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IDA 21 and the Private Sector Window

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The World Bank has launched negotiations for the 21st replenishment of the International Development Association (IDA), which provides grants and highly concessional financing to the world's poorest countries. For this resource mobilization cycle, a key agenda item is the future of the Private Sector Window (PSW) which was created in 2017 to boost private investment in IDA countries. Using resources allocated under the last three IDA replenishments, the PSW partners with the private sector arms of the World Bank—the International Finance Corporation (IFC) and the Multilateral Insurance Guarantee Agency (MIGA)—to share commercial and non-commercial risks, enabling them to finance projects that otherwise would not go forward.

After a slow start, the PSW increased the pace of project approvals and is expected to commit all allocated funds by the end of IDA-20 (June 2025), and IDA Deputies will be asked to provide additional funds in IDA-21. As part of this negotiation, donors will consider how the PSW can be reformed and strengthened. With an infusion of nearly $5.5 billion since 2017, this is a consequential negotiation, especially in the context of sustained, high demand from IDA countries. The debate is also relevant to the broader World Bank reform context, which includes a renewed effort to increase private sector mobilization, where results have fallen far short of ambitions.

This paper reviews PSW performance and, based on our findings, offers recommendations to strengthen performance going forward. Our review is based on key indicators of success, including usage rates (commitments and disbursements), whether PSW investments have helped spur higher levels of IFC and MIGA investments in IDA countries; development impact; increasing risk appetite, private finance mobilization and the use of the PSW in supporting a whole-of-Bank approach.

Our conclusion is that PSW's record is mixed and the private market-building impact of the model is unclear. We find that the capacity of IFC and MIGA to develop transactions that make use of PSW subsidies is growing over time, as evidenced by high commitment rates during the last two replenishments, with the notable exception of the infrastructure facility. Partial evidence also suggests that PSW projects tend to have higher development impact and permit IFC engagement with riskier counterparties. But limited data make it impossible to determine whether subsidies are focused on broader market development impact or are accurately targeting risks given extremely low realized PSW losses. Falling non-PSW transactions in eligible countries raise questions about the additionality of the PSW. The results on mobilization have been disappointing, with less private finance catalyzed by the PSW, per dollar of IFC's own-account commitments than in non-PSW supported projects. The focus of the PSW on de-risking IFC and MIGA rather than private investors appears to be reflected in the mobilization data. In addition, while the volume of long-term IFC investments in PSW-eligible countries has increased slightly relative to the pre-PSW period, the share of these investments as a percent of the IFC total has not. Moreover, much of the growth in total finance has been for short-term trade and working capital finance, with limited impact on long-term market development and dubious value for money given the long track record of profitability of trade finance.

The World Bank's Independent Evaluation Group (IEG) and World Bank management have each put forward reviews of the PSW and offered recommendations for reform.[1] The IEG identified challenges in PSW performance and proposes that the PSW improve its financial reporting and adopt a risk-based approach to provisioning, recommendations that are moving forward. Management is proposing several steps to streamline the PSW selection and approval processes, increase support for capital market development and expand the mandate to include a trade finance component. (See box.)

While these recommendations are a good start, there are several other reforms that we encourage IDA Deputies to consider based on our assessment of the PSW. Based on our findings, we propose three sets of recommendations designed to increase volume, impact, mobilization, efficiency and transparency of operation.

Introduction of PSW

The PSW was approved under IDA's 18th replenishment to enable the IFC and MIGA to scale up private investments in IDA eligible countries with a focus on fragile and conflict states (FCS). The PSW was designed to mitigate risk through credit enhancement or risk-sharing (e.g., a co-investment or first loss layer) for the IFC and MIGA. Key constraints the PSW was created to address include limited long-term finance, the lack of local currency financing and poor business environments. When the COVID pandemic struck, the PSW was also charged with addressing market disruptions (e.g., trade finance) resulting from exogenous shocks.

1 Independent Evaluation Group. (2024). A Focused of the International Development Association's Private Sector Window: An Update to the Independent Evaluation Group's 2021 Early-Stage Assessment. World Bank Group. Retrieved from https://ieg.worldbankgroup.org/evaluations/focused-assessment-international-development-associations-private-sector-window; International Development Association. (2023a). IDA20 Mid-Term Review: Private Sector Window Utilization and Implementation. Retrieved from https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099012624123559657/bosib123e5712f02d1a9491c6dd8015d90b.

