

What's the value of a World Bank Policy-Based Guarantee?

Looking into the Côte d'Ivoire Debt Swap

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Introduction

The renewed focus of the World Bank on guarantees, after years of hibernation, raises questions about how they create value compared to more traditional lending instruments. Under the leadership of Ajay Banga, the Bank seems eager to experiment with financial engineering as a way to further leverage its developmental efforts. In recent months, it has aimed to increase its use of [guarantees](#). In December 2024, it unveiled with great fanfare an ambitious loan to the Republic of Côte d'Ivoire (RCI), consisting of a [Budget Support Operation](#), along with a €500 million guarantee backing two new market loans: one to finance a liability management operation (LMO) and the other, a Sustainability-Linked Loan, to finance RCI's green transition.

It makes sense to start unrolling the Bank's new financial products in Côte D'Ivoire. The country stands out in the region as it experienced a strong growth rate averaging 7% since the end of its Civil War in 2011. This performance can be attributed to a robust economy benefiting from private investment and efforts at economic diversification. Like many other developing countries, especially in Africa, it has suffered a series of negative shocks in recent years. It lost access to the Eurobond market during 2022-23 – like other developing countries – at a time when the need to refinance upcoming maturities had risen. The resulting fiscal squeeze was partly smoothed through counter-cyclical measures, which raised deficits and public debt. By early 2024, however, stabilization efforts had started to reduce fiscal deficits. Debt ratios began to stabilize at around 40% of GDP. The reopening of the Eurobond market in early 2024 enabled RCI to initiate a first (self-financed) liability management operation, aimed at alleviating liquidity pressures. The World Bank operation sought to consolidate gains in all these areas: growth recovery, social spending, and an improved external debt service profile.

The focus of the paper is on the usefulness of the World Bank's PBG. The LMO generates important gains for RCI, which are used in part to finance new schools. The question we pose is whether these gains are uniquely associated with the use of the PBG, or whether they could have been achieved through different financing strategies. In doing this comparison, we develop several financial counterfactuals, and we examine the operation through two distinct lenses – one financial, holding the interest rate facing RCI constant, and one economic, which focuses on the potential impact of the LMO on the interest rate facing RCI in the capital market.

In the first section, we evaluate the gains generated by the Liability Management Operation (LMO), backed by the Policy Based Guarantee. On the positive side, the LMO reduces the cost and extends the maturity of RCI's commercial debt. However, the use of the World Bank's PBG reduces what RCI can borrow from the Bank for domestic expenditures. As a result, the LMO cum PBG operation benefits RCI as long as it has a low enough discount factor.

The second section focuses on the specific value of the PBG by comparing its use to back a new loan with other ways of raising funds. We find that, like other experiences, the PBG did experience some financial "erosion" – i.e., that using a World Bank loan equivalent would be financially more advantageous than using the PBG-backed loan. This raises the question of why a PBG was used to finance the LMO in the first place.

The third section examines whether the PBG-backing of an LMO results in additional benefits, specifically if it helps lower the interest rate for RCI by signaling policy commitment and thereby enhancing creditworthiness, in addition to the possible signaling value of the budget support operation. We estimate that the operation did succeed in reducing the market yield for RCI by about 30 basis points.

Exploring how guarantees can create value is a theme that remains under-researched, especially at a time when interest in the use of guarantees is at an all-time high. The paper's main innovation is to shift attention from a sole focus on how a PBG helps reduce the financial cost of the loan it supports to a broader claim that a well-structured PBG should lower the cost of capital for the country by signaling creditworthiness. In other words, we advocate for shifting the ambition of PBGs from a purely financial perspective to a macroeconomic one. In this view, financial gains are not a precondition for macroeconomic gains. In fact, quite the contrary, signals become more credible when they are costly.

The fourth section explores the usefulness of the PBG in supporting liability management for other developing countries. We focus on the features of the new generation of PBGs and find that while some old problems have been addressed, others remain in search of a solution, especially if PBGs are adjusted to be more useful in dealing with the current problems of illiquidity plaguing many developing countries.

The conclusion summarizes the key findings of the paper and the policy implications they suggest. We propose two main recommendations: first, to reduce the implicit subsidy it provides to PBGs in order to strengthen the power of the signal they send; and second, to reduce the provisioning of PBGs by the World Bank, in order to improve further the leveraging of its capital. By having a higher cost, PBG-supported LMOs can paradoxically play a more important role in reducing the illiquidity faced by developing countries. The ability to send a stronger signal can encourage countries to develop ambitious national recovery programs that can justify bearing a high current cost of signaling, by making the benefit of future gains larger.

