World Bank

Lending Instruments

Resources for Development Impact

OPERATIONS POLICY AND STRATEGY

The World Bank Group is an international organization of more than 180 member countries. Its objective is poverty reduction, and it uses its resources and collaborates with other organizations to help client countries achieve sustainable and equitable growth. The Bank Group offers an array of customized services—including loans, technical assistance, and advice—to its developing and in-transition member countries.

This booklet describes the lending instruments of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), which together are the World Bank. IBRD provides loans and development assistance to middle-income countries and creditworthy lower-income countries. IDA provides low-interest loans and other services to the poorest countries. IBRD and IDA loans are made to member countries; IBRD also makes loans to borrowers in a member country, with the country's guarantee.

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More information about the products and services of the World Bank Group is available at the Bank's website, www.worldbank.org, or from:

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Introduction

This booklet describes the World Bank's lending instruments for development support.[1] Its purpose is to enhance the dialogue among developing member countries, the Bank, and other development partners.

The Bank has two basic types of lending instruments: *investment loans* and *adjustment loans*. *Investment loans* have a long-term focus (5 to 10 years), and finance goods, works, and services in support of economic and social development projects in a broad range of sectors. *Adjustment loans* have a short-term focus (1 to 3 years), and provide quick-disbursing external financing to support policy and institutional reforms. Both investment and adjustment loans are used flexibly to suit a range of purposes, and are occasionally used together in hybrid operations. This booklet describes their use in various situations. The descriptions are intended to be illustrative rather than prescriptive or constraining.

Loans are made as part of the comprehensive lending program set out in the Country Assistance Strategy (CAS), which tailors Bank assistance (both lending and nonlending services) to each borrower's development needs and the Bank's comparative advantage.[2] The CAS incorporates projects and programs with the greatest potential to reduce poverty and further the country's overall development objectives.

Lending operations are developed in several phases. The borrower identifies and prepares[3] the project, and the Bank reviews its viability. During loan negotiations, the Bank and borrower agree on development objective, components, outputs, performance indicators, implementation plan, and schedule for disbursing loan funds. Once the Bank approves the loan and it becomes effective, the borrower implements the project or program according to terms agreed upon with the Bank. The Bank supervises implementation and evaluates results.

All loans are governed by the World Bank's Operational Policies, which aim to ensure that Bank-financed operations are economically, financially, socially, and environmentally sound. Fiduciary policies and procedures govern the use of project-related funds, particularly for the procurement of goods and services. Safeguard policies help to prevent unintended adverse effects on third parties and the environment.

The various types of financing schemes are summarized at the end of this brochure.

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1 *World Bank* refers to both IBRD and IDA; *loan* refers to both IBRD loans and IDA credits.

2 The CAS is prepared by Bank staff in collaboration with the borrower, and usually in consultation with donors, civil society, and other public and private sector stakeholders.

3 Preparation includes a feasibility study and an environmental assessment. Borrowers generally finance their own project preparation activities. In special cases, however, the Project Preparation Facility (PPF) advances up to US$2 million per proposed project (US$3 million for projects expected to cost US$200 million or more) to finance local staff training and the design of adjustment and training programs. PPF advances are made only when there is a strong possibility that the Bank will approve the project. The advances are normally repaid out of the project loan, once it becomes effective.

Investment Lending

Investment loans finance a wide range of activities aimed at creating the physical and social infrastructure necessary for poverty reduction and sustainable development. Over the past two decades, investment lending has, on average, accounted for 75 to 80 percent of all Bank lending.

The nature of investment lending has evolved over time. Originally focused on hardware, engineering services, and bricks and mortar, investment lending has come to focus more on institution building, social development, and the public policy infrastructure needed to facilitate private sector activity. Projects range from urban poverty reduction (involving private contractors in new housing construction, for example) to rural development (formalizing land tenure to increase the security of small farmers); water and sanitation (improving the efficiency of water utilities); natural resource management (providing training in sustainable forestry and farming); post-conflict reconstruction (reintegrating soldiers into communities); education (promoting the education of girls); and health (establishing rural clinics and training health care workers).

Eligibility

Investment loans are available to IBRD and IDA borrowers not in arrears with the Bank Group.

Disbursement

Funds are disbursed against specific foreign or local expenditures related to the investment project, including pre-identified equipment, materials, civil works, technical and consulting services, and incremental recurrent costs. Procurement of these goods, works, and services is an important aspect of project implementation. To ensure satisfactory performance, the loan agreement may include conditions of disbursement for specific project components.

