



IFC and IDA Countries: Past Time for a New Approach

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Abstract

The IFC has the potential to be a macroeconomically significant player in the world's poorest countries that most need a more vibrant private sector. Sadly, however, it provides very little finance to firms in those countries. The IDA Private Sector Window was designed to help that problem by subsidizing both IFC and MIGA operations in IDA and fragile states. But it is not delivering in terms of IFC own-account investing or development impact. MIGA is claiming significant leverage by using PSW funds to guarantee activities with considerable private investment, but these investments would occur without MIGA engagement. The IFC is frequently using PSW funds to support deals that might well not exist without public support, but take such a considerable amount of that finance that leverage and demonstration effects are both low. Neither organization is finding the sweet spot in the middle, likely because so few investable deals are available that hit such a sweet spot. It is time for a new approach: supporting country industrial development strategies with governments rather than firms as the primary client.

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Introduction

The World Bank Group's private sector arm, the International Finance Corporation (IFC), is of sufficient scale that it could make a macroeconomically significant impact in the world's poorest countries. Its own-account operations have reached near **\$30 billion in annual financing** – which is equal to about **7 percent** of low income country combined GNI, or a little under 2 percent of IDA country GNI (IDA, the World Bank's grant and concessional lending arm, is designed to support countries below or near the '**IDA threshold**,' currently \$1,325 GNI per capita).

IFC's shareholders are **keen** to see the Corporation do more in IDA countries, to make investments in businesses that help lead to structural transformation in countries home to most of the world's poorest people. In order to do that, IFC's investment volumes need to be (very) large and/or generate significant development impact through channels including market making or demonstration effects.

Sadly, however, hardly any of the IFC's investments are actually made in the poorest countries, so that the Corporation is almost as macroeconomically insignificant in those economies as it is in the rest of the world. And despite repeated promises that the IFC would focus more on the poorest countries, backed with some reasonably ambitious reforms and the increasing use of subsidies financed by IDA, the share of IFC business in those economies is declining, while the projects that the IFC does support generally appear to have low impact and be ill-suited to back structural transformation. For all of the goodwill of IFC management and staff, the current approach isn't working. It is past time to try something different. Cooperating with IDA, the Corporation should abandon the firm-led model in the poorest countries. Instead, it should support those countries to meet their public policy goals, potentially through backing for industrial strategies.

IFC has committed to do more in IDA countries ...

As part of agreements with shareholders around capital increases and other support, the IFC **promised** to increase the share of its own-account commitments in fragile states and the world's low-income countries to 14–17 percent by 2025. It has also committed to deliver 15–20 percent of investment to low-income IDA countries specifically. And the IFC has made a longer-term commitment to increase the share of its annual own account investment in IDA countries and **fragile and conflict-affected situations** to 40 percent by 2030.

... Reforms and subsidies were designed to help ...

The Corporation's leadership has long recognized that these are challenging targets requiring reform. In response they **increased staff** in IDA and FCS markets, working with firms and providing advisory services in an attempt to create more projects that the IFC could invest in, and providing technical assistance to improve firm capacity to comply with environmental, social and governance (ESG) standards.

Funding for increased staffing came in part from ending IFC profit transfers to IDA. And IDA started providing finance for IFC projects instead, through a new Private Sector Window. This began operation in 2017, and has received a cumulative allocation of over \$7 billion from IDA since then (alongside \$500 million in IFC's own '**ringfenced capital**'). The window has **four facilities**: (i) the Blended Finance Facility to blend PSW support with IFC investments (57 percent of PSW finance as of 2023); (ii) the Risk Mitigation Facility to provide guarantees to private investment in infrastructure projects (1 percent); (iii) the MIGA Guarantee Facility to expand guarantee coverage through shared first-loss and risk participation (17 percent); and (iv) the Local Currency Facility to facilitate local currency IFC investments (25 percent).

... But they haven't

With the exception of the almost completely unutilized risk mitigation facility, these facilities' core purpose is to increase IFC and MIGA comfort in investing in projects in IDA countries and help the IFC meet its commitments on volumes in those countries. So it is fair to ask: are we seeing more IFC business in these countries as a result of the support or broader reforms?