The PSW received an initial allocation of 1.8 billion SDRs (approximately $2.5 billion), another $1.68 billion for IDA 19 and $2.5 billion for IDA20.[2] Total allocation for the PSW is only $5.5 billion, however, as uncommitted funds during IDA18 were returned to IDA. As of December 31, 2023, $1.8 billion had been disbursed out of a combined total of $4.6 billion committed in IDA18 through IDA20.[3] The PSW is expected to commit the full $5.5 billion before the end of IDA20, and Deputies will be asked to support the PSW with another allocation under IDA21.

The PSW has four facilities: 1) project-based guarantees to crowd in private investment in large infrastructure projects; 2) coverage of MIGA guarantees through first-loss and risk participation; 3) long-term local currency hedging solutions; and 4) blended finance solutions to increase SME finance among other sectors. Specific allocations for each of these four purposes are approved by IDA donors but management has discretion to shift these allocations to reflect demand. (See table 1). For each facility, the PSW is expected to follow a minimum concessionality principle to ensure that no more subsidy is used than required for project viability.

Table 1. PSW facilities

FACILITY	TOOLS AND USES
Blended Finance	Guarantees, loans, equity investments to support the provision of SME finance and agribusiness (with flexibility for other sectors)
Local Currency	Enable IFC to provide local currency in markets where currency options are absent or limited
MIGA Guarantee	Expand use of MIGA's political risk guarantees
Risk Mitigation	Project based guarantees for non-commercial risks in infrastructure

For IDA20, participants agreed[4] to several adjustments:

- IFC and MIGA would start disclosing impact and mobilization data for projects benefiting from the PSW.
- Up to $100 million of the Blended Finance Facility (BFF) could be used to support Micro-, Small and Medium-sized Enterprise incubators and accelerators.
- Using a "fund of funds" approach, the PSW could co-invest with IFC on a 50/50 basis and provide de-risking support to third parties to catalyze investors, make investment funds viable, and ensure adequate return for incubators/early-stage fund managers.

2 International Development Association. (2017). Additions to IDA Resources: Eighteenth Replenishment. Towards 2030: Investing in Growth, Resilience, and Opportunity. Retrieved from https://documents1.worldbank.org/curated/en/348661486654455091/pdf/112728-correct-file-PUBLIC-Rpt-from-EDs-Additions-to-IDA-Resources-2-9-17-For-Disclosure.pdf.

3 International Development Association. (2023b). Management's Discussion & Analysis and Condensed Quarterly Financial Statements December 31, 2023. Retrieved from https://thedocs.worldbank.org/en/doc/1c205b9447ad1df2010ab58d84f212d9-0040012023/original/IDA-Financial-Statements-December-2023.pdf.

4 International Development Association. (2022). IDA20 – Building Back Better from the Crisis: Toward a Green, Resilient and Inclusive Future. Retrieved from https://documents.worldbank.org/en/publication/documents-reports/documentdetail/163861645554924417/ida20-building-back-better-from-the-crisis-toward-a-green-resilient-and-inclusive-future.

- Establishment of a very high-risk tolerance seed capital fund of up to $15 million under which the PSW could invest up to $1 million per investment without the IFC.

The IFC also agreed that it would aim to increase the share of its "own-account" commitments in FCS-IDA17 and LIC-IDA17 countries to 12–17 percent on average during IDA20. In IDA18 and IDA19, IFC own-account commitments to these countries barely exceeded ten percent.

PSW Performance: Our Assessment

The performance of the PSW has been mixed, varying significantly by activity and measure of success. Below we address key indicators of success, including usage rates (commitments and disbursements), whether PSW investments correlate to increasing IFC and MIGA investments in IDA countries; development impact; increasing risk appetite, private sector mobilization and whether the PSW is supporting a whole of Bank approach.

