

**World Bank  
IBRD and IDA Guarantees:  
A “Triple A” Risk Mitigation**

## World Bank Guarantees

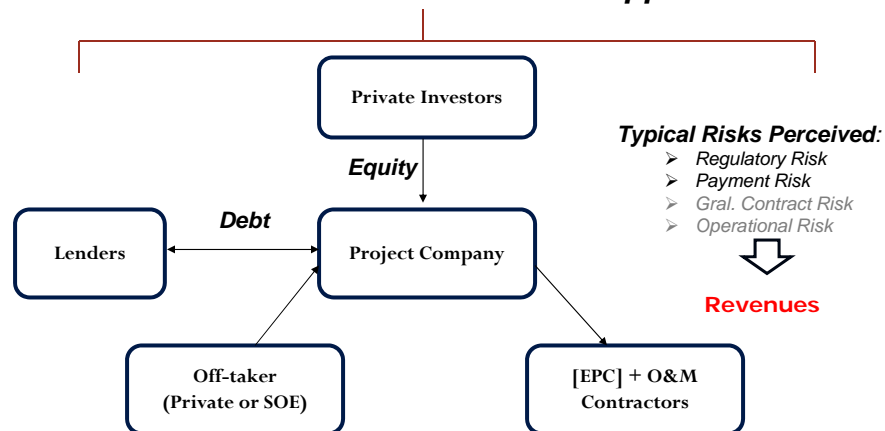
*Financial Instruments designed to Enhance the Financing Options of Sovereigns and Sub-Sovereigns*

- Project-based Guarantees (w/o a debt element)
- Debt-related Guarantees for private projects
- Debt-related Guarantees for public projects/purpose



## Typical Project Structure

*Regulatory Framework and/or Direct /Indirect Government Support*



## Risks Covered

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- Government (or Government entity) payment obligations arising from contract, law or regulation: scheduled monthly payments, termination payments, subsidies, minimum revenue guarantee, debt service, etc.
- Regulatory Risk: change in law, negation or cancellation of license, tariff adjustment
- Currency Risk: convertibility, transferability
- Political Force Majeure: expropriation, war & civil disturbance
- Frustration of arbitration

COMMERCIAL RISKS ARE NOT COVERED



## Key Benefits & Objectives

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### Key Benefits to attract private investors - banks & equity

- Reduce Probability of Default (credit enhancement)
- Reduce Loss Given Default (risk mitigation)
- Positive impact in capital requirements for commercial banks

### Main Objectives

- Enhance the credit quality of Sovereign/SOE Obligors
- Cover private investors (equity or debt) against a Sovereign/SOE failure to meet specific obligations to a private or public project
- Improve the overall credit quality of projects via the partial use of a “AAA” mitigant
- Enable viability and bankability through strong risk mitigation



## Flexible & Low Cost Instrument

### Flexible

- WB Guarantees are suitable for foreign or local currency, domestic or international markets
- Follow the market and adapt to financing structures prevailing at the time
- Adjustable for loans and bonds
- Suitable for single projects or corporate level financing



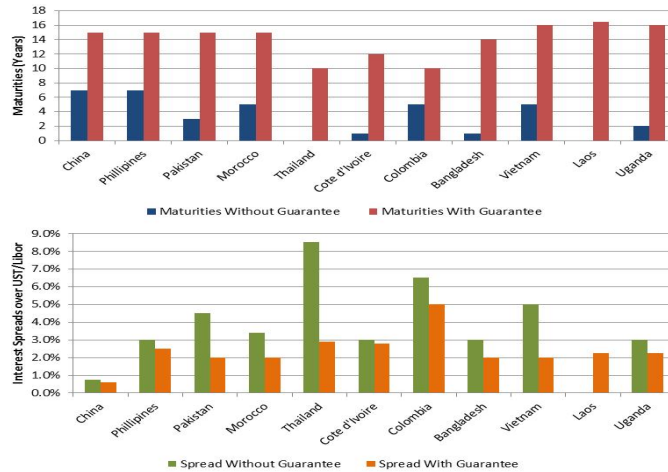
## Low Cost “AAA” Risk Coverage

Charge	Fee	IBRD Guarantees <sup>1</sup>		IDA Guarantees	
		Private Projects	Public Projects (Project or Policy Based)	Private Projects	Public Projects (Project or Policy Based)
Up-Front (One-time)	Front-End	25 bps of guarantee amount		N/A	
	Initiation	Greater of 15 bps of guarantee amount or USD100,000	N/A	Greater of 15 bps of guarantee amount or USD100,000	N/A
	Processing <sup>2</sup>	Up to 50 bps of guarantee amount	N/A	Up to 50 bps of guarantee amount	N/A
Recurring	Standby <sup>3</sup>	25 bps		0 bps	
	Guarantee <sup>4</sup>	50-100 bps <sup>5</sup>		75 bps	

