World Bank
Debt Servicing Handbook

Loan Client & Financial Services Division
Controller’s Vice Presidency
The World Bank

June 2009
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**Abbreviations and Acronyms**

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<th>Acronym</th>
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<tr>
<td>ACTCF</td>
<td>Loan Client &amp; Financial Services Division</td>
</tr>
<tr>
<td>ACTLC</td>
<td>Loan Client &amp; Financial Services Division (Chennai)</td>
</tr>
<tr>
<td>AER</td>
<td>Applicable Exchange Rate</td>
</tr>
<tr>
<td>AfDF</td>
<td>African Development Fund</td>
</tr>
<tr>
<td>APL</td>
<td>Adaptable Programmatic Loans</td>
</tr>
<tr>
<td>ARF</td>
<td>Automatic Rate Fixing</td>
</tr>
<tr>
<td>CAT</td>
<td>Catastrophic Risk Loan</td>
</tr>
<tr>
<td>CPA</td>
<td>Currency Purchase Agreement</td>
</tr>
<tr>
<td>CPL</td>
<td>Currency Pool Loan</td>
</tr>
<tr>
<td>DDO</td>
<td>Deferred Drawdown Option</td>
</tr>
<tr>
<td>DPL</td>
<td>Development Policy Loan</td>
</tr>
<tr>
<td>DRL</td>
<td>Debt Reduction Loan</td>
</tr>
<tr>
<td>DSA</td>
<td>Debt Sustainability Analysis</td>
</tr>
<tr>
<td>ERL</td>
<td>Emergency Recovery Loan</td>
</tr>
<tr>
<td>EUR</td>
<td>Euro</td>
</tr>
<tr>
<td>FEF</td>
<td>Front-end Fee</td>
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<tr>
<td>FIL</td>
<td>Financial Intermediary Loan</td>
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<tr>
<td>FSCL</td>
<td>Fixed-Rate Single Currency Loan</td>
</tr>
<tr>
<td>FSL</td>
<td>Fixed-Spread Loan</td>
</tr>
<tr>
<td>HIPC</td>
<td>Heavily Indebted Poor Countries</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
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<tr>
<td>IDB</td>
<td>Inter-American Development Bank</td>
</tr>
<tr>
<td>IFL</td>
<td>IBRD Flexible Loan</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>JPY</td>
<td>Japanese Yen</td>
</tr>
<tr>
<td>LIBOR</td>
<td>London Inter-Bank Offered Rate</td>
</tr>
<tr>
<td>LIL</td>
<td>Learning and Innovation Loan</td>
</tr>
<tr>
<td>LLDCs</td>
<td>Least Developed Countries</td>
</tr>
<tr>
<td>LRP</td>
<td>Level Repayment of Principal</td>
</tr>
<tr>
<td>LSG</td>
<td>Loan Services Group (ACTCF and ACTLC)</td>
</tr>
<tr>
<td>MDA</td>
<td>Master Derivative Agreement</td>
</tr>
<tr>
<td>PPA</td>
<td>Project Preparation Advance</td>
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<td>PPF</td>
<td>Project Preparation Facility</td>
</tr>
<tr>
<td>PRFG</td>
<td>Poverty Reduction and Growth Facility</td>
</tr>
<tr>
<td>PSAL</td>
<td>Programmatic Structural Adjustment Loan</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>----------</td>
<td>--------------------------------------------</td>
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<tr>
<td>RIL</td>
<td>Rehabilitation Loan</td>
</tr>
<tr>
<td>SAL</td>
<td>Structural Adjustment Loan</td>
</tr>
<tr>
<td>SCP</td>
<td>Single Currency Pool Loan</td>
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<tr>
<td>SDPL</td>
<td>Special Development Policy Loan</td>
</tr>
<tr>
<td>SDRs</td>
<td>Special Drawing Rights</td>
</tr>
<tr>
<td>SECAL</td>
<td>Sector Adjustment Loan</td>
</tr>
<tr>
<td>SIL</td>
<td>Specific Investment Loan</td>
</tr>
<tr>
<td>SIM</td>
<td>Sector Investment and Maintenance Loan</td>
</tr>
<tr>
<td>SNAL</td>
<td>Subnational Adjustment Loan</td>
</tr>
<tr>
<td>SSAL</td>
<td>Special Structural Adjustment Loan</td>
</tr>
<tr>
<td>TAL</td>
<td>Technical Assistance Loan</td>
</tr>
<tr>
<td>TTL</td>
<td>Task team leader</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
</tr>
<tr>
<td>VLR</td>
<td>Variable Lending Rate</td>
</tr>
<tr>
<td>VSL</td>
<td>Variable Spread Loan</td>
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</table>
Introduction

This handbook is a resource for borrowers and World Bank staff who wish to understand the Bank’s policies and procedures regarding debt servicing on its financial products. These products include loans, development credits, guarantees, grants, and hedging products.

The Loan Client & Financial Services Division is responsible for administering all the loan accounts of World Bank borrowers. It plays the essential role of managing the accounting and repayment functions for IBRD and IDA. The Loan Client & Financial Services Division also manages all disbursements from debt service trust fund accounts and provides technical assistance to clients on matters related to their loan/credit portfolios with the IBRD and IDA.

In this handbook, the term World Bank refers collectively to the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). Where the discussion pertains to only one of these entities, that entity is explicitly named.

Loan Client & Financial Services Division
Controller’s Vice Presidency
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433
Telephone: 202-458-8330
Facsimile: 202-522-3428
E-mail: loanclientservices@worldbank.org
Chapter I

World Bank Lending Instruments

The World Bank has two broad categories of lending operations: investment operations and development policy operations. Investment operations provide funding (in the form of IBRD loans and IDA credits and grants) to governments to cover specific expenditures related to economic and social development projects in a broad range of sectors. Development policy operations provide untied, direct budget support to governments for policy and institutional reforms aimed at achieving a set of specific development results.

A. Investment Loans

Investment loans have a long-term focus (5 to 10 years); they finance goods, works, and services in support of economic and social development projects in a broad range of sectors. Funds are disbursed against specific foreign or local expenditures related to the investment project, including pre-identified civil works, equipment, materials, technical and consulting services, and incremental recurring costs. Investment loans are available to IBRD and IDA borrowers who are not in arrears with the World Bank. Over the past two decades, investment lending has accounted, on average, for 75-80 percent of total Bank lending. Currently, seven types of investment lending instruments are available:

1. **Adaptable Programmatic Loans (APLs)** provide phased support for long-term development programs. They involve a series of loans that build on lessons learned from the previous loan(s). APLs entail agreement between the borrower and the World Bank on the (a) phased, long-term development program supported by the loan, (b) sector policies relevant to the supported phase, and (c) priorities for sector investments and recurrent expenditures. Progress in each phase of the program is evaluated, and additional analysis undertaken, as necessary, before the subsequent phase is initiated.

2. **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 critically disrupts a borrower’s economy. These loans are also used to (a) strengthen the management and implementation of reconstruction efforts and (b) develop disaster-resilient technology and early warning systems to prevent or mitigate the impact of future emergencies.

3. **Financial Intermediary Loans (FILs)** provide long-term resources to local financial institutions to finance real sector investment needs. FILs support financial sector reforms such as interest rate policies, subsidies, measures to enhance financial system competitiveness, and institutional development of financial intermediaries. These reforms have a direct and substantial bearing on the operational efficiency of financial intermediaries.

4. **Learning and Innovation Loans (LILs)** support small, pilot-type investment and capacity-building projects. If successful, these projects could lead to larger projects that mainstream the learning and results of the LIL. Typically, LILs do not exceed USD 5 million and are generally implemented over 2 to 3 years. All LILs include an effective monitoring and evaluation system to capture lessons learned.

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1 Additional information on *The World Bank Lending Instruments* is available at [www.worldbank.org](http://www.worldbank.org).
5. **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.

6. **Sector Investment and Maintenance Loans (SIMs)** focus on public expenditure programs in particular sectors. SIMs aim to bring sector expenditures, policies, and performance in line with a country’s development priorities. These loans accomplish this aim by helping to create an appropriate balance among new capital investments, rehabilitation, reconstruction, and maintenance.

7. **Technical Assistance Loans (TALs)** provide technical assistance to the borrower to build institutional capacity, with a focus on organizational arrangements, staffing methods, and technical, physical, or financial resources in key agencies.

### B. Development Policy Loans

Development policy loans (DPLs) have a short-term focus (1 to 3 years). They provide quick-disbursing external financing to support policy and institutional reforms. DPLs ensure expedited assistance to countries with external financing needs to support structural reforms. They support the policy and institutional changes needed to create an environment conducive to sustained and equitable growth. Over the past two decades, development policy lending has accounted, on average, for 20-25% of total Bank lending.

On August 9, 2004, the Bank’s Executive Directors approved OP/BP 8.60, *Development Policy Lending*, after extensive consultations with both internal and external Bank stakeholders. The new policy uniformly applies to all development policy lending, thus eliminating the distinctions among structural adjustment loans (SALs), sector adjustment loans (SECALs), subnational adjustment loans (SNALs), rehabilitation loans (RILs), and programmatic structural adjustment loans (PSALs).

These changes allow the Bank to respond more effectively to the financing and development needs of client countries. The term “development policy lending” replaces “adjustment lending.” Development policy lending is also the sole instrument for policy-based lending.

Some key principles of the previous policy remain intact:

- The Bank’s assessment should conclude that an appropriate macroeconomic policy framework is in place.
- Conditionality is expected to continue to be streamlined, with a limited set of conditions or triggers (expected prior actions) focusing on those actions most crucial to the success of the program.
- The disbursement procedures and the Bank’s auditing rights also remain unchanged.

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2 See [Sector Coding](#) for additional information on sectors.

Chapter II

Project Preparation Facility

The Bank may make a Project/Program Preparation Advance (PPA) from the Project Preparation Facility (PPF) to a borrowing country to finance:

(a) project preparation, design, and some initial implementation activities;
(b) the preparation of programs to be supported by a development policy operation; and
(c) start-up emergency response activities in cases of crises and emergencies.

The PPA complements other Bank methods of assisting project or program preparation such as trust fund grants for project/program preparation and retroactive financing.

A PPA is made only when there is a strong probability that a Bank loan will be made for the operation under preparation. However, granting the PPA does not commit the Bank to finance any portion of the operation. The PPA is designed to be refinanced from the proceeds of the loan for whose preparation the PPA is granted. If the loan does not materialize, the PPA is to be refinanced or repaid (see the section on Refinancing/Repayment). The PPA is made in US dollars and carries interest on IBRD fixed spread terms, or charges on IDA credit or IDA grant terms, depending on the borrowing status of the country.

The Bank determines the PPF’s total commitment authority and the ceiling on individual advances. At any stage before the Bank approves the loan, one or more PPAs may be made for the operation up to an aggregate maximum amount of (a) US$5 million for operations made under the Rapid Response to Crises and Emergencies category or (b) US$3 million for all other operations.

Refinancing/Repayment

The PPF was set up as a revolving fund. Repayment and refinancing terms were established to maintain the integrity of this revolving fund. Interest is accrued on the advance at the Bank’s interest rate. However, the payment of the interest on the advance would be deferred until the advance is refinanced or other terms of repayment determined.

The PPA agreement between the country and the Bank spells out the purposes, terms, and conditions of the PPA. It also specifies a date by which the advance is to be refinanced or the repayment process initiated. The refinancing date is the expected date of effectiveness of the loan agreement to be made for the operation under preparation. After this date, no withdrawals of the advance are made, and any unused amount is canceled. If the loan agreement is not effective within two years from the date of PPA approval, the country and the Bank may agree on a later refinancing date. If the loan for which the PPA was made is unlikely to materialize by the refinancing date, the PPA may be refinanced out of the proceeds of any other loan to or guaranteed by the country whose loan agreement becomes effective by the refinancing date.

To refinance the PPA, an amount is allocated in a separate disbursement category in the loan agreement. This amount is sufficient to cover the principal amount of the advance plus estimated accrued interest or service charges, where applicable. After refinancing the PPA, any excess in
this disbursement category may be reallocated to other disbursement categories in the disbursement schedule of the loan agreement.

Further disbursements for continuing PPA activities that have been included as eligible for financing under the loan are made against the appropriate disbursement categories in the loan agreement.

If no loan agreement providing for the refinancing of the PPA has become effective by the refinancing date (including any extensions), these conditions apply:

(a) If the country was an IBRD-country or an IDA-country eligible to receive IDA credits on the PPA approval date, it is required to repay the PPA (together with the accrued interest or service charges, as applicable) upon notice by the Bank in 10 approximately equal semiannual installments over a five-year period after the refinancing date. However, if the disbursed amount of the PPA is US$50,000 or less, the country is required to repay it within a period of 60 days after the Bank’s notice to repay.

(b) If the country was an IDA-country eligible only to receive IDA grants on the PPA approval date, the advance becomes a grant and is not repaid by the country.

The Bank may suspend disbursements of the PPA upon occurrence of any of the events of suspension specified or referred to in the PPA agreement. The Bank may also request a refund of any amount of the advance that has not been used in accordance with the provisions of the PPA agreement.

The procedure for billing a PPA requires coordination among several parties, including the Country Department, the Loan Department, and the Loan Services Group (LSG). The assigned task team leader (TTL) notifies LSG and the Loan Department that the PPA will not be refinanced. Upon request from the TTL, LSG provides details of the advance disbursed and outstanding, and the accrued charges. The TTL prepares an official notification, to be signed by the country director, informing the borrower that the PPA will not be refinanced and that billing will follow shortly. Upon receipt of a copy of the official notification, LSG initiates the billing process.

PPA withdrawals under IBRD accrue interest at the variable six-month US dollar LIBOR rate plus a spread. Until billing starts, the Interest Period begins either on January 1 or July 1. With respect to any Interest Period, the LIBOR reset date is two London Banking Days prior to January 1 or July 1, whichever day precedes the said Interest Period. Once billing is initiated, the Bank determines the Payment Date and communicates the amortization schedule to the borrower. Thereafter, the LIBOR reset date is two London Banking Days prior to the 1st or 15th of the month, whichever day precedes the Payment Date.

For PPAs made by IBRD after August 31, 1999, the lending rate is the same as that applicable to loans with fixed spread terms.

PPAs made by IDA carry the same repayment terms as those made by IBRD, except that instead of accruing interest, PPA withdrawals under IDA carry a flat service charge of 75 basis points.
Chapter III

IBRD Loan Products

The International Bank for Reconstruction and Development (IBRD) offers eligible member countries access to a flexible and low-cost set of tools for borrowing, hedging, and credit enhancement. These tools can help member countries meet their financing targets and implement their risk management strategies in a cost-effective manner. IBRD’s banking products\(^4\) include lending and risk management. In addition, countries may choose several guarantee products, including partial risk guarantees, partial-credit guarantees, and policy-based guarantees. This chapter presents the terms and conditions of IBRD’s current lending products.

A. IBRD Flexible Loan (IFL)

For most public sector borrowers, IBRD loans in major currencies are more competitive and flexible than other financing options in international financial markets. The IBRD Flexible Loan (IFL) combines the best features of the two loan products previously offered: the Fixed Spread Loan (FSL) and the Variable Spread Loan (VSL).

The IFL allows borrowers to customize repayment terms (that is, the grace period, repayment period, and amortization structure) to meet their debt management or project needs. As long as the weighted average maturity does not exceed 18 years, the final maturity can be up to 30 years including the grace period. Repayment terms should be considered during project preparation. The terms are fixed at loan negotiation with the exception of the fixed spread which is determined at the time of loan signing. For example, if the objective is to reduce the overall refinancing risk of their debt portfolio, borrowers may choose a combination of repayment terms that is more appropriate to smooth out their debt service profile. Also, the flexibility of repayment terms could be used in on-lending operations to match the project’s expected cash flow.

The IFL includes options to manage the currency and/or interest rate over the life of the loan. These options are embedded in the loan agreement and can be executed at the borrower’s request. To mitigate currency risk, the IFL offers a currency conversion option to change the currency of undisbursed and/or disbursed balances. Subject to the existence of a liquid swap market, borrowers can also choose to repay IBRD in a growing number of local currencies.

The IFL translates IBRD’s AAA credit rating into cost savings for all its borrowers. In addition, this loan offers pricing predictability and transparency by using standard market benchmarks. The loan’s interest rate in major currencies is reset semiannually based on the six-month LIBOR plus a variable or a fixed spread. Over the life of the loan, clients have the flexibility to:

- change the loan currency on disbursed and undisbursed amounts;
- fix the interest rate on disbursed amounts;
- unfix or re-fix the interest rate on disbursed amounts; and
- cap or collar the interest rate on disbursed amounts.

A one-time Front-end Fee (FEF) of 0.25 percent of the loan amount is charged at the beginning of the project. The FEF can be financed out of the loan proceeds.

**Spreads for IBRD Flexible Loans (IFLs)**

The IFL lending rate is based on the six-month LIBOR in each currency for value on the relevant rate-setting date plus either a fixed or variable spread.

**Variable Spread**

The IFL variable spread comprises the Bank’s average margin relative to LIBOR and the Bank’s standard lending spread. Table 1 contains the variable spread on IFL loans for rate-setting dates from January 1, 2009 through June 30, 2009.

<table>
<thead>
<tr>
<th>Loan Currency</th>
<th>Base Rate</th>
<th>Variable Spread</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>USD six-month LIBOR</td>
<td>-0.05%</td>
</tr>
<tr>
<td>EUR</td>
<td>EUR six-month LIBOR</td>
<td>-0.05%</td>
</tr>
<tr>
<td>JPY</td>
<td>JPY six-month LIBOR</td>
<td>-0.05%</td>
</tr>
</tbody>
</table>

**Fixed Spread**

The IFL fixed spread consists of the lending spread approved by the executive directors, the projected funding cost, and the relevant risk premium. The Bank may adjust the fixed spread for new fixed-spread IFLs if market movements for basis swaps and/or changes in the projected USD funding spread warrant such adjustment. Effective March 28, 2009, IBRD is offering the IFL with a fixed spread at different pricing tiers according to average repayment maturity. The lending rates for loans with fixed spread effective June 14, 2009 are shown in Table 2.

