



OPERATIONAL POLICY ON FINANCING

(as revised through November 26, 2024)

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ACRONYMS AND ABBREVIATIONS

CERC Contingent Emergency Response Component

CPBF Climate Policy-based Financing

CPBP Climate Policy-based Program

DLI Disbursement-Linked Indicator

DLR Disbursement-Linked Result

IP Investment Project

IPF Investment Project Financing

NSBF Non-sovereign-backed Financing

RBF Results-based Financing

RBP Results-based Project

SBF Sovereign-backed Financing

USD/\$ United States Dollar

OPERATIONAL POLICY ON FINANCING

January 2016 (Revised March 21, 2017, July 1, 2019, March 20, 2020, October 22, 2021, November 22, 2022, June 12, 2023, and June 26, 2024)

I. PURPOSE; CONTENTS

- 1.1. **Purpose.** The purpose of this Operational Policy on Financing (**Policy**) is to set out the Bank's policy on providing Financing for Projects.
- 1.2. **Contents.** This Policy consists of the main text (*Sections I-VI*) and two annexes: *Annex 1 Specific Provisions applicable to Sovereign-backed Financing*; and *Annex 2 Specific Provisions applicable to Non-sovereign-backed Financing*. Unless the context otherwise requires, references in this Policy to *Annex* refer to the relevant *Annex* to this Policy, and references to *Section* refer to the relevant *Section* of this Policy or of the relevant *Annex* to this Policy.

II. DEFINITIONS

- 2.1. As used in this Policy, the following terms have the meanings set forth below. (*Annexes 1 and 2 to this Policy also provide for additional definitions and variations of these general definitions that are specific to each Annex.*)
- (a) **Articles** means the Articles of Agreement of the Bank.
 - (b) **Bank** means the Asian Infrastructure Investment Bank.
 - (c) **Board** means the Bank's Board of Directors.
 - (d) **Contingent Emergency Response Component** or **CERC** means a component of a Project designed to accommodate yet unidentified activities that may be required to address a future emergency, such as a natural disaster or pandemic.
 - (e) **Financing** means a Sovereign-backed Financing or a Non-sovereign-backed Financing for a Project.
 - (f) **Government** means the government of a Member and includes its political and administrative subdivisions and all other public sector entities and instrumentalities of the Member.
 - (g) **Guarantee** means a guarantee extended by the Bank out of its ordinary or special resources for a Project.
 - (h) **Legal Agreements** means the legal agreements for a Project to which the Bank is a party.
 - (i) **Loan** means a loan made by the Bank out of its ordinary or special resources for a Project.
 - (j) **Member** means the member of the Bank (or other agency of the member which is authorized effectively to pledge the member's full faith and credit) in whose territory

the Project is located or for whose benefit the Financing is provided.

- (k) **Member Counter-guarantee and Indemnity** means, for a Project supported by a Sovereign-backed Financing in the form of a Guarantee, the counter-guarantee and indemnity provided by the Member to the Bank in connection with the Guarantee.
- (l) **Non-sovereign-backed Financing** or **NSBF** means any financing extended by the Bank that is not a Sovereign-backed Financing; it includes any financing to or for the benefit of a private enterprise or a sub-sovereign entity (such as a political or administrative sub-division of a Member or a public sector entity) that is not backed by a guarantee or counter-guarantee and indemnity provided by the Member to the Bank.
- (m) **President** means the President of the Bank.
- (n) **Project** means the specific set of activities; program of activities; or program of policy and institutional reform actions for which the Financing is made.
- (o) **Sovereign-backed Financing** or **SBF** means: (i) a Loan to, or guaranteed by, a Member (**Sovereign-backed Loan**); or (ii) a Guarantee that: (A) covers debt service defaults under a loan that are caused by a Government's failure to meet a specific obligation in relation to the Project or by a borrower's failure to make a payment under the loan; and (B) is accompanied by a Member Counter-guarantee and Indemnity (**Sovereign-backed Guarantee**).
- (p) **US Dollars, USD** and **\$** each means the lawful currency of the United States of America.

III. POLICY PROVISIONS

3.1. Articles Considerations.

3.1.1. Purpose. The Bank's purpose is, as stated in its Articles, "to foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors... [and] promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions."¹

3.1.2. Functions. In furtherance of these purposes, the Bank's functions include, inter alia, "to promote investment in the region... for development purposes, in particular for development of infrastructure and other productive sectors;... to utilize the resources at its disposal for financing such development in the region, including those projects and programs which will contribute most effectively to the harmonious economic growth of the region as a whole... and to supplement private investment when private capital is not available on reasonable terms and conditions."²

¹ Articles, Article I, paragraph 1.

² Id., Article 2.

3.1.3. Operating Principles. To this end, the Articles require the Bank to conduct its operations according to certain principles, including, *inter alia*, the following.³

- (a) It “shall be guided by sound banking principles in its operations.”
- (b) Its operations “shall provide principally for the financing of specific projects or specific investment programs, for equity investment, and for technical assistance...”
- (c) It “shall not finance any undertaking in the territory of a member if that member objects to such financing.”
- (d) It “shall ensure that each of its operations complies with the Bank’s operational and financial policies, including without limitation, policies addressing environmental and social aspects.”
- (e) In considering an application for financing, it “shall pay due regard to the ability of the recipient to obtain financing or facilities elsewhere on terms and conditions that the Bank considers reasonable for the recipient, taking into account all pertinent factors.”
- (f) In providing or guaranteeing financing, it shall “pay due regard to the prospects that the recipient and guarantor, if any, will be in a position to meet their obligations under the financing contract.”
- (g) It shall “place no restriction upon the procurement of goods and services from any country from the proceeds of any financing...”
- (h) It shall “take the necessary measures to ensure that the proceeds of any financing provided, guaranteed or participated in by the Bank are used only for the purposes for which the financing was granted and with due attention to considerations of economy and efficiency.”
- (i) It shall “pay due regard to the desirability of avoiding a disproportionate amount of its resources being used for the benefit of any member.”
- (j) It shall “seek to maintain reasonable diversification in its investments in equity capital.”
- (k) In its equity investments, it “shall not assume responsibility for managing any entity or enterprise in which it has an investment and shall not seek a controlling interest in the entity or enterprise concerned, except where necessary to safeguard the investment of the Bank.”

3.1.4. Financing Structures. The Articles offer the Bank flexibility in structuring its Financings. Specifically, they permit the Bank to “provide or facilitate financing to any

³ Id., Article 13.

member, or any agency, instrumentality or political subdivision thereof, or any entity or enterprise operating in the territory of a member, as well as to international or regional agencies or entities concerned with economic development of the Asia region.”⁴ Furthermore, the Articles permit the Bank to provide financing in a variety of ways, including, *inter alia*, making loans, investing in the equity capital of an enterprise, and guaranteeing, whether as primary or secondary obligor, in whole or in part, loans for economic development.⁵ In addition, the Bank may underwrite, or participate in the underwriting of, securities issued by any entity or enterprise for purposes consistent with its purpose.⁶

3.1.5. Financing Terms and Conditions. The Articles outline certain considerations that must be taken into account by the Bank when determining the terms of its Financings. Specifically:

- (a) “In providing or guaranteeing financing, the financial terms, such as rate of interest and other charges and the schedule for repayment of principal shall be such as are, in the opinion of the Bank, appropriate for the financing concerned and the risk to the Bank.”⁷
- (b) The Bank is required to include in its contracts, in conformity with the above operating principles, “the terms and conditions for the loan or the guarantee concerned,” which must “take fully into account the need to safeguard its income and financial position.”⁸
- (c) If the recipient of the Loan or beneficiary of the Guarantee is not the Member, the Bank has the discretion, “when it deems it advisable, [to] require that the member in whose territory the project concerned is to be carried out, or a public agency or any instrumentality of that member acceptable to the Bank, guarantee the repayment of the principal and the payment of interest and other charges on the loan in accordance with the terms thereof.”⁹
- (d) “The amount of any equity investment shall not exceed such percentage of the equity capital of the entity or enterprise concerned as permitted under policies approved by the Board of Directors.”¹⁰
- (e) The Bank “may provide financing in its operations in the currency of the country concerned, in accordance with policies that minimize currency risk.”¹¹

⁴ Id., Article 11, paragraph 1(a). The Bank may provide financing to other recipients only if the Board of Governors specifically decides in accordance with Article 11-1(b) of the Articles that such other recipient is eligible for a particular type of financing.

⁵ Id., Article 11, paragraph 2.

⁶ Id., Article 16, paragraph 4.

⁷ Id., Article 13, paragraph 7.

⁸ Id., Article 14, paragraph 1.

⁹ Id., Article 14, paragraph 2.

¹⁰ Id., Article 14, paragraph 3.

¹¹ Id., Article 14, paragraph 4

3.1.6. No Political Interference. The Articles prohibit the Bank from interfering in the political affairs of its members, specifying that “[t]he Bank, its President, officers and staff shall not interfere in the political affairs of any member, nor shall they be influenced in their decisions by the political character of the member concerned.”¹²

3.1.7. Relevant Considerations. The Articles require that “only economic considerations” be relevant to the Bank’s decisions. “Such considerations shall be weighed impartially in order to achieve and carry out the purpose and functions of the Bank.”¹³

3.2. Requirements Applicable to all Financings.

3.2.1. Project. For each proposed Project, the Bank requires that the Project meet the following conditions.

- (a) The Project has clearly defined (i) development objectives consistent with *Article 1* of the Articles and (ii) results framework, which permit appropriate evaluation of the Project in accordance with the *Learning and Evaluation Policy*.
- (b) The Project provides for a specific set of productive activities; program of activities; or program of policy and institutional reform actions necessary to meet these development objectives.
- (c) Alternative sources of finance, in particular private capital, are unavailable for the Project on terms and conditions that the Bank considers reasonable.
- (d) The Project is in compliance with the other requirements of this Policy (including the *Annexes*) and other applicable policies.¹⁴

3.2.2. Choice of Instrument. In deciding the appropriate type of Financing for the Project, the Bank considers, *inter alia*, the financial costs and benefits of each type of Financing available for the Project, the availability of private and public financing for the Project and the leverage effect of the Bank’s resources.

