CENTER FOR GLOBAL DEVELOPMENT

MIGA: The Little Engine That Should

KAREN MATHIASEN · RAKAN ABONEAAJ

Abstract

Effectively mobilizing private capital using official resources is among the priorities endorsed by shareholders and President Ajay Banga in the context of the World Bank's evolution roadmap. The Multilateral Investment Guarantee Agency (MIGA), which offers investors and bankers political risk insurance and guarantees against non-payment by governments and state-owned enterprises, should feature heavily in the private sector reform agenda. MIGA's record is exemplary: in 35 years of operations, it has issued $70 billion in guarantees and paid only 11 claims. This reflects MIGA's risk management strategy of reinsuring most of its deals and success in managing disputes in the pre-claims process. However, this strategy and other policies limit MIGA's coverage, especially in low-income countries. In this paper, we offer recommendations that would enable MIGA to grow significantly while expanding into riskier markets. These are to (1) create a special liquidity facility to increase the value and impact of MIGA's political risk insurance; (2) expand risk sharing opportunities; (3) lower the credit threshold for country eligibility for MIGA's credit enhancement products; (4) strengthen coordination across the World Bank Group; and (5) expand collaboration with other development banks, especially for transformational projects.

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Karen Mathiasen and Rakan Aboneaaj
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CENTER FOR GLOBAL DEVELOPMENT
2055 L Street, NW Fifth Floor
Washington, DC 20036

1 Abbey Gardens
Great College Street
London
SW1P 3SE

www.cgdev.org

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Overview

Of the four World Bank facilities that provide financing to clients,[1] the Multilateral Investment Guarantee Agency (MIGA) is the youngest and smallest. MIGA was established in 1988 to promote investment in member countries (i.e., World Bank borrowers), initially by providing political risk insurance (PRI) and later with credit enhancement products as well. PRI can insure 90–95 percent of an investment or loan against a suite of non-commercial risks and the credit enhancement products can increase tenors and reduce borrowing costs.

MIGA's products enable investments to move forward that would otherwise be too risky. In many instances, private insurers can do this as well. But what they can't provide is MIGA's so-called halo effect, which is derived from its status as a World Bank Group member. This effect implies that MIGA can lean on the sovereign lending arms (IBRD/IDA) to help run interference in the event of a potential claim.

MIGA has an outstanding portfolio of nearly $28 billion, the highest since its founding, and has supported $70 billion in guarantees to date. MIGA's financial model—which involves reinsuring the majority of its exposure—has enabled steady growth and provided impressive leverage for donors. But this strategy, along with other policy constraints, can make it more difficult for MIGA to offer coverage in low-income countries (LICs) where the potential for development impact is often greatest.

In the context of the World Bank's evolution roadmap, shareholders and World Bank President Ajay Banga are considering how to strengthen MIGA's reach and impact. MIGA is well positioned to support the World Bank Group's private sector mobilization agenda—a key reform objective—because it can insure against a suite of risks that deter investors. And MIGA's products have never been more relevant: risks to investors are increasing, investment flows to most low- and middle-income countries are stagnant or falling, and the global development agenda has been imperiled by the combination of COVID-related shocks, fallout from the war in Ukraine, and an increase in the number and severity of natural disasters. The war in the Middle East will only serve to exacerbate these negative factors and further dampen investor appetite. For all these reasons, MIGA merits a closer look.

Summary of recommendations

In this paper, we discuss MIGA's evolution and ways to support its expansion. We would like to see MIGA adopt a strategy based on two fundamental goals: (1) doubling total exposure before 2030; and (2) doubling exposure in IDA countries over the same period. There is an inherent tension between these goals as an ambitious strategy to expand coverage in LICs implies more staff time, reduced mobilization levels, and more capital usage (as the deals could be harder to reinsure). We take these trade-offs into account in our recommendations, including by calling for more donor support.

1 IBRD, IDA, IFC, and MIGA.

We also recognize that a bigger role for MIGA in LICs depends on the existence of bankable deals which is not always the case.

It is worth noting that MIGA itself has already committed to reaching 40 percent of its overall business in IDA and fragile and conflict states (FCS) by 2030 and 15–20 percent in low-income IDA and IDA FCS,[2] targets significantly above the shares of foreign direct investment going to these countries.

To support these twin objectives, we recommend that MIGA consider the following options:

1. Create a special liquidity facility to increase the value and impact of MIGA's political risk insurance for breach of contract.
2. Expand the criteria for accessing IDA's MIGA facility (i.e., the private sector window) and augment or create new risk-sharing initiatives with donors to advance the global challenges agenda.
3. Lower the credit threshold for country eligibility for MIGA's credit enhancement products (e.g., from BB- to B).
4. Strengthen coordination across the World Bank Group, including by harmonizing the guarantee functions of IDA, IBRD, IFC, and MIGA.
5. Expand collaboration with other development banks, especially for transformational projects.

Some of these recommendations are reflected in the World Bank's evolution roadmap, but we see scope for significantly more ambition.[3]

A primer on MIGA

MIGA provides two major products to investors and financiers: (1) political risk insurance (PRI) against expropriation risk, transfer risk (e.g., currency non-convertibility), war and civil disturbance, and breach of contract; and (2) non-honoring (NH) of financial obligations products, which were introduced in 2009 and 2013. The 2009 NH product offers insurance to international banks and lenders against non-payment of sovereign and sub-sovereigns; the 2013 NH product offers the same coverage for state-owned enterprises (SOEs). Since inception MIGA has provided approximately 1000 guarantees worth $70 billion.