Instruments

The large majority of investment loans are either *specific investment loans* or *sector investment and maintenance loans*. *Adaptable program loans* and *learning and innovation loans* were recently introduced to provide more innovation and flexibility. Other instruments tailored to borrowers' specific needs are *technical assistance loans*, *financial intermediary loans*, and *emergency recovery loans*.

Specific Investment Loan

Specific investment loans (SILs) support the creation, rehabilitation, and maintenance of economic, social, and institutional infrastructure. In addition, SILs may finance consultant services and management and training programs.

When are SILs used?

The SIL is a flexible lending instrument appropriate for a broad range of projects. SILs help to ensure the technical, financial, economic, environmental, and institutional viability of a specific investment. They also support the reform of policies that affect the productivity of the investment.

Examples

THAILAND SOCIAL INVESTMENT PROJECT
LOAN AMOUNT: IBRD US$300 million
APPROVAL DATE: July 9, 1998
PROJECT DESCRIPTION: This project responds to the financial and economic crisis in East Asia by supporting the rapid creation of employment opportunities and the provision of essential social services to the unemployed and the poor. It also supports bottom-up service delivery by financing locally identified and managed development initiatives, and by promoting decentralization, local capacity building, and community development.

SRI LANKA MAHAWELI RESTRUCTURING AND REHABILITATION PROJECT
CREDIT AMOUNT: IDA US$57 million equivalent
APPROVAL DATE: April 14, 1998
PROJECT DESCRIPTION: This project aims to shift the focus of the Mahaweli Authority from project implementation to river basin management, to help ensure that natural resources in the Mahaweli river basin and watershed are managed more efficiently, productively, and sustainably. The project also aims to increase agricultural productivity through the rehabilitation, upgrading, and improved operation and maintenance of irrigation facilities.

Sector Investment and Maintenance Loan

Sector investment and maintenance loans (SIMs) focus on public expenditure programs in particular sectors. They aim to bring sector expenditures, policies, and performance in line with a country's development priorities by helping to create an appropriate balance among new capital investments, rehabilitation, reconstruction, and maintenance. They also help the borrower develop the institutional capacity to plan, implement, and monitor an expenditure or investment program.

Special design features

SIMs typically involve agreement on the composition of sector investment programs, and on sectoral policy reforms necessary for the program's success. They also involve strengthening the institutions that will carry out the program.

When are SIMs used?

The SIM is most appropriate where a sector expenditure program needs extensive coordination, particularly if the program involves a large share of donor-financed investments. Therefore, SIMs typically involve coordinated efforts among the multilateral and bilateral donors providing assistance to the sector.

Examples

INDONESIA SUMATRA REGION ROADS PROJECT

LOAN AMOUNT: IBRD US$234 million

APPROVAL DATE: March 31, 1998

PROJECT DESCRIPTION: The project supports the government's effort to promote efficient, equitable, and environmentally sustainable regional development. It aims to improve transport efficiency and accessibility within the eight provinces of Sumatra, by integrating and strengthening the planning and management of transport infrastructure.

GHANA TRADE AND INVESTMENT GATEWAY PROJECT

CREDIT AMOUNT: IDA US$50.5 million equivalent

APPROVAL DATE: July 9, 1998

PROJECT DESCRIPTION: This project is designed to attract a critical mass of export-oriented investors to Ghana to accelerate export-led growth and facilitate trade. Through investments in off-site infrastructure, the project supports privately developed and managed export processing zones. It also promotes institutional strengthening and capacity building, to enable public institutions and agencies to act as trade facilitators.

Adaptable Program Loan

Adaptable program loans (APLs)[4] provide phased support for long-term development programs. They involve a series of loans that build on the lessons learned from the previous loan(s) in the series.

Special design features

An APL involves agreement on (1) the phased long-term development program supported by the loan, (2) sector policies relevant to the phase being supported, and (3) priorities for sector investments and recurrent expenditures. Progress in each phase of the program is reviewed and evaluated, and additional analysis undertaken as necessary, before the subsequent phase can be initiated.

When are APLs used?

APLs are used when sustained changes in institutions, organizations, or behavior are key to successfully implementing a program. They can be used to support a phased program of sector restructuring, or systemic reform in the power, water, health, education, and natural resource management sectors, where time is required to build consensus and convince diverse actors of the benefits of politically and economically difficult reforms.

