
Operationalizing the IDA18 IFC-MIGA Private Sector Window

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ACRONYMS AND ABBREVIATIONS

AAAA	Addis Ababa Action Agenda	IFC	International Finance Corporation
AfDB	African Development Bank	IFI	International Financial Institution
AOB	Absence of Objection	IMF	International Monetary Fund
AS	Advisory Services	IPP	Independent Power Producer
BFC	Blended Finance Committee	ISC	IFC Startup Catalyst
BFF	Blended Finance Facility	LC	Letter of Credit
BOC	Breach of Contract	LCF	Local Currency Facility
CAFEF	Conflict Affected and Fragile Economies Facility	LDC	Least Developed Country
CAO	Office of the Compliance Advisor/Ombudsman	LNG	Liquefied Natural Gas
CCSA	Cross-Cutting Solutions Areas	MCPP	Managed Co-Lending Portfolio Program
CMAW	Creating Markets Advisory Window	MIGA	Multilateral Investment Guarantee Agency
CPF	Country Partnership Frameworks	MDB	Multilateral Development Bank
CPIA	Country Policy and Institutional Assessment	MGF	MIGA Guarantee Facility
DFI	Development Finance	MOP	Memorandum of the President
DOTS	Development Outcome Tracking System	MTR	Mid-Term Review
EBRD	European Bank for Reconstruction & Development	NBC	New Business Committee
EIP	European Union's External Investment Plan	PSW-OC	Private Sector Window Oversight Committee
FCS	Fragile and Conflict Affected States	OPCS	Operations Policy and Country Services
FCV	Fragility, Conflict and Violence	PPI	Private Participation in Infrastructure
FIs	Financial Intermediaries	PPPs	Public Private Partnership
FRC	Finance and Risk Committee	PRI	Political Risk Insurance
GAFSP	Global Agriculture and Food Security Program	PSD	Private Sector Development
GP	Global Practice	QBRR	Quarterly Business and Risk Review
GIF	Global Infrastructure Facility	RBI	Resource-based Industries
HCA	Host Country Approval	RMF	Risk Mitigation Facility
HCN	Host Country Notification	SCD	Systematic Country Diagnostics
IATI	International Aid Transparency Initiative	SDGs	Sustainable Development Goals
IBRD	International Bank for Reconstruction and Development	SMEs	Small and Medium Enterprises
ICT	Information and Communication Technologies	SOEs	State Owned Enterprises
IDA	International Development Association	SPV	Special Purpose Vehicle
		TCX	The Currency Exchange
		USD	United States Dollars
		WBG	World Bank Group

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EXECUTIVE SUMMARY

i. **As part of the IDA18 replenishment, IDA Deputies endorsed and IDA Executive Directors approved the creation of a US\$2.5 billion IDA18 IFC-MIGA Private Sector Window (PSW) to mobilize private sector investment in IDA-only countries, with a focus on IDA Fragile and Conflict Affected States (FCS).** Stakeholders recognize that the private sector lies at the center of a sustainable development model and that expanding support to the private sector will be critical for achieving the Sustainable Development Goals (SDGs) and the IDA18 objectives – while at the same time recognizing that the uncertainties and unpredictability involved in engaging in some markets prevent private sector investment from happening at the necessary scale.

ii. **Addressing the challenges in attracting foreign investment and growing the domestic private sector in the frontier IDA and FCS markets requires de-risking at both the country and transaction levels.** Country-level interventions entail continued strengthening of the business environment—already a hallmark of IDA’s long-established engagement in low-income countries. Similarly, IFC’s Advisory Services’ project preparation and other capacity building support activities are essential to the overall efforts. At the same time, de-risking at the transaction level can mobilize pioneering investments that generate substantial positive externalities. In the PSW context, “de-risking” a transaction means that through the PSW, a portion of the risk in individual transactions will be transferred from private sector participants as well as IFC and MIGA, to IDA in order to make otherwise risk-prohibitive, yet impactful, projects viable. Successful pioneering investments can help reduce investor risk perceptions and open up these countries to more domestic and foreign capital – especially if well-coordinated and sequenced with policy reforms that propel governments to develop regulations, develop business and consumer markets, and generate externalities that overcome market failures.

iii. **The addition of the PSW to IDA’s toolbox enables IDA to operate in the space where public policy and private investment meet.** The PSW provides an opportunity for IDA to make strategic use of public resources to catalyze private investments in these challenging markets, by leveraging IFC’s and MIGA’s business models and client relationships. It complements IDA’s existing support to policy reforms and business environment by de-risking transactions that could generate a positive demonstrative impact, and could facilitate well-sequenced efforts at the country level.

iv. **The PSW is a critical element for each of IDA’s, IFC’s and MIGA’s contributions to the WBG’s Forward Look and the Addis Ababa Action Agenda (AAAA) aimed at engaging the private sector by creating markets and unlocking opportunities in the most difficult markets.**

- For **IDA**, the PSW will enable engagements that support the IDA18 policy commitments. It is a key platform for supporting the Jobs and Economic Transformation special theme’s objective of creating better and more inclusive jobs. Further, the PSW supports IDA18’s commitment to scale up support to FCS by aiming to catalyze private investment to create economic opportunities.
- The PSW is a critical component of the **IFC 3.0** strategy to tackle private sector challenges by creating markets and mobilization. With a special focus on private sector development in IDA countries, IFC 3.0 will deploy new tools, including the PSW – along

with sector-specific development strategies, increased advisory services, and strengthened partnerships.

- Key to **MIGA's** next Mid-Term Strategy for FY18–20, the PSW will help further grow MIGA's core business, enable innovation and support its commitment to IDA countries and IDA-eligible FCS.

v. **The PSW will be deployed through four facilities:** (i) a Risk Mitigation Facility (RMF) to provide project-based guarantees without sovereign indemnity to crowd-in private investment in large infrastructure projects and public private partnerships (PPPs) supported by IFC; (ii) a MIGA Guarantee Facility (MGF) to expand the coverage of MIGA guarantees through shared first-loss and risk participation akin to reinsurance; (iii) a Local Currency Facility (LCF) to provide long-term local currency investments in countries where capital markets are not developed and market solutions are not sufficiently available; and (iv) a Blended Finance Facility (BFF) to blend PSW support with pioneering IFC investments across sectors with high development impact, including small and medium enterprises (SMEs), agribusiness, health, education, affordable housing, infrastructure, climate change mitigation and adaptation, among others.

vi. **Given that the PSW is a pilot and will be operating in challenging and uncharted markets, Management will implement the window based on principles that support systematic approaches and learning-by-doing.** To achieve PSW objectives, the PSW's eligibility and prioritization criteria have been developed to determine whether a project merits PSW support. These criteria will frame the central questions that will be asked systematically at transaction reviews such as how is the transaction aligned with the WBG country strategy; what's the additionality and market creation impact; how does the subsidy use comply with the minimum subsidy principle; etc. In addition, a performance and results framework has been defined to measure the additionality and performance of the PSW, building on IFC's and MIGA's existing results frameworks and aligned with the IDA Results Measurement System (RMS) and WBG Corporate Scorecard.

vii. **Furthermore, robust and transparent governance arrangements have been established to ensure the effective implementation of the PSW.** Five organizing principles have been developed to guide the governance arrangements: accountability through independent decision-making; strong oversight through clear reporting and review arrangements; conflict of interest management; transparent risk-return sharing; and operational efficiency without compromising other governance principles. Guided by these principles, the proposed PSW governance structure has three levels (supported by a small PSW Secretariat): a facility-specific process to enable efficient decision-making at the transaction level; a PSW Oversight Committee to provide strategic direction and monitoring; and ultimately the respective Boards of the three institutions. These arrangements reflect the fact that the PSW will be maintained on IDA's balance sheet and ensure that the PSW activities are carried out within the agreed parameters.

viii. **The use of PSW will be based on clear roles and responsibilities carried by each of the three institutions.** IFC and MIGA will be responsible for all aspects of their respective transactions to be supported by the PSW including the origination, structuring and management of those transactions, based on the structure of each of the Facilities—RMF, LCF and BFF for IFC, and MGF for MIGA. Under RMF, MIGA will act as administrator of the RMF guarantees and IFC will act as administrator of an RMF account, a trust account to be established by IFC for the purpose of administering the payment flows with respect to the use of the IDA PSW

contribution for payment of compensation relating to RMF guarantees. IDA will be responsible for deciding whether the proposed use of PSW is aligned with the PSW objectives to achieve the intended development impact as well as the amount of PSW resources required, taking into account appropriate risk considerations related to IDA. All PSW-supported IFC or MIGA transactions will be governed by IFC and MIGA's policies and procedures, and IFC's and MIGA's respective accountability and governance mechanisms (e.g. Office of the Compliance Advisor/Ombudsman) will have jurisdiction over all matters and complaints related to those transactions. IDA's policies and procedures will not apply. IDA will not have a downstream role in managing underlying IFC and MIGA projects, but will have sufficient access to information to address integrity and reputational risks to IDA, and will also continue to provide support to these projects as IDA does now for regular IFC and MIGA projects. In the case of pre-claim, claim and recovery matters of the RMF, IDA will work with MIGA to manage host country relationships and take responsibility for strategic financial decisions.

ix. **Given the significantly increased risks that the PSW will introduce to IDA, Management acknowledges the trade-off between additional risk-taking and enabling high-impact projects in difficult markets, while introducing approaches to manage the various risks to the extent possible.** Management has incorporated feedback from IDA stakeholders, who have expressed a high risk appetite and have challenged IDA, IFC and MIGA to take additional risks to achieve the PSW's objectives. Focused on the most difficult markets, the PSW will use appropriate methodologies that work towards quantifying risk exposures to IDA, while recognizing that such approaches remain imperfect amid data constraints and information asymmetries; these methodologies will need to be enhanced when actual results and price discovery materialize over time. In addition to financial risk, reputational, development impact and implementation risks will be substantial. Accordingly, guidelines will be developed by IDA, IFC and MIGA as appropriate to define risk appetite and to mitigate financial risks to the extent possible. In particular, for purposes of IDA capital adequacy, the entire amount of the PSW will be deducted from IDA's capital when estimating available capital for core lending business. The guidelines will require that the transactions be limited such that the maximum loss to IDA is the notional amount of the window (US\$2.5 billion) with similar caps on losses to IDA for each of the facilities. The PSW governance and risk management frameworks are designed to limit these risks, and will be responsive to the ongoing lessons learned during implementation.

x. **Work is underway to ensure that implementation arrangements are in place for the PSW to be fully operational from July 1, 2017.** The IDA, IFC and MIGA management teams are focusing on pipeline development, organizational/business changes, resource and system readiness. The three institutions are focused on delivering on the PSW given its strategic importance.

xi. **Conclusions and recommendations.** Management recommends that:

- the IFC Board of Directors approve IFC's participation in the RMF, LCF and BFF of the PSW in accordance with its applicable policies and procedures;
- the MIGA Board of Directors approve MIGA's participation in the MGF, and in the RMF as administrator of the RMF guarantees, in accordance with its applicable policies and procedures;

- the IDA Executive Directors, the IFC Board of Directors and MIGA Board of Directors approve the content of the Joint IDA-IFC-MIGA Policy on the IDA18 IFC-MIGA Private Sector Window, attached in Annex 1; and
- the IDA Executive Directors approve the application of all applicable IFC and/or MIGA policies and procedures (as the case may be) with respect to the use of PSW resources in support of the relevant IFC and/or MIGA transactions, with the understanding that IDA's policies and procedures will not apply.

I. INTRODUCTION

1. **This paper describes the operational framework for implementing the IDA18 IFC-MIGA Private Sector Window pilot.** As part of the IDA18 replenishment, IDA Deputies endorsed and IDA Executive Directors approved the creation of a US\$2.5 billion IDA18 Private Sector Window to mobilize private sector investment and scale up the growth of a sustainable and responsible private sector in the poorest IDA and fragile and conflict-affected IDA countries. Building on key stakeholder feedback, this paper presents the operational framework for the PSW, which will begin implementation with the start of IDA18.¹

2. **Structure of the Paper.** Section II summarizes the development context framing the PSW. Section III explains the objectives of the PSW, the design principles and eligibility and prioritization criteria to achieve those objectives. Section IV discusses the four facilities that comprise the PSW. Section V presents the overall governance framework of the PSW based on core principles of good and transparent governance that incorporate lessons learned from past inter-WBG transactions. Section VI reviews the framework for managing the risks of the PSW. Section VII focuses on the implementation arrangements. Section VIII presents conclusions and recommendations. Additional details are provided in annexes attached to the paper.

II. STRATEGIC POSITIONING

A. The Development Context

3. **The private sector plays a pivotal role in economic development, supporting the creation of pathways out of poverty that are essential to achieve the SDGs.** It provides 90 percent of jobs and is the largest source of income for people living in IDA countries. A healthy and inclusive private sector raises workers' productivity levels and links them to local, regional and global value chains. It also offers opportunities for entrepreneurship, develops critical skills, expands learning opportunities for the labor force, facilitates technology transfer, widens the tax base, and in many cases, supports the public sector in designing and providing public services. To achieve the SDGs in the poorest developing countries, it will be necessary both to continue to strengthen the public sector and to expand the private sector to meet development challenges directly.

4. **The challenges in developing the private sector in many IDA countries, and especially those that are fragile and/or affected by conflict, are substantial.** In many of these countries, the domestic private sector is small and informal, and constrained by a weak macroeconomic and regulatory environment, infrastructure bottlenecks and a limited skilled labor force. These constraints, combined with high country risks, make foreign investors reluctant to engage, particularly in FCS where security risks add to the list of concerns. Real or perceived risks related to project development and completion, revenue generation, and operating costs may make private investment unviable or unprofitable, particularly when it comes to long-gestation infrastructure

¹ See "Further Details on the Proposed IFC-MIGA Private Sector Window in IDA18", 16 September 2016 and "WBG Collaboration: Proposal for an IFC-MIGA Private Sector Window in IDA18", 8 June 2016.

projects. As a result, IDA countries' ability to attract foreign private investment and grow the domestic private sector remains limited. Consequently, although aggregate private capital flows to emerging markets outweigh public development finance, the poorest and most fragile countries continue to rely heavily on donor funds.

5. **Addressing these challenges in attracting foreign investment and growing the domestic private sector in the frontier IDA and FCS markets require de-risking at both the country and transaction levels.** Country-level interventions entail continued strengthening of the business environment – already a hallmark of IDA's long-established engagement in low-income countries. Such work fosters regulatory reforms, strengthens macroeconomic and structural policies, allows for infrastructure projects, and improves labor market and skills policies. In addition, IDA's sector knowledge and resources are used to finance the private sector directly through lines of credit and policy- and project-based guarantees. Similarly, IFC's Advisory Services project preparation and other capacity building support activities are essential to the overall efforts; the IFC is committed to scale up these efforts to support the long-term development impact of the PSW. Together, the WBG is putting an increased and more systematic emphasis on coordinated upstream reforms at the country and sector level (*"mainstream the upstream"*), building on the WBG's strong track record in supporting private sector development.²

6. **At the same time, de-risking at the transaction level can help mobilize pioneering investments and generate substantial positive externalities to overcome market failures.** In the PSW context, "de-risking" transaction means that through the PSW, a portion of the risk in individual transactions will be transferred from private sector participants as well as from IFC and MIGA, to IDA in order to make otherwise risk-prohibitive, yet impactful, projects viable. The demonstration effect that comes from first movers willing to make pioneering investments in challenging environments is critical to show the viability of business in these frontier markets as well as to catalyze and strengthen ongoing country and sector policy reforms. Successful pioneering investments can help reduce investor risk perceptions and open up the countries to more domestic and foreign capital. When well-coordinated with policy reform, these pioneering investments can help propel governments to develop regulations and supporting services, establish business and consumer markets, and generate externalities that overcome market failures. The demonstration effect can then lead other companies to enter and expand the market for the private sector to grow. Allowing IDA to take on the risk at the project level – reducing risk levels relative to a pure commercial transaction – could lead to an appropriate risk-return profile to attract private investment to difficult markets. The PSW will build on the WBG's existing instruments and experience, including with guarantees, in de-risking at the project level.

7. **In short, the addition of the PSW to IDA's toolbox enables IDA to operate in the space where public policy and private investment meet.** The PSW provides an opportunity for IDA to make strategic use of public resources to catalyze private investments in these challenging markets, by leveraging IFC's and MIGA's business models and client relationships. It complements WBG's existing solutions including IDA's continued support to strengthening policy environments and IFC's advisory services, by de-risking transactions that could generate a positive demonstrative

² See "WBG Collaboration: Proposal for an IFC-MIGA Private Sector Window in IDA18", 8 June 2016 for WBG track record in supporting private sector in IDA countries, pp 7-12.

impact, and could in turn facilitate and incentivize coordinated efforts at country, sector and transaction levels in scaling up private sector investment.

III. PSW OBJECTIVES AND KEY DESIGN PRINCIPLES

A. Objectives

8. **In the context of the Addis Ababa Action Agenda and World Bank Group (WBG) “Forward Look”, the IDA18 replenishment package has set high goals on its engagement with the private sector in IDA and FCS countries, and toward Jobs and Economic Transformation, one of the five IDA18 special themes.** With these ambitions in mind, IDA Deputies endorsed and IDA Executive Directors approved the creation of a US\$2.5 billion IDA18 PSW to mobilize private sector investment and scale up the growth of a sustainable and responsible private sector in IDA-only countries, especially in fragile and conflict states.

9. **The PSW is a critical element for each of IDA’s, IFC’s and MIGA’s contributions to the WBG strategy to work with the private sector through creating markets and unlocking opportunities.**³ The Window will be aligned with key WBG initiatives – the development of the Cascade Decision-Making Approach to prioritize private sector financing and efforts to scale-up the WBG guarantee program – which seek to maximize finance for value-adding development investments and promote the judicious use of scarce public and concessional resources. (Box 1.)

Box 1 : Adopting a Cascade Approach⁴ to Decision-making on Infrastructure Financing

Despite the roughly \$1.5 trillion spent annually by developing country governments, the \$112 billion financed via PPPs, and \$80 billion contributed by MDBs in 2015, a significant infrastructure gap remains. Closing this infrastructure gap must include: a significant improvement in public sector performance and increased commercial financing.

The WBG is leading an ongoing discussion among MDBs on a hierarchical approach to investment decision—the “cascade”. The basic approach follows these steps:

- a) Prioritize cost-effective commercial financing;
- b) Where commercial financing is not cost-effective or viable due to perceived risks or market failures, focus support on addressing these market failures through sequenced reforms to strengthen country and sector policies, regulations, and institutions to enable such financing to materialize;
- c) Where risks remain high and raise the cost of commercial capital beyond that which can be afforded by project or corporate returns, explore the potential for lowering the financing cost by deploying concessional and public resources in risk-sharing instruments;
- d) Where commercial financing is not cost-effective or viable despite sector reform and risk mitigation, public and concessional resources will be applied.

³ The World Bank Group, Background Report: Forward Look: A Vision for the World Bank Group in 2030, September 19, 2016

⁴ The Cascade also known as Maximizing Finance for Development (MFD) has subsequently been endorsed by the Development Committee during the 2017 Annual Meetings DC2017-0009

Achieving IDA18 Policy Commitments

10. **The PSW is a key IDA18 policy commitment and a platform for supporting the Jobs and Economic Transformation special theme’s objective of creating better and more inclusive jobs.** Support from the PSW aims to improve risk sharing in investments and to crowd-in private capital, with the ultimate goals of enhancing competitiveness, strengthening integration into global markets, and encouraging private sector-led transformation in IDA-only countries and IDA-eligible FCS. The PSW will be complemented and informed by the other policy commitments under the Jobs and Economic Transformation special theme.⁵

11. **The PSW is also an integral part of IDA18’s goal of substantively scaling up support to FCS.**⁶ The PSW supports IDA18’s commitment to scale up support to FCS by aiming to catalyze private investment to help address critical development challenges, including delivering essential goods and services, building critical infrastructure, improving resilience, and creating economic opportunities and jobs in IDA-eligible FCS countries. It also allows IDA to spur IFC’s and MIGA’s capacity to be part of the early response in post-conflict and fragile situations and by combining efforts to lend meaningful support to the private sector in the most challenging markets. The PSW’s focus on IDA-eligible FCS will be reported and monitored at the portfolio level.

12. **Private sector development also links to other IDA18 special themes including gender and climate change.** In the broader context of crowding-in private investments into difficult markets, wherever possible, the PSW will seek to contribute to women’s economic empowerment through women-led businesses and entrepreneurship especially in SMEs and agribusiness; to low-carbon growth paths including through investments in climate-smart infrastructure (including renewable energy generation), energy access and climate-smart agribusiness; and to widen the tax base to finance public service delivery, among others. The reporting of the PSW will show clear linkages to the IDA18 special themes.