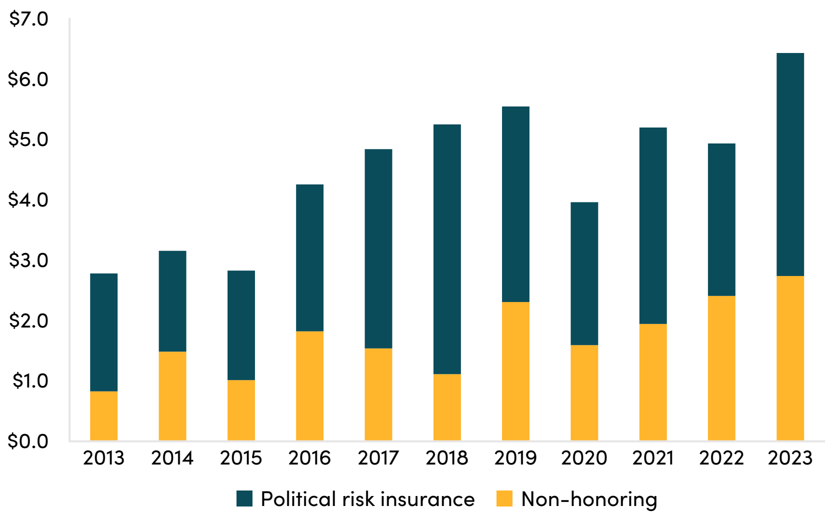
2 World Bank, *The International Finance Corporation's and Multilateral Investment Guarantee Agency's Support for Private Investment in Fragile and Conflict-Affected Situations, Fiscal Years 2010–21*, Independent Evaluation Group (Washington, DC: World Bank, 2022), https://tinyurl.com/b2vdbc8t.

3 World Bank, *Ending Poverty on a Livable Planet: Report to Governors on World Bank Evolution* (Washington, DC: World Bank, September 28, 2023). https://www.devcommittee.org/content/dam/sites/devcommittee/doc/documents/2023/Final%20Updated%20Evolution%20Paper%20DC2023-0003.pdf.

NH products are especially appealing to investors because MIGA will automatically pay out claims if payment obligations are not met, while under PRI the parties must go through an arbitration or claims process first. MIGA can provide PRI in all markets, but for NH products there is a sovereign credit threshold of BB-, which significantly limits coverage options. Notably, MIGA increased its credit threshold for NH products in 2015 from B to BB- due to elevated market risks, even though no claims had been made.

The introduction of NH products has been a significant boost to MIGA.[4] The volume of MIGA's guarantee business grew by 12 percent on average between 2011 and 2023 compared with a 2 percent annual average growth rate before the NH introduction. NH insurance now comprises 42 percent of MIGA's outstanding gross exposure and amounted to 42 percent of MIGA's guarantee amounts issued in FY23.[5]

FIGURE 1. MIGA gross issuance–by product type (USD billions)



Source: MIGA Issued Projects Data.

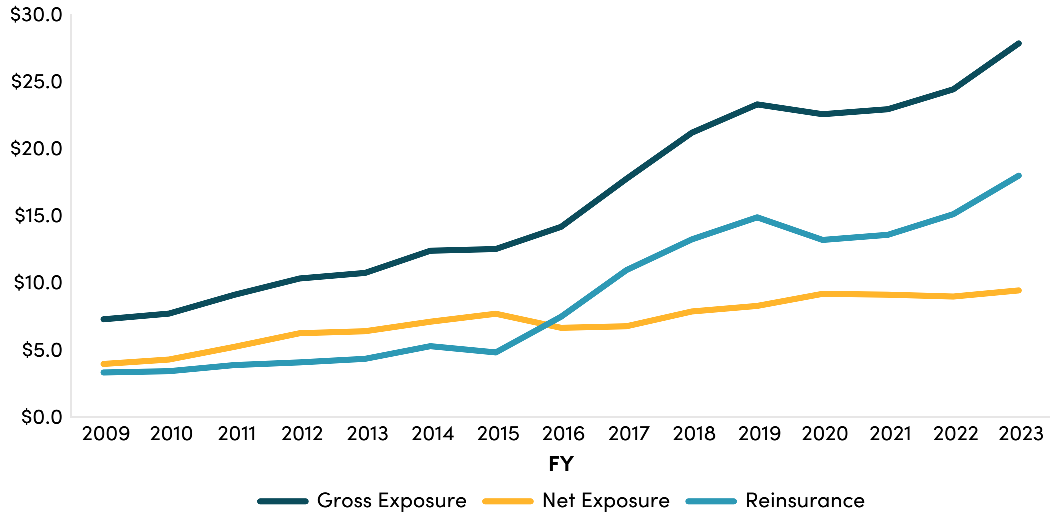
Sources and uses of finance

MIGA is the only World Bank financing facility that has not received a capital infusion since its establishment. Yet despite an initial capital stock of $1 billion (of which only $366 million was paid in), MIGA has grown significantly and as of June 2023 had $27.9 billion in gross exposure (compared to net exposure of $9.5 billion). This reflects MIGA's unique capital management strategy: MIGA reinsures over 65 percent of its portfolio, a policy adopted in 1997 as a tool to use its capital more efficiently and manage risk.

4 World Bank, *The Multilateral Investment Guarantee Agency's Experience with Non-Honoring of Sovereign, Sub-Sovereign, and State-Owned Enterprise Financial Obligation Guarantees*, Meso-Evaluation, Independent Evaluation Group (Washington, DC: World Bank, 2022), https://rb.gy/dolxy.

5 World Bank, *Management's Discussion & Analysis and Financial Statements*, The Multilateral Investment Guarantee Agency (Washington, DC: World Bank, 2023), https://shorturl.at/xVWX8.

FIGURE 2. MIGA portfolio growth (USD billions)



Source: MIGA financial statements.

