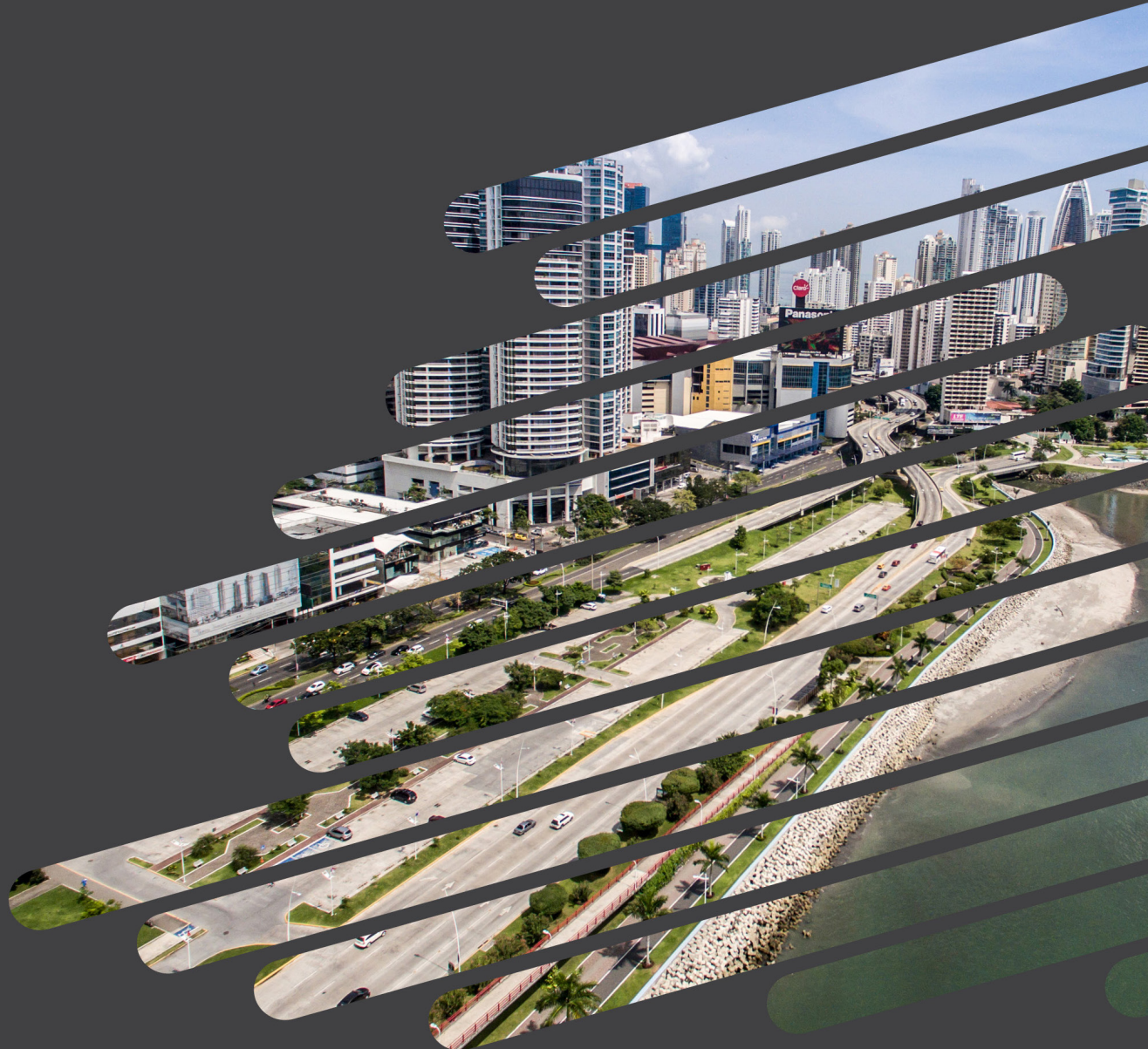




Public Sector Financing: Lending Instruments and Guarantees

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Public Sector Financing

The Inter-American Development Bank (IDB) currently has three lending categories based on the development purpose, eligibility, and disbursement requirements of the loan, as well as the criteria for determining the size of the loan amounts and the financial terms. Each lending category includes different types of lending instruments and approaches. In addition to the three lending categories the IDB can guarantee loans made by private financial sources in public sector projects.