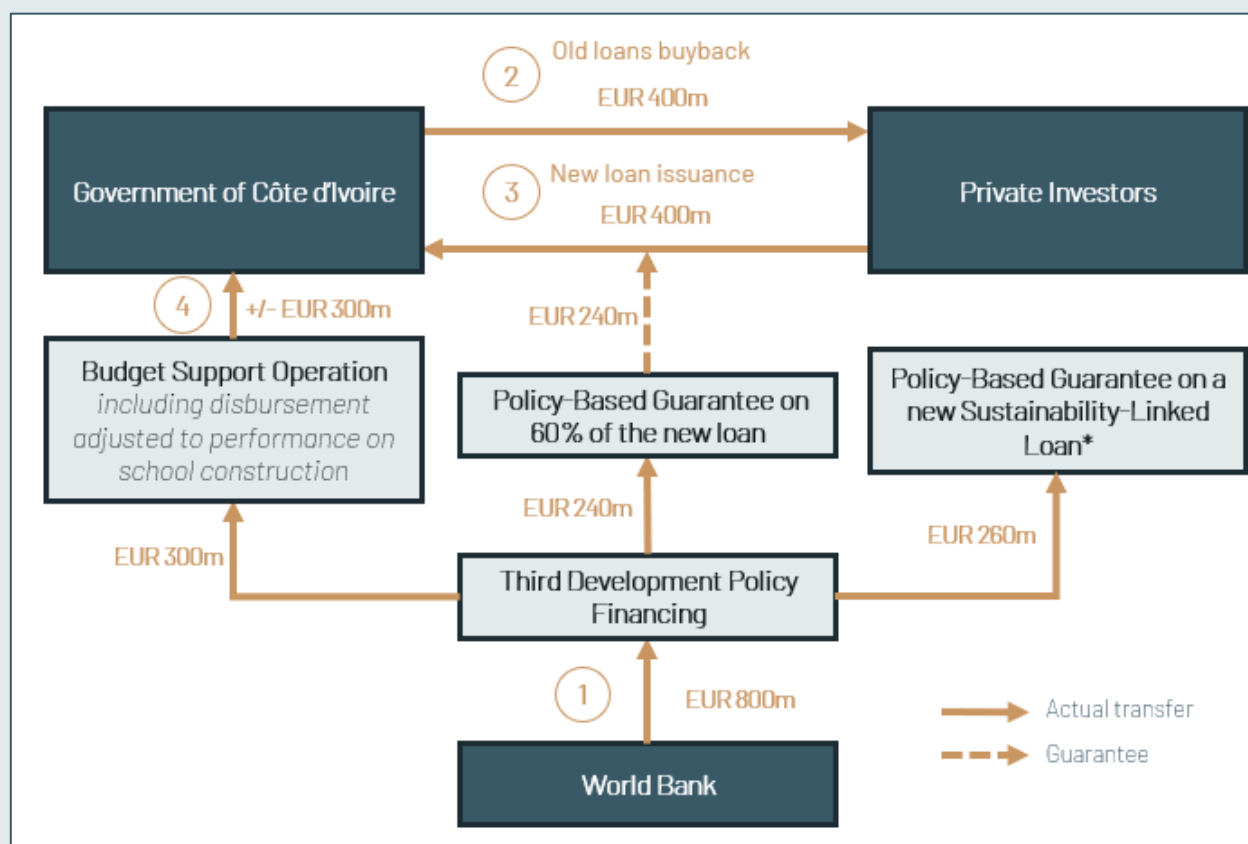
Summary of the World Bank Operation

On December 5, 2024, Côte d'Ivoire announced a debt-for-development swap, supported by the World Bank Group, aimed at improving the country's debt profile while freeing up fiscal resources for education investment. This marks the first operation of its kind facilitated by the World Bank Group, combining debt management with direct investment in human capital.

Using a €240 million policy-based guarantee (representing 60% of the loan's total value) from the World Bank, Côte d'Ivoire secured a new €400 million commercial loan with favorable terms, including a 15-year maturity, a 6% interest rate, and a six-year grace period. The proceeds from this new loan were used to retire €400 million of Côte d'Ivoire's high-cost commercial loans (over 8% interest rate) maturing within the next seven years.

The operation is expected to save approximately €330 million in nominal debt service over the next five years. In net present value (NPV) terms, the savings amount to €60 million of net debt reduction. A portion of these fiscal savings will be allocated to the construction of new schools.

The swap-cum-liability management operation is part of a World Bank €800m operation, which includes, in addition to the €240 million policy-based guarantee (PBG), another €260 million guarantee to support raising a sustainability-linked loan to finance Cote D'Ivoire's green transition, and €300 millions of direct budget support.



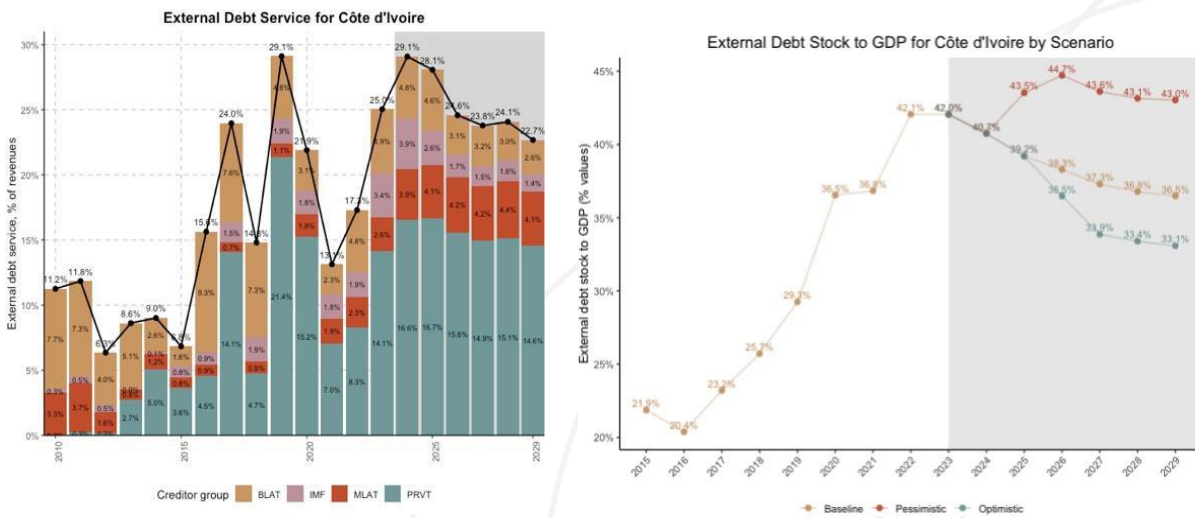
*Not covered in this paper

1. How financially valuable is the PBG?

We first examine the financial aspect of the LMO, setting aside how it may have influenced the market interest rate facing RCI - this investigation will be addressed in section 3 under the guise of economic gains. The financial gains focus on two main aspects: first, smoothing the country's debt profile; and second, reducing its present value. These objectives can be achieved by decreasing the debt stock, lowering interest rates, and/or extending maturity dates and grace periods. The specific targeted old loans are described in the Bank's Board Paper as "maturing between 2029 and 2033, with a total cost of around 8 percent." In contrast, the PBG-backed loan has a lower cost of 6%, with a more favorable maturity of 15 years and a grace period of 6 years grace.¹ The Bank estimates the resulting gains in NPV of debt service at around €60 million, along with a cumulative debt service gain over the next five years of €330 million.²

RCI has prioritized liquidity over present value (PV) gains by retiring near-maturing debt at par instead of longer maturities, which are traded at a greater discount. This decision stems from the fact that similar to many developing countries, the high level of near-term debt service (at 25% of government revenues - see Figure 1) poses a more significant issue for economic growth than the debt stock, which remains relatively low (around 40% of GDP). Importantly, if the reform scenario unfolds as expected, debt ratios should trend downward.

Figure 1. Debt service over revenues, and debt stock over GDP, projected until 2028



Source: International Debt Statistics Oct 2024, World Economic Outlook Oct 2024, Authors projections

This explains the government's focus on reducing the burden of short-term debt service. Had RCI opted to retire debt with a longer maturity, which trades at a heftier discount, the NPV savings would be greater (assuming RCI pays all future claims). For example, we estimate that by retiring the bond maturing in 2040, which was trading at a discount of 83%, an additional €28 million could have been saved (see Table 1).³ But this would come at the cost of less liquidity gains during the next 5-year window.

The operation has desirable features compared to recent debt swaps. It is aligned with the government's

¹ According to the Board document, the loan has an interest cost of 6%, which includes the fee of the guarantee (0.6*0.8=0.48).

² While we do not have more precise information on the retired loans, we use this information to build a base case that produces similar gains, and which we use later for alternative simulations.

³ These are not strictly savings, to the extent that the buyback price reflects a correct valuation of the probability of repayments. Moreover, if the retired bonds are purchased at the ex-post price, CI would be sharing some of the gains in creditworthiness with its creditors - this is the well-known boondoggle effect (Bulow and Rogoff 1988).

own strategy, as the “saved” funds will be used to build 30 additional schools as part of an ongoing school expansion program.⁴ Recent debt swaps have faced criticism for their costly legal frameworks, particularly due to the utilization of Special Purpose Vehicles (SPVs), which resulted in substantial transaction costs.⁵ Instead, the operation employs the country’s own management system. Choosing to directly finance the government, without utilizing external structures like SPVs or trust funds, signals confidence in the government systems.