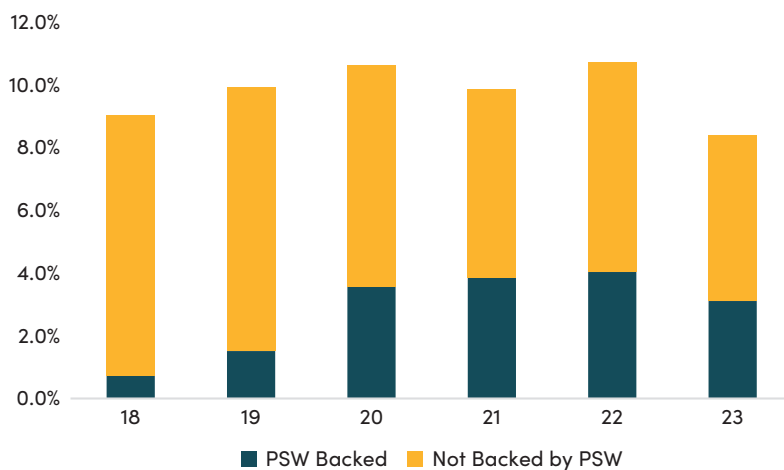
The answer: no. There is no evidence the PSW has significantly increased IFC investments in IDA countries (especially those under the IDA threshold), and very little evidence PSW-backed projects are supporting transformative investments that otherwise wouldn't happen in most of those countries. Instead, we've seen lower volumes, low mobilization, and support for projects with little demonstration potential in the wrong sectors to spark structural transformation.

Lower volumes

The IFC has never played a large role in the world's poorest countries, and the PSW has not changed that. Looking at all long-term investments in PSW eligible countries, these **accounted for** 9.9 percent of total long term IFC commitments 2015–2017 (before the PSW was created), and 9.8 percent between 2018–2023. For short-term commitments these shares are 25.2 percent and 11.3 percent.

More IFC projects in IDA countries are getting PSW finance, but there are very few more IFC projects in those countries (see Figure 1). And even in countries home to IFC projects that received PSW support, IFC’s annual average commitments fell by 28 percent between the six years before the PSW was introduced (2012–2017) and the six years after that (2018–23).

FIGURE 1. Percentage of IFC long-term finance in PSW-eligible markets, backed by PSW and not backed by PSW 2018–2023



Looking at the proportion of IFC country-level long-term investment in economies below the ‘IDA threshold’ (currently \$1,325 GNI per capita) is a harder standard than ‘IDA eligible’ or ‘PSW eligible’ because there is a (growing) gap between crossing the threshold and losing IDA eligibility, but it is more generous than low income country status (\$1,135). Given IFC commitments to shareholders, it is reasonable to expect that somewhere more than 20 percent of country-level investment should be in countries below the IDA threshold.

The PSW came online in late 2017. In the eight years up to and including 2017, the corporation averaged \$784 million in yearly investments in countries under the IDA threshold, or 8.6 percent of total IFC country-specific investment. In the eight years 2018–25, the corporation averaged \$567 million in investments in countries under the threshold, or 5 percent of total investment (Figure 2). Limit the analysis to countries still under the IDA threshold in 2025, in the eight years up to 2017, they received \$507 million (5.2 percent of the total), in 2018–2025 they received \$557 million, or 5.0 percent of the total (Figure 3). That does suggest perhaps a \$50 million increase per year in IFC business in those countries in the PSW period, but that might be worth comparing to the \$8,200 million cumulative scale of the PSW.

FIGURE 2. Volume and percentage of IFC country-level investments in countries under the IDA threshold at time of investment

