” fee structure, which can be adjusted depending on the ability and willingness of clients to pay for services.

5. Given the diversity of investment promotion intermediaries in terms of their legal and regulatory environment, commitment at the highest levels to attracting and retaining foreign direct investment, and the support for the specific agency within the requesting country, MIGA will need to prioritize its client service activities to ensure that scarce resources are applied where they can best serve the client’s goals.

6. Criteria may include the (a) existence of an attractive legal and regulatory framework for foreign direct investment; (b) commitment and ability of client agency to absorb and use advice and assistance; (c) priority of the country for MIGA and the Country Assistance Strategy and Comprehensive Development Framework; and (d) ability of the country to co-pay for services or mobilize funding.

2-b) Continued upgrading of knowledge activity through Internet-based services.

1. MIGA has pioneered the field of using the Internet in investment promotion through its development of IPAnet and PrivatizationLink. The challenge over the next five years will be how to expand existing information dissemination services so that they will more directly contribute to actual foreign direct investment generation. They will also need to remain on the leading edge technologically.

2. MIGA will work further to develop its online communications initiatives via IPAnet and PrivatizationLink, and will undertake new initiatives to facilitate interaction between investors and emerging market opportunities. Examples of initiatives under development include:

   • **The African Connection** is a region-wide, African-led initiative to harmonize improvements in infrastructure and management of telecommunications and information technology across countries in the region.
The service will feature the development of an online database of market analysis, legal and regulatory information, best practices, financing sources, and contact names in the telecom sector.


PrivatizationLink Russia will employ Internet technology to facilitate continued privatization in the Russian Federation, as well as increase the involvement of foreign investors in the development of the country’s private sector.

This initiative involves the development of a free online service providing current updates on privatization-related investment opportunities in Russia, as well as relevant background information for domestic and foreign investors interested in bidding for these assets. It will also feature information on other types of investment opportunities, such as private participation in infrastructure development.

In implementing this project, MIGA has been joined by the Central and Eastern Europe Branch of the Canadian International Development Agency (CIDA), which has agreed to provide funding for the requisite field work and software development.

SMExchange will support SME development in emerging economies by spearheading collaboration among business associations and other experts to build the capacity of associations in lesser developed countries to support SMEs to compete in a global environment.

It will also support cross-border linkages among SMEs and a sharing of experiences at the company level. These goals will be achieved through several means, including training, internships, seminars, twinning, and online exchanges.

Global Investment Exchange will be a web- and e-mail-based service to push relevant information on a tailored basis to potential investors. As a step to improving the ability of developing country clients to provide relevant information in appropriate format for potential investors, MIGA may enter into memoranda of understanding with potential information providers on the accuracy of content and timing of provision of information, and equip them with a template for providing information.

Effective and Efficient Pursuit of Multi-niches

3-a) Development of a comprehensive marketing strategy

1. MIGA will need to develop and update a framework of marketing strategy in order to better serve unmet demand in specific multi-niche opportunities. At the same time, MIGA will need to diversify its client base, and consequently the guarantee portfolio, in terms of investors and regions with a view to maximizing developmental effectiveness.

2. Systematic MIGA-wide outreach efforts are essential in effectively identifying and efficiently serving MIGA’s multi-niches. Particular focus will continue to be placed on promoting investments to IDA-eligible countries and among Category Two countries. MIGA’s
marketing and outreach should take full account of the significantly diverse needs among its clients—developing member countries and private investors.

3. On the host country side, MIGA’s focus will have to be different country by country. In some countries, development of guarantee opportunities may be the primary purpose while in some other countries, investment promotion or capacity building may be the primary focus. In such cases, identification of guarantee projects should be viewed only as a long-term opportunity. In other countries, multiple purposes should be pursued simultaneously. The “mobile office” will continue to be used as an effective tool of both host country and investor marketing, particularly, as mentioned, in promoting Category Two to Category Two investment flows.

4. On the investor side, sizable unmet needs for mitigating political risks still exist among investors. MIGA needs to make a special effort to identify projects that specifically require MIGA’s uniqueness as a multilateral insurer. In addition, insurance needs for political risks significantly differ among investors. In particular, investors who use MIGA’s guarantees tend to have more complex and sophisticated insurance needs than other investors. They require not only insurance capacity but also flexibly designed insurance products to meet their risk management needs. MIGA’s service—both products and delivery—needs to be designed to satisfy these needs so that investors will comfortably proceed with their investment, which would otherwise not be realized without MIGA’s involvement.

3-b) Enhancement of underwriting and financial risk management.

1. MIGA’s increased emphasis on developmental effectiveness in such multi-niche areas as IDA-eligible countries and SMEs, or participation in complex infrastructure projects, will likely require MIGA to underwrite more riskier projects than previously on its balance sheet. This strategic direction will require sophisticated underwriting and financial risk management.

2. MIGA needs to follow an integrated approach that involves proactive risk prevention and risk mitigation. Also, MIGA’s risk management needs to be consistent with the World Bank Group standards. Expanding partnerships with other insurers through the extensive use of reinsurance and the CUP also needs to be assessed from a financial risk point of view.

3. Portfolio diversification in terms of country, region and industry sector will continue to be one of the fundamentals of risk management. Stress-testing and contingency planning will help to develop a more robust framework. Possibilities of more “active” portfolio management through, for example, *ad-hoc* reinsurance and securitization, may be considered.

4. In addition, as MIGA assumes more projects with higher risk profiles, the level of premium needs to accurately reflect the level of risks involved. Other means of risk management include the extensive use of treaty and facultative reinsurance, the CUP, other contractual techniques such as stop-loss measures, and adequate and prudent provisioning.

5. Further integration of MIGA’s underwriting and financial risk management process will become an increasingly important requirement for MIGA over the coming years. First, MIGA may need to add new risk metrics for political risk that enable it to offer more differentiated pricing for guarantee products and to assess the adequacy of its reserves. Accordingly, provisioning will be based on an analytical risk framework. Second, in light of increased participation and interest by major (re)insurers in political risk insurance, MIGA will
need to diversify its partners in reinsurance. Finally, MIGA will assess the need for excess-of-loss coverage in order to be fully prepared for extraordinary losses, and start testing the waters for a potential portfolio securitization in the capital markets.

3-c) Enhancement of claims prevention and resolution.

1. MIGA invests significant time and resources upfront in underwriting and risk assessment in order to minimize potential losses, which is a business model that is different from the one practiced by private insurers in general.

2. However, as MIGA’s portfolio continues to grow and as MIGA intensifies its focus on developmental multi-niches, it becomes more probable that MIGA may have to deal with more claims situations. In this regard, the strengthening of MIGA’s capabilities in claim prevention and resolution will be very important in ensuring MIGA’s financial soundness.

3. Even though MIGA has a relatively good track record of claims prevention, several lessons were learned from the Indonesia case. In the future, MIGA will closely monitor contracts of guarantee after execution to ensure that potential problems are identified at early stages.

3-d) Improvement of external communications.

1. Awareness enhancement is one of the keys in MIGA’s pursuit of the multi-niche strategy, as the outreach for those niches is generally difficult. In a number of developed countries, awareness of MIGA is already high among major investors. However, in developing countries and in some Category One countries where export credit agencies are not active in political risk insurance, awareness of MIGA has room for improvement.

