A Focused Assessment of the International Development Association's Private Sector Window

An Update to the Independent Evaluation Group's 2021 Early-Stage Assessment

An Independent Evaluation

IEG Independent Evaluation Group
WORLD BANK GROUP
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ATTRIBUTION
Please cite the report as: World Bank. 2024. *A Focused Assessment of the International Development Association's Private Sector Window: An Update to the Independent Evaluation Group's 2021 Early-Stage Assessment.* Independent Evaluation Group. Washington, DC: World Bank.

COVER PHOTO
Adapted from Shutterstock/Monster Ztudio

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January 4, 2024

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Abbreviations

BFF	Blended Finance Facility
BOP	Base of the Pyramid
DFI	development finance institution
FCS	fragile and conflict-affected situations
FLG	first-loss guarantee
FY	fiscal year
IDA	International Development Association
IDA20	20th Replenishment of the International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
LCF	Local Currency Facility
MIC	middle-income country
MIGA	Multilateral Investment Guarantee Agency
MSME	micro, small, and medium enterprise
PFLG	pooled first-loss guarantee
PSW	Private Sector Window
RMF	Risk Mitigation Facility
SDG	Sustainable Development Goal
SME	small and medium enterprise

All dollar amounts are US dollars unless otherwise indicated.

Acknowledgments

This report was prepared by an Independent Evaluation Group team led by Mitko Grigorov (evaluation officer) under the guidance of Marialisa Motta (manager) and Carmen Nonay (director) and the overall guidance of Sabine Bernabè (Director-General, Evaluation).

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The report was peer-reviewed by Rashad Kaldany (chief investment officer, Blue like an Orange Sustainable Capital; former chief operating officer, International Finance Corporation [IFC]); Amédée Prouvost (enterprise risk management consultant and former chief operational risk officer at the World Bank); Sabine Schlorke (previously principal investment officer and manager at IFC); and Laure Wessemius-Chibrac (managing director, Netherlands Advisory Board on impact investing; chair of the board, REGMIFA [Regional MSME Investment Fund for Sub-Saharan Africa]; and former managing director, Cordaid Investment Management, the Netherlands).

The team appreciates the support from staff from the Development Finance Vice Presidency, IFC, and the Multilateral Investment Guarantee Agency (MIGA) during the preparation of the report and the helpful comments from Independent Evaluation Group colleagues. In particular, we would like to acknowledge Beata Lenard, Christopher Nelson, Ana Paula Pellegrino, Estelle Raimondo, and Andrew Stone (all Independent Evaluation Group); Federica Dal Bono (International Development Association); Nabil Fawaz (MIGA); Anastasia Gekis (IFC); Pranab Ghosh (IFC); Katrin Ivonne Greisberger (IFC); Hiroyuki Hatashima (MIGA); Sridar Padmanabhan Kannan (MIGA); Luigi Lannutti (International Development Association); Liane Asta Lohde (IFC); Ayesha Muzaffar (IFC); Sandra Ofori (IFC); Neelam Patel (IFC); Dirk

Reinermann (International Development Association); Kruskaia Sierra-Escalante (IFC); and Aisha Elaine Williams (IFC).

Glossary

Credit rating. An independent opinion of the ability of a borrower or issuer of debt to fulfill their financial obligations, including interest and principal payments, in a timely manner.

Expected loss. The amount expected to be lost on a transaction based on the probability of default multiplied by the loss given default (as a percentage). The expected loss is used to establish loss provisions each quarter that flow directly into the International Finance Corporation's and the Multilateral Investment Guarantee Agency's financial statements.

First-loss guarantee. A type of guarantee in which the guarantee provider agrees to bear losses incurred up to an agreed percentage in the event of default by the borrower. The purpose of a first-loss guarantee is to reduce risk and attract lenders and investors who may be hesitant to participate in a deal because of concerns about the level of risk involved. By offering to cover the first losses, the guarantee provider reduces the risk and increases the confidence of potential lenders and investors.

Loss given default. The percentage of principal outstanding that is expected to be lost in the event that a borrower defaults on an obligation. The loss given default is affected by various factors, including jurisdictional risk, collateral, and guarantees.

Pooled first-loss guarantee. A pooled first-loss guarantee is a type of guarantee in which multiple lenders or investors pool their resources to collectively bear the first losses incurred in a portfolio of loans or investments. In a pooled first-loss guarantee, each lender or investor contributes a portion of their investment to a common pool. This pool is then used to cover any initial losses that may occur in the portfolio. The guarantee providers agree to bear the first losses up to a predetermined amount. This reduces the risk exposure for individual lenders or investors and increases their confidence in participating in the portfolio. In the case of the Private Sector Window, a pooled first-loss guarantee is used to cover a portfolio of International Finance Corporation transactions, usually loans, made to a variety of different clients in different countries, with different risk ratings. The guarantee covers the first losses, up to an agreed percentage, on the agreed pooled portfolio.

Probability of default. An estimate of the likelihood that a borrower or issuer will default on their financial obligations over a given time horizon. It is a statistical measure based on ratings data covering thousands of companies that is used by lenders and others to assess the likelihood of repayment or default.

Private capital mobilization. The process of attracting and using private funds, such as equity and debt, to finance investments in international development.

Swap market. A financial market in which participants can agree to exchange cash flows on financial instruments based on agreed terms. These cash flows can include interest payments, different currencies, or other financial variables. The swap market provides participants with flexibility in managing their financial risks and optimizing their investment strategies. It allows them to customize their cash flows and exposure to different variables according to their specific needs.

Management Response

Management of the World Bank thanks the Independent Evaluation Group (IEG) for the report *A Focused Assessment of the International Development Association's Private Sector Window: An Update to the Independent Evaluation Group's 2021 Early-Stage Assessment*. The report provides an overview of the Private Sector Window (PSW) and many insights into its functioning. Management thanks the IEG team for the analysis conducted under a tight schedule. The evaluation, alongside management's own PSW update "IDA20 Mid-Term Review: Private Sector Window Utilization and Implementation," should provide the 20th Replenishment of the International Development Association (IDA20) Mid-Term Review (MTR) discussions with a good basis of performance and identify emerging issues. Six years of implementation of the PSW have provided rich experiences relevant to the priorities of the World Bank evolution and the new playbook. The window deploys concessional resources (IDA) and blends them with private capital (International Finance Corporation [IFC] and Multilateral Investment Guarantee Agency [MIGA]) to rebalance project risk-return characteristics such that commercial projects can achieve development objectives in the poorest and riskiest markets. As noted in the MTR of the World Bank's strategy on fragility, conflict, and violence (FCV), 2020–25, Blended Finance Facilities like PSW can help create new markets, derisk projects, reduce first-mover costs and incentivize investments in FCV. This agenda becomes even more critical as a majority of the world's extreme poor people are projected to be living in FCV by 2025.

International Development Association and International Bank for Reconstruction and Development Management Response

Overall

Management is pleased with the overall findings of the report, including that the PSW has enabled IFC and MIGA to scale-up investments, mobilize capital, and enter new countries and sectors. The findings of this evaluation demonstrate the progress made in PSW implementation since the IEG completed its early-stage PSW evaluation in 2021, when the performance had been assessed to be "mixed." The coverage of countries has increased from 8 in 2018 to 39 in 2023. The report shows that PSW has helped mitigate the effects of the recent global crises, which is noteworthy as there has been a deterioration in overall investment conditions in IDA and FCV countries during PSW implementation. The report also confirms that a growing number of PSW-supported projects were in sectors that IFC and MIGA "had never invested in" prior to PSW (45). These attest to the contribution of IDA resources and the collaboration across World Bank Group institutions to address market failures, catalyze private sector development, and create markets in support of growth and job creation.

Management is also pleased with the strong uptake in usage of PSW resources and welcomes the evidence attributing this to improvements in PSW administration and increased trust across IDA, IFC, and MIGA. This is particularly encouraging given the slow start under the 18th Replenishment of IDA, when only 53 percent of allocated resources were used. PSW window resources were used almost entirely in the 19th Replenishment of IDA and are on course for full use in IDA20 if current levels continue through FY24–25. The report suggests that the scale-up in usage is attributable to improvements in PSW administration including more efficient paperwork and approval processes, filling up of knowledge gaps related to functioning of the window, and increased trust among the three agencies. This experience provides lessons for implementing the new Bank Group playbook for greater institutional collaboration.

Management appreciates the report's recognition that PSW projects have addressed private investment constraints better than non-PSW projects and notes the opportunities for increasing PSW's nonfinancial additionality. In line with the rationale for setting up the PSW, the window is addressing constraints to private sector development, including the absence of local currency financing, market disruptions owing to exogenous factors, and unfavorable business environments. At the same time, management notes the report's conclusion that the PSW portfolio has not yet demonstrated a visible improvement in some of the nonfinancial additionality when compared with non-PSW projects, particularly those related to standard-setting and knowledge, innovation, and capacity building. Management considers this an area for improvement.

As noted in the report, PSW has followed a "minimum concessionality principle" (xi) and management continues to pay close attention to this issue. On average, concessionality in PSW-supported projects in low-income IDA countries is 7 percent of total project cost, while it is 6.7 percent in PSW-supported projects in lower-middle-income countries. Over time, and especially in IDA20, PSW concessionality levels have increased due to external factors like deteriorating market conditions. Analysis undertaken by staff shows that the level of PSW concessionality is influenced by the structure and risk profile of the instrument, with the Local Currency Facility showing the highest subsidy levels due to the high forex and interest-rate risks in operating markets.

Although it is still early days of implementation for several PSW operations, management notes the results that are being delivered and the additional leverage achieved. Staff analysis shows that PSW-supported transactions are generating between 1.0 and 1.3 million direct, indirect, and induced jobs in IDA-only and IDA FCS countries. Additionally, they are expanding access to health care for over one million patients, supporting more than 170,000 farmers, installing renewable energy capacity of 560 MW, and reducing annual greenhouse gas emissions by over 490,000 tons of CO^2-equivalent. There is also increased leveraging of IDA resources—since inception, $3.9 billion of PSW approvals have mobilized $20.3 billion of additional capital in eligible markets from IFC, MIGA, and other third-party investors, including development finance institutions and purely commercial private sources (as of June 2023). The resulting mobilization ratio of 5.2 times surpassed management's initial expectation of 4.0.

Recommendations

Management agrees with the first recommendation to enhance the modeling of the risks taken by the PSW to better leverage IDA capital. Gaining insight into the risk and return profiles of individual PSW facilities can enhance overall financial performance and better deployment of IDA capital without increasing IDA losses in the future. As part of the ongoing review of IDA's capital adequacy framework, the IDA Chief Risk Officer has conducted a comprehensive risk modeling exercise for the PSW. Forthcoming discussions during the IDA20 MTR will involve considering a reduction in the capital set aside for the PSW, currently set at 100 percent, to enhance PSW capital allocation. Increasing the leverage of IDA capital by lowering the capital set-aside will enable PSW to incorporate additional instruments that enhance private capital mobilization. Pending endorsement by IDA participants, PSW is planning to introduce two new MIGA facilities: a Trade Finance Guarantee and a Liquidity Support Guarantee.

Management agrees with the second recommendation that IDA, IFC, and MIGA report their respective financial results of the IDA PSW. A regular financial management report of PSW that includes the financial results of IDA, IFC, and MIGA respectively, would enhance the ability of management and the Board of Executive Directors to make informed capital allocation decisions across diverse facilities and instruments, drawing on the unique strengths of each institution for impactful private sector investments. Management will work on the reporting details and responsibilities for implementing this recommendation as part of the Management Action Record process.

International Finance Corporation Management Response

Overall

IFC management welcomes IEG's evaluation *A Focused Assessment of the International Development Association's Private Sector Window: An Update to the Independent Evaluation Group's 2021 Early-Stage Assessment* and values the engagement and collaboration with IFC throughout the preparation of the evaluation.

IFC management welcomes IEG's positive assessment of the IDA PSW. It validates the significant achievements of the PSW and suggests that the PSW is on track to achieving its original intent, namely to mitigate the uncertainties and risks to high-impact private investment in IDA and IDA FCS markets. Specifically, management notes IEG's favorable conclusions about the significant acceleration in PSW usage, the role of the PSW in enabling private sector activity that otherwise would not be possible, and the PSW's role in catalyzing private capital thereby freeing up scarce public resources. Further, the PSW has advanced the expansion of IFC's country and client reach, enabling IFC to deepen its support for local business and micro, small, and medium enterprises. As the report notes, "concessionality is an enabling condition for PSW transactions . . . . [Operating] without concessionality may still allow IFC and MIGA to provide financing to the higher-rated enterprises in PSW-eligible countries but would allow them to work only with a limited number of the target groups they need to reach (for example, microfinance companies high-risk manufacturing firms, and banks providing services to women and SMEs)" (xiv–xv). Further, the report also recognizes that PSW was critical in mitigating the effects of unforeseen crises (including the COVID-19 pandemic and the recent food and energy crisis) to enable IFC financing in PSW-eligible countries.

IFC appreciates the report's confirmation of the rigorous process IFC follows to ensure that PSW transactions meet the development finance institution Blended Finance Facilities, including the minimum concessionality principle. The report makes two points that we would like to clarify (33). First, the report links the principle of minimum concessionality with portfolio-level financial risk management of PSW. Minimum concessionality is assessed for each project to help estimate the level of subsidization—the goal being to use the least amount of subsidy required for bankability. This is a distinct concept and should not be conflated with actual or expected financial loss. Thus, it has no relevance for portfolio-level financial risk management of PSW. Second, we would like to emphasize that estimating the level of subsidy is done at project inception and is intended to aid the decision-making and approval process. Recalculating the level of subsidy throughout the project life cycle and at closure would add little meaningful information to support the rationale for using blended finance and provide no benefit for decision makers or clients.

Management acknowledges the report's observation that IFC's PSW projects underuse nonfinancial additionalities. IFC has sharpened its articulation of nonfinancial additionality after the 2019 rollout of IFC's Revised Additionality Framework. IFC is also focusing on realization and delivery of nonfinancial additionality by providing industry expertise, capacity-building advisory and better monitoring to PSW-eligible countries. For instance, IFC has increased its capacity to deliver environmental and social knowledge and standard-setting advisory (one of the most common forms of nonfinancial additionality) by locating more staff in the field in challenging markets. This allows IFC to undertake in-depth country-level interventions, tackling systemic Environmental, Social, and Governance risks at firm, market, or regulatory levels in countries like Ethiopia, Papua New Guinea, and Kosovo.

IFC management regrets that PSW governance was out of scope for this report. It is important to note that when the PSW was established, it was considered a pilot and guardrails were put in place to support its governance and management. With six years of experience of the PSW and more than 200 projects, it is critical to review the governance structures to assess what is working and what can be improved and streamlined or both to ensure an efficient deployment of funds.

Recommendations

Recommendation 1: IDA, IFC, and MIGA would benefit from enhanced modeling of the risks taken by the PSW.

Management fully agrees with IEG's conclusion that usage of the PSW could be optimized by better leveraging IDA's capital. As stated in the report, IDA's practice of setting aside capital for maximum potential losses under the PSW is highly conservative. Given the robust and growing demand for the PSW (IFC's PSW pipeline is currently over $2 billion, indicating that IFC is likely to exceed its IDA20 envelop), revisiting the capital framework is key to unlocking additional funds that could support higher PSW allocations. Earlier this year, the IDA Chief Risk Officer—the entity responsible for risk management of IDA capital, including the PSW—initiated its first risk modeling analysis in relation to PSW leverage. The review points to the potential to free up significant funds by reducing IDA's capital provisioning. We look forward to a discussion of this analysis at the IDA20 MTR. Finally, we note IEG's point on including an analysis of usage of the pooled first-loss coverage in the modeling exercise, and suggest that it would be beneficial to assess all PSW products rather than limiting the review to one instrument.

Recommendation 2: IDA, IFC, and MIGA should assess and report the financial results of the PSW to Bank Group management and the Board.

IFC agrees with the recommendation and sees value in the reporting of financial results of the PSW to management and the Board. IFC management extends its full cooperation to IDA to implement more comprehensive reporting, and notes that IFC already provides regular financial reports to IDA for IFC's PSW investment operations to support IDA's risk, financial, and accounting reporting under an agreed legal framework. Management will work on the reporting details and responsibilities for implementing this recommendation as part of the Management Action Record process.

Multilateral Investment Guarantee Agency Management Response

MIGA welcomes the IEG report *A Focused Assessment of the International Development Association's Private Sector Window: An Update to the Independent Evaluation Group's 2021 Early-Stage Assessment*. The report is indeed timely as it aligns with the IDA MTR of the PSW. MIGA would like to express its gratitude to IEG for its productive engagement with MIGA's operational and evaluation counterparts throughout the process of drafting the report. Despite the tight timeline for its preparation, IEG provided early briefings on the findings, which MIGA appreciated.

The report updates IEG's earlier findings on the IDA PSW, especially its findings regarding the increased usage of the MIGA Guarantee Facility (MGF) in IDA20. This presents a positive shift from the previous assessment of low usage under the IDA18 cycle. Specifically, the report mentions that the MGF experienced an increase in usage in IDA20, after having relatively stable deployments in IDA18 and IDA19.

The report highlights the specific targeting of MIGA projects toward addressing constraints that hinder private investment in countries eligible for IDA and classified as fragile and conflict-affected situations. MIGA's unique value lies in its ability to mobilize third-party capital in transactions that investors may have otherwise refrained from. This insurance against binding constraints for private investors has played a crucial role in catalyzing investments in challenging business environments, as recognized by the report. Additionally, the report confirms the role of MGF in enabling MIGA to expand its operations into new countries and sectors and addresses emerging crises caused by the COVID-19 pandemic.

Despite its relatively small size, the MGF has proven to be one of the most efficient facilities of IDA PSW. MIGA is pleased to report that the MGF has had the least concessionality among all IDA PSW facilities, standing at 1.5 percent of total project costs. Furthermore, it boasts the highest "mobilization ratio," which is calculated as the total project cost over the amount of the PSW used in the project at the time of Board approval. For every $1 of the MGF, there is a total mobilization of $12.2.

The report advocated enhanced modeling of the risks taken by the PSW. In particular, the report suggests an approach to modeling that uses default data from the past six years and other proxy sources of data to evaluate risk profiles under different stress scenarios. However, MIGA deems this approach to be insufficient and raises concerns about the potential for an inadequate allocation of IDA risk capital. MIGA emphasizes the necessity of adopting a more prudent risk modeling strategy that incorporates a longer period of risk events, rather than relying solely on the records of realized losses from the past six years of IDA PSW.

Comments on Recommendations

Recommendation 1 focuses on enhanced modeling of the risks taken by the PSW. Management agrees that reviewing the leveraging of PSW across its facilities can enhance efficiency and the use of IDA's capital. In support of this effort, MIGA already provides a service to IDA's financial counterparts by modeling loss reserves for each contract with MGF first-loss support, as outlined in the signed agreement. MIGA both provides the necessary information for the modeling exercise and performs it on behalf of IDA. This arrangement was established because IDA's financial counterpart, responsible for other loan loss provisioning computations, relies on MIGA's unique expertise and tools for calculating loss provisioning for Political Risk Insurance risks. MIGA is pleased to assist IDA with any additional analysis required to further enhance risk assessment.

Recommendation 2 is centered on the assessment and reporting of financial results to Bank Group management and the Board. MIGA recognizes the importance of financial management reports that specifically cover the PSW for providing a comprehensive perspective across the Bank Group. MIGA is fully committed to working closely across the Bank Group to improve collective reporting. MIGA already provides PSW-related financial data to IDA's reporting of PSW activities under an agreed framework and stands ready to provide any additional information that may be necessary if any gaps are identified in the context of the proposed comprehensive reporting. Management will work across the three institutions on the reporting details and responsibilities for implementing this recommendation as part of the Management Action Record process.

Report to the Board from the Committee on Development Effectiveness

The Committee on Development Effectiveness met to consider the Independent Evaluation Group (IEG) report *A Focused Assessment of the International Development Association's Private Sector Window: An Update to the Independent Evaluation Group's 2021 Early-Stage Assessment* and the World Bank Group draft management response.

The committee welcomed the update to the 2021 early-stage assessment and highly appreciated IEG's efforts to offer, in a timely manner, valuable findings and recommendations as well as insights and lessons relevant to the priorities of the World Bank Group Evolution and the new Playbook. These served as useful information for the Mid-Term Review discussions of the 20th Replenishment of the International Development Association (IDA20), ahead of the IDA21 Replenishment.

Some members noted the need to incorporate analysis of development impact in future evaluations of the Private Sector Window (PSW). Members concurred with the two IEG recommendations on better leveraging the International Development Association (IDA) PSW capital and enhancing financial reporting on the PSW across the Bank Group. They appreciated management's agreement with the conclusions of the report and its commitment to implement the recommendations as One World Bank Group. The committee was pleased to note a significant increase in PSW use following the slow start in the IDA18 cycle, an early indication of the market creation impact from PSW investments, and an expansion of the PSW to new countries and sectors. They expressed concern that in PSW-eligible countries overall, the International Finance Corporation (IFC) average annual commitments were lower in the six years after the PSW launch than in the six years before the launch. There was also concern that, in several cases, clients pointed out that IFC prices were higher—despite the use of PSW—than those of its competitors. Members welcomed IEG's finding that IFC and the Multilateral Investment Guarantee Agency follow the minimum concessionality principle, but some asked for clarifications on the methodology behind it.

Members stressed the need to leverage PSW capital more, allowing IDA, IFC, and Multilateral Investment Guarantee Agency to extend more support to PSW-eligible countries, including several low-income countries and small economies still uncovered. They highlighted the market creation potential of the instrument and its supporting role in mobilizing private sector engagement in countries. They called on management to scale up the use of IDA's PSW to help create new markets, derisk projects, reduce first-mover costs, and incentivize investments in the riskiest markets, especially in situations of fragility, conflict, and violence. Management was also urged to improve both the analysis and risk methodology to optimize leveraging the IDA PSW capital allocation and to ensure that donor resources are being used as efficiently as possible to serve IDA clients. Members appreciated that some work on this has already been done and looked forward to further discussions with management on this area both during the IDA20 Mid-Term Review and future Board engagements. The committee encouraged management to actively address the underuse of nonfinancial additionality, focusing on incentives and collaboration within the Bank Group to help boost the delivery.

The committee inquired about the timeline for delivery of the second recommendation on financial reporting. Bank Group management explained that effective financial reporting will require deeper interagency collaboration and discussions across the Bank Group to ensure adequate implementation. As per established practice, management will include an update on this in the Management Action Record, which tracks implementation of recommendations.

Overview

Background

The private sector is essential for creating jobs and prosperity in poor countries, but developing it is challenging, especially in fragile and conflict-affected situations (FCS). The private sector provides 90 percent of jobs and is the largest source of income for people living in International Development Association (IDA) countries (World Bank 2017), in turn contributing to economic development, poverty reduction, and achievement of the Sustainable Development Goals. However, weak macroeconomic and regulatory environments, infrastructure bottlenecks, and limited skilled labor forces make it difficult for domestic and international investors to engage, particularly in FCS, which also present security risks. As a result, poor countries have limited abilities to attract private investment and grow the local private sector, which hinders their development.