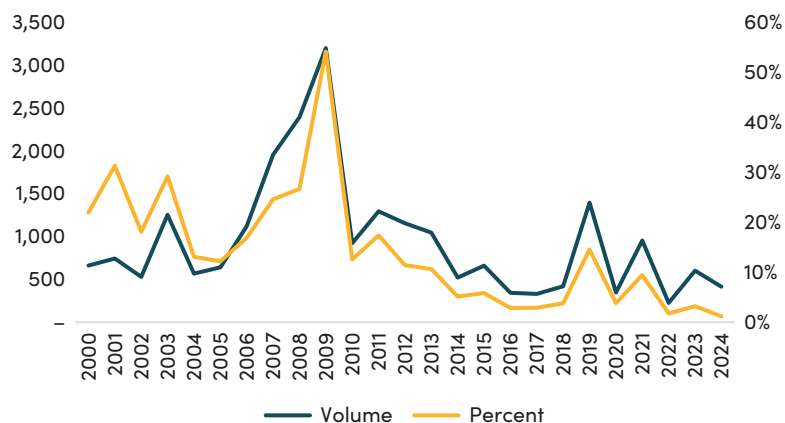
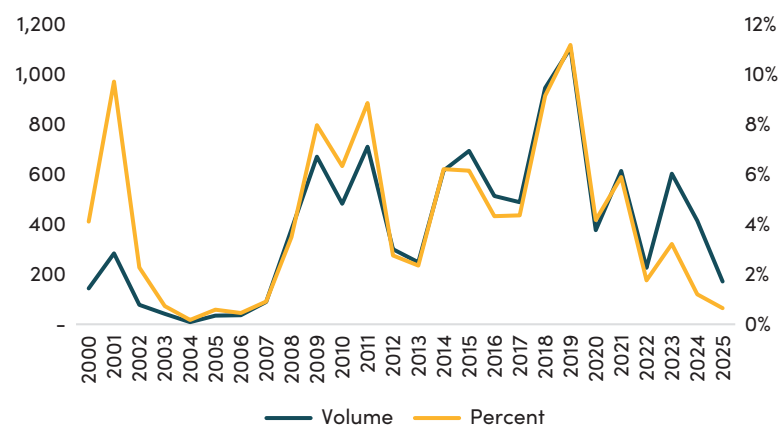
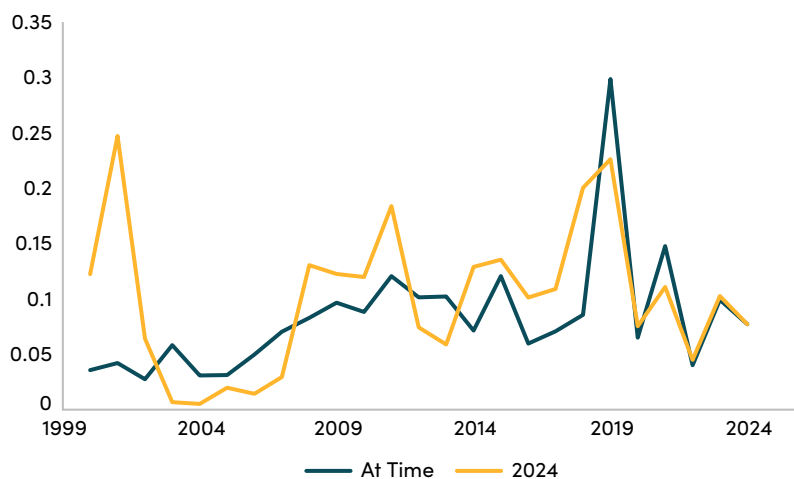


FIGURE 3. Volume and percentage of IFC country-level investments in countries under the IDA threshold in 2025



As a result, the IFC is largely an irrelevance in IDA countries. Between 2011 and 2017, annual IFC investments in countries below the IDA threshold were worth an average of 0.09 percent of those countries' aggregate GNI. Between 2018 and 2024, that increased to 0.12 percent (Figure 4). Using the fixed sample of countries below the IDA threshold in 2024, annual investments were worth 0.11 percent in the earlier period and 0.12 percent in the later period. While the change is in the right direction on this measure, the magnitude remains macroeconomically insignificant.

FIGURE 4. IFC country-level investments in countries under the IDA threshold as a percentage of below-threshold GNI at time and in 2024



Low mobilization

The World Bank suggests that the PSW has “surpassed Management’s initial expectations” in terms of mobilizing finance. But to match low and declining IFC volumes that are a fraction of target levels, data from the IDA 20 Mid-Term Review and IEG’s PSW evaluation actually point to very low private sector mobilization rates especially for IFC PSW projects. The review suggests \$3.9 billion of PSW support together with related IFC and MIGA commitments of \$11.7 billion ‘mobilized’ additional support from other DFIs of \$6.5bn and perhaps \$10bn of private money. This is a mobilization ratio of around \$1.5 from the Bank Group to each \$1 of private investment or \$2 of public investment for each \$1 of private investment for the development finance system as a whole.¹ We will see specific examples of and explanations for this low mobilization in the next sections. PSW projects mobilize 60 percent less private capital per dollar of IFC investment than IFC projects in the same countries that do not rely on the PSW. Low mobilization ratios are not necessarily a bad sign – indeed we’ll see that MIGA’s comparatively high mobilization ratios likely reflect that its support wasn’t necessary. But if low mobilization is combined with limited demonstration impact, they are a worrying indicator for a corporation trying to create transformative change through its projects. We will also see some evidence of that problem.

Low quality in the wrong sectors

IFC projects struggle in countries eligible for PSW support. The World Bank’s [Independent Evaluation Group’s latest report on the IFC’s portfolio](#) notes that the development outcomes of IFC projects in

¹ The mid term review suggests \$3.9 billion of PSW Board approvals has “has mobilized a total of \$20.3 billion including \$8.7 billion of IFC’s own account commitments \$3 billion of MIGA’s gross issuance \$11.6 billion of additional capital from third parties, of which at least \$5.1 billion are purely commercial private capital ... The PSW has so far mobilized \$5.1 billion of purely commercial private (non-DFI) capital, based on estimated private capital mobilization data reported for about 43 percent of the PSW Board approved volumes (or \$1.6 billion).”

