

Independent Evaluation Group—MIGA 2008 Annual Report

Approach Paper

Background

1. The Independent Evaluation Group—MIGA (IEG-MIGA, hereafter referred to as “IEG”) has prepared annual reports to the Committee on Development Effectiveness (CODE) and the Board of Directors since 2003, to update them on its evaluation findings about MIGA, and to present relevant information on issues critical to MIGA’s performance as a development institution and insurance agency. The 2008 Annual Report will be IEG-MIGA’s sixth annual report, which will focus on some key aspects of pertaining to the design and implementation of MIGA’s implementation of its three-year strategy (FY05-08).

2. The Multilateral Investment Guarantee Agency (MIGA) contributes to the mission of the World Bank Group by promoting foreign direct investment for the purpose of economic development in its developing member countries. MIGA fulfils its mandate mainly through offering political risk insurance, complementing the services of private and public insurance agencies.

3. In 2005, MIGA proposed new strategic directions for the Agency for FY05-08,¹ in order to enhance its insurance business and financial sustainability, strengthen the development effectiveness of its projects, and improve risk management. In order to implement these directions, MIGA identified four operational priorities, where the Agency was expected to have the greatest impact. These were:

- investments in frontier countries;²
- investments in conflict afflicted countries;
- investments in infrastructure development; and
- investments among developing countries (south-south).

4. MIGA’s strategy document linked these priorities directly to expectations of increasing overall business volume and guarantees in the priority areas over the three-year strategy cycle, to a strengthening of MIGA’s development mandate, and of its financial results. While no specific targets were provided for each of the priority areas, MIGA identified for each priority several planned results (including both outputs and outcomes in the results chain) with indicators of progress. Selectively, these could serve as benchmarks against which to evaluate implementation. In addition to the key operational priorities, the strategy document also emphasized a special focus on Africa, and work in support of small and medium enterprises.

¹ MIGA/R2005-0019: MIGA 2005 Review for FY00-04 and Strategic Directions for FY05-08. April 20, 2005.

² MIGA uses the IFC definition of frontier countries.

5. The 2005 operational priorities were formulated in conjunction with a new business model with the following three elements:

- Proactive Marketing and Complementary Business Lines;
- Comprehensive Risk Management; and
- Stepped-Up Collaboration with the other parts of the World Bank Group.

6. Among other objectives, MIGA's 2005 strategy document recognized the need to enhance the *quality* of its interventions as well as the *quantity* of foreign direct investment it facilitates in order to stay relevant as a development institution. It expected to improve the quality by an increased focus on development impact both at appraisal and project implementation, greater selectivity, and clear demonstration of value added for the projects it supports. It predicted an increase in business volumes for new guarantees to \$1.8 to 2.0 billion per year, up from an average annual \$1.5 billion during 2000-2004.

7. Since 2005, MIGA's external environment has changed considerably, with overall capital flows to developing countries surging to record levels, and private insurance companies increasingly offering insurance coverage in more risky markets to meet investor demand.³ The amount of political risk insurance overall has grown, and MIGA's business volume has ranged from \$1.23 billion to \$1.37 billion p.a. between FY05 and FY07.

8. Previous IEG-MIGA Annual Reports have highlighted improvements in some areas, including the closer alignment of MIGA's business model with its development mandate, increased collaboration and strategic alignment of its guarantees within the World Bank Group, and an increased focus on environmental and social aspects of its work. At the same time, IEG has also pointed to shortcomings in the consistent application of MIGA's method to assess development impact during appraisal and of monitoring of project outcomes.⁴ MIGA has the potential to contribute to the sustainability of its projects, even though due to the nature of its business, it typically has limited influence over project design and implementation. IEG ex-post evaluations, based on a modest sample, have found that about half the evaluated projects rated satisfactory or better for development outcomes, with strong project business performance a key factor in determining overall outcomes.⁵

9. As MIGA reviews its experience with its strategic directions and updates its operational priorities in FY08, this IEG-MIGA Annual Report will provide feedback on the relevance and effectiveness of key aspects of the implementation of MIGA's strategic directions during the FY05-08 period.⁶ IEG-MIGA's evaluation will seek to be forward-looking where supported by the evaluative evidence from MIGA's past performance, and its findings and recommendations will seek to inform MIGA management and the Board

³ The Berne Union reports new coverage for investment insurance of \$36.1 billion in 2005 (up from \$18.5 billion in 2004). See Berne Union Yearbook 2007.

⁴ MIGA/R2007-0038: IEG-MIGA 2007 Annual Report.

⁵ MIGA/R2006-0025: IEG-MIGA 2006 Annual Report.