Blended finance, which mixes public development resources with private funds, can help attract private investment and grow the local private sector in poor countries. Blended finance complements macroeconomic and regulatory reforms by deploying public development resources to improve the risk-return profile of individual investments in developing countries, demonstrating the viability of projects, and contributing to building markets. It is a powerful tool to finance development because achieving the Sustainable Development Goals and the commitments under the Paris Agreement requires substantially more financing than official development assistance and development finance institutions can provide.

The IDA Private Sector Window (PSW) is a Blended Finance Facility (BFF) that enables the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and third-party private sector investors to conduct high-risk transactions in IDA and FCS countries. The private sector is reluctant to invest in IDA and FCS (PSW-eligible) countries because of challenges including (i) limited financing, particularly long-term and local currency financing; (ii) disruptions triggered by exogenous factors, such as global crises; and (iii) unfavorable business environments. The World Bank Group aims to address these challenges through several interventions, including supporting policy changes to stabilize the macro conditions, develop capital markets, and improve legal rights. The IDA PSW was introduced by the Board in 2017 as an additional tool that the Bank Group could deploy to help address constraints on private investment in IDA and FCS countries. It focuses on enabling IFC and MIGA investment transactions in these countries by partially mitigating risks and potential losses of IFC, MIGA, and third-party private sector investors. The cumulative IDA amount allocated to the PSW between fiscal year (FY)18 and FY23 is $6.7 billion. The PSW was created in recognition that expanding support to the private sector is critical to help IDA, IFC, and MIGA to advance the IDA special themes—climate change; fragility, conflict, and violence; gender; governance and institutions; and jobs and economic transformation.

The PSW comprises the following four facilities:

1. BFF combines PSW funds structured as guarantees, loans, and equity alongside IFC investment (and, in some cases, also investment from third parties) to benefit sectors with high development impact, including agribusiness, climate finance, energy access, health and education, digital technology, small and medium enterprise (SME) finance, and other innovative sectors.
2. The Local Currency Facility provides hedging for local currency loans in countries where capital markets are undeveloped.
3. The MIGA Guarantee Facility uses PSW support to expand MIGA's participation in PSW-eligible countries through reinsurance and first-loss guarantees.
4. The Risk Mitigation Facility offers project-based guarantees to attract private investment in IFC infrastructure projects and public-private partnerships.

To be approved, PSW projects have to meet three eligibility criteria: (i) being located in PSW-eligible countries, including IDA-only countries and IDA countries experiencing subnational fragility; (ii) having finance activities that align with IDA's poverty focus and special themes, Bank Group country strategies, and the Bank Group's approach to supporting private sector investments and creating markets; and (iii) aiming at maximizing additionality and creating sustainable markets while minimizing concessionality.

Evaluation Objectives, Scope, and Methods

This evaluation reviews IDA PSW projects approved in FY18–23; it updates the 2021 Independent Evaluation Group (IEG) early-stage assessment of the PSW and complements the 20th Replenishment of IDA (IDA20) PSW Mid-Term Review. At the request of the Board's Committee on Development Effectiveness, this evaluation updates the 2021 IEG early-stage assessment of the PSW, which covered the first three years of implementation of this instrument (FY18–20). This evaluation assesses the PSW across three IDA cycles: IDA18, which covers FY18–20; IDA19, which covers FY21–22; and IDA20, which covers FY23–25. The evaluation covers IFC and MIGA (because the two institutions originate the projects) and IDA (which offers concessional support). This is a "focused evaluation" (like the IEG 2021 early-stage assessment) because it assesses a specific Bank Group blended finance mechanism—the PSW—and not other IDA activities. The evaluation complements the IDA20 PSW Mid-Term Review, which was prepared jointly by IDA, IFC, and MIGA. The evaluation is part of IEG's Maximizing Finance for Development workstream and harmonizes with other IEG evaluations in this area of work.

The overall objective of this evaluation is to assess the usage, market development potential, and enabling factors of the PSW. This evaluation assesses how the usage of the PSW has changed from inception to 2023 and explores two aspects of the PSW that IEG's early-stage PSW assessment did not evaluate: its potential market development effects and its enabling factors—namely, concessionality (for IFC and MIGA) and additionality (for IFC). Concessionality is the level of subsidy needed for IFC and MIGA to offer transactions in PSW-eligible countries at market prices. Additionality is the unique support IFC brings to private investments (on a project basis) that is not offered by commercial sources of finance (IFC 2018). It includes financial and nonfinancial additionality.

This evaluation answers two main sets of questions:

- Usage and market development. Has the usage of the PSW enabled IFC and MIGA to adequately address challenges to private sector investment and increase the scope and scale of their portfolios in PSW-eligible countries? Is there any early evidence that PSW-supported investments are (or are not) creating the conditions that lead to market development?
- Enabling factors. Has concessionality enabled usage of the PSW? To what extent have the PSW subsidies followed the minimum concessionality principle (the principle that the concessionality embedded in a financing package should not be greater than necessary to induce the intended investment)? Is IDA PSW capital adequately leveraged to increase usage? Is financial reporting on the PSW adequate for decision-making purposes? What types of financial and nonfinancial additionality features do PSW projects include? Have these features created the conditions for PSW transactions to have potential market development effects?

This evaluation uses a mixed methods approach, combining qualitative and quantitative data to address the evaluation questions. The methods included review of blended finance literature, analysis of the PSW portfolio and concessionality levels, econometric work, and semistructured interviews with staff, experts, and clients. We also conducted virtual country case studies in Burkina Faso, Cambodia, Nigeria, and Tanzania to assess PSW projects' contributions to addressing challenges to private sector investment and creating the conditions for market development.

The evaluation has several limitations. Because only 20 (out of 220) PSW projects have closed to date, and none have been independently evaluated or validated by IEG, the evaluation draws on a mix of ex ante and (when available) ex post evidence based on case studies, portfolio supervision documents, and interviews. Our analysis of development outcomes is limited to intermediate outcomes. For example, we have assessed the PSW's impact on IFC's and MIGA's ability to enter new markets and sectors, expand their presence in existing markets, and mobilize third-party capital. We were, however, unable to assess the development outcomes and impacts of the PSW projects (such as jobs created or incomes increased), which limited the scope of the analysis. The country case studies conducted for the evaluation covered 35 projects. We triangulated their findings with other evidence so we could generalize some of them to the entire portfolio.

Evaluation Findings

The findings addressing the first evaluation question center on creating the conditions for PSW usage and market development. The analysis focused on PSW usage across the three IDA cycles, its ability to address constraints on private sector investment, and its potential to contribute to market development.

After a slow start in IDA18, PSW usage accelerated in IDA19 and IDA20. PSW funds were underused in IDA18 (with only 53 percent of the initial $2.5 billion allocation used) but almost entirely used in IDA19 (97 percent of the $1.68 billion allocation) and are on course for full use in IDA20 (36 percent used to date of the $2.5 billion allocation). Uptake of IDA funds, measured as the percentage of the allocation approved in the first year of the IDA cycle, has also been quicker in IDA19 and IDA20 (33 percent and 36 percent, respectively) compared with IDA18 (6 percent). Usage has varied by each of the four PSW facilities. Across all three IDA cycles, the BFF has been the most used, whereas the Risk Mitigation Facility has been the least used. The allocations for these two facilities were significantly adjusted between IDA replenishment cycles, with the BFF allocation growing from $600 million in IDA18 to a range of $1.2 billion–$1.4 billion in IDA20 and the Risk Mitigation Facility decreasing from $1 billion in IDA18 to a range of $150 million–$300 million in IDA20. Usage of the Local Currency Facility was below its $400 million allocation in IDA18 but increased beyond its allocation in IDA19 and is on course for overutilizing its $500 million–$650 million allocation for IDA20. Usage of the MIGA Guarantee Facility (which had an allocation of $500 million in each IDA cycle) has been relatively stable across all three IDA cycles, with an increase in IDA20.

PSW-supported IFC and MIGA projects aim to address a variety of constraints that inhibit private investment in PSW-eligible countries. These include limited long-term finance, the absence of local currency financing, market disruptions as a result of exogenous factors (such as the trade collapse and increases in input prices during the COVID-19 pandemic and the energy crisis), and barriers to private investment because of poor business environment (high political risks, difficult macroeconomic conditions, and limited legal rights).

Our case study evidence indicates that PSW projects expect to address more investment constraints than non-PSW projects in PSW-eligible countries. All PSW projects aimed to address one or more of the four aforementioned constraints. In contrast, most non-PSW projects in PSW-eligible countries focused on a lack of long-term finance, whereas a few aimed to address disruptions as a result of exogenous factors. Hardly any aimed to tackle local currency financing, and none aimed to mitigate risks arising from an unfavorable business environment. PSW projects addressed constraints on private investment through various instruments. These included, for example, first-time issuance of bonds in local currencies (Cambodia and Tanzania) to provide access to finance to priority target groups (such as women and rural farmers) and to help establish a benchmark for pricing, structure, and public disclosure of future bond issuance. They also included BFF pooled first-loss guarantees supporting IFC Working Capital Solutions Crisis Response Facilities (Cambodia, Nigeria, and Tanzania). PSW pooled first-loss guarantees and the PSW Local Currency Facility were also deployed to support Base of the Pyramid platform projects in several countries. The Base of the Pyramid platform provided liquidity to private companies in PSW-eligible countries to counter market disruptions caused by the COVID-19 pandemic. MIGA has addressed unfavorable business environments by providing insurance to private investors against political, macroeconomic, regulatory, and transactional risks, notably to develop the solar power sector in Burkina Faso.

The PSW has enabled IFC and MIGA to increase their investments in various countries, enter new countries, and contribute to mitigating the effects of recent crises. One intermediary outcome of the PSW is that it has steadily increased its country coverage from 8 countries in 2018 to 39 countries in 2023; however, several small economies remain uncovered. Our statistical analysis confirms that the PSW has allowed IFC to commit on a larger scale in eligible countries than it might otherwise have and that the PSW has been used to mitigate the effects of recent crises. In PSW-eligible countries overall, IFC average annual commitments were lower in the six years after

PSW launch than in the six years before PSW launch, but they dropped by a significantly smaller margin in countries that received PSW support than in PSW-eligible countries that did not receive PSW support. IFC commitment volumes in countries with PSW projects were highest at the onset of the COVID-19 crisis in FY20, with most projects providing short-term financing to “keep the private sector going.”

PSW support has also enabled IFC and MIGA to enter new sectors in PSW-eligible countries. A growing number of PSW-supported projects were committed in sectors these institutions had never invested in. Examples of these projects include private equity investment in Ethiopian SMEs and infrastructure lending to a subnational government in Nigeria. Examples of MIGA guarantees in new sectors include mobile money projects (Chad, the Democratic Republic of Congo, and Niger), hydropower projects (Nepal and the Solomon Islands), and solar power projects (Burkina Faso and Malawi).

IFC uses PSW funds to finance the riskiest clients and projects. We compared the credit ratings by commitment volume for a sample of IFC PSW projects with those of non-PSW projects committed in the same sectors of the same countries. We found that, compared with non-PSW projects, PSW projects have significantly more commitments in the riskiest credit-rating categories.

PSW mobilizes third-party capital in transactions that investors might otherwise have refrained from. Each US dollar of PSW funds committed since inception in FY18 has blended $2.7 of additional capital from IFC and MIGA’s own account and mobilized an additional $2.0 from third-party public and private sources. By mobilizing capital into projects perceived as unviable, PSW helps the market generate information about the viability (or otherwise) of these transactions.

The findings addressing the second evaluation question center on whether concessionality has enabled PSW projects to occur and whether, along with financial and nonfinancial additionality, it has created the conditions for market development. We look at concessionality for both IFC and MIGA and at financial and nonfinancial additionality for IFC only because MIGA does not track and measure these features in its projects.

We find that concessionality enables PSW projects to materialize—without the IDA PSW, IFC and MIGA could not execute high-risk transactions in PSW-eligible countries because their cost of risk would make their pricing uneconomical for local borrowers. The level of concessionality provided by IDA PSW is estimated based on the difference between (i) a "reference price" (either a market price, if available, or the price calculated using IFC's pricing model) and (ii) the "concessional price" being charged by the IDA PSW. Our estimates indicate that the pricing of IFC and MIGA transactions without IDA PSW would be 5–30 percentage points higher (depending on the client and country) than without IDA PSW. The fact that concessionality is an enabling condition for PSW transactions was confirmed by evidence from case studies and interviews in which staff, clients, and experts indicated that operating without concessionality may still allow IFC and MIGA to provide financing to the higher-rated enterprises in PSW-eligible countries but would allow them to work only with a limited number of the target groups they need to reach (for example, microfinance companies, high-risk manufacturing firms, and banks providing services to women and SMEs).

IFC and MIGA follow the minimum concessionality principle. On the basis of a review of pricing and project documents and interviews with clients and staff, we find that IDA does not provide more than the minimum concessionality that is necessary to induce the intended investment (thus, they meet the minimum concessionality principle) and that IFC and MIGA do not distort markets, where they exist, because of IDA concessionality. IFC, MIGA, and IDA follow a rigorous process to approve the concessionality for each project or portfolio. IFC and MIGA use their pricing model to calculate and document prices, consistently comparing them with market prices. In several cases, clients pointed out that IFC prices were higher than those of competitors. In cases where there are no market prices for comparison, as in most MIGA guarantees, IFC or MIGA pricing models are used to establish pricing benchmarks to calculate concessionality. This process is documented with clear approvals from investment teams and the Blended Finance Units, which include IDA participation.

IDA capital is underleveraged. Currently, IDA sets aside capital assuming that all PSW obligations would result in full losses—a $1.2 billion nominal outstanding amount for 2023. This assumption is unlikely to materialize, considering that, after six years of operations, total payouts under IDA PSW guarantees have been only $1 million. The very low payout rate indicates the potential to leverage PSW capital more, allowing IDA, IFC, and MIGA to extend more support to PSW-eligible countries.

To optimize leverage, IDA, IFC, and MIGA would benefit from better modeling the risks of the PSW facilities based on historical data. Without appropriate modeling of the risks, IDA, IFC, and MIGA are unlikely to leverage the PSW resources optimally. Modeling of the PSW portfolio could be based on the track record default data of the past six years and other proxy sources of data for similar risk profile portfolios under different stress scenarios. Modeling would require (among other things) analyzing the potential unexpected loss for each PSW facility and various instruments used under each facility. IFC and MIGA routinely conduct this type of modeling on their overall portfolios, which could be used as a reference to model the PSW portfolio.

The Bank Group does not currently produce financial management reports that calculate the profits and losses of the PSW for IDA, IFC, and MIGA. Reporting on the PSW is currently fragmented, with no single unit having a full view of the financial costs and benefits of the PSW operations. Both management and the Board would benefit from periodic reports on the profitability and losses of PSW operations for IDA, IFC, and MIGA overall and for its facilities and instruments. These reports would allow management and the Board to understand, for example, to what extent risks move between IFC or MIGA and IDA.

Nearly three-quarters of PSW projects anticipate a combination of financial and nonfinancial additionality, but PSW projects underuse nonfinancial additionalities. This percentage is similar to that of the non-PSW portfolio in PSW-eligible countries (70 percent) and slightly below that of the IFC portfolio in middle-income countries, which anticipated both financial and nonfinancial additionality for 82 percent of investment projects. Financial additionality is the unique support that IFC brings to a client based on the features of the financial package offered by IFC. Financing structure, particularly long-term financing and local currency financing, is the most common form of financing additionality, and its incidence is similar across PSW and non-PSW portfolios. Financing innovation is particularly high in PSW projects. It refers, for example, to using flexible financing structures (such as risk-sharing facilities in local currency that provide short- and long-term loans) to reach important target groups, such as women-owned SMEs and climate-smart firms. Nonfinancial additionality is the unique support that IFC brings to a client by deploying knowledge and standards. IFC PSW projects underuse nonfinancial additionalities, including standard setting, noncommercial risk mitigation, catalyzing policy or regulatory changes, and (to a lesser extent) knowledge and capacity building.

Recommendations

The evaluation provides the following two recommendations aimed at better leveraging the PSW and, in turn, improving IFC's and MIGA's contributions to creating the conditions for market development.

1. IDA, IFC, and MIGA would benefit from enhanced modeling of the risks taken by the PSW. The modeling could consider scenarios with various allocations of IDA capital to PSW facilities, instruments, and levels of concessionality. Analyzing the usage of pooled first-loss guarantees and assessing the impact of reducing first-loss coverage may, for example, suggest ways to better deploy IDA capital without increasing IDA losses in the future.

2. IDA, IFC, and MIGA should assess and report the financial results of the PSW to Bank Group management and the Board. IDA, IFC, and MIGA should develop annual financial management reports that show their profits and losses for PSW activities—per agency, per facility, and by instrument—so that the effects of risk transfers among the three agencies can be clearly tracked. This reporting can be tied into IFC's and MIGA's existing risk reporting systems that cover all projects.

1 | Background and Context

The Private Sector Window (PSW) is a blended finance mechanism that the World Bank Group introduced in 2017 to jumpstart private investment in International Development Association (IDA) countries and fragile and conflict-affected situations.

By partially mitigating the risks of the two agencies of the Bank Group that provide investment and insurance services to the private sector—the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA)—the PSW makes IFC and MIGA transactions possible in IDA countries and fragile and conflict-affected situations.

Key features of PSW projects—concessionality and financial and nonfinancial additionality—are expected to enable PSW transactions to materialize and to create the conditions for market development.

The evaluation answers two main sets of questions. The first inquires about IFC's and MIGA's usage of the PSW and early evidence on its potential market development effects. The second asks whether concessionality and financial and nonfinancial additionality have enabled PSW transactions to take place and have potential market development effects, whether the IDA capital is adequately leveraged, and whether financial reporting on the PSW is adequate for decision-making purposes. The evaluation examines PSW projects from fiscal years 2018 to 2023.

We triangulated data from qualitative and quantitative sources to answer the evaluation questions. The evaluation methods include a literature review; PSW portfolio analysis; an analysis of concessionality, capital provisioning, and financial reporting; semistructured interviews with IDA, IFC, and MIGA staff, experts, and clients; econometric work; and four country case studies. The evaluation aims to update the Independent Evaluation Group's

2021 early-stage assessment of the PSW and to complement the 20th Replenishment of IDA PSW Mid-Term Review. It is part of the Independent Evaluation Group's Maximizing Finance for Development workstream and complements related Independent Evaluation Group evaluations.

This evaluation has limitations. Because only 20 (out of 220) PSW projects have closed, it is based on a mix of ex ante and (limited) ex post evidence. We assess intermediate outcomes of the PSW, such as the impact of the PSW on IFC and MIGA's ability to enter new markets and sectors, but we do not assess the final outcomes or impacts of PSW projects.

The private sector creates jobs and prosperity in the poorest countries, but developing it is challenging. The private sector plays a substantial role in countries eligible for the Private Sector Window (PSW): International Development Association (IDA) countries and fragile and conflict-affected situations (FCS) in IDA. It provides 90 percent of jobs and is the largest source of income for people living in IDA countries, in turn contributing to poverty reduction (World Bank 2017). However, attracting private capital and developing the private sector in low-income and fragile countries is challenging (World Bank 2016). In many PSW-eligible countries, the domestic private sector is small, informal, and constrained by a weak macroeconomic and regulatory environment, infrastructure bottlenecks, and a limited skilled labor force. High country risks and capital flight concerns make domestic and international investors reluctant to engage, particularly in FCS, which also experience security risks. As a result, the ability of PSW-eligible countries to attract private investment and grow the local private sector remains limited, constraining their development.

Blended finance, which mixes public development resources with private funds, can help attract private investment and grow the local private sector in developing countries, in turn giving them an opportunity to reach several Sustainable Development Goals (SDGs). Blended finance was created with the assumption that concessional finance for private sector projects is a valuable tool that development finance institutions (DFIs)—in cooperation with donors and other development partners—can use to implement the Addis Ababa Action Agenda for financing development, including addressing the SDGs and climate commitments under the Paris Agreement. Meeting these goals requires substantially more financing than official development assistance and multilateral development banks can provide. The development community needed to design approaches that would significantly increase private capital mobilization and the scale of sustainable private sector activity. In that context, blended finance emerged as a technique for deploying public development resources to improve the risk-return profile of individual DFI investments in developing countries. The goal was to "blend" these investments with commercial, private financing to show the viability of projects and build markets that could, over time, attract further commercial capital for development (OECD 2018).

Blended finance is expected to support development, crowd in commercial funds over time, address challenges that the private sector faces in poor countries, and promote governance, environmental, and social standards. According to the DFI Working Group on Blended Concessional Finance for Private Sector Projects (DFI Working Group 2021), blended finance should be structured around five guiding principles. The first principle (rationale) is that using blended concessional financing should make a contribution beyond what is available in the market. The second (crowding in and minimum concessionality) is that DFI support should contribute to catalyzing market development and mobilizing private sector resources while minimizing the use of concessional resources. The third principle (commercial sustainability) is that the interventions must be sustainable, contribute to commercial viability, and revisit the level of concessionality over time. The fourth (reinforcing markets) is that projects should be structured to effectively and efficiently address market failures and minimize the risk of market distortion or crowding out of private finance. The fifth principle (promoting high standards) is that DFIs should promote high standards in their clients, including in the areas of corporate governance, environmental impact, and social inclusion.

The IDA Private Sector Window

To jumpstart private investment and growth in IDA countries, the Board directed IDA, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA) to introduce the IDA PSW. In PSW-eligible countries, the private sector is reluctant to invest because of high risk, which is driven by several constraints, including (i) limited financing, particularly long-term and local currency financing; (ii) disruptions caused by exogenous factors, such as the trade disruptions triggered by the COVID-19 pandemic; and (iii) unfavorable business environments created by difficult macroeconomic conditions and regulatory constraints on investing or operating a business. IDA, IFC, and MIGA, as well as other development partners, aim to address these constraints by supporting policy changes to (among other things) stabilize the macro conditions, improve the business environment, and develop capital markets. The IDA PSW was conceived as an additional tool that the World Bank Group could deploy to help address these challenges, with a specific focus on partially mitigating the risks and potential losses of IFC and MIGA when they conduct high-risk transactions in IDA and FCS countries. One feature of PSW projects—concessionality—enables PSW transactions to materialize. Two additional features—financial and nonfinancial additionality—are expected to create the conditions for market development. The PSW was created in recognition that expanding support to the private sector is critical for helping IDA, IFC, and MIGA advance the IDA special themes—climate change; fragility, conflict, and violence; gender; governance and institutions; and jobs and economic transformation.[1]

The PSW comprises four facilities. These are the Blended Finance Facility (BFF), the Local Currency Facility (LCF), the MIGA Guarantee Facility, and the Risk Mitigation Facility (RMF). Table 1.1 provides a brief description of the facilities and their objectives, the instruments they use, and how the PSW works under each facility. Although each facility has its own design and focus, they are managed collectively by IDA using a portfolio approach to reflect the overall objectives of the PSW; each investment is assessed and approved based on its contribution to broader annual objectives rather than on a stand-alone basis (World Bank 2017). Individual projects under the BFF, LCF, and RMF are managed by IFC, whereas MIGA manages the MIGA Guarantee Facility.