IDA and blend countries declined from 54 percent rated mostly successful or better to 46 percent over the 2013 to 2023 period.² For non-IDA countries, recent IFC project performance has been 57 percent rated mostly successful or better, and for public sector projects financed by IDA itself in 2024 the same proportion was 86 percent. It is too early to have significant data on the outcomes of PSW projects, but it is worth noting that IFC blended finance operations before the PSW were rarely a success: an Independent Evaluation Group [review](#) of 14 blended finance projects from 2010–14 found only four achieved their development objectives and met performance benchmarks.

Again, while it is too early to judge returns from PSW projects in particular, it is possible to look at those projects and ask if they appear likely to have an outsized development impact by creating markets, for example through demonstration of viability.

The top twenty MIGA and IFC projects by PSW support account for about half of all PSW activity. Twelve of them are multi-country projects, and thirteen involve trade finance or financial services.

Regarding trade finance, there is little evidence the IFC [needs a subsidy](#) to provide trade finance in the poorest countries given the (larger) volumes it provided before there was PSW support. With regard to PSW-backed financial services projects, most of the largest are connected to SME finance through local banks. The [evidence](#) of any development impact from this model is [weak](#). Very few evaluations [address effects beyond borrowing firms](#) (to others which might be disadvantaged by selective access to capital) and even at the that level, [the majority of studies](#) fail to find an impact on employment or firm creation. Economists in the World Bank’s own Development Research Group [argue](#) that while the SME finance challenge has been well identified “solutions have yet to be properly vetted.” This may help to account for the fact that there is [no relationship](#) between IFC investment in the finance sector and subsequent increases in account ownership or the number of bank borrowers.³

Looking at the eight individual country projects in ‘real sectors’ in the top twenty PSW projects, there is one mining deal in Pakistan, one agribusiness project in Malawi, telecoms projects in Ethiopia and Guinea, and an energy project each in Nepal, Mozambique and DR Congo. These are worth discussing in turn because they illustrate that IFC and MIGA support to IDA economies is all too often to sectors where the private sector happily operates without DFI support (in particular telecoms) or to sectors where DFIs have effectively or literally created an international state-owned enterprise to receive financing (including some electricity projects), suggesting limited opportunity to scale or ‘create markets.’

2 Given projects in IDA countries are inherently risky, average success may not be appropriate. It would be interesting to examine if IFC project outcomes had ‘fat tails’ suggesting more complete failure or very high impact.

3 To be fair, many IFC financial sector investments aim to expand lending volumes to SMEs, not increase the number of accounts or borrowers (which may include retail accounts/borrowers). I am not aware of cross-country evidence that they do that successfully.

The exception may be the Malawi agribusiness project: an investment of up to US\$36 million to finance the upgrade of water irrigation infrastructure at Illovo sugar's Nchalo Estate and \$45 million for a boiler replacement and debottlenecking in Illovo's sugar mill factory. The company is majority owned by Associated British Foods plc, which guaranteed the loan. The PSW backed a dollar loan repayable in kwacha, matching revenues – Illovo has had **insufficient export revenues** and access to foreign currency to cover international (intra-conglomerate) debts. That said, the Malawi project might only demonstrate that under the existing currency regime, FDI into the country is unlikely to make a return unless significantly subsidized (with currency trades carrying some of the heaviest subsidy under PSW). This limits any 'market making' demonstration effect.

The MIGA **guarantee of \$50.3 million** to the Mauritius-based Congo Energy Solutions Limited (CESL) covers its scale up of mini and metro-grids to provide electricity in the DRC, with an **IFC co-investment alongside other DFIs** including Proparco and BII (which also invested in previous funding rounds). Two of the three original shareholders are the **EIB Energy Access Ventures Fund** and **EDFI ElectriFI** – Development Finance Institutions – and IFC's investors in the series B funding were **DFI or other donor funded**. It is unclear how much actual private sector investment is involved. This may be a project delivering valuable electricity, but it is not demonstrating that the market is anywhere near ready to replicate the investment without majority subsidized public finance and (potentially) ownership.

