CITY RESILIENCE PROGRAM

FINANCIAL SOLUTIONS FOR CITY RESILIENCE CONFERENCE

BANGKOK JULY 9-13, 2018

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July 2018

SECTION 1:
GUARANTEE FUNDAMENTALS

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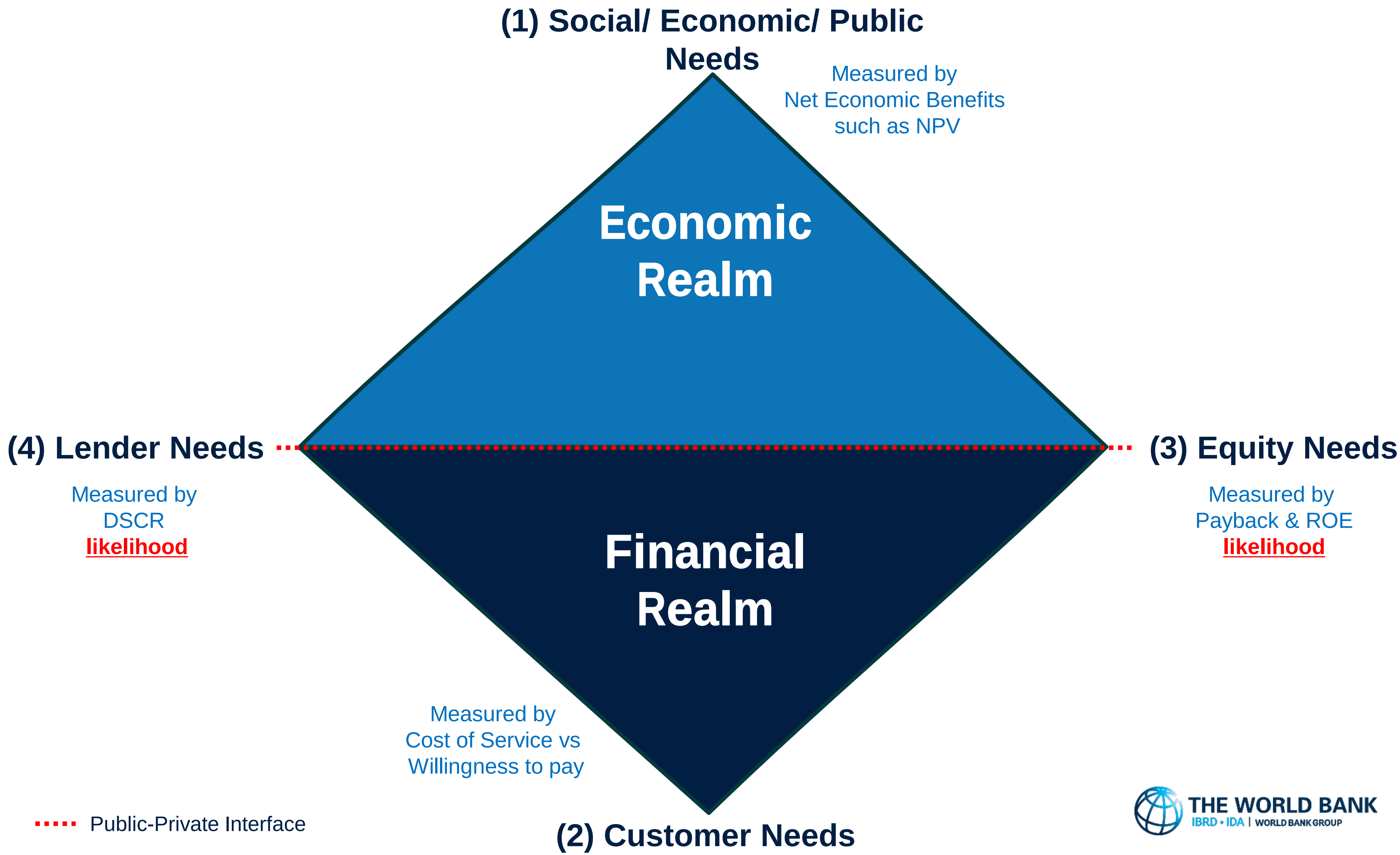
FINANCING INFRASTRUCTURE IS ALL ABOUT BALANCING FOUR POINTS



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WHAT AFFECTS THE LIKELIHOOD OF LENDERS & INVESTORS ACHIEVING THEIR NEEDS?

1 **Commercial Risks – Normally covered by parties concerned**

- ✓ Contractor fails to complete project on time, to budget or specification
- ✓ Operator fails to operate and maintain project well
- ✓ Supplier fails to deliver

2 **Natural Event Risks – Normally covered by insurance**

- ✓ Flooding
- ✓ Seismic events
- ✓ Storm

3 **Public Sector Performance – Normally covered by an acceptable public entity**

- ✓ Change in policy or law
- ✓ Failure of a governmental entity to supply
- ✓ Non payment by a governmental entity

It is in the area of public sector performance where Guarantees Are focused.