The selection of PSW projects has three eligibility criteria, including the blended finance principles. The first eligibility criterion is that PSW resources are limited to (i) IDA only, (ii) fragile or conflict-affected IDA gap and blend countries, and (iii) select subnational areas in countries experiencing fragility (World Bank 2017). Temporary and transition eligibility was later granted to select IDA countries. (Appendix A lists the PSW-eligible countries.) The second eligibility criterion is that PSW-supported activities need to be aligned with IDA's poverty focus and special themes, the Bank Group's country strategies, and the Bank Group's approach to supporting private sector investments and creating markets. The third eligibility criterion is that projects that use PSW funds (and blended finance projects more broadly) should aim at maximizing additionality and market sustainability while minimizing concessionality, by following the five blended finance principles outlined in chapter 1.

Table 1.1. PSW Facilities

PSW Facility	Instruments	PSW Objectives	Example of How the PSW Works
Blended Finance Facility	Guarantees, equity, and senior and subordinated loans alongside IFC investments.	Support IFC-led, high-impact pioneering investments across sectors, such as SME finance and agribusiness—and possibly pioneering investments in other key sectors, such as manufacturing, social sectors, energy access, distributed power generation, and telecommunications and technology—and local entrepreneurship through funds.	In the case of guarantee instruments, the Blended Finance Facility provides IFC with loss protection up to an amount agreed on for each transaction or pool of transactions. For example, on a 40% pooled first-loss guarantee, IDA will take all losses up to 40% of the amount of the portfolio on a pool of loans to banks and microfinance institutions in multiple countries that on-lend to MSMEs at market rates. If the banks or microfinance institutions default on their repayment obligations to IFC, IFC will call on the IDA guarantee, and IDA will transfer funds to IFC. The IDA guarantee can continue to be called until losses exceed 40% of the pooled portfolio. After that, all losses are on IFC's account. The loss absorption by IDA enables IFC to reduce its loss given default and, in turn, to reduce its prices to clients.
Local Currency Facility	Provides hedging for local currency IFC loan exposures.	Allows IFC to provide financing in local currency in PSW-eligible countries where local currency solutions are underdeveloped or missing, targeted to markets in which currency hedging options are absent or very limited.	IFC converts US dollars into local currency at the spot rate and lends this amount to its client. The client repays the loan in local currency, and IFC converts the repayments into US dollars at the spot rate at the time the payment is received and remits that US dollar amount in exchange for the preagreed US dollar payment from IDA. This arrangement removes all foreign exchange risk for IFC. IDA meanwhile retains this foreign exchange risk on its balance sheet.

(continued)

PSW Facility	Instruments	PSW Objectives	Example of How the PSW Works
MIGA Guarantee Facility	First-loss guarantees or risk-sharing agreements with IDA.	Bridge gaps in the availability of coverage for MIGA-eligible noncommercial risks to crowd in private investment in PSW-eligible countries.	IDA provides either a first-loss guarantee or risk sharing that reduces the amount of risk that MIGA is insuring (moving the risk from MIGA to the IDA balance sheet). This reduces the price of MIGA insurance to its clients and also reduces the risk for reinsurers (because IDA is now covering part of the risk), allowing MIGA to reinsure a larger percentage of project risks in IDA-only countries.
Risk Mitigation Facility	Political risk insurance and liquidity support guarantee.	Project-based guarantees to crowd in private investment in infrastructure projects.	We have not observed a substantial enough market for this product to be able to see how it works in practice (only one project has been approved to date under this facility).

Sources: Independent Evaluation Group; World Bank 2021.

Note: IDA = International Development Association; IFC = International Finance Corporation; MIGA = Multilateral Investment Guarantee Agency; MSME = micro, small, and medium enterprise; PSW = Private Sector Window; SME = small and medium enterprise.

The PSW project approval process is consistent with IFC's and MIGA's approval processes with the addition of IDA representatives. IDA houses a PSW Secretariat that provides support during all stages of project approval (including concept review and internal approvals). A PSW Oversight Committee, consisting of a vice president each from IDA, IFC, and MIGA, provides strategic oversight on the use of the IDA PSW funds and addresses any controversial issues that might emerge at the project level.

The PSW is consistent with IFC's and MIGA's strategies and aims to help them achieve their transaction targets in PSW-eligible countries and to contribute to achieving the outcomes of the IDA special themes. The IFC 3.0 strategy encompasses tackling private sector challenges by creating markets and mobilizing private capital, including a commitment as part of the capital increase package to deliver 40 percent of IFC's overall transactions in IDA countries and FCS and 15–20 percent in low-income IDA and FCS countries by fiscal year (FY)30 (IFC 2023). MIGA's FY21–23 strategy has a target to increase the share of MIGA guarantees in IDA countries and FCS to an average of 30–33 percent. IFC and MIGA consider the PSW an important tool that, together with other IFC and MIGA instruments and with Bank Group support for policy reforms, can contribute to creating markets and help IFC and MIGA meet their targets in IDA countries and FCS.

The PSW follows the One World Bank Group approach and, in its design, reinforces the importance of collaboration by combining the three institutions' respective comparative advantages. The 2016 Forward Look and the 2018 International Bank for Reconstruction and Development and IFC Capital Packages underscored the importance of the Bank Group institutions working as "One World Bank Group." This is operationalized through the Cascade approach, which urges the three Bank Group institutions to help countries maximize their development resources by using private financing and sustainable solutions from the private sector. IDA, the International Bank for Reconstruction and Development, IFC, and MIGA tackle constraints on private sector development from different perspectives based on their respective comparative advantages. In general, IDA provides sector knowledge, policy dialogue, and financial strength. In low-income countries, IDA provides a central platform for Bank Group support to the private sector through its work on improving regulatory quality, strengthening macroeconomic and structural policies, providing quality infrastructure, and improving labor market and skills policies (World Bank 2021). IDA can also directly support the private sector through lines of credit and guarantees backstopping government or state-owned enterprise payment and performance obligations. IFC provides direct investment in the form of equity, debt, and credit guarantees on commercial credit risks, as well as advisory services. In addition, IFC offers capabilities in project development, structuring, and mobilization platforms, along with its global client relationships (World Bank 2018). MIGA provides guarantees in the form of political risk insurance and credit enhancement to cover noncommercial risks. Furthermore, MIGA provides expertise in political risk, structuring, underwriting, pricing, claims management, reinsurance, and client relationships. All three institutions aim at direct financing (on the public or private side) and capital mobilization.

Evaluation Questions, Scope, and Methods

The evaluation answers two main sets of questions. The first inquires about the usage of the PSW funds and about early evidence of its potential market development effects. The second asks about the PSW's enabling factors: concessionality (which enables projects to occur in the first place) and financial and nonfinancial additionality (which enable projects to create the conditions for market development).

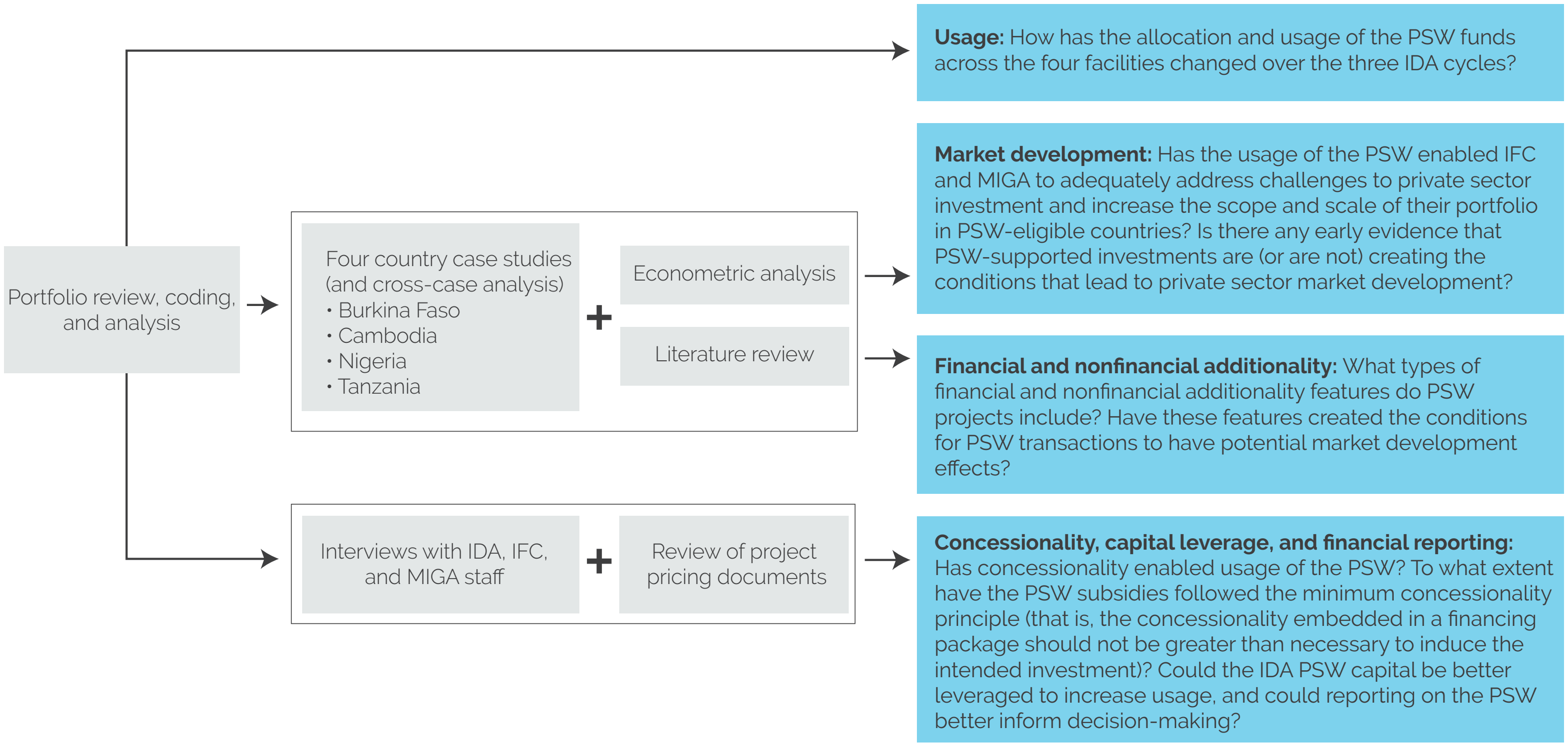
» Usage and market development. Has the usage of the PSW enabled IFC and MIGA to adequately address challenges to private sector investment and increase the scope and scale of their portfolios in PSW-eligible countries? Is there any early evidence that PSW-supported investments are (or are not) creating the conditions that lead to market development?

» Enabling factors. Has concessionality enabled usage of the PSW? To what extent have the PSW subsidies followed the minimum concessionality principle (that is, the concessionality embedded in a financing package should not be greater than necessary to induce the intended investment)? Is IDA PSW capital adequately leveraged to increase usage? Is financial reporting on the PSW adequate for decision-making purposes? What types of financial and nonfinancial additionality features do PSW projects include? Have these features created the conditions for PSW transactions to have potential market development effects?

The evaluation looks at IDA PSW projects from FY18 to FY23. The evaluation assesses the PSW across three IDA cycles: the 18th Replenishment of IDA (IDA18), which covers FY18–20; IDA19, which was originally designed to cover FY21–23 but was revised after the start of the COVID-19 pandemic to cover only FY21–22; and IDA20, which was advanced by one year because of various crises and covers FY23–25. The evaluation covers both IFC and MIGA (because these two institutions originate the projects) and IDA, which provides the concessional support.

The evaluation used a mixed methods approach. The evaluation team triangulated data from both qualitative and quantitative sources to answer the evaluation questions. The evaluation methods include synthesizing findings from blended finance literature and internal document review, including pricing documents; PSW portfolio identification, review, and analysis; and semistructured interviews with staff, experts, and clients. The evaluation also includes econometric work, such as staggered difference-in-difference analysis and regressions on a one-to-many mapping of PSW and non-PSW projects, controlling for sectors and countries. The team also conducted four virtual country case studies (Burkina Faso, Cambodia, Nigeria, and Tanzania) to gauge how well the PSW projects fit within the overall country needs and whether they have resulted in addressing challenges to private sector investment. The portfolio analysis, econometric work, and analysis of concessionality provided quantitative insights into the PSW engagement, whereas the interviews, literature, and document reviews produced mostly qualitative insights. Figure 1.1 summarizes the methods used to answer the evaluation questions. Appendix B provides more details.

Figure 1.1. Methodological Overview—Evaluation Questions and Methods



Source: Independent Evaluation Group.

Note: IDA = International Development Association; IFC = International Finance Corporation; MIGA = Multilateral Investment Guarantee Agency; PSW = Private Sector Window.

The portfolio review and analysis are based on a portfolio of 220 Board-approved IFC and MIGA projects that PSW has supported since its inception. Of these, 189 have been committed or executed. This portfolio comprises 181 Board-approved IFC projects (161 committed) and 39 Board-approved MIGA guarantees (29 executed). In addition to this PSW portfolio, which the evaluation team obtained directly from IDA, IFC, and MIGA, the team also independently identified a portfolio of comparable non-PSW projects. This comparative portfolio was identified by matching PSW projects committed in a sector in a country with all non-PSW projects that were committed in the same sector of the same country in the period since the IDA PSW became operational. This matching technique was used only for the IFC PSW portfolio because the size of the MIGA PSW portfolio was too small for multivariate statistical analysis. Overall, 97 PSW-supported IFC projects matched 231 non-PSW IFC projects. (The comparative analysis is described in chapter 2, and further details on the matching methodology are available in appendix B.)

The evaluation has several limitations. Because only 20 (out of 220) PSW projects have closed, and none have been independently evaluated or validated by the Independent Evaluation Group (IEG), the evaluation is based on a mix of ex ante and (when available) ex post evidence. Ex post evidence is partial because it is based on case studies, portfolio supervision documents, and interviews. Our analysis of development outcomes is limited to intermediate outcomes. We have been able to assess, for example, the impact of the PSW on IFC's and MIGA's ability to enter new markets and sectors, expand their presence in existing markets, and mobilize third-party capital. We were, however, unable to assess the development outcomes and impacts of the PSW projects, which limits the scope of the analysis. Country case studies, which were selected based on several criteria, such as a high number of PSW projects (35 PSW projects in total in the four case study countries were reviewed) and the presence of comparator projects (appendix B provides further details), offer only some insights into the early impacts of PSW projects. We triangulated the country case studies with other evidence so we could generalize some of the findings to the entire portfolio. Our findings on scope and scale and the mobilization of third-party capital (chapter 2) are based primarily on ex post data. In contrast, our findings on the expected alignment with IDA special themes (detailed in chapter 2) are based on ex ante data. The concessionality analysis in chapter 3 is based on ex post data, whereas the findings on financial and nonfinancial additionality are based mostly on ex ante data. The econometric analysis also has limitations related to its technical aspects (such as not all PSW projects having a counterfactual match), but they do not affect the findings of the analysis (see appendix B).

Complementary Assessments: IEG's 2021 PSW Early-Stage Assessment and the IDA20 PSW Mid-Term Review

This evaluation is preceded by a 2021 IEG early-stage assessment of the PSW and has been developed in parallel with the IDA20 PSW Mid-Term Review. IEG's July 2021 report, *The World Bank Group's Experience with the IDA Private Sector Window: An Early-Stage Assessment* (World Bank 2021), provided the first assessment of the PSW. It focused on the PSW pilot in the IDA18 cycle and covered the period FY18–20. The report assessed four dimensions of the PSW. The first was usage (funds committed for clients). The second was scope and scale—creating or developing new markets or sectors (scope) and increasing business in PSW-eligible countries and sectors with existing presence (scale). The third was concessionality, which is needed to make a PSW-supported investment commercially viable. The fourth was governance (the decision-making process used for the approval of PSW projects and for the PSW's overall strategy). The IDA team has also recently completed the IDA20 PSW Mid-Term Review (DFCII 2023), which covers the IDA18, IDA19, and IDA20 cycles. The IDA20 PSW Mid-Term Review examines the PSW's usage, scope and scale additionality, subsidy levels (concessionality), and lessons for operational enhancement (governance) of the PSW.

The findings of IEG's 2021 early-stage assessment of the PSW (World Bank 2021) were mixed. The assessment found that, during the IDA18 cycle, the use of the PSW was $1.4 billion, well below the originally allocated amount of $2.5 billion, and that much of it was driven by the Bank Group's COVID-19 response. It also found that IFC commitments and MIGA guarantees in PSW-eligible countries remained relatively stable compared with levels before the introduction of the PSW but that the PSW had some positive effects in allowing the two institutions to enter new markets and sectors. The concessionality assessment did not analyze whether the subsidies provided to PSW-funded projects were appropriate or distorted the markets. The analysis focused on the internal processes to review and approve the subsidies and found them appropriate (that is, the relevant units were involved in reviewing and approving the subsidies). Finally, the early-stage assessment found that the PSW's distinct governance structure had not limited the usage of the PSW under IDA18 but recommended continuous monitoring of processing time and costs. (Appendix C includes a more detailed summary of the findings of the 2021 IEG assessment.)

The IDA20 PSW Mid-Term Review (DFCII 2023) provides an overall positive assessment of the PSW from its inception to 2023. The IDA20 PSW Mid-Term Review finds that the pace of PSW approvals has consistently grown since IDA18. Over the five years it has existed, the PSW has supported the expansion of IFC's and MIGA's activities, including entering frontier markets and sectors and encouraging and supporting economic transformation. PSW-supported transactions are generating jobs in PSW-eligible countries. Further, lessons learned continue to inform the implementation of the PSW, and the IDA PSW Mid-Term Review requests IDA Deputies' views on operational enhancements to facilitate further realization of the PSW's potential for development impact.

This evaluation aims to update IEG's 2021 early-stage assessment and to complement both the 2021 IEG assessment and the IDA20 PSW Mid-Term Review. The evaluation updates IEG's 2021 assessment by looking at the IDA19 and IDA20 cycles. It complements the IEG 2021 assessment and the IDA20 PSW Mid-Term Review by (i) looking at the potential for creating the conditions for market development of the PSW, (ii) providing counterfactual analysis to test some of the findings of the other two studies on usage and private capital mobilization (among others), (iii) providing an in-depth assessment of concessionality, and (iv) adding an analysis of financial and nonfinancial additionality.

This evaluation is part of IEG's Maximizing Finance for Development workstream and complements other IEG evaluations in this area of work. These include *"Creating Markets" to Leverage the Private Sector for Sustainable Development and Growth: An Evaluation of the World Bank Group's Experience* *through 16 Case Studies* (World Bank 2019), *The World Bank Group's Approach to the Mobilization of Private Capital for Development* (World Bank 2020), and *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* (World Bank 2022c), as well as ongoing and upcoming evaluations on IFC Country Diagnostics, the Cascade approach, IFC platforms, and private capital facilitation.

The rest of the report addresses the two evaluation questions and provides recommendations. Chapter 2 focuses on the usage of the PSW, its potential to address constraints on private investment in target countries, and its potential market development (question 1 on usage and market development). Chapter 3 assesses how concessionality and financial and nonfinancial additionality influence the usage of the PSW, including potential market development effects (question 2 on enabling factors). Finally, chapter 4 concludes, provides recommendations, and suggests some areas for future analysis.

[1] For the 20th Replenishment of the International Development Association (IDA20) cycle, Human Development was added, the Governance and Institutions special theme was dropped (and governance became a cross-cutting issue), and the other four special themes remained the same. We did not analyze the Human Development theme, which was added only for IDA20, because only one year has passed in this cycle.

2 | Private Sector Window Usage and Market Development Potential

Private Sector Window (PSW) funds were underused in the 18th Replenishment of the International Development Association (IDA18) but almost entirely used in IDA19 and are on course for full use in IDA20. Uptake of IDA funds has accelerated in IDA19 and IDA20, from 6 percent approved funds in the first year of IDA18 to more than 30 percent in the other two cycles. Usage has been strongest for the Blended Finance Facility and weakest for the Risk Mitigation Facility. Usage of the Local Currency Facility is growing, and usage of the Multilateral Investment Guarantee Agency Guarantee Facility is stable.

Although non-PSW projects in eligible countries aim to address mostly one constraint on private sector investment in IDA countries and fragile and conflict-affected situations—lack of long-term finance—PSW projects aim to address a variety of constraints by providing (i) local currency financing in the absence of a local currency to US dollar swap market; (ii) long-term finance in countries where it is not available; (iii) emergency funding that local financial institutions would not be able to provide to address disruptions as a result of exogenous factors (such as the trade collapse and increases in input prices during the COVID-19 pandemic and the energy crisis); and (iv) guarantees to operate in an unfavorable business environment (for example, insurance against political risks).

The PSW has enabled the International Finance Corporation to commit a higher investment volume in PSW-eligible countries than it would have without PSW support. The PSW has also enabled the International Finance Corporation and the Multilateral Investment Guarantee Agency to enter new countries and invest in new sectors (for example, mobile money and equity funding for small and medium enterprises) in PSW-eligible countries.

PSW projects mobilized third-party private and public capital, although, as expected, to a lesser extent than non-PSW projects in IDA countries and projects in middle-income countries, given their higher risks. Mobilization of private capital in IDA countries and fragile and conflict-affected situations is important to help the market generate information about the viability of transactions.

PSW projects are ex ante broadly aligned with the IDA special themes. However, not all of them have objectives related to jobs and economic transformation, as envisioned at the time the PSW was created, and climate and gender objectives are unevenly covered.