3.2.3. The Bank’s Role.

- (a) The Bank is responsible for:
 - (i) Conducting due diligence assessment of the Project in accordance with this Policy and other applicable policies;
 - (ii) Developing the terms and conditions of the Financing;
 - (iii) Deciding whether to provide the Financing;
 - (iv) Negotiating and entering into the relevant Legal Agreements;

¹² Id., Article 31, paragraph 2.

¹³ Id.

¹⁴ See *Section VI* for a non-exhaustive list of other applicable policies.

- (v) After signing, determining whether the conditions of effectiveness and/or disbursement are met;
 - (vi) Monitoring compliance by the other parties to the Legal Agreements with their obligations as set out in the Legal Agreements, reviewing information on implementation progress and updating the risks and related risk-management measures;
 - (vii) Reviewing and assessing progress towards achievement of the Project's development objectives and related results;
 - (viii) Evaluating and deriving lessons from the Project's performance and development outcomes; and
 - (ix) Where applicable, determining whether to suspend, cancel or exit from the Financing (e.g., by accelerating a Loan, exercising an option or selling its interest to a third party), increase its exposure, exercise or waive any rights the Bank has under the Legal Agreements, agree to amend the Legal Agreements, agree to changes to the Project or exercise its legal remedies.
- (b) The Bank is not responsible for implementing the Project.

3.3. Assessment of the Project.

3.3.1. Assessment. The Bank carries out an assessment of each proposed Project, comprising the elements described below. The scope of this assessment is based on various Member and Project-specific considerations, including the Project's development objectives, strategic fit and risks involved, as well as the type of Financing provided. The Bank carries out the elements of the assessment in a coordinated manner.

- (a) **Technical Assessment.** The Bank undertakes a technical assessment of the Project, covering: (i) the Project's development objectives and their relevance to the Bank's strategic objectives; (ii) the Project's scope, design and evaluability; (iii) the soundness of any material technology to be used or operated for the Project; (iv) the Project's appropriateness to the needs and capacity of the beneficiary of the Financing; and (v) the Project's implementation arrangements, including the technical and managerial capacity of the beneficiary of the Financing to implement, monitor, report on and evaluate the Project and, as applicable, to operate and maintain its assets.
- (b) **Economic Assessment.** The Bank undertakes an economic assessment of the Project's rationale, using approaches and methodologies appropriate for: (i) the Project; (ii) the sector; and (iii) country conditions. This includes a cost and benefit assessment of the Project or equivalent, sectoral analysis, and debt sustainability analysis where necessary.
- (c) **Financial Assessment.** The Bank undertakes a financial assessment of

each Project, including, as appropriate, an assessment of the Project's costs, risks and financing plan, and the financial soundness and viability of: (i) the Project; (ii) the beneficiary of the Financing and, as appropriate, other parties (other than a Member) with which it concludes a Legal Agreement; and (iii) the proposed structure of the Financing, including a review of the sources of co-financing, if any, and the terms and conditions of the Financing and such co-financing.

- (d) **Environmental and Social Assessment.** The Bank screens, categorizes and undertakes an environmental and social due diligence of the Project in accordance with the *Environmental and Social Policy*.
- (e) **Integrity and Financial Management Assessments.** The Bank assesses: (i) the integrity of the Project and its participants, including the financing structure of the entities involved and the jurisdictions in which they are established or active; and (ii) the financial management arrangements for the Project in order to identify risks, including integrity and reputational risks, and to confirm that the arrangements provide reasonable assurance that the proceeds of the Financing will be used for the purposes for which they are granted.
- (f) **Legal Assessment.** The Bank undertakes a legal due diligence of the Project and, as appropriate, of other parties (other than a Member) with which it concludes a Legal Agreement.
- (g) **Procurement Assessment.** The Bank assesses the procurement arrangements for the Project to confirm that they are in conformity with the *Procurement Policy*.
- (h) **Risk Assessment.** For each Financing, the Bank undertakes an integrated assessment of the risks (real and perceived) to the achievement of the Project's development objectives, taking into account the assessments noted above and other relevant information.

3.3.2. Reliance on Third Party Assessments. The Bank may, instead of carrying out one or more of the above assessments, rely on such assessment carried out by a third party, provided the Bank is satisfied with the assessment capacity and process of such third party, and with such assessment.¹⁵

3.4. Design of the Terms and Conditions of the Financing.

3.4.1. Terms and Conditions. In light of the above assessment, the Bank develops terms and conditions to be included in the Legal Agreements. Specific provisions are developed on the basis of the following:

- (a) **Financial Terms.** The financial terms for each Sovereign-backed Financing

¹⁵ The *Environmental and Social Policy* and the *Procurement Policy* specify those circumstances under which the Bank may rely on the assessments of third parties for these matters.

are governed by the provisions of *Annex 1 Section VII (Financial Terms of Sovereign-backed Financing)*; and the financial terms for each Non-sovereign-backed Financing are governed by the provisions of *Annex 2 Section IV (Financial Terms And Conditions For Non-Sovereign-Backed Financing)*.

- (b) **Contractual Arrangements.** The contractual arrangements for a Sovereign-backed Financing are governed by the provisions of *Annex 1 Section VIII (Contractual Arrangements for Sovereign-backed Financing)*; and the contractual arrangements for a Non-sovereign-backed Financing are governed by the provisions of *Annex 2 Section V (Contractual Arrangements for Non-sovereign-backed Financing)*.
- (c) **Environmental, Social, Procurement and Integrity Provisions.** The contractual provisions relating to (i) environmental and social aspects of the Project, (ii) procurement of goods and services required for the Project (if applicable) and (iii) integrity, are governed by the relevant provisions of the *Environmental and Social Policy*, the *Procurement Policy* and the *Policy on Prohibited Practices*, respectively.

3.4.2. Appropriateness of Contractual Provisions. The conditions of effectiveness or disbursement and the undertakings, or covenants, that are included in the Legal Agreements set out the obligations of the parties to such documents with clarity and specificity. They are tailored to the specific responsibilities of the contracting party. In particular:

- (a) Covenants do not require the party to cause certain actions to be taken by an entity over which it does not exercise the necessary control.
- (b) Covenants cover only aspects that are essential for the Financing. They are: (i) reasonable in number; (ii) realistic and reasonable in substance and in their time horizon and monitorable; and (iii) consistent with other covenants with the same parties.
- (c) If a Legal Agreement is entered into with a Member, the Bank does not stipulate covenants that require the Member to enact legislation and tries to work within existing law where possible.
- (d) If enactment of specific legislation is necessary to achieve the Project's development objectives, the appropriate steps to be taken for such enactment are clearly defined, and such enactment is made a condition of negotiation, approval, effectiveness or disbursement, rather than a covenant.

3.5. Decision to Provide Financing; Oversight of the Project.

3.5.1. Approval; Member No-objection. Each Financing is approved by the Board, or as delegated by the Board to the President.¹⁶ In either case, the Bank satisfies itself

¹⁶ See *Regulation on the Accountability Framework*.

prior to approval that the Member in whose territory the Project is to be carried out does not object to the Financing.

3.5.2. Signing. Signing of the Legal Agreements takes place:

(a) after the Financing has been approved; and (b) all required signing authorizations have been issued.

3.5.3. Material and Non-material Changes to the Project or Financing.

- (a) **Approval of Changes.** Following approval of the Financing, as well as during implementation of the Project, the Bank may agree to make changes to the Project or its Financing to respond to changed circumstances. Material changes to the Project or its Financing are approved by the Board or the President (whichever authority approved the original Financing) unless the *Regulation on the Accountability Framework* provides otherwise. Non-material changes are approved by the President (who may further delegate this authority). The Board is periodically informed of material changes that are approved by the President.
- (b) **Material Changes.** A material change would include, among others, one or more of the following:
 - (i) A modification of the Project's development objectives; or
 - (ii) A change in the Project's environmental and social category to a higher-level category; or
 - (iii) Any of the following changes to the financial terms approved by the Board or the President (as applicable in accordance with the *Regulation on the Accountability Framework*): (A) an increase in the approved amount of the Financing;¹⁷ or (B) any other change to the approved financial terms that would materially increase the risk profile of the Financing; or
 - (iv) Any change that: (A) raises novel or complex issues; or (B) raises a policy consideration not already covered by an approved policy; or (C) requires a derogation from a policy requirement.
- (c) **Non-material Changes.** Examples of a non-material change would include, among others: (i) addition of a development objective for a Project that includes a Contingent Emergency Response Component (**CERC**) and is necessitated by the occurrence of an emergency covered under the CERC;

¹⁷ An increase in the approved Financing amount is treated as a new Financing and is subject to the financial policies in effect at the time of approval of the new Financing. Continued applicability of other operational policies, such as the *Environmental and Social Policy* and the *Procurement Policy*, that were in effect at the time the original Financing was approved would depend on a case-by-case assessment of the Project's status and the changes proposed, and would be based on the principle of avoiding retroactive application of policy changes to actions taken under the operational policy existing at the time of the action.

(ii) a change in the Project's description or cancellation of an amount of a Sovereign-backed Loan that does not involve a change in the Project's existing development objectives; or (iii) an extension of the disbursement period of a Sovereign-backed Loan.

3.5.4. No Rescheduling of the Financing. Consistent with its status as an international financial institution, the Bank does not: (a) reschedule debt payments, or participate in debt rescheduling agreements, involving amounts owed to it under Sovereign-backed Financing; or (b) reschedule Non-sovereign-backed Financing where the beneficiary's inability to service its debt is due to a foreign exchange shortage in the beneficiary's country.

3.5.5. Completion Note. Upon completion of the Project,¹⁸ the Bank evaluates and prepares a note on the results of the Project and its Financing, as well as performance under the Project.¹⁹ The note also seeks to include feedback on the Project by other parties to the Legal Agreements. If the Project's Legal Agreements are not signed or do not become effective by a specified date, or if the Financing is canceled before significant Project implementation is initiated, the President informs the Board of this fact as part of periodic reporting on Projects.

