

World Bank Debt Servicing Handbook

Loan Services Group
Accounting Department
The World Bank

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Abbreviations and Acronyms

ACTCF	Accounting Department, Loan Client Services Group
AER	Applicable Exchange Rate
APL	Adaptable Programmatic Loans
ARF	Automatic Rate Fixing
CPA	Currency Purchase Agreement
CPL	Currency Pool Loan
DDO	Deferred Drawdown Option
DPL	Development Policy Loan
DSL	Debt Sustainability Analysis
ERL	Emergency Recovery Loan
EUR	Euro
FEF	Front-End Fee
FIL	Financial Intermediary Loan
FSCL	Fixed Rate Single Currency Loan
FSL	Fixed-Spread Loan
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
JPY	Japanese Yen
LIBOR	London Inter-Bank Offered Rate
LIL	Learning and Innovation Loan
LLDCs	Least Developed Countries
LRP	Level Repayment of Principal
MDA	Master Derivative Agreement
PPF	Project Preparation Facility
PSAL	Programmatic Structural Adjustment Loan
RIL	Rehabilitation Loan
SAL	Structural Adjustment Loan
SCP	Single Currency Pool Loan
SDRs	Special Drawing Rights
SECAL	Sector Adjustment Loan
SIL	Specific Investment Loan
SIM	Sector Investment and Maintenance Loan
SDPL	Special Development Policy Loan
SNAL	Subnational Adjustment Loan

TAL	Technical Assistance Loan
TTL	Task Team Leader
USD	United States Dollar
VLR	Variable Lending Rate
VSL	Variable-Spread Loan

Introduction

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

The Accounting Department is responsible for administering the accounts of World Bank borrowers. The Loan Services Group of the Accounting Department (ACTCF) provides information and technical assistance to borrowers and World Bank staff, as necessary, to enable them to understand matters related to debt servicing.

In this Handbook, the term *World Bank* refers collectively to the International Bank for

Reconstruction and Development (IBRD) and the International Development Association (IDA). Where the discussion pertains to only one of these entities, that entity is explicitly named.

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Chapter I

World Bank Lending Instruments¹

The World Bank has two broad categories of lending instruments: investment loans; and development policy loans.

A. Investment loans

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

Adaptable Programmatic Loans (APLs) provide phased support for long-term development programs. They involve a series of loans that build on lessons learned from the previous loan(s) in the series. APLs entail agreement between the borrower and the World Bank on (a) the phased long-term development program supported by the loan, (b) sector policies relevant to the supported phase, and (c) priorities for sector investments and *recurrent*

expenditures. Progress in each phase of the program is reviewed and evaluated, and additional analysis undertaken as necessary, before the subsequent phase is initiated.

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

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

Learning and Innovation Loans (LILs) support small pilot-type investment and capacity-building projects that, if successful, could lead to larger projects that would mainstream the learning and results of the LIL. Typically, LILs do not exceed USD 5 million; they

are generally implemented over 2 to 3 years. All LILs include an effective monitoring and evaluation system to capture lessons learned.

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

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

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

B. Development policy loans

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

On August 9, 2004, the Bank's Executive Directors approved OP/BP 8.60, *Development Policy Lending*,² after extensive consultations with both internal and external Bank stakeholders. The new policy uniformly applies to all development policy lending, thus eliminating the distinctions among structural adjustment loans (SALs), sector adjustment loans (SECALs), subnational adjustment loans (SNALs), rehabilitation loans (RILs), and programmatic structural adjustment loans (PSALs). The new policy also eliminates all prescriptive provisions of the policy on the content of the operations, providing space for staff to assist countries in developing appropriate programs suited to their specific development challenges. These changes will allow the Bank to respond more effectively to the financing and development needs of our client countries. The term "development policy lending" replaces "adjustment lending." Development policy lending is also the sole instrument for policy-based lending.

Some key principles of the previous policy remain intact:

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

Project Preparation Facility³

The Project Preparation Facility (PPF) advances money for project preparation when there exists a strong probability that the World Bank will approve a loan for the project. A PPF advance finances: (a) project preparation and design, as well as some initial implementation activities; (b) the preparation of programs to be supported by a development policy operation; and (c) the design of training programs, as well as initial local staff training.

Refinancing/Repayment

The *Letter of Agreement* between the World Bank and the borrower details the purposes, terms, and conditions of the PPF advance, and specifies a date by which the advance must be repaid—either out of the loan proceeds or, if the loan is not approved, through other means of repayment according to a specified schedule. The refinancing date is the date on which the loan is expected to become effective for the project under preparation. After this date, no withdrawals of the advance are made, and any amount not withdrawn is canceled.

If the loan is not made within the period specified in the Letter of Agreement, including any extensions, the borrower is required to repay the advance (together with accrued interest and service charges) in semiannual installments over the next 5 years (10 payments in total). If the PPF disbursement is

USD 50,000 or less, the borrower is required to repay it in a lump sum within 60 days after notification to the borrower that the loan will not be refinanced.

The procedure for billing a PPF involves coordination among several parties, including the Country Department, the Loan Department, and ACTCF. The assigned Task Team Leader (TTL) notifies the Loan Client and Financial Services Group and the Loan Department that the PPF will not be refinanced. Upon request from the TTL, ACTCF provides the details of the amount of the advance disbursed and outstanding and the accrued charges amount. The TTL prepares an official notification, to be signed by the Country Director, informing the borrower that the PPF will not be refinanced and that billing will follow shortly. Upon receipt of a copy of the official notification, ACTCF will initiate the billing process.

PPF advances made by IBRD accrue interest at the variable six-month LIBOR rate plus a fixed spread (see Table 1) in respect of US Dollars. For PPF advances by IBRD, the LIBOR reset date means, in respect of any Interest Period, the day two London Banking Days prior to January 1 or July 1, whichever day immediately precedes the said Interest Period. For PPF advances made by IBRD after August 31, 1999, the lending rate is the same as that applicable to fixed-spread loans (FSLs).

Table 1. Charges on Project Preparation Facility Advances, IBRD

If the PPF Advance was Negotiated:	Type of Rate
Between January 1, 1998, and August 31, 1999	VLR89 rate*
After August 31, 1999	FSL rate*

* The VLR89 lending rate is reset semiannually, on January 1 and July 1. It is the same rate applicable to pool loans negotiated between 1989 and 2001; it reflects the average cost of currencies disbursed to borrowers on their IBRD loans. The FSL lending rate consists of a variable base rate (6-month LIBOR) and a fixed spread. The LIBOR is reset, in respect of any Interest Period, as the day two London Banking Days prior to January 1 or July 1, whichever day immediately precedes the said Interest Period.

For PPFs negotiated between January 1, 1998, and August 31, 1999, the applicable lending rate is the Variable Lending Rate 89 (VLR89), the same rate applicable to currency pool loans (CPLs). For additional information on FSLs and CPLs, refer to Chapter III.

PPF advances made by IDA carry the same repayment terms as those made by IBRD, except that instead of accruing interest, the PPF advances under IDA carry a flat service charge of 75 basis points.

Chapter III

Financial Products and Terms⁴

The terms and conditions differ for IBRD loans and IDA credits.

A. IBRD Loans

IBRD currently offers two basic types of loan terms, each denominated in the currency or currencies chosen by the borrower provided it is a currency in which IBRD can efficiently intermediate: fixed-spread loans (FSLs) and variable-spread loans (VSLs). The terms and conditions of the loans IBRD has offered in the past, such as currency pool loans (CPLs), still govern some outstanding loans.

1. Fixed-Spread Loans (FSLs)⁵

The fixed-spread loan, introduced in 1999, offers borrowers a variable lending rate consisting of the six-month LIBOR and a fixed spread, along with embedded options to convert the currency and interest rate of the loan. The fixed spread remains constant over the life of the loan.

The FSL has market-based features, including pricing relative to standard market references. It seeks to achieve the following:

- provide flexibility to customize repayment terms in accordance with project needs or the country's asset-liability management strategy;
- permit conversion of currencies or interest rate terms throughout the life of the loan; and

- offer a transparent basis for borrowers to compare FSL terms with those of other lenders.

Under the FSL, the borrower selects the *commitment currency*, which becomes part of the Loan Agreement. Borrowers may choose to denominate their FSL in one or more currencies, including Euro, Japanese Yen, US Dollar, Swiss Franc, British Pound Sterling, and other currencies that IBRD can efficiently intermediate.⁶

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

FSLs provide borrowers with the ability to customize, within existing financial policy and market limits, the following financial terms of the loans:

- Currency composition
- Interest rate
- Repayment terms

The FSL Agreement also permits borrowers the option to execute any of the following actions:

Table 2. Transaction Fees for Hedging Products (expressed as a percentage of the principal amount involved)

Transaction Type	Transaction Fee
Interest Rate Conversion	
Rate fixings for up to the full maturity of the loan for amounts up to the outstanding loan amount.*	No charge
Additional rate fixing/unfixing	1/8%
Interest Rate Caps and Collars	1/8%
Currency Conversion	
Undisbursed loan amounts	1/8%
Disbursed loan amounts	1/4%

* Borrowers have the opportunity to obtain a fixed interest rate for the full original loan amount and maturity without a transaction fee. If the IBRD is unable to obtain an interest rate swap for the full loan maturity and has to execute two interest rate swaps to fix the interest rate for the full loan maturity, neither interest rate fixing will bear a transaction fee. Transaction fees are subject to change by the World Bank at any time.

- Change the currency of the loan on disbursed and undisbursed amounts.
- Fix the interest rate on disbursed amounts.
- Unfix or re-fix the interest rate on disbursed amounts.
- Cap or collar the floating interest rate on disbursed amounts.

Either upon loan commitment or at any time during the life of the loan, the borrower may direct the IBRD to implement a series of automatic interest rate fixings, either by period (at regular time intervals, such as annually or semiannually) or by amount (upon reaching a certain level of cumulative disbursements). Automatic rate fixings (ARFs) by amount are subject to a maximum volume of USD 500 million and a minimum volume equal to the higher of USD 3 million equivalent or 10 percent of the loan amount. Exceptions may be considered on a case-by-case basis. A borrower can cancel the ARF at any time during the life of the loan.

Repayment Terms

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

FSL repayment terms are governed by two parameters: (a) *average repayment maturity*; and (b) *final maturity*. Subject to these constraints, an FSL can be structured to provide: (a) bullet loans (with a single maturity date); (b) amortizing loans with an *annuity structure*; (c) a *level repayment of principal* (LRP); or (d) customized repayment of principal. This flexibility enables borrowers to tailor their repayment schedules to the needs of a specific project, program, or debt management strategy.

