
The Guarantee as a Risk Management Tool

The Bank's guarantee can be used flexibly for commercial debt financing for private or public entities in developing countries. Unlike MIGA, the Bank does not guarantee equity capital. Nor does it guarantee loans from other official multilateral financial institutions or export credit agencies.

(1) Financial Structure

Borrowers and lenders can choose the financing structure most appropriate for the project. The guarantee can therefore enhance credit obtained through such instruments as public bond issues, private placements, and commercial bank loans. Borrowing may be in any currency and market suited to meet the project's cash flow requirements. In practice, the Bank guarantee operations use a mix of instruments, currencies and markets.

(2) Eligibility

The Bank's guarantee is generally available for projects in any country eligible for borrowing from the World Bank, irrespective of whether the project is in the private sector or public sector. The Bank, however, may at times limit the availability of guarantees in some countries, and restrictions may apply to guarantees for public sector projects in countries undergoing debt restructuring. Guarantees may be used only for mobilizing funds for new investment projects. Governments, government-owned entities, and privatized or public sector entities are all eligible to receive credit enhancement under the Bank's guarantee.

(3) Relationship to traditional World Bank lending

The Bank can provide guarantees either on a stand-alone basis or in conjunction with a Bank loan. Stand-alone guarantees are important in privatization and private sector projects, where the government may not wish to bear commercial risks. The Bank's guarantee is counted in the Bank's lending programme to the host government, although the Bank is able to adjust a country's lending programme to accommodate additional guarantees.

(4) Counter-guarantees

The Bank's Articles of Agreement require a counter-guarantee from the host country government. When the Bank's guarantee covers the government's undertaking to a private