Serving a critical role in IFC’s 3.0 Strategy

13. **IFC’s new “IFC 3.0” strategy provides a holistic, proactive approach to tackle private sector challenges by creating markets and mobilization.** The new strategy gives a special focus on promoting private sector development in IDA countries, and on creating or strengthening markets by focusing on sector-specific development strategies, scaling up advisory services for firm and institutional capacity improvements and project development, and leveraging the World Bank, IMF and others for investment climate reforms and complementary investments. IFC 3.0 also focuses on new tools to maximize mobilization of private capital, particularly through scaling up platforms such as IFC’s Managed Co-Lending Portfolio Program (MCLPP) and capital market programs; using standardization, wholesaling, and other innovative approaches to crowding in

http://siteresources.worldbank.org/DEVCOMMINT/Documentation/23758671/DC2017-0009_Maximizing_8-19.pdf

⁵ For further detail on IDA18 policy commitments under the Jobs and Economic Transformation theme, please refer to “Report from the Executive Directors of the International Development Association to the Board of Governors. Additions to IDA Resources: Eighteenth Replenishment. Towards 2030: Investing in Growth, Resilience and Opportunity”, February 8, 2017.

⁶ Ibid.

private capital; and de-risking and rebalancing risk-reward profiles of pioneering projects via guarantee and blending facilities.

14. **A critical component of the IFC 3.0 strategy, the PSW will be the primary tool to de-risk and boost investments in IDA and IDA-eligible FCS countries.** The PSW will address fundamental constraints – high counterparty risks associated with infrastructure projects, the limited availability of local currency loans, and significant risks in key areas of focus such as SME finance, entrepreneurship and agribusiness, access to energy, climate mitigation and adaptation, etc. and will be complemented by the newly established IFC’s Creating Markets Advisory Window (CMAW), which will provide funding for the necessary upstream work to help build the capacity of the private and public sector in IDA countries.

Enabling MIGA’s Strategy and Goals

15. **MIGA contributes to the WBG twin goals by mobilizing private investments into developing countries.** By supporting private investors in their investments into emerging markets and by mobilizing reinsurers, MIGA is uniquely positioned to bring together sound projects and financial markets.

16. **Benefitting from an expanded product line, a broader client base, enhanced capabilities, and continued financial sustainability, MIGA achieved the ambitious growth target outlined in its FY15-17 Mid-Term Strategy a year ahead of time.** MIGA’s FY15-17 strategy committed MIGA to accelerate its growth by increasing new guarantee issuances by 50% from FY13 levels while being innovative, focusing on IDA and FCS countries, and contributing to the WBG targets for climate change. This goal was achieved in FY16, ahead of the FY17 target year.

17. **As MIGA is in the process of developing its next Mid-Term Strategy for FY18-20, the PSW will be a key contributor.** It will contribute to MIGA’s efforts to grow its core business – which already includes a focus on IDA countries – beyond FY16’s record level, to expand its impact in FCS, to engage its client partners earlier in the project development process, and to enhance its capabilities to join WBG efforts to create markets and spur private sector investment and development, particularly in the more challenging IDA-only countries and IDA-eligible FCS.

Supporting global and regional initiatives

18. **Finally, the PSW is also aligned with and supports global and regional initiatives led by the G20 and other development partners.** For example, the PSW can play a useful role in supporting the G20 commitments under the presidency of China particularly on infrastructure investment and the industrialization in Africa and LDCs, and also supports the Compact with Africa initiative developed under the German presidency. It is aligned with the European Union’s External Investment Plan (EIP), and the PSW and EIP will continue to learn from each other in implementation. The UK DFID’s new Economic Development Strategy also calls for multilateral institutions to “take higher risks and accept lower returns to deliver in the toughest markets, for example through the IDA18 PSW.”⁷

⁷ UK DFID, Economic Development Strategy, January 2017, p14.

B. Key design principles

19. Endorsed by the Board and IDA Deputies, four fundamental principles underpin the design of the PSW:

- ***Building on long-standing comparative advantages.*** The PSW will promote and facilitate a close collaboration and coordinated approach across the WBG, leveraging the strengths of each institution. These include the sector knowledge, policy dialogue and financial strength of IDA, the project development, structuring, mobilization platforms, and global client relationships of IFC, and MIGA’s political risk knowledge supported by established underwriting, pricing, claims management and reinsurance capabilities. Specifically, the PSW would provide IDA an entry point into the area of “blended finance” by leveraging IFC’s and MIGA’s relevant experience.⁸
- ***Establishing a clear objective and criteria to achieve goals.*** The PSW sets forth a clear objective to support private sector investment in the most challenging markets. To support this goal, eligibility criteria have been developed that focus on additionality, alignment with IDA’s objectives, market opportunities, and the principle of minimum concessionality. These criteria are further developed in the following sections.
- ***Taking risks to achieve development impact.*** Focused on the most difficult and least developed markets, the PSW will use appropriate methodologies to quantify risk exposures to IDA, while recognizing that such approaches remain limited amid data constraints and information asymmetries. In addition to financial risk, reputational, development impact and implementation risks will be substantial. The PSW governance and risk management frameworks are designed to attempt to mitigate these risks, but also acknowledge – and even give prioritization to – the potential for high development gains. Therefore, consideration of these tradeoffs is essential and the PSW design must be responsive to the ongoing lessons learned during implementation of PSW-supported projects.
- ***Creating space for experimentation.*** With the PSW pilot, given the PSW’s foray into new markets and use of new instruments, Management has established an approach of incorporating needed flexibility adopting a learning-by-doing approach. Management recognizes experimentation by definition will come with failures which will translate into financial losses. Formalizing the process for discovering and adapting to lessons learned, Management has committed to ongoing reporting to the Board of Executive Directors and IDA Deputies based on the PSW Performance and Results Framework (Section Performance Results Framework section and Annex 3). Based on financial and development results as well as learning through feedback loops, Management will adjust the pilot and adapt as necessary. (See Governance section.) Appropriate evaluations in due course will also provide additional guidance to the PSW.

⁸ See Annex 1 and 2 of IDA18 Replenishment Paper “Further Details on the Proposed IFC-MIGA Private Sector Window in IDA18”, 16 September 2016, on IFC’s experience with its blended finance program and MIGA’s experience with CAFEF.

C. Eligibility and Prioritization Criteria

20. **The selection of PSW-enabled transactions will follow three sets of eligibility and prioritization criteria and follow a transparent and systematic approach to deliberation and decision-making.** These criteria will guide the origination efforts by IFC and MIGA teams and the pipeline management of the PSW. For IDA, they will frame the central questions that will be systemically examined to determine whether a project merits PSW support. A transparent and systemic process will be established to document the deliberation process, to enhance systemic learning, and to improve the PSW's engagement in the poorest and most uncertain markets.

- (1) *Country eligibility and facility-specific risk guidelines.*
- (2) *Strategic alignment* with IDA's poverty focus and special themes; WBG country strategy; and WBG's collective approach to support private sector investment that help to create markets.
- (3) *Principles for using concessional finance in supporting private sector operations:* ensuring additionality, minimizing concessionality and market distortion, and leading to market sustainability.

21. **First, as hard eligibility criteria, the use of PSW resources will be limited to PSW-eligible countries, defined as IDA-only⁹ and fragile or conflict-affected IDA-gap and blend countries¹⁰, and bound by facility-specific prudential risk guidelines.** The list of PSW-eligible countries will be confirmed at the beginning of IDA18 for the duration of the 3-year IDA18 period, and adjusted for countries that fall back to IDA-only or IDA-eligible FCS status.¹¹ On a case by case basis, support to activities in fragile or conflict-affected sub-regions of non-FCS IDA gap and blend countries¹² may be considered, subject to review by the PSW Oversight Committee¹³.

22. **Second, the use of PSW needs to be clearly aligned with the strategic directions of IDA, the WBG country strategies, and the WBG collective approach to support private sector investment in creating markets.**

- *All PSW-supported activities will need to be aligned with IDA's objectives and its poverty focus, and demonstrate clear linkages to one or more IDA18 special themes.*¹⁴

⁹ IDA-only refers to IDA regular, non-gap, non-blend countries. "Gap countries" are those whose per capita incomes have been over IDA's operational cutoff for more than two years, but not yet IBRD creditworthy. "Blend countries" have access to both IDA and IBRD resources.

¹⁰ Eligibility for fragile or conflict-affected blend and gap countries will be determined on the basis of a World Bank CPIA rating below 3.20 or presence of a UN peacekeeping or peacebuilding mission.

¹¹ To be eligible for MGF, countries also need to be members of MIGA.

¹² Sub-national fragility will be determined through a qualitative and quantitative assessment including more than 25 conflict-related deaths per year, carried out by the FCV CCSA.

¹³ See paragraph 61 for details on the role of the PSW Oversight Committee.

¹⁴ Details see "Additions to IDA Resources: Eighteenth Replenishment; IDA18: Towards 2030: Investing in Growth, Resilience and Opportunity", IDA January 2017.

- *All PSW-supported activities need to be aligned with the WBG country strategies.* In FCS, the PSW-support activities will be informed by the Risks and Resilience Assessments and other relevant analysis as part of the country strategies.
- *The use of PSW is also part of the evolving WBG collective approach to create markets and mobilize private investment.* PSW-supported transactions should be aligned with the WBG's combined efforts to create markets in the least developed economies, and as appropriate the strategic vision set forth in IFC 3.0. The use of the PSW is also part of the ongoing discussion on the Cascade approach to optimize the use of both public and private resources (formally known as Maximizing Finance for Development, MFD) and the WBG approach to expanding guarantee products. (See Box 1 on Cascade.) Where applicable, IFC's new Country Private Sector Diagnostics will also provide important inputs.

23. Third, the use of the PSW adheres to the principles for using concessional finance in private sector operations.¹⁵

- **Additionality.** PSW use needs to demonstrate clear additionality to IFC's and MIGA's current activities supported by existing solutions¹⁶. PSW will be deployed only when existing WBG products and market solutions – including existing guarantees – are not deemed sufficient to address investment requirements. This moves beyond IFC's and MIGA's own activities. A straightforward framework of scale and scope is proposed to demonstrate PSW additionality. Scale additionality refers to an increase in the extent of IFC and MIGA engagements in PSW-eligible markets and their mobilization impact to further leverage additional private investment. This implies the need to build beyond any expected growth of IFC and MIGA in these markets in a counterfactual scenario without PSW. Scope additionality refers to an increase in the breadth of IFC and MIGA activities with potential market creation impact. It could include entry and expansion into new sectors and markets, opportunities for new or improved ways of doing business and activities that encourage and support economic transformation of these frontier markets.¹⁷ The additionality framework will continue to be adjusted by Management during implementation taking into account experience from other initiatives.¹⁸

¹⁵ The PSW criteria will be in line with the enhanced principles jointly developed and endorsed by representatives from Development Finance Institutions in 2017. See http://www.ifc.org/wps/wcm/connect/30635fde-1c38-42af-97b9-2304e962fc85/DFI+Blended+Concessional+Finance+for+Private+Sector+Operations_Summary+R...pdf?MOD=AJPERES.

¹⁶ PSW Additionality differs and goes beyond IFC and MIGA's own additionality. The latter refers to the unique benefit or value addition that IFC and MIGA bring to a client that would not otherwise be possible. PSW additionality refers to the value addition of the PSW support beyond IFC and MIGA's involvement on their own.

¹⁷ See IDA18 paper "Further Details on the Proposed IFC-MIGA Private Sector Window in IDA18", September 16 2016, page 8-14, and Annex 2 on description of the indicative scale additionality of the PSW.

¹⁸ Including recent formative evaluation of GAFSP Private Sector Window, conducted by *Enclude* for IFC, December 2016.

Box 2 : Calculating and Managing Subsidy

The PSW is designed to provide additional risk mitigation which may be less than fully commercially priced, giving rise to a subsidy. The PSW is aligned with IFC's and MIGA's practices for measuring subsidy. Furthermore, the PSW will take steps to ensure that any subsidy serves the intended beneficiary and is minimized to conserve resources and prevent market distortions. The PSW will also monitor, report and adjust subsidy practices.

Measuring Subsidy: As an overall approach, the PSW will measure the level of subsidy as the difference between commercial terms available for the same or similar product and the terms of PSW-enabled finance product. When concessional funds are used to invest in projects where there is no market benchmark for pricing, relevant benchmark financing – such as from comparable sectors and markets – can be used as a proxy for commercial financing. For example, when MGF shares risk with MIGA akin to a reinsurer, MGF receives the same pricing as private reinsurers, hence no pricing subsidy is provided, but fills a gap in capital capacity. For guarantees / risk sharing products, the subsidy for the first loss cover is determined by comparing the hypothetical guarantee IFC / MIGA would need to charge to offer this product for its own account and the actual guarantee fee charged.

Subsidy Beneficiaries: The PSW is designed to free up IFC/MIGA's economic capital and pass on the savings to the project developer and ultimately the end consumers in PSW-eligible countries who would otherwise be faced with no project, or at best higher, risk reflective pricing. The subsidy procedures and transparency seek to ensure that the subsidy reaches the intended beneficiaries.

Managing Minimum Subsidy: PSW will build on current IFC and MIGA practices and approaches in deciding minimum subsidy. Where available, data and practices from past IFC and MIGA transactions will serve as a benchmark to guide appropriate subsidy levels. The governance process allows for review of subsidy levels using best available information. PSW Representatives to the review meetings will represent extensive professional experience in each of the facility areas and an understanding of working in emerging and frontier markets.

Transparent Reporting and Learning: The subsidy elements of the PSW use will be monitored and reported as part of the PSW Results Framework, both for transparency and to provide a feedback loop to assess future transactions in the context of prior experience. This will improve the application of the 'minimum concessionality' principles.

- **Minimizing Concessionality and Market Distortions.** Given the focus on engaging in markets with substantial risks, PSW is expected to enable private sector investments by addressing risk-return gaps through financing and risk mitigation support at prices that likely do not fully reflect the cost of the risk, a form of subsidy. Whenever subsidies are used, the PSW will follow “minimum concessionality” practices to ensure that no more subsidy is used than that required for the projects to be viable, determined through the relevant governance processes. The estimated aggregate use of subsidy will be transparently monitored and reported. (See Box 2.) Minimizing concessionality preserves scarce public resources which can be deployed elsewhere, and reduces the potential for excess profits that distort markets. In combination with the other principles for use of concessional resources, a disciplined use of subsidy will accelerate transformation of nascent markets. Minimizing concessionality is key to minimizing market distortion that could include creating unfair advantage or market dominance.

- **Leading to Sustainability.** PSW-enabled activities shall not be dependent on long-term subsidies, and shall over time lead to activities that can be sustained by the market. While recognizing that markets in PSW-eligible countries are nascent and fragile, disciplined use of resources requires that subsidies to private investments be time-bound and be expected to decline over time. Without specifying a timeframe for markets to develop and mature in these difficult economies, transparent monitoring and reporting of subsidy aggregate use is designed to accumulate evidence to better understand these markets and the support that is needed for transactions to become sustainable.

24. **Beyond applying these criteria in assessing individual transactions, robust demand and pipeline management will be put in place, including strategic guidance by the PSW-Oversight Committee,**¹⁹ to ensure optimal deployment of resources and strategic impact of the PSW at the portfolio level. IFC and MIGA will actively manage their respective PSW pipelines, and with guidance from the PSW-OC, optimize the PSW-supported transactions aligned with the additionality and development impact objectives of the PSW. Specific circumstances such as country and regional priorities and crisis situations, will be taken into account.

D. PSW Performance and Result Framework & Reporting

25. **The PSW Performance and Results Framework has four parts: PSW Financial Performance, PSW Scale Additionality, PSW Scope Additionality and the PSW Development Outcomes** (See Annex 3 for detailed Framework).²⁰ It builds on IFC and MIGA's existing results framework and data collection, and is aligned with the IDA RMS and WBG Corporate Scorecard.

- The *Financial Performance* tracks the deployment of PSW funds, the revenue generated and any net losses.
- The *PSW Scale Additionality* tracks the scale-up of IFC/MIGA engagements in PSW-eligible countries, PSW's intended focus on FCS, PSW's objective in crowding in private investments and risk-taking including through reinsurance, and the subsidy elements of PSW use. The framework tracks the PSW's scale impact to ensure its use is additional to IFC's and MIGA's own continued engagements and growth in these markets, while recognizing that the actual growth will be more volatile. In addition to IFC's and MIGA's own engagements, the indicators capture the mobilization of additional private investment, both foreign and domestic²¹, including reinsurance. Finally, the subsidy elements of the PSW use is monitored. (See Box 2.)
- The *PSW Scope Additionality* indicators aim to capture the expansion of the scope of IFC and MIGA activities with potential market creation impact. These indicators aim to capture the PSW's role in creating and expanding opportunities in new sectors and

¹⁹ See governance section on detailed role of the PSW Oversight Committee.

²⁰ Management acknowledges the *Performance and Results Framework* includes various inputs and outputs indicators for program performance, and development outcomes indicators. It is designed as a practical way to capture the key aspects of PSW implementation. Given the pilot nature of the PSW, the Framework will be tested and adjusted during implementation.

²¹ The indicators on private capital mobilized and co-financed are aligned with ongoing efforts by MDBs to harmonize measurements of these factors.

markets, deploying new solutions and approaches, improving business practices in local markets, and other market creation impact from PSW-enabled transactions. Given the call by IDA Deputies for the PSW to enable market creation while minimizing market distortion, Scope Additionality indicators aim to capture both the potential positive impact as well as the risks from adverse impact of any PSW-supported transaction. Teams will make an initial assessment of potential Scope Additionality during project preparation, with that assessment informing project implementation, which will be reviewed at completion. These indicators build on IFC and MIGA's current results indicators on private sector development outcomes, IEG's evaluation framework, and implementation of IFC's new strategic vision around market creation. These indicators also aim to serve as a learning tool to understand the market impact of using IDA resources to directly enable private sector transactions. Much of the data may be qualitative while quantitative data will be used when available.

- The *PSW Development Outcome* indicators aim to capture the outcome of the private sector engagements enabled by the PSW, building on IFC's and MIGA's results management frameworks, IDA's RMS, and the WBG Corporate Scorecard. IFC and MIGA's results systems will capture all the development outcome indicators of transactions enabled by the PSW. To systemically and meaningfully present the outcomes aligned with IDA's objectives, a set of indicators aligned with IDA RMS, WBG Corporate Scorecard, and IDA18 special themes have been selected to be reported in aggregate. Following IFC and MIGA's reporting practices, *expected results* will be captured and reported at the time of project commitments, and *actual results* will be collected and reported three years after project approval in most cases.

26. **The PSW Performance and Results Framework reporting will be part of the regular IDA18 updates and reviews by IDA Deputies and the Board.** Working with IFC and MIGA teams, the PSW Secretariat will manage the framework, and ensure data is collected and reported in a timely manner. Reporting will be presented at the MTR, as well as briefings to be organized on the side of future World Bank / IMF Spring and Annual Meetings. The use of the PSW will also be reported to the IDA Board through the Quarterly Business and Risk Review (QBRR) that will focus on operational and financial updates. Given the time needed to originate projects and for projects to mature, reporting during the IDA18 period will focus on the deployment of the PSW, additionality, and mainly *expected results* at the time of project approval.

27. **As a new instrument, the results and reporting of the PSW need to balance ambition and realism, while recognizing the trade-off between risks and impacts.** The additionality of the PSW is built into its design by targeting the most difficult and riskiest markets. Given the difficult business environment and the operational risks involved, the balance between risk and results will be managed carefully in implementation to provide the right incentives for project teams. The results measurement and reporting will balance the need for serving both as an accountability tool as well as a learning tool to provide feedback to inform decisions on future transactions.

28. **Public disclosure of individual PSW-enabled transactions will follow the IFC and MIGA Access to Information policy applied to all IFC investments and MIGA guarantees.** IFC and MIGA continue to enhance transparency standards with their reporting. IFC has recently

joined the International Aid Transparency Initiative (IATI) to publish data on its investments projects on IATI data platform, broadening access to information on its activities. It has also overhauled its project disclosure database with enhanced data quality and accessibility. Consistent with IDA's practice, IDA's reporting of the PSW use will be publicly available, while ensuring consistency with IFC and MIGA's obligations of confidentiality under agreements with clients and disclosure policies.

IV. FACILITIES

29. **To achieve the overarching objectives of the PSW, Management will deploy four facilities: a Risk Mitigation Facility, a MIGA Guarantee Facility, a Local Currency Facility, and a Blended Finance Facility.** While the barriers to private sector development are wide-reaching beyond the ones addressed by the PSW, these facilities were designed to target critical challenges identified by IFC's and MIGA's private sector counterparts as described below. As additional approaches are contemplated to meet these challenges, the IDA, IFC and MIGA teams will develop and innovate new uses that meet the underlying objectives of the PSW. (See Governance section.)

