WORLD BANK GROUP GUARANTEE PRODUCTS

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WORLD BANK GROUP

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GUARANTEE PRODUCTS

Disclaimer

This publication seeks to provide an overview of the various guarantee products of the World Bank Group institutions. As each is tailored to meet the needs of both private sector investors and host governments, it cannot be comprehensive. Prospective investors and government officials wishing to learn more about any of these products should review the websites referred to in this publication and contact the respective institutions with any queries.

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1. Introduction

The following institutions of the World Bank Group—the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), which together make up the World Bank, along with the Multilateral Investment Guarantee Agency (MIGA) and the International Finance Corporation (IFC)—seek to encourage private sector investments in their developing member countries in order to promote economic development and thereby alleviate poverty and improve people's lives. As one of the tools to attract private investment, each institution offers guarantee products designed to mitigate certain risks, as perceived by the private sector, of investment in developing countries.

This publication summarizes key features of the guarantee products offered by each World Bank Group institution and highlights main similarities and differences among them, looking in particular to how these guarantee products may be used in support of public-private partnership (PPP) transactions for infrastructure projects in emerging markets.

This publication was developed by the PPP in Infrastructure Resource Center www.worldbankorg/pppirc (PPPIRC), a product of the World Bank PPP Group, in response to enquiries from users. The editors, Victoria Delmon and Susanne Foerster, wish to thank the following World Bank, MIGA and IFC staff for their valuable contributions and comments: Noor Alfawzan, Neil Ashar, Katharine Baragona, Gianfranco Bertozzi, Shamali De Silva, Ada Karina Izaguirre Bradley, Veronique Gubser, Matthew Huggins, Glenn Jessee, Susan Maslen, Tomoko Matsukawa, Janne Sevanto, and Patricia Sulser. Particular thanks go to Carol Mates (formerly from IFC) for an early draft of this paper.

2. Overview of Each Product

This section describes the guarantee products of each of the institutions. Note that the terms and conditions of each guarantee will vary as they are the result of negotiations between the particular institution and the investor seeking coverage under the guarantee, and are tailor-made to address the specific transaction risks perceived by both the investor and the guarantee issuer, as well as the host government in the case of IBRD or IDA guarantees.

WORLD BANK (IBRD AND IDA)

World Bank (IBRD and IDA) guarantees help member countries mobilize commercial financing for projects and policies with a clear and defined development impact at the request of the host government. IBRD and IDA guarantees enable development projects to overcome the reluctance of commercial financiers, and ensure adequate commercial financing becomes available by mitigating project risks that commercial financiers are unwilling to take. IBRD and IDA guarantees are guarantees of payment so they are often structured to backstop government's or its state-owned entities' performance under an agreed set of contractual obligations with the private sector. Whether the guarantee is issued by the IBRD or IDA depends on whether the host country of the project is eligible for IBRD support or is an IDA-only country.

Since establishing guarantees as a World Bank instrument in the 1990s, the World Bank has substantially enhanced and expanded IBRD and IDA guarantees.[1] The World Bank has moved away from offering a defined menu of project-based guarantee structures (partial credit or partial risk) to differentiate project-based guarantees by the nature of the risks that they cover. Thus the World Bank's guarantee product offerings have become more flexible and responsive to changing and future risk mitigation needs of member countries and private sector participants. The World Bank has also given access to IDA-only countries to all types of guarantees.

Main Forms of World Bank Guarantees

An IBRD or IDA guarantee is specifically tailored to either the circumstances of the particular project and transaction being guaranteed **(project-based guarantees),** or the particular borrowing transaction of a government to meet fiscal needs **(policy-based guarantees)**. The World Bank seeks to use these instruments in transaction structures that extend maturities for borrowers, achieve spread savings, or often leverage additional volume of private capital. Nevertheless, guarantee maturity periods are subject to the same

[1] "Enhancing the World Bank's Operational Policy Framework on Guarantees," November 19, 2013, Report 82741; http://consultations.worldbank.org/consultation/modernizing-operational-policy-guarantees-public-consultations

maturity limits as those of IBRD loans (currently 35 years) and IDA credits (currently 40 years). World Bank guarantees are structured with a customized approach taking into account the specific priorities of each client and government objectives as well as country, market, and project specific circumstances.