Commitments and Disbursements

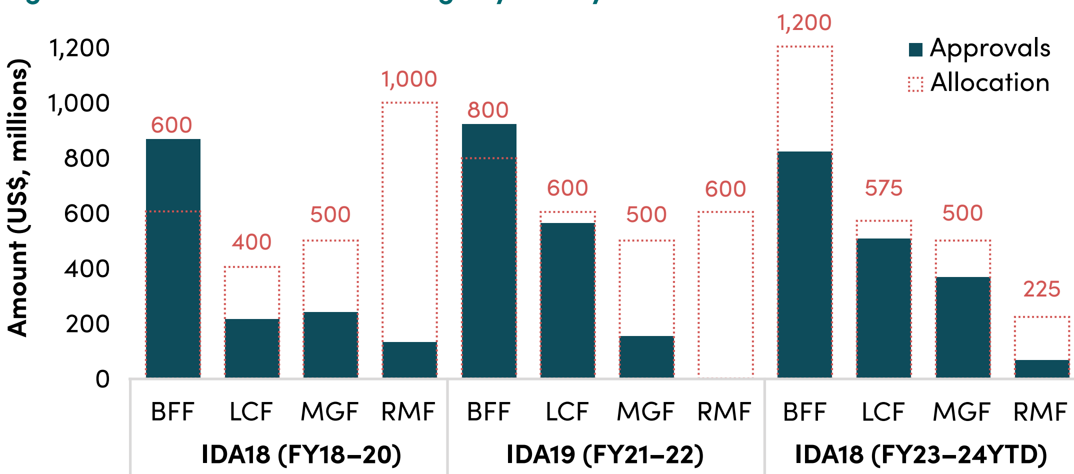
In September 2019, management offered an initial assessment of the PSW, acknowledging that it had gotten off to a slow start due to the time required to set up the governance framework, steep learning curves for MIGA and IFC teams, and long origination timelines, especially for the risk mitigation facility (RMF) which suffered from high levels of attrition (e.g., project teams opted for different instruments).[5] Under IDA18, which spanned FY18–20, only 55 percent of PSW funds were approved for investment, most in the last quarter of the IDA18 cycle. The pace of approvals picked up considerably in IDA 19 when nearly the entire $1.68 billion was committed. IDA20 (which began in July 2023) has so far committed approximately 70 percent of its $2.5 billion allocation.[6]

By contrast, disbursement figures show a less impressive picture. As of December 31, 2023, $1.8 billion had been utilized out of $4.6 billion committed.[7] A key reason for this is that the PSW commits resources to intermediaries (e.g., lines of credit for SME financing) that may experience variable demand from clients. This point only applies to commitments for IFC projects as approvals for MIGA guarantees would only be disbursed in the case of default.

Usage rates vary significantly by facility. Through March 2024, fifty-five percent of approvals were for the BFF, twenty-seven percent for the LCF, sixteen percent for MIGA through the MGF, and only two percent for the RMF (infrastructure).[8] The BFF has been oversubscribed in each cycle, while only one project has been approved under the RMF.

5 International Development Association. (2019). Additional Information Following up on the Addis Ababa Discussions on Regional, Crisis Response and Private Sector Windows. Retrieved from https://documents1.worldbank.org/curated/en/235601571173809758/pdf/Additional-Information-Following-up-on-the-Addis-Ababa-Discussions-on-Regional-Crisis-Response-and-Private-Sector-Windows.pdf.
6 IFC-provided data.
7 International Development Association, 2023b.
8 IFC-provided data.

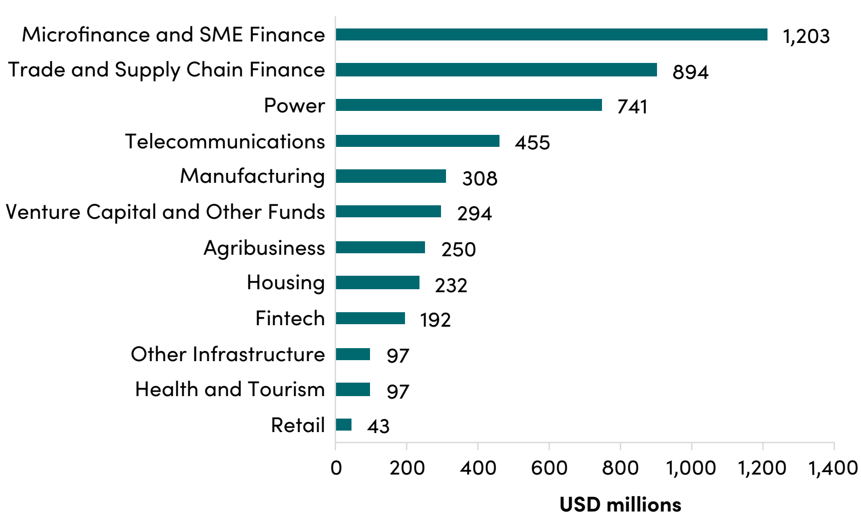
Figure 1. PSW allocations and usage by facility



Source: IFC-provided figure.
Note: Data as of March 2024; allocations were fixed in IDA 18 with flexibility added in IDA 19/20.