Indeed, the need for a considerable majority of funding in solar projects in IDA countries to come from the public sector is not limited to this investment. IFC's Scaling Solar aimed to demonstrate large scale solar plants could be built and operated in lower income countries to produce cheap power without subsidy. But in the case of its first investment in Zambia demonstrated instead that it took **more than \$3.50 of public international finance to bring in each dollar of private finance** with an effective subsidy rate of \$2 per \$1 of private finance alongside free land, tax breaks, and project preparation support.

The Scaling Solar initiative itself did not scale – after ten years it has still only completed **three projects** including in Zambia, and both other projects also involved considerable majority financing from a consortium of public investors.⁴ Solar power is taking off in Africa, but it is small-scale rather than utility-scale which, ironically, makes the economics of utility scale power **even more complex**.

Similarly, the **Central Térmica De Temane** gas power plant project in Mozambique is majority owned by Globeleq Africa Holdings, in turn owned by the UK and Norwegian development finance institutions. Alongside IFC and the PSW, other investors are Mozambique's state-owned electricity transmission and distribution company, the U.S. International Development Finance Corporation, and the OPEC Fund for International Development.

4 See: <https://ppi.worldbank.org/en/snapshots/project/kael-solar-pv-plant-10437>, <https://ppi.worldbank.org/en/snapshots/project/kahone-pv-solar-plant-10436> <https://ppi.worldbank.org/en/snapshots/project/nur-navoi-solar-plant-10835>. Note a fourth backed plant is being constructed in Cote d'Ivoire.

The frequent requirement for huge amounts of DFI finance to make 'private' infrastructure projects viable in IDA countries helps to explain why there is so little actual private investment involved. A dated estimate is that [more than 60 percent of finance](#) for public private partnerships in IDA countries came from public financing (and [95 percent](#) of all infrastructure investment in Sub-Saharan Africa is publicly financed).

The 216 MW Upper Trishuli hydropower project in Nepal is different in that regard: it is in a sector that is seeing significant private investment at scale absent DFI support. Upper Trishuli itself attracted perhaps \$200 million in private equity investment compared to about \$415 million in public loans and [\(MIGA/PSW\) guarantees](#) according to the PPI database. IFC helped arrange debt financing from a number of other development finance institutions which offered \$180 million more than was required – a reason to question the need for PSW backing in the first place.

And Upper Trishuli should be compared to the [34 hydropower IPPs](#) with 1,959 MW capacity in Nepal reported by the [PPI database](#), of which IPPs with capacity of 1,503 MW do not report receiving DFI support. And (including Trishuli) 260 projects with a capacity of 10,696MW were reported to be [in the construction phase](#) at that point.

Indeed, the Trishuli project was justified in part on the development impact grounds that [it would help Nepal meet domestic demand for power](#) (this rationale dating back when the IFC-invested project was [being considered for an IDA guarantee in 2015](#)). Instead, it will come on line at a time when [Nepal is generating more power than it can use](#) year-round (already, the country is a [net electricity exporter](#) during the wet season). Subsidizing a portion of electricity generation for export in a country which is already exporting a considerable amount of energy does not fit with the traditional rationales for industrial policy around first mover costs or demonstration effects.

It is also worth noting the Trishuli project was awarded uncompetitively to a special purpose vehicle with a 15 percent IFC stake. The deal involves bespoke terms including tax holidays, and It comes with [a 30 year 'take or pay' agreement](#), whereby the power generated must be paid for if it is consumed or not (potentially a problem for Nepal given it now generates more power than it uses and its major export market is [seeking energy independence](#)). It is part of a worrying pattern of IFC ignoring World Bank guidance on best practice for public-private infrastructure deals: unsolicited power deals accounted for an [average of 37 percent](#) of the megawatts IFC co-financed between 2015 and 2019. But while there are concerns with the contracting terms, Upper Trishuli should be built. The question is, did we need the PSW to build it, and the answer appears to be no.

MIGA and the IFC are using the PSW to back projects that would fail any market test (and so have little demonstration impact) or that would pass a market test with ease (and do not need support). To be fair, that is likely because there are few energy projects that hit the sweet spot between those two outcomes, and not only in PSW countries. Few firms set out to develop projects that they think might be profitable if they attracted some quantity of somewhat subsidized credit, with the partial

exception being widely subsidized subsectors like renewables, where the [needed subsidy rises significantly](#) in poorer countries. That will help explain why it is hard to see a sector-wide impact of IFC investments in energy more broadly. There is [no relationship](#) between IFC investments in electricity generation in a country and subsequent electricity consumption, nor between transmission and distribution investments and electricity access.