Policy-based guarantees provide risk mitigation to commercial lenders with respect to debt service payment defaults by a government, when the proceeds of the financing are applied to budgetary support in the context of development policy operations.

Project-based guarantees are provided in the context of specific investment projects where governments wish to attract private financing (equity and/or debt). They are designed to provide risk mitigation with respect to key risks that are essential for the viability of the investment. Project-based guarantees can be granted to public sector or private sector projects. World Bank guarantees for public sector projects typically cover the risk of non-payment by a public sector (government-owned and/or controlled) entity to a private or foreign commercially acting entity under a commercial or financing contract. World Bank guarantees for private sector projects generally cover government-related risks, which are risks within the control of the government and public entities.

There are two main types of project-based guarantees:

- **Loan guarantees** cover defaults of debt service payments and could be granted for public sector or private sector projects as follows:
    - Loan guarantees could cover defaults of debt service payment, usually by a public sector borrower, regardless of the cause of the debt service default. This type of guarantee was previously known as partial credit guarantee (PCG).
    - Loan guarantees could protect commercial lenders financing a private sector project from debt services defaults caused by government actions or inactions. This type of guarantee was previously known as a partial risk guarantee (PRG).
- **Payment guarantees** cover payment defaults of non-loan-related government payment obligations (e.g., recurring off-taker payments under a power purchase agreement or early termination payments under a concession agreement), to private entities or a foreign public entity where such payment obligations (arising from contract, law, or regulation) require credit enhancement. Payment obligations include agreed compensations to private entities or a foreign public entity for losses caused by non-performance of the government or public entities under commercial contracts as stipulated in the respective guarantee agreement.

IBRD and IDA may offer both a loan guarantee and a payment guarantee for the same transaction, if appropriate. For example, a project-based guarantee might protect lenders (loan guarantee) to an independent power project (IPP), or might be structured to benefit the project company itself (payment guarantee), to mitigate the government and political risks such as a payment default by the state-owned utility off-taker, or non-payment by the host government of a termination payment. One example of a transaction where a loan guarantee and a payment guarantee were used for the same project is the Azura IPP project in Nigeria.

