THE WORLD BANK
Treasury

Financial Mobilization to Meet Development Needs

The global financial crisis of 2008 created a capital constrained environment and reduced the overall risk appetite of private lenders and investors. As a result, a radical shift in the perception and pricing of risk has taken place that is increasing the cost of financing for countries. The current sovereign debt crisis is exacerbating this situation. Efficient access to market funding will be difficult for all but the top performing countries.

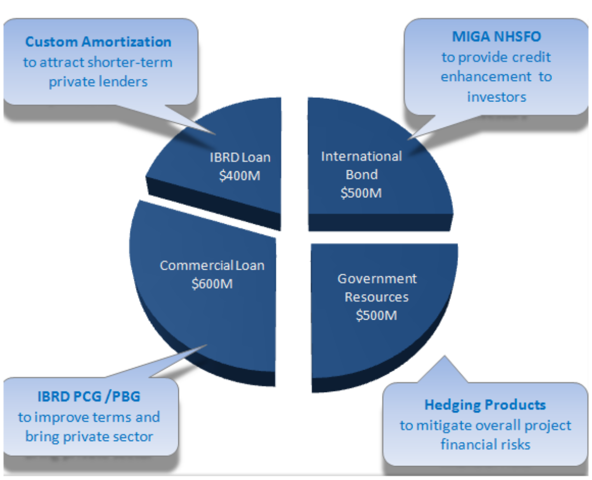
Against this backdrop, clients are finding it hard to attract financing for development projects and are turning to IBRD for support. The Bank has always been a significant source of financing in periods of financial distress and is responding by increasing the support to its members. Consequently, IBRD's on-going capacity to lend is decreasing and many countries are reaching their country exposure ceiling.

The World Bank is uniquely positioned to continue to meet the financing needs of clients. World Bank Treasury specialists are available to assist clients in the structuring of financial packages to facilitate the mobilization of financial resources from private sector lenders and investors.

Financial Mobilization

This note explores some of the ways in which Treasury can leverage the Bank Group's financial products such as credit guarantees, contingent credit lines, risk management products, and customizable lending structures to meet client funding needs. Figure 1 below is an example illustrating how Treasury can structure a complete financial package to optimize the use of the IBRD credit line, financing cost, and private sector participation.

Figure 1. Hypothetical $2bn project



The Role of the World Bank Treasury

- Identifying the overall financing needs of the client
- Leveraging the World Bank Group's synergies to help IBRD members make better use of their credit lines with the institution
- Optimizing a financial structure that ensures full funding and reduced cost
- Working with investors and lenders to fill funding gaps

The Value Added of the Bank

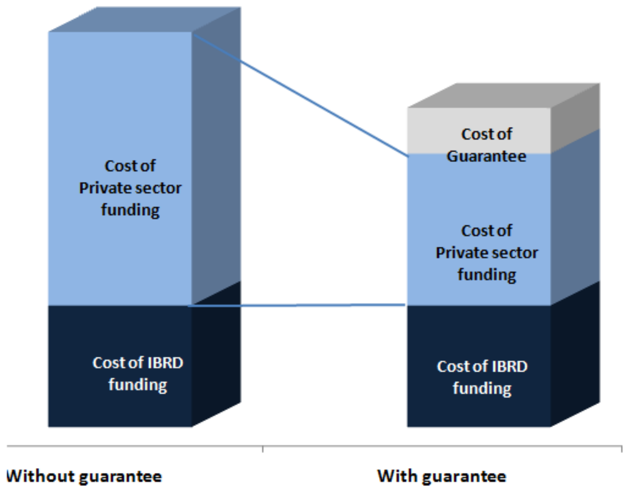
- **AAA credit rating** lowers financing costs and risks of projects
- **Financial expertise** helps evaluate and structure optimal financial structures
- **Access to capital markets** ensures efficient participation of the private sector
- **Dedicated country teams with close interaction with governments** ensures deep understanding and knowledge of challenges and opportunities
- **Reputation as "honest broker" allows** client to receive unbiased advisory services and efficient financial intermediation
- **Mandate to improve capacity** to manage public finances (including risk and debt management) in emerging markets
- **Willingness to share risk** with clients and market counterparts

Credit Guarantees

The World Bank Group has several credit guarantee instruments such as **IBRD Partial Credit Guarantees (PCGs), Policy-Based Guarantees (PBGs)**, and the **MIGA Non-Honoring of Sovereign Financial Obligations (NHSFO)**. Credit guarantees protect the lender (or investor) against losses resulting from a government's failure to make a payment when due. In most cases, these instruments will enable a country to mobilize resources beyond the IBRD lending envelope and improve borrowing terms.