<table>
<thead>
<tr>
<th>For IFL fixed spread loans signed on or after June 14, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 years and less*</td>
</tr>
<tr>
<td>Contractual Spread +0.30%</td>
</tr>
<tr>
<td>Market Risk Premium +0.10%</td>
</tr>
<tr>
<td>Projected Funding Cost +0.30%</td>
</tr>
<tr>
<td>Lending Rate in USD LIBOR + 0.70%</td>
</tr>
<tr>
<td>EUR** LIBOR + 0.70%</td>
</tr>
<tr>
<td>JPY** LIBOR + 0.60%</td>
</tr>
<tr>
<td>Greater than 10 and up to 14 years*</td>
</tr>
<tr>
<td>Contractual Spread +0.30%</td>
</tr>
<tr>
<td>Market Risk Premium +0.10%</td>
</tr>
<tr>
<td>Projected Funding Cost +0.55%</td>
</tr>
<tr>
<td>Lending Rate in USD LIBOR + 0.95%</td>
</tr>
<tr>
<td>EUR** LIBOR + 0.95%</td>
</tr>
<tr>
<td>JPY** LIBOR + 0.85%</td>
</tr>
<tr>
<td>Greater than 14 years*</td>
</tr>
<tr>
<td>Contractual Spread +0.30%</td>
</tr>
<tr>
<td>Market Risk Premium +0.15%</td>
</tr>
<tr>
<td>Projected Funding Cost + 0.75%</td>
</tr>
<tr>
<td>Lending Rate in USD LIBOR + 1.20%</td>
</tr>
<tr>
<td>EUR** LIBOR + 1.20%</td>
</tr>
<tr>
<td>JPY** LIBOR + 1.10%</td>
</tr>
</tbody>
</table>

* As measured by average repayment maturity of the loan at commitment
** A basis swap adjustment of -0.10% is applicable to the JPY fixed spread.

Terms and Conditions

The IFL and its conversion provisions are available to IBRD borrowers for all standard IBRD lending operations.

Table 3: Terms and Conditions of the IFL

<table>
<thead>
<tr>
<th>Loan currencies</th>
<th><strong>Currency of Commitment</strong>: Loans may be denominated in one or more currencies, including USD, EUR, and JPY. Other currencies may also be available, on a case-by-case basis, where IBRD can fund itself efficiently in the market.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Currency of Disbursement</strong>: Disbursements may be made in various currencies, as requested by the client. Currencies are acquired by IBRD and passed on to the client. The loan obligation, however, remains in the currency(ies) in which the loan is denominated.</td>
</tr>
<tr>
<td></td>
<td><strong>Currency of Repayment</strong>: The loan principal, interest, and any other fees are payable in the currency(ies) of commitment. However, currency conversions are available, as indicated in the Embedded options row in this table.</td>
</tr>
<tr>
<td>Lending rate</td>
<td>The lending rate consists of a variable base rate plus a spread. The lending rate is reset semiannually on each interest payment date, and it applies to interest periods beginning on those dates.</td>
</tr>
<tr>
<td>Lending rate spread</td>
<td>The base rate is the six-month LIBOR for value at the start of an interest period for most currencies or a recognized commercial bank floating rate reference for other currencies.</td>
</tr>
<tr>
<td></td>
<td>Borrowers have the choice of spread:</td>
</tr>
<tr>
<td></td>
<td><strong>Variable Semiannually</strong>: IBRD’s weighted average cost margin relative to the six-month LIBOR for funding (recalculated twice a year, on January 1 and July 1) plus IBRD’s contractual lending spread (0.30 percent as of March 31, 2009).</td>
</tr>
<tr>
<td></td>
<td><strong>Fixed for the life of the loan</strong>: IBRD’s projected funding cost margin relative to USD LIBOR, IBRD’s contractual lending spread, a risk premium, and a basis swap adjustment for non-USD loans.</td>
</tr>
<tr>
<td>Embedded options</td>
<td>Interest rate conversions</td>
</tr>
<tr>
<td></td>
<td>Interest rate caps and collars</td>
</tr>
<tr>
<td></td>
<td>Currency conversions</td>
</tr>
<tr>
<td>Front-end fee</td>
<td>The front-end fee is 0.25 percent of the loan amount. At the option of the borrower, the front-end fee may be financed out of the loan proceeds upon loan effectiveness. When the borrower does not finance the front-end fee, the borrower must pay the fee no later than 60 days after the effectiveness date but before the first withdrawal from the loan.</td>
</tr>
<tr>
<td>Amortization patterns and repayment schedules</td>
<td>Borrowers have the flexibility to tailor repayment terms to meet their project, asset, and liability management needs.</td>
</tr>
<tr>
<td></td>
<td>Amortization patterns may be level, annuity, bullet, or customized.</td>
</tr>
<tr>
<td></td>
<td>Repayment schedules may be fixed at commitment or linked to disbursements.</td>
</tr>
</tbody>
</table>
## Repayment Terms

**Policy Limits:** The maximum final maturity is 30 years including the grace period (during which only interest is paid), while the maximum weighted average maturity is 18 years. Repayment terms are fixed at loan negotiation. Once the loan is signed, the repayment schedule cannot be changed for the life of the loan. In addition, borrowers have a choice of two types of repayment schedules:

- **Commitment-linked Repayment Schedule:** The loan repayment schedule is fixed at the outset when the loan is signed. Principal repayments are calculated as a share of the total loan amount disbursed and outstanding.

- **Disbursement-linked Repayment Schedule:** The loan repayment is linked to actual disbursements. For repayment schedules linked to disbursements, the 18-year limit is the sum of the average repayment maturity and the expected average disbursement period. For this type of loan, the average repayment maturity is calculated as the weighted average period between the date of disbursement and the scheduled repayment.

This limit applies to the repayment schedule for each disbursement amount. The expected average disbursement period is defined as the weighted average period between loan approval and expected disbursements. Each semester’s group of disbursements is similar to a tranche or a sub loan with its own repayment terms (that is, grace period, final maturity, and repayment pattern), which must be the same for all tranches within the loan.

### Interest Rate Conversion

The variable lending rate on the disbursed balance may be converted to a fixed rate. Later, it may even revert to a variable rate. This option may be exercised by the borrower at any time during the life of the loan for all or part of the disbursed and outstanding balance. Alternatively, a cap or collar on the variable base interest rate may be established for the entire disbursed amount or a part of it.

---

| Maturity | Maximum final maturity is 30 years.  
Maximum weighted average maturity is 18 years. |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment dates</td>
<td>Debt service payment dates are on the 1st or the 15th day of the month, usually on a semiannual basis. The payment date is decided by the borrower during the loan negotiation.</td>
</tr>
<tr>
<td>Prepayment</td>
<td>Borrowers have the choice to prepay the outstanding loan balance at any time either fully or partially. Prepayment charges (premium) apply based on (i) IBRD’s redeployment cost of the prepaid loan amount, (ii) the cost of unwinding any outstanding interest or currency conversions, and (iii) any transaction fees applicable to amounts that were previously converted.</td>
</tr>
</tbody>
</table>

1 For additional information on prepayments, refer to Chapter XII of this handbook.
Currency Conversion

To mitigate currency risk, the IFL offers a currency conversion option to change the currency of undisbursed and/or disbursed balances. Subject to the existence of a liquid swap market, borrowers can also choose to repay IBRD in a growing number of local currencies. (See Table 3 > Loan currencies > Currency of Commitment)

Undisbursed Amounts: All or part of the undisbursed balance may be converted into another currency which IBRD can efficiently intermediate.

Disbursed Amounts: All or part of the disbursed balance may be converted into another currency, including the borrower’s local currency, subject to the availability of a swap market for that currency.

Conversion Fees

Transaction fee(s) for currency and/or interest rate conversions will apply, except for the first interest rate fixing. For the latest conversion fees, visit the World Bank Treasury website http://treasury.worldbank.org. To avail of the conversions, loans with variable spreads will first have to be converted into the prevailing fixed spread. In these cases, a spread fixing fee of 0.03 percent per annum will apply.

For more information on interest rate and currency conversions, refer to the Guidelines for Conversion of Loan Terms.

B. IBRD Contingent Loans

The Deferred Drawdown Option (DDO) is a contingent loan product that provides immediate liquidity in the case of adverse events such as a natural catastrophe, a downturn in economic growth, or adverse changes in commodity prices or terms of trade. The DDO allows a borrower to postpone drawing down a Development Policy Loan (DPL) for a defined drawdown period after the Loan Agreement has been declared effective. IBRD offers two versions of the DDO product.

Development Policy Loan Deferred Drawdown Option (DPL DDO): The DPL DDO provides a source of liquidity for member countries, granting access to long-term IBRD resources to maintain ongoing structural programs if a financing need materializes. It also provides a formal basis for continued policy-based engagement with the Bank when the borrower has no need for immediate funding but values the Bank’s advice and access to immediate liquidity, whenever deemed necessary.

Catastrophic Risk Deferred Drawdown Option (CAT DDO): The CAT DDO was developed by the Bank to respond to Middle Income Countries’ requests for loans that better address their immediate funding needs in the aftermath of natural disasters. The CAT DDO’s main purpose is to (i) develop/ enhance the capacity of borrowers to manage natural disaster risk and (ii) provide a source of immediate liquidity that could serve as bridge financing while other sources (for example, concessional funding, bilateral aid, or reconstruction loans) are being mobilized after a natural disaster. The presence of a hazard risk management program is a prerequisite. The CAT DDO complements other instruments in the country in line with the Bank’s comprehensive framework for disaster risk management and emphasis on disaster prevention, as opposed to only disaster response.
# Terms and Conditions

The DPL DDO and the CAT DDO carry the same pricing and embedded risk management options as the IFL. Table 4 shows the key terms and conditions of the DPL DDO and the CAT DDO.

**Table 4: Key Terms and Conditions of Deferred Drawdown Option**

<table>
<thead>
<tr>
<th></th>
<th>DPL DDO</th>
<th>CAT DDO</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purpose</strong></td>
<td>To provide immediate liquidity when the borrower needs it.</td>
<td>To develop/enhance the capacity of borrowers to manage hazard risk.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>To provide immediate liquidity to fill the budget gap after a natural disaster.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>To safeguard ongoing development programs.</td>
</tr>
<tr>
<td><strong>Eligibility</strong></td>
<td>All IBRD-eligible borrowers (upon meeting pre-approval criteria)</td>
<td></td>
</tr>
<tr>
<td><strong>Pre-approval criteria</strong></td>
<td>Appropriate macroeconomic policy framework</td>
<td>Appropriate macroeconomic policy framework</td>
</tr>
<tr>
<td></td>
<td>Satisfactory implementation of the overall program</td>
<td>The preparation or existence of a disaster risk management program</td>
</tr>
<tr>
<td><strong>Currency</strong></td>
<td>Same as regular IBRD loans</td>
<td></td>
</tr>
<tr>
<td><strong>Drawdown</strong></td>
<td>An amount up to the full loan amount is available for disbursement at any time within three years from signing the loan. The drawdown period may be renewed for an additional three years.</td>
<td>An amount up to the full loan amount is available for disbursement at any time within three years from signing the loan. The drawdown period may be renewed up to a maximum of four extensions (for a total of 15 years).</td>
</tr>
<tr>
<td><strong>Drawdown Requirements</strong></td>
<td>Funds will be disbursed immediately upon request unless the borrower has received prior notification from the Bank that one or more drawdown conditions are not met.</td>
<td>Funds will be disbursed immediately upon occurrence of a natural disaster resulting in declaration of a state of emergency unless the borrower has received prior notification from the Bank that one or more drawdown conditions are not met.</td>
</tr>
<tr>
<td><strong>Repayment Terms</strong></td>
<td>May be determined either upon commitment or upon drawdown within prevailing maturity policy limits. The repayment schedule will start from the date of drawdown.</td>
<td></td>
</tr>
<tr>
<td><strong>Lending Rate</strong></td>
<td>The base rate is the six-month LIBOR for value at the start of an interest period for most currencies or a recognized commercial bank floating rate reference for other currencies.</td>
<td></td>
</tr>
<tr>
<td><strong>Lending Rate Spread</strong></td>
<td>The prevailing spread for regular IBRD loans at the time of each drawdown.</td>
<td></td>
</tr>
<tr>
<td><strong>Front-end Fee</strong></td>
<td>Same as regular IBRD loans: 0.25 percent of the loan amount will be applied upon effectiveness. No front-end fee would be charged for renewal of the drawdown period.</td>
<td></td>
</tr>
</tbody>
</table>
C. New Loan Features Introduced

These are some of the most recent loan features introduced by the World Bank:

2009

June 14, 2009: Decrease in Fixed Spread of IBRD Flexible Loan. Effective June 14, 2009, IBRD reduced the fixed spread for the different pricing tiers. The new fixed spreads will apply to loans signed on or after June 14, 2009, local time at the place of signing.

March 30, 2009: Increase in Fixed Spread of IBRD Flexible Loan; Introduction of Maturity-based Pricing. Effective March 28, 2009, IBRD is offering the IBRD Flexible Loan (IFL) with a fixed spread at different pricing tiers according to average repayment maturity. The new fixed spreads will apply to loans signed on or after March 29, 2009, local time at the place of signing.

2008

March 4, 2008: IBRD Contingent Loans: Enhancements to the Deferred Drawdown Option (DDO). Contingent loans provide borrowers with flexibility in funding their financing requirements (DPL DDO) and enable rapid response to natural disasters (CAT DDO).

February 12, 2008: IBRD Loan Simplification and Maturity Extension. The Board approved an extension in maximum maturity limits up to 30 years (average maturity of up to 18 years) for all new IBRD loans and guarantees, and further simplification of IBRD loans to a single product line. The new maturity limit is available for all new loans and guarantees approved by the Board on or after February 12, 2008.

2007
September 27, 2007: IBRD Loan Pricing Reform. The executive directors of the World Bank approved a significant simplification and reduction in IBRD loan and guarantee pricing. The key changes include a lower, uniform pricing and the introduction of 50 basis points penalty interest on principal that is overdue beyond 30 days. As a result of the elimination of the commitment fee, the pricing of DPLs and investment loans is now the same. Compared to the old pricing, on an average, the cost savings for DPLs is about 17 basis points and approximately 32 basis points for investment loans. The new pricing is available for all new loans signed on or after September 27, 2007. However, for loans signed between May 16, 2007, and September 27, 2007, borrowers may also avail the new pricing terms by signing an amendment agreement, provided such amendments are exercised by March 31, 2009.

The new structure reduced the complexity of loan pricing and removed the annual uncertainty over net loan charge levels, by eliminating the system of a higher contractual loan spread, front-end fee, and commitment fee that were reduced by annually approved waivers and replacing it with a lower, single contractual interest spread and a front-end fee (eliminating waivers and commitment fee charges). However, penalty interest introduced on overdue principal replaces the previous waiver incentive to pay on time. All embedded options to manage currency and interest rate risks were preserved.
Chapter IV

Discontinued Loan Products

This chapter presents the terms and conditions of IBRD loan products that have been withdrawn from the IBRD menu of new loan commitments but which still govern some outstanding loans.

A. Fixed-Spread Loan (FSL)\(^5\)

On February 12, 2008, IBRD discontinued the Fixed-Spread Loan (FSL) to offer the IBRD Flexible Loan (IFL). The FSL, introduced in 1999, offers borrowers a variable lending rate consisting of the six-month LIBOR and a fixed spread along with embedded options to convert the currency and interest rate of the loan. The fixed spread remains constant over the life of the loan.

Under the FSL, the borrower selects the commitment currency, which becomes part of the Loan Agreement. Borrowers may choose to denominate their FSL in one or more currencies, including the euro, Japanese yen, U.S. dollar, Swiss franc, British pound sterling, and other currencies that IBRD can efficiently intermediate.\(^6\)

At the borrower’s request, the commitment currency may be converted to another currency as many times as desired during the life of the loan. For undisbursed amounts, this is accomplished through a redenomination of the loan. For disbursed and outstanding amounts, currency conversions will reflect the market rate at which IBRD’s offsetting currency swap is transacted.

Repayment Terms

Repayment terms on IBRD loans are based on country criteria, particularly per capita income, and other country creditworthiness indicators.\(^7\) IBRD reviews the country classification annually. If a country is reclassified, the new repayment terms apply only to new loan commitments. Existing loans are not affected.

There are two repayment schedule choices available for an FSL:

- Fixed at loan commitment (commitment linked)
- Linked to actual disbursements (disbursement linked)

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\(^6\) In the unlikely event that IBRD is unable to fund itself in a particular currency, it may provide the borrower with a substitute currency.

Repayment Schedule for Commitment-linked FSL

Under a commitment-linked FSL, the borrower fixes the length of the grace period and the timing of principal repayments at the time of loan commitment. The borrower may specify the repayment schedule as either (a) a level repayment of principal (the same amount of principal is due each period) or (b) an annuity-type schedule (the sum of principal and interest due is relatively stable, varying only with adjustments in interest rate or changes in loan amounts disbursed and outstanding).

Borrowers may also choose other repayment schedules such as bullet loans or loans with customized repayments of principal. The average repayment maturity for commitment-linked FSLs is defined as the time between expected loan approval and scheduled repayments, weighted by the repayment amount (see Table 5).

Table 5: Limits for IBRD Fixed-Spread Loans with Repayment Maturities Fixed at Loan Commitment (years)

<table>
<thead>
<tr>
<th>Country Category*</th>
<th>Average Repayment Maturity</th>
<th>Final Maturity</th>
<th>Grace Period</th>
<th>Final Maturity</th>
<th>Repayment Pattern</th>
</tr>
</thead>
<tbody>
<tr>
<td>I-II</td>
<td>14.25</td>
<td>25</td>
<td>5</td>
<td>20</td>
<td>Annuity or 8</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20</td>
<td>LRP</td>
</tr>
<tr>
<td>III</td>
<td>11.25</td>
<td>25</td>
<td>4</td>
<td>17</td>
<td>Annuity or 5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>17</td>
<td>LRP</td>
</tr>
<tr>
<td>IV-V</td>
<td>10.25</td>
<td>25</td>
<td>3</td>
<td>15</td>
<td>Annuity or 5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15</td>
<td>LRP</td>
</tr>
</tbody>
</table>


Repayment Schedule for Disbursement-linked FSLs

Under a disbursement-linked FSL, cumulative disbursements (the disbursed amount) made during each six-month period are repayable on a schedule that commences at the beginning of the interest period following each disbursement. The repayment schedule, grace period, and final maturity are specified in the Loan Agreement and are uniform for all disbursed amounts under that loan. Limits for a disbursement-linked repayment schedule are set based on the maximum sum of the expected average disbursement and the average repayment maturity for each disbursed amount (see Table 6).

The expected average disbursement period is the weighted average period between loan approval and expected disbursement. The average repayment maturity for this type of loan is defined as the weighted average period between the date of disbursement and the scheduled repayments for a disbursed amount, weighted by the repayment amount.
Table 6: Limits for IBRD Fixed-Spread Loans with Repayment Schedules Linked to Actual Disbursements (years)

<table>
<thead>
<tr>
<th>Country Category*</th>
<th>Sum of Expected Average Disbursement Period and Average Repayment Maturity</th>
<th>Final Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>I-II</td>
<td>14.25</td>
<td>25</td>
</tr>
<tr>
<td>III</td>
<td>11.25</td>
<td>25</td>
</tr>
<tr>
<td>IV-V</td>
<td>10.25</td>
<td>25</td>
</tr>
</tbody>
</table>


Lending Rates

The lending rate for an FSL consists of a variable base rate and a fixed spread. The lending rate is reset semiannually on each interest payment date, and it applies to the interest period beginning on that date.