Investment Loans

Finance goods, public works, and services to promote social and economic development or to assist countries in the event of a natural disaster.

Special Development Lending

Provides support in the event of a macroeconomic crisis to mitigate its effects on the countries' economies.

Policy-based Loans

Provide flexible, financing to support policy-based reforms and/or institutional changes in a sector.

Guarantees

Improve financing conditions for projects in Latin America and the Caribbean and target risks so they are shared between the IDB and private lenders.

Investment Loan Instru- ments and Approaches



Instruments

Global Credit Programs

Provide financing for micro, small, and medium-sized companies or subnational entities through first-tier financial institutions.

Loans for Multi-phase Programs

Finance a series of individual operations each of which builds on the previous one in supporting long-term programs that require more than one project cycle.

Loans for Specific Projects

Finance one or more projects with specific objectives and interdependent components.

Multiple Works Programs

Finance groups of works that are similar but which are physically independent of one another.

Project Preparation and Execution Facility

Finances the strengthening of project preparation under the Bank's lending program and provides support to project execution.

Reimbursable Technical Cooperation

Finances the strengthening of technical capacity of countries' institutions.

Results-based Loans

Finance the improvement or execution of development programs, using the countries' procurement systems. Disburses against results.

Instruments for Natural Disasters

Contingent Credit Facility for Natural Disasters

Covers expenditures for restoring basic services to the population following a specific type of natural disaster, with the location and level of intensity of the covered event previously agreed upon contractually.

Immediate Response Facility for Emergencies Caused by Natural Disasters

Covers the immediate expenditures incurred to restore basic services to the population impacted by a natural disaster.

Approaches

Conditional Credit Line for Investment Projects

Finances a series of independent projects involving one or multiple sectors to provide borrowers with timely resources allowing investment programs to have continuity.

Sector-wide Approach Program

Harmonizes the procedures of a project and the interested parties for the development of a sector, strengthening the use of the countries' systems.

For more information visit:

www.iadb.org/en/investmentloan

The IDB offers a series of lending instruments such as investment loans, policy-based loans and guarantees that are adaptable to the needs of each country.

Policy-based Loan Instru- ments and Approaches



Instruments

Multi-tranche Policy-based Loans

Finances multiple reforms based on the condition that each reform (or tranche) has been executed.

Programmatic Policy-based Loans

Finances a framework of reforms or institutional changes to be executed in phases.

Approach

Deferred draw-down option

Allows for the loan resources to be disbursed over a period of three years once the borrower has complied with the agreed-upon policy conditions.

For more information visit:

www.iadb.org/en/policybasedloan



Expansion and Strengthening of
Specialized Health Services in
Ceará, Brazil. (BR-L1177)

Special Development Lending



Instruments

The Special Development Lending (SDL) category is a budget support lending instrument aimed at contributing to address the effects of a macroeconomic crisis on a country's economic and social progress. Through the provision of budgetary support, a special development lending, or SDL:

- Contributes to prevent policy reversals or support further efforts to strengthen a reform process in the social, institutional and economic areas;
- Protects funding for social programs that benefit the poor;
- Supports new efforts to mitigate the effects of the crisis on the poor and vulnerable;
- Protects expenditures in infrastructure;
- Facilitates access of small and medium enterprises to credit, among others.

For more information visit:

[www.iadb.org/en/
specialdevelopmentlending](http://www.iadb.org/en/specialdevelopmentlending)



Montevideo Sanitation Program (PSU IV)
Supplementary Financing, Uruguay
(UR-L1063)

