IBRD Enclave Loans for IDA countries

Overview and Objectives

Low income economies (classified as International Development Association, or IDA) can access additional development financing from the World Bank in the form of Enclave Financing for investment projects. International Bank for Reconstruction and Development (IBRD) extends Enclave financing in the form of loans for projects in IDA-only countries. IBRD and IDA have separate balance sheets and an Enclave loan is typically considered when the country is seeking World Bank financing above and beyond its IDA envelope. The Enclave loan does not have any impact on the IDA envelope and it is subject to credit enhancement features that adequately mitigate IBRD's credit risk. The financial terms are similar to those of the IBRD flexible loan (IFL).

The Enclave approach has the additional benefit of ensuring transparency of the revenue flows of the underlying projects. It also ensures that international best practices are applied for environmental and social safeguards. The Enclave is suitable for a range of sectors that generate strong export revenues, such as extractives, agricultural commodities, transport, energy, and others. These revenues can then be secured to underpin the Enclave loan with a sovereign counter-guarantee to IBRD.

Enclave loans have been deployed by the World Bank for over 50 years, with the first being in 1968 with a loan to Guinea using bauxite mining export revenue as the underlying security. Since then, many more have financed projects involving energy and water exports, mineral and agricultural commodity exports, mainly in Africa.

Eligibility

The Enclave is for IDA-only countries that have the resources necessary to meet repayment obligations to IBRD. The Enclave is specifically for projects that:

- Are expected to generate large economic benefits with significant developmental impact;
- Cannot be fully financed out of the country's own resources, IDA resources, or other concessional financing resources;
- Is consistent with the Non-Concessional Borrowing Policy (NCBP) and the IMF Debt Limit Policy; and
- Have foreign exchange-generating projects where the revenue flows can be ring-fenced.

Special Security Features

The Enclave requires credit enhancement features to ensure the security of the IBRD loan. The borrower, government, and IBRD work together to explore and determine these features. The process involves: identifying suitable revenue streams from creditworthy sources; clarifying certainty of cash flows with projections and stress testing; ascertaining financial viability; and, detailing the needed convenants, legal structures, and remedies. In addition, there are operational considerations in securing the Enclave, such as the arrangements to ringfence the funding that will repay the IBRD Enclave loan. This includes setting up debt service and offshore escrow accounts.

Currency

IBRD Enclave loans are committed and repayable in the following currencies: USD, EUR, GBP, and JPY. IBRD may also be able to provide financing in other currencies that it can efficiently intermediate.

Tenor and Repayment Terms

The IBRD Enclave loan has the same terms as the IBRD Flexible Loan (IFL). The full details are found in the following table. Borrowers can customize repayment terms (i.e., grace period, repayment period, and amortization profile) to meet debt management or project needs. For example, if the objective is to reduce the overall refinancing risk of the debt portfolio, a borrower may choose repayment terms that smooth out the debt service profile. This flexibility can also be used in investment operations to match repayment terms to a project's expected cash flows. The loan's maximum final maturity is 35 years including grace period. The maximum weighted average maturity or average repayment maturity is 20 years.

Pricing

The price of the IBRD Enclave loan reflects IBRD's AAA credit rating and is stable and transparent. Components of the pricing include the interest rate, front-end fee and commitment fee. The interest rate consists of a market-based floating reference rate and a spread. The reference rate varies by currency (6-Month LIBOR for USD, JPY and GBP and EURIBOR for EUR). Two types of spreads are available: Variable Spread and Fixed Spread. In certain cases, pricing of Enclave Loans may be higher than the IFL as Enclave loans are provided for IDA-only countries that may have higher credit risks.