The benefit of this approach is that MIGA can free up capital shortly after it has been committed, enabling sustained growth. The disadvantage is that it compels MIGA to make investments that are attractive to the reinsurance market (i.e., low risk). The result of this policy, along with the BB-threshold for NH products, is that most of MIGA's exposure is in high- and upper-middle-income countries, often exceeding 50 percent of total guarantee volume. Guarantees in lower middle-income countries and LICs represent a significant number of MIGA's operations but tend to be smaller in size, which is reflected in lower exposure figures. This helps explain why FY22 was the first time MIGA insurance in LICs exceeded 10 percent of new issuance volume.[6]

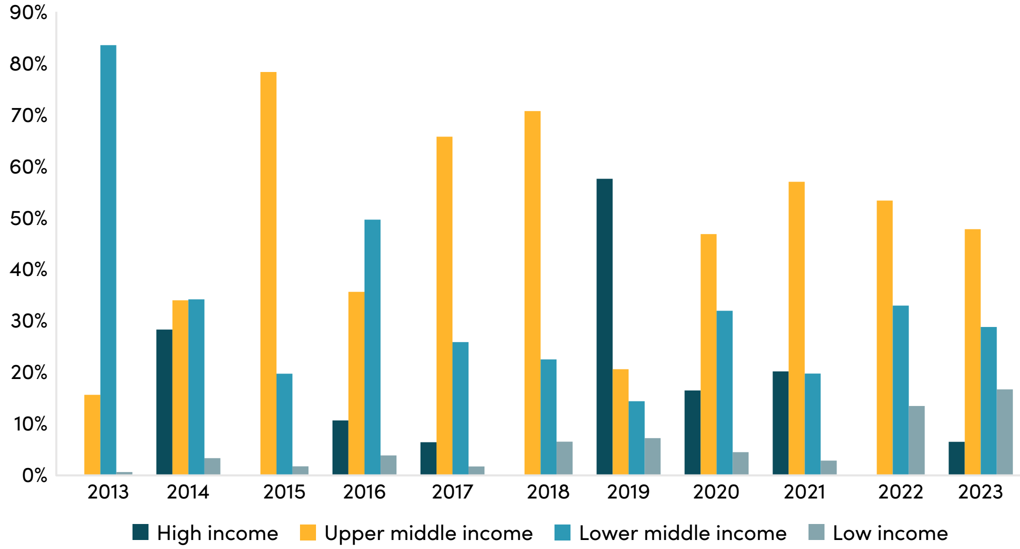
The number of claims paid has been extremely low—only 11 in MIGA's history, all for PRI and all before 2020. Of these, nine were for war and civil disturbance.[7] There have been no claims for NH products to date. This record is largely due to MIGA's conservative risk management strategy, though another critical factor is MIGA's ability to resolve potential claims before they are filed (155 so far according to MIGA's update for the 2023 annual meetings).[8]

6 FY 2013 was a notable outlier (with 16 percent coverage for LICs), due to the relatively recent introduction of MIGA's non-honoring instrument, which allowed the institution to rapidly scale up commitments to low-income, higher-risk regions. The trend reversed when the credit threshold for NH products was increased in FY 2015.
World Bank, *Results and Performance of the World Bank Group 2013: An Independent Evaluation* (Washington, DC: World Bank, 2013), https://shorturl.at/nIPZ3.

7 Because these claims were for asset damage, there was no scope for dispute resolution.

8 MIGA, Presentation on Political Risk Insurance and Credit Enhancement (Washington DC: 2023) https://www.miga.org/sites/default/files/2023-09/MIGA%20PRI%20%26%20NH%20-%202023%20Annual%20Meetings.pdf.

FIGURE 3. MIGA gross issuance—by income group (percent share)



Note: The exceptional high-income coverage in FY 2019 is due to a transaction in Oman.
Source: MIGA Issued Projects Data.

What MIGA offers investors

Through its product offerings, MIGA can help investors meet long-term financing needs and reduce costs. MIGA's PRI product typically offers tenors of 15 years compared to the 5-year tenor usually offered by private insurers.[9] A review by the Independent Evaluation Group (IEG) of MIGA's non-honoring products from 2011–2019 concluded that they enabled longer term loans—an average of 11 years with NH cover versus 5 to 7 without. The pricing impact was harder to assess, however. In theory, NH products confer lower pricing because banks do not need to provision for the credit risk of a MIGA-insured loan.[10] But verification is challenging—there is no easy way to compare a deal with MIGA coverage to one without—so most of the information is anecdotal. [11]

MIGA's scope of coverage is also generous: for private lenders, MIGA covers up to 90 percent of equity and up to 95 percent of principal and interest. For the public sector, MIGA covers up to 95 percent of the principal and interest owed to financiers against non-honoring of a contract.

9 Hannah Myer, *Political risk insurance and its effectiveness in supporting private sector investment in fragile states*, LSE-Oxford Commission on State Fragility, Growth and Development (London, UK: The International Growth Center, 2018), https://rb.gy/yjh2k.
Violete Iftinchi and Gheorghe Hurduzeu, "The place of Political Risk Insurance in the political risk management strategy of multinational corporations," *The Romanian Economic Journal* 19, no. 60 (June 2016): https://rb.gy/gsmw7.

10 World Bank, *The Multilateral Investment Guarantee Agency's Experience with Non-Honoring of Sovereign, Sub-Sovereign, and State-Owned Enterprise Financial Obligation Guarantees*, Meso-Evaluation, Independent Evaluation Group (Washington, DC: World Bank, 2022), https://rb.gy/dolxy.

11 See for example Risk.net, "Deal of the year: Republic of Senegal / SG CIB / MIGA," (London, UK: Infopro Digital Services Limited, 2016), https://rb.gy/80nn0.

According to the MIGA evaluation, lenders and investors especially value "the unique strength that MIGA derives as a member of the Bank Group,"[12] because it has enabled MIGA to keep claims so low.[13] There is no firm policy on how other World Bank arms should respond in the event of a potential MIGA claim (e.g., by conveying that it could put sovereign lending at risk), but the fact that a World Bank country director with close ties to a sovereign can intervene on behalf of MIGA clearly serves as a deterrent.