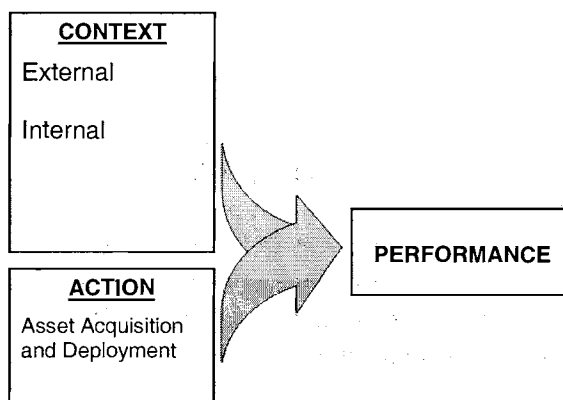
⁶ This responds to a request from CODE to IEG to conduct further work that would contribute to the consideration of MIGA's future strategic directions (see CODE2007-0061: Report to the Board from the Committee on Development Effectiveness, July 13, 2007).

during the preparation of new directions. The report will be submitted to CODE prior to its discussion of MIGA's strategy and business plan document, now expected for May-June 2008.

Approach

10. In order to evaluate the relevance and effectiveness of implementation of key aspects of MIGA's strategic priorities, IEG-MIGA will draw on analytical frameworks commonly used in strategic management.⁷ The role of strategy is to guide the specific decisions an organization takes as it moves forward. Strategies do not generally involve particular actions, but rather define a framework for taking actions. In the framework presented below, the ability of an organization to achieve its objectives (performance) depends on *both* the actions it takes and on the context in which these steps are taken (see Figure 1).⁸

Figure 1: Strategic Management



11. IEG-MIGA will use this framework to analyze key aspects of the relevance and implementation of MIGA's strategy, including the design of the strategy, its implementation, and results to date.

Objective and Scope

12. IEG will provide evaluative material to address whether MIGA's current strategy is sound and the extent to which MIGA has been effective in implementing it and in

⁷ See Saloner, G., A. Shepard, and J. Podolny: *Strategic Management* (2001). The link between performance and actions will be examined using concepts developed in Kaplan, R., and D. Norton: *The Strategy-Focused Organization* (2000), which introduces a balanced scorecard to measure the achievement of strategic objectives.

⁸ In this framework, the external context describes industry characteristics such as competitors, buyers, and non-market factors (e.g., the regulatory and political environment in which the organization operates), while internal factors refer to the assets and resources of an organization and the way in which it is organized. Actions the organization takes involve deploying and acquiring assets (such as knowledge, processes, organizational structure, and resources).

achieving its strategic objectives over the FY05-07 period.⁹ The evaluation will identify issues and lessons relevant for MIGA going forward. The findings and recommendations will where appropriate be forward-looking and actionable to inform MIGA's future strategy in the context of its changing business environment and the ongoing World Bank Group-wide strategy development.¹⁰ Using the framework noted above, the evaluation will approach the issues from three different angles: (i) design, or strategy formulation, (ii) strategy implementation, and (iii) results of the strategy.

(i) Design or Strategy Formulation

13. This section will seek to address the soundness of the 2005 strategy and its alignment with other relevant World Bank Group strategies and with MIGA's market situation and comparative advantage, and resources. This will involve a review of the extent to which the strategy design reflected MIGA's internal and external environment, was conceptionally complete (including objectives, resource and organizational requirements, performance metrics), and provided a logical structure for achieving the strategy's objectives. It will also address the evaluability of the strategy (the degree to which it contained monitorable actions and objectives).

14. This section will be based on a desk review of MIGA strategy, policy, work program and budget documents (as discussed by MIGA's Board of Directors), existing client surveys, as well as relevant background documents, together with structured interviews with MIGA staff. Where possible the report will draw on findings of IEG's concurrent evaluation of World Bank Group guarantee instruments.¹¹

(ii) Strategy Implementation

15. In assessing whether MIGA has been consistent in implementing its strategy, IEG will evaluate whether changes in organization, resource allocation,¹² skills mix, processes, and procedures were consistent with and strengthened MIGA's ability to implement its strategic objectives, and whether MIGA's core functions were aligned with the strategy.

16. This section will be based on reviews of internal processes and procedures, focusing on changes implemented by Management since 2005 to ensure the Agency's dual mandate of development impact and financial sustainability, as well as in implementing the strategy. It will also be based on a review of work programs and other relevant documents, and it will address changes in resource allocation across the Agency. IEG will also review drivers of MIGA's financial performance (pricing, administrative

⁹ While the focus will be where possible on MIGA operational and development results in FY05-07, available trend data and information and data from FY08 will be used where appropriate.

¹⁰ See SecM2007-0372/2: Report on the Long Term Strategic Exercise. Final Version; and six pillars identified in *Catalyzing the Future: An Inclusive and Sustainable Globalization*. Speech by Robert B Zoellick, October 22, 2007.

