

The Broken Bargain

IDA Delivered the Funding. IFC Did Not Deliver the Promised Expansion.

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THE GOVERNING FINDING

IFC is a legal entity separate from the other members of the World Bank Group. Yet its entire business model — the AAA credit rating that underpins its borrowing cost, the Private Sector Window subsidy that transfers first-loss risk from IFC's balance sheet to IDA's capital, and the country pipeline that generates its deal flow — rests on a relationship with IDA whose value it has never had to price, disclose, or reciprocate in proportion to what it receives. Since 2020, IFC has transferred zero to IDA. Over the same period it has received approximately \$9.9 billion in PSW subsidy allocations and generated roughly \$6 billion in net income, while IDA's grant capacity has come under structural pressure. The 2018 arrangement that suspended IFC's IDA transfer has not been renegotiated. This paper calls it what it is: a broken bargain. IDA delivered the subsidy. IFC did not deliver the promised expansion. This paper sets out what IFC receives, documents what it has returned, and proposes four reforms to restore accountability to the relationship.

I. THE ARCHITECTURE OF THE RELATIONSHIP

IFC and IDA are legally distinct institutions, each established under separate Articles of Agreement and each with its own share capital, financial structure, management, and staff. IFC was founded in 1956 to promote private sector investment in developing countries; IDA in 1960 to provide concessional finance to the world's poorest. They share a Board, a President, a Washington headquarters, country offices across 130+ countries, and a credit rating anchor.

The relationship is structurally asymmetric. IDA is a public institution funded by sovereign donors, operating on a mission of concessional finance to the poorest countries. IFC is a commercial institution that funds itself on capital markets and operates on a financial return model. The WBG architecture places both under one governance structure and, crucially, one credit rating system. The AAA that IFC carries — the foundation of its entire business model — rests not on IFC's own balance sheet but on the same sovereign backing that underpins IBRD and, through IBRD, the WBG as a whole. The donors who fund IDA are the same sovereign governments whose callable capital anchors the AAA.

This paper does not argue that the relationship is illegitimate. Private sector investment in IDA countries is a genuine development need; the PSW is a reasonable instrument in principle; and IFC's presence in these markets, while insufficient, is better than its absence. The argument is that the relationship is unpriced, undisclosed, and unaccountable — and that those three deficiencies are governance failures, not inevitable features of the architecture.