The key cost not yet considered is the opportunity cost of using the equivalent of a \$240 million loan from IBRD for the LMO. Since the guarantee is financed from a limited country allocation, RCI needs to consider the benefits of using the loan for other purposes, such as for example investing in building more schools. This comparative method for verifying if swaps are desirable is indeed recommended by the Bank’s own swap manual (World Bank 2024). A World Bank loan of \$240 million could finance not just 30, but 120 schools. Whether the liquidity and NPV gains provided by the swap are (or not) more valuable than the additional 90 schools depends on RCI’s intertemporal preferences. The fact that RCI chose the LMO deal signals that while its discount rate is likely to be high (given that it is liquidity-constrained), it is not so high as to consider having less liquidity today in exchange for much less debt service in the near future unattractive. It can be computed that by choosing to use the new loan E400m to retire old debt, rather than for consumption, RCI reveals that its internal discount factor is below 9%.

In sum, the PBG-backed LMO deal provides RCI with important gains, assuming it will repay all loans in full. Compared to its situation without the operation, it ends up with a lower external debt, reduced debt service obligations during the challenging next five years, and, to top it all off, some additional schools. Furthermore, it achieves these benefits using its own country system at low transaction costs. The size of the benefits is significant in relation to the World Bank guarantee, indicating a high rate of return on the investment operation.⁶

⁴ This is valuable, especially as RCI ranks below average for sub-Saharan Africa on the Human Capital Index and needs to build 20 000 additional classrooms by 2030, according to its National Development Plan 2021-2025 (RCI, 2020a), and its Vision 2030 (RCI, 2020b).

⁵ A notable example of high cost is the case of the Belize 2021 Debt-For-Nature swap, which used a new loan of \$364m to retire old debt at 55% discount, and incurred transaction costs of \$85 million (Padin-Dujon 2023)

⁶ Using a discount rate of 7% for example, the operation has an estimated rate of return of 15%.

2. What is the financial contribution of the PBG?

While the LMO seems quite valuable, one still needs to explore whether the PBG-backed private loan was the best way to finance it. RCI could have financed its new loan through other means – it could have borrowed directly from the market without a World Bank PBG, and it could alternatively have borrowed the loan-equivalent amount of the guarantee directly from the World Bank. A comparison of the various alternatives, given the market pricing of RCI claims, clarifies the specific contribution of the PBG. Hence, two alternative scenarios, detailed in Annex 2, are constructed for counterfactual. In this assessment, we will see that the loan-cum-PBG does only dominates the other options when it gets subsidized by the World Bank.

The first comparison indicates that the PBG-backed loan produced a larger financial gain compared to a plain market loan. Based on RCI's recent market borrowing, we can estimate that the cost of a market loan without PBG would be around 7% at the time of the swap, which is about 100 basis points more than the PBG-backed loan (see Annex for details). This allows us to estimate that an LMO financed by a plain vanilla RCI-issued loan, without a PBG, would have generated an NPV gain of €33 million only, instead of the €60 million generated by the PBG-backed swap (Table 1).

But RCI also had other options. It could have borrowed a blend of a €240 million World Bank loan at the low IBRD rate and a non-guaranteed €160 million loan at the market rate.⁷ The current IBRD rate for a 10-15-year fixed-rate Euro loan is 4.50%.⁸ RCI's recent 15-year Eurobond cost is 7%, as noted above. The combination has a cost of 5.68 % $[(0.6 * 4.80) + (0.4 * 7.00)]$. This is slightly cheaper than the PBG-backed loan of 6%. Retiring old debt with this blended loan would yield savings of €69 million (Table 1). Thus, the PBG brings less financial value compared to a plain IBRD loan. This “value erosion” has been a traditional concern with contingent bond instruments (BIS 2022), and specifically with PBGs (Rothschild 2016, IEG 2016). The recent IEG review of 2016 found that “for countries with market access, the PBG at best lowers borrowing rates in proportion to the PBG, while in most cases, the uncovered part was at a higher cost than what the country can borrow at, providing some undesirable *erosion in value*.”

The World Bank sought, since 2000, to encourage demand for PBGs by using up only 25% of the guaranteed amount from the country's allocation. To see how this improves demand, consider this third comparison: with the PBG accounted for at only 25%, the alternative to a €240m PGB is a smaller €60m World Bank loan. This changes massively the arithmetic of the alternative blend: it now costs 6.67% $[(0.15 * 4.80) + (0.85 * 7.00)]$ – which is more than the PBG-backed loan. By reducing its opportunity cost, the PBG becomes more attractive to the country, as intended. This, however, also reduces the signaling effect of the LMO significantly: one can compute that since the opportunity cost of the €400m loan is now to only consume €220m $(0.25 * 240 + 160)$, the revealed discount factor that equalizes cost and benefit rises to around 30%. This is still a somewhat useful signal, but clearly not as valuable as a discount factor below 9%, as would happen if, hypothetically, RCI had accepted to use a non-subsidized PBG to back an LMO.

Table 1 brings these results together (see the annex for details). The worst situation is the status quo. An LMO that uses a market loan with no guarantee only slightly improves this situation, yielding a small NPV saving of € 33 million. The blended loan of 15% IBRD and 85% Market produces a gain of €42 million. The PBG-backed loan generates a €60 million gain. Finally, the 60% IBRD and 40% Market blend results in the largest

⁷ The comparison is relevant because the Bank reserves similar amount of its own capital for both alternatives.

⁸ IBRD rate for a 10-15 yrs maturity loan, for group A (to which RCI belongs) = Reference Rate (EURIBOR = 2.50%) + applicable adjustment spread for group A (0.30%) + minimum of 2.00%. See <https://treasury.worldbank.org/en/about/unit/treasury/ibrd-financial-products/lending-rates-and-fees#a>.

gain at €69 million. This indicates that the PBG-backed loan is the best alternative only when it uses 25% of the amount guaranteed from the country's allocation. The liquidity gains are broadly comparable across scenarios, rising slightly when borrowing costs are lower.

These results leave us with a quandary: while the LMO was unambiguously valuable for RCI, the gains would have been even larger using some instruments other than the PBG to finance the new loan used to retire the old expensive debt. We explore below whether PBGs produce additional signaling gains, as has been already suggested in the discussion, potentially adding to their value. We argue that by signaling creditworthiness, they can enable a reduction in the overall market interest rate faced by a debtor country. We conduct an event study to estimate the magnitude of the interest rate decline, finding that the additional gains produced are significant.

