CENTER FOR GLOBAL DEVELOPMENT

Revealing the Subsidy

A Proposed Pilot for IDA's Private Sector Window

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Abstract

Donors rely on estimates of how much support a sponsor will need for bilaterally negotiated deals in fragile and conflict-affected countries. The sponsor has better information about its costs and risk appetite, and there is no competing offer the deal team can reference. The consequence is the possibility of allocating more support than the investment requires, leaving fewer resources for other viable projects. To test whether competition improves on bilateral negotiation, this paper proposes piloting a competitive mechanism through the International Development Association's Private Sector Window for $150–200 million, with awards in 2027, conditional on design completion and approvals. Qualifying sponsors would bid the maximum discounted support they would need to undertake a specific project under standard contract terms.

The proposed Least Present Value of Support auction builds on existing International Finance Corporation competitive approaches but makes the contingent support cap the object of bidding, where the lowest qualifying bid wins. Payments would be made toward independently verified revenue shortfalls not covered by commercial deals and existing guarantees. As discounted net income and support payments accrue toward a set compensation target, the length of the contract will vary up to a maximum period. Once the support cap is reached, there will be no more support payments.

Eligible projects generate trackable revenue, require significant irreversible investment and are viable under normal conditions. There must be at least two independent and qualified sponsors submitting binding bids for each award. The preparation stage for the auction would assess sponsors' interest, collusion risks and financing under adverse conditions. Funded verification of revenue and service would be included along with financing deadlines and delivery targets. Deals involving financial intermediaries or without multiple sponsors would continue with bilateral allocation. An independent evaluator would report initial findings by June 2028.

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Executive summary

For bilaterally negotiated support, donors lack a competing quote for the same project and contract. This paper proposes that Deputies to the International Development Association (IDA) endorse a pilot allocating $150–200 million in Private Sector Window (PSW) support through competitive bidding, with awards in 2027, conditional on the completion of the design and the required approvals, and an assessment by June 2028. Management would seek the required Board approvals before inviting binding bids. Eligibility requires independently verifiable revenue and significant irreversible investment, with qualified sponsors willing to compete for the project. A competitive award would require at least two independent sponsors to submit qualified binding bids meeting the tender requirements. Each sponsor would offer to undertake the project at a stated maximum level of support under contract terms common to all bidders. The lowest qualifying bidder would win. The section "A worked example" illustrates the payment and duration rules for a power plant. No new awards would be given in the tested application if the agreed participation, price, financing, delivery or payment tests are not met.

For an investment in a fragile or conflict-affected situation (FCS), the development finance institution (DFI) assesses support using project information and negotiations with the sponsor. The sponsor knows more about its own costs and willingness to bear risk. With competition, qualified sponsors submit binding offers for the same project. Comparison of these offers does not require the DFI to estimate each sponsor's costs, financing terms and outside option. The offers still reflect each sponsor's assessment of common country risks, about which a sponsor need not be better informed than the DFI. The auction establishes the maximum support available to the project. A companion working paper (González 2026) sets out the formal analysis of the contract and of an award at the second-lowest qualifying bid. The pilot would test whether these offers improve subsequent support decisions and whether the cap holds after adverse events.

Nearly $4 billion in PSW support had been approved by June 2023 through project-level decisions over three replenishment cycles. Estimated concessionality amounted to about $580 million (IDA 2023, Table 2.1 and footnote 15). Only projects meeting the eligibility criteria would enter an auction. The PSW's current portfolio shows how projects are originated and support is allocated. Its composition does not show what share of potential investments would qualify for a Least Present Value of Support (LPVS) auction if the International Finance Corporation (IFC) also prepares projects for competitive bidding. The support price from an auction would provide a benchmark for bilateral negotiation on a comparable project.

The IDA21 assessment will capture whether sponsors submit binding bids, the differences between bids, which awards reach financial close and how implementation proceeds. Awards still awaiting financing will be recorded separately. These findings would provide a basis for a decision on whether to test further in 2028. Operating performance and payment recovery will need more time to monitor. Any expansion under IDA22 will be based on the results of the delivery and payment tests once the agreed evaluation periods have ended.

What competing offers would establish

A sponsor has better information about its own costs, market position and willingness to bear risk than the DFI's deal team. The team estimates support from its own knowledge and the information supplied by the sponsor. Experience in a country or sector does not supply a competing offer for the same project.

The PSW must underwrite investments even where reliable data are limited and there are few comparable projects against which to benchmark costs. Deal teams use the information available to negotiate subsidies for each project and exercise discretion when there is not enough information.

Concessionality measures the donor's opportunity cost, calculated as the net present value of the difference between a reference price and the concessional price. The reference is a market price where available, or a modeled price benchmarked against the closest market comparable (IDA 2023, footnote 12, p. 5). Project disclosures provide some concessionality estimates, but do not report the reference and concessional prices separately or the pricing-model inputs. There is no agreed methodology for determining a minimum level of concessionality (Mathiasen, Lee and Matthews 2024, p. 11). Deal teams and the PSW Secretariat use internal models in negotiations with the counterpart to determine the amount of support, without a competitive support price against which to compare the negotiated terms.

