Operations Evaluation Unit
2005 Annual Report

April 8, 2005

Document of the Operations Evaluation Unit (OEU)
### Abbreviations and Acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AR</td>
<td>Annual Report</td>
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<tr>
<td>CDP</td>
<td>Community Development Plan</td>
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<td>CODE</td>
<td>Committee on Development Effectiveness</td>
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<td>COSO</td>
<td>Committee of Sponsoring Organizations of the Treadway Commission</td>
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<td>DGO</td>
<td>Director-General, Operations Evaluation</td>
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<td>EA</td>
<td>Environmental Assessment</td>
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<td>ECA</td>
<td>Europe and Central Asia</td>
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<td>ECG</td>
<td>Evaluation Cooperation Group</td>
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<td>EHS</td>
<td>Environmental, Health &amp; Safety</td>
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<td>EI</td>
<td>Extractive industries</td>
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<td>EIA</td>
<td>Environmental Impact Assessment</td>
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<td>EMP</td>
<td>Environmental Management Plan</td>
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<td>EMS</td>
<td>Environmental Management Systems</td>
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<td>EVP</td>
<td>Executive Vice President</td>
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<td>FIAS</td>
<td>Foreign Investment Advisory Service</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FRR</td>
<td>Financial Rate of Return</td>
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<td>FY</td>
<td>Fiscal Year</td>
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<td>GPS</td>
<td>Good Practice Standard</td>
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<td>IC</td>
<td>Investment Climate</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IPI</td>
<td>Investment Promotion Intermediary</td>
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<td>IPP</td>
<td>Indigenous Peoples Plan</td>
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<td>MATR</td>
<td>Management Action Tracking Record</td>
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<td>MDB</td>
<td>Multilateral Development Bank</td>
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<td>MENA</td>
<td>Middle East and North Africa</td>
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<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency</td>
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<td>MYEF</td>
<td>Multi-Year Evaluation Framework for MIGA</td>
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<td>OED</td>
<td>Operations Evaluation Department (IBRD/IDA)</td>
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<td>OEG</td>
<td>Operations Evaluation Group (IFC)</td>
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<td>OEU</td>
<td>Operations Evaluation Unit (MIGA)</td>
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<td>PSD</td>
<td>Private Sector Development</td>
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<td>PRC</td>
<td>Project Review Committee</td>
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<td>PRI</td>
<td>Political Risk Insurance</td>
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<td>RP</td>
<td>Resettlement Plan</td>
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<td>RMC</td>
<td>Risk Management Committee</td>
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<td>ROW</td>
<td>Risks and Opportunities Workshop (COSO)</td>
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<td>SME</td>
<td>Small and Medium-sized Enterprise</td>
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<td>TA</td>
<td>Technical Assistance</td>
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<td>WBG</td>
<td>World Bank Group (IBRD/IDA, IFC and MIGA)</td>
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<td>WGPSE</td>
<td>Working Group on Private Sector Evaluation</td>
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Acknowledgments

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1. PURPOSE, SCOPE AND APPROACH

This report reviews the status of MIGA’s systems to ensure development effectiveness, presents findings of the quality at entry of recent MIGA guarantees and assesses the implementation of previous OEU recommendations.

1.1 The objective of this annual report\(^1\) (2005 AR) is to review the status of MIGA’s quality assurance, internal monitoring, and evaluation systems and processes relative to the achievement of its development mandate. The report highlights the status and changes that have taken place in these systems since OEU’s 2003 Report on Operations Evaluation (ROE). MIGA reorganized in 2004 and it would be premature to evaluate the impact of these institutional changes on MIGA’s development effectiveness. Thus, this report focuses on the extent to which the changes implemented through the first half of FY05 have responded to OEU’s recommendations from previous evaluations and addressed gaps identified in OEU reports. The report also identifies areas that MIGA needs to address when implementing its new strategy and business model. The 2005 AR is intended to help inform the Committee on Development Effectiveness (CODE) and the Board discussions of MIGA’s new medium term strategy, work program, and budget.

1.2 The 2005 AR consists of four main components: 1) a review of MIGA’s systems for quality assurance, monitoring, and evaluation; 2) an analysis of cancellations of MIGA guarantee contracts; 3) a review of MIGA’s ex-ante assessment of development impact for recent guarantee projects; and 4) an update on the status of implementation of previous OEU recommendations. The review of MIGA’s systems for quality assurance, monitoring, and evaluation is based on internal MIGA documents,\(^2\) interviews, and meetings with MIGA staff and managers. The analysis of cancellations is based on data available from MIGA. In line with the Multi-Year Evaluation Framework for MIGA: FY03-FY07 (MYEF) this report focuses on reasons for cancellations, based on available data, in order to supplement OEU’s findings on active projects.

1.3 In FY03 MIGA introduced new requirements for its ex-ante project assessments. OEU reported on implementation progress in its previous annual reports through a review of samples of newly approved guarantee projects. This report includes a similar analysis of MIGA’s ex-ante assessments for some recent guarantees. Building on its experience from the last two years, OEU has developed a standardized approach and used it for this year’s analysis.

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\(^2\) OEU reviewed recent reports analyzing various aspects of MIGA’s operational processes and systems, Board documents, and internal memos and communications.
1.4 The report uses the results from this year’s quality at entry analysis, together with the review of changes in MIGA’s systems, to assess how MIGA has addressed the previously identified gaps. The review of progress made in implementing OEU recommendations is based on the Management Action Track Record (MATR) prepared with input from MIGA management.

2. MIGA’S MANDATE AND CHANGING BUSINESS MODEL

*MIGA began revising its business model in 2004 to better align it with its development mandate, and in part also in response to the decline in guarantee activities since FY02, and to the changing political risk insurance market. MIGA’s new strategic directions and business model have implications for its development effectiveness.*

**Mandate**

2.1 MIGA was created in 1988 with the mandate to promote foreign direct investment (FDI) in developing member countries, through two main products: political risk guarantees (insurance) to private investors, which remain its core business; and technical assistance (TA) and advisory services for investment promotion intermediaries (IPIs) in developing countries. In addition, MIGA also offers information dissemination tools and mediation services to both host countries and investors. Within the World Bank Group (WBG), MIGA has a distinct role and highly specialized instruments.

2.2 MIGA’s political risk guarantees are offered to foreign private investors in developing countries. MIGA’s developmental mandate sets it apart from most other political risk insurers and has implications for its business model. This mandate derives from MIGA’s Convention, which states that MIGA’s objective is to “encourage the flow of investments for productive purposes among member countries and in particular to developing member countries.” The Convention also requires that MIGA satisfy itself that the eligible investments to be guaranteed are economically sound and contribute to the development of the host country and that they are consistent with the declared development objectives and priorities of the host country. These three requirements form the basis for MIGA’s role in contributing to the development of the host countries.

2.3 While its convention sets the mandate, the way MIGA’s mandate has been operationalized and interpreted within MIGA has evolved over time. In May 2004, MIGA issued a mission statement noting that “MIGA’s mission is to promote foreign direct investment into developing countries, in order to support economic growth, reduce poverty and improve people’s lives.” It also notes that “MIGA – a global insurer to private investors and adviser to countries on foreign investment – is committed to promoting projects with the greatest development impact that are economically, environmentally and socially sustainable.”

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3 Articles 2 and 12 of MIGA’s Convention.
BUSINESS MODEL

2.4 MIGA began revising its business model in 2004 to better align it with its development mandate, and in part also in response to the decline in guarantee activities since FY02, and to the changing political risk insurance market.4 The new business model has three pillars: 1) proactive marketing and complementary product lines; 2) a comprehensive risk management framework; and 3) stepped up collaboration with the WBG. Proactive marketing is part of the strategy for building a stronger and more diversified pipeline, and giving MIGA a better chance to implement its strategic priorities by focusing on the sectors, regions, and themes where it sees a comparative advantage. Another related aspect of the business model is to remain more engaged with clients downstream.

2.5 MIGA’s new strategic directions and business model have implications for its development effectiveness. These place greater emphasis on MIGA’s developmental role. MIGA’s FY05-FY07 Business Plan stated that it is first and foremost a development agency that is able to add value and promote the development of its members by facilitating FDI to developing countries even during difficult market situations. The new strategic directions also make development impact a more explicit consideration for operational decisions, and MIGA sees a closer collaboration with the WBG as one way to ensure this objective.

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4 The 2003 ROE noted MIGA’s changing external environment (e.g., terrorism events, decline in FDI to developing countries, and the financial crisis in Argentina) and declining PRI activity, and that MIGA’s strategy had not changed in response to these trends.
3. QUALITY ASSURANCE, MONITORING, AND EVALUATION SYSTEMS FOR DEVELOPMENT EFFECTIVENESS

MIGA has introduced changes in its systems and practices to assess new guarantee projects and technical assistance activities. It has initiated some new elements for monitoring and supervising its portfolio, although these are still evolving and gaps remain. Some of the improvements have been associated with MIGA’s internal reorganization and introduction of a new business model. OEU’s independent evaluation program has continued to grow and mechanisms for feedback to MIGA staff have been established.

3.1 This section summarizes the status of MIGA’s strategies, systems, and procedures for quality assurance, monitoring and evaluation to ensure its development mandate. It highlights changes since OEU’s 2003 Report on Operations Evaluation (2003 ROE) for both guarantees and TA activities. It discusses the extent to which changes in procedures and practices have reinforced the quality assurance, monitoring, and evaluation systems for development effectiveness, and notes remaining gaps, while recognizing that MIGA is still in transition and time is needed for the changes that have been introduced over the past year to take full effect. This section also describes OEU’s experience and lessons learned in implementing its evaluation program and in applying the ex-post evaluation methodology, both endorsed by CODE.