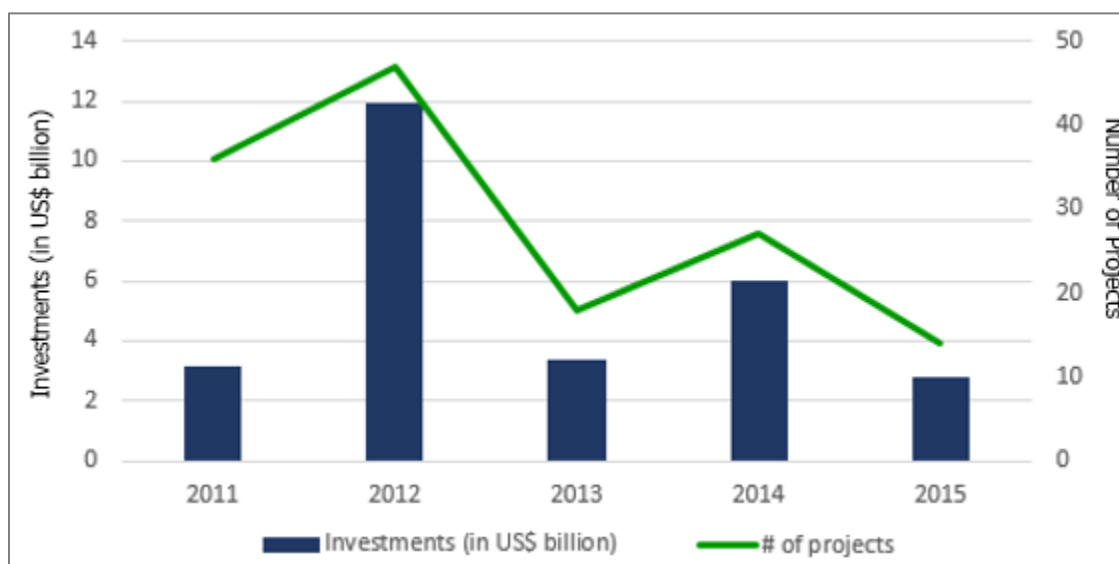
Table 1 : PSW Facilities²²

Facility	Instrument on IDA balance sheet	Instruments offered to end-use clients	Sector(s)	Additionality	Indicative Allocation (US\$ millions)
RMF	Project-based guarantees without sovereign indemnity, unlike for existing IDA guarantees	Project-based guarantees without sovereign indemnity, to private sector transactions with IFC origination and participation	Infrastructure (includes power, water & sanitation, transport & logistics, municipal infrastructure, telecom, and natural resource-related infrastructure) & PPPs	Increased investment in PSW-eligible countries above IFC's baseline. Expanded uses for existing guarantee products	US\$1,000M
MGF	Guarantees to MIGA projects (in the form of shared first loss or risk participation akin to reinsurance)	MIGA Political Risk Insurance (PRI) products to private sector	Infrastructure (power, water & sanitation, transport & logistics, municipal infrastructure, telecom and natural resource-related infrastructure), agribusiness, manufacturing and services, financial markets & PPPs	Increased MIGA-supported investment and risk participation in PSW-eligible countries above MIGA's baseline	US\$500m
LCF	Indemnity Agreement or Swap with IFC	Local currency denominated loans to private sector clients (e.g. FIs that lend to SMEs) who operate in markets where there are limited currency hedging capabilities	Sectors will be linked to the underlying loans	Enables local currency financing for clients in PSW-eligible countries (e.g. SMEs) who operate in markets where there are limited currency hedging capabilities Development of local currency financing instruments, risk mitigation, and capacity building	US\$400m
BFF	Loan, equity ²³ , subordinated debt (to private sector); guarantees (to private sector or IFC)	Loans, subordinated debt, equity, guarantees and risk sharing (to private sector)	High-impact pioneering investments across sectors (e.g. SMEs, Access to Finance, Infrastructure, Agribusiness & Manufacturing, Health & Education, Affordable Housing, Telecom and Technology, Climate Change, Municipal Finance, etc.)	Increased investment in PSW-eligible countries above IFC's baseline Blended Finance Investments in new sectors and to underserved client base (early-stage and women-owned SMEs) Expanded uses for existing products (e.g. longer tenors)	US\$600m

A. Risk Mitigation Facility (RMF)

30. **Development challenge.** Infrastructure²⁴ is a critical priority for most IDA countries. Fiscal constraints and capacity limitations lead many countries to look for private sector capital and capacity to address these gaps. However, private investment into most IDA economies falls significantly short of actual needs. In fact, over the past five years, private participation in infrastructure (PPI) investments in IDA countries has declined markedly.²⁵ In 2012, PPI investments in IDA countries peaked at US\$11.9 billion (1.5 percent of GDP), largely as a result of a surge in investments in a single country. Since then, it has dropped to US\$2.8 billion (0.3 percent of GDP in 2015), with a majority of investments concentrated in just a few countries. (Figure 6) Moreover, only 39 percent of PPI investments were financed by private sector sources (i.e., commercial banks and private sponsors), while the majority of financing came from MDBs, bilateral institutions and the public sector.

Figure 1 : PPI Investments and Number of Projects in IDA countries 2011-2015



Source: World Bank PPI Database as of August 2016

31. **Objective.** The RMF seeks to catalyze private sector infrastructure investment and PPPs by providing the following risk mitigating products: (i) liquidity support instruments backstopping

²² Financing to a non-sovereign without a sovereign indemnity or guarantee would require a change in current operational policy; provision by IDA of equity investments will require specific authorization in the Board of Governors Resolution.

²³ To be more specific, “equity” in this context refers to IDA funding an equity investment made by IFC as implementing entity of IDA-PSW, with IDA having a total return swap on equity with IFC on IDA’s balance sheet instead of a direct investment in equity that sits on IDA’s books.

²⁴ Infrastructure broadly includes power, transport, water & sanitation, municipal infrastructure and telecommunications as well as natural gas/LNG/ or other natural resource-linked infrastructure, logistics, cold storage and other relevant infrastructure linked to supply chains.

²⁵ “PPI Investments in IDA Countries, 2011 to 2015”, 2016 IDA PPI Update.

payment obligations of state owned enterprises (SOEs)²⁶ to private projects; and (ii) political risk and government counterparty coverage for project finance loans and equity investments. With the potential to galvanize private infrastructure projects or PPPs across sectors such as power, transport, water, waste management and ICT, the RMF is expected to leverage a combination of existing and possibly new WBG instruments to mitigate financing and political risk. The RMF will be utilized only when existing WBG instruments are not able to meet demand (for instance, where the client country's IDA country envelope is insufficient to directly deploy a guarantee or are earmarked for other priorities), and its use will be in line with the WBG approach to expanding guarantee products.

32. **Financial mechanics.** The RMF will be deployed using two products:²⁷

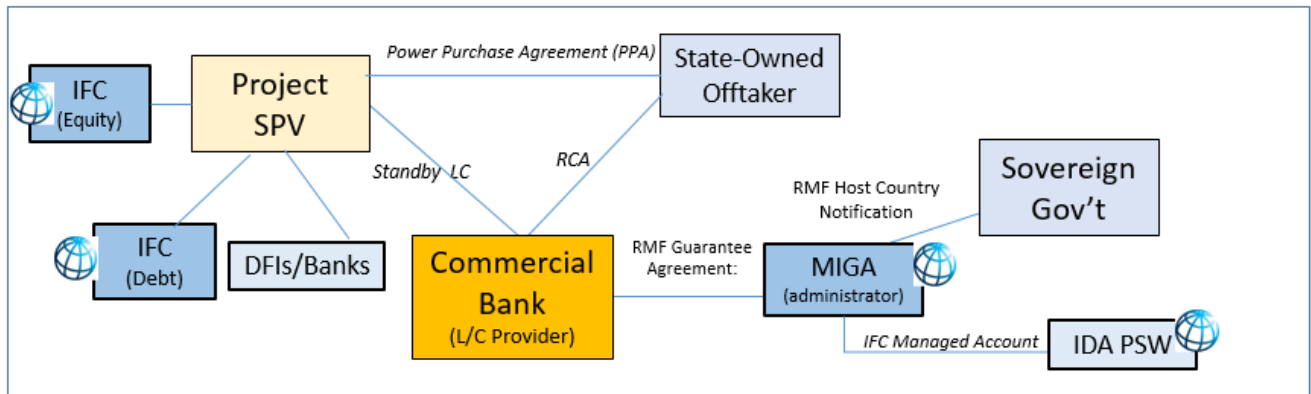
- **Liquidity Support:** The RMF liquidity support guarantee is envisaged to backstop ongoing payment obligations of SOEs (e.g., government-owned utilities) for infrastructure projects or PPPs. For instance, take the case of a project Special Purpose Vehicle (SPV) which is contracted to develop, build and operate a power plant, with an agreement from a state-owned off-taker to purchase the capacity and energy generated by said plant (see Figure 2). IFC's role in the SPV could take the form of either debt and/or equity provider to the project SPV, along with other lenders and equity investors. Under this structure, the project SPV is exposed to the risk of non-payment by the state-owned off-taker, and the RMF liquidity support instrument would help mitigate this risk for the project SPV. The RMF instrument can be structured as a guarantee on a revolving standby Letter of Credit (LC) issued by a commercial bank (or by IFC, if no commercial bank is available to issue the LC). This LC can be drawn by the project SPV for up to an agreed amount, should the off-taker fail to honor its payment obligations. If the LC/liquidity provider is unable to receive reimbursement from the state-owned off-taker following a draw on the LC after a pre-agreed period of time has lapsed, the LC/liquidity provider would be reimbursed by the IDA-PSW through a RMF guarantee signed by MIGA as administrator of the RMF guarantee, in accordance with IFC's or MIGA's applicable policies and procedures, on written instruction from IDA after Board approval, in favor of the issuing bank (or IFC). Payments to be made under RMF guarantees will be funded out of the IDA PSW and made by IFC as administrator from a trust account to be established by IFC for this purpose. The host country will be notified via a Host Country Notification.²⁸ In turn, MIGA working together with IDA will attempt to recover these monies from the state-owned off-taker in accordance with MIGA's applicable policies and procedures, with IDA working on host country relationship management and taking responsibility for strategic financial decisions.

²⁶ SOEs can include entities owned by sub-national governments/non-sovereign entities

²⁷ Depending on the legal structure of the individual transactions supported by the PSW, some of the Facilities may indirectly benefit from sovereign guarantees or other support arrangements issued by the respective government in favor of the individual transactions.

²⁸ The purpose of this Host Country Notification (HCN) would be for the host country to acknowledge IDA-PSW's participation in the project. The RMF HCN is different from the standard MIGA Host Country Approval (HCA) in that the HCA is required by MIGA's Convention.

Figure 2 : Illustrative Example of Liquidity Support Guarantee for Power Transaction²⁹

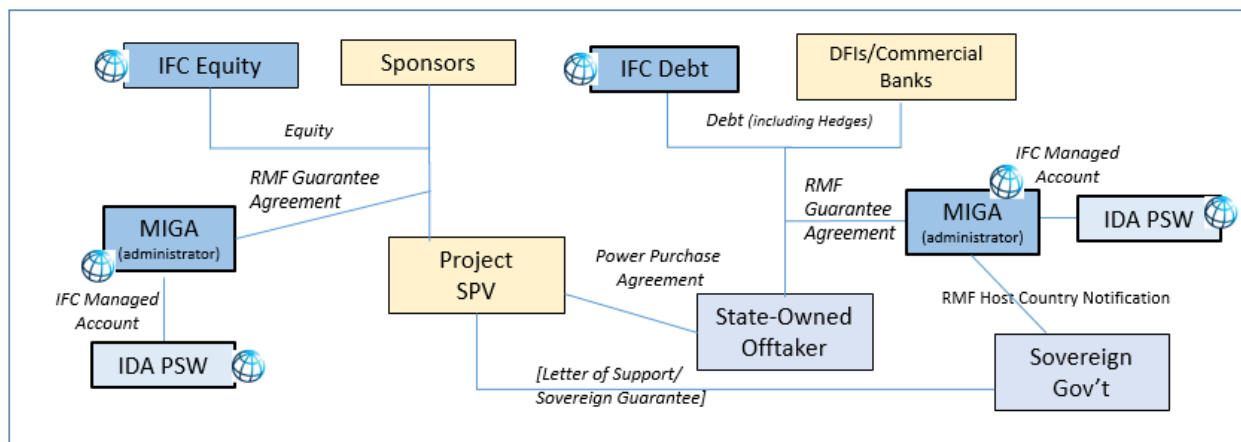


- **Political Risk Insurance (PRI):** This guarantee cover will be signed by MIGA as administrator of the RMF guarantee, in accordance with IFC’s or MIGA’s applicable policies and procedures, on written instruction from IDA after Board approval, and will be made available for the benefit of IFC³⁰ as provider of project finance loans, hedges and equity investments. The host country will be notified via a HCN. Depending on the specifics of the deal, covered risks could be any or all of the traditional PRI products, i.e. expropriation, war and civil disturbance, currency convertibility and transfer risks, and breach of contract (BOC). BOC cover could include payment risks from (i) SOEs under key project agreements for infrastructure projects or PPPs; or (ii) the respective Government under a government guarantee or similar support agreement for the benefit of the project company or SPV, should the structuring of the transaction require one. If there is a breach under any of the agreements (for which a RMF guarantee has been provided) that leads to (i) non-payment of amounts due to the guaranteed entity, or (ii) early termination and a related termination payment under such agreement, the beneficiaries of the RMF guarantee (debt or equity holders) will be able to call on said guarantee subject to a final binding arbitral award pursuant to the project agreements. Recovery efforts including undertaking any pre-claim interventions will be carried out by MIGA as administrator of the RMF guarantee working with IDA in accordance with MIGA’s policies and procedures, with IDA working on host country relationship management and taking responsibility for strategic financial decisions.

²⁹ See Governance section for an explanation of “PSW Account.”

³⁰ PRI cover can also benefit other Development Finance Institutions participating in IFC-led transactions.

Figure 3 : Illustrative Example of Political Risk Insurance for Power Transaction



33. **Additionality.** The design of the RMF brings to bear the need to achieve additionality beyond current markets and in relation to other WBG products. The IDA project-based guarantees for the private sector have been used in many projects, together with IFC loans and equity investments and MIGA PRI products to backstop governmental obligations that have been identified as key constraints to private sector investments.³¹ Notably, the IDA project based guarantees under current IDA policy require a sovereign indemnity to IDA, which provides IDA with the right to demand payment from the government in the event the guarantee is called.

34. **The RMF guarantees can therefore play a role in facilitating more infrastructure projects, through augmenting the resource pool and menu of instruments that countries can utilize to manage trade-offs.** First, unlike the existing IDA project-based guarantee, RMF guarantees will not require a sovereign indemnity to IDA. This feature could be valuable in cases where state fiscal capacity is limited or where state-building needs time to run its course. As such, country clients with limited IDA allocation may be constrained in their use of IDA’s traditional lending and guarantees offerings. The absence of sovereign indemnity is nonetheless also a substantial source of risk, as the RMF would in most cases rely on the repayment ability of non-creditworthy SOEs without the formal means to seek recourse from the sovereign. Accordingly, the RMF model price³² should reflect to the extent possible this added risk that IDA undertakes. Second, the increased guarantee resources provided through the RMF would make support available for other important infrastructure projects in line with IDA priorities (e.g. energy access). Third, the RMF PRI product is also different from MIGA’s current PRI offering and the MIGA Guarantee Facility (MGF, see next section). Notably, the RMF PRI product does not require risk-sharing by MIGA, and can support infrastructure investments in cases where MIGA capacity may be constrained. Fourth and more generally, the RMF is envisaged to catalyze private infrastructure investment through providing an impetus for country reforms towards a more business-friendly climate, as well as through enlarging the origination efforts of WBG teams. In turn, this could

³¹ Recent examples include WBG collaboration in the Azura-Edo IPP (Nigeria), Sankofa gas project (Ghana), and Azito IPP (Cote d’Ivoire).

³² See Section VI. Risk Review and Management.

engender an outcome that enables a higher utilization of both existing and new risk mitigation instruments, and ultimately, a more vibrant private sector in client countries.

35. **Indeed, the utilization of the RMF is not an end in itself.** The use of RMF products is meant to specifically address gaps not met by the deployment of the WBG instruments available at any point in time. The key driver of project origination and pipeline development will be government commitment to sector reforms, whereby governments are taking steps to de-risk their power, transport, telecom and water sectors to enable private sector investment. It is hoped that the RMF through playing an enabling role, could help galvanize reforms and remove key constraints that currently stifle private sector activity. Added support for market creation—through increased upstream and advisory engagement, sector reforms, and innovative engagements such as Scaling Solar—alongside the RMF’s support to mitigate risks, can help unlock significant private investment in these markets.

36. **Pipeline.** Examples of the types of projects that could benefit from upstream engagement and the PSW’s risk mitigation instruments include: (i) power projects in MENA, Asia and Africa; (ii) transport projects in Africa and Asia; and (iii) telecom/broadband projects in Africa. In addition, the RMF will augment WBG’s role in countries where sector reforms are already underway by supporting private sector-led projects in these countries.

B. MIGA Guarantee Facility (MGF)

37. **Development challenge.** Investors considering entry into challenging markets seek risk mitigation, especially against non-commercial risks. Private market insurance and reinsurance capacity to provide such coverage is not often available for IDA countries and FCS in substantial amounts and over long horizons. If available, these are often at prices that would make covered projects financially unfeasible and/or lead to final user costs (for instance services costs or tariffs) that are prohibitive for the local market.

38. **To facilitate investments in the most challenging markets, MIGA uses its own guarantee capacity and capacity arranged with reinsurers to provide coverage for such investments.** However, there are instances where MIGA-arranged capacity is not sufficient to cover the scope of the investment. There is often no alternative. First, public providers of investment insurance coverage need to meet national content requirements in the underlying investment as a qualification for their participation. Second, the private insurance/reinsurance market is not available, i.e. ‘off cover’, in high-risk markets due to capacity constraints, perceived or actual risks, or their pricing needs to meet the risks covered make the project uneconomical. The inability to syndicate exposures in these riskier markets also results in increased concentration of MIGA economic capital that ultimately affects how much exposure MIGA can hold on its books overall. This is a critical constraint particularly when MIGA is called upon to support programmatic approaches or a series of projects in one country, or significantly-sized transactions, such as those typical in critical basic services sectors like power, transport or telecommunications—essential building blocks to support broader and dependent investments that may follow.

39. **Objective.** The MGF aims to bridge the gaps where market and MIGA-arranged capacity for eligible non-commercial risks is not sufficient or available to crowd in private investment into

PSW-eligible countries. MGF will provide coverage for a combination of political risk insurance (PRI) products, covering non-commercial risks such as expropriation, currency transfer restriction and inconvertibility, war and civil disturbance, and breach of contract on key project agreements covering government (sovereign and sub-sovereign/SOE) obligations. The MGF will participate in risk mitigation solutions executed by MIGA, to support private sector investments (i.e., debt and equity) in PSW-eligible projects.

40. **Additionality.** The MGF provides additionality by increasing both the scale and scope of MIGA's activities in PSW-eligible countries. This additionality will be demonstrated by an increased number of projects and associated volumes of transactions that MIGA will undertake in PSW-eligible countries beyond what is currently projected. Over the FY18-20 period, through structures with first loss and risk participation akin to reinsurance, every dollar of PSW resources deployed through MGF is expected to result in up to US\$5 of private sector investment mobilized and co-financed in MIGA projects, similar to MIGA's experience with CAFEF but adjusted for expected higher risk markets and/or higher risk transactions. The MGF will be utilized when existing MIGA PRI instruments are required to advance the project, but there is insufficient MIGA or market capacity to provide the coverage needed (e.g., where MIGA has reached exposure limits, or private market capacity does not exist, is insufficient or cost prohibitive). It would be particularly useful in the case of large-scale, systemically important transactions, programmatic approaches to sectors involving multiple projects, or multi-sector approaches. For instance, MIGA's multi-sector support to countries in transition from conflict to stability has played a key role in the country's rebuilding efforts.

41. **Financial mechanics.** The MGF will be deployed in two structures: (i) shared first-loss³³ and (ii) risk participation akin to reinsurance. The MGF will have an overall designated limit of up to US\$500 million, with this limit being the total exposure of PSW under both structures. Claim amounts will be disbursed by IDA using MGF resources (through a risk sharing agreement with MIGA) to MIGA, upon a call on the guarantee by the beneficiary pursuant to a claim determination as per the MIGA contract.