Examples

INDIA POWER SECTOR RESTRUCTURING PROGRAM LOAN
LOAN AMOUNT: IBRD US$210 million
APPROVAL DATE: February 18, 1999
PROJECT DESCRIPTION: This project, first in a series, is part of an adaptable program that, over the next eight years, will help transform Andhra Pradesh's power sector—now a major drain on the state's budget—into a contributor of resources for priority sectors.

BOLIVIA HEALTH SECTOR REFORM PROJECT
CREDIT AMOUNT: IDA US$25 million equivalent
APPROVAL DATE: June 15, 1999
PROJECT DESCRIPTION: This project supports the first phase of the government's health reform program, which aims to reduce the infant mortality rate by complementing other interventions in education, rural productivity, and water and sanitation. The project involves (1) increasing the coverage and quality of health services, (2) empowering communities to improve their health status, and (3) strengthening local capacity to respond to health needs. It introduces new vaccines, strengthens the immunization program, and establishes a basic health insurance program.

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[4] For more information, please refer to the *Adaptable Program Lending* brochure, available from the Operational Core Services Network (OCS). e-mail: OCSAdvisory@worldbank.org; website: http://OCS or http://Ints012/ocsos/ttlib.nsf?Open; telephone 202-458-9030.

Learning and Innovation Loan

The learning and innovation loan[5] (LIL) supports small pilot-type investment and capacity-building projects that, if successful, could lead to larger projects that would mainstream the learning and results of the LIL.

Special design features

LILs do not exceed $5 million, and are normally implemented over 2 to 3 years—a much shorter period than most Bank investment loans. All LILs include an effective monitoring and evaluation system to capture lessons learned.

When are LILs used?

LILs are used to test new approaches, often in start-up situations and with new borrowers. LILs may be used to build trust among stakeholders, test institutional capacity and pilot approaches in preparation for larger projects, support locally based development initiatives, and launch promising operations that require flexible planning, based on learning from initial results.

Examples

GABON PILOT COMMUNITY INFRASTRUCTURE WORKS

LOAN AMOUNT: IBRD $5 million

APPROVAL DATE: August 24, 1998

PROJECT DESCRIPTION: This project assists the government in designing and testing methods and procedures to facilitate the involvement of private local firms in small-scale slum upgrading works. It also supports the dissemination of information on such methods, with the aim of strengthening private construction companies and increasing employment among the poor.

MOLDOVA RURAL FINANCE PROJECT

LOAN AMOUNT: IDA US$5 million

APPROVAL DATE: January 13, 1998

PROJECT DESCRIPTION: This project aims to develop a cooperative rural banking system to provide financial services to small private farmers and rural entrepreneurs. It (1) establishes savings and credit associations (SACs) and trains their members, with assistance from the Moldova Microfinance Alliance; (2) creates a regulatory body for SACs; (3) strengthens the Rural Finance Corporation; and (4) finances a rural credit line for SACs.

[5] For more information, please refer to the *Learning and Innovation Loans* brochure, available from the Operational Core Services Network (OCS). e-mail: OCSAdvisory@worldbank.org; website: http://OCS or http://Ints012/ocsos/ttlib.nsf?Open; telephone 202-458-9030.

Technical Assistance Loan

The technical assistance loan (TAL) is used to build institutional capacity in the borrower country. It may focus on organizational arrangements, staffing methods, and technical, physical, or financial resources in key agencies.

Special design features

TALs typically require agreement on specific action programs to strengthen organizations, and on terms of reference for the appointment of consultants and local counterparts.

When are TALs used?

TALs are used to build capacity in entities directly concerned with implementing policies, strategies, and reforms that promote economic and social development. They also build capacity related to public sector reform and to the preparation, implementation, and maintenance of investments. TALs often complement investment or adjustment operations by supporting specific tasks related to their preparation or implementation.

Examples

PERU URBAN PROPERTY RIGHTS PROJECT
LOAN AMOUNT: IBRD US$38 million
APPROVAL DATE: August 6, 1998
PROJECT DESCRIPTION: This project is designed to formalize rights to real property in predominantly poor urban settlements. The loan finances the registration of nearly 960,000 properties, of which 800,000 are to be individually titled. The formalization process is expected to cover the four million people—one quarter of the total population—who typically live near the poverty line.