TABLE 1: POLICY-BASED AND PROJECT-BASED GUARANTEES

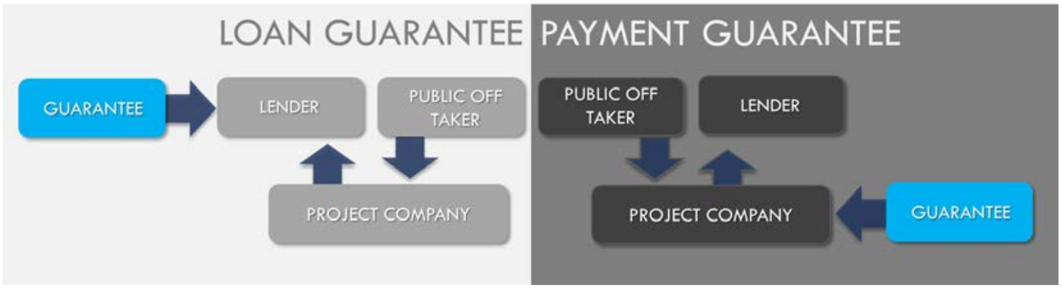
POLICY-BASED GUARANTEES	PROJECT-BASED GUARANTEES	
The policy-based guarantee covers commercial lenders against debt service default under a sovereign borrowing supporting program of policy and institutional reforms. Thus, this instrument is only indirectly relevant to PPP projects and will not be further discussed in this note.	The project-based guarantees offered by IBRD and IDA can be flexibly structured and generally categorized as (a) loan guarantees protecting specific lenders against debt service default and (b) payment guarantees protecting the payee against non-payments by the government under contracts, laws or regulations. Loan guarantees may be used for (i) public sector projects (structure formerly known as "PCG"), (ii) for private sector projects (structure formerly known as "PRG") or (iii) for projects that combine the two different types of coverage. Payment guarantees can be structured in different forms. Two key structures currently discussed are the direct payment guarantee (b-i) and the World Bank-supported letter of credit (b-ii).	
	(a) Loan guarantees can be used for private sector projects or public sector projects as below:	**(b) Payment guarantees** are used for private sector projects or for the benefit of foreign public entities such as for a cross-border sovereign-to-sovereign transaction. They can be in the following forms.
	(a-i) Public sector projects: Loan guarantees may cover private sector lenders or bond investors against debt service defaults typically by public sector borrowers such as host governments or state-owned enterprises ("SOEs") for a specified *part* of debt service regardless of the cause of a debt service default. These guarantees may be used in support of a government's commercial borrowing to finance public funding components of PPP transactions.	**(b-i) Direct payment guarantee:** Under this structure the beneficiary of the payment guarantee requests payment from the World Bank directly in case of a payment default under a contract and when such payment default has been caused by the government or government-controlled entity in the underlying project.
	(a-ii) Private sector projects: Loan guarantees may protect private sector lenders (commercial loans, project finance bonds, shareholder loans) to a private project (in cases where the project company borrower is privately owned) against project company debt service defaults due to the failure of a host government or SOE to meet specific contractual obligations towards the project company. The guarantee coverage can be structured flexibly and may include risks such as currency inconvertibility or non-transferability; domestic political	**(b-ii) World Bank-supported Letter of Credit**: Under this structure the payment guarantee beneficiary would be able to access a Letter of Credit (LC) facility from a commercial bank to seek a short term remedy against a payment default caused by a public sector entity. The LC is usually issued by a commercial bank (LC Bank) and the LC Bank would benefit from a World Bank payment guarantee in the event a draw of the LC is not repaid. Interposing an LC issued by a commercial bank in favor of a project company, it provides in effect a liquidity facility. The LC is applied

	force majeure risks such as expropriation, war and civil disturbance or material adverse government actions; failure by the host government or an SOE to make contractually agreed payments; regulatory risk; as well as other specific risks that the government undertakes in a specific project. For example, the guarantee may cover regulatory risks that a privatized utility may face, should the host government wish to support the early years of emerging regulatory environment to facilitate privatization transactions.	for by the government or SOE, and issued in favor of the project company. The LC backstops payments contractually or legally required to be made to the project company by a host government or SOE. In case of non-payment by the government/SOE, the LC can then be drawn upon by the project company beneficiary. Under this structure, the guarantee covers the commercial bank issuing the LC. The LC structure was first used by the World Bank in Romania, to backstop the government's contractual payment obligations for compensation including those relating to the regulatory tariff regime of privatized distribution companies. The purchaser sought protection from the risk that the regulator might not allow the increase of the tariff to consumers as contractually agreed in the concession agreement. World Bank guarantees using the LC structure have also been used in privatization transactions in Albania and Uganda, gas transactions in Africa, as well as in various IPP projects including in Kenya and Nigeria.
	(a-iii) Guarantees may cover a hybrid risk of the above, as appropriate. One example of such hybrid guarantee overage is the Kribi IPP in Cameroon, where an IDA guarantee covers government contractual obligations, including government payment obligations upon the exercise by the local lenders of an option to put their loans to the government in year seven of the loan.	

The World Bank project-based guarantee is a useful tool for private sector financiers (investors and lenders) in PPP transactions, to mitigate risks in project-financed deals, and can be used in both IBRD- and IDA-eligible countries. The IBRD/IDA issues a guarantee in favor of the private party. The obligations of the IBRD/IDA are backed by a counter-guarantee and an indemnity from the host government in favor of the IBRD or IDA as issuer of the guarantee, requiring reimbursement to the IBRD or IDA by the host government in the event that the guarantee is called by the guaranteed party. The provision of an explicit sovereign counter-guarantee, backed by the World Bank's active sector/country engagement, serves as deterrent against default; and there has been no call on the World Bank's project-based guarantees to date.