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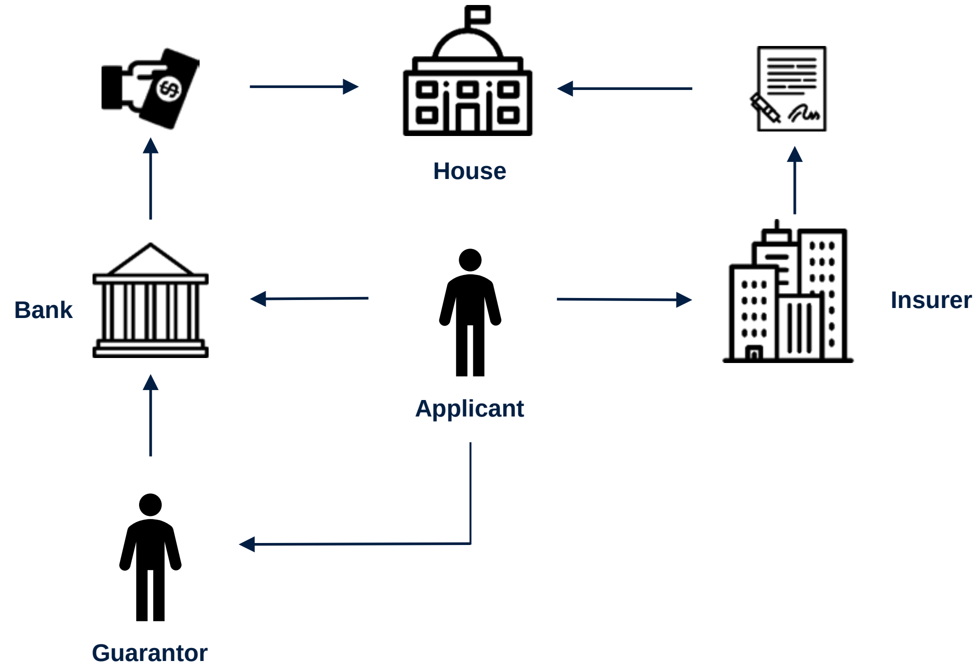
THE KEY DIFFERENCE BETWEEN GUARANTEES & INSURANCE

1 **Guarantees - A formal pledge to:**

- ✓ Pay or perform…
- ✓ Another person's obligation…
- ✓ In the case of their default.

2 **Insurance – Where a persons agrees:**

- ✓ For consideration…
- ✓ To pay a certain amount…
- ✓ On the occurrence of a specified event.



Guarantors usually have a direct interest in the performance of the other person.

A Guarantor has a shared interest in minimizing the likelihood of their default

An insurer focusses on understanding the likelihood of the specified event occurring, pricing the risk and charging an appropriate premium

WHY GUARANTEES ARE NEEDED IN INFRASTRUCTURE

1 Uncertainty needs to be converted into risk

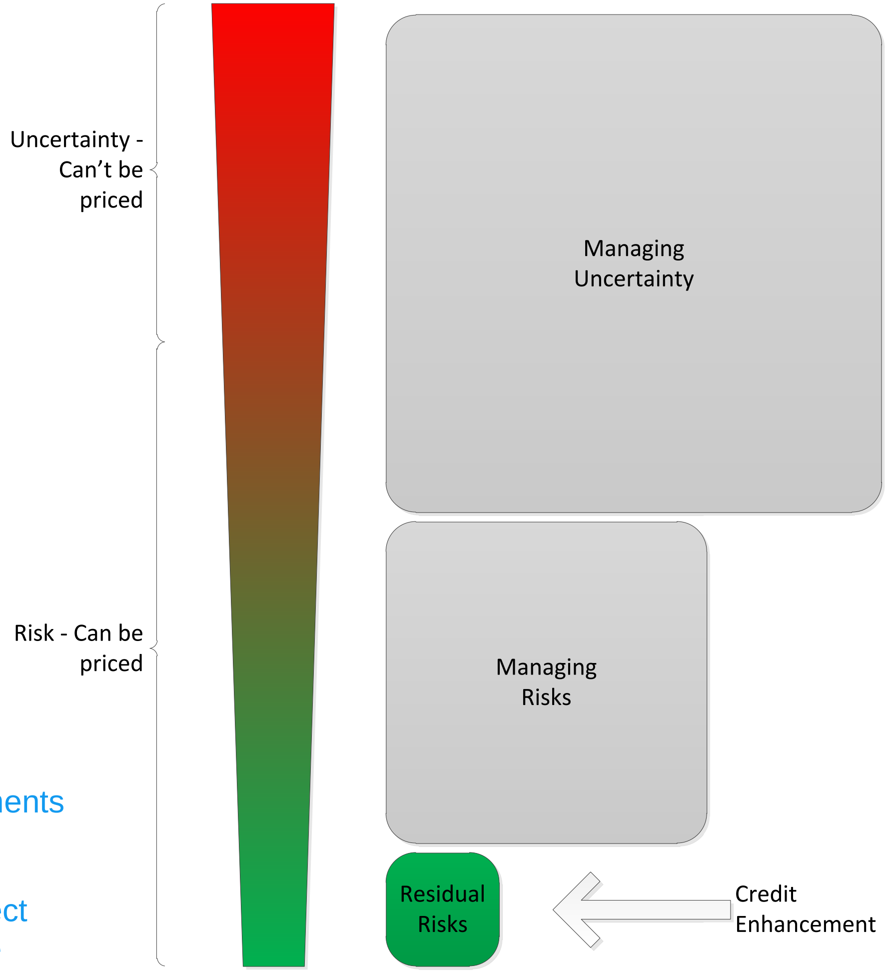
- ✓ The outcome of a situation is completely unknown
- ✓ Probability can't be assigned to uncertainty
- ✓ The market cannot price uncertainty

2 Risk can be priced and managed

- ✓ Through risk identification
- ✓ Allocation of risks to contractual parties
- ✓ By structuring and designing risk management

3 Not all risks can be allocated or structured

- ✓ Introduces a concept of "residual risk"
- ✓ Residual risks require coverage with risk mitigation instruments
- ✓ Most residual risks relate to government performance
- ✓ Backstopping of government performance can help a project become bankable or achieve an acceptable cost of service



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GUARANTORS NEED TO BE INVESTMENT GRADE OR HIGHER

S&P Credit Rating Scale

CCC (Weakest)	BBB (Investment Grade)	AAA (Strongest)

Scenario A

Municipality unlikely to need a Guarantor for Bankability. Guarantee Could reduce financing costs.

Municipality

National Government

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Scenario B

Municipality

National Government

Municipality likely to need a Sovereign Guarantee for Bankability & Reducing financing costs. World Bank support could Reduce costs further.

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Scenario C

Municipality

National Government

Municipality likely to need a World Bank Guarantee for Bankability & Reducing financing costs.