Also worth highlighting is the heavy use of PSW subsidies in short-term financing, not restricted to periods of crisis, such as during the 2020-2021 pandemic. In FY2023 (July 2022–June 2023), commitments between IFC's long- and short-term financing were nearly evenly distributed at $1.4 and $1.3 billion respectively.[9] Trade and Supply Chain Finance was the second-largest sector in terms of PSW funds committed (see Figure 2).

Figure 2. PSW approvals by sector, FY2018–2024



Source: IFC, 2024.

9 Ibid.

While there are circumstances when subsidies for short term financing are appropriate (e.g., trade finance Ukraine), their contribution to long-term market development is limited. Reasonable questions can be asked about whether this is the most efficient and impactful use for half of PSW annual subsidy commitments.

Finally, a note on the MIGA facility: Since 2018, the PSW has made $563.1 million in MIGA commitments, all for political risk insurance. The PSW has not supported MIGA's product to insure against non-payments by sovereigns, sub-sovereigns and state-owned enterprises. These "non-honoring" products constitute nearly half of MIGA's business, but only in countries that are rated BB- or above. Under current policy, countries rated below BB- are deemed too risky to consider, and only four IDA countries are eligible. This significantly constrains MIGA's ability to operate in PSW-eligible countries.

Impact on IFC and MIGA Activities in IDA Countries

A foundational rationale for the PSW was that it would boost IFC and MIGA's own operations in higher risk markets and/or sectors, and IFC in fact agreed that it would aim to increase the share of its "own-account" commitments in IDA countries to 12–17 percent on average during IDA 20. But while average annual IFC long-term finance volumes increased in PSW eligible countries by 6 percent from the pre-PSW period of 2015–2017 to the PSW period of 2018–2023,[10] operations in these countries as a percentage of total commitments have remained flat (Table 2) and below the target. Non-PSW-supported commitments in eligible countries have fallen, raising questions about the additionality of PSW transactions.

Table 2. IFC own-account long- and short-term finance to PSW-eligible countries

	LTF		STF	
FY	USD Millions	Share of IFC Total	USD Millions	Share of IFC Total
2015	936	8.9%	759	26.8%
2016	1,244	11.2%	831	29.6%
2017	1,152	9.7%	616	19.3%
2018	1,051	9.0%	648	18.9%
2019	884	9.9%	388	6.7%
2020	1,186	10.7%	641	9.9%
2021	1,229	9.9%	744	9.1%
2022	1,346	10.7%	1,073	11.1%
2023	1,401	8.4%	1,301	11.8%

Source: IFC-provided data; IFC annual reports.

10 The IEG evaluation notes that IFC average annual commitments in PSW countries fell by 28 percent since the establishment of the PSW (p. 31). However, they use a longer pre-PSW period (2012-2017), include both short- and long-term finance, and only look at countries that received PSW support instead of the broader category of PSW-eligible countries.

Table 3. Non-PSW-supported IFC own-account long-term finance to PSW-eligible countries

FY	USD MILLIONS	SHARE OF TOTAL LTF TO ELIGIBLE COUNTRIES
2018	966	91.9%
2019	749	84.7%
2020	788	66.4%
2021	749	60.9%
2022	839	62.3%
2023	883	63.0%

Source: IDA, 2023a.

MIGA committed to reach 30–33 percent of total volume in IDA and FCS countries by 2023, the best proxy that we have for PSW-eligible countries. According to MIGA's own reporting, this target was met. MIGA issued an average $1.4 billion per year in PSW-eligible countries between FY18 and FY23, of which nearly $400 million on average was supported by the PSW. For fiscal years FY21–23, MIGA transactions in PSW countries as a percent of total operations were 25, 31 and 32 percent respectively.[11]

Mobilization Performance

According to the IEG, each $1 of PSW funding has mobilized $2.7 dollars in IFC and MIGA resources and $1.5 in private co-financing. The IFC shared that PSW approvals of $4.8 billion through end March 2024 have enabled over $24 billion of additional capital in PSW eligible markets from IFC, MIGA, and other third-party investors. They estimate that approximately half of the $24 billion is from IFC and MIGA investments, a quarter from purely commercial investors, and another quarter from public investors.

