

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.

London – March 22-23, 2012

Participants

- On March 22-23, the World Bank held a general consultation meeting with the participation of representatives from the European Investment Bank, Amaya Capital Partners, JP Morgan, Globeleq, Amaya Capital Partners (ACP Advisors), British Expertise, DeRisk Advisory Services, Fieldstone Private Capital Group and Paradigm Capital.
- The Bank also held an individual consultation session with representatives from the Department for International Development, Standard Chartered Bank and Aldwych.
- See Annex for the complete list of participants.

Main Issues Raised

- **Participating financial institutions also reacted positively to the proposed extension of PCGs to IDA Countries.** They noted that they are already increasing their business in these jurisdictions, but limit their operations to countries that have a sustainable macroeconomic framework. Some participants suggested that guarantees also be made available to Export Credit Agencies (ECA) as debt tranches in countries where these institutions cannot do business.
- **Some participants expressed the concern that facilitating public sector borrowing through PCGs in IDA countries would discourage governments from pursuing Public-Private Partnerships (PPPs) and result in a crowding-out of the private sector in the provision of investment and expertise for infrastructure projects.**
- **Participants indicated that guarantees are a key instrument for mobilizing private sector finance and leveraging MDB resources.** Participants recognized the importance of the instrument for mobilizing private sector financing. However, some financial institutions indicated that in some instances DFIs are crowding out commercial financiers in Africa and that it is important for the private sector arms of development institutions to ensure that commercial financiers come alongside DFIs in these financings, and are not excluded from these. Some participants indicated the need for breach of contract coverage (provided by PRGs) greatly exceeds the need on the ground and advocated for placing greater emphasis on scaling up World Bank Guarantee Products.
- **Private sector entities pointed out to the need of creating an umbrella for all MDBs with respect to environmental and social standards.** Having homogeneous requirements would facilitate project preparation and reduce transaction costs. This is particularly important for the projects that usually benefit from Bank guarantees, as these projects are often the largest and riskiest, and involve a large number of DFIs, each with its own environmental and social procedures.
- **The majority of participants stressed the importance of streamlining the procedures and speeding up the approval process for guarantees.** In this sense, participants expressed their support for the proposed introduction of additional financing for Bank guarantees. They noted that measures aimed at streamlining the process and reducing approval time would be necessary in order to improve response times and encourage the greater use of these instruments to attract private sector financing and investment.

- **Participants pointed out that the main restriction for the greater use of guarantee instruments does not reside within the World Bank’s operational policies, but has to do with the Governments’ willingness and preparedness to use these instruments.** One participant pointed out that some client countries do not have a good impression of guarantees because they do not understand them and because they think they cover all risks, as opposed to only certain risks that can be best managed by the public sector. Participants recommended the Bank to focus its efforts in reaching out to government to ensure that the guarantee instrument is well understood and in strengthening the capacity of governments to prepare and execute project financings.
- **Some participants indicated that it is important to engage governments as the main clients for these products in order to increase their use.** These participants said that very few of the projects in the Country Assistance Strategies (CAS) are guarantee projects. This situation points to the need to increase the dialogue with client countries and Bank staff involved in the development of country programs.
- **Participants also indicated that the benefit of guarantees could be maximized by establishing a structured program to provide certainty to investors, rather than by implementing one-time interventions.** Some participants pointed out that “framework” approaches could be especially relevant for supporting small-scale infrastructure projects.
- **Some attendees indicated that they would like to see better MDB coordination and allow for MDBs to rely on each other due diligence.** Some participants noted that there would be value in having a coordinated approach to scaling up guarantees from all MDBs and in communicating this approach to all MDB shareholders. They also cited the potential benefits of improved knowledge sharing among the MDBs.
- **Participants indicated that the World Bank approval process can be too long and that there is not enough clarity on the Bank’s due diligence requirements.** It was noted that one reason is that projects which benefit from Bank guarantees are often the largest and riskiest. Private sector participants welcomed initiatives aimed at streamlining the procedures and enhancing client responsiveness. They welcomed the introduction of the additional financing concept and the leveling of the playing field between the requirements for guarantees and those for the equivalent loan products.
- **Participants raised the issue of the potential for an increase in contingent liabilities that would result from the greater use of guarantees.** However, it was noted that Bank guarantees do not create additional liabilities as the guarantees cover existing government commitments, and that in fact Bank guarantees can make these liabilities more transparent.

- **Participants asked the Bank to clarify how the guarantee instruments could be used to support low carbon projects.** (The Bank team explained that these instruments can be used if there is a government obligation to partially cover revenue or other risks assumed by private developers.)
- **Participants indicated that guarantees for hedging products would be helpful in extending the availability of swaps beyond the short-terms currently available in the market.** Participants said it is impossible to obtain long-term interest rate and currency hedges for many developing countries, and that Bank guarantees could play a role in enabling the provision of long term hedges to support infrastructure and public sector financing.
- **Finally, some participants inquired about the expected impact of the proposed modernization of the guarantee operational policies, on the potential increase in the number of guarantee operations.**

Annex: Participant List and Photos

London Meeting Participant List

Name	Institution	Title	Meeting
Paul Healy	Department for International Development (DFID)	Director, International Financial Institutions Department	Individual
Gail Warrender	Department for International Development (DFID)	Private Sector Development Advisor- Low Carbon Team	Individual
Su-Lin Garbertt-Shiels	Department for International Development (DFID)	Climate Adviser, Adaptation Team, Climate and Environment Department	Individual
Loga Gnanasambanthan	Department for International Development (DFID)	Economic Adviser, International Financial Institutions Department	Individual
Radhika Bharat	Department for International Development (DFID)	Private Sector Adviser, Infrastructure, Energy and Basic Services Team- Private Sector Department	Individual
Abhay Ketkar	Standard Chartered Bank	Head, West Africa Project and Export Finance Group	Individual
Karen Hadra	Standard Chartered Bank	Associate Director Project and Export Finance Group	Individual
Razvan Purcaru	Standard Chartered Bank	Project and Export Finance, Africa	Individual
Tufan Demircioglu	Standard Chartered Bank	Director Project and Export Finance, Africa	Individual
Bob Chestnutt	Aldwych International Ltd	Project Director	Individual
Crispin Holliday	Aldwych International Ltd	Commercial Director	Individual
David Ladipo	Amaya Capital Partners	N.A	General
Sundeep Bahanda	Amaya Capital Partners	N.A	General
Nigel Peters	British Expertise	N.A	General
Andrew Gaines	De Risk Advisors	Advisor	General
Roger Kelly	European Investment Bank	Loan Officer	General
Adam Bruun	European Investment Bank	Deputy Adviser, Project Finance and Guarantees, Africa, Caribbean and Pacific	General
Alan Muir	Fieldstone Private Capital Group	Managing Director	General
Paul Kunert	Globeleq	Director	General
Manuel Costescu	JP Morgan	Vice President	General
Dima Rifay	Paradigm Change Capital	N.A.	General

London Consultation Meeting Photos