There are two repayment schedule choices available for an FSL:

- a repayment schedule fixed at loan commitment (*commitment linked*)
- a repayment schedule linked to actual disbursements (*disbursement linked*)

Repayment Schedule for Commitment-linked FSLs

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

Borrowers may also choose other repayment schedules, such as bullet loans or loans with customized repayments of principal. These loans are subject to a limit, by country category, on average repayment maturity, with an absolute 25-year maximum limit on final maturity. The average repayment maturity for

Table 3. Limits for IBRD Fixed-Spread Loans with Repayment Maturities Fixed at Loan Commitment (years)

Policy Limits			"Standard" Country Terms		
Country Category*	Average Repayment Maturity	Final Maturity	Grace Period	Final Maturity	Repayment Pattern
I-II	14.25	25	5	20	Annuity
		or 8	20	LRP	
III	11.25	25	4	17	Annuity
		or 5	17	LRP	
IV-V	10.25	25	3	15	Annuity
		or 5	15	LRP	

* For country categories, see OP 3.10, Annexes C and D, at www.worldbank.org (enter "OPs" in the search line).

commitment-linked FSLs is defined as the time between expected loan approval and scheduled repayments, weighted by the repayment amount (see Table 3).

Repayment Schedule for Disbursement-linked FSLs

Under a disbursement-linked FSL, cumulative disbursements (*the disbursed amount*) made during each six-month period are repayable on a schedule that commences at the beginning of the interest period following each disbursement. The *repayment schedule*, along with the *grace period* and *final maturity*, are specified in the Loan Agreement and are uniform for all disbursed amounts under that loan. Limits for a disbursement-linked repayment schedule are set based on the maximum sum of the *expected average disbursement* and the *average repayment maturity* for each disbursed amount (see Table 4). The expected average disbursement period is the weighted average period of time between loan approval and expected disbursement. The average repayment maturity for this type of loan is defined as the weighted average period of time between the date of disbursement and the scheduled repayments, for a disbursed amount, weighted by the repayment amount.

Lending Rates

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

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

Table 4. Limits for IBRD Fixed-Spread Loans with Repayment Schedules Linked to Actual Disbursements (years)

Country Category*	Sum of Expected Average Disbursement Period and Average Repayment Maturity	Final Maturity
I-II	14.25	25
III	11.25	25
IV-V	10.25	25

* For country categories, see OP 3.10, Annex C and D, at www.worldbank.org (enter "OPs" in the search line).

- IBRD's standard lending spread of 0.75%; and
- a market risk premium

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

The basis swap adjustment, applicable only to non-USD FSLs, is the difference in the IBRD's sub-LIBOR funding cost margin when the IBRD swaps LIBOR-based borrowings from one currency to another. For example, swapping USD LIBOR flat funds into a Japanese Yen LIBOR basis may result in IBRD having to pay JPY LIBOR minus 10 basis points. This differential arises due mainly to the difference in credit ratings of the commercial banks that serve as the reference banks for LIBOR in the respective currencies. A basis swap adjustment can be either negative or positive.

2. Deferred Drawdown Option

A deferred drawdown option (DDO) allows a borrower to postpone drawing down a loan for a defined drawn period after the loan agreement has been declared effective. IBRD-eligible borrowers may defer disbursement of a single- or multiple-tranche development policy loan for up to 3 years, provided that overall program implementation and the macroeconomic framework remain adequate. The DDO provides borrowers with the flexibility to draw down a loan over an extended period of time in case of a financing shortfall.

Prerequisites

Development policy loans with a DDO are made within the Country Assistance Strategy envelope. As with all single- or multiple-tranche development policy operations, they are based on:

- a satisfactory macroeconomic framework, including sustainability of domestic and external debt;

- up-front completion of specific structural reform measures before Board presentation; and
- receipt by IBRD of an acceptable *Letter of Development Policy* setting out the government's objective, program of actions, and policies designed to achieve structural adjustment.

Drawdown Period and Conditions

A loan with a DDO has a drawdown period of 3 years, beginning at loan signing. During this period, the borrower may elect to draw on the loan when a financing need arises, provided that:

- the macroeconomic framework remains satisfactory, and
- the borrower continues to adhere to the overall program set out in the LDP.

A request for extension for up to 3 more years may be considered by the Board if the implementation of the reform program and the macroeconomic framework remain satisfactory.

Signing and Effectiveness

A Loan Agreement providing for a DDO must be signed within 6 months after Board approval; otherwise, the World Bank will withdraw the loan. All specific policy reform conditions for a development policy loan with a DDO must be met before Board presentation. No such conditions will be included as effectiveness conditions in the Loan Agreement.

Pricing

Contractual commitment charges on the undisbursed balance of a loan with a DDO are 1% per annum. When a loan with a DDO is drawn down, a front-end fee of one percent is charged, and normal lending rates and other FSL financial terms, including loan charge waivers, will apply. A loan with a DDO for which the borrower chooses a 3-year extension of average repayment maturity is subject to a

Table 5. Financial Terms of IBRD Development Policy Loans with a Deferred Drawdown Option (DDO)

Financial Terms	Normal-Maturity Loans with a DDO	Extended Maturity Loans with a DDO
Currency	Any currency that the IBRD can efficiently intermediate.	
Drawdown	Multiple drawdowns on a single tranche up to the full loan amount at any time within three years from loan effectiveness. Requests for extension of the drawdown period for an additional period of up to three years may be considered by the Board of Executive Directors if the implementation of the reform program and the macroeconomic framework remain overall satisfactory.	
Repayment Terms	<p>Fixed-spread loan (FSL) disbursement-linked schedules subject to a final maturity of 25 years and a limit on average repayment maturity plus drawdown period of:</p> <ul style="list-style-type: none"> • 14.25 years (country categories I-II); • 11.25 years (country category III); or • 10.25 years (country categories IV-V). <p>Borrowers can tailor grace period, total repayment term, and repayment method to their needs subject to these limits.^{a,b}</p>	<p>FSL disbursement-linked schedules subject to a final maturity of 25 years and a limit on average repayment maturity plus drawdown period of:</p> <ul style="list-style-type: none"> • 17.25 years (country categories I-II); • 14.25 years (country category III); or • 13.25 years (country categories IV-V). <p>Borrowers can tailor grace period, total repayment term, and repayment method to their needs subject to these limits.^{a,b}</p>
Lending Base Rate	6-month LIBOR	
Lending Rate Spread	Same as FSL	FSL spread + 0.25%
Front-End Fee	1% of the amount drawn down, payable upon drawdown. FEF may be capitalized or paid by the borrower from their own proceeds.	
Commitment Fee	1% on undisbursed amounts, beginning 60 days after the loan agreement is signed, payable during the drawdown period while DDO is not exercised.	
Loan Charge Waivers	Eligible, as determined annually by the Executive Directors.	
Currency Conversions, Interest Rate Conversions, Caps, Collars, Payment Dates, Conversion Fees, Prepayment	Same as for FSLs. Refer to IBRD Financial Products: <i>The Fixed Spread Loan Brochure</i> , August 1999.	

Note:

a. For purposes of administering the repayment term flexibility for DDO loans, a 1.5 year expected average disbursement period will be assumed.

b. FSL disbursement-linked schedules currently accommodate only level principal and bullet repayments. Tailored and annuity disbursement-linked repayment schedules and tailored prepayment options for FSLs, including DDO loans, will be made available subsequently.

0.25 percent per annum interest rate premium above the FSL lending rate (see Table 5).

an FSL, the borrower may choose to denominate the VSL in one or more currencies.

3. Variable-Spread Loans (VSLs)

The variable-spread loan (formerly the variable-rate single currency loan) is denominated in the currency selected by the borrower. It has a variable lending rate based on the six-month LIBOR and a spread that varies every six months, depending on the IBRD's cost of funding during the preceding period. As with

Lending Rates

The VSL lending rate is based on a direct cost pass-through formula, consisting of the prevailing LIBOR rate plus or minus IBRD's average cost relative to LIBOR, plus IBRD's standard lending spread of 0.75 percent (except in the case of Special Development Policy Loans, which have a minimum loan spread of

Table 6. Standard Country Terms for VSLs (years)

Country Category	Grace Period	Final Maturity	Amortization Pattern
I-II	5	20	Annuity
III	4	17	Annuity
	5	17	LRP*
IV-V	3	15	Annuity
	5	15	LRP

* Level repayment of principal.

400 basis points over LIBOR). The margin applied to VSLs is the weighted average semester cost margin relative to LIBOR, averaged across all currencies. The IBRD cost margin is recalculated twice a year, and the new rate is effective every January 15 and July 15.

Repayment Terms

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

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

4. Currency Pool Loans (cpls)

Currency pool loans, which were offered from 1980 to 2001, are multi-currency obligations. While they are committed in US Dollar equivalent, they are not US Dollar obligations. The borrower's currency obligation reflects the *currency composition* of the World Bank's currency pool and is the same for all borrowers.

The borrower's interest obligation is based on the semester average cost of outstanding IBRD debt allocated to fund these loans.

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

The currency amount disbursed is converted to US Dollar equivalent, using the applicable exchange rate (AER; see below) on the day of disbursement. The US Dollar equivalent is then divided by the value of one currency pool unit (see next paragraph) on the day of disbursement to determine the number of pool units disbursed. This number of pool units is then added to the number of pool units outstanding to determine the amount the borrower must repay.

Applicable Exchange Rate

The applicable exchange rate (AER) is based on exchange rates reported by Reuters at 7:00 a.m. New York time. It constitutes a spot rate for settlement two days forward. For example, the AER applicable to transactions on August 15 is the spot rate reported by Reuters at 7:00 a.m. on August 13. The rationale for this approach rests partly on the two-day settlement period in the foreign exchange market. The two-day lag also ensures that the World Bank's Far East offices have the latest exchange rates when they begin conducting business each day.