Six Distinct Benefits — Overview

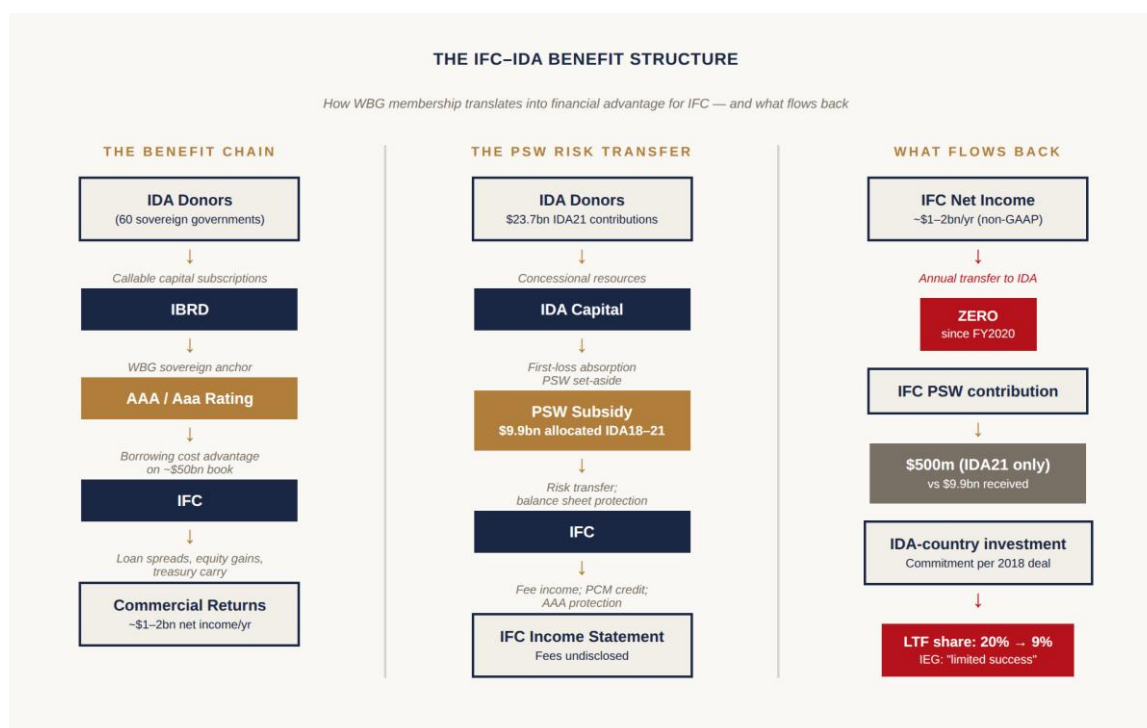


Figure 1. The IFC-IDA Benefit Structure: how WBG membership creates financial advantage for IFC, and what flows back to IDA.

Benefit	Mechanism	Nature of Value	IFC Financial Return
1. AAA Rating	WBG membership; IBRD sovereign backing anchors the rating	Funding cost advantage on ~\$50bn borrowing book	Estimated \$300-750m annually — see The Other AAA (mdbreform.com/the-other-aaa); not disclosed by IFC
2. PSW Direct Subsidy	IDA capital first-loss absorption; risk transfer to IDA balance sheet	\$9.9bn allocated IDA18-IDA21; subsidy 5-30% below market pricing	\$500m own capital (IDA21 only — first contribution ever)
3. Balance Sheet Protection	IDA absorbs first-loss; IFC avoids capital charge	Protects AAA; frees headroom for additional transactions	ZERO
4. PSW Fee Income	IFC manages 83%+ of PSW projects; earns arrangement/management fees	Undisclosed; estimated across 206 projects and \$6.18bn commitments	ZERO (disclosed to IDA)
5. IDA Country Pipeline	IDA sovereign investment creates enabling environment IFC monetises	\$100bn+ IDA-country deployment since 2017 generates IFC deal flow	ZERO
6. Shared Platform	IBRD/IDA country offices, government relationships, analytical products	Unpriced use of platform built by sovereign donors over 70 years	ZERO

Sources: Moody's IFC Credit Opinion January 2025; S&P IFC Credit Opinion May 2025; IEG Focused Assessment of the IDA PSW (2024); CGD, IDA21 and the PSW (June 2024); IDA Financial Statements FY2025; Brar, P., Rethinking the IDA PSW (mdbreform.com, April 2025). 'ZERO' denotes no disclosed financial transfer from IFC to IDA in the period.

II. THE SIX BENEFITS — IN DETAIL

Benefit 1: The AAA Rating — The Foundation of Everything

This is the largest single benefit and the one IFC's institutional communications treat as self-evident. It is not.

Moody's assigns IFC's development asset portfolio a weighted average borrower rating of Ba3 — sub-investment grade, junk-adjacent in market parlance. Ba3 has been the rating since 2022, having touched B3 during the COVID pandemic in 2020. S&P is explicit: as a fully specialised private-sector lender, *IFC does not benefit from preferred creditor treatment*, which S&P only applies to sovereign exposures. This matters because preferred creditor treatment — the assumption that sovereign borrowers will repay MDBs first — is a key underpinning of AAA ratings for most MDB peers. IFC does not have it.

What IFC does have, in place of preferred creditor treatment, is WBG membership. Moody's and S&P both identify shareholder support — the expectation that member governments would provide additional capital if needed — as a determinative factor in the Aaa/AAA rating. That expectation is anchored in IBRD's callable capital, subscribed by sovereign member governments, which are the same governments who fund IDA's replenishments.

The AAA is a composite rating. IFC's own portfolio would support something in the BBB to A range based on portfolio quality, leverage, and the absence of preferred creditor treatment. The remaining distance to AAA is WBG membership — a public good created by sovereign donors that IFC accesses without a fee.

The funding cost advantage of AAA over an illustrative standalone rating is estimated at \$300–750 million annually — the methodology is set out in *The Other AAA* (Paper 1 of this series, mdbreform.com/the-other-aaa). The advantage is real but inherently uncertain in precise magnitude. The point is structural: the advantage is substantial, it is a product of WBG membership rather than IFC's own creditworthiness, and it is unpriced.

