World Bank Guarantee Products: IBRD Partial Risk Guarantee (PRG)

World Bank Guarantees catalyze private financial flows to developing countries by mitigating critical government performance risks that the private financiers are reluctant to assume. Guarantees cover private debt against a government's (or government entity's) failure to meet specific obligations to a private or a public project.

Introduction

Partial Risk Guarantees (PRGs) cover private lenders, or investors through shareholder loans, against the risk of a government (or government-owned entity) failing to perform its contractual obligations with respect to a private project.

International Bank for Reconstruction and Development (IBRD) PRGs are available for all countries eligible for IBRD loans[1].

Main Features of IBRD PRGs

Eligible projects: Projects with private participation dependent on certain government contractual undertaking, such as: Build-Operate-Transfer (BOT) and concession projects; Public-Private Partnership (PPP) projects; privatizations. The projects can be both greenfield or existing projects.

Eligible debt: PRGs can be used for any commercial debt instruments (loans, bonds) provided by any private institution[2], including debt provided by sponsors in the form of shareholder loans. PRGs can cover both foreign currency and local currency debt.

Risk coverage: PRGs can cover a range of sovereign or parastatal risks, subject to specific obligations contractually agreed to by the government for a specific project. The types of risks covered may vary, including but not limited to:

- currency inconvertibility/ non-transferability;
- political force majeure risks such as expropriation; war and civil disturbance; material adverse government action;
- government (or government entity) contractual payment obligations (e.g., periodic or termination payments; agreed subsidy payments; minimum revenue guarantees);
- regulatory risk; change of law, and regulations; negation or cancellation of license and approval; non-allowance for agreed tariff adjustment formula or regime;
- contractual performance of public counterparties (e.g., state-owned entities under an off-take agreement, an input supply agreement);
- frustration of arbitration; and
- certain uninsurable force majeure events.

***Coverage amount*:** PRGs typically cover outstanding principal and accrued interest of a debt tranche in full[3]. *Payment is made only if the debt service default is caused by risks specified under the guarantee.*

Guarantee term: PRGs typically cover extended maturities necessary to make the project financially viable.

Fees: Currently the following fees are payable by private project sponsors (or the project company) to the World Bank.

- *Front-end Fee*: one-time fee of 0.25% on the amount of the guarantee;
- *Initiation Fee*: one-time fee of 0.15% on the amount of the guarantee or a minimum of US$100,000;
- *Processing Fee*: one-time fee of up to 0.5% on the amount of the guarantee, to

[1] For IDA-only countries which are not eligible for IBRD loans, the Bank offers IDA PRGs and, in the case of enclave projects earning foreign-exchange, IBRD Enclave PRGs on an exceptional basis.

[2] "Private" institutions include any publicly owned autonomous institutions that are established and operate under commercial law for the purpose of pursuing profit. The World Bank does not provide guarantees for the benefit of other multilateral or bilateral institutions.

[3] It is normally expected that PRG covers only part of total debt required for the project.

cover the cost of out-of-pocket expenses;
- *Guarantee Fee*: 0.5% per annum on the disbursed and outstanding guarantee amount[4].

Required Documentation

IBRD will draft and enter into the following documentation:

Guarantee Agreement between IBRD and the guarantee beneficiaries (lenders), which embodies terms and condition of the PRG.

Project Agreement between IBRD and the project company, which contains undertaking to IBRD with respect to consent requirements for changes to project agreements, compliance with World Bank safeguard policies, etc.

Indemnity Agreement between a member country (the host government) and IBRD, whereby the government will indemnify IBRD in the event IBRD makes payments under the PRG. *It should be noted that the provision of indemnity per se will NOT increase government's contingent liabilities, as the PRG only backstops government's contractual obligations provided to the project in question.*

Application and Approval Process

Identification of guarantee prospects: Projects may be identified through sector discussion between the World Bank and the government. Alternatively, transaction advisors for the government and/or interested project sponsors/lenders may initially approach the Bank. The project needs to be in compliance with Bank's country assistance strategy (CAS)[5].

Guarantee request from the government: Upon the receipt of a request for a PRG from the government, the World Bank will initiate its internal project processing. For projects that are being bid out, the Bank may offer an indicative PRG term sheet through the government to all the bidders as an option.

World Bank's due diligence and approval: Upon the selection of project sponsors by the government, the World Bank appraises the project and conducts a corporate review to ensure Bank's standard technical, environmental, economic, financial criteria are met. Once the project documents are finalized and commercial terms of the transaction are substantially negotiated, the Bank will obtain approval from its Board of Executive Directors for the proposed PRG.

Example of IBRD Partial Risk Guarantee: Jordan – Amman East Power Project (2007)

This 370 MW gas-fired power project is implemented under an *Implementation Agreement* (IA) with the Government of Jordan (GOJ); and will sell power to National Electric Power Company (NEPCO), a state-owned transmission company, under a 25-year *Power Purchase Agreement* (PPA). NEPCO will source gas from Egypt for delivery to the project, and the PPA is de-fact an energy conversion agreement. The cooling water is provided under a *Water Supply Agreem*ent (WSA) by the Water Authority of Jordan; and the land is leased under a *Land Lease Agreement* with the GOJ. The GOJ, under *the Government Guarantee*, guarantees due and punctual performance of Jordanian parties under PPA and WSA; and under the IA ensures foreign exchange convertibility and transferability.

The introduction of private participation in power has been difficult in Jordan (rated double-B). IBRD Partial Risk Guarantees (PRG) up to US$45 million covering termination payment due by the GOJ to the project company was offered at the time of the bidding to make the project financeable. The GOJ received competitive bid proposals from three strong international consortia. Upon the request for the PRG from the winning consortium of AES and Mitsui & Co., the World Bank approved the PRG provision in 2007. The sponsors confirmed the project would have unlikely gone ahead without World Bank Group support because of the private sector perception of political risks involved in the project, especially payment risk by the NEPCO.

For more information on the World Bank Guarantees, please refer to the web site: *www.worldbank.org/guarantees*

[4] Standby Fee, which is assessed for the committed but undisbursed guarantee amount, is currently 0% per annum. The World Bank reviews the IBRD fees periodically and these fee levels may change in the future. Fee levels for the signed guarantee will remain constant throughout the term.

[5] Only 25 percent of guarantee exposure (measured as *present value*) will be counted against the IBRD country exposure limit.