What MIGA offers shareholders

Shareholders approved and financed MIGA to help advance the World Bank Group's goal of boosting private investment to enable more sustainable growth. MIGA has given donors a major return on their investment: member countries paid $366 million for its launch, leveraging $1 billion in capital, which has enabled it to grow to its current exposure of over $27 billion—a 76x multiplier.[14]

Since its inception, MIGA has supported $70 billion in guarantees. That said, it is impossible to verify whether these deals were dependent on MIGA's coverage, especially in markets where it does most of its business (e.g., MICs). Unlike LICs, these markets typically offer private insurance and there is no way to assess whether the differential in MIGA's offers versus those of private insurers had a material impact on investor decisions. We do have some insights into MIGA's ability to leverage private capital using mobilization data provided by multilateral development banks (MDBs) and development finance institutions. According to the latest report on MDB capital mobilization of long-term financing, MIGA directly mobilized $3.93 billion in 2020 and $3.7 billion in 2021 (with COVID likely accounting for the drop in 2021).[15] Indirect mobilization reached $464 million and $299 million respectively.[16]

MIGA's leverage figures vary significantly depending on volume and income category. For example, in 2020 MIGA only mobilized $78.5 million of the total, or 2 percent, in LICs. This improved in 2021, with direct mobilization reaching $445 million in LICs, equivalent to 12 percent. In MICs, however, MIGA directly leveraged $2.6 and $2.7 billion in 2020 and 2021 respectively (i.e., equivalent to 66 and 73 percent).

12 World Bank, *The Multilateral Investment Guarantee Agency's Experience with Non-Honoring of Sovereign, Sub-Sovereign, and State-Owned Enterprise Financial Obligation Guarantees*, Meso-Evaluation, Independent Evaluation Group (Washington, DC: World Bank, 2022), https://rb.gy/dolxy.

13 Fitch Ratings, *Special Report: Preferred Creditor Status*, Fitch Ratings (New York, NY: Fitch Ratings, Inc., 2018), https://rb.gy/0rdoe.

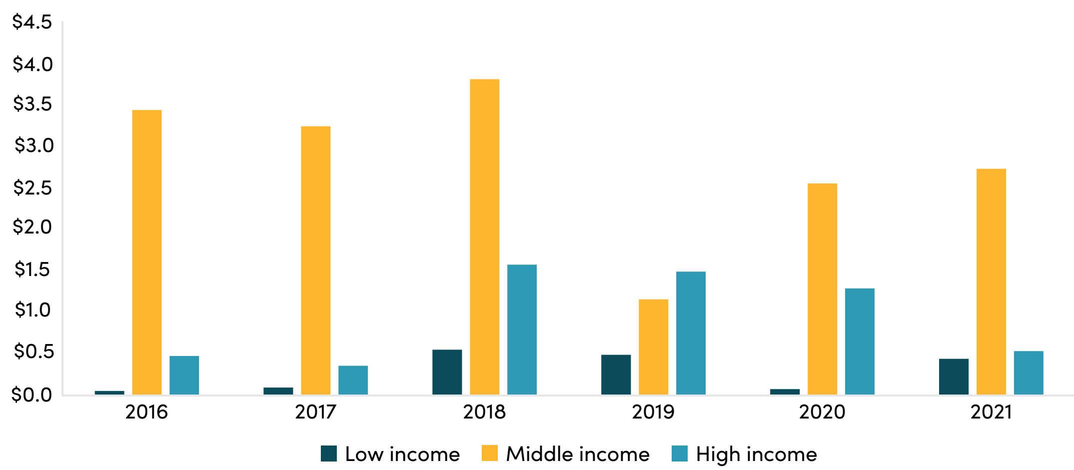
14 Comparing paid-in capital to gross exposure.

15 Multilateral Development Banks and Development Finance Institutions, *Mobilization of Private Finance: 2020 + 2021 Joint Report*, Asian Infrastructure Investment Bank (Beijing, China: Asian Infrastructure Investment Bank, 2023), https://tinyurl.com/bddzjkk6.

16 Direct mobilization measures the financial flows that result from a transaction between an MDB-supported project and a client or investor. Indirect mobilization estimates the private investment flows that result from an MDB's involvement in the project design, de-risking, and initial financing.

MIGA's mobilization ratio—which indicates how much additional money can be leveraged with each $1—is hard to quantify because there are no apples-to-apples comparisons: operations are reported in World Bank fiscal years (June 30–July 1) and mobilization numbers in calendar years. Authors of an independent evaluation of NH products built their own data set and concluded that MIGA's leverage for these products was 1:1 exactly (i.e., $7.6 billion in MIGA insurance mobilized $7.6 billion in private capital mobilization).[17] However, MIGA noted that once reinsurance was accounted for, the figure is closer to 1:2, which is more than twice the overall average (which is about 1:0.8).

FIGURE 4. Direct mobilization–by income group (CY, USD billions)



Source: MDB Joint Reports on the Mobilization of Private Finance.

Recommendations to grow MIGA

The key challenge for MIGA is how it can expand and have more impact without becoming capital constrained. How much more MIGA can do with its current capital base depends on the size and risk level of new operations, but we estimate that it could grow to around $40 billion before feeling pinched.

To support a higher level of ambition, the most straightforward option for enhancing MIGA would be a capital increase, which assuming a 1:3 ratio of paid-in (the initial capitalization ratio), would be cost-effective. As the largest shareholder (with 18.36 percent of the total), the US would pay the most. For example, a $1 billion capital increase would cost the US $183.6 million dollars, of which only $61 million would need to be paid in, potentially over several years. (The balance would be in the form of a guarantee that could be called in the extraordinary event of multiple claims that MIGA was unable to meet.) A capital increase would enable a substantial scale up while reinforcing the halo effect that investors especially value (because it would be a show of strong shareholder support).

17 World Bank, *The Multilateral Investment Guarantee Agency's Experience with Non-Honoring of Sovereign, Sub-Sovereign, and State-Owned Enterprise Financial Obligation Guarantees*, Meso-Evaluation, Independent Evaluation Group (Washington, DC: World Bank, 2022), https://rb.gy/dolxy.

In addition, there are several tailored solutions that could address MIGA's coverage gaps. These include (1) a new liquidity facility that investors could access during arbitration in the event of a PRI claim for breach of contract; (2) increased risk sharing for donors to enable greater coverage in IDA countries; (3) a revised policy that would allow MIGA to offer its NH products in countries rated below BB- under certain circumstances; (4) tighter collaboration within the World Bank Group; and (5) increased partnerships with other MDBs, especially where private insurance is hard to come by.