2. In order to increase the recognition of the value of MIGA’s services and help clearly portray its business and development priorities, efforts will be made to develop a more coherent and unified external image (conveyed through publications, web-based services and other communications). Such efforts will also articulate key messages that convey MIGA’s uniqueness, its comparative strengths, and its developmental role as part of the World Bank Group.

3. Key internal objectives are to: (a) improve internal coordination in order to gain greater synergistic benefits from a more integrated marketing approach and the cross-marketing of MIGA’s various products and services; and (b) strengthen linkages with the World Bank and the IFC to leverage MIGA’s limited resources and promote joint World Bank Group marketing initiatives, particularly ones that would have a high pay-off for MIGA’s business and development priorities.

4. The external communications strategy would require a mix of activities that need to be adopted both flexibly and in a focused manner, so that there is a concerted effort at promoting identified priorities. The main tools would include: (a) media and publications; (b) electronic communications and information services; and (c) conferences and other events. The details on how these various tools will support the objectives and priorities outlined above, as well as the prioritization of tasks, will be developed in the context of MIGA’s Business Plan.

1. The processes of Comprehensive Development Framework and Country Assistance Strategy will continue to help MIGA define priority areas for both guarantees and Technical Assistance in the pursuit of the multi-niche strategy. MIGA’s capability to contribute to these processes is being enhanced by its new Country Development Group, which is now fully staffed. For example, during fiscal 2000 the Country Development Group contributed to 25 Country Assistance Strategy processes and 3 Comprehensive Development Framework processes.

2. Overall, MIGA’s involvement in the Country Assistance Strategy is a two-way process. MIGA aims to ensure that foreign investment-related issues have an appropriate role therein, and that MIGA’s own programs are integrated into the broader policy framework of the World Bank Group. For many countries, MIGA brings to the Country Assistance Strategy process its insights from contacts with foreign investors (and prospective investors) and investment promotion intermediaries. The process also allows MIGA to benefit from the analysis and experience of World Bank and IFC colleagues.

3. MIGA will seek to bring its knowledge experience of foreign direct investment issues to bear as it works more closely with the country teams on priority joint efforts in Comprehensive Development Framework and Country Assistance Strategy. In particular, MIGA will seek more upstream involvement in these efforts for countries in which it has significant experience – either Guarantee or Technical Assistance – or where foreign investment promotion is the developmental priority. Such an involvement will be further strengthened by systematic distillation of foreign investment module in the eCAS.

4. However, given MIGA’s small size (130 staff in total), MIGA’s participation will need to be selective. Therefore, the priorities from MIGA’s perspective are to be fully involved in the Country Assistance Strategy processes (i) where it has a large exposure or significant technical assistance activities, and (ii) in low-income countries where there is potential to expand its activities.

4-b) Operational synergy and collaboration with other World Bank Group units.

1. Achieving synergy within the World Bank Group will continue to be key in MIGA’s successful pursuit of its developmental mandate through the multi-niche strategy.

2. In the areas of guarantee instruments, MIGA will continue its efforts to coordinate with, and complement, similar guarantee instruments in the World Bank and the IFC, within a coherent framework of the World Bank-wide guarantee strategy, which will be developed and discussed later this year.

3. Specifically, MIGA and the World Bank’s Project Finance and Guarantees Department are developing an approach to improve organizational coordination, and ensure that governments and investors are provided a seamless, non-duplicative range of products.

4. In addition, to ensure that World Bank efforts are as complementary as possible, MIGA’s due diligence process includes consultation with World Bank country directors on
specific guarantees under consideration. MIGA’s country underwriters are explicitly expected to report the outcome of these consultations as part of the review of each project.

5. Another important area in which MIGA can contribute to the ‘scaling-up’ effort of the World Bank Group is in conjunction with the development of the “Global Development Gateway.” MIGA’s expertise and experience with IPA net and PrivatizationLink provide a good basis for contributions to this World Bank Group initiative. MIGA is already playing a key role in the design of the transactional component of the Global Development Gateway that is oriented to Private Sector Development, and participating in the overall design effort.

6. MIGA will also be prepared to play a central role in the implementation of components related to foreign investment, and will ensure that the evolution of its own Internet-based services is consistent with, and takes full advantage of, the Global Development Gateway.

7. MIGA will also play a more active role earlier on in the design process of World Bank Group programs. Through these efforts, MIGA’s Technical Assistance can better complement the legal/regulatory reform work of the World Bank by providing the hands-on support needed by national investment promotion intermediaries to approach and service foreign investors.

8. MIGA has been particularly active in collaborating with the Private Sector Development unit of the Africa region, working, for example, with the Ghanaian export sector, the governments of Cote d’Ivoire and Rwanda, and other public and private entities in designing and implementing private sector strategies for investment generation. MIGA will continue such collaborative efforts.

9. Furthermore, as FIAS’ activities come under the umbrella of the new World Bank/IFC Private Sector Advisory Services department, there is an opportunity for revisiting the coordination arrangements between its work and MIGA’s services. In order to ensure an efficient use of World Bank-wide resources while avoiding potential overlap, MIGA will pursue two avenues: 1) a mechanism will be put in place to exchange information on pipelines and to serve as a kind of “one-stop shop” for client requests; and 2) joint missions and cross-support arrangements will be used more systematically to respond to requests that straddle the mandate of both groups.

5-a) Greater complementarity with private insurers and public insurers in Category One countries.

1. MIGA will continue to diversify its partnerships with other insurers in its reinsurance programs, mindful of the need to contain the reinsured portion to an appropriate ratio of its total gross exposure (currently 40 percent). In this respect, MIGA’s pricing of its Guarantee products should not be seen as undermining market positions of other insurers.

2. In the years to come, MIGA will continue to bring the CUP into the mainstream, and use it for projects in countries where capacity in the political risk insurance market is limited, or in countries where mobilization of private insurance capacity is difficult.

3. MIGA will also need to explore opportunities for joint product development with private insurers who are willing to offer other types of commercial and non-commercial risk
insurance. Finally, MIGA will need to enhance its collaboration with national insurers by rationalizing and streamlining the mechanisms of collaboration.

4. In order to further enhance collaboration within the political risk insurance industry, MIGA will continue to explore the possibility, together with the Berne Union Secretariat, of harmonizing contract language and terms of guarantee contracts.

5-b) Greater collaboration with export credit agencies in developing countries.

1. Export credit agencies in developing countries will be an important entry channel for MIGA to better serve the needs of investors from those countries, and also to promote SME-related investments. However, the present operational focus of many of these agencies is on short-term, trade-related insurance, not on investment insurance, due mainly to resource shortages.

2. Over the next five years, MIGA will step up its efforts to collaborate with export credit agencies in developing countries. Depending on the needs of these agencies, collaboration could be in the form of technical assistance or training on investment insurance, coinsurance and brokerage arrangements that focus on, for example, SME-related investments.

5-c) Greater collaboration with multilateral development banks and other international agencies.

1. Multilateral development banks will be increasingly important partners for MIGA in its pursuit of developmental effectiveness through both Guarantees and Technical Assistance. Those institutions can be instrumental in MIGA’s pursuit of such developmental themes as IDA-eligible countries, SMEs and Category Two to Category Two investment flows.

2. Over the next five years, MIGA intends to develop collaborative relationships with all major multilateral development banks. The type and breadth of collaboration will depend on the needs of the partner, but possibilities will include legal advice on political risks, insurance coverage for their lending and investment activities, coinsurance and reinsurance, joint projects for foreign investment promotion, and their greater participation in MIGA’s Internet-based services, such as IPAnet.

