The World Bank Guarantee Programme

Overview

With many developing countries increasingly interested in attracting private capital to projects, the World Bank expects to make greater use of its guarantee power in the years ahead. Bank guarantees are most likely to be used for financing infrastructure, where the demand for funding is large, political and sovereign risks are significant, and long-maturity financing is often critical to a project's viability.

By covering risks that the market is not able to bear or adequately evaluate, the Bank's guarantee can attract new sources of financing, reduce financing costs, and extend maturities. The guarantee can be especially valuable where activities traditionally undertaken and financed by the government are being shifted to the private sector, but where the government and its agencies remain involved, often as a regulator or purchaser of outputs. The Bank's participation as guarantor can also facilitate the transparency of transactions.

The Bank's guarantee is intended to be catalytic. To this end, the Bank offers only partial guarantees, and risks are clearly shared between the Bank and private lenders. The Bank's objective is to cover risks that it is uniquely positioned to bear, given its credit experience with developing countries and special relationships with governments. Other project risks are taken by the private sector and partner institutions. The Bank's guarantee may either be for specified risks (the partial risk guarantee) or for all credit risks during a specified part of the financing term (the partial credit guarantee).

A *partial risk guarantee* covers specified risks arising from nonperformance of sovereign contractual obligations or political force majeure aspects of a project. A *partial credit guarantee* typically extends maturities beyond what private creditors could otherwise provide - for example by guaranteeing late-dated repayments or providing incentives for lenders to roll over short-term loans.