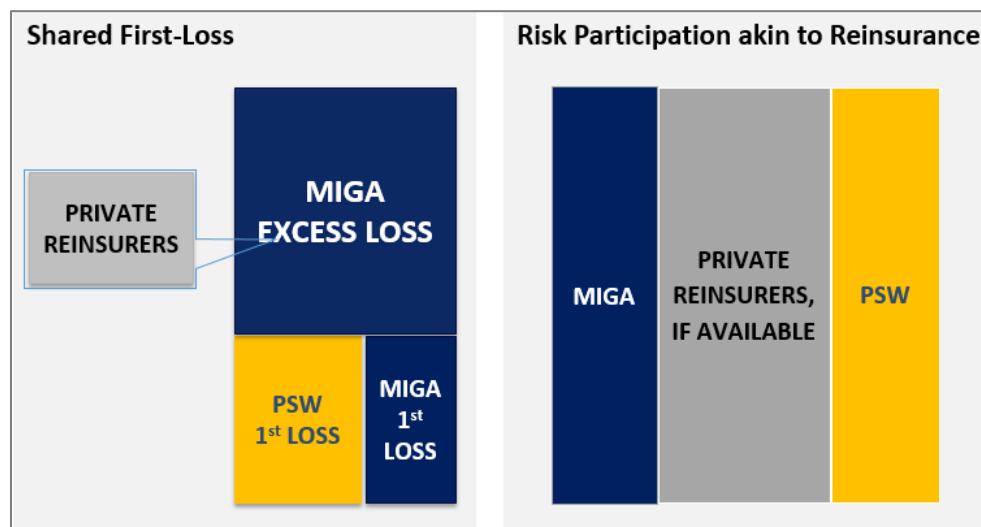
- **Shared First Loss transactions** would increase the reach of MIGA's traditional PRI products in markets where currently these are underutilized, or where MIGA is approaching its capacity limits. This facility would include risk-sharing or allocation of losses to a first loss position, and provides an added layer of reinsurance to reinsurers covering investments against non-commercial risks. This feature has been key in attracting participations from the private reinsurance market to support larger transactions at prices which make the projects viable for ultimate beneficiaries. The MGF's participation in a first loss position would encourage investment into risky environments and bring in the private reinsurance market to support such investments. For MIGA, this ability to attract participation from reinsurance markets to take up the "excess loss" helps

³³ On an exceptional basis, to undertake a project with compelling potential for significant development impact in a host country for which MIGA has very limited remaining capacity, MIGA may propose for the MGF to take on the full first loss. Subject to assessment by IDA on the risk and financial parameters and clear understanding of such exceptional cases, MIGA and IDA/PSW Representatives may agree for the MGF to take on the full first loss in a specific project. Explanation on such exceptional cases will be presented to the IDA and MIGA Boards when the transactions are submitted for approval.

offset concentration risks and resulting increased cost of capital, allowing MIGA to support multiple investments and programmatic approaches where it otherwise would be constrained from doing so.

- To mitigate the absence of reinsurance markets, PSW will step in and take on the role of a **risk participant** and provide MIGA with capacity pursuant to a risk sharing agreement that is akin to reinsurance. This arrangement will ensure that PSW will share a portion of MIGA’s risk exposure on a per transaction basis, and receive a share of the premium income paid by the private sector beneficiary of the guarantee. MIGA has successfully entered into similar agreements with both public and private reinsurers through reinsurance arrangements. PSW-eligible countries that face limited or non-existent commercial reinsurance capacity for projects that are not covered with MIGA’s current reinsurance agreements, would strongly benefit from such a risk-sharing arrangement. Coverage initially offered by the MGF would provide protection against key political risks of: expropriation, breach of contract, transfer restrictions and inconvertibility, and war and civil disturbance. MIGA and the MGF would share the risk exposure and returns of a project in the same way as MIGA currently does with its reinsurers, which means that each entity, where agreed, would bear its share of losses pro-rata to its share of project exposure, and also accrue income and any claim recoveries, net of fees.

Figure 4 : Illustrative Risk Sharing in Structures Involving (i) IDA-MIGA Shared First Loss Transaction; and (ii) Risk Participation akin to Reinsurance



42. **Pipeline.** The MGF is envisioned to be mainstreamed into MIGA’s operations such that MIGA’s regional origination teams and sector underwriting teams are equipped to develop prospects that meet the MGF eligibility criteria and merit MGF support. It is expected that MIGA teams would be able to deploy the MGF in wide-ranging project types in various sectors (energy, infrastructure, agribusiness, manufacturing, service and finance) and for innovative projects, such as new energy strategies for governments to focus on lower carbon-intensity power generation. It could also cover financing to banks that target SMEs, exporters and underserved sectors, and diversify their capital base or help lower their cost of capital. The MGF would enable MIGA to

augment its support to developing markets that already take up a significant share of MIGA's economic capital today.

C. Local Currency Facility (LCF)

43. **Development challenge.** Medium and long-term local currency financing for high-impact projects in many of the poorest countries is lacking due to underdeveloped and volatile local financial markets and the absence of currency hedging instruments and creditworthy counterparties. A small number of IDA-only countries have limited market based solutions for accessing local currency financing and, most of the time, the maturities available are very short and the pricing too high to allow for financially feasible projects.³⁴ When available, local currency finance is predominantly short-term which limits IFC's ability to finance medium and longer term projects. In the poorest countries, the most vulnerable are left to bear the ill-effects of currency risk, while middle-income and high-income countries have access to better developed capital markets to provide currency protection as needed. For many IDA countries and FCS, there is often no way for a project to finance itself other than through foreign currency loans. Although USD loans may offer lower interest rates and longer tenors than available in local financial markets, these advantages can be more than offset if businesses in the country have mostly local currency revenues and the currency depreciates severely. In addition, many developmental financial institutions, including IFC, are unable to source local currency through domestic providers due to these providers' low credit standing. In response, some entities, such as The Currency Exchange (TCX), have emerged to promote long-term local currency financing.³⁵ However, the needs far exceed existing resources and new solutions are needed that current market participants cannot provide. Therefore, a key part of expanding the local currency financing capacity in IDA countries is to broaden the number of counterparties able to provide local currency services; this effort will also help build the human resource and technical capacity necessary to provide these solutions prudently.

44. **Objective.** The LCF would allow IFC to provide financing in local currency for high impact projects in IDA and FCS countries where local currency solutions are underdeveloped or completely missing. This facility is targeted at clients who operate in markets in which currency hedging options are absent or very limited.

45. **Additionality.** The facility is designed to enable IFC to offer local currency loans, while fostering complementarity with existing solutions, such as domestic banks, TCX, central banks, etc. IFC will follow a "solutions hierarchy" when attempting to source local currency for PSW-supported projects. It will first seek to provide the needed currency through existing market

³⁴ Specialized currency funds, such as TCX, may also have some limited ability to provide local currency in additional IDA-only countries, but these solutions would be offshore and, based on experience, also subject to significant limitations in terms of maturity and pricing.

³⁵ The LCF solution is a multidimensional approach to currency hedging that is made possible by the IFC's multilateral status and commercial relationships with major local financial institutions in many local markets. It does not seek to replace current market participants such as commercial banks and TCX, and follows a "solutions hierarchy" to ensure LCF is used as the last resort, see paragraph 46 for details.

solutions, other non-market providers such as TCX, and through existing or new IFC liquidity operations in PSW-eligible countries before resorting to options provided by the LCF.

46. The success, additionality and impact of the facility would be demonstrated through clear metrics. Established at the eligibility review, the development impact of the project receiving the underlying local currency financing will be reported along the PSW results measurement framework. Furthermore, the market impact and creation of the facility will be measured according to the amount of local currency committed for approved projects, the provision of local currency where no other provider was available at the time, the extension of tenor beyond what was otherwise available from other providers, the provision of deliverable local currency, a greater number of local counterparties, and improved pricing for clients through a comparison of the all-in cost of the local currency financing versus alternative local currency solutions, and related activities that assist in the development of the local currency capital markets in IDA countries and promote human resource and technical capacity building in the area of local currency finance. Ultimately, the local currency solutions will be an integral part of the IFC’s investments to enhance private sector growth in difficult markets.

Figure 5 : Summary of LCF Financing Solutions

<i>Solution Options</i>	<i>Description of approach and additionality</i>	<i>Risk borne by IDA</i>
1 Counterparty credit risk transfer	<ul style="list-style-type: none"> • Transact with local subsidiaries of international banks, domestic banks, and official counterparts, e.g., central banks, that offer local currency solutions, but who are currently not allowable because they do not meet IFC’s current credit standards • <i>Will allow IFC to provide projects with local currency through swap transactions with local counterparts</i> • <i>Will help build markets by capacity building efforts with derivative transactions and establishing demonstration transactions based on best practices</i> 	<ul style="list-style-type: none"> • Counterparty credit risk of central banks/ local banks
2 Non-deliverable swap & Spot FX market	<ul style="list-style-type: none"> • Offshore counterparts (such as TCX, and some international banks) primarily provide non-deliverable currency hedging • <i>Will allow IFC to source local currency in domestic markets while hedging itself offshore. Currency control coverage will allow IFC to offer more competitive local currency financing rates to clients/ projects</i> 	<ul style="list-style-type: none"> • Currency transfer and convertibility risk
3 Local Currency Pool Funding	<ul style="list-style-type: none"> • IFC issues bonds in local markets and its funding activities have positioned it as a pioneer in developing emerging capital markets. • <i>Will allow IFC to source local currency for projects through onshore bond issuance—which will aid local capital market development- and provide competitive local currency financing for clients/projects</i> 	<ul style="list-style-type: none"> • Credit risk and potential negative carry on local investments that IFC will need to hold in local markets
4 Outright spot FX transaction	<p>This solution would be employed when other solutions cannot fill any remaining gaps, specifically:</p> <ul style="list-style-type: none"> • Coverage of IDA countries. Some countries’ currencies cannot be hedged by any existing solution. • Tenor. Hedging options do exist for some IDA/FCS currencies, but are quite short-term with respect to the tenor available (often less than 3 years). The LCF could offer longer hedges, if the required tenor exceeds an available solution provider’s available maturity limits. • Pricing is prohibitively high. At times, market sources can provide local currency solutions, but only at a price that would make projects financially infeasible, given oftentimes prohibitive capital costs associated with most illiquid currency hedging markets. 	<ul style="list-style-type: none"> • Unhedged local currency or interest rate

47. **Financial mechanics.** This facility would be backed by IDA resources set aside to backstop the LCF so that IFC can provide various operations in local currency. The facility would act as a risk transfer vehicle for IFC operations in PSW-eligible countries only up to the designated allocation of PSW’s resources, indicated as US\$400 million. While IFC would continue to hold

the credit risk of the underlying loans and investments, LCF will undertake the following types of operations in order to source local currency funding for PSW projects:³⁶

- (i) *Counterparty credit risk*³⁷. When IFC enters into a local currency transaction, it hedges the currency risk of the transaction with an offshore or onshore market counterpart; under this approach, the LCF resources would absorb the counterparty credit losses of IFC's hedging counterparty if its credit quality does not meet IFC's standard counterparty criteria or if they are non-traditional counterparties;
- (ii) *Market and credit risk associated with managing short-term liquidity in local currency instruments*. IFC may also issue IFC bonds in a local market to obtain the needed currency for its loans and then invest in the local fixed income market until the local currency funds are disbursed to the client. In this structure, the client would cover the expected negative changes in value while the PSW would cover unexpected changes in the value of the local investments into which the proceeds of its bond issuance were temporarily invested until disbursement.
- (iii) *Transfer/convertibility risk*. When using local counterparties IFC could offer a deliverable swap but hedge the market risk with an undeliverable swap obtained offshore; the LCF resources would cover the inability to convert/transfer the currency without a loss when the underlying hedged loan matures.
- (iv) *Open currency/interest rate risk*. If market-based solutions are not available, IFC would hedge its currency and interest rate risk with the LCF; the LCF would cover any losses (or receive the gains) related to changes in market rates over the term of the hedged investment. The LCF will be actively managed by IFC on a portfolio basis to facilitate diversification of risks borne by the LCF resources, which may include employing strategies to hedge open risks. Should IFC suffer actual, realized losses on local currency investments undertaken with the LCF, IFC would submit a payout request to IDA for reimbursement of the amount of the loss³⁸. The LCF will operate on the principle of minimum concessionality and be consistent with the facility's capital framework, whether IDA acts as a direct counterparty with IFC or another entity that can better play the role.

In addition, there is the risk that losses under certain LCF operations could exceed the initial amount of the investment on a transaction specific basis,³⁹ but IFC's aggregate claims on IDA

³⁶ It should be noted that, due to frequent changes in market f/x and interest rates, that the specific funding operation identified in a Board paper for a specific project may change by the time funds are disbursed to the project if a lower risk or lower cost solution emerges between the time of Board approval and project disbursement. However, the currency and amount of IFC's proposed investment will remain the same.

³⁷ Counterparty credit risk will be assessed by IFC.

³⁸ Or the LCF would exchange cash flows under a swap arrangement with IFC to realize gains and losses when LCF is taking open market risks to facilitate local currency lending.

³⁹ This is due to the nature of derivative hedging transactions, which embed both principal and interest payments into the contractual obligations of the two contracting parties, so total losses (inclusive of principal and interest which could be either fixed or floating rate) can exceed the initially approved principal balance for the transaction.

under the LCF as a whole will in all circumstances be limited to the \$400 million cap on the facility. Any losses in excess of the \$400 million will be borne by IFC.

48. **Pipeline.** Although the LCF will be managed by IFC Treasury in conjunction with the IDA PSW team, neither Treasury nor the IDA team will directly originate projects. Rather, the LCF pipeline will be determined directly by projects that IFC's operations departments identify both as PSW-eligible and as needing, or benefiting substantially from, local currency funding to achieve their desired feasibility and impact. One exception will be pool funding operations⁴⁰, which IFC Treasury will originate and manage, as these funding operations need to be undertaken ahead of planned investment operations in order for funding to be available at the time of commitment of the project. Therefore, pool funding operations may be undertaken, with Board approval, before specific projects are submitted to the Board for approval that would utilize the local currency funds. Because of exposure limitations to contain risk, management believes that the majority of the initial pipeline projects will often be in the range of \$5-\$30 million and originate from IFC's real and financial sector industry groups. Within the various LCF solutions available, IFC Treasury will explore the lower risk options first before higher risk options are employed. Early pipeline development work by IFC's real sector industry team includes possible transactions in agribusiness sector in Sub-Saharan Africa that might potentially benefit from LCF funding. In addition, IFC's financial sector investment team will be undertaking efforts to identify and evaluate local banks as potential hedging counterparties in some, or all, of these countries recognizing the value in developing these markets. IFC expects to pair its outreach to local banks with advisory work to build human capacity in these markets.

D. Blended Finance Facility (BFF)

49. **Development challenge.** IDA and FCS face pervasive market failures and weak investment climates that increase risk and prevent scaling up of high-impact private investments. This hinders capital flowing to local firms, especially in SME finance/entrepreneurship and agribusiness. It also limits funding to enable pioneering investments in areas such as health, education, manufacturing, affordable housing, infrastructure such as energy, telecommunications, technology, water and sanitation, climate finance (including renewable energy generation and other climate-smart infrastructure investments), etc. High-impact investments in these sectors are often critical to job creation and higher incomes for local population.

50. **Objective.** The BFF aims to mitigate various financial risks associated with investments in the abovementioned areas to unlock private sector opportunities that promote productivity improvements and innovation with strong development impact. The BFF builds on and expands IFC's existing blended finance platforms, including the Blended Climate Finance programs, the private sector window of GAFSP, and the SME Finance facilities, and extends support into new high-impact sectors.

51. **Financial Mechanics.** Existing IFC financial products will be eligible for clients under the facility, including senior loans, subordinated loans, equity⁴¹(direct and through funds), preferred

⁴⁰ This refers to LCF Solution Option 3 Local Currency Pool Funding in figure 5.

⁴¹ See footnote 22.

equity and guarantees (e.g., first-loss in risk sharing facilities). The BFF will enable IFC to undertake additional projects by providing: i) blended financing to enable IFC to support projects which are not yet able to meet fully commercial financing terms, but which promise to be sustainable and have strong development impact; and/or ii) risk mitigation, through subordination, deferrals, provision of first loss, and structuring flexibility (e.g. longer tenors) to enable IFC to support higher risk projects. Long tenors are particularly important for green-field projects, which typically have higher risk than expansion projects, but which are more common in PSW-eligible markets. The facility could incur losses only up to the designated allocation of PSW's resources.

52. **Additionality.** The BFF will enable IFC to expand its engagements in markets and sectors covered by its current blended finance platforms and enter into new ones critical to enabling high-impact transactions in PSW-eligible markets.

In sectors currently covered by IFC's blended finance program—SME, agribusiness, and climate change, the BFF will build on the current facilities, leverage existing experience and practices, and bring in additional scale and scope of engagement.

- On **SME**, the BFF can boost banks' risk appetite and support innovative projects that may carry higher risk including supporting women-led SMEs, and allow space for new areas such as FinTech, high growth/early stage SMEs, digital SME finance, alternative delivery channels and value chain finance. It goes beyond what the Global SME Facility can currently do through enabling a more systematic WBG approach.⁴² The BFF can also help expand SME equity investments,⁴³ and support local entrepreneurship such as IFC's SME Ventures⁴⁴ and could consider supporting emerging platforms such as the IFC Startup Catalyst (ISC)⁴⁵.
- In the **agribusiness** sector, the BFF will build on and move beyond GAFSP's private sector window's platform to continue to expand private investment to raise agricultural productivity, linking farmers to markets and improve rural livelihoods. It shares GAFSP's objectives of supporting small household farmer through access to finance, inclusive business, climate-smart agriculture, and, will look for co-investment opportunities with GAFSP where appropriate and leverage GAFSP's advisory service capacity for combined

⁴² The WBG approach incorporates IFC's investment and advisory work, and IDA's capacity building work with financial policy and infrastructure by the Finance and Markets GP, the SME enabling environment work of the Trade and Competitiveness GP.

⁴³ PSW can i) provide catalytic co-investment that will help accelerate financial closing for SME funds; ii) increase overall investments into women-owned enterprises; iii) attract new types of investors; iv) develop the ecosystem for high-growth SMEs in markets including in the technology/startup sector.

⁴⁴ SME Ventures develops and invests in risk capital funds for high-growth SMEs, working with third-party fund managers; 50 percent of the program's capital is to be invested in FCS, with the remainder in non-FCS IDA countries. The program provides technical assistance to develop both fund managers and SMEs, and collaborates with the WBG's Finance and Markets GP to develop regulatory environments necessary for such funds to operate.

⁴⁵ The IFC Startup Catalyst supports investments in early stage, tech-enabled, startup businesses in the markets where technology/innovation ecosystems are beginning to take hold. While such ecosystems do not currently exist in all IDA-only countries, and very few in IDA-FCS, the IDA funding could, in select geographies, enable/strengthen innovation ecosystems and associated advancements (through technology transfer) across an array of sectors including health, education, financial services, and others. Currently, the funding for tech-enabled and other innovation startups is particularly limited, preventing them from scaling beyond concept/prototype stage.

impact. In addition to providing direct support to smallholder farmers, aligned with IDA's special theme on jobs and economic transformation, BFF can also support green-field or scaling-up commercial agriculture investment with direct impacts on job creation, agriculture productivity and supply chain efficiency.

- On **climate financing**, the BFF will go beyond the current blended finance program for climate and enable climate mitigation and adaptation solutions across sectors to support companies in the poorest countries to cope with climate risks—financial, environmental, and social risks. In addition to the more traditional climate-related investments in renewables and energy efficiency, the BFF will also support new and emerging investments in mitigation such as distributed/captive energy solutions, energy storage, green buildings, and forestry; and in adaptation that present business opportunities for companies as they innovate solutions for climate-smart agriculture, and climate-resilient infrastructure and manufacturing.

53. Moreover, BFF will enable IFC to enter into new sectors that are not currently covered by its blended finance programs, and enable high-impact investments in manufacturing, health, education, access to energy, water and sanitation, telecom, municipal finance, etc. For example:

- Expanding support to first mover clients can help develop and expand innovative business models in the **health** sector to serve lower income market segments, and providing innovative models of delivery of health services with cost efficiency while increasing access to quality services.
- Supporting new business models in **education** that serve lower income students through cost-effective schools, distance learning, and innovative student finance, with significant potential to support industry-led ventures to establish technical training institutions linked directly to industry needs in sectors like hospitality, tourism, construction, and healthcare.
- Scaling up risk capital that will allow the **manufacturing** sector to balance risk/reward profiles, particularly relating to Resource-based Industries (RBI) investments (i.e., construction materials, chemicals and fertilizers) including using climate friendly production technologies and overcoming information asymmetries.
- Increasing **access to energy** through de-risking and overcoming implementation barriers for private participation in the power sector, by supporting Independent Power Producers (IPPs) who are pioneering new power generation and distribution models such as pay-as-you-go solar, mini-grids, and other off-grid solutions.
- In **affordable housing**, the BFF can both invest with developers targeting low income group and leverage industrial building technology companies that provide prefabricated building technologies to emerging markets. It can also support companies looking to develop new business models such as rental housing for students and workers.

54. **Pipeline.** The BFF will be managed by IFC's Blended Finance Department which will optimize the co-investment of IDA PSW funds in line with PSW's risk appetite and IFC's Blended Finance principles. The investment officers in the Blended Finance Department will work closely with IFC's industry investment and regional teams to originate projects. It is expected that BFF funds would be used to invest in projects such as for climate-vulnerable hydropower in PSW-

eligible countries to make them resilient to the adverse effects of climate change and increase energy access, risky greenfield commercial agriculture plantations in FCS countries that will have a significant positive impact on jobs and economic transformation, risk sharing structures for SME financing to accelerate lending to SMEs and in particular women-owned SMEs in small fragile countries, and in SME Funds targeting FCS/IDA markets under the SME Ventures Program including investments in locally managed funds focused on high growth SMEs expanding essential services and creating jobs.