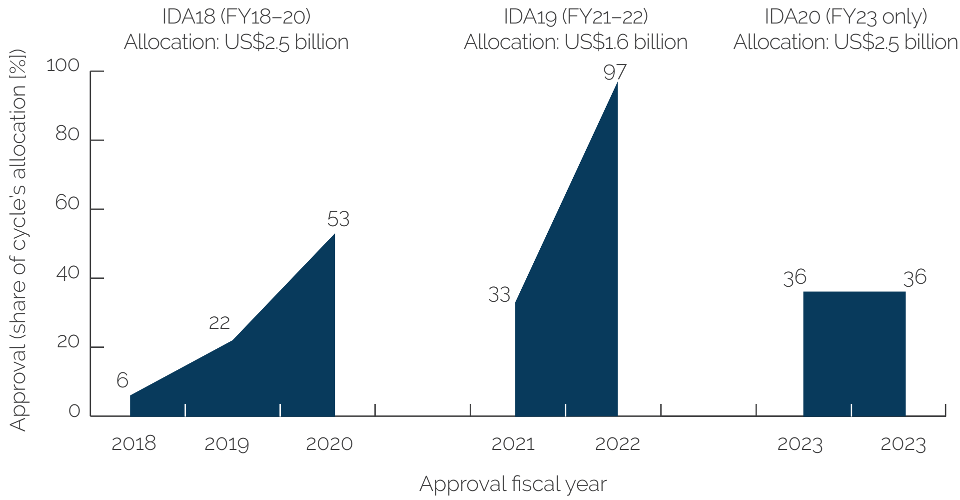
This chapter covers several interrelated aspects of the PSW: (i) its usage, (ii) its ability to address constraints on private investment, and (iii) its potential to create the conditions for market development and to achieve broader development outcomes. First, we measure the PSW usage against the initial PSW allocations for the three IDA replenishment cycles (IDA18, IDA19, and IDA20) since the PSW's inception in FY17. Usage is a necessary but not sufficient condition for the PSW to achieve its ultimate goals of developing markets, helping eligible countries address the IDA special themes, and making progress toward the SDGs. Thus, the second part of the chapter looks at whether the PSW aims to address key constraints on private investment and whether PSW projects have enabled IFC and MIGA to create the conditions to develop markets in PSW-eligible countries. We do so by examining whether IFC and MIGA have improved the scope (creating, developing, or sustaining new markets and sectors) and scale (increasing business in countries and sectors) of their investments and by looking at whether the PSW has mobilized third-party private capital in risky transactions. The chapter closes with a brief assessment of whether PSW transactions are aligned with the IDA special themes and the SDGs.

The analysis of PSW usage and market development potential is based on both ex ante and ex post data. Although, as mentioned in chapter 1, we do not have sufficient numbers of closed PSW projects and PSW projects that IEG evaluated to conduct a full result assessment, our findings are based on analysis of both ex ante and ex post data. We extract ex ante data from project approval documents. Ex ante analysis excludes information on the execution or achievement of results (for example, no indication of whether a transaction has materialized or on the realization of expected development outcomes). We extract ex post data from project supervision documents or case studies. This captures data on PSW transactions that have taken place and achieved intermediate development outcomes—for example, PSW transactions that have allowed IFC and MIGA to invest in new countries and sectors. The usage and the scope and scale analysis are based, by and large, on ex post portfolio data, as 86 percent of the PSW projects have been committed (190 of 220), 92 percent of which (175 of the 190 committed projects) have either disbursed (101 investments) or have provided guarantees that have been issued (45 guarantees for IFC and 29 guarantees for MIGA). The analysis of whether PSW transactions address market constraints is based on a mix of ex ante and ex post data, with the latter being based partially on the portfolio analysis and mostly on evidence gathered from country case studies. The analysis of the market potential of PSW projects, which complements the scope and scale analysis, is based on a summary assessment from ex ante portfolio information (PSW projects' Anticipated Impact Measurement and Monitoring rates).

Usage

After a slow start in IDA18 (FY18–20), usage of PSW funds increased and accelerated in IDA19 (FY21–22) and IDA20 (FY23–25). Initial allocations for all three IDA cycles were $2.5 billion for three years, but IDA shortened IDA19 to two years because of COVID-19 and revised its PSW allocation from $2.5 billion to $1.67 billion. PSW funds were underused in IDA18 (with only 53 percent of the initial allocation used) but almost entirely used in IDA19 (after factoring in the shortening of the IDA19 cycle). The PSW is on course for full use in IDA20 if the current usage level for FY23 continues in FY24–25 (figure 2.1). Uptake of IDA funds (measured as the percentage of allocation approved) has also been quicker in IDA19 and IDA20 than in IDA18. The total amount of PSW funds approved in the first FY under IDA18 was $144 million (6 percent of allocation), $548 million in IDA19 (33 percent of the allocation based on a two-year cycle), and $900.5 million in IDA20 (36 percent of the allocation). Evidence gathered for this evaluation suggests that this increased usage and quicker uptake may be linked to improvements in PSW administration and increased trust among the three agencies. Case study interviews indicated that, in the early periods after inception, PSW usage was challenging for project teams because of time-consuming "paperwork" and approval processes, knowledge gaps related to the existence and functioning of the PSW, and trust gaps among different stakeholders. They indicated that these constraints have ameliorated over time.

Figure 2.1. Cumulative PSW Approvals across IDA Cycles

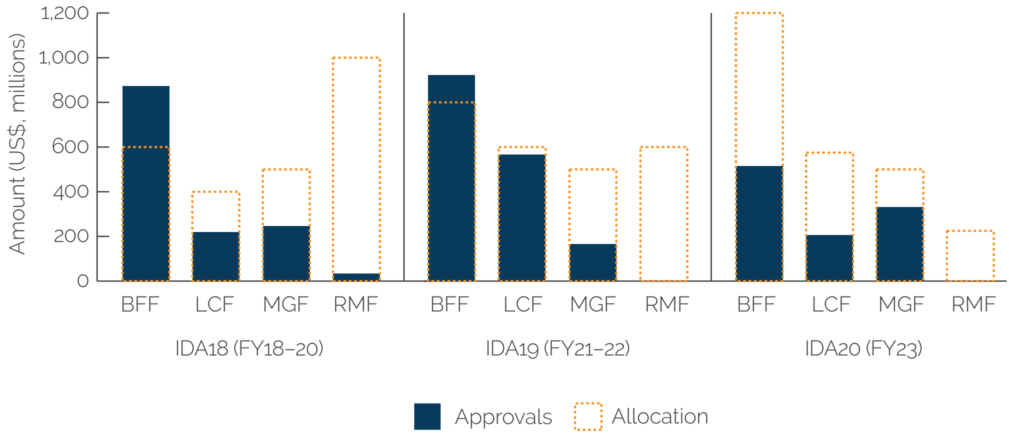


Source: Independent Evaluation Group.

Note: IDA19 received an initial allocation of US$2.5 billion, meant initially for three years. However, IDA shortened the cycle to two years because of COVID-19, and we have adjusted the allocation figures accordingly. The IDA20 allocation is for FY23–25, but the figure shows IDA20 approvals for FY23 only. FY = fiscal year; IDA18 = 18th Replenishment of the International Development Association; PSW = Private Sector Window.

Usage varies by PSW facility, and allocations to PSW facilities have been adjusted based on use in the previous cycles. The BFF has been overused in each of the three IDA cycles, whereas RMF was used for only one project in the IDA18 cycle with no further usage in IDA19 and IDA20 (figure 2.2). As a result, the share of PSW funds allocated to the BFF has increased progressively with each cycle from $600 million per three-year cycle (or $200 million a year) in IDA18 to a range of $1.2 billion to $1.5 billion per three-year cycle (or $400 million to $500 million a year) in IDA20. In contrast, allocations for RMF have decreased substantially (from $1 billion during IDA18 to a range of $150 million to $300 million in IDA20). Utilization of the LCF was below allocation in IDA18 but increased beyond allocation in IDA19 and is headed toward overuse in IDA20. Approvals for LCF, which totaled $219 million in the three-year IDA18 cycle, jumped to $565 million in the two-year IDA19 cycle and have already reached $206 million in the first year of IDA20. Allocations for the MIGA Guarantee Facility have remained the same across all three IDA cycles ($500 million per three-year cycle or $167 million annually). Usage was below allocation and stable in IDA18 and IDA19 but increased in IDA20 (average yearly approvals stood at $82 million in each of IDA18 and IDA19 but increased to $110 million in IDA20). The increase in MIGA Guarantee Facility usage in IDA20 is because of one telecom project that accounts for two-thirds of MIGA Guarantee Facility approvals in IDA20.

Figure 2.2. Allocations and Approvals by IDA Cycle and PSW Facility



Source: Independent Evaluation Group.

Note: The figure shows the approvals and allocations for each Private Sector Window facility across IDA cycles. The numbers presented are the total for the full length of each IDA cycle as of June 2023: three years for IDA18, two years for IDA19, and one year for IDA20. IDA20 allocations are in ranges as follows: US$1.2 billion to US$1.4 billion for BFF, US$150 million to US$300 million for RMF, US$500 million to US$650 million for LCF, and US$500 million for MGF. For charting purposes, the allocation numbers shown for IDA20 in the figure are the averages adjusted so that the total adds up to the total IDA20 allocation of US$2.5 billion. BFF = Blended Finance Facility; IDA18 = 18th Replenishment of the International Development Association; LCF = Local Currency Facility; MGF = Multilateral Investment Guarantee Agency Guarantee Facility; PSW = Private Sector Window; RMF = Risk Mitigation Facility.

The different usages of the facilities reflect their capacity to respond to client needs. The BFF is highly flexible (table 1.1). It has been used to support different types of operations ranging from providing short- and long-term finance to issuing guarantees to clients across multiple sectors. The increase in LCF approvals in IDA19 and IDA20 likely reflects increased demand for local currency hedging in the face of growing local currency risks in major PSW-recipient countries, such as Côte d'Ivoire, Nigeria, and Tanzania. In Nigeria, for example, a wide and growing arbitrage between the official exchange rate and the market rate posed a high currency devaluation risk for several months. Then, in June 2023, the government formally floated the local currency, causing the official exchange rate to drop by 40 percent. Meanwhile, IEG's earlier assessment found that the severe underuse of RMF might have resulted from the similar role of existing risk-mitigating instruments across the Bank Group. The project-based guarantees for infrastructure projects offered by RMF are similar to the IDA's partial risk guarantees (which, unlike RMF, also cover sovereign risk) and the political risk insurance offered by MIGA.

Across all three IDA cycles, PSW projects concentrate on the finance industry group for IFC and on infrastructure for MIGA. Finance industry group projects account for 70 percent of approvals (table 2.1) of the three facilities managed by IFC as of the end of FY23. This concentration reflects the high demand for short-term finance during the COVID-19 crisis and the scarcity of local currency financing throughout all three IDA cycles. Eighty percent of PSW MIGA projects are in infrastructure.

Table 2.1. Sectoral Distribution of PSW Facility Approvals, Fiscal Years 2018–23

IFC Industry Group and MIGA Sector	IFC: BFF, LCF, RMF (US$, millions)	Share of IFC (%)	MIGA: MGF (US$, millions)	Share of MIGA	Overall Share, All Facilities
Financial institutions	2,329	70	47	6	58
Funds	198	6	0	0	5
Infrastructure	361	11	672	84	25
Manufacturing, agribusiness, and services	434	13	77	10	12
Total	3,322	100	796	100	100

Source: Independent Evaluation Group.

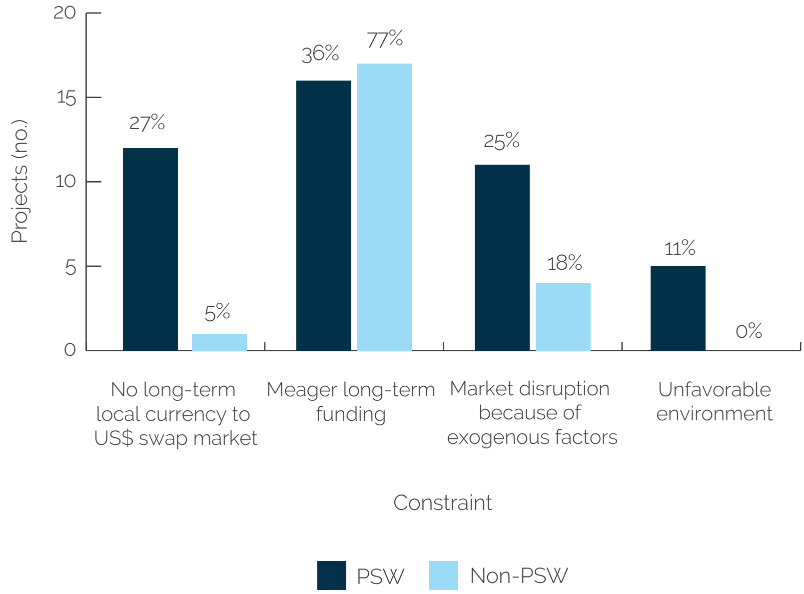
Note: BFF = Blended Finance Facility; IFC = International Finance Corporation; LCF = Local Currency Facility; MGF = MIGA Guarantee Facility; MIGA = Multilateral Investment Guarantee Agency; PSW = Private Sector Window; RMF = Risk Mitigation Facility.

The Role of the Private Sector Window in Addressing Constraints on Private Investment

PSW-supported IFC and MIGA projects aim to address a variety of constraints that inhibit private investment in PSW-eligible countries. The constraints are created mainly by limited long-term finance, the absence of local currency financing, market disruptions as a result of exogenous factors, and unfavorable business environments in these countries. Without functional foreign currency swap markets, local currency financing is unavailable. Long-term finance (in foreign or local currency) is also often unavailable in PSW-eligible countries, particularly for micro, small, and medium enterprises (MSMEs). Examples of market disruptions as a result of exogenous factors are the collapse of trade and the increase in input prices because of the COVID-19 and energy crises. Unfavorable business environments are characterized by high political risks and weak legal and regulatory structures for the economy and specific industries (for example, poor frameworks for public-private partnerships affecting the infrastructure sectors).

Our case study evidence indicates that PSW projects expect to address more investment constraints than non-PSW projects in eligible countries. We compared the investment constraints addressed by 30 nonconfidential PSW projects in case study countries (Burkina Faso, Cambodia, Nigeria, and Tanzania) with those addressed by non-PSW projects in the same sectors of the same countries. The (ex ante) analysis was based on project approval documents for both samples. Figure 2.3 reports the results of the analysis. We found that all PSW projects aimed to address one or more of the four aforementioned causes of constraints. In contrast, the vast majority of non-PSW projects focused on a lack of long-term finance, and a few aimed to address disruptions as a result of exogenous factors. Hardly any aimed to tackle local currency financing, and none aimed to mitigate risks arising from an unfavorable business environment. Although these results are not representative of the whole PSW portfolio, they provide a sense of the breadth of constraints limiting private investment that PSW projects aim to address. The following sections—based on the findings of the case studies and, when possible, portfolio analysis—detail how PSW projects addressed these constraints.

Figure 2.3. Constraints on Private Investment that PSW and Non-PSW Projects in Case Study Countries Aim to Address



Source: Independent Evaluation Group.

Note: The results are based on 30 nonconfidential PSW projects and 19 non-PSW projects in case study countries (Burkina Faso, Cambodia, Nigeria, and Tanzania). The bars denote the share of reviewed projects addressing each constraint. PSW = Private Sector Window.

How the PSW Addresses Absent Local Currency and Long-Term Finance

There is no local currency to US dollar swap market in many PSW-eligible countries because of high country risk, including macroeconomic or political uncertainty. The absence of a local currency swap market stalls or disrupts the forward foreign exchange hedging markets, making hedging expensive or impossible. This absence has made it difficult for financial institutions to raise funds in local currency, leading them to opt for foreign currency loans, which expose them—and their clients—to foreign exchange risks and increase borrowing costs. The nascent development of many PSW-eligible countries also means there is often a lack of local market liquidity for lending, particularly (but not only) at longer tenors. As a result, the private financial sector in these countries cannot provide sufficient credit denominated in local currency.

In PSW-eligible countries, long-term financing (in foreign or local currency) is also very limited or absent, especially for MSMEs. Long-term financing is essential for infrastructure investment, for housing finance, and for companies to acquire the equipment and premises needed to produce, store, and sell their goods. Developing long-term financing requires institutional reforms, such as promoting macroeconomic stability, establishing a regulated and legally enforceable banking and investment system that protects creditors and borrowers, and setting a framework for capital markets and institutional investors (World Bank 2016). Without these reforms and financial institutions with the capacity to assess the creditworthiness of their borrowers, private firms and households do not have access to long-term finance and, therefore, have to use their own resources or short-term loans to fund their investment needs.

Through PSW projects, IFC has provided local currency and long-term funding to several PSW-eligible countries, sometimes complementing financing with advisory services. Of 161 PSW-financed IFC projects committed to date, 43 (27 percent of the total) provided local currency financing, and 91 (57 percent of the total) reported in their approval documents providing financing with tenors longer than usually available. Projects that provided local currency or long-term financing have taken place in all four case study countries (Burkina Faso, Cambodia, Nigeria, and Tanzania). In Cambodia, for example, IFC subscribed to a three-year Cambodian riel-denominated bond supported by the PSW LCF. This was the country's first local currency bond issuance. Cambodian corporates had issued no bonds in the past in any currency, and 79 percent of loans issued 12 months prior had a maturity of five years or less. The riel-denominated bond supported by the PSW LCF gave rural clients access to local currency financing for the first time. The bond issuance also set a benchmark for future riel bond issuances. Through a successful issuance and listing, IFC helped establish a benchmark for pricing, structure, and public disclosure for future transactions. In Tanzania, IFC subscribed to a three-year senior gender bond supported by the PSW LCF. As one interviewee put it, the project allowed IFC to "lengthen the maturity of the bonds in the market and even build the yield curve for corporate bonds in the market."

How the PSW Addresses Market Disruptions because of Exogenous Factors

PSW-eligible countries can be strongly affected by market disruptions because of exogenous factors. Exogenous factors include, for example, the recent global COVID-19 pandemic, food, and energy crises. These disruptions can cause a mismatch between the supply and demand for financing, potentially disrupting or destroying existing markets. Global crises and their consequences are likely to affect PSW-eligible countries more than middle-income countries (MICs) because governments and private firms in PSW-eligible countries do not have sufficient resources to cope during these times.

To address these challenges, PSW projects have provided short-term financing to help private companies circumvent the liquidity crunch. Examples include the Working Capital Solutions Crisis Response Facility in countries such as Cambodia, Nigeria, and Tanzania, which benefited from the pooled first-loss guarantee (PFLG) product offering provided by the IDA PSW BFF. The Base of the Pyramid (BOP) platform is another example of a crisis instrument that used the PSW facilities to provide finance to private companies, including MSMEs, in PSW-eligible countries. This platform was set up under the IFC COVID-19 Facility to reach MSMEs in more fragile markets, with three-year liquidity support delivered through IFC client banks and microfinance institutions. It aimed to "keep the private sector going" while the COVID-19 crisis severely disrupted markets. The platform has been extended twice, with the latest extension allowing up to five-year tenors and reducing the first-loss level from 40 percent to 30 percent. A snapshot of projects in the BOP platform's portfolio (as of June 2023) shows that the platform has been successful in helping IFC reach firms in PSW-eligible countries by deploying both the PSW BFF through PFLG (27 projects) and the PSW LCF (19 projects).

How the PSW Addresses Unfavorable Business Environments

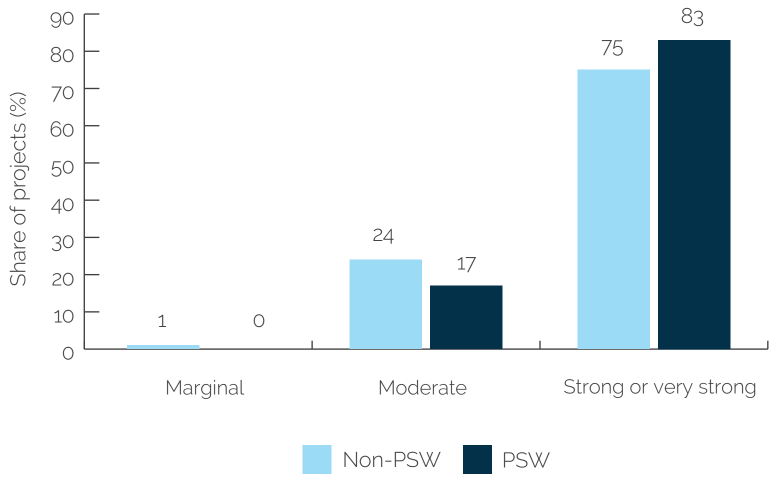
An unfavorable business environment is characterized by poor macroeconomic policies and a lack of—or inappropriate—legal and regulatory frameworks for the economy or specific industries. Examples of constraining factors in the business environment include macroeconomic instability, nationalization, expropriations, and weak regulatory frameworks for private investment, capital market development, and access to finance. These constraints affect all economic sectors and are widespread in IDA countries and FCS. Weak legal and regulatory frameworks that affect specific industries—such as market entry barriers in network or contestable sectors (for example, energy, telecom, and agriculture)—often compound their disruptive effects.

MIGA's PSW-supported guarantees aim to create enabling environments for private investment in poor and fragile countries by insuring private investors' investments against risks. Infrastructure sectors in PSW-eligible countries struggle to attract private investments because of political risks, such as nationalization, expropriation, and social unrest, resulting in a funding gap for critical services. All of MIGA's PSW projects—29 guarantees—aim to insure private investors against political risks. One example is MIGA's PSW-supported guarantee to the energy sector in Burkina Faso, where only 20 percent of the population has access to electricity (compared with the already low 48 percent for Sub-Saharan Africa). Burkina Faso also has a high end user electricity cost ($0.24 per kilowatt-hour in Burkina Faso compared with $0.11 per kilowatt-hour in Senegal, $0.12 per kilowatt-hour in Côte d'Ivoire, and an average of $0.14 per kilowatt-hour in Sub-Saharan Africa).[1] In addition, political unrest, including repeated coups, has deterred private investment in energy and other sectors. Amid these challenges, MIGA's guarantees support private investments in three solar power projects, enabling the country's first round of independent solar power producers. With PSW support, MIGA is insuring private investments in these projects against the risks of transfer restriction and inconvertibility, breach of contract, expropriation, and war and civil disturbance for a tenor of up to 20 years. Two of these projects have been under implementation for two years, aiming to bring clean and affordable power to the country. (The third project has been delayed because of construction cost overruns.) The solar power projects are expected to supply energy at a lower tariff than the current electricity production cost from thermal power plants. This expected cost reduction could make Burkina Faso's electricity sector more competitive by forcing producers of energy from other sources to either become more cost-efficient or exit the market. It is also expected to deliver important demonstration effects for the country and future prospective investors by exhibiting the viability of the independent power producer approach in the solar energy sector.

Scaling Up Engagement for Market Development in PSW-Eligible Markets

PSW projects have, ex ante, the potential to unlock markets. IFC evaluates the ex ante market impacts of its projects using the Anticipated Impact Measurement and Monitoring framework. This framework assigns projects a market potential rating that increases from "marginal" to "very strong" based on the degree to which projects deliver effects that have the potential to address important market gaps in undeveloped markets. A comparison of Anticipated Impact Measurement and Monitoring scores for a sample of PSW and non-PSW projects in the same sectors and countries shows that the share of projects with "strong" or "very strong" market potential is slightly higher in PSW projects (83 percent for PSW projects compared with 75 percent of non-PSW; figure 2.4). PSW projects often target underresourced markets and groups (for example, women or microfinance institutions) and enable investments in unexplored sectors. One example of a PSW project with a "very strong" market potential is a project in Tanzania that addresses market barriers discouraging financial institutions from serving women-led MSMEs. This project financed the first publicly placed gender bond issued by the largest bank in the country. It is expected to unlock the market for bond-financed lending for the underresourced women-owned small and medium enterprise (SME) segment through demonstration and replication effects.