What the PSW evidence establishes

The IDA20 Mid-Term Review reports about $580 million in estimated concessionality through June 2023, equivalent to 15 percent of $3.9 billion in PSW Board approvals. The estimate is based on a discount rate specific to private sector operations and is not comparable to the standard IDA grant element. For published data on International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) projects, the simple average was estimated at 6.7 percent of total project cost (IDA 2023, Table 2.1 and footnote 15). The project-cost denominator is different from the PSW approval amount. Neither percentage represents a saving available from auctions.

Infrastructure has the lowest industry average when excluding private equity and venture capital funds, at 2.1 percent of total project cost. It accounts for 23 percent of PSW Board-approved volume (IDA 2023, Table 2.1 and Figure 2.2). Power generation, the subject of the worked example, belongs to this industry group.

IFC measures concessionality at project outset and does not recalculate the subsidy over the project's lifetime. IFC's management response to the Independent Evaluation Group (IEG) places little value on recalculating concessionality. IEG found financial reporting was fragmented among IFC, MIGA and IDA (IEG 2024, pp. xiv and 47–49). The approval estimate addresses a different question

than subsequent public expenditure. Payments, amendments, and recoveries need to be tracked separately.

IEG further concluded PSW transactions adhere to the minimum-concessionality principle based on the review of PSW pricing and project documents, market comparables, case studies, and interviews with staff and clients (IEG 2024, pp. 45–46). This finding cuts against claims of systematic over-subsidization in PSW projects. However, IEG notes that where no market prices exist for comparison, "as in most MIGA guarantees," pricing models establish the benchmarks used to calculate concessionality (IEG 2024, p. xxviii). The pilot would test if comparing binding offers for the same project on common terms improves this assessment. Attributing any difference between negotiated and auctioned support to rents would also require analyzing contract terms and financing.

The case for comparing binding offers

A sponsor has incentives to ask for more than the minimum support required. A bilateral negotiation to determine that support makes it easier for the sponsor to exploit its informational advantage to get more than minimum support. Without a competing quote, the DFI lacks a comparison for assessing the request. A binding offer supplies this comparison, although the bid need not reveal the sponsor's minimum support requirement.

The DFI Principles for Blended Concessional Finance require interventions to mobilize private resources with minimum concessionality while reinforcing markets (DFI Working Group 2017). PSW support includes bilateral negotiation, competitive tenders and open-access arrangements. For infrastructure projects like public concessions, IFC's competitive-tender approach provides specific concessional financing terms to prequalified bidders where possible, while open access offers similar funding terms to eligible firms where a tender is unsuitable (IFC 2026). Mathiasen, Lee and Matthews (2024, p. 13) recommend expanding "the use of competitive bidding tenders, where applicable," and Kenny (2026, p. 9) contrasts a DFI model of "deal-taking (negotiating with individual sponsors known to the DFI)" with "market-making (open competition)." Under LPVS, qualified sponsors would bid the contingent support cap under common rules for shortfall payments and duration adjustment.

IEG identified a focus on volume targets over development results among the factors affecting IFC investment work quality (IEG 2020, chapter 2). Deal completion is observable. The benefit from negotiating a smaller subsidy is difficult to establish without a competing offer.

The DFI retains responsibility for technical quality, eligibility and development impact. The auction supplies competing support offers on common terms. The DFI still sets the contractual quantities and assesses financing. Sponsors enter the price competition only after satisfying the technical, eligibility and development requirements.

Competition over a capped amount of support

The proposed Least Present Value of Support (LPVS) auction allocates support among qualified sponsors. LPVS is adapted from the Least Present Value of Revenue (LPVR) mechanism developed for highway concessions (Engel et al. 2001). Present value expresses payments at different dates in equivalent dollars at the award date, using an announced discount rate. Under LPVS, each sponsor bids the support cap at which it is willing to undertake the project, and the lowest bid wins. In FCS economies, where shocks are potentially costly to sponsors, the LPVS contract adjusts its length within preset limits following delays or temporary revenue shortfalls. The contract makes no provision for renegotiation. The duration adjustment and the partial payments for revenue shortfalls provide protection against adverse events that renegotiation would otherwise supply.

The contract specifies separate limits for accumulated sponsor compensation and DFI support. Support payments count toward compensation and affect concession duration because, subject to the contractual limits, attainment of the compensation target ends the concession. The awarded cap limits cumulative concessional support.

The DFI sets the compensation target by applying a return to the appraised capital cost of the standardized project. Tender documents fix this target for the contract's duration on identical terms for all bidders. Sponsors bear differences between actual and appraised capital costs and retain an incentive to limit construction costs. The DFI must still specify contractual quantities subject to independent verification.