Benefit 2: PSW Direct Subsidy — \$9.9 Billion Allocated, IDA Absorbs the Risk

The IDA Private Sector Window was created under IDA18 (2017) with an initial allocation of \$2.5 billion from IDA's concessional resources. The mechanism is explicit in the IEG's own assessment: the IDA capital set-aside enables IFC and MIGA investment transactions in PSW-eligible countries by partially mitigating risks and potential losses of IFC, MIGA, and third-party private sector investors. Partially moving risks from IFC and MIGA to IDA under these set-asides allows IFC and MIGA to lower their prices to market rates and frees up headroom for them to do more transactions in PSW-eligible countries.

Total PSW allocation from IDA18 through IDA21: approximately \$9.9 billion. The IEG estimates that PSW pricing for IFC and MIGA transactions is 5 to 30 percent below what they would charge absent PSW support. The average subsidy across the portfolio runs at approximately 7 percent of total project cost, rising to 13 percent for Local Currency Facility transactions. Twenty-eight projects in the 206-project portfolio carry subsidy ratios of 100 percent — a structural consequence of LCF cross-currency swap mechanics rather than project-specific risk assessment.

Metric	IDA18 (FY18–20)	IDA19 (FY21–22)	IDA20 (FY23–25)	IDA21 (FY25–28)
IDA PSW allocation	\$2.5bn	\$1.68bn	\$2.5bn	\$2.7bn + \$0.5bn IFC
IFC share of projects	83%+	83%+	83%+	83%+ (expected)
Committed	\$1.37bn (55%)	\$2.6bn (full)	\$5.5bn total (full)	In progress
Median subsidy (% project cost)	~7%	~7%	~7%	Target: <10%
IFC IDA-country LTF share	~20% (2015 baseline)	Declining	~9% (2023)	—
Private \$\$ mobilised per \$1 IFC	\$1.4 (non-PSW control)	—	\$0.6 (PSW)	—
IFC annual transfer to IDA	~\$300–500m/yr	ZERO	ZERO	ZERO

Sources: IDA Financial Statements FY2025; CGD IDA21 and the PSW (June 2024); IEG Focused Assessment of the IDA PSW (2024); Brar, P., Rethinking the IDA PSW (mdbreform.com, April 2025).

The reach of the PSW into IFC’s stated priority markets is narrower still. The IEG’s 2024 Focused Assessment of the IDA PSW documents that only 20 PSW projects have benefited FCS countries — representing 67 percent of IFC’s FCS-linked PSW projects and all five MIGA FCS projects in the portfolio. Twenty projects from a \$9.9 billion facility whose primary stated rationale is expanding private investment in fragile and conflict-affected states. As Koldo Echebarria (CGD, December 2024) observes, the structural constraint is not the absence of will: ‘most FCS lack the well-developed business organisations capable of partnering with MDB private sector windows.’ The PSW has not solved that problem. It has worked around it by concentrating activity in somewhat easier IDA-eligible markets while FCS deployment remains marginal.

A secondary concern on the deployment side: nearly half of PSW-supported IFC commitments in 2023 were short-term finance — trade credits and working capital — well after the pandemic. IFC commitments of trade finance to PSW-eligible countries were already significant before the PSW, suggesting that IDA concessional subsidies are being used to support activity that IFC would have done commercially anyway. This is the most direct form of subsidy capture: IDA donor resources being used to reduce the cost of transactions that did not require a subsidy.

Benefit 3: Balance Sheet Protection — Capital Relief Without Price

The IDA capital set-aside for the PSW is completely backed by IDA capital. If IDA lost the entire set-aside, its capital would decline — but it would not affect IDA’s AAA credit rating. For IFC and MIGA to take these IDA risks on to their own balance sheets would require large capital allocations and could eventually affect their credit ratings.

This is capital relief for IFC at IDA’s expense. IFC books the transaction, earns the fee, and counts the commitment in its private capital mobilisation statistics. IDA holds the first-loss position from donor contributions. The capital relief is unquantified in any public document; it is material and structural; and IFC pays nothing for it.

Benefit 4: Fee Income on PSW Transactions — Undisclosed

Over 83 percent of PSW projects are linked to IFC-managed facilities. IFC functions simultaneously as deal originator, subsidy applicant, and additionality assessor — roles that in a commercially disciplined structure would be separated by a competitive process. IFC earns arrangement fees, commitment fees, and management fees on PSW-supported transactions. These are not separately disclosed in IFC's financial statements, in PSW reporting, or in any public document.