3.2 The 2003 ROE presented an ‘accountability and learning’ cycle to ensure the development effectiveness in MIGA. Typically, quality assurance, monitoring, and ex-post evaluation systems should complement each other, and form a feedback loop for learning to improve the effectiveness of future operations (see Figure 1). At the time of OEU’s 2003 review, MIGA did not have in place all the components of this cycle for either guarantees or technical assistance, and independent evaluation had been introduced only recently. MIGA’s 2004 reorganization and the ongoing implementation of the new business model have strengthened some components of this cycle and added new ones, as described below.

3.3 Strategic Priorities and Managing Strategic Risks. In a changing operating environment, MIGA has been operating under a strategy formulated in 2000, which has been modified slightly through its annual work program and budget documents. MIGA’s 2000 strategy paper prescribed a multi-niche strategy for the Agency with a set of separate priorities for guarantees and technical assistance, under the overall objective of delivering development impact to developing member countries. In the 2003 ROE and the Investment Climate report OEU noted that while MIGA had made some progress in focusing its activities on priority areas, a new strategy was needed to address staff uncertainty about the relevance and direction of the Agency, to capture synergies between guarantees and TA activities, to select TA clients in a way that would ensure high effectiveness and

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development impact, and to define clearly MIGA’s comparative advantage. Similarly, the most recent internal risk and opportunity workshop (December 2004) indicated that in recent years MIGA staff have perceived a lack of strategic direction and common purpose in the Agency. MIGA has recently prepared a Review and Strategic Directions document, which was discussed by CODE and Budget Committee. Management has taken steps to communicate to staff the objectives and MIGA’s new business model.

Figure 1. Accountability and Learning Cycle

3.4 Quality Assurance in the Underwriting Process. As an insurer, MIGA needs to complete its underwriting process within a short time period in order to respond quickly to clients. Quality assurance in underwriting involves all elements of the underwriting process from the receipt of an application from a client to the guarantee contract signing. The main elements of the underwriting process are the ex-ante project assessment (financial viability, economic analysis), environmental and social due diligence, assessment of project risks which MIGA insures, and preparation of the guarantee contract—which are all carried out by the underwriting team. The process also includes discussion of all proposed guarantee projects by the Project Review Committee (PRC),

7 MIGA’s Operational Regulations state that the business standard for reaching a decision on issuing a guarantee is 120 days from the receipt of a Definitive Application.
sign off by operations and legal departments, and a final review by the Executive Vice President (EVP) before a guarantee is submitted to the Board of Directors.

3.5 There have been changes in several of these elements since the 2003 OEU review, although MIGA has yet to formalize many of these changes into internal guidelines or procedures. In 2004 MIGA management prepared draft guidelines for the underwriting process, but these have not yet been officially adopted through a Senior Management decision or communicated to staff. Thus, the changes that may affect development effectiveness described below are based on information obtained from MIGA on current practices.

3.6 *The underwriting team’s focus* on economic analysis of projects has been increased. MIGA also added a social scientist to its in-house capacity and recently recruited an additional economist. The underwriting team consists of an underwriter, an economist/risk management officer, a lawyer, environmental and (where considered relevant) social specialist, and a syndications officer (where appropriate). The economist/risk management officer’s tasks now encompass the assessment of the development impact of projects, including a cost-benefit analysis where required by the approved methodology, in addition to the country risk analysis, and the linkages to and consistency with WBG Country Assistance Strategies (CAS) and activities.

3.7 *Project Review Committee (PRC).* After May 2004, PRC replaced the former Risk Management Committee, which was chaired by the head of the Underwriting Department. PRC meetings (chaired by the EVP) are held as early in the process as possible to provide direction to the underwriting teams, and to determine the key risks/issues that need to be addressed. Thus, underwriting teams can bring a potential project to the PRC anytime they need guidance during underwriting. The Chief Economist is a member of the PRC, thus, development impact issues are now represented more consistently in management reviews of potential projects.

3.8 Management asserts that the objective of the PRC meetings is to provide guidance and clearance to underwriting teams; and that any differences in opinion that may arise on underwriting decisions are largely delegated to and resolved at the level of the underwriting team. Once the due diligence on a project is complete, the guarantee proposal is circulated to a different sector team leader and relevant regional team leader for information and comments. Subsequently, the sector team leader signs off, followed by clearance by the Director of Operations and the General Counsel. The guarantee proposal is then signed by the EVP and submitted to the Board of Directors for concurrence.

3.9 *Development Impact Analysis.* MIGA has taken steps to better communicate to staff the methodological requirements and good practices for preparing the ex-ante development impact analysis of projects. The Chief Economist has recently issued guidelines for the analysis of development impact of MIGA guarantees. These guidelines provide instructions to underwriters and economists on how to implement the methodology, including for the assessment of financial sector projects and projects involving concessions. Training on these guidelines has been offered to staff, and will be repeated periodically.
3.10 Country Risk Analysis and Pricing. In FY05, MIGA adjusted its procedures for country risk analysis and ratings. The Economics and Policy Group now reviews and updates all country ratings more systematically for each country where MIGA has or might issue coverage using benchmark projects to compare risks across countries. Ratings will be updated periodically and are used as an input for setting premium rates, for provisioning, and as a basis for assessing individual project risks. In addition, among other risk management tools that have been changed or introduced recently, is a new methodology for the pricing of MIGA’s guarantees, which was implemented in January 2004.

3.11 Upstream Project Visits. As part of the underwriting process and consistent with its new business model, MIGA is now conducting field visits by teams of underwriters, economists, and environmental and social specialists for the due diligence on most non-financial sector projects.

3.12 Environmental and Social Safeguard Clearance. MIGA is required to satisfy itself that its projects are environmentally and socially sound. It assesses the projects against its own environmental and social safeguard policies and guidelines. Since 1997 MIGA has had an environmental unit that is responsible for setting up procedures, formulating and revising policies, carrying out project environmental assessments, and undertaking selective monitoring. In 2004 a social scientist was added to MIGA’s in-house environmental staff, and MIGA began scaling up project visits by environmental and social specialists as part of their due diligence and project clearance. These steps were in part in response to recommendations from OEU (see Section 6).

3.13 Quality Assurance in Technical Assistance. OEU’s Investment Climate report identified a need for MIGA to improve the selectivity for its TA activities offered to IPIs to ensure its effectiveness. While demand-driven diagnostic needs assessments continue to be offered to all developing countries, longer term TA programs are provided based on whether the findings from needs assessments on country conditions and ability to absorb assistance warrant a more in-depth TA program. The main change in the approval process for TA services is that potential long term TA activities now require a Project Concept Note which is discussed by the PRC, implementing for the first time an ex-ante review mechanism for TA activities.

SUPERVISION AND MONITORING

3.14 Monitoring and supervision systems in MIGA are still evolving and gaps remain. The 2003 ROE noted the almost complete lack of self-evaluation, which made it difficult for MIGA, among other things, to ascertain whether its projects—and its overall guarantee portfolio—fulfilled the Agency’s development objectives. MIGA’s new Strategic

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8 MIGA’s Convention (Art. 12) and MIGA Environmental and Social Review Procedures, paragraph 5. MIGA’s Environmental Assessment and Disclosure Policies and its Interim Safeguard Policies were approved by the Board in 1999 and 2002, respectively. These policies and procedures reflect MIGA’s role as an investment insurer for the private sector.

9 Environmental and social specialists conducted in-field due diligence for two out of five non-financial sector projects processed between May 2004 and March 15, 2005, which involved complex EHS issues.
Directions paper indicates the intention to strengthen the monitoring and control functions within the Agency to improve MIGA’s effectiveness and efficiency and aims to create an integrated monitoring and evaluation system for both guarantees and TA. Some activities have already been initiated and are reviewed briefly in this section.

3.15 **Guarantee Project Monitoring.** In FY05, MIGA’s Operations Group initiated a pilot program for monitoring on-going guarantee projects via on-site visits, with the objective of learning from them and to gather information on their development impact.\(^{10}\) The monitoring method focuses mostly on qualitative indicators of development benefits. Monitoring guidelines, project selection criteria, and internal dissemination and learning mechanisms have yet to be formalized. Currently, for cost effectiveness reasons projects are visited when opportunities arise for combining them with other operational work.

3.16 **Guarantee Closing Notes.** In its 2003 ROE OEU highlighted the need for a guarantee closing note to record “the achievement of project objectives, lessons learned, and developmental and other impacts for institutional learning, analysis, and accountability” for projects whose guarantees were cancelled, terminated or have expired. In November 2004, MIGA introduced an expanded contract closing note for all projects that were cancelled, expired, or were terminated. Currently these notes record the reason for cancellation (or termination), the project status at the time of guarantee closing, and other comments, but do not address the achievement of project objectives and development impacts.\(^{11}\)

3.17 **Compliance with Environmental and Social Safeguard Policies.** The Economics and Policy Group has begun implementing an expanded program to monitor environmental and social aspects of guarantee projects, in line with earlier OEU recommendations.\(^{12}\) MIGA’s active non-financial sector projects (currently more than 200) are classified according to their priority for monitoring; this list is reviewed and updated periodically. Site visits have been scaled up compared to previous years.\(^{13}\) The Group’s database is also being expanded to track the contractual obligations of environmental and social aspects of guarantee projects and key dates for follow-up.

