

“Building a world leading impact and learning investment organisation”

A proposal for reforming the transparency of the World Bank Group’s Private Sector Window in IDA 20

Summary

The International Development Association’s (IDA) Private Sector Window (PSW) was an innovation in private sector development finance, with a mandate to catalyse private sector investment through the application of innovative investment tools in some of the world’s poorest countries. Since the onset of COVID the PSW has been instrumental in providing additional working capital for development purposes to private entities across Africa and Asia.

The investments made through the PSW are designed to create jobs, increase national tax receipts, and deliver positive social impact – all concrete steps towards the attainment of the Sustainable Development Goals (SDGs).

The PSW allows the IFC to mobilize private capital for projects with potentially significant development impact but assessed as too risky for regular IFC funding. It does this by drawing on the most valuable financial resource at the World Bank Group’s disposal: Official Development Assistance subscriptions from IDA member countries.

Ideally, if PSW projects are successful, they should bolster the confidence of private investors in supporting comparable deals, either helping to create or expand markets. This can only happen with transparent practises to demonstrate impact, showcase successes, and enable stakeholders to learn from its failures. Unfortunately, disclosure of project level data on results is very limited.

This paper outlines two practical reforms which IDA can undertake at negligible cost to ensure that the PSW maintains its leading position on transparency and pushes the boundaries of what DFIs can disclose about their impact. We urge shareholders to take up this agenda in the context of the upcoming IDA 20 negotiations.

Leading the way on impact and learning

The IFC and MIGA currently have 76 approved projectsⁱ benefitting from PSW facilitation. The impact of PSW projects can be judged in two main ways: firstly, by driving positive change measured in terms of jobs, tax receipts or improvements in other development indicators, and secondly, by virtue of their ability to attract/mobilise complementary financing. At present it is not possible to understand fully the PSW’s role in either of these respects.

In light of this that we hereby propose two ambitious yet achievable goals to take affect under IDA 20:

1. ***Publish project level impact/results data***
 - a. baseline impact data using indicators drawn from the AIMM system’s Project Outcome Indicators and Market Outcome Indicators;
 - b. midline impact data against baseline indicators; and
 - c. endline impact data against baseline indicators (published at point of divestment or loan maturity)
2. ***Publish project level mobilisation data***
 - a. sources and amounts of co-financed funds;
 - b. the nature of co-financed funds (e.g., equity, debt, mezzanine financing, senior debt); and
 - c. the extent to which the PSW mobilised these funds (e.g., amounts mobilised rationale for claiming).

A presumption of publication of such information should become standard in future PSW investment agreements.

Rationale

The COVID-19 pandemic has seriously undermined the progress made toward achieving the SDGs. This is especially true for the world's poorest countries where attracting investments is already challenging. The use of the PSW to mobilize more capital in poor, fragile and conflict-affected states could provide critical help to address the health and economic effects of the pandemic and create jobs over the medium term.

The PSW is a relatively new initiative, launched five years ago in IDA 18. It is funded by scarce IDA resources on the premise that they could unlock and unleash private sector activity in challenging environments. Whether this promise proves correct requires the disclosure of information on project rationales, objectives, and results.

As part of the IFC IDA19 proposal the IFC committed that *“IDA, IFC and MIGA will continue to enhance transparency to mitigate reputational risks”* and that *“working with IFC and MIGA, IDA management has outlined a process to build on IFC and MIGA disclosure processes, which includes additional relevant information more in line with IDA’s public sector practices.”*ⁱⁱ Except for improved subsidy disclosure by the IFC, these reforms remain outstanding.

The information called for in the recommendations would fulfil these reform commitments at minimal cost. This information is (or should be) collected already but little of it is shared publicly. It is also consistent with the World Bank’s own principles which require subsidies *“to be justified, transparent, competitively based, focused on impact, and guarded against rent-seeking opportunities.”*ⁱⁱⁱ The IFC provides little project level ex-ante or ex-post impact data, and mobilization data is patchy, making it very difficult to measure whether the risks taken through the PSW with ODA are achieving predicted results. There is also little room for learning when potentially innovative approaches and their impact are not shared.

Agreement on what is to be publicly shared needs to be built into the investment terms from the beginning. It is also in-line with expectations of what investees should reasonably be required to do in return for receiving concessional financing.

As part of the accelerated IDA 20 replenishment, shareholders will consider the needs of the PSW. Any provision of additional resources should be conditioned on the adoption of this reform agenda.

Background on PSW and transparency

As part of the Eighteenth Replenishment of IDA (IDA18), the World Bank Group (WBG) created the \$2.5 billion PSW to catalyse private sector investment in the world's poorest countries, with a focus on fragile and conflict-affected states (FCS). The facility was then continued under IDA19 at the same funding level of \$2.5 billion.

The IDA PSW is a key pillar of IFC's 3.0 strategy.^{iv} It is deployed through four facilities growing in popularity and frequency at the bleeding edge of development finance: Local Currency Facility, Blended Finance Facility, Risk Mitigation Facility and the MIGA Guarantee Facility. Through the "Working Capital Solution COVID-19 Facility" the PSW has been providing working capital loans to financial institutions and banks to onlend to Small and Medium Enterprises (SMEs) in multiple eligible countries with an unfunded pooled first loss structure covered by PSW up to 25 percent of the total program cost.

In 2019 the PSW strengthened its disclosure practises in response to concerns raised by the Chair of the US House Committee on Financial Services Congress, who noted that the PSW would be more likely "to prioritize financial returns over positive development impacts" which by their nature are more difficult to monitor. The Chair also underscored that the use of subsidies should be consistent with the World Bank's own principles which require them "to be justified, transparent, competitively based, focused on impact, and guarded against rent-seeking opportunities."^v As a result, the IFC now discloses in its [Summary of Investment Information](#) including the subsidy levels for each proposed project along with justification for the use of the PSW. As a leading provider of development finance, the IFC is the only DFI taking this step to date.

Today, impact disclosure is limited to a statement on the AIMM^{vi} assessment of the investment and a statement regarding the role and additionality of IFC. AIMM scores are not disclosed at activity level, neither are ex-ante development indicators or associated metrics. There are no disclosed ex-post development results. At the same time, mobilisation and co-financing data are patchy.

The purported rationale for the absence of making such data public is that IFC agreements with investors are commercially confidential. We believe these agreements can and should pre-emptively carve-out impact and co-financing information to allow for their disclosure. This follows the approach the IFC used for subsidy information and is a very reasonable ask in exchange for receiving concessional financing.

ⁱ <http://ida.worldbank.org/financing/ida-private-sector-window/private-sector-window-projects>

ⁱⁱ <http://documents1.worldbank.org/curated/en/956921564075213413/pdf/Proposal-for-IDA19-IFC-MIGA-Private-Sector-Window.pdf>

ⁱⁱⁱ <https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=403630>

^{iv} This strategy rests on two pillars: (i) a more deliberate approach to market creation, especially in IDA and FCS and through upstream engagement; and (ii) mobilizing new sources of funds to support private sector solutions.

^v <https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=403630>

^{vi} https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/development+impact/aimm