LPVS requires a narrowly defined project. Revenue must be independently verifiable because shortfalls trigger support and slow progress toward the compensation target, extending the concession within its contractual limits. Concessional support requires investment in assets sufficiently irreversible to need protection against a prolonged loss of cash flow. During such an event, the sponsor cannot redeploy the asset or recover its cost through depressed revenue streams. Appraisal must determine if exposure left uncovered by the commercial contract and existing guarantees is adequate to discourage participation without support. LPVS will cover a portion of the temporary cash-flow shortfalls up to the support cap. Losses above the cap and asset destruction are not covered. In the base case, expected revenue must pay all costs and provide the required return prior to considering downside events. Providing support for shortfalls does not make up for a bad business case.

Projects not meeting these criteria should proceed via bilateral negotiation. There must be a defined investment or service to be provided, as well as multiple sponsors capable and willing to provide the identical project. A proposal by only one sponsor with no competing investor provides no opportunity for an auction.

The support-cap bid a firm chooses will reflect its costs and financing terms, beliefs about adverse events, as well as its beliefs about the credibility of the contract and the risk of cap exhaustion. A binding support bid need not reveal the firm's minimum support level. The commitment to terms common to all provides the price comparison, with financing and implementation observed ex post.

A worked example

Consider a government seeking to connect a solar power station to the national grid. A private sponsor will construct and operate the plant for the concession term. Under a power purchase agreement (PPA), the plant operator sells power to the state utility at the contract's per-kilowatt-hour price. Under this take-or-pay contract, the utility pays for contracted capacity even if demand does not require the plant's output. Demand risk therefore lies with the utility. With the contracted tariff, projected production and assessed costs, the project will meet the sponsor's minimum required rate of return and pass the financing test.

Given the country's recent conflict and severe economic downturns, the sponsor will seek protection against unforeseen disasters. Revenue below the amount needed for debt service and a return on equity threatens the project company with bankruptcy. With a fixed-term contract, the sponsor has no additional operating time in which to recover lost revenue. In bilateral negotiation, the DFI estimates the amount of protection to offer, whereas under LPVS the sponsors state the support cap required through their bids.

Suppose two qualified sponsors have completed the technical and development review and submit bids in the LPVS auction. Sponsor A bids $42 million and Sponsor B bids $35 million. For illustration, the example assumes that the winning bid sets the support cap, a rule that would be confirmed or replaced before bids are invited. Sponsor B receives the award, with contractual DFI support limited to $35 million in present value.

Disbursement for an eligible shortfall requires verification by a third party using the plant's metering and payment records.

Under this project's parameters, the annual shortfall trigger of $26 million must cover debt service and operating expenses against expected annual revenues of approximately $30 million from the PPA. There is no DFI payment when revenues are $26 million or higher. If revenues drop below $26 million, shortfall support would pay 80 percent of the shortfall amount with the sponsor paying the remaining 20 percent and each payment subject to an individual cap.

Actual performance for years one through six meets expectations and no shortfall support is disbursed. In year seven, the region suffers a security disruption which causes a budget crisis. Utility payments fall to $20 million versus approximately $30 million due per year. The plant continues service and the unpaid invoices are not contested. Payments for support in each of years seven, eight and nine would equal 0.8 × ($26 million − $20 million) = $4.8 million. After the crisis subsides, utility payments are made in full.

At the DFI's discount rate of 5 percent, the award-date present value of the support payments is $9.75 million, within the $35 million support cap (Table 1).

TABLE 1. Illustrative cash receipts and support payments

Period	Annual Cash Receipts	Support Paid	Value at Award
Years 1–6	About 30 each year	0	0
Year 7	20	4.8	3.41
Year 8	20	4.8	3.25
Year 9	20	4.8	3.09
Total support		**14.4**	**9.75**

Notes: Amounts in $ million. Payments occur at each year end. Support covers 80 percent of eligible receipts below $26 million. The per-period payment limit does not bind. Award-date values use a 5 percent discount rate. The amounts illustrate the payment rule.

Had the utility paid nothing for the same three years, support at 80 percent of the $26 million annual shortfall would be $20.8 million per year. The present value of those payments is $42.27 million before application of the per-period cap. Actual support would be capped at $35 million. The concession would continue, with the same obligations and same cap on duration. Exhaustion of the support cap does not, by itself, constitute a breach by the sponsor.

A sponsor with three years of revenue lost has some incentive to renegotiate better terms. A fixed-term concession reduces the period for payback and creates pressure on the government to keep service running. LPVS has no contractual renegotiation mechanism, but pressure for amendments or assistance through another instrument might follow an adverse event. Evaluation would record any additional public assistance alongside payments under the support contract. Lost revenue lengthens the time to earn compensation, up to the agreed duration cap and subject to the abandonment option. The sponsor bears the cost of having its investment tied up longer. An aggressive support bid leaves the sponsor vulnerable to delays and cap exhaustion.