3.18 **Supervision of TA activities.** In its Investment Climate report OEU recommended the implementation of a systematic monitoring system to track the progress and impacts of TA projects, and to measure costs and efficiency. In FY04, MIGA began to track its

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\(^{10}\) Five projects were already visited by MIGA’s Operations Group between July 2004 and February 2005. These had been in MIGA’s portfolio for at least three years. Projects already visited by environmental or social specialists were excluded to avoid duplication.

\(^{11}\) Up to March 2005, nine closing notes were prepared for six cancellations, two expiries, and one termination. Early feedback from MIGA management on its experience with closing notes indicates that there have been cases in which it has been difficult to obtain information from investors whose coverage ended as they have no legal obligation to further cooperate with MIGA.

\(^{12}\) The 2003 ROE found that MIGA did not do any systematic follow-up on its projects, and that limited site visits were only conducted for “sensitive” (category A) projects to check compliance with EHS policies or when problems arose. Also see Extractive Industries evaluation and 2004 RDE.

\(^{13}\) Between July 2004 and March 2005, 20 environmental or social supervision visits have been carried out compared with zero in FY04 and five in FY03.
delivery of individual TA projects against milestones and objectives in the work program, which is reviewed quarterly. MIGA recently completed (with FIAS) four case studies of Investment Promotion Intermediaries (IPIs) that have received assistance from MIGA. It is currently conducting an IPI performance benchmarking exercise, the results of which should provide a baseline for the effectiveness of intermediaries MIGA will assist in the future. MIGA has also tracked user statistics for its web-based dissemination services.

3.19 **Management Information System.** Work is currently under way to define needs and scope of work for a new guarantees database, including a client relationship database and new resource management tools. In addition to the lack of an integrated management information system, little information is currently available on the efficiency of MIGA guarantee and TA operations. There are no measures to determine the cost efficiency of underwriting a guarantee and for determining the contribution of a guarantee project to MIGA’s profitability.

**INDEPENDENT EVALUATION**

3.20 MIGA’s independent evaluation function was introduced in FY03 with the establishment of OEU to strengthen the accountability for development impact and lessons learned in MIGA.\(^{14}\) Prior to that, MIGA and the DGO had agreed on an appropriate evaluation methodology. CODE endorsed this methodology together with the MYEF, which defined OEU’s scope of evaluation work, covering guarantee projects, technical assistance, information and mediation services, joint country, sectoral and thematic evaluations, and evaluation of institutional strategy, efficiency and effectiveness.

3.21 Since its establishment, OEU has broadened its evaluation scope in line with the MYEF, starting in FY03 with ex-post guarantee evaluations and adding each year new areas or aspects to its work program. Ex-post guarantee evaluations remain a core activity, and OEU evaluates each fiscal year a sample of mature, active guarantee projects, using the CODE-approved methodology.\(^{15}\) An approach for evaluating MIGA’s TA was developed in FY03 and applied to two case studies in FY04.\(^{16}\) This fiscal year OEU began developing a method for evaluating MIGA’s information dissemination Web-based services. OEU has participated in two major joint thematic OED/OEG/OEU evaluations (of Extractive Industries\(^ {17}\) and Investment Climate Activities, respectively), preparing self-standing reports on MIGA. It has also provided input to three OED Country Assistance Evaluations.

\(^{14}\) OEU’s Terms of Reference (August 2002).

\(^{15}\) A project is considered mature after having been in MIGA’s portfolio for at least three years and having been operational for at least 18 months.

\(^{16}\) OEU’s project-level evaluation findings for guarantees and TA were reported to CODE and the Board in the 2004 Review of Development Effectiveness (2004 RDE). The evaluation results of guarantee, TA, and information services from FY03-FY05 will be presented in OEU’s 2006 Annual Report.

3.22 **Harmonization of Evaluation Standards.** OEU participates in the Working Group on Private Sector Evaluation (WGPSE) of the Evaluation Cooperation Group (ECG). In developing its own methodologies and practices OEU has sought to harmonize its own methodologies and practices with the good practice standards of this group. The most recent Benchmarking Review of the WGPSE\(^\text{18}\) noted that in the case of MIGA, OEU “has now adopted procedures that are broadly consisted with the Good Practice Standards (GPS) and has begun issuing annual reviews on its own evaluation findings.” It also noted that among seven multilateral organizations in the group “MIGA achieved the highest percentage point increase [in compliance with GPS], from 23% to 73%,” mainly attributable to OEU’s independent evaluation work.

3.23 The WGPSE benchmarking report noted the continued need to harmonize operational practices of Multilateral Development Banks with evaluation good practice standards; recognizing that these operational practices are mostly outside the control of evaluators. One major component found lacking in MIGA was systematic self-evaluation which could serve as input to OEU’s independent evaluation; as a result, MIGA has been rated “non-compliant” in all good practice standards relating to self-evaluation. The report notes that full harmonization will be possible once this element is incorporated into MIGA operations.

3.24 **Independent Evaluation Experience and Lessons Learned.** Some of the lessons OEU learned in the course of carrying out its independent evaluation function are noted below.

3.25 **Feedback Loop and Learning from OEU Evaluations.** One of OEU’s priorities has been the establishment of a systematic feedback mechanism of evaluation findings into operations. In FY04, OEU initiated a series of structured meetings with operational staff and managers to discuss in detail the results of ex-post evaluations of guarantee projects and the results of OEU’s quality at entry assessments of current underwriting. These meetings have been very useful for the learning component of OEU’s mandate. OEU will continue the practice of structured meetings for all of its individual project evaluations and explore other feedback mechanisms to facilitate the application of its lessons in operations.

3.26 **Level of Evaluation Activity and Resource Allocation.** Carrying out a minimum level of evaluation has required more resources than was contemplated in the MYEF, for two reasons. First, the lack of regular project monitoring in MIGA meant that each OEU ex-post evaluation has had to be treated as a case study with considerable time spent in-house and in the field reconstructing and obtaining information for a cost-benefit analysis. And second, before the evaluation of each MIGA product could be done, significant resources are needed up front to design methodologies, procedures, instruments, and guidance material.\(^\text{19}\)

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\(^{19}\) For example, for the evaluation of guarantees the MYEF and the Methodological Note only provided general guidance for evaluation rather than an implementable method. Thus, OEU had to devote considerable efforts to design metrics, instruments, and guidelines.
3.27 **Joint Evaluations.** OEU participated with OED and OEG in the Extractive Industries and Investment Climate evaluations, which resulted in specific recommendations for MIGA that added considerably to the evaluative knowledge. These efforts were resource-intensive given the lack of any prior evaluation database, thus, requiring new evaluative work. OEU will participate selectively in future joint evaluations given its modest resources—when a topic is relevant and the potential for learning is high for OEU and MIGA.

3.28 **Sampling for Ex-Post Evaluation.** The sampling of guarantee projects and maturity criteria envisaged in the MYEF (modeled after OEG’s methodology) has posed a challenge due to the particular characteristics of MIGA’s guarantee project cycle. The MYEF defined project maturity as projects that have been under guarantee coverage for at least three years and have been operational for at least 18 months. But at the same time it identified the population of active and mature guarantee projects (for OEU to select from) as those that have been guaranteed for five years or longer.\(^{20}\) However, this evaluation pool may not be representative of all MIGA guarantees due to the high percentage of early cancellations. Approximately one-third of all MIGA guarantee contracts are cancelled by the investors during the first three years of guarantee coverage, i.e., before reaching early maturity, and are thus not subject to independent evaluation (see Section 4 for an overview of cancellations).\(^{21}\)

3.29 **Evaluation of Technical Assistance.** OEU’s evaluation of MIGA TA encountered difficulties in linking impacts (e.g., changes in FDI flows) to MIGA activities, due to intervening variables, a common limitation of evaluating technical assistance programs. Currently, OEU uses interviews with stakeholders and surveys of IPI clients to assess the effectiveness of MIGA TA. OEU will work with its WGPSE partners to fine-tune its methodology and instruments.

3.30 **Remaining Methodological Challenges.** Two main areas of methodological work remain. First, the assessment of MIGA’s overall effectiveness and efficiency, a component of the MYEF. This requires metrics to evaluate, *inter alia*, MIGA’s overall profitability and financial soundness, as well as the contribution of individual guarantee projects to MIGA’s profitability. This work remains a challenge due to MIGA’s specialized insurance product (which makes it difficult to apply profitability indicators similar to those of a lender or investor like IFC) and due to the lack of data. The second area is the ex-post evaluation of projects with cancelled guarantees. This poses a challenge because of lack of access to former guarantee holders to obtain information needed for evaluation.

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\(^{20}\) OEU is planning to apply the early maturity selection criteria of three years of coverage and 18 months of operations starting in FY06 to include more recent projects in the pool of guarantee project evaluations. While the expanded pool will still exclude the projects with guarantee contracts cancelled in the first three years of guarantee issuance, it will capture those being cancelled in the fourth and fifth year.

\(^{21}\) In this regard, the WGPSE benchmarking review noted that “for MIGA it is almost impossible to meet the standards on sampling. MIGA, thus, will not have access to the project sites and the information needed to evaluate these operations (unless it could modify its guarantee documentation to permit access for evaluation purposes). Its evaluation results will consequently be subject to bias and hence, cannot be compared with the evaluation results of other members.”
4. GUARANTEE CANCELLATIONS

Early guarantee cancellations constitute a significant share of total guarantees issued and have implications for OEU's sample selection for ex-post guarantee project evaluations, leading to a possible sampling bias. The majority of guarantee cancellations occurred while the investment project was still financially successful, but there is little information on the actual development impacts of these projects.