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SECTION 2:
GUARANTEE TYPES

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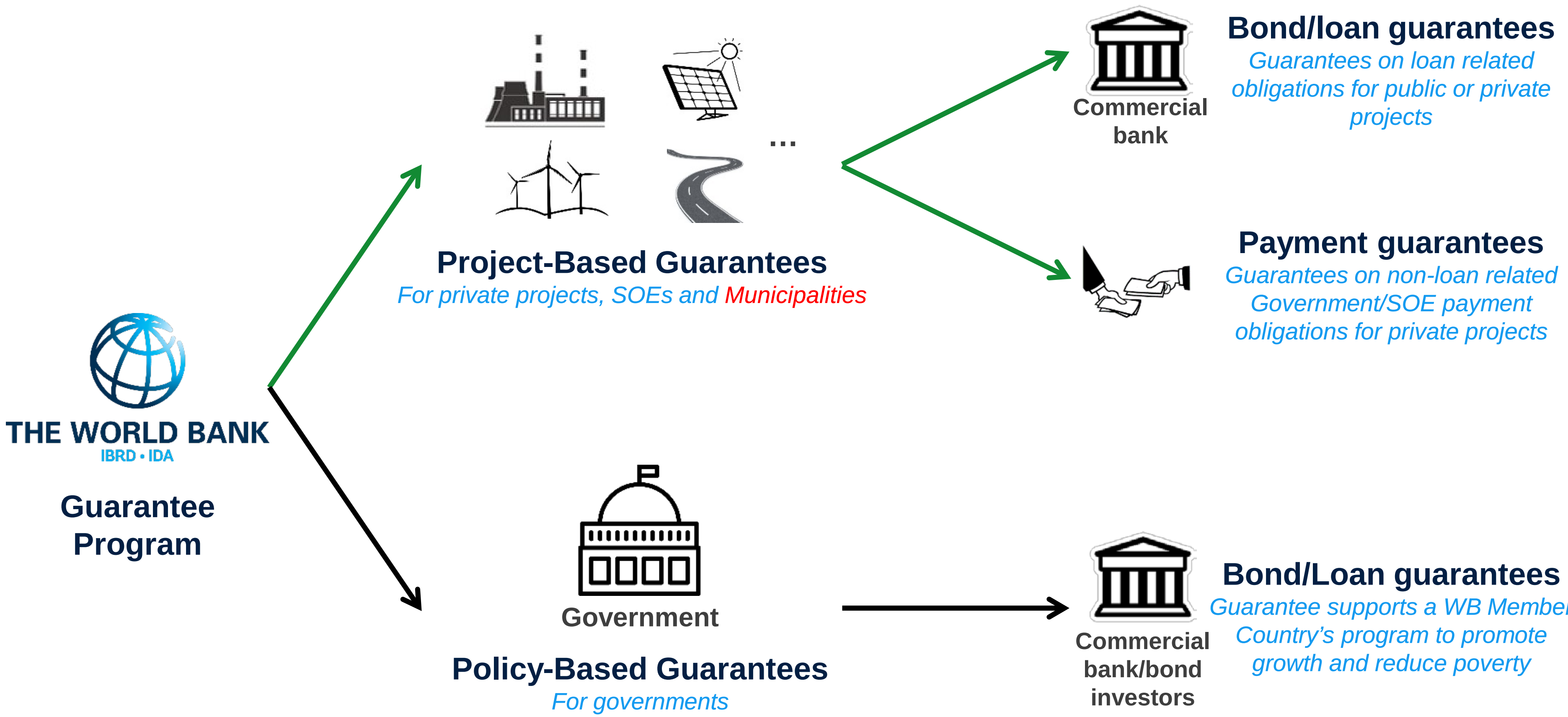
WHAT TYPE OF GUARANTEES DOES THE WORLD BANK OFFER?



TYPICAL WORLD BANK COVERAGE

Non-Loan related payment obligations *(PPA, GSA, etc.)*
3 – 12 months of payment obligation
Examples: Zambia Solar IPP (6 months), Azura IPP in Nigeria, Sankofa Gas in Ghana (12 months)

Letters of credit backstopping non-loan related payment obligations
100% of principal amount + 100% of accrued interest

Capital market transactions (bonds)
Amount equivalent to 40% of principal amount
Examples: Ghana 2030, $1,000m bond ($400 million first loss guarantee)

Commercial loans
Amount equivalent to 40-60% of principal amount
Examples: Pakistan $700m sovereign loan ($420m guarantee), KPLC $500m refinancing ($210 million guarantee)

Project loans
100% of principal amount + 100% of accrued interest on a partial amount of financing