The total fee income on \$6.18 billion in PSW-supported commitments across 206 projects since 2017 has never been published. This is a material transparency failure. The IDA donor governments who fund the PSW subsidy have no public disclosure of what IFC earns on transactions they are subsidising. This paper is not in a position to quantify the amount, but calls for its disclosure as a basic governance requirement.

Benefit 5: The IDA Country Pipeline — Unpriced Deal Flow

IDA deploys \$30–40 billion annually in sovereign-financed operations across 75 countries: power sector reform, financial sector development, business climate improvement, education and health investment, agricultural systems development, public financial management. Each of these operations creates the conditions in which IFC identifies and executes commercial transactions.

The IDA PSW explicitly *builds on the WBG's robust support for private sector investment in IDA countries, totaling more than \$100 billion in the past decade*. The formulation reveals the dependency: IDA's \$100 billion creates the enabling environment; IFC's PSW derives commercial returns from it. The Country Director who manages the IDA programme simultaneously manages IFC's pipeline. This creates the conflict of interest documented in the Nigeria Power Sector case — adviser, equity investor, and guarantor in the same sector simultaneously — as a general model, not an exceptional failure.

Benefit 6: Shared Platform and Services

IFC operates in 130+ countries using a country presence platform built by IBRD and IDA over seven decades. Country offices, government relationships, Country Director authority, analytical products, fiduciary frameworks, and administrative infrastructure are shared across the WBG. The methodology for allocating WBG shared costs has never been independently audited. IFC's administrative expenses include only what is directly attributable to IFC's operations. The opportunity cost of using a platform that sovereign donors have built and maintained is not on IFC's income statement.

III. THE BROKEN BARGAIN — WHAT WAS AGREED AND WHAT ACTUALLY HAPPENED

In 2018, IFC negotiated an arrangement with IDA Deputies under which it would suspend its annual income transfer to IDA — historically \$300–500 million per year — in exchange for a commitment to expand its activities in IDA-eligible countries, using the PSW as the primary

mechanism. The logic was presented as a trade: IFC would stop paying cash and instead invest the capital in the markets IDA serves.

Element of 2018 Arrangement	IFC Commitment	Documented Outcome (by 2025)
IDA transfer	Suspend annual transfer (~\$300–500m/yr)	Done. Zero transferred since FY2020.
Quid pro quo	Expand IFC activities in IDA-eligible countries	IDA-country LTF share: 20% (2015) → 9% (2023). IEG: 'limited success'.
PSW access	Use IDA subsidy to expand into FCS/IDA markets	PSW fully committed; IDA absorbed all first-loss risk.
IDA21 adjustment	Contribute \$500m own capital to PSW	Token. Against \$9.9bn total PSW allocation received IDA18–21.
Net balance	IFC expands development footprint as payment	IFC IDA-country share fell by more than half. No financial consequence triggered.

The performance record against the commitment is documented by independent evaluators. IFC's IDA-country share of long-term finance commitments dropped from approximately 20 percent in 2015 to 9 percent in 2023 — a 55 percent decline in relative terms — despite, not because of, the PSW. In PSW-eligible countries that received a PSW project, IFC's annual average commitments fell by 28 percent in the six years after PSW introduction compared to the six years before. In PSW-eligible countries that did not receive a PSW project, they fell by 77 percent. The most charitable interpretation, offered by the IEG, is that the PSW slowed a decline that would otherwise have been worse.

The IEG's own statistical analysis (staggered difference-in-difference, FY2018–FY2023) finds that IFC commitment volumes in PSW-recipient countries were, on average, three times greater than the counterfactual — i.e., greater than they would have been absent the PSW. This is the institution's strongest defence of the instrument and it deserves to be stated fairly: the PSW may have prevented an even steeper collapse in IFC's hard-market presence. What the PSW has not done is generate net growth above pre-PSW levels. 'The IFC average annual commitments were lower in the six years after PSW launch than in the six years before PSW launch' (IEG, 2024). Preventing a worse outcome while failing to deliver the committed expansion is not the same as meeting the terms of the 2018 arrangement.

The 2018 deal delivered one outcome with certainty: IFC stopped paying IDA. The promised expansion did not materialise. No accountability mechanism exists for this failure. No financial consequence was triggered. IDA21 renewed the PSW and added a \$500 million IFC capital contribution — the first contribution IFC has made to the window it has managed for seven years. The \$500 million is approximately 5 percent of the PSW subsidy IFC has received since IDA18.