4.1 This section provides an overview of the trends and reasons of cancellations of MIGA guarantee contracts, which OEU reviews as part of the MYEF. Since its inception through FY04, MIGA has issued 711 contracts of guarantee in support of about 453 projects.22 As of June 30, 2004, about 46 percent of these guarantee contracts (324) have been cancelled either by the guarantee holder or by MIGA (i.e., terminated) before reaching their expiration date.23

Figure 2. Number of Guarantee Contracts Issued and Cancelled by Fiscal Year

![Graph showing number of contracts issued and cancelled by fiscal year](image)

Source: MIGA

4.2 Figure 2 compares the trends in the last 15 years for guarantee contract issuance and cancellations. Both the number of guarantee contracts and cancellations increased steadily until FY97. While the number of guarantees issued peaked in FY99, cancellations declined. Since then guarantee contracts issued have declined somewhat, whereas

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22 Total number of guarantee contracts issued also includes “reissued” contracts, replacing existing guarantees.

23 The total number of MIGA initiated terminations is only available for the period of FY01-04 (Figure 4).
cancellations increased in FY98 and reached their highest numbers in FY02-03, before declining in FY04. Data on guarantees volumes (in dollar amounts) show a similar pattern, but with cancellations constituting a smaller percentage of issued guarantees.  

4.3 **Cancellation Patterns by Region, Sector and Client.** ECA and LAC had the two highest shares of guarantees issued, and the highest shares of cancellations (34 percent and 31 percent of total cancellations, respectively). The sectoral breakdown of cancellations shows that financial sector projects accounted for the largest share of cancellations (30 percent) followed by manufacturing projects (27 percent) and infrastructure projects (20 percent). Cancellations by client are consistent with the sectoral pattern in that the five clients with the highest number of contracts cancelled between FY92-FY04 were all in the financial sector (together accounting for 21 percent of all cancellations). (For regional and sectoral shares of cancellations, see Annex 3.)

![Figure 3. Number of Years from Contract Date to Cancellation As a Percentage of Total Guarantee Contract Cancellations during FY92-04](image)

Source: MIGA

4.4 **Early Cancellations.** In terms of numbers of guarantee contracts, during FY92-04, 65 percent of all cancellations (initiated either by clients or MIGA) occurred before or at the third anniversary of the contract date. Figure 3 shows the distribution of cancellations according to the number of years that the contracts have remained active. Twenty-five percent of cancellations have occurred exactly at the third anniversary, when the penalty for cancellations no longer applied.  

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24 Over the 1992-2004 period, on average, annual cancellations were about 11 percent of MIGA’s stock of gross coverage (in US$); for the period 2000-04 it has increased slightly to 12 percent. This is consistent with the PRI industry.

25 The penalty for cancelling a guarantee contract before the third anniversary is equivalent to 50 percent of the total premium due for the remaining contract period up to the third anniversary. This fee does not apply if a project did not go ahead, the loan is fully paid, or the investment is sold, since there is no longer an
39 percent of all cancellations, and were mainly due to switching to self-insurance, terminations by MIGA when premia were not paid, and early loan repayments. As noted earlier, guarantee cancellations also have important implications for the sample selection for ex-post evaluation. Almost one-third of all MIGA guarantees issued have been cancelled within the first three years after contract effectiveness (i.e., 210 out of 711).

4.5 **Reasons for Guarantee Cancellations.** MIGA has tracked the reasons stated by its clients for canceling guarantees since FY01; systematic information for earlier cancellations is not available. Figure 4 shows the reasons given by MIGA guarantee holders at the time of cancellation as well as the share of MIGA-initiated terminations (13.8 percent), mainly due to default on premium payments. The most common reasons given by clients were early repayment of loans (22.8 percent), switching to self-insurance (19.8 percent), and sale of the project (14.4 percent). Cancellations due to project-specific problems (i.e., the project did not go ahead or ran into financial difficulty) accounted for less than five percent. Default on premium payments resulting in the termination of a guarantee by MIGA may also include cases of projects being in difficulty. For about four percent of the cases, a reason was not recorded. Thus the majority of cancellations took place when the investment was still successful from a financial standpoint, and in some cases (i.e., self-insurance) the investors’ perception of political risk had improved. Hence, for the majority of cases, MIGA has fulfilled its role of facilitating FDI. However, there is little information available on the actual development impact of these projects.

![Figure 4. Reasons Given by Clients for Canceling a Guarantee Based on Guarantee Contract Cancellations during FY01-04](image_url)

investment to be guaranteed. There may also be other cases of exemption from penalty on a case-by-case basis.
5. ASSESSMENT OF EX-ANTE DEVELOPMENT IMPACT
ANALYSIS OF NEW PROJECTS

Several aspects of quality at entry of guarantee projects reviewed have improved, notably the analyses of project’s strategic relevance, MIGA’s role and contribution, social aspects, and the use of contracts of guarantees for environmental and social compliance. However, there are remaining areas for improvement, in particular, the financial and economic analyses of projects still lacked rigor.

APPROACH

5.1 Since FY03, OEU has tracked MIGA’s progress in strengthening the ex-ante assessment of guarantee projects, by analyzing each year a sample of newly approved guarantee projects. This year, OEU has adopted a standardized approach for reviewing the quality of the ex-ante assessment of guarantee projects during underwriting, which is described below.

5.2 Projects Selected. OEU assessed four MIGA guarantee projects out of 14 new projects26 submitted to the Board for which contracts of guarantee were executed from May 1, 2004 to December 31, 2004. The four projects were in the financial, manufacturing, infrastructure, and oil and gas sectors in ECA, Africa and the MENA regions. One was a SME and South-South project. These projects were processed during a transition period when the MIGA business model and processes were being revised and implemented. Out of the four projects, one was underwritten under the former process but approved by the new management; another was prepared earlier and also reviewed under the new processes; and the remaining two were underwritten mainly under the processes after May 2004.

5.3 Methodology and Process. OEU’s quality at entry assessments focus on MIGA’s analysis of a project’s anticipated development impact and risks and on the justification for MIGA’s support for the project presented in the decision documents (particularly the Underwriting Paper and President’s Report to the MIGA Board). Quality at entry is assessed relative to MIGA’s policies and guidelines as well as to the commitments it has made to the Board regarding its project impact assessment. OEU used a standardized approach that follows the ex-post evaluation dimensions endorsed by CODE in FY02 (see Box 1).

5.4 OEU has developed indicators and benchmarks for assessing the quality at entry with respect to MIGA’s Project Analysis and Institutional Analysis.27 While the

26 These fourteen projects involved nineteen guarantee contracts (since projects can have more than one MIGA guarantee contract). Out of these 14 projects, ten of which were in the financial sector and seven were sponsored by the same investor in five countries.
27 For Project Analysis the dimensions are: assessment of business performance, contribution to economic sustainability, EHS and social impact, and PSD impact. For Institutional Analysis the dimensions are:
dimensions apply to both financial and non-financial sector projects, sector appropriate indicators have been developed for these projects to assess their financial viability and economic sustainability. These indicators and guidelines were shared with MIGA operational managers and staff before the start of the review. OEU used a panel approach to assess the selected projects. After preliminary ratings were assigned to each project, OEU met with individual project teams and MIGA operations managers to discuss the assessments. Annex 1 provides details on the methodology and process, and presents a condensed version of the quality at entry questionnaire.

### Box 1. MIGA’s Methodology for Project Impact Analysis

The Methodological Note endorsed by CODE in 2002 sets out the framework for MIGA to carry out the development impact analysis of guarantee projects. Under this framework, non-financial sector guarantee projects for which the Definitive Application was received after July 1, 2002 should include a financial rate of return (FRR) and also a full economic cost-benefit analysis when substantial distortions and/or negative externalities exist. In addition to the assessment of financial viability and a project’s economic contribution, the methodology requires that MIGA assess a project’s development impact in terms of the benefits accruing to non-financiers (i.e., stakeholders) and according to its consistency with the Private Sector Development strategy as well as with MIGA’s environmental, health, and social policies.

For financial sector projects the framework requires that a project’s *ex-ante* appraisal should consider the impact on “the structure of the financial sector, the resources provided and the resource allocation of the intermediaries supported among other factors” instead of an FRR. For a detailed description of the requirements see Annex 1.

MIGA’s Chief Economist issued guidelines to staff on December 30, 2004 to provide guidance to MIGA underwriting teams on how to analyze the development impact of guarantee projects, clarifying the requirements of the Methodological Note, and providing detailed instructions on how the development impact analysis of different types of investments should be conducted.

### FINDINGS

#### 5.5 Overall findings

MIGA continues to improve the implementation of the requirements of the Methodological Note. However, the analysis of development impact still needs strengthening, particularly in the areas of business performance and contribution to economic sustainability (Figure 5). Among the four projects assessed this year, one could serve as best practice example for MIGA’s quality at entry work across all the seven assessed categories. (Box 2 on the best practice example.) The analysis of the three other projects had aspects in need of improvement.

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assessment of strategic relevance, MIGA’s role and contribution, MIGA’s underwriting, assessment and monitoring, and contribution to MIGA’s profitability. Since the indicators for assessing the contribution of individual projects to MIGA’s profitability are not yet available, this dimension was not covered in this review.
Box 2. A Best Practice Case for Quality at Entry

One project consistently stood out as an example of best practice for MIGA’s underwriting work. The analysis established clearly the project’s financial viability, net economic contribution, EHS and PSD impacts on the host country, and justified MIGA’s support for the project on the basis of the project’s relevance to the host country, WBG’s and MIGA’s own objectives and priorities. The analysis also demonstrated MIGA’s additionality by providing political risk coverage to a complex, multi-country project that proved to be difficult for any private or public insurer to provide coverage on its own.