LOAN GUARANTEES

FOR PUBLIC BORROWING

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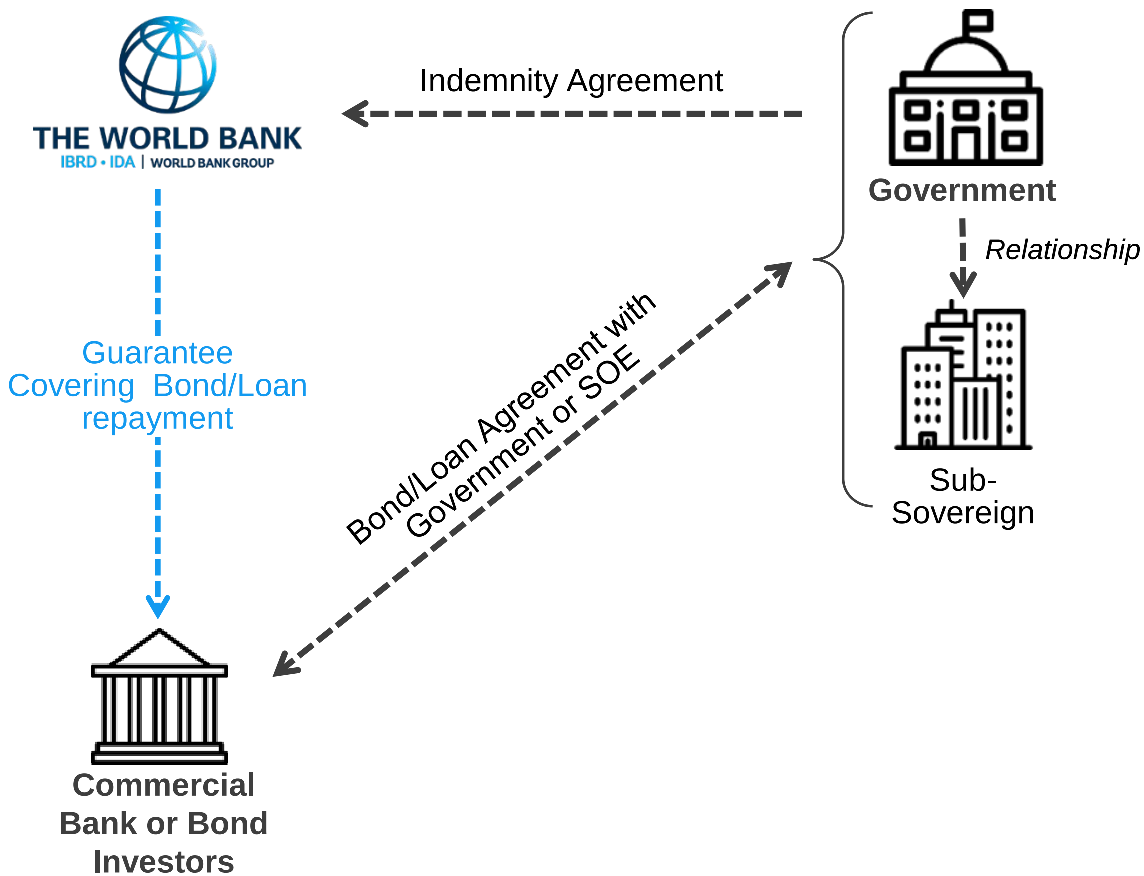
CONTRACTUAL STRUCTURE OF A BOND/LOAN GUARANTEE FOR A SOVEREIGN OR SUB-SOVEREIGN

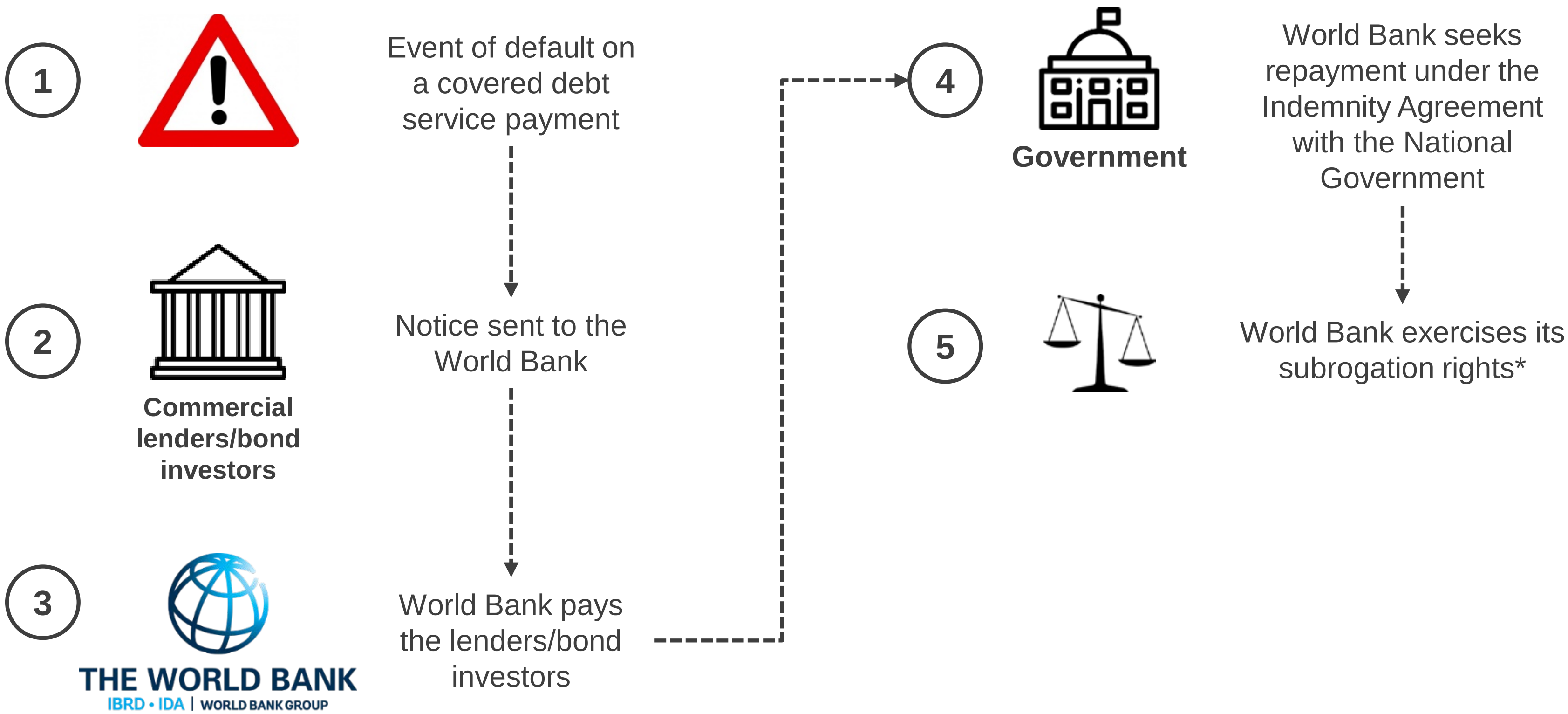


Key takeaways

- World Bank guarantees can protect lenders against the risk of an event of default
- World Bank guarantees are always partial ➔ no 100% cover
- Variety of structures can be contemplated ➔ highly flexible instrument
- Key benefits of using a World Bank guarantee:
  - ✓ Access to larger pool of investors/ banks
  - ✓ Tenor extension
  - ✓ Larger volume
  - ✓ Lower interest rates / coupon payment