Create a PRI liquidity facility

Recommendation 1: MIGA should create a special PRI liquidity facility to enhance its value to banks and investors.

PRI has one notable disadvantage relative to NH products, which is its treatment under international banking regulations. Though MIGA itself is not rated, it is *treated* as a highly rated MDB under international banking regulations due to its risk management policies and status as a World Bank Group member. And because claims under MIGA's NH policies are paid automatically, banks do not have to set aside risk capital for the insured loan amounts.

In contrast, banks get no credit for MIGA's PRI coverage because payments are not automatic—a breach of contract claim must go through arbitration first and claims for the other coverage areas (expropriation risk, transfer risk and war and civil disturbance) are subject to MIGA's internal claims process. This is unnecessarily conservative—PRI should offer at least some capital relief, especially given MIGA's exceptional track record. MIGA has engaged with financial regulators, including the Financial Stability Board, to integrate its PRI products into prudential models, but this has yet to lead to more favorable treatment. A complementary option would be to create a stand-by liquidity facility for investors to draw on in the event of an arbitration, ensuring consistent payment throughout the process. MIGA has already used this approach on an ad hoc basis. Here is an example of how this worked with the EBRD: In 2022, MIGA provided $93.8 million in PRI to support a $334.5 green million bond issuance to refinance six solar plants in Egypt, with power proceeds going to the coupon payments. By protecting investors in case of a breach of contract (among other scenarios), MIGA's PRI offloaded a significant portion of the repayment risk. But because PRI claims only pay out following a potentially lengthy arbitration process, by itself this insurance was not enough to achieve an investment grade. To address this gap, EBRD provided a liquidity facility for up to $30 million (equivalent to three years of coupon payments) that investors will be able to access in the event of an arbitration. The boost to investment grade mattered because it reduced costs and enabled a much larger class of investors to participate (e.g., major institutional investors).[18]

18 Nibal Zgheib, "EBRD invests in Scatec green bond," European Bank for Reconstruction and Development (London, UK: European Bank for Reconstruction and Development, 2022), https://tinyurl.com/3sdact5y.

This example is replicable and scalable. Assuming donors are willing to step forward, it would be relatively simple for MIGA to establish a liquidity facility that it could use on a case-by-case basis for breach of contract claims. This would allow for potential ratings uplift from non-investment grade to investment grade, lowering borrowing costs for MIGA clients.

Increase risk sharing with donors

> *Recommendation 2: MIGA should pursue greater risk sharing capabilities including by (1) expanding options for using the Private Sector Window; and (2) expanding donor arrangements to off-take risk either by sector, country, or both.*

If MIGA is to grow without significantly increasing risk exposure, it will need to expand its risk-sharing platforms. There is ample precedent at MIGA for risk sharing, principally through the Private Sector Window (PSW) and an umbrella framework, the MIGA Strategic Priorities (MSP) program. The PSW uses IDA funds to support MIGA coverage in IDA countries and the MSP manages trust funds with contributions from donor partners, enabling MIGA to expand coverage above what it can do on its own.

IDA's Private Sector Window (PSW)

The PSW was approved during IDA 18 to support private investment in IDA countries through first loss exposure or reinsurance. It can be accessed when MIGA has reached exposure limits, or where private market capacity is low or cost prohibitive. Since 2018, the PSW has made $563.1 million in MIGA commitments, all for PRI, supporting aggregate project costs of $3.3 billion[19] out of a total of $8.13 billion in IDA and blend countries.

The PSW could help increase MIGA's footprint and impact by adding additional criteria for its use. Specifically, the PSW could (1) provide liquidity support in conjunction with PRI for claims related to breach of contract (see recommendation 1); (2) allow MIGA to use PRW for its new trade finance cover; and (3) offer coverage to enable the use of NH products in more IDA countries, only four of which are rated BB- (the threshold for coverage).[20]

MIGA's strategic priorities program (MSP)

The MSP Program currently hosts five arrangements with donors that enable coverage and fund activities that MIGA could not do on its own:

19 World Bank, "Private Sector Window Projects," International Development Association (Washington, DC: World Bank, 2024), https://tinyurl.com/yjptxfae.

20 Bangladesh, Honduras, Côte D'Ivoire, and Uzbekistan.
Trading Economics, "Credit Rating," (New York, NY: Trading Economics, 2023), https://tinyurl.com/25ffffu8.

