Folder Title:	President Wolfensohn - Briefing Book for President's Meetings and Events - World Bank Guarantees - April 22, 1998
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Series:	Meeting and event briefing materials
Dates:	04/22/1998 – 04/22/1998
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Meeting: World Bank Guarantees

Wednesday, April 22, 1998
2:30 -4:30 p.m.
Meeting Room (MC12-755)

Archive Management for the President's Office

Document Log

Reference # : Archive-02205

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A. CLASSIFICATION

- [x] Meeting Material
- [ ] Trips
- [ ] Speeches
- [ ] Annual Meetings
- [ ] Corporate Management
- [ ] Communications with Staff
- [ ] Phone Logs
- [ ] Calendar
- [ ] Press Clippings/Photos
- [ ] JDW Transcripts
- [ ] Social Events
- [ ] Other

B. SUBJECT: MEETING: WORLD BANK GUARANTEES (B) (N) // TIME: 2:30 - 4:30 P.M. // VENUE: MC-12-755 (MTG. ROOM) // CONTACT: NINA SHAPIRO @ 31650 // IN ATTENDANCE: JDW, SHAPIRO, S. BABBAR, FUKUI, SANDSTROM, KOCH-WESER, A. JABRE (FOR LINDBAEK-Mission), J. WILTON, D. CONRAD, PRUNEAU, MWAGHAZI, LUIGI // NOTES: (3/18) ITEM REQUESTED BY JDW AS A RESULT OF PSG MTG. ON 3/17 / CLEARED BY MM // ORIGINALLY SCHEDULED FOR 3/20 AND THEN MOVED TO LATER AT SS's REQUEST // (3/19) LIST OF ATTENDEES CLEARED WITH SS, MM, NS // (B) SHAPIRO // DUE: FRIDAY, APRIL 17 // EXC: JDW // ALI (3/18) (3/24) Brief includes: --- Presentation: World Bank Guarantees: Potential, Constraints, Pricing, Apr. 22 --- Completed Guarantee Operations; FY1998/9 Pipeline --- World Bank Guarantees: Potential, Constraints and Pricing	**DATE:** 04/23/98

C. VPU

Corporate
- [ ] CTR
- [ ] EXT
- [ ] LEG
- [ ] MPS
- [ ] OED
- [ ] SEC/Board
- [ ] TRE

Regional
- [ ] AFR
- [ ] EAP
- [ ] ECA
- [ ] LAC
- [ ] MNA
- [ ] SAS

Central
- [ ] CFS
- [ ] DEC
- [ ] ESD
- [ ] FPD
- [ ] FPR
- [ ] HRO

Affiliates
- [ ] GEF
- [ ] ICSID
- [ ] IFC
- [ ] Inspection Panel
- [ ] Kennedy Center
- [ ] MIGA

D. EXTERNAL PARTNER

- [ ] IMF
- [ ] UN
- [ ] MDB/Other IO
- [ ] NGO
- [ ] Private Sector
- [ ] Part I
- [ ] Part II
- [ ] Other

E. COMMENTS:

1

World Bank Guarantees
Potential, Constraints, Pricing

Project Finance & Guarantees Department

April 22, 1998

2

Program Overview

- Guarantee and PFG credibility established in market
- Strong base in certain regions (e.g., MENA)
- But risk losing momentum because of internal debates and constraints
- Need to create staff incentives
- Senior management should market the Bank, internally and externally, as a loan & guarantee provider

Two Types of Guarantees

3

Partial Risk

* Generally for private sector projects (high risk countries/sectors)
* Credit enhancement of sovereign obligations already made to project
* Covers up to 100% of debt against breach of specified obligations; e.g.,
  - breach of contract by government or its entities
  - currency inconvertibility
  - changes in law
  - political force majeure events

