IDA/IFC/MIGA Policy

IDA18 IFC-MIGA Private Sector Window

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Content
This Policy sets out the principles, scope and governance framework for the IDA18 IFC-MIGA PSW during the IDA18 period.

Applicable to
IDA, IFC, MIGA

Issuer
Boards, IDA, IFC, MIGA

Sponsor
Vice President, DFIVP; Vice President, CEDVP; Vice President and Chief Operating Officer, MIGCO
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.

2. This Policy applies to IDA, IFC and MIGA.

SECTION II – DEFINITIONS

3. 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. PSWOC 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 Group or WBG**: The common name used for concurrent identification of all the WBG Institutions.

r. **WBG Institution or Institutions**: Any one of the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA).

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**SECTION III – SCOPE**

4. The PSW is established within the IDA18 commitment authority, on a pilot basis, with allocated IDA resources of $2.5 billion.

5. 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.

6. 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.

7. 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.

8. 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 status. On a case by case basis, support to activities in fragile or conflict-affected sub-regions of non-FCS IDA gap and blend countries 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.

9. 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.

10. 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 or the IDA Management if the authority is vested by the 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; (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.

11. 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 relevant IFC and/or MIGA transactions. IDA’s

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1 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.
2 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.
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.

12. 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 are capped at the allocated US$2.5 billion, and the risk management approach is adjusted over time based on how the risk of the actual portfolio evolves.

SECTION IV – EXCEPTION

N/A

SECTION V – WAIVER

13. 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 – OTHER PROVISIONS

14. The Board Paper: Operationalizing the IDA18 IFC-MIGA Private Sector Window (revised), approved on December 1 2017, provides additional background on the operationalization of the PSW and can be referred to for purposes of interpreting the Policy.

SECTION VII – TEMPORARY PROVISIONS

N/A

SECTION VIII – EFFECTIVE DATE

15. This Policy is effective as of the date on its cover page.
SECTION IX – ISSUER

16. 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 X – SPONSOR

17. The Sponsors of this Policy are Vice President, Development Finance, IDA; Vice President, Blended Finance and Partnerships for IFC; and Vice President and Chief Operating Officer, MIGA

SECTION XI – RELATED DOCUMENTS

- Board Paper: Operationalizing the IDA18 IFC-MIGA Private Sector Window (revised) and approved on December 1 2017.
- IDA18 Private Sector Window Oversight Committee Procedure
- IDA18 Private Sector Window Secretariat and Representatives Procedure

ANNEX(ES)

N/A

Questions regarding this Policy should be addressed to the Sponsor.