The World Bank project-based guarantee is also a useful tool for the host government since it can share project development risks and financing with the private sector, thus freeing up government funds for sectors not readily financed by the private sector in most developing countries, such as health, education, and social services for the poorest populations.[2]

[2] Social sector PPPs can also benefit from World Bank guarantee support.



Coverage

IBRD and IDA seek to use the guarantee instrument to provide coverage to the **extent** necessary to attract the private sector to invest in worthwhile projects in developing countries, so as to leverage limited World Bank resources.

Note that these guarantees are **"partial"** in that only some of the project risks or part of the debt service is covered. In case of a loan guarantee covering specific government contractual obligations, typically 100% of the principal and interest amount of the covered debt is guaranteed against risks specifically covered. The debt service default caused by other risks is borne by the private sector. The loan guarantee covers specific government-related risks that cause project company debt service payment default and is usually structured so that its tenor is the same as the tenor of the loan. On the other hand, in the case of loan guarantees covering part of the debt service, typically only the later-year maturity of the underlying debt is covered, since one of their key objectives is to help government entities obtain longer borrowing maturities from private lenders. The World Bank project-based guarantee has been used to cover PPP projects in IBRD and IDA countries in several dozen projects.

A list of completed and contemplated projects supported by World Bank guarantees can be found at:
http://www.worldbank.org/en/programs/guarantees-program#6

The guarantee reform board paper[3] contains a list of transactions up to November 2013 in Annex 5:
http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/11/22/000442464_20131122100452/Rendered/PDF/827410BR0R2013080Box379876B00OUO090.pdf

Payment

Upon receipt of a demand under the guarantee by the guaranteed party for breach by the government party of its covered obligations, the IBRD/IDA will only pay for any undisputed amount. In the event that amounts owed are disputed by the government party and the guaranteed party, IBRD/IDA would pay such amounts only once applicable dispute

[3] "Enhancing the World Bank's Operational Policy Framework on Guarantees," November 19, 2013, Report 82741.

resolution processes have been exhausted, or the amount owed otherwise recognized by the parties or under provisional payment mechanisms if specifically provided for in the guarantee agreement.

Legal Documentation

The typical legal documentation for the World Bank guarantee instrument involves (1) the **Guarantee Agreement** between the IBRD or IDA and the guaranteed party/beneficiary, which specifies the terms and conditions of the IBRD or IDA guarantee including the maximum liability of the guarantor; (2) a **Project Agreement** between the IBRD or IDA and the implementation entity of the project (such as a PPP concession or a SOE, depending on the circumstances), under which the project company agrees to project-specific covenants and to certain covenants required by World Bank policies and procedures, including adherence to IBRD/IDA environmental and social requirements, anti-corruption covenants, etc.; and (3) an **Indemnity Agreement** between the IBRD or IDA and the member country where the project is taking place pursuant to which the member country agrees to reimburse the IBRD/IDA for amounts paid out by the IBRD/IDA under the guarantee and other relevant amounts incurred. Depending on the guarantee structure, certain other legal agreements among the various project parties may be involved.

In the event that the IBRD or IDA makes a payment under the guarantee to the guaranteed beneficiary, the IBRD/IDA will be legally subrogated to the rights of the beneficiary under the guaranteed financing agreements, and the host government will be required to reimburse the IBRD/IDA for the payments made under the guarantee as mentioned above.

Application for Guarantees, Processing and Fees

Each World Bank guarantee must be requested for the specific project by the host government, and must be endorsed by World Bank management and approved by the World Bank's Board of Executive Directors.

Guarantee charges—including initiation and processing fees for private sector projects—are typically payable by the borrower or the private sector implementing entity, depending on guarantee structure.

Information as to the most current level of IBRD and IDA guarantee charges can be found at:

http://www.worldbank.org/en/programs/guarantees-program#5

Detailed information about eligibility criteria for IBRD/IDA guarantee products can be found at:

http://www.worldbank.org/en/programs/guarantees-program#3

Further Information

For more information on all of the guarantee products offered by the IBRD and IDA, see http://www.worldbank.org/en/programs/guarantees-program

MIGA

MIGA is the newest institution in the World Bank Group. It commenced operations in 1988, when foreign private direct investment was starting to become a significant source of funds to developing countries. Under MIGA's Convention, as amended (charter document) its objective and purpose is to:

"*…issue guarantees, including coinsurance and reinsurance, against non-commercial risks in respect of investments in a member country which flow from other member countries*."