With regard to easily passing a market test, the Ethiopia telecommunications project in the PSW top twenty is a \$1 billion [MIGA guarantee](#) supporting Safaricom's investment in the country's second telecommunications operator. It is backed by a PSW shared first loss facility (there is also an IFC PSW-backed investment in the same company). The Guinea project involves the PSW again taking first loss on a [MIGA guarantee to Sonatel](#), to back the firm's investment in its own cellphone company in the country to expand and upgrade its cellphone network.

The involvement of the PSW was likely necessary to MIGA's own involvement in both cases because MIGA usually has a [\\$720 million country cap and a \\$220 million project cap](#), and the first loss coverage will have allowed for a guarantee larger than that. But the idea that the PSW support was in any way necessary to launch mobile coverage in Ethiopia or sustain network expansion in Guinea (home to three competing mobile providers) stretches credulity. To take two examples, Afghanistan had two private mobile operators before MIGA [guaranteed the third](#) without PSW support ([IFC also invested](#)). Somaliland has vibrant [private competitive mobile provision](#) in a country [unrecognized by the international community](#) (and thereby not a member of the IFC or IDA). The [\(weak\) cross-country evidence](#) is that IFC investment in telecoms is not associated with subsequent faster sector growth. In this case it is likely because there is no need for DFI support to foster a strong telecommunications sector.

Once again, it seems unlikely that lightly subsidized support provided by a consortium of DFIs was necessary for the Riko Diq copper mine in Pakistan to begin operations. Mining is the kind of thing IFC has traditionally managed to do in IDA countries without subsidy, and [where FDI has flowed](#) regardless of development finance institution involvement. (And while the resource curse can be [over-rated](#), it is also true that mining-led development is [fairly rare](#).)

Because development finance institutions use subsidies to offer better-than-market terms, subsidies increase the risk DFIs will crowd out available private finance. This risk is considerably increased again in a DFI model of deal-taking (negotiating with individual sponsors known to the DFI) rather than market-making (open competition). And that the risk is real is suggested by the use of PSW support for projects in sectors that seem that appear eminently viable without such support. On the other hand, on occasion, DFIs are willing to create markets that would be unsustainable without them – this appears the case for large solar projects in low-income Africa. But in neither case are such projects likely to have demonstration effects that would meet the goal of transformation desired by shareholders.

Meanwhile it is instructive to look at which sectors the PSW and IFC are *not* supporting. As Justin Sandefur has [noted](#), there are but “a handful of cases globally of an IFC investment in export-oriented manufacturing in a low-income country in the last five years” collectively worth about \$42 million (Table 1).⁵

TABLE 1. Sector investment share IFC and PSW

	IFC				PSW
	Low Income	Lower-Middle Income	Upper-Middle Income	High Income	
Other Sectors	5%	25%	27%	24%	10%
Mining	0%	0%	1%	0%	5%
Agribusiness	8%	8%	7%	1%	7%
Telecommunications and Tech	41%	4%	1%	2%	16%
Infrastructure	10%	11%	11%	8%	18%
Financial Services	36%	53%	52%	65%	44%

Note: Data for IFC from Sandefur 2020–4. IFC: excludes trade finance, funds, and global/regional projects PSW excludes trade finance but includes MIGA.

This is a bad deal for IDA countries

If the PSW and IFC support was financed from resources that otherwise would not go to IDA countries, it would still be a small net positive regardless of failing to mobilize more IFC business in low income economies and the limited evidence of additionality in many of the projects it does support. Arguably IFC and (less arguably) MIGA engagement in IDA countries would be even lower – falling even shorter of targets – absent the PSW. Perhaps that might translate into marginally lower private investment in IDA countries.

But the PSW is *not* financed from additional resources. Not least, IFC’s commitment to do more in IDA countries was a justification for IFC to largely end profit transfers to IDA and invest those resources in upstream work designed to increase the pipeline. And (even if the PSW average subsidy level is considerably lower than IDA credits) the PSW occupies growing space on IDA’s balance sheet.

Since the start of (fiscal year) 2018, the cumulative PSW allocation has grown by a little more than \$1 billion a year. Actual *utilization* of PSW finance has only grown by \$300 million a year (suggesting many commitments have not been converted into actual financing). Additional IFC investment