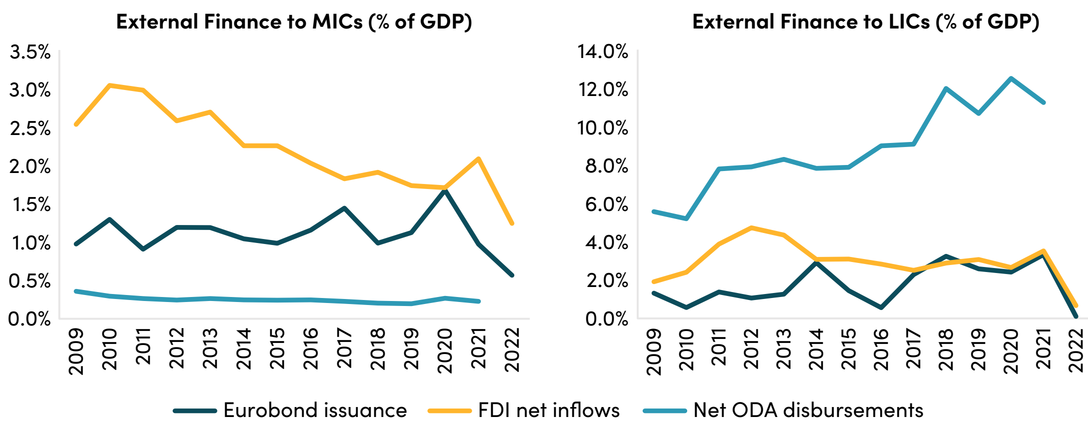
- **The Conflict-Affected and Fragile States Facility** (CAFEF). CAFEF was set up in 2013 using donor contributions and partner guarantees from Canada, the UK, and Sweden to provide a first loss layer in fragile and conflict states (FCS). It was designed to give MIGA the capacity to increase its guarantee volume in FCS countries by $400 million during its initial years, and well over that amount over the Facility's 20-year life. CAFEF, along with the Private Sector Window, enabled MIGA's coverage in FCS to grow from $1.9 billion in FY 2017 to $2.7 billion in FY 2022.
- **Renewable Energy Catalyst Trust Fund (RECTF):** Established in November 2021 with support from Norway and later from Japan, the RECTF supports renewable energy projects such as mini-grid systems, transmission systems, and battery storage. The RECTF provides a first loss layer for MIGA guarantees for high-risk projects; reinsurance for a project where private reinsurance is not available; and guarantee tenor extension (i.e., beyond 15 years). The RECTF also offers technical assistance and grants to enhance the impact of MIGA-guaranteed projects and will soon be able to provide liquidity support to help smaller investors.
- **Fund for Advancing Sustainability (FASTF):** In 2022, the Korean government provided funding to establish FASTF with the aim of enhancing MIGA's impact and reducing risk through technical assistance. FASTF is used to support climate adaptation, resilience, gender-related risk mitigation, environmental and social impacts, compliance with MIGA's performance standards, governance, and operational capacity in fragile environments.
- **The West Bank and Gaza Investment Guarantee Trust Fund:** This fund was established in 1997 by MIGA, the Palestinian Authority, the Japanese Ministry of Finance, and the European Investment Bank. It has supported 13 guarantees to date for a cumulative $62 million in issuance, mostly in the manufacturing and agribusiness sectors, in accordance with its emphasis on supporting projects with high employment-generating capacity.[21]
- **Support to Ukraine's Reconstruction and Economy Trust Fund (SURE TF):** The SURE TF was established in 2022 with a $23 million anchor grant from Japan to enable MIGA to support investors in Ukraine despite heightened risk. The fund is providing up to $300 million in trade finance guarantees (in partnership with IFC and EBRD), liquidity and working capital for SMEs through PRI guarantees to international banks and guarantees to support the relocation of projects from conflict-affected areas in Ukraine to more secure parts of the country.

This risk sharing model is flexible and can be employed to increase product, sector, and/or country coverage. It could also be used to advance the World Bank's global challenges agenda, a key element of the evolution roadmap.

21 World Bank, *Multilateral Investment Guarantee Agency Projects*, Multilateral Investment Guarantee Agency (Washington, DC: World Bank, 2023), https://tinyurl.com/47fxvdnd.

There is a good case to be made for expanding MIGA's risk sharing initiatives in the current environment: foreign direct investment and capital flows have yet to recover from their peak in 2010, and in the context of a high interest rate environment combined with increased risks (e.g., the protracted war in Ukraine and the new conflict in the Middle East), risk appetite remains low. These are precisely the circumstances during which MIGA should step up to play a countercyclical role, but due to its own risk management practices, is constrained from doing so. In addition, initiatives like these are what enable MIGA to operate in riskier markets.

FIGURE 5. External financing trends (LICs and MICs)



Source: Bloomberg, IMF & UNCTAD, WDI.

Expand NH product eligibility

Recommendation 3: MIGA should enable NH coverage in countries below the current BB- threshold.

MIGA's NH products insure bankers and lenders against non-payment of sovereign, sub-sovereigns and SOEs regardless of cause. Since 2015, access to these products has been limited to countries rated BB- or above, essentially ensuring that most NH operations are limited to MICs. (Among IDA-eligible countries, only Bangladesh, Honduras, Côte D'Ivoire and Uzbekistan meet the threshold.)[22]

In an effort to go down the credit curve, MIGA could offer a set of guidelines detailing when coverage could include countries rated B or above. These guidelines could include an assessment of debt sustainability and contract enforcement. Looking at countries rated between B and BB- (i.e., the proposed and current thresholds), we found that most countries could take on more debt. Only two countries—Kenya and Mongolia—are at high risk of debt distress:

22 According to S&P ratings.
Trading Economics, "Credit Rating," (New York, NY: Trading Economics, 2023), https://tinyurl.com/25ffffu8.

TABLE 1. Potential additional NH coverage with a B threshold

Country	Credit Rating	Risk of Debt Distress	Country	Credit Rating	Risk of Debt Distress
Brazil	BB-	Moderate	Rwanda	B+	Moderate
Bangladesh	BB-	Low	Jamaica	B+	Sustainable
Honduras	BB-	Low	Benin	B+	Moderate
Macedonia	BB-	Sustainable	Costa Rica	B+	Sustainable
South Africa	BB-	Moderate	Bosnia and Herzegovina	B+	Sustainable
Côte d'Ivoire	BB-	Moderate	Uganda	B	Moderate
Uzbekistan	BB-	Low	Kenya	B	High
Seychelles	BB-	Sustainable	Egypt	B	Sustainable
Bahrain	B+	na	Türkiye	B	Sustainable
Armenia	B+	Sustainable	Cambodia	B	Low
Namibia	B+	na	Montenegro	B	na
Bahamas	B+	Sustainable	Tanzania	B	Moderate
Senegal	B+	Moderate	Lesotho	B	Moderate
Jordan	B+	Sustainable	Mongolia	B	High
Albania	B+	na	Togo	B	Moderate
Fiji	B+	na	Nicaragua	B	Moderate
Turkmenistan	B+	na			

Notes: Countries not included in the IMF DSA List were marked in green if their latest IMF Article IV consultation (or other debt assessment) characterized their debt as sustainable. S&P credit ratings were used; if unavailable, the Moody's or Fitch equivalent was used, in order of preference.

Source: Bloomberg, IMF & UNCTAD, WDI.