V. GOVERNANCE ARRANGEMENTS FOR THE PSW

55. Effective implementation of the PSW requires robust, transparent, and efficient governance arrangements. Five organizing principles have been endorsed by IDA stakeholders to guide the governance structure for the PSW with clear accountability of each of the institutions. (See Box 3.)⁴⁶

56. In keeping with the principles, the use of PSW will be based on clear roles and responsibilities carried by each of the three institutions. IFC and MIGA will be responsible for all aspects of their respective transactions to be supported by the PSW including the origination, structuring and management of those transactions, based on the structure of each of the Facilities—RMF, LCF and BFF for IFC, and MGF for MIGA. Under RMF, MIGA will act as administrator of the RMF guarantees, and IFC will act as administrator of the RMF account through which any payments to beneficiaries of guarantees issued under the RMF will be made. IDA will be responsible for deciding whether the proposed use of PSW is aligned with the PSW objectives to achieve the intended development impact as well as the amount of resources required, taking into account appropriate risk considerations related to IDA. Leveraging IFC and MIGA’s business models and client relationships, IDA will not have a downstream role in managing underlying IFC or MIGA projects, but will have sufficient access to information to address integrity and reputational risks to IDA, and will also continue to provide support to these projects as IDA does now for regular IFC and MIGA projects. In the case of pre-claim, claim and recovery matters of the RMF, IDA will work with MIGA, manage host country relationships and take responsibility for strategic financial decisions.

57. All PSW-supported IFC or MIGA transactions will be governed by IFC and MIGA’s respective policies and procedures, and IFC’s and MIGA’s respective accountability and governance mechanisms will have jurisdiction over all matters and complaints related to those transactions. IDA’s policies and procedures will not apply. This is aligned with existing WBG collaboration in that the fiduciary, integrity and performance standards approved by the Boards of IFC and MIGA would apply to transactions under the PSW involving IFC and/or MIGA. These include compliance with IFC and MIGA’s integrity and procurement policies as appropriate, performance standards, policies on use of offshore financial centers, etc. IFC and MIGA’s, not IDA’s, existing redress and investigation mechanisms such as IFC’s and MIGA’s Compliance Advisor, Ombudsman office and INT have jurisdiction over all matters and complaints related to PSW supported transactions.

⁴⁶ See IDA18 Replenishment Paper “Further Details on the Proposed IFC-MIGA Private Sector Window in IDA18”, 16 September 2016, p. 17.

58. **The PSW transactions will be effected by either direct contractual agreements or through PSW Accounts between IDA and IFC/MIGA, with appropriate legal agreements and accounting treatments.** The arrangement is intended to ensure (i) no impact to the credit rating of all institutions, and (ii) consistency with MIGA's constitutive documents and practices for reinsurance. It also allows for IFC and third party funding to be kept separate and disclosed as such. Specifically,

- A **Direct Contract** would be used between i) IDA and IFC, where IDA is guaranteeing or entering into currency swaps with IFC or ii) IDA and MIGA, where IDA is reinsuring or sharing a first loss position with MIGA. This could apply to the risk-sharing instrument under BFF, LCF and MGF.
- **PSW Account(s)** will be established so that funds flow in accordance with agreed legal and contractual agreements between IFC/MIGA and IDA. Funds would flow through the PSW account(s) based on specific triggers related to the PSW projects, e.g., called guarantee, loan disbursement, equity funding, fee payments. Until triggers occur, funds would remain with IDA. The PSW account(s) would be reported on IDA's books. This could apply to BFF and RMF.

Box 3 : Organizing Principles for PSW Governance

The framework is based on five organizing principles that cover accountability, oversight, conflict of interest, transparent risk-return sharing, and operational and financial efficiency, agreed by all three WBG institutions. These principles drive the overall PSW-level governance as well as the facility-level governance processes.

Accountability through Independent Decision-making by each Institution. Each of IDA, IFC and MIGA has a distinct legal personality, mandate and associated operational and fiduciary policies and procedures. Each Institution would therefore make an independent decision, in conformity with its own governance structure, as to whether to participate in any project supported by or financed through the PSW in light of its distinct mandate, the requirements that flow from it and the PSW eligibility criteria. Accordingly, each participating Institution shall be afforded access to such information as is necessary for its decision-making. Ultimately, the use of the PSW resources for any particular purpose would require the approval of IDA's Executive Directors.

Oversight. To ensure accountability and effectiveness of the PSW to achieve maximum impact, clear reporting and review arrangements will be put in place. In this respect, an Oversight Committee will be formed, made up of one Vice-Presidential level representative from each of the three institutions, which will meet on a regular basis to review progress in light of agreed results frameworks and financial reporting, and to discuss risks and implementation issues (including conditions for financing). While implementing projects in accordance with the policies and procedures of their respective institutions, MIGA and IFC will periodically provide PSW portfolio and PSW project-level information to the Oversight Committee and will promptly disclose any project-level information which could reasonably pose integrity or reputational risks for IDA. MIGA and IFC shall provide to IDA such further information as it may request in order to permit IDA to adequately address any such integrity or reputational risks and IDA will have the right to join implementation/supervision missions where appropriate and in consultation with IFC and/or MIGA, in order to permit IDA to adequately review and address any such integrity or reputational risks in a manner consistent with and subject to the applicable contractual arrangements between IDA and IFC/MIGA. Where further actions are agreed by the Oversight Committee, subject to each institution's governance structure, they will be implemented by the responsible entity. In all cases the Oversight Committee shall ensure appropriate arrangements are in place to protect the confidentiality of client information while ensuring adequate information flow for informed decision-making and streamlining of monitoring and evaluation. The proposed Oversight Committee can also be convened if there is any issue to be considered or escalated for resolution.

Conflict of Interest Management. Where conflict of interest issues arise, these would be addressed in accordance with the Guidelines on Inter-Institutional Operational Conflicts of Interest. Participating institutions will ensure compliance of proposed transactions with the PSW Eligibility Criteria and governance framework with recourse to Oversight Committee for review of any conflict of interest issues that may be raised by the parties. Within IDA's internal processes, the Finance and Risk Committee (FRC) would assess as needed the risk of managing actual or perceived conflict of interest arising from cross-institutional financial engagements solely from IDA's perspective. While the overall arrangements between/among the Institutions with respect to financing under the PSW will be negotiated on an arm's length basis, given the novel nature of the PSW, and recognizing that there will be some transfer of risks from IFC/MIGA to IDA in an effort to achieve the development goals of the PSW, individual PSW transactions, in particular the LCF transactions, will not as a practical matter be negotiated or managed as typical inter-institutional transactions using a true "arms-length" approach. These aspects have been acknowledged by IDA's FRC. Accordingly, the governance structures of the PSW facilities have been designed in a way to ensure that the risks of actual or perceived conflicts of interest are mitigated to the extent practical, given the unique circumstances of the PSW described above.

Fees and Cost Sharing. To ensure that IDA is compensated for the risk it assumes under the PSW (taking into account the need for subsidy to make transactions happen) and each institution for their administrative costs (e.g., origination, structuring, portfolio management) related to the PSW, there would be an agreement that each Institution, including IDA, would receive fees and, where agreed, a share of any recoveries and/or any resulting proceeds such as premiums. The types of risk participation and volume of contribution by each Institution would be taken into account when determining the amount of such fees and appropriate sharing arrangements. Where the fees for any of the facilities will be determined by Management, there will need to be a delegation by the Board of Executive Directors of IDA to Management.

Operational Efficiency. In the interest of efficiency, and without compromising any of the principles outlined above, the Oversight Committee shall review soonest the processing of projects to be financed out of or supported by the PSW and look to streamline such processing to the greatest extent possible. In addition, it may be possible to set in place an expedited approval process based on pre-agreed criteria for eligible investments – aligning the interest of each Institution – which would then be approved by the Board of each Institution, where feasible, on an absence of objection basis.

59. **The overall PSW governance framework has three structural components, supported by a small secretariat function, as depicted in Figure 6.** IDA's Executive Directors have the ultimate authority on the use of PSW resources. The PSW Oversight Committee (OC) provides oversight, advice and recommendations with respect to any differences that may arise between institutions. The four PSW facilities each have their own facility-level governance process, leveraging existing IFC/MIGA processes. A Secretariat, housed at the Bank, provides day-to-day support to the PSW governance process and interfaces with IFC's IDA PSW Coordination Unit and the relevant MIGA team.

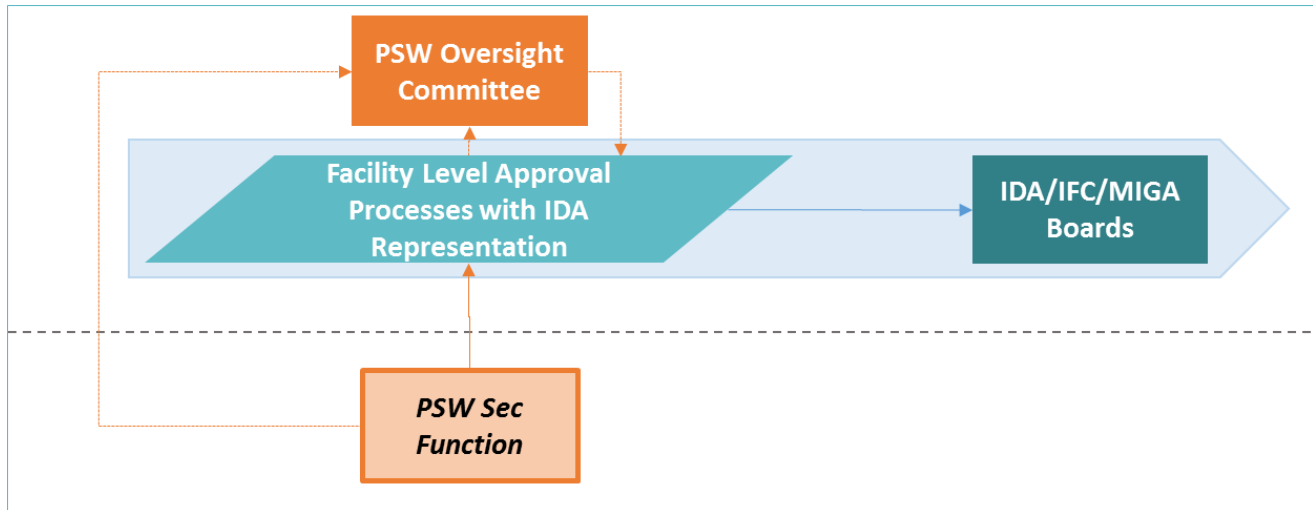
60. **The ultimate authority for approving the use of the PSW resources in supporting each of IFC or MIGA transactions rests with IDA's Board of Executive Directors.** The use of PSW resources to support any IFC investment or MIGA guarantee will have to be approved by IDA's Executive Directors on a transaction-by-transaction basis or through a delegation of authority to IDA's management following IDA's existing governance structure and processes, while the IFC operations (under the RMF, LCF and BFF) and MIGA operations (under MGF) will be approved by their respective Boards. The IDA Board of Executive Directors does not approve any transaction-specific elements, but solely focuses on the use of PSW resources and the amount to be deployed in support of a particular IFC or MIGA transaction. To ensure efficiency, joint Board approval will be sought with appropriate documentation and procedures. A Memorandum of the President (MOP) will be prepared presenting to the IDA Board the proposed PSW use in supporting the IFC investment or MIGA guarantee based on the eligibility and prioritization criteria and the MOP will be attached to the Board package of the proposed IFC investments and MIGA guarantees. Given the innovative nature of the PSW, the first three transactions supported by each of the PSW Facilities⁴⁷ will be presented for a Joint Board discussion on the basis of the aforementioned documentation. Afterwards, the existing IDA, IFC and MIGA policies for streamlined approval on Absence of Objection (AOB) basis by the IDA, IFC and MIGA Boards can be applied to PSW-supported transactions.

61. **The PSW Oversight Committee ("PSW-OC") will be responsible for providing strategic oversight and guidance on a regular basis including on demand and pipeline management, conducting periodic review of the PSW's performance at the portfolio level, and providing management advice and recommendations on transactions escalated to its attention.** The PSW OC will be comprised of one senior management representative at the Vice-President level each from IDA, IFC and MIGA. Working on a consensus basis, the PSW-OC will convene regularly to review progress at the portfolio level PSW supported projects, including how the PSW is achieving development impact, strategic objectives in IDA and FCS, allocation across the facilities, and any escalated matters as needed. Periodic review will also focus on the pipeline of potential projects and any emerging risk issues including overall exposure across countries and sectors. The PSW-OC could also guide the PSW to adjust implementation based on learning from feedback loops. In addition, the committee will provide regular updates to senior management of

⁴⁷ Given that there are different types of PSW transactions being proposed, Management may increase the number of initial transactions to be presented for a joint Board discussion, such that the degree of Board oversight is commensurate with the risk in different transaction types.

each institution, and if needed may also bring specific transactions to the Chief Executive Officers of all three institutions for review.

Figure 6 : Overview of PSW Governance Structure



62. **At the facility level, governance arrangements will be tailored to facilities building on existing IFC and MIGA processes, and with appropriate IDA representation.** This will ensure that additional transaction processing time and cost are minimized without undermining the governance principles of the PSW. An escalation mechanism is built into all facility-level processes that each party in the review processes has the ability to escalate to PSW-OC in the event of disagreement on PSW use. These PSW governance processes should be time-bound and efficient to meet timelines of private sector clients and projects.

63. **The PSW Secretariat will provide the necessary support to the PSW-OC, relevant facility-level governance processes, and coordination among the IDA, IFC and MIGA teams.** The Secretariat will be the point of contact with regard to the use of the PSW housed at the Development Finance Vice Presidency, and will support review and clearance processes including supporting IDA representation. It will provide secretariat support to the PSW-OC, monitor the portfolio during implementation, manage the performance and results framework and reporting, and organize evaluations as necessary. It will also support knowledge and learning, as well as communication and outreach functions in coordination with relevant IFC and MIGA teams, experience sharing and learning with other MDBs e.g. EBRD and AfDB who are running similar facilities. In fulfilling its functions, the Secretariat will work across the WBG, especially operational teams with the relevant experiences including OPCS, PPP CCSA, GIF, CRO, TRE, LEG, relevant Regions, GPs, IFC's Blended Finance department, MIGA's Operations Department, and others. The Secretariat is intended to be a nimble function that provides efficient support, rather than a bureaucratic structure.

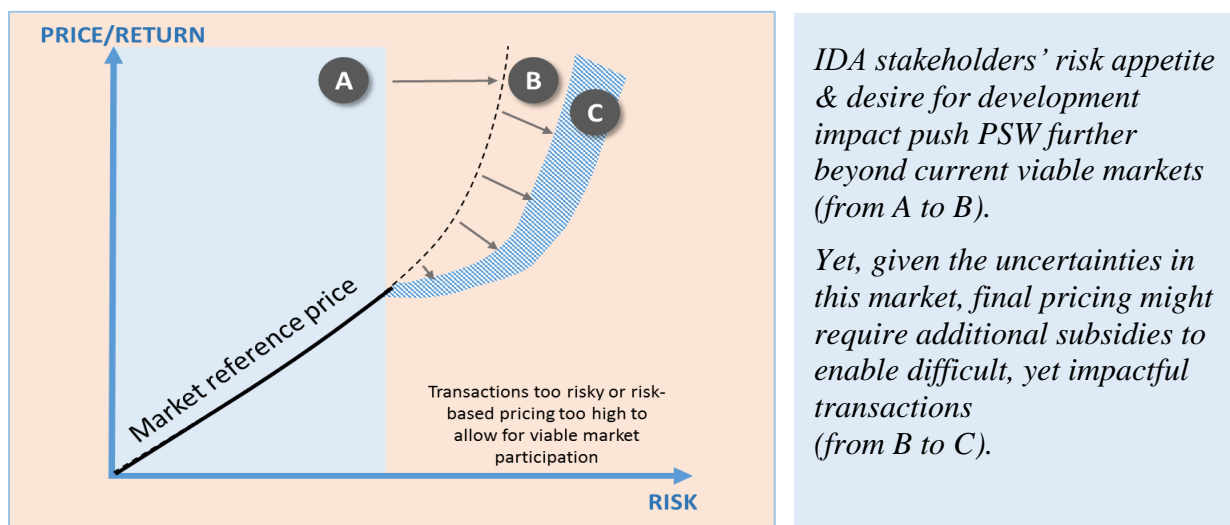
64. **A robust process will also govern any new facility or instrument that may be proposed for inclusion in the PSW.** As the PSW moves into new markets, additional instruments and tools aligned with the PSW objectives, criteria, and financial and risk parameters, may be proposed to address new conditions and needs. When a new facility or instrument is proposed under the PSW framework, it will be presented to the PSW Secretariat by IFC and/or MIGA responsible for

implementation of the facility or instrument after ensuring compliance with its own policies and procedures. After the review by the PSW Secretariat, it will be presented to the PSW Oversight Committee to ensure its alignment with the PSW objectives and criteria. On the IDA side, the financial parameters and risk guidelines will be reviewed and approved by the Bank's Finance and Risk Committee (FRC) based on recommendation by its sub-committee, the New Business Committee (NBC). IDA Deputies will be consulted either at the Mid Term Review or at one of the Spring or Annual Meetings technical update sessions. Following IDA Deputies' endorsement, the proposed new facility or instrument will be presented to the Boards of the respective institutions for approval. Transactions supported by a new facility or instrument will be approved by the relevant Boards.

VI. RISK REVIEW AND MANAGEMENT

65. **Given the significantly increased risks that the PSW will introduce to IDA, Management acknowledges the trade-off between additional risk-taking and enabling high-impact projects in difficult markets while introducing approaches to mitigate the various risks to the extent possible.** Bearing in mind IDA's fiduciary responsibility to the funds entrusted to it by contributing partners, Management has analyzed the potential financial, development impact and implementation risks – each of which could lead to reputational impact – to inform the risk management approach for the PSW. Furthermore, it has incorporated feedback from IDA stakeholders, who have expressed a high risk appetite and have encouraged IDA, IFC and MIGA to take additional risks to achieve the objective of the PSW even if it means the PSW incurs losses that would not be recovered even over time. Given the higher-risk environments in which the PSW will operate, it should also be acknowledged that the reputational, development impact and implementation risks may present a considerable challenge in such markets.

Figure 7 : Illustration of how the PSW is targeted to enable risk/price-prohibitive transactions



66. **Financial risks.** The expected PSW financial activities will expose IDA to private sector risks, to the risk of State-Owned Enterprises (SOEs) without the benefit of a sovereign indemnity, and to currency risk. IDA acknowledges the likelihood of incurring losses in PSW facilities, and

in some cases, the risk of financial loss to IDA could be substantial. In this context, IDA stakeholders have expressed a high risk appetite and have encouraged IDA, IFC and MIGA to take on additional risks for development impact, even if it means the PSW could incur losses.

67. **As a high -risk pilot, the PSW will be managed to mitigate the impact of financial risks to the extent possible, but it must be recognized that such mitigants may not be sufficient to prevent losses.** First, the PSW will be implemented as a pilot during IDA18 to ensure that the attendant risks of the PSW are contained on IDA's balance sheet. Potential losses associated with the PSW will be limited to US\$2.5 billion, and in recognition of the substantial risks involved, this amount will be set aside at inception for IDA's capital adequacy purposes and will no longer be available for backing other IDA activities. Second, the risk management approach will embed guidelines, which will stipulate that transactions be limited such that the maximum loss to IDA is the US\$2.5 billion with caps also defined on losses to IDA for each facility. IFC and MIGA will be responsible for developing and pricing projects that fall within the guidelines. Third, while most financial structures planned for the PSW will require IDA to assume a riskier financial position to enable high risk projects, IFC and MIGA (for MGF) will maintain a certain level of financial interest in the underlying project benefitting from the PSW.

68. **Additionally, the PSW's pricing process – used to determine compensation to IDA and the subsidy that IDA provides - will be documented to facilitate understanding of the risks.** As a first step, the pricing framework will determine, on a best efforts basis, a model price that considers the risks, uncertainties and costs of the underlying transaction. These risks are comprised of expected and unexpected losses. In the case of the MGF, MIGA's existing pricing model would be utilized in line with MIGA's experience with CAFEF. However, in other facilities of the PSW, given the high-risk of the intended PSW engagements, it is expected that this model price will be price-prohibitive in most cases, for consumers in IDA and FCS countries. Therefore, the final PSW pricing will require some level of subsidy from the model price. Most transactions are expected to have subsidies that will result in compensation to cover expected losses, although in practice it will be difficult to estimate accurately at inception the expected losses and the project's probable losses. However, there may be transactions in which the development impact justifies a level of subsidy that depletes capital, going below compensation for expected losses. IFC and MIGA will endeavor to mitigate the potential loss of the PSW-allocated capital by way of application of their diligence processes and structuring practices. Box 4 illustrates these concepts.

Box 4 : Summary of Pricing and Risk approaches by PSW Facility

Pricing for PSW investments will vary depending on the instrument, market conditions, and the specific need for blended finance, including development impact. The financial structure of each investment – including size, tenor, credit enhancements – will factor into the pricing.

Individual transaction reviews will i) establish a “market” based price as a reference point and then ii) quantify the concessionality needed (in the IDA-funded co-investment) to enable a transaction. This will enable the application of the ‘minimum subsidy’ principle at the transaction level, as well as aggregate reporting of concessionality at the window level.

When possible, the ‘market’ based price for the reference price point will come from established methodologies. For the Blended Finance Facility (BFF), IFC’s established pricing approaches for its own investments will be used as reference. Under the MIGA Guarantee Facility (MGF) risk-sharing arrangements, the pricing framework will rely on MIGA’s models, and reinsurance market pricing, as appropriate. IDA will receive a share of the premium income paid by private sector participants based on IDA’s pro-rata share of risk, net of MIGA’s customary ceding commissions

In some cases, the proxy for the ‘market’ based price will be modeled to reflect ‘commercial’ level expectations of compensation for the PSW risk being taken, with the recognition that there are no directly applicable pricing approaches (and often sparse data).