IDA delivered the subsidy. IFC did not deliver the promised expansion. The 2018 bargain is broken.

The IFC–IDA Income Transfer: What Actually Happened Since 2018

Last income transfer from IFC to IDA: FY2019 — for FY2018 net income. The arrangement to suspend transfers was concluded in 2018 under the IDA18 replenishment.

FY2020 onwards: Zero — No income transfer from IFC to IDA in any fiscal year since FY2020.

IDA21 contribution (\$500m CCW): Not a transfer — IFC contributed \$500m of its own capital to the new Concessional Capital Window in IDA21. This is a capital allocation to a facility IFC manages and from which it earns fees — not a payment to IDA.

Total income transferred since 2018 arrangement: \$0

Total PSW subsidy received from IDA (IDA18–IDA21): ~\$9.9 billion — IDA absorbing first-loss risk on IFC and MIGA transactions in eligible countries.

IFC net income FY2019–FY2025: ~\$7–8 billion — (Income Available for Designations, non-GAAP, excluding unrealised equity movements)

IV. WHAT IFC WOULD SAY — AND WHY THE EVIDENCE POINTS THE OTHER WAY

This paper's argument will attract institutional responses. Five are predictable. Each deserves a direct answer.

IFC Counterargument	The Claim	The Evidence	What the Comparators Show
"The PSW would not exist without IFC."	IFC's investment capability and pipeline are prerequisites for the window.	True but incomplete. IFC manages 83%+ of PSW projects in a closed system with no competitive process. The relevant question is whether IDA could get better value from PSW subsidies through competition. IEG finds private mobilisation per \$1 IFC investment is 60% lower for PSW-supported projects than non-PSW IFC projects in the same countries.	BII (UK) delivers 35–40% FCS concentration with no PSW. FMO achieves 20–25% IDA-country share without PSW access. Proparco concentrates 45% in Africa with no first-loss window. None of these institutions requires a donor-subsidised risk absorption facility to operate in hard markets.
"IFC creates development additionality."	PSW-supported transactions have higher development impact scores than IFC's average portfolio.	Ex-ante scores are higher; but IFC's IDA-country share fell from 20% to 9% since PSW launch. The PSW may be helping IFC retain a shrinking IDA-country presence rather than expanding it.	IEG finds additionality realised in only 33% of FCS projects. PSW projects mobilise 60% less private capital per \$1 IFC than comparable non-PSW IFC projects in the same countries (IEG, 2024). Proparco and BII do not claim an additionality advantage while withholding the underlying data.
"The transfer suspension freed capital for IDA-country investment."	Stopping the IDA transfer allowed IFC to deploy capital in IDA markets instead.	IFC's own data shows IDA-country long-term finance commitments in PSW-eligible countries fell 28% in the six years after 2018 versus six years before. The capital was not deployed in IDA countries.	IFC's IDA-country long-term finance share fell from 20% (2015) to 9% (2023) — a 55% decline in the period after transfers stopped. BII and FMO increased their hard-market shares over the same period without suspending income transfers to their sovereign owners.

"IFC already contributes through its mandate."	Operating in frontier markets is IFC's contribution to the WBG's development mission.	IFC's average FCS share: 5.2%. IFC's FCS outcome rate: 11% satisfactory. The mandate is not being delivered in the markets that most need it.	BII delivers 35–40% FCS concentration; FMO 20–25% IDA share; Proparco 45% Africa — all without WBG membership, PSW subsidy, or IDA pipeline. IFC holds all three structural advantages and delivers 5.2% average FCS share. The peer evidence directly refutes the mandate-as-contribution argument.
"The AAA rating reflects IFC's own financial strength."	IFC's conservative balance sheet and risk management justify AAA.	Moody's assigns IFC's portfolio a weighted average borrower rating of Ba3. S&P explicitly notes IFC does not benefit from preferred creditor treatment as a private-sector lender. WBG shareholder support is a distinct, determinative factor in the rating — it is not IFC's own creditworthiness.	BII, FMO, Proparco and DEG all publish fee income separately from other financial revenues. FMO's Annual Report disaggregates development finance and commercial income. None claims the AAA rating reflects only internal financial strength — each acknowledges the role of sovereign shareholder backing. IFC's PSW fee income on \$6.18bn in donor-subsidised transactions is not disclosed in any public document.