Pool Unit Value

The value of a currency pool unit is derived by dividing the US Dollar equivalent of the currencies in the pool by the total number of pool units outstanding. The pool unit value changes daily in accordance with: (a) movements of the exchange rates for the currencies in the pool; and (b) the currency

Table 7. Computation of Pool Units to be Repaid

Due Date	Pool Units to be Repaid	Historical Value of Principal Remaining	Pool Units Remaining
1	$(7.5\text{m}/140\text{m}) \times 6900 = 369.64$	$140\text{m} - 7.5\text{m} = 132.5\text{m}$	$6900 - 369.64 = 6530.36$
2	$(7.5\text{m}/132.5\text{m}) \times 6530.36 = 369.64$	$132.5\text{m} - 7.5\text{m} = 125\text{m}$	$6530.36 - 369.64 = 6160.72$
3	$(7.5\text{m}/125\text{m}) \times 6160.72 = 369.64$	$125\text{m} - 7.5\text{m} = 117.5\text{m}$	$6160.72 - 369.64 = 5791.08$

composition of the pool. The pool unit value may be thought of as an exchange rate used to convert an IBRD currency pool unit into its equivalent US Dollar value.

Movements in the exchange rates of the major currencies in the pool relative to the US Dollar affect the pool unit value, and thus the US Dollar equivalent of each currency pool loan. For example, if the US Dollar appreciates relative to other currencies in the pool, the US Dollar value of the currency pool unit decreases.

Since the borrower's obligation is calculated by multiplying the number of pool units outstanding by the pool unit value, changes in the pool unit value resulting from exchange rate movements affect the US Dollar equivalent of the amount to be repaid.

Projection of Principal Repayments

A repayment schedule is set forth in the Loan Agreement. In accordance with the schedule, once the grace period has elapsed, IBRD computes the pool units to be recalled on the due date by dividing the scheduled maturity as per the Loan Agreement by the *historical value of the withdrawals outstanding*, multiplied by the total pool units outstanding on the loan and the current pool unit value. The US Dollar equivalent of the pool units recalled on each due date will change due to the daily fluctuation of the pool unit value.

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

multiplying it by the total pool units outstanding. Suppose, for example, the following scenario: the scheduled maturity due under a loan is USD 7.5 million semiannually for the next 10 years; the historical USD Dollar value of the withdrawal outstanding is USD 140 million; and the total number of pool units outstanding is 6,900. In this case, the number of pool units to be recalled on each due date would be a constant 369.64 (see Table 7).

Lending Rate

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

IBRD's contractual lending rate for currency pool loans for which the invitation to negotiate was issued on or after July 31, 1998, is determined by adding a spread of 0.75% to this weighted average semester cost. For currency pool loans for which the invitation was issued before July 31, 1998, IBRD's lending rate is determined by adding a spread of 0.50%. The lending rate for currency pool loans is

Table 8. Applicability of IBRD Hedging Products to IBRD Loans* (available on disbursed and outstanding loan amounts)

Loan Type	Interest Rate Swaps	Caps and Collars	Currency Swaps	Commodity Swaps**
Fixed-Spread Loans (FSLs)	✓	✓	✓	
Variable-Spread Loans (VSLs)	✓	✓	✓	
Fixed-Rate SCLs (FSCLs)	✓		✓	
Currency Pool Loans (CPLs)			✓	
Single Currency Pool Loans (SCPs)			✓	

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

reset every six months and applies to six-month interest periods beginning on or after January 1 and July 1. Interest accrues on an actual/365-366 day basis on daily principal volumes disbursed and outstanding. It continues to accrue on any overdue *principal*; but IBRD does not charge interest on overdue *interest*.

5. IBRD Hedging Products⁸

IBRD offers Hedging Products which can transform the risk characteristics of a borrower's IBRD obligations even though the negotiated terms of the particular loan agreements are fixed. These products provide borrowers with improved risk management capability in the context of projects, lending programs, and sovereign asset-liability management. IBRD Hedging Products include interest rate swaps, interest rate caps and collars, currency swaps, and, on a case-by-case basis, commodity swaps. To use hedging products, borrowers must enter with IBRD into a Master Derivative Agreement (MDA). The agreement provides the contractual framework between the borrower and IBRD. Table 8 below shows the Hedging Products available to IBRD loans.

Interest Rate Hedges

IBRD borrowers may choose to manage interest rate risk arising from their fixed-rate single currency loans, variable-spread loans, and fixed-spread loans by entering into interest rate swaps or interest rate caps and collars.

Interest rate swaps are individually negotiated transactions that may be used to trans-

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

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

Currency Hedges

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

fixed or floating, as well as exchanges of principal amounts.⁹

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

Commodity Hedges

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

Fees for Hedging Products

Fees for IBRD hedging products (see Table 9) are billed at the time the transaction is executed and are payable within 60 days. IBRD's policy regarding eligibility for loan interest waivers, based on timely debt service, applies to timely payment of fees. IBRD may revise the fee schedule from time to time. In such cases, the revised fees would apply only to hedge requests submitted after the new schedule is in effect.¹⁰

B. IDA development Credits

The International Development Association is the World Bank's concessional lending window. IDA extends funds in the form of credits, at zero interest rate, to the poorest developing countries. All development credits are made to or guaranteed by member governments or to the member government of a ter-

Table 9. Transaction Fee Schedule for IBRD Hedging Products (percentage of principal amount hedged)

Transaction Type	Transaction Fee
Interest rate swap	1/8 %
Interest rate cap and collar	1/8 %
Currency swap	1/4 %
Commodity swap	3/8 %

ritory of a member (except for development credits which have been made to regional development institutions for the benefit of members or territories of members of IDA). Eligibility for IDA development credits is based on a country's per capita income and its lack of financial ability to borrow from IBRD. In fiscal year 2005, the upper limit on per capita income for IDA countries was set at a maximum of USD 895 per capita.¹¹ Some countries, such as India and Indonesia, are eligible for IDA development credits due to their low per capita incomes, but are also creditworthy for some IBRD borrowing. These countries are known as *blend* borrowers.

IDA eligibility is a transitional arrangement, allowing the poorest countries access to substantial resources. As their economies grow, the countries graduate from eligibility.

IDA development credits are denominated in Special Drawing Rights (SDRs). The amounts disbursed, service and commitment charges, and repayments are also calculated in SDRs. Principal payments and charges are made in the currency (US Dollars, Pounds Sterling, or Euros) specified in the Credit Agreement, in an amount equivalent to the SDRs required under the Credit Agreement.

Lending Terms

There is no interest charged on IDA development credits; but a service charge of 0.75 percent is levied on the principal amounts withdrawn and outstanding. For fiscal year 2006, the Bank's Board approved a commitment charge rate of 0.30 percent on the undis-

bursed balance of the credit. The commitment charge begins to accrue 60 days after the Credit Agreement is signed. Management reviews IDA's financial position on an annual basis and proposes, for the Board's approval, a specific rate for that year. Borrowers are notified at the beginning of each fiscal year of the rate applicable for that year.

Amortization and Grace Periods

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

- (a) For IDA-only countries or countries classified as least developed by the United Nations (LLDCs), credits are repayable over 40 years, with principal repayment at the rate of 2 percent of the credit amount per year from the 11th to the 20th year, and 4 percent per year thereafter. (See Annex D for IDA-only and LLDC classifications.)
- (b) For other IDA-eligible countries, credits are repayable over 35 years, with repayments of 2.5 percent of the credit amount per year from the 11th to the 20th year, and 5 percent per year thereafter.
- (c) For credits approved after June 30, 2002, for IDA-eligible countries with a GNI per capita, that has been above the operational cut off for IDA eligibility for more than two consecutive years, credits are repayable over 20 years, with principal repayment at the rate of 10 percent per year from the 11th to the 20th year.

The first amortization payment on a credit is due on the semiannual payment date immediately following the 10th anniversary of the date the credit was approved by IDA. For credits approved through June 30, 1987, the last amortization payment is due on the semiannual payment date immediately preceding the

50th anniversary. For credits approved after that date, the last amortization payment is due on the semiannual payment date immediately preceding the 20th, 35th or 40th anniversary, as the case may be.

Modifying Terms

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

- (a) the annual per capita GNI of the borrower has remained above the historical ceiling¹² for five consecutive years, and
- (b) the borrower has achieved creditworthiness for IBRD borrowing.

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

- (a) the annual per capita GNI of the borrower has remained above the operational per capita income cutoff¹³ for three consecutive years, and
- (b) the borrower has achieved creditworthiness for IBRD borrowing.

When the above conditions for adjusting terms have been met, IDA may, subject to the Board's review and approval, require the borrower to repay twice the amount of each principal installment not yet due, until the credit is fully repaid. Alternatively, the borrower may request that IDA substitute an interest charge for some or all of the higher principal repayments, provided the new terms have a grant element equivalent to that resulting from doubling of the principal payments alone. If a borrower's economic condition deteriorates significantly after terms have been adjusted, IDA may, if the borrower requests, revert to the original repayment schedule.

C. World Bank Guarantees¹⁴

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

1. IBRD Guarantees

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

Instrument Type and Project Eligibility

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

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

Policy-based guarantees extend the World Bank's partial credit guarantee instrument beyond investment projects to sovereign borrowings from private foreign creditors in sup-

port of agreed structural, institutional, and social policies and reforms. Policy-based guarantees are intended to play a catalytic role in helping World Bank borrowers with strong economic and social programs to improve their access to private foreign financing. The guarantee can either be self-standing or part of a larger package of IBRD financial support.¹⁵

Enclave guarantee is a partial-risk guarantee structured for export oriented foreign exchange generating commercial projects in IDA-only countries. IBRD considers providing a non-accelerable guarantee for such projects, provided that adequate arrangements are in place to ensure that the host government will be able to meet its obligations with respect to the guarantee. The enclave guarantee usually covers direct sovereign risks such as expropriation, changes in law, war, and civil strife. The World Bank generally will not guarantee any payment obligations (such as those of an output purchaser), nor will it guarantee transfer risk. In all cases, the scope of risk coverage under the guarantee is the minimum required to mobilize financing for a given project.

2. IDA Guarantees

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

Instrument Type and Project Eligibility

Partial-risk guarantees in IDA countries are intended to ease the transition of countries that are clearly on the path of reform. The guarantee is offered to private lenders against country risks that are beyond the control of investors and where official agencies and the private market offer insufficient insurance coverage. The guarantee can cover up to 100 percent of the principal and interest of a private debt tranche for defaults arising from specified sovereign risks, including government breach of contract, foreign currency con-

Table 10. Fees on World Bank Guarantees

Type of Guarantee	Up-Front Fees			Recurring Fees	
	Initiation Fee	Processing Fee	Front-end Fee	Guarantee Fee	Standby Fee
IBRD Partial Risk Guarantee	0.15% of total guaranteed debt or a minimum of USD 100,000	up to 0.50% of total guaranteed debt	0.50% on maximum guaranteed principal	1% on disbursed and outstanding balance	0.25% on committed but undisbursed exposure to the Bank
IBRD Credit Guarantee	None	None	0.50% on maximum guaranteed principal	0.75% on disbursed and outstanding balance	0.25% on committed but undisbursed exposure to the Bank
IBRD Enclave Guarantee	0.15% of total guaranteed debt or a minimum of USD 100,000	up to 0.50% of total guaranteed debt	0.50% on maximum guaranteed principal	up to 3% on disbursed and outstanding balance	1% on committed but undisbursed exposure to the Bank
IDA Partial Risk Guarantee	0.15% of total guaranteed debt or a minimum of USD 100,000	up to 0.50% of total guaranteed debt	None	0.75% on disbursed and outstanding balance	0.35% on committed but undisbursed exposure to the Bank

Disclaimer: The pricing and fees components shown are indicative only and derive from World Bank guarantees pricing policies as of December 2004.