MACEDONIA PENSION REFORM TECHNICAL ASSISTANCE PROJECT
CREDIT AMOUNT: IDA US$1 million equivalent
APPROVAL DATE: July 9, 1998
PROJECT DESCRIPTION: This project supports the design and implementation of Macedonia's pension policy reforms under the country's social sector adjustment program. Specifically, it supports (1) the design of pension policy reforms and the development of enabling legislation; and (2) capacity building in the Ministry of Labor and Social Protection, and in the pension fund.

Financial Intermediary Loan

Financial intermediary loans (FILs) provide long-term resources to local financial institutions to finance real sector investment needs. The financial institutions assume credit risk on each subproject.

Special eligibility and design features

Eligibility for a FIL requires a satisfactory macroeconomic and sector framework. The FIL supports financial sector reforms—interest rate policies, subsidies, measures to enhance financial system competition, institutional development of financial intermediaries—that have a direct and substantial bearing on the operational efficiency of financial intermediaries. FILs may accompany adjustment operations that address financial sector policy issues, and may contain technical assistance components.

The borrower may pass on Bank funds to a financial intermediary as either a loan or equity. The financial intermediary, in turn, may pass on Bank funds to subborrowers as subloans or equity, to finance projects that aim to increase the production of goods and services. To ensure satisfactory performance, these subprojects must meet specific eligibility and development criteria. Bank funds are disbursed against eligible expenditures for goods, works, and services, including technical assistance.

When are FILs used?

FILs help to develop sound financial sector policies and institutions, promote the operational efficiency of those institutions in a competitive environment, improve the terms of credit to enterprises and households, and promote private investment.

Example

LITHUANIA ENTERPRISE AND FINANCIAL SECTOR PROJECT

LOAN AMOUNT: IBRD US$25 million

APPROVAL DATE: April 13, 1995

PROJECT DESCRIPTION: This project supports reform in the financial sector, and the delivery of finance to support the development of private and privatized enterprises. It provides financial resources and technical assistance to improve (1) the capacity of the banking system to deliver financial resources, and (2) the ability of enterprises to prepare financing plans.

Emergency Recovery Loan

Emergency recovery loans (ERLs) support the restoration of assets and production levels immediately after an extraordinary event—such as war, civil disturbance, or natural disaster—that seriously disrupts a borrower's economy. They are also used to strengthen the management and implementation of reconstruction efforts, and to develop disaster-resilient technology and early warning systems to prevent or mitigate the impact of future emergencies.

Special design features

To accommodate the emergency nature of the operation, abbreviated processing may be used. The ERL may include fast-disbursing components that finance a list of imports identified as necessary to an effective recovery program.

When are ERLs used?

ERLs focus on the rapid reconstruction of economic, social, and physical systems within a limited period, normally 2 to 3 years. They finance investment and productive activities, rather than relief or consumption. For recurring events such as annual flooding, or for a slow-onset disaster such as drought, a SIL is usually more appropriate.

Examples

DOMINICAN REPUBLIC EMERGENCY OPERATIONS PROJECT

LOAN AMOUNT: IBRD US$111 million

APPROVAL DATE: December 10, 1998

PROJECT DESCRIPTION: This project (1) helps maintain growth in key sectors of the economy; (2) supports the reconstruction and rehabilitation of key social and economic infrastructure damaged or destroyed by Hurricane Georges; and (3) strengthens the country's capacity to prepare for and respond to future natural disaster emergencies. A quick-disbursing component finances imports needed for agriculture and reconstruction, and an investment component finances the rehabilitation of critical public infrastructure. The project also includes institutional strengthening to improve the country's long-term preparedness for natural disasters.

BANGLADESH EMERGENCY FLOOD RECOVERY PROJECT

CREDIT AMOUNT: IDA US$200 million equivalent

APPROVAL DATE: November 24, 1998

PROJECT DESCRIPTION: This project is the first part of a three-part strategy to help Bangladesh recover from the 1998 floods. It aims to (1) help restore and sustain macroeconomic stability and contain pressure on the balance of payments; (2) maintain and augment food grain stocks, contain inflation, and ensure food security; and (3) help revive the agricultural, industrial, and economic activities disrupted by the floods.