Sources: Moody's IFC Credit Opinion January 2025; S&P IFC Credit Opinion May 2025; IEG Focused Assessment of the IDA PSW (2024); CGD, Has the IDA PSW Increased IFC Investments in IDA Countries? (February 2024); IEG, IFC and MIGA Support for Private Investment in FCS FY2010–21 (2022).

The common thread across all five counterarguments is self-referential: IFC assesses its own additionality, reports its own development impact, defines its own contribution, and sets its own subsidy levels. The PSW is the institutional expression of this circularity. An independent pricing, disclosure, and competitive allocation framework would not undermine IFC's role in IDA countries. It would make that role verifiable.

V. THE INSTITUTIONAL ASYMMETRY — A SUMMARY

The core imbalance in the IFC-IDA relationship is not a product of bad intentions. It is a product of a governance architecture that has allowed benefits to accumulate on IFC's side without a pricing mechanism, a disclosure requirement, or an accountability framework to ensure that the relationship serves IDA's mission rather than IFC's balance sheet.

IDA's donors — 60 sovereign governments contributing \$23.7 billion to IDA21 — are simultaneously subsidising IFC's borrowing cost through their callable capital, absorbing IFC's first-loss risk through PSW contributions, and being told that IDA's grant capacity needs to be cut because the financial model is under pressure. The three things are connected. The governance architecture does not make that connection visible.

The asymmetry can be stated in four figures:

PSW subsidy received by IFC (IDA18–IDA21): ~\$9.9 billion in IDA capital risk transfer.

IDA transfer paid by IFC (same period): ~\$700–800 million pre-2020, then zero. Net: effectively zero since 2020.

Why IFC Made Income Transfers to IDA — The 60-Year Record

To understand why the 2018 suspension matters, it is necessary to understand why IFC made income transfers to IDA in the first place. The transfers were not legally required. They were voluntary Board designations of net income, approved annually. But they had a clear institutional logic that held for six decades.

First, they were the implicit price of institutional advantages. IFC benefits from the WBG platform — the AAA rating anchored in sovereign callable capital, the IDA-country pipeline built by decades of sovereign investment, the shared governance, the country offices, the convening power. The income transfer was the consideration IFC paid for those advantages. Not contractual. Not disclosed as such. But understood by every IDA Deputy who negotiated across the table from IFC at replenishment. If you receive the platform, you contribute to the mission.

Second, they were the expression of a development mandate. IFC's mandate is private-sector investment in developing countries. IDA serves the world's poorest. Transferring a portion of commercial profit to IDA's grant window was how IFC demonstrated that its financial model was in service of the broader WBG purpose — the institutional expression of the double bottom line.

Third, they reflected shareholder expectation. The same sovereign governments who fund IDA are the shareholders who own IFC. They expected a return on their development investment — not in dividends, but in mission delivery. The income transfer was that return. Figure 2 below shows the year-by-year record.

Figure 2 sets out the year-by-year record from IDA18 (FY2018) through FY2025 — the full period of the PSW — showing what IFC generated in income available for designations, what it transferred to IDA, and what IDA allocated to the PSW from donor contributions. FY2015–FY2017 is included to show the pre-PSW baseline. The two crossover rows (FY2018–FY2019) show the year in which IDA's PSW allocations began while IFC was still making income transfers — the moment at which the relationship shifted direction.

Fiscal Year	IFC Income (IAD)	IFC → IDA Transfer	IDA PSW Allocation	Direction
FY2015	~\$950m	~\$340m	\$0	IFC → IDA
FY2016	~\$770m	~\$330m	\$0	IFC → IDA
FY2017	~\$1,233m	~\$330m	\$0	IFC → IDA
FY2018	~\$1,318m	~\$330m	~\$400m (IDA18 launch)	Crossover — both active
FY2019	~\$909m	Last transfer (final payment)	~\$625m	Crossover — final IFC payment
FY2020	n/a (pandemic)	\$0	~\$625m	IDA → IFC
FY2021	n/a (mkt rebound)	\$0	~\$625m	IDA → IFC
FY2022	~\$382m	\$0	~\$1,000m (IDA19/20)	IDA → IFC
FY2023	~\$681m	\$0	~\$1,000m	IDA → IFC
FY2024	~\$1,558m	\$0	~\$1,000m	IDA → IFC
FY2025	~\$1,800m (est.)	\$0 *	~\$850m (IDA21)	IDA → IFC
FY2015–19 total (incl. IDA18 launch)	~\$5,180m	~\$1,330m	~\$1,025m	IFC net payer
FY2020–25 total	~\$4,420m (excl. volatility)	\$0	~\$5,100m	IDA net payer (\$5.1bn)