*Paid on an annual basis.

vertibility risk, expropriation, and changes in law. This guarantee is available in selected cases in IDA-only countries where an IBRD enclave guarantee is not applicable.

3. Fees and Pricing on World Bank Guarantees

The Bank charges a *standby fee*, a *guarantee fee*, and a *front-end fee* to provide a guarantee. In addition, the Bank may also charge an *initiation fee*, and *processing fee* for a private sector project. Charges are based on the concept of loan equivalency and may differ from one guarantee structure to the other. Table 10 shows the different types of fees charged by the Bank for both IBRD and IDA guarantees.

D. IDA Grants

Pursuant to Article V, Section 2(a)(ii) of the IDA Articles of Agreement, only funds that are provided with specific grant authorization

may be used to finance IDA grants. Starting in IDA11, the Board of Governors authorized IDA to provide grants in the context of the HIPC Debt Initiative, and in IDA12 this authority was expanded to include grants under exceptional circumstances to post-conflict countries under a framework approved by the Executive Directors. In IDA13, the Board of Governors approved a substantially expanded use of IDA grants, in the range of 18 to 21 percent of overall IDA resources for the replenishment. In February 2005, discussions concluded for IDA14 with IDA donors agreeing to provide the largest increase of IDA's resources in over two decades. The estimated share of IDA14 resources that will be provided on grant terms is approximately 30% as compared to 18-21% in IDA13.¹⁶

These grants are allocated for specified categories such as HIV/AIDS, natural disasters, and IDA-only countries that are very

poor, vulnerable to increased debt, or attempting to recover following armed conflict. Funds received from IBRD as net income transfers have also included explicit authority that such funding can be used for grants, beginning with the transfer out of IBRD's FY97 net income.

Allocation of Funds

The amount of grants available for each IDA country is a function of the country's performance-based IDA allocation, its eligibility for grants, and IDA's overall available grant envelope. IDA and its borrowing members agree which projects are to be financed fully by grants and which will be a blend of credit and grant, based on a country's circumstances, priorities and preferences, the size and nature of projects, and share of grants in the IDA allocation for that country. Under the IDA 14 guidelines, the performance-based allocation system

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

Grant Eligibility

Grant eligibility under IDA 14 will be limited to IDA-only countries and will be based on ratings of countries' risk of debt distress. Debt distress risk will initially be estimated from current data on key external debt ratios. Existing Debt Sustainability Analyses (DSAs) may be used to supplement this rating mechanism. Over time, debt distress risk estimates will be based only on DSAs.

Chapter IV

Overdue and Sanction Policy

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

As an incentive for timely payment, a portion of interest payments on IBRD loans may be waived (see Chapter V). Progressive sanctions are imposed by withholding Board presentations of new loans and guarantees, delaying signature of previously approved loans and guarantee agreements, and suspending disbursements. When a second consecutive service payment is missed on any loan to or guaranteed by a member, all loans to or guaranteed by the member are placed in non-accrual status.

A. Reminders and Sanctions

When payment is:

5 or 15 days overdue:

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

30 days overdue:

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

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

35 days overdue:

ACTCF informs the borrower that it has lost its eligibility for any partial waiver of IBRD interest.

45 days overdue:

The Country Department informs the borrower and country that no new loans to or guaranteed by the country will be presented to the Board for approval, and no agreements related to previously approved loans to or guaranteed by the country will be signed. Both the country and the borrower are notified that disbursements will be suspended on all loans to or guaranteed by the country on the 60th day after the due date, unless all outstanding payments are made, including those coming due by that date.¹⁷

53 days overdue:

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

60 days overdue:

The Country Department informs the borrowers and country by telex that a suspension of disbursements is in effect and also notifies the Board. This telex may, at the discretion of the World Bank, specify items that are exempted from the suspension.

6 months overdue:

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

Chapter V

Partial Waiver of Loan Charges Policy

In conjunction with the annual review of IBRD's net income, the World Bank may waive a portion of the loan charges applicable in a fiscal year. A waiver of charges applies to all IBRD loans except Special Development Policy Loans (SDPLs). There are three main types of waivers: (a) commitment charges waiver; (b) interest charges waiver; and (c) front-end fee waiver. Borrowers are notified at the beginning of each fiscal year of the waiver rate applicable for that year. The partial waivers apply to all payment due dates that commence within the fiscal year for which the waivers are approved.

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

Commitment Charge Waiver

The Bank's Board of Executive Directors approved an unconditional one-year waiver of 50 basis points of the contractual commitment charges for all payment periods commencing in FY05 for all borrowers. All loans (except for SDPLs) are eligible for the commitment charge waiver, regardless of payment perform-

ance. The commitment charges rate is reflected in the billing statements net of the waiver.

Interest Charge Waiver

For FY05, The Bank's Board of Executive Directors approved for *eligible borrowers* a waiver of 25 and 5 basis points of interest charges, respectively, on new loans and old loans.¹⁸

Eligibility for the partial waiver of interest is limited to borrowers who have made full payments of principal and charges on all their loans within 30 calendar days of the due dates during the preceding six months. All IBRD loans are eligible for the partial waiver of interest except for SDPLs. The partial waiver of interest policy does not apply to charges on Project Preparation Facility (PPF) advances. Based on eligibility status, the waiver is determined on the billing date, approximately two months before the due date. The waiver amount is reflected in the billing statement and is not recomputed on the due date.

If a payment under any loan to a borrower is not received by IBRD within 30 calendar days of the due date, then all loans to that borrower will be ineligible for the waiver of interest charges until a new qualifying period of six months of full and timely payment is established. If a loan made to or guaranteed by a

member country becomes more than six months overdue, on the date the second consecutive service payment is missed, the loans of all borrowers in that country will be ineligible for the partial waiver of interest charges, irrespective of their individual eligibility status, until all amounts overdue under all loans have been paid. Figure 1 illustrates how the waiver eligibility is affected when a debt service payment is not received within 30 calendar days of the due date.

Borrower Classification

For purposes of the waiver policy, all loans to a country are classified by borrower (either country or entity within a country, such as a utility or specific ministry), and are identified as either:

- *IBRD loans*—loans made directly to the member country; in such cases, a gov-

ernment agency represents the borrower; or

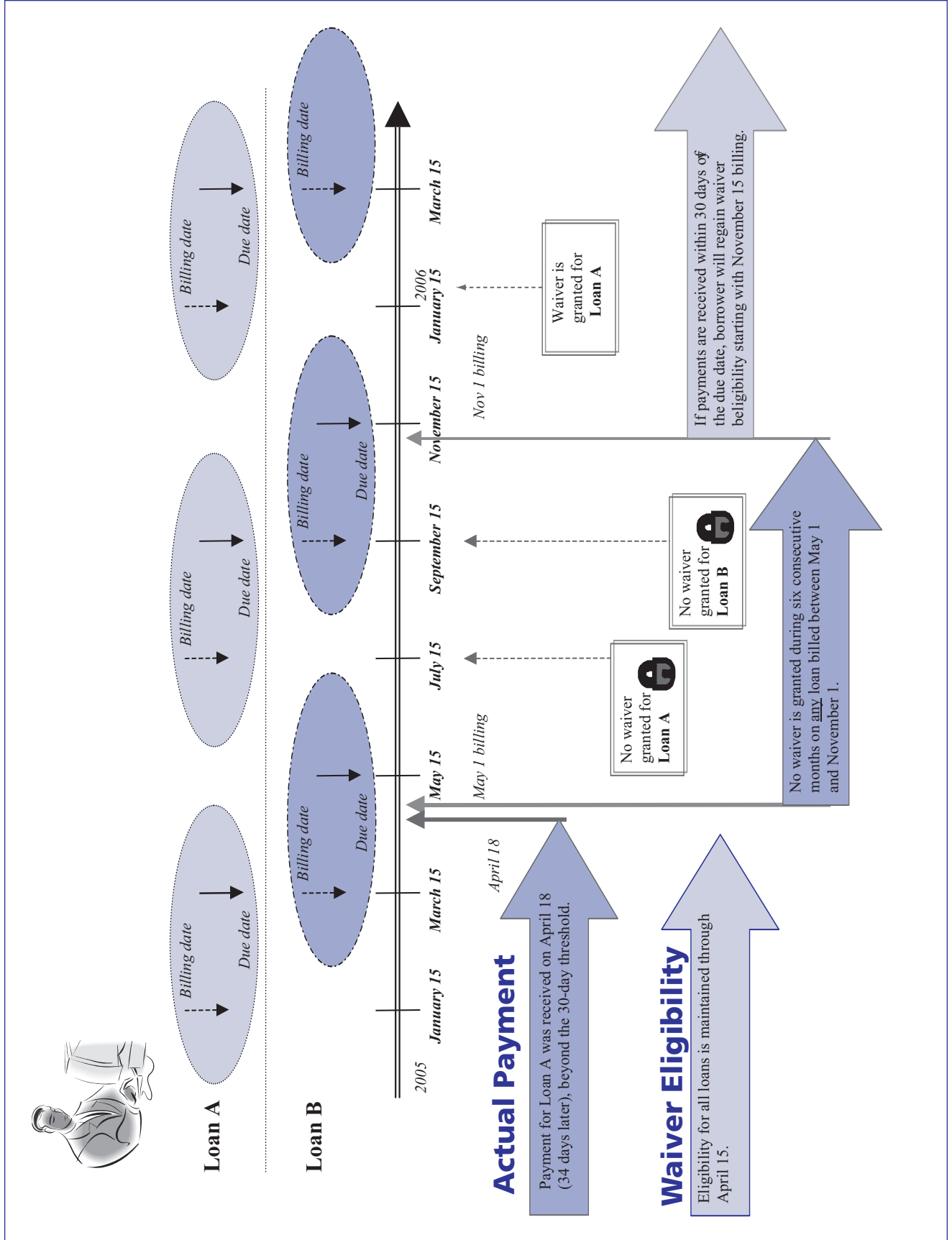
- *IBRD Guaranteed loans*—loans granted to entities that are guaranteed by a member country; in such cases, the entity is the borrower.