The MIGA NHSFO has the additional benefit of mobilizing financing from the private sector without using IBRD credit lines. IBRD financing can be combined with the NHSFO to close clients' funding gaps, optimize IBRD credit lines and reduce borrowing costs.

Figure 2. Credit guarantees can reduce a project's cost of funding



Contingent Lines of Credit

The DPL DDO (Development Policy Loan with Deferred Drawdown Option) is a line of credit that can be drawn down by the borrower when liquidity needs rise, and can be used to send a strong positive signal to the markets, boosting investor confidence. As a back-up financing facility, it can help reduce the cost of financing, particularly under conditions of market volatility. Private investors can take additional comfort knowing that the IBRD periodically monitors compliance with the macroeconomic policy framework agreed with the country.

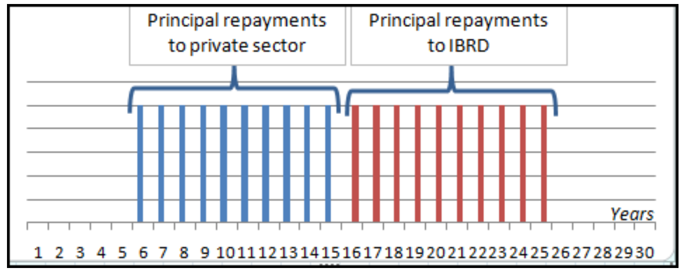
Risk Management Instruments

IBRD offers client countries a menu of hedging instruments to manage the risks related to adverse movements in interest rates, exchange rates, or commodity prices, and to the losses resulting from weather conditions or natural catastrophes. By enhancing the risk profile of development projects and improving their financial viability, hedging instruments can help attract private sector investors or lenders.

Customizable Loan Structures

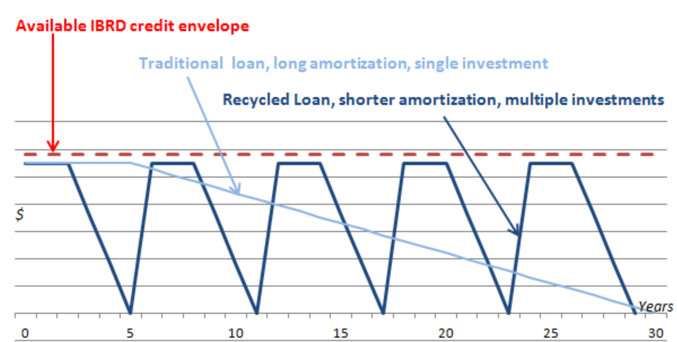
The IBRD Flexible Loan (IFL) can be structured to reduce the financial risk to the private sector on projects co-financed with IBRD. For instance, the IFL can be structured so that its **principal repayments are "back-ended,"** i.e., payable after commercial loans are paid. Sharing the credit risk with IBRD encourages private sector lenders to participate in the project while remaining within their risk tolerance limits.

Figure 3. IFL with "back-ended" principal repayment to crowd-in private sector financing by sharing risk



A customized financing structure can also be utilized for revenue or savings-generating projects wherein a short-term IBRD loan is re-invested over several cycles. For instance, a borrower can structure an IFL as a series of 5-year loans over a 30-year period. By repaying the loan in a short period, the borrower would free up exposure from the Bank to fund new projects without breaching the credit exposure ceiling, generating many times the revenue/savings earned under a traditional loan that amortizes over 30 years.

Figure 4. Recycled short-term IFLs vs. one 30-year loan



Matching the maturity of the loan to the project's expected revenue stream and recycling the repaid loan for other projects that recoup the initial investment within a short period can help a country maximize its credit line with IBRD, while meeting its development funding needs.

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