- The variable base rate is the six-month LIBOR as of the beginning of each payment period.
- The spread reflects the sum of:
  - IBRD’s projected funding cost margin relative to USD LIBOR, plus or minus a basis swap adjustment for non-USD FSLs;
  - IBRD’s contractual lending spread; and
  - the market risk premium.

The market risk premium compensates IBRD for refinancing risk, given that the lending spread above LIBOR is fixed and the maturity of IBRD’s borrowings is shorter than that of its loans to borrowers.

B. Variable Spread Loans (VSLs)

The Variable Spread Loan (VSL) was discontinued by IBRD on February 12, 2008. The characteristics of both the VSLs and the FSLs were consolidated into a single lending platform—the IBRD Flexible Loan (IFL), discussed in Chapter III. The VSL (formerly the variable-rate single currency loan) is denominated in the currency selected by the borrower. It has a variable lending rate based on the six-month LIBOR and a spread that varies every six months, depending on IBRD’s cost of funding during the preceding period. As with an FSL, the borrower may choose to denominate the VSL in one or more currencies.

Lending Rates

The VSL lending rate is based on a direct cost pass-through formula, consisting of the prevailing LIBOR rate plus or minus IBRD’s average cost relative to LIBOR, plus IBRD’s contractual lending spread. The margin applied to VSLs is the weighted average semester cost margin relative to LIBOR, averaged across all currencies. The IBRD cost margin is recalculated twice a year, and the new rate is effective every January 15 and July 15.
Repayment Terms

VSLs are normally made for 15 to 20 years, including a grace period of 3 to 5 years. VSL principal repayments are based on a principal repayment schedule and expressed in the currency in which the loan is denominated. Payments are a function of the committed loan amount, irrespective of the timing of disbursements.

Borrowers may specify the schedule either as level repayment of principal (in which case, the same amounts of principal are due each period) or as an annuity-type schedule. In such schedules, the sum of principal and interest due is relatively stable, varying only with adjustments in interest rates or changes in loan amounts disbursed and outstanding. Annuity applies only to countries in categories I and II.

**Table 7: Standard Country Terms for Variable Spread Loans (years)**

<table>
<thead>
<tr>
<th>Country Category</th>
<th>Grace Period</th>
<th>Final Maturity</th>
<th>Amortization Pattern</th>
</tr>
</thead>
<tbody>
<tr>
<td>I-II</td>
<td>5</td>
<td>20</td>
<td>Annuity</td>
</tr>
<tr>
<td>III</td>
<td>4</td>
<td>17</td>
<td>Annuity</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>17</td>
<td>LRP*</td>
</tr>
<tr>
<td>IV-V</td>
<td>3</td>
<td>15</td>
<td>Annuity</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>15</td>
<td>LRP</td>
</tr>
</tbody>
</table>

* Level repayment of principal

C. Fixed-Rate Single Currency Loans (FSCLs)

In 1995, along with the expansion of the Single Currency Loan, the Board approved the introduction of the Fixed-Rate Single Currency LIBOR-based loan. The FSCL was available for new commitments until December 1999 when it was replaced by the FSL which provides greater flexibility of terms and conditions at no additional cost. FSCLs were offered in all currencies in which the Bank could efficiently fund itself.

**Lending Rates**

The FSCL lending rate consists of a base rate reflecting market rates for loans of similar maturity in the specific currency, plus a fixed spread. The fixed spread consists of (a) IBRD’s projected funding cost margin relative to the base rate for these loans, (b) a risk premium to compensate IBRD for the market risk it bears in charging projected rather than actual cost margins, and (c) IBRD’s contractual lending spread. The lending rate is set on specified semiannual rate fixing dates for amounts disbursed during the preceding six-month period. The rate remains fixed for each disbursed amount until that amount is repaid. This means an FSCL is like a series of fixed-rate sub loans, comprising as many fixed-rate sub loans as semesters in which disbursements occur.

**Repayment Terms**
Each disbursed amount has a three-year grace period starting from its rate fixing date. After the grace period, the disbursed principal is amortized in level semiannual amounts until the applicable final maturity. The applicable final maturity, inclusive of the grace period, is based on the expected disbursement period as shown in Table 8.

Table 8: Limits for Fixed Rate Single Currency Loans (years)

<table>
<thead>
<tr>
<th>Expected Disbursement Period</th>
<th>Grace Period for Each Disbursement</th>
<th>Final Maturity for Each Disbursement</th>
<th>Final Loan Maturity from Date of Approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 3</td>
<td>3</td>
<td>12</td>
<td>12 – 15</td>
</tr>
<tr>
<td>3 – 6</td>
<td>3</td>
<td>9</td>
<td>12 – 15</td>
</tr>
<tr>
<td>More than 6</td>
<td>3</td>
<td>6</td>
<td>12 – 20*</td>
</tr>
</tbody>
</table>

* For Category III borrowing countries, overall loan maturities are limited to 17 years; and for those countries in Categories IV and V, the loan maturities are limited to 15 years.

D. Currency Pool Loans (CPLs)

Currency Pool Loans (CPLs) with a variable interest rate were offered from 1982 to 2001. These loans are multi-currency obligations. While they are committed in the U.S. dollar equivalent, they are not U.S. dollar obligations. The borrower’s currency obligation reflects the currency composition of the World Bank’s currency pool and is the same for all borrowers. The borrower’s interest obligation is based on the semester average cost of outstanding IBRD debt allocated to fund these loans.

The currency composition of each currency pool loan is a share of the World Bank’s currency pool, and the composition of the currency pool changes on a daily basis. The World Bank targets the currency composition of the currency pool such that at least 90 percent of the U.S. dollar equivalent value of the currency pool is maintained in the fixed currency ratio of USD 1: JPY 125: EURO 1.

The currency amount disbursed is converted to the U.S. dollar equivalent using the applicable exchange rate (AER) on the day of disbursement. The U.S. dollar equivalent is then divided by the value of one currency pool unit (see Pool Unit Value) on the day of disbursement to determine the number of pool units disbursed. This number of pool units is then added to the outstanding number of pool units to determine the amount the borrower must repay.

Pool Unit Value

The value of a currency pool unit is derived by dividing the U.S. dollar equivalent of the currencies in the pool by the total number of outstanding pool units. The pool unit value changes daily in accordance with (a) movements of the exchange rates for the currencies in the pool and (b) the currency composition of the pool. The pool unit value may be thought of as an exchange rate used to convert an IBRD currency pool unit into its equivalent U.S. dollar value.

Movements in the exchange rates of the major currencies in the pool relative to the U.S. dollar affect the pool unit value, and consequently, the U.S. dollar equivalent of each currency pool
loan. For example, if the U.S. dollar appreciates relative to other currencies in the pool, the U.S. dollar value of the currency pool unit decreases.

The borrower’s obligation is calculated by multiplying the number of outstanding pool units by the pool unit value. Therefore, changes in the pool unit value resulting from exchange rate movements affect the U.S. dollar equivalent of the amount to be repaid.

**Projection of Principal Repayments**

A repayment schedule is presented in the Loan Agreement. In accordance with the schedule, once the grace period has elapsed, IBRD computes the pool units to be recalled on the due date. This is done by dividing the scheduled maturity by the historical value of the outstanding withdrawals and multiplying it by the total outstanding pool units on the loan and the current pool unit value. The U.S. dollar equivalent of the pool units recalled on each due date will change due to the daily fluctuation of the pool unit value.

For fully disbursed loans, borrowers can project the pool units to be recalled on each due date by dividing the scheduled maturity for a particular due date by the historical value of the outstanding withdrawal amount and multiplying it by the total outstanding pool units.

To illustrate, consider this scenario: the scheduled maturity due under a loan is USD 7.5 million semiannually for the next 10 years; the historical U.S. dollar value of the outstanding withdrawal is USD 140 million; and the total number of outstanding pool units is 6,900. In this case, the number of pool units to be recalled on each due date would be a constant 369.64 (see Table 9).

**Table 9: Computation of Pool Units to be Repaid**

<table>
<thead>
<tr>
<th>Due Date</th>
<th>Pool Units to be Repaid</th>
<th>Historical Value of Principal Remaining</th>
<th>Pool Units Remaining</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(7.5m/140m)x6900=369.64</td>
<td>140m-7.5m=132.5m</td>
<td>6900-369.64=6530.36</td>
</tr>
<tr>
<td>2</td>
<td>(7.5m/132.5m)x6530.36=369.64</td>
<td>132.5m-7.5m=125m</td>
<td>6530.36-369.64=6160.72</td>
</tr>
<tr>
<td>3</td>
<td>(7.5m/125m)x6160.72=369.64</td>
<td>125m-7.5m=117.5m</td>
<td>6160.72-369.64=5791.08</td>
</tr>
</tbody>
</table>

**Lending Rate**

*Cost Basis and Lending Spread.* The interest rate on currency pool loans passes IBRD’s average cost of outstanding funding allocated for these loans plus a lending spread to borrowers. The rate is based on the semester average cost of outstanding IBRD debt issued since 1982 (VLR82), excluding debt allocated to fund IBRD’s liquidity portfolio or other loan products offered after 1989 (VLR89). This cost basis for IBRD’s borrowings in each of the currencies in the pool is recalculated every six months for the semesters ending June 30 and December 31. The currency-specific average costs are then weighted by the U.S. dollar equivalent share of each currency in the currency pool.
E. Single Currency Pool (SCP) Loans

Between September 1, 1996, and June 1, 1998, IBRD offered borrowers the option to amend the terms of their existing currency pool loan agreements to change their currency obligation.

Borrowers could request:

(a) conversion of undisbursed loan amounts to single currency loan terms (VSL or FSCL); or

(b) conversion of disbursed loan balances and undisbursed loan amounts (not converted to single currency loan terms) to one of four Single Currency Pools (SCPs); or

(c) a combination of (a) and (b).

Conversion of Undisbursed Loan Amounts to Single Currency Loan (SCL) Terms

Borrowers could convert undisbursed balances into any currency or currencies of sufficient borrower demand that IBRD could efficiently intermediate. They could also choose between VSL or FSCL terms.

*LIBOR-based SCL Terms (presently known as VSL terms).* The lending rate for loan amounts converted to VSL terms is determined in the same manner as new VSLs less any applicable waivers (see OP 3.10, paras.25-26).

Undisbursed loan amounts converted to VSL terms retained the same remaining maturity as the original currency pool loan had before its terms were amended. The amortization schedule was adjusted using a pro rata share of the amortization schedule of the original loan. The share was the ratio of converted amounts to the sum of converted and unconverted balances.

*Fixed-Rate SCL (FSCL) Terms.* The lending rate for loan amounts converted to FSCL terms is determined in the same manner as existing FSCLs less any applicable waivers. Loans converted to FSCL terms have maturities, grace periods, and amortization schedules set in the same manner as newly contracted FSCLs. In no case do they exceed the final maturity of the original currency pool loan.

Conversion of Disbursed and Undisbursed Loan Amounts to Single Currency Pool (SCP) Terms

*Currencies.* Loans that were converted to SCP terms were to be multicurrency obligations initially and would continue to be expressed in U.S. dollar equivalents. SCPs were offered in four designated currencies: Deutsche mark, Japanese yen, Swiss franc, and U.S. dollar. Deutsche mark SCPs were re-denominated to euro on December 31, 2001.

Since January 1, 1999, IBRD has established a currency composition for each SCP that is 100 percent in the borrower’s designated currency.
Chapter V

IBRD Risk Management and Conversion Products

IBRD offers hedging products which can transform the risk characteristics of a borrower’s IBRD obligations even though the negotiated terms of a particular loan agreement are fixed. These products provide borrowers with improved risk management capability in the context of projects, lending programs, and sovereign asset-liability management.

IBRD hedging products include interest rate swaps, interest rate caps and collars, currency swaps, and, on a case-by-case basis, commodity swaps. To use hedging products, borrowers must enter into a Master Derivative Agreement (MDA) with IBRD. The agreement provides the contractual framework between the borrower and IBRD. Table 10 shows the hedging products available to IBRD loans.

Table 10: Applicability of IBRD Hedging Products to IBRD Loans*
(available on disbursed and outstanding loan amounts)

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Interest Rate Swaps</th>
<th>Caps and Collars</th>
<th>Currency Swaps</th>
<th>Commodity Swaps**</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD Flexible Loans (IFLs)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Fixed-Spread Loans (FSLs)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Variable-Spread Loans (VSLs)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Fixed-Rate SCLs (FSCLs)</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Currency Pool Loans (CPLs)</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Single Currency Pool Loans (SCPs)</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

* Hedges against CPLs, SCPs, and VSLs will be only approximate hedges.
** Offered on a case-by-case basis.

A. Interest Rate Hedges

IBRD borrowers may choose to manage interest rate risk from their FSCLs, VSLs, and FSLs by entering into interest rate swaps or interest rate caps and collars.

Interest rate swaps are individually negotiated transactions that may be used to transform the interest rate basis of a borrower’s underlying loan obligation from fixed to floating rate or vice versa. The swap specifies the terms of two future cash flow streams, one to be paid by the borrower (the swap pay leg), and the other to be received by the borrower (the swap receipt leg), with IBRD as the counterparty. Both streams are denominated in the same currency. The cash flows paid by one of the counterparties reflect a fixed rate of interest, while those of the other counterparty reflect a floating rate of interest. No exchanges of principal are involved.

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Interest rate caps and collars protect users of floating-rate loan products against rising interest rates. Interest rate caps are individually negotiated transactions which set an upper limit on the interest a borrower will pay on a floating rate loan, against payment of an up-front premium. Interest rate collars are individually negotiated transactions which set both upper and lower limits (a collar) on the interest a borrower will pay on a floating rate loan, against payment of an up-front premium.

B. Currency Hedges

Currency swaps are individually negotiated transactions that may be used to transform the currency denomination of a borrower’s net loan obligation. As counterparties to a currency swap, IBRD and the borrower agree to exchange two sets of cash flows denominated in different currencies at certain dates in the future. The cash flows reflect payments of interest on these currencies, which may be fixed or floating, and exchanges of principal amounts.9

Local Currency Financial Products: The World Bank offers its borrowers financial products denominated in their domestic currencies, subject to the availability of liquid swap markets that permit the Bank efficient intermediation of these transactions. With these products, borrowers have the option to convert or swap disbursed loan amounts into their respective domestic currencies, depending on the loan product. The local currency financial products are confined to the local expenditure component of the World Bank’s financing; clients’ requests are considered on a case-by-case basis.

C. Commodity Hedges

Commodity swaps are individually negotiated transactions to exchange two sets of cash flows at specified dates in the future. One set of cash flows is linked to the market price of a commodity or index, and the other is a pre-agreed fixed cash flow or a cash flow based on a floating or fixed rate of interest. IBRD offers this product on a case-by-case basis.

D. Transaction Fees for Hedging Products

Fees for interest rate caps/collars and commodity swaps are billed at the time the transaction is executed and are payable within 60 days. For currency swaps and interest rate swaps, the transaction fee is added as a spread to the interest rate applicable for that loan or tranche. IBRD may revise the fee schedule from time to time. In such cases, the revised fees would apply only to hedge requests submitted after the new schedule is in effect.10

Table 11 shows the transaction fees on IBRD hedging products. This fee is expressed as a percentage per annum on the principal amount being hedged, unless otherwise indicated.

9 Currency swaps on CPLs and SCPs reflect exchanges only of principal.
Table 11: Transaction Fee Schedule for IBRD Hedging Products

<table>
<thead>
<tr>
<th>Transaction Type</th>
<th>Transaction Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hedges on Liabilities to IBRD</strong></td>
<td></td>
</tr>
<tr>
<td>Currency Swaps</td>
<td>0.020%&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>Interest Rate Swaps</td>
<td>0.010%</td>
</tr>
<tr>
<td>Interest Rate Caps/Collars</td>
<td>0.125%&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td>Commodity Swaps</td>
<td>0.375%&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>Hedges on Liabilities to Others</strong></td>
<td></td>
</tr>
<tr>
<td>Major Currencies</td>
<td></td>
</tr>
<tr>
<td>Local Currencies&lt;sup&gt;1&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Currency Swaps</td>
<td>0.100%</td>
</tr>
<tr>
<td>Interest Rate Swaps</td>
<td>0.030%</td>
</tr>
</tbody>
</table>

<sup>1</sup> An additional fee for convertibility risk may apply for local currency swaps. The amount of this fee will be determined on a country-by-country basis.

<sup>2</sup> Expressed as a percentage of the principal amount involved, and payable as a lump sum.

**E. Pool Loan Interest Rate Conversions**

A proposal to change the interest rate basis of the currency pool and dollar pool loans to a more transparent, market-based rate was approved in May 2006. Based on current forward market rates, this converted rate was expected to be lower than the rising rates projected in these loan programs and thus, was expected to reduce the cost of these loans to borrowers.

Under the terms of this proposal, borrowers with currency pool and dollar pool loans are provided the option of converting the interest rate basis. They can opt for a variable six-month LIBOR plus one percentage point or the fixed rate equivalent of the relevant swap rate plus one percentage point. The swap rate corresponds to the period closest to the remaining weighted average maturity of the loan.

In the case of CPLs, the LIBOR (swap rate) is defined as the weighted average of the LIBOR rates (swap rates) in the three major currencies of the pool in the ratio 1 USD: 1 Euro: 125 Yen. The proposal also entails a prepayment provision based on the redeployment cost for the loans that are converted. Converted CPLs do not qualify for the partial interest waiver.

Borrowers can exercise the option to request a conversion of the interest rate basis for any of their outstanding CPLs and/or dollar pool loans by June 30, 2009. The date on which the first conversion became effective was January 1, 2007.

As a supplement to the above offer, IBRD came out with an accelerated rate-fixing offer. Based on this offer, the rates on CPL and SCPD are determined on the rate fixing date immediately following the date of the Bank’s acceptance of the Conversion Request, rather than on the loan’s next interest payment date. As in the existing procedure, this new fixed rate would become effective on the interest period beginning on the loan’s next interest payment date.
Borrowers interested in converting the interest rate basis of their existing currency pool loans must submit the Conversion Request\textsuperscript{11} at least 30 days before the next interest payment date, in the specified format. Once the request has been submitted and accepted by the Bank, the client cannot cancel or amend the request. The magnitude of the risk from adverse interest rate movements is subject to the time elapsed between the date the client sends the request to fix the interest rate and the date IBRD actually conducts the fixing. The IBRD rate fixing date is approximately two business days before the next interest payment date for each loan. In the case of ‘accelerated’ conversions, the IBRD rate fixing date is two business days before the immediate next rate fixing date. Thus, the time elapsed between the clients’ request and IBRD’s fixing the interest rate can range from 30 days to 7 months.