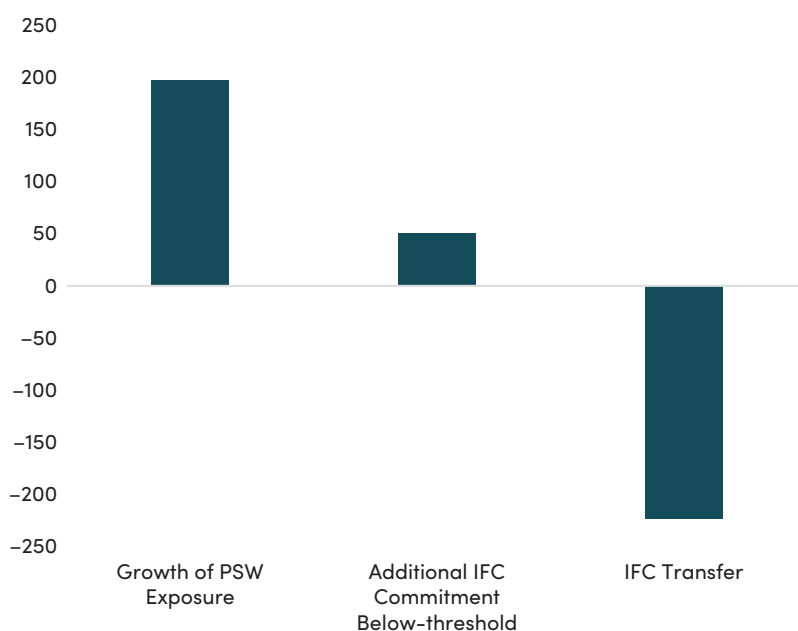
5 Or to look over a longer time horizon: what role did the IFC play in Eswatini’s manufacturing export growth over the past few decades, that has left manufacturing accounting for [nearly a third of the country’s GDP](#) – something the Corporation says the Eswatini should pursue even further? A \$1 million investment in Swazi Wattle Industries (Pty) Ltd to back wattle farming in 2001 and a \$3.8 million investment with Swazi Paper Mills Ltd to optimize production and supply of fluting and liner paper to the South African market in 2002. (To be fair, these two projects are the only country-specific investments in Eswatini that the IFC reports.) It might be argued that IFC’s role is not to finance the export firms but to finance the infrastructure that those firms need (power and ports). As we have seen and the table makes clear, the IFC has also played a very limited role in supporting infrastructure development as well.

commitments in countries currently below the IDA threshold has averaged about \$50 million higher compared to before the PSW (and we have seen IFC commitments to countries under the IDA threshold *at the time* have fallen by \$217 million). The average IFC transfer to IDA is down by \$223 million over the same period – more than four times additional IFC investment commitments to countries below the threshold.

In short, the ‘old model’ of IFC not committing to work more in poorer countries but delivering profits to IDA generated \$223 million of grant resources for IDA each year. The ‘new model’ where IFC committed to work more in IDA countries in return for IDA subsidies has generated perhaps \$300 million of close to market rate investments in the private sector by IDA and (arguably) \$50 million market rate investment from IFC in countries below the threshold. IDA **claims** to be able to leverage \$1 in donations into nearly \$4 in financial support for the poorest countries. If so, under the new model, IDA countries have swapped out \$892 million in annual IDA support to governments for \$350 million in annual finance for private sector investments, with the likelihood that much of that private investment would have happened without IFC involvement.

MIGA, meanwhile, committed to exceed 30 percent of total volume in IDA and FCS countries by 2023, **which it reports to have met** – but it appears to be doing so at least in large part by using IDA money to back large-scale investments that (again) would have occurred without its support.

FIGURE 5. The PSW’s impact on IDA countries and the IFC, annual change (\$m)



Notes: Annual additional PSW exposure 2018–25 inclusive, utilization 2018–24 inclusive. IFC commitment below threshold comparing seven years before/after 2018, annual IFC transfers (current) comparing five years before/after 2018. Exposure excludes equity and local currency facility transactions.

... Based on an approach that is destined to fail despite good intentions

During the last IDA replenishment, the PSW [expanded to gap and blend countries](#). If there were a lot of opportunities going unseized by IFC in IDA countries, then a shrinking number of IDA countries shouldn't matter to an institution supposedly keen to work more in those countries. The fact that it does seem to be one binding constraint suggests either that there are few opportunities or that the IFC isn't actually keen to work more in the poorest countries. The evidence suggests the problem isn't that IFC management lacks will but – under the current IFC model of doing business – there really are few opportunities.

The problem is twofold. First, there simply [aren't very many existing firms in IDA countries](#) that can pass the financial, reputational, environmental and social safeguard screening required and that have the minimum scale for the size of the investments IFC tends to make. (A decade-old estimate suggested that in all of Sub-Saharan Africa outside of South Africa there are less than 200 firms with revenues greater than \$500 million). And, second, there aren't many outside entrepreneurial investors designing potential projects that will make a small profit if they manage to get access to subsidized financing (with the possible exception of solar power, where the subsidies are larger, and working with subsidized finance is a global phenomenon).⁶

This explains the dominance of mobile companies and banks in IFC's lower-income portfolio, and why IFC's private sector client-driven approach is so ineffective at supporting structural change: until that change occurs, there are few firms to knock on IFC's doors. (And when the change has occurred, what need the IFC?).