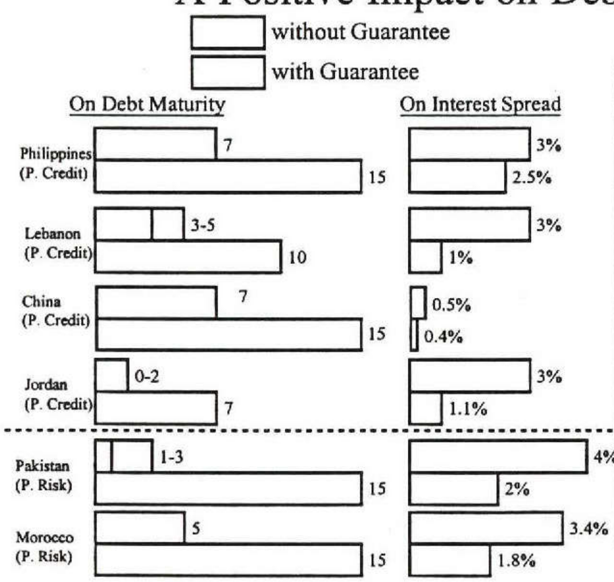
Partial Credit

* Generally for public sector projects
* Covers part of debt term against all non-payment risks

World Bank Guarantees

4

A Positive Impact on Debt Terms



Annualized Cost to Borrower	Project Cost	Guarantee Amount	p.v. of Exposure
14bp	$1333m	$100m	$33m
19bp	$500m	$100m	$52m
20bp	$2900m	$50m	$20m
24bp	$217m	$50m	$30m
155bp	$630m	$75m	$75m
155bp	$1500m	$184m	$184m

Income Generated from Fees

5

	Fee	Yr 1	Yr 2	Yr 3
PCG (3 per year)	*25bp per annum*	$2.93m	$2.93m	$2.93m
PRG (5 per year)				
Initiation Fee (PFG)	*15bp*	$0.56m	$0.56m	$0.56m
Guarantee Fee (WB)	*25bp per annum*	$0.94m	$1.88m	$2.81m
Total (WB retains 25bp)		**$4.5m**	**$5.44m**	**$6.37m**
Total (WB retains 50bp)		**$8.3m**	**$10.18m**	**$12.04m**

Assumptions:
PCG: $75m each with 10-year maturity. Fee discounted to a single lump-sum amount at signing.
PRG: $75m each. Guarantee fee collected annually. Table does not show guarantee fee retained by country (75bp p.a.)

6

What Have We Accomplished?

- Eleven guarantees since September 1994
  - * six partial credit
  - * five partial risk
- Substantial growth in pipeline
- In FY99: six to eight operations expected
- Mandate to do guarantees in IDA-only countries

7

Internal Constraints

- Continuous debate on use, availability of guarantee, and optimization of WBG instruments
- Partial Credit: debate on flexibility of use
- Partial Risk: regional preference for loans
  * regional knowledge of financial markets limited
  * identical treatment of loans and guarantees for capital allocation
  * budgetary disincentives to develop guarantees
- Result: mixed signals to governments, market, and Bank staff

8

How to Create Incentives to Use Guarantees

- Reduce country exposure allocation for PRGs from 1:1
- Clarify guarantee additionality ***or*** establish a separate program allocation for new guarantees of $3 billion
- Relief to regional budgets - PFG underwrites cost of up-front development from fee income

9

Guarantee Pricing

10

General Pricing Principles

- **Loan Equivalency**
  - * Fee retained by Bank is the same as for loans (25bp)
  - * Additional fees refunded to country
  - * Cooperative pricing
- **Based on Exposure**
  - * Guarantee fee: on maximum guaranteed debt in any period
  - * Standby fee: on non-callable debt amounts
- **Timing of Fee Collection**
  - * Periodic; but up-front when feasible (on p.v. basis)

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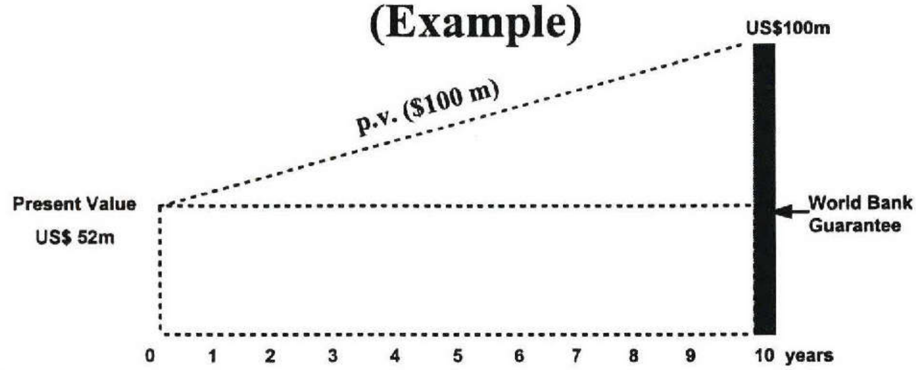
Fees on on Guarantees

	IBRD (PCG & PRG)	IDA (PRG only)	Enclave (PRG only)
Standby Fee	25bp p.a.	25bp p.a. (refunded to country*)	up to 75bp p.a.
Guarantee Fee	40-100bp p.a. (PCG: 100bp)	75bp p.a. (pilot phase)	up to 300bp p.a.
of which - Bank retains	25bp p.a.	75bp p.a.	75bp p.a.
and refunds to country	15-75 bp p.a.	0	225bp p.a.