In our view, the ratio of the PSW subsidy to the private finance mobilized is not the most useful comparison because it does not reflect the rest of the public resources committed to PSW-supported transactions. Rather it is important to ask whether PSW subsidies enable IFC and MIGA to mobilize as much private finance in PSW-supported projects as in non-supported projects. For the IFC, this is not the case. Mobilization rates for private finance are comparatively low: each $1 of IFC own-account investment in PSW-supported projects mobilized an average of $0.6 private finance, less than half of what IFC mobilized in non-PSW supported projects in the same countries ($1.4 of private finance per dollar of IFC own-account commitment).[12] This result is in some ways not surprising as PSW subsidies generally aim to de-risk IFC exposure rather than private sector exposure. The IFC argues that mobilization is lower for a different reason: PSW supported projects are riskier and therefore less attractive to private investors. This raises the question of whether more private finance could be mobilized, with associated market-building gains, if the benefits of subsidy risk mitigation were shared by the IFC and the private sector.

11 IEG, 2023.
12 Ibid.

In IDA20, IFC and MIGA were mandated with reporting mobilization data for PSW-supported projects. Since then, the IFC has only published data for one project with external mobilization, a loan to M-KOPA.[13] More disaggregated mobilization data would allow identification of the kinds of PSW subsidies that tend to mobilize more private finance.

MIGA reported that it mobilized $14.25 in third-party finance for every $1 committed to a MGF-supported project.[14] This is a much higher mobilization rate than that reported by the IFC but not directly comparable because the $14.25 includes non-private third parties like other DFIs. Unfortunately, we are unable to compare this ratio against that for non-PSW-supported projects in the same countries and sectors.

To maximize subsidy benefits, the PSW should prioritize "market-building" benefits, including positive spillovers beyond individual transactions for both impact and private finance mobilization. This includes local capital market development, including both local currency denominated products and tools to manage currency risk. It also includes a greater focus on addressing barriers to early-stage finance, including support for innovative startup firms and financial service providers, greenfield infrastructure, and new funds and fund managers. More disaggregated mobilization data would allow an assessment of what kinds of mobilization are supported by the PSW.

Development Impact

The PSW Performance and Results Framework was developed at the inception of the IDA18 PSW to measure its additionality and performance. It comprises: (i) scale additionality; (ii) scope additionality; (iii) development outcomes; and (iv) financial performance. Because only 20 (out of 220) PSW projects have closed to date, and none has been independently evaluated or validated by IEG, it is too soon to assess development impact. Ex-post impact indicators are still limited, although the IFC has begun to report high level scores for projects that have been fully disbursed.

That said, the IEG report offered a comparison of Anticipated Impact Measurement and Monitoring (AIMM) scores for a sample of PSW and non-PSW projects in the same sectors and countries and found that the share of projects with "strong" or "very strong" market potential was slightly higher in PSW projects. Specifically, the average ex-ante AIMM score for PSW supported projects is 59, compared with the IFC average AIMM score of 56. This trend has been consistent since FY18. For MIGA, the average ex-ante IMPACT score for PSW supported projects is 65, compared with the MIGA average score of 54.[15] Country context is a key variable that helps explain the higher scores because the PSW is mainly used in places where the development gaps are wider, and PSW-supported interventions are most needed.

13 Paxton, S. (2024). Is IDA's Private Sector Window Mobilizing the Private Sector? Publish What You Fund. Retrieved from https://www.publishwhatyoufund.org/2024/05/is-idas-private-sector-window-mobilizing-the-private-sector/; IFC project disclosure.
14 MIGA-provided data.
15 Ibid.

Risk Tolerance

A key rationale for the PSW was that it could support projects deemed too risky for the IFC and MIGA to undertake on their own. Two policies allow for greater risk appetite: 1) the PSW's performance has no impact on the IFC's credit rating (because it is financed by IDA); and 2) the PSW provisions for 100 percent loss. Nevertheless, risk appetite appears low.