¹¹ Delivery of this study to CODE is planned for the fourth quarter FY08.

¹² Resources are defined to include financial resources, human resources, know-how, processes, procedures, and organizational structure.

cost, guarantee cancellations) and describe changes in risk analysis and risk management relative to MIGA's business objectives.

(iii) Results or Effectiveness of the Strategy

17. This section will present findings on MIGA's achievement of its desired outcomes of the strategy for both its financial and development objectives, i.e., to what extent has the implementation of MIGA's strategy led to the expected results? The evaluation will present findings so far on both operational and development results, in terms of portfolio shifts, progress made on meeting monitorable objectives and indicators established in the MIGA strategy document, trends and characteristics of projects underwritten during FY05-07, and alignment at appraisal of individual MIGA projects with World Bank Group country or sector strategies. The report will also highlight findings on synergies and coordination between MIGA and the World Bank and IFC.¹³

18. This section will use information on MIGA's portfolio trends, findings of a review of characteristics of projects underwritten by MIGA during FY05-07, and complement with findings from IEG ex-post evaluations (of projects underwritten prior to the strategy period), which will be used to examine trends.¹⁴ The evaluation will use MIGA's strategic directions (and selectively subsequent work program documents) as benchmarks against which to assess results. In addition, results will be contrasted with MIGA's performance in the previous strategy period (2000-2004) where appropriate.

Conclusions

19. This section will bring together findings from the evaluation report and will also draw on appropriate findings from previous IEG-MIGA reports to evaluate the relevance and effectiveness of implementation of MIGA's 2005 strategy. The section will also determine to which extent MIGA activities are linked to results, and the Agency is meeting its overall objectives. It will identify drivers for success, trade-offs, and areas for future attention relevant to MIGA as it refines its comparative advantage going forward and re-assesses its operational priorities in light of the Agency's business model and market situation, and alignment with the WBG strategy initiatives.

Methodology

20. IEG follows where possible an objectives-based approach, evaluating the relevance and implementation of the strategy using a strategic management framework. The effectiveness of implementation will be assessed primarily against MIGA's indicators of progress identified in the 2005 Strategic Directions, and in other relevant documents.

¹³ Findings from the ongoing evaluation of World Bank Group guarantee instruments will be used to illustrate any issues of synergies, overlaps, and collaboration among the three institutions.

¹⁴ The report will rely less on results since ex-post evaluations of projects supported by MIGA during FY05-08 will not yet be available, due to their lack of maturity.

21. The evaluation will draw on literature on the political risk industry, MIGA strategy, policy, and work program documents, as well as a market study and client surveys commissioned by MIGA in FY05 and FY08. Using data from MIGA Annual Reports and databases, the evaluation will analyze characteristics of MIGA guarantees issued under the current strategic directions and its overall guarantee portfolio to identify shifts during FY05-08, compared with the previous strategy period (FY00-04). The findings from this review will be complemented with mainly existing and some new IEG project level evaluations, including both quality at entry assessments for projects underwritten in FY05-07, and ex-post evaluations conducted by IEG, to identify issues and trends.¹⁵ While the report will reference project level evaluations and trends to highlight issues and lessons, the complete results of a set of 28 ex-post evaluations of MIGA projects underwritten between FY96 and FY04 will be reported in an Annex. These results refer to project development outcomes, MIGA's effectiveness, and contribution to MIGA's profitability.

22. The assessment of aspects of MIGA's operational income, overall financial sustainability, and implementation of risk analytics tools will be based on a review of financial statements, Board papers, and other documents, and an analysis of MIGA databases. One aspect will be an analysis of MIGA's consistency in pricing practice under its costing model. Another will be an analysis of trends of MIGA's portfolio profitability and profitability characteristics for different types of projects. This latter component will also use IEG's method to assess project-level profitability (developed in FY06),¹⁶ which calculates the expected relative contribution of individual guarantees to MIGA's profitability. The IEG evaluation will draw on findings from previous or ongoing evaluations where appropriate, such as the ongoing evaluation of WBG guarantee instruments (para 14).

Timing and evaluation team

23. The evaluation report is expected to be submitted to CODE in the fourth quarter of FY08, prior to its discussion of MIGA's new mid-term strategy document for FY09-11 and business plan.

24. The report will be written by a team of IEG-MIGA staff and consultants, under the supervision of the Director, IEG-MIGA. The task manager is Stephan Wegner.

25. Following CODE and Board discussions, as relevant, the report will be disclosed in accordance with IEG and MIGA disclosure policies.

¹⁵ Using also findings presented in previous IEG-MIGA Annual Reports.

¹⁶ The methodology is described in MIGA/R2006-0025: *IEG-MIGA 2006 Annual Report*, p. 68 ff.