Guarantees

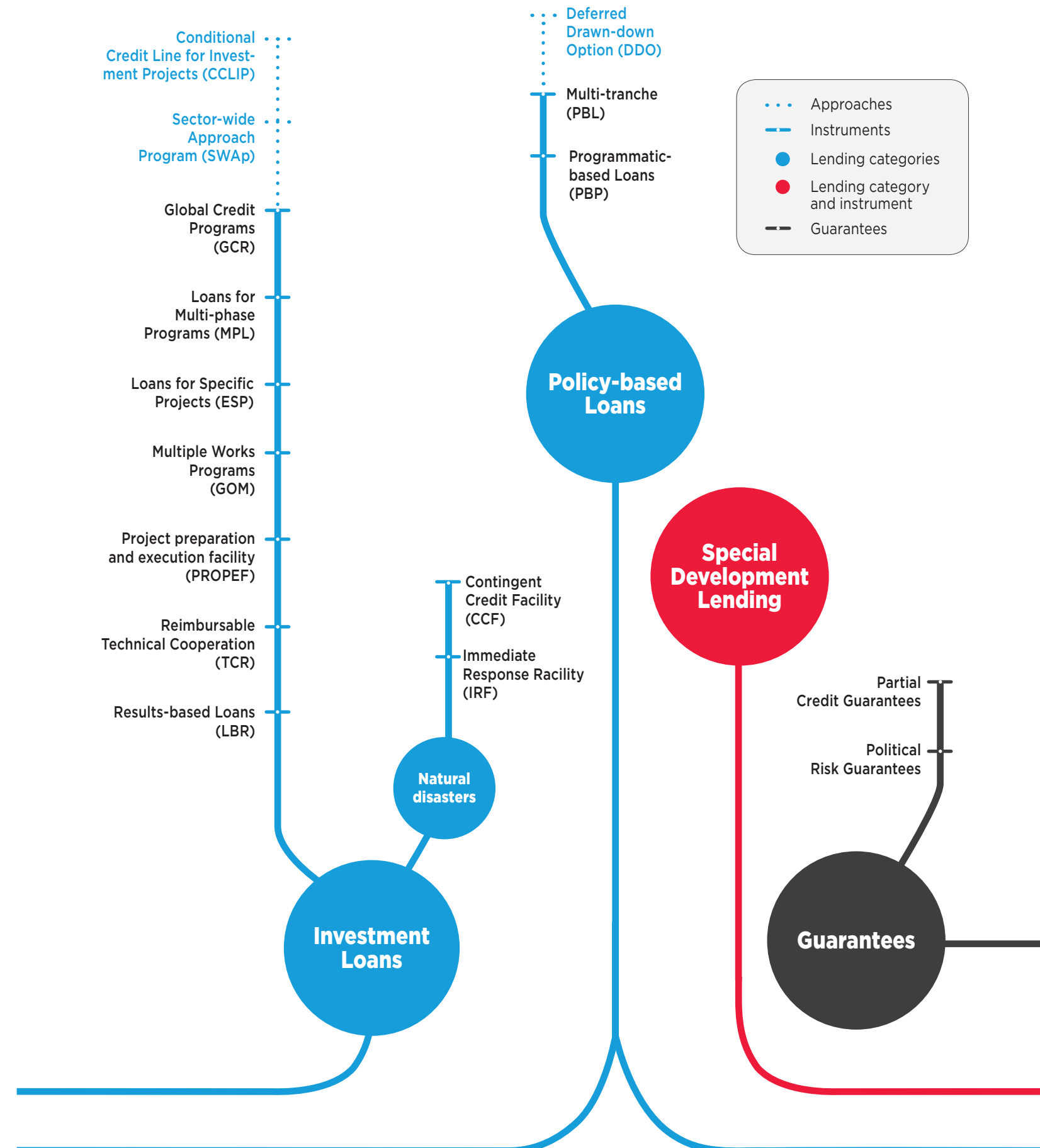


Guarantees seek to improve financing conditions for projects in Latin America and the Caribbean and help attract investment in borrowing countries. They tend to target risks that the private sector is normally not well suited to assess or manage. These guarantees are mostly partial so that the risks are shared between the Bank and private lenders. The IDB offers two types of guarantees in investment lending:

Partial Credit Guarantees cover part (or exceptionally all) the funds provided by financiers, effectively covering risks that might affect their repayment. These are designed to assist governments and their entities in accessing new sources of debt financing with longer maturities than would otherwise be available.

Political Risk Guarantees cover the risk that a sovereign or public entity will not comply with contractual conditions agreed with a private entity such as a bank or investment partner, thus affecting the repayment of the debt to creditors. These guarantees promote greater competition and private sector participation.

For more information visit:
www.iadb.org/en/guarantees



The Inter-American Development Bank is one of the main and long-term financing sources for economic, social and institutional development in Latin America and the Caribbean. Aside from loans, grants and guarantees, the IDB leads cutting-edge research in order to create innovative and sustainable solutions toward the most imminent challenges of the region. Founded in 1959 to help accelerate development on its member countries, the IDB continues to work on improving lives.

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