World Bank Guarantees – Q&A

1. How do the terms and conditions of financing raised with the Bank’s guarantee compare with what the borrowers can do on their own?

With the Bank's guarantee, it would be possible for a borrower to access the markets when it cannot on its own or to mobilize funds on terms and conditions significantly better than it could do on its own, including extensions of maturity and lower interest spreads. The borrower can also select, depending on the acceptability in the particular market, the currency, interest rate basis (fixed or floating), repayment structure and maturity to best match the project's requirements.

2. What are the provisioning requirements for commercial bank loans made under a Bank guarantee?

Depending on the banking regulations of each member country, the portion of commercial loans covered by a Bank guarantee may be exempt from country-risk provisioning requirements. For specific guarantee transactions, lenders should approach their banking regulatory authorities.

3. Can the guarantee cover loans made by nonbanking institutions?

Yes. Loans made by banking and non-banking institutions could be covered under the guarantee. A guarantee may also be provided for capital market debt issues.

4. How does the Bank's guarantee differ from MIGA insurance?

The Bank offers guarantees for both sovereign borrowing/public projects (Partial Credit Guarantees) and for private projects (Partial Risk Guarantees) with counterguarantee from the member government, while MIGA offers its risk insurance for cross-border investors for private projects. Partial Credit Guarantees may be provided for borrowings for specific investment projects or, in some cases, for policy-based borrowings (Policy-Based Guarantees).

For private projects, Bank Partial Risk Guarantees (PRG) can be considered for specific investment projects in sectors in early stages or reform, for larger size or riskier operations and/or operations highly dependent on support or undertakings of governments. PRG can cover a range of sovereign risks, subject to specific obligations contractually agreed to by the government for a specific project.

The types of risks covered by PRG may vary, including but not limited to: currency inconvertibility/non-transferability; political force majeure risks such as expropriation, war and civil disturbance, material adverse government action; government contractual payment obligations (e.g. periodic or termination payments, agreed subsidy payments, minimum revenue guarantees); regulatory risk, change of law and regulations, negation or cancellation of license and approval, non-allowance for agreed tariff adjustment formulae or regime; contractual performance of public counter-parties (e.g. state-owned entities under an off-take
agreement, an input supply agreement); frustration of arbitration; and certain uninsurable force majeure events.

MIGA offers political risk insurance and can cover equity, shareholder loans and loan guarantees issued by equity holders; it can also cover loans by third party institutions, usually commercial banks, provided that a shareholder's investment in the project is also being insured by MIGA. Like other investment insurers, MIGA can provide broad coverage to investors against such risks as currency transfer, war and civil disturbance, and expropriation; it can customize these coverages to suit the particular needs of investors. MIGA can normally issue coverage within a few months of an investor's application since it does not enter into counter-guarantee arrangements with the host country government of the project.

5. What are the differences between the Bank’s guarantee and IFC’s B-Loan?

The IFC B-loan differs significantly from the Bank's guarantee. IFC is the lender of record both for its own account (the A-Loan) and for account of participants (the B-Loan), who enter into individual participation agreements with IFC. All project risks, commercial and political, are shared by IFC and its participants.

IFC does not guarantee B-lenders, nor does it obtain counter-guarantees from host governments. The Bank's guarantee, by contrast, covers specific and agreed debt service risks borne by direct lenders.

6. Can IFC and MIGA also participate as co-financier or co-guarantor in a project finance that carries a Bank guaranteed commercial financing?

Yes. It would normally be expected that private sector projects requiring the Bank's guarantee would also involve one or more other providers of long-term financing, including export credit agencies and possibly IFC and lenders benefitting from MIGA insurance. However, the Bank's guarantee will not cover any part of the financing originating from any other bilateral or multilateral institutions.

7. Since the Bank requires a counter-guarantee from the government, doesn't the government end up guaranteeing private investors?

Although Bank's Partial Risk Guarantees are for private projects, they are specifically designed to backstop only contractual obligations a government has given to a project. In typical projects, these undertakings would include no assurance of commercial success but only aspects under the government's control. By providing a guarantee against the failure of the government to fulfill these obligations, the Bank adds credibility to the project and changes the government risk to Bank risk, allowing the investor to mobilize financing from international financial markets.
8. **Does a Partial Risk Guarantee increases a Government's contingent liabilities?**

No. The host government's indemnity of the World Bank does not increase the government's contingent liabilities as the government is already directly obligated to the private sector on the same liabilities.

9. **How does the Bank guarantee relate to participation by export credit agencies in specific projects?**

Since export credit agencies are major participants in private infrastructure projects, the Bank expects to work alongside them and co-financiers or co-guarantors on an ongoing basis. Normally, the World Bank guarantee will not cover any part of an export credit agency financing tranche.

10. **How is the volume of guarantees available to a country determined?**

Generally, the potential use of guarantees is considered within the framework of the Bank's Country Assistance Strategy (CAS) or Country Partnership Strategy (CPS) - formulated jointly by the member country and the Bank. The Bank is willing to accommodate guarantee operations in its lending program to meet specific project needs if the project is consistent with the Bank's overall country assistance strategy. However, since the possibility of private commercial financing depends on specific market circumstances at a given time, it is not possible to forecast the volume of guarantees too far in advance. Nor will it always be possible to forecast in advance the pipeline of private sector projects that may require Bank guarantees.

11. **How do guarantees count against a country's lending allocation from the Bank?**

The Bank's project and program planning operates typically on a lending allocation which is determined in consultation with the country, taking into account the Bank's risk-management strategy and the country's financing needs and economic performance.

The assistance envelope for a given country as established in the CPS / CAS has been increased by 75 percent of the face value of IBRD and IDA guarantees included in that country's lending program (provided that such increase be normally limited to 20 percent of the total envelope in the case of IBRD). Therefore, commitments on guarantees would count only as 25% against the country's assistance envelope. IBRD accounts guarantee exposure (present value of guarantees) as one-to-one with loans.

12. **If events of default occur during the noncallable period, can the Bank’s guarantee be accelerated?**
No. The Bank's guarantee cannot be accelerated before the call date initially negotiated under the guarantee agreement. PRGs are typically structured as callable through the life of underlying debt, while PCGs/PBGs may have certain noncallable period.

13. What laws will govern the Bank's guarantee of a commercial loan?

The Bank's guarantee normally will be issued under the same governing law as that of the underlying loan, as determined by the borrower and lenders.

14. Are Bank Guarantees available for other sectors other than infrastructure?

Yes. Although World Bank guarantees have been mostly used in infrastructure, they can also be used to support projects in sectors such as disaster management, finance, trade, education, health care etc.

15. Are all guarantee instruments available to all IBRD and IDA countries?

No. Partial Risk Guarantees, Partial Credit Guarantees and Policy-Based Guarantees are available to IBRD eligible countries but only Partial Risk Guarantees (i.e., IDA PRG, and IBRD Enclave PRG for export-oriented projects with foreign exchange revenues) are currently available to IDA-only countries.