\textsuperscript{11} To obtain the Conversion Request form, contact Mr. Miguel Navarro-Martín, Sr. Financial Officer, Debt Capital Markets & CBP, E-mail: mnavarromartin@worldbank.org.
Chapter VI

IDA Development Credits

A. Regular IDA Credits

The International Development Association (IDA) is the World Bank’s concessional lending window. IDA extends funds to the poorest developing countries in the form of credits, at zero interest rate. All development credits are made to or guaranteed by member governments, or to the member government of a territory of a member. This applies to all credits except for development credits which have been made to regional development institutions for the benefit of members or territories of IDA members.

Eligibility for IDA development credits is based on a country’s per capita income and its lack of financial ability to borrow from IBRD. In fiscal year 2009, the upper limit on per capita income for IDA countries was set at a maximum of USD 935 per capita. Some countries, such as India and Pakistan, are eligible for IDA development credits due to their low per capita incomes. They are also creditworthy for IBRD borrowing. These countries are known as blend borrowers.

IDA eligibility is a transitional arrangement, allowing the poorest countries access to substantial resources. As their economies grow, the countries graduate from eligibility. Some IDA countries are eligible for grants only and others are eligible for a grant/credit mix. Grant eligibility is solely driven by a country’s risk of debt distress. In IDA14, about 22 percent of total commitments were grants.

Grants in IDA15 are available solely for IDA-only countries. The amount of grants available for each country is a function of the country’s performance-based IDA allocation and its eligibility for grants based on the risk of debt distress. Countries with a low risk of debt distress will receive 100 percent of their IDA allocation as credits. Countries with a medium risk of debt distress will receive 50 percent of their IDA allocation as credits and the other 50 percent as grants. Countries with a high risk of debt distress will receive 100 percent of their allocation in the form of grants.

IDA development credits are denominated in Special Drawing Rights (SDRs). The amounts disbursed, service and commitment charges, and repayments are also calculated in SDRs. Principal payments and charges are made in the currency (U.S. dollars, pounds sterling, or euros) specified in the Credit Agreement in an amount equivalent to the SDRs required under the Credit Agreement.

Lending Terms

No interest is charged on IDA development credits. However, a service charge of 75 basis points per annum is levied on the principal amounts withdrawn and outstanding. A commitment fee is applied on the undisbursed credit balance. IDA’s standard commitment fee is set for each fiscal year, between 0-50 basis points. The commitment charge begins to accrue 60 days after the

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Credit Agreement is signed. The management reviews IDA’s financial position on an annual basis and proposes a specific rate for that year for the Board’s approval. At the beginning of each fiscal year, borrowers are notified of the rate applicable for that year. For fiscal year 2009, the Bank’s Board approved a commitment charge rate of zero basis points for all outstanding and new IDA credits.

Amortization and Grace Periods

IDA credits approved by the Board through June 30, 1987, have a final maturity of 50 years. IDA credits approved after that date have three different final maturities and repayment schedules. For the countries' current maturities and repayment schedules, see OP 3.10, Annex D:

(a) For IDA-only countries or countries classified as least developed by the United Nations (LLDCs), credits are repayable over 40 years, with principal repayment at the rate of 2 percent of the credit amount per year from the 11th to the 20th year, and 4 percent per year thereafter. (See Annex D for IDA-only and LLDC classifications.)

(b) For other IDA-eligible countries, credits are repayable over 35 years, with repayments of 2.5 percent of the credit amount per year from the 11th to the 20th year, and 5 percent per year thereafter.

(c) For credits approved after June 30, 2002, for IDA-eligible countries with a GNI per capita that has been above the operational cutoff for IDA eligibility for more than two consecutive years, credits are repayable over 20 years, with principal repayment at the rate of 10 percent per year from the 11th to the 20th year.

The first amortization payment on a credit is due on the semiannual payment date immediately following the 10th anniversary of the date the credit was approved by IDA. For credits approved through June 30, 1987, the last amortization payment is due on the semiannual payment date immediately preceding the 50th anniversary. For credits approved after that date, the last amortization payment is due on the semiannual payment date immediately preceding the 20th, 35th, or 40th anniversary, as the case may be.

Accelerated Repayment Provisions

For Development Credit Agreements approved after June 30, 1987, the terms of outstanding credits extended to a particular borrower are modified if both these conditions are met:

(a) The annual per capita GNI of the borrower has remained above the historical ceiling\textsuperscript{13} for five consecutive years.

(b) The borrower has achieved creditworthiness for IBRD borrowing.

For Development Credit Agreements, for which invitations to negotiate were issued on or after August 1, 1996, subject to the Board’s review and approval, the terms of outstanding credits extended to a particular borrower are modified if both these conditions are met:

(a) The annual per capita GNI of the borrower has remained above the operational per capita income cutoff\textsuperscript{14} for three consecutive years.

\textsuperscript{13} See the front notes to Annex D of OP 3.10 for the current equivalent of the historical per capita income ceiling figure.
(b) The borrower has achieved creditworthiness for IBRD borrowing.

When these conditions for adjusting terms have been met, IDA may, subject to the Board’s review and approval, require the borrower to repay twice the amount of each principal installment not yet due, until the credit is fully repaid.

Alternatively, the borrower may request that IDA substitute an interest charge for some or all of the higher principal repayments, provided the new terms have a grant element equivalent to that resulting from doubling the principal payments alone. If a borrower’s economic condition deteriorates significantly after terms have been adjusted, IDA may, if the borrower requests, revert to the original repayment schedule.

B. Hard-Term IDA Credits

Countries eligible for hard-term IDA credits are defined under IDA14 as blend countries with both: (a) a per-capita income below the operational cutoff for IDA eligibility, and (b) an active IBRD lending program. The maturity of hard-term credits is 35 years with 2.5 percent of principal repayable per annum for years 11-20 and 5 percent per annum for years 21-35.

Standard IDA service and commitment charges apply plus a fixed interest charge for the life of each credit. The interest is set annually and will apply for all hard-term IDA credits approved during a fiscal year. For credits approved in FY09, the interest rate is 3.2 percent. The applicable interest rate for the fiscal year will be published in OP 3.10, Annex D: IBRD/IDA Countries: Per Capita Incomes, Lending Eligibility, and Repayment Terms.

The interest rate consists of:

1. a base rate and a spread.
   - The base rate is the 40-year interest rate swap quoted by Garban-Intercapital (Reuters).
   - The current spread is calculated to mimic the current spread on IBRD’s fixed spread loans. The net spread will consist of a contractual spread and risk premium.

2. a reduction of 200 basis points from the base rate plus the net spread calculated in point 1.

As with standard IDA credits, the currency of denomination will be the SDR. Principal payments, interest, service, and commitment charges are due in the currency (USD, EUR, or GBP) specified in the Development Credit Agreement in an amount equivalent to the SDRs required under the Agreement.

Table 12 shows the lending terms on IDA products.

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14 See the front notes and footnote 2 to Annex D of OP 3.10 for the current equivalent of the operational cutoff figure and exceptions to the cutoff.
Table 12: Snapshot of IDA Terms
(as of July 1, 2008)

<table>
<thead>
<tr>
<th>IDA Product</th>
<th>Maturity a/</th>
<th>Grace Period</th>
<th>Principal Repayments</th>
<th>With Acceleration Clause b/</th>
<th>FY09 Commitment Fee c/</th>
<th>Service Charge for Credits d/</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year 11-20</td>
<td>Year 20-40</td>
<td></td>
<td></td>
<td>Credits</td>
<td>Grants</td>
<td></td>
</tr>
<tr>
<td>IDA-only</td>
<td>40</td>
<td>10</td>
<td>2.0% 4.0%</td>
<td>Yes</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.75%</td>
</tr>
<tr>
<td>Blend</td>
<td>35</td>
<td>10</td>
<td>2.5% 5% ^c</td>
<td>Yes</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.75%</td>
</tr>
<tr>
<td>Hardened Term ^f</td>
<td>20</td>
<td>10</td>
<td>10.0% NA</td>
<td>No</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.75%</td>
</tr>
<tr>
<td>Hard Term Lending</td>
<td>35</td>
<td>10</td>
<td>2.5% 5% ^c</td>
<td>Yes</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.75%</td>
</tr>
<tr>
<td>Guarantee</td>
<td>NA</td>
<td>NA</td>
<td>NA NA NA NA</td>
<td>NA</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.75% ^g</td>
</tr>
</tbody>
</table>

a/ The maturity of all IDA credits approved by the Board through June 30, 1987, is 50 years. The maturity of IDA credits approved by the Board after June 30, 1987, is 35 or 40 years.

b/ IDA credits include an acceleration clause, providing for doubling of principal payments from creditworthy borrowers, where per capita income remains above eligibility thresholds.

c/ IDA's commitment charge is a variable charge set within a range of 0-0.5 percent of the undisbursed balance of IDA's credits and grants. The executive directors set the level of the commitment charge annually.

d/ The service charge is 0.75 percent of disbursed and outstanding credit balance. The service charge is only applied to credits.

e/ Year 20-35

f/ The hardened terms are approved for the IDA13 period and have been effective from July 1, 2002. All IDA countries with GNI per capita above the operational cutoff for more than two consecutive years will be subject to IDA lending on hardened terms. Lending on hardened terms supersedes the accelerated repayment provision.

g/ This fee is applied on disbursed and outstanding amounts of a guaranteed financing in the same way that service charges on IDA credits are applied. The guarantee fee is currently fixed at 75 basis points (bps) per annum, equal to the fixed level of service charges on IDA credits.
C. European Economic Commission (EEC) Credits

Since 1978, IDA has administered a fund on behalf of the European Economic Community (EEC). The fund (USD 385 million at inception) was established to fulfill the pledge made by the industrial countries at the 1977 Conference on International Economic Cooperation to meet the immediate needs of low-income countries. The EEC funds were lent to eligible borrowers on IDA terms. Principal repayments, which begin after 10 years, are repayable through IDA, to the European Union (EU) members who had contributed to the fund.

IDA acts as an administrator of the Special Action Account established with funds contributed by the member states of the EEC. The member states are Belgium, Denmark, Germany, France, Ireland, Italy, Luxemburg, Netherlands, and the United Kingdom.

Borrowers from IDA member countries were provided funding from this special account for financing specific projects.

For its role as administrator of this account, IDA receives an amount of 0.75 percent per annum of the outstanding credit balance in each of the EEC credits.

The EEC members had proposed to write off the EEC credits for countries that have reached HIPC completion point. The write-off for individual countries is subject to the approval of all EEC members and is processed on a case-by-case basis.
Chapter VII

World Bank Guarantees

The World Bank offers three basic types of guarantees: partial risk guarantees (IBRD and IDA); partial credit guarantees (IBRD); and policy-based guarantees (IBRD). Governments, government-owned entities, and privatized or private sector entities are all eligible to receive credit enhancement under the World Bank’s guarantee. However, in countries where the World Bank limits the availability of IBRD loans, these limits also apply to guarantees.

A. IBRD Guarantees

IBRD guarantees are available only to IBRD-eligible countries, with the exception of certain foreign exchange earnings projects for which an IBRD guarantee is provided in an IDA country.

Instrument Type and Project Eligibility

Partial risk guarantees cover private lenders against the risk of a public entity failing to perform its obligations with respect to a private project. The guarantees ensure payment in the case of a default resulting from the nonperformance of contractual obligations undertaken by governments or their agencies in private sector projects. These sovereign contractual obligations vary depending on project, sector, and country circumstances. The obligations are determined as part of the negotiations for the guarantee.

Partial credit guarantees cover private lenders against all risks during a specific period of the financing term of debt for a public investment. Such guarantees allow public sector projects to extend maturities and lower spreads. Partial credit guarantees cover all events of nonpayment for a designated part of a financing arrangement. These guarantees are used to encourage extension of maturity by covering the latter years of a loan’s maturity.

Policy-based guarantees extend the World Bank’s partial credit guarantee instrument beyond investment projects to sovereign borrowings from private foreign creditors, in support of agreed structural, institutional, and social policies and reforms. Policy-based guarantees are intended to play a catalytic role in helping World Bank borrowers with strong economic and social programs to improve their access to private foreign financing. The guarantee can either be self-standing or part of a larger package of IBRD financial support.

Enclave guarantee is a partial risk guarantee structured for export-oriented, foreign exchange generating commercial projects in IDA-only countries. IBRD considers providing a non-accelerable guarantee for such projects, provided adequate arrangements are in place to ensure that the host government will be able to meet its obligations with respect to the guarantee. The enclave guarantee usually covers direct sovereign risks such as expropriation, changes in law, war,

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15 For additional information, see the Guarantees website at www.worldbank.org.

16 Such guarantees usually cover a portion of debt service on a borrowing (loans or bonds) by an eligible member country from private foreign creditors, in support of agreed structural, institutional, and social policies and reforms. The guarantee can be self-standing or part of a larger package of IBRD financial support.

17 IBRD’s payment obligations to lenders under such guarantees are limited to the annual principal and interest obligations originally scheduled under the guaranteed loan. Under an accelerable guarantee, the unpaid balance of guaranteed exposure would be payable by the Bank upon call of the guarantee.
and civil strife. The World Bank generally will not guarantee any payment obligations (such as those of an output purchaser), nor will it guarantee transfer risk. In all cases, the scope of risk coverage under the guarantee is the minimum required to mobilize financing for a given project.

B. IDA Guarantees

In many IDA-only countries, macroeconomic reforms have led to an improved business environment suitable for increased private sector participation, especially in sectors undergoing significant reforms.

Instrument Type and Project Eligibility

Partial-risk guarantees in IDA countries are intended to ease the transition of countries that are clearly on the path of reform. The guarantee is offered to private lenders against country risks that are beyond the control of investors, and where official agencies and the private market offer insufficient insurance coverage. The guarantee can cover up to 100 percent of the principal and interest of a private debt tranche for defaults arising from specified sovereign risks, including government breach of contract, foreign currency convertibility risk, expropriation, and changes in law. This guarantee is available in selected cases in IDA-only countries where an IBRD enclave guarantee is not applicable.

C. Fees and Pricing on Guarantees

The Bank charges a standby fee (IDA only), a guarantee fee, and a front-end fee to provide a guarantee. In addition, the Bank may also charge an initiation fee and a processing fee for a private sector project. Charges are based on the concept of loan equivalency and may differ from one guarantee structure to the other. Table 13 shows the different types of fees charged in FY09 for new guarantees, for both IBRD and IDA.

Table 13: Fee Charges (in Basis Points) on World Bank Guarantees for FY09

<table>
<thead>
<tr>
<th>Type of Guarantee</th>
<th>Up-Front Fees</th>
<th>Recurring Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Initiation Fee</td>
<td>Processing Fee</td>
</tr>
<tr>
<td>IBRD Partial Risk Guarantee</td>
<td>15 bp of the guaranteed amount</td>
<td>Up to 50 bp of the guaranteed</td>
</tr>
<tr>
<td></td>
<td>or USD 100,000 (whichever is higher)</td>
<td>amount</td>
</tr>
<tr>
<td>IBRD Partial Credit and Policy-based Guarantee</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Type of Guarantee</td>
<td>Up-Front Fees</td>
<td>Recurring Fees</td>
</tr>
<tr>
<td>------------------</td>
<td>---------------</td>
<td>----------------</td>
</tr>
<tr>
<td></td>
<td>Initiation Fee(^1,2)</td>
<td>Processing Fee(^1,2)</td>
</tr>
<tr>
<td>IBRD Policy-based Guarantee related to SDPL</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>IBRD Enclave Partial Risk Guarantee</td>
<td>15 bp of the guaranteed amount or USD 100,000 (whichever is higher)</td>
<td>Up to 50 bp of the guaranteed amount</td>
</tr>
<tr>
<td>IDA Partial Risk Guarantee</td>
<td>15 bp of the guaranteed amount or USD 100,000 (whichever is higher)</td>
<td>Up to 50 bp of the guaranteed amount</td>
</tr>
</tbody>
</table>

\(^1\) For all private sector borrowers, that is, only applicable to partial risk guarantees.

\(^2\) Determined on a case-by-case basis. Exceptional projects can be charged over 50 bp of the guaranteed amount.

\(^3\) Charged on the present value of the guarantee exposure.
Chapter VIII

IDA Grants

Pursuant to Article V, Section 2(a)(ii) of the IDA Articles of Agreement, only funds that are provided with specific grant authorization may be used to finance IDA grants. Starting in IDA11, the Board of Governors authorized IDA to provide grants in the context of the HIPC Debt Initiative. In IDA12, this authority was expanded to include grants under exceptional circumstances to post-conflict countries under a framework approved by the executive directors. In IDA13, the Board of Governors approved a substantially expanded use of IDA grants in the range of 18 to 21 percent of overall IDA resources. In February 2005, discussions concluded for IDA14 with IDA donors agreeing to provide the largest increase of IDA’s resources in over two decades. The estimated share of IDA14 resources to be provided on grant terms is approximately 30 percent as compared to the 18-21 percent in IDA13.

Negotiations for IDA’s 15th replenishment (IDA15) concluded in December 2007. At US$41.7 billion for the next three years, this is IDA’s largest replenishment ever. The donor contributions are complemented by US$6.3 billion from prior donor pledges to the Multilateral Debt Relief Initiative (MDRI) and a further US$10.2 billion from reflows and internal financing from the World Bank Group. IDA15 will provide resources to low-income countries for the July 2008-June 2011 period and will play an important role in supporting IDA-recipient countries in their efforts to achieve the Millennium Development Goals by 2015.

IDA’s Performance-Based Allocation (PBA) system will continue to be the basis for the distribution of IDA resources during the IDA15 period. In IDA15, there is a special provision for selected regional integration projects which began as a pilot program in IDA13. The IDA15 period envisages up to SDR 400 million per year in topping-up resources for such projects. These resources would be used to finance two-thirds of a country’s share of the costs of a regional project with the remaining one-third contribution from the country’s IDA allocations. Beginning IDA15, a 20 percent ceiling will be placed on country contributions to regional projects.

Countries emerging from severe conflict can, under certain conditions, be provided with additional resources to support their recovery and to recognize a period of exceptional need. Post-conflict allocations are based on country performance, which is measured using the Post-Conflict Performance Indicators.

For countries re-engaging with IDA after a prolonged period of inactivity, exceptional allocations can be provided on the basis of a strong transitional plan with concerted donor support. Eligibility is not automatic, and continuation of exceptional support would depend on the country’s performance. Eligible countries can qualify for exceptional allocations to help finance the cost associated with the clearance of arrears to IBRD and/or IDA.

18 For additional information on IDA grants, refer to the IDA website at http://www.worldbank.org/ida.
19 The intensity of conflict is judged on the basis of the degree to which exceptional assistance will be needed for reconstruction efforts. The three key dimensions of conflict intensity are (i) the extent of human casualties directly or indirectly caused by the conflict; (ii) the proportion of the population that is either internally displaced or in exile; and (iii) the extent of physical destruction, for example, isolated, local, or regional. It is expected that eligible countries would be those that have experienced highly intensive conflicts as measured across one or more of these three dimensions. (Refer to IDA 14: Aid Delivery in Conflict-Affected IDA Countries: the Role of the World Bank.)
These grants are allocated for specified categories such as HIV/AIDS, natural disasters, and IDA-only countries that are very poor, vulnerable to increased debt, or attempting to recover after an armed conflict. Funds received from IBRD as net income transfers include explicit authority that such funding can be used for grants, beginning with the transfer out of IBRD's FY97 net income.

