



## World Bank Guarantee Products: IBRD Policy-Based Guarantee (PBG)

World Bank Guarantees catalyze private financial flows to developing countries by mitigating critical government performance risks that the private financiers are reluctant to assume. Guarantees cover private debt against a government's (or government entity's) failure to meet specific obligations to a private project or to meet debt service payments for a public project.

### Introduction

**Policy-Based Guarantees (PBGs)** cover private lenders against the risk of debt service default by the sovereign government. While they are structurally the same with Partial Credit Guarantees (PCGs), PBGs are offered for general balance of payments support.

International Bank for Reconstruction and Development (IBRD) PBGs are available for countries eligible for IBRD's fiscal support programs termed as Development Policy Lending (DPL)<sup>1</sup>.

### Main Features of IBRD PBGs

**Eligible country/borrowers:** Sovereign governments eligible for DPL. PBGs are offered selectively to countries with strong performance:

- strong track record of performance with satisfactory structural, social, and macroeconomic package;
- sustainable external financing plan;
- coherent borrowing strategy which enables to establish itself as a borrower in its own name without a guarantee in the medium term.

**Eligible debt:** PBGs can be used for any commercial debt instruments (loans, bonds) provided by any private institution<sup>2</sup>. PBGs can cover foreign currency debt. Proceeds of the guaranteed debt can be used for any budgetary purposes.

**Guarantee coverage:** PBGs can cover "part" of debt service payments (principal

and/or interest) regardless the cause of default. Guarantee coverage is considered as *partial* if the present value of the guaranteed amount is less than 100%.

Guarantee structure and coverage can be determined flexibly on a case-by-case basis at the level required by a specific debt instrument and the market, to the extent that commercial lenders share the credit risk of the borrower in a meaningful manner and allow the extension of debt maturity and/or lower interest rate costs.

**Guarantee term:** PBGs can cover extended debt maturities as necessary.

**Relationships to IBRD loans:** PBGs would normally be offered along with, or as a succeeding tranche to an IBRD DPL loan<sup>3</sup>; though a stand-alone provision is conceivable under the DPL framework.

**Fees:** Currently the following fees are payable by the government borrower to the IBRD<sup>4</sup>.

- **Front-end Fee:** one-time fee of 0.25% on the amount of the guarantee;
- **Guarantee Fee:** 0.3% per annum on the disbursed and outstanding guarantee exposure, where such exposure is calculated as the *present value* of the guarantee amount to the earliest call date<sup>5</sup>. Guarantee Fees for bond

<sup>3</sup> Previous PBGs were provided as a DPL (formerly termed as adjustment program) tranche succeeding to a DPL IBRD loan.

<sup>4</sup> In the case of exceptional Special DPL, Front-end Fee would be 1.0% and Guarantee fee would be 4.0% on a par with IBRD's SDPL loan charges.

<sup>5</sup> *Present value* is calculated using IBRD's funding cost. Standby Fee, which is assessed for the committed but undisbursed guarantee exposure, is currently 0% per annum, also calculated against the present value. The World Bank reviews the IBRD fees periodically and these fee levels may change in the future. Fee levels for the signed guarantee will remain constant throughout the term.

<sup>1</sup> PBGs are currently not offered to IDA-only countries.

<sup>2</sup> "Private" institutions include any publicly owned autonomous institutions that are established and operate under commercial law for the purpose of pursuing profit. The World Bank does not provide guarantees for the benefit of other multilateral or bilateral institutions.

transactions are normally collected up-front, where the *present value* of scheduled Fees for the life of the guarantee is payable in lump-sum.

### Required Documentation:

IBRD will draft and enter into the following documentation:

**Guarantee Agreement** between IBRD and the guarantee beneficiaries (lenders), which embodies terms and condition of the PBG. Guarantee-related provisions may be included in a debt agreement among the borrower, the guarantor (IBRD) and the lenders instead of a stand-alone agreement.

**[Loan Agreement]** between IBRD and the borrower on a DPL policy framework agreed.

**Indemnity Agreement** between a member country (the sovereign government) and IBRD, whereby the government will indemnify IBRD in the event IBRD makes payments under the PBG.

### Application and Approval Process

**Identification of guarantee prospects:** DPL operations and PBG prospects may be identified through policy discussion between the World Bank and the government. Alternatively, financial advisors for the government borrower and/or interested bond underwriters/loan arrangers may approach the Bank. The DPL operation for which a PBG is offered needs to be in compliance with Bank's country assistance strategy (CAS)<sup>6</sup>.

**Guarantee request from the government:** Upon the receipt of a request for a PBG and concurrence to the provision of an indemnity from the government, the World Bank assesses required guarantee coverage for a proposed debt instrument through market sounding and conducts a concept review<sup>7</sup>.

**World Bank's due diligence and approval:** The World Bank appraises the DPL operation and conducts a corporate review. The Bank may offer an indicative PBG term sheet through the borrower to all the bidders of debt financing. Once detailed terms of the debt and guarantee are substantially negotiated, the Bank will obtain approval from its Board of Executive Directors for the proposed PBG.

### Examples of IBRD Policy-Based Guarantee<sup>8</sup>:

*For more generic structures, please also refer to a brief on IBRD Partial Credit Guarantees*

#### Argentina PBG Operation (1999)

IBRD provided a US\$250 million PBG to the Republic of Argentina to support the issuance by Argentina of a series of six zero coupon notes (Series A-F notes; with the maturity of 1 to 5 years) with the aggregate face amount of US\$1.5 billion with net proceeds to Argentina of US\$ 1.17 billion. The face amount of each zero note was US\$250 million and the PBG covered the payment of Series A notes at maturity, where once Argentina makes timely payment of the A notes the guarantee would be rolled over to the B notes and thereafter to each subsequent Series of notes (on a "rolling" basis). Should Argentina fail to make such payment when due, the lenders would be paid under the guarantee, and if Argentina has fully reimbursed IBRD the guarantee would be reinstated ("reinstatable" guarantee). The PBG was offered in lieu of the US\$250 million second tranche of the Special Structural Adjustment Loan that IBRD had provided to Argentina.

#### Colombia PBG Operation (2001)

IBRD provided a US\$119 million PBG to the Republic of Colombia to support the issuance of level payment notes having a face value of US\$750 million and the final maturity of 10-years. The PBG covers the first two scheduled semi-annual debt service payments (principal and interest), each in the amount of US\$ 59.5 million on a rolling reinstatable basis. The PBG was offered in lieu of the second tranche of the Financial Sector Adjustment Loan.

For more information on the World Bank Guarantees, please refer to the web site:  
[www.worldbank.org/guarantees](http://www.worldbank.org/guarantees)

<sup>6</sup> While only 25% of the guarantee amount is counted against World Bank's CAS envelope for each country for PRGs and PCGs for specific investment operations, CAS treatment for PBGs will be determined on a case-by-case basis.

<sup>7</sup> As to Special DPL, an informal Board consultation would precede negotiations of all Special PBGs.

<sup>8</sup> While IBRD discontinues the offering of rolling "reinstatable" guarantees, it can offer rolling "non-reinstatable" guarantees, where guarantees would roll over to the next payment only if the guarantee is not called.