1. In providing guarantees, the Bank's objective is to mobilize private sector financing for development purposes. The Bank may guarantee private loans with or without an associated Bank loan. The Bank provides guarantees only to the extent necessary. In providing guarantees, the Bank coordinates its approach with IFC and MIGA.

2. Although guarantees may be structured in different ways, there are two basic kinds. Partial credit guarantees cover debt service defaults on a specified portion of a loan, normally for a public sector project. Partial risk guarantees cover debt service defaults on a loan, normally for a private sector project, when such defaults are caused by a government's failure to meet its obligations under project contracts to which it is a party. The nature and scope of government contractual undertakings that the Bank backs vary depending on specific project, sector, and country circumstances. The Bank requires that the underlying contracts for partial risk guarantees contain appropriate dispute resolution procedures; if there is a dispute about the government's obligations, the Bank's guarantee is triggered only after the government's liability has been determined in accordance with such procedures. Both kinds of guarantees may cover scheduled interest as well as principal payments on a loan.

3. The Bank has four programs of guarantees: IBRD project-based guarantees using both partial risk and partial credit structures, IBRD policy-based guarantees using the partial credit structure, IBRD enclave guarantees in IDA-only countries using the partial risk structure, and IDA guarantees using the partial risk structure only.

4. For IBRD guarantees, IBRD obtains the consent of member countries in whose currency or markets it intends to issue guarantees (Articles of Agreement: Article IV, Section 1 (b)).

5. Any investment project benefiting from a Bank guarantee must comply with all Bank safeguard and disclosure policies. Policy based guarantees are subject to policies applicable to Development Policy Lending (OP 8.60). The guidelines that apply to the procurement of goods and works financed by loans guaranteed by the Bank are set forth in paragraphs 1.5 and 3.16 of the Guidelines for Procurement under IBRD Loans and IDA Credits. The Bank has an interest that concerned entities have adequate financial management and for private sector projects relies on the assessment of the private sector parties.
benefiting from Bank guarantees regarding the adequacy of the financial management systems put in
place by the private company.  

**IBRD Project-Based Guarantee**

6. IBRD applies the same country creditworthiness and eligibility criteria for project-based guarantees as it applies for investment loans. Projects in any country that is eligible for IBRD lending are eligible for IBRD guarantees. However, IBRD may, as a matter of normal business judgment, exclude marginally creditworthy countries from consideration for a guarantee. IBRD does not provide guarantees for sovereign international borrowings for public sector projects in countries undergoing external debt restructuring until the country completes a debt restructuring agreement with commercial lenders and has in place a macroeconomic framework acceptable to IBRD; however, IBRD may provide guarantees for private sector projects in such countries. IBRD guarantees may be accelerable. 

**IBRD Policy-Based Guarantee**

7. IBRD may provide partial credit guarantees for borrowings associated with the implementation of structural and social reform programs to help borrowers with strong economic and social programs improve their access to private foreign financing. IBRD applies the same country creditworthiness and eligibility criteria for policy-based guarantees as it applies for development policy loans. Eligibility is limited to IBRD-eligible countries with a strong track record of performance, which have external financing needs with important structural, institutional, and social dimensions, sustainable external financing plans with coherent borrowing strategies, and programs for gaining access to international financial markets on their own in the medium term. IBRD's exposure under the program is capped initially at US$2 billion.

**IBRD Enclave Guarantee**

8. IBRD may provide a partial risk guarantee for a foreign-exchange-earning project in an IDA-only country if the project is expected to generate foreign exchange outside the country, and IBRD determines that the country will have adequate foreign exchange to meet its obligations under the indemnity if the guarantee is called. The government is expected to use revenue accruing to it from any such project for productive development purposes. The annual commitment of enclave guarantees is initially limited to an aggregate guaranteed amount of US$300 million. IBRD normally guarantees no more than about 25 percent of the financing required for the enclave project.

9. Enclave guarantees are normally nonaccelerable, that is, IBRD's payment obligations to the lenders under such guarantees are limited to the annual principal and interest obligations originally scheduled under the guaranteed loan. A project covered by an enclave guarantee includes security arrangements with appropriate risk mitigation measures—such as offshore revenue escrow accounts and debt service reserves acceptable to IBRD—to minimize IBRD exposure and the risk of a call on the guarantee.

**IDA Guarantee**

10. Under a pilot program, IDA may offer partial risk guarantees to private lenders for private sector investment projects in IDA-eligible countries. The IDA guarantee may be used for projects for which sufficient support is not available from IFC or MIGA, and which are not eligible for an IBRD enclave guarantee. An IDA guarantee operation is appropriate only for a project in a sector for which the government is implementing a policy framework acceptable to IDA. The pilot program is currently limited to US$500 million in guarantees. Country allocations of IDA resources may be increased to accommodate IDA guarantees. Like enclave guarantees, IDA guarantees are normally nonacceleratable.

**Indemnity**

11. The member country in whose territory the investment project is located, or that is the beneficiary of the Bank's policy-based guarantee, provides an indemnity under which it agrees to reimburse the Bank for any payments the Bank makes under its guarantee and to indemnify the Bank for all liabilities and expenses it incurs in relation to the guarantee. For cross-border investment projects, the Bank also
requires an indemnity from any member country whose government obligations the Bank's guarantee is backing, even if the investment project is not located in its territory. Under an indemnity, payment is required on demand, and failure to pay creates arrears as with failure of timely payment of debt service on a Bank loan. The Bank has the right to adjust the timing of the payment required in exceptional circumstances.