* Since IDA's commitment fee is currently waived, this fee is refunded at the end of the guarantee coverage term if the guarantee has not been called.

Fees on Partial Credit Guarantee (Example)

12



Average p.v. ($m)	53.8	57.4	61.3	65.4	69.9	74.6	79.6	85.0	90.7	96.8	(beg.& end of period)
Fee ($m)	0.134	0.144	0.153	0.164	0.175	0.186	0.199	0.212	0.227	0.242	(25bp X Av. PV)

p.v. of Fee = $1.289m (discounted @ WB cost of capital)

Annualized Fee = 18.7bp

Note: an additional 75bp p.a. would be charged during the period when the guarantee is callable. This fee is waived if borrower is public sector.

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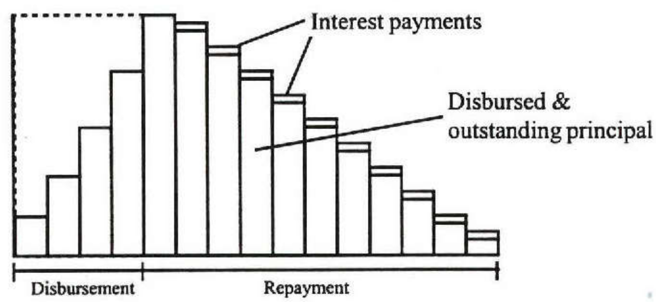
Fees on Partial Risk Guarantees



- **<u>During loan disbursement:</u>**
  - * **Standby fee: on non-callable loan amounts**
  - * **Guarantee fee: on disbursed and callable loan amount**
- **<u>During loan repayment:</u>**
  - * **Guarantee fee on disbursed and outstanding principal, plus scheduled interest payments**
- **All fee payments are usually made semiannually**

14

Other Charges (as of Aug 97)

- Initiation Fee: 0.15% ($100,000 min.)
  - * one-time payment to the Bank
  - * covers program development costs
  - * administered by PFG
- Processing Fee: up to 0.50%
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- Should the Bank retain more than 25bp?
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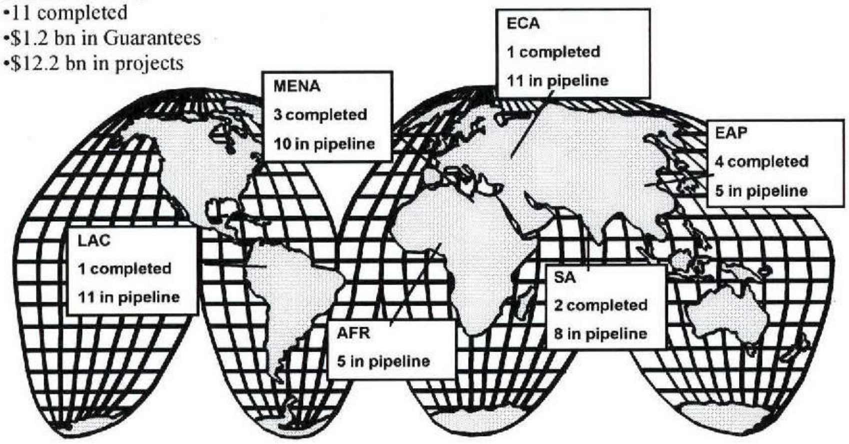
  * Could apply higher fee retention to loans & guarantees for private sector projects
- Is the guarantee priced too low?
  * Not a market product; constrained by counter-guarantee
  * Governments can charge additional fees
  * All-in-cost in-line with other IFIs

