Flexible Guarantee Instrument for Concessional Sovereign Guaranteed Operations

About the FGI

The Flexible Guarantee Instrument (FGI) is the Inter-American Development Bank's (IDB) guarantee instrument for Sovereign Guaranteed (SG) operations. The FGI is a single platform that allows borrowing member countries (BMC) eligible for concessional financing, its sub-nationals and its local governments, to structure Partial Credit Guarantees (PCG) and Political Risk Guarantees (PRG), both for investment projects and policy based interventions.

Guarantees as a Development Instrument

IDB's FGI seeks to respond to borrowers needs for enhanced financing options via guarantees to meet development needs in Latin America and the Caribbean (LAC). By targeting better risk allocation and management as well as enhancing a country's access to credit, the FGI contributes to foster investment, and expand and improve financing terms of projects in the region, through risk mitigation mechanisms:

- *Disaggregation of risks* – guarantees are an efficient instrument that allows market participants to bear risks according to their capacity to manage them.
- *Development of missing markets* – guarantees help create or develop markets by addressing specific risks that restrict financing or act as barriers to suitable credit structures, mostly in terms of cost and/or tenor.
- *Leveraging effect* – guarantees can enhance the credit standing of claims by leveraging the Bank's AAA rating and standing as a trusted partner to mobilize resources.

The FGI aims to catalyze financing that otherwise would not be available to sectors, such as infrastructure (particularly in Public-Private Partnerships), productive financing for small and medium enterprises, renewable energy, climate change, energy efficiency, agriculture, and food security.

How PCGs and PRGs work

In a PCG or PRG operation, the IDB issues a guarantee to a third party to mitigate a variety of credit or political risks associated with an investment project or a policy intervention. Through the guarantee, borrowers are then able to access markets otherwise unavailable to them, and obtain financing directly from private lenders at improved financial terms.

PCGs protect lenders against debt service default on a portion or on all of a financing extended to public sector borrowers. It covers debt service payments of loans, bonds or any other debt instrument. A PCG is typically associated with public sector projects and can be designed to cover specific debt repayment structures and risk categories, such as financing risk, construction risk, operation risk, fuel supply risk, hydrologic risk, some of which could be triggered in the event of a debt payment default to creditors.

PRGs provide coverage on risk of non-performance by public sector borrowers on certain contractual obligations undertaken in relation to an agreement with a private party, such as currency convertibility and transferability, and contract frustration, which could trigger a debt payment default.

At a Glance

- FGI is the IDB's platform for SG partial credit or political risk guarantee operations.
- Coverage may vary up to 100% of investment projects or policy based interventions.
- Pricing neutrality between guarantees and loans.
- FGI operations follow same approval cycle as SG loan operations at the IDB.
- Maximum guarantee tenor is 25 years for investment projects and 20 years for policy based interventions for countries receiving blended loans.

Beneficiary Eligibility

BMCs eligible for concessional financing through the Blended structure are eligible for the concessional FGI. Sub-national or local government agencies may also be eligible, provided that the sovereign agrees to reimburse the Bank, through a counter-guarantee agreement with the IDB, for disbursements made under the guarantee.

PCGs or PRGs are generally aligned with sector priorities identified in country strategies with the IDB, and must comply with Bank policies, including procurement, and social and environmental policies.

Underlying projects that benefit from PCGs and PRGs will be subject to the same eligibility conditions applicable to SG investment and policy based loans. Because guarantees are irrevocable, it requires that every operation be tailored made to ensure a balance between compliance with Bank's standards and the irrevocability of the guarantee instrument.