3.5.6. The Bank's Remedies.

- (a) **General.** If a failure by any party to any of the Legal Agreements to comply with its contractual obligations to the Bank, or an occurrence of another event, gives rise to a legal remedy under the Legal Agreements, the Bank, where appropriate, consults with the parties concerned and requires timely and appropriate corrective measures to be taken.²⁰ The Bank pays particular attention to failures to comply with environmental, social, fiduciary (including financial management and procurement) and financial obligations. The Bank's legal remedies are specified in the Legal Agreements and exercised when warranted.
- (b) **Sovereign-backed Financings.** *Annex 1 Section VIII (Contractual Arrangements for Sovereign-backed Financing)* sets forth specific legal remedies applicable to Sovereign-backed Financings. *Annex 1 Section IX (Suspension of Sovereign-backed Loans for Non-Payment)* requires a graduated approach to suspension of undisbursed amounts of the Loan in

¹⁸ In the case that (i) an additional Financing is provided to support an ongoing Project or (ii) a series of Projects are approved under an overall program, the completion note may be prepared following completion of all activities under (i) the Project supported by the additional Financing or (ii) the overall program.

¹⁹ For specific environmental and social aspects of the Project that are covered in the completion note, see the *Environmental and Social Policy*.

²⁰ Consultation with the parties prior to exercise of a remedy may not be required or appropriate if exercise of the remedy is automatically triggered, as may be the case, for example with a Sovereign-backed Financing in the form of a Guarantee. In the case of a Non-sovereign-backed Financing, such consultations would not be appropriate if they might diminish the Bank's chances of enforcing any of its rights in arbitration or court proceedings or be inconsistent with any of its obligations or impair its relations with co-financiers.

the event of failure to pay amounts to the Bank when due.

- (c) **Non-sovereign-backed Financings.** *Annex 2 Section VI (Non-sovereign-backed Financing Monitoring and Remedies)* describes remedies applicable to Non-sovereign-backed Financings.

3.5.7. Disclosure of Information. The Bank discloses the following information relating to the Project in accordance with the Bank's *Policy on Public Information*: (a) a detailed document regarding each Project financed by a Sovereign-backed Financing, following approval of the Financing; and (b) a summary document regarding each Project financed by a Non-sovereign-backed Financing, prior to and/or following approval of the Financing. The Bank discloses information relating to the environmental and social aspects of the Project in accordance with the *Environmental and Social Policy* (including the *Environmental and Social Standards*).

3.5.8. Specific Provisions Applicable to Sovereign-backed Financings or Non-sovereign-backed Financings. In addition to the above requirements:

- (a) Additional requirements applicable to Sovereign-backed Financings are covered in *Annex 1 Specific Provisions applicable to Sovereign-backed Financing*; and
- (b) Additional requirements applicable to Non-sovereign-backed Financings are covered in *Annex 2 Specific Provisions applicable to Non-sovereign-backed Financing*.

3.6. Operational Policy on International Relations. The *Operational Policy on International Relations* addresses certain circumstances involving relations among states that may require special consideration should they arise in connection with a Project. If, in the context of a specific proposed Financing, the President determines, that the policy is implicated in a material way, he shall consult with the concerned member or members of the Board, and if time permits, may consult with the Board, before the Financing is submitted to it for approval, on the advisability of the Financing.

IV. DEROGATIONS FROM THIS POLICY AND OTHER MATTERS REQUIRING BOARD APPROVAL

4.1. Derogations. The Board decides whether to approve a derogation from a provision of this Policy that is not explicitly permitted by the terms of this Policy. In accordance with the provisions of *Section 26(ii)* of the Articles, the Board does so by a majority representing not less than three-fourths of the total voting power of the members.

4.2. Other Matters. Other matters requiring Board approval under this Policy are decided by a majority of the votes cast by the Board, in accordance with the provisions of *Article 28.3(ii)* of the Articles.

4.3. Any derogation or other decision requiring Board approval under this Policy is made only in response to clearly delineated individual circumstances, so as to allow the Bank to proceed with processing or implementation steps that are pending at the time the decision is

requested. Such a decision is not granted in anticipation of future cases for which the requisite processing or implementation steps are not yet pending.

V. POLICY'S EFFECTIVE DATE

- 5.1.** This Policy, as revised through June 26, 2024 enters into effect on the date of its approval.

VI. RELATED DOCUMENTS

- 6.1.** The following is a non-exhaustive list of documents that govern Projects and/or their Financings and are intended to be read in conjunction with this Policy.

Directive on Operational Policy on Financing

Regulation on the Accountability Framework

Operational Policy on International Relations

Environmental and Social Policy (including Environmental and Social Standards and Environmental and Social Exclusion List) and related Directive

Policy on the Project-affected People's Mechanism and related Directive and Rules of Procedure

Procurement Policy and related Directives

Policy on Prohibited Practices and related Directive

Learning and Evaluation Policy and related Directive

Policy on Public Information and related Directive

Pricing Policy for Sovereign-backed Products and Sovereign-backed Loan and Guarantee Pricing Decision

Policy on Financial and Risk Management and related Directives

General Conditions for Sovereign-backed Loans

**SPECIFIC PROVISIONS APPLICABLE TO
SOVEREIGN-BACKED FINANCING**

I. SCOPE

- 1.1.** This *Annex* applies to Sovereign-backed Financings. These Financings comprise: (a) Loans to or with the guarantee of the Member; and (b) Guarantees that: (i) cover debt service defaults under a loan that are caused by a Government's failure to meet a specific obligation in relation to the Project or by a borrower's failure to make a payment under the loan; and (ii) are accompanied by a Member Counter-guarantee and Indemnity.

II. ADDITIONAL DEFINITIONS

- 2.1.** In general, the capitalized terms used in this *Annex* have the meanings set forth in *Section II (Definitions)* of this Policy. However, when used in this *Annex*, Project, Guarantee, Legal Agreements, and Loan have the more detailed definitions set forth below. In addition, certain additional capitalized terms that are used only in this *Annex* are defined below.

- (a) **Average Maturity** means, for a Loan, the weighted average period of time between the date of signing of the Loan Agreement and the Loan's scheduled repayments.
- (b) **Climate Policy-based Financing** or **CPBF** means the Sovereign-backed Financing modality described in *Annex 1 Section VI (Additional Policy Provisions Relating to Climate Policy-based Programs)*.
- (c) **Climate Policy-based Program** or **CPBP** means a specific program of policy and institutional reform actions supported by a Sovereign-backed Financing made pursuant to *Annex 1 Section VI (Additional Policy Provisions Relating to Climate Policy-based Programs)*.
- (d) **Disbursement-Linked Results** or **DLRs** are the verified results, based on disbursement-linked indicators (**DLIs**), that are achieved under a Results-based Project and on the basis which proceeds of the Results-based Financing are disbursed pursuant to *Annex 1 Section 5.5 (Disbursement under the RBF)*.
- (e) **Effective Date** means, for a Loan, the date on which the Loan Agreement becomes effective, as defined and specified in the Loan Agreement.
- (f) **General Conditions** means, for a Loan, the general conditions applicable to the Loan, as defined in *Annex 1 Section 8.1.9 (General Conditions)*.
- (g) **Guarantee** means a guarantee extended by the Bank out of its ordinary or special resources for a Project that: (i) covers debt service defaults under a loan that are caused by a Government's failure to meet a specific obligation in relation to the Project or by a borrower's failure to make a payment under the loan; and (ii) is

accompanied by a Member Counter-guarantee and Indemnity.

- (h) **Guarantee Agreement** means the agreement providing for a Guarantee.
- (i) **Implementation Agreement** means the Project Agreement or the Program Agreement, as the context requires.
- (j) **Implementing Entity** means any entity (other than the Recipient),²¹ which is responsible for the implementation of all or part of a Project (and in the case of a Guarantee, it may include the borrower of the loan guaranteed, as well as the entity whose obligations are backstopped by the Guarantee); if more than one such entity is so responsible, the term includes all such entities.
- (k) **Investment Project** or **IP** means the specific set of activities supported by a Sovereign-backed Financing made pursuant to *Annex 1 Section IV (Additional Policy Provisions Relating to Investment Projects)*.
- (l) **Investment Project Financing** or **IPF** means the Sovereign-backed Financing modality described in *Annex 1 Section IV (Additional Policy Provisions Relating to Investment Projects)*.
- (m) **Legal Agreements** means: (i) in the case of a Project supported by a Loan, the Loan Agreement, the Member Guarantee Agreement (if the Recipient is not the Member), the Implementation Agreement (if applicable) and all ancillary agreements for the Project to which the Bank is a party; and (ii) in the case of a Project supported by a Guarantee, the Guarantee Agreement, the Member Counter-guarantee and Indemnity Agreement, the Implementation Agreement (if applicable), and all ancillary legal agreements or documents for the Project to which the Bank is a party.
- (n) **Loan** means a loan made by the Bank out of its ordinary or special resources to or with the guarantee of the Member for a Project.
- (o) **Loan Agreement** means for a Project financed by a Loan, the agreement between the Bank and a Recipient providing for the Loan.
- (p) **Member Counter-guarantee and Indemnity Agreement** means the agreement providing for the Member Counter-guarantee and Indemnity in connection with a Guarantee.
- (q) **Member Guarantee** means, in the case of a Loan made to a Recipient other than a Member, the guarantee provided by the Member concerned to the Bank in connection with the Loan.
- (r) **Member Guarantee Agreement** means the agreement providing for the Member

²¹ For a Loan, this definition is intended to distinguish between the legal entity receiving the Loan, i.e., the Recipient, and other legal entities involved in preparation and implementation of the Project, i.e., the Implementing Entity, even though both the Recipient and the Implementing Entity may have responsibilities relating to implementation of the Project.

Guarantee in connection with a Loan.

- (s) **Payment Date** means, for a Loan, each date specified in the Loan Agreement on which interest and the commitment fee are payable under the Loan.
- (t) **Preparation Advance** means an advance made by the Bank for a Project in accordance with the provisions of *Annex 1 Section 3.4 (Preparation Advances)*.
- (u) **Principal Payment Date** means, for a Loan, each date specified in the Loan Agreement on which all or any portion of the principal amount of the Loan is payable.
- (v) **Program Agreement** means, for a Climate Policy-based Program, the agreement between the Bank and the Implementing Entity relating to the CPBP; and if more than one such agreement is entered into, the term includes all such agreements.
- (w) **Prohibited Practice** has the meaning ascribed to it in the *Policy on Prohibited Practices*.
- (x) **Project** means the specific set of activities; program of activities; or program of policy and institutional reform actions, and includes Investment Projects, Results-based Projects, and Climate Policy-based Programs.
- (y) **Project Agreement** means, for an Investment Project or Results-based Project, the agreement between the Bank and the Implementing Entity relating to the Project; and if more than one such agreement is entered into, the term includes all such agreements.
- (z) **Recipient** means the recipient of the Loan for a Project.
- (aa) **Results-based Financing** or **RBF** means the Sovereign-backed Financing modality described in *Annex 1 Section V (Additional Policy Provisions Relating to Results-based Projects)*.
- (bb) **Results-based Project** or **RBP** means a specific program of activities supported by a Sovereign-backed Financing made pursuant to *Annex 1 Section V (Additional Policy Provisions Relating to Results-based Financing)*.
- (cc) **Results-based Project Action Plan** or **RBP Action Plan** means the action plan referred to in *Annex 1 Section V (Additional Policy Provisions Relating to Results-based Projects)*.