At the end of each fiscal year, the borrower is provided with a list of loans for which it is responsible, and a report showing loan charge waiver amounts earned and/or lost during the fiscal year for each loan.

Front-End Fee Waiver

On August 3, 2004, The Bank's Board of Executive Directors approved a 50 basis points waiver of the front-end fee (100 basis points) for all IBRD loans (other than SDPLs) presented to the Board in FY05, with retroactive effect to all loans presented to the Board on or after March 1, 2004.

Figure 1. Determining Partial Interest Waiver Eligibility



Chapter VI

Prepayment Policy

Borrowers have the right to prepay in advance of maturity, as of a date acceptable to the World Bank: (a) all of the outstanding principal of the loan; or (b) all of the principal amount of any one or more maturities of the loan. The prepayment premium charged will depend on the specific type of loan.¹⁹

The borrower should notify the World Bank at least 45 days in advance of its intention to repay any amount in advance of maturity.²⁰ The advance notice is necessary so that the World Bank can provide the borrower with a detailed estimate of the prepayment amount.

A. IBRD Loans

Prepayment Policy for Fixed-Spread Loans (FSLs)

Partial prepayments of FSLs will be applied in the manner specified by the borrower—or, in the absence of any specification by the borrower, in the following manner: (a) if the Loan Agreement provides for separate amortization of specified disbursed amounts of the principal, as is the case for disbursement-linked FSLs, such prepayment shall be applied in the inverse order of said disbursed amounts, based on withdrawal date (the last-withdrawn disbursed amount is repaid first) and then on maturity date (within each

tranche, the amount to be prepaid is applied in inverse order of maturity, starting with the latest maturity date); and (b) in all other cases (i.e., for commitment-linked FSLs), such prepayment shall be applied in the inverse order of maturity of the loan, with the latest maturity repaid first.

The premium payable upon prepayment of any amount of the loan will be an amount reasonably determined by the World Bank to represent the cost to the World Bank of redeploying the amount to be repaid, from the date of prepayment to the maturity date of such amount. The prepayment premium charged is based on the difference between the fixed spread payable on the prepaid loan and the fixed spread in effect for FSLs in the relevant currency at the date of prepayment.

If a currency conversion has been effected and the conversion period has not terminated at the time of the prepayment: (a) the borrower shall pay a *transaction fee* with respect to early termination of the conversion option at the rate in effect at the time the World Bank receives the borrower's notice to prepay; and (b) the borrower or the World Bank, as the case may be, shall pay an unwinding amount, if any, with respect to the early termination of the conversion. The transaction fee and

unwinding amount are payable within 60 days after the date of the prepayment.

If IBRD is unable to fund itself in a particular currency, it may provide the borrower with a substitute currency. No prepayment premium is charged on an FSL if the loan is prepaid while a substitute currency is outstanding.

Prepayment Policy for Variable-Spread Loans

IBRD charges a prepayment premium based on the cost of redeploying the amount to be prepaid from the date of prepayment to the maturity date. The amount of the prepayment premium is based on the difference between the contractual lending spread of the prepaid loan and the contractual lending spread in effect for VSLs in the currency of the prepaid loan at the date of prepayment. Prepaid amounts are applied to the latest amortization payments due under the loan.

Prepayment Policy for Fixed Rate Single Currency Loans (FSCLs)

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

each swap transaction. The borrower pays IBRD the net amount, so calculated, as the prepayment premium—provided, however, that if such netting results in a negative amount (i.e., in an amount due to the borrower), such amount is deemed to be zero.

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

Prepayment Policy for Currency Pool Loans (CPLs)

The premium charged to borrowers for prepayment of a currency pool loan is the lower of: (a) the computed contractual premium (the ratio of the premium that would be charged, as per the Loan Agreement, over the *current value* of the loan); or (b) the premium over the *carrying value*,²¹ based on the carrying values and estimated values in the World Bank's audited financial statements from June of each year.

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

Upon receipt of the borrower's request for prepayment, the World Bank will provide detailed estimated prepayment amounts, including computation of the prepayment premium. The estimate, based on the intended date of the prepayment, includes a margin of 2 to 3 percent to cover any foreign

exchange rate fluctuations. Any resulting differences between the estimate and the final amounts are settled after the prepayment date. Because the pool unit value for currency pool loans is determined retroactively, after the World Bank closes its accounting cycle (on the 14th and the last day of the month), the World Bank will inform the borrower of the final amounts approximately two weeks after the applicable accounting closing. However, the value of the pool unit on the prepayment date will prevail for application of the funds.

To maintain the pool currency composition (USD 1: JPY 125: EUR 1), the prepayment of pool loans must be made in those currencies. The proportion on each currency is subject to the prevailing applicable exchange rate (AER) of the JPY and EUR at the effective date of the prepayment.

Prepayment of Pre-pool Loans

All pre-pool loans (made before 1980) are fixed-rate loans. For pre-pool loans with an interest rate lower than 7 percent, the prepayment premium will be waived on a case-by-case basis.

B. IDA Development Credits

Prepayment of IDA Development Credits

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

Chapter VII

Billing Procedures

Each IBRD loan and IDA credit is billed twice yearly, on the dates specified in the Loan or Credit Agreement. The billing statements are prepared as of two months before the semiannual payment due date. IBRD and IDA bills reflect four months of actual accrued charges and two months of estimated charges.

Billing IBRD Loans

Charges are estimated for the two-month period based on the balances and exchange rate values available at the billing cutoff date. Except for the waiver amount, the borrower's obligation is recomputed on the payment due date. The difference between the billed amount and the amount the borrower is legally obligated to pay, as calculated on the due date, is carried forward to the next billing date on a non-interest-bearing basis as a Deferred balance.

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

If the due date obligation is less than the amount billed, the resulting excess is carried forward as a credit for application on the next bill and payment due date.

Billing IDA Development Credits

IDA credit commitments from repayment years 1 through 5 are expressed in United States Dollars, and from repayment year 6 onward in SDRs. At the time of negotiations, the borrower selects the currency in which the debt service will be billed. Currently, all IDA development credits are billed in United States Dollars, Pounds Sterling, or Euros. The borrower may change the currency of repayment by giving appropriate advance notice to IDA. However, any shortage of remittance due to exchange rate conversion is treated as overdue.

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

Payment Due Date and Banking Days

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

Cancellation of Undisbursed Amounts

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

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

Capitalization of Charges

Some Loan Agreements provide for the capitalization of loan charges (interest and commitment fees), which allows the Bank to withdraw from the Interest category of the loan proceeds the funds required to settle the loan charges on each of the semiannual payment dates. The amounts withdrawn are limited to the agreed US dollar value and to the date to which this category may be used.

Billing Package

For IBRD loans, the billing package includes the following statements:

- Payment Instructions
- Summary Statement of Amounts Due
- Statement of Currency Purchase Calculations (if applicable)
- Statement of Interest
- Statement of Interest on Overdue Principal (if applicable)
- Statement of Commitment Charges
- Computation of Deferred Amounts Due
- Statement of Debt Service Amounts Received and Applied
- Statement of Principal Activity

For IDA credits, the billing package includes:

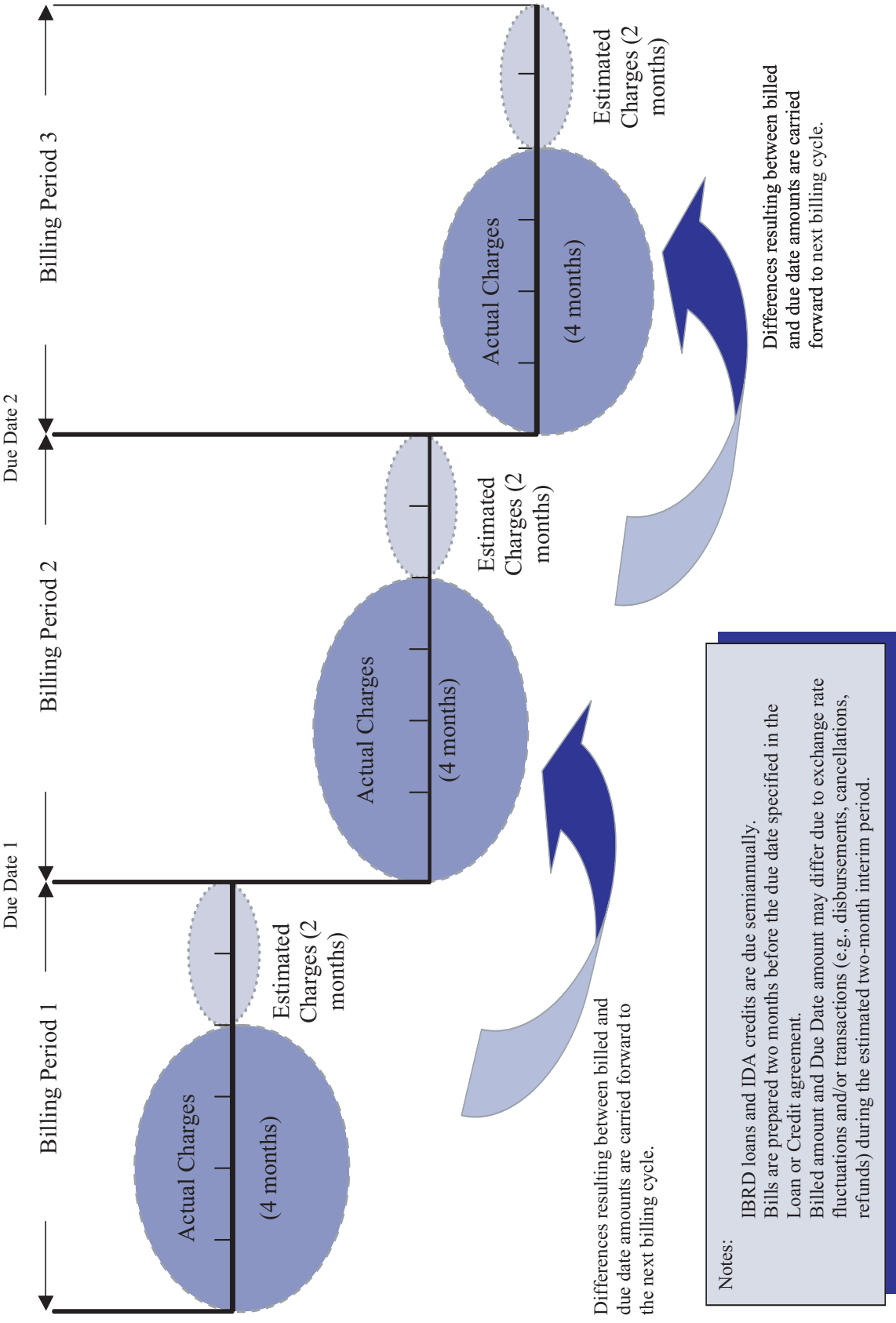
- Payment Instructions
- Summary Statement of Amounts Due
- Statement of Service Charges
- Statement of Service Charges on Overdue Principal (if applicable)
- Computation of Carried Forward Amounts Due
- Statement of Debt Service Amounts Received and Applied
- Statement of Principal Activity

Payment Applications

IBRD debt service receipts are applied in the following order: overdue amounts, deferred amounts, and current receivables. Within these categories, the order of application is as follows: interest on overdue principal, commitment fees, interest, transaction fees, and principal. Interest accrues on the unpaid principal at the current rate applicable to the loan.