5-d) Greater preparedness for potential market contraction.

1. MIGA should play a leading and catalytic role in facilitating the continued healthy development of the political risk insurance market. Potential contractions of insurance and reinsurance capacity caused either by the cyclicality of the industry and/or occurrence of major shocks and claims could negatively impact on the continued growth of the foreign investment flows into developing countries. As a multilateral public organization, MIGA believes that it should play an important role in mitigating and, as much as possible, offsetting such damage.

2. Therefore, MIGA will carefully monitor the market situation in the insurance industry in general, and claims and losses situation in political risk insurance more specifically. It should also be noted that, in a contracting market, there will usually be a flight to quality, which would benefit MIGA and help offset the overall effects of a market contraction.
3. Given MIGA’s relative size in the overall political risk insurance market (less than a 10 percent share as opposed to 50-60 percent by private insurers), MIGA alone cannot entirely fill the gap caused by any decline of private capacity. Therefore, MIGA, by maintaining and strengthening its financial resiliency, will need to stand ready to play a “catalytic” role as soon as necessary in case of a market contraction, in order to encourage the smooth return of private insurers and reinsurers. In this respect, the full subscription of the General Capital Increase will be essential in order to maintain enough headroom for supplying emergency coverage.

4. However, playing this role does not mean shouldering the high risk exposure of other insurers. Rather, MIGA’s task is to correct possible over-reactions by insurers to market shocks and discontinuities, and normalize their risk-taking behaviors in countries with reasonable risk profiles.

**Continuous Improvement and New Opportunities**

6-a) Continuous improvement of client satisfaction.

1. In both Guarantees and Technical Assistance, MIGA’s performance in satisfying client needs is high relative to other national and private insurers, or relative to other technical assistance providers, according to surveys. Full implementation of the Business Process Review is expected to generate further improvements in MIGA’s service delivery to those clients. MIGA also received one of the highest client satisfaction ratings among major international technical assistance providers.

2. Organizational culture and style will constantly be reinforced to achieve an even higher degree of client satisfaction. On guarantees, over the coming years, MIGA will strengthen its efforts to become widely known for its distinct level of investor satisfaction relative to other political risk insurers across key performance attributes. In addition, MIGA will explore the potential use of the Internet in interfacing with investors.

6-b) Development of new guarantee products.

1. Investor needs for political risk insurance, especially those of large multinational corporations, are becoming increasingly sophisticated. As expressed in the survey, many investors are also interested in new types of insurance products such as finite insurance.

2. Therefore, whenever there is a significantly positive impact on developmental effectiveness, MIGA will proactively consider developing new guarantee products, whenever appropriate, in partnership with those who have relevant experience and expertise (i.e. private and public political risk insurers, other general insurers and reinsurers, insurance brokers, or non-insurers including investment banks).

3. Potential new products would include finite insurance products, or political risk insurance that is bundled with other commercial and non-commercial risk insurance. Consideration will also be given to a global or regional insurance policy, if such coverage can benefit IDA-eligible countries. This concept may be used to improve the economics of providing insurance to SME-related investments by consolidating a number of small projects.
4. As regards other non-commercial risks that are less related to foreign investment, MIGA would not easily be involved. At present, this would include catastrophe insurance and commodity price risk insurance. This position is derived from MIGA’s continued commitment to what the Convention states as its objective, namely: “to encourage the flow of investments for productive purposes” in Article 2.

5. Nonetheless, MIGA is ready to make a positive contribution, when appropriate, to the World Bank Group’s efforts to explore those products. Also, the structure and concept of existing catastrophe insurance schemes will provide MIGA with useful insights into potential risk transfer to capital markets, such as through securitization.

6-c) Support of information technology (IT) sectors in developing countries

1. The role of information technology in economic and social development is increasingly important. Several initiatives are already under way within the World Bank Group. MIGA will also intend to play an active role through both Guarantees and Technical Assistance over the next few years.

2. On its Technical Assistance side, investment promotion intermediaries gave MIGA the highest score (9.0 on the 1-10 scale) among all technical assistance providers in understanding of technology. Assistance to investment promotion intermediaries in the use of the Internet is increasingly an important element in MIGA’s capacity building services.

3. MIGA has been helping many investment promotion intermediaries to implement strategies to use the Internet in their investment promotion programs, including advising and assisting intermediaries in the design of their web presence and the associated communications strategies.

4. MIGA also helps those agencies effectively use the Internet as a tool to conduct research on sectors, competitors, and potential investors. MIGA has developed a sector-specific package of business research resources, initially focusing on the automotive components sector. Other sectors, including electronics, IT, food processing and telecommunications, are currently scheduled as part of the fiscal 2001 work program. This research will be used to help clients develop an investor targeting program for sectors such as IT.

5. There are opportunities for MIGA’s Guarantees to play an instrumental role in facilitating IT-related investment. The “business/technology” sector already accounts for about seven percent of foreign direct investment flows, and is rapidly growing. MIGA has already received a number of applications for guarantees in sectors such as semiconductors and computer systems.

6. It should be noted that, in the emerging technology sector, insurance needs for non-commercial risk are often different from other sectors, because many market segments, such as IT services, are generally less capital-intensive. Intangible assets, or intellectual property such as patents, trademarks, software programs and copyrights are frequently more important considerations in evaluating the investor's risk management needs. A government’s refusal to prosecute domestic software piracy may be one example of a political risk these firms must face. Accordingly, MIGA’s products should be designed to address the more complex risk
mitigation needs of information technology companies. A study of providing coverage for intellectual property rights was conducted in the past, but MIGA decided not to pursue the opportunity at that time. MIGA will continue to explore its agency-wide IT sector strategy.

6-d) Establishment of new activities, especially research/knowledge dissemination.

1. MIGA will increase its efforts to widely disseminate its knowledge of best practice in political risk insurance and investment promotion through articles in journals, seminars and conferences, and by the use of other online and offline media. At the same time, research is specifically mentioned in the Convention as one of the investment promotion activities that is complementary to Guarantees.

2. MIGA will consider launching research/knowledge projects that leverage MIGA’s uniqueness, as long as the subjects are carefully defined and the outcomes have immediate pragmatic value to host countries and investors. Potential themes could include:

   - **Evolving trends in the patterns of FDI, focusing particularly on emerging sectoral developments:** For example, many technology companies are now beginning to outsource their call center and phone-based technical support functions to developing countries like the Philippines. It will be particularly important to identify future trends involving investors from developing countries which may not be addressed by the private sector firms involved in this type of research. This research would enable MIGA to assist client countries to position themselves sooner, in order to take advantage of relevant trends in the Internet Age.

   - **Investor needs and preferences, particularly their financial, environmental and regulatory information needs:** The empirical results of this research would allow MIGA to better advise clients on the specific information which needs to be made available in order to facilitate decision-making concerning greenfield investments.

   - **Investor views on obstacles to investment in particular countries, regions and industries, especially in IDA-eligible countries,** drawing upon MIGA’s interactions with clients on current transactions: Several consulting firms, such as A.T. Kearney and Deloitte & Touche, have initiated research programs in this area, which focus mostly on Fortune 500 investors. MIGA could complement these activities with in-depth research on the investment environment in poorer developing countries, particularly eliciting input from smaller firms and investors from developing countries.