Figure 2.4. Anticipated Impact Measurement and Monitoring Market Potential: PSW versus Non-PSW Projects

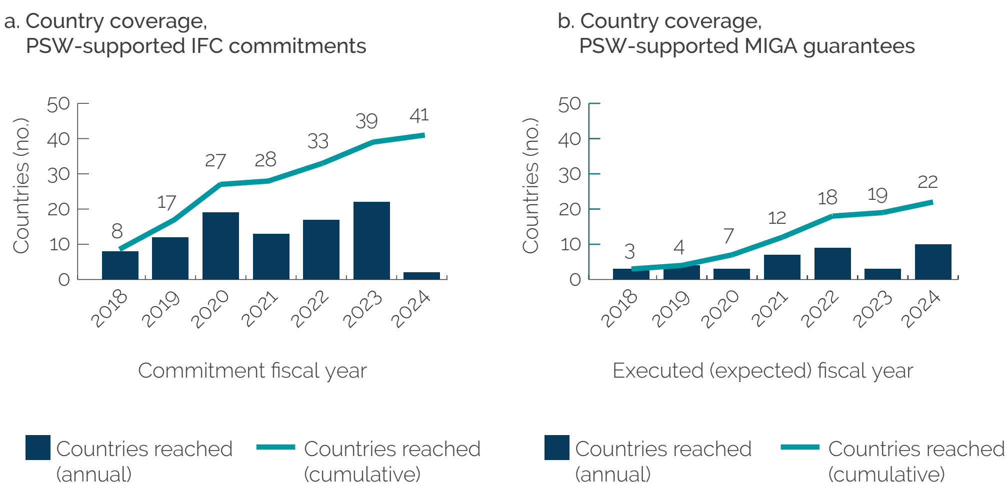


Source: Independent Evaluation Group.

Note: Analysis is based on a sample of 70 PSW projects and 107 non-PSW projects that were committed in the same sectors of the same countries. The difference in the Anticipated Impact Measurement and Monitoring market score of PSW-financed projects and non-PSW projects is statistically significant at a 5% threshold. (See table B.1.) PSW = Private Sector Window.

PSW has enabled IFC and MIGA to increase their investments in PSW-eligible markets, which are often underresourced by global and local capital markets. The PSW has steadily increased its country coverage, although many small economies remain uncovered. PSW support for IFC commitments has expanded steadily from 8 countries in 2018 to a cumulative total of 39 countries (figure 2.5, panel a) in 2023 (58 percent of the 67 PSW-eligible countries).[2] Moreover, PSW-supported projects have already been approved but not yet committed in two additional countries, Cabo Verde and Nicaragua. There are 26 PSW-eligible countries where IFC has not had any PSW projects approved (with 15 of them having had at least one non-PSW project in the last 12 years and 11 countries having no IFC project of any kind in that period). The majority of these are small economies where the domestic private sector may not be active at a scale to enable IFC engagement.[3] IFC Country Strategies for PSW-eligible countries (except Maldives) and Country Private Sector Diagnostics do not refer to the PSW as a tool to enable investments in these countries or to the constraints preventing its use. PSW support for MIGA guarantees that are already executed has also steadily increased from 3 countries in 2018 to a cumulative 19 in 2023 (figure 2.5, panel b), with guarantees already approved but awaiting execution in 3 additional countries. MIGA is active in about one-third of all PSW-eligible countries.

Figure 2.5. PSW Country Coverage

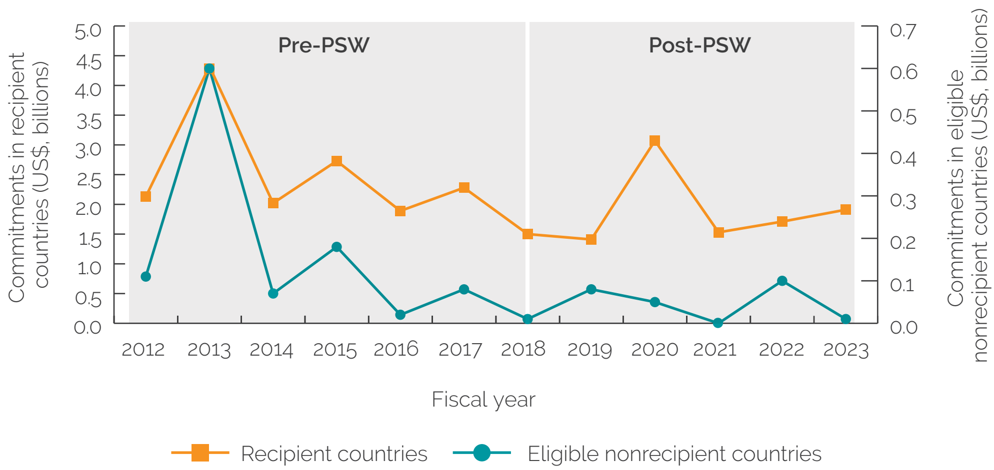


Source: Independent Evaluation Group.

Note: IFC = International Finance Corporation; MIGA = Multilateral Investment Guarantee Agency; PSW = Private Sector Window.

Amid multiple crises—such as the COVID-19, energy, food, and debt sustainability crises—since 2018, the PSW has allowed IFC to commit at a larger scale in eligible countries than it might otherwise have. IFC commitments were on a downward trend across PSW-eligible countries before the PSW launched in FY18. IFC's annual average commitments dropped by 28 percent between the six years before PSW (2012–2017) and the six years after PSW (2018–23) in countries that received PSW support. By contrast, they dropped by 77 percent between the same periods in countries that did not receive PSW support (figure 2.6).[4] The stark difference remains when excluding FY13 (an apparent outlier), with decreases of 16 percent in countries that received PSW support and 55 percent in countries that did not receive PSW support. IFC commitment volumes in countries with PSW projects increased especially sharply at the onset of the COVID-19 crisis in FY20. Most projects aimed at addressing the COVID-19 crisis by providing short-term financing to "keep the private sector going." As the effects of the COVID-19 crisis started to fade, a large share of PSW projects provided local currency financing, and the tenures of PSW interventions extended. This pattern is consistent with IEG's early-stage assessment (World Bank 2021), which found that PSW approvals increased substantially as part of the COVID-19 response.

Figure 2.6. IFC Commitments in PSW-Eligible Countries: Recipient Compared with Nonrecipient Countries

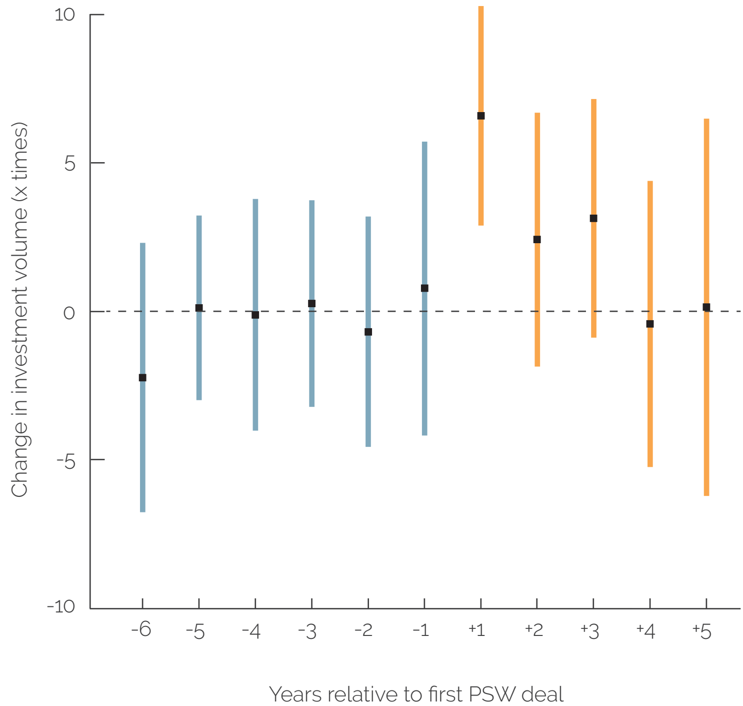


Source: Independent Evaluation Group.

Note: IFC = International Finance Corporation; MIGA = Multilateral Investment Guarantee Agency; PSW = Private Sector Window.

Statistical evidence confirms that the PSW has helped increase IFC engagements at the country level in PSW-eligible countries. Based on a staggered difference-in-difference analysis considering FY18 and FY23, IFC's commitment volume in countries that received PSW was, on average, three times greater than would have been expected without PSW.[5] In particular, IFC's commitment volume increased sharply in the first FY that IFC invested in a country with PSW support and remained elevated in the subsequent couple of years, albeit to a smaller degree (figure 2.7). This scale-up in IFC commitments appears to fade in the fourth and fifth years after the first PSW usage; this finding requires further investigation beyond the scope of this evaluation. One hypothesis that could be tested is that PSW support in the early years may have demonstrated the viability of such transactions, entailing that similar projects IFC undertook in later years may have received more private capital mobilization or contributions from other partners and lower IFC own-account commitments.

Figure 2.7. Effect of PSW on IFC (Own Account) Investment Volume: Staggered Difference-in-Difference Analysis



Source: Independent Evaluation Group.

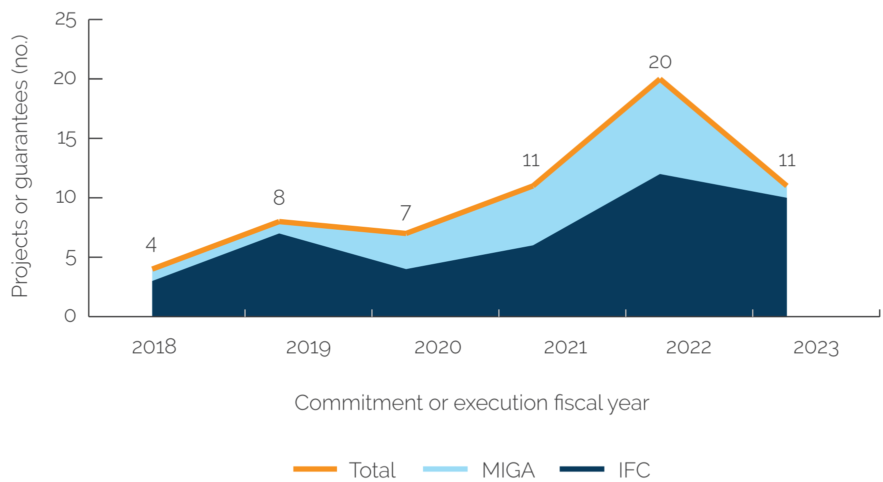
Note: Error bars show 95% confidence intervals. IFC = International Finance Corporation; PSW = Private Sector Window.

Entering Previously Unexplored Markets

PSW support has enabled IFC and MIGA to enter new sectors in PSW-eligible countries.[6] A growing number of PSW-supported projects were committed in sectors in which these institutions had not invested before PSW (figure 2.8). Overall, 17 percent of all PSW projects committed and 65 percent of MIGA guarantees executed between FY18 and FY23 were deployed in such new sectors. Examples of these projects include private equity investment in Ethiopian SMEs in FY19, thermal power generation projects in Afghanistan in FY20, infrastructure lending to a subnational government in Nigeria in FY22, investment in wholesale open-access fiber operation in Togo in FY22, and tourism infrastructure projects in Sudan in FY23. Examples of MIGA guarantees in new sectors are mobile money projects in Chad, the

Democratic Republic of Congo, Niger, Uganda, and Zambia in FY22; hydropower projects in Nepal and the Solomon Islands in FY20; an industrial real estate project in Myanmar in FY21; and solar power projects in Malawi (FY19) and Burkina Faso (FY22).

Figure 2.8. PSW Projects Committed and Guarantees Executed in Sectors That IFC and MIGA Did Not Invest In Before the PSW



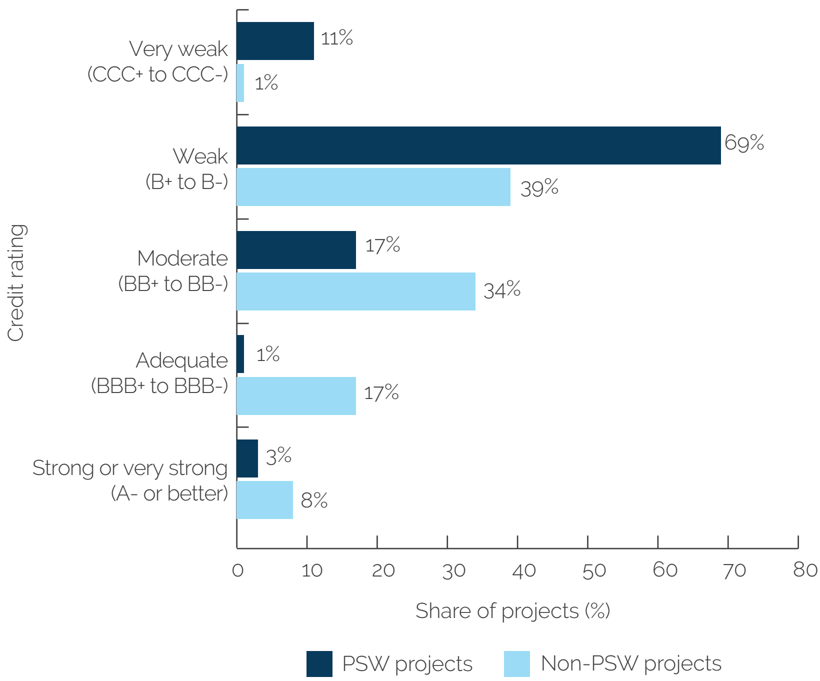
Source: Independent Evaluation Group.

Note: IFC = International Finance Corporation; MIGA = Multilateral Investment Guarantee Agency; PSW = Private Sector Window.

Financing Riskier Transactions and Mobilizing Third-Party Capital

IFC uses PSW funds to finance the riskiest clients and projects. IFC uses a credit-rating system to classify the creditworthiness and risk of its investments based on the attributes of the borrower, the business environment in which the borrower operates, or the investment itself. PSW projects range on this IFC's credit-rating scale from very strong to very weak. Based on counterfactual analysis (controlling for country and sector), PSW projects financed much riskier projects than non-PSW projects in PSW-eligible countries. A comparison of commitment volume by credit ratings for a sample of PSW projects with that of non-PSW projects committed in the same sectors of the same countries shows that the share of commitment volume in the riskiest credit-rating categories (weak and very weak) is twice as much for PSW projects as it is for non-PSW projects (figure 2.9).[7]

Figure 2.9. Credit Risk Rating: PSW compared with Non-PSW Projects



Sources: Independent Evaluation Group; International Finance Corporation.

Note: The ratings in parentheses reflect the equivalents of the International Finance Corporation credit-rating categories on the Standard & Poor's rating scale. PSW = Private Sector Window.

PSW mobilizes third-party capital in transactions that investors might otherwise have refrained from. Each US dollar of PSW funds committed since inception in FY18 has blended $2.7 of additional capital from IFC and MIGA's own account and mobilized an additional $2.0 from third-party public and private sources (table 2.2).[8] Data also show that each US dollar of the institution's own account committed mobilizes less third-party private capital in PSW-financed projects ($0.6) than in non-PSW projects ($1.4) in the same sector of the same countries (table 2.2). This reflects private investors' reluctance to invest in PSW-financed transactions, which are perceived to be highly risky. By mobilizing capital into projects perceived as unviable, PSW helps the market generate information about these transactions' potential viability.

Table 2.2. IFC and MIGA Investment and Third-Party Capital Mobilized by PSW Funds

Investment and Third-Party Capital	PSW Financed (US$)	Non-PSW (US$)
	IFC and MIGA investment and third-party capital	
IFC and MIGA O/A investment per US dollar of PSW committed	2.7	n.a.
Private cofinancing per US dollar of PSW committed	1.5	n.a.
Public cofinancing per US dollar of PSW committed	0.4	n.a.
Total	4.7	n.a.
	Third-party capital mobilized in PSW-financed compared with non-PSW projects (IFC only)[a]	
Private cofinancing per US dollar of IFC O/A	0.6	1.4
Public cofinancing per US dollar of IFC O/A	0.3	0.3
Total	0.9	1.8

Source: Independent Evaluation Group calculations based on data from the International Finance Corporation and the Multilateral Investment Guarantee Agency.

Note: The numbers in the "PSW Financed" column do not add to the total because of rounding errors. IFC = International Finance Corporation; MIGA = Multilateral Investment Guarantee Agency; n.a. = not applicable; O/A = own account; PSW = Private Sector Window.

a. The number of PSW-financed MIGA guarantees executed to date (29) is small, and many of these were executed in sectors and countries where MIGA lacks non-PSW guarantees. Hence, the evaluation team could not build a reliably big sample of PSW and non-PSW projects to use for comparison.

Alignment of PSW Projects with IDA Special Themes

IFC and MIGA PSW projects are (ex ante) broadly aligned with the IDA special themes. PSW projects are expected to have direct objectives that lead or contribute to the PSW's overall objectives or the IDA special themes: climate change; fragility, conflict, and violence; gender and development; governance and institutions; and jobs and economic transformation.[9] The PSW documents specifically emphasize one of these themes—jobs and economic transformation—with the expectation that PSW projects would contribute to it (World Bank 2017). All 35 (nonconfidential) PSW projects in the four country case studies that we analyzed (Burkina Faso, Cambodia, Nigeria, and Tanzania) addressed one or more IDA special themes in their ex ante approval documents (table 2.3).[10] Most IFC projects aim at addressing fragility and creating jobs and transforming economies, whereas MIGA projects aim mostly at addressing fragility and climate change. A PSW project in Tanzania exemplifies how PSW projects aim to address broad development objectives. IFC provided funds to a major Tanzanian financial institution to on-lend to MSMEs to support creating a conducive environment for economic recovery and growth from the pandemic. It aimed to stimulate economic activity by ensuring that these enterprises could continue their operations during the crisis. This, in turn, was expected to contribute to job retention, income generation, and overall economic stability. The project's market creation aspect aligns with the broader goal of positioning the private sector for postpandemic recovery and reducing the time it takes for vulnerable populations to regain income-earning opportunities.

Table 2.3. Contribution of PSW Projects in Country Cases to IDA Special Themes

IDA Special Theme	IFC PSW Projects (no.)	Share of IFC Projects (%)	MIGA Projects (no.)	Share of MIGA Projects (%)
Fragility, Conflict, and Violence	20	67	5	100
Jobs and Economic Transformation	18	60	0	0
Gender and Development	13	43	2	40
Climate Change	6	20	5	100
Governance and Institutions	0	0	0	0

Source: Independent Evaluation Group.

Note: Number of projects: IFC PSW = 30, MIGA = 5. IDA = International Development Association; IFC = International Finance Corporation; MIGA = Multilateral Investment Guarantee Agency; PSW = Private Sector Window.

The quality of indicators used to assess alignment with the IDA special themes varies. The climate change PSW projects included outcome indicators directly aligned with this theme (for example, reduction in carbon dioxide emissions resulting from the project). The evidence for supporting gender, jobs, and economic transformation was mostly indirect, through indicators such as improving access to finance for underresourced SMEs, improving access to capital for women-owned businesses, and increasing the number of loans provided to women-owned businesses. Five projects contained direct employment indicators (such as "number of women employed").[11]

[1] According to the project documentation for projects 14595, 14574, and 14583.

[2] Three countries eligible for the Private Sector Window (PSW; Eritrea, the Syrian Arab Republic, and Zimbabwe) are not included in this count of 67 PSW-eligible countries. According to the list of PSW-eligible countries, these countries are tagged as "inactive"—that is, they have no active International Development Association (IDA) financing because of protracted nonaccrual status.

[3] These 26 countries are the Central African Republic, the Comoros, the Republic of Congo, Djibouti, Dominica, Fiji, The Gambia, Grenada, Guinea-Bissau, Guyana, Honduras, Kiribati, Lesotho, Malawi, Maldives, the Marshall Islands, the Federated States of Micronesia, Papua New Guinea, São Tomé and Príncipe, Sierra Leone, the Solomon Islands, Somalia, Sudan, Tonga, Tuvalu, and Vanuatu. These 26 countries collectively account for 7 percent of the total GDP of all 67 PSW-eligible countries.

[4] Calculation excludes regional projects.

[5] Analysis controls for income levels, regional factors, and duration since first PSW-supported commitment.

[6] "New sectors" refers to sectors (at the secondary sectoral classification level) that the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) had never invested in within a specific PSW-eligible country before PSW.

[7] The difference is statistically significant at the 5 percent level.

[8] This estimate is based on the subset of the IFC and MIGA PSW portfolio for which we have data on capital mobilization, but it is broadly consistent with the estimates reported in the 20th Replenishment of IDA (IDA20) PSW Mid-Term Review.

[9] For the IDA20 cycle, Human Development was added, the Governance and Institutions theme was dropped, and the other four special themes remained the same. We did not analyze the Human Development theme, which was added only in IDA20, because only one year has passed in this cycle.

[10] For our review, we counted a project as addressing a specific special theme if it was mentioned in the project description or development impact section in Board approval documents or there was any indicator tracked that was related to the special theme.

[11] This contribution to jobs and economic transformation was demonstrated by the employment and economy effects and competitiveness (number of new entrants) indicators tracked as part of the Anticipated Impact Measurement and Monitoring indicators. A larger percentage of the projects (mostly the Financial Institutions Group) had indirect effects on supporting the jobs and economic transformation agenda by improving access to finance for under-resourced micro, small, and medium enterprise businesses or housing finance. The rationale was that improving finance to micro, small, and medium enterprises would in turn increase job creation because these businesses are “important sources of job creation.”

3 | Enabling Factors

International Development Association (IDA) Private Sector Window (PSW) concessionality enables PSW projects to materialize. Without it, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency could not execute high-risk transactions in PSW-eligible countries because their cost of risk would make their pricing uneconomical for local borrowers.

PSW projects meet the minimum concessionality principle, which mandates that IDA concessionality should not be greater than necessary to induce the intended investment and ensures that IFC and the Multilateral Investment Guarantee Agency do not distort markets.

The IDA capital allocated to the PSW is underleveraged. Currently, IDA sets aside capital for the maximum potential loss that could occur—an extremely conservative capital reserve.

Periodic reports on the profits and losses of IDA, IFC, and the Multilateral Investment Guarantee Agency for the PSW overall and for its facilities and instruments are currently not available.

Nearly three-quarters of PSW projects anticipate a combination of financial and nonfinancial additionalities. Financing structure, particularly long-term and local currency financing, is the most common form of anticipated financial additionality in PSW projects. Financing innovation is also high.

IFC PSW projects underuse nonfinancial additionalities, including standard setting, noncommercial risk mitigation, catalyzing policy or regulatory changes, and (to a lesser extent) knowledge and capacity building.