A sponsor needs a sufficiently long investment horizon to accept duration adjustment. A fund nearing the end of its life lacks the flexibility of a longer-term investor. Financing and qualified participation depend on acceptance of both the support cap and maximum term, so the initial pilot should test lender acceptance of these provisions.

What the precedents establish

Chile's Telecommunications Development Fund auctioned support for rural telephone service. Concessions went to operators bidding the smallest subsidy. In 1995, zero-subsidy bids were submitted for 16 of the 46 projects auctioned. The zero bids revealed operators' assessments of commercial viability without subsidy, despite an administrative calculation which had put the required subsidy above zero (Wellenius 1997).

South Korea ran a program of minimum revenue guarantees for privately financed infrastructure. Irwin (2007, pp. 1–2) describes a guarantee of 90 percent of forecast revenue for the Incheon airport road over 20 years. Actual revenue was less than half the forecast, requiring payments of tens of millions of dollars annually. South Korea subsequently abolished minimum revenue guarantees for new unsolicited projects in 2006 and new solicited projects in 2009 (Kim et al. 2011, pp. 20–22). The guarantees created public obligations continuing long after award.

Guasch (2004) documented early renegotiation of infrastructure concessions. Of roughly 1,000 concessions awarded in Latin America, 30 percent were renegotiated during their first few years. The share was 55 percent for transportation and 74 percent for water. Eighty-five percent of renegotiations occurred within four years of award. Renegotiation takes place bilaterally after competition has ended when the government faces an incumbent operator.

Excluding telecommunications, Guasch (2004, Table 1.11) reports renegotiation for 46 percent of competitively awarded concessions, against 8 percent of bilaterally negotiated ones. Guasch attributes the lower incidence under bilateral award to terms already more favorable to operators. Increasing the subsidy after award, when competing bidders have departed, diminishes the value of the initial price comparison. Prior to bidding, the contract proposed specifies partial support and duration adjustment for revenue shortfalls, within agreed limits. The pilot will see if those limits are enforced.

The Scaling Solar experience tallies participation across stages from requests for qualifications to prequalification, through final proposals, award and implementation. In Zambia Round 1, eleven of the forty-eight applicants prequalified, and each of the two projects received seven bids. Eight of thirteen qualified firms submitted fourteen bids for two Senegal sites (IFC 2019, pp. 9–11, Scaling Solar 2018). IFC evaluated sites, performed due diligence, standardized project documents and prepared financing and risk mitigation. This record provides a precedent for preparing comparable investments and soliciting binding offers.

Scaling Solar ranks bids by offered electricity tariff and LPVS ranks them by proposed support cap. Both use standardized project and contract terms for all sponsors. Each low tariff must be evaluated in the context of financing and protection bundled with the bid. Scaling Solar provides experience in preparation and bidder participation. LPVS would compare requests for concessional support.

Nigeria's programs for mini-grids have seen varied results. The World Bank's Nigeria Electrification Project eliminated its minimum-subsidy component in October 2023 after receiving too few responsive bids. IEG notes developers preferred performance-based grants (World Bank 2023, paragraph 18, IEG 2025, pp. 3–4 and 9). Two grant agreements for off-grid mini-grids under a separate African Development Bank (AfDB) program were reported in 2024 (Esiedesa 2024, REA n.d.). The Rural Electrification Agency (REA) reported opening 30 bids for AfDB-funded interconnected mini-grids in September 2025. A February 2026 notice reported six developers selected through a minimum-subsidy tender for eight interconnected projects (REA 2026a, 2026b).

The World Bank's Nigerian tender attracted an insufficient number of bids that satisfied its requirements. This provides one rationale for participation testing prior to relying on competitive awards when implementing LPVS. The publicly available records do not report how many bids per lot were acceptable or the subsidy amounts awarded through the AfDB tenders discussed above. These details would enable evaluation of competition within and across lots as well as the level of support required to induce bidder participation.

The Nigerian tenders offered capital grants for mini-grids and are an example of an auction in an FCS country.[1] Likewise, the LPVS project considered above involves a power plant selling electricity to a utility. However, under the LPVS instrument, payments are triggered when revenues fall short, and the contract also allows adjustments to its length. These different support arrangements involve different risk factors and different sets of firms likely to participate. Accordingly, Nigeria does not demonstrate that LPVS procurements would attract enough qualified binding bids. Participation needs to be tested during the pilot under the contemplated contract terms.

The proposed pilot and project eligibility

These eligibility criteria apply to all sectors and technologies, using solar generation as the worked example. All projects must meet the same tests regardless of sector or technology for revenue verification, sunk investment, viability and sponsor participation. Price comparisons must also ensure any differences in the revenue regime covering the projects are accounted for.

Bidders must accept enforceable operating and financing conditions, including a duration adjustment provision, a maximum term, and a support cap. Appraisals must define service requirements and exit and transfer arrangements. Preparation should involve consultation and shadow bidding to assess sponsor interest in the defined project and contract, but the participation test still requires qualified binding bids.