Completed Guarantee Operations

During 1994-98:
- 11 completed
- $1.2 bn in Guarantees
- $12.2 bn in projects



FY 1998/9 PIPELINE

COUNTRY	PROJECT	STATUS
Lao P.D.R. (Enclave)	Nam Theun Power	*EXPECTED*
Viet Nam (IDA)	Phu-My 2/2 Power	*EXPECTED*
Poland	Rybnik Power Station	*EXPECTED*
Turkey	Guarantee for Dev. Bank	*EXPECTED*
Egypt	Sidi Krir Power Project	*EXPECTED*
Lebanon	Awali Beirut Water Conveyor	*EXPECTED*
Bangladesh (IDA)	Haripur Power	*EXPECTED*
Brazil (PCG)	Bolivia-Brazil Gas Pipeline	*EXPECTED*
Mozambique	Pande gas / Maputo Steel	POSSIBLE
Zimbabwe (IDA)	Power North Gokwe	POSSIBLE
Turkey	Iskenderum Power	POSSIBLE
Ecuador	Guayaquil Water Concession	POSSIBLE
Jordan	Disi Amman Water Conveyor	POSSIBLE
Jordan	Amman Waste Water	POSSIBLE
Yemen (Enclave)	Aden Port	POSSIBLE
India	NTPC	POSSIBLE

World Bank Guarantees:
Potential, Constraints and Pricing

Project Finance & Guarantees Department

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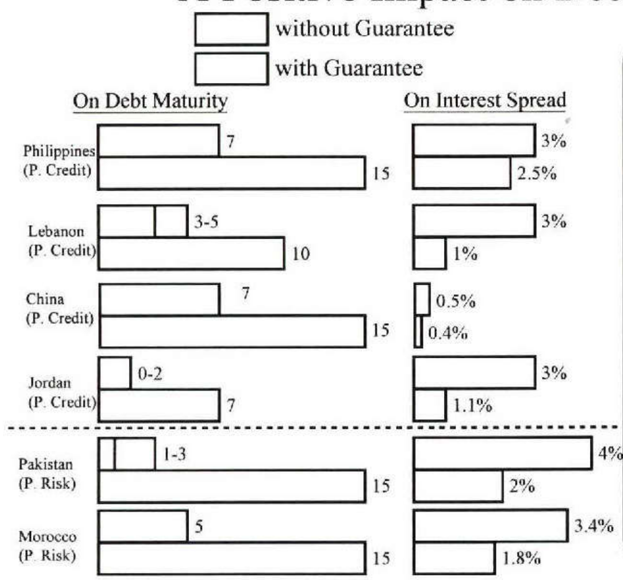

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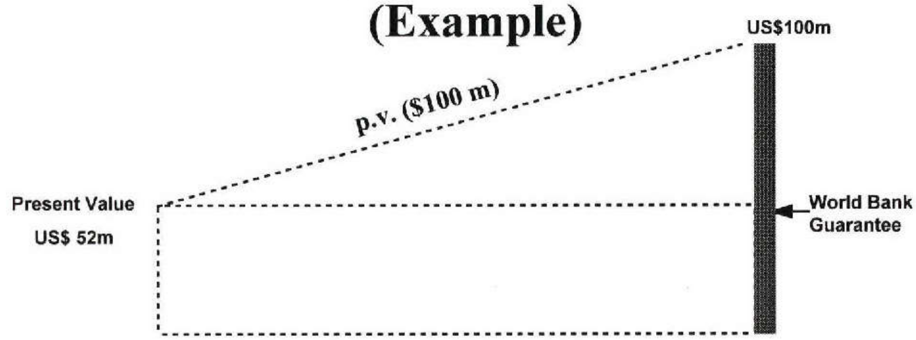

	0	1	2	3	4	5	6	7	8	9	10 years	
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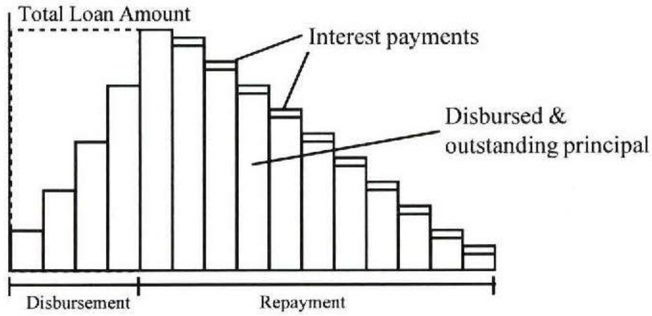

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