Table 1. Comparison of savings for different scenarios - NPV and nominal debt service (€ millions)

Scenarios	NPV all DS	Nominal DS 2025-29	Interest rate
PV cost and debt service of different loans			
1.. Retired loans (pre-LM0)	€ 386	€ 447	9.00%
2.. CI 6.875 2040 bond (pre-LM0)	€ 413	€ 165	6.875%
3.. PBG-backed loan	€ 325	€ 120	6.00%
4.. Hypothetical commercial loan (w/o guarantee)	€ 352	€ 140	7.00%
5.. Blended borrowing: 60 IBRD/40 market	€ 316	€ 114	5.68%
6.. Blended borrowing: 15 IBRD/85 market	€ 343	€ 133	6.67%
Net savings relative to status-quo			
LMO-PBG deal (1-3)	€ 60	€ 327	
Commercial swap (1-4)	€ 33	€ 307	
Blended borrowing 60/40 (1-5)	€ 69	€ 333	
Blended borrowing 15/85 (1-6)	€ 42	€ 313	
D4D if instead swapped with 2040 bond(2-3)	€ 88	€ 45	

Source: Authors computations, see Annex for details

3. What is the economic contribution of the PBG?

World Bank Development Policy Operations (DPO), like IMF programs, aim to play a catalytic role by overcoming information asymmetries and providing a stamp of approval. Indeed, their stated goal is to help debtor countries affected by shocks return to the market after stabilizing the economy and adapting it to new conditions. A recent paper by the IMF's Independent Evaluation Office (Kogan et al., 2024) shows that, on average, IMF programs reduce country spreads by half over a four-year period. The World Bank DPO-cum-PBG might successfully play such a role, especially since it is the largest investment in RCI, following two smaller DPOs in the past three years (at €400 million in 2022 and €300 million in 2023). The IMF had heavily supported the country's reform program with a \$3.5 billion EFF/ECF 40-Month Arrangement, agreed upon in April 2023 (it also provided a \$1.3 billion RSF in March 2024). Compared to the Fund, the World Bank DPO's value-added may signal that the national program encourages improvements in social and environmental sustainability.

The large operations of the IFIs are likely to act as signal of their confidence that the national reform program would successfully reduce sovereign risk over time (Claessens and Diwan 1989, Diwan and Rodrik 1992). Both the World Bank and the IMF are eager to avoid lending to countries with risky debt. Indeed, both institutions incorporate Debt Sustainability Analysis into their documentation, transparently demonstrating how the reforms underwritten by their operations will lead to improved debt sustainability. Signaling to the international financial markets a change in confidence through providing (more) support upfront should be particularly valuable for RCI, given that its budget deficit averaged 6% of GDP over the past three years, alongside a rapid rise in external debt (from 30% to 36% of GDP). The Bank's new DPO, aligned with the IMF program, includes commitments to reduce the fiscal deficit and lower debt ratios over time - though improvements in external debt ratios are not anticipated before 2026. Importantly, it complements IMF conditionality by focusing on measures to enhance growth (by strengthening competition), build social resilience (by expanding equitable access to health and education), and foster the sustainable use of natural resources. The strength of DPOs as a signal is, however, weakened by two factors: the IFIs tend to be treated as senior claimants, and as a result, they do not have too much to lose if their assessment of debt sustainability proves wrong; and moreover, their conditionality may not stick, as impoverished countries may prefer at the end to consume rather than invest the borrowed resources.

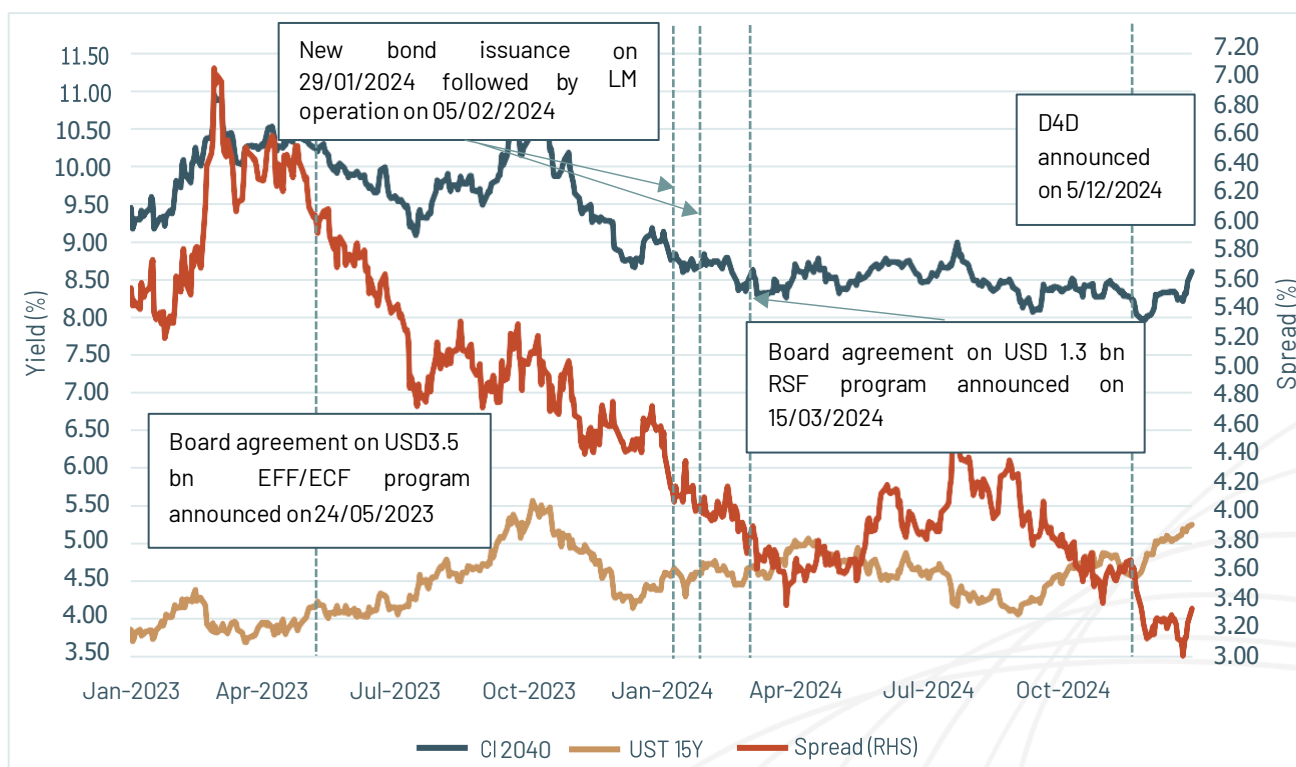
We argue that a well-structured PBG-cum-LMO can amplify the credibility of the signal emitted by the DPO. To recall, signaling is useful in the context of asymmetric information, when a "good" country (in the sense of one willing to undertake costly actions today that would improve its creditworthiness in the future) wants to distinguish itself from a "bad" one (Spence 1978). For a signal to be credible, it must be too costly for a "bad" country to gain by mimicking a "good" one. Here, the signal becomes credible through the expenditure of fungible resources on the alleviation of medium-term liquidity pressure, rather than on domestic absorption (as in Acharya and Diwan 1993). The credibility of the signal rests on the fact that a "bad" debtor, who believes it may ultimately default, would not want to spend scarce borrowed resources rearranging its debt service profile - it would prefer to allocate these funds to domestic expenditures that yield more immediate political gains, such as consumption subsidies, public infrastructure, or domestic debt repayment, which allows for more funds to flow to the private sector.