   - **Best practices of investment promotion by developing countries.** MIGA intends to conduct practical research and disseminate information on best practices and success stories in investment promotion and country marketing. MIGA is uniquely positioned to be able to draw valuable lessons from real-life experience of working with investment promotion intermediaries in many countries. MIGA’s regular contact with investors and lenders will also provide useful insights in terms of what investment promotion strategy would be effective, and why. MIGA’s understanding of technology will also be an additional source of value.

3. This research function would have a highly beneficial impact on MIGA’s Guarantees, as it would necessarily require high-level contacts with major multinational corporations. These interactions could help to build ongoing relationships, foster a favorable attitude towards
MIGA and influence future decision-making to buy insurance when new investments in developing countries are being implemented.

4. The research program would also provide high-value input for Technical Assistance activities with government policymakers and investment promotion intermediaries.

6-e) Development of MIGA’s capital market strategy

1. MIGA’s capital market strategy will focus on two areas: insurance coverage for international capital market transactions, such as bonds and securitizations of investment receivables, as credit enhancement, and the potential “securitization” of part of the Guarantee portfolio by transferring risks to the capital markets. (In the case of MIGA’s or other insurance businesses, “securitization” means the transfer of risks to the capital markets, often through insurance-linked securities, which is somewhat different from the more common securitization of debt receivables.)

2. As a growing number of companies in developing countries are integrated into the global capital markets, the role of bonds in infrastructure financing is expected to increase. MIGA could enhance its catalytic role in attracting foreign direct investment from a variety of sources to developing countries by providing political risk insurance coverage for structured foreign investment transactions that need to be placed in the international capital markets.

3. Such an involvement by MIGA would provide a “credit enhancement” (by wrapping the transactions with political risk insurance and thus reducing or removing the associated sovereign risk) which would help to attract capital market investors invest in the project. This, in turn, helps to reduce funding costs, and hence lower the barrier for foreign direct investment flows into emerging markets. As already mentioned, MIGA may need to obtain a credit rating to support such an initiative on a sustained basis. MIGA will, in accordance with its normal practice, only support those transactions which meet its developmental requirements, and not just lower the funding costs for the issuer.

4. The “securitization” of MIGA’s portfolio, despite various technical challenges, may produce several potential benefits, both developmentally and financially. The “securitization” of segments of MIGA’s portfolio would potentially offer the possibility of increasing capacity in countries where the proportion of net exposure was relatively large, but where MIGA was continuing to experience strong demand for guarantees. In addition, MIGA’s financial resilience could also be enhanced. In particular, the future cost and availability of reinsurance may be susceptible to the cyclicality of the industry, and/or major loss experience.

5. With these points as background, “securitization” of MIGA’s portfolio, if successfully structured and placed into the international capital markets, would help free up resource, which could then be reallocated to new developmental projects.

6. It could also be important as a “contingent capital” to enable continued growth. It is expected the methodology utilized will follow the practice that has been utilized for catastrophe risks, such as hurricanes and earthquakes. These so-called CAT bonds have been issued in the capital markets that provide additional capital, utilizing bond issues, which are repaid at maturity unless a defined loss event occurs (hence the name “contingent capital”). The “premium” is the difference between the interest charged on the bond issue, and the investment
income generated by this “contingent capital.” MIGA’s business dynamics would be well suited for using such contingent capital.

7. Furthermore, such “securitization” could deepen the market for political risk coverage in a similar way to mortgage-backed securities. It could also offer MIGA an important means of active portfolio management for further diversification and optimization. “Securitization” could also allow MIGA to assume a counter-cyclical role in periods of political instability, while passing on parts of its portfolio to the capital markets during stable periods.

8. Once the insurance-linked security is placed in the capital market, risks to MIGA as an issuer would be minimal (other than on the tranche retained by MIGA). For example, the full political risk, and any credit risk and investment risk on the guarantee holder would all be assumed by the investors. Therefore, as a long-term objective, bearing in mind the various technical challenges and the absence of an existing instrument for political risk, MIGA recognizes the need to start examining the feasibility of attracting contingent capital and of issuing insurance-linked notes within the next few years (subject to market conditions). The legal feasibility and structural constraints should be identified in advance (It should be noted in this context that, in the past, the IFC securitized a tranche of corporate loans in 1995). Informal discussions would start with investment banks and insurance brokers with relevant expertise and interest.

**FINANCIAL IMPLICATIONS**

5.7. The pursuit of the multi-niche strategy will pose various financial challenges for MIGA. The timely subscription of the General Capital Increase is imperative for MIGA to expand its necessary underwriting capacity, while strengthening its financial resilience by building sufficient reserves. In addition, projects in multi-niche areas tend to be smaller in size, and their underwriting is typically more complex and costly. Therefore, efficiency improvement of the underwriting operation will be an important issue for MIGA in future.

5.8. Importance of the General Capital Increase: MIGA’s capacity to execute the programs described above will be driven by its financial resources, especially its underwriting capacity. The General Capital Increase subscription will strengthen MIGA’s capacity significantly, thereby enabling it to put greater emphasis on the priority multi-niches to serve its member developing countries.

(a) As of June 2000, with approximately US$172 million (of which US$30 million is paid-in) already subscribed by 34 member countries, MIGA’s underwriting capacity is estimated to be about US$7.0 billion. The capacity margin, or the “headroom,” is about US$2.6 billion, or 60 percent of the gross exposure at the end of fiscal 2000.

(b) If the General Capital Increase is fully subscribed in the three-year period, the underwriting capacity would be approximately US$10.9 billion in fiscal 2003 and US$12.0 billion in fiscal 2005, based on the fiscal 2001-2003 three-year Business Plan and its extrapolation into fiscal 2005. This is based on assumptions that the use of reinsurance is kept under 40 percent, the gearing ratio continues to be 3.5 times, and there will be no major claim payment. These figures would mean about 50 percent capacity
margin over the forecasted gross exposure in fiscal 2003, but 26 percent in fiscal 2005, due to the expected growth of Guarantees in the Business Plan.

(c) If the subscription is only 50 percent after the three-year period, MIGA’s underwriting capacity would be only approximately US$9.4 billion in fiscal 2003 and US$10.4 billion in fiscal 2005. The capacity margin would shrink to US$2.1 billion in fiscal 2003 and US$0.9 billion in fiscal 2005, or 29 percent and 9 percent, respectively, over the forecast gross exposures.

(d) In addition, MIGA’s focus on areas where private sector capacity is limited or unavailable, such as IDA-eligible countries, Africa, Category Two to Category Two investments, SMEs, and complex infrastructure projects, has the effect of increasing the risk characteristics of its portfolio. This, in turn, requires a greater capacity to absorb losses and maintain liquidity at times of severe political and economic difficulty.

(e) It is clear that the timely subscription of the General Capital Increase is imperative, as MIGA will focus more heavily on frontier areas of guarantees where risks are generally considered higher. In the proposed strategic direction, as discussed earlier, it becomes more probable that MIGA may have to deal with more claims situations.

5.9. Cost of Underwriting Multi-niches (income, profits): Because many projects in multi-niche areas are either small in size and/or labor-intensive in terms of underwriting, the pursuit of the multi-niche strategy is likely to put downward pressure on MIGA’s income generation and reserve building capabilities, unless there are sufficiently larger transactions within these areas, or elsewhere.

