The World Bank Group provides a variety of support to public and private infrastructure projects in developing and transition economies. The Group provides policy advice to help governments build credible, stable policy and regulatory frameworks that support infrastructure projects generally. And it offers different types of finance for specific projects, including loans, guarantees, equity investments, and political risk insurance.

This Note provides an overview of the main financial instruments offered by the Group’s financial organizations—the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), together referred to as the World Bank; the International Finance Corporation (IFC); and the Multilateral Investment Guarantee Agency (MIGA). It describes the basic financial and contractual structures of these instruments and illustrates their role through a hypothetical project to construct a power plant in a host country. The project involves (1) a power generation company, PowerCo, that will own and operate the power plant, (2) equity investors in PowerCo, and (3) commercial loans to PowerCo to finance the plant.

### The World Bank’s loans and guarantees

The World Bank provides financing for both public and private sector projects—IBRD for middle-income and IDA for poorer developing countries—but always with the financial backing of the host country, represented by its government. Historically, the World Bank has provided most of its financial support through loans, but IBRD has established a guarantee program that is expected to take on increasing importance in financing infrastructure projects. IDA too can provide guarantees but has not yet done so. IBRD and IDA lending also can be used by governments to finance equity, guarantees, and other forms of financial support.

**IBRD loans.** IBRD makes loans on favorable market terms, at interest rates slightly higher than those available to AAA-rated borrowers. IBRD can provide loans under two structures:

- IBRD can lend directly to PowerCo, but, as required by IBRD’s Articles of Agreement, the loan must be guaranteed by the host country.
- IBRD can offer guarantees to commercial lenders who then make loans to PowerCo.
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**FIGURE 3 IBRD PARTIAL RISK GUARANTEE**

- **Country**
  - Counter guarantee
  - IG:IBRD
  - Commercial lenders
  - Loans
  - PowerCo
  - Equity
  - Shareholder

- **IBRD**
  - Guarantee
  - Contractual undertakings

**FIGURE 4 IBRD LOAN FOR A PROJECT IN AN IDA-ONLY COUNTRY**

- **Country**
  - Guarantee of loan repayment
  - Loan repayment
  - Offshore escrow account
  - Project revenues
  - Purchaser

- **IBRD**
  - Loan
  - Loans
  - Commercial lenders

**FIGURE 5 IBRD OR IDA LENDING TO FINANCE EQUITY**

- **IBRD/IDA**
  - Loan/Credit
  - Commercial lenders
  - Loan
  - ParaCo
  - Equity
  - Shareholders’ agreement

- **Country**
  - Loan
  - ParaCo
  - Equity
  - Shareholder

- **PowerCo**
  - Equity

- **Shareholder**

**country. This structure involves two basic agreements:**

- A loan agreement between IBRD and PowerCo and a guarantee from the host country to IBRD (figure 1).

- The structure was used in the Nigeria Oso Condensate Field Development Project (1991), in which IBRD provided a US$220 million loan, guaranteed by the government, to Nigeria’s oil parastatal to finance the development of the Oso petroleum fields.

- Alternatively, IBRD can provide a loan to the host country, which can then on-lend the funds to PowerCo. This structure involves a loan agreement between IBRD and the host country and a subsidiary loan agreement between the host country and PowerCo. It also typically involves a project agreement establishing a direct contractual relationship between IBRD and the company implementing the project—in this case, PowerCo—regarding project implementation (figure 2).

**IBRD guarantees.** IBRD offers two types of guarantee for private lenders: a *partial risk guarantee* protecting lenders against payment defaults arising from breaches of sovereign contractual undertakings to a project, and a *partial credit guarantee* covering certain debt service payments against all risks—typically for later maturities. In accordance with IBRD’s Articles of Agreement, all its guarantees must be counter guaranteed by the host country.

A structure in which IBRD provides support for the PowerCo project through a partial risk guarantee would involve the following (figure 3):

- Loans by commercial lenders.
- Host country contractual undertakings to PowerCo to support the project.
- An IBRD partial risk guarantee covering the loans against PowerCo debt service defaults arising from host country breaches of contract.
- A host country counter guarantee to IBRD.

A project involving such a partial risk guarantee is the Pakistan Uch Power Project (1996), a private sector independent power producer project. Pakistan has undertaken to make compensatory payments to the Uch power company in the event of such specified contractual defaults as a failure by its petroleum parastatal to supply gas to the project or by its power utility to purchase the electricity generated. The US$75 million IBRD guarantee protects lenders to the Uch power company against debt service defaults resulting from the government’s breach of this obligation, and Pakistan has provided a counter guarantee to IBRD.