- For the Local Currency Facility (LCF), due to the nature of the markets where it will operate and due to the lack of market data, standard methodologies would be subject to considerable uncertainty. Hence, the proposed pricing framework will need flexibility to modify the fee compensation and risk estimates related to unexpected losses as the portfolio evolves.
- For the Risk Mitigation Facility (RMF), a pricing guideline will be developed taking into account expected and unexpected losses on a portfolio basis and the subsidy needed for the project to be viable. The resulting pricing is expected to be set at a premium to IDA’s existing project-based instrument, given the increased risk due to the absence of recourse to a sovereign. Regular management reviews will ensure that the actual risks of the portfolio closely track the risks and concessionality assumed in the projected portfolio; if the actual risks significantly deviate beyond agreed parameters, the pricing approach will be revisited.

69. **Specific features of each facility will reinforce transparency on the extent of subsidy usage and efficiency across the PSW, especially when benchmark data is not available.** First, IFC and MIGA teams will be required to report periodically on aggregate subsidy usage. Second, as part of IFC’s and MIGA’s responsibilities for managing their respective projects that benefit from the PSW, they will manage such projects with a view towards the financial investment objective set forth by IDA: to try to mitigate potential losses to PSW capital and the financial performance of the PSW will be monitored closely. If subsidies are overused, IFC and MIGA will not be able to meet this objective. The push to support investments in more difficult markets may lead to losses due to risk, not just due to subsidy. Regular reporting to senior management on how each facility is performing against this objective could prompt mid-course corrections. Finally, the transactions that embed risk-sharing or transaction participation will lead IFC and MIGA to seek appropriate compensation for their own accounts, and therefore minimize subsidy usage.

Box 5 : Illustration of Risk, Pricing and Capital

The following illustrates the connections between the PSW pricing framework with risk and capital.

The PSW is designed to support risky projects in challenging environments where actual price levels for risk may be prohibitively excessive to allow for investor participation in transactions. As a mechanism to advance the projects, the PSW funds through any of the various facilities can offer a ‘blended’ price to make the financing terms agreeable. The price would often be below what a commercial enterprise would require, and in some cases be represent the only price where no other financing mechanisms exists. This is meant to drive development impact. The difference between the price the market would charge if available to cover transaction and country risks and the PSW price can be classified as a subsidy (see Box 4). That subsidy could have a negative impact on the PSW’s capital. For illustrative purpose, this box explores the links between risks, pricing (and subsidy) and capital with the example of a portfolio of guarantees.

Assume the PSW is covering a portfolio of guarantees, IDA will receive a premium which ideally should offset the expected loss of the guarantee called. However, to absorb any unexpected loss, the PSW would set aside some capital, which has an opportunity cost (defined by the amount of capital set aside times IDA’s cost of capital). A market or model price for the guarantee premium would therefore be the sum of i) expected losses, ii) any opportunity cost for holding capital to satisfy a level of unexpected losses (based on a standard capital cost in the market) and; iii) any associated costs.

The PSW can on average provide below-market prices since its cost of capital is lower than a commercial operation even with a hundred percent capital supporting each dollar of risk. Beyond this, in most cases, the PSW will be required to seek less compensation for its cost of capital, possibly receiving compensation only to cover expected losses, or the average level of losses (i.e. it would receive compensation for item (i) of the three components noted above). In such case, if the average level of defaults occurs, IDA would have received enough compensation to offset the loss, and therefore maintain its nominal capital levels. If losses go beyond average expected levels or if IDA decides to price below expected losses (e.g. in return for an expected very significant development impact), then IDA’s capital could be depleted.

The above highlights how risk-taking will translate into the need for a higher subsidy and increased possibility for depletion of PSW allocated capital. On the other hand, it also shows that in theory even if there is a subsidy involved to make transactions viable, the PSW might still be able to preserve its capital if expected losses can be estimated with precision and actual losses do not deviate from expectations.

While the calculations are simple, arithmetically, it will be difficult to produce reliable results given that the assumptions will have to rely on limited – if any – data. While building on the experience of IFC and MIGA, key parameters like the ex-ante probability of default (and the chance of recovery) are very uncertain. That is why the PSW is built on a transparent framework to monitor the use of the subsidy and the deployment of the window, as well as clear governance to enable an assessment for each transaction of the justifications for the subsidy and a review at the portfolio level on performance. These mitigants, while helpful and necessary, will not be sufficient to preclude the likelihood of losses to IDA from PSW engagements.

70. **Development impact risks.** Development impact risks arise from the uncertainty in achieving the expected development outcomes and demonstration effect through PSW investments and participations in frontier markets and sectors. Furthermore, while PSW interventions will be necessary to enable projects in challenging markets, there is a risk that these interventions could distort markets and not foster sustainable private sector development.

71. **Consideration of ways to address development impact risks have resulted in the PSW eligibility and prioritization criteria.** (Section III. C) Of the PSW criteria, specific criteria were selected to prioritize proposed projects based on expected development impact potential and risk: alignment with IDA18 strategic themes and poverty focus; alignment with WBG country strategies; additionality and alignment with cascading approach; minimum concessionality and

limited market distortion; sustainability and market creation potential. Using these criteria as a filter, the PSW will actively seek to promote engagements that limit market distortion so that new markets can be created in IDA countries.

72. **The PSW results measurement framework focuses on limiting development impact risks by prioritizing development impact over transaction volumes.** Similarly, while the leveraging impact of a specific PSW project will be an important measure of the extent the PSW helps to mobilize the private sector, more important will be ongoing assessments of the potential for private sector mobilization for subsequent projects in the same market, which result from the initial PSW intervention.

73. **All IFC and MIGA-supported projects are expected to meet their respective Performance Standards and other requirements (e.g. related to integrity and sanctionable practices).** Environmental and social risks will be managed through identification of environmental and social impacts, risks and opportunities of projects and effective community engagement through disclosure of project-related information and consultation with local communities. These risks are a key consideration for both IFC and MIGA in supporting projects especially in higher risk environments.⁴⁸

74. **Implementation risks.** Given the challenges and additional risks resulting from private sector investment in difficult environments, expectations for scaling up the PSW engagements need ambitious, yet realistic goals. It will take time to develop sound, bankable projects, especially in the infrastructure space. Furthermore, the success of PSW-supported projects will also be dependent on ongoing sectoral reforms initiated across the WBG that improve overall investment climate, government capacity, governance, interest from experienced private sector sponsors, development costs and risks of operations. For example, in the infrastructure space, this work would include creating a long-term sustainability plan for a particular sector dominated by a state-owned enterprise (SOE) (e.g. through the design of a recovery plan for the power sector to improve the creditworthiness of a national utility). (See Box 1 on the Cascade Principles / Maximizing Finance for Development.) As the PSW is intended to allow new activities that are currently not viable or cannot be supported within the current array of instruments, IDA, IFC and MIGA management teams are in the process of developing their implementation arrangements to scale up operations for the PSW. See below in Section VII.

75. **Ongoing reporting and monitoring will be a critical part of the PSW's implementation.** At the management level, the PSW-OC will review the financial and development progress of PSW activities, upcoming pipeline development, and arising risks in the overall PSW portfolio.⁴⁹ In addition, the PSW-OC will be involved in addressing matters that are escalated for its guidance, although final decision making will remain with each institution for each facility as appropriate. On a transaction level, each entity's approval process will uphold investment standards while ongoing monitoring and reporting will update management on progress

⁴⁸ Please refer to "IFC Performance Standards on Environmental and Social Sustainability", January 1, 2012, and MIGA Performance standards (<https://www.miga.org/projects/environmental-and-social-sustainability/performance-standards>).

⁴⁹ Financial reporting to IDA Management will be circulated to FRC as well.

of each PSW-funded activity. Management would look to adjust the pilot based on financial and development results as well as lessons learned during implementation.

76. **Reputational risks.** Beyond financial, development impact and implementation risks, reputational risks may arise from conflicts of interest and moral hazard in inter-WBG transactions. The PSW may expose IDA to the reputational risks carried by IFC and MIGA transactions, and may raise bias or perception of bias that IDA's policy advice to public sector clients would be partial towards protecting its investments through the PSW or towards firms that benefit from support from the PSW. Moreover, given the novel nature of the PSW, and recognizing that there will be some transfer of risks from IFC/MIGA to IDA in an effort to achieve the development goals of the PSW, individual PSW transactions, in particular the LCF transactions, will not as a practical matter be negotiated or managed as typical inter-institutional transactions using a true "arms-length" approach. These aspects have been acknowledged by IDA's FRC.

77. **The primary means to managing reputational risk is through a robust governance process and transparency in implementation.** To ensure that the PSW is designed to achieve its objectives, rigorous and transparent application of the PSW eligibility and prioritization criteria will be essential. Transparency in PSW's implementation including pricing, decision-making and results reporting will also help mitigate reputational risks. The deliberation and decision process will be recorded systemically. Cases with elevated risks (including reputational risks) will be escalated to Senior Management. Conflict of interest risks will be managed based on the governance principles of the PSW (see Box 3). Each institution would vet cross-institutional transactions independently, and the Guidelines on Inter-Institutional Operational Conflicts of Interest will apply. Continued attention and risk management will be required in implementation to ensure IDA's policy neutrality is maintained.

VII. IMPLEMENTATION ARRANGEMENTS

78. **Work is underway to ensure that implementation arrangements are in place for the PSW to be fully operational from July 1, 2017.** The IDA, IFC and MIGA management teams are focusing on pipeline development, organizational/business changes as needed, budget implications and system readiness. The incentives are aligned for all three WBG institutions to deliver on the PSW given its strategic importance.

WBG joint planning to support pipeline development

79. **The PSW will build on existing WBG platforms to plan jointly and identify opportunities for WBG support to private sector investment.** The design of the PSW including through the governance process builds in incentives for WBG teams to consult upstream, and aims to advance further current level of WBG collaboration. Existing processes to develop Systematic Country Diagnostics (SCD), Country Partnership Frameworks (CPF), and Joint Implementation Plans (JIP) will serve as mechanisms for identifying key country needs and possible uses of the PSW. IDA, IFC and MIGA have commenced internal outreach to regional and operational teams to explain the potential opportunities afforded by the PSW. Regional management team meetings and retreats led by Regional Vice Presidents have taken places in several regions including Africa, South Asia and East Asia and the Pacific to identify priority countries and sectors for potential PSW projects and building pipeline. (See Box 6.)

Box 6 : Regional Updates on Working as One WBG to Create Markets

The Africa Region is adopting a sequenced approach to creating markets: It is scaling up private sector solutions and catalyzing private capital through value chain approaches, new products and solutions, and leverage. The WBG teams working on Africa are discussing countries of focus and sector priorities, with potential use of the PSW in supporting energy access and renewable energy, value-adding agribusiness, sanitation, telecom technology, and financial institutions and capital markets.

In the South Asia Region, the WBG is investing in the ‘upstream’ work to create markets and catalyze private investment through One WBG solutions, including significant progress on transforming the energy sector in Pakistan, power and banking, and a joint WBG approach to power in Nepal. Indicative focus areas for IDA18, including the use of the PSW, have been identified including energy and renewable power generation, manufacturing, agribusiness and services, etc.

In the Middle East and North Africa Region, as the WBG teams prepare for recovery and reconstruction, MENA’s pioneering work in applying the Cascade approach will also be used in recovery and reconstruction in Syria and Yemen, including supporting the upstream work needed to crowd in the private sector and build sectoral institutions that are open to markets and private sector financing and management. Djibouti has had private operators in its port for some years and the country is working with the IFC on a PPP framework.

In the East Asia and the Pacific Region, WBG teams are working together on regulatory policies, PPP (i.e., Solomon Islands Hydro), Financing with risk mitigation (i.e., Myanmar Gas Power generation, Mongolia Oyu Tolgoi mine). The WBG regional teams are discussing the potential IDA18 opportunities, focusing on financial inclusion, agribusiness, sustainable energy, and PPPs, including the deployment of PSW.

In the Europe and Central Asia Region, creating markets and a vibrant private sector are central to its focus on sustained and inclusive growth. De-risking private investment is an important tool to serve its IDA clients, focusing on infrastructure, energy, SME, agribusiness.

In the Latin American and Caribbean Region, fostering private sector development is key to serving its IDA clients. WBG teams are working together in strengthening the enabling environment, invest & de-risk and mobilize private investment. Countries like Haiti will be an important focus.

80. The WBG teams are preparing for external client engagements to introduce the PSW as a new instrument and discuss potential opportunities. The next WBG Development Finance Forum taking place in Ghana later in 2017 will focus on unlocking business opportunities in Africa and bringing in policy makers, private sector and development partners together. A Spring Meeting event is also envisioned to discuss with stakeholders the potential use of the PSW to create business opportunities in the most difficult markets. A WBG communication strategy is being put in place to ensure consistency and clarity.

IFC’s and MIGA’s organizational/ business changes

81. IFC and MIGA are making some organizational adjustments to better position their staff to deliver on corporate commitments including the PSW. (details see Annex 4)
Specifically:

- IFC has established a new Blended Finance department to focus on improving efficiency and targeting of blended finance in IFC. IFC has also identified anchors in regional/industry departments with co-reporting arrangements to support blended finance platforms and investment teams. Moreover, within the Blended Finance department, there will be an IDA-PSW Coordination unit to lead the coordination and representation of IDA-PSW for IFC and coordinate facility-level PSW implementation plans among other activities.

- MIGA is appointing a Lead for the PSW including support underwriting for MGF, and anchors in industry teams to support origination efforts. MIGA has also enhanced its support to Africa with the appointment of an Africa Regional Hub Lead located in Senegal. This appointment has increased MIGA's global footprint in a key region for PSW.
- IFC and MIGA are also putting more emphasis on frontline engagements in conflict-affected markets to ensure support to private investments takes into account the conflict environment and its various fragilities. Building on IFC's experience with its CASA facility and MIGA's experience with CAFEF and working with the FCV team and other partners, IFC and MIGA teams will continue to explore effective ways to engage in conflict-affected markets with sensitivity.

82. **Additionally, IFC's Advisory Services (AS) will be reoriented and scaled up to support IFC 3.0 strategy, and to be deployed alongside with the PSW to enable transactions.** IFC's new Advisory services strategy will enable it to achieve a significant scale-up of its operations in IDA and FCS countries, strengthen delivery capacity in difficult markets, ground advisory in key analysis through country PSD diagnostics and partnership frameworks and help identify sector transformation goals and the sequence of interventions required. Realizing that the challenge in PSW-eligible countries goes beyond financing, technical advisory support will enable project preparation and support these investments to enhance to success of the PSW.

Budget implications and system readiness

83. **IDA, IFC and MIGA will seek to recover each institution's incremental costs to deliver the PSW.** These costs will be kept to a minimum to reduce the impact on affordability of the window for the clients and target beneficiaries. Critical upfront costs to launch the window have been included in WBG budget process for FY18 to ensure that the required resources are in place to support a successful launch of the window by July 1 2017.

VIII. CONCLUSIONS AND RECOMMENDATIONS

84. **Conclusions and recommendations.** Management recommends that:

- the IFC Board of Directors approve IFC's participation in the RMF, LCF and BFF of the PSW in accordance with its applicable policies and procedures;
- the MIGA Board of Directors approve MIGA's participation in the MGF and in the RMF as administrator of RMF guarantees, in accordance with its applicable policies and procedures;
- the IDA Executive Directors, the IFC Board of Directors and MIGA Board of Directors approve contents of the Joint IDA-IFC-MIGA Policy on the IDA18 IFC-MIGA Private Sector Window, attached in Annex 1; and
- the IDA Executive Directors approve the application of all applicable IFC and/or MIGA policies and procedures (as the case may be) with respect to the use of PSW resources in support of the relevant IFC and/or MIGA transactions, with the understanding that IDA's policies and procedures will not apply.

Annex 1 : Board Policy

IDA, IFC, MIGA Joint Policy

IDA18 IFC-MIGA Private Sector Window

Bank Access to Information Policy Designation

[Public] [Official Use Only] [Confidential] [Strictly Confidential]

Catalogue Number

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[Issued and effective] [Issued] [Last Revised]

[Insert date]

[Effective]

July 1 2017

Content

Applicable to

IDA, IFC, MIGA

Issuer

IDA Board of Executive Directors

IFC Board of Directors

MIGA Board of Directors

Sponsor

Director, IDA Resources Mobilization, DFI

Director, IFC Blended Finance

Director, MIGA Operations



Section I – Purpose and Application

1. This Policy sets out the principles, scope and governance framework for the IDA18 IFC-MIGA PSW during the IDA18 period. The *Board Paper: Operationalizing the IDA18 IFC-MIGA Private Sector Window, dated [April 11 2017]* provides additional background on the operationalization of the PSW and can be referred to for purposes of interpreting the Policy.
2. This Policy applies to IDA, IFC and MIGA.

Section II – Definitions

1. As used in this Policy, the following capitalized terms and acronyms have the meanings set forth below:
 - a. **CPIA** means the World Bank’s Country Policy and Institutional Assessment
 - b. **FCS** means fragile and conflict affected states
 - c. **IBRD** means the International Bank for Reconstruction and Development
 - d. **IDA** means the International Development Association
 - e. **IDA18** means the eighteenth replenishment of IDA’s resources
 - f. **IDA-only** means to IDA regular, non-gap, non-blend countries
 - g. **IFC** means International Finance Corporation
 - h. **MIGA** means the Multilateral Investment Guarantee Agency
 - i. **DFi** means the Development Finance Vice Presidency of IBRD
 - j. **PSW** means the IDA18 IFC-MIGA Private Sector Window.
 - k. **FRC** means the Financial and Risk Management Committee in IBRD
 - l. **Fragile or conflict-affected IDA-gap and blend countries** means IDA gap and blend countries with a World Bank CPIA rating below 3.2 or presence of a UN peacekeeping or peacebuilding mission.
 - m. **Management** refers to the oversight mechanisms to provide guidance to the operations of PSW within IDA, IFC and MIGA. This includes the PSW Oversight Committee, for IDA the FRC, and other review structures for IFC, MIGA and IDA respectively.
 - n. **PSW OC** means the joint IDA/IFC/MIGA Oversight Committee established to provide strategic oversight, advice, guidance and recommendations in the context of the PSW, as further specified in the PSW Oversight Committee Procedure.

- o. **SMEs** means Small and Medium Enterprises
- p. **Subsidy** refers to the difference between commercial terms available for the same or similar product and the terms of PSW-enabled finance product.
- q. **World Bank** means IBRD and IDA

Section III – Scope

1. The PSW is established within the IDA18 commitment authority, on a pilot basis, with allocated IDA resources of \$2.5 billion.
2. The objective of the PSW is for IDA, through leveraging IFC and MIGA platforms, to support mobilizing private sector investment and scaling up growth of a sustainable and responsible private sector in IDA-only countries and IDA-eligible FCS countries.
3. There are four facilities established under the PSW at the beginning of IDA18: (i) *a Risk Mitigation Facility* to provide guarantees without sovereign indemnity to crowd-in private investment in infrastructure projects and public private partnerships; (ii) *a MIGA Guarantee Facility* to expand guarantee coverage through shared first-loss and risk participation akin to reinsurance; (iii) *a Local Currency Facility* to provide local currency IFC investments in PSW eligible countries where capital markets are not developed and market solutions are not sufficiently available; and (iv) *a Blended Finance Facility* to blend PSW funds with pioneering IFC investments across sectors with high development impact, including SMEs, agribusiness, health, education, affordable housing, infrastructure and climate finance, among others.
4. As the PSW moves into new markets, Institution(s) may propose additional instruments and tools aligned with the PSW objectives, criteria, and financial and risk parameters to address new conditions and needs. When a new facility or instrument is proposed under the PSW framework, it is presented to the PSW Secretariat by the Institution(s) responsible for implementation of the facility or the instrument after ensuring compliance with its own policies and procedures. After the review by the PSW Secretariat, it is presented to the PSW Oversight Committee to ensure its alignment with the PSW objectives and criteria. On the IDA side, the financial parameters and risk guidelines are reviewed and approved by the Bank's Finance and Risk Committee (FRC) based on recommendation by its sub-committee, the New Business Committee (NBC). IDA Deputies are consulted for endorsement, following which, the proposed new facility or instrument are presented to the Boards of the respective Institution(s) for approval. Transactions supported by a new facility or instrument are approved by the relevant Boards.
5. The following eligibility and prioritization criteria drive the selection of the PSW-supported projects:
 - a. Country eligibility—IDA-only and fragile or conflict-affected IDA-gap and blend countries, and the list of eligible countries are confirmed at the beginning of IDA18 for the duration of the 3-year IDA18 period, and adjusted for countries that fall back

- to IDA-only or FCS status⁵⁰ On a case by case basis, support to activities in fragile or conflict-affected sub-regions of non-FCS IDA gap and blend countries⁵¹ may be considered, subject to review by the PSW Oversight Committee, and approval by the Board in accordance with the PSW governance process; and facility-specific risk limits;
- b. Strategic alignment with IDA’s poverty focus and special themes; WBG’s country strategies; and the WBG’s approach to support private sector investment and creating markets;
 - c. Principles for using concessional finance in private sector operations: ensuring additionality, minimizing concessionality and market distortion, leading to sustainability.
6. The measurement and reporting of PSW results include aggregate reporting on performance, additionality (including subsidy use), and development outcomes of the transactions enabled by the PSW. The PSW performance and results framework are reported regularly.
 7. Governance of the PSW is guided by the following principles as further articulated in the Board paper: (i) *Accountability* through independent decision-making by each Institution in line with its unique mandate and structures, and with the ultimate approval authority for use of PSW resources lying with the IDA Board of Executive Directors; (ii) *Oversight* through clear reporting and review, with the recourse to PSW OC in the event of disagreement on PSW use and otherwise, in accordance with the PSW Oversight Committee Procedure (INSERT LINK TO OC PROCEDURE); (iii) *Conflict of interest management* through governance structures of the PSW facilities designed in a way to ensure that the risks of actual or perceived conflicts of interest are mitigated to the extent practical given the unique circumstances of the PSW; (iv) *fair compensation* through transparently and mutually agreed and articulated administration fees, reimbursable costs, and premiums to ensure IDA, IFC and MIGA are compensated for the risks it assumes while accounting for the development impact expected from projects through transparent subsidies, and (v) *Operational efficiency* through leveraging existing processes to the maximum extent possible without compromising other governance principles as outlined above.
 8. Under the PSW, IFC and MIGA are responsible for all aspects of their respective transactions to be supported by the PSW including the origination, structuring and management of those transactions, based on the structure of each of the Facilities—RMF, LCF and BFF for IFC, and MGF for MIGA. Under RMF, MIGA acts as administrator of the RMF guarantees, and IFC as administrator of an RMF account, a trust account to be established by IFC for the purpose of administering the payment flows of compensation relating to the RMF guarantees. All applicable IFC and/or MIGA policies and procedures (as the case may be) apply with respect to the use of PSW resources in support of the

⁵⁰ To be eligible for MGF, countries also need to be members of MIGA. To be eligible for IFC-managed facilities, countries also need to be members of IFC.