(a) Multi-niches in MIGA’s Guarantee operations, such as projects in IDA-eligible countries, in Africa and especially in SME businesses, tend to be small in size, compared with the average size of guarantee projects. With a greater emphasis on developmental impact in underwriting, this would make the top-line growth (guarantees issued and exposures) increasingly challenging for MIGA, without enhancing and streamlining its marketing, outreach and partnerships.

- The average size of MIGA’s projects is approximately US$27 million (new projects in fiscal 2000). However, the average size is US$11-13 million for projects in IDA-eligible countries or in Africa, and only US$3.5 million for SME projects. There have been a few large-scale projects in Africa recently that are as large as US$200 million, but their impact on the overall portfolio is still limited, as MIGA’s stock business base has grown bigger.

- Measured in terms of contract size, contracts in Africa and MENA regions are, on historical average, US$4.5 million, while the average size is US$22 million in other regions, such as LAC and Asia.

- For example, for MIGA to double the guarantee share (in numbers) of Africa and MENA, it would have to underwrite roughly 15 percent more contracts than would be the case without such a change in the guarantee share in order to accomplish the same projected guarantee volume in 2003.

(b) In general, without adjusting the way the services are delivered, MIGA’s income generation capability and, subsequently, reserve accumulation capacity, would also be affected in its pursuit of the multi-niche strategy.
• In fiscal 2000, 34 projects were guaranteed. Expenses in the Guarantees and Legal departments were US$9.6 million in the same fiscal year. The average of these expenses per project is US$280,000, which is a ballpark approximation to the first-year cost of underwriting (some of these expenses are not necessarily allocated for project underwriting).

• A US$27 million project would typically generate approximately in the range of US$220,000-270,000 as the first year’s premium, which can, more or less, cover or exceed the average expenses per project.

• However, a US$10 million project in a IDA-eligible country, for example, would typically produce in the neighborhood of US$100,000-120,000 in the first year’s premium, which is well below the expense level as an order of magnitude. If a project is a US$4 million SME guarantee, for example, the premium income would only be approximately US$48,000. These projects tend to be more labor-intensive and time-consuming, therefore much more costly to underwrite than the average project.

(c) It is, therefore, imperative for MIGA to streamline the underwriting procedures, making use of partners’ expertise, in order to increase its underwriting activities in these priority areas.

5.10. Reserve Adequacy (balance sheet): In pursuing the multi-niche strategy for greater developmental effectiveness, MIGA would need to assess risks sensibly, but without being overly risk-averse. As discussed earlier, MIGA’s risk management function should be designed to effectively support the implementation of the long-term strategy. In addition to continuing efforts to sufficiently diversify the guarantee portfolio, maintaining healthy reserve adequacy also will be key.

(a) Adequate reserve accumulation will ensure MIGA’s financial resilience, and thus will enable MIGA to more comfortably underwrite highly developmental projects that may have inherently higher risks than some others.

(b) Today, the overall level of reserves is US$319 million, or 11 percent of MIGA’s net exposure at the end of fiscal 2000. Its operating capital is US$572 million, or 20 percent of the net exposure (as one indicator; the ratio to the maximum possible loss, or possibly value-at-risk, is the better and more precise measure).

• “Reserves” here include reserves for claims and retained earnings (The calculations here are before subtracting reserves for reinsure credit and counter-party risks).

• “Operating capital” here includes general reserves for claims, retained earnings and paid-in capital.

(c) Assuming the full subscription of the General Capital Increase, and the fiscal 2001-2003 Business Plan, the overall level of reserves in fiscal 2005 would be approximately US$481 million, or 8.3 percent of the forecast net exposure. The operating capital would be approximately US$855 million, or 14.8 percent of the net exposure.

(d) However, if the subscription is only 50 percent, with all other assumptions being the same, the operating capital in fiscal 2005 would be approximately US$764 million, or
13.2 percent of the net exposure. (The overall level of reserves is not affected much by this change in assumption.)

(e) Although the appropriate level of reserve sufficiency may, in the end, be a result of informed, albeit subjective, judgement in the end, MIGA intends to develop a more scientific methodology over the next few years that will help its Management make sound risk and financial decisions on prudent provisioning, without being unnecessarily cautious.

**ORGANIZATIONAL IMPLICATIONS**

5.11. **In order to ensure high effectiveness and efficiency in its pursuit of developmental impact through the multi-niche strategy, MIGA’s organization needs to be aligned to its future strategic directions.** In addition, given the increasing importance of a healthy awareness of various risks, the COSO exercise (comprehensive assessment of the adequacy of the internal control structure) is underway for the first time in MIGA, and has highlighted various strengths of and, challenges for, the organization.

5.12. **MIGA-wide Collaboration:** The proposed strategic direction will require a greater degree of MIGA-wide collaboration between departments in order to implement a comprehensive foreign investment promotion plan for developing countries.

(a) Effective teamwork based on shared goals and values throughout the organization will be necessary to nurture integrated and synergistic approaches among the Guarantees, Technical Assistance, and Legal and Claims Departments.

(b) Agency-wide, open information sharing will also be essential to facilitate collaboration and achieve inter-departmental synergy in effectively serving MIGA’s various clients. Consideration of confidentiality is important, but should be kept, in principle, to an absolute minimum.

(c) Accordingly, the organizational structure, or the way it actually works, would need to move more in the direction of a boundary-less organization, strengthening communications throughout the organization.

(d) Furthermore, a unit dealing with MIGA-wide strategy and marketing, as well as World Bank Group-wide synergy, and a risk assessment function need to establish a more distinct presence within the MIGA organization.

5.13. **Developmental Effectiveness:** Pursuit of developmental effectiveness in member developing countries will continue to be the highest priority in everything that MIGA does.

(a) Building on progress to date, MIGA will continue to improve its systematic and comprehensive assessment of developmental impacts of guarantee projects, as well as of technical assistance activities.

(b) Balancing developmental and financial goals has always been a management challenge for MIGA. In order to guide staff behavior toward an ideal direction, MIGA will consider designing a performance measurement and evaluation system that more explicitly recognizes and rewards developmental impact. In addition, MIGA will explore
a more systematic framework of optimizing the developmental impact with the risk taking in Guarantees.

5.14. **World Bank Group Synergy:** MIGA has been, and will continue to be, an integral part of the World Bank Group. Much of MIGA’s uniqueness is derived from this affiliation. Realizing significant synergy with the other parts of the Group in all aspects of MIGA’s operations is always an important consideration.

(a) MIGA is in a privileged position by being a small organization while, at the same time, a member of the World Bank Group. MIGA will try to fully capture the benefits of this position.

(b) The principle and practice of open information-sharing should not be limited within MIGA, but should also be extensively applied to the working relationship between MIGA and the rest of the World Bank Group, in order to build better strategic partnerships within the World Bank Group. Regular communication at the institutional level will continue to be strengthened among senior managers on various World Bank-wide issues and initiatives.

(c) At the country level, the Country Assistance Strategy process (and the Comprehensive Development Framework, wherever appropriate) provides a good two-way opportunity for strengthening of communications, as well as exchanges of views at the managerial and staff levels.

(d) Due to MIGA’s small size and limited resources and field presence, MIGA will continue to utilize collaboration with the World Bank’s and IFC’s field presence for MIGA-wide outreach, Guarantees, and Technical Assistance activities.