III. ADDITIONAL POLICY PROVISIONS APPLICABLE TO ALL PROJECTS SUPPORTED BY SOVEREIGN-BACKED FINANCING

- 3.1.** In addition to the provisions of *Section III Policy Provisions* of this Policy, the following provisions apply to all Projects supported by a Sovereign-backed Financing.
- 3.2. Respective Responsibilities of the Recipient and Implementing Entity.** Further to the provisions of *Section 3.2.3 (The Bank's Role)* of this Policy:

- 3.2.1.** If the Project is supported by a Loan, the Recipient is normally responsible for preparing and implementing the Project. If an Implementing Entity is involved in the Project implementation, it is normally required to assume certain of these responsibilities. The Project's scope, objectives, and the contractual rights and obligations of the Bank and the Recipient, the Member (if the Recipient is different from the Member) and the Implementing Entity are reflected in the Legal Agreements. The Recipient and Implementing Entity are each expected to address in a timely and effective manner any problems encountered in Project implementation for which it is responsible.
- 3.2.2.** If the Project is supported by a Guarantee, the Implementing Entity is responsible for preparing and implementing the Project. The Project's scope, objectives and the contractual rights and obligations of the Bank, the Member and the Implementing Entity are reflected in the Legal Agreements.
- 3.3. Conditions of Financing.** The Bank requires that all Projects meet the following conditions in addition to those set forth in *Section III (Policy Provisions)* of this Policy.
- 3.3.1. Fiscal Sustainability.** The Project's impact on the Member's fiscal sustainability is acceptable.²²
- 3.3.2. Arrangements for the Use of Proceeds and Disbursements.** Acceptable oversight arrangements, including fiduciary, administrative and institutional arrangements, are in place for the Project to give reasonable assurance that the proceeds of the Financing (or, in the case of a Guarantee, the proceeds of the loan guaranteed by the Bank) are used only for the purposes for which the Financing (or, in the case of a Guarantee, the loan guaranteed by the Bank) is granted, with due attention to considerations of economy and efficiency.
- (a) To this end, the Bank assesses the Project's financing plan and the uses to which the proceeds of the Financing (or in the case of a Guarantee, the proceeds of the loan guaranteed by the Bank) are to be applied.
 - (b) The Bank develops, in all cases for a Loan, and as needed for a Guarantee, appropriate arrangements for the disbursement of the proceeds of the Financing (or, in the case of a Guarantee, of the loan guaranteed by the Bank), in accordance with the requirements set forth in this *Annex* for the Financing modality proposed for the Loan (or Guarantee).
- 3.3.3. Arrangements for Monitoring, Evaluation, Financial Management.** The Legal Agreements reflect, in addition to the above arrangements, the following key requirements:
- (a) In all cases, the Legal Agreements require that appropriate: (i) arrangements be maintained for monitoring and evaluating the Project; (ii) financial

²² In its determination as to the acceptability of the Project's impact on the member's fiscal sustainability, the Bank gives particular attention to debt sustainability analyses conducted by the International Monetary Fund and the World Bank.

management arrangements for the Project be maintained; and (iii) financial statements relating to the Project be prepared and audited periodically,²³ normally annually, by independent auditors and with terms of reference, both acceptable to the Bank, and that these statements as so audited, together with the auditor's reports be furnished to the Bank and publicly disclosed.

- (b) In the case of a Loan, the Legal Agreements require that the Project be implemented with due diligence and efficiency.
- (c) If the Financing is in the form of a Guarantee, the Bank: (i) may accept audited financial statements provided by the relevant Project participants in accordance with their legal agreements relating to the Project; and (ii) may rely on lender assessments of the financial reports of these participants.

3.4. Preparation Advances.

3.4.1. The Bank may decide to make an advance (**Preparation Advance**) to finance preparatory activities for a Project to be supported by a Sovereign-backed Financing. A Preparation Advance is made only when there is a strong probability that the Financing for the Project will be extended, but granting a Preparation Advance does not obligate the Bank to finance or otherwise support the Project for the preparation of which it is granted.

3.4.2. The maximum aggregate principal amount of all approved Preparation Advances for any given Project may not exceed the lesser of: (i) ten percent (10%) of the total estimated amount of Financing for the Project; and (ii) USD ten million (\$10,000,000) equivalent. The terms of each Preparation Advance are set forth in *Annex 1 Section VII (Financial Terms of Sovereign-backed Financing)* of this Annex.

3.4.3. The President decides whether to approve each Preparation Advance.²⁴

3.5. Approval of Financings; Signing of Legal Agreements. In addition to the preconditions related to approval and signing specified in *Sections 3.5.1 (Approval; Member No-objection)* and *3.5.2 (Signing)* of this Policy, the Bank may approve a Sovereign-backed Financing, and may sign the Legal Agreements for a Sovereign-backed Financing, only if there are no payments overdue to the Bank by thirty (30) days or more that would preclude the approval or the signing pursuant to the provisions of *Annex 1 Section IX (Suspension of Sovereign-backed Financings for Non-payment)*.

3.6. Monitoring of Projects. Further to the provisions of *Section 3.5 (Decision to Provide Financing; Oversight of the Project)* of this Policy, the Bank monitors each Project on an on-going basis until the completion of the Project. In addition, the Bank monitors each Guarantee until its expiration, paying particular attention to any Government obligations backed by the Guarantee. In the case of a Guarantee, the Bank may rely on such monitoring

²³ For CPBF the Legal Agreements require that an audit of the deposit and or dedicated account(s) be undertaken at the Bank's request.

²⁴ Contractual arrangements for a Preparation Advance are generally similar to those applicable to Loans. See *Annex 1 Section VIII (Contractual Arrangements for Sovereign-backed Financing)*.

by another financier, provided the Bank is satisfied with the monitoring capacity and processes of such financier.

- 3.7. Multiple Financing Modalities for a Single Project.** A single Project may comprise several components each of which is supported by a different Financing modality (i.e., CPBF, Investment Project Financing, or RBF). Each component is subject to the requirements set forth in this Policy for the particular Financing modality supporting that component.

IV. ADDITIONAL POLICY PROVISIONS APPLICABLE TO INVESTMENT PROJECTS

- 4.1. Key Features.** Investment Project Financing (IPF) is a Sovereign-backed Financing modality designed to support a specific Investment Project in order to promote sustainable development, create wealth, and improve infrastructure connectivity.
- 4.2. Use of Proceeds of IPF.** The Bank develops for a Loan supporting an Investment Project, and as needed for a Guarantee supporting an Investment Project, arrangements for the disbursement of the proceeds of the Loan or in the case of a Guarantee, of the loan guaranteed by the Bank, designed in such a manner that these proceeds: (a) are disbursed against specific expenditures that are: (i) required for the Project; and (ii) eligible for financing out of these proceeds; and (b) are available to the loan's recipient as and when needed to cover such expenditures.
- 4.3. Disbursement Methods.** In the case of a Loan supporting an Investment Project, the Bank disburses the Loan proceeds to or on the order of the Recipient for eligible expenditures, by means of reimbursement to the Recipient, direct payment to the service provider, supplier or contractor, or special commitment. At the request of the Recipient, the Bank may, in its discretion, disburse a portion of the proceeds of the Loan as an advance into a designated account in order to facilitate efficient implementation of the Investment Project.

V. ADDITIONAL POLICY PROVISIONS APPLICABLE TO RESULTS-BASED PROJECTS

- 5.1. Key Features.** Results-based Financing (RBF) is a Sovereign-backed Financing modality designed to promote sustainable development and improve the efficiency and effectiveness of expenditures, consistent with the Bank's strategies, by: (a) financing the expenditures of a RBP through disbursement of the RBF's proceeds on the basis of the achievement of key results under the Results-based Project (RBP); (b) using (and, as appropriate, strengthening) the systems used for the RBP to provide assurance that the funds allocated to it are used appropriately and that environmental and social impacts are adequately addressed by the RBP; and (c) strengthening, where appropriate, the institutional capacity necessary for the RBP to achieve its intended results.
- 5.2.** The RBF differs from an IPF in several key respects: (a) the extent of the technical, fiduciary and environmental and social assessments of the RBP, based on upstream work conducted by the Recipient; (b) the exclusion from the RBP of activities involving significant environmental and social risks and of high value contracts for goods, works or services; and (c) the manner in which the proceeds of the RBF are disbursed and accounted for.
- 5.3. Assessment of the Results-based Project.** The Bank's assessment of the RBP is based on various country and program-specific strategic, technical, and risk considerations. These include the RBP's strategic relevance, technical soundness, expenditure analysis, economic

rationale, results framework, and fiduciary and environmental and social systems and risks. The assessments evaluate the relevant risks and the scope for managing such risks, including proposed institutional strengthening activities to be undertaken before, if deemed appropriate, and during the implementation of the RBP.

5.3.1. The technical assessment focuses on: (i) the RBP's rationale and its development objectives; (ii) the RBP's activities and expenditure framework; (iii) the degree to which the RBP aims to achieve specific, measurable, and verifiable results; (iv) the adequacy of the policy, legal, regulatory, and institutional frameworks relevant to the RBP; and (v) the Recipient's commitment and capacity relevant to the RBP including the institutional and implementation, monitoring, reporting and evaluation arrangements for the RBP.

5.3.2. The fiduciary systems assessment considers whether the procurement, financial management systems and systems to be used by the Recipient to manage Prohibited Practices provide reasonable assurance that the proceeds of the RBF will be used for their intended purposes, with due attention to principles of economy, efficiency, effectiveness, transparency and accountability. Specifically:

- (a) **Procurement.** The RBP's proposed procurement systems are assessed in accordance with the provisions of *Section 5.16 of the Procurement Policy*.
- (b) **Financial Management.** The RBP's proposed financial management systems are assessed as to the degree to which the relevant planning, budgeting, accounting, internal controls, funds flow, financial reporting and auditing arrangements provide reasonable assurance as to the appropriate use of the RBP's funds and safeguarding of its assets.
- (c) **Prohibited Practices.** The fiduciary assessment considers how the RBP's proposed systems prevent, detect and mitigate the risks of Prohibited Practices.