1. Include IBRD Enclave Guarantees for IDA countries.
2. Determined on a case by case basis. On exceptional cases, projects can be charged over 50 bps of the guarantee amount.
3. Equivalent to the commitment charge on IBRD loans and IDA Credits, respectively.
4. The guarantee fee is charged on Bank's financial exposure under the guarantee, i.e. the present value of the guarantee (which is typically equal to outstanding guarantee amount during a callable period). Guarantee maturity calculations are determined based on the type and structure of a guarantee. For IBRD guarantees, the guarantee fee includes an annual maturity premium as follows:
  - a) 0 bps for below 8 years of average maturity and up to 15 years of final maturity;
  - b) 10 bps for 8–10 years of average maturity and up to 19 years of final maturity;
  - c) 20 bps for 10–12 years of average maturities and up to 23 years of final maturity;
  - d) 30 bps for 12–15 years of average maturity and up to 29 years of final maturity;
  - e) 40 bps for 15–18 years of average maturity and up to 35 years of final maturity; and
  - f) 50 bps for 18–20 years of average maturities and up to 35 years of final maturity.
5. In certain cases, IBRD enclave guarantees for IDA countries may have higher pricing than the above IBRD prices.



## Tangible Positive Impact



## Well received by the Market

- 19 Guarantees approved between FY12 and FY14
- Amount: US\$2.5 billion
- Leveraged: US\$11 Billion of investment (4.4x) in highly challenging investment environments
- Cameroon, Cote d'Ivoire, Croatia, Kenya, Macedonia, Mali, Mauritania, Montenegro, Nigeria, Pakistan, Senegal, Uganda

## Examples



## Guarantee Series for the Energy Sector in Kenya

	Thika Power Ltd	Triumph Power Generating Co. Ltd.	Gulf Power Limited	Orpower 4, Inc	Total
<b>Project</b>	87 MW HFO	82 MW HFO	80.3 MW HFO	52MW geothermal	301.3 MW
<b>Financial Close</b>	August 2012	December 2012	March 2013	Nov. 2012	
<b>Total Project Cost</b>	EUR 112.4 mio	\$139 mio	EUR 82.8 mio	\$280.5 mio	\$691 mio
<b>Guarantee</b>	\$35 mio + EUR7.7 mio	\$ 45 mio	\$35 mio + EUR 7 mio	\$31 mio	\$166 mio
<b>IDA Allocation</b>	\$11.25 mio	\$11.25 mio	\$11.25 mio	\$7.75 mio	\$41.5 mio
<b>Term</b>	15 yrs	15 yrs	15 yrs	15 yrs	
<b>Equity</b>	\$37 mio	\$36 mio	\$27 mio	\$70.3 mio	\$172.3mio
<b>Total Debt</b>	\$110 mio	\$103 mio	\$81 mio	\$210 mio	\$519 mio
IFC A	\$36 mio	-	\$22 mio	-	
IFC B	-	-	\$27 mio	-	
IFC C	-	-	\$5 mio	-	
AfDB	\$37 mio	-	-	-	
Commercial Banks	\$37 mio	\$103 mio	\$27 mio	-	
OPIC	-	-	-	\$210 mio	
MIGA	\$105	\$118	\$52	-	



## ***Uganda Bujagali Power Plant***

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- **Project:** construction of a 250 MW hydro power generation plant
- **Sponsor:** IPP - Sithe Global Power and Industrial Promotion Services
- **Total Financing:** \$ 627 mio of which \$115 mio is commercial debt.
- **Risk covered:** guarantees payment of debt service to commercial lenders in case of default triggered by breach of Government obligations under the concession agreement and/or Government guarantee with respect to payments under the PPA
- **Result:** participation of commercial banks enabling full funding of debt requirements



## ***Botswana Morupule B Power Project***

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- **Project:** construction of a 600 MW coal-fired power plant and associated transmission infrastructure
- **Sponsor:** Botswana Power Corporation, state owned utility
- **Total Financing:** \$ 1.21 Bio of which \$825 mio is a commercial tranche arranged by ICBC. Initial 15 years are 95% covered by China Export & Credit Corporation (Sinasure).
- **Risk covered:** guarantee to the commercial lenders the payment of principal and one accrued interest payment due after year 15. Amount: \$242.7 mio
- **Result:** significant improvement of terms and conditions of the commercial loan available to Botswana Power Corporation extending the maturity from 15 to 20 years



## ***Benefits of World Bank Guarantees***

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### **For the Private Sector...**

- Reduce or eliminate key risks associated to transactions in new and untested sectors or business areas
- Mitigate risks the private sector cannot control
- Open new markets
- Improve project bankability, sustainability & replicability



## ***Benefits of World Bank Guarantees***

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### **For Governments...**

- Attract private financing for key sectors such as power generation
- Open access to capital markets and commercial banks
- Reduce cost of private financing to affordable levels
- Facilitate Public Private Partnerships
- Reduce government risk exposure by passing commercial risk to the private sector
- Improve project sustainability & replicability





## ***Conclusion***

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- Risk Mitigation is key to the success of strong private sector involvement in infrastructure projects, particularly in renewable power
- Appropriate and solid credit enhancement tools can make the difference in terms of viability, bankability and profitability of certain projects
- The World Bank Group (IBRD, IDA, IFC and MIGA) has a wide array of products to offer to the public and to the private sector to mitigate risks and improve financing conditions for all the parties



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