MIGA's mission is therefore to promote foreign direct investment into developing countries to help support economic growth, reduce poverty, and improve people's lives, primarily by way of issuing guarantees.

To this end MIGA offers political risk insurance (PRI) to facilitate and encourage the flow of funds from developed to developing member countries and among developing countries. MIGA supports foreign private and public sector investors that operate on a commercial basis in cross-border investments. In exceptional circumstances, upon the joint application of the investor and the host country, MIGA may also offer coverage to local investors, provided that the assets invested are transferred from outside the host country.

In general, the main differences between the IBRD/IDA guarantee products and the MIGA guarantees are that (i) the IBRD/IDA guarantees require a counter-guarantee of the host government, creating a direct contractual link with the host country relating to the project, while MIGA requires host country approval before issuing a guarantee, (ii) MIGA pricing is tailored to the specific transaction, and (iii) MIGA may reinsure, while the World Bank does not sell down or syndicate its guarantee. Also, the IBRD/IDA guarantees only directly cover debt instruments, while MIGA covers equity as well as debt instruments. There are also specific differences relating to the forms and types of risks covered.

In general, MIGA provides PRI for up to 95% of debt investments and up to 90% of equity investments in a project; in special circumstances, MIGA may cover up to 99% of loans and debt instruments and up to 95% of equity investments. MIGA generally provides coverage for a period of up to 15 years and, in special circumstances, up to 20 years.

Coverage

MIGA provides coverage against the traditional four political risks specifically described in its Convention:

1. currency inconvertibility and transfer restrictions,
2. expropriation and similar measures,
3. war and civil disturbance, and
4. breach of contract.

In addition, MIGA provides credit enhancement solutions by covering the risks of non-honoring of sovereign financial obligations by a host government (NHSFO) and non-honoring of financial obligations by state-owned enterprises (SOEs) or public authorities of the host country (NH-SOE).

MIGA's pricing of its guarantees is a function of country and project risks and administrative costs associated with the guarantee.

The types of investments that can be insured by MIGA include:

a. equity investments,
b. shareholder loans,
c. non-shareholder loans and other forms of debt,
d. loan guarantees provided by holders of equity in the relevant enterprise, and
e. non-equity direct investments, such as management contracts, engineering, procurement and construction contracts, turn-key contracts and related performance bonds and franchising and licensing agreements.

A MIGA guarantee may cover any such investment types for one or more of the risks mentioned above, depending on the structure of the project and the investor's needs. In addition, all loans, loan guarantees, and other forms of debt instruments, including those issued by shareholders of the project, must have a minimum maturity of more than one year.

TABLE 2: TRADITIONAL PRI COVERAGE AND CREDIT ENHANCEMENT

ELIGIBLE RISK	DESCRIPTION
CURRENCY INCONVERTIBILITY AND TRANSFER RESTRICTION	Under this coverage, MIGA guarantees the investor against losses arising from any introduction attributable to the host government of restrictions on the conversion of local currency into a freely usable currency, or into another currency acceptable to the guarantee holder and/or on the transfer outside the host country of either the local currency or the foreign currency into which the local currency was converted. In all cases, the restrictions must have been introduced after the date of the contract of guarantee and must apply to currency that represents returns on or other monetary benefits derived from the investment, or scheduled repayments of loans. Coverage may be provided