5.3.3. The environmental and social systems assessment is carried out in accordance with the provisions of *Section 15 of the Environmental and Social Policy*.

5.3.4. The risk assessment considers key risks to achieving the RBP's development objectives and results. It is informed by the results of the technical, fiduciary and environmental and social systems assessments and provides a key input into the Bank's decision to provide the RBF. This decision takes into account country-, sector- and/or multisector-specific circumstances, potential benefits of the RBP, the needs and capacity of the Recipient and the degree to which the RBF and the Bank's implementation support will contribute to achievement of the RBP's overall development objectives and results.

5.3.5. Results-based Project Action Plan. Based on the results of its assessments, the Bank may require the Recipient to implement an action plan to address identified weaknesses and risks in the proposed systems and to strengthen institutional capacity (**RBP Action Plan**).

5.4. Activities Excluded from the Results-based Project.

5.4.1. Activities with Significant Environmental or Social Impacts. Activities that the Bank determines are likely to have significant adverse impacts as described in *Section 15* of the *Environmental and Social Policy* are not eligible for financing under the RBF, and are excluded from the RBP.

5.4.2. High Value Contracts. Activities that involve procurement of works, goods or services under high value contracts as determined in accordance with the provisions of *Section 5.16* of the *Procurement Policy* are normally not eligible for financing under the RBF, and are excluded from the RBP.

5.5. Disbursement under the RBF. The proceeds of the RBF are disbursed to or on the order of the Recipient upon the achievement of specific verified results under the RBP (**Disbursement-linked Results** or **DLRs**), rather than against the RBP's specific expenditures.

5.5.1. DLRs. DLRs are based on specific and measurable disbursement-linked indicators (**DLIs**) that are relevant to the RBP's development objectives and are verifiable. DLRs are verified using credible verification protocols satisfactory to the Bank.

5.5.2. Advances. Under appropriate circumstances and at the Recipient's request, the Bank may disburse a portion of the proceeds of the RBF as an advance for one or more DLRs that have not yet been achieved, in order to facilitate achievement of the DLR(s) concerned.

5.5.3. Refund. The total amount disbursed under the RBF may not exceed the total amount of expenditures incurred under the RBP. Any such excess is refunded to the Bank prior to the RBF's loan closing date.

VI. ADDITIONAL POLICY PROVISIONS APPLICABLE TO CLIMATE POLICY-BASED PROGRAMS

6.1. Key Features. Climate Policy-based Financing (**CPBF**) is a Sovereign-backed Financing modality designed to support a Member's specific program of policy and institutional reform actions (**Climate-based Policy Program** or **CPBP**) aimed at scaling up climate finance and accelerating the Member's transition towards a low carbon and climate resilient future. The CPBF differs from other Sovereign-backed Financings in several key respects: (a) it supports a program of policy and institutional reform actions rather than a specific set of activities or program of activities; (b) the amount of the CPBF is not based on the cost of these reforms; and (c) the proceeds of the CPBF may be used for any productive activity, provided that proceeds may not be used for excluded expenditures as specified in *Annex 1 Section 6.6 (Use of Proceeds)*.

6.2. Eligibility Requirements. The Bank may extend a CPBF to support a CPBP that meets the following eligibility requirements:

6.2.1. Alignment with the Member's Planned Transition to a Low Carbon and Climate Resilient Future. The CPBP is supportive of and consistent with the Member's policy and institutional reforms aimed at implementing the Member's internationally

recognized climate action plan under the United Nations Framework Convention on Climate Change that is either adopted or in the process of being adopted.

6.2.2. Adequate Macroeconomic Policy Framework. The Member has an adequate macroeconomic policy framework.

6.3. CPBF Amount. The amount of the CPBF that may be extended by the Bank to support a proposed CPBP is determined based on the Member's overall projected financing requirements, the financial costs and benefits of the CPBF, the availability of and access to alternative financing, the Member's debt sustainability and creditworthiness, and the Bank's financial exposure.

6.4. Assessment of the Climate Policy-based Program. The Bank's decision to extend a CPBF is based on the Bank's assessment of the Member's macroeconomic policy framework, policy and institutional framework, its institutional capacity, fiduciary governance, and environmental and social management frameworks relevant to the CPBP.

6.4.1. The **macroeconomic policy framework assessment** focuses on the adequacy of the Member's macroeconomic conditions and policies. In conducting its assessment, the Bank consults and coordinates with the International Monetary Fund and, as appropriate, with other development partners.

6.4.2. The **policy and institutional framework assessment** focuses on the strength of the CPBP and the Member's commitment to and ownership of the CPBP. The assessment considers the arrangements for the relevant consultations, participation, and outcomes of the participatory process for the CPBP, which are developed by the Member in accordance with its legal and institutional framework. The Bank advises the Member to consult with key stakeholders in the development of the CPBP, including groups directly affected by the CPBP, relevant public and private sector entities, development partners, and other organizations.

6.4.3. The **institutional capacity assessment** focuses on the Member's institutional capacity and ability to effectively implement the CPBP.

6.4.4. The **fiduciary governance assessment** considers whether the procurement and financial management systems and arrangements provide reasonable assurance that the proceeds of the CPBF will be used as specified in *Annex 1 Section 6.6 (Use of Proceeds)*. The fiduciary assessment focuses on the overall use of foreign exchange and budget resources, the Member's public financial management and procurement systems and arrangements, and the Member's central bank's control environment or budget management system.

6.4.5. The **environmental and social management frameworks assessment** comprises an analysis carried out in accordance with the provisions of *Section 16 (Climate Policy-based Programs)* of the *Environmental and Social Policy*.

6.5. Development Policy Letter and Policy Matrix. The Member sets out the program of policy and institutional actions and objectives to be supported by the CPBF in a development policy letter (**DPL**), which is included in the CPBF's documentation submitted for Bank approval. A policy matrix, developed on the basis of the DPL, identifies the critical prior actions that

must be taken before the CPBF is approved or the CPBF's proceeds are disbursed. In developing the policy matrix, the Bank, in consultation with the Member, seeks to harmonize the conditions and prior actions with those of other development partners.

- 6.6. Use of Proceeds.** If the CPBF is provided in the form of a Loan, the Member may use the proceeds of the Loan for any productive activity, provided that the proceeds of the Loan may not be used for expenditures excluded under the *Loan Agreement*; such excluded expenditures include, among others, those activities and items specified in the *Environmental and Social Exclusion List* of the Bank's *Environmental and Social Policy (Excluded Expenditures)*. If the CPBF is provided in the form of a Guarantee, the Recipient undertakes not to use the proceeds of the loan guaranteed by the Bank for Excluded Expenditures.
- 6.7.** The proceeds of a CPBF provided in the form of a Loan are disbursed to or on the order of the Recipient, generally into an account that forms part of the Member's foreign exchange reserves (normally held by the Member's central bank), and an amount equivalent to these proceeds is credited to an account of the Member's government to finance budget expenditures. Disbursements under the Loan supporting a CPBP, and the signing of the Legal Agreements under a Guarantee supporting a CPBP, are conditioned on the Bank being satisfied, among other conditions, with: (a) the progress achieved in carrying out the CPBP, including the fulfillment of the prior actions and conditions specified in the Legal Agreements; and (b) the adequacy of the Member's macroeconomic policy framework.

VII. FINANCIAL TERMS OF SOVEREIGN-BACKED FINANCING

- 7.1.** In accordance with the Bank's financial policies, the following financial terms apply to Sovereign-backed Financing.

7.2. Terms of Loans.

7.2.1. The terms of Loans are as follows.

- (a) **Currency.** Loans are committed and repayable in United States Dollars or in such other currency or currencies as the Bank may offer from time to time.
- (b) **Pricing.** The Loan pricing comprises the interest rate, front-end fee and commitment fee.
 - (i) **Interest.** The interest rate consists of a market-based variable reference rate and a spread. Interest is paid on the disbursed and outstanding Loan amount. Interest during construction may be financed out of the Loan proceeds. A default interest rate is charged in lieu of the above interest rate if any payment of principal becomes overdue by thirty (30) days, until the overdue amount is fully paid. The Bank does not charge interest on overdue interest on Loans. The *General Conditions* set forth details regarding the calculation of the interest rate. See also, *Pricing Policy for Sovereign-Backed Products and Sovereign-Backed Loan and Guarantee Pricing Decision*.
 - (ii) **Front-end Fee.** A one-time front-end fee is charged on the committed

Loan amount. The front-end fee may be financed out of the Loan proceeds on or after the Effective Date. Alternatively, the Recipient may pay the fee no later than sixty (60) days after the Effective Date; and in this case, payment of the front-end fee is required before the first withdrawal of proceeds under the Loan.

- (iii) **Commitment Fee.** A commitment fee, payable on each Payment Date, is charged on the undisbursed amount of the Loan. This fee starts to accrue sixty (60) days after the Loan Agreement is signed and is payable after the Effective Date. The Bank does not charge a commitment fee on a Loan whose Loan Agreement does not become effective.
- (c) **Loan Conversions.** The Bank may permit conversions of the Loan currency and interest rate. The *General Conditions* set forth details regarding these conversions.
- (d) **Other Fees.** The Bank may charge other transaction fees in relation to climate resilient debt clauses, conversions and their termination, as well as prepayments. Such fees are payable as an annual or a one-time charge.
- (e) **Board Determination.** Based on the periodic review of the adequacy of the Bank's pricing levels, the President may recommend for approval by the Board any adjustments to the front-end fee, the commitment fee, the contractual lending spread, the projected funding spread, the market risk premium, the maturity premium elements of the spread for Loans, and the default interest rate. The President sets the borrowing cost margin element applicable to each reference rate for Loans based on a variable spread, and the transaction fees applicable to climate resilient debt clauses, loan conversions and their termination, as well as the prepayment fee, as required to reflect prevailing market conditions.
- (f) **Repayment Terms.** The Bank determines a final maturity for the Loan that is appropriate and is consistent with the Loan's purpose, subject to an Average Maturity limit of up to twenty (20) years and a final maturity limit of up to thirty-five (35) years.
- (g) **Payment Schedules.** Payment Dates are set at equal intervals and fall on either the 1st or the 15th day of the month (at the Recipient's option), all in accordance with the provisions of the Loan Agreement. The grace period (other than for bullet payments) starts running from the date of signing of the Loan Agreement, with the first Principal Payment Date set to fall on the same date as the next Payment Date falling on or after the date of expiration of the grace period.
- (h) **Revisions to Approved Repayment Terms.** Repayment terms may not be changed once the Bank has approved the Loan.
- (i) **Prepayment.** A Loan may be prepaid in full or in part. The Bank may charge a prepayment premium to cover the cost to the Bank of redeploying prepaid

funds. The *General Conditions* provide further details regarding the prepayment premium and its calculation.