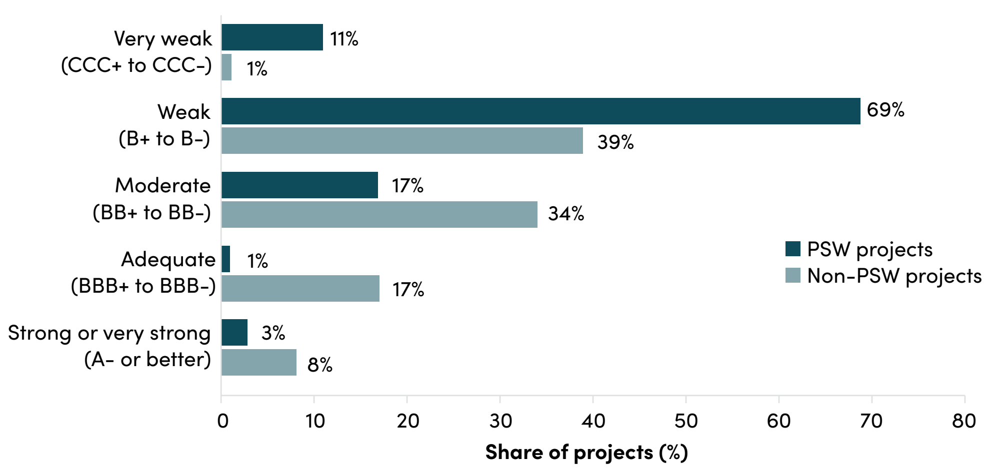
Management is proceeding with a revised provisioning proposal, which we expect to be 60 percent on average, a substantial improvement, but still relatively conservative in our view. A key question is how much additional subsidy volume this new policy will free up and whether it would be enough to substitute for a new IDA allocation to the PSW in IDA 21.

It is difficult for us to independently assess risk appetite because the PSW does not have a consolidated financial report, and IFC and MIGA do not publicly disclose data on performance of PSW projects. We do have two useful data points, however. One is that realized losses are extremely low: $2.9 million to date; and second is that the PSW has started generating returns, estimated at $16.4 million as of June 2023.[16] On its face, and absent more and more granular data, this evidence suggests that the IFC and MIGA may be overestimating risk in PSW-eligible countries and therefore could do more in those countries with and without PSW subsidies.

There is also some relevant information from the IEG review, which reported that:

- PSW counterparty credit ratings are weaker (B+ to B-) than for non-PSW IFC projects in the same countries.
- PSW projects had more commitments in the riskiest credit-rating categories than non-PSW projects in the same countries and sectors.

Figure 3. PSW and non-PSW project credit risk ratings



Source: IEG, 2024.

16 International Development Association, 2023a.

Financial Additionality

A key principle under the PSW is that it provides the minimum concessionality needed for a PSW project to be viable to avoid crowding out private actors. An early criticism was the lack of transparency around the subsidy calculations for each investment, a common complaint about blended finance. Critics also pointed to the opaque nature of project selection, the lack of competitive bidding, and the IFC's failure to release information on financing structures, expected and actual returns. For example, in April 2019, U.S. Representative Maxine Waters voiced her concerns about the PSW in a hearing with then Treasury Secretary Mnuchin, which she argued was "subsidizing private firms selected without competition on the basis of unsolicited proposals," and "stands in conflict with the World Bank's own principles that call for subsidies to be justified, transparent, competitively based, focused on impact, and guarded against rent-seeking opportunities."[17]

In response, the IFC agreed to provide the estimated subsidy for each PSW project along with a rationale for its use and MIGA agreed to disclose summaries of its proposed guarantees through MIGA's website before project approval.

Data show that on average, ex-ante projected concessionality has accounted for about seven percent of total project costs, with the local currency facility showing the highest levels (13 percent) due to high forex and interest rate risks and MIGA with the lowest levels (1.5 percent of project costs). The IEG also estimated that the pricing of IFC and MIGA transactions are 5 to 30 percent lower (depending on the client and country) than they would be absent PSW support. Average concessionality for the BFF is 5.2 percent.

Table 4. Concessionality levels by industry and PSW facility

INDUSTRY	BFF	LCF	MGF	RMF	INDUSTRY AVERAGE
Financial institutions	7.1%	12.2%	0.5%	n.a.	9.6%
Infrastructure (including power and telecom)	2.7%	4.9%	1.3%	0.0%	2.1%
Manufacturing, agribusiness, and services	5.2%	20.8%	2.4%	n.a.	7.4%
Private equity funds and venture capital	0.6%	n.a.	n.a.	n.a.	0.6%
Facility average	5.2%	13%	1.5%	0.0%	6.7%

Source: Mid-Term Review, 2023.
Note: Subsidies represent simple averages.