World Bank provides credit enhancement to public borrowers

MECHANICS OF PARTIAL BOND/LOAN GUARANTEE TO A SOVEREIGN OR SUB-SOVEREIGN



(*) to the extent it has not been reimbursed under the Indemnity Agreement

LOAN GUARANTEES

FOR PRIVATE PROJECTS

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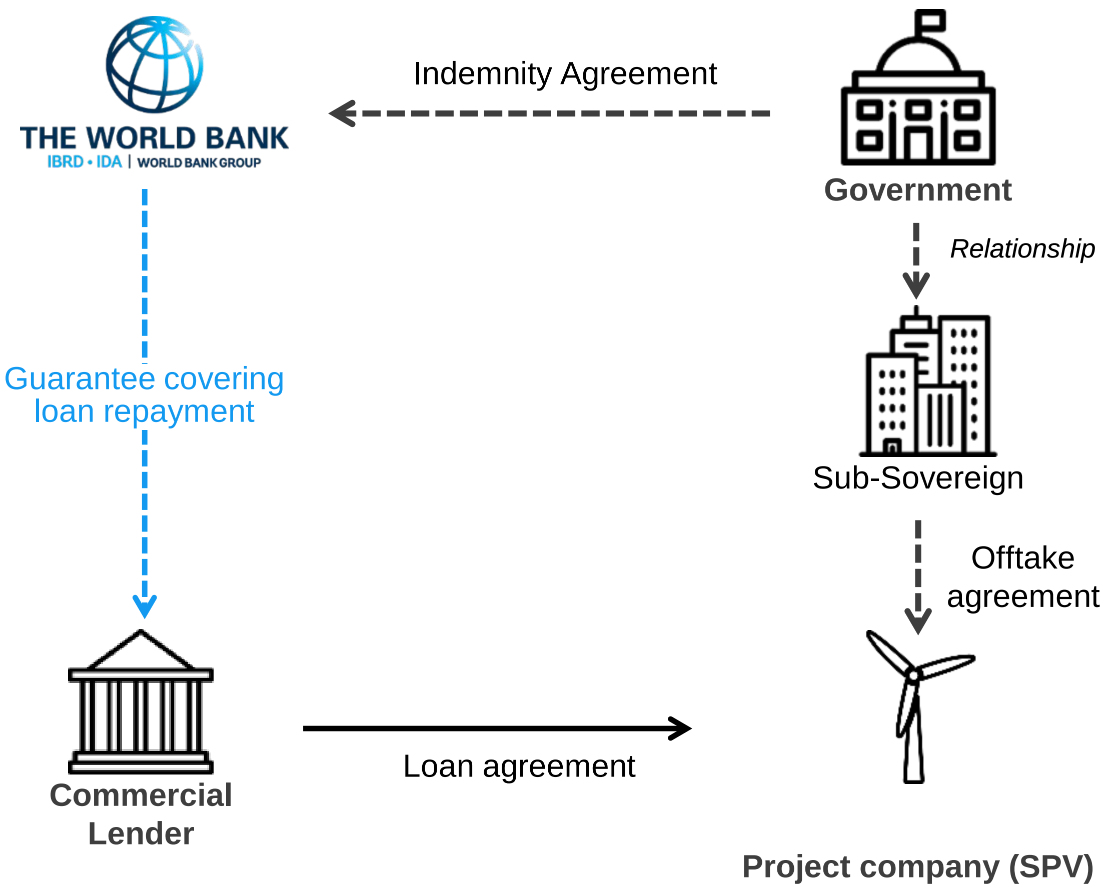
CONTRACTUAL STRUCTURE OF A LOAN GUARANTEE TO A PRIVATE PROJECT