	against active as well as passive restrictions on conversion and/or transfer. However, this coverage does *not* protect against currency devaluation. Coverage of this risk can be of particular importance for PPP infrastructure projects in developing countries since project revenues are often denominated in local currency, which needs to be converted and transferred out of the host country, either as dividends or debt service payments.
EXPROPRIATION AND SIMILAR MEASURES	Under this coverage, MIGA guarantees the investor against losses arising from any legislative, administrative, or executive action or omission attributable to the host government that has the effect of depriving a guarantee holder of its ownership or control of, or a substantial benefit from, its investment, with the exception of non-discriminatory measures of general application that governments normally take for the purpose of regulating economic activity in their territories. For equity investments, the compensation amount is based on: (a) the net book value of the expropriated portion of the covered project; (b) the book value of the expropriated portion of the tangible assets; or (c) in the case of expropriation of funds, guarantee currency or its equivalent of the local currency to which the guarantee holder was entitled as of the date of loss. For debt investments, the compensation amount is based on the missed schedule payments.
WAR AND CIVIL DISTURBANCE	Under this coverage, MIGA guarantees the investor against losses attributable to war and civil disturbances such as military action, civil disturbance due to organized violence directed against the government, rebellions, sabotage, coups and insurrections, and riots, civil commotion and terrorism. An important criterion for this coverage is that the civil disturbance must have been caused or carried out by groups primarily pursuing broad political or ideological objectives. Coverage is provided against: (i) the destruction, disappearance, or physical damage to project tangible assets—such as destruction by artillery (“Loss of Assets”); (ii) the complete inability of the project to conduct its key operations for a specified waiting period due to war or civil disturbances event in the host country (“Permanent Loss of Use”); and, in some cases (iii) the temporary, but total, suspension or interruption of the operation of the project for a specified waiting period (“Temporary Loss of Income”). The calculation of the compensation amount after a claim is determined to be payable by MIGA varies by the specific risks covered: (i) for Loss of Assets, it is the lesser of replacement cost and reasonable repair costs or, to the extent the relevant assets are neither being replaced nor repaired, the book value of the affected tangible assets; (ii) for Permanent Loss of Use, it is net book value of the project enterprise; and (iii) for Temporary Loss of Income, it is the actual lost business income plus certain defined continuing and extraordinary expenses during the covered period.
BREACH OF CONTRACT	Under this coverage, MIGA guarantees the investor against losses that are the direct result of: (i) the guarantee holder’s inability to enforce an arbitral award rendered in its favor against the host government after having made all reasonable efforts to do so for the duration of the applicable waiting period (“Arbitral Award Default”); and (ii) the guarantee holder’s inability to obtain an arbitral award due to an action by the host government or a body under its control, for the duration of the applicable waiting period, that renders it impossible or impracticable to follow the contractually agreed dispute resolution procedures (“Denial of Recourse”). In the case of Arbitral Award Default, MIGA can, at its discretion, make provisional payments (i.e., during the applicable waiting period) to the guarantee holder of up to 50% of the amount of the guaranteed loss. The

	compensation payable for Arbitral Award Default is based on the amount of the relevant arbitral award, less the amount of provisional payments made. In the case of Denial of Recourse coverage, since no arbitral award has been rendered, the compensation amount will be determined with the help of an expert appointed by the International Center for Expertise of the International Chamber of Commerce, in accordance with procedures stated in the relevant contract of guarantee. Breach of Contract coverage may be useful in PPP projects to cover obligations of government parties, such as termination payments and tariff indexation clauses in off-take agreements and concessions. For example, in the context of a PPP, MIGA has recently provided PRI for a hydropower project in the Republic of Indonesia. The guarantee covered non-shareholder loans by Japan Bank for International Cooperation and Mizuho Bank Ltd. to PT Rajamandala Electric Power (REP) against several risks, including breach of contract. Under its breach of contract coverage, MIGA covered the contractual obligations of PT Perusahaan Listrik Negara, Indonesia's state-owned electric utility company (PLN) under a power purchase agreement between REP and PLN.
NON-HONORING OF FINANCIAL OBLIGATION COVERAGE	Under MIGA's credit enhancement products, the NHSFO or NH-SOE coverage guarantees the investor against losses resulting from a failure of a sovereign, sub-sovereign, or SOE to make a payment when due under an unconditional and irrevocable financial payment obligation or guarantee related to an eligible investment. It does not require the investor to obtain an arbitral award. This coverage is applicable in situations when a financial payment obligation is unconditional and not subject to defenses. Compensation would be based on the outstanding principal and any accrued and unpaid interest of the lender.