1 Nigeria was listed on the World Bank's FCS lists for every fiscal year from 2020 through 2026 (World Bank 2025a, 2025b). Classifying a country as FCS does not establish conditions at specific project sites within that nation. The World Bank tender's bid-stage date has not yet been confirmed, limiting precise dating of this experience but not affecting the concerns about participation reported in the restructuring paper.

Willingness to submit binding bids under LPVS terms still needs testing. Preparation would assess sponsor interest and collusion risks, with sealed bids, limited disclosure and review of bidder relationships and suspicious bidding patterns incorporated into the tender protocol. The approval package would identify and fund independent verification of revenue and service throughout each contract. Prequalification would examine financing plans under adverse conditions since a low bid might reflect optimism about common risks. Financing deadlines and enforceable delivery milestones would address stalled projects and sponsor failures to perform. Monitoring would also examine persistent low effort, including cases where limited alternative uses of capital and management time weaken incentives to complete. Evaluation would record delayed service and capital reserved for stalled projects alongside support payments.

Financial institutions comprised 57 percent of PSW Board-approved volume through June 2023 (IDA 2023, Figure 2.2 and footnote 11). The remaining 43 percent is not an estimate of eligible volume for this pilot, which excludes financial intermediaries. Project-level revenue observability, irreversible investment, viability and competing sponsor interest all need to be assessed.

Even when the payment history for the public buyer is recorded and accessible, this does not remove sponsor differences in terms of cost of finance, liquidity or willingness to accept payment delay. Firms that have savings are willing to wait out payment delays. Firms with no savings can seek and get finance to tide them over, but financing could be costly. A third firm can wait for delayed payments but has a high discount rate and prefers not to. These constraints and preferences will be reflected in the support bids. If risk has already been mitigated on a commercially reasonable basis, additional support is not needed. Any alternative revenue stream must have a verifiable trigger and agreed sharing of risk appropriate to that revenue.

The tender document for each eligible project will define the service standard and revenue trigger, targeted level of compensation and maximum tenor, and rules for support payments. Standard contract language and further provisions related to nonpayment by a public buyer are provided in the annex. Financial intermediaries, early-stage agribusiness, single-sponsor transactions and first-of-a-kind deals will continue to be supported through bilateral negotiation.

Team incentives affect which deals enter competition. If performance credit depends mostly on bilateral transaction volume, teams have an incentive to leave similar deals out of the pilot. The evaluation should consider why certain deals were excluded from the initial pool, to understand whether hurdles arise from institutional incentives or deal eligibility.

Risks and limits of the evidence

Competition only yields value when a project and its attendant contract are well enough defined so that sponsors can submit comparable bids. Bajari, McMillan and Tadelis (2009) link complex projects and the limited availability of bidders to the use of negotiation in private procurement of buildings, and they discuss the value of communication between buyer and contractor while designing the project. These findings favor bilateral review when projects differ substantially or are first of a kind. They provide no estimate of the gains from auctions in fragile economies.

A low support bid might reflect low costs or an optimistic view of common risks. In some construction procurements studied by Hong and Shum (2002), estimated procurement costs rise with bidder numbers as bidders allow for the winner's curse. The price therefore need not fall as more bidders enter. Alongside the bid, the pilot must record whether lenders accept the terms and whether the sponsor delivers on them. Prequalification reduces the risk of an undeliverable offer, without ensuring performance.

If renegotiation is ruled out under high uncertainty, risk-averse sponsors might decline to bid or all request high support caps. A competitive award would then risk costing more than a bilaterally negotiated contract. Engel et al. (2001) analyze highway concessions whose term varies with realized demand, giving the franchise holder full insurance against demand risk unavailable under a fixed term.

LPVS provides similar protection by adjusting duration and paying for part of the shortfalls. The sponsor will pay its portion of each shortfall and bear the risk of exhausting the support cap. The confidential maximum in the annex limits exposure. A competitive award requires at least two qualified bids at or below this maximum (Table A1).

The numerical examples in the companion working paper use assumed parameter values (González 2026, Sections 5 and 6). They compare the auction to sequential offers of the maximum cap under the contract and award rule analyzed in the working paper. When exit is costless and access to sponsors is equal, the auction spends less on average. But concessions reach the compensation target less often and are more likely to end through sponsor exit. These are only examples and do not estimate savings from the pilot. Observation is needed to establish whether auction prices help bilateral negotiation and what share of transactions admits these comparisons. Expansion should depend on these findings as well as delivery and payment performance, including costs incurred after failure.