- (j) **Cancellation.** If a Loan is fully cancelled prior to the Effective Date, no front-end fee is charged. If the Loan is partially cancelled prior to the Effective Date, the amount of the front-end fee payable is reduced on a *pro-rata* basis, and the adjusted front-end fee is payable to the Bank upon the Effective Date. If the Loan is partially or fully cancelled on or after the Effective Date, no refund of the front-end fee is made.

7.3. Terms of Guarantees.

7.3.1. The terms of Guarantees are as follows.

- (a) **Currency.** Guarantees are committed and payable in United States Dollars or in such other currency or currencies as the Bank may offer from time to time.
- (b) **Pricing.** The pricing of Guarantees includes several fees, determined on the basis of equivalency with Loans. Guarantee pricing comprises three components: a standby fee, guarantee fee and front-end fee. Once these fees are fixed for a specific Guarantee, they remain unchanged for the life of that Guarantee.
 - (i) **Standby fee.** The standby fee is analogous to, and is set at the same level as, the commitment fee on a Loan. The standby fee is calculated periodically and applied to the committed and undisbursed amount of the loan guaranteed by the Bank under the Guarantee (when the loan is scheduled to be disbursed in installments). The Bank does not charge a standby fee in respect of a Guarantee that does not become effective.
 - (ii) **Guarantee fee.** The Guarantee fee is set at the same level as the contractual lending spread for a Loan, and may include, as applicable, a maturity premium. The Guarantee fee is charged on the committed and outstanding amount of the Bank's financial exposure under the Guarantee.
 - (iii) **Front-end fee.** The front-end fee is a one-time fee set at the same level as the front-end fee on a Loan and is charged upfront on the maximum amount of the Guarantee.
- (c) **Processing Charge.** The Bank may charge a processing charge, as appropriate for a specific Project, to cover its internal and external processing costs.
- (d) **Board Determination.** Based on the periodic review of the adequacy of the Bank's pricing levels, the President may recommend for approval by the Board any adjustments to the standby fee, the Guarantee fee and the front-end fee and the cap on the processing charge for Guarantees. The President

sets the processing charge for Guarantees subject to the cap on this fee.

- (e) **Payment of Fees.** The Guarantee fee and standby fee are payable in advance; either charged and collected in advance of each fee period, or charged in a single lump-sum amount upfront calculated on a present value basis. The front-end fee is payable as a condition of effectiveness of the specific Guarantee.
- (f) **Refund of Guarantee Fee.** If, during the life of a Guarantee, the Bank's financial exposure under the Guarantee is reduced or canceled, the Bank may, in its discretion, refund to the paying party a portion of any Guarantee fee that the Bank has already received in advance, commensurate with the reduction in exposure.
- (g) **Maturity Limits.** The Guarantee maturity calculation is determined based on the type and structure of the Guarantee and is subject to the same average and final maturity limits as those applicable to a Loan. When justified by particular Project needs, the Board may decide to approve an exception to the average or final maturity limit.
- (h) **Accelerability.** Payment by the Bank under a Guarantee is normally not accelerable. The Bank may, in exceptional cases, agree that if payments under the loan guaranteed by the Bank are accelerated following a payment default, payments under the Guarantee are accelerable.

7.4. Terms of Preparation Advances.

7.4.1. The terms of Preparation Advances are as follows:

- (a) The Preparation Advance is treated as a loan, which may be refinanced out of the proceeds of any Loan to or guaranteed by the Member concerned.
- (b) If the Loan out of which the Preparation Advance is to be refinanced does not materialize by the date specified in the agreement providing for the Preparation Advance, the Preparation Advance is repaid by its recipient over a period not to exceed five (5) years following this date.
- (c) Interest on the withdrawn amount of the Preparation Advance is calculated in the same manner as for a Loan.

VIII. CONTRACTUAL ARRANGEMENTS FOR SOVEREIGN-BACKED FINANCING

8.1. Contractual Arrangements for Loans.

8.1.1. Recipient. The Bank generally prefers the entity responsible for implementing and operating the Project to be the Recipient of the Loan. By lending directly to this entity, the Bank is better able to monitor the Project's implementation efficiently and suggest corrective steps when there are shortcomings in the Project's implementation. When direct lending to this entity is not feasible or practical (including due to legal considerations governing the Member), the Bank may lend to another legal entity if the Project can nevertheless be efficiently implemented and operated.

8.1.2. Loan Agreement. For each Loan, the Bank enters into a Loan Agreement with the Recipient. The Loan Agreement sets forth the amount of the Loan and the terms and conditions on which it is made.

8.1.3. Remedies. The Bank's contractual remedies under the Loan Agreement include: (a) suspension of disbursements of un-withdrawn amounts of the Loan; (b) cancellation of un-withdrawn amounts of the Loan; and (c) acceleration of payments due under the Loan. Suspension of disbursements of un-withdrawn amounts of the Loan in the event of failure to pay amounts due to the Bank is governed by *Annex 1 Section IX (Suspension of Sovereign-backed Loans for Non-Payment)*.

8.1.4. Member Guarantee Agreement. The Member provides a Member Guarantee for each Loan made to a Recipient that is not the Member.²⁵

- (a) Under the Member Guarantee, the Member guarantees the payment of principal and interest and other charges on the Loan, as principal debtor and not merely as a surety. Thus, the Bank may call directly on the Member as guarantor for payment and is not required first to exhaust its remedies against the Recipient.
- (b) When the Member effectively controls the entity in charge of implementing and operating the Project, the Bank may require the Member to guarantee performance as well as repayment.
- (c) If the Bank requires a Member Guarantee, it enters into a Member Guarantee Agreement with the Member, which sets forth the Member's contractual obligations as a guarantor of the Loan. Additional undertakings required of the Member to facilitate the achievement of the Loan's purposes are set forth in the Member Guarantee Agreement.

8.1.5. Security Arrangements. Generally, the Bank does not require specific security from a Loan Recipient that is the Member. The Bank may require some form of specific security from a Loan Recipient that is not a Member. The Bank normally requires specific security if a co-financier of the Loan requires such security. Additional contractual documentation is required if specific security is required.

8.1.6. Negative Pledge. The Bank requires that each Loan and each Member Guarantee be subject to a negative pledge provision, in accordance with the *General Conditions*. Any exception to the negative pledge requires prior approval by the President (who may further delegate this approval authority).

8.1.7. External Debt Reporting. The *General Conditions* require that the Member furnish to the Bank information on the financial and economic conditions in its territory, including its balance of payments and its external debt.

²⁵ The requirement of a Member Guarantee also applies in the case of Preparation Advances to a recipient that is not the Member.

8.1.8. Implementation Agreement.

- (a) If the Bank extends a Loan to a Recipient that is not responsible for implementing and operating one or more parts of the Project, it normally enters into an Implementation Agreement with the Implementing Entity. The Implementation Agreement contains the normal undertakings regarding implementation and operation of the Project.
- (b) Whether or not the Bank enters into an Implementation Agreement, it may require the Recipient to enter into a subsidiary agreement with the Implementing Entity, setting forth the respective obligations of the Recipient and the Implementing Entity with respect to the Project.
- (c) The Bank may also enter into agreements with other entities that have a direct interest in the Project or in the achievement of its objectives. These agreements set forth the obligations of such parties with respect to the Project.

8.1.9. General Conditions. From time to time, the Board approves the general conditions applicable to Loans (**General Conditions**), which set forth conditions applicable to all Loans. The Loan Agreement, and any Member Guarantee Agreement and Implementation Agreement for the Project, incorporate by reference the then current *General Conditions*.

8.1.10. Co-financing. If a Project is co-financed by funds from another financier:

- (a) **Cross Conditionality.** In order for these other funds to be made available when needed for the Project, the Loan Agreement includes, as necessary, cross-effectiveness clauses and events of default linked to the agreements providing for these other funds, depending on the required timing of availability, respectively, of the Loan and these other funds.
- (b) **Parallel or Joint Co-financing.** The Loan Agreement sets out whether the co-financing is to be made on a parallel basis (i.e., the Bank and the other financier each finance separate expenditures or DLRs for the Project), or whether it is to be made on a joint basis (i.e., the Bank and the other financier each finance a percentage of the same expenditures or DLRs for the Project).

8.2. Contractual Arrangements for Guarantees.

8.2.1. Guarantee Agreement. For each Guarantee, the Bank enters into a Guarantee Agreement, which sets forth the terms and conditions on which the Guarantee is extended.

8.2.2. Member Counter-guarantee and Indemnity Agreement.

- (a) For each Guarantee, the Bank enters into a Member Counter-guarantee and Indemnity Agreement with the Member in whose territory the Project is

located or for whose benefit the Guarantee is made.²⁶ The Member Counter-guarantee and Indemnity Agreement sets forth the Member's obligations in respect of the Guarantee, including an obligation to reimburse the Bank for any payments the Bank makes under the Guarantee and to indemnify the Bank for all liabilities and expenses the Bank incurs in connection with the Guarantee.

- (b) Under the Member Counter-guarantee and Indemnity Agreement, the Member's payment is required on demand by the Bank, or as the Bank may otherwise direct.
- (c) Additional undertakings made by the Member in order to facilitate the achievement of the purposes of the Guarantee are set forth in the Member Counter-guarantee and Indemnity Agreement.

8.2.3. Remedies. The Bank's remedies in respect of a Guarantee may, depending on the transaction, include the right to suspend, terminate or withhold payments under the Guarantee.

8.2.4. Security Arrangements. The Bank generally does not require specific security in connection with a Guarantee, but may do so in specific circumstances.