Payment

MIGA's contracts of guarantee prescribe waiting periods prior to the maturing of a claim for compensation under a MIGA guarantee. Typically a claim must be filed no later than 180 days after the end of the applicable waiting period. Upon payment of compensation under such claim: (i) MIGA is subrogated to such rights or claims related to the guaranteed investment as the guarantee holder may have had against the host country or other obligors; and (ii) the guarantee holder transfers and assigns to MIGA, free and clear, all such rights, or claims.

Legal Documentation

MIGA's standard forms of guarantee contracts can be found on its website at: https://www.miga.org/investment-guarantees/overview/terms-and-conditions/

Application for Guarantees, Processing, and Fees

The investor seeking guarantee coverage applies directly to MIGA for a guarantee.

The underwriting process is explained at: https://www.miga.org/investment-guarantees/overview/underwriting-process/

A preliminary guarantee application can be submitted on-line at:
https://www.miga.org/Pages/Investment%20Guarantees/pa_splash.aspx

Information on the pricing can be found at:
https://www.miga.org/investment-guarantees/overview/terms-and-conditions/

Further Information

Further information on MIGA's guarantees can be found at:

https://www.miga.org/investment-guarantees/overview/

IFC

IFC makes direct loans to, and equity investments in, private sector projects and companies, including sub-national entities that are operated on a commercial basis. IFC's investments can be either funded (loans) or unfunded (guarantee products) depending on the needs of the specific project.

An overarching objective of IFC's guarantee products is to provide the support needed for the project to successfully mobilize private sector financing. IFC guarantees are generally managed by IFC's Treasury Client Solutions while any individual investment through guarantee products follows IFC's regular investment process.

IFC's credit guarantees are chiefly for trade finance and corporate finance transactions, including support for small and medium-sized enterprises (SMEs), and rarely used for PPP transactions. The IFC supports PPPs mainly with its direct loans and equity investments.

Typical IFC Guarantee Products

Typical IFC guarantee products include but are not limited to the following:

In terms of guarantees relevant to PPPs, IFC offers partial credit guarantees (PCGs) and full credit guarantees (FCGs) as a credit enhancement mechanism for debt instruments (bonds and loans) issued by its mostly private sector clients. Both products provide an irrevocable promise by IFC to pay all shortfalls of principal and/or interest up to a pre-determined amount. Typically, the IFC guarantee, whether full or partial, covers creditors irrespective of the cause of default.

In the case of PCGs, the guarantee is structured to cover a portion of the guaranteed instrument's total debt service payment, subject to a maximum cumulative payout equal to the guarantee amount. The guarantee amount may be expressed as a percentage of principal and amortizes in proportion to the bond or loan. In specific circumstances, this percentage can increase or decrease in the later years of the debt obligation, depending upon the needs of the borrower or creditors.

IFC's PCG can be denominated in either local currency (for domestic transactions) or foreign currency (for cross-border transactions). Local currency partial guarantees are most advantageous for a company or project that has local currency revenues but lacks access to local currency financing of the desired tenor. A PCG can help avoid an undesirable foreign exchange mismatch on its balance sheet by allowing it to obtain local currency financing. Cross-border partial guarantees are best for a client company that cannot access international markets on its own because of the high-risk premium associated with the country in which it is domiciled. By mitigating this country risk, an IFC PCG may allow a client to gain access to international markets. IFC may offer local currency FCGs in countries for which IFC does not currently have the ability to provide local currency financing through the use of swap markets or other means. The full guarantee acts as a synthetic borrowing and on-lending for IFC, providing the domestic lender with a AAA quality credit coverage for their guaranteed loan, and the borrower with term financing in local currency.

In addition to the guarantee products described above, IFC also offers a portfolio credit management product called a risk-sharing facility (RSF). RSFs are typically most useful for client financial institutions that wish to begin, or increase, their lending to certain specific sectors (such as SMEs, education, or energy efficiency projects) that IFC believes to be highly developmental. Through provision of an RSF, IFC shares the credit risk of the targeted portfolio of loans, which remain on the lender's balance sheet. Should losses on the guaranteed loan portfolio exceed a certain percentage of the portfolio (the "first loss" amount), IFC will reimburse the lender for the stipulated portion of any additional incurred losses.