17 U.S. House Committee on Financial Services. (2019). Waters to Mnuchin: I Expect You To Be Forthcoming With This Committee. Retrieved from https://democrats-financialservices.house.gov/news/documentsingle.aspx?DocumentID=403630.

Concessionality levels increased in response to deteriorating market conditions from six percent on average in IDA18 to 9.5 percent in the first year of IDA20, reflecting higher demand for local currency swaps to cover high levels of foreign exchange risks.

The IEG's evaluation of the PSW concluded that the subsidy calculations have been consistent with the minimum concessionality principle, a finding based on a review of financial documents and interviews with staff and clients.[18] Unfortunately, there is no agreed methodology for assessing minimum concessionality and the sources made available to the IEG team are not public, making outside verification of their claims impossible. As other DFIs do not publish subsidy levels, the PSW's results cannot be compared to those of peer organizations.

Disclosure of this information has not fully satisfied critics – in December 2021 Eurodad, a network of European CSOs, issued a report questioning the PSW's development impact, noting its support for several large, well-capitalized companies, and highlighted the lack of reporting mechanisms.[19] Our CGD colleague, Charles Kenny, is an especially vocal critic and recently argued that the PSW should to be half its current size at best and redesigned to allow for competitive bidding.[20]

One World Bank Group

Finally, we considered whether the PSW is facilitating a whole-of-bank approach – that is, enabling the sovereign and private sector arms of PSW-eligible countries to work together to address barriers to private investment. The need for joint project approvals in implementing the PSW has helped drive increased coordination between World Bank Group institutions. This involved some growing pains, as shown by the slow uptake in IDA18. And there is still room for improvement: the IEG reports that opportunities to use PSW to enable investments or address constraints are not systematically included in country or private sector diagnostics of PSW-eligible countries, indicating that the bank is still not routinely deploying PSW subsidies in concert with its other tools. But the IFC has affirmed that it has increased staff levels in PSW-eligible countries, which has helped generate an increase in deal flow.

18 IEG, 2024.
19 Sial. (2021). The Private Sector Window in World Bank's IDA20: Where exactly is the development impact? Eurodad. Retrieved from https://www.eurodad.org/private_sector_window_ida20_development_impact.
20 Kenny. (2023). What's Not to Like About the IDA Private Sector Window. Center for Global Development. Retrieved from https://www.cgdev.org/blog/whats-not-about-ida-private-sector-window.

BOX: SUMMARY OF IEG AND MANAGEMENT PROPOSALS

Ahead of the IDA21 discussions, the IEG and the World Bank submitted assessments and proposals for reforming the PSW. The IEG report examined whether the PSW has enabled the IFC and MIGA to adequately address investment challenges in client countries and increase the scope and scale of their portfolios and is contributing to market development; whether concessionality levels have been appropriate and are enabling usage of the PSW; and issues around leverage, reporting and financial and non-financial additionality. Based on its review, the IEG recommended that the PSW adopt a new financial model based on the use of first loss guarantees and first loss-coverage over its six years of operation and that the PSW produce annual financial management reports. Both have been accepted.

The PSW assessment by Management concluded that PSW was on track to meet its core objectives, while proposing the following modifications which are being taken up in the context of the IDA replenishment negotiations:

- Enhance financial capacity, in line with the IEG report recommendation
- Adopt more efficient internal processes, including by standardizing rules and streamlining approval processes; improving upstream engagement and harmonizing Board documentation between IDA, IFC and MIGA.
- Enable the Blended Finance Facility to mobilize third-party finance without the need for a waiver from the Executive Board (as currently required). This could enable partnerships with other development finance institutions who participate as senior parallel lenders and also need risk-absorption provided by a BFF subordinated loan.
- Modify the PSW Policy to extend the LCF to third parties alongside IFC without the need for a waiver from the IDA Executive Directors.
- Increase the inclusion of capital markets-related features, like market hedging solutions, in LCF transactions.
- Expand support for MIGA's trade financing guarantee program to increase capacity when constrained by country and obligor limits; expand availability of trade finance guarantees to markets where coverage may not exist; and (iii) increase the potential tenor of trade finance transactions. The MIGA Guarantee Facility would cover the non-honoring risk of public entities' obligations, thus complementing IFC's offer, which currently mostly focuses on commercial private banks.
- Introduce a liquidity support guarantee (LCF) for MIGA to use in conjunction with political risk insurance to support infrastructure projects.