5.15. **Corporate Style and Culture:** MIGA’s corporate culture will need to change over time, as the organization grows. MIGA is still small relative to the World Bank, the IFC, and many other developmental agencies. On the other hand, staff size has significantly increased over the last five years: from 50-60 in 1994 to about 130 today. The way business activities and staff are managed needs to be enhanced accordingly to maximize the potential of the organization and its staff.

(a) MIGA’s relatively small size so far has worked favorably when the organization has been pursuing growth in a dynamic industry environment.

(b) One of the challenges, however, is to maintain its “small company” advantages while achieving healthy organizational growth. In this respect, open and increasing sharing and flow of information throughout the organization—vertically, horizontally and sometimes diagonally—are essential.

(c) The decision-making structure and procedure need to be increasingly flat and faster, in order to maintain and improve MIGA’s ability to seize targets of opportunity in a timely manner. A greater degree of delegation of authority and responsibility, with appropriate checks and balances, will be encouraged from the senior management team to managers, and to all levels of staff.

(d) Unlike in the past, as MIGA grows even larger and more mature organizationally, it will be increasingly difficult for individual senior managers, however capable and experienced, to decide and control all aspects of operations. Effective team building,
teamwork, and networking among the staff are essential. Staff members will need to be more empowered, so that senior managers can better manage the increasing demands on their time and devote their attention to the more important strategic and critical management issues facing MIGA in the future.

5.16. **Risk Management and Internal Control:** MIGA will, strategically, pursue more complex, more difficult, and sometimes riskier projects in multi-niche areas, while at the same time, organizationally, steering the evolution of “small company” management. In this context, systematic measurement and monitoring of various risks, with clear accountability, will be of vital importance for MIGA. In addition, a sound internal control system over its business activities, based on, most notably, Control Risk Self Assessment in the framework of COSO, will be essential.

(a) Rigorous risk management will be one of the keys in the successful and sensible pursuit of the multi-niche strategy. Building on existing systems, MIGA will improve methodologies, making them more scientific and sophisticated. Ensuring clear accountability is essential in risk management, as well as in other key management functions.

(b) As MIGA continues its growth and its strategic focus emphasizes developmental effectiveness, MIGA will need to constantly review and strengthen its internal control functions. A significant step in this direction is a COSO exercise underway for the first time in MIGA’s history.

• COSO is a process implemented by management that provides reasonable reassurance that operations are effective and efficient, financial and operational reports are reliable, and there is a general compliance with applicable laws, regulations and internal procedures and policies.

• The COSO assessment process is based on criteria described in the “Internal Control—Integrated Framework,” issued by the Committee of Sponsoring Organizations (COSO) of the National Commission on Fraudulent Financial Reporting (Treadway Commission).

(c) Delegation and empowerment require systems and processes to inform senior management of MIGA’s performance in a constant, timely and accurate manner, so that more “hands-off” management can be accomplished. MIGA will periodically measure and monitor the impact of its activities and the level of client satisfaction in a systematic and unbiased manner. This will also help MIGA continuously improve the quality of its services and reinforce its guiding principle of client orientation.
ANNEX: SUMMARY OF DISCUSSIONS: MIGA'S ROUNDTABLE
Convened June 5th, 2000 in Washington D.C.

On June 5th, 2000, MIGA convened a panel of distinguished experts in various fields that are relevant to MIGA's mandate, and who could add value to MIGA's activities, to discuss the main findings of MIGA's market surveys that were conducted in conjunction with the MIGA Review 2000, and to hear their perspectives on the achievements of MIGA, and prospects and challenges for the future. Following is a synthesis and summary of those discussions.

MIGA ROUNDTABLE PARTICIPANTS

Mr. Adebayo Alade-Loba, Director
Global Energy and Project Finance Group
Credit Suisse First Boston, New York, USA.

Ms. Joan Kerrigan, deputizing for
Mr. Charles H. Dallara, Managing Director
Institute of International Finance, Washington D.C., USA

Mr. Richard Frank, Managing Partner
Darby Overseas Investment Ltd., Washington D.C., USA

Dr. Barry Hughes, Vice Provost and Professor of International Studies
University of Denver, Colorado, USA.

Mr. Doron Klausner, President
Berne Union
International Union of Credit and Investment Insurers, London, United Kingdom.

Mr. Shoichi Kobayashi, Chairman and Chief Economist
Japan Development Institute, Tokyo, Japan.

Mr. Theodore H. Moran, Professor
Georgetown University, Washington D.C., USA.

Dr. Rita Rodríguez
(Former Director, Export-Import Bank of the United States), Washington D.C., USA.

Mr. Motoatsu Sakurai, Executive Vice President
Mitsubishi International Corporation, New York, USA.

Mr. Malcolm Stephens, Executive Director
International Institute for Practitioners in Credit Insurance & Surety, London, United Kingdom.

Ms. Tarjani Vakil
(Former Chairman and Managing Director, Export Import Bank of India), Mumbai, India.
SUMMARY OF DISCUSSIONS

1. GUARANTEES ACTIVITIES

   Mr. Klausner recognized that the Charter of MIGA is different from the private market's agenda. MIGA is interested in the well-being of and foreign direct investment going to developing countries. MIGA is providing a different type of service and a different type of consideration for its host countries, and for investments going to those host countries.

Changes in Operating Environment

   Mr. Stephens acknowledged that there has been a change in the balance between the public sector and the private sector and in the role and in the policy of governments. In investing countries in the last five or six years, governments have tended to disengage from commercial and industrial activities. But the balance has also changed in those countries that receive investment, for example in terms of privatizations and changes in their banking systems.

   He noted that, nonetheless, political risks are not a thing of the past. Old-fashioned nationalization and confiscation may not be so common over the next five or ten years, but other kinds of government actions that prejudice the position of investors and lenders will become more common. In many countries, the representative from the insurance industry observed that privatization has meant either industries have been taken by people who happened to be managing at the time, or that they were acquired by foreigners. He also forecasted that, as things went wrong in those industries, many governments would eventually intervene.

   Mr. Frank noted that encouraging foreign direct investment into developing countries remains very important as domestic credit markets have not developed quickly enough, and long-term domestic credit is not readily available. Commercial banks are pulling back for several reasons, and the overall capacity of the commercial banking system to supply debt is shrinking. Corporate bond markets have for the most part closed, except for the very, very good names. Getting long-term debt into the emerging economies is going to be a long-term problem. The challenge will be to enhance the ability of private borrowers to access the capital markets while at the same time reducing the rates charged.
Political Risk Providers

Prof. Moran noted that political risk insurance traditionally was seen as something that only governments and multilaterals could provide. Time has proved that is not true. Now, some private insurers are as large as, and even larger than, MIGA and are growing quite rapidly. However, just letting the private sector expand, as the Meltzer Commission wanted and as many others have called for, will leave a market failure, because there isn't any way that the private sector can play the deterrent and mediation role national insurers and MIGA play.

Mr. Stephens noted that, if claims arise, that does not mean that capacity automatically will disappear. Insurers expect to pay claims, and even though there are claims, insurers and reinsurers continue to make capacity available. When problems arise, the substantial private market players stay; it is the naive or transient capacity that disappears. The level of claims in relation to the level of premium is the key comparison.

