Modernizing the World Bank's Operational Policy on Guarantees
Consultation Meetings

- The World Bank held general and individual face to face consultation meetings on the proposed modernization of the operational policies for guarantee instruments.

- The consultation meetings took place in Johannesburg, Paris and London between March 19 and March 23, 2012.

- The general consultation meetings brought together a range of stakeholders, including government officials, representatives from multilateral development banks, experts from think-tanks and other nongovernmental organizations, and individuals from the private sector to gather input and suggestions on the proposed revisions to the World Bank's operational policies for guarantee products.

- In addition to the general consultation meeting in each city, the Bank also had individual sessions with key private and public sector players to have a more detailed discussion on potential improvements to the Guarantee instruments. The institutions selected for individual sessions were chosen based on their expertise in sectors and regions where guarantees have been actively used, and included commercial banks and development agencies.

- Edward Mountfield (Manager, OPCS) and Pankaj Gupta (Manager, Financial Solutions Unit) presented the key features of the World Bank Guarantee Products and the proposed changes under the modernization proposal.

- During the meetings, participants asked questions regarding the Bank's guarantee products and provided feedback on the proposed policy changes and on other critical aspects for increasing the use and enhancing the impact of guarantee products. This summary focuses on the feedback received from participants.

Johannesburg - March 19-20, 2012

Participants

- On March 20, the World Bank held a general consultation meeting with the participation of representatives from Eskom, Standard Chartered Bank, the European Bank for Reconstruction and Development, Development Bank of South Africa, European Investment Bank, Industrial Development Corporation, National Treasury of South Africa, and the Trans-Caledon Tunnel Authority.

- On March 19-20, the Bank also held individual consultation sessions with representatives from ABSA Capital and Standard Bank, two of the leading financial institutions in Africa.

- See Annex for the complete list of participants.

Main Issues Raised

- **In terms of extending PCGs to IDA countries, private sector participants noted that there is a stronger appetite for providing loans to African countries.** As African countries become more stable, there will be increased interest on the part of private investors and financiers. However, tenors[1] will be limited to 7 years unless credit enhancements such as PCGs can be mobilized. The value of the product is primarily its ability to extend tenors.

- **Participants indicated that environmental, social and procurement requirements are not necessarily a major barrier to the use of Bank Guarantees.** Consulted financial institutions said they face more challenges in the coordination of multiple financiers and resolution of project design issues. They said they take comfort in having the World Bank involved, as the countries in which they operate in Africa are subject to governance/ transparency issues. They said World Bank involvement serves as a "seal of approval" and reduces reputational risks for other financiers. Participants noted the importance of harmonizing environmental, social and procurement standards across World Bank Group entities.

- **Some participants indicated that there is a generalized perception that the guarantee approval process can be long and burdensome.** However, it was noted that the Bank provides guarantees to typically the largest and riskiest projects, and this contributed to the long preparation times.

- **Attendees pointed to the required counter-guarantee (indemnity) requirement as a factor constraining the greater use of guarantees instruments.**

- **Participants expressed a concern that guarantees had an impact on Governments' fiscal situation by creating contingent liabilities.** (Note: The Bank team explained that guarantees do not create an additional contingent liability, as they provide coverage for commitments that have already been taken on by the Government.)

- **There was a discussion about the proposed criteria for determining which IDA countries would be eligible for a Partial Credit Guarantee.** The proposed eligibility criteria are low risks of debt distress and adequate debt management capacity.

- **Participants raised questions in terms of the availability of guarantees for cross-border (south-south) projects, local currency-generating projects, and projects developed by State-owned Entities.**

- **Participants raised questions about whether the participation of multiple Bank group entities, with different roles, in the same transaction, could create potential conflicts of interest.**

[1] Tenor means the amount of time left for the repayment of a loan or contract or the initial term length of a loan.

- **Private and public sector institutions raised the possibility of offering guarantees to cover hedging instruments, such as cross-currency and commodity swaps.** According to participants, Basel III regulations will significantly increase the capital requirements for long-term derivatives, making it very costly for banks to provide swaps. A potential World Bank guarantee for these instruments would allow borrowers to hedge their long-term currency or commodity exposures at a lower cost. Some participants said this would be important for infrastructure assets that are long-lived and generate revenue in local currency. In addition, since the credit exposure under derivatives is also counted against the borrower credit limits established by banks, a potential World Bank guarantee of these instruments would serve to increase the capacity of banks to lend to key public sector borrowers. Participants pointed out that in some cases, these swaps are associated with project financings, but that in other situations, they are provided as a stand-alone product. According to participants, these guarantees would be justified because the pass-through of commodity and interest rate has a direct negative impact on consumers in the form of higher tariffs.

Annex: Participant List and Photos

Johannesburg Meeting Participant List

Name	Institution	Title	Meeting
Anand Naidoo	ABSA Capital	Managing Principal	Individual
Chris Paizis	ABSA Capital	Managing Principal	Individual
Omar Vajeth	ABSA Capital	Principal	Individual
Theuns Ehlers	ABSA Capital	Principal	Individual
Stewart Tomlinson	ABSA Capital	Associate Principal	Individual
Andrew Kilroe	ABSA Capital	Associate Principal	Individual
Taolo Modisi	Standard Bank	Head - Debt Capital Markets- Southern and Central Africa	Individual
Sylvia Chahonyo	Standard Bank	Senior Manager – Debt Capital Markets	Individual

Johannesburg General Meeting Participant List

Name	Institution	Title	Meeting
Azwi Nefale	Development Bank of South Africa		General
Alfredo Abad	European Investment Bank		General
Judy Raphael	ESKOM		General
Sincedile Shweni	ESKOM		General
Steve Victor	Industrial Development Corporation		General
Paul Wanckel	Industrial Development Corporation		General
Mike Museko	Industrial Development Corporation		General
Prosper Chavarika	Industrial Development Corporation		General
Bheka Fakude	National Treasury, South Africa		General
Enoch Peprah	Peprah & Asser		General
Leann Tchaikovsky	Standard Chartered Bank		General
Alicia Keyser	TCTA		General
Nhlaahla Nkabinde	TCTA		General
Zodwa Mbele	TCTA		General

Johannesburg Consultation Meeting Photos