We are broadly in favor of these recommendations but oppose the proposal to increase the use of PSW subsidies to support trade finance. While an important tool in times of crisis, trade finance generally offers too little additionality or long-term benefit to warrant allocation of scarce IDA resources for this purpose. And trade finance instruments have a history of profitability and very low defaults, making it hard to justify use of scarce PSW subsidies for this purpose.

Based on our findings, we recommend additional reforms for IDA Deputies to consider in the context of the IDA replenishment, divided into three buckets with the aim of increasing own-account volumes, impact, additionality, and transparency and better managing risk.

First, we propose additional measures to boost IFC and MIGA own-account long-term finance commitment volumes and shares in PSW-eligible countries. These are:

- That strategies for use of PSW resources be integrated into private sector diagnostics and country strategies for PSW-eligible countries to prioritize relevant investment climate reforms, identify capital market gaps, direct subsidies to market-building obstacles, and expand project pipelines (both PSW and non-PSW supported projects).
- That PSW resources be generally reserved for long-term finance, with short-term finance limited to exceptional circumstances (e.g., severe global or regional shocks or financial crises) and with strong justification for subsidizing trade finance, which has a long track record of profitability.
- That MIGA be given authorization to use PSW resources to support the use of its non-honoring instruments in countries rated below BB- (the current limit), for example as first loss.

Second, we propose recommendations to better manage risk and increase market-building impact, additionality, and finance mobilization by more targeted and effective use of subsidies. These are to:

- Enable the PSW to focus more on de-risking the private sector (rather than just IFC/MIGA) when warranted by market-building benefits, including impact, additionality, and private finance mobilization.
- Expand the use of competitive bidding tenders, where applicable, which reward impact and higher private finance mobilization.
- Allow the PSW to finance larger shares of investments in high-impact equity funds (the current restriction is 50–50 shared between IFC and PSW for the SME Ventures Program).
- Disclose information on IFC and MIGA credit performance in PSW-eligible countries which would help private investors more accurately assess risk.
- Target subsidies to gaps in capital markets, such as early-stage finance for infrastructure and innovative firms/financial service providers, new equity and debt funds, and currency risk management tools.
- Use a portion of PSW funds as grants to build market ecosystems (e.g., finding and training first time fund managers), reduce first mover costs and risks, and fill market information gaps.
- Incentivize staff to take additional risk when justified by relatively high ex ante impact scores (especially the market impact dimension of scores), more additionality, and large finance mobilization gains.
- Re-design the Risk Mitigation Facility to support early-stage infrastructure pipeline development where market finance is most scarce. (Otherwise, we would suggest that it be phased out.)

Third, and finally, we see significant scope for more and better reporting, at a granular level, and recommend that the PSW report annually on:

- Approvals and disbursements by facility
- Ex ante impact in comparison to non-PSW supported transactions in PSW-eligible countries (the Mid-term Review makes a similar recommendation)
- Ex post impact, including market building effects
- Private finance mobilization per dollar of PSW-supported IFC and MIGA commitments, disaggregated by facility, compared to non-supported projects in the same countries
- The financial results (realized revenues, default rates, and losses) of IDA, MIGA and the IFC.

Relatedly, we note that in the IDA20 Deputies report, management agreed to "complement the existing project information disclosed to the public with systematic impact and mobilization data,"[21] but this has not happened.

Conclusion

Approved in 2018, the PSW has existed long enough to assess its use and impact. Performance in deploying these scarce subsidies has been mixed, and the extent to which the PSW model can be efficiently scaled is not yet clear. Our bottom line is that any new infusion of resources should be conditioned on significant reforms designed to improve its efficacy and impact. The reform agenda should proceed even if a revision to the PSW's financial model frees up enough capital to preclude the need for a new transfer. The public sectors of IDA countries themselves are in dire need of funds to help address intense financial pressures related to debt service, food insecurity and the impacts of climate change. The rationale for using IDA money to support the PSW must be compelling. Absent significant changes, the case for expanding the PSW is hard to make.

21 International Development Association, 2022.

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