INTRODUCTION

The World Bank (IBRD) enjoys a unique credit record. During its lifetime of almost thirty years, it has had no defaults, practically no re-negotiations, or loan stretchouts, and only very limited late payments. This record is due to the fact that it loans only to Governments (or under Government guarantees), and that it is a continuing lender, thus any defaults would immediately cut off this important source of on-going financing. Likewise, to accept any renegotiation might have an impact on its own schedule of funding in the bond markets. In addition, it only loans for specific projects of high economic priority, which have been thoroughly studied, and whose execution is closely supervised.

Up until this time, the only way a commercial bank could work in a loan operation with the IBRD has been through a short term participation in a specific loan. However, such participations have the disadvantage of not providing a direct relationship between lender and borrower, thus little opportunity for negotiating for ancillary benefits (deposits, letters of credit, and a continuing commercial relationship). Also, they are available only at fixed rates, which in recent years have been generally below the market.

Recently, the World Bank has refined and redeveloped a mechanism for joint loans with commercial banks, which gives the opportunity for co-financing on a project loan with the IBRD, with loan terms to be negotiated directly between lender and borrower, on a floating (or fixed) rate basis, and with cross contractual clauses with the IBRD's own loan. The trade off which the IBRD expects

1/ Other than minor adjustments of maturities when the nature of a project has changed, and one renegotiation with India in 1967.
INFORMATION

The World Bank (IBRD) utilizes a unique credit rating agency, Moodys, to assess the creditworthiness of countries and projects. This agency rates countries on a scale from AAA to D, with AAA being the highest rating. The World Bank's primary mission is to promote economic development and reduce poverty in less developed countries. It provides financial assistance and technical support to governments and private sector entities to undertake projects that will lead to sustainable economic growth. The Bank's lending is conditioned by a set of criteria, including the economic and social impact of the project, the financial viability of the borrower, and the likelihood of repaying the loan. The World Bank's loans are often used to finance infrastructure projects, agricultural development, and other sectors critical to economic growth. The Bank's mission is to help reduce poverty and improve the quality of life for people around the world.
for its role (without cost to borrower or lender) is a somewhat longer maturity (or perhaps a somewhat lower rate) than would be normally negotiated on a straight bi-lateral basis without its intervention. The first loan under this mechanism is now in syndication, and others are expected in the future.

Such loans would appear to be of particular interest to those banks whose foreign lending philosophy is a conservative one and which would be interested in the advantages which an association with the IBRD would afford in the unlikely event of unforeseen difficulties. A summary description of the loan procedure will be found in the paragraphs below, and detailed documentation is available in a folder entitled "Commercial Bank Joint Loans with the World Bank," prepared by the writer of this memo.

**LOAN PROCEDURES**

1) The IBRD will determine which loans are appropriate for joint financing, and if the borrower agrees, will make available project information and economic information to a lending bank chosen by the borrower.

2) Negotiations on terms will take place directly between the commercial bank lender and the borrower. If the terms agreed upon are found satisfactory to the World Bank, it will agree to a joint financing arrangement for the project loan in question. Under certain conditions, it may also arrange for an integrated maturity schedule of the two loans for the borrower.

3) There will be a separate loan contract between the commercial bank lender(s) and the borrower, in which all usual rights are reserved to the lender, subject only to consultation with the IBRD.

4) The commercial bank lender will be identified in the World Bank's contract and there will be cross reference clauses between the two contracts.

5) Disbursements may be made directly, or they may be channelled through the IBRD, as is most appropriate for the project in question.

6) Repayments will be channelled to the lender through the IBRD.
7) The function of the IBRD as a channel of repayment, and clauses covering mutual "Information and Consultation" will be the subject of a special agreement between the IBRD and the lender.

8) In case of failure to pay the commercial bank lender at maturity, the IBRD will undertake the same type of consultative steps that it would take in the event of a late payment on its own loan.

9) In the event these consultative steps are not successful in obtaining payment, and the commercial bank declares its loan in default, the IBRD will determine whether it is desirable to premature or accelerate its own loan (under a cross default clause in its own contract) or to permit negotiations to continue. The commercial bank lender is of course free to pursue its own remedies at any time, subject to prior consultation with the IBRD.

10) The IBRD has stated that "The Bank would certainly hesitate lending to a borrower whose credit is impaired by the existence of a dispute over a default, and especially if there is a default on the "joint" loan for a (first) operation with the Bank which has not been satisfactorily cured."

11) The IBRD has stated that it has had no defaults in its history and has given an analysis of late payments.

12) The loans will generally be of a size which will require syndication.

13) The IBRD has indicated that this program of joint loans is still on an experimental basis and has invited comments about possible steps to improve the procedure.

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