Although not a separate product category, IFC also provides credit enhancement to capital markets securitizations through use of its guarantee products. Typically, IFC guarantees a portion of the senior debt tranche in a securitization structure, thereby creating a synthetic mezzanine tranche that boosts the credit quality (and rating) of the senior debt tranche.

TABLE 3: PROFILE OF THE IFC CREDIT GUARANTEES

	CREDIT GUARANTEE PRODUCTS
INSTRUMENT NAME	Partial credit guarantee (PCG), full credit guarantee (FCG), risk sharing facility (RSF)
INSTRUMENT TYPE	Single-name debt guarantee/portfolio guarantee (for RSF)
ELIGIBLE BORROWERS AND PROJECTS	Private sector projects located in developing member countries Sub-national government bodies/agencies in member countries New investments (including expansion, and privatization and concession transactions), or a pool of new assets, in a developing member country Full guarantees may be offered in certain countries if there exists no other way to mobilize local currency Meet development objectives of the host country; benefit the local economy Technically, commercially, environmentally and socially sound
ELIGIBLE BENEFICIARIES	Private lenders (loans) and investors (bonds)
ELIGIBLE FORMS OF INVESTMENT	Priority projects for the government
RISK TYPES COVERED	All credit risks—generally no “carve-outs”
MAXIMUM TENOR	No limit
MAXIMUM AMOUNT	No specific percentage limit for PCG
FEES	Commercially based
OTHER CONDITIONS	Acknowledgment by a host country

Legal Documentation

IFC enters into a (1) **Guarantee Agreement** with the lender (including a bond trustee), and a (2) **Guarantee and Standby Loan Agreement** (GISLA) with the borrower. In the event that IFC pays a claim under the guarantee made by the lender, a direct loan between IFC and the borrower is novated under the GISLA. Under its RSFs, IFC typically enters into a **Risk Sharing Agreement** with the originator of the assets under which the risk transfer is provided. Other documentation can be used depending on the needs of the particular transaction.

Pricing

IFC follows a risk-based pricing approach for its guarantee products, pricing each such investment at market rates for the risks that IFC takes.

Further Information

More information about IFC's guarantee products can be found at: http://www.gcgf.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Structured+Finance/

3. Complementarity of World Bank Group Guarantees

Noted below are the various forms of complementarity among World Bank Group guarantee products:

TABLE 4: COMPLEMENTARITY OF WORLD BANK GROUP GUARANTEES

	WORLD BANK	MIGA	IFC
RISK COVERAGE	Government/ parastatal obligations & credit risk	Political risk & credit enhancement (NH of financial obligations for government/ parastatal)	Credit risk
TYPE OF ELIGIBLE INVESTMENT INSTRUMENTS FOR COVER	Debt or payment obligations (international or domestic)	Equity, debt, & any other forms of investment (international)	Debt (international or domestic)
PRICING	IBRD and IDA loan equivalency, risk managed through size of lending programs	Based on admin-istrative costs, country and project risk	Commercially based
SOVEREIGN GUARANTEE	Yes	No, but requires host country approval	No
ELIGIBILITY CRITERIA	Priority projects for the government	Requires foreign investor or lender	Private lenders & investors
MAJOR CLIENTS	Host government	Private sector	Private sector
ORIGINATION	Mainly with client countries, and in support of CPS/ CAS objectives	Mainly with private sector investors & lenders	Mainly with private sector investors & lenders

A chart comparing the major features of these guarantee products is found at:

http://treasury.worldbank.org/bdm/htm/credit_enhancement.html

The World Bank Group provides assistance to governments in developing countries to improve access to infrastructure and basic services through public-private partnerships (PPPs). When designed well and implemented in a balanced regulatory environment, PPPs can bring greater efficiency and sustainability to the provision of public services such as water, sanitation, energy, transport, telecommunications, healthcare, and education.

The World Bank Group's unique value proposition rests with its capacity to provide support along the entire PPP cycle. This includes upstream policy and regulatory guidance, transaction structuring advice, as well as financing and guarantees to facilitate implementation.

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