**Allocation of Funds**

The amount of grants available for each IDA country is a function of the country's performance-based IDA allocation, its eligibility for grants, and IDA's overall available grant envelope. IDA and its borrowing members agree on which projects are to be financed fully by grants and which projects will be a blend of credits and grants. Their agreement is based on a country's circumstances, priorities and preferences, the size and nature of projects, and the share of grants in the IDA allocation for that country.

Under the IDA15 guidelines, the performance-based allocation system will operate in conjunction with a new IDA grant allocation system which sets the terms (that is, credit or grant) on which IDA resources will be provided. The risk of debt distress is the primary grant eligibility criterion in the new system, and the share of grants in total IDA financing will emerge from a country-by-country analysis of the risk of debt distress.

**Grant Eligibility**

Grant eligibility under IDA15 will be limited to IDA-only countries and will be based on the ratings of countries’ risk of debt distress. Debt distress risk will initially be estimated from current data on key external debt ratios. Existing Debt Sustainability Analyses (DSAs) may be used to supplement this rating mechanism. Over time, debt distress risk estimates will be based only on DSAs.
Chapter IX

Debt Relief Initiatives

A. Debt Servicing Trust Funds

Debt Service Trust Funds (DSTFs) are established for the settlement of debt service amounts that are due to the Bank (IBRD and/or IDA). These funds are administered by the Bank in accordance with the letter of agreement and the trust fund (TF) agreement between the Bank and the beneficiary. As the proceeds of the TF are used to settle debt service amounts that are due, LSG participates from the outset of the TF arrangement with the beneficiary and related departments in the Bank. The use of the fund is governed by the terms in the letter of agreement between the Bank, the donor, and the beneficiary.

LSG processes all disbursements from DSTFs and applies the funds to debt service payments due to IBRD/IDA. DSTFs are also used in customized ad hoc payment mechanisms agreed on between the donor and the beneficiary. Such instances include a “buy-down” arrangement between a donor and a beneficiary. In a buy-down, the donor makes funds available in a trust fund which is to be used for extinguishing specific debts of a recipient, subject to the recipient fulfilling certain pre-specified conditions. Once the conditions are fulfilled, the Bank uses the funds available in the donor-funded trust fund to ‘prepay’ the pre-identified debts of the beneficiary.

Additional information on other trust funds and programs can be obtained at the World Bank website http://www.worldbank.org.

B. Highly Indebted Poor Countries (HIPC)

The HIPC Initiative was established in 1996 after almost two decades of repeated debt rescheduling provided to low-income countries by members of the international community. Unlike traditional debt reduction mechanisms, the HIPC initiative involved, for the first time, debt relief from multilateral financial institutions. Its objective was to reduce eligible countries’ debt burdens to the thresholds established under the initiative, subject to satisfactory policy performance. The countries targeted under the initiative were the poorest, most heavily indebted members of IDA and the IMF that pursued or adopted programs of adjustment and reform supported by the two institutions. These countries could benefit from the initiative by showing a track record of putting resources freed by debt relief to good use. To date, the HIPC initiative remains the only internationally agreed framework for providing comprehensive debt relief to low-income countries, although creditor participation continues to be voluntary.

The HIPC initiative was enhanced in September 1999 to provide broader, deeper, and faster debt relief. The enhancement was the result of a comprehensive review of the initiative by IDA and the IMF, and of public consultations which emphasized the need to deepen and accelerate the implementation of the initiative. In this context, the initiative’s debt burden thresholds were adjusted downward, enabling a larger group of countries to qualify for more debt relief. A number of creditors, including multilateral institutions, also started to provide early assistance in the form of interim relief to qualifying countries. Moreover, “floating completion points” were introduced, which were contingent on an outcome-based assessment of country performance
rather than a fixed track record. These were aimed to provide incentives to implement reforms quickly, speed up the delivery of debt relief, and develop country ownership of reforms.

At the same time, the links between debt relief and poverty-reduction efforts were strengthened. The international community agreed that debt relief needed to be part of a comprehensive poverty reduction strategy focused on strengthened institutional capacity, higher growth, and better targeted social programs. Debt relief was henceforth linked to progress in preparing and implementing Poverty Reduction Strategies (PRSs), which were designed to be country-driven and developed with the broad participation of civil society.

C. Multilateral Debt Relief Initiative (MDRI)

The MDRI was launched in 2005 to further reduce the debts of HIPCs and provide additional resources to help them meet the Millennium Development Goals. Proposed by the G8 countries, the MDRI is separate from the HIPC Initiative but linked to it operationally. Under the MDRI, three multilateral institutions—IDA, the IMF, and African Development Fund (AfDF)—provide 100 percent debt relief on eligible debts to countries having completed the HIPC initiative process. While the MDRI is an initiative common to three institutions, the implementation modalities vary.

Debt relief under the MDRI is to be provided by the three institutions once a country reaches the HIPC completion point. A key aspect of the MDRI is its compensatory financing for IDA. Moreover, annual allocations from IDA to countries receiving MDRI debt relief will be reduced by the amount of MDRI debt service relief in that year. Unlike the HIPC initiative, the MDRI is not comprehensive in its creditor coverage. It does not involve participation by official bilateral or commercial creditors, or of multilateral institutions other than the three mentioned in Table 14.

<table>
<thead>
<tr>
<th></th>
<th>HIPC Initiative</th>
<th>MDRI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Country coverage</strong></td>
<td>IDA-only, PRFG-eligible countries with debt indicators above the HIPC Initiative thresholds, which have been engaged in qualifying IMF and IDA-supported programs</td>
<td>HIPC countries having reached completion point</td>
</tr>
<tr>
<td><strong>Participating creditors</strong></td>
<td>All multilateral, official bilateral and commercial creditors of external public and publicly guaranteed debt to HIPCs</td>
<td>International Development Association (IDA), the International Monetary Fund (IMF), African Development Fund (AfDF), and Inter-American Development Bank (IADB)</td>
</tr>
</tbody>
</table>
### Debt relief provided

**HIPC Initiative**
External public and publicly guaranteed debt is reduced to the HIPC Initiative thresholds as calculated at the time of the decision point.

**MDRI**
Debt disbursed before end-December 2004 (IMF, AIDF, and IADB) and end-December 2003 (IDA), and still outstanding at the time of qualification (after HIPC Initiative debt relief) is cancelled.

### Modality of delivery

**HIPC Initiative**
Different modalities - most multilateral and Paris Club creditors also provide interim debt relief.

**MDRI**
Stock-of-debt operation at or shortly after the completion point.
Chapter X

Overdue and Sanctions Policy

When a borrower fails to service its loans, credits, or Project Preparation Advances (PPAs) on the due dates, the World Bank has the option of immediately suspending disbursements on all loans and credits to the borrower. The World Bank’s current practice is to follow a graduated approach, using reminders, incentives, and sanctions. Reminders are sent to defaulting borrowers on the 5th, 15th, 30th, and 35th days after the due date. On the next business day after the 45th day, a warning of suspension notice is sent to the member country and all borrowers therein, informing them that the suspension of disbursements will take effect on the 60th day.

Progressive sanctions are imposed by withholding Board presentations of new loans and guarantees, delaying signature of previously approved loans and guarantee agreements, and suspending disbursements. When a second consecutive service payment is missed on any loan to or guaranteed by a member, all loans to or guaranteed by the member are placed in non-accrual status.

A. Reminders and Sanctions

When payment is:

5 or 15 days overdue:

LSG notifies the borrower that if the amount is still overdue more than 30 days after the due date, these actions apply: (i) the borrower may lose eligibility for any applicable interest waiver, (ii) no new loans will be presented to the Board for approval, and (iii) no agreements related to previously approved loans will be signed.

30 days overdue:

The Country Department notifies the defaulting borrower that no new loans will be presented to the Board for approval and no agreements related to previously approved loans will be signed.

The Country Department informs the country, if it is the guarantor and not the borrower in default, that if the payment becomes 45 days overdue, no new loans to or guaranteed by the country will be presented to the Board for approval. In addition, no agreements related to previously approved loans to or guaranteed by the country will be signed. The guarantor country and all other borrowers guaranteed by the guarantor country will also become ineligible for any applicable interest charge waiver. Both the country and the borrower are also notified that a warning may be issued that disbursements may be suspended on the 60th day overdue on all loans or credits to both the borrower and the country. This warning is issued on the 45th day after the due date.
35 days overdue:

LSG informs the borrower that it has lost its eligibility for any partial waiver of interest in eligible IBRD loans. Loans which are signed on or after September 27, 2007, under the new pricing terms, are subject to an additional 50 basis points late charge when payment of principal is received 30 days after the due date.

45 days overdue:

The Country Department informs the borrower and country that no new loans to or guaranteed by the country will be presented to the Board for approval. It also informs the borrower that agreements related to previously approved loans to or guaranteed by the country will not be signed. The guarantor country and all other borrowers guaranteed by the guarantor country are also informed that they are ineligible for any applicable interest charge waiver. Both the country and the borrower are notified that disbursements will be suspended on all loans to or guaranteed by the country on the 60th day after the due date unless all outstanding payments are made, including those falling due by that date.20

50 days overdue:

LSG informs the guarantor that it has lost eligibility for any partial waiver of IBRD interest on all loans guaranteed by it.

53 days overdue:

The Country Department informs the project co-financiers and the relevant regional development banks of the pending suspension.

60 days overdue:

The Country Department informs the borrowers and country by fax or telex (usually by fax) that a suspension of disbursements is in effect and notifies the Board. At the discretion of the World Bank, the notice may specify items that are exempted from the suspension.

Six months overdue:

When service payments on a loan or development credit become six months overdue (more specifically, on the date that the second consecutive service payment is missed), the regional vice president sends a notice to the member. A formal notice is also sent to the Board within two days of that date (known as the trigger date), and a news release is distributed. Information on borrowers with loans for which payments are more than six months overdue is included in the World Bank’s financial statements.

20 This notice may be delayed in certain situations, as described in OP 13.40, available at www.worldbank.org.
B. Late Payment Charges

In accordance with IBRD’s new pricing terms, loans signed on or after September 27, 2007, do not qualify for waivers of charges. To preserve the incentive for timely debt servicing of IBRD loans, a 50 basis points Late Payment Charge applies to principal payments received 30 days after the due date. If an overdue amount remains unpaid for a period of 30 days, then the borrower shall pay a higher interest rate (referred to as the Default Interest Rate) on the overdue principal amount until the overdue amount is fully paid. This higher interest rate is in lieu of the interest rate specified in the Loan Agreement. Interest accrues at the Default Interest Rate from the 31st day following the date on which the amount becomes overdue. Interest is payable semiannually in arrears on each payment date.

In respect of any amount of the withdrawn loan balance to which the Default Interest Rate applies and for which interest was payable at a variable rate before the application of the Default Interest Rate, the Late Payment Charge is the variable rate for the relevant Interest Period (Example: LIBOR + fixed spread) plus one half of one percent (0.5 percent). For cases where interest was payable at a fixed rate before the application of the Default Interest Rate, the Late Payment Charge is the variable rate for the relevant Interest Period (for example, LIBOR) plus the fixed spread at the time of signing the loan plus one half of one percent (0.5 percent).
Chapter XI

Partial Waiver of Loan Charges Policy

On September 27, 2007, the Board approved the elimination of the waiver system and the replacement of the commitment fee with a small front-end fee. This decision was to simplify and improve the transparency of IBRD’s loan pricing. Going forward, these changes on the IBRD pricing level apply to standard loans signed on or after September 27, 2007. Because of the new pricing policy, a borrower may have a mix of old (with waiver) loans and new (no waiver) loans in the outstanding portfolio. Table 15 reflects the applicable charges and waivers on IBRD loans:

Table 15: Loan Charges and Waivers

<table>
<thead>
<tr>
<th>IBRD Loans Whose Invitation to Negotiate Is:</th>
<th>IBRD loans signed on or after September 27, 2007*</th>
<th>IBRD loans signed on or after March 29, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before July 31, 1998</td>
<td>On or After July 31, 1998, and signed before September 27, 2007</td>
<td></td>
</tr>
<tr>
<td>Front-end Fee</td>
<td>None</td>
<td>0.25% of loan amount</td>
</tr>
<tr>
<td>Contractual Spread</td>
<td>0.50%</td>
<td>0.75%</td>
</tr>
<tr>
<td>Fixed Spread Risk Premium</td>
<td>N/A</td>
<td>0.05%</td>
</tr>
<tr>
<td>Commitment Fee</td>
<td>0.75% on undisbursed amounts</td>
<td>0.75% on undisbursed amounts</td>
</tr>
<tr>
<td>FY09 Interest Waiver</td>
<td>0.05% for borrowers paying on time</td>
<td>0.25% for borrowers paying on time</td>
</tr>
<tr>
<td>FY09 Commitment Fee Waiver</td>
<td>0.50% waived unconditionally on a yearly basis to all borrowers</td>
<td>0.50% waived unconditionally on a yearly basis to all borrowers</td>
</tr>
<tr>
<td>FY09 Front-end Fee Waiver</td>
<td>N/A</td>
<td>1.00% waived unconditionally on a yearly basis to all borrowers</td>
</tr>
</tbody>
</table>

* These charges are for standard Bank loans. Special Development Policy Loans (SDPLs) have different financial terms, including higher loan charges. SDPLs have a minimum lending spread of 400 basis points over LIBOR, a front-end fee of 100 basis points, and are not eligible for waivers.

Loans Signed on or After September 27, 2007

In accordance with IBRD’s new pricing terms, loans signed on or after September 27, 2007, do not qualify for any waivers of charges. These loans are entitled to a reduced contractual loan spread, front-end fee, and no commitment charges. In addition, to preserve the incentive for timely debt servicing of IBRD loans, a late charge of 50 basis points applies to principal payments received thirty days after the due date. If an overdue amount remains unpaid for a period of thirty days, the borrower shall pay the Default Interest Rate on the overdue amount in lieu of the interest rate specified in the Loan Agreement until the overdue amount is fully paid. Interest at the Default Interest Rate shall accrue from the 31st day following the date on which the amount becomes overdue and shall be payable semiannually in arrears on each payment date.

Loans Signed Before September 27, 2007

Loans signed before September 27, 2007 are subject to the old pricing terms. For such loans, the World Bank may waive a portion of the loan charges applicable in a fiscal year. However, loans signed between May 16, 2007 and September 27, 2007, that have been amended to the new pricing terms, are not eligible for such waivers.

Waivers are subject to the approval of the Board and are based on the annual review of IBRD’s net income. A waiver of charges applies to all such IBRD loans except Special Development Policy Loans (SDPLs). There are three main types of waivers: (a) commitment charge waiver, (b) interest charge waiver, and (c) front-end fee waiver. Borrowers are notified of the applicable waiver rate at the beginning of each fiscal year. Partial waivers apply to all payment periods that commence within the fiscal year for which the waivers are approved.

If a waiver is not approved for a given fiscal year, the specific charge for that fiscal year will revert to the contractual rate in the Loan Agreement. The waivers for commitment charges are expressed and accrued on an actual 365 or 366-day convention, while waivers for interest charges follow the same convention as the interest. The amount waived is reflected in the billing statement of the loan.

Commitment Charge Waiver

The Bank’s Board approved an unconditional one-year waiver of 50 basis points of the contractual commitment charges for all payment periods commencing in fiscal year 2009 for all borrowers. All loans (except for SDPLs) signed before September 27, 2007, under the old pricing terms, are eligible for the commitment charge waiver, regardless of payment performance.

Interest Waiver

For fiscal year 2009, the Bank’s Board approved for eligible borrowers a waiver of 5 basis points of interest charges on loans for which the invitation to negotiate was issued before July 31, 1998. The Board also approved a waiver of 25 basis points on loans for which the invitation to negotiate was issued on or after July 31, 1998, through September 26, 2007.

Eligibility for the partial waiver of interest is limited to borrowers who have made full payments of the principal and charges on all their loans within 30 calendar days of the due dates during the preceding six months. All IBRD loans signed before September 27, 2007, under the old pricing terms, are eligible for the partial waiver of interest except for SDPLs, CPL-VLR82 loans, and
CPL or SCPD loans that have been amended to LIBOR-based variable or fixed-rate loans. The partial waiver of interest policy does not apply to charges on PPA withdrawals.

If a payment under any loan to a borrower is not received by IBRD within 30 calendar days of the due date, all loans that qualified for partial interest waiver to that borrower will be ineligible for the waiver of interest charges. This waiver ineligibility will be in effect until a new qualifying period of six months of full and timely (within 30 days of the due date) payment record is established. If a loan made to or guaranteed by a member country becomes more than 45 days overdue, all loans guaranteed by the guarantor will be ineligible for the partial waiver of interest charges. The waiver ineligibility is irrespective of the individual loans’ eligibility status and will be in effect until all amounts overdue and outstanding under all loans have been paid.

Figure 1 illustrates how the waiver eligibility is affected when a debt service payment is not received within 30 calendar days of the due date.

**Borrower Classification**

For purposes of the waiver policy, loans to a country signed before September 27, 2007, are classified by borrower (either country or entity within a country, such as a utility or specific ministry). The loans are identified as either:

- *IBRD loans*—loans made directly to the member country; in such cases, a government agency represents the borrower; or

- *IBRD Guaranteed loans*—loans granted to entities that are guaranteed by a member country; in such cases, the entity is the borrower.

At the end of each fiscal year, the borrower is provided with a list of waiver-qualified loans for which it is responsible. The borrower also receives a report showing loan charge waiver amounts earned and/or lost during the fiscal year for each loan.
Figure 1. Determining Partial Interest Waiver Eligibility - Example of a Borrower with only Two Loans

**Loan A**
- Billing date
- Due date

- Payment for Loan A was received on April 18 (34 days later), beyond the 30-day threshold.
- Eligibility for all loans is maintained through April 15.

**Loan B**
- Billing date
- Due date

Assuming payments are received within 30 days of the due date, borrower will regain waiver eligibility w.e.f October 17.
Chapter XII

Prepayments

On a date acceptable to the World Bank, borrowers have the right to prepay in advance of maturity (a) the entire outstanding principal of the loan or (b) the entire principal amount of any one or more maturities of the loan. The prepayment premium charged will depend on the specific type of loan.\footnote{See OP 3.10, Annex B, Prepayment of IBRD Loans, at www.worldbank.org.}

The borrower should notify the World Bank at least 45 days in advance of its intention to repay any amount in advance of maturity.\footnote{See Attachment A, Application Form for Prepayment of IBRD loans.} The advance notice is necessary so that the World Bank can provide the borrower with a detailed estimate of the prepayment amount.