Adjustment Lending and Other Nonproject Lending

Adjustment loans provide quick-disbursing assistance to countries with external financing needs, to support structural reforms in a sector or the economy as a whole. They support the policy and institutional changes needed to create an environment conducive to sustained and equitable growth. Over the past two decades, adjustment lending has accounted, on average, for 20 to 25 percent of total Bank lending.

Adjustment loans were originally designed to provide support for macroeconomic policy reforms, including reforms in trade policy and agriculture. Over time, they have evolved to focus more on structural, financial sector, and social policy reform, and on improving public sector resource management. Adjustment operations now generally aim to promote competitive market structures (for example, legal and regulatory reform), correct distortions in incentive regimes (taxation and trade reform), establish appropriate monitoring and safeguards (financial sector reform), create an environment conducive to private sector investment (judicial reform, adoption of a modern investment code), encourage private sector activity (privatization and public-private partnerships), promote good governance (civil service reform), and mitigate short-term adverse effects of adjustment (establishing social protection funds).

Eligibility

Adjustment loans are available to IBRD and IDA borrowers not in arrears to the Bank Group. (Only IBRD borrowers are eligible for special structural adjustment loans; see page 17.) Eligibility for an adjustment loan also requires agreement on monitorable policy and institutional reform actions, and satisfactory macroeconomic management. Coordination with the IMF is an essential part of the preparation of an adjustment loan.

Disbursement

Funds are disbursed in one or more stages (tranches) into a special deposit account. Tranches are released when the borrower complies with stipulated release conditions, such as the passage of reform legislation or progress toward a satisfactory macroeconomic framework. Funds may be disbursed against a *positive list* of specific imports needed for the operation (no items not on the list may be financed), or subject to a *negative list* of prohibited expenditures, such as military and luxury items (all items not on the list may be financed). Since 1996, the negative list has typically been used.

Instruments

Structural and *sector adjustment loans* are the most commonly used adjustment instruments. Other types of adjustment loans, designed to respond to specific borrower needs, are *programmatic* and *special structural adjustment loans*, and *rehabilitation loans*. *Debt reduction loans*, while not adjustment loans, often accompany adjustment operations.

Structural Adjustment Loan

The structural adjustment loan (SAL) supports reforms that promote growth, efficient use of resources, and sustainable balance of payments over the medium and long term.

When are SALs used?

SALs typically focus on major macroeconomic and structural issues that cut across sectors, such as trade policy, resource mobilization, public sector management, private sector development, and social safety nets.

Examples

MALAYSIA ECONOMIC RECOVERY AND SOCIAL SECTOR LOAN
LOAN AMOUNT: IBRD US$300 million
APPROVAL DATE: June 18, 1998
PROJECT DESCRIPTION: This project supports the government's program of preemptive measures to (1) minimize the downturn in economic activity in the wake of the 1997-98 regional crisis; (2) expand social safety nets to protect the poor and near-poor from the adverse effects of the crisis; and (3) protect investments in the human resource base. It also supports policy reforms aimed at promoting robust and sustainable growth.

MALAWI FISCAL RESTRUCTURING AND DEREGULATION PROGRAM II AND TECHNICAL ASSISTANCE PROJECT
CREDIT AMOUNT: IDA US$92 million equivalent
APPROVAL DATE: December 3, 1998
PROJECT DESCRIPTION: This project aims to create a policy environment that encourages greater private sector investment and efficiency. It also supports government policies that redirect expenditures into social sectors and programs that specifically benefit the poor, such as health, education, and social funds. And it assists the government in maintaining macroeconomic stability in the wake of declining terms of trade and a significant drop in export earnings.

Sector Adjustment Loan

The sector adjustment loan (SECAL) supports policy changes and institutional reforms in a specific sector.

When are SECALs used?

SECALs focus on major sectoral issues such as the incentive and regulatory frameworks for private sector development, institutional capability, and sector expenditure programs.

Special design features

SECALs are subject to an environmental assessment.

Examples

MOROCCO CONTRACTUAL SAVINGS DEVELOPMENT LOAN
LOAN AMOUNT: IBRD US$150 million
APPROVAL DATE: June 9, 1998
PROJECT DESCRIPTION: This operation aims to improve the accumulation of long-term savings, encourage their allocation to private productive investment, and guarantee the long-term sustainability of the country's pension system. Its focus is the reform of contractual savings institutions, including insurance companies, savings banks, and the pension system.