This project also provided a good example of how MIGA can leverage its limited resources and work with other units within the WB and with the project sponsor in various aspects of the project process and analyses. Environmental and social due diligence was a collaborative effort between MIGA and the WB units involved, while extensive field work was carried out by independent environmental and social experts hired by the project sponsor. The collaboration was particularly crucial due to the high profile of this project - located in a highly contentious area. MIGA carried out several site visits to address both environmental and social issues, including concerns about governance, and to ensure that community consultations were conducted properly. MIGA played a joint lead role and was a substantial partner with the WB in reviewing and approving the environmental and social safeguards that have been incorporated into the project. As a result, a carefully crafted agreement, in accordance with the requirements of MIGA’s Involuntary Resettlement Policy, was reached with the project sponsor to provide MIGA monitoring information on the implementation of the Community Development Program and disclosure of memorandum of understanding with communities in all countries involved.

While the Bank conducted a thorough project appraisal of the project’s financial, economic, environmental, social, and technical viability, MIGA was actively involved in many aspects, raising issues, clarifying and improving the analysis. MIGA’s inputs also improved the project’s risk assessment and enhanced the private sector perspective in the joint project document submitted to the Board for approval. The synergy demonstrated by the parties involved in this project shows the significant potential for collaboration between MIGA and other units of the WBG, particularly such complex projects.

AREAS WITH IMPROVEMENT

5.6 Implementation of the Established Project Methodology. All four projects have implemented most of the elements of the project impact analysis set out in the Methodological Note. Analysis by MIGA of the three non-financial sector projects included a financial rate of return (FRR) and the one financial sector project provided a clear economic rationale.

5.7 Strategic Relevance. Analysis of the projects’ strategic relevance improved based on the four reviewed projects. OEU found the analysis of this category to be adequate, appropriate and coherent in most cases (Figure 6). The strategic relevance of the projects was assessed in terms of their linkage and consistency with the host country’s, the WBG’s and MIGA’s priorities and strategies. Only one out of the four cases did not provide an
adequate explanation of how the project supported the host country’s priorities and strategies and whether it was in line with the WBG’s strategy; this project was, however, consistent with MIGA’s support for post-conflict countries, SMEs, and South-South investments.

5.8 **MIGA’s Role and Contribution.** The analysis of MIGA’s additionality, i.e., whether MIGA played an important role in mitigating political risk or whether the project could have gone forward without MIGA’s insurance, has improved. Nevertheless, this has not been applied consistently across all projects. One project assessed this year lacked an adequate explanation of how MIGA’s guarantee enabled this investment to proceed.

5.9 The analysis of MIGA’s value-added or enabling role and in some cases, MIGA’s responsiveness to the investor’s needs and/or host country concerns, was presented more explicitly in the underwriting documents. In three cases, MIGA was able to help the sponsors improve certain aspects of the projects. In these cases, MIGA contributed to the improvement of the projects’ environmental, health and safety and social performance by requiring the guarantee holders to strengthen the environmental compliance and reporting and specifying in detail these requirements in the contracts of guarantee.

5.10 **Adherence to Environmental and Social Policies, Guidelines and Procedures.** The four reviewed projects included one A, two B and one C category (financial sector) projects which were all appropriately categorized according to MIGA’s safeguard policies and procedures. MIGA applied its Environmental Assessment policy to the category A and B projects as required by its procedures. All applicable specific safeguard policies were identified correctly for the two projects where these policies were relevant, and related information was available in MIGA files. In addition, MIGA selected the appropriate Environmental, Health and Safety (EHS) Guidelines which applied to these projects, according to their specific sector.
5.11 **Contracts of Guarantee** for the three category A and B projects dealt well with the need for reporting on EHS and social compliance and each one specifically identified MIGA’s EHS Guidelines applicable to the project. Where there were special EHS or social requirements that had to be met by sponsors, these were also detailed in the contracts of guarantee. This finding indicates an improvement in the effective use of contracts of guarantee in this respect, compared to previous years.

5.12 **Social Aspects of Projects** were addressed according to MIGA’s policies and were well analyzed within the context of MIGA’s involvement. MIGA took a proactive approach in one case which is considered a good example for engagement in social aspects of future projects. (See Box 3 on addressing social aspects of a project.)
Box 3: Proactively Addressing Social Issues in a Project

MIGA’s ex-ante analysis and intervention in the project’s socio-economic issues can be considered exemplary for one category B project, especially in light of the political sensitivities surrounding it. Complex socio-economic issues relating to a vulnerable group in the concession area of the project were specifically researched by MIGA and provisions for follow-up social audits of the affected community by MIGA were incorporated into the contract of guarantee. MIGA was concerned from the beginning of its involvement with the sponsor about the impacts of this project on the welfare of this community, but was requested to delay its own assessment until after contract negotiations had taken place with the community associations.

The detailed monitoring provisions added in the contract of guarantee incorporated MIGA’s concern about the impacts of this project on the welfare of the group that will be most affected. It would also ensure that the guarantee holder would comply with MIGA’s recommendations. A full-fledged baseline household survey could not be undertaken at the appropriate time, since MIGA’s social scientist was included in the team at a late stage of the due diligence process. However, MIGA was able to assemble a baseline by using available socio-economic data from past studies on this well-researched community.

AREAS NEEDING IMPROVEMENT

5.13 In three out of the four cases there were areas for further improvement, particularly in the analysis of the project’s business performance and contribution to economic sustainability as well as in the ex-ante assessments of EHS impact.

5.14 Assessment of Project’s Business Performance. Although projects presented an FRR, analysis of business performance was still weak in three out of the four projects reviewed. While two non-financial sector projects included an FRR, those were not based on sufficiently solid analysis, and there were inconsistencies in the underlying assumptions. These inconsistencies can be traced in part to inadequate supporting documents, to insufficient information obtained from the project sponsors, or to the inadequate interpretation of financial data. The assumptions underlying the financial projections were not always articulated clearly in MIGA’s decision documents. In the case of the financial sector project, financial viability ratios under alternative scenarios were not provided in decision documents. OEU has previously recommended that MIGA improve its assessment of projects’ financial viability, including commercial factors or risks affecting business performance throughout the project life. This continues to be an area for further attention.

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28 Supporting documents were missing in two out of the four cases assessed. While one case had sufficient documentation, this was not reflected appropriately in MIGA’s analysis. In another case, the financial data did not support the assertion of a financially viable project.
5.15 **Assessment of Project’s Contribution to Economic Sustainability.** The accurate identification of distortions and externalities applicable to each project remained an issue in the analysis of a project’s economic contribution. One non-financial sector project did not address directly the issue of distortions; another stated that there were no distortions or negative externalities although the investor’s business plan noted that the project would benefit from tariff protection over the project life. Only one of the three non-financial sector projects implemented a full economic cost-benefit analysis and presented an economic rate of return (ERR).

5.16 In two projects, the potential winners and losers were not identified and the projects’ impacts on stakeholders were not assessed. A third project focused on the key stakeholder because of the politically sensitive nature of the project, while the effects on other potential stakeholders were not addressed sufficiently. The continuing gaps in the economic sustainability analysis make it difficult to establish whether guarantee projects are economically sound.

5.17 The analysis of the financial sector project provided more sectoral context than other projects reviewed earlier, but lacked more project specific information related to its likely impact on the structure of the financial sector and the resource allocation policies of the financial institution (as required by the approved methodology). At the time of preparation of this project, MIGA did not yet have specific guidelines on how to assess the financial viability and contribution to economic sustainability of financial sector projects.

5.18 **Assessment of EHS and social impact.** As noted above, MIGA followed its environmental and social safeguard policies and procedures, addressed social issues, and used contracts of guarantee in the upstream work on environmental and social aspects. However, the OEU review also identified areas that require further attention:

(a) **Quality of Environmental Management Systems (EMS) and Environmental Management Plans (EMPs).** For the two category B projects, information on file was not sufficient to assess the management capacity of the investor to implement MIGA’s EHS guidelines. The information contained in the EMP for these projects provided by the investors was found by OEU to be inadequate as a basis for managing the EHS aspects of the operation, or for taking future corrective actions if needed.

(b) **Project’s Compliance with Environmental Guidelines.** One project involved an investment component which is subject to one of MIGA’s guidelines on emission of toxic pollutants. The information MIGA obtained from the investor (included also in the EIA) provided the technical specifications for this investment component which was to be built during project implementation. Using these specifications, OEU has estimated that when built and fully operating, emissions of two toxic pollutants would significantly exceed MIGA’s guidelines.\(^\text{29}\) If MIGA had addressed this issue upstream, it could have ensured compliance of this

\(^{29}\) The EIA submitted by the investor does not provide any emission estimates. The investor stated that the operation will conform to European Union (EU) standards, but OEU has estimated that, at full capacity, emissions of two pollutants would significantly exceed MIGA’s and EU standards.
component with its environmental guidelines by modifying the technical specifications as appropriate, or it could have identified and justified this variation.\textsuperscript{30} \textsuperscript{31}

(c) Environmental Audits of Existing Operations. The two category B projects, which had been in operation prior to MIGA insurance, did not have environmental audits. MIGA’s Environmental and Review Procedures indicate that such audits are usually required for existing plants.\textsuperscript{32} In one case MIGA has justified why an audit would not be required. In the second case, where MIGA is a re-insurer, the environmental audit was postponed until nine months after contract signing. This carries a potential risk for MIGA because it commits itself to supporting a project without full knowledge of actual environmental impacts. In this case, MIGA’s partner (a bilateral insurer) did not have adequate capacity to support MIGA’s efforts in environmental and social compliance either by providing information or conducting audits or reviews on MIGA’s behalf. (MIGA conducted a training session for several insurers which was hosted by this partner in March, 2005.)\textsuperscript{33}

\textsuperscript{30} MIGA’s Environmental and Social Review Procedures require that each project insured complies (or will comply) with the more stringent of environmental requirements of the host country or MIGA’s environmental guidelines. Alternative emissions levels may be recommended taking into account factors like local conditions, but must be approved by the EVP and identified and justified in documents submitted to the Board. Environmental Guidelines, para. 11.