A. IBRD Loans

Prepayment Policy for FSLs and IFLs with a Fixed Spread

Partial prepayments of FSLs and fixed-spread IFLs will be applied in the manner specified by the borrower. In the absence of any specification by the borrower, the prepayments can be applied in this manner:

(a) if the Loan Agreement provides for separate amortization of specified disbursed amounts of the principal, such prepayment shall be applied in the inverse order of the said disbursed amounts, based on the withdrawal date (the last-withdrawn disbursed amount is repaid first) and then on the maturity date (within each tranche, the amount to be prepaid is applied in inverse order of maturity, starting with the latest maturity date) as is the case for disbursement-linked FSLs; and

(b) in all other cases (that is, for commitment-linked FSLs), such prepayment shall be applied in the inverse order of maturity of the loan, with the latest maturity repaid first.

The premium covers the cost of redeploying the amount to be repaid, from the date of prepayment to the maturity date of the amount. The prepayment premium charged also includes the Net Present Value of the difference between the fixed spread payable on the prepaid loan and the fixed spread in effect at the date of prepayment.

If a currency conversion has been effected on the loan being prepaid and the conversion period has not been terminated at the time of prepayment, the borrower or the World Bank shall pay an “unwinding amount” (if any) with respect to the early termination of the conversion. Any such cost results in an additional amount payable by the borrower to the Bank, and any such gain is subtracted from the amount to be prepaid or paid by the borrower. The payment of an “unwinding amount” for converted portions of FSLs is over and above the premium determined, based on the spread difference as outlined at the beginning of this section.
Prepayment Policy for VSLs and IFLs with a Variable Spread

IBRD charges a prepayment premium based on the cost of redeploying the amount to be prepaid from the date of prepayment to the maturity date. The amount of the prepayment premium is based on the difference between the contractual lending spread of the prepaid loan and the contractual lending spread in effect for VSLs in the currency of the prepaid loan on the date of prepayment. The present value of the contractual spread difference, which is computed based on current market rates, constitutes the premium charged on the loan prepaid. Prepaid amounts are applied to the latest amortization payments due under the loan.

Prepayment Policy for FSCLs

IBRD charges a prepayment premium based on the cost of redeploying the full amount of the loan to be prepaid from the date of prepayment to the original maturity date. Under an FSCL, IBRD enters into rate-fixing swap transactions to provide the borrower with a fixed rate. At the end of each disbursement period, through a rate-fixing swap transaction, IBRD fixes the rate for the amount of the loan disbursed during that period. Thus, an FSCL consists of multiple tranches, each with its own fixed rate. Upon a prepayment, IBRD unwinds the rate-fixing swap transaction(s) entered into in connection with the amount of the loan to be prepaid. The degree of off-marketness of each such rate-fixing swap is used to determine the redeployment cost of the full amount of the loan to be prepaid.

If IBRD enters into more than one rate-fixing swap transaction in connection with the loan amount to be prepaid, IBRD nets out any gains and losses resulting from the unwinding of each swap transaction. The borrower pays IBRD the calculated net amount as the prepayment premium. However, this is paid with the provision that if such netting results in a negative amount (that is, an amount due to the borrower), the amount is deemed to be zero.

Prepaid amounts are applied in the inverse order of the disbursed amounts under the loan, with the disbursed amount withdrawn last being prepaid first, and the latest maturity of such a disbursed amount being prepaid first. Within each tranche, the amount to be prepaid is applied in inverse order of maturity.

Prepayment Policy for Currency Pool Loans (CPLs)

The premium charged to borrowers for prepaying a CPL is the lower value of (a) the computed contractual premium (the ratio of the premium that would be charged, according to the Loan Agreement, over the current value of the loan) or (b) the premium over the carrying value, based on the carrying values and estimated values in the World Bank’s audited financial statements as of June 30 each year.

The premium rate is calculated by multiplying the current interest rate on the loan by the appropriate factor specified in the Premiums on Prepayment schedule of the Loan Agreement. The calculated premium rate is then applied to the appropriate maturity to arrive at the prepayment premium for that maturity. Premiums computed for all maturities being prepaid on the loan are added together to derive the prepayment premium for the loan. The prepayment premium on a loan is waived in its entirety if the estimated value of all loans in a particular category (fixed or variable) is less than or equal to the carrying value.

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24 The carrying value of a loan represents its book value and is expressed in U.S. dollar equivalent.
In the case of CPLs and USD – Single Currency Pool Loans (SCPDs), where the interest rate has been converted to a variable rate (based on the weighted average of the six-month LIBOR rates in the case of CPLs) or a fixed-rate equivalent, the prepayment premium will be determined using a different methodology based on the redeployment cost for the loans so converted.

Upon receipt of the borrower's request for prepayment, the World Bank will provide detailed estimated prepayment amounts, including the computation of the prepayment premium. The estimate, based on the intended date of the prepayment, includes a margin of 2 to 3 percent to cover any exchange rate fluctuations. Any resulting differences between the estimate and the final amounts are settled after the prepayment date. The actual value of the pool unit on the prepayment date is considered for application of the funds.

To maintain the pool currency composition (USD 1: JPY 125: EUR 1), the prepayment of CPLs is currently being made in each of the three main constituent currencies of the pool (USD, JPY, and EUR). The amount to be paid in each currency will be communicated by the Bank to the borrower. The proportion on each currency is subject to the prevailing AER of the JPY and EUR on the effective date of the prepayment.

B. IDA Development Credits

According to the General Conditions applicable to IDA development credits, Section 3.04 (b), the borrower has the right to repay in advance of maturity, all or any part of the principal amount of one or more maturities of the credit specified by the borrower. Currently, there are no prepayment premium charges on prepayment of IDA credits.

C. EEC Credits

According to the General Conditions applicable to EEC credits, the borrower has the right to repay in advance of maturity, all or any part of the principal amount of one or more maturities of the EEC credit specified by the borrower. Currently, there are no prepayment premium charges on prepayment of EEC credits.
Chapter XIII

Billing Procedures

Most IBRD loans and all IDA credits are billed semiannually on the dates specified in the Loan or Credit Agreement. In the majority of cases, the billing statements are prepared two months before the semiannual payment due date, and they reflect four months of actual accrued charges and two months of estimated charges. Billing statements are sent to respective borrowers about six weeks before the payment due date. These statements are also posted on the Bank’s Client Connection website.

Billing IBRD Loans

In cases where the billing statements are prepared two months before the payment due date, charges are estimated for the two-month period based on the balances and exchange rate values available at the billing cutoff date. The borrower’s obligation is recomputed on the payment due date. The difference between the billed amount and the amount the borrower is legally obligated to pay, as calculated on the due date, is carried forward to the next billing date on a non-interest-bearing basis as a deferred balance.

Differences may arise because of transactions posted between the date the billing is prepared (two months in advance) and the payment due date (see Figure 2). For currency pool loans, the main reasons for these variances are exchange rate fluctuations and changes in the currency pool composition. If the “deferred” amounts are not settled at the time of the next billing, the deferred principal component will be subject to additional charges.

If the due date obligation is less than the amount billed, the resulting excess is carried forward as a credit for application on the next bill and payment due date. No interest is charged or paid on “deferred” or “carry forward credit” amounts.

Billing IDA Development Credits

At the time of negotiations, the borrower selects the currency in which the debt service will be billed. Currently, all IDA development credits are billed in U.S. dollars, pounds sterling, or euros. The borrower may change the currency of repayment by giving appropriate advance notice to IDA. However, any shortage of remittance because of exchange rate conversion is treated as an overdue amount.

Upon receipt, the borrower’s payment is translated at the exchange rate on the value date of receipt into the currency of commitment (either USD or SDR). Shortfalls or surpluses, which may arise because of exchange rate changes or transactions on individual credits between the billing date and due date, are carried forward on the borrower's account for settlement or application on the next payment due date. Overdue principal amounts continue to accrue a service charge of 0.75 percent until settled.
Payment Due Date and Banking Days

Debt service payments are requested on the 1st and the 15th of the month, except if the payment due date falls on a bank holiday. The payment or settlement is then requested for the next banking day.

Cancellation of Undisbursed Amounts

The borrower has the right to cancel any amount of the loan not yet withdrawn, except for amounts for which the World Bank has entered into a special commitment. The World Bank may cancel an amount of the loan for reasons related to continuing suspension of disbursements, savings in project costs, misprocurement, expiration of closing date, or cancellation of the guarantee by the guarantor. In any of these cases, the World Bank may partially or totally cancel the undisbursed balance of the loan by notifying the borrower of this action.

Once an amount of the loan has been canceled by either the borrower or the World Bank, the withdrawal and amortization schedules are revised to reflect the cancellation. The canceled amount is applied to the amortization schedule on a pro-rata basis. Cancellations processed after the billing cutoff date will be reflected in the subsequent billing period.

Capitalization of Charges

Some Loan Agreements provide for the capitalization of loan charges (including commitment charge) which allows the Bank to withdraw the funds required to settle the loan charges on each of the semiannual payment dates from the Interest & Commitment charge category of the loan proceeds. The amounts withdrawn are limited to the agreed U.S. dollar value and to the expiry date of this category.

Billing Sections

The information in the IBRD and IDA billing statements is classified in different sections:

- **Payment Instructions** – Contains details of the payment instructions in the cover letter, including the depository bank account, currency amount, and payable date.

- **Payment Activity** – Presents details of amounts billed from previous period and the application of any payments.

- **Fees** – Presents details of commitment fee billed. Gross fees and waivers are shown separately.

- **Interest Accruals/Service Charges** – Presents details of interest/service charge amounts. Computations of interest and waivers (if any) are shown separately for IBRD loans.

- **Principal** – Amounts due according to the amortization schedule for the loan/credit.
Carry-Forward Receivables – Presents amounts carried forward from the prior billing cycle (if applicable).

Current Dues – Presents the total amount due for the current period (that is, the sum of fees, interest/service charges, principal and carry-forward receivables, less any applicable debt relief and carry-forward credits).

Determination of Definitive amounts due for Previous Billing – Presents the total amount actually due for the previous period. Details are presented by category of charges and/or credits.

Loan Receivable Application – Displays the billed and due amounts and the application of funds received from the borrower and/or other sources for the previous billing cycle, by loan category. Details include any overdue and deferred amounts.

Principal Activity Period – Presents the calculation of principal recall on reference date.

In response to comments and suggestions received from our clients, the World Bank redesigned the billing statements in March 2008. A copy of the brochure “New Billing Statement, Designs Illustrated” (March 13, 2008) explaining the new billing formats can be obtained from the Bank’s Client Connection website.

Payment Applications

IBRD debt service receipts are applied in the following order: (1) overdue amounts, (2) deferred amounts, and (3) current receivables. Within these categories, the funds received are applied in this order: (1) interest on overdue swap receivable (if any), (2) commitment fees (if any), (3) interest on overdue principal, (4) interest, (5) transaction fees, and (6) principal.

IDA debt service receipts are applied in the following order: (1) overdue amounts, (2) deferred amounts, and (3) current receivables. Within these categories, the funds received are applied in this order: (1) principal, (2) commitment fees (if any), (3) service charges on overdue principal, (4) interest on overdue principal (for IDA credits with Hard Terms), (5) service charge, and (6) interest (for IDA credits with Hard Terms).

Currency Purchase Agreement (no longer available)

IBRD borrowers who entered into a currency purchase agreement (CPA) with the World Bank can settle their debt service obligations in a single agreed-upon currency rather than in the designated currencies that are due. For loans under a CPA, the billing notices specify the amount of agreed-upon currency to be paid, including a small margin (2 to 5 percent) to cover possible exchange rate fluctuations. Upon receiving payment, IBRD, acting as an agent for the borrower, purchases the currencies required to settle the debt obligation. Irrespective of the date of the conversion (but not before the due date), the borrower’s account is credited on the date the World Bank receives the payment from the borrower. Excess payments are handled in accordance with the borrower’s instructions. Shortfalls are carried forward to the next payment date.

25 For information on how to obtain access to the Client Connection website, send an E-mail to clientconnection@worldbank.org.
Day Count Convention

Table 16 shows the day count convention applied in the calculation of charges and waivers per loan product. For additional information, refer to the Loan Agreement.

Table 16: Day Count Convention for Loan Products

<table>
<thead>
<tr>
<th>Products</th>
<th>Charge Type</th>
<th>Convention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable IFL, VSL, Variable FSL (except loans in GBP), and FSCL</td>
<td>Interest</td>
<td>Actual/360</td>
</tr>
<tr>
<td>Fixed Rate IFL and FSL for COP</td>
<td>Interest</td>
<td>Actual /360</td>
</tr>
<tr>
<td>Variable FSL in GBP</td>
<td>Interest</td>
<td>Actual /365</td>
</tr>
<tr>
<td>Pool Loans</td>
<td>Interest</td>
<td>Actual/Actual</td>
</tr>
<tr>
<td>BTF, IDA, EEC Credits, Fixed Rate IFL and FSL (for USD, EUR, and JPY), and FSCL</td>
<td>Service Charge/Interest</td>
<td>30/360</td>
</tr>
<tr>
<td>All IBRD loan products</td>
<td>Commitment Fee/Commitment Fee Waiver</td>
<td>Actual/Actual</td>
</tr>
<tr>
<td>All IBRD loan products</td>
<td>Partial Interest Waiver (if applicable)</td>
<td>Same as loan interest rate</td>
</tr>
<tr>
<td>IDA</td>
<td>Commitment Fee/Commitment Fee Waiver</td>
<td>30/360</td>
</tr>
</tbody>
</table>
Actual Charges (4 months)

Differences resulting between billed and due date amounts are carried forward to the next billing cycle.

Notes:
- IBRD loans and IDA credits are due semiannually.
- Bills are prepared two months before the due date specified in the Loan or Credit Agreement.
- Billed amount and due date amount may differ because of exchange rate fluctuations and/or transactions (Example: disbursements, cancellations, refunds) during the estimated two-month interim period.

Figure 2. Billing Cycle for IBRD Loans and IDA Credits
Chapter XIV

Frequently Asked Questions

A. Project Preparation Facility

What happens if a loan is not made for a project after the borrower has used a PPF advance for that project?

If the original project doesn’t materialize, the PPF could be refinanced through a different project. However, if the PPF is not refinanced, LSG will bill the borrower. If the amount of the PPF is USD 50,000 or less, the borrower is required to make a lump sum payment within 60 days for the amounts due during the project preparation period. If the amount of the PPF exceeds USD 50,000, the borrower is required to repay the advance (plus accrued interest or service charges) in ten semiannual installments over the next five years.

B. Local Currency Financial Products

Why must the FSL be denominated in a major currency and then converted into local currency? Why not denominate the FSL in local currency from the start?

The World Bank will not commit an FSL in a borrower's currency. This is because the Bank may not always be able to access the local currency markets when borrowers wish to have disbursements or have them at terms that are acceptable to the borrowers. Pre-funding loan commitments in local currency and holding the liquidity until disbursements are made might be a way to address such funding risk. However, holding liquidity in local currency is likely to result in a negative carrying cost for the World Bank, given the volatility and illiquidity of emerging financial markets and the limited number of instruments with acceptable credit rating in which the World Bank can invest. Pricing the funding and liquidity risks into the loan charges for an FSL in local currency would make these products uncompetitive. Therefore, the World Bank has opted to provide local currency financing through currency swaps from a major currency into a borrower's local currency.

However, many local bond markets are now broader and deeper than previously, with expanded yield curves and maturity choices. Although insurance companies, pension funds and other institutional investors in many markets are actively seeking to diversify fixed income portfolios in their local currency, they have a limited choice of highly creditworthy issuers. Given this convergence of conditions, IBRD now sees more opportunities to issue longer-dated maturities at attractive funding levels in some markets.

Can undisbursed amounts of an FSL be converted into local currency?

The conversion of an FSL into local currency is limited to disbursed loan balances so that the World Bank can intermediate the currency swap transactions on the basis of known projected cash flows. Converting undisbursed amounts of an FSL into local currency is the equivalent of having FSL commitments in local currency. This move is likely to expose the World Bank to financing and liquidity risks.
What local currencies are available?

As of January 2009, an indicative list of emerging market currencies in which the World Bank might be able to undertake currency swap transactions includes, by geographical region:

(i) Latin America: Brazilian real, Mexican peso, Chilean peso, Colombian peso, and Peruvian sol

(ii) Eastern Europe: Polish zloty, Czech koruna, Hungarian forint, and Slovak koruna

(iii) Africa: South African rand

(iv) East Asia: Indian rupee, Indonesian rupee, Malaysian ringgit, Philippine peso, South Korean won, and Thai baht

However, the availability of these currencies and the terms and conditions that the World Bank can obtain at a given point in time, depend on swap market conditions at the time of execution of the proposed transactions. Depending upon the swap market condition, the World Bank will determine, upon a borrower's request, whether conditions would allow financing in a specific currency.

How can a borrower request a conversion or hedge into local currency?

For FSL conversions, the borrower submits a Conversion Request to LSG using the form provided in the FSL conversion guidelines. The guidelines also include procedural details for the conversion.26 The World Bank then investigates the availability of swaps in the requested local currency and informs the borrower.

In the case of a free-standing hedge, the borrower must first enter with IBRD into a Master Derivatives Agreement and provide the signatures of officers authorized to request IBRD hedge transactions. After the derivatives agreement is in place, the borrower may submit to LSG a request for a hedge into local currency.27

C. Fixed-Spread Loan Terms

What is the difference between the fixed spread and variable spread options over LIBOR for IBRD Flexible Loan (IFL)?

The lending rate for the IFL has two major components – a floating rate which is 6-month LIBOR and a spread. Borrowers are given the option to choose from two spread alternatives—fixed or variable. The fixed spread option locks in a fixed spread over LIBOR for the life of the loan, whereas the variable spread over LIBOR resets every six months, based on the cost of the pool of IBRD funding that supports these loans.

The advantage for the borrower of the fixed spread is that it does not vary. This is because the Bank takes the risk of funding the loan over its long tenure at the agreed fixed spread. To

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26 The Guidelines for Conversion of Loan Terms for Fixed-Spread Loan are available from the Banking and Debt Management Group (BDM) or at http://treasury.worldbank.org/.

27 Model hedge request forms are available from the Banking and Debt Management Group (BDM) or at http://treasury.worldbank.org/.
compensate for this risk, the fixed spread includes a risk premium. Other components of the fixed spread are the projected cost of IBRD funding at each maturity range and a Board-approved contractual spread (currently unchanged at 0.30%). Another advantage of the fixed spread alternative is that loan conversion options (for example, to fix the interest rate or later change the currency of loan repayments) are embedded in the loan agreement, making them easy for borrowers to access while avoiding the need for derivatives accounting or reporting.