This chapter assesses whether concessionality has enabled PSW projects to occur and whether, along with financial and nonfinancial additionality, it has created the conditions for achieving market development and broader development outcomes. In chapter 2, we discussed that PSW projects are expected to address constraints on private sector investment and have increased the scope and scale of IFC's and MIGA's transactions, creating the conditions for market development. We also discussed that their objectives align with the IDA special themes and the SDGs. This chapter looks at the enabling factors of PSW projects: concessionality and financial and nonfinancial additionality. It explores whether concessionality has enabled PSW transactions to materialize and to what extent the PSW subsidies have followed the minimum concessionality principle (that is, the concessionality level should not be greater than necessary to induce the intended investment so as not to distort markets and crowd out the private sector). It then assesses whether the IDA PSW is adequately leveraged and whether decision-making by management and the Board on the IDA PSW is adequately supported by current financial reporting. Finally, it examines the types of financial and nonfinancial additionality features PSW projects include and whether these features may enable PSW transactions to have potential market development effects. We look at concessionality for both IFC and MIGA. We examine only financial and nonfinancial additionality for IFC because MIGA's tracking of these features at the project level (in MIGA's role and contribution) does not offer sufficient granularity to carry out this analysis.

Concessionality

Why Is Concessionality Needed?

IFC and MIGA could not execute high-risk transactions in PSW-eligible countries without IDA PSW because their cost of risk would make their pricing uneconomical for local borrowers. The level of concessionality provided by IDA PSW is estimated based on the difference between (i) a "reference price" (either a market price, if available, or the price calculated using IFC's pricing model) and (ii) the "concessional price" being charged by the blended concessional finance co-investment (IFC 2021). Concessionality is estimated at a specific point in time—the time of project approval. IFC's pricing is determined by its cost of funds, operations, risk, and capital. Similarly, MIGA's pricing is determined by its cost of claims, operations, risk, and capital. For both IFC and MIGA, the cost of risk and capital allocations are dramatically higher in IDA countries because of their high risk ratings. Our estimates indicate that the pricing of IFC and MIGA transactions without IDA PSW would be 5–30 percentage points higher (depending on the client and the country) than with IDA PSW. Although risk mitigation instruments, such as collateral, guarantees, or credit insurance, could contribute to reducing IFC's and MIGA's pricing, these mitigation instruments are rarely available in PSW-eligible countries. Moreover, they are too expensive to enable IFC or MIGA to meet market rates for the transactions they aim to support (for example, banks targeting SMEs or companies entering new sectors). (See appendix D for more details on concessionality.)

Interviews with clients and with IFC, MIGA, and IDA staff confirm that, without the IDA PSW concessionality, IFC and MIGA could not execute most transactions they currently pursue through PSW projects. Evidence from case studies reveals that, in 15 out of 17 PSW projects examined across Burkina Faso, Cambodia, Nigeria, and Tanzania, IFC would not have been able to price the transactions at a level affordable for clients or for the projects to be viable without PSW support, given the prevailing risks in these countries. For the other two projects (both under the Working Capital Solutions Facility as part of IFC's COVID-19 emergency response), the interviewees indicated that the transactions might have gone ahead without the PSW but would have been structured differently (for example, shorter terms, higher collateral, or guarantees required to proceed). One interview in Nigeria reported that IFC had identified a project in FY19, but the project was put on hold after the credit rating went down two notches because of political instability in the country. The deal was eventually committed, with PSW support, in FY21, after Nigeria became PSW eligible. An interview in Tanzania reported that the client rejected a deal that did not secure PSW funding. Clients mentioned that—even when IFC and MIGA provide PSW (concessional) transactions—their prices are often above those of local competitors. Interviews with clients, staff, and experts also indicated that operating without concessionality may still allow IFC and MIGA to provide financing to the higher-rated enterprises in PSW-eligible countries. Operating without concessionality would, however, allow them to work only with a limited number of the target groups they need to reach, such as microfinance companies and banks that serve SMEs and women, high-risk manufacturing firms, and firms entering untested sectors. They also indicated that concessions are essential to enable IFC to operate in local currencies in markets where foreign exchange market risks are difficult to hedge (for example, in Nigeria and Tanzania).

How Does Concessionality Work?

IDA sets aside some of its capital to provide risk-taking capacity to IFC and MIGA projects in PSW-eligible countries. The IDA capital set-aside, which the Board approves in each IDA PSW allocation, enables IFC's and MIGA's investment transactions in PSW-eligible countries by partially mitigating risks and potential losses of IFC, MIGA, and third-party private sector investors in these countries. The IDA set-asides for the PSW are completely backed by IDA capital. These amounts are ring-fenced so that if IDA lost the entire set-aside, its capital would decline, but it would not affect IDA's AAA credit rating. Partially moving risks from IFC and MIGA to IDA under these set-asides allows IFC and MIGA to lower their prices to market rates and frees up headroom for them to do more transactions in PSW-eligible countries. For IFC and MIGA to take these IDA risks on to their own balance sheets would require large capital allocations and could eventually affect their credit ratings. In effect, IDA has capital that can be productively used to support IFC and MIGA.[1]

The four PSW facilities use various instruments. As mentioned in chapter 1 (table 1.1), the BFF, for example, uses first-loss guarantees (FLGs) and PFLGs, among other instruments. With a 40 percent FLG, for example, the PSW would cover the first 40 percent of losses on a transaction before IFC or MIGA would face any losses. Similarly, on a PFLG, the PSW would cover a percentage of the first loss on an agreed portfolio. The LCF enables IFC to make local currency loans at market rates by transferring the foreign exchange risk to the PSW via cross-currency hedges executed between the IFC and IDA treasuries. IFC converts local currency loan repayments it receives back into US dollars at the spot rate in effect at the time, whereas IDA pays IFC the US dollar amount owed at the rate that was in effect when the loan was made. If the currency remains stable or increases in value, IDA makes money. If the currency declines in value, IDA loses money, but IFC is protected. The MIGA Guarantee Facility uses FLGs and risk participation to bring down the cost of noncommercial political risk insurance to private sector lenders and investors funding projects in IDA countries, mostly in infrastructure. FLGs and risk participation also bring down the loss potential on the overall MIGA insurance policy, allowing MIGA to buy reinsurance from major reinsurance companies, effectively crowding these companies into IDA markets (see appendix D).

IFC and MIGA pay IDA for risk mitigation at concessional rates reported to the Board. On FLGs and PFLGs, IFC and MIGA pay IDA a percentage of their spread equal to the loss coverage. For example, on the first two rounds of the BOP platform, IFC paid IDA 40 percent of its spread on the IDA PSW-supported loans in the BOP platform portfolio in exchange for a 40 percent pooled first-loss coverage offered by IDA. For the LCF, IFC generally pays IDA a below-market swap rate (which represents IFC's funding cost), agreed on each transaction, while retaining the credit spread component (as IFC retains the credit risk on LCF transactions). The concession size varies by instrument and country, depending on the difference between the commercial price and the IDA price required to enable IFC and MIGA to price their transactions at market.

Key Findings on Concessionality

IFC and MIGA follow the minimum concessionality principle. PSW projects meet the minimum concessionality principle (that is, they are not greater than necessary to induce the intended investment and do not distort the markets). Consistent with IEG's 2021 early-stage assessment of the PSW, we found that IFC and MIGA follow a rigorous governance process to ensure that each approved transaction meets the minimum concessionality principle requirement. We confirmed that prices do not distort markets based on our review of project and blended finance approval documents, pricing documents, and evidence from case studies. Financing terms are calculated and documented using IFC's and MIGA's pricing models or valuation models. The prices are disclosed in the investment review memos (with comparables), approved in the concept endorsement and investment review meetings, and reviewed by the Blended Finance Committee and an IDA representative.

All of these reviews are officially documented. Interviews with investment teams, credit officers, blended finance staff, IDA staff, and IFC and MIGA clients also confirmed that IDA PSW projects do not distort markets. (As mentioned earlier, in several cases, they pointed to the fact that IFC prices are higher than those of competitors.) Our review of the investment review memos, blended finance approval documents, IDA memorandum of precedent approvals, and Board papers confirmed that these documents consistently and clearly disclosed the market prices and compared IFC and MIGA pricing to market and that IFC and MIGA pricing did not distort markets. In calculating comparable market prices, all subsidized facilities from international financial institutions, state banks, or governments are excluded from the comparables.

In the absence of political risk insurance markets in many IDA countries, MIGA's price is the price the market will bear and the price required to get the insurance policy sold. MIGA negotiates with private sector investors and lenders to agree on a price for the agreed insurance coverage. In most cases, there is no market in PSW-eligible countries for the type of insurance offered by MIGA because no other actor is selling noncommercial political risk insurance. A feasible price in these countries is usually significantly lower than what MIGA's risk rating and pricing models would require. MIGA uses the PSW's first-loss and shared loss coverage to shift risks to the IDA PSW, enabling MIGA to price its coverage to sell. The IDA PSW first-loss level is set in a way that meets investors' insurance rate requirements within MIGA's risk models. In this way, the PSW concession aims to unlock private sector participation—both reinsurance companies and commercial financiers—at premiums commercial financiers can afford and risks reinsurance companies can reinsure.

Key Findings on Leveraging IDA's Capital to Increase Use of the PSW

IDA capital is underleveraged. Currently, IDA sets aside capital for the maximum potential loss that could occur—$1.2 billion notional outstanding amount for 2023 and $638 million notional outstanding amount for 2022 (World Bank 2022a, 2023). This means that all exposures are 100 percent covered by IDA capital, or in other words, that management expects that the whole IDA allocation to the IDA PSW could be lost and that none would be recovered through collateral or insolvency procedures. This highly conservative treatment might have been justified at the time when the IDA PSW was set up (as a pilot), given the lack of historical data on PSW transactions. However, after six years of operations, total payouts under guarantees have been only $1 million, or less than 1 percent of the total exposure. This lack of payouts indicates the potential to leverage PSW funds more, allowing IDA, IFC, and MIGA to extend more support to PSW-eligible countries.

Neither IDA nor IFC nor MIGA are modeling the risks of the PSW facilities based on historical data. Different facilities have very different risk and return profiles. For example, the LCF is exposed to high risks of local currency devaluations that can quickly and significantly affect the PSW loss rates when devaluations occur. These devaluation events are largely outside of IFC's and IDA's control. FLGs, conversely, take credit risk that is much less volatile and that can be effectively managed by working with clients—for example, IFC can use loan covenants to reduce exposure or restructure facilities in times of stress, reducing the amount of potential first loss through good portfolio management. For these reasons, the mix of IDA PSW products and the diversification (or concentration) of foreign exchange risks and credit risks can have a large impact on the financial performance of the PSW. This risk suggests that there may be better ways to manage the overall PSW facility allocations and distribution. Modeling the probability of default and the loss given default of the PSW portfolio, the effects of foreign exchange rate movements, and the results of PSW operations is necessary to understand the best way to manage IDA's capital allocations and facility mix and to assess whether and how the PSW could be further leveraged. Since IFC and MIGA routinely conduct modeling on their overall portfolios, they could conduct it to get a PSW view. Modeling of the PSW portfolio could be based on the track record default data of the past six years and other proxy sources of data for similar risk profile portfolios under different stress scenarios.

Modeling the PSW portfolio and effectively managing PSW capital require analyzing the unexpected loss potential of each PSW facility and the instruments used under each facility. Unexpected loss is a risk calculation that is used to determine how much capital a financial institution needs to reserve to cover potential unexpected losses and still maintain its rating. As mentioned above, the PSW currently maintains $1 of capital for every $1 of exposure, which means that the PSW carries no leverage. Data available on different facilities show very different levels of unexpected losses associated with each of them. These unexpected losses should be estimated and reflected in the models to assess how much the PSW could increase the leverage of some facilities with no impact on IDA's rating.

Key Findings on Management Financial Reporting on the PSW

Bank Group management and the Board have limited financial information on the PSW. Reporting on the PSW is fragmented and siloed across IFC investment units, the blended finance unit, IFC Treasury, MIGA, and IDA, with no single unit having a full view of the financial costs and benefits of the PSW for each of the three agencies and for the PSW overall. There is no picture of how risks and returns are moving from IFC and MIGA to the IDA PSW at the instrument level, at the facility (with the exception of the LCF) or agency level (that is, for IDA, IFC, and MIGA), or of what the overall financial impact of the PSW is on the Bank Group. It is difficult to know how to best use IDA PSW capital without understanding what the deployment of that capital is producing.[2] Board members currently receive limited financial information on the PSW. They see the concessionality cost estimates at the time of Board approval and highly aggregated financial statement for the PSW that are included in the IDA annual financial statements. Producing financial management reports on profits and losses for IFC, MIGA, and IDA is important for management and the Board members to understand how risks move from IFC and MIGA to IDA, to make decisions on reallocating capital from one facility (or instrument) to another, and as an input for risk modeling.

Financial and Nonfinancial Additionality of the PSW Portfolio

In this section, we analyze which types of financial and nonfinancial additionality are included in PSW projects and whether these features enable projects to create the conditions to develop markets. We define financial and nonfinancial additionality, derive evidence from prior IEG work on the impact of financial and nonfinancial additionality on development outcomes, and then discuss the specific types of financial and nonfinancial additionality of PSW projects, comparing them with similar non-PSW projects in IDA countries and with (non-PSW) projects in MICs. The analysis relies on IFC additionality claims (anticipated or ex ante additionality) in PSW projects' approval documents.

IFC defines additionality as the unique contribution that it brings to a private investment project that is typically not offered by commercial sources of finance (IFC 2018). Additionality is a threshold condition for a project's approval and, as such, is assessed at the project level. Financial additionality is the unique support that IFC brings to a client based on the features of the financial package offered, including the financing structure (such as longer tenors and provision of local currency financing), resource mobilization (from the private sector or other DFIs), or innovative financing (such as derivatives and green bonds). Nonfinancial additionality relates to the deployment of knowledge and standards—for example, capacity building to help financial institutions assess the credit risks of MSMEs or to help IFC clients improve their environmental and social or industrial standards. Table 3.1 defines the various types of financial and nonfinancial additionality. A single project can anticipate more than one form of additionality—for example, by IFC offering both long tenor and resource mobilization or capacity building together with local currency financing to financial institutions (World Bank 2022b).

Table 3.1. Types of Additionality

Type and Subtype	Description
Financial additionality	
1. Financing structure	Amount of financing provided, tenors and grace periods, and provision of local currency financing.
2. Innovative financing structure and instruments	Includes financing structures unavailable in the market that add value by lowering the cost of capital or better addressing risks (such as trade finance, derivative products, green bonds, or securitizations).
3. Resource mobilization	IFC's verifiable role in mobilizing commercial financing from an institutional or private financier that would be delayed, reduced, or unlikely in the absence of IFC involvement.

(continued)

Type and Subtype	Description
Financial additionality	
4. IFC's own-account equity	IFC provides equity unavailable in the market in a way that strengthens the financial soundness, creditworthiness, and governance of the client.
Nonfinancial additionality	
1. Noncommercial risk mitigation, including trusted partnerships	IFC provides comfort to clients and investors by mitigating noncommercial, nonenvironmental, and social risks, such as country, regulatory, project, or political risks, while adhering to IFC's principle of political neutrality.
2. Frameworks: catalyzing policy or regulatory change	IFC's involvement in a project catalyzes the investment response to changes in the policy or regulatory framework. The project is the first to test a new or untested policy, regulatory regime, or legal framework and public-private partnership model. IFC's involvement is also likely to mitigate further regulatory changes or other risks to the project.
3. Knowledge, innovation, and capacity building	IFC plays a verifiable, active, and direct role in providing expertise, innovation, knowledge, and capabilities that are material to the project's development impact because of the perceived weak institutional capacity of the borrower or investee.
4. Standard setting	IFC is a provider of expertise in environmental and social standards, corporate governance, insurance, and gender and is additional where the laws and market practice do not reinforce this behavior. Changes in practices have to be significant enough to matter from a development impact angle—they have to pass the "so what" test.

Source: International Finance Corporation 2019.

Note: IFC = International Finance Corporation.

Nearly three-quarters of the PSW portfolio reviewed for this evaluation have a combination of anticipated financial and nonfinancial additionality in their approval documents. This percentage is similar to that of the non-PSW portfolio in eligible countries (69 percent) but below that of the IFC portfolio in MICs, which anticipated both financial and nonfinancial additionality for 82 percent of investment projects evaluated in 2011–21 (table 3.2).

Table 3.2. Anticipated Financial and Nonfinancial Additionality in PSW, Non-PSW Projects in IDA Countries, and Middle-Income Country Projects

		Share of Projects (%)		
Project Type	Projects (no.)	Only financial	Only nonfinancial	Both
PSW	162	26	1	73
Non-PSW IDA	73	21	11	69
MICs	579	5	13	82

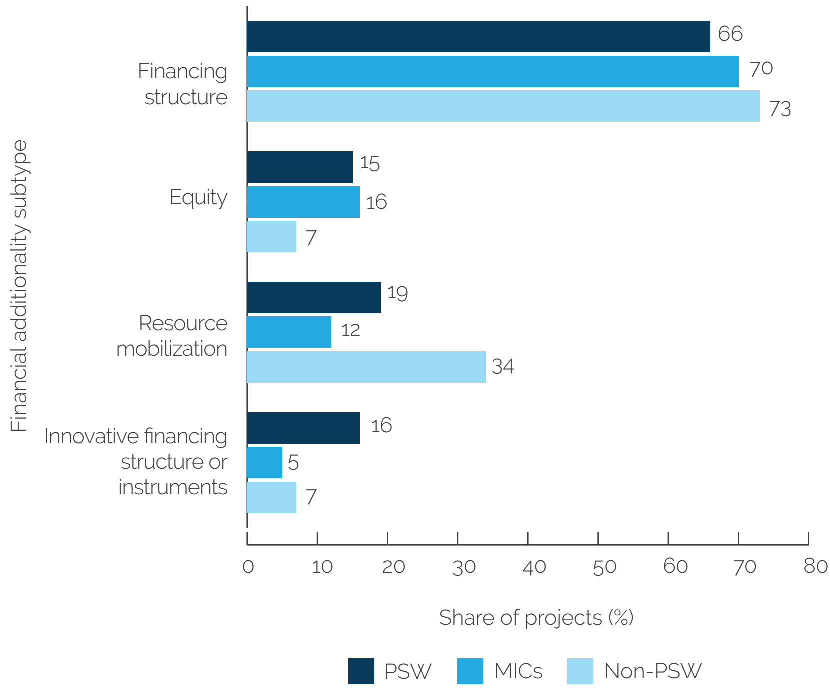
Sources: Independent Evaluation Group; World Bank 2022b.

Note: IDA = International Development Association; MIC = middle-income country; PSW = Private Sector Window.

Anticipated Financial Additionalities

Financing structure is the most common anticipated additionality of IFC projects in the PSW, non-PSW, and MIC portfolios. Sixty-six percent of PSW projects anticipated financing structure additionality compared with 70 percent of the MIC portfolio and 73 percent of non-PSW projects in PSW-eligible countries (figure 3.1). The types of financing structure additionality described in the approval documents of PSW projects align with the challenges to private sector investment that PSW funding intends to tackle (namely, lack of long-term funding and lack of local currency financing). Provision of long-term funding and local currency financing, driven by the use of the PSW LCF, is predominant.

Figure 3.1. Anticipated Financial Additionality Subtypes by Country Types



Sources: Independent Evaluation Group portfolio review; World Bank 2022b.

Note: Number of projects: MICs = 570, PSW = 168, and non-PSW in IDA = 71. IDA = International Development Association; MIC = middle-income country; PSW = Private Sector Window.

The PSW portfolio has a higher incidence of anticipated innovative financing structure additionality compared with the non-PSW and MIC portfolios. Innovative financing structure additionality is more common in the PSW portfolio (16 percent) than in the non-PSW portfolio in IDA countries (7 percent) and in MICs (5 percent). The difference is significant at the 95 percent confidence level. Innovative financing structure additionality refers to IFC using financing structures that it has not offered before in the country and that other financiers also do not offer. The "innovative financing" claim in the PSW portfolio is mostly based on the use of PSW PFLGs in IFC's projects of the Small Loan Guarantee Program. The presence of other innovative financial products under this type of additionality (for example, green bonds, gender bonds, and derivatives) is limited. A PSW project in Nigeria (ID 44985) with a local bank provides a good example of a typical innovative financing structure in PSW projects. The investment aimed to increase the local bank's lending to SMEs, particularly women-owned and climate-smart

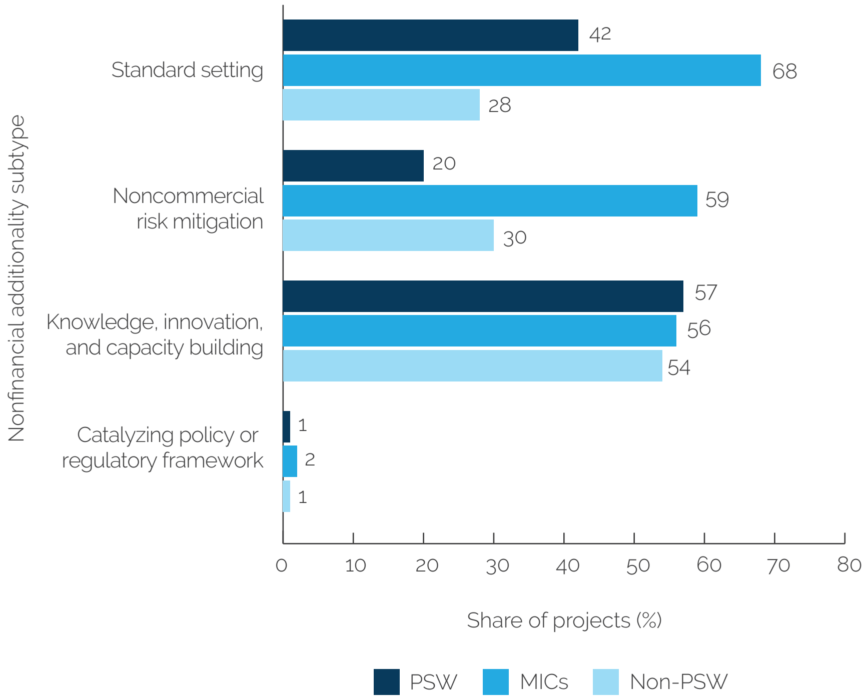
SMEs. The project was processed under the Small Loan Guarantee Program, which uses a pooled first-loss structure provided by the IDA PSW BFF. The project consists of an unfunded risk-sharing facility of up to $10 million equivalent in local currency, which guarantees 50 percent of an up to $20 million equivalent portfolio of eligible SME and women-owned SME facilities extended by the local bank. IFC considered this structure innovative in Nigeria because IFC's risk-sharing facility is flexible regarding the types of loans and facilities that can be included in the portfolio (such as working capital loans and longer-tenured loans). Hence, it can help meet the wide range of SME financing needs more effectively than other financing available in the local market.

Mobilization expectations in the PSW portfolios are lower than in non-PSW IDA projects but higher than in MICs. IFC claims resource mobilization additionality when IFC plays a direct and verifiable role in mobilizing financing from other public or private investors. Consistent with the (ex post) findings of chapter 2 and the risk profile of PSW transactions, anticipated resource mobilization additionality claims are less common in PSW than in non-PSW portfolios in IDA countries (19 percent compared with 34 percent, respectively). They are, however, still above those in MICs (12 percent).