⁵¹ Sub-national fragility is determined through a qualitative and quantitative assessment including more than 25 conflict-related deaths per year, carried out by the FCV CCSA.

relevant IFC and/or MIGA transactions. IDA's policies and procedures do not apply. IDA is responsible for deciding whether the proposed use of PSW is aligned with the PSW objectives to achieve the intended development impact as well as the amount of resources required, taking into account appropriate risk considerations related to IDA. Leveraging IFC and MIGA's business models and client relationships, IDA does not have a downstream role in managing underlying IFC or MIGA projects, but has sufficient access to information to address integrity and reputational risks to IDA, and also continues to provide support to these projects as IDA does now for regular IFC and MIGA projects. In the case of pre-claim, claim and recoveries matters of the RMF, IDA works with MIGA, manage host country relationships and take responsibility for strategic financial decisions.

9. *Transparent risk-return management* ensures the establishment of appropriate pricing principles in light of the new risks assumed under the PSW, as articulated in the Board paper. Recognizing the higher risk carried by PSW-enabled transactions, appropriate approaches established by Management to manage and share various risks are used while still enabling high-impact projects in difficult markets. Potential losses associated with the PSW will be capped at the allocated US\$2.5 billion, and the risk management approach will be adjusted over time based on how the risk of the actual portfolio evolves.

Section IV – Exception

N/A

Section V – Waiver

Any provisions of this Policy may be waived by the Board of Executive Directors of IDA, Board of Directors of IFC, and Board of Directors of MIGA.

Section VI – Effective Date

This Policy is effective July 1 2017.

Section VII – Issuer

The Issuers of this Policy are the Board of Executive Directors of IDA, Board of Directors of IFC, and Board of Directors of MIGA.

Section VII – Sponsor

The Sponsors of this Policy are:
Director, IDA Resources Mobilization, DFI
Director, IFC Blended Finance

Director, MIGA Operations

Section XI – Related Documents

Board Paper: Operationalizing the IDA18 IFC-MIGA Private Sector Window, dated [April 11 2017].

[WBG Procedure on PSW Oversight Committee]

[IDA Procedure on PSW Secretariat and Representatives]

⁵²

Questions regarding this Policy should be addressed to the Sponsor.

⁵² The relevant Procedures will be developed and approved by Management after the Policy is approved.

Annex 2 : Indicative PSW Scale Additionality

At the aggregate level, the PSW will enhance the growth trend of IFC's and MIGA's commitments in PSW-eligible countries. Over the past 10 years (FY07-16), IFC invested US\$7.8 billion in these markets, of which US\$4.8 billion (over 50 percent) were in the past four years, reflecting IFC's important shift and increased focus on these markets. MIGA's gross issuances in the same countries over the same period amounted to US\$3.6 billion of which US\$2 billion was in FCS, and as of end FY2016, FCS exposure is 10 percent of MIGA's portfolio. While IFC and MIGA have made significant progress in growing their FCS and IDA commitments in recent years guided by both institutions' commitments to support investment in IDA and FCS countries, further support from the PSW would enable an even higher level of growth, especially into some of the most difficult markets.

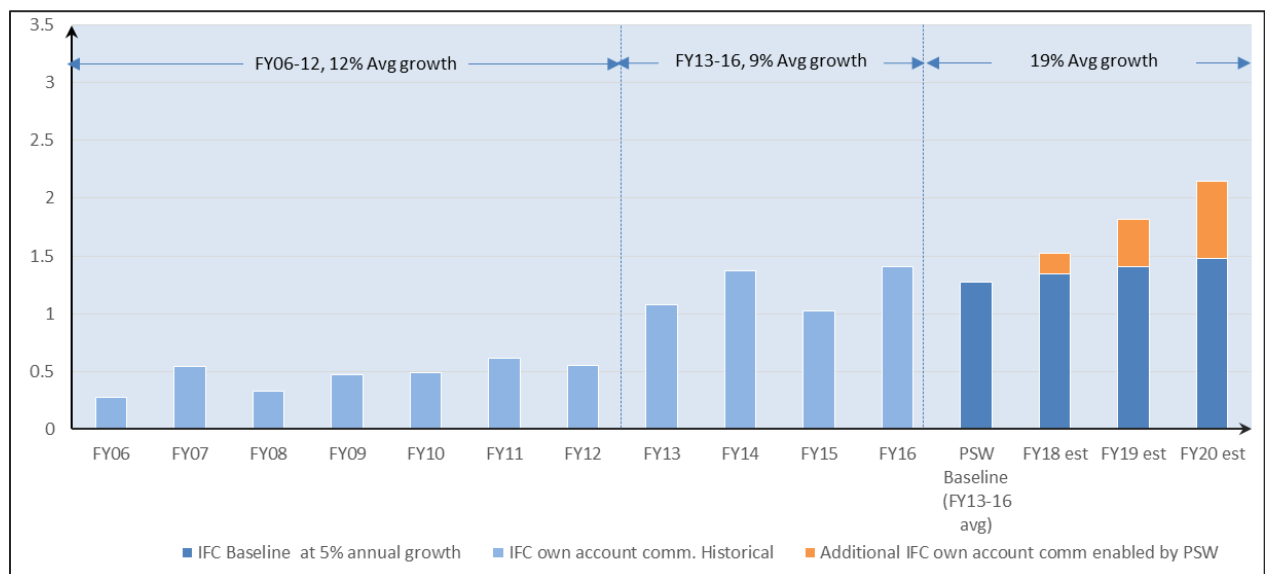
PSW support will enable IFC and MIGA to more than triple their growth in PSW-eligible countries as compared to the levels of growth that they could achieve on their own in these markets. Applying the PSW-eligible country list in FY16, Table 1 shows the annual average of IFC's own account commitments (US\$1.2 billion), and the number of investments from FY13 to FY16, as well as MIGA's average gross issuance (US\$332 million), and number of guarantees from FY06-16.⁵³ Using these averages as baseline with a five percent MIGA and IFC corporate annual growth projection for FY18-20,

- The PSW is expected to support an increase in IFC's own account investments in the PSW-eligible country markets by over 15 percent over the FY18-20 period, which represents a significant increase over IFC's baseline forecast of five percent growth between FY17 and FY19, as projected in IFC's Strategic Business Outlook. In volume terms, IFC's annual engagements in these countries are expected to grow from a baseline of US\$1.2 billion to over US\$2 billion during the IDA18 period, including IFC own account commitments enabled by PSW. (See Figure 1)
- The PSW could significantly enhance MIGA's commitments to PSW-eligible countries by adding on average close to US\$400 million annually to MIGA's gross issuance in these countries over three years. One of the main benefits of the PSW would be to enable MIGA to increase its guarantee issuance in key sectors for access to infrastructure, access to finance and jobs in difficult markets, particularly PSW-eligible FCS, and stabilize the share of IDA and FCS countries in MIGA's portfolio at a consistently higher level, beyond MIGA's overall expected new issuance growth of five percent annually from FY17 to FY20. (See Figure 2)
- These quantitative indicators on volume of commitments and number of engagements will be monitored on a continuous basis as part of the PSW performance and results framework. It is to be noted that the projected growth is to convey a sense of an overall upward trajectory of IFC's and MIGA's engagements in IDA/FCS markets, while the actual growth will be more volatile in these fragile and least developed markets.

⁵³ As data in the past ten years shows, IFC had a significant increase in the past 4 years on its engagements in IDA/FCS markets and has since maintained its engagement at a similar level, therefore using the past 4 years average as baseline reflects the reality more closely. For MIGA, the data shows the volatility of MIGA's engagements in IDA/FCS markets, the past 10-year average is in fact similar to past 4-year average.

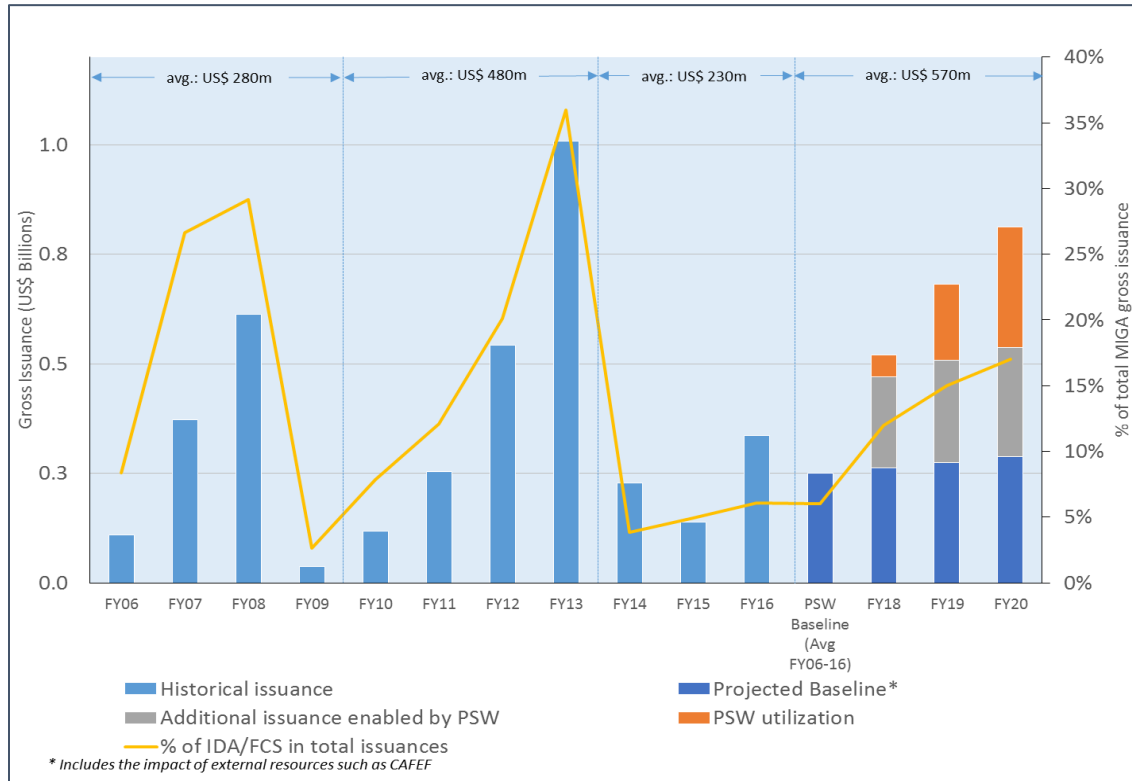
Table 1 : IFC and MIGA Own Account Commitments/Gross Issuance, in US\$, Millions

	IFC (Baseline FY13-16 Avg.)		MIGA (Baseline FY06-16 Avg.)	
	Own account commitments \$ millions	Investments (#)	Gross Issuance \$ millions	Guarantees (#)
IDA-only Non-FCS	848	55	156	4
<i>FCS (all IDA-eligible)</i>	368	24	176	4
Total	1,216	79	332	8

Figure 1 : IFC's Projected Growth in PSW-eligible Countries with PSW Support in US\$, Billions⁵⁴

⁵⁴ IFC projected growth includes IFC's own account commitments, which refers to investments from IFC's balance sheet. PSW usage is not reflected in the chart as it will be used as a guarantee or backstop across facilities in most cases.

Figure 2: MIGA's Projected Growth in IDA-only and IDA-eligible FCS Markets with PSW Support in US\$, Billions⁵⁵



The PSW will demonstrate a clear impact on mobilizing and crowding in additional private investment, both foreign and domestic, through IFC's and MIGA's enhanced engagements in IDA/FCS markets. Building on IFC's and MIGA's existing projected growth, the US\$2.5 billion PSW is expected to catalyze an additional US\$6-8 billion in private sector investment to IDA and FCS countries (see Figure 3 for IFC's and MIGA's leveraging impacts). The PSW offers a significant leverage⁵⁶ of IDA funds. On average⁵⁷, the PSW enables a leveraging ratio of every dollar of IDA capital invested to four dollars the overall investment into the IDA countries including IFC own account commitments and MIGA's additional issuance. At the facility level, the leverage is as follows:

- In infrastructure, every dollar channeled into risk mitigation instruments, leverages as much as US\$4 of total investment.⁵⁸
- Through structures involving first loss and risk participation akin to reinsurance, every dollar of PSW resources deployed results in around US\$5 of private sector investment

⁵⁵ PSW usage included in MIGA gross issuance since it will be used to issue guarantees, provide first loss instruments and risk participation akin to reinsurance under the MIGA Guarantee Facility (MGF).

⁵⁶ There is an ongoing WBG Joint MDB Task Force on Catalyzation which aims to harmonize metrics and reporting across the MDBs and will be adopted by the PSW for tracking leveraging. Once definitions are finalized, these will be incorporated in the PSW results indicators for tracking.

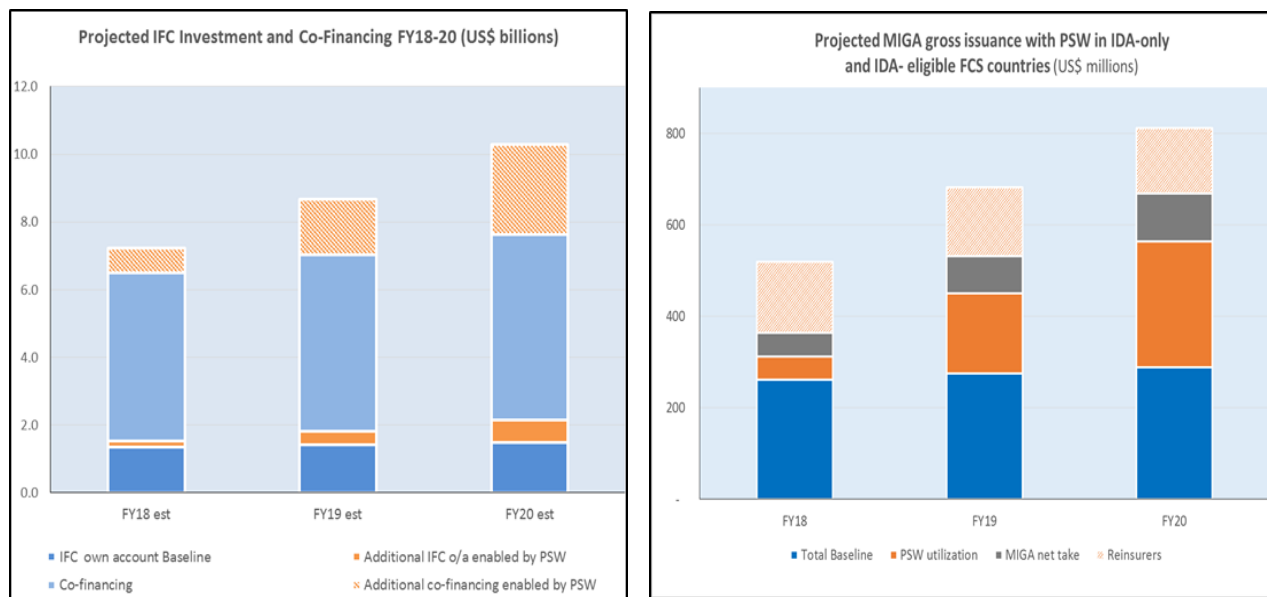
⁵⁷ Based on an approximation of expected projects to be financed under the PSW, and assuming the allocation range as specified in Section IV. Leverage ratios are based on IFC's and MIGA's past experience.

⁵⁸ This includes up to 25 percent of IFC own account investment.

mobilized and co-financed in MIGA projects on top of what it would have delivered without PSW.

- Every dollar invested into blended finance, with a focus on SMEs and agribusiness, leverages up to US\$5 in additional investment from the private sector, including IFC’s own investment over the IDA18 period.
- Through local currency hedging, every dollar is expected to leverage an additional dollar of IFC investments.

Figure 3: IFC’s Investment & Co-Financing and MIGA Gross Issuances in IDA-only and IDA-eligible FCS markets with PSW support⁵⁹



Impact on FCS markets will be a particular focus of the PSW. The PSW is a key instrument of IDA18’s scaled-up support to FCS, mobilizing both public and private sector support. By pioneering new instruments, and expanding successful recent innovations, the PSW is expected to support IFC’s ability to accelerate its impact in some of the most challenging FCS markets—by enabling growth in IFC investments to increase from an expected 5 percent annually to over 15 percent.⁶⁰ The PSW would also support MIGA’s commitment⁶¹ to FCS countries by providing a reliable source of capacity to support structures involving first loss and risk participation akin to reinsurance, that would in turn help leverage further the private sector – whether through investment or risk participation – and increase the amount of long-term finance available for these countries.

⁵⁹ IFC own account (o/a) investments refers to investment from IFC’s balance sheet. In IFC estimates, co-financing is defined as total private sector investment catalyzed for each \$1 of IFC own account investment.

⁶⁰ IFC Strategy & Business Outlook for FY17-19.

⁶¹ MIGA Strategic Directions FY15-FY17 and Mid-Term Strategy Update 2016.