The variable spread adjusts every January 1 and July 1 based on the cost of the underlying funding for these loans. For example, the current variable spread in USD of LIBOR -0.05% reflects the cost of funding that has been accumulated to fund this pool of loans. As new variable spread loans are committed, requiring new funding in the pool to replace maturing funding, the average cost of the pool will begin to reflect these more recent costs over a period of time. Currently the variable spread alternative does not offer the conversion options (to fix the interest rate or change the currency of repayments). To access these conversion options, at a later date, the borrower can change from a variable spread to fixed spread for a fee, and at the prevailing fixed spread based on the remaining average repayment maturity of the loan. Borrowers can hedge the LIBOR portion of the lending rate separately through a Master Derivatives Agreement.

**Why did the Bank change the spread for the fixed spread option over LIBOR for the IFL during 2009?**

The Bank regularly reviews its projected funding costs and adjusts the IFL’s fixed spread over LIBOR to reflect the funding conditions it faces in the markets. This is a dynamic process and changes, both higher and lower, are necessary as market conditions evolve. Earlier in the fiscal year as client demand for financing went up, the Bank increased the fixed spread over LIBOR to reflect the increased cost associated with borrowing larger amounts from capital markets. Later, when funding conditions for high-grade issuers improved, the Bank reduced its projected funding costs and passed it on to borrowers by decreasing the fixed spread over LIBOR.

**Why is the Bank differentiating the pricing of IFLs with fixed spreads based on average repayment maturity?**

Borrowing at longer maturities carries significant premiums, even for AAA supranational borrowers like IBRD. Maturity-based pricing allows IBRD to better match the projected cost of funding fixed spread IFLs and manage refinancing risk. Differentiating the price according to maturity also gives the client who does not need a longer maturity loan the option to borrow at a slightly lower price.

**Given the flight to quality in the markets, shouldn’t IBRD be able to raise money at even better terms than before?**

Widespread banking system guarantee programs of major governments have radically altered the nature of the market segment in which supranationals like IBRD operate. Until mid-October 2008, the flight to quality caused by the market crisis benefited IBRD and other supranational issuers. However, after major governments around the world announced government guarantee packages for commercial banks and financial institutions in an attempt to reopen market access and unfreeze the interbank credit market, financial markets saw record levels of new issues by banks with AAA sovereign guarantees. The substantial increase in issuances at spreads significantly above LIBOR caused a general widening in spreads over LIBOR for the entire AAA sector, including supranationals.
If the borrower selects automatic rate fixing, is a fee charged at every rate fixing?

No. If the Loan Agreement calls for automatic rate fixing, rates are fixed at no charge at the end of each interest period. Automatic rate fixing can be requested at any time during the disbursement period.

If the borrower has three tranches and decides to fix all three at one time, is a fee charged for each tranche?

No. There is no transaction fee for the full amount of the loan for the entire maturity if this is the first rate fixing. Subsequent rate fixings, however, will bear a transaction fee. For additional details on transaction fees, refer to Chapter V of this handbook, or visit http://treasury.worldbank.org/. Transaction fees may be revised from time to time by the Bank.

Can repayment terms be amended?

No. The World Bank does not amend repayment terms once a Loan Agreement has been signed.

What is the fixed spread applicable to a new IFL with fixed-spread terms?

IBRD’s fixed spread with respect to the initial loan currency will be that in effect at 12:01 a.m. Washington, D.C. time, one calendar day before the signing date of the Loan Agreement. The spread remains in effect during the life of the loan.

Where can I find IFL lending rates and spreads?


D. Currency Pool Loans

Where can I find historical lending rates for CPLs?


How is the prepayment premium calculated for a CPL?

This question can best be answered by an illustration. Let us assume that a borrower wants to fully prepay the outstanding balance of USD 10 million under a variable-rate pool loan that has installments of USD 1 million per semester. Further, let us assume the information in these tables at the time the prepayment request was received by the World Bank:

<table>
<thead>
<tr>
<th>Basic Loan Information</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current value of the loan</td>
<td>USD 11 million (USD 10 million plus USD 1 million due)</td>
</tr>
<tr>
<td>Interest rate on the loan</td>
<td>6.5%</td>
</tr>
</tbody>
</table>
Calculation of the Contractual Premium

<table>
<thead>
<tr>
<th>Premium factor for maturities &lt; 3 years</th>
<th>0.18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium rate for maturities &lt; 3 years</td>
<td>1.17% (6.5% x .18)</td>
</tr>
<tr>
<td>Premium amount for maturities &lt; 3 years</td>
<td>USD 70,200 (6 million x 1.17%)</td>
</tr>
<tr>
<td>Premium factor for maturities between 3-6 yrs</td>
<td>0.35</td>
</tr>
<tr>
<td>Premium rate for maturities between 3-6 yrs</td>
<td>2.275% (6.5% x .35)</td>
</tr>
<tr>
<td>Premium amount for maturities between 3-6 yrs</td>
<td>USD 91,000 (USD 4 million x 2.275%)</td>
</tr>
<tr>
<td>Total premium per loan agreement</td>
<td>USD 161,200 (USD 70,200 + USD 91,000)</td>
</tr>
</tbody>
</table>

Comparison of the Contractual Premium versus the Ratio of the Estimated Value/Carrying Value

<table>
<thead>
<tr>
<th>Computed contractual premium ratio</th>
<th>1.47% (USD 161,200 / USD 11 million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated value of all variable-rate pool loans</td>
<td>USD 34,628 million</td>
</tr>
<tr>
<td>Carrying value of all variable-rate pool loans</td>
<td>USD 33,200 million</td>
</tr>
<tr>
<td>Premium over carrying value</td>
<td>4.30% (USD 34,628 million - USD 33,200 million / USD 33,200 million)</td>
</tr>
</tbody>
</table>

In this example, the borrower will be charged the computed contractual premium of 1.47 percent as it is less than the premium over the carrying value of 4.30 percent.

Note: The carrying value of an IBRD loan is synonymous with the book value of the loan and is expressed in USD equivalent terms. IBRD loans do not have a secondary market; thus, the estimated values of IBRD loans published in the World Bank's financial statements are used as a proxy for their theoretical mark-to-market values.

What is the difference between withdrawal outstanding and principal outstanding?

Withdrawal outstanding represents the U.S. dollar equivalent of total disbursements outstanding, calculated at the historical exchange rate. Principal outstanding is the current U.S. dollar equivalent, including exchange adjustments of the outstanding debt due to IBRD.

E. Guarantees

Where can I find information on different types of guarantees offered by the World Bank?

More information on the World Bank’s partial risk, partial credit, and policy-based guarantees can be found at www.worldbank.org.
F. Graduation

What is a graduating country?

A graduating country is one in which lending is being phased out, either under or in anticipation of an agreed graduation program. Countries normally graduate from World Bank lending when they have developed access to financing from other sources in sufficient volume and on reasonable terms. The per capita income of a country is used as the basis for graduation.

G. Billing

When is the billing statement produced and sent to the borrower?

For loans that are billed semiannually, the billing statement is produced two months before the semiannual due date specified in the Loan Agreement. The statement is sent to the borrower approximately seven weeks before the due date. For other cases, the time gap between preparation of the billing statement and the due date varies based on requirements indicated in the Loan Agreement.

What happens if a due date falls on a weekend or a non-banking day?

The borrower will be requested to make the payment to the specified depository bank on the next business day.

Can I obtain the billing statements electronically?

Yes, the billing statements are posted on the Bank’s Client Connection website. Please send an E-mail to clientconnection@worldbank.org to sign up for an electronic billing statement.

H. Fees

When does the commitment fee start to accrue?

In accordance with a loan pricing reform, loans signed on or after September 27, 2007, are not subject to any commitment charges or waivers. For loans signed before that date and not converted to the new loan pricing, commitment fees begin to accrue 60 days after the Loan Agreement is signed. Once the loan becomes effective, the commitment fee is billed on the undisbursed amount, on the interest payment date following the date of effectiveness. If the loan does not become effective, the World Bank will not bill the borrower for accrued commitment fees.

The contractual commitment charge for IBRD loans is 0.75 percent per annum (excluding any commitment charge waivers).
How is the front-end fee calculated?

The borrower shall pay the Bank a one-time, front-end fee in an amount equal to the front-end fee percentage indicated in the Loan Agreement. For instance, if the agreement indicates the fee as 0.25 percent, an amount equal to 0.25 percent of the amount of the loan is payable.

Is the front-end fee adjusted if the loan amount is reduced or canceled for any reason?

If a loan is partially or fully canceled on or after effectiveness, no adjustment to the front-end fee is made. This applies equally to loans disbursed in tranches. If a tranche is canceled after effectiveness, no portion of the front-end fee is refunded to the borrower.²⁸

Does IBRD amend the amortization schedule after a loan has been approved?²⁹

The World Bank generally does not amend existing repayment terms for any loan, except when (a) disbursement has been delayed or (b) extraordinary circumstances exist in the country or project. In such instances, amendments are approved on a case-by-case basis.

What happens to a refund received by the World Bank under a closed loan or credit account?

In most cases, the World Bank applies refunds relating to closed loan or credit accounts to the borrower’s future debt service. In determining whether to apply a refund to this debt service, the World Bank considers several guidelines. These include:

- **Amount of the refund.** Any refund received by the World Bank that is equal to or less than 1 percent of the total amount disbursed may be applied to the next debt service on the same loan or credit under which the original disbursement was made.

- **Amount due to the World Bank at the next due date.** If the refund amount received by the World Bank for a loan or credit is less than the amount due on the next debt service payment date, the refund may be applied to the next debt service due under that loan or credit.

- **Time lag between the value date of the refund and the next due date.** Any refund amount received by the World Bank three months or more before the next debt service due date may be applied to the next debt service due under that loan or credit.

If the borrower requests refunds to be handled differently from the three guidelines described here, the request must be approved by the director of the Loan Department.

Does the World Bank charge interest on overdue loan charges?

No. However, the World Bank charges interest on overdue principal amounts, based on the prevailing lending rate. In addition to this, IBRD charges an additional 50 basis points on the principal overdue of loans signed on or after September 27, 2007 under the new pricing terms.


How does a borrower become eligible for a partial waiver of interest charges?

Loans which are signed on or after September 27, 2007, are not eligible for the partial interest waiver. This change follows the new pricing of IBRD loans effective on that date. For loans signed before September 27, 2007, a partial interest waiver is extended only to borrowers from whom IBRD has received full and timely payments for a continuous period of six months. Full payment means that the borrower has paid all amounts billed. In this context, timely payment means no more than 30 calendar days after the due date.

If a borrower fails to make a timely payment on any of its loans, all loans extended to that borrower will be ineligible for a waiver until a new qualifying period of six continuous months of full and timely payments is established. Special Development Policy Loans (formerly known as Special Structural Adjustment Loans) are not eligible for waivers of interest.

What happens when a payment is overdue for more than 30 days and 60 days?

As soon as a payment becomes 30 days overdue, no new loans and credits to the borrower (or to the country, if the borrower is the guarantor member country), will be presented to the Board for approval, and any previously approved loans and credits will not be signed. In addition, the borrower loses eligibility for any applicable waiver of interest charges on all its loans. If the payment is overdue for 45 days, the 30-day sanctions apply to all borrowers in the country, disregarding their loan performance status. An additional 50 basis points is charged on the principal that is overdue 30 days or more on loans signed on or after September 27, 2007. For both IBRD and IDA borrowers, when a payment is outstanding for 60 days or more, disbursements to all borrowers in that country are suspended.

When does the World Bank place a country in non-accrual status?

A country is placed in non-accrual status when a payment due under any loan or credit made to or guaranteed by a member country becomes overdue on its second consecutive payment due date. The only exception is if the World Bank Management determines that the overdue amount will be collected in the immediate future. Once a country is placed in non-accrual status, interest and charges accrued but not yet received, are not recognized on the World Bank’s financial statements. During the time, the member remains in non-accrual status, and interest income is reflected in the financial statements only to the extent actually received.

In which currency are the bills paid?

Bills are paid in different currencies, according to the product:

**IDA credits**

In the currency selected by the borrower, which is reflected in the bill.

**IBRD Loans**

- Currency Pool Loan – in EUR, JPY, or USD, as determined by the Treasury Department.
- Single Currency Pool Loan – in EUR, JPY, or USD, depending on the currency chosen at the time of conversion.
- Variable-Spread Loan and Fixed Rate Single Currency Loan – in the currency of commitment.
- Fixed-Spread Loan – in the currency of commitment.
Attachments

Attachment A - Prepayment of IBRD Loans

This attachment describes the terms that apply to prepayment for these types of IBRD loans:
- Fixed-Spread Loans (FSLs) and fixed-spread IBRD Flexible Loans (IFLs)
- Variable-Spread Loans (VSLs) and variable-spread IFLs
- Fixed-Rate Single Currency Loans (FSCLs)
- Currency Pool Loans (CPLs)
- Single Currency Pool Loans (SCPs)

The treatment of IFLs is not covered separately as IFLs can either have a fixed spread (similar to FSLs) or a variable spread (similar to VSLs) based on the borrower's choices.

1. Fixed-Spread Loans (FSLs) and fixed-spread IBRD Flexible Loans (IFLs)

IBRD may charge the borrower a prepayment premium to cover the cost of redeploying prepaid funds.\(^{30}\) The premium is calculated as described in subsection (a) for any portion of an FSL or a fixed-spread IFL that has not been converted, and as described in subsection (b) for any portion of an FSL or a fixed-spread IFL that has been converted.

(a) Prepayment of unconverted portions of FSLs and fixed-spread IFLs

IBRD charges the borrower a prepayment premium equal to the discounted present value of the differential between the fixed spread payable on the prepaid loan and the fixed spread in effect for FSLs/fixed-spread IFLs in the relevant loan currency on the date of prepayment.

(b) Prepayment of converted portions of FSLs and fixed-spread IFLs

If all or any portion of an FSL or a fixed-spread IFL has been converted, the prepayment premium will be calculated as the sum of these components:

(i) A prepayment premium on account of the underlying floating rate FSL and fixed-spread IFL outlined in subsection (a).

(ii) An "Unwinding Amount"\(^{31}\) in connection with the early termination of any conversion. The "Unwinding Amount" is the mark-to-market value of any swap effected for the relevant conversion\(^{32}\) and can result in either a cost to the borrower (an additional amount payable by the borrower to the Bank) or a gain by the borrower (subtracted from the amount to be prepaid or

\(^{30}\) A loan to a borrower may be funded by IBRD through a combination of debt and equity. The calculation of redeployment cost covers both debt and equity. If IBRD executes a market transaction or applies a screen rate to effect a conversion, it does so only with respect to the debt-funded portion of the loan. Thus, for portions of FSLs that have been converted, any calculation of redeployment cost has to be adjusted to include the redeployment cost of the equity-funded portion. This is detailed in Section 1.(b).ii.

\(^{31}\) "Unwinding Amount" is defined in the General Conditions Applicable to Loan and Guarantee Agreements for Fixed Spread Loans.

\(^{32}\) The Bank may have effected the relevant conversion by entering into a hedge transaction with a market counterparty or by applying a screen rate (in the circumstances described in the Conversion Guidelines). In both cases, an Unwinding Amount may be payable by either the Bank or the borrower as the Bank would have taken a position to effect the conversion that would have to be reversed because of a loan prepayment.
paid by the borrower).  

(iii) An equivalent percentage surcharge on any equity-funded portion of the loan to be prepaid.

(iv) A transaction fee, applied to the amount of the principal being prepaid (for transaction fee information, see the Treasury website http://www.treasuryworldbank.org).

2. Variable-Spread Loans (VSLs) and variable-spread IBRD Flexible Loans (IFLs)

The total spread on a VSL or variable-spread IFL consists of a contractual lending spread and a variable cost margin. This total spread is adjusted every six months based on the weighted average cost margin of the debt allocated to VSLs and variable-spread IFLs. The prepayment premium is based on IBRD’s redeployment cost of the prepaid funds. The redeployment cost is derived from the difference between the contractual lending spread of the prepaid loan and the contractual lending spread for VSLs and variable-spread IFLs in the currency of the prepaid loan on the date of prepayment. The net present value of the cashflows is computed by taking into account current market rates and the total spread in effect for VSLs and variable-spread IFLs on the date of prepayment. Prepaid amounts are applied first to the latest maturities due on the loan.

3. Fixed-Rate Single Currency Loans (FSCLs)

IBRD charges a prepayment premium based on the cost of redeploying the full amount of the loan to be prepaid from the date of prepayment to the original maturity date. Under an FSCL, IBRD enters into rate-fixing swap transactions to provide the borrower with a fixed rate. IBRD fixes the rate for the amount of the loan disbursed during a period through an end-of-period, rate-fixing, swap transaction. Thus, an FSCL consists of multiple tranches, each with its own fixed rate.

Upon prepayment, IBRD unwinds the rate-fixing swap transaction(s) it executed in connection with the prepayment. The off-marketness of each rate-fixing swap is used to determine the redeployment cost of the full amount of the loan to be prepaid. If IBRD enters into more than one rate-fixing swap transaction in connection with the prepayment, IBRD nets out any gains and losses resulting from the unwinding of such swap transactions. The borrower pays IBRD the net amount as the prepayment premium. However, this is done with the provision that if such netting results in a negative amount (that is, an amount due to the borrower), the amount is deemed to be zero. Prepaid amounts are applied in the inverse order of the disbursed amounts

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33 The Bank will effect a market transaction or use a screen rate calculation either on the prepayment date or shortly thereafter; it generally takes two business days to settle a swap.

34 As approved by the Board of Executive Directors from time to time.

35 Article III, Section 3.04 of the General Conditions applicable to VSLs and variable-spread IFLs, provides that the premium payable on prepayment of any maturity shall be an amount reasonably determined by the Bank to represent any cost to the Bank of redeploying the amount to be prepaid from the date of prepayment to the maturity date. Although the spread on the VSL or variable-spread IFL includes a variable margin adjusted every six months on the basis of the weighted average cost margin of the debt allocated to VSLs and variable-spread IFLs, under current practices, the calculation of the redeployment cost derived from the difference in the variable margins would result in a de minimis amount being payable to the Bank. This is equal to the difference in spreads for the period from the date of prepayment until the next interest payment date. As this amount is not likely to be significant, under current practices, the difference in the VSL and variable-spread IFL’s variable margin is not included in the calculation of the prepayment premium.

36 The Bank will effect a market transaction or use a screen rate calculation either on the prepayment date or shortly thereafter; it generally takes two business days to settle a swap.
under the loan. The disbursed amount withdrawn last is prepaid first, and the latest maturity of such disbursed amounts is also prepaid first. Within each tranche, the amount to be prepaid is applied in inverse order of maturity.