\textsuperscript{31} MIGA Management notes that: “MIGA’s environmental specialists have a professional disagreement with OEU on this point. The representation by the investor, a sophisticated European firm with experience in this area, was that this small medical waste incinerator will comply with EU standards and hence MIGA guidelines. This is a reasonable representation. MIGA’s environmental specialist did review the specifications submitted, and concluded also that this appeared reasonable. And MIGA has, in the signed contracts, requested the sponsors to provide monitoring data to verify performance, which for such an incinerator is the only way to confirm compliance. Emissions in excess of MIGA guidelines would be in violation of the contracts. It should be noted that following contract signing, a delay in the decision by the authorities to authorize use of land for the incinerator has delayed final engineering design”.

\textsuperscript{32} MIGA’s Environmental and Review Procedures state that “MIGA usually requires the project sponsor to retain an independent consultant to complete an environmental audit of the existing plant and may require the project sponsor to undertake programs to bring the existing plant into compliance with applicable MIGA policies and meet applicable guidelines within a reasonable time frame”. This applies to all projects involving expansions, modernizations, and retrofits.

\textsuperscript{33} MIGA Management notes that: “The environmental audit is specifically required in the contract, to be completed within nine months of contract signing. It could not be completed prior to contract signing as the audit could only be effectively completed once the plant was back in operation, and it would not be back in operation until the financing had been arranged (for which MIGA cover was a pre-condition), the purchase completed, and the factory refurbished. MIGA was also not relying on the bilateral insurer to carry out this work, as their capacity for such review is limited. MIGA is also providing technical assistance to this insurer on environmental and social review issues to upgrade their capacity.”
NEW ELEMENTS ASSESSED

5.19 To align the approach used for ex-ante assessment with its ex-post evaluation methodology, OEU also assessed MIGA’s work in underwriting and in using lessons learned from past operations.

5.20 MIGA’s work in underwriting, risk assessment and in including monitoring arrangements. The assessment of project risk and analysis of mitigating factors were well articulated in all four cases. In two of the cases reviewed, the underwriting paper and contract of guarantee did not reflect appropriate monitoring arrangements with specific indicators, which would clarify information requirements from clients during implementation. In one case, MIGA’s analysis was unclear about the project scope, although the information was provided by the project sponsor.

5.21 Lessons Learned. MIGA still needs to integrate lessons learned from similar projects guaranteed in the past (whether in the same sector or country) and to link these lessons of experience with either assessment of risk, pricing of premium or seeking improvements in the project design. Lessons of experience were not integrated in the analysis in any of the four cases reviewed although the host country’s claim history is often noted in MIGA’s underwriting papers.
6. STATUS OF IMPLEMENTATION OF PREVIOUS OEU RECOMMENDATIONS

MIGA has made progress in meeting most of previous OEU recommendations, particularly in the area of institutional prerequisites for improving project assessment and in its assessment and monitoring of safeguard policies, but has yet to implement fully recommendations related to strengthening the project impact analysis, monitoring and the supervision of its portfolio, and the alignment of its safeguard policies with the revisions being made in those of IFC’s.

6.1 Previous OEU recommendations from four OEU reports$^{34}$ have covered several areas: the strengthening of ex-ante assessments of MIGA guarantees, monitoring, social and environmental safeguards, partnerships, and strengthening strategic selectivity and monitoring of technical assistance activities. As was agreed at the CODE discussion of OEU’s 2004 RDE report, this AR presents the complete list of all OEU recommendations to date and a description of progress towards their implementation in a Management Action Tracking Record (MATR).

6.2 The pace of implementation of OEU recommendations has accelerated in FY05 and notable progress has been made.$^{35}$ Certain recommendations have been fully or partially met as a result of the implementation of MIGA’s new business model and the new internal organization, while others have required separate, specific actions and decisions from MIGA management. MIGA has been most successful in implementing recommendations related to establishing the structure for improving project assessments during underwriting, and assessing and monitoring environmental and social safeguards. Progress in implementing project impact analysis, monitoring initiatives and formalizing partnerships has been more modest. The recent progress has been encouraging, however there are still a group of recommendations that have either not been implemented or their implementation has just begun. These areas require continued attention in the future.

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$^{34}$ To facilitate the cross reference with each numbered recommendation in different OEU reports, the following abbreviations are used: ROE for the 2003 Report on Operations Evaluation in MIGA; RDE for 2004 Review of Development Effectiveness in MIGA; EI for the Extractive Industries and Sustainable Development: An Evaluation of World Bank Group Experience (2004); and IC for Improving Investment Climates: An Evaluation of World Bank Group Assistance (2005).

$^{35}$ Two of the four OEU reports (RDE and IC) were discussed by CODE in FY05.
RECOMMENDATIONS ABOUT STRENGTHENING EX-ANTE ASSESSMENTS DURING UNDERWRITING

MIGA has made progress in:

6.3 **Updating its business model** by clearly assigning the locus of responsibility for better integration of economic, environmental, and social issues in MIGA operations (EI 3). With its reorganization in May 2004, MIGA Management established the Economics and Policy Group charged with this responsibility.

6.4 **Scaling up analysis of development impacts of prospective projects**, integrating new concepts in harmony with the rest of the WBG (EI 3a). There is an increased focus on development impact analysis, as well as increased collaboration with the WBG. MIGA has issued guidelines to staff on assessing the development impact of guarantee projects, incorporating the agreed project impact methodology.

6.5 **Building internal capacity**, by both recruiting needed economic skills and providing appropriate training on development impact analysis to current staff (EI 3a and ROE 2). MIGA management now includes a Chief Economist and has developed a training program on development impact analysis jointly with IFC.

6.6 **But, to meet the remaining recommendations related to this area**, MIGA still needs to improve its ex-ante project impact analysis to ensure that the projects it supports are sound and have positive and sustainable development impact (ROE 1 and RDE 1). The review of the quality at entry of four new projects demonstrates that while progress has been made in the awareness of development issues within the underwriting teams, the methodology was not consistently applied and there are important areas needing improvements (see Section 5).

RECOMMENDATIONS ABOUT SOCIAL AND ENVIRONMENTAL SAFEGUARDS POLICIES, GUIDELINES AND MONITORING

MIGA has made progress in:

6.7 **Defining a strategy for MIGA’s engagement with EI projects which moves beyond compliance with environmental and social safeguard polices** towards the promotion and achievement of development effectiveness of these projects (EI 1). This also implies avoiding projects where MIGA cannot address environmental or social issues to improve the outcome due to its late participation (EI 2.a.i). MIGA has recognized that it has the opportunity to add value to EI projects (and others with complex safeguard aspects) by adopting an explicit business strategy focused on providing proactive environmental and social advice to its guarantee clients with the goal of achieving sustainable development.
6.8 **Upgrading and expanding the role of environmental and social specialists** and building internal capacity for social skills (EI 3c) and strengthening the upstream involvement of environmental and social issues in MIGA’s underwriting decision-making process (EI 1.b.i). A senior social scientist was recruited in 2004.

6.9 **Visiting category A projects and other high risk projects as early as possible** to assess which policies are applicable (EI 2.a.ii). The current practice has been consistent with this recommendation, and there has been a significant increase in the number of site visits during underwriting of projects.

6.10 **Making better use of the Contract of Guarantee** to enable the Agency to facilitate compliance with its policies and standards. This involves: ensuring that the contracts clearly and explicitly state which environmental and social safeguard policies and guidelines apply to the guaranteed project; establishing thresholds and conditions for timely and effective compliance (EI 2c); when applicable, specifying in the contract requirements for implementation of EMPs, RE, CDPs and IPPs (EI 2.c.i); and incorporating provisions in the contract as appropriate for regular reporting safeguard compliance (RDE 3b). Recent contracts reviewed are consistent with this recommendation.

**But, to meet the remaining recommendations in this area, MIGA needs to improve in:**

6.11 **A more proactive, forward-looking approach to servicing clients on safeguards** that goes beyond the current practice of intervening only when events warrant it (EI 1a) towards promoting development effectiveness in its projects (EI 1.b.ii). MIGA management has expressed its intention to be more engaged in projects upstream and using scale-up project visits as an opportunity to be more involved with clients and projects, in particular for social issues. However, the resources available for the implementation of this recommendation have been modest.

6.12 **Making a greater effort to bring forward projects’ safeguard compliance prior to their approval by the Board** (RDE 2a). MIGA needs to make a greater effort to work with clients to ensure compliance with its environmental and social safeguard policies and guidelines at the time of Board approval (EI 1.b.ii). These two recommendations are also consistent with another recommendation of the EI evaluation about the proactive role of MIGA’s engagement by providing environmental and social advice to its guarantee clients. MIGA’s safeguard policies provide the basis, and an opportunity, for contributing to the development effectiveness of projects it guarantees. While there has been more upstream work and earlier site visits recently, a consistent improvement in greater compliance of insured projects with safeguards prior to Board submission has not yet been achieved.