On contract enforcement, MIGA could seek formal recognition as a preferred creditor, although this could make it difficult to crowd in other investors. Finally, because MIGA does not require a sovereign counter-guarantee, a prudent option would be to focus on expanding the use of NH products for governments rather than for sub-sovereigns or SOEs.

Strengthen collaboration within the World Bank Group (WBG)

Recommendation 4: Add a "tag" for all joint WBG transactions; harmonize the guarantee functions of IBRD/IDA with MIGA to promote greater in-country coverage; and create a policy of off-loading IBRD/IDA debt using MIGA guarantees and reinsurance.

Collaboration within the World Bank offers important benefits in terms of size, impact, and efficiency. IBRD/IDA can mitigate nonfinancial risks, including governance and poor regulatory environments (e.g., insolvent public utilities) that combined with MIGA products can move the needle on project viability. For the Privatization & Utility Sector Reform project in Uganda, for example, IDA addressed policy and revenue-related risks critical to project sustainability while MIGA's PRI products mitigated political risk, including transfer restriction, expropriation, war and civil disturbance, and breach of contract.[23] Their support, augmented by a long-term loan from the IFC, provided the risk-mitigation needed for investors to undertake a 20-year power distribution concession, an impressive tenor for a country with a low grade sovereign rating.

IFC and MIGA have a business development partnership to encourage their collaboration especially in low-income countries, and in 2012 solidified an agreement to work together in fragile and conflict affected countries (FCS). An IEG report on their combined role in FCS stressed the challenges of working in these environments but found that the projects they evaluated performed as well as those in less risky markets, especially for infrastructure.[24]

A separate IEG report on joint projects found that co-financing provided several benefits including (1) reduced investment risk across a range of high-risk countries; (2) successful capital mobilization for risky projects that required long-term financing and guarantees not readily available from foreign or local commercial sources; (3) first time cross-border investments in some client countries; and (4) facilitation of complex and complicated transnational projects.[25]

These findings suggest that to expand into LICs and/or fragile states, MIGA would do well to collaborate more closely with IDA/IBRD and IFC. Joint projects are not the only way to collaborate—MIGA could also choose to align its activities with other WBG projects, potentially accomplishing similar benefits with less complexity. There should also be greater integration of MIGA's role in country strategies—these documents include sections for IBRD/IDA, IFC, and MIGA, but they usually read as distinct from one another, not as mutually reinforcing.

Joint project database

Despite the unique advantages of joint World Bank Group operations, there is no database on the number and type of World Bank Group co-financing arrangements, making it difficult to track trends or assess relative effectiveness. The IEG report on joint projects is the one comprehensive source of information we could find.[26] It covers FY95-FY15 and found only 112 joint projects were approved during that entire period, roughly half of which included MIGA.

The report also found that despite the adoption of a "One World Bank" group approach in October 2013, the number of co-financed projects declined from 11 projects in FY 2014 to five in FY 2015. There

23 Ada Karina Izaguirre Bradley, *Supplemental Implementation Completion and Results Report (Credit Number 3411-UG)*, World Bank (Washington, DC: World Bank, 2014), https://tinyurl.com/yxmb4u6u.

24 World Bank, *The International Finance Corporation's and Multilateral Investment Guarantee Agency's Support for Private Investment in Fragile and Conflict-Affected Situations, Fiscal Years 2010–21*, Independent Evaluation Group (Washington, DC: World Bank, 2022), https://tinyurl.com/b2vdbc8t.

25 World Bank, *World Bank Group Joint Projects: A Review of Two Decades of Experience. Lessons and Implications from Evaluation*, Independent Evaluation Group (Washington, DC: World Bank, 2017), https://tinyurl.com/mwybbd4a.

26 World Bank, *World Bank Group Joint Projects: A Review of Two Decades of Experience. Lessons and Implications from Evaluation*, Independent Evaluation Group (Washington, DC: World Bank, 2017), https://tinyurl.com/mwybbd4a.

is no data available after that point, something that the World Bank Group could easily redress by adding a "tag" for joint projects.

Harmonized guarantee facility

To streamline and encourage more joint financing, the World Bank should also consider creating a harmonized guarantee facility. Guarantees are an underused instrument that are especially relevant in the current high interest rate environment (e.g., because they can provide credit enhancement, lowering countries' cost of borrowing).[27] And the combination of MIGA, IBRD/IDA and IFC guarantees appeals because they address complimentary risks—sovereign and commercial—that together may be needed for public-private partnerships and SOE projects, which are often large and achieve significant impact.

Unfortunately, the multiple instruments on offer present clients with a complicated menu to choose from.[28] In addition to MIGA's insurance products, IFC offers partial and full credit guarantees while IBRD and IDA offer policy-based guarantees and two types of project-based guarantees.[29] Harmonizing these instruments could introduce financial efficiencies while simplifying interactions with clients struggling to navigate the various World Bank Group products.

The guarantee reform process should not be limited to harmonization because there are other challenges to be addressed to make the guarantee instruments themselves more appealing. For example, most guarantees are typically counted against country borrowing limits on a one-to-one basis and sovereign guarantee exposure is counted the same as loan exposure in country finance allocations, both of which discourage their use. IDA policy-based guarantees are eligible for 25 percent accounting against country lending limits, but this policy is at the discretion of management, not borrowers. For these reasons, this recommendation should be considered as part of a larger reform agenda.

Refinance IBRD debt using MIGA products

The World Bank is also considering a proposal that could free up IBRD capital by refinancing IBRD debt to SOEs using MIGA guarantees and reinsurance. Under this arrangement, World Bank clients (e.g., governments/SOEs) would retire their World Bank debt early and re-issue the debt to private investors at a better rate using MIGA coverage. This could be done after project completion when the project has been substantially de-risked (i.e., there is no longer construction risk). The benefit to MIGA is that it could help sovereigns and SOEs exchange MDB debt for less costly private debt and the benefit for the World Bank is that it would free up capital for new lending. However, for this to be

27 Clemence Landers and Rakan Aboneaaj, "MDB Policy-Based Guarantees: Has Their Time Come?" Center for Global Development (Washington, DC: Center for Global Development, 2022), https://tinyurl.com/yetrx9e6.