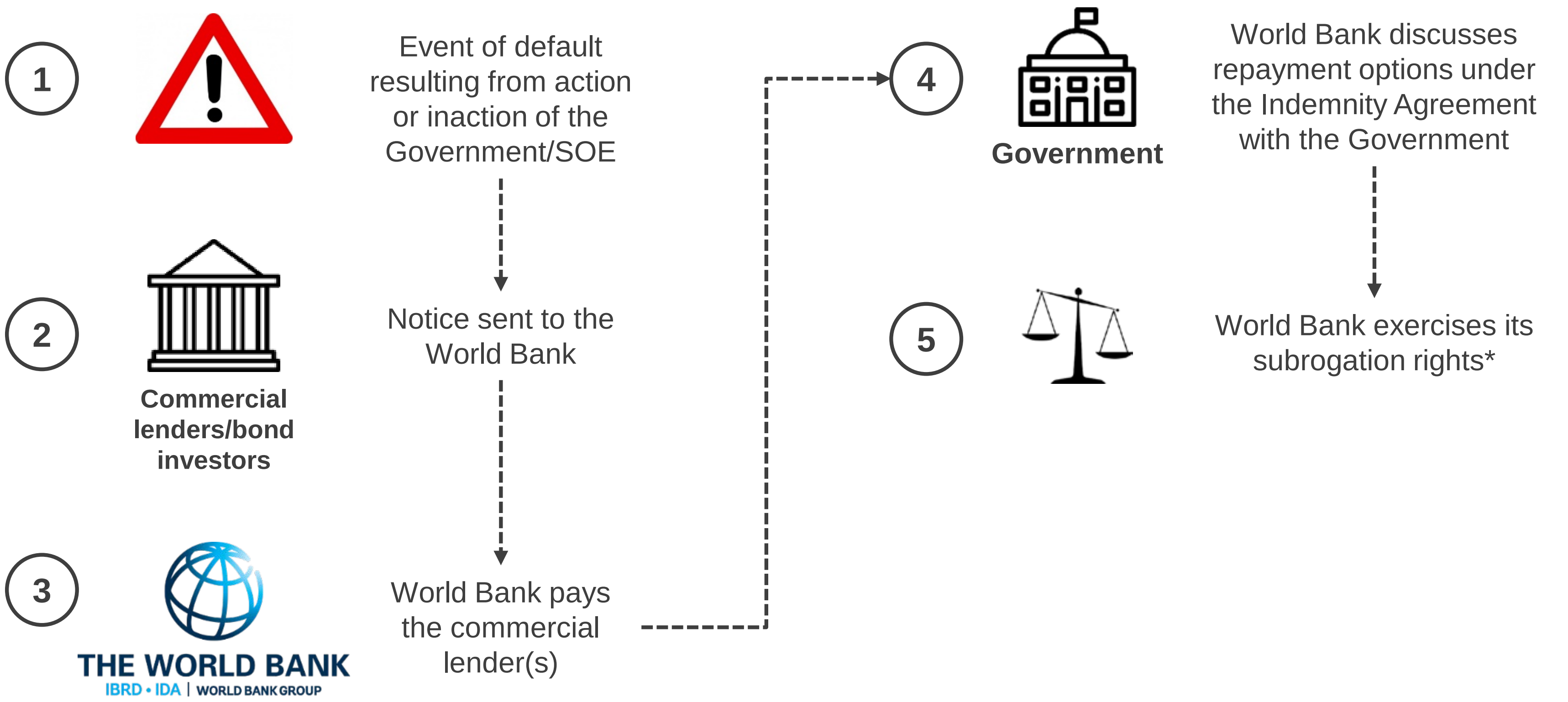


Key takeaways

- ✓ Guarantee covers loan repayment by project company
- ✓ World Bank guarantee cover events of default triggered by the action or inaction of the Sovereign/Sub-Sovereign
- ✓ Ensures long term presence of the World Bank in the project
- ✓ Improved financing terms enable project company to offer more competitive tariffs

Loan guarantees to projects enable long term financing at competitive terms

MECHANICS OF A LOAN GUARANTEE TO A PRIVATE PROJECT



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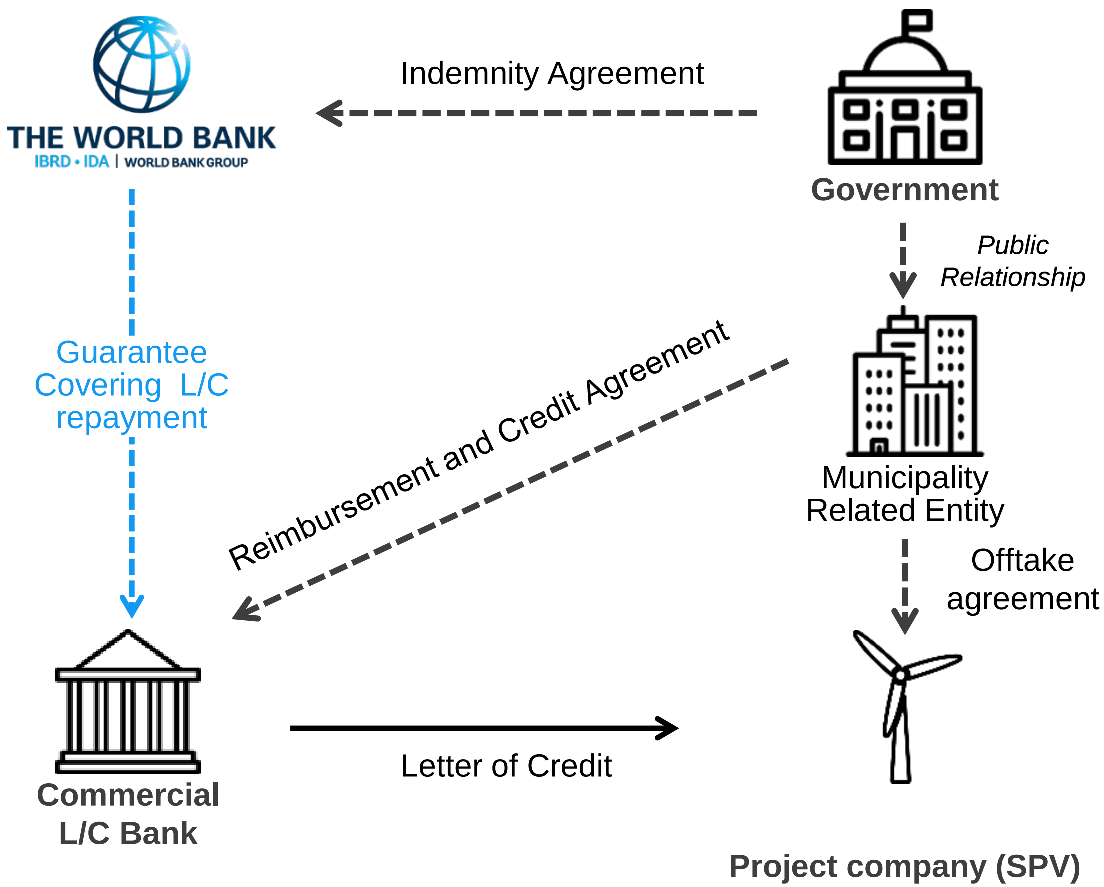
PAYMENT GUARANTEES

WITH A LETTER OF CREDIT

CONTRACTUAL STRUCTURE OF PAYMENT GUARANTEE WITH A LETTER OF CREDIT



Key takeaways

- ✓ Guarantee covers Letter of Credit (L/C) providing liquidity support to mitigate the public offtaker payment risk
- ✓ Each drawdown on the L/C is converted into a 12-month loan to the SOE/ Municipality
- ✓ Upon drawdown on the L/C by SPV, SOE/ Municipality and/or government has an obligation to repay the L/C Bank
- ✓ If the SOE/ Municipality and/or the government fail to repay the L/C Bank, the World Bank steps in and reimburses the L/C Bank

The L/C Bank is ultimately only facing the World Bank counterparty risk

MECHANICS OF A WORLD BANK PAYMENT GUARANTEE WITH A LETTER OF CREDIT

1 — Obligor does not pay on time its bill to the project company

2 — Project company: Project company draws on a standby Letter of Credit (L/C)

3 — Commercial bank: L/C Drawdown converted into X-month loan to SOE/ Municipality

4 — Offtaker (SOE): SOE/ Muni repays within X months?