This hypothesis seems confirmed by the market's seemingly positive reaction to the LMO. In Figure 2, we observe the spread between the 2040 RCI bond and the \$15-year Treasury. The comparison before and after suggests a decrease in the spread of about 60 basis points around the event. This change is comparable to the impact of the previous DPO in 2023, when spreads fell by 68 points (see Table 2).

It is, however, incorrect to attribute the whole recent decline to the LMO alone. Indeed, starting in mid-

2023, RCI's yields have been on a gradual downward trajectory -- the spread over the US Treasury rate of its 2040 bond fell from 670 basis points in mid-2023 to around 300 in early 2025. When RCI re-entered the market in February 2024, after a two-year hiatus due to the market shutdown, it borrowed at a spread of 430 basis points. Today, after the Bank's DPO/PBG, RCI's spread, is thus basically back to pre-crisis levels. Furthermore, as Table 2 below suggests, the IMF program, as well as World Bank DPOs, accompanied this decline.

Figure 2. Yield on CIEUR-denominated Eurobond maturing in about 15 years



Source: Refinitiv

The main challenge in conducting an event study is accounting for the regional and global factors that also influence spreads. The existence of a regional trend among neighboring countries is evident in Figure A2, which illustrates a downward movement in the spreads of all comparator countries after they peaked in 2023. RCI outperformed in relation to that trend. Since mid-2023, the spread for Senegal has decreased from about 5% to 4%, while those for Nigeria and Kenya have dropped from around 6% to 5%. Consequently, although all yields have fallen, those for CI shifted from a Senegal level to a South Africa level (see Figure A2). Without going as far as developing a synthetic-control comparator based on econometrics, as done in Lang et al. 2023, we built an index of the main RCI peers to which we compare its performance. As shown in the last column of Table 2, there are fewer events that result in significant gains.⁹ These include the IMF's EEF, the WB 2023 DPO, and the most recent 2024 DPO/PBG, as well as CI's LMO management for 2024. These four events account for half of the gains in spread since early 2024.¹⁰ The effects of the IMF-EEF and the WB's first DPO are estimated to have led to gains of about 50 bps each. The estimated gain generated by the DPO/PBG is more modest, at 32 bps, which is close to that of RCI's self-financed LMO from early 2024 (36 bps).¹¹

⁹ As peers, we picked all African countries with outstanding Eurobonds that had like RCI a non-investment grade speculative (BB- to BB+) rating in 2023. The group consists of Senegal, South Africa, Benin, and Morocco.

¹⁰ In the Annex, Figure A1 shows that the decline in yields is across all of CI's outstanding Eurobonds, with the spread falling between September 2023 to January 2024 by between 200 to 250 bps, depending on the maturities considered.

¹¹ Moreover, at the risk of over-reading the data, it appears that the IMF and own DPO events reduce mostly short term spreads, while those of the WB event affect medium and long-terms leads, as could be expected.

What explains these gains? In sum, RCI benefitted from the DPO/LMO not just in terms of direct savings, but also indirectly, in terms of a lower overall spread on its borrowings. This is unlikely to be due to the improvement in creditworthiness brought about by the reduced NPV of external debt, as the gain on this front was minuscule, at around 0.02% (\$60m/36B). Moreover, the improvement in market rates occurred despite an expected dilution effect, due to the fact that the IBRD/World Bank is more senior, and so it is expected to crowd out some debt-service capacity to private creditors. The logical conclusion is that these gains need to be attributable to the signaling effect of the LMO/PBG operation. The question we are left with is whether the signal could have been stronger, producing a larger effect on RCI's market interest rate, if the design of the guarantee was improved to fit better the needs of the current circumstances.

Table 2. RCI 2040 bond: changes in Spread during a 2-month window around particular events

Date	Event	RCI/ 40	RCI Ex-post spread	RCI v.s Peers
05/04/2023	IMF EEF SFA (\$3.5b)	74.42	6.70	7.46
24/05/2023	IMF EEF Board (\$3.5b)	-86.71	5.78	-49.09
04/10/2023	1st Review ECF/EFF	-37.46	4.97	-3.42
03/11/2023	WB DPO Board (\$300m)	-67.83	4.70	-49.56
05/02/2024	2040 bond & LMO	-30.19	4.33	-36.28
15/03/2024	RST IMF Board (\$1.3 B)	-48.57	3.53	-13.37
08/04/2024	2nd Review ECF/EFF	-23.15	3.82	9.52
10/10/2024	3rd Review ECF/EFF	-83.60	3.67	-28.87
05/12/2024	DPO/PBG WB Board	-59.27	3.25	-32.02

Source: Refinitiv. Spread of peers calculated as the simple average of comparator countries

4. Can PBGs be designed to be more adapted to the current context?

Considering the World Bank's renewed effort to develop a [guarantee platform](#), the key question that arises is whether PBGs can help leverage the Bank's scarce capital more than traditional forms of lending. We address the question below, in the context of LMO operations, and suggest ways to improve the PBGs' design.

Poorer countries have faced significant financial stress in the current high-interest rate environment. This situation has made it more costly to refinance large amortization payments, especially as they have been impacted by a range of external shocks. For many of these countries, comprehensive debt restructuring appears undesirable at this point as their external debt stocks are relatively low (FDL 2024). The problem is that the debt structure of many developing countries was based on a low interest rate. The shock of the past three years requires too rapid an adjustment until rates hopefully come down. Ideally, the Global Financial Safety Net would be capable of refinancing maturities due until global interest rates decrease. However, given the net's inadequacy, various second-best type proposals have emerged to support liquidity-constrained countries. These include the Bridge proposal (Stiglitz et al., 2024), the US-Treasury Pathway proposal (Shambaugh, 2024), and the [IMF and World Bank \(2024\) Three-Pillars Approach](#). All these proposals emphasize improved coordination among the debtor, MDBs, and other creditors.

The RCI operation can be viewed as an application of the WB/IMF approach to illiquid countries, as it includes all the components of their 3-pillar approach: (i) domestic revenue mobilization, which is central to the DPO's conditionality; (ii) support for debt management; and (iii) increased support from IFIs, specifically provided by IBRD's additional resources for an IDA country. In this context, how effective is the operation in alleviating RCI's financial stress? And how replicable is it for countries with similar needs?

Even though this is one of the largest PBGs provided by the WB in recent years, the liquidity gains it generates directly are small in comparison to the total liquidity challenge RCI faces. Our FDL in-house projection model suggests that RCI will owe around \$11B in debt service from 2024 to 2028 - a substantial 25-30% of government revenues, mainly due to significant principal repayment walls. The \$300m of debt service saved by the DPO/PBG over the five years represents only 2.5% of these outlays. Therefore, the direct savings help marginally but do not come close to alleviating the financial challenge facing the country in the next few years.