IDA debt service receipts are applied in the following order: overdue amounts, balances carried forward, and current receivables. Within these categories, the order of application is as follows: principal, service charges on overdue principal, commitment fees, and service charges.

Figure 2. Billing Cycle for IBRD Loans and IDA Credits



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

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

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

Currency Purchase Agreement *(no longer available)*

IBRD borrowers who entered into a currency purchase agreement (CPA) with the World Bank can settle their debt service obligations in a single agreed-upon currency rather than in the designated currencies that are due. For loans under a CPA, the billing notices specify the amount of agreed-upon currency to be paid, including a small margin (2 to 5 percent) to cover possible exchange rate

fluctuations. Upon receiving payment, IBRD, acting as an agent for the borrower, purchases the currencies required to settle the debt obligation. Irrespective of the date of the conversion (but not before the due date), the borrower's account is credited on the date the World Bank receives the payment from the borrower. Excess payments are handled in accordance with the borrower's instructions. Shortfalls are carried forward to the next payment date.

Chapter VIII

Frequently Asked Questions

A. Project Preparation Facility

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

If the PPF is not refinanced, ACTCF will bill the borrower. If the amount of the PPF is USD 50,000 or less, the borrower is required to make a lump sum payment within 60 days for the amounts due during the project preparation period. If the amount of the PPF exceeds USD 50,000, the borrower is required to repay the advance (plus accrued interest or service charges) in ten semi-annual installments over the next five years.

B. Local Currency Financial Products

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

The World Bank will not commit an FSL in a borrower's currency because it may not always be able to access the local currency markets when borrowers wish to have disbursements or at terms that are acceptable to them.

Pre-funding loan commitments in local currency and holding the liquidity until disbursements are made might be a way to address such funding risk. However, holding liquidity in local currency is likely to result in a negative carrying cost for the World Bank, given the volatility and illiquidity of emerging financial markets and the limited number of instruments with acceptable credit rating in which the World Bank can invest. Pricing the funding and liquidity risks into the loan charges for an FSL in local currency would make these products uncompetitive. Therefore, the World Bank has opted to provide local currency financing through the use of currency swaps from a major currency into a borrower's local currency.

Why can't the entire loan be converted into local currency?

The Articles of the Agreement permit the World Bank to provide local currency financing only under exceptional circumstances. Since these circumstances are basically the same as those under which the World Bank is authorized to finance local expenditures with foreign exchange, the amount of the loan that can be converted into local currency is limited to that part of the loan that is used to finance local expenditures. For purposes of determining eligibility for local currency financing, the

local expenditure content is measured at the country's IBRD portfolio level.

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

The conversion of a fixed-spread loan into local currency is limited to disbursed loan balances, so that the World Bank can intermediate the currency swap transactions on the basis of known projected cash flows. Converting undisbursed amounts of an FSL into local currency is equivalent to having FSL commitments in local currency, which would expose the World Bank to financing and liquidity risks.

What local currencies are available?

As of March 2005, an indicative list of emerging market currencies in which the World Bank might be able to undertake currency swap transactions includes, per geographical region: (i) Latin America: Brazilian Real, Mexican Peso, Chilean Peso, and Colombian Peso; (ii) Eastern Europe: Polish Zloty, Czech Kroner, Hungarian Forint, and Slovak Koruna; (iii) Africa: South African Rand; and (iv) East Asia: Indian Rupee, Indonesian Rupee, Malaysian Ringgit, Philippine Peso, South Korean Won and Thai Baht. However, the availability of these currencies and the terms and conditions that the World Bank can obtain at a given point in time, depend on swap market conditions at the time of execution of the proposed transactions. Since conditions in emerging financial markets can change rapidly, the World Bank will determine, upon a borrower's request, whether conditions would allow financing in a specific currency.

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

For FSL conversions, the borrower submits a Conversion Request to ACTCF, using the form provided in the FSL conversion guidelines. The guidelines also include proce-

dural details for the conversion.²² The World Bank then investigates the availability of swaps in the requested local currency, and informs the borrower.

In the case of a free-standing hedge, the borrower must first enter with IBRD into a Master Derivatives Agreement and also provide the signatures of officers authorized to request IBRD hedge transactions. After the derivatives agreement is in place, the borrower may submit to ACTCF a request for a hedge into local currency.²³

C. Fixed-Spread Loans

If the borrower selects automatic rate fixing, is a fee charged at every rate fixing?

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

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

No. There is no transaction fee for the full amount of the loan for the entire maturity if this is the first rate fixing. Subsequent rate fixings will bear a transaction fee.

Can repayment terms be amended?

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

What is the fixed spread applicable to a new FSL?

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

Where can I find FSL lending rates and spreads?

At the website <http://www.worldbank.org/fps/>.

D. Currency Pool Loans

Where can I find historical lending rates for Currency Pool Loans?

At the website <http://www.worldbank.org/fps/>.

How is the prepayment premium calculated for a currency pool loan?

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

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

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

What is the difference between withdrawal outstanding and principal outstanding?

Withdrawal outstanding represents the US Dollar equivalent of total disbursements outstanding, calculated at the historical exchange rate. Principal outstanding is the current US Dollar equivalent, including exchange adjustments, of the outstanding debt due IBRD.

Basic Loan Information:

Current value of the loan	USD 11 million (USD 10 million plus USD 1 million due)
Interest rate on the loan	6.5%

Calculation of the Contractual Premium:

Premium factor for maturities < 3 years	0.18
Premium rate for maturities < 3 years	1.17% (6.5% x .18)
Premium amount for maturities < 3 years	USD 70,200 (6 million x 1.17%)
Premium factor for maturities between 3-6 yrs	0.35
Premium rate for maturities between 3-6 years	2.275% (6.5% x .35)
Premium amount for maturities between 3-6 yrs	USD 91,000 (USD 4 million x 2.275%)
Total premium per loan agreement	USD 161,200 (USD 70,200 + USD 91,000)

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

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

E. Guarantees

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

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

F. Graduation

What is a graduating country?

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

G. Billing

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

The billing statement is produced two months prior to the semiannual due date specified in the Loan Agreement and is sent to the borrower approximately seven weeks before the due date.

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

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

H. Fees

When does the commitment fee start to accrue?

Commitment fees begin to accrue 60 days after the Loan Agreement is signed. Once the

loan becomes effective, the commitment fee is billed on the undisbursed amount, on the interest payment date following the date of effectiveness. If the loan does not become effective, the World Bank will not bill the borrower for accrued commitment fees.

The contractual commitment charge for IBRD loans is 0.75 percent per annum (excluding any commitment charge waivers). For FSLs, an additional 0.10 percent is charged during the first four years of the loan's life.

Why is the FSL commitment fee higher for the first four years of the FSL's life?

FSLs carry a commitment charge risk premium of 0.10 percent on undisbursed loan amounts during the first four years of the loan's life. This is in addition to IBRD's 0.75 percent standard commitment fee. The commitment charge risk premium compensates IBRD for *funding risk*, given that the loan may have been committed but not yet funded.

How is the front-end fee calculated?

The borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the loan, subject to any waiver of a portion of such fee.

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

If a loan is partially or fully canceled on or after effectiveness, no adjustment to the front-end fee is made. This applies equally to loans disbursed in tranches; if a tranche is canceled after effectiveness, no portion of the front-end fee is refunded to the borrower.²⁴

What happens when an undisbursed amount is not canceled?

The borrower continues to pay commitment charges on the amounts undisbursed

until the World Bank is notified in writing to cancel any amount of the loan not yet withdrawn. If at cancellation time the commitment fee on the canceled amount has already been billed, the billing statement for the next due date will be adjusted to reflect the cancellation of the undisbursed amount and the reduction in the commitment fee.

Does IBRD amend the amortization schedule after a loan has been approved?²⁵

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

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

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

- *Amount of the refund.* Any refund received by the World Bank that is equal to or less than one percent of the total amount disbursed may be applied to the next debt service on the same loan or credit under which the original disbursement was made.
- *Amount due to the World Bank at the next due date.* If the refund amount received by the World Bank for a loan or credit is less than the amount due on the next debt service payment date, then the refund may be applied to the next debt service due under that loan or credit.
- *Time lag between the value date of the refund and the next due date.* Any refund amount received by the World

Bank three months or more before the next debt service due date may be applied to the next debt service due under that loan or credit.

If the borrower requests that refunds be handled in a different manner, the request must be approved by the Director of the Loan Department.

Does the World Bank charge interest on overdue loan charges?

No. However, the World Bank charges interest on overdue *principal* amounts, based on the prevailing lending rate.

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

A partial interest waiver is extended only to borrowers from whom the IBRD has received full and timely payments for a continuous period of six months. *Full* payment means that the borrower has paid all amounts billed. *Timely* payment in this context means no more than 30 calendar days after the due date. If a borrower fails to make a timely payment on any of its loans, all loans to that borrower will be ineligible for a waiver until a new qualifying period of six continuous months of full and timely payments is established. Special Development Policy Loans (formerly known as Special Structural Adjustment Loans) are not eligible for waivers of interest.

Are new borrowers eligible for a partial waiver of interest charges?

A new borrower is automatically eligible for a partial waiver of interest charges, subject to the conditions above.