28 World Bank, "World Bank Group Guarantee Products: Guidance Note," World Bank Public Private Partnership Group (Washington, DC: World Bank, 2016), https://tinyurl.com/4cp37jzm.

29 Loan guarantees and payment guarantees.

attractive, the World Bank needs to waive its pre-payment penalty clause which so far it has been reluctant to do.

Extend MIGA coverage to other MDBs

Recommendation 5: MIGA should proactively engage with regional development banks including to increase opportunities for expanding its NH coverage.

No other development banks have a dedicated insurance entity like MIGA, and there are clear benefits to giving MIGA a bigger role in the MDB system, especially in markets where private insurance is hard to come by. MIGA itself has issued a handbook committing to a "new approach" for working with partners focused on increasing the use of its PRI products (NH products are excluded) and generating more global investment.[30] The approach chiefly involves more proactive outreach by MIGA to potential development partners.

In April 2019, MIGA and the EBRD signed a memorandum of understanding committing to identify opportunities for greater cooperation, and in February 2023, MIGA signed a co-financing agreement with the EBRD, under which it will issue up to $200 million in trade finance guarantees, with the first program supporting Ukraine. Just recently, MIGA concluded a four-year agreement with the Inter-American Development Bank with the goal of building a pipeline for Latin American and the Caribbean.

Going forward, MIGA should expand its collaboration ambitions to include NH products, not just PRI. MIGA should also consider a more strategic approach to its outreach, focusing, for example, on major transformational projects and green energy transitions. In the climate space, MIGA could work with others to support the development of the carbon market which remains controversial and is thin and volatile. This will become possible under MIGA's planned policy to provide coverage for carbon rights which will enable it to insure against expropriation of carbon credits included as part of an investment deal.[31]

MIGA and the World Bank evolution agenda

In the context of a major reform agenda designed to make the World Bank better fit for purpose, shareholders are considering a number of proposals on IBRD, IDA, IFC and MIGA that have been put forward in the context of an evolution roadmap. In late September, the World Bank released its

30 World Bank, *Expanding Political Risk Insurance. A Partnership Approach to Grow Private Investment*, Multilateral Investment Guarantee Agency (Washington, DC: World Bank, 2020), https://tinyurl.com/yp24afj9.

31 World Bank, *Evolving the World Bank Group's Mission, Operations, and Resources: A Roadmap*, World Bank (Washington, DC: World Bank, 2022), https://tinyurl.com/5h3mdr6h.

latest version which reflects some of the recommendations that we have proposed in this paper.[32] For example:

- The paper proposes a new World Bank coordination and innovation center to develop joint guarantee products. This aligns with our harmonization proposal under recommendation #4 advocating for greater World Bank Group coordination.
- The World Bank is considering the use of MIGA guarantees to support private investors refinancing IBRD loans, also an element of recommendation #4.
- The paper suggests using MIGA PRI in combination with contingent liquidity facilities to crowd in institutional investors. This incorporates recommendation #1 (which advocates for this facility) and potentially #2 (on risk sharing).

MIGA is also proposing to help alleviate headroom constraints at other MDBs through the use of its NH products. However, it is unlikely that the impact would be very significant absent a capital boost for MIGA. And while the evolution roadmap lists options for strengthening IBRD and IDA balance sheets, there is nothing comparable on MIGA.

While these are all welcome steps, there is scope for significantly more ambition, especially around the use of MIGA's NH products.

Conclusion

The menu of recommendations we offer is intended to enable MIGA's robust growth, especially in LICs, while keeping the overall risk profile relatively stable, including with additional donor resources. That said, MIGA's internal culture would likely need to adjust. A development-focused institution needs to balance risk and impact, but for private sector-oriented finance institutions in particular, risk factors often prevail. This is reflected in MIGA's track record (only 11 claims, all of them before 2000) and its limited coverage in IDA countries. A quarter century without a single claim is a sign of strong risk management but suggests that risk appetite is in fact too low for a development organization.

Changing corporate culture is hard—it would likely require explicit direction from shareholders and management and a shift in staff incentives. There would need to be a recognition that higher risk tolerance could result in more investment disputes and/or claims filed. Given the importance of IBRD/IDA relationships in helping MIGA manage the pre-claims process, buy-in from World Bank country directors and vice presidents should be an objective of a MIGA growth strategy.

32 World Bank, *Ending Poverty on a Livable Planet: Report to Governors on World Bank Evolution* (Washington, DC: World Bank, 2023). https://www.devcommittee.org/content/dam/sites/devcommittee/doc/documents/2023/Final%20Updated%20Evolution%20Paper%20DC2023-0003.pdf.

We also recognize that these recommendations have operational and budgetary implications. MIGA has only 180 staff, most based in Washington, DC. More upstream engagement, especially in LICs and frontier markets, would likely require more staff in country offices, incurring additional costs. And if shareholders commit to increasing MIGA's footprint globally, they should be willing to inject more capital. There are simply too many cases of unfunded mandates within the WBG today.

Finally, MIGA may want to strive for greater operational efficiencies. In addition to robust performance standards on environmental and social sustainability there are requirements around integrity, anti-money laundering, gender, climate, Paris alignment and biodiversity. While all important issues, extensive due diligence requirements can reduce MIGA's appeal as a preferred partner.

Despite these organizational challenges, we see a strong case to prioritize MIGA in the MDB reform agenda. Risks to investors are increasing, investment flows to most low- and middle-income countries are stagnant or falling while many development gains have been reversed. For their part, donors have reduced or rechanneled official development assistance, leading to a decline in aid for the poorest countries despite growing needs and a significant debt overhang. Largely for domestic political reasons, donors are unable or unwilling to come forward with significant new financial commitments. Due to its exceptional leverage capacity, this should make MIGA an especially attractive option for donors. In essence, this unusual combination of factors should energize MIGA stakeholders—especially shareholders—to boost the role of MIGA within the World Bank Group and the broader development architecture.