Based on the core assumptions used in the companion working paper, if there is no recovery of arrears, setting a cap at the second-lowest qualifying bid will order sponsors by their minimum support requirements (González 2026, Section 5.4). The result assumes an award at the minimum acceptable cap leaves the sponsor no better off than declining the project. This holds in the baseline

numerical environment since exiting and completing have the same terminal value. The condition need not hold in other settings. Subject to these assumptions, the result also covers the confidential ceiling and two-bid requirement proposed here. Under the annex's recovery rule, the paper establishes no such ranking for either an award at the winning bid or one at the second-lowest bid (González 2026, Sections 5.5 and 7). So, a binding bid does not have to reveal the minimum support the sponsor needs. Before binding bids are invited, the design stage would settle the rules for determining the award and accounting for recovered arrears. Both would be included in the approval package.

What IDA21 will tell donors

The IDA21 cycle runs from July 2025 to June 2028 (IDA 2025a). If the pilot is terminated, the binding bids will provide benchmarks for similar projects and bilaterally negotiated contracts.

The IDA21 assessment would provide evidence to donors of binding participation, bid dispersion and financial close. A binding bid demonstrates the sponsor's commitment to accept the contract. Bid dispersion reveals variance in the amounts of support sponsors seek. Financial close confirms lenders' acceptance of the awarded terms. Participation can be measured when qualified binding bids are submitted or when the submission deadline passes with insufficient bids. No award is needed for this finding.

There will be little time between awards in 2027 and June 2028 to establish an operating track record. Zambia's first Scaling Solar contracts were awarded in May 2016, with commercial operation of the Bangweulu facility beginning in March 2019 (World Bank 2020). Senegal followed with awards in April 2018, financial close in July 2019 and commercial operation in May 2021 (IFC 2021). Both support a later evaluation of operating performance. But these timeframes give little insight into typical project construction time in fragile countries.

First auction bids give rise to a potential reference price for bilateral support requests for deals in the same reference class. That is, a financed deal bid lays down a benchmark for judging a subsequent request. Comparisons in the pilot are restricted to other transactions with similar eligibility and contractual terms. Any higher request must explain relevant differences in revenue terms, buyer exposure, financing or service requirements. The sponsor and deal team should explain whether the comparison applies.

Variations in prices among bids for similar transactions may represent rents, risk premia or payments for externalities. Bids by themselves do not determine which explanation applies. Sorting out these explanations requires knowledge of contract terms and evidence on sponsor conduct as well as realized project outcomes known only after projects have been operating for some time.

Published estimates leave these information gaps unfilled. They offer no audited standard against which to judge the reasonableness of a support price. Nor do they differentiate risk premia from externalities and rents or measure auction savings. The evaluation would show how comparison of auction bids with later requests for bilateral support influences the terms on which later deals are made as well as what proportion of the pipeline these comparisons cover.

Comparison of service and expenditure applies only to projects with operating histories. Delivered service and discounted public expenditures are compared over a common period of analysis, permitting comparison of projects begun in different years. Public expenditures include payments to failed projects, operator transfer costs and extraordinary salvage payments. The program is evaluated including the costs of failures. Recoveries are accounted for separately (to avoid hiding gross expenditures) and then deducted to show net expenditures. The record must also indicate whether projects kept operating after the support cap was exhausted. Exhaustion of the cap has implications for risk of failure, and continued operation beyond the cap depends on the sponsors' financing ability.

The decision requested

The paper proposes that IDA Deputies endorse a $150–200 million pilot and request management to obtain the necessary approvals in advance of awards in 2027. Endorsement would cover the design work needed to resolve the award rule and account for recovered arrears. Once these terms are approved by the relevant Boards, invitations for binding bids would follow. Awards in 2027 would depend on completing this work and obtaining approval.

Deputies have an opportunity to consider the proposal at the IDA21 Mid-Term Review, scheduled for December 5–9, 2026 (World Bank 2026). The decision would provide financing for preparation and an independent evaluation and would define eligibility using the project characteristics outlined above. The independent evaluator would provide a report to the authorizing bodies and Deputies by June 2028 (end of IDA21) on the binding bids received, dispersion of bids, financial close, implementation progress and administrative expenses. The report would separate facts known at that point in time from tests of delivery, operating performance, recovery and cap enforcement for which evidence is still awaited. Any tests left incomplete because of outstanding commissioning, arrears or changes in political circumstances in 2028 would remain open for assessment later. Since commitments to support track pledges of support rather than expenditures, comparisons alone cannot be used to determine actual fiscal savings realized. Actual spending and recovery data, including costs to prepare and administer the operations, would be needed to assess those savings. If results appear positive, testing could continue under the original approval. Further expansion could be considered based on subsequent findings.