Financial Terms

Financial terms applicable to PCGs and PRGs are similar to those offered under the Blended structure for SG loan operations, and are based on the principle of pricing neutrality between loans and guarantees. Guarantees financed with blended resources will be funded from the respective biannual allocation of concessional resources approved under the "Debt Sustainability Framework and Enhanced Performance Based Allocation framework" in which the guarantee is approved. Two types of fees apply:

- Guarantee Fee applicable on the actual guarantee amount callable at any time. The fee is equivalent to the blend of regular Ordinary Capital (OC) and concessional OC resources: OC sovereign loan spread for the regular OC portion, and 0.25% for the concessional OC portion.
- Stand-by Fee applicable to the regular OC portion of the guarantee on the difference between the approved maximum guarantee amount and the actual guarantee amount callable at any time. The fee is equivalent to the Credit Fee for OC SG loans.

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Final financial terms and conditions applicable to specific FGI operations will be determined on a case-by-case basis and documented under the guarantee agreement. For applicable OC SG lending charges and fees, please refer to www.iadb.org/rates.

IDB Finance

FINANCIAL SOLUTIONS

Flexible Guarantee Instrument (FGI) for Concessional Sovereign Guaranteed Operations - Terms and Conditions

Overview	- Documented under the FGI for Partial Credit Guarantees (PCG) or Political Risk Guarantees (PRG). - Applicable to sovereign guaranteed (SG) investment projects or policy based interventions, upon issuance of a sovereign counter-guarantee by a borrowing member country. - Guarantees count 1-to-1 with loans.
Coverage	- Up to 100% of project costs or policy based intervention.
Currency	- Currency of approval: US dollar. - Claim payment: US dollar. - Counter-guarantee: US dollar.
Maximum guarantee period and WAL	- PCGs and PRGs coverage same as the maturity of the regular Ordinary Capital (OC) portion of the blended loans: up to 25-years for investment operations (INV) and 20-years for policy-based interventions (PBL) with a maximum weighted average life (WAL) of 15.25 years and 12.75 years, respectively.
Repayment profile of underlying financing covered	- Repayment profile: flexible, subject to WAL requirement on regular OC portion. - Grace period: not applicable due to the diverse nature of potential guarantee structures, subject to WAL requirement on OC portion.
Trigger event	- Defined in each guarantee contract operation. - Claim payment is irrevocable.
Reimbursement of claim (counter-guarantee)	- Payable upon demand; however, the Counter-Guarantee agreement will stipulate the "Maximum Repayment Terms" to be applied in case the Debt Sustainability Framework, performed at the time of a payment, indicates that a full reimbursement on demand may not be possible and that such reimbursement should be in the form of an amortizing loan. - The Maximum Repayment Terms in case the reimbursement will be in the form of a loan and will be established as follows: (i) for the regular OC portion, the maximum repayment time will be equal to the remaining OC WAL requirement of 15.55 years for INV loans and 12.75 years for PBLs, depending on timing of call; and (ii) for the concessional OC portion, the remaining tenor of standard concessional OC portion of a blended loan. - Default in repayment of counter-guarantee triggers same treatment as that of non-performing loans.
Non-payment of guarantee fee	- Non-payment of guarantee fees triggers same treatment as OC non-performing loans without affecting irrevocability of guarantee.
Guarantee fees	- Guarantee Fee: Fee equivalent to the blend of regular OC and concessional OC resources; OC sovereign loan spread for the regular OC portion, and 0.25% for the concessional OC portion; applied on actual guarantee amount callable at any time and payable semi-annually from effective date, unless otherwise agreed to with guaranteed party on a case-by-case basis. Fee may be paid upfront to cover total guarantee period; however, at end of guarantee period, adjustments shall be made to cover the difference between actual variable guarantee amounts and what was paid up front ("true-up", "true-down"). - Stand-by Fee: applicable to the regular OC portion of the guarantee charged at same level as Credit Fee for IDB's regular OC loans; applied on the difference between the approved maximum guarantee amount and the actual guarantee amount callable at any time from the effective date of the guarantee coverage. - Inspection and Supervision Fee: applicable to the regular OC portion of the guarantee charged at same level as IDB's regular OC loans, and applied on the approved maximum guarantee amount as a one-time fee on the effective date of the guarantee coverage. - For updated SG OC loans lending charges and fees information, please refer to www.iadb.org/rates.