MIGA’s Strengths

- As a multilateral institution, MIGA has a unique risk-bearing capacity. The Agency stands almost above all others in being able to take on risks, as evidenced by the fact that very few claims have been presented, and most of them have been worked out. As part of the World Bank Group MIGA enjoys a special status that deters countries from taking steps that would trigger a guarantee. (Mr. Frank)

- MIGA’s priorities were commended. The agency is using its unique advantages to take on risk in the “frontiers” -- the more risky country environments; IDA-eligible countries, South-South investments; Sub-Saharan Africa. (Mr. Frank)

- One of MIGA’s strengths is that it is known as a provider of capacity at all times, not just a contingent player. This also means the Agency can be the provider of last resort. MIGA has been instrumental in leading a lot of the private sector into areas that they were not already in, and should continue to be a leader. (Mr. Stephens)

- MIGA's cover is available in US dollars whereas the local insurance cover is often available in local currency only, which is a distinct advantage that MIGA has vis-a-vis local insurers. (Ms. Vakil)

Challenges

- How does MIGA reach a balance between being an insurer of last resort and at the same time maintain a staff knowledgeable about what is going on in the market on a day-to-day basis? (Dr. Rodríguez)

- There is a trend in the market of clients self-insuring, going without insurance, or simply putting aside reserves for various contingencies as a challenge for MIGA. (Prof. Moran/Mr. Stephens)

- MIGA’s environmental and social policies are too rigorous for some investors, and some potential partners. (Mr. Sakurai)
• Pricing may be an issue for some, too, although participants were divided on this issue, with some saying MIGA's pricing was too low, others that it was too high. (Dr. Rodríguez/Mr. Stephens/Mr. Sakurai/Dr. Wint/Ms. Vakil)

• MIGA is not sufficiently well-known. (Ms. Vakil)

Opportunities

• MIGA's role of providing continuity in the market is going to be very important, and for that reason its insurance needs to be marketed. Dr. Rodríguez advised MIGA to ensure its pricing and product development really leads the market rather than competes with it, and had some suggestions regarding changes to existing coverages and new types of coverage.

Where Should MIGA Fit In The Market?

Mr. Stephens suggested there are four categories of risk MIGA should consider:

1. The kinds of risk for which insurance is not being sought.
2. The risks that private insurers are willing to cover.
3. The risks that only public insurers are willing to cover.
4. The risks that nobody is willing to cover and nobody should.

He added that it is not MIGA's job to look at the first category and try to persuade an investor to take MIGA cover. Similarly, MIGA should not feel that just because nobody else will underwrite a particular project, it has to. MIGA's role is in the second and third categories. The private sector is usually quite able to look after itself. If the private sector says they are willing to do a particular project, that should not be sufficient reason for MIGA to not do the deal, because MIGA must pay due regard to what premium the private sector will charge, and what percentage they are going to cover. Provided MIGA is not undercutting other insurers on the premium, it should be prepared to consider operating in those two categories--namely, business the private sector will do, and business national insurers will do. While MIGA obviously has to remain sensitive to the private sector, which is supplying similar products, particularly if it complains of duplication of services, it should also be very careful to listen to its clients to see if they feel the same way.

Mr. Frank noted that the main thing to set MIGA apart from other political risk insurers is its willingness to continue to take risks in those markets in which the private sector is not willing to participate.

Changing Nature of Risk

Insurers who are successful in the future will be those who not only react to changes but anticipate them, and are flexible their responses. There has been a change in the traditional distinction between investment insurance and export credit; similarly, there are no longer clear or traditional distinctions between commercial and political risk. Mr. Kobayashi and Mr. Volkan suggested MIGA could make a great contribution by going into more gray areas, between commercial and political risks.
MIGA and the Private Market

Mr. Stephens noted there is nothing wrong in a public sector organization being successful. The most sensitive area is premiums. MIGA (and other official insurers) should be very careful before undercutting private insurers' premium rates. Although the private sector can look after itself, it can't compete with subsidies.

He noted that MIGA recognizes its role of providing continuity, the need for it to be at the cutting edge, and to look after its niche markets. However, he cautioned that, to fulfill these goals successfully, the Agency has to ensure a sufficient flow of business. For example, MIGA has a commitment to provide coverage for small investments in IDA countries. However, if that is all the Agency does, the insurance sector representative wondered where the necessary operating resources would come from. MIGA needs the bigger business to generate the premium income, the bigger cases to keep underwriters' expertise in underwriting up-to-speed with the market.

MIGA's Role in Meeting Market Needs

Prof. Moran, Dr. Rodríguez, Mr. Sakurai and Mr. Watkins advised that MIGA must not be complacent and let others do all the work developing products, or be a passive player in the market. MIGA should underwrite risks, and everybody should know whether the risks are covered or not. That is much more important than whether they are identified as "political" or "commercial." MIGA may be the insurer of last resort in many cases, so it is very important that the Agency remains on the cutting edge of the market. Participants discussed possible variants of current coverages and some new product areas in this context:

MIGA and Partnerships

Mr. Kobayashi suggested increased cooperation with other agencies of the World Bank Group to better meet clients' needs.

Mr. Volkan suggested MIGA should play a more global role in terms of the regional development banks as well, possibly tailoring products with the multilateral development banks.

Mr. Frank suggested MIGA investigate creating guarantee capacity in some of the host countries themselves. MIGA does not need to try to do each and every transaction itself, but should try to help other institutions do them. If MIGA's Charter allows, it would be a good initiative to establish little MIGAs, or to help other institutions in some way, so that they could share some of the Agency's intangible but very powerful capacity to deter risk, and at the same time MIGA could share risks with other institutions, either on a project-by-project basis, or as part of an institutional arrangement. In addition, there could be additional cooperation with other reinsurance companies or direct insurance companies.

As well as improving standards on environment and social concerns for investments in developing member countries, Ms. Vakil suggested that in light of MIGA's role in promoting privatization, and the agency's long-term relationships with its clients stretching over several years, it could consider creating awareness and emphasizing the need for quality standards (ISO 9000 for example) and corporate governance. MIGA naturally would be taking into account diverse levels of
development of countries, and be sensitive to local regulations. It could be done through persuasion over a period, rather than a precondition.

**Breach of Contract, Especially for Infrastructure Projects**

MIGA is stepping up its efforts to do more with its guarantee products, particularly in the area of infrastructure. In the months and years to come, in some segments of infrastructure, the Agency anticipates a more proactive role in relation to the rest of the World Bank Group in this regard.

*Mr. Frank and Prof. Moran* agreed that infrastructure is probably the most developmentally necessary area, at the same time as being the sector where risks can get the highest, so care must be taken in assessing the risk. Breach of contract obligations are the major concern of investors in infrastructure, and some of those contracts include transactions of a very commercial nature.

The same panel members cautioned that moving into breach of contract coverage should be done carefully, but it should also be done keeping in mind where it is needed and the point where it will make the most difference.

*Dr. Wint* cited various challenges associated with infrastructure projects. If the host country has a devaluation, and the investor has a dollar-denominated tariff, the investor may get some comfort if there is also an automatic provisions for an escalation of the tariff. However, in a project that may involve long-term construction time, it results in a very much reduced ability of the project to pay back over a medium time frame, and the project then runs the increased risk of encountering political difficulties, for example, if local communities refused to pay for more water.

*Mr. Frank and Dr. Hughes* noted that, although the financial markets offer hedge products that protect against devaluation, they don't exist for all currencies, and generally are only available for about one year, so they are largely inadequate in the context of infrastructure projects.