6.13 **Scaling up its regular environmental portfolio review** to pay greater attention to monitoring safeguard performance during implementation (RDE 3b), which involves establishing internal requirements for MIGA’s timely and systematic monitoring to maximize environmental and social benefits (EI 2a). Conducting a portfolio review for all active extractive industries (EI) projects to identify deficiencies in the application of safeguard policies and to take appropriate remedial actions (EI 4). While there has been an
important increase in the number of monitoring visits in FY05, formal internal requirements have not been yet defined for MIGA’s timely involvement and monitoring. The current practice is to review MIGA’s portfolio periodically to prioritize visits. MIGA has not reported on the results of its EI portfolio review and remedial actions undertaken, if any.

6.14 **Strengthen its internal policies and support them by appropriate procedures and guidelines to staff to ensure accountability** (EI 2). These need to be developed for formalizing the practice of environmental and social staff’s involvement in projects beyond the submission of clearance memos, and requiring them to provide inputs to guarantee and legal documentation (EI 3d). In practice, this recommendation has been implemented more systematically, but MIGA has not yet issued internal procedures to capture this and other new practices of the business model.

6.15 **Ensuring that investors prepare required documents** (RPs, CDPs and IPPs) before project approval rather than leaving them to implementation (EI 2.c.iii). MIGA is following this practice, but needs to make a greater effort to cover all applicable projects.

**MIGA has not yet addressed the recommendations related to:**

6.16 **Harmonizing its policies and procedures for category B projects with IFC** (RDE 2b) and incorporating standards recognizing the rights of individuals relating to security arrangement at EI projects into its policies (EI 2b). MIGA management has indicated that this will be considered as part of the overall review of MIGA’s Safeguard Policies to be completed following IFC’s review.

6.17 **Improving its project documentation system to facilitate monitoring** of projects’ development performance and safeguard compliance (RDE 3c). There are continuing deficiencies in MIGA’s documentation system affecting the availability of key supporting documents, in particular for older projects in the portfolio.

6.18 **Requiring sponsors to set up environmental and social project management systems at** a sufficiently early stage to effectively monitor impacts during construction (EI 2.d.i). The OEU review of current projects revealed that this is not requested uniformly from investors and there is a significant variance in the quality of these plans.

**RECOMMENDATIONS ABOUT MONITORING DEVELOPMENT EFFECTIVENESS**

**MIGA has made some progress in:**

6.19 **Introducing a Guarantee Closing Note** when a guarantee contract ends, either because it expires, is cancelled, or terminated. MIGA has started preparing these notes including a description of the reasons for a cancellation, and the status of the project at the time of closing. MIGA management considers the implementation of this recommendation complete. However, the note does not cover the achievement of project objectives, lessons
learned, and developmental and other impacts for institutional learning, analysis, and accountability, as recommended (ROE 3).

6.20 Implementing a cost-effective monitoring program to follow up on the development effectiveness of its guarantee projects and to obtain updated information about the performance of projects (RDE 3a and EI 3b). MIGA has started a pilot program of monitoring guarantee projects with a view of learning from them, which also covers some qualitative aspects of development benefits. Guidelines, selection criteria, and mechanisms for feeding back lessons from this program have not yet been established. A short questionnaire, covering the project background, status and performance (mostly comparing outcomes to expected development impacts at the time of underwriting) is provided as guidance to operational staff conducting monitoring.

RECOMMENDATIONS ABOUT ENHANCING BENEFITS FROM PARTNERSHIPS AND SELECTING CLIENTS

MIGA has made progress in:

6.21 Associating with investors committed to sustainable development and avoiding those who are unable to provide MIGA with timely environmental and social monitoring reports during implementation (EI 1). In addition, MIGA needs to satisfy itself that the investor understands its environmental and social responsibilities and demonstrates ownership at the top management level to community development and mitigating environmental and social impacts (EI 1.c.i). The new decision-making process within MIGA takes these issues into consideration during underwriting.

But, to meet the remaining recommendations, MIGA needs to improve in:

6.22 Formalizing accountabilities with partners to improve sharing of information and documentation obtained by partners during underwriting phase and project implementation and to coordinate due diligence on environmental and social safeguard compliance with multilateral or bilateral partners (RDE 4a). MIGA needs to take necessary steps to minimize reputational and other business risks that may arise from partnerships, and ensure that accountabilities of partners should be clearly established (RDE 4b). These arrangements are still informal and based on staff contacts. They need to be incorporated into institutional agreements or specific policies.
RECOMMENDATIONS ABOUT STRATEGIC SELECTIVITY AND MONITORING OF TA

MIGA has made some progress in:

6.23 Implementing a clear strategy to select TA clients and improve the selectivity of clients to ensure high effectiveness of its activities. MIGA needs to define its comparative advantage in providing TA to focus on areas where it can provide complementarity and additionality to the WBG, other donors, and the private sector (IC 1). MIGA should facilitate research on the impact of investment promotion activities on actual investment flows (IC 2). MIGA is formulating a new strategy, which covers issues such as value added and comparative advantage. MIGA still needs to establish clear criteria for engaging in client countries, and for integrated assistance with TA and guarantees. Joint research with FIAS along the lines of OEU’s recommendation is planned in the future.

6.24 Initiating a monitoring system to track the progress, impacts and cost effectiveness of its TA activities (IC 3 and IC 5). MIGA has begun tracking work progress and its own outputs through its new departmental work program. Monitoring of outcomes and impacts of individual TA is still lacking and needs to be implemented as part of an integrated monitoring system.
7. CONCLUSIONS

7.1 Compared to previous evaluations, MIGA has strengthened its systems and practices to assess new guarantee projects and technical assistance activities, and has initiated some new elements for monitoring and supervising its portfolio.

7.2 Some improvements have been associated with MIGA’s internal reorganization and introduction of a new business model. MIGA implemented the institutional structure for a more holistic assessment of projects’ expected economic, environmental, and social impacts. A new unit has been tasked with assessing these aspects, and MIGA has upgraded its capacity to assess economic and social impacts, and recently issued guidelines to staff for guarantee project assessment. It has also begun scaling up environmental and social work.

7.3 MIGA has also made progress in implementing previous OEU recommendations. MIGA now meets most of the recommendations in the area of institutional prerequisites for improving project assessment and in its assessment and monitoring of safeguard policies. MIGA has yet to implement fully recommendations related to strengthening the project impact analysis, monitoring and supervision of its portfolio, and aligning its safeguard policies with ongoing changes in IFC.

7.4 The early cancellation of MIGA guarantees either by clients or by MIGA, accounting for almost one-third of contracts in the first three years, has implications for OEU’s sample selection for ex-post guarantee project evaluations, leading to a possible sampling bias. An analysis of reasons for cancellations indicates that the majority of cancellations occurred while the investment project was still succeeding financially; hence, MIGA had fulfilled its mandate of facilitating FDI. However, there is little information on the actual development impacts of these projects.

7.5 Several aspects of quality at entry of guarantee projects reviewed have improved but there are remaining shortcomings. The projects reviewed were underwritten during a transition period in MIGA. While projects now incorporate most elements of MIGA’s ex-ante assessment methodology, the financial and economic analyses of projects still lacked rigor. Since areas to be improved identified in the quality at entry analysis have already been covered in previous OEU recommendations, this report does not make any new recommendations; rather it emphasizes continued progress in implementing existing OEU recommendations.
Annex 1. Quality at Entry Assessment
Method, Process, and the Questionnaire

7.6 OEU developed the methodology for assessing quality at entry (QAE) based on MIGA’s own requirements for assessing projects, and the dimensions of OEU’s ex-post evaluations. The questions and issues considered reflect MIGA’s role as an insurer. Since MIGA does not design or implement the projects it guarantees, it cannot normally influence the implementation and development outcomes. Thus, quality at entry focuses on the underwriting stage.

7.7 Quality at entry refers to the assessment of the adequacy and quality of MIGA’s underwriting of guarantee projects relative to MIGA’s objective of supporting projects with development impact. Its objective is to track MIGA’s performance in implementing the analytical requirements for project assessments during underwriting. OEU began to assess the quality at entry of MIGA guarantees in FY03, and during FY05 developed a standardized approach including a questionnaire and benchmarks, which were discussed with MIGA staff and management.

Methodology

7.8 The quality at entry assessments use the same dimensions OEU introduced for its ex-post guarantee evaluations. These dimensions are consistent with the Methodological Note endorsed by CODE in 2002. OEU has also developed a quality at entry questionnaire (condensed version attached) and an evaluator’s guide which provides specific benchmarks for assessing each dimension.

7.9 As in ex-post evaluations, each dimension is rated using a four-point rating scale to assess the quality of MIGA’s analysis: Excellent, Satisfactory, Partially Unsatisfactory, and Unsatisfactory.

Process

7.10 OEU’s review of quality at entry is conducted after the underwriting has been completed, the guarantee submitted approved by the Board and a contract of guarantee has been signed. OEU selects some new guarantee projects among guarantee projects for which contracts have been executed in the current fiscal year.

