

World Bank Credit Guarantee

World Bank credit guarantees leverage the Bank's limited resources and triple-A credit rating to attract private sector financing for development projects. These products can be used to guarantee a portion of the public sector borrower's debt service to lenders or bond holders. The objective is to help countries access capital markets or open up new sources of financing. The World Bank's participation as guarantor not only makes commercial financing possible by enhancing the credit profile of projects and borrowers, but also improves the terms of the financing by extending debt tenors and lowering spreads. New issuers benefit by establishing a track record in the capital markets.

Guarantee proceeds can be directed to investment projects or used for general budget needs. In either case, the guarantee supports World Bank operations in a country. Policy-Based Guarantees follow similar requirements and World Bank processes as Development Policy Loans, while project-based guarantees follow similar requirements as Investment Loans.

Similar to World Bank loans, credit guarantees can be offered to state-owned-enterprises and other subnational entities with a sovereign counter-guarantee.

Key Features

Guarantees cover a part of the principal and/or interest payments of a bond or loan and can be structured in a variety of ways to meet the needs of the lender/investor. For example, the guarantee could cover the principal repayment of a bullet bond issue, coupon payments on a rolling basis, or latter part repayments of amortized loans.

World Bank guarantees provide "partial coverage." The amount of coverage depends on the borrower's objectives as well as market conditions. The Bank targets the minimum amount of coverage necessary to facilitate a successful transaction.

The Bank requires a counter-guarantee from the central government, under which the government agrees to reimburse the Bank for any payout related to the guarantee and indemnifies it for all liabilities.

At a Glance

- World Bank credit guarantees cover the public sector borrower's **debt obligations** to private sector investors. Guarantee proceeds can be directed to investment projects or used for general budget support.
- The Bank also offers a guarantee to cover **non-loan related government payment obligations**.
- The World Bank requires a counter-guarantee from the government.

Covered Risks

The credit guarantees cover the credit risk of the borrower regardless of cause of default.

Required Documentation

Guarantee Agreement: This agreement between IBRD and the guarantee beneficiaries (lenders/bond investors) embodies the terms and conditions of the guarantee.

Project Agreement: This agreement between IBRD and the borrower (or the implementing agency of the project if different) contains standard undertakings to IBRD such as compliance with World Bank safeguard policies, etc.

Indemnity Agreement: This agreement between the sovereign government and IBRD ensures that the government indemnifies IBRD in the event that IBRD has to make a payout under the guarantee.

Payment Guarantee

In addition to the above, the World Bank also offers Payment Guarantees to cover defaults on non-loan related government payment obligations to private entities and foreign public entities arising from contract, law or regulation.

	IBRD Credit Guarantees	IDA Credit Guarantees
Maturity	Subject to the same average and final maturity limits as those applicable to IBRD Flexible Loans. Currently up to 35 year final maturity/ 20 years average maturity	Subject to the same maximum allowable final maturity limits as those applicable to IDA Credits to the member country. Currently the following: IDA Credit on Regular terms : 38 years IDA Credit on Blend Terms : 25 years IDA Credit to Small Islands : 40 years
Currency	Major currencies and local currencies (on a case-by-case basis)	Major currencies and local currencies (on a case-by-case basis)
Pricing	<p>Comprises: stand-by fee, guarantee fee and front-end fee.</p> <p>The stand-by fee is set at the same level as the commitment fee on IBRD loans. The stand-by fee is normally charged semi-annually and accrues 60 days after the date of signing of the agreement providing for IBRD's guarantee. It is applied to the committed and not outstanding amount of IBRD's financial exposure under the guarantee.</p> <p>The guarantee fee is set at the same level as the contractual lending spread for IBRD loans, and may include, as applicable, a maturity premium. The guarantee fee is charged on the committed and outstanding amount of IBRD's financial exposure under the guarantee.</p> <p>The front-end fee is a one-time fee set at the same level as the front-end fee on IBRD loans and is charged up-front on the maximum amount of the IBRD guarantee.</p>	<p>Comprises: Stand-by fee and guarantee fee.</p> <p>The standby fee is set at the same level as the commitment charge for IDA Credits and is charged on the committed and not outstanding amount of IDA's financial exposure under the guarantee. The IDA standby fee accrues 60 days after the date of signing of the agreement providing for IDA's guarantee.</p> <p>The guarantee fee is set at the same level as the service charge on IDA Credits and is charged on the committed and outstanding amount of IDA's financial exposure under the guarantee.</p>
	<p>In addition to the above, the Bank may charge up-front fees and processing fees to the project implementing entity for private sector projects.</p> <p>Guarantee and standby fees are payable in advance; either charged and collected in advance of each fee period, or charged in a single lump-sum amount upfront calculated on a present value basis. The IBRD front-end fee is payable upon effectiveness of the specific guarantee. These fees are generally paid by the implementing entity in the case of the project-based credit and Payment Guarantees, and by the government in the case of Policy-Based Guarantees. See current fee levels at http://treasury.worldbank.org/.</p>	

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