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

As soon as a payment is more than 30 days overdue, no new loans and credits for that country will be presented to the Board for approval, and any previously approved loans and credits will not be signed. In addition, IBRD borrowers may lose eligibility for the partial waiver of interest charges on their loans. For both IBRD and IDA borrowers, when a payment is outstanding for 60 days or more, disbursements to all borrowers in that country are suspended.

What happens when a payment becomes six months overdue?

On the date of the second consecutive service payment is missed (known also as the “trigger date”), the regional Vice President sends a notice to the member. A formal notice is also sent to the Board within two days of that date, and a news release is distributed. Information on those borrowers with loans for

which payment is more than six months overdue is included in the World Bank's financial statements.

In which currency are the bills paid?

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

IDA credits—in the currency of commitment.

IBRD Loans

Currency pool loan—in Euros, JPY, or USD, as determined by the Treasury Department.

Single currency pool loan (SCP)—in Euros, JPY, or USD, depending on the currency chosen at the time of conversion.

Variable-spread loan and fixed-rate single currency loan—in the currency of commitment.

Fixed-spread loan—in the currency of commitment.

Attachment A.

Currency Choice Conversion of Currency Pool Loans

For new loans, IBRD offers only the fixed-spread loan (FSL) and variable-spread loan (VSL) financial terms set out in OP 3.10. This annex presents the terms and conditions of past IBRD loan offerings, which still govern some outstanding loans.

Based on a decision of its Executive Directors in June 1996, the World Bank adopted a policy under which it offered choice of currency for all IBRD currency pool loans (CPLs) for which the invitation to negotiate was issued before September 1, 1996. The offer was in effect from that date, September 1, 1996, through June 1, 1998. The offer reflected and responded to borrower demand for broader currency choice for IBRD loans. The policy on the conversion of CPLs to SCLs and SCPs appears as follows in Annex A, paras. 19—26, of the World Bank’s Operational Manual, OP 3.10 (with this excerpt appearing under the title, “Offer of Currency Choice for existing CPLs as of September 1996”):

19. Between September 1, 1996, and June 1, 1998, IBRD offered borrowers the option to amend the terms of their existing CPL (VLR89, VLR82, or fixed-rate) Loan Agreements to change their currency obligation. Borrowers could request the following:

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

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

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

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

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

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

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

inal loan, such share being the ratio of converted amounts to the sum of converted and unconverted balances.

23. *Fixed-Rate SCL (FSCL) Terms.* The lending rate for loan amounts converted to fixed-rate SCL (FSCL) terms is determined in the same manner as for existing FSCLs less any applicable waivers.

24. Loans converted to FSCL terms have maturities, grace periods, and amortization schedules set in the same manner as for newly contracted FSCLs, and in no case do they exceed the final maturity of the original currency pool loan.

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

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

26. Since January 1, 1999, IBRD has established a currency composition for each SCP that is 100% in the borrower's designated currency.

Attachment B.

Prepayment of IBRD Loans

This attachment describes the general terms applicable to prepayment for the following types of IBRD loans: fixed-spread loans (FSLs); variable-spread loans (VSLs); fixed rate single currency loans (FSCLs); and, collectively, the category of pre-pool loans, currency pool loans (CPLs), and single currency pool loans (SCPs).

1. Fixed Spread Loans (FSLs)

IBRD may charge the borrower a prepayment premium to cover the cost to IBRD of redeploying prepaid funds.ⁱ The premium is calculated as described in para. (a) below for any portion of an FSL that has not been converted and as described in para. (b) below for any portion of an FSL that has not been converted.

(a) Prepayment of unconverted portions of FSLs

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

(b) Prepayment of converted portions of FSLs

If all or any portion of an FSL has been *converted*, the prepayment premium will be

calculated as the sum of the following components:

(i) a prepayment premium on account of the underlying floating rate FSL, as outlined in para. (a);

(ii) an “Unwinding Amount”ⁱⁱ in connection with the early termination of any conversion. The “Unwinding Amount” is the mark-to-market value of any swap effected for the relevant conversionⁱⁱⁱ and can result in either a cost to the borrower (i.e., an additional amount payable by the borrower to the Bank) or a gain by the borrower (subtracted from the amount to be prepaid or paid by the borrower).^{iv}

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

(iv) a transaction fee, applied to the amount of the principal being prepaid (see the BCFBD website for transaction fee information: <http://www.worldbank.org/fps>).

2. Variable Spread Loans (VSLs)

The total spread on a VSL consists of a contractual lending spread^v and a variable cost margin (adjusted every six months based on the weighted average cost margin of the debt allocated to VSLs). The prepayment premium is based on IBRD’s redeployment cost of the prepaid funds, derived from the difference between the contractual lending spread of the prepaid

loan and the contractual lending spread in effect for VSLs in the currency of the prepaid loan at the date of prepayment.^{vi} The net present value of the cashflows is computed by taking into account current market rates and the total spread in effect for VSLs at the date of prepayment. Prepaid amounts are applied first to the latest maturities due on the loan.

3. Fixed Rate Single Currency Loans (FSCLs)

IBRD charges a prepayment premium based on the cost of redeploying the full amount of the loan to be prepaid from the date of prepayment to the original maturity date. Under an FSCL, IBRD enters into rate-fixing swap transactions to provide the borrower with a fixed rate. IBRD fixes the rate for the amount of the loan disbursed during a period through an end-of-period rate-fixing swap transaction. Thus an FSCL consists of multiple tranches, each with its own fixed rate. Upon a prepayment, IBRD unwinds the rate-fixing swap transaction(s) it executed in connection with the prepayment.^{vii} The degree of off-marketness of each such rate-fixing swap is used to determine the redeployment cost of the full amount of the loan to be prepaid. If IBRD enters into more than one rate-fixing swap transaction in connection with the prepayment, IBRD nets out any gains and losses resulting from the unwinding of such swap transactions. The borrower pays IBRD the net amount, so calculated, as the prepayment premium—provided, however, that if such netting results in a negative amount (i.e., in an amount due to the borrower), such amount is deemed to be zero. Prepaid amounts are applied in the inverse order of the disbursed amounts under the loan, with the disbursed amount withdrawn last being prepaid first, and with the latest maturity of such disbursed amount being prepaid first. Within each tranche, the amount to be prepaid is applied in inverse order of maturity.

4. Pre-Pool Loans, Currency Pool Loans (CPLs), and Single Currency Pool Loans (SCPs)

Assessment of the prepayment premium waiver on pre-pool loans, CPLs, and SCPs is based on the following procedure:

(a) The latest available carrying values and estimated values for loans in various categories, as reported semiannually in IBRD's audited financial statements, serve as the basis for assessing whether a waiver of the contractual prepayment premium can be granted.^{viii}

(b) The prepayment premium on the loan is waived in its entirety if the estimated value of all loans in a particular category is less than or equal to the carrying value. However, the premium is applied if the estimated value is greater than the carrying value—with the proviso that it will equal the smaller of the computed contractual premium on the loan and the premium over the carrying value, as determined by the estimated value. If interest rates were to rise, the off-marketness of the lending rates would narrow, and the contractual prepayment premium on these loans could exceed the premium of the estimated value over the carrying value. In that case, the borrower would pay the latter as the premium, thus receiving a partial prepayment premium waiver.

(c) For pre-pool loans with interest rates lower than 7%, prepayment premium waivers may be granted on a loan-by-loan basis. (All pre-pool loans are fixed-rate loans).

(d) For financial intermediary loans with flexible amortization schedules, IBRD waives the premium if the financial intermediaries make the prepayments after receiving the prepayments from the sub-borrowers.

(e) Prepayment premium schedules for pre-pool loans, CPLs, and SCPs are included in the Loan Agreements for those loans. Premiums are calculated in accordance with these schedules, as illustrated below.

(f) For pre-pool loans, CPLs, and SCPs with a fixed rate, the total prepayment premium equals the sum of the premia for each maturity being prepaid; such premia, in turn, are calculated as the product of the maturity amount and the premium rate for that maturity, as stated in the Loan Agreement.

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

(h) As an illustration, assume a Category III country prepays any variable-rate pool loan with four remaining maturities. Each maturity is \$1 million and the total prepayment is US\$4 million. Assume further that the current interest rate on the loan is 6.5% and the factor from the “Premiums on Prepayment” schedule in the Loan Agreement is 0.18. The premium rate for the maturities being prepaid is $(.065 \cdot .18) = .0117$, or 1.17%. Multiplying \$4 million by the premium rate of 1.17% produces the total premium for the loan of \$46,800.

Annex B Notes

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

ii. “Unwinding Amount” is defined in the General Conditions Applicable to Loan and Guarantee

Agreements for Fixed Spread Loans, dated September 1, 1999, Article 2.01 (46).

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

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

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

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

vii. The Bank effects a market transaction or uses a screen rate calculation on the prepayment date or shortly thereafter; it generally takes two business days to settle a swap.

viii. “Carrying value” and “estimated value” are terms used in IBRD's financial statements. The “carrying value” of an IBRD loan is synonymous with the book value of the loan and is expressed in USD equivalent terms. It can be defined as the historical value of currencies in USD equivalents outstanding on the loan, plus the translation adjustment on the loan. IBRD loans do not have a secondary market. “Estimated values” of IBRD loans published in IBRD's financial statements are used as a proxy for the market-to-market value of IBRD loans.

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

FSL Loan No.	Maturity Date	Maturity Amount	Maturity Amount to be Prepaid

(Use additional sheets, if required)

* For FSLs, the borrower may specify which loan maturities are to be prepaid. If the borrower does not so specify, any such prepayment will be applied as follows: (a) if the Loan Agreement provides for the separate amortization of Disbursed Amounts, the prepayment is applied in the inverse order of such Disbursed Amounts, with the Disbursed Amount that had been withdrawn last being prepaid first and with the latest maturity of such Disbursed Amount being prepaid first; and (b) in all other cases, the prepayment is applied in the inverse order of maturity of the loan, with the latest maturity being repaid first.

Reason for prepayment:

Contact Information for Prepayment Confirmation:

Name: _____	Telephone: _____
Title: _____	Facsimile: _____
Address 1: _____	Email: _____
Address 2: _____	
Signature: _____	
Other Contact Person: _____	Telephone: _____
	Facsimile: _____
	Email: _____

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

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

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

Attn: Mr. Antonio Dávila-Bonazzi / Mr. Amit Mehra Telephone: +1 (202) 458-8330
 Loan Services Group (ACTCF) Facsimile: +1 (202) 522-3428
 The World Bank E Mail: loanclientservices@worldbank.org
 1818 H Street, NW
 Washington DC 30433
 USA

Disclaimers:

- (a) This form is not a recommendation for prepayment by the World Bank.
- (b) Information available regarding correspondence address, types of loans, and currencies of recall is subject to change
- (c) Submission of this form implies an independent decision for prepayment made by the borrower.
- (d) Submission of this form to the World Bank is not to be construed as acceptance of the prepayment proposal by the World Bank.