Sources: IFC Annual Reports FY2015–2025; IDA Financial Statements; IFC SEC EDGAR filings. Income Available for Designations (IAD) is IFC’s non-GAAP measure excluding unrealised gains/losses. IFC transfer figures for FY2015–FY2019: approximate, based on historical range of \$300–\$500m/year per IDA Financial Statements; last transfer paid in FY2019. IDA PSW allocations shown as approximate annual drawdown from cycle totals (IDA18: \$2.5bn over FY2018–FY2021; IDA19/20: \$4.0bn over FY2022–FY2024; IDA21: \$3.4bn over FY2025–FY2028). Table total PSW (~\$6.1bn) is less than the \$9.9bn headline figure because IDA21 runs through FY2028 with approximately \$2.5bn not yet deployed (outside this table). FY2025: \$500m CCW contribution is IFC capital — not an income transfer to IDA.

IFC net income (IDA18–IDA24): approximately \$7–8 billion on a non-GAAP basis (Income Available for Designations), excluding volatile unrealised equity movements.

IDA grant capacity pressure (IDA21): IDA countries at high debt distress receiving smaller grant packages or converting to loans. A \$1 billion annual transfer from IFC would materially improve this position.

A fourth figure completes the picture. IFC’s liquid asset carry trade — approximately \$37 billion in US Treasuries and high-grade sovereign paper, funded at AAA rates that rest on the

same WBG membership as IDA's donor relationship — generated approximately \$860 million in net Treasury income in FY2024. Zero of this returned to IDA.

VI. FOUR REFORMS

These reforms are practical, proportionate, and grounded in the IEG's own recommendations. None would undermine IFC's operations. All would make the relationship accountable.

Reform 1: Restore the Annual IFC Transfer to IDA

IFC should resume annual income transfers to IDA at a rate commensurate with its benefits from WBG membership — a minimum of \$300–500 million per year, rising to \$1 billion per replenishment cycle as recommended by independent analysts. This transfer is the price of WBG membership, not a charitable contribution. It should be unconditional: not contingent on PSW access, not linked to IDA-country investment performance, and not subject to IFC Board discretion. The 2018 arrangement that suspended it should be formally renegotiated with IDA Deputies, not managed internally between IFC and WBG management.

Reform 2: Open PSW Allocation to Competitive Process

Over 83 percent of PSW projects are allocated to IFC in a closed system with no competitive process. IDA21 introduced a modest commitment to competitive tendering for infrastructure projects. This should be extended: a minimum of 25 percent of PSW resources should be allocated through a competitive process open to accredited development finance institutions. IDA retains approval authority and outcome monitoring. The subsidy goes to the institution offering the best development outcome at the lowest subsidy cost — not automatically to IFC because IFC manages the facilities.

The structural argument for this reform is reinforced by independent research. Koldo Echebarria (CGD, December 2024) identifies the fundamental constraint in FCS private sector deployment: MDBs need to 'reinforce coordination between non-sovereign and sovereign guaranteed windows' rather than treating PSW as a closed facility managed by its primary beneficiary. Opening PSW to qualified development finance institutions — BII, Proparco, FMO, DEG — would address this directly: IDA's sovereign operations in a country would generate pipeline accessible to the DFI best placed to deploy it, not automatically to IFC.

A recent CGD analysis (Charles Kenny, April 2026) reaches a similar diagnosis — IFC's sponsor-led model is structurally ill-suited to IDA and FCS markets — but proposes a different prescription: redirecting IFC toward government-client industrial strategies. The comparator evidence in this series does not support that conclusion. BII delivers 35–40% FCS concentration without a government-client model. Proparco concentrates 45% in Africa on a private-sector basis, paying the credit cost (AA instead of AAA) for doing so. Rwanda and Bangladesh, the clearest examples of successful FCS graduation, succeeded through integrated public-private approaches, not by substituting MDB private windows with government-directed credit. The constraint is not the private-sector mandate. It is the institutional monopoly over a subsidy facility that was designed to serve the hardest markets but is allocated without competition and without consequence for non-performance.