8.2.5. Implementation Agreement.

- (a) The Bank normally enters into an Implementation Agreement with the Project's Implementing Entity. The Implementation Agreement specifies the Implementing Entity's obligations regarding the implementation and operation of the Project.
- (b) The Bank may also enter into agreements with other entities, which have a direct interest in the Project or in the achievement of its objectives; these agreements set forth the obligations of such entities.

8.2.6. General Conditions. Certain provisions of the *General Conditions* may be incorporated in the Member Counter-guarantee and Indemnity Agreement between the Member and the Bank and in the Project Agreement, adapted as appropriate for a Guarantee.

8.2.7. Co-financing and Cross-Effectiveness. If the Project is co-financed with funds from another financier, then in order for these other funds to be made available when needed for the Project, the Legal Agreements for the Guarantee include, as

²⁶ In the case of a cross-border Project, the Bank may obtain a Member Counter-guarantee and Indemnity from a different Member than the Member in whose territory the Project is located. For example, if the Project involves both construction of a power plant in the territory of Member A and the off-take by Member B of the plant's output, with the Bank Guarantee backstopping defaults on a loan for the Project that result from the failure of Member B to make payments under the off-take agreement, the Bank would normally require a Member Counter-guarantee and Indemnity from Member B. The Bank may also enter into an agreement with Member A regarding particular undertakings required of Member A (e.g., agreement to provide access to the Project site or to comply with certain environmental and social undertakings).

necessary, cross-effectiveness clauses linked to the agreements providing for these other funds, depending on the required timing of availability, respectively, of the Guarantee and these other funds.

IX. SUSPENSION OF SOVEREIGN-BACKED LOANS FOR NON-PAYMENT

9.1. Graduated Approach. The Bank takes a graduated approach to suspension of Loans for non-payment, as follows:

9.1.1. Thirty Days Overdue.

- (a) When a payment to the Bank under a Loan or Member Counter-guarantee and Indemnity becomes thirty (30) days overdue:
 - (i) The Bank approves no new Loans to the Recipient (and, if the Recipient is the Member, no new Loans to be guaranteed by the Member and no new Guarantees for which a Member Counter-guarantee and Indemnity is to be provided by the Member);
 - (ii) The Bank signs no agreements related to previously approved Loans to the Recipient (and, if the Recipient is the Member, no agreements related to previously approved Loans guaranteed by the Member or Guarantees for which a Member Counter-guarantee and Indemnity is to be provided by the Member); and
 - (iii) The Recipient loses its eligibility for any waiver of interest charges under Loans in effect at the time.
- (b) To avoid the Bank proceeding further on the process leading to suspension, the Recipient is required to pay all payments overdue by thirty (30) days or more; however, nonpayment of amounts that have been due for less than thirty (30) days does not yet cause the Bank to continue proceeding towards suspension.

9.1.2. Forty-five Days Overdue.

- (a) When a payment to the Bank under a Loan or Member Counter-guarantee and Indemnity becomes forty-five (45) days overdue:
 - (i) The provisions cited above in *Annex 1 Section 9.1.1(a) (Thirty Days Overdue)* regarding Bank approval and signing and interest waiver eligibility, apply to all Loans to all Recipients guaranteed by the Member concerned, to all Loans to the Member and to all Guarantees for which a Member Counter-guarantee and Indemnity is to be provided by the Member; and
 - (ii) The Bank makes no further advances under any Loan to or guaranteed by the Member.

- (b) In addition, to avoid the Bank proceeding further on the process leading to suspension, the Member (as Loan Recipient or guarantor) and all Recipients of Loans to or guaranteed by the Member, are required to pay not only all payments overdue by thirty (30) days or more, but also all payments due as of the date the Bank receives payment, regardless of the number of days since they fell due.

9.1.3. Sixty Days Overdue.

- (a) When a payment to the Bank under a Loan or Member Counter-guarantee and Indemnity becomes sixty (60) days overdue, the Bank suspends disbursements under all Loans to, or guaranteed by, the Member concerned.
- (b) In addition, the restrictions cited in *Annex 1 Section 9.1.2 (Forty-five Days Overdue)* apply until the suspension is lifted.

OPERATIONAL POLICY ON FINANCING

ANNEX 2

SPECIFIC PROVISIONS APPLICABLE TO NON-SOVEREIGN-BACKED FINANCING

I. SCOPE

1.1. This *Annex* applies to Financings extended by the Bank that are not Sovereign-backed Financings. Non-sovereign-backed Financings are financings to, or for the benefit of, a private enterprise or a sub-sovereign entity (such as a political or administrative sub-division of a Member or a public sector entity) that are not backed by a guarantee or counter-guarantee and indemnity provided by the Member to the Bank.

II. ADDITIONAL DEFINITIONS

2.1. In general, the capitalized terms used in this *Annex* have the meanings set forth in *Section II (Definitions)* of this Policy. Certain additional capitalized terms, when used in this *Annex*, are defined below.

- (a) **Beneficiary** means the entity or entities to or for which the Financing is provided, including the recipient of a Loan and the entity whose obligations are guaranteed by the Bank.
- (b) **Sponsor(s)** means the entity or entities that control the Beneficiary, for example, its material shareholders or other entities responsible for the Beneficiary's technical and financial performance.

III. ADDITIONAL POLICY PROVISIONS RELATING TO TYPES OF NON-SOVEREIGN-BACKED FINANCING, EXPOSURE AND ASSESSMENT OF PROJECTS

- 3.1. **Types of Financing.** The Bank may provide Non-sovereign-backed Financings in the form of Loans, Guarantees, direct equity investments, indirect equity investments and underwriting and purchase of securities. It may provide one or more of these types of Non-sovereign-backed Financings for a single Project.
- 3.2. **Exposure.** The Bank finances out of its own funds not more than: (a) thirty-five percent (35%) of the long-term capital of an obligor, estimated on a pro-forma basis; or (b) alternatively, thirty-five percent (35%) of the Project's value (including interest during construction). The Board may decide to approve a higher level of exposure for the Project.
- 3.3. **Assessment of the Project.** In carrying out its assessment of each Project as required under *Section III (Policy Provisions)* of this Policy, the Bank focuses particular attention on the following risks:
 - 3.3.1. **Technical and Financial Assessment.** The Bank assesses the nature and length of ownership and operation of the infrastructure (if any), which constitutes the core of the Project and of the proposed financing plan.

- 3.3.2. Creditworthiness of Beneficiary and Sponsor(s).** The Bank assesses whether the repayment of, and a satisfactory return on, the Non-sovereign-backed Financing can be serviced out of the Project's cash flow, by reviewing the financial projections of the Beneficiary in light of relevant sensitivity analyses. Where the Project's cash flow is found to be uncertain or insufficient, the Bank may provide a Non-sovereign-backed Financing supported by the other businesses and assets of the Beneficiary and/or Sponsor(s). If the Project involves an existing business, the Bank requires the Beneficiary, and where applicable, the Sponsor(s), to provide its audited statements for a period of at least three (3) years. In all cases, the Bank requires the Beneficiary and/or the Sponsor(s) to make an adequate financial contribution to the Project.
- 3.3.3. Capacity of Beneficiary.** The Bank assesses the quality and experience of the Beneficiary's management and if needed, its Sponsor(s), as a critical component of its credit analysis. If the Beneficiary of the Financing is a sub-sovereign entity, the Bank assesses the experience and implementation capacity of the entity's relevant departments. As needed, the Bank may finance measures designed to enhance such capacity. If the Government is involved in the Project in whatever capacity, the Bank analyzes the powers, competence and ability of the public authorities to play their assigned role, and the irreversibility of their commitments. More information on Government environmental and social responsibilities under Projects supported by Non-sovereign-backed Financings is available in the *Environmental and Social Policy*.
- 3.3.4. Integrity.** The Bank assesses the existing or proposed shareholding structure of each potential Beneficiary, Sponsor(s) and other material participants in the Project in order to assess integrity and reputational risks and to confirm that the structure does not involve vehicles to which part of the Project's cash flow could be unacceptably diverted, or unacceptably involve jurisdictions that do not meet the relevant standards promulgated by recognized international bodies from time to time. The Bank also assesses the past and present integrity of the Beneficiary, Sponsor(s) and other material participants in the Project.
- 3.3.5. Local Environment.** The Bank assesses all relevant aspects of the country and sector environment within which the Project is to be implemented, in order to evaluate their potential impact on the Project, including: (a) the macro-economic conditions; (b) the Member's laws and regulations affecting the Project, in particular any restrictions on property, land tenure and investment; (c) the ability of the Beneficiary to convert domestic currency into foreign exchange and to remit earnings abroad; (d) the structure and incidence of taxes and tariffs; (e) to the extent that the Project comprises development or expansion of new infrastructure, the availability of existing or planned infrastructure offering the same support; and in the opposite case, the extent to which there is adequate infrastructure, including energy, transport and communications, to support the Project; (f) the existence of a sufficient demand for that infrastructure or market for the products or services to be offered by the Project; and (g) the availability of suitable labor to operate the Project.

3.3.6. Assessment of Return to the Bank. The Bank assesses the return that can be expected on the allocation of the Bank's funds to the Financing and the risks associated with this.