Notes

1. Additional information on *The World Bank Lending Instruments* is available at www.worldbank.org (click on Projects & Operations and select Financing Instruments).

2. See OP/BP 8.60, *Development Policy Lending*, at www.worldbank.org (click on Projects & Operations, select Policies & Procedures, Operations Manual of WB Policies/Volume I/Strategies & Products, Business Products and Instruments).

3. Additional information on *The World Bank Lending Instruments* is available at www.worldbank.org (enter “Lending Instruments” in the search line and select Projects–Investment & Development Policy Lending).

4. See OP 3.10, *Financial Terms and Conditions of IBRD Loans, IBRD Hedging Products, and IDA Credits*, at www.worldbank.org (click on Projects & Operations, select Policies & Procedures, Operations Manual of WB Policies/Volume I/Strategies & Products, Business Products and Instruments).

5. For additional information, please refer to *The Fixed-Spread Loan (April 2003) and Major Terms and Conditions of IBRD Loans* (February 2001). Both brochures are available from the Banking and Debt Management Group or at www.worldbank.org/fps.

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

7. For more information, see OP 3.10, Annex D, available at www.worldbank.org (click on Projects & Operations, select Policies & Procedures, Operations Manual of WB Policies/Volume I/Strategies & Products, Business Products and Instruments).

8. For additional information, please refer to the brochure, *IBRD Hedging Products: An Introduction* (May 2001), available from the World Bank’s Banking and Debt Management Department, or at www.worldbank.org/fps.

9. Currency swaps on CPLs and SCPs reflect exchanges only of principal.

10. Current and revised fee schedules are available at www.worldbank.org/fps.

11. See OP 3.10, Annex D, *IBRD/IDA Countries: Per Capita Incomes, Lending Eligibility, and Repayment Terms*, at www.worldbank.org (click on Projects & Operations, select Policies & Procedures, Operations Manual of WB Policies/Volume I/Strategies & Products, Business Products and Instruments).

12. See the front notes to Annex D to OP 3.10 for the current equivalent of the historical per capita income ceiling figure

13. See the front notes and footnote 2 to Annex D to OP 3.10 for the current equivalent of the operational cutoff figure and exceptions to the cutoff.

14. For additional information, please see the Guarantees website at www.worldbank.org/guarantees (click on Projects & Operations and select Financing Instruments).

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

16. For additional information on IDA grants, please refer to IDA website at <http://www.worldbank.org/>

17. This notice may be delayed in certain situations, as described in OP 13.40, available at www.worldbank.org (click on Projects & Operations, select Policies & Procedures, Operations Manual of WB Policies/Volume II/Project Requirements, Contractual).

18. “New loans” are defined here as those loans for which the invitation to negotiate was issued prior to July 31, 1998, and “old loans” as those loans for which the invitation to negotiate was issued on or after July 31, 1998.

19. See OP 3.10, Annex B, *Prepayment of IBRD Loans*, at www.worldbank.org (click on Projects & Operations, select Policies & Procedures, Operations Manual of WB Policies/Volume II/Project Requirements, Contractual).

20. See Attachment, Application Form for Prepayment of IBRD loans.

21. The carrying value of a loan represents its book value and is expressed in US Dollar equivalent.

22. The *Guidelines for Conversion of Loan Terms for Fixed-Spread Loan* are available the Banking and Debt Management Group (BCFBD) or at www.worldbank.org/fps.

23. Model hedge request forms are available from ACTCF or at www.worldbank.org/fps.

24. See OP 3.10, para. 8, Front-end Fee, at www.worldbank.org (click on Projects & Operations, select Policies & Procedures, Operations Manual of WB Policies/Volume II/Project Requirements, Contractors).

25. See OP 3.10, para. 19, *Financial Terms and Conditions of IBRD Loans, IBRD Hedging Products, and IDA Credits*, and BP 3.10, para. 10, *Changes to Approved Repayment Terms of IBRD Loans*, at www.worldbank.org (click on Projects & Operations, select Policies & Procedures, Operations Manual of WB Policies/Volume II/Project Requirements, Contractors).

Glossary

A

Acceleration Clause—A provision in a loan agreement requiring that under default, any remaining interest and principal immediately become due.

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

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

Applicable Exchange Rate (AER)—IBRD's financial transactions are valued using applicable exchange rates. The AER is based on exchange rates reported by Reuters at 7:00 am, New York time. Under

the currency pool system, it is essential that currency risks be shared equitably among all currency pool borrowers and that a single AER for each currency be used for the valuation of all transactions on a particular date.

Automatic Rate Fixing (ARF) Arrangement—An arrangement wherein the interest rate of a fixed-spread loan (FSL) is fixed automatically, according to a pre-specified schedule, either at regular periods or once a predetermined volume of disbursements is reached.

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

B

Base Rate—An interest rate used as an index to price loans or deposits. Quoted interest rates are typically set at mark-up, such as 0.25% or 1%, over the base rate—so that they change when the base rate changes. The base rate for fixed-spread loans and variable-spread loans is the six-month

LIBOR. For currency pool loans, the base rate is IBRD's semester weighted average cost of the outstanding debt funding these loans. Since a vast majority of the funding is medium to long-term fixed-rate debt, the lending rate for currency pool loans represents a moving average of IBRD's historical funding costs.

Blend Country—Country eligible to receive financing from both IBRD and IDA.

C

Carrying Value—The carrying value of an IBRD loan is synonymous with the book value of the loan and is expressed in USD equivalent terms.

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

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

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

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

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

Commitment-Linked Repayment Schedule—Loan grace period and repayment maturities, as fixed at loan commitment.

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

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

Conversion Period—The period from and including the conversion date, to and including the last day of the interest period on which said conversion terminates by its terms—provided that, solely for the purpose of enabling the final payment of interest and principal in the approved currency, such period shall end on the interest payment date immediately following the last day of the final applicable interest period.

Currency Pool Loan—A multi-currency loan committed in US Dollar equivalent. However, a currency pool loan is not a US Dollar obligation.

D

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

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

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

Disbursement-Linked Repayment Schedule—Repayment schedule linked to actual

disbursements, under a fixed-spread loan. Cumulative disbursements during each six-month period (a “disbursed amount”) are repayable on a schedule that commences from the beginning of the interest period following disbursement. Grace period, final maturity, and repayment pattern are specified in the Loan Agreement and are the same for all disbursed amounts under that loan.

E

Effective Date—The date on which a Loan Agreement, Credit Agreement, and Guarantee Agreement, if any, enter into effect.

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

Execution Date—With respect to a conversion, the date by which the World Bank shall have undertaken all actions necessary to effect the conversion, as reasonably determined by the World Bank.

Expected Average Disbursement Period—The weighted average period of time between loan approval and expected disbursement.

F

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

Floating Rate—A rate that changes at regular intervals, depending on the base rate (e.g., 6-month LIBOR). The instrument is repriced whenever the base rate changes within a predetermined rest period.

G

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

I

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

Interest Payment Date—The date specified in the loan agreement for the payment of interest.

J

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

L

Lending Instrument—Loan for a specific purpose—in the case of the World Bank, either a development policy loan or an investment operation.

Lending Product—A financial product which defines particular currency and repayment terms—e.g., fixed spread or variable rate.

Level Repayment of Principal—A method of principal amortization on a loan wherein the principal is repaid in equal installments over time.

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

M

Master Derivative Agreement—This agreement provides the contractual framework between the borrower and IBRD for hedge transactions, including the requirement to document each transaction with a confirmation. Master derivative agreements have cross-remedy provisions with IBRD Loan Agreements and vice versa; default under the derivative agreement is treated in the same manner as default under the Loan Agreement.

N

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

O

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

P

Pro Rata—Basis for allocating an amount proportionately to items involved. In the case of a canceled loan amount, that amount may be proportionately distributed to the remaining maturities.

R

Retroactive Financing—World Bank disbursements against eligible expenditures made by borrowers within specified periods prior to signing a Loan Agreement.

S

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

T

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

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

Trigger Date—The date on which the loan portfolio of a particular member will be placed in non-accrual status. The trigger date is the date of the second consecutive missed payment on any loan, credit, or project preparation advance, or the date on which the final amortization payment becomes overdue by more than six months.

U

Unwinding Amount—Amount to be paid by the borrower in the case of prepayment of a loan.

Bibliography and other useful information

World Bank Debt Servicing Handbook for Borrowers (March 2005), available from the Accounting Department's Loan Services Group.

Disbursement Handbook (July 1998), available from the Loan Department.

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

The Fixed-Spread Loan (April 2003), available from the Banking and Debt Management Department or at www.worldbank.org/fps.

IBRD Hedging Products: An introduction (May 2001), available from the Banking and Debt Management Department or at www.worldbank.org/fps.

Major Terms and Conditions of IBRD Loans (February 2001), available from the Banking and Debt Management Department or at www.worldbank.org/fps.

Partial Waiver of Loan Charges (November 1995), available from the Loan Services Group.

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

World Bank Guarantees brochure (January 2002), available from the Project Finance and Guarantees Group or at www.worldbank.org/guarantees.

Compendium of IDA Financial Policies (June 2004), available from the World Bank's Resource Mobilization Department (FRM).

World Bank Lending Instruments: Resources for Development Impact (July 2001), available at www.worldbank.org/pdf/Lending_Instr_Eng.pdf (IBRD only).

The World Bank's Currency Pool (October 1988), available from the Loan Services Group.

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

Audit Confirmation Statement

Copies of Billing Statements

Estimated Debt Service Report

Net Disbursements and Charges Report

Statement of Loans and Credits

Statement of Pool Units

Interest Waiver Earned and Lost by Borrower

Loan Information Available through the Client Connection Website

Loan information is available to borrowers through the Client Connection website at <https://clientconnection.worldbank.org/>. The Client Connection allows borrowers to access information on their loans, credits, grants, and

trust funds through a secure, password-protected website. This information includes, among others, billing statements, estimated debt service payments, statements of IBRD loans and statements of IDA credits, pool unit value, exchange rate, and current loan specific account details. The Client Connection also

features disbursements and procurement information as well as a wealth of country-specific data.

If you are interested in gaining access to Client Connection, please send an e-mail to clientconnection@worldbank.org