Lending Rate	The lending rate consists of a variable reference rate plus a spread. The lending rate is reset semi-annually on each interest payment date and applies to interest periods beginning on those dates. The **reference rate** is the value of the 6-Month LIBOR or EURIBOR at the start of an interest period for most currencies, or another recognized market rate. The lending rates and fees can be found at: https://treasury.worldbank.org/en/about/unit/treasury/ibrd-financial-products/lending-rates-and-fees. Borrowers have a choice of **spread**: Fixed for the life of the loan: Consists of IBRD's projected funding cost margin relative to the applicable reference rate, plus IBRD's contractual spread of 0.50%, risk premium, maturity premium for loans with average maturities greater than eight years, and basis swap adjustment for non-USD loans. Variable resets semi-annually: Consists of IBRD's average cost margin on related funding relative to the applicable reference rate plus IBRD's contractual spread of 0.50% and a maturity premium for loans with average maturities greater than eight years. The variable spread is recalculated on a quarterly basis and applies to the interest period commencing on the interest payment date falling on, or immediately following the recalculation date, but falling prior to the next recalculation date. *Note that the pricing of Enclave Loans may be higher than the IFL as Enclave loans are provided for IDA-only countries that may have higher credit risks.*
Fees	Front-end fee of 0.25% of loan amount is due within 60 days of effectiveness date of the project, but before the first withdrawal from the loan, and may be financed out of loan proceeds. The commitment fee of 0.25% is charged on undisbursed balances and starts to accrue 60 days after the signing date.
Maturity Limits and Repayment Schedules	Policy Limits: Final maturity is 35 years including grace period (during which only interest is paid), while maximum weighted average maturity is 20 years. Repayments: Borrowers have the flexibility to tailor the repayment schedule during loan preparation. Once the loan is signed, the repayment schedule cannot be changed for the life of the loan. Borrowers have a choice of two types of repayment schedules: - Commitment-linked Repayment Schedule: The loan repayment schedule begins at loan commitment. Principal repayments are calculated as a share of the total loan amount disbursed and outstanding. - Disbursement-linked Repayment Schedule: The loan repayment schedule is linked to actual disbursements. Each semester's group of disbursements are similar to a tranche with its own repayment terms (i.e. grace period, final maturity, and repayment pattern). Each semester's group of disbursements would have the same repayment terms.
Loan Currencies	Currency of Commitment: Loans are offered in most major currencies like EUR, GBP, JPY and USD. Other currencies may be available if the IBRD can fund itself efficiently in the market. Borrowers may contract loans in more than one currency. Currency of Disbursement: Disbursements may take place in any currency, as requested by the client. Currencies are acquired by IBRD and passed on to the client at market terms. The loan obligation, however, remains in the currency of commitment. Currency of Repayment: The loan principal, interest, and any other fees must be repaid in the currency(ies) of commitment. However, currency conversion options may be available as specified below.
Currency Conversion	Undisbursed Amounts: All or part of the undisbursed balance may be converted from one major currency into another major currency which IBRD can efficiently intermediate (see "Currency of Commitment" above). Disbursed Amounts: All or part of the disbursed and outstanding balance may be converted into another currency, including the borrower's local currency, subject to the availability of a liquid swap market for that currency. Amounts converted to certain local currencies may be repaid in a major currency, although the borrower's obligation will be denominated in the local currency.
Interest Rate Conversion	Loans with a Fixed Spread: The variable lending rate (i.e. reference rate plus the fixed spread) may be converted to a fixed rate and may be subsequently converted to a variable lending rate. This option may be exercised by the borrower at any time during the life of the loan for all or part of the disbursed and outstanding balance. Alternatively, a cap or collar on the variable rate may be established for up to the entire disbursed and outstanding amount. Loans with a Variable Spread: The variable spread on the entire loan amount may be converted to a fixed spread, but not vice versa. The following options may be exercised by the borrower at any time during the life of the loan for all or part of the disbursed and outstanding balance. The reference rate applicable to the disbursed balance may be converted to a fixed rate and may be subsequently converted to a variable reference rate. The variable spread component of the lending rate, however, will not be converted. The entire variable lending rate may also be converted to a fixed rate after first fixing the spread. Alternatively, a cap or collar on the reference rate may be established for up to the entire disbursed and outstanding amount.
Conversion Fees	Transaction fee(s) for currency and/or interest rate conversions may apply (see: https://treasury.worldbank.org/en/about/unit/treasury/ibrd-financial-products/lending-rates-and-fees).
Payment Dates	Debt service payment dates will be on the 1st or 15th day of a month and semi-annually thereafter, as decided by the borrower during loan negotiation.
Prepayment	Borrowers may prepay, at any time, all or part of the outstanding loan balance. Prepayment charges apply based on (i) IBRD's redeployment cost of the prepaid loan amount and (ii) the cost of unwinding any outstanding interest or currency conversions plus any transaction fees applicable to amounts that were previously converted.

The above is not necessarily a complete treatment of the terms and conditions of these loans. Borrowers should refer to their loan agreements and General Conditions with respect to their individual loans. For more information contact: Miguel Navarro-Martin, Head of Banking Products, mnavarromartin@worldbank.org, +1 (202) 458-4722.