SENEGAL ENERGY SECTOR ADJUSTMENT OPERATION
CREDIT AMOUNT: IDA US$100 million equivalent
APPROVAL DATE: May 19, 1998
PROJECT DESCRIPTION: This program promotes reforms in the energy sector, with the aim of providing more efficient electric power service and lowering electricity and petroleum prices. These reforms—which support the government's medium-term reform agenda—will reduce factor costs, improve Senegal's competitiveness and growth prospects, and increase job opportunities.

Programmatic Structural Adjustment Loan

The programmatic structural adjustment loan (PSAL) is provided in the context of a multiyear framework of phased support for a medium-term government program of policy reforms and institution building.

Special design features

PSALs support the government's program through a series of loans made over 3 to 5 years, each building on the preceding loan to support sustained, sequential structural and social reforms. Each individual adjustment loan under a PSAL typically supports a one-year program, with its tranches (if there is more than one tranche) spaced regularly throughout the year and tied to specific target measures. Monitorable indicators are built into the design of each loan in the series. The eligibility and disbursement criteria are the same as for a SAL.

When are PSALs used?

PSALs respond to country needs for Bank financing and advice in support of structural and social reforms that involve continuous, incremental policy changes and institution building over several years. The focus is on step-by-step capacity building and reform, typically in the public sector, aimed at strengthening public expenditure management and improving governance, resource allocation, and public service delivery. PSALs rely on a solid foundation of completed or parallel analytic and advisory work in these areas.

Example

THAILAND PUBLIC SECTOR REFORM PROJECT

LOAN AMOUNT: IBRD US$400 million

APPROVAL DATE: October 14, 1999

PROJECT DESCRIPTION: This project focuses on improvements in revenue and expenditure management, human resource management, decentralization, participation, transparency, and accountability. It aims to (1) improve performance and effectiveness in the management of financial and human resources; (2) create incentives for budget and civil agencies to focus on outcomes; (3) improve service delivery and client orientation through outsourcing, restructuring, decentralizing government activities, and enhancing public sector responsiveness to communities; (4) improve transparency in budgeting; and (5) establish effective mechanisms to promote accountability and transparency.

Special Structural Adjustment Loan

The special sector structural adjustment loan (SSAL) supports structural and social reforms by creditworthy borrowers approaching a possible crisis, or already in crisis, and with exceptional external financing needs. These loans help countries to prevent a crisis or, if one occurs, to mitigate its adverse economic and social impacts.

Special eligibility and design features

SSALs are available to countries facing an actual or potential financial crisis with substantial structural and social dimensions. They support structural, social, and macroeconomic policy reforms that are typically part of an international support package put together by multilateral donors, bilateral donors, and private lenders and investors. An IMF program must be in place.

SSALs have different terms than other Bank loans. They carry a 5-year maturity with a 3-year grace period, and a minimum loan spread of 400 basis points over USD LIBOR equivalent. There are no waivers of interest or commitment charges. (Terms for other Bank loans are described at the end of this brochure.)

Examples

ARGENTINA SPECIAL STRUCTURAL ADJUSTMENT LOAN

LOAN AMOUNT: IBRD US$2.5 billion

APPROVAL DATE: November 10, 1998

PROJECT DESCRIPTION: This loan, in conjunction with the Special Repurchase Facility Support Loan, assists the country's continuing efforts to transform its economy and protect the gains already achieved. The program is preventive, aimed at mitigating the deleterious effects of international financial instability on the economy and vulnerable groups. This loan helps the government to meet its foreign exchange needs, thus allowing it to remain focused on longer-term reform issues.

BRAZIL SOCIAL PROTECTION SPECIAL SECTOR ADJUSTMENT LOAN

LOAN AMOUNT: IBRD US$252.5 million

APPROVAL DATE: January 7, 1999

PROJECT DESCRIPTION: The loan supports the government's efforts to protect social expenditures targeted to the poor and those particularly vulnerable to economic hardship—children in poor families, retired and disabled people in poor families, families needing regular access to free or low-cost basic health services, children attending public primary schools, and adults who may lose their jobs during periods of economic uncertainty.

Rehabilitation Loan

The rehabilitation loan (RIL) supports government policy reform programs aimed at creating an environment conducive to private sector investment, where foreign exchange is required for urgent rehabilitation of key infrastructure and productive facilities. The focus is on key short-term macroeconomic and sector policy reforms needed to reverse declines in infrastructure capacity and productive assets.