The improvement in the interest cost facing RCI in the capital market results in a welcome additional gain. The gain of 32 bps that we identified above decreases the cost of refinancing maturities that are due, generating further gains. We project that the cost of refinancing private and bilateral principal coming due during 2025-28 would fall by around \$200m during the period 2025-29. This adds to the direct liquidity gains generated by the LMO. In the larger picture, if the IFIs have managed through their recent operations to help reduce RCI's spread by around 100bps, as we have measured, this would have generated a sizable macro gain, which we can estimate to amount to around \$640 million in lower interest charges during 2025-29. This represents around 10% of the interest due during this period, a significant gain from a macro perspective.

From a signaling perspective, subsidizing the use of PBGs by the Bank seems counter-productive. The total amount of WB loans is limited by its capital base and IDA regular replenishments. This amount is divided into country allocations, using income and performance criteria. Because PBGs are provisioned at 100% of face value, their use does not allow the Bank to increase the size of its lending. However, because they are accounted at 25% of face against a country's allocation, their supply increases the effective country allocation, and thus, this end-up crowding out the allocation to other countries. In effect, current procedures act as a cross-subsidy that advantage the use of PBGs over other loans, and

that distort the established country allocation rules (IEG 2009). More important for our purposes here, while this procedure ends up reducing, artificially, the “value erosion” of PBGs, it at the same time seriously reduces their signaling value and, thus, their ability to produce more substantial economic gains. In our estimates, a non-subsidized PBG signals that the country’s discount factor is below 9%, while when subsidized at 25%, the signal is only that the discount factor is below 30%. A smaller subsidy can keep PBGs relatively attractive yet significantly improve their signaling value.

The main constraint to signaling creditworthiness, in the end, in countries suffering from illiquidity is these countries’ effective political capacity and willingness to launch ambitious adjustment programs.

World Bank rules state that PBGs can be extended to countries that have a low or modest risk of debt distress.¹² The challenge, from a signaling perspective, is to convince illiquid countries to use their scarce World Bank country allocation to finance LMOs. This requires countries to accept short-term sacrifices – not using these resources for investments and expenditures at home – for longer-term benefits, avoiding debt service bunching and a higher risk of default down the line. This points out that, ultimately, the least replicable factor is a country’s willingness to muster and demonstrate convincingly to its creditors the political will and capacity to launch a strong adjustment program at a short-term cost, with benefits only accruing over time. But unless instruments, such as PBGs, to support this willingness are offered in support of reformist ambition, ambitious leaders would have no choice but to give in to the short-term incentives generated by illiquidity.

Another reform proposal is to enhance the leverage created by PBGs by lowering the amount the World Bank reserves against such guarantees. The reasoning provided by the Bank’s risk managers for maintaining the 100% reserving is that the risk of a guarantee being called is equivalent to the risk of a loan going into default. However, in comparing guarantees with loans, the former are unfunded – that is, the MDB needs liquidity only if the guarantee is called, while the resources for a loan must be raised and paid out in all instances. As highlighted by an ODI review (Humphrey & Prizzon, 2014), lower reserving would be justified on this basis.

There may be other areas where improvements are necessary. PBGs offered by the Bank have a long and checkered history (IEG 2009). The first large operation of this kind in Argentina in 2000 ended poorly, as the country defaulted in 2001 and called upon the guarantee (Guzman 2020). While a few other operations were completed around that time, the Argentina debacle effectively sidelined the instrument for a period. A new wave of activity emerged during the Euro crisis of 2010, including operations in the Western Balkans (Serbia, Montenegro, Macedonia). Another set followed in 2015–16, with PBGs extended to Albania, Angola, Ghana, and Pakistan. By this time, \$4B in PBGs remained outstanding. The IEG review of 2016 concluded that for a PBG to enhance market terms, conditionality needed to be more effective at reducing the risk of insolvency. The content of the RCI budget support operation suggests that the Bank has taken this message to heart, particularly as conditionality became more focused on measures to improve inclusivity and sustainability.

It is unclear if the new generation of PBGs has resolved the problems associated with the previous generation, highlighted by the recent Ghana default. The previous guarantees could not be accelerated, meaning they only repaid amounts according to the original debt schedule as long as the debt instrument remained in place. These conditions led to two areas of legal “fuzziness” (Weidemaier, Panizza, & Gulati 2022). First, if the loan is accelerated and placed in the debt restructuring perimeter due to the presence of a super-majority CAC, it is exchanged for a new, lower-value bond, seemingly destroying the PBG. In this scenario, the insured lenders suffer as much of a loss as those who are uninsured. Conversely, if the bond remains outside the perimeter, the

¹² In 2015, a waiver from the Board was provided to allow for the World Bank to issue a guarantee for Ghana, a country deemed at high risk of debt distress at the time. Since this ended badly, one does not expect more waivers to be provided in the coming period.

World Bank will service the bond according to the old schedule if the country defaults. Once the debt restructuring process concludes and the country resumes payments, it is serviced once more. Consequently, the partially insured bondholders end up fully protected. In contrast, since the payout amounts become a senior World Bank loan, the other creditors face a tighter DSA. The documentation provided for the RCI operation does not clarify if and how these potential problems have been addressed.

Conclusion

The note examined the recent liability management operation (LMO) in Côte d'Ivoire, which uses a new loan backed by a World Bank policy-based guarantee (PBG) to retire expensive old loans. Our goal has been to explore the potential opportunities for development gains offered by the World Bank's upgrade of its policy-based guarantees.

Our evaluation of the LMO indicates that it benefited RCI if its discount factor stood below 30%, which is very likely to be the case. The reason is that the PBG supported a relatively inexpensive loan, which instead of financing domestic expenditures, was used to eliminate costly old debt. Moreover, the swap aspect of the operation was much better structured than recent debt swaps executed in Barbados, Gabon, Ecuador, or Belize. This is due to the following factors: transaction costs were limited, as there was no need to construct a legally expensive SPV or to monitor over a long period that the public commitments were respected; it supported a project selected by the state rather than by an external NGO; and it used country systems, thereby avoiding the costly services of an NGO to deliver new services.

The main focus of the analysis, however, was on the intrinsic value of the World Bank's PBGs. We used two approaches to evaluating the value of the PBG: a financial view (holding RCI's market yield constant), and an economic perspective, which looks at its impact on RCI's cost of finance on international financial markets.

The market continues to misprice PBGs. A guaranteed loan remains more expensive than an equivalent blend of IBRD and market loans. The mispricing in the case of RCI is small and probably related to the legal weaknesses that continue to plague these instruments, along with a lack of transparency that would enable the market to price them more accurately. Reforms to the legal rules related to acceleration in the event of a default, for instance, might improve their market pricing. To make PBGs more attractive, the World Bank "subsidizes" them by reducing countries' allocations by only a quarter of the guaranteed amount, even though it reserves these at 100% of the nominal value, as with normal loans. It is unclear why the Bank favors PBGs at the expense of normal loans, as this reduces its overall ability to lend.