IV. FINANCIAL TERMS AND CONDITIONS FOR NON-SOVEREIGN-BACKED FINANCING

- 4.1. Market-based Principles.** The Bank applies market-based principles in setting the terms and conditions of each Financing, in particular its pricing. These terms and conditions take into account the intrinsic commercial and macroeconomic risks of each Project, the cost of funds to the Bank and the need to earn an appropriate return on the Bank's capital, including funds invested in direct and indirect equity of private entities. The Bank sets these terms and conditions in a manner designed to achieve a balanced financial structure based on an appropriate allocation of risks and to provide for the continued viability of the Project throughout the duration of the Bank's involvement and beyond. The President is responsible for establishing criteria designed to price Non-sovereign-backed Financings of comparable risks in a similar and consistent manner.
- 4.2. Maturity; Grace Period; Interest.** The Bank may offer a range of options and features (maturities, grace periods, interest payments) under the Non-sovereign-backed Financing in order to meet the specific needs of the Beneficiary and the Project. It: (a) tailors Non-sovereign-backed Loan repayments to the Project cash flows, i.e., with the first repayment scheduled to come due as soon as positive cash flow from the Project is available; (b) fixes the final maturity of a Non-sovereign-backed Loan to not more than twenty-three (23) years (the Board may decide to approve a longer final maturity); and (c) recycles the Bank's resources in order to enable it to finance additional Projects.
- 4.3. Fees.** The Bank charges front-end fees, commitment fees and fees for appraisal, prepayment, syndication or other activities and services related to the Financing, as applicable, all typically on prevailing market terms. The Bank also charges standby fees, guarantee fees and front-end fees in relation to Non-sovereign-backed Guarantees, also typically on prevailing market terms.
- 4.4. Limited Recourse or Corporate Finance.** The Bank may extend a Non-sovereign-backed Loan on a limited recourse basis, backed only by the existing and future cash flow and assets of the Beneficiary. However, if the completion risk of the Project requires mitigation, the Bank may require a specific undertaking from the Project's Sponsor(s) to provide any needed additional funds. The Bank may also extend a Non-sovereign-backed Loan with the credit support of a third party, e.g., recourse to designated assets or the balance sheet of the Sponsor(s) or a bank guarantee. Where the support of the Sponsor(s) is necessary, the Bank assesses the creditworthiness of the Sponsor(s) and includes the undertakings of the Sponsor(s) in the Legal Agreements. The Bank also requires undertakings from the Sponsor(s) and third parties as necessary to provide for the continued ownership of the Project during the term of the Financing and continued sources of management, technology, supply and equipment, as required for the Project.
- 4.5. Loan Seniority and Security.** Non-sovereign-backed Loans are usually extended as senior Loans. However, subject to appropriate pricing, the Bank may also extend Loans subordinated to the prior payment of other debt of the Beneficiary or subordinated in

repayment in the event of the Beneficiary's bankruptcy (or both). For Non-sovereign-backed Loans, the Bank typically requires a negative pledge undertaking by the Beneficiary. The Bank may also require that senior Loans be backed by appropriate guarantee or security. If the Bank requires such credit enhancements, it normally requires that they be granted and perfected before the first disbursement of the Loan.

4.6. Credit Lines and Onlending Facilities for Financial Intermediaries. The Bank may extend credit lines and provide onlending facilities to financial intermediaries, for on-lending for Projects meeting the conditions of direct Financing. In those cases, the Bank's recourse is usually to the balance sheet of the financial intermediary, but the Bank may also require an assignment, by way of security, of the sub-loans granted by the financial intermediary.

4.7. Currency Denominations.

4.7.1. Loans. Non-sovereign-backed Financing in the form of a Loan is committed and repayable in United States Dollars or in such other currency or currencies as the Bank may offer from time to time.

4.7.2. Equity Investments. The Bank's equity investments are made in the currency in which the shares of the investee company are denominated (typically the local currency).

4.7.3. Foreign Currency. The Bank requires that the Beneficiary of each Non-sovereign-backed Financing obtain all governmental authorizations and permits as may be required to import and export foreign currency into and from the country in which the Beneficiary is located.

4.8. Loan Participations, Syndications and Club Loans. The Bank may provide Non-sovereign-backed Financings in various forms, including, *inter alia*, loan participations, syndications and club loans, with risks typically allocated as follows.

4.8.1. In one scenario, the Bank transfers the full commercial and business risk to other lenders, allowing them to partially finance the Loan. In such case, the Bank agrees to extend a Loan, but funds only a portion of the Loan (known as the A tranche) with commercial banks funding the balance (known as the B tranche). The Bank remains the lender of record for the full amount of the Loan, and the loan agreement for the full amount of the Loan is between the Bank and the Beneficiary. The Bank enters into participation agreements with the participating commercial banks that transfer commercial and business risk to them. The commercial banks' B tranche accordingly shares the benefit of the Bank's immunities and exemptions, including the withholding tax exemption.

4.8.2. In another scenario, the Bank enters into an arrangement with a group of banks whereby each lender undertakes to lend specified portions of the total loan amount, and, in normal circumstances, debt service is shared among all lenders *pro rata* to their outstanding loan portions in accordance with the terms of the loan documentation. A loan agreement is normally entered into between the Beneficiary and the lenders, including the Bank. The Bank, as a member of the group of lenders, does not share the benefit of its immunities and exemptions noted above with the other lenders.

4.9. Direct Equity Investments.

- 4.9.1. General.** The Bank may make direct equity investments in private or public sector companies. It may invest either in a new enterprise or an existing enterprise. The investment may take a variety of forms, including: (a) subscriptions to ordinary shares or preference shares (or a combination of both); and (b) a loan convertible into equity.
- 4.9.2. Limit on Ownership.** The Bank's equity investment may not exceed thirty percent (30%) of the company's ownership holdings. However: (a) in exceptional circumstances, the Board may decide to approve a higher, but not controlling, share; and (b) if the Bank's investment is in jeopardy, the Bank may take control of the company in order to safeguard its investment.
- 4.9.3. Financial Assessment.** When considering an equity investment, the Bank assesses the value of the existing or future company in accordance with market practice, using commonly accepted valuation methodologies, including reference to reliable stock market quotations, if any, and any available data on comparable companies. It assesses in particular, the value of in-kind contributions from the Sponsor(s) and other shareholders in the company. The Bank seeks a market rate of return reflecting the risks of the investment. Individual expected investment returns may typically fall in the range of eight percent (8%) to twenty percent (20%) depending on the type of equity investment.
- 4.9.4. Governance.** The Bank assesses the rationale for taking an equity interest in a company. In addition to the financial aspects of the investment, the Bank assesses and defines an appropriate role for it to perform for the proper governance of the company. Where appropriate, the Bank secures the right to nominate a member on the company's board of directors. The Bank may also serve as a facilitator in obtaining shareholder agreement on a particular corporate strategy or course of action.
- 4.9.5. Bank as Investor and Lender.** In general, where the Bank is both an investor in and lender to the company, it is required to act in order to protect its best overall interests at all times. Due attention must be paid to secure the Bank's financial interest in any investments. If the Bank has an interest in the loan participation, loan syndication, club loan or capital markets debt instrument issued by the company, the Bank may not maintain a direct equity interest in the company unless appropriate arrangements are in place to address any actual or perceived conflicts of interest.
- 4.9.6. Term of Investment.** The Bank normally invests with the objective of continuing to be an investor for the medium term but it may, in exceptional cases, be an investor for the long term. It incorporates appropriate, credible exit strategies into its investment proposal, designed so that it may exit when a reasonable price can be achieved, and it is satisfied that its role has been completed. Determination of a reasonable valuation at time of exit is based on audited accounts and made in accordance with market practice, using such relevant data as may be available, and taking into account continuing risks and maturity of markets. Achievement of a

minimum return is not a necessary condition for exit; in some instances, the Bank may exit an investment in order to minimize anticipated losses.

- 4.10. Indirect Equity Investments.** The Bank may selectively make equity investments through financial intermediaries, such as equity funds, choosing those managed by professional managers with relevant track records and remuneration arrangements in line with market practices. In each case, the Bank seeks a credible exit strategy from the fund.
- 4.11. Other Non-sovereign-backed Financing Arrangements.** The Bank may offer other forms of Non-sovereign-backed Financing, including, *inter alia*: (a) Guarantees; depending on the needs of its clients and the Project, the Bank may provide Guarantees against default regardless of the cause or against default arising from specified events; and (b) underwriting, or participation in the underwriting, of securities issued by a private or public sector entity in connection with a Project.²⁷ In such case, the Bank confirms that its name and reputation are appropriately used, and addresses possible joint liability that may arise between underwriters.

V. CONTRACTUAL ARRANGEMENTS FOR NON-SOVEREIGN-BACKED FINANCING

- 5.1. Legal Agreements.** The Bank documents a Non-sovereign-backed Financing in accordance with the practice of other relevant multi-lateral development institutions providing similar non-sovereign-backed financing, through the use in all cases of standard templates for term sheets, loan agreements, subscription agreements, participation agreements, security sharing agreements, project funds (or project completion) agreements, etc., for consistency and fairness.
- 5.2. Governing Law.** The Bank includes governing law provisions in the Project's Legal Agreements, in accordance with the following requirements: (a) for cross-border Loans, the governing law is a suitable law, usually other than the law of the jurisdiction in which the Loan Beneficiary is established; and (b) for certain instruments, such as equity subscription agreements, mortgage agreements and security interests on equipment, the governing law is by necessity local law.

VI. NON-SOVEREIGN-BACKED FINANCING MONITORING AND REMEDIES

- 6.1. Monitoring.** Further to the provisions of *Section III (Policy Provisions)* of this Policy, the Bank monitors the Project supported by a Non-sovereign-backed Financing as required, firstly to promote the objectives of the Project, and secondly to assess and (if possible) mitigate risks to Project success and to the Bank's own financial returns under the Project. While in principle monitoring is therefore required until final repayment of a Loan or exit from an equity investment, the intensity of monitoring varies with the nature of the Project, as well as its profile in terms of credit and other risks. If the Project is co-financed with another

²⁷ The Bank may underwrite securities by subscribing to specified amounts and values of an issue by a public or privately owned enterprise. Underwriting involves market risk to the extent the price of the underwritten issue may fall between the time it is underwritten and sold (i.e., value risk) or that there may be no subsequent market for the instrument (i.e., liquidity risk). Underwriting of equity in companies is treated as an exposure to the full underwritten amount and is subject to the limits set on equity investments.

financier, the Bank may rely on monitoring by the other financier, provided it is satisfied with the monitoring capacity and processes of such financier, and provided that its interests are fully aligned with those of that financier.

6.2. Remedies.

6.2.1. General. If an event of default arises under any of the Legal Agreements entered into in connection with a Non-sovereign-backed Financing, the Bank considers whether to waive such default (which waiver can be temporary or final) or to exercise the Bank's contractual remedies under the relevant Legal Agreements.

6.2.2. Loans. In respect of a Loan, remedies typically include: (a) suspension of withdrawals, or cancellation, of un-withdrawn amounts; (b) acceleration of payments due; (c) exercise of the Bank's rights, if any, *vis-à-vis* the Sponsor(s) or any other third party (e.g., under a guarantee); (d) enforcement of security, if any (e.g., mortgage, charge over assets); and (e) initiation of bankruptcy proceedings, if available.

6.2.3. Equity Investments. In respect of an equity investment, remedies typically include: (a) cancellation of a subscription; and (b) exercise of the Bank's rights, if any, *vis-à-vis* the Sponsor(s) or any other third party (e.g., under a put option agreement).