When are RILs used?

RILs are typically used when a country is committed to overall economic reform but a SAL cannot be used because the structural reform agenda is still emerging. RILs are appropriate in transition economies and post-conflict situations.

Example

TAJIKISTAN POST-CONFLICT REHABILITATION CREDIT

CREDIT AMOUNT: IDA US$10 million equivalent

APPROVAL DATE: December 16, 1997

PROJECT DESCRIPTION: The project provides noninflationary budget financing in the country's post-conflict economy, enabling the government to purchase critical imports to support the social safety net and restore production, employment, and consumption. The counterpart funds generated by this credit will help meet near-term costs associated with the peace accord, while maintaining progress toward financial stabilization.

Debt Reduction Loan

The debt reduction loan (DRL) helps eligible highly indebted countries reduce commercial debt and debt service to a manageable level, as part of a medium-term financing plan in support of sustainable growth. The focus is on rationalizing the country's external commercial bank debt, by either converting it to lower-interest instruments or buying it back at a discount.

Special features

Although not an adjustment operation, the DRL is often processed in conjunction with an adjustment loan, part of which may also be used to finance the debt reduction operation. Bank staff help to design an operation that meets the Bank's criteria, but the Bank does not participate directly in negotiations between the debtor and its commercial creditors on the terms of the operation.

Funds are disbursed against tendered commercial debt for buy-backs or for purchasing acceptable collateral, to reduce principal and interest payments on new instruments issued in exchange for existing debt.

Examples

PANAMA DEBT AND DEBT SERVICE REDUCTION PROJECT
LOAN AMOUNT: IBRD US$30 million
APPROVAL DATE: March 28, 1996
PROJECT DESCRIPTION: This operation aimed to facilitate development by helping the country reestablish creditworthiness. It assisted the government in implementing debt and debt service reduction, consolidating fiscal balance and structural reforms, and normalizing relations with commercial creditors.

VIETNAM COMMERCIAL DEBT AND DEBT SERVICE REDUCTION OPERATION
CREDIT AMOUNT: IDA US$35 million equivalent
APPROVAL DATE: January 6, 1998
PROJECT DESCRIPTION: This operation helped to finance Vietnam's Debt and Debt Service Reduction (DDSR) agreement with its London Club creditors, which provided commercial debt relief to Vietnam and yielded a sustainable debt service. The agreement helped to prepare Vietnam for access to international capital markets and facilitated private sector involvement in the financing of critical infrastructure, thereby enhancing the country's strategy for sustainable growth and development.

World Bank Guarantees

Guarantees[6] promote private financing in borrowing member countries by covering risks the private sector is not normally in a position to absorb or manage. All Bank guarantees are partial guarantees of private debt, so that risks are shared between the Bank and private lenders. The Bank's objective is to cover risks it is in a unique position to bear, given its experience in developing countries and its relationships with governments.

The Bank's *project-based guarantees* help to mobilize private sector financing for individual projects, while *policy-based guarantees* help to mobilize private resources for sovereign entities. The guarantees cover either sovereign and political risks or credit risks. Except for project-based partial risk guarantees, which are extended on a limited basis to IDA borrowers to support privately financed projects, Bank guarantees are available only to IBRD borrowers.

Project-based partial risk guarantee

This guarantee covers specific sovereign or political risks. It is generally used where the government has moved from owner or operator to regulator or purchaser of a service, to protect lenders against debt service defaults that result from nonperformance of government obligations agreed to under a concession or similar arrangement.

Project-based partial credit guarantee

This guarantee covers all risks during a specified financing period. It is designed to assist governments and their entities in accessing new sources of debt financing with longer maturities than would otherwise be available.

Policy-based guarantee

The policy-based guarantee (PBG) is a partial credit guarantee of sovereign borrowings from private creditors, designed to improve governments' access to capital markets in support of agreed-upon structural, institutional, and social reforms. PBGs are offered to countries with a strong track record of performance; a satisfactory structural, social, and macroeconomic policy framework; and a coherent strategy for gaining (or regaining) access to international financial markets.

[6] For more information, please refer to the *World Bank Guarantees Handbook*, available from the Project Finance and Guarantees Group, or visit the website: http://worldbank.org/guarantees.