The economic benefits of the LMO were found to be modest, resulting in an estimated reduction of interest rates of about 30 basis points. We argue that the additional indirect gains of the LMO is due to its effect in signaling creditworthiness. A country with a high risk of default would likely prefer to use proceeds from new loans for domestic spending rather than for rearranging its future liabilities. The positive economic gains come from the cheaper refinancing of the maturity walls they face. Only countries with a determination to grow out of its debt problem would choose to give up spending today in order to enhance their creditworthiness in the future. Conceptually, the LMO signal can amplify considerably the stamp of approval given by budget support from the World Bank and IMF if it is properly designed

It is important to clarify whether the goal of PBGs is to generate financial or economic gains, to be able to design them in ways that maximize their effectiveness. Our main conclusion is that the way PBGs are designed needs to be improved in two ways to strengthen their effectiveness:

- First, paradoxically, their signaling value can be enhanced if they become more costly to the debtor countries, such as by costing them a larger share of their country allocation than is currently the case.
- Second, World Bank capital can be leveraged further if their provisioning is reduced, in line with their smaller liquidity needs, compared to normal loans.

The main difficulty in scaling up RCI-like operations to other countries that seek to reduce their interest rates lies in convincing these nations to utilize their World Bank allocations to finance LMO-supported PBGs. Fundamentally, these operations benefit only those countries that have the political courage to launch ambitious reform programs. Moreover, more generous financing of recovery programs and a quicker market response would motivate political leaders in affected countries to scale up their ambitions and undertake more comprehensive stabilization and recovery programs.

Annex 1: Chronology and Yields

- Dec 13 2024: IMF Executive Board Completes the Third Reviews of the EFF/ECF Arrangements and the Second Review of the RSF Arrangement and Concludes the 2024 Article IV Consultation
- December 5 2024: Cote d'Ivoire announces D4D
- November 15 2024: WB Third Investment for Growth DPF USD 850m
- October 10 2024: IMF Reaches Staff Level Agreement on the Third Review of the EFF/ECF Arrangements and Second Review of the RSF Arrangement and Concludes the 2024 Article IV Consultation
- June 24 2024: IMF Executive Board Completes the Second Reviews of the EFF/ECF Arrangements and the First Review of the RSF Arrangement
- April 8 2024: IMF Reaches Staff Level Agreement on the Second Review of the EFF/ECF Arrangements and First Review of the RSF Arrangement
- March 15 2024: IMF Executive Board Approves US\$1.3 Billion under the Resilience and Sustainability Facility
- February 16 2024: IMF Staff and Côte d'Ivoire Reach Staff-Level Agreement on Resilience and Sustainability Facility (RSF) of USD 1.3bn
- February 5 2024: Liability Management operation
- January 29 2024: First Bond Issuance after 2 years out of the market
- December 4 2023: IMF Executive Board Completes the First Reviews of the Extended Credit Facility and Extended Fund Facility Arrangements
- November 3 2023: Second WB Investment for Growth DPF: USD 300m
- October 4 2023: IMF Reaches Staff Level Agreement with Côte d'Ivoire on the First Review of the ECF/ECF Arrangement
- May 24 2023: IMF Executive Board Approves US \$3.5 billion Extended Fund Facility and Extended Credit Facility for Côte d'Ivoire
- April 5 2023: IMF Reaches Staff Level Agreement with Côte d'Ivoire on a \$3.5 billion EFF/ECF 40-Month Arrangement
- December 8 2022: First WB Investment for Growth DPO: USD 400m