- Yes ✓ → 4a — L/C replenished
- If Not X → 4b

4b — Government: Government repays loan? (L/C replenished) ✓

If Not X

4c — Commercial bank: Commercial bank not repaid within X months
➔ Notice sent to World Bank for repayment

5 — THE WORLD BANK (IBRD • IDA | WORLD BANK GROUP): World Bank pays the commercial bank (L/C not replenished)

6 — Government: World Bank seeks repayment under the Indemnity Agreement with the National Government

PAYMENT GUARANTEES

DIRECT

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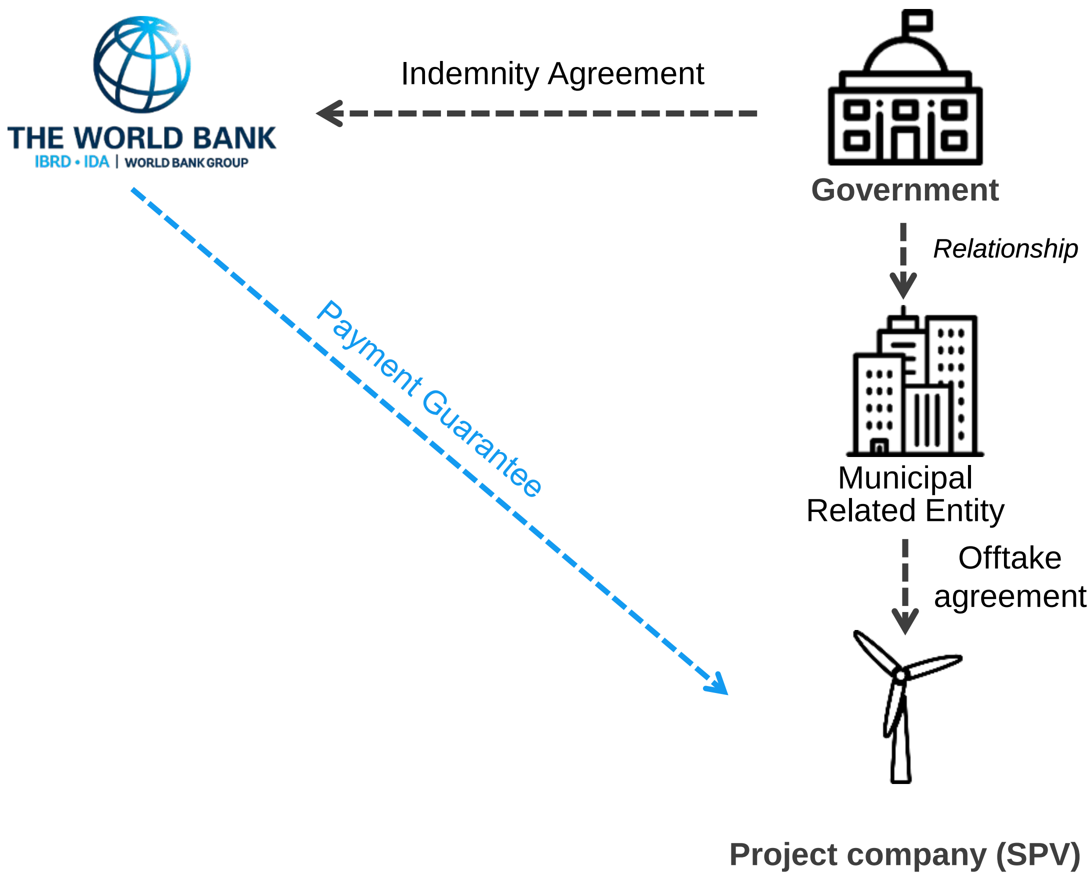
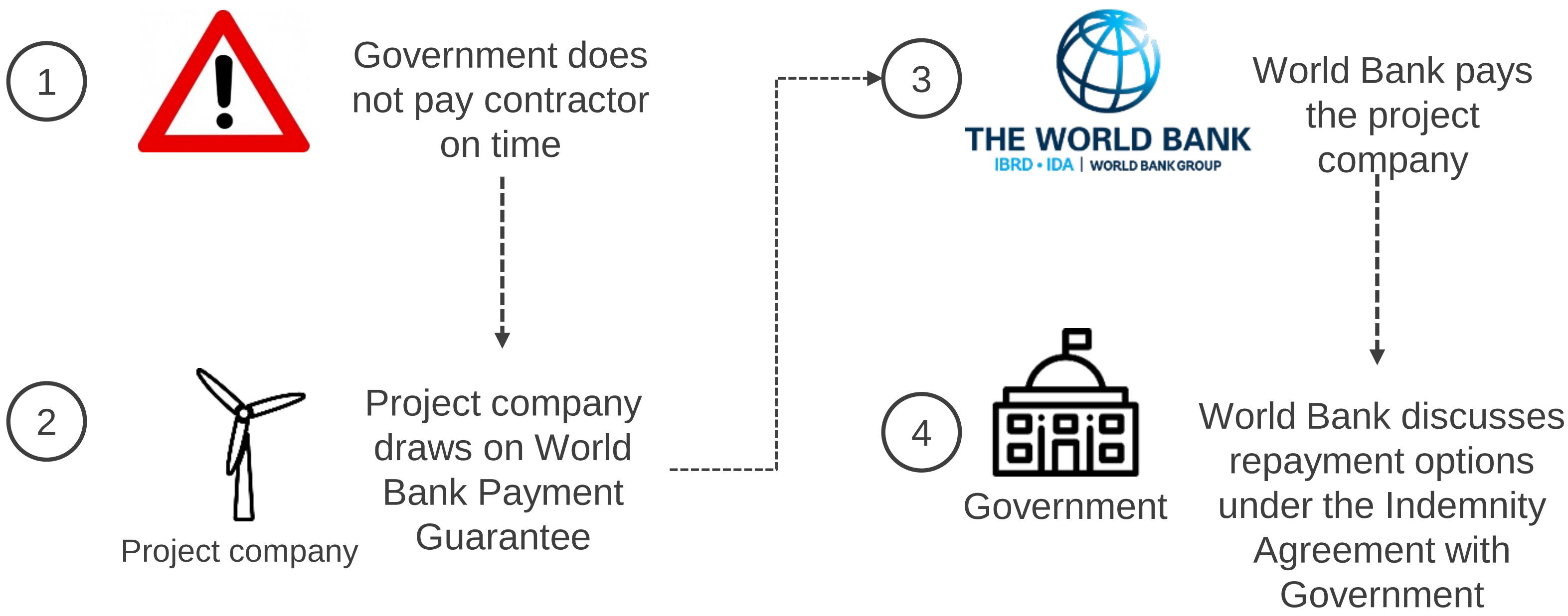
CONTRACTUAL STRUCTURE OF A DIRECT PAYMENT GUARANTEE