Annex 3: PSW Performance and Results Framework

Objective	Indicator	Definition	Unit of Measure	Data availability
PSW Financial Performance				
PSW deployment	PSW commitments	➤ <i>Cumulative commitments from PSW</i>	\$ millions	from FY18
	PSW disbursements	➤ <i>Cumulative disbursements/allocation from PSW (not applicable to RMF, BFF and MGF guarantees which are not disbursed)</i>	\$ millions	from FY18
PSW Revenue	Fees collected from PSW transactions	➤ <i>Total PSW fees received and interests earned</i>	\$ millions	from FY18
PSW Net Losses	Net losses on PSW transactions	➤ <i>Total realized losses of PSW funds (write-offs) less any recoveries</i>	\$ millions	from FY18, may not be likely till FY20
PSW Scale Additionality				
Scale up IFC/MIGA engagements in PSW-eligible markets	IFC Commitments & MIGA Gross issuances in PSW-eligible markets with PSW participation	➤ <i>Cumulative <u>volume</u> of PSW enabled IFC Commitments & Gross issuances of MIGA Guarantees in PSW-eligible markets within IDA18 period</i>	\$ millions	from FY18
	IFC and MIGA investments/project count with PSW participation	➤ <i>Cumulative <u>number</u> of PSW-enabled IFC Commitments & MIGA guarantees in PSW-eligible markets within IDA18 period</i>	count	from FY18
	Total IFC Commitments & MIGA Gross issuances in PSW-eligible markets	➤ <i>Cumulative <u>volume</u> of IFC Commitments & Gross issuances of MIGA Guarantees in PSW-eligible markets within IDA18 period</i>	\$ millions	from FY18

Objective	Indicator	Definition	Unit of Measure	Data availability
Scale up IFC/MIGA engagements in PSW-eligible markets (cont'd)	Total IFC and MIGA investments/project count in PSW-eligible markets	➤ <i>Cumulative <u>number</u> of IFC Commitments & MIGA guarantees in PSW-eligible markets within IDA18 period</i>	count	from FY18
	Share of PSW-eligible engagements in total IFC commitments & MIGA gross issuances	➤ <i>% of PSW-supported engagements in total IFC commitments & MIGA gross issuance (in <u>volume</u>)</i>	%	from FY19
	Share of PSW-eligible engagements in total IFC commitments & MIGA gross issuances	➤ <i>% of PSW-supported engagements in total IFC commitments & MIGA gross issuance (in <u>number</u> of investments/projects)</i>	%	from FY19
Focus on FCS	Share of FCS projects in cumulative PSW-supported commitments	➤ <i>%of FCS projects in cumulative PSW commitments (in volume)</i>	%	from FY18
		➤ <i>%of FCS projects in cumulative PSW commitments (in number of investments/projects)</i>	%	from FY18
	Share of PSW-eligible FCS projects in cumulative total number of IFC and MIGA commitments	➤ <i>% of IFC / MIGA's total FCS investments/projects</i>	%	from FY19
	Share of PSW-eligible FCS projects in cumulative volume of total IFC and MIGA commitments	➤ <i>% of IFC / MIGA's total FCS volumes</i>	%	from FY19

Objective	Indicator	Definition	Unit of Measure	Data availability
Crowd in private investments	Private Capital Directly Mobilized	<ul style="list-style-type: none"> ➤ <i>Financing from private entities other than the WBG that becomes available to IDA clients at financial close due to the WBG's active and direct involvement in raising those resources*.</i> <i>(For MIGA mobilization is the total guarantee issuance)</i> 	\$ billions	from FY19
	Private (co-)financing of WBG-supported transaction	<ul style="list-style-type: none"> ➤ <i>Financing from private entities other than the WBG provided to an IDA client country as part of a project because of the WBG's role and additionality in the project. Measured by total project cost minus WBG and client government financing.</i> <i>(for MIGA this includes the total project costs, including mobilization/gross insurance plus commercial loan)</i> 	\$ billions	from FY19
	Amount re-/co-insured with private sector participants	<ul style="list-style-type: none"> ➤ <i>Amount co-insured or reinsured with the private sector under the MIGA Guarantee Facility (MIGA specific)</i> 	\$ billions	from FY19
	Subsidy element of PSW use	<ul style="list-style-type: none"> ➤ <i>Amount of cumulative indicative subsidy- calculated as the difference between commercial terms (or model price) available for the same or similar product and the terms of PSW-supported solution in any given investment and narrative explaining rationale</i> 	\$ millions	from FY18
		<ul style="list-style-type: none"> ➤ <i>% implied subsidy to total PSW project transactions volume (transaction size including other investors)</i> 	%	from FY18

PSW Scope Additionality				
New countries and sectors coverage	New countries and sectors PSW transactions are expected to enable	➤ <i>Narrative on new countries and sectors PSW transactions are expected to support compared to IFC/MIGA core business</i>	N/A	from FY18
New and expanded use of instruments	PSW enabled new or expanded instrument use	➤ <i>Narrative on new/ expanded instrument use expected to be enabled by PSW</i>	N/A	from FY18
Expanded client reach	New ways of client reach and new approaches	➤ <i>Narrative on new approaches and new ways of client reach (include WBG collaboration projects linkages between prior/current reforms and projects) expected to be enabled by PSW</i>	N/A	from FY18
Market impact	Market creation impact & risks	➤ <i>Narrative and assessments on (1) potential for market development, and (2) risks for adverse market impact.</i>	N/A	from FY18
PSW Development Outcomes and Impact				
Support IDA18 objectives and Special themes <i>*selected indicators to report from IFC/MIGA results reporting; *actual results data collection & reporting starts 3 years after commitment</i>	WBG Corporate Scorecard Tier 2 Client Results supported by WBG Operations: Growth & Inclusiveness * IFC, MIGA feed directly into these indicators	➤ <i>Farmers reached with agricultural assets and services</i>	count	from FY21 or earlier if available
		➤ <i>Beneficiaries reached with financial services</i>	count	from FY21 or earlier if available
		➤ <i>Expanded conventional & renewable power generation, of which renewable power generation</i>	GWH, annual	from FY21 or earlier if available
		➤ <i>GHG Emissions Reduction</i>	MtCO ₂ e, annual	from FY21 or earlier if available
		➤ <i>People provided with new/ improved electricity services</i>	count	from FY21 or earlier if available

Support IDA18 objectives and Special themes (Cont'd)	WBG Corporate Scorecard Tier 2 Client Results supported by WBG Operations: Growth & Inclusiveness * IFC, MIGA feed directly into these indicators	➤ <i>Students reached (segregated by gender)</i>	count	from FY21 or earlier if available
		➤ <i>People who have received essential health, nutrition and population services</i>	count	from FY21 or earlier if available
		➤ <i>People provided with access to improved sanitation facilities</i>	count	from FY21 or earlier if available
		➤ <i>People provided with access to an improved water source</i>	count	from FY21 or earlier if available
	Other selected indicators relevant to IDA18 Special Themes	➤ <i>Direct employment, disaggregated by gender</i>	count	from FY21 or earlier if available
		➤ <i>Domestic purchases (Impact on local economy)</i>	\$ millions	from FY21 or earlier if available
		➤ <i>Tax payments to Government</i>	\$ millions	from FY21 or earlier if available
Satisfactory outcome of PSW funded operations	IEG Project Evaluation results	➤ <i>% of evaluated PSW projects with satisfactory evaluation ratings</i>	%	from FY21 (evaluation process starts 3 years after signing for MIGA), FY23 (IFC)
	Investment DOTS score (IFC only)	➤ <i>% of projects that have achieved a 'High' rating</i>	%	from FY21
	IEG assessment of IFC and MIGA work quality on PSW-supported projects	➤ <i>% of evaluated PSW projects with satisfactory evaluation ratings</i>	%	from FY21

Annex 4: IFC and MIGA PSW Implementation Plans

IFC’s PSW Implementation Plan includes four key pillars: 1) strategic focus for use of the PSW, 2) new approaches to pipeline and project development, 3) changes to organizational structure, and 4) outreach and communication.

1. Strategic focus of the PSW. IFC’s new “IFC 3.0” strategy has a special focus on creating markets and mobilizing private capital, particularly in IDA countries. The PSW will help address fundamental constraints to greater investment in high risk countries and pioneering sectors—high counterparty risks, limited availability of local currency, and unusual project risks. It will be complemented by the newly established Creating Markets Advisory Window, for critical upstream and capacity development work.

Some of the areas where the PSW will be particularly important include:

- Infrastructure transactions in high risk countries that are bankable except for certain risks such as government counterparty or off-taker risks.
- High impact technology and entrepreneurial initiatives in areas such as broadband, off-grid power, climate finance, FinTech, and high growth/innovative SMEs.
- Manufacturing and service investments to create jobs and improve competitiveness in areas such as health and education, agribusiness, and affordable housing; support for pioneering investments that create demonstration effect.
- Financial intermediaries to support trade, SMEs, women entrepreneurs, financial access for the poorest—especially using digital channels, and high-impact companies in the real sector.

2. New approaches to pipeline and project development. IFC’s efforts to promote high impact projects will include enhanced ex-ante analysis of countries and sectors, a focus on identifying country/sector pairs with the highest private sector potential, and identifying where the PSW could help. Enhanced private sector analysis in the SCD and CPF processes, as well as JIPs, will be part of this approach. In addition, there will be greater advisory work and engagement with the World Bank and other partners on upstream sector/regulatory work and project development:

- Work with the World Bank will include enhanced coordination of sectoral approaches, including formal meetings to assess critical investment climate issues, particularly in infrastructure, agribusiness, health and education, technology and financial markets.
- Increased advisory work will include government regulatory reform (particularly for infrastructure, financial markets), project development (e.g. for infrastructure), community engagement and supply chain work (e.g. for infrastructure, agribusiness, manufacturing), and investment climate, Environmental, Social and Governance, and private company capacity building (all sectors).
- Important partnerships, aside from the World Bank, will include work with governments, bilateral donors and other MDBs in design and implementation of sector reforms (e.g. for infrastructure, innovation, financial reform), and co-investments and joint project development with other development institutions (e.g. for SME Ventures, innovation start-ups).

IFC may institute a new type of project pipeline tracking system – targeted at multiyear projects, in addition to the traditional fiscal year pipeline system, to support these new longer term programs.

3. Organizational structure. To better position its staff to scale up operations in IDA and FCS and to help deploy the PSW, IFC is also undertaking some organizational adjustments. The new Blended Finance Department established in January 2017 (supported by a small PSW Coordination Unit) will be IFC's focal point for the overall IDA PSW program. To support PSW implementation across IFC, a network of PSW Anchors has been established, including four anchors appointed in Industry Departments, six in Regional Departments and one in Treasury.

At the facility level, the Risk Mitigation Facility (RMF) will be housed in the Infrastructure and Natural Resources Department; the Local Currency Facility (LCF) in IFC Treasury; and the Blended Finance Facility (BFF) in the Blended Finance Department, leveraging IFC's existing blended finance approach and experience, including its governance. The Facilities will be administered by small teams, which will (i) coordinate facility-level governance; (ii) partner with investment teams to pursue and structure business opportunities; (iii) manage the portfolio of projects under the facility, and (iv) conduct tracking and monitoring, in addition to other roles and responsibilities specific to each Facility.

The implementation of the PSW will require a significant scale up or increased focus on IDA/FCS in other departments. The regional teams, led by Regional Directors and Country Managers, will play a key role in project pipeline development, identifying needs for advisory services and leading dialogue and coordination with the World Bank, MIGA and other key partners. The newly established Creating Markets Advisory Window will enable IFC to respond to the increased demand for advisory services and capacity building and will put more emphasis on creating markets in countries and sectors covered under the PSW. Other functional departments such as the Environmental, Social & Governance Department, Legal Department, Conflict & Integrity Unit, Operational Conflict of Interest, and Investment Credit Department will all play an important role in supporting the investment teams in implementation of the PSW.

IFC is currently in the process of evaluating the overall staffing and budget needs that will be required to support the full PSW rollout. The successful implementation of the PSW will require an increase in the number of IDA and FCS-focused investment staff in industry and related functional and regional departments. In this process, IFC will focus first of all on reorienting some of its strongest staff to FCS/IDA markets, and employing additional staff gradually, as the pipeline of projects grows.

4. Outreach and communications. The successful utilization of the PSW will require new ways of reaching staff to inform them about the availability of the new tools and ways to deploy them. A variety of channels will be used to conduct IFC and WBG-wide communications, including a WBG-wide launch event, town halls and knowledge forums, an e-learning video series/learning course, webex sessions, a dedicated Spark page and handbook materials, roadshows and regional visits. At the facility level, each Facility is developing its outreach plan, which will be deployed in close coordination with relevant industry departments. Within each industry department, tailored presentations, workshops, staff meetings and individual consultations will be used to explain areas of strategic focus and priorities.

Externally, the PSW-focused communication efforts will be part of the broader corporate campaign on 'Creating Markets.' IFC will conduct active outreach to other IFIs to build awareness of the PSW and maximize mobilization, and reach out to donor partners to help scale up support for increased advisory

services. IFC will leverage key global and industry-specific and regional events such as the Development Finance Forum in Accra in May/June 2017 and the European Development Days in June 2017.

MIGA's PSW Implementation Plan focuses on 1) strategic use of the PSW, 2) staffing, and 3) marketing and business development.

5. Strategic focus of the PSW. The MGF is an important element of MIGA's Mid-Term Strategy (FY18-20), where it will contribute to MIGA's efforts to (i) grow its core business and expand its impact in IDA and FCS countries, (ii) to engage its client partners earlier in the project development process, and (iii) to enhance its capabilities to join WBG efforts in creating market and spurring private sector investments especially in IDA and FCS. The MGF will address fundamental constraints where elevated risks, country limits, and/or reinsurance capacity are present.

The MGF is expected to allow MIGA to close infrastructure transactions that are otherwise not bankable but for the existence of certain risks (e.g. government counterparty or off-taker risks) that existing World Bank Group instruments cannot adequately address. De-risking of country/sector pairs would cause recalibration of investor risk perceptions and pave the way for greater commercial financing of infrastructure in the medium term. The PSW will also target investments across productive value chains in Agribusiness Manufacturing and Services sectors to create jobs and improve competitiveness, support equal access to basic services, and build an in-country skill base that collectively provide the foundations for enhanced economic growth in IDA/FCS countries. Significant opportunities are identified in the following sectors: Health, Agribusiness, Manufacturing, and Tourism. Typically, investments in projects in the 'real sectors' are capital intensive and face significant risks (logistics disruptions, policy changes, macroeconomic shocks, etc.) that inhibit immediate commercial return. Blended finance can help support "first movers" and create a demonstration effect for investing in high impact pioneering projects and activities currently perceived to be higher risk. These pioneering projects would be conceived in the context of the country and sectoral needs to ensure that instead of isolated interventions they are integral to the creation of markets.

The PSW will also help the World Bank Group operationalize the "cascade" approach, which seeks to maximize the crowding-in of private capital, before turning to scarce public investment resources, thus minimizing the public debt burden on client countries. The PSW will also provide an opportunity for the World Bank Group to operate in a more holistic manner, drawing on the expertise from across the 3 institutions, from the business environment and sectoral reforms implemented by IDA, to IFC investments and MIGA guarantees.

6. Staffing/Organizational structure. MIGA will appoint a Manager for the MGF, who will oversee the day-to-day operations and manage the Facility overall, coordinate with IDA, the World Bank and IFC. The Manager, will be complemented by Anchor staff in the field and within the Sectors. Together, they will also engage in project origination, underwriting, and monitoring of portfolio exposure (MGF deployment capacity). The MGF will utilize the full range of MIGA staff in the areas of business development, risk assessment, due diligence, contract processing, financial reporting, portfolio reporting, and communications. The MGF will use MIGA's standard underwriting due diligence process, consisting of an Early Screening Meeting (ESM), and a final decision meeting (FAM/PRC) prior to MIGA's and

IDA's Board Approvals. An IDA PSW representative will participate in the ESM and PRC meetings, to ensure the proposed investment support is in line with IDA's MGF support guidelines.

MIGA is currently in the process of evaluating the overall staffing and budget needs that will be required to support the full PSW roll out. The implementation of the PSW will require a significant scale up or increased focus on IDA/FCS in various departments. The regional teams, and sector Anchors will play a key role in project pipeline development, identifying needs for advisory services and leading dialogue and coordination with the World Bank, MIGA and other key partners. MIGA's newly established first hub office in Africa is expected to play a critical role in this regard. Moreover, MIGA will, along with IFC and the WB colleagues, identify specific countries that will attract significant attention from IDA's in engagement with their governments for reforms, in turn allowing greater opportunities for private sector interventions, so that IFC and MIGA can then work with private sector companies to achieve systematic transformative development impacts.

7. Marketing/Business Development. Because of the difficult environment for developing private sector projects in IDA-only and FCS countries, expanded business development processes will be implemented. At the sectoral level, each sector will be assessing its strategy for increasing MIGA support and lead increased private sector growth in IDA countries and identifying where the MGF could help, coordinating business development efforts with MIGA's field hubs, along with IFC and World Bank colleagues to assess critical investment climate issues in target countries.

New marketing material specific to the Facility will be developed. This will include brochures with information about the Facility, a dedicated Web page on MIGA's corporate web site (www.miga.org), fact sheet and presentations. As part of its marketing campaign, the Agency will identify key spokespersons, as well as countries and key industry events to target. MIGA will also leverage staff missions and country visits to promote the Facility in target countries.

A coordinated outreach campaign to publicize its launch and raise awareness will be conducted. This will include external as well as internal activities to allow for wide information dissemination. The Facility will be immediately marketed to clients and partner institutions by underwriters and business development personnel. The MGF will utilize a multiple channel strategy in terms of project origination. The Facility will:

- (i) originate business directly through the Agency's normal business development programs, including through its regional hubs in Africa, Europe, and Asia;
- (ii) leverage existing relationships with IFC and the WBG, and will work together with other development finance institutions (such as the African Development Bank) with access to potential projects;
- (iii) work together with identified partners, such as ECAs, multilateral providers (e.g. African Trade Insurance Agency, the Islamic Corporation for Insurance of Investments and Export Credits), and/or Commercial Banks, Private Equity Funds, etc.;
- (iv) work with its current network of brokers who can refer projects for Facility coverage; and
- (v) attend and present MIGA at Industry forums and conferences.

The MGF will seek to raise awareness of new potential clients or referrers about its products and value added for the investor community.

Annex 5: Glossary of Terms

Additionality – This refers to the concept that PSW resources will be deployed only when existing WBG products and market solutions are not deemed sufficient to address investment needs. Additionality can be expressed in terms of *scale* or *scope*. *Scale* additionality refers to the extent of enhanced IFC and MIGA engagement in IDA and FCS markets and their mobilization of additional private investment, which go beyond IFC and MIGA’s growth in these markets on their own. *Scope* additionality refers to the expansion of the scope of IFC and MIGA activities, with potential market creation impact. It could include entry and expansion into new sectors and markets, opportunities for new ways of doing business and improving business practices, and support to economic transformation of frontier markets. Note: The above definition of “additionality” is different from IFC’s definition; the latter refers to the unique benefit or value addition that IFC brings to a client that the client would not otherwise be able to obtain. See IFC guidance document DI715 (Tracking Development Outcomes for IFC investments) in the Policies and Procedures catalog for further details.

Cascade – The “cascade” depicts a hierarchical approach to financing development projects, to promote the judicious use of scarce public and concessional resources and maximize value-for-money. The cascade involves four steps in decision-making. The use of cost-effective commercial funds is prioritized, before considering other options such as support to policy reforms that address market failures; using public and concessional resources in risk-sharing instruments to lower financing costs; and finally, using public and concessional resources where commercial funding is not cost-effective or viable despite policy reforms and risk mitigation.

Direct Contract – This term describes the legal arrangement that could be used for PSW transactions between i) IDA and IFC, where IDA is guaranteeing or entering into currency swaps with IFC or ii) IDA and MIGA, where IDA is reinsuring or sharing a first loss position with MIGA. This could apply to the risk-sharing instrument under BFF, LCF and MGF.

Expected/Unexpected Loss – Expected Loss is the amount of loss that the PSW or a particular facility is expected to incur, on average. For instance, MIGA may estimate this amount for MGF including by using claims and recovery rates from historical data or industry peers when applicable. In a related vein, Unexpected Loss is the loss that could arise outside of what is expected. Both Expected and Unexpected Losses will be taken into account when pricing PSW transactions. That said, the impact of Unexpected Loss on pricing is only to the extent needed to compensate the WBG for the opportunity cost of holding capital against the potential materialization of Unexpected Loss.

Hurdle Rate: This is the reference rate of return used to define compensation for Unexpected Losses on PSW Transactions. IDA’s hurdle rate for the purpose of the PSW is linked to its alternative return from its non-concessional Scale-up Facility lending activities. Where applicable, compensation for Unexpected Loss will incorporate the hurdle rate and the level of economic capital allocated to the transaction.

IFC 3.0 Strategy – IFC’s new “IFC 3.0” strategy provides a holistic approach to tackle private sector challenges by creating markets and mobilizing the needed “billions to trillions.” The strategy gives a special focus to promoting private sector development in IDA countries, and creating or strengthening markets.

PSW Account – This term describes the contractual arrangements under the PSW in which transactions that use this approach would entail establishing PSW Account(s) to facilitate implementation of PSW financing. Through the arrangements, funds could flow between IDA and IFC/MIGA based on specific triggers related to the PSW projects, e.g., called guarantee, loan disbursement, equity funding, fee payments. Until triggers occur for payments by IDA, funds would remain on IDA’s balance sheet. The PSW account(s) would be reported on IDA’s books. This could apply to BFF and RMF.

Minimum concessionality – Acknowledging that the use of PSW involves subsidy elements in supporting private sector investments, the use of PSW will follow a “minimum concessionality” approach to ensure that projects supported by the PSW only receive the minimum level of subsidies required for the projects to be viable. This will be reviewed in the governance process, and the use of subsidy will be transparently monitored and reported. Minimum concessionality reduces the potential for market distortion and helps accelerate transformation of nascent markets.

Oversight Committee – The PSW Oversight Committee will be responsible for providing strategic oversight and guidance on a regular basis, conduct periodic review of the PSW’s performance at the portfolio level, and provide management advice and recommendations on transactions escalated to its attention. The Committee will be comprised of one senior management representative at the Vice-President level each from IDA, IFC and MIGA and will convene regularly. Decision-making authority for PSW transactions on their balance sheets remains with IDA, IFC and MIGA respectively in accordance with existing policies and procedures.

Pari-passu – This describes a type of risk-sharing arrangement where two or more participants to a transaction are treated equally in accordance with the size of their respective shares in a transaction without display of preference or seniority. In the MGF Shared First Loss transaction, for instance, IDA and MIGA would participate on a pari-passu basis and have equal rights to fee income, recoveries, etc, as well as bear risk relative to their shares in the transaction within the Shared First Loss tranche in transactions where MIGA and PSW both participate in the First Loss.

Subsidy – As PSW is intended to de-risk and facilitate development projects that would otherwise not be viable, it would likely entail the provision of a subsidy. As an overall approach, the PSW will measure the level of subsidy as the difference between the (cheaper) PSW product, and the (more expensive) market or model price for a similar product that is otherwise infeasible. When a commercially-determined price is not available, relevant benchmarks can be used as a proxy.