Alternatively, IBRD could provide a partial credit guarantee to the commercial lenders to protect them against default by PowerCo on debt service payments, for example, beginning with the tenth year on fifteen-year PowerCo bonds. This
structure would involve the same basic agreements as the partial risk guarantee, but would not require contractual undertakings from the host country to PowerCo. A US$50 million partial credit guarantee was issued in the China Ertan Power Project (1995) covering the later maturities of commercial loans to finance the expansion of a public sector hydroelectric power plant.

**IBRD financing in IDA-only countries for enclave projects.** IBRD financing generally is not available for projects in poorer developing countries not considered creditworthy enough to pay IBRD’s market lending rates and thus eligible only for concessional IDA lending (referred to as IDA-only countries). But in a few cases IBRD has provided loans for discrete projects in IDA-only countries that generate substantial foreign exchange revenues (referred to as enclave projects). In addition to the structural elements of an IBRD loan, these projects typically include an offshore escrow account for debt service payments and a guarantee to IBRD from a creditworthy third party, such as the project’s private shareholders (figure 4). Enclave projects could also be eligible for an IBRD guarantee.

**IDA credits.** IDA lends on highly concessional terms, with maturities of thirty-five to forty years and a 0.75 percent interest rate. In part to reflect this concessional character, IDA loans are referred to as credits. IDA always provides credits to the country, which can then on-lent the funds to the project company. An IDA credit to support the PowerCo project would involve the following basic agreements: a credit agreement between IDA and the host country, a subsidiary loan agreement between the host country and PowerCo, and, typically, a project agreement between PowerCo and IDA (see figure 2). This structure was used in the Ghana Thermal Power Project (1995). In that project IDA provided a US$170 million credit to Ghana, which on-lent the funds to its parastatal power producer to finance construction of a thermal power plant.

**Financing equity.** Neither IBRD nor IDA makes equity investments, but they can provide loans or credits to a country to finance its equity investment, or the investment of a parastatal, in the project company. In the PowerCo project, the host country could obtain an IBRD loan or an IDA credit to finance the equity stake of its parastatal power company, ParaCo, in a Power-Co joint venture. This structure could involve a loan agreement between IBRD and the host country, a subsidiary loan agreement between the host country and ParaCo, and a shareholders’ equity contribution agreement relating to ParaCo’s investment in PowerCo (figure 5).

**Financing guarantees and debt refinancing.** IBRD can also provide a loan—and IDA a credit—to a country to finance a guarantee issued by or at the behest of the government. For example, a loan or credit to a country could finance a loan guarantee issued by an independent guarantor mandated by the government (as in the 1995 Moldova Pre-Export Guarantee Facility Project) or provided by a special-purpose facility established by the government (as in the 1994 Argentina Capital Market Development Project). The structure would be similar to the illustration in figure 6. IBRD has also provided a loan to finance a government take-out commitment—that is, an obligation to a project company to refinance the company’s debt (in the 1994 Jamaica Rockfort Private Power Project).
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Financial intermediaries, investment funds, and facilities. IBRD and IDA can lend to a country to finance a financial intermediary or an investment fund or other facility that would provide loans, equity, guarantees, take-out financing, or other financial support for several discrete projects (figure 6). In the Pakistan Private Sector Energy Development Project II (1994), IBRD provided a US$250 million loan to Pakistan to finance a government-sponsored fund that lends to selected private sector energy projects.

IFC’s loans, loan syndication, equity, and quasi equity

IFC provides loans for and makes equity and quasi equity investments in private ventures only. In contrast to the World Bank, IFC provides financing with no direct government guarantees of repayment. Its loans are at market rates. IFC also has an extensive loan syndication program (known as B-loans) under which it extends its lender-of-record umbrella to participating banks, mitigating currency transfer and other political risks for these lenders. B-loans are always coupled with loans funded from IFC’s own resources (A-loans).


MIGA’s political risk insurance

MIGA provides political risk insurance under contracts of guarantee for foreign equity and related debt investments. It can issue coverage for war and civil disturbance, expropriation, and currency transfer risks. It can also cover breach of contract where the claimant is denied appropriate judicial or arbitral relief. MIGA provides insurance with no host country counter guarantee. MIGA insurance for equity and debt investments in PowerCo could include coverage of equity and shareholder loans for PowerCo (and any other loans guaranteed by the shareholders) and coverage of the commercial loans to PowerCo (figure 8). For example, MIGA issued coverage for equity investments and commercial loans provided for a power project in Honduras (1995).

Group support

The organizations of the World Bank Group increasingly work together in providing financial support to the same projects, combining their comparative advantages to catalyze private investment. For the PowerCo project, the Group could provide support through IFC equity and A- and B-loans, MIGA political risk insurance, and an IBRD partial risk guarantee (figure 9). The Pakistan Uch Power Project involved, besides the IBRD partial risk guarantee, an IFC A-loan, an IFC B-loan, and a loan from a government investment facility funded by an IBRD loan.


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