Examples

COTE D'IVOIRE AZITO POWER PARTIAL CREDIT GUARANTEE

GUARANTEE AMOUNT: IDA US$30.3 million

APPROVAL DATE: December 10, 1998

PROJECT DESCRIPTION: The project supports construction of a 300MW gas-fired power station and a 225 kV transmission line. It addresses the country's critical shortage of power supply, which has high priority in the country's economic investment and development strategy. The project is being implemented as a build-own-operate and transfer (BOOT) scheme over a period of 24 years.

ARGENTINA POLICY-BASED GUARANTEE

GUARANTEE AMOUNT: IBRD US$250 million

APPROVAL DATE: September 16, 1999

PROJECT DESCRIPTION: The operation is structured under the umbrella of a special structural adjustment loan. Its objective is to allow the government to remain focused on longer-term development issues, not only by preventing backtracking on previous reforms, but also by advancing on fiscal reform, financial sector strengthening, regulatory reform, and protection of critical social programs during this period of recession. The guarantee has helped Argentina to mobilize a total of US$1.6 billion to meet its financing needs at reasonable spreads. This transaction has demonstrated that guarantees, along with careful structuring and marketing, can help client countries to leverage Bank support and tap capital markets in a temporarily difficult financial environment.

Financial Products and Terms

IBRD Loan Products

IBRD offers three loan products for new loan commitments to eligible borrowers: fixed-spread loans (FSLs), variable-spread single-currency loans (VSCLs), and currency pool loans (CPLs).[7] The choice of financial products gives borrowers the flexibility to select terms compatible with their debt management strategy and suited to their debt servicing capability.

Fixed-spread loans are offered in selected currencies: U.S. dollars, Japanese yen, euros, pounds sterling, Swiss francs, and other currencies in which IBRD can fund itself efficiently. The loans are committed and repayable in a single currency or in tranches of several currencies, as requested by the borrower. The variable lending rate consists of the six-month LIBOR and a spread that is fixed over the life of the loan. The borrower may, during the life of the loan, change the loan currency on disbursed and undisbursed amounts, or may fix, unfix, re-fix, cap, or collar the interest rate on disbursed amounts. During project preparation but before loan signing, the borrower may also customize FSL repayment terms (grace period, repayment period, and amortization structure) within existing financial policy limits; once repayment terms are agreed upon, they cannot be changed.

Variable-spread single-currency loans are offered in selected currencies: U.S. dollars, Japanese yen, euros, pounds sterling, Swiss francs, and other currencies in which IBRD can fund itself efficiently. The loans are committed and repayable in a single currency or group of currencies, as requested by the borrower. The variable lending rate is tied to the six-month LIBOR in each loan currency and is reset semiannually. The rate is a direct pass-through to borrowers of the Bank's cost of funding for these loans.

Currency pool loans are offered as multicurrency obligations in U.S. dollar equivalent. The currency composition of a borrower's CPL obligations reflects that of the currency pool and is the same for all borrowers. The variable lending rate for CPLs is reset semiannually. It is a direct pass-through to borrowers of the Bank's cost of funding for these loans.

[7] A description of the financial products previously offered by IBRD may be accessed through http://www.worldbank.org/fps. For new loans, IBRD also offers several hedging products, including interest rate swaps, caps, and collars (except for CPLs); currency swaps; and commodity swaps. For more information on IBRD financial products, please refer to the brochures available from the World Bank Financial Products and Services Department: *IBRD: Major Terms and Conditions of Loans; IBRD Financial Products: The Fixed-Spread Loan; and IBRD Hedging Products*.

Financial Terms for New Loans

IBRD Loans

Front-end fee:	1.00% of the loan amount, payable upon loan effectiveness.	
Lending rate:	Lending rates are product-specific and, for FSLs and VSCLs, currency-specific.[8]	
Commitment fee on undisbursed balance:	*for FSLs*:	0.85% in the first four years, 0.75% thereafter
	for other loans:	0.75%
	for all loans:	a partial waiver may apply.
Interest waiver:	For borrowers paying on a timely basis, a partial waiver may apply to disbursed and outstanding loan balances.	
Maturity:	Up to 25 years, including a grace period.	

IDA Credits

Service charge:	0.75%
Commitment fee:	0.0–0.5% on undisbursed balance (set annually; has been 0.0% since 1989).
Maturity:	40 years (35 years for countries that receive a blend of IDA credits and IBRD loans), with a 10-year grace period.

[8] Current lending rates are available at http://www.worldbank.org/fps.

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