Anticipated Nonfinancial Additionalities

When comparing the different types of anticipated nonfinancial additionalities across PSW, non-PSW, and MIC portfolios, some particularities stand out. The first is that there is almost no difference in knowledge and capacity building across the three portfolios (figure 3.2). The second is that there are low levels of standard-setting additionality in the (PSW and non-PSW) portfolios of PSW-eligible countries. The third is that the PSW portfolio has the lowest incidence of noncommercial risk mitigation among the three. Finally, there is a very low incidence of catalyzing regulatory reforms (which is in line with the rest of the IFC portfolio).

Figure 3.2. Anticipated Nonfinancial Additionality Subtypes by Country Types



Sources: Independent Evaluation Group portfolio review; World Bank 2022b.

Note: Number of projects: MICs = 570, PSW = 168, and non-PSW in IDA = 71. IDA = International Development Association; MIC = middle-income country; PSW = Private Sector Window.

The incidence of knowledge and capacity building is similar across the IFC portfolio, but the incidence of standard-setting features in PSW-eligible countries is low for both PSW and non-PSW projects. The incidence of knowledge, innovation, and capacity-building additionality in the PSW portfolio is 57 percent, which is in line with that in the non-PSW portfolio in eligible countries (54 percent) and with that of the MIC portfolio (56 percent). Standard-setting additionality is significantly lower in PSW-eligible countries (42 percent for the PSW portfolio and 28 percent for the non-PSW portfolio) than in MICs. Improving knowledge and capacity building and improving clients' capacity to adopt and implement environmental and social standards is particularly important in PSW-eligible countries to address the high risks they face.

Low claims of IFC playing a "comforting" role in PSW projects are at odds with the PSW's objective of pursuing market development. Noncommercial risk mitigation additionality is significantly lower in PSW projects than in projects in MICs (20 percent compared with 59 percent, respectively). It is also lower than in non-PSW projects in eligible countries (30 percent). This additionality signals IFC's expectations that its presence in the project will comfort clients and other investors to mitigate noncommercial risks, such as country, regulatory, or political risks, because of IFC's and the Bank Group's reputation in the market. The ultimate expected outcome of noncommercial risk mitigation is that IFC's presence would crowd in other investors who will contribute to or replicate the project on their own (or with other partners). The reasons for this low additionality are unclear and should be further investigated. They could range from IFC not expecting other investors to follow, given the high-risk profile of the markets and projects, to IFC underreporting this additionality in approval documents.

The IFC PSW portfolio also underuses catalyzing policy or regulatory change additionality. This additionality signals that IFC is the first investor to test a new or "untested" policy, regulatory, or legal framework, opening the door for others to follow. Yet, the presence of this additionality in PSW projects is negligible, as it is in the rest of the portfolio. This low incidence of catalyzing policy or regulatory change additionality could be either because the enabling environment is not ready for private sector investment, because IFC is not proactively monitoring relevant regulatory changes that open the door for investment, or because it is not seeking these types of interventions because it perceives them as too risky.

[1] IDA's balance sheet is predominately capital and long-term loans to IDA governments. Setting aside PSW capital can be used to cover guarantees to IFC or MIGA or pay Local Currency Facility payment obligations under contracts with IFC. Because IDA has very little debt, spending capital does not affect its credit ratings in the same way it would affect IFC or MIGA. As of June 2023, IFC has liabilities of $75.5 billion and capital of $35 billion for a leverage ratio of 2.1:1. MIGA has liabilities of $1.5 billion and capital of $1.7 billion for a leverage ratio of 0.92:1. Finally, IDA has liabilities of $41 billion and capital of $185.8 billion for a leverage ratio of 0.22:1. Thus, IFC is 10 times more leveraged than IDA, MIGA is 4 times more leveraged than IDA, and IDA has 5 times more capital than IFC and MIGA combined. This means that IDA's lower-leverage and much higher capital can enable the PSW set-asides to support IFC and MIGA to operate in IDA countries using IDA's capital so that IFC's and MIGA's ratings are not affected.

[2] The only data available at this time on results come from the draft IDA Mid-Term Review (DFCII 2023): "As of [June] 2023, only a few IFC projects have closed or matured and two IFC platforms, namely the Working Capital Solutions and the Global Trade Finance Program I, have reached expiration of their investment period, for a total Board-approved amount of $500 million. Reflows from these projects and platforms are expected to include the full return of capital and have generated over $10 million of income as of June 2023 (including interests and fees and net Local Currency Facility trades)."

4 | Conclusions and Recommendations

Conclusions

The usage of PSW funds has increased over the IDA cycles, and allocations to the PSW facilities have been adjusted based on usage. PSW funds were underused in IDA18 (with only 53 percent of the initial $2.5 billion allocation used) but almost entirely used in IDA19 (97 percent of the $1.68 billion allocation) and are on course for full use in IDA20 (36 percent used to date of the $2.5 billion allocation). The uptake of IDA funds has also accelerated in IDA19 and IDA20. Usage has been strongest for the BFF and weakest for RMF. In each IDA cycle, allocations to PSW facilities have been adjusted based on use in the previous cycles.

PSW projects address a variety of challenges to private sector investment and have enabled IFC and MIGA to increase their engagements and mobilize capital. The constraints on private sector investment addressed by PSW projects include lack of long-term finance and local currency financing; disruptions as a result of exogenous factors, such as the COVID-19 pandemic and the energy and food crises; and unfavorable business environments because of macroeconomic instability, political risks, and inadequate regulatory and legal frameworks. The PSW has enabled IFC and MIGA to increase their investments in countries and sectors in which they were already active and to enter new ones. Statistical evidence indicates that the scale-up would not have happened without PSW funds and that the PSW mitigated the effects of the COVID-19 crisis on IFC and MIGA's financing in eligible countries. PSW projects mobilized third-party private and public capital, helping the market generate information about the viability of transactions.

Concessionality enabled PSW projects to materialize, and the IDA PSW meets the minimum concessionality principle. Without the IDA PSW, IFC and MIGA could not execute high-risk projects in PSW-eligible countries because their cost of risk would make their pricing uneconomical for local borrowers. The IDA PSW does not provide more than the minimum concessionality necessary to induce the intended investment; thus, it meets the minimum concessionality principle and does not distort markets.

IDA capital is underleveraged. All PSW exposures are 100 percent covered by IDA capital—a $1.2 billion nominal outstanding amount for 2023. The implied assumption about risk is unlikely to materialize, considering that total payouts under IDA PSW guarantees have been only $1 million after six years of operations.

Nearly three-quarters of PSW projects anticipate a combination of financial and nonfinancial additionalities, but PSW projects underuse nonfinancial additionalities. This percentage is similar to that of the non-PSW portfolio in PSW-eligible countries (70 percent). Financing structure, particularly long-term and local currency financing, is the most common form of anticipated financial additionality in PSW projects. Financing innovation is also high. In the PSW portfolio, financing innovation refers, for example, to using flexible financing structures (such as risk-sharing facilities in local currency that provide short and long-term loans) to reach women-owned SMEs and climate-smart firms. We find that IFC PSW projects underuse nonfinancial additionalities, including standard setting, noncommercial risk mitigation, catalyzing policy or regulatory changes, and (to a lesser extent) knowledge and capacity building.

Recommendations

The evaluation provides the following two recommendations aimed at better leveraging the PSW and, in turn, improving IFC's and MIGA's contributions to creating the conditions for market development.

1. IDA, IFC, and MIGA would benefit from enhanced modeling of the risks taken by the PSW. The modeling could consider scenarios with various allocations of IDA capital to PSW facilities, instruments, and levels of concessionality. Analyzing the usage of PFLGs and assessing the impact of reducing first-loss coverage may, for example, suggest ways to better deploy IDA capital without increasing IDA losses in the future.

2. IDA, IFC, and MIGA should assess and report the financial results of the PSW to Bank Group management and the Board. IDA, IFC, and MIGA should develop annual financial management reports that show their profits and losses for PSW activities—per agency, per facility, and by instrument—so that the effects of risk transfers among the three agencies can be clearly tracked. This reporting can be tied into IFC's and MIGA's existing risk reporting systems that cover all projects.

Issues for Further Consideration

This evaluation uncovered several areas that IDA, IFC, and MIGA or IEG could consider in their future assessments. This IEG interim assessment is focused on specific aspects of the IDA PSW, and it was produced under a tight timeline to inform the December 2023 IDA midterm discussions. Although this evaluation broadened and deepened the analysis conducted in IEG's FY21 PSW early-stage assessment, it also uncovered several aspects that could be further explored in the future to exploit the full potential of the PSW to develop markets in PSW-eligible countries and to identify lessons that could be useful for blended finance interventions at large. Some of these topics include the following: (i) assessing the optimal size of the PSW, including the optimal allocation of IDA funds between public sector and PSW interventions and the optimal allocation to each PSW facility and to various instruments supported by the PSW; (ii) assessing the costs and benefits and the feasibility of extending the PSW concessions to IFC and MIGA final clients with a view to increasing capital mobilization; (iii) assessing whether the PSW has contributed to helping IFC and MIGA develop markets and achieve broad development outcomes, including an analysis of the outcomes of the various facilities and of different types of IFC and MIGA instruments (this can be done only after several PSW projects have been completed and validated) and an analysis of PSW use versus private capital mobilized over time; and (iv) assessing the use and market development effects of the PSW transactions in specific sectors, including the effectiveness of sector-level strategic approaches, and whether investment, advisory, policy support, and concessional financing have been coupled together effectively to build markets in these sectors.

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APPENDIXES

Independent Evaluation Group

A Focused Assessment of the International Development Association's Private Sector Window

Appendix A. List of Private Sector Window–Eligible Countries

Table A.1 lists International Development Association Private Sector Window–eligible countries and subnational regions as of July 2022.

Table A.1. PSW-Eligible Countries

Country Name	Region	Lending Eligibility	World Bank FCS List Classification	Notes
Afghanistan	SAR	IDA only	Conflict	
Bangladesh	SAR	Gap		Temporary eligibility[a]
Benin	AFR	IDA only		
Burkina Faso	AFR	IDA only	Conflict	
Burundi	AFR	IDA only	Institutional and social fragility	
Cabo Verde	AFR	Blend/ small state		Temporary eligibility[a]
Cambodia	EAP	Gap		Transition[b]
Cameroon	AFR	Blend	Conflict	
Central African Republic	AFR	IDA only	Conflict	
Chad	AFR	IDA only	Institutional and social fragility	
Comoros	AFR	IDA only	Institutional and social fragility; small state	
Congo, Dem. Rep.	AFR	IDA only	Conflict	
Congo, Rep.	AFR	Blend	Institutional and social fragility	
Côte d'Ivoire	AFR	Gap		Temporary eligibility[a]
Djibouti	MENA	Gap		Temporary eligibility[a]

(continued)

Country Name	Region	Lending Eligibility	World Bank FCS List Classification	Notes
Dominica	LAC	Blend/ small state		Temporary eligibility[a]
Eritrea	AFR	IDA only	Institutional and social fragility	Inactive[d]
Ethiopia	AFR	IDA only	Conflict	
Fiji	EAP	Blend/ small state		Temporary eligibility[a]
Gambia, The	AFR	IDA only		
Ghana	AFR	Gap		Temporary eligibility[a]
Grenada	LAC	Blend/ small state		Temporary eligibility[a]
Guinea	AFR	IDA only		
Guinea-Bissau	AFR	IDA only	Institutional and social fragility	
Guyana	LAC	Gap		Temporary eligibility[a]
Haiti	LAC	IDA only	Institutional and social fragility	
Honduras	LAC	Gap		Temporary eligibility[a]
Kenya	AFR	Blend		Subnational regions: Garissa, Isiolo, Lamu, Mandera, Marsabit, Samburu, Tana River, Turkana, Wajir, and West Pokot
Kiribati	EAP	IDA only		Non-MIGA member
Kosovo	ECA	Gap	Institutional and social fragility	
Kyrgyz Republic	ECA	IDA only		
Lao PDR	EAP	Blend		Transition[c]
Lesotho	AFR	Gap		Temporary eligibility[a]
Liberia	AFR	IDA only		
Madagascar	AFR	IDA only		
Mauritania	AFR	Gap		Transition[b]

(continued)

Country Name	Region	Lending Eligibility	World Bank FCS List Classification	Notes
Malawi	AFR	IDA only		
Maldives	SAR	Small island		
Mali	AFR	IDA only	Conflict	
Marshall Islands	EAP	IDA only	Institutional and social fragility; small state	Non-MIGA member
Micronesia, Fed. Sts.	EAP	IDA only	Institutional and social fragility; small state	
Mozambique	AFR	IDA only	Conflict	
Myanmar	EAP	Gap	Conflict	
Nepal	SAR	IDA only		
Nicaragua	LAC	Gap		Temporary eligibility[a]
Niger	AFR	IDA only	Conflict	
Nigeria	AFR	Blend	Conflict	
Pakistan	SAR	Blend		Subnational regions: Balochistan, Federally Administered Tribal Areas, and Khyber Pakhtunkhwa
Papua New Guinea	EAP	Blend	Institutional and social fragility	
Rwanda	AFR	IDA only		
Samoa	EAP	IDA only		
São Tomé and Príncipe	AFR	IDA only		
Senegal	AFR	Gap		Transition[b]
Sierra Leone	AFR	IDA only		
Solomon Islands	EAP	IDA only	Institutional and social fragility; small state	
Somalia	AFR	IDA only	Conflict	
South Sudan	AFR	IDA only	Conflict	

(continued)

Country Name	Region	Lending Eligibility	World Bank FCS List Classification	Notes
Sudan	AFR	IDA only	Institutional and social fragility	
Syrian Arab Republic	MENA	IDA only	Conflict	Inactive[d]
Tajikistan	ECA	IDA only		
Tanzania	AFR	IDA only		
Timor-Leste	EAP	Blend	Institutional and social fragility; small state	
Togo	AFR	IDA only		
Tonga	EAP	IDA only		Non-MIGA member
Tuvalu	EAP	IDA only	Institutional and social fragility; small state	Non-MIGA member
Uganda	AFR	IDA only		
Vanuatu	EAP	IDA only		
Yemen, Rep.	MENA	IDA only	Conflict	
Zambia	AFR	Gap		Temporary eligibility[a]
Zimbabwe	AFR	Blend	Institutional and social fragility	Inactive[d]

Source: International Development Association.

Note: Four additional countries (Bhutan, St. Lucia, St. Vincent and the Grenadines, and Uzbekistan) were Private Sector Window–eligible in fiscal year 2021 and fiscal year 2022 but not in fiscal year 2023. AFR = Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; FCS = fragile and conflict-affected situations; IDA = International Development Association; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; MIGA = Multilateral Investment Guarantee Agency; PDR = People's Democratic Republic; PSW = Private Sector Window; SAR = South Asia.

a. Temporary eligibility until the end of 2023.
b. Private Sector Window–eligible until the end of the 20th Replenishment of IDA because of transition from IDA-only to Gap status.
c. Private Sector Window–eligible until the end of the 20th Replenishment of IDA because of change in FCS status.
d. No active IDA financing because of protracted nonaccrual status.

Appendix B. Evaluation Methodology

This appendix complements the information in the report on the evaluation methods used. As chapter 1 indicates, we used a mixed methods approach, including quantitative and qualitative evidence to answer two evaluation questions. Figure 1.1 includes a mapping of the methods used to answer questions and subquestions. Description of each method used is provided as follows.

Portfolio review, coding, and analysis. The Private Sector Window (PSW) portfolio identification included all projects financed through any of the four PSW facilities in the 18th Replenishment of International Development Association (IDA18; fiscal year [FY]18–20), IDA20 (FY21–22), and early IDA20 (FY23). The team then used a template developed for this evaluation that coded information, such as PSW facilities, sectors, countries, financial and nonfinancial additionalities that the projects aimed to address, and the level of concessionality. The portfolio analysis was used to answer the question, "How have the allocation and usage of the PSW funds across the four facilities changed over the three IDA cycles?" As such, its findings are presented in detail in the Usage section in chapter 2. The portfolio review was also a crucial input into the country case studies and econometric work and provided background for the review of pricing documents and interviews for our review of concessionality.

Econometric analysis. The team used econometric analysis to answer questions relating to the effect of PSW usage on the scale and scope of investments by the International Finance Corporation (IFC) in PSW-eligible economies. Specifically, the econometric analysis tackled the following questions: "Has PSW enabled IFC to increase the volume of its investments in PSW-eligible countries?" and "Has PSW enabled IFC to increase the scope of its investments in PSW-eligible countries?"

To answer the first question, the team theorized a priori that the level of IFC's investment in a given country is a function of three main factors: the country's income level, its region, and the status of PSW usage in that country. A country's income level reflects the size of its economy, which in turn is a determinant of its ability to support "bankable" deals (smaller economies are likely to support fewer and smaller bankable deals and vice versa). A country's region is also expected to influence the level of IFC investment because some regions may get more attention than others in the institution's strategic priorities.

Based on this theoretical expectation, the evaluation team modeled IFC investment volume (in a log-transformed form) as a function of PSW usage, controlling for income levels and regions. This modeling used a staggered difference-in-difference technique, the choice of which was informed by the following factors:

1. As of the end of FY23, IFC has used PSW to invest in some PSW-eligible countries (one may think of this as the "treatment" group), whereas it has not used it in other PSW-eligible countries (the "comparison" group).

2. There is variation in treatment timing. That is, countries were first "exposed" to PSW support at different times.

3. There are yearly "pretreatment" and "posttreatment" data for all countries from FY57 to FY23 (although the analysis used data only for the six-year period before and after PSW launch; that is, FY12 to FY23).

4. IFC's investment volumes in both "treatment" and "comparison" groups followed a relatively parallel pattern before PSW rollout in FY18 (see figure 2.6), suggesting that "parallel trends" hold. In other words, it is reasonable to assume that IFC commitment volumes in the treatment and comparison groups were following similar trends before the PSW and would have continued to do the same afterward had PSW not been introduced.

In staggered treatment settings (such as that described in this appendix), a two-way fixed effects estimation is usually the standard estimation model of choice. However, recent advances in the econometrics literature have shown that the two-way fixed effects model can produce biased estimates if treatment effects are heterogeneous across cross-sectional and temporal units (Goodman-Bacon 2021). In the present setting, this means that if the effect of PSW on IFC investment volumes is different across countries and across time (and it is reasonable to expect that this is the case), the two-way fixed effects model may give biased estimates. When such a heterogeneous treatment effect exists, an alternative approach in the literature is the estimation method proposed by Callaway and Sant'Anna (2021), which is the method we implemented.

Our implementation of the Callaway and Sant'Anna estimation compares IFC's investment volume in countries where IFC has used PSW in a given year to IFC's investment volume in countries where it had not yet used PSW as of that year but later did, while controlling for income levels and region. The estimation technique repeats this comparison for every year since PSW inception, then aggregates the individual effects obtained in each year into a composite estimate of the average treatment effect on the treated. Given that the outcome variable is a log-transformed version of the investment volume—precisely ln(y+1), where y is the US dollar amount of IFC investment—this composite average treatment effect on the treated is approximately the average increase in IFC investment volume in countries where IFC used PSW compared with what it would have committed had IFC not used PSW support. Table B.1 presents the regression results.

Table B.1. Effect of PSW on IFC Own-Account Investment Volume: Staggered Difference-in-Difference Analysis

	Coefficient	Standard Error	95% Confidence Interval	
Composite ATT on the treated				
ATT	3.19**	1.5	0.26	6.13
ATT by periods before and after treatment				
$t-6$	−2.22	2.30	−6.72	2.29
$t-5$	0.12	1.57	−2.96	3.21
$t-4$	−0.11	1.97	−3.98	3.76
$t-3$	0.27	1.76	−3.18	3.72
$t-2$	−0.68	1.96	−4.52	3.17
$t-1$	0.78	2.51	−4.15	5.70
$t+1$	6.58***	1.89	2.87	10.28

(continued)

	Coefficient	Standard Error	95% Confidence Interval	
t+2	2.42	2.17	−1.83	6.66
t+3	3.13	2.04	−0.86	7.13
t+4	−0.41	2.44	−5.20	4.37
t+5	0.15	3.23	−6.18	6.47

Source: Independent Evaluation Group.

Note: Chi-squared (27) = 70.64. ATT = average treatment effect on the treated; IFC = International Finance Corporation; PSW = Private Sector Window; *t* = hypothetical reference period that represents the time just before the first Private Sector Window–financed project was committed in the Private Sector Window–eligible countries.
$^{**}p < .05$ $^{***}p < .01$.

To answer the second question (has PSW enabled IFC to increase the scope of its investments in PSW-eligible countries?), the evaluation compared PSW and non-PSW portfolios along several measures, such as client risk rating, ex ante Anticipated Impact Measurement and Monitoring scores, and private capital mobilization. For this exercise, we used a matching technique and, where applicable, regression. The rationale for matching is that the PSW and non-PSW portfolios, if unmatched, differ along several characteristics that may confound the aforementioned comparison. For example, PSW and non-PSW projects may differ systematically in terms of their countries and sectors (and other possible factors), and these differences may account for any variation in the outcome measures of interest observed between PSW and non-PSW portfolios.

To mitigate this possible confounding, we used matching to obtain subsets of PSW and non-PSW portfolios that are "balanced" in terms of their distributions of two main anticipated confounding variables: country and sector. The matching was performed using the Coarsened Exact Matching module in Stata. Before matching, the unbalanced sample consisted of 138 PSW projects and 1,645 non-PSW projects and had a multivariate *L*1 statistic of 0.45.[1] After matching, the matched sample contained 97 PSW projects and 231 non-PSW projects, and the multivariate *L*1 statistic was 1.065×10^{-15}.

Using the matched sample, we then used ordinary least squares regression (where the outcome of interest is numeric) to estimate the magnitude and statistical significance of the differences in the outcome measures between

PSW and non-PSW projects, adding additional controls, such as fiscal year of commitment. Given the one-to-many nature of the matching procedure, we included weights in the regression to equalize the number of PSW and non-PSW observations in the regression sample. Table B.2 shows the regression estimates of the effect of PSW on the Anticipated Impact Measurement and Monitoring scores. Table B.3 summarizes the results of counterfactual analysis of the credit ratings of PSW and non-PSW projects.

Table B.2. Effects of the PSW on Anticipated Impact Measurement and Monitoring Scores

	Ex Ante AIMM Score (1)	Ex Ante Project Score (2)	Ex Ante Market Score (3)
PSW-supported projects	0.698 (1.928)	−2.535* (1.518)	3.233** (1.549)
Country fixed effects	Yes	Yes	Yes
Sector fixed effects	Yes	Yes	Yes
Fiscal year fixed effects	Yes	Yes	Yes
Observations (weighted)	140	140	140
Observations (unweighted)	177	177	177
R-squared	0.332	0.407	0.266

Source: Independent Evaluation Group.