The peer comparison documented in Paper 1 of this series — ‘The Other AAA: IFC’s Credit Rating Architecture and What It Does Not Measure’ (mdbreform.com, July 2026) — closes this argument with primary-source evidence. BII (UK) achieves 35–40% FCS and IDA-country concentration. It operates without a Private Sector Window, without a \$37 billion liquid asset buffer, and without callable capital support from sovereign shareholders. Proparco (France) concentrates 45% of its book in Africa. It pays the credit cost for doing so: AA instead of AAA. FMO (Netherlands) operates at 20–25% IDA-country share with independently-assessed portfolio quality that is stronger than IFC’s. None of these institutions hold a single one of the structural advantages that IFC holds: no PSW first-loss window, no IDA-country pipeline built by \$30–40 billion per year in sovereign lending, no WBG callable capital credibility. They bear their own risk. And they deploy in the markets that IFC describes as too thin for commercial private sector investment.

If the markets were too thin for private DFI deployment, BII and Proparco would have abandoned them. They have not. The problem is not the markets. The problem is IFC and MIGA — and the absence of competitive pressure on a subsidy that rewards presence over performance.

The thin-market hypothesis is IFC’s institutional defence. It explains why the PSW needs to be larger, why FCS deployment is structurally difficult, and why IFC’s 5.2% FCS commitment share — unchanged across a decade despite a capital increase, a suspended IDA transfer, and \$9.9 billion in PSW subsidy — should be understood as a market failure rather than an institutional one. The comparator evidence refutes it. Opening PSW allocation to competition across accredited DFIs is not a radical proposal. It is the logical consequence of knowing that other institutions can do what IFC is claiming it cannot.

Reform 3: Disclose Fee Income on PSW Transactions

Every PSW project should carry a public disclosure of: the IDA subsidy amount; the IFC arrangement fee; the IFC commitment fee; and the IFC management fee. This disclosure would allow an independent assessment of whether IFC's economics on PSW transactions are consistent with the minimum concessionality principle, and whether the subsidy is benefiting IDA borrowers or IFC's income statement. IDA donors who provide the subsidy are entitled to know what IFC earns from transactions they are subsidising.

Reform 4: Condition PSW Renewal on Demonstrated IDA-Country Expansion

The original justification for the 2018 transfer suspension was IFC's commitment to expand activities in IDA countries. That commitment has not been met. Future PSW renewals should be conditioned on demonstrated performance: IFC's IDA-country long-term finance commitments as a share of total IFC LTF commitments must show an upward trend from the current 9 percent toward the 20 percent baseline that existed before the PSW. If IFC cannot demonstrate this trend at the mid-term review of each replenishment, a proportional restoration of the annual IDA transfer is triggered automatically.

CONCLUSION

The relationship between IFC and IDA is one of the most consequential and least examined in development finance. IFC's AAA rating, its PSW subsidy, its capital relief, its deal pipeline, and its shared platform all derive from an architecture whose costs are borne by IDA's donors and whose benefits accrue to IFC's income statement. The institutional asymmetry is not inherent — it is a governance choice that has been made repeatedly, most recently in the 2018 transfer suspension and its perpetuation in IDA21.

The donors who contributed \$23.7 billion to IDA21 — who are, through their callable capital commitments, also the anchor of IFC's AAA rating — deserve a relationship that is priced, disclosed, and accountable. At present, none of those three conditions are met. The four reforms proposed here would change that without dismantling the architecture. They would make visible what is currently hidden, price what is currently free, and hold accountable what is currently without consequence.

The argument is not that IFC is acting in bad faith. The argument is that the *absence of a pricing and accountability mechanism* has produced an institutional outcome that serves IFC's financial model at the expense of IDA's development mission — and that the people bearing that cost are the world's poorest countries, whose grant packages are being cut while IFC's net income is at record levels.

The question is no longer whether IFC benefits from the relationship. The question is whether IDA donors are willing to continue subsidising a broken bargain. IDA delivered the subsidy in full. IFC did not deliver the promised expansion. The evidence is independent, the accountability gap is structural, and the IDA22 replenishment is the governance moment to close it.