**Appraisal and Supervision**

12. Bank guarantee operations are appraised\(^{11}\) and supervised\(^{12}\) to ensure that they conform to applicable Bank policies. For private sector projects, the Bank conducts its own appraisal of the risks to be covered by the Bank's guarantee; however, the Bank may rely on any appropriate technical, environmental, and financial evaluations of the project that are satisfactory to the Bank, which are carried out by IFC or by private sector lenders or other financing agencies whose evaluation capacity and process the Bank considers satisfactory. The Bank supervises guarantees until expiration and may also rely partially on supervision by such entities. In supervising partial risk guarantee operations, the Bank pays particular attention to periodic monitoring of the governmental contractual obligations that are backed by the guarantee. Preparation of Implementation Completion Reports (ICRs) is required as part of the World Bank’s system of knowledge sharing and accountability.\(^{13}\)

**Fees**\(^{14}\)

13. Fees for guarantees are based on the concept of loan equivalency, and are paid by the beneficiary of the guarantee.

14. IBRD guarantee charges consist of three components, a guarantee fee, a standby fee, and a front end fee which are set annually based on the applicable waivers approved by the Board.

   (a) The *guarantee fee* is applied to disbursed amounts under a guaranteed financing in the same way the spread is applied to disbursed amounts under a loan. The guarantee fee, once set, remains unchanged for the life of the guarantee.

   (b) The *standby fee* is analogous to the commitment charge on loans, and is applied to the undisbursed amount of a guaranteed financing.

   (c) The *front-end fee* is charged upfront on the maximum exposure under the guarantee, similar to the front-end fee charged on IBRD loans. Guarantees that are provided as a part of a special development policy lending support package are charged fees as per the terms in effect for the special development policy loans.\(^ {15}\)

15. IDA guarantee fees consist of two components,\(^ {16}\) a guarantee fee and a standby fee.

   (a) The *guarantee fee* is applied to disbursed amounts under a guaranteed financing in the same way the service charge is applied to disbursed amounts under a credit.

   (b) The *standby fee* is analogous to the commitment charge on credits, and is applied to the undisbursed amount of a guaranteed financing. IDA guarantee standby fees are set annually based on the commitment charges on credits approved by the Board, and fixed for each guarantee at the time of approval.

16. IBRD and IDA guarantee and standby fees are payable in advance, either periodically in installments or in a single upfront payment, on a present value basis.

17. If, during the life of an IBRD guarantee, the Bank's exposure under the guarantee is reduced or canceled, the Bank may refund to the paying party a portion of any guarantee fees collected up front, commensurate with the reduction in exposure, provided the paying party is not in default to the Bank.
18. The Bank also charges **upfront fees** for private sector projects. Upfront fees consist of initiation and processing fees. The initiation fee is charged to recover development costs and processing fees are charged to compensate the Bank for additional resources deployed for preparing private sector projects, including the cost of any advisers and any other out-of-pocket expenses incurred by the Bank. In special cases, and taking into account the project development and preparation costs, the Bank may reduce or waive upfront fees.

1. In this statement, “Bank” includes IBRD and IDA; “loan” refers to any debt instrument; “project” includes any public or private sector investment operation as well as any development policy lending operation supported by IBRD or IDA; “private lender” means a lender that is wholly or predominantly privately owned or a lender that is publicly owned but is an autonomous entity established and operating under commercial law for the purpose of pursuing profit (such as a state-owned commercial bank); and a “sponsor” is an entity responsible for developing and implementing a project.

2. The Bank's guarantee generally does not cover risks of a purely business or commercial nature, or minimum revenue undertakings that a government might make in respect of a project that amount to a guarantee of a level of profit for the enterprise. In exceptional circumstances, however, the Bank's guarantee may cover revenue assurances sufficient to cover the guaranteed debt service payments for a limited period of time or until revenues have stabilized at a predetermined level; if feasible, any such provision includes a recapture clause in case revenues later exceed an agreed level.

3. When IBRD guarantees interest payments, it reserves the right to terminate its liability with respect to such payments by offering to buy out lenders at par plus interest accrued to a designated date (IBRD Articles of Agreement: Article IV, Section 5 (c)). When IDA guarantees interest payments, it may also reserve such a right. Before making such an offer, the Bank obtains the agreement of the member country concerned to fully guarantee the loan if the Bank purchases it.


5. [OP 11.00, Procurement](http://www.worldbank.org) does not apply to projects supported by guarantees.

6. Bank operational policies on Financial Management ([OP 10.00](http://www.worldbank.org)) do not apply to private sector operations supported by guarantees.

7. Under an accelerable guarantee, the unpaid balance of guaranteed exposure (which could be different from the unpaid balance) would be payable by the Bank upon call of the guarantee.

8. Under a non- accelerable guarantee, the Bank’s payment obligations are limited to the annual principal and interest obligations originally scheduled under the guaranteed loan.


10. Staff should refer to Articles of Agreement: Article III, Section 4(i); IDA Articles of Agreement, Article V, Section 2(d).

11. Bank procedures related to the appraisal of guarantee operations, including the disclosure of environmental assessment reports and project documentation, are set out in [BP 14.25](http://www.worldbank.org).


14. For the latest guarantee charges please visit the [Project Finance and Guarantees website](http://www.worldbank.org) or consult the Manager, Project Finance and Guarantees Group.

15. The guarantee fee in such cases is currently set at 4% per annum and the standby fee is set at 0.75% per annum.

16. There are no front-end fees on IDA guarantees.

17. The initiation fee is set at 0.15% of the guaranteed amount or $100,000 (whichever is higher) and the processing fee is capped at 0.50% of the guaranteed amount. In exceptional cases, IBRD or IDA may wish to recover higher than usual internal costs incurred during the course of preparing resource-intensive project finance operations. Management would determine the level and extent of such cost recovery on a case-by-case basis.