Note: Standard errors are given in parentheses. AIMM = Anticipated Impact Measurement and Monitoring; PSW = Private Sector Window.
* $p < .1$ ** $p < .05$.

Table B.3. Total IFC Own-Account Commitments by Credit Rating for a Sample of PSW and Matching Non-PSW Projects

Credit Rating	Non-PSW Projects (US$, millions) ($n$ = 231)	PSW Projects (US$, millions) ($n$ = 97)
Strong or very strong (A– or better)	804	47
Adequate (BBB+ to BBB–)	1,666.3	17.8
Moderate (BB+ to BB–)	3,242.6	301.2
Weak (B+ to B–)	3,785.1	1,244.5
Very weak (CCC+ to CCC–)	121	196.6
Total	9,619.2	1,807.2

Source: Independent Evaluation Group.

Note: PSW and non-PSW samples have been matched on country and sector, with a postmatching multivariate L_1 statistic of 1.065×10^{-15}. IFC = International Finance Corporation; PSW = Private Sector Window.

The econometric analysis provided the evidence for the scope and scale section of chapter 2 and provided quantitative analysis for the section on financial and nonfinancial additionality of chapter 3.

Two limitations of the econometric analysis are worth noting. First, the staggered difference-in-difference analysis requires that parallel trends hold across treated cohorts (groups of countries that received their first PSW-supported investment in the same years), conditional on income level and region. Although the trends in figure 2.6 do suggest that parallel trends hold in the sample of treated versus comparison countries, the evaluation team is unable to verify, statistically or visually, the validity of this assumption across treated cohorts. Second, the matching technique helps the team compare PSW and non-PSW projects that are reliably similar. However, the cost of this matching exercise is that unmatched PSW projects are excluded from the analysis. Unmatched PSW projects may have systematically different distributions of credit risk, Anticipated Impact Measurement and Monitoring scores, and private capital mobilization than matched PSW projects. Hence, the estimates obtained from the matched PSW samples may not represent the values in the full PSW portfolio sample. Unfortunately, the evaluation team had access to the credit risk, Anticipated Impact Measurement and Monitoring score, and private capital mobilization data for the matched PSW sample only and is thus unable to determine whether this bias exists.

Country case studies. We conducted four virtual case studies (Burkina Faso, Cambodia, Nigeria, and Tanzania) to gauge the relevance of PSW interventions for addressing challenges to private sector investment and for market development and creation. The countries were selected based on the number of PSW projects in a given country, early versus later projects (projects in different IDA cycles), fragile and conflict-affected situations (FCS) versus non-FCS countries (two of the selected countries are FCS, and two are IDA non-FCS), and presence of comparator projects. The case studies are based on an extensive review of project documents that went beyond the coding conducted in the portfolio review (for example, extracting information on market failures) and on interviews with IFC and Multilateral Investment Guarantee Agency (MIGA) teams involved in the PSW projects, as well as a more limited number of PSW clients. The team conducted over 30 interviews, the majority of them with IFC investment officers and MIGA underwriters, as well as with six PSW clients. Although the case studies are not generalizable, they provide ample evidence of the role of the PSW in sustaining and promoting markets in these countries. They provide information for the sections on addressing challenges to private sector investment and marked development in chapter 2 and for the concessionality and the financial and nonfinancial additionality sections of chapter 3.

Literature review. As part of the assessment, we synthesized external and internal (World Bank Group) documents, including extracting lessons from other blended finance documents, as well as the Independent Evaluation Group report *The International Finance Corporation's Blended Finance Operations: Findings from a Cluster of Project Performance Assessment Reports* (World Bank 2020).[2] The external documents include strategies and evaluations of other multilateral banks and development financial institutions using blended finance. The literature review contextualized the evaluation and provided background information to answer the evaluation questions.

Review of project pricing and interviews with IDA, IFC, and MIGA staff on concessionality. The IFC-IDA PSW approval process entails calculating explicit risk coverage in terms of loss guarantees and applying this to the client transaction pricing. We assessed how IFC and IDA, individually and jointly, calculate risks and risk offsets, both on an individual project basis and on a pooled risk basis. To do this, we looked at IFC's loss given default calculations and the risk offset provided by IDA guarantees. We reviewed IFC's guidelines and standardized "calculator" for conducting these calculations and MIGA's process for estimating the concessionality of MIGA Guarantee Facility projects. We also interviewed IFC and MIGA staff involved in managing the guidelines and calculator (such as blended finance unit staff at IFC) and staff working at the World Bank Treasury to gauge the effect of the PSW concessions on the portfolios of the three institutions. These reviews of pricing and interviews with blended finance and treasury staff, along with the portfolio review and analysis, are the main methods that we used to establish the findings on concessionality in chapter 3.

The evaluation has several limitations. As only 20 (out of 220) PSW projects have closed, and none have been independently evaluated or validated by the Independent Evaluation Group, the evaluation is based on a mix of ex ante and (when available) ex post evidence. Ex post evidence is partial because it is based on case studies, portfolio supervision documents, and interviews. Our analysis of development outcomes is limited to intermediate outcomes. We have been able to assess, for example, the impact of the PSW on IFC's and MIGA's ability to enter new markets and sectors, expand their presence in existing markets, and mobilize third-party capital. We were, however, unable to assess the development outcomes and impacts of the PSW projects, which limits the scope of the analysis. Country case studies, which were selected based on several criteria, such as the high number of PSW projects (35 PSW projects in total in the four case study countries were reviewed) and presence of counterfactual projects (appendix B provides further details), offer some insights into the early impacts of PSW projects. We triangulated the country case studies with other evidence so we could generalize some of the findings to the entire portfolio. Our findings on scope and scale and on mobilization of third-party capital (chapter 2) are based primarily on ex post data, whereas the findings on the expected alignment with IDA special themes (chapter 2) are based on ex ante data. The concessionality analysis in chapter 3 is based on ex post data, whereas the findings on financial and nonfinancial additionality are based mostly on ex ante data.

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[1] The multivariate L_1 statistic measures the multidimensional distance between two samples, and it can assume a value ranging between 0 (meaning the two samples are perfectly balanced) and 1 (meaning the two samples are perfectly imbalanced). For illustration, consider a Private Sector Window (PSW) sample and a non-PSW sample, each containing two projects. Assume that the PSW sample consists of a solar power project in Nigeria and a microfinance project in Kenya, whereas the non-PSW sample consists of a microfinance project in Nigeria and a solar power project in Kenya. The individual proportions of solar power projects, of microfinance projects, of Nigerian projects, and of Kenyan projects is the same in each sample (that is, 0.5). Hence, univariate L_1 statistics for sector and country would both be equal to 0, and the two samples are said to be perfectly balanced on sector and perfectly balanced on country. But if we take multidimensionality into account (that is, if we consider country and sector together), there is no project in the PSW sample that has the same combination of countries and sectors as any project in the non-PSW sample. Hence, the multivariate L_1 statistic equals 1, and the PSW and non-PSW samples are said to be perfectly imbalanced on country and sector.

[2] The blended finance report noted that the "business case for the development project should be strong and based on robust market assessment" (World Bank 2020, 12). This resonates with the findings of this report that financial and nonfinancial additionalities and addressing challenges to private sector investment in project design are important aspects of the potential for market development.

Appendix C. Findings of the Independent Evaluation Group's 2021 Early-Stage Assessment

The World Bank Group's Experience with the IDA Private Sector Window: An Early-Stage Assessment (World Bank 2021; early assessment from now on) was published in July 2021. The early assessment focuses on the implementation of the Private Sector Window (PSW) in the 18th Replenishment of the International Development Association (IDA18), covering fiscal years 2018–20, and addresses four interrelated issues: usage, additionality, concessionality, and governance. Under IDA18, which spanned fiscal years 2018–20, $1.32 billion in PSW funds were approved for investment, equal to 53 percent of the IDA PSW funds allocated ($2.5 billion).[1]

Most approvals coincided with the World Bank Group's COVID-19 crisis response. The early assessment found that, especially during the COVID-19 response, existing programs (such as the Global Trade Finance Program and Working Capital Solutions) allowed rapid deployment of short-term finance for existing clients in PSW-eligible countries and facilitated use of the PSW. In fact, even with the increased use during the IDA19 and IDA20 cycles, the fourth quarter of 2020 still remains the quarter with the single largest amount of PSW approvals ($625 million). Nonetheless, the PSW remained underused under IDA18. The early assessment found that some limiting factors that constrained the usage below the targets during the IDA18 period were challenges related to the pipeline of infrastructure projects in markets that were seeing a decrease in foreign direct investments, similar Bank Group instruments (the Risk Mitigation Facility shares some similarities with IDA's partial risk guarantees), the pilot nature of the PSW at the time, and its limits to address nonfinancial risks restricting the supply of bankable projects in high-risk markets.

Achieving scope and scale additionality (referred to in this evaluation simply as scope and scale to avoid confusion with the financial and nonfinancial additionality offered by the International Finance Corporation [IFC] projects, which is also discussed in this report) allows IFC and the Multilateral Investment Guarantee Agency to demonstrate that they have addressed challenges to private sector investment in PSW-eligible countries and have supported market development and market creation. Scale refers to increasing investment levels in countries in which IFC and the Multilateral Investment Guarantee Agency were already operating, and scope refers to increasing the range of investments in terms of countries and sectors. The early assessment looked at these two dimensions and found that the scale (IFC investment and Multilateral Investment Guarantee Agency guarantee volumes in PSW-eligible countries) had not increased significantly after the introduction of the PSW, but the PSW had allowed the two institutions to enter new markets and sectors (positive effect on scope).

The early assessment focused on assessing the Bank Group process to define and approve concessions—that is, which units were involved at which stage. It found that the process was rigorous and consistent with the minimum concessionality principle. The early assessment did not, however, evaluate whether the subsidies had adequately addressed challenges to private sector investment and whether they distorted markets in client countries.

The early assessment review of the PSW governance structure, which includes a PSW Oversight Committee and a PSW Secretariat, and of the approval process of PSW projects was positive overall. It found that the decision-making process had not significantly limited the usage of the PSW under IDA18 and had resulted in only a moderate increase in administrative costs ($11.2 million, representing 0.6 percent of total IDA18 PSW volume). However, the report suggested further monitoring of processing time and costs.

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[1] These numbers have been slightly adjusted based on updated data compared with the Independent Evaluation Group's 2021 assessment, which reported $1.37 billion in Private Sector Window approvals under the 18th Replenishment of the International Development Association, accounting for 55 percent of the allocations.

Appendix D. Concessionality: Calculations and Methodological Issues

This appendix complements the concessionality section of chapter 3 by providing more information on how the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Development Association (IDA) calculate concessionality and on the related methodological issues.

The Impact of Higher Sovereign and Corporate Risks on Default Probabilities and on Pricing

Default probabilities increase significantly with risks. Table D.1 shows the relationship between Standard & Poor's default probabilities and credit ratings. Two points stand out: first, default probabilities increase very steeply as the sovereign and corporate ratings decline, and second, default probabilities increase very quickly at longer tenors in riskier markets.

Table D.1. Standard & Poor's Sovereign and Corporate Default Probabilities for 1, 5, and 10 Years—Example

	Sovereign			Corporate		
Rating	1 year	5 years	10 years	1 year	5 years	10 years
AAA	0.00	0.00	0.00	0.00	0.00	0.07
AA	0.00	0.00	0.00	0.02	0.20	0.43
A	0.00	0.00	0.00	0.03	0.56	10.21
BAA	0.00	0.00	0.00	0.19	2.16	4.70
BA	1.56	12.62	40.59	1.39	12.99	23.13
B	7.89	22.22	53.38	6.44	33.18	51.14
CAA, CA, C	0.00	n.s.	n.s.	22.82	59.44	82.51

(continued)

	Sovereign			Corporate		
Rating	1 year	5 years	10 years	1 year	5 years	10 years
Investment grade	0.00	0.00	0.00	0.07	0.87	1.82
Speculative grade	3.87	16.59	45.39	5.45	25.06	37.77
Total sovereigns/ companies	1.19	4.68	9.34	1.86	8.25	11.76

Source: Standard & Poor's.

Note: n.s. = not significant.

Prices increase significantly with an increase in default probabilities. To understand the effect of high risk on pricing, we will focus on the CAA, CA, and C ratings tranche, which is representative of IDA countries. If we look at the 1- to 10-year sovereign and corporate default probabilities, we see that default expectations are very high (for corporate, 22.82 percent at 1 year all the way to 82.51 percent at 10 years). To understand the impact of these default probabilities on IFC and MIGA pricing, using their risk management systems and pricing models, we need to estimate the loss given default and multiply this by the probability of default to reach the expected loss estimate that would drive the cost of risk for IFC (corporate) and MIGA (sovereign). This cost would be built into the IFC loan price or the MIGA sovereign guarantee price. In most IDA countries, the loss given default percentage ranges from 20 percent to 50 percent with an average of approximately 35 percent. For the purposes of this example, we assume that the corporate probability of default is multiplied by the average loss given default percentage for IDA countries to yield the expected loss that would be added to IFC pricing model. Using the aforementioned Standard & Poor's ratings, this would yield expected losses at the 1-, 5-, and 10-year durations of approximately 8 percent, 21 percent, and 29 percent, respectively. This means IFC would need to increase their spreads by this amount according to their commercial pricing model. (This is also what a rational private sector investor, particularly a foreign investor, would add to its funding cost to cover the credit risk in an IDA country.) These risk adjustments keep most foreign investors out of IDA countries. In fact, most institutional investors from developed markets are prohibited from investing in anything below BAA (1-year default probability of 0.2 percent).

The ability to move risk from IFC and MIGA to IDA is therefore key for IFC and MIGA to engage in IDA countries. The mechanics of the IDA Private Sector Window (PSW) first-loss structure are basically to reduce the loss given default from, for example, 35 percent to, for example, 2.5 percent. Continuing the previous example, such risk mitigation brings the risk adjustments down from 8 percent to 0.6 percent, from 21 percent to 1.4 percent, and from 29 percent to 2.06 percent. This enables IFC to price at local market rates.

How Is Concessionality Calculated and Monitored?

Concessionality is calculated against a market price at a point in time, and it is reported as such to management and the Board. Every PSW project has to adhere to a set of eligibility criteria (box D.1), one of which is the minimum concessionality principle. Concessionality is calculated against a market price at a point in time by comparing the market cost of a guarantee or currency hedge available from a private sector provider with a price IDA provides to IFC or MIGA to enable them to price their transactions at market. (Note that when there is no market provider, IFC and MIGA use their risk and pricing models to estimate what a private sector provider would charge for this risk mitigation.)

- The concessionality is determined by comparing the estimated discounted cash flows on a market transaction and an IDA transaction, and the difference is reported in IFC, MIGA, and IDA documents as the cost of the concession.
- The estimated cost of the concession is a point-in-time estimate, and investment teams can use multiple estimates on multiple types of interventions to try to get to the best option with the lowest concessionality. These calculations are not always done and are not shown in Board papers.
- The ongoing losses on the IDA PSW facilities, if any, are aggregated and reported by facility. Because IDA PSW concessions are given as price reductions on credit risk mitigation agreements (for example, guarantees), *and these are paid only if a loss is incurred*, the actual cost to IDA of providing the loss

coverage at concessional rates is not known until the projects are closed. Because loss rates by transaction are not reported to the Board by transaction—the basis on which they approved the concessionality—this likely leaves the Board with the impression that the reported concessionality was the actual cost to the PSW. The actual cost might have been zero, if there were no losses and IDA received income for the risk mitigation or it might have been substantial, if the underlying risks covered by the IDA PSW exceeded estimates.

Box D.1. Eligibility Criteria for Private Sector Window Projects

All Private Sector Window (PSW) projects have to meet the following eligibility criteria (World Bank 2017): (i) the use of PSW resources is limited to the International Development Association (IDA) and fragile or conflict-affected IDA gap and blend countries; (ii) all PSW-supported activities need to be aligned with IDA's poverty focus and special themes, World Bank Group country strategies, and the Bank Group's approach to supporting private sector investments and creating markets; and (iii) projects that use PSW funds (and blended finance projects, more broadly) should aim at maximizing additionality and market sustainability while minimizing concessionality by meeting the following five principles:

» Rationale: The use of blended finance should involve a contribution beyond what is available from the market, and its use should not crowd out private investment.

» Crowding in and minimum concessionality: Blended finance should catalyze market development and mobilize private sector resources. Any concessionality provided by blended finance should not be greater than necessary.

» Commercial sustainability: The impact that blended finance achieves in each project should be sustainable and commercially viable.

» Reinforcing markets: Blended finance addresses market failures effectively, and it efficiently minimizes the risk of market distortion or crowding out of private investment.

» Promoting high standards: The use of blended finance should also address issues in areas of corporate governance, environmental impact, integrity, transparency, and disclosure (DFI Working Group 2021).

(continued)

Box D.1. Eligibility Criteria for Private Sector Window Projects (cont.)

All PSW-supported International Finance Corporation (IFC) or Multilateral Investment Guarantee Agency (MIGA) transactions are governed by IFC's and MIGA's respective policies and procedures. IFC and MIGA accountability and governance mechanisms have jurisdiction over all matters and complaints related to those transactions; IDA policies and procedures do not apply. This is aligned with existing Bank Group collaboration in that the fiduciary, integrity, and performance standards approved by IFC's and MIGA's Boards of Directors would apply to transactions under the PSW involving IFC or MIGA.

Our reviews of procedures and approval documentation and our interviews confirmed that IFC addresses market pricing and concessionality issues in its investment review process on each IDA PSW transaction and that IFC pricing was not below market. The projects included pricing comparators in their documentation, and this was reviewed and approved by IFC management, the IFC credit officer, the Blended Finance Committee, and IDA. The concessionality calculations were standardized, documented, and also approved by IFC's Blended Finance Committee and IDA at the point in time when the investment was approved. However, all interviewees involved in this process agreed that these calculations did not give any insight into the actual costs that might be incurred by IDA.

Sources: DFI Working Group 2021; Independent Evaluation Group; World Bank 2017.

Each IDA PSW product has a standardized but different way of calculating the estimated concessionality. Table D.2 shows the IDA PSW average estimated concessionality by facility. In addition, we provide an explanation of how the concessionality is estimated for each instrument.

Table D.2. Concessionality Levels (percent)

Level	BFF	LCF	MGF	RMF	Average by Industry
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
Average by facility	5.2	13	1.5	0.0	6.7

Source: International Development Association.

Note: BFF = Blended Finance Facility; LCF = Local Currency Facility; MGF = Multilateral Investment Guarantee Agency Guarantee Facility; n.a. = not applicable; RMF = Risk Mitigation Facility.

Local Currency Facilities have the largest estimated concessionality at the time when transactions are done—the IFC Treasury estimates the market price net present value (NPV) cost of providing a foreign exchange hedge and compares this to the NPV of the concessional IDA PSW hedge at the time when the transaction is done. The difference is the concessionality—the price reduction IDA gives to IFC on the hedge. However, IDA does not hedge, and IDA's gain or loss on each transaction is unknown until the project is closed. Exposures are tracked quarterly and marked to market by the IFC Treasury, but this is not reported on a transaction-by-transaction basis to the Board; thus, the Board cannot compare estimated concessionality with actual cost (or gain) on IDA PSW Local Currency Facility transactions it has approved.

The two predominant blended finance instruments calculate concessionality in different ways:

» First-loss guarantee (FLG) concessions are estimated based on expected loss for the guaranteed client, which is an average of the expected loss on clients within the client's risk rating using similar facilities, in countries with similar ratings and jurisdictional risk. Then IDA and IFC or MIGA negotiate loss coverage for unexpected losses to bring IFC's or MIGA's risk and capital costs down to where they can price transactions that will be acceptable to local market clients. The concession is calculated by comparing the market price of an FLG to the price IDA provided to enable IFC or MIGA to price at market, and then calculating the NPV of both estimated cash flows over the life of the client facility and calculating the difference in NPVs between IDA's guarantee price and the market price. This is a point-in-time calculation. The actual cost to IDA of providing the risk mitigation will fluctuate with the market and changes in risks. IFC prepares quarterly loss given default reports for each client, and the results feed into the IFC loss-provisioning system. There is no transaction-by-transaction reporting and no adjustments to the FLGs based on these data. The Board does not see reports that track how losses are materializing against expectations.

- Pooled first-loss guarantees (PFLGs) are estimated based on the expected loss of an estimated model portfolio of assumed transactions with different sizes and different risk ratings at the time the pool or platform is approved. The model portfolio is expected to reflect the actual portfolio generated by IFC and guaranteed by PSW. The concession is calculated by comparing the market price of a commercial PFLG on this estimated model portfolio with the IDA PSW price for the PFLG and calculating the NPV differences over the life of the estimated pool. The actual cost of the PFLG to IDA changes as transactions are brought into the pool and as market conditions change. These changes are not reflected in changing cost estimates at the pool level. Although IFC prepares a loss given default report each quarter for each client facility, these calculations do not feed into the pooled first-loss calculations and do not alter the first-loss percentages. The Board does not see the loss given default reports or any reporting on the changes in costs to the PSW.

- MIGA FLGs and risk-sharing facilities are estimated based on the expected loss due to noncommercial risks. This is based on a country's risk rating and default expectations at the point in time the risk insurance is purchased. The concession is calculated as the difference between the NPV of a stream of payments for a commercial political risk insurance policy and the NPV of the IDA PSW first-loss or shared loss coverage over the tenor of the insurance policy. MIGA tracks changes in risk ratings and loss reserves (quarterly) and adjusts their loss reserves, but these do not lead to adjustments to the IDA PSW loss coverage. These adjustments to loss estimations are not reported to the Board.

Why Reporting of Concessionality in Board Papers (to the Board and External Disclosure) Can Be Misleading

As of now, concessionality is reported to the Board transaction by transaction, or pooled portfolio by pooled portfolio based on a point-in-time estimate. It is reported as a percentage of the total transaction amount (called cost, although it is not a cost, but the percentage of the expected nominal exposure). The concessionality is calculated as the net difference between the market price for the concession and the NPV of what IDA PSW provides to enable the price reduction IFC or MIGA needs to do the transaction or create the portfolio. In all cases, the price of the concession refers to market prices, so the concession can be viewed as the difference between what IFC would have paid if it had purchased support from the market at market rates and what it paid IDA, or what MIGA would have paid a private political risk insurer for political risk insurance in a particular country versus what it paid IDA.

This is only the estimated ex ante cost difference between what a private sector agent might have charged and what IDA charged, given a lot of assumptions at one point in time, and the single number provided to the Board can be misleading. It can be particularly misleading if the Board interprets this to be the cost that IDA pays for providing its support or as the price concession below-market rates that IFC clients get—both of these interpretations are incorrect. In addition, the concessionality is reported as a percentage of the nominal transaction value. There are better ways to report this, including concession versus capital at risk, concession as a percentage of market price, and concession as a percentage of expected loss. Each of these would provide a more meaningful calibration of the concession, but none are possible under the current reporting structure.

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