

sector project, the counter-guarantee is a further demonstration of the government's commitment to meet those undertakings. The counter-guarantee of the government to the Bank is normally an indemnity agreement, whereby the government indemnifies the Bank for any payments made by the Bank under its guarantee.

#### (5) Extent of Guarantee

Under a partial risk guarantee, up to 100 percent of the principal and interest can be covered. But the coverage - defined by the events agreed to trigger the guarantee - is set at the lowest level necessary to mobilize the financing, taking into account the nature and complexity of the operation. A partial credit guarantee, in contrast, covers only a portion of the financing, again set at the lowest level necessary.

#### Steps in a Guarantee Operation

Because neither the IFC nor MIGA requires government counter-guarantees for their support, these institutions are the preferred sources of financing for private projects within the World Bank Group. However, the Bank's guarantee, provided by the IBRD/IDA, may be appropriate for large projects in the private sector that are considered high priority by the government and require resources beyond the level IFC can mobilize or MIGA can insure against - or that carry regulatory and policy risks that the Bank is best positioned to guarantee against.

#### (1) Initiating the operation

Use of the Bank's guarantee would normally originate as a part of the ongoing dialogue between the government of a borrowing country and the Bank, about the country's investment priorities. When providing guarantees to private sector projects, the Bank works in close collaboration with the government. Private sector investors contemplating approaching the Bank for a guarantee would be well advised to discuss the possibility with the government. The Bank will, however, answer queries from potential investors in infrastructure projects about the suitability of specific proposals for use of the Bank's guarantee and the likely fit of the proposal within the country assistance programme. Where appropriate, the Bank will follow-up with the government involved.