*Mr. Stephens* said that having a product that addresses the question of default by governments or government entities is crucial, especially where concession risks/tariff agreements, are not being honored in the face of macro dislocation.

It was generally recognized that it would be difficult to come up with a product that fully meets investors' needs in this regard.

*Prof. Moran* asked, in a semi-jocular way, whether the members of the group would be happy to return in a year to find that MIGA was moving in the direction that OPIC found itself in, covering commercial "inability" of parastatals to fulfil long-term take-or-pay contracts under political risk insurance sold to cover "unwillingness" to fulfil a sovereign obligation. Most of the group felt this would not be a wise move.

**Mediation and Claims Avoidance**

*Mr. Frank* noted that the influence that a multilateral (and for that matter an ECA) can have with the host government gives a comparative advantage in negotiating with the host country. By virtue of MIGA's special position and role, one of the key advantages it has is in the area of problem deterrence, mediation, and dispute resolution.

*Dr Hughes* added that, in addition to its skills and capabilities in the dispute resolution area, it also has an authority by virtue of its membership in the World Bank Group.
Dr. Hughes suggested MIGA should anticipate an increasing explicit and to some degree commercial role in the dispute resolution side of things as well as in the guarantee side of activities.

**Coverage for Debt**

Mr. Alade-Loba noted that MIGA is required to cover equity if it is to cover debt in a project. A representative from the financial sector noted that the real challenge to development, however, is not so much mobilizing equity in emerging markets for the type of infrastructure projects that have to be financed, and the privatizations. The representative from the financial sector noted that, while equity is willing, what determines equity's aggressiveness is its ability to access long-term debt. The same participant predicted that financing will evolve over the next five years increasingly into multi-source financings, and recommended that MIGA be ready to assist in such deals.

**Currency Risks**

Prof. Moran asked if members would be happy to return in a year to find that MIGA was developing new political risk insurance products to cover economic contagion-devaluation risks. Most participants thought they would not.

However, Ms. Kerrigan noted that, from the perspective of commercial banks and investment banks involved in project finance, protecting themselves when there is a maxi devaluation, and they have provided long-term finance to a project in a privatization situation, was of pressing concern. The same participant suggested it would be of tremendous value to the private sector, particularly in the project finance area, if MIGA could develop products that could alleviate some of those risks.

**Suggested New Guarantees Products: Capital Markets**

Mr. Watkins suggested that MIGA should helping to develop capital market access, because currently this is the biggest constraint on getting long-term capital-intensive projects built. Investors want to use the capital markets for new insurance products because it may reduce cost. Securitization has been used on insurance portfolios, which also can reduce costs. It also increases the return on capital.

Mr. Stephens noted the capacity of banks is falling, and suggested MIGA should be helping investors access capital market finance by developing the kind of insurance product that are relevant to people who buy bonds. MIGA has to have a product that is relevant to the new providers of finance, which are bonds.

Mr. Alade-Loba opined that capital markets are where MIGA will maximize its developmental leverage. The Agency would be trying to do something akin to the World Bank Group's partial risk guarantee; the benefit is that MIGA would be guaranteeing either just the principal on the back end, on a back-ended amortization schedule. In addition, the Agency also could help projects get to an investment grade rating, even though the sovereign may have fallen below investment grade.
Suggested New Guarantees Products: Macroeconomic Performance Coverage

*Ms. Kerrigan and Dr. Rodríguez* opined that the maxi devaluations seen in recent years have had to do with total systemic problems in the country that could not have been anticipated with the old-fashioned purchasing power parity. The risk is not political and is not commercial, but the whole country's economy goes downhill in a way that could not have been anticipated on a regular commercial basis and therefore taken into account through price changes. They suggested that a new insurance product covering the macroeconomic performance of the country would be worth investigating. A multilateral institution in the business of advising developing countries what to do with their economies should have a comparative advantage in that area, as well as greater powers of deterrence.

2: TECHNICAL ASSISTANCE ACTIVITIES

**MIGA’s Strengths**

*Dr. Wint* noted the importance of technical assistance to MIGA, both in terms of the requirements of its Convention and also in terms of the role that these activities play in rounding out the portfolio services that MIGA can offer to its member countries.

The Meltzer Commission recommended the elimination of MIGA, and presumably that would include its technical assistance. These are important value-added services that are provided, which the private sector may not be willing to provide. (*Dr. Wint*)

A real strength is MIGA's promotion of South/South investment. (*Ms. Kerrigan*)

**Challenges**

What is the proper balance in terms of allocation of human resources for technical assistance promotion, which is also performed in other parts of the World Bank family? *Dr. Rodríguez* expressed the view that there are many units in the World Bank Group focused on policy advice, and it is not clear if MIGA would have a comparative advantage relative to other units of the Group in that regard. MIGA needs to think about its activities as they relate to other parts of the Group, given the current trend to try to consolidate some of the policy and advisory services.

*Dr. Wint* asked, for example, where MIGA's advisory services fit with the Foreign Investment Advisory Service (FIAS)? FIAS traditionally has been an independent unit and has now been amalgamated into the Bank's Private Sector Advisory Services. There is a lot of uncertainty about FIAS' future as a policy unit focused exclusively on foreign investment matters, and this has implications for MIGA.

*Dr. Wint* emphasized that MIGA is not just providing a service for a fee; it is actually providing a service that is supposed to bring about development in terms of FDI flows. MIGA staff agreed MIGA's role is to foster FDI flows, but that this would take different forms in different cases. There may be some countries that are not yet benefiting from guarantees but need to have an effective investment promotion strategy first. That would require MIGA to help them focus on those sectors where they have a competitive advantage and likely investors. A guarantee may emerge in the long
run from that. However, Dr. Wint agreed, this involved a certain up-front activity for the countries that have the least access to the global marketplace.

The difficulty with technical services is the issue of compensation. Dr. Hughes cautioned that MIGA will have to concentrate very, very closely on the development impact of its services, and have a clear understanding of the country needs; knowledge and expertise; practical solutions. MIGA is going to have to think carefully about what clients will best be able to use the services that it can provide. And also give some thought to subscriptions, dues, and fees for services.

Opportunities

Dr. Wint suggested that MIGA should think about becoming a world leader in the area of investment promotion research, identifying the best mechanisms for marketing countries as sites for investment and developing a research portfolio in this area. This provision of public goods, of information, of communication links, and of transparency in transactions is a very important role, and a particularly critical place for MIGA's continuing action.

Suggested New Technical Assistance Product

The whole investment environment in a host country has to be at a certain level before it can hope to attract foreign direct investment. Mr. Kobayashi suggested that MIGA, in coordination with the IBRD and the IFC, regional banks and other agencies, could select one or two countries (one in East Africa and one in West Africa, for example) and totally improve the foreign investment environment--legal services, fiscal climate and foreign investment promotion, so we can come up with one or two pioneer countries. MIGA could coordinate economic activities across all sectors. If successful projects came out of the initiative, they could be used as demonstration projects, which in turn would attract more investors. This is an area where MIGA can really show leadership, and would be a unique niche.

Dr. Wint saw benefits in having greater coordination with the rest of the World Bank Group, certainly in the technical assistance area. As it becomes a part of the Bank Group, FIAS is likely to have a policy focus almost exclusively. MIGA can really capture the market in the whole area of promotion, the marketing, the information dissemination, but in a complementary way with the rest of the Bank Group.