Figure A1. Comparing the spreads on CI various bonds

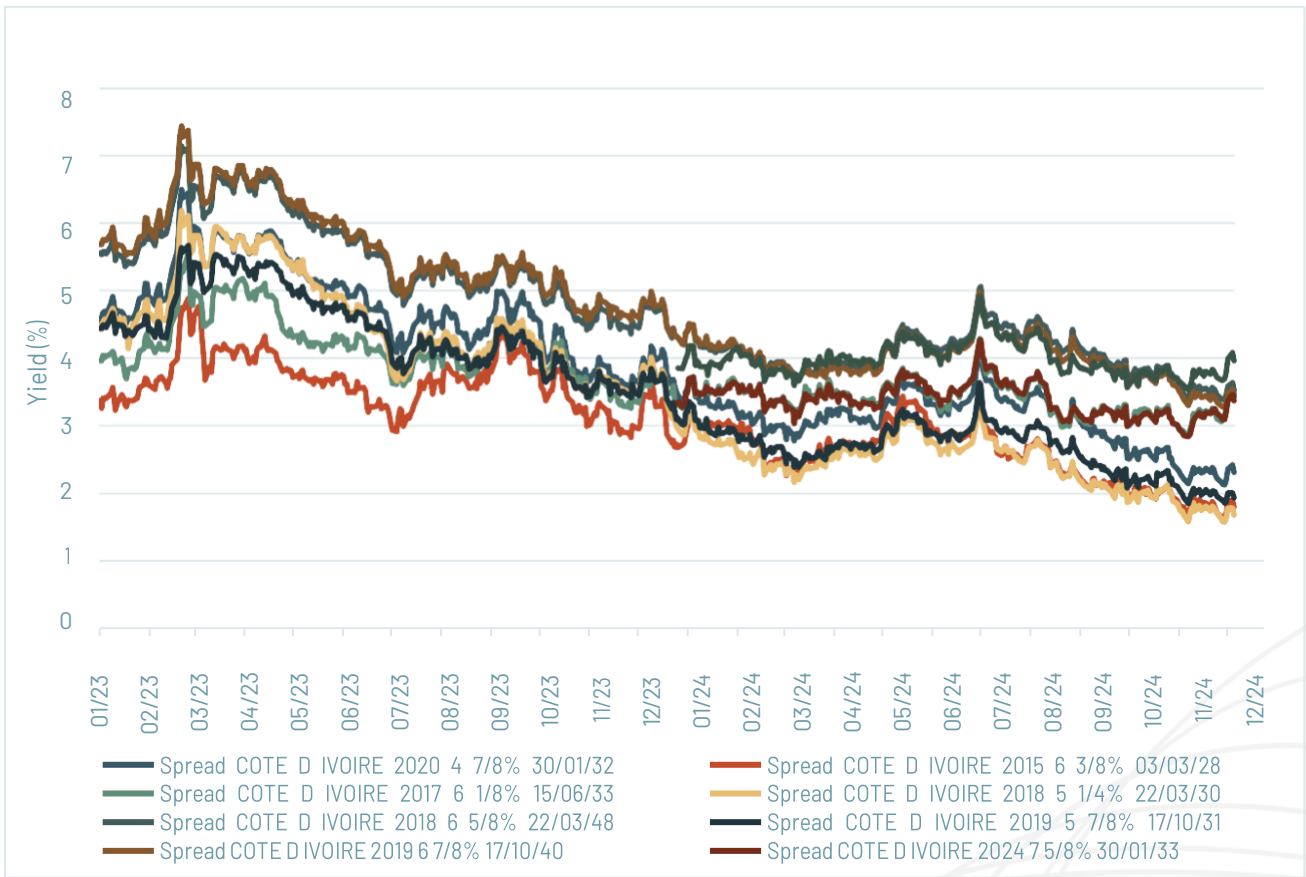
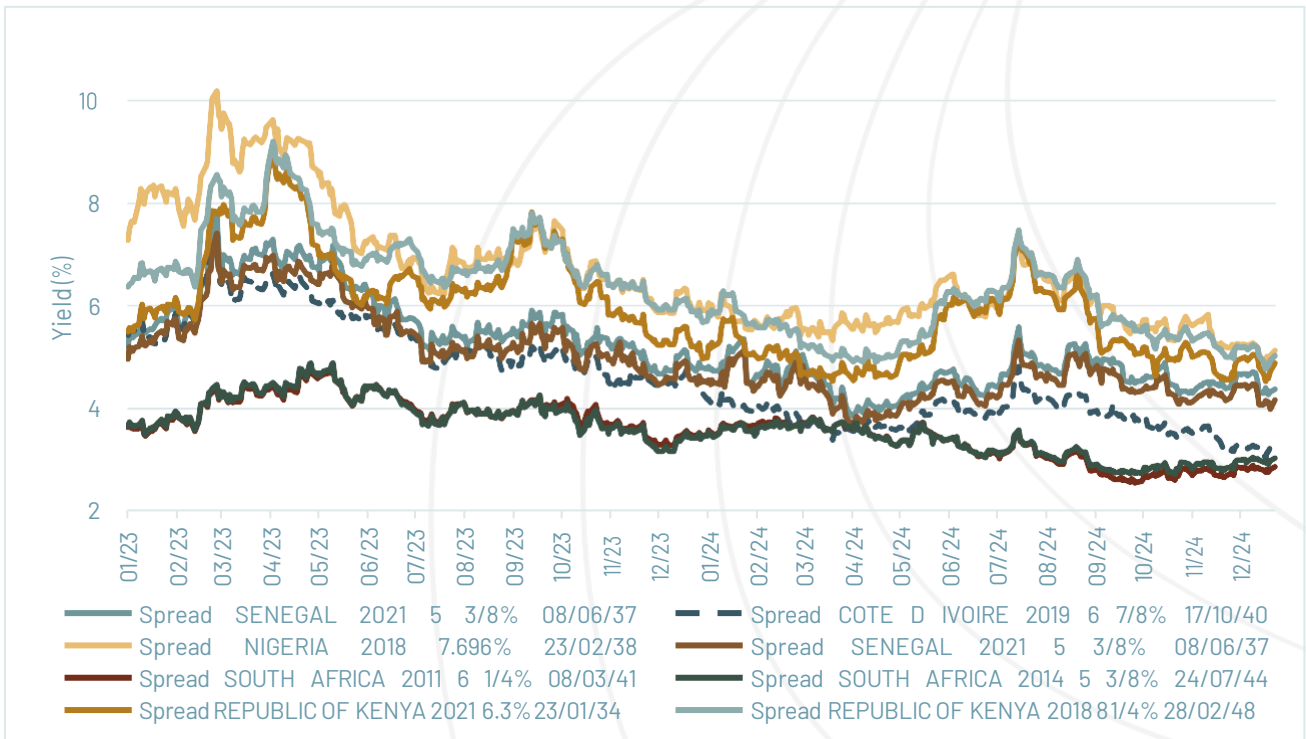


Figure A2. Spreads of comparator countries



Annex 2: Present value computations

Scenarios are compared by computing their NPV, using information communicated by the World Bank, complemented by assumptions we make when needed information cannot be found in the Bank's documentation. The discount rate used is 7.70%.

Scenario	Interest Rate	Maturity	Grace Period	NPV of debt service
Retired loans (pre-swap)	9.00%	2028-2032	None	€ 386
CI 6.875 2040 bond (pre-swap)	6.875%	2040	None	€ 413
PBG-backed loan	6.00%	2040	6 years	€ 325
Hypothetical loan (w/o guarantee)	7.00%	2040	6 years	€ 352
Blended borrowing: 60 IBRD/ 40 market	5.68%	2040	6 years	€ 316
Blended borrowing: 15 IBRD/ 85 market	6.67%	2040	6 years	€ 343

Retired loans

Regarding the €400m retired loans, we assume an average interest rate of 9% as suggested by the WB project document. As the exact structure of the loans are not communicated, amortization was computed retroactively, knowing the exact terms of the new debt, debt service savings in the next 5 years (€330m), NPV savings (€60m) and maturity range (2028-2032).

New loan

The WB assumes a 6% interest rate on the new €400m loan that we split into 1) the guarantee cost of 0.80% (cost of a 15-year guarantee for a group A country) on 60% of the loan 2) 5.52% interest rate on the loan. Thanks to the 6 years grace period, RCI starts paying back the principal in 2031 - which we assume is evenly spread throughout the remaining 10 years (€40m/year).

Commercial loan with no PBG

We estimate the cost of a purely commercial loan, with comparable terms, at 7.00%. This figure is obtained by first taking the effective interest rate (6.85%), after EUR-USD hedge, of the last Eurobond issued by RCI in January 2024 and maturing in 2037 (13 years). To account for changes in the Interest Rate environment we add the evolution of the yield from January 2024 to December 2024 (-5 bps) and of the EUR/USD hedging cost (+20 bps).

Blended loan: Old loan stock vs. blended IBRD/commercial loan (60/40)

The blended mix is constructed by replicating the guarantee mix of the swap: 60% IBRD loan (EUR 240m) at a 4.80% interest rate (the current IBRD rate for 10-15 years fixed rate Euro loan) and 40% purely commercial loan (€160m) at the assumed commercial rate of 7.00%. The structure of the loan is assumed to be the same as the guaranteed loan. The IBRD rate is given by the Reference Rate (EURIBOR = 2.50%), plus the applicable adjustment spread for group A (0.30%), plus a minimum of 2.00%.

Blended loan: Old loan stock vs. blended IBRD/commercial loan (15/85)

The blended mix is assumed to be a 15% IBRD loan (€60m) at a 4.80% interest rate (the current IBRD rate for 10-15 years fixed rate Euro loan) and a 85% purely commercial loan (€340m) at the assumed commercial rate of 7.00%.

The structure of the loan is assumed to be the same as the guaranteed loan.

Swaps of old loans with higher haircut (and longer maturities)

€400m of the CIGV 6.875 17-OCT-2040 Eurobond is used instead of the actual loans retired. It is assumed that the exchange took place at an 83% price (the debt market price at the time of the LMO, in January 2024).

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