The pilot would be evaluated on the cost of capital set aside, support provided and actual spend. The $150–200 million envelope would cover aggregate awarded support caps. The approval package would detail how discounted caps would be translated into nominal exposure and capital reservation under the applicable framework. Planning would assume capital reservation against the full amount of approved exposure unless the relevant Boards authorize another treatment. Preparation, administration, monitoring and independent verification over each contract's life, as well as independent evaluation, would have a separate budget outside the $150–200 million envelope. These costs have not yet been estimated. Under IDA21, IDA's Board approves the overall PSW envelope, while all three Boards must approve the policy framework and investment guidelines. The IFC and MIGA Boards approve their respective transactions and use of PSW funds. IDA no longer approves each individual allocation (IDA 2025b, Annex 11, paragraphs 3–4). Existing PSW arrangements would need to be amended for the pilot. Management would determine what changes were needed and submit them to whichever Boards had authority before inviting binding bids. This way sponsors would bid on approved terms.

The original PSW framework also allows for review of new instruments (World Bank 2017, paragraphs 59–64). If the pilot qualifies as a new instrument, it would be subject to this review process. The package submitted for approval would specify whether review was necessary and identify the PSW funding facilities and planned number of awards. Evaluation of the initial cohort would provide case evidence on participation and implementation rather than a precise estimate of auction benefits across fragile economies.

The paper also proposes that Deputies give IFC a mandate and resources for the test. IFC would lead project origination and preparation, organize and administer the tenders, qualify sponsors and retain responsibility for development review. Staff assessments would recognize preparation and valid price comparisons, including a properly conducted tender ending without an award. Where a public buyer is involved, the World Bank's country teams and participating governments would agree on payment terms. MIGA would identify appropriate insurance coverage alongside existing guarantees. Pilot approval would include publication of results and authority to discontinue new awards.

Annex: Contract provisions and measurement plan

Common tender and payment terms

Support will cease once the sum of discounted support payments equals the awarded cap. The concession ceases when the compensation target has been met or if the sponsor abandons the project or the maximum period expires. Adverse shocks will slow the buildup of compensation and prolong the concession within these limits. The support cap, compensation target and maximum period are all separate contract values.

Payments are available up to the awarded cap only if there is a proven shortfall in revenues. Payments will not be triggered based on any development metrics. Technical and development requirements as well as construction milestones will determine if the sponsor qualifies for support. The sponsor will not receive any support payments prior to commercial operations. If the sponsor continues to meet service levels and report as required and meet its development commitments, the sponsor will continue to qualify.

A shortfall that occurs during an uncured breach of a continuing obligation will not be supported, even if the breach is cured. Losses verified to be due to the operator will not be supported. Shortfall is calculated on the assumption that revenue lost through poor availability or billing/collection has been collected. The sponsor will not receive these dollars, but this preserves the operator's incentive to keep up availability and collection.

Awarding the contract to the lowest bidder carries the risk of selecting a sponsor who cannot deliver the project. Prequalification tests the bidder's ability to put together a bid and finance the project. The assessment looks at their financial model in bad cases and checks whether it holds together, how they plan to construct the project and what they will do if there are losses. Delivery will then be tested against construction milestones and service requirements.

The DFI will establish and document a maximum acceptable support cap for each project before soliciting bids. This number will come from the internal pricing model used in bilateral negotiations, independently of submissions, and will remain fixed throughout the tender. The cap will remain confidential because disclosure risks drawing bids toward the ceiling when few sponsors compete. A competitive award will require at least two qualified bids from independent sponsors at or below the ceiling. Bids above the ceiling will still be included in the evaluation record.

The tender will determine the revenue threshold, share covered, payment limit for each period, discount rate, how the compensation will build up and the maximum life of the contract. Suppose the sponsor retains no asset value at the end of the concession, has a nonnegative outside option and discounts future cash at a rate above the compensation accrual rate. A target at or below appraised

capital cost would then leave the sponsor worse off than declining the project (González 2026, Section 5.2). Appraisal would establish that sponsors can participate under the proposed compensation target, accrual rate and provisions for the asset at the end of the concession. As the target compensation amount is reached, the last support payment cannot exceed the remaining compensation less net operating cash. Retained operating cash will be prorated if needed to meet the target compensation amount exactly. This will apply to all bidders.

LPVS will cover eligible shortfalls of operating revenues up to the amount allowed under the contract. The loss/destruction of an asset would need to be covered by other protections such as MIGA (war damage and expropriation if applicable). If a project's main risk is destruction of its asset, then the project should not be considered for this pilot. The tender document must outline what exposures are being covered and provide a rule for payments coordinated with existing guarantees.

Additional terms for projects with public buyers

In the power-generation example described above, revenue includes all payments received under the power purchase agreement such as capacity payments and deemed-energy payments, as well as payments received under MIGA cover or a World Bank Group payment guarantee. Qualifying shortfalls are only those not covered by the commercial contract and existing guarantees. Since take-or-pay provisions do not limit the generator's contractual right if demand decreases, utility arrears make up most of the qualifying shortfall. Arrears qualify only after the invoice due date and grace period have passed, provided the invoice is undisputed and the generator remains in compliance with the agreement.

Under the terms being considered, risk allocation would be fixed before bidding. Projects deriving more than 50 percent of anticipated revenue from a state-owned customer would require MIGA breach-of-contract coverage, available and committed prior to tender.

