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CASE STUDY

IBRD Helps Jordan Meet Critical Financial Needs Through a Customized Financial Solution

The World Bank Treasury designed a financial solution for Jordan that helped (i) increase the loan amount by 45 percent, (ii) lower the expected financing cost by approximately two thirds[1], and (iii) extend the average maturity of Jordan's overall debt profile.

The financial solution used donor guarantees to the IBRD to increase the loan amount from USD 1 billion to USD 1.45 billion, allowing Jordan to finance the entire project at IBRD rates rather than borrowing the additional 450 million at market rates. The approximately USD 72.5 million savings in financing costs and the customized amortization schedule (34-year total term, four-year grace period) helped reduce the overall debt payments and increased the average maturity of Jordan's debt, in alignment with its debt management objectives.

Background

In 2018, Jordan was facing critical financing needs. The unprecedented regional conflicts decreased government revenues due to a downturn in tourism, exports, and investment. While expenditures increased as the country became the host to Syrian refugees, and shouldered their financial burden coupled with an upsurge in security, energy, and commodity costs.

Jordan responded by implementing a national economic and fiscal reform program in coordination with the IMF, mobilized the international community through the Jordan Compact and launched the Jordan Economic Growth Plan to get the country back on track by doubling economic growth over 2018-23.

To fund the growth plan, Jordan needed financing that would align with its debt repayment profile and debt management strategy. More pressingly, the

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government had to fund the debt repayments of the three international bonds maturing in the next four years[2], and close to 39 percent of the domestic debt maturing in the next two years.

The World Bank worked on the second Equitable Growth and Job Creation Programmatic Development Policy Loan with Jordan to support its inclusive growth objectives.

Financial Objectives

- Maximize financing for Jordan.
- Reduce Jordan's overall debt cost.
- Smooth Jordan's pressing debt repayments and lengthen the maturity of the debt profile.

Financial Solution and Outcomes

In June 2019, the World Bank approved a USD 1.45 billion Development Policy Financing, the second loan in a programmatic series of two DPF operations.

Increasing Loan Amount – Decreasing Expected Financing Cost

The DPF utilized two bilateral guarantees to IBRD from the Kingdom of Saudi Arabia (USD 200 million) and from the United Kingdom (USD 250 million) to

[1] Jordan's borrowing cost from markets (7.7%) as per the Jordan Bond (7 3/8 10/10/2047) versus 2.4% IBRD loan rate by the time of loan agreement

[2] 2018-22 period, amounting to USD 3.25 billion

increase the loan amount from USD 1 billion to USD 1.45 billion.

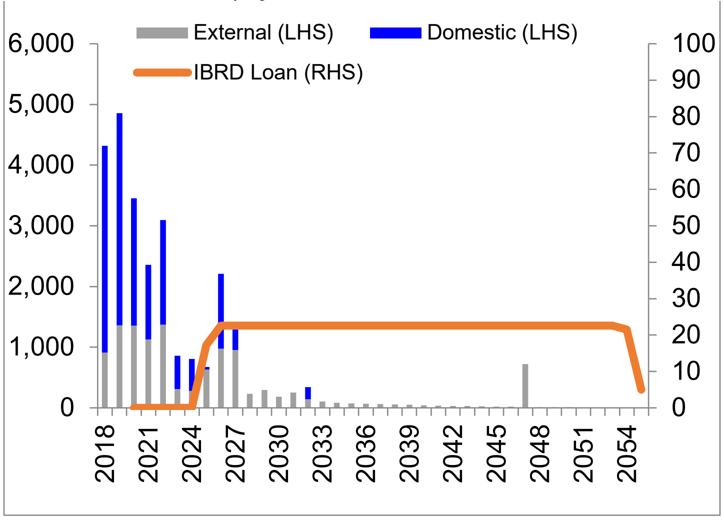
The guarantees allowed Jordan to borrow at IBRD rates which provided a 500 basis points advantage versus market rates at the time of the loan negotiations, lowering Jordan's expected financing cost by approximately USD 72.5 million over the next 34 years.

Loan Customization

By selecting a customized repayment schedule, Jordan reduced the refinancing risk and adjusted the amortization profile to meet their debt management needs.

- The four-year grace period pushed the loan principal repayments further out to 2024 to by-pass the most acute debt rollover cycle (2018-22). (Figure 1)
- The 34-year total term with the Average Repayment Maturity of close to 20 years spread repayments over a longer period and lengthened Jordan's total average time to maturity from an estimated 5.8 years to 6.9 years[3].

Figure 1. Jordan: Redemption Profile in JOD,M, and IBRD Loan Customized Repayment Schedule



Source: PDD, MOF, and CBOJ, World Bank Treasury

The innovative financial solution helped immunize Jordan's budget against potential reallocations away from the critical development activities, such as the Jordan Economic Growth Plan.

World Bank Treasury's Role

- The World Bank Treasury team maximized donor funding by ensuring that the financial terms of the loan were agreeable to the donors and the borrower through a series of bilateral engagements.
- The team provided donors with mark-to-market price calculations of the contingent liability of their guarantees to IBRD.
- The team worked closely with the client (Jordan's Ministry of Finance, Central Bank, Ministry of Development & Financial Cooperation), and internally with the country team, project team, Legal Vice Presidency, and Global Practices in designing the financial solution.

Summary of Financial Terms		
	First Tranche	**Second Tranche**
Effective Date	June 5, 2019	June 26, 2020
Amount	USD 725 million	USD 225 million
Term	34 years	
Grace period	4 years	
Structure	Amortizing	

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[3] External debt from 7.9 years to 9.2 years