7.11 OEU uses a panel, consisting of OEU staff and external consultants, to assess the selected projects. The panel’s assessment is based on all relevant project documents made available by MIGA. Draft assessments are then shared with individual underwriting teams and MIGA managers and discussed at a meeting to fill possible information gaps and clarify questions. Following these meetings, the OEU panel finalizes the assessments and ratings. The final version is shared with concerned MIGA staff and managers, and overall findings are synthesized in OEU’s annual report.
QUALITY AT ENTRY ASSESSMENT QUESTIONNAIRE

PROJECT ID NO _________________________

PROJECT ENTERPRISE
Host Country __________________________ Region ____________ Sector ______________

MIGA Guarantee Holder(s): ____________________________________________________________
Contract Number(s): __________________________ Investor Country: __________________________
Project Description: __________________________________________________________________
____________________________________________________________________________________

MIGA Underwriting Team
1. _______________________________________
2. _______________________________________
3. _______________________________________
4. _______________________________________
5. _______________________________________
6. _______________________________________

PROJECT TIMELINE
Definitive Application: ________________ PRC/RMC Approval Date: ______________________
Host Country Approval Requested: ___________ Host Country Approval Received: ______________
MIGA Board Approval: _______________ Contract of Guarantee Signed: ______________________

QUALITY AT ENTRY TIMELINE
Date Selected: ________________________ Rating Panel Meeting: ____________________________
Rating Clearance: ______________________ Final Rating Date: _____________________________
Documents Reviewed by Rating Panel: ____________________________________________________

OEU Team
1. _______________________________________
2. _______________________________________
3. _______________________________________
4. _______________________________________
5. _______________________________________
6. _______________________________________

Cleared by: _____________________________
Date: _________________________________

Overall Rating (Excellent, Satisfactory, Partially Unsatisfactory, Unsatisfactory):

Quality of Project Analysis

Quality of Institutional Analysis

Analysis of Project’s Contribution to
QUALITY AT ENTRY QUESTIONNAIRE

Please refer to the Evaluator’s Guide for the examples of questions to be considered in assessing and rating the dimensions and categories below.

IMPORTANT: The evaluator is cautioned that in assessing the quality at entry, it is important to remember that the level of analysis conducted should be proportional to the complexity of the project and commensurate with the nature and scale of the project. The evaluator should also be mindful of the requirement under MIGA’s Convention that applications for guarantees are to be processed in a timely manner.

Ratings:
E = Excellent  
PU = Partially Unsatisfactory  
S = Satisfactory  
U = Unsatisfactory  
NA = Not Applicable

I. QUALITY OF PROJECT ANALYSIS

1. Analysis of Business Performance

Indicators:
(a) Adequacy of evidence or supporting documents
(b) Clarity, consistency and reasonableness of assumptions
(c) FRR and other quantitative financial viability indicators
(d) Assessment of commercial factors or risks affecting business performance
(e) Coherence and appropriateness of qualitative analysis

2. Analysis of Contribution to Economic Sustainability

Indicators:
(a) Economic context and rationale
(b) Adequacy of supporting documents
(c) Clarity, consistency and reasonableness of the assumptions
(d) Identification of important and relevant distortions and externalities
(e) ERR and other economic cost-benefit indicators
(f) Stakeholder analysis
(g) Coherence and appropriateness of qualitative analysis
3. Analysis of Environment, Health, and Safety (EHS) and Social Impact

<table>
<thead>
<tr>
<th>Environmental Assessment Category</th>
<th>MIGA Client Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Criteria</td>
<td>If Applicable, was it identified?</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
</tr>
</tbody>
</table>

### Environmental Assessment Policy

- Adequacy of project’s environmental categorization
- Appropriate detail of environmental assessment
- Adequate analysis of feasible alternatives for Category A projects
- Appropriate EHS Guidelines identified and applied and/or host country’s EHS regulations adequately addressed
- Appropriately detailed baseline survey prepared
- Adequate Environmental Action Plan proposed
- Sponsor’s EHS management system adequate
- Public disclosure/consultation adequately addressed (Category A projects only)

### Applicable Specific Safeguard Policies

<table>
<thead>
<tr>
<th>If applicable, was it identified?</th>
<th>Availability of Adequate Documents</th>
<th>Adequacy of Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

- Comprehensive and implementable RP/CDP prepared or framework sufficiently described
- Comprehensive and implementable IPP prepared
- Natural Habitats protected or mitigation provided
- Comprehensive dam safety measures proposed
- Cultural Property protection proposed
- Pest Management provisions proposed
- Projects on International Waterways procedures followed
- Sustainable Forest Management measures identified and applied

### MIGA’S EFFECTIVENESS

- Appropriate provisions for reporting of EHS/social in contract of guarantee
- Appropriate provisions in contract of guarantee for compliance with EHS/social requirements
4. **Analysis of Private Sector Development (PSD) Impact**

<table>
<thead>
<tr>
<th>Positive or Negative Private Sector Development Impacts</th>
<th>Was the identified PSD Impact</th>
<th>Applicable to the project?</th>
<th>Attributable to the project?</th>
<th>Measurable?</th>
<th>Adequately Analyzed (refer to guidelines)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in the legal or regulatory framework</td>
<td></td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Greater competitiveness in the sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local competitors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>demonstration Effects</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enhanced private ownership and stronger entrepreneurship</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic capital or financial market development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Introduction and development of new technology, skills, standards, or pioneering product or financing instrument</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate governance standards</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other impacts (<em>specify</em>)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

II. **QUALITY OF INSTITUTIONAL ANALYSIS**

5. **Analysis of the Project’s Strategic Relevance**

*Indicators:*

(a) Host country priorities and strategies

(b) WBG’s country, regional or sector priorities and strategies

(c) MIGA’s priorities and strategies

6. **Analysis of MIGA’s Role and Contribution**

*Indicators:*

(a) MIGA’s additionality as insurer

(b) Other MIGA value-added

7. **MIGA’s Underwriting, Assessment and Monitoring**

Refer to the relevant section in the quality at entry guidelines for details and examples of questions that may be applicable for this category.

*Indicators:*

(a) Analysis of Project Features

(b) Lessons of Experience
(c) Risk Assessment and Analysis of Mitigating Factors
(d) Timeliness and Cost-Effectiveness of Underwriting
(c) Monitoring Arrangements
(f) Monitoring Indicators

III. ANALYSIS OF PROJECT’S CONTRIBUTION TO MIGA’S PROFITABILITY (note: metrics for these indicators are not yet available- this category is not being assessed yet.)

8. Analysis of the Project’s Expected Contribution to
MIGA’s Profitability

Indicators:
(a) Reflection of risk assessment in pricing
(b) Analysis of cost recovery and premium income generated
(c) Justification for reinsuring projects
(d) Coherence of qualitative justification

Additional Comments
Annex 2. Summary of New Methodology

All projects with definitive applications after July 1, 2002

- Financial sector projects
  - Impact on structure of the financial sector, Resources provided, Allocation policies of intermediaries, etc.

- Small and Medium Enterprise or South-South projects
  - Significant economic distortions?
    - Yes: Cost-benefit analysis
      - Benefits accruing to non-financiers
        - Consistency with PSD strategy
          - Consistency with environmental, health, and social policies
    - No: Calculate FRR

- All other projects
  - Substantial economic distortions?
    - Yes: Tax-adjusted FRR
      - In-depth cost-benefit analysis
    - No: Calculate FRR
Annex 3. Guarantee Contract Cancellations
By Region, Sector and Client

This annex complements Section 4 of the main report and presents the sectoral and regional distribution and client concentration of MIGA guarantee contract cancellations to date.

Cancellations by Region. ECA and LAC have had the highest shares of guarantees issued (Table 1) since MIGA’s inception. LAC and ECA regions also had the highest regional share of cancellations. While MENA has a small share of MIGA guarantees issued and cancelled, about two thirds of guarantees issued in that region have been cancelled; by contrast, Africa has had the lowest cancellation rate (39 percent of all guarantees issued for projects in Africa).

Table 1. Number of Guarantee Contracts Issued and Cancelled by Region (FY90-04)

<table>
<thead>
<tr>
<th>Region</th>
<th>Cancellations by region/ total cancellations (%)</th>
<th>Guarantees issued by region/ total guarantees issued (%)</th>
<th>Cancellations by region/ guarantees issued by region (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>15</td>
<td>18</td>
<td>39</td>
</tr>
<tr>
<td>Asia</td>
<td>16</td>
<td>15</td>
<td>48</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>34</td>
<td>30</td>
<td>50</td>
</tr>
<tr>
<td>Latin America &amp; the Caribbean</td>
<td>31</td>
<td>34</td>
<td>42</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>3</td>
<td>3</td>
<td>61</td>
</tr>
</tbody>
</table>

Source: MIGA

Cancellations by Sector. The sectoral breakdown of cancellations shows that financial sector projects accounted for the largest share of cancellations (30 percent) followed by manufacturing projects (27 percent) and infrastructure projects (20 percent) (Table 2). When comparing cancellations and guarantees issued per sector, manufacturing has the highest relative share of cancellations followed by the mining and financial sectors. Tourism, and oil and gas projects were cancelled least frequently.
Table 2. Guarantees Contracts Issued and Cancelled by Sector (FY90-04)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Cancellations by sector/ total cancellations (%)</th>
<th>Guarantees issued by sector/ total guarantee issued (%)</th>
<th>Cancellations by sector/guarantees issued by sector (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agribusiness</td>
<td>5</td>
<td>5</td>
<td>39</td>
</tr>
<tr>
<td>Financial</td>
<td>30</td>
<td>27</td>
<td>50</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>20</td>
<td>25</td>
<td>36</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>27</td>
<td>19</td>
<td>67</td>
</tr>
<tr>
<td>Mining</td>
<td>9</td>
<td>7</td>
<td>56</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>1</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td>Services</td>
<td>6</td>
<td>9</td>
<td>32</td>
</tr>
<tr>
<td>Tourism</td>
<td>2</td>
<td>4</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: MIGA

Cancellations by Client. The five clients with the highest number of contracts cancelled between FY92-FY04 (accounting for a combined 21 percent of all cancelled contracts) were all in the financial sector. On average, these guarantees were cancelled after approximately three years from their contract effectiveness date; however these cancellations took place over a period of several years, not highly concentrated in terms of timing. The main reasons given by these clients were a change in corporate strategy, early loan repayment, and sale of the project.