Receipt of the first support payment for eligible public-buyer arrears triggers notification, monitoring and a cure period during which the buyer is expected to repay the arrears. Escalation would be according to a mutually agreed protocol that considers the duration and magnitude of the arrears. If an action will affect other facilities or transactions with the same sovereign, the institution must explicitly approve the action, given the implications for its overall relationship with the sovereign. As long as arrears remain unpaid, a compliant operator will continue to receive support within the remaining cap. The contract must distinguish buyer nonpayment from sponsor breach since sponsor breach might lead to termination and transfer. The contract must identify in advance which obligations will survive a change of government, limiting a successor government's ability to challenge the buyer's obligations.

Support payments are in lieu of receipts due from the public buyer. Payments under this proposal would count towards the relevant IDA country limit and would require explicit approval and consistency with PSW country limits. The buyer remains liable for the full amount of the invoice, even after support has been disbursed. To the extent that arrears are paid back later or are recovered under a guarantee, the DFI would be first reimbursed for support paid against that invoice, up to the amount of support paid. Remaining amounts would be remitted to the operator. The reimbursement right must be enforceable. Recovery arrangements must be coordinated with existing guarantees, so the same invoice does not generate double recovery.

Breach and continuity of service

Termination and transfer following sponsor breach or insolvency will be subject to the terms of the contract. Upon an uncured breach, the DFI will end the sponsor's participation and look for a qualified operator to fulfill the rest of the initial contract's term. The replacement operator will receive only the unused balance of the initial support cap, calculated at the original discount rate and valuation date. The initial cap, compensation target and compensation accrued will remain the same upon transfer.

A utility failing to make payments, a systemic shock or exhaustion of the support cap is not sufficient grounds for termination. A sponsor meeting all requirements will be allowed more time to build toward the compensation target, up to the maximum contract duration. Continued service after support ends will depend on the sponsor's willingness and financial capacity to operate. Transfer after fraud, incompetence or another sponsor-specific breach will only help if a qualified operator is available to take over.

Measurement and stopping decisions

The evaluation includes all tenders admitted under the approved protocol, including those receiving no award. The project and contract classes used for comparison with bilateral support must be set before results are known. The record must identify missing comparators. The total number of submissions does not establish competition within individual lots.

For the planned number of projects and for contract preparation, administration and verification over each contract's life, the approval package needs a budget that covers those costs. The proposed budget would also fund independent evaluation.

TABLE A1. Stopping tests and observation dates

Test	Failure Condition	Observation Date
Binding participation	Too few responsive qualified binding bids for a project or lot to make a competitive comparison. No project or lot receives a competitive award with fewer than two such bids from independent sponsors.	At the binding-bid deadline for each project or lot, reported by June 2028.
Support price	Fewer than two qualified binding bids from independent sponsors for a project or lot lie at or below the confidential maximum support cap, which is fixed and documented before bids are invited.	At bid opening for each project or lot, reported by June 2028.
Financing and sponsor delivery	Failure to reach financial close or meet construction and service obligations within agreed tolerances, or a need to increase the support cap to proceed.	Financing deadlines as they fall due. Delivery at construction milestones, commissioning and during service.
Public-buyer payment protocol	Failure to sustain the agreed payment, monitoring and recovery obligations after arrears or government transitions, beyond the approved tolerances.	After eligible arrears trigger the agreed protocol and both the agreed cure window and observation period have ended. Political continuity requires observation across a transition.

Notes: The approval package fixes the evaluation cohort, deadlines, tolerances and observation windows before bidding. Before solicitation, the package should specify financing deadlines, service tolerances and payment cure periods and identify responsibility for withholding new awards. Stopping ends new awards in the tested application and returns new projects to bilateral review. Existing contracts continue under their agreed terms.

TABLE A2. Evaluation record

Record Area	Contents
Participation	Candidate projects and exclusions. Record the originator of each project, any preparation undertaken specifically for the pilot, and whether the project was already in the IFC or MIGA pipeline when the pilot began. Expressions of interest, prequalification, qualified binding bids, awards and financial close as distinct stages. Projects awaiting financing must be distinguished from those reaching financial close.
Each project or lot	Identify independent sponsors, multiple submissions by the same sponsor and responsive qualified binding bids. Reasons for rejection or withdrawal and alternative support programs available to bidders should also be recorded.
Financing	Deadlines and close dates, financing terms and amendments. Agreed deadlines must remain on the award record.
Delivery	Milestones, service output, outages, breach, transfer and abandonment.
Public buyers	Invoices and due dates, grace periods and receipts, guarantee settlements, support and reimbursement.
Fiscal account	Awarded caps, gross support, actual recoveries, administration and other public assistance, including spending after failure or transfer. The evaluator reports spending on tenders without awards and distinguishes contingent commitments from disbursements. Preparation and management costs should accompany the bid record for evaluation. The evaluator should record administrative expenses alongside support payments.

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