As indicated in Chapter V, IBRD provided an option to borrowers to convert the interest rate basis for CPLs and SCPDs. For such converted loans, the prepayment premium is determined based on market rates. In the case of CPLs and other pool loans that are not converted, this process is used to determine the prepayment premium:

(a) Prepayment premium schedules for CPLs and SCPs are included in the Loan Agreements for those loans. Premia are calculated in accordance with these schedules, as described here.

i. For CPLs and SCPs with a variable rate, the premium rate for each maturity being prepaid is calculated by multiplying the current interest rate on the loan with the appropriate factor from the "Premiums on Prepayment" schedule in the Loan Agreement. The computed premium rate is then applied to the appropriate maturity to derive the prepayment premium for that maturity. Premia computed for all maturities being prepaid are added to derive the total prepayment premium for the loan.

ii. As an illustration, assume a borrower prepays a variable-rate pool loan with four remaining maturities. Each maturity is US$1 million and the total prepayment is US$4 million. Assume that the current interest rate on the loan is 6.5 percent and the factor from the "Premiums on Prepayment" schedule in the Loan Agreement is 0.18. The premium rate for the maturities being prepaid is (.065*.18) = .0117, or 1.17 percent. Multiplying US$4 million by the premium rate of 1.17 percent produces the total premium of US$46,800 for the loan.
## Attachment B - Prepayment Form

**APPLICATION FORM FOR PREPAYMENT OF IBRD LOANS**

### Country/Borrower:

### Date of Request:

### Proposed Prepayment Date (must be at least 45 days after Date of Request):

### Loan Details:

| Loan No. | Loan Type (Please mark) | Indicate either Full or Partial Prepayment | For Partial Prepayments, please indicate the following:
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CPL</td>
<td>SCPL</td>
<td>VSL</td>
<td>FSL</td>
</tr>
</tbody>
</table>

(Use additional sheets, if required)

### Notes:

1. **CPL**: Currency Pool Loans  
   **SCPL**: Single Currency Pool Loans  
   **VSL**: Variable-Spread Loans  
   **FSL**: Fixed-Spread Loans  
   **FSCL**: Fixed Rate Single Currency Loan

2. No currency conversion facilities are currently being offered on prepayments. All prepayments are payable in the currency of the loan. CPLs are payable in any of the outstanding currencies in the pool (or a combination thereof) in any proportion, as determined by the IBRD.

### For Partial Prepayment of FSLs, specify Maturities to be prepaid:

<table>
<thead>
<tr>
<th>FSL Loan No.</th>
<th>Maturity Date</th>
<th>Maturity Amount</th>
<th>Maturity Amount to be Prepaid</th>
</tr>
</thead>
</table>
* For FSLs, the borrower may specify which loan maturities are to be prepaid. If the borrower does not so specify, any such prepayment will be applied as follows: (a) if the Loan Agreement provides for the separate amortization of Disbursed Amounts, the prepayment is applied in the inverse order of such Disbursed Amounts, with the Disbursed Amount that had been withdrawn last being prepaid first and with the latest maturity of such Disbursed Amount being prepaid first; and (b) in all other cases, the prepayment is applied in the inverse order of maturity of the loan, with the latest maturity being repaid first.

**Reason for prepayment:**

<table>
<thead>
<tr>
<th>Contact Information for Prepayment Confirmation:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name: ______________________________</td>
</tr>
<tr>
<td>Title: ______________________________</td>
</tr>
<tr>
<td>Address 1: __________________________</td>
</tr>
<tr>
<td>Address 2: __________________________</td>
</tr>
<tr>
<td>Signature: __________________________</td>
</tr>
<tr>
<td>Other Contact Person: __________________</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

- The Authorized Representative is the person currently designated as representative of the borrower, or by a person duly authorized to act on his/her behalf, as per the legal agreement of the loan.

- This form should be sent to The IBRD under a cover letter of the borrower proposing the prepayment. Please mention any additional contact details (including E-mail address, Fax, and Telephone Numbers) that will facilitate the prepayment process.

**This completed form and any related correspondence should be addressed to:**

Attn: Mr. Amit Mehra / Mr. Saswata Jana  
Telephone: +1 (202) 458-8330  
Facsimile: +1 (202) 522-3428  
E Mail: loanclientservices@worldbank.org  

1818 H Street, NW  
Washington DC 30433  
USA

**Disclaimers:**

(a) This form is not a recommendation for prepayment by the World Bank.

(b) Information available regarding correspondence address, types of loans, and currencies of recall is subject to change

(c) Submission of this form implies an independent decision for prepayment made by the borrower.

(d) Submission of this form to the World Bank is not to be construed as acceptance of the prepayment proposal by the World Bank.
Attachment C - Hedge Request Forms

You can download forms to request hedges on IBRD loans from [http://treasury.worldbank.org/](http://treasury.worldbank.org/). For more information on requesting, accepting, and executing free-standing hedges between IBRD and a borrower, refer to Guidelines for Using IBRD Hedging Products, also available on the same website.

- For each **Interest Rate Swap** request related to a VSL and variable-spread IFL, or an FSCL, complete, sign, and submit the form:
  [Request for IBRD Hedging Products, Interest Rate Swap](41KB PDF)
- For each **Currency Swap** request related to a VSL and variable-spread IFL, an FSCL, a CPL, or an SCP, complete, sign, and submit the form:
  [Request for IBRD Hedging Products, Currency Swap](60KB PDF)
- For each **Interest Rate Cap or Collar** request related to a VSL and variable-spread IFL, or an FSL and fixed-spread IFL, complete, sign, and submit the form:
  [Request for IBRD Hedging Products, Interest Rate Cap or Collar](45KB PDF)
- For each **Interest Rate Swap** request related to sovereign debt from creditors other than IBRD, complete, sign, and submit the form:
  [Request for IBRD Risk Management Products on Non-IBRD Debt, Interest Rate Swap](701KB PDF)
- For each **Currency Swap** request related to sovereign debt from creditors other than IBRD, complete, sign, and submit the form:
  [Request for IBRD Risk Management Products on Non-IBRD Debt, Currency Swap](717KB PDF)
GLOSSARY

A

**Acceleration Clause** – A provision in a Loan Agreement requiring that, under default, any remaining interest and principal immediately become due.

**Accrual Accounting** – An accounting method that recognizes transactions and other events as they occur (that is, not necessarily when cash or its equivalent is issued or paid). The events are recorded in the accounting periods when they occur and reported in the financial statements of those periods.

**Annuity Amortization** – A method of principal amortization where the principal is repaid in installments over time. The principal amount due on each repayment date is based on the sum of the principal and interest of each installment, using a discount rate determined at the time of the loan negotiation. The assumption is that there is no rate change over the life of the loan. Actual repayment obligations depend on disbursed amounts, and interest rates may change over time.

**Applicable Exchange Rate (AER)** – IBRD’s financial transactions are valued using applicable exchange rates. The AER is based on exchange rates reported by Reuters at 7:00 a.m., New York time. Under the currency pool system, it is essential that currency risks be shared equitably among all currency pool borrowers and that a single AER for each currency be used for the valuation of all transactions on a particular date.

**Automatic Rate Fixing (ARF) Arrangement** – An arrangement where the interest rate of a Fixed Spread Loan (FSL) is fixed automatically according to a pre-specified schedule, either at regular periods or once a predetermined volume of disbursements is reached.

**Average Life** – The average length of time an amount on a loan remains outstanding. It takes into account the timing of both disbursements and principal repayments. Average life is a measure of the period during which the borrower has use of the loan proceeds. It is calculated as the sum of the annual loan balances divided by the face value of the loan.

B

**Base Rate** – An interest rate used as an index to price loans or deposits. Quoted interest rates are typically set at mark-up, such as 0.25 percent or 1 percent over the base rate. This is to facilitate change in the quoted interest rates when the base rate changes. The base rate for Fixed Spread Loans (FSLs) and Variable Spread Loans (VSLs) is the six-month LIBOR. For Currency Pool Loans (CPLs), the base rate is IBRD’s semester weighted average cost of the outstanding debt funding these loans. Since a vast majority of the funding is medium to long-term fixed-rate debt, the lending rate for CPLs represents a moving average of IBRD’s historical funding costs.

**Blend Country** – Country eligible to receive financing from both IBRD and IDA.
Carrying Value – The carrying value of an IBRD loan is synonymous with the book value of the loan and is expressed in U.S. dollar equivalent terms.

Charges Category – An amount specified in the Loan Agreement for capitalization of charges during the implementation period of the project.

Closing Date – The date specified in a Loan Agreement after which IBRD may, by notice to the borrower and the guarantor, terminate the rights of the borrower to make withdrawals from the loan or credit account.

Co-Financing – An arrangement under which funds from the World Bank are associated with funds provided by other sources outside the borrowing country in the financing of a particular project.

Commitment – An obligation by the World Bank, effective upon signing of the Loan Agreement, to make a specific amount of funds available for the purpose of the loan, subject to the borrower’s fulfillment of any conditions specified in the project documents.

Commitment Currency – Currency in which a borrower’s loan or credit is denominated. This is also the currency of obligation of the borrower.

Commitment-Linked Repayment Schedule – Loan grace period and repayment maturities, as fixed at loan commitment. The repayment schedule, including the loan grace period and repayment maturities, are decided at the time of loan commitment as against repayment schedules that are linked to disbursements (See Disbursement-Linked Repayment Schedule).

Conversion – A modification of the terms of all or any portion of the loan, as requested by the borrower and accepted by the World Bank. As provided in the Loan Agreement, the conversion may include (a) an interest rate conversion; (b) a currency conversion; or (c) establishment of an interest rate cap or interest rate collar on the variable rate.

Conversion Date – The interest payment date on which the conversion enters into effect—or, in the case of a currency conversion of an unwinding amount of the loan, such other date as the World Bank shall determine.

Conversion Period – The period from the conversion date to the last day of the interest period on which the said conversion terminates according to the terms of the conversion.

Currency Pool Loan (CPL) – A multicurrency loan committed in U.S. dollar equivalent. However, a CPL is not a U.S. dollar obligation.

Debt Service – All payments made against a loan or credit—that is, principal repayments plus interest or service charges, and other charges.

Debt Sustainability Analysis (DSA) – An exercise to assess how a country’s current level of debt and prospective new borrowing affects its ability to service its debt in the future.
Default Interest Period – For any overdue amount of the withdrawn loan balance, each interest period during which the overdue amount remains unpaid. However, this comes into effect provided the first such default interest period commences on the 31st day following the date on which such an amount becomes overdue and ends on the date on which the overdue amount is fully paid.

Default Interest Rate – The interest rate applicable to overdue amounts during the Default Interest Period.

Default LIBOR – The LIBOR for the relevant interest period. For the initial Default Interest Period, the default LIBOR shall be equal to LIBOR for the interest period in which the amount first becomes overdue.

Default Variable Rate – For the initial Default Interest Period, the Default Variable Rate is equal to the Variable Rate for the Interest Period in which the amount first becomes overdue.

Deferred Drawdown Option (DDO) – A DDO allows the borrower to postpone drawing down funds for a defined drawdown period after the loan agreement has been declared effective. The Development Policy DDO (DPL DDO) loan is intended to provide immediate liquidity following a shortfall in resources because of adverse economic events. The Catastrophe DDO (CAT DDO) loan is meant to serve as an immediate source of funding following a natural disaster.

Disbursed and Outstanding Balance – The amount that has been disbursed from a loan or credit commitment that has not yet been repaid.

Disbursement Currency – Currency in which the World Bank effects payment to a borrower or to a borrower’s supplier of goods and services.

Disbursement-Linked Repayment Schedule – Repayment schedule linked to actual disbursements under a Fixed Spread Loan (FSL). Cumulative disbursements during each six-month period (a “disbursed amount”) are repayable on a schedule that commences from the beginning of the interest period following disbursement. Grace period, final maturity, and repayment pattern are specified in the Loan Agreement and are the same for all disbursed amounts under that loan.

Dollar pool loan – A loan converted from a Currency Pool Loan (CPL), where the payment currency obligation of the borrower is reset to U.S. dollars.

Effective Date – The date on which a Loan Agreement, Credit Agreement, or Guarantee Agreement, if any, come into effect.

Estimated Value – In the absence of a secondary market for IBRD loans, the value of an IBRD loan as published in the World Bank’s financial statements and used as a proxy for the theoretical mark-to-market value of the loan.

Execution Date – With respect to a conversion, the date by which the World Bank shall have undertaken all actions necessary to effect the conversion, as reasonably determined by the World Bank.
**Expected Average Disbursement Period** – The weighted average period between loan approval and expected disbursement.

**F**

**Fixed Spread** – For a Fixed Spread Loan (FSL), a spread that reflects (a) IBRD’s projected cost margin relative to the U.S. dollar LIBOR; (b) a basis swap adjustment in the case of a non-U.S. dollar loan; (c) a market risk premium; and (d) IBRD’s standard lending spread. With respect to the initial loan currency, the spread will be in effect at 12:01 a.m., Washington, D.C. time, one calendar day before the date of the Loan Agreement. The spread will remain in effect throughout the life of the loan.

**Floating Rate** – A rate that changes at regular intervals, depending on the base rate (for example, six-month LIBOR). The instrument is re-priced whenever the base rate changes within a predetermined rest period.

**G**

**Grace Period** – The period between the commitment date of a loan or credit and the scheduled date of the first principal repayment.

**General Conditions** – Set of conditions applicable to financing agreements for all loans, credits, guarantees, and IDA grants signed by the Bank. The General Conditions complement the terms of the agreement and form an integral part of the agreement.

**I**

**IBRD Flexible Loan (IFL)** – A loan product from IBRD - introduced in February 2008. It allows borrowers to customize the repayment terms (that is, grace period, repayment period, and amortization schedule) to meet their management or project needs. Repayment terms are fixed at loan negotiation.

**Interest Rate Risk** – Risk or uncertainty associated with the expected return from a financial instrument, attributable to changes in interest rates over time.

**Interest Payment Date** – The date specified in the Loan Agreement for the payment of interest.

**J**

**Joint Financing** – Co-financing operation for which (a) a common list of goods and services exists and (b) disbursements for all or certain items are shared in agreed proportions by the World Bank and the co-lender.

**L**

**Lending Instrument** – Loan for a specific purpose—in the case of the World Bank, either a Development Policy Loan (DPL) or an investment operation.
**Lending Product** – A financial product which defines particular currency and repayment terms—for example, fixed spread or variable rate.

**Level Repayment of Principal** – A method of principal amortization on a loan, where the principal is repaid in equal installments over time.

**London Inter-bank Offered Rate (LIBOR)** – Interest rate at which banks lend to each other in the inter-bank market in London. Floating rate instruments often use LIBOR as the interest rate index.

**Mark-to-market** – An accounting methodology of assigning a value to a position held in a financial instrument, based on the current market price for the instrument or similar instruments.

**Master Derivative Agreement** – An agreement that provides the contractual framework between the borrower and IBRD for hedge transactions, including the requirement to document each transaction with a confirmation. Master derivative agreements have cross-remedy provisions with IBRD Loan Agreements and vice versa. Defaults under the derivative agreement are treated in the same manner as payment defaults under the Loan Agreement.

**Non-Accrual Status** – For accounting purposes, the Bank treats as uncollectible the entire remaining balance, both principal and interest, of all loans made to or guaranteed by a member country that the Bank has placed in non-accrual status.

**Off-marketness** – The difference in interest terms between the existing rate-fixing swap and a rate-fixing swap executed in the market on the prepayment date.

**On-Lending** – Situation where World Bank funds are channeled through the government or a local financial intermediary to public and private entities in the form of sub-loans. Whenever the government is the direct borrower, it enters into a subsidiary loan agreement with any sub-borrower.

**Post-conflict or Peace-building transition** – A period characterized by peace, national reconciliation, or agreed transition process supported by the international community. Government priorities generally expressed through a transitional results framework, based on a joint national-international needs assessment.

**Pro Rata** – According to the calculated (share). In proportion, according to a precisely determined element, as share or liability. For example, in the case of a canceled loan amount, that amount may be proportionately distributed among the remaining maturities.
Retroactive Financing – World Bank disbursements against eligible expenditures made by borrowers within specified periods before signing a Loan Agreement.

Six-month LIBOR – The London interbank offered rate for six-month deposits.

Suspension of Disbursement – Remedial action taken by the World Bank to halt further loan proceeds from being withdrawn by a borrower. Suspension of disbursement occurs when the borrower is in breach of loan conditions.

Terminal Date for Effectiveness – A date specified in the Loan Agreement indicating the latest date that a loan or credit may be made effective.

Terminal Date for Charges – A date specified in the Loan Agreement, after which, unless that date is extended, the amount available for capitalization of charges can no longer be used.

Trigger Date – The date on which the loan portfolio of a particular member will be placed in non-accrual status. The trigger date is the date of the second consecutive missed payment on any loan, credit, or Project Preparation Advance (PPA) or the date on which the final amortization payment becomes overdue by more than six months.

Unwinding Amount – Amount to be paid by the borrower in the case of prepaying a loan.

Variable Rate Loan – A loan with an interest rate that is not fixed but changes with market (benchmark) rates.
Bibliography

*World Bank Debt Servicing Handbook* (February 2009), available online from the Loan Services Group and from the Client Connection website https://clientconnection.worldbank.org

*Disbursement Handbook* (March 2005), available from the Loan Department and from the Client Connection website https://clientconnection.worldbank.org

*Guidelines for Using IBRD Hedging Products* (February 2001), available from the Banking and Debt Management Department or at http://treasury.worldbank.org

*Guidelines for Conversion of Loan Terms* (November 5, 2008), available from the Banking and Debt Management Department or at http://treasury.worldbank.org

*IBRD Hedging Products: An Introduction* (May 2001), available from the Banking and Debt Management Department or at http://treasury.worldbank.org

*Pool Unit Approach to Currency Pool Loans* (June 1995), available from the Loan Services Group

Specific information on loans and credits that borrowers can request directly from the Loan Services Group:

- Audit Confirmation Statement
- Copies of Billing Statements
- Estimated Debt Service Report
- Net Disbursements and Charges Report
- Statement of Loans and Credits
- Statement of Pool Units
- Interest Waiver Earned and Lost by Borrower

Loan Information Available through the Client Connection Website

Loan information is available to borrowers through the Client Connection website at https://clientconnection.worldbank.org. This is a secure, password-protected website where borrowers can access information on their loans, credits, grants, and trust funds. Available information includes billing statements, estimated debt service payments, statements of IBRD loans and IDA credits, pool unit value, exchange rates, and current loan account details. The site also has country-specific data such as IBRD/IDA Country Lending Summary, Net Disbursements and Charges, Statement of Loans by Country, and Billing Statement Summary. In addition, the site features information on disbursements and procurement.

If you would like to access Client Connection, please send an E-mail to clientconnection@worldbank.org.
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This section displays the hyperlinks by the chapters in which they appear. You can use this section to easily display the online resources linked to this document.

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     4. Contingent Loans: Board approves enhancements to Deferred Drawdown Option (DDO) and introduces Catastrophic Risk (CAT) DDO
     5. IBRD Flexible Loan: Board approves a loan simplification and maturity extension

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4. Changes to Approved Repayment Terms of IBRD Loans, BP 3.10, Paragraph 10