It is time for something new

The challenge for IDA and the IFC is to use subsidized credit where it is needed to create structural transformation and growth. Many stakeholders including the IFC itself have suggested the direction of travel that suggests for the Corporation.

We have seen that the IFC 3.0 strategy was designed to re-orient the institution a more deliberate and systematic approach to market development through country strategies and strengthening upstream business development. This process [needs to go further](#), and more fully engage with the [Multilateral Development Bank Principles to Support Sustainable Private Sector Operations](#) that subsidies should be designed to meet a specific public policy goal or counter an obvious market

⁶ The [average amount of PSW subsidy](#) is 6.7 percent of total project cost. It would be surprising if the only thing stopping a vibrant private sector in low income countries was limited access to slightly subsidized credit. For small subsidies to have a big impact, you need a large efficient market where the demand curve for finance is reasonably flat. The PSW works in small inefficient markets where the demand curve may be steep.

failure, be transparent and targeted, and support a 'level playing field' by providing an equal opportunity for funding to qualified companies on a non-discriminatory basis.

Paul Collier, Neil Gregory, and Alexandros Ragoussis have [proposed](#) the IFC creates a diagnostic of sectors most likely to develop clusters of firms in then provides subsidies to firms investing in those sectors through an open call for proposals. [Karen Mathiasen, Nancy Lee and Samuel Matthews](#) have argued that the use of PSW resources should be integrated into private sector diagnostics and country strategies, focusing more on de-risking the private sector (rather than just IFC/MIGA) and more often use competitive bidding tenders.

Subsidized and directed credit undoubtedly has had a role in past structural transformations in 'miracle growth' countries [but it was directed by the government](#) as part of a country strategy, not by an external DFI acting on a bespoke basis. In South Korea, the government directed more than half of bank credit and used significant foreign assistance in support. It did so within the context of a competitive business environment with an orientation toward exports. This [emphasis on exports](#) forced companies toward greater efficiency and also provided an easily monitorable metric of success in export volumes.

Again, IDA countries tend to lack the large conglomerates that could act as agents of government policy, and the IFC could play an important role in helping create the "[missing top](#)" of large firms.

The IFC and IDA could work with governments to build [a strategy](#) around ambition to build diversified and competitive export sectors, potentially alongside tools to use emigration as a source for remittances, trade, finance and talent flows through [global skills partnerships](#). An IDA Sectoral Transformation Window could help governments explore and incubate potential new export industries alongside migration corridors that might foster learning by doing on the model of [India's IT sector](#) or [Bangladeshi emigration](#) to work in South Korean factories.

Any use of subsidized resources should move further toward a model that starts with the public policy goal and market failure and ensures a level playing field response—be that through open offers or competitive approaches. The Bank Group has considerable experience in competitive approaches—it is the model of the [Global Partnership on Output Based Aid](#). Support for governments to make open offers of subsidized or guaranteed loans on standard, public terms could follow the model of [Title XVII open solicitations](#) for innovative clean energy projects in the United States. Such loans should be available to firms that would fail the scale requirements or accounting standards necessary for a stand-alone IFC investment. They could be applied to specific industry export volumes, for example.

Knowing where to create markets is hard. I called for IFC to [expand into solar in a big way in 2013](#) and (coincidentally) got my wish in 2015 when the World Bank group [launched Scaling Solar](#). We have seen that so far, the experiment has not been a great success, in part because it has ignored transparent, open and competitive approaches. Competitive subsidies and open offers can help uncover where markets really might be (nearly) ready to emerge.

IFC staff and management have made a consistent effort to adapt the standard sponsor-led model of IFC investment to IDA countries. It is because of the nature of those markets not any dilatoriness of the staff that these efforts have failed. The IFC's investments in the poorest countries, even with the support of the PSW, combine low mobilization, low demonstration effects, and a low volume of finance. The combination implies little hope for significant job creation or transformative investments in those countries – also suggested by IEG ratings of IFC projects.

The sponsor-led model, especially when combined with subsidies, is simply inappropriate in these countries and likely to result in both low investment rates and low development returns. For IDA countries, IDA and IFC need to develop a client-based private sector model where the client is IDA governments. Working with those governments, they should develop strategies including competitively awarded subsidies that help expand the private sector and foster structural change.