INFORMATION ON WORLD BANK PROJECT-BASED GUARANTEES

Payment Guarantees and Loan Guarantees can be used by public or private entities to mitigate the risk of a potential payment or performance default by a government.

**Main Objectives & Benefits:**

- Reduce the probability of default by the government
- Reduce losses in the event of a default
- Enhance the credit quality of the government and of the project
- Enable bankability through strong risk mitigation
- Reduce the cost of financing for a project
- Support the long-term financial stability of the project

**Special Features:**

- Project-based Guarantees may be structured so as to combine different types of coverage for the same project. *e.g. guarantee a certain amount of scheduled monthly payments due from a government owned utility to a private project under a contract combined with a guarantee for liquidated damages payable by a government due to an unfavorable change in tariffs.*

- Project-based Guarantees may support a series of projects involving a single implementing entity and one or more private investors. *e.g. two or more gas production projects procured under one same gas expansion tender program, which will be owned by the same or various investors and will sell gas to a single government owned gas off-taker, may benefit from a separate payment guarantee for each project under the same tender program and a single Guarantee series approach.*

- Project-based Guarantees may incorporate liquidity features which help projects access funds in a more flexible and expedite manner without triggering payment of the Guarantee or allowing longer time for dispute resolution. *e.g. a Guarantee may be applied to backstop a commercial bank letter of credit designed to provide liquidity to a project. If a payment is delayed, the project may use the proceeds of the letter of credit to supply liquidity. If the delayed payment is finally made the letter of credit would be replenished without using the Guarantee. If the delayed payment is not made, the Guarantee will be drawn to repay the letter of credit.*
Examples of Contractual Structure

Loan Guarantees – risk mitigation for payment or performance default by government to a private project, which triggers payment default under a commercial loan between the project and commercial lenders. (Figure 1).

Figure 1

Loan Guarantees – risk mitigation for payment default on debt service obligations to commercial lenders or bondholders due directly by government. (Figure 2).

Figure 2
Payment Guarantees – risk mitigation for payment default by government under a contract with a private project.

Figure 3