Key takeaways

- ✓ Guarantee covers contractual payment obligations from the Government or Government entity to the contractor
- ✓ The Guarantee can be provided for the entire length of the contract on a rolling basis
- ✓ In the instance of a missed payment, the contractor will call on the World Bank Guarantee, which will trigger the Indemnity Agreement

MECHANICS OF A DIRECT WORLD BANK PAYMENT GUARANTEE



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SECTION 3:
WRAP UP

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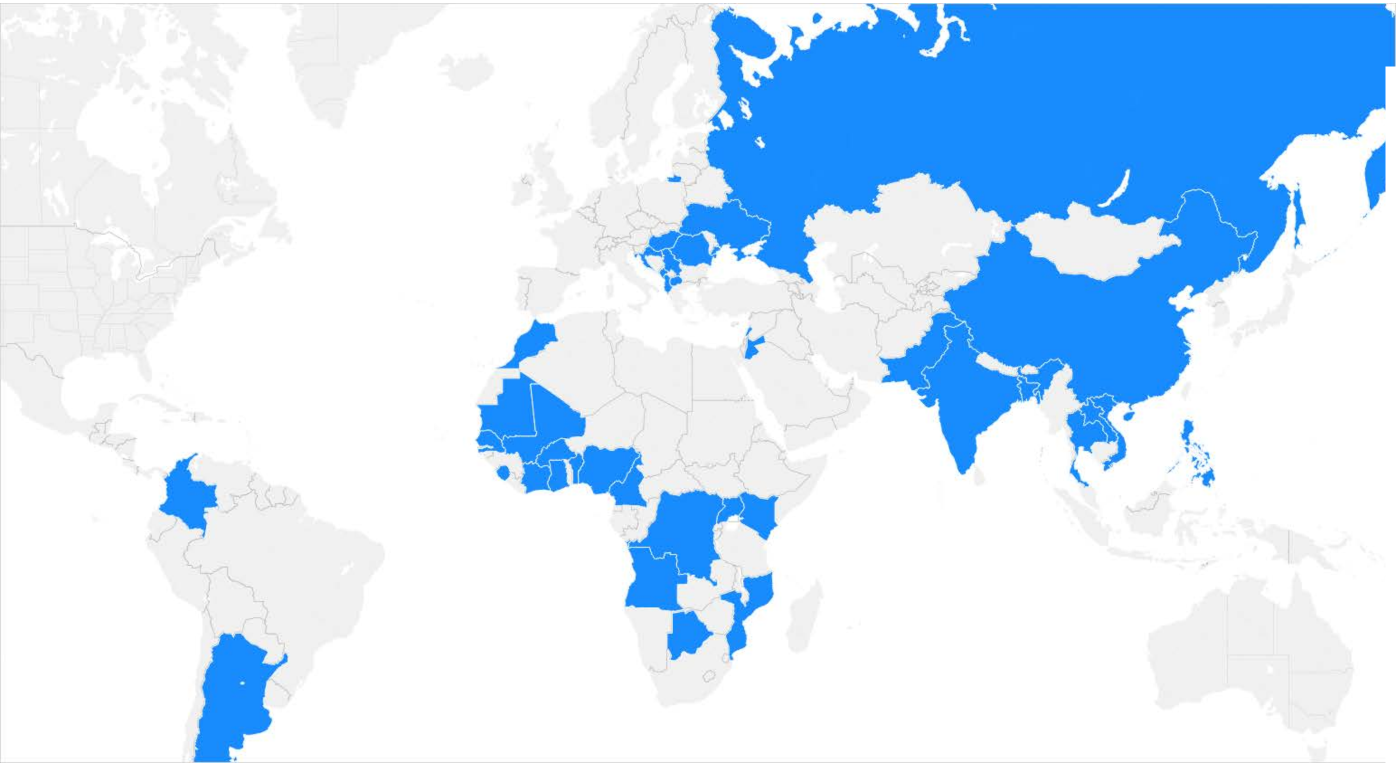
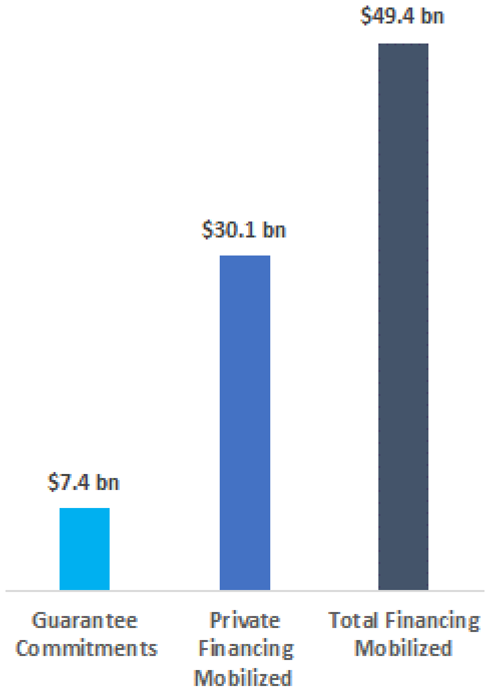
GEOGRAPHIC SPREAD OF GUARANTEES

Map of Guarantee Operations



Commercial Financing Mobilized



✓ **74 operations** ✓ **43 countries**

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CALL TO ACTION: MANY SECTORS SUPPORTED BUT NOT CITIES (YET…)

World Bank guarantees can be applied to a variety of sectors and at the project, sub-sovereign or sovereign level

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