POLICY BRIEF

How do sovereign debts partially guaranteed by preferred creditors fare in a restructuring?

Anatomy of a Restructuring: The World Bank Ghana 2030 Partially Guaranteed Eurobond

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LAZARD

WHITE & CASE

In memory of Daniel Cohen, with whom we had so many passionate debates about this case.

Summary

Lazard recent Policy Briefs[1] have addressed two important and connected issues in the context of sovereign debt restructurings:

- Sovereign debt restructuring processes have failed to offer prompt resolutions. This has frustrated debtor countries eager to chart a new post-default course, and discouraged other countries plagued with excessive debt burdens from following this seemingly never-ending route.
- Amongst the complications is the concept of “comparability of treatment” between creditors, with some arguing that comparability should not apply to them; and others challenging how comparability should be measured between official and commercial creditors. In this context, we previously raised the issue of a possible glut of “preferred” creditors. This creates the risk of over-subordinating commercial creditors and thus raising the cost of capital, in Africa notably.

This policy brief sheds some light on a complicated case that illustrates some of the problems described above. Ghana, in 2015, was able to raise debt on the Eurobond market (the 2030 Eurobond) *only* thanks to a partial credit guarantee (PCG) extended by the AAA-rated World Bank. Market access improved for a few years and then deteriorated significantly, resulting in the government defaulting on its debt in 2022, including on the 2030 Eurobond. This default raised a few important operational and policy issues.

The case of Ghana’s 2030 Eurobond indeed shows that partial guarantees from Multilateral Development Banks (MDBs), if not well structured, could create inadequate incentives, either delaying a restructuring or imposing a disproportionate burden on the debtor country. This is particularly relevant as many MDBs are, today, rolling out new guarantee products. Together with White & Case, we propose a simple fix that would ensure that partial guarantee instruments can be easily dealt with in restructuring contexts, without affecting their attractiveness *ex ante*. This policy brief also shows how an MDB benefiting from a preferred creditor position can effectively ensure that any restructuring solution is designed to be compatible with the overall objective of restoring debt sustainability for the debtor country. In other words, for an MDB with a strong policy charter, enjoying a preferred creditor position may result in its debt being outside the restructuring perimeter, but not outside the debt resolution process.

[1] Getting Sovereign Debt Restructurings out of the Rut in 2023: Three Concrete Proposals and The Preferred Creditor Status glut – The search for loss absorption in Africa

Key Highlights

- **In 2015, Ghana issued a US$1 billion 2030 Eurobond backed by a US$400 million IDA partial credit guarantee (PCG) covering scheduled interest and principal payments**, restoring market access for Ghana during a period of high-risk premia. At 10.75%, the interest rate on the 2030 Eurobond was, however, very high, possibly reflecting that the market did not fully understand how to price the PCG.

- When Ghana defaulted on its external debt in 2022, the case of the 2030 Eurobond attracted a lot of attention. **The inability to accelerate the guarantee, a feature designed to cover temporary payment interruptions, proved to be ill-suited in the context of a sovereign default** as it created incentives for bondholders to wait to negotiate until the guarantee was exhausted.

- **A negotiated solution, outside of the legal documentation for the 2030 Eurobond, had to be found to avoid undue delays in Ghana's overall restructuring exercise**. This solution involved the termination of the World Bank Guarantee in exchange for an upfront payment from the World Bank representing the present value of future scheduled interest payments under the guarantee. However, to ensure bondholders' support, what was initially a US$1bn debt turned out to be a US$1.4 billion liability for Ghana: the existing US$1billion of nominal amount of the 2030 Eurobond (which was eventually restructured on the same terms as Ghana's other outstanding Eurobonds) and the US$400 million liability[2] to the World Bank as a reimbursement for the amounts paid by the World Bank to bondholders under the PCG (which repayment terms were ultimately set by the World Bank on concessional terms and in line with Ghana's debt sustainability constraints). In other words, the payments made by the World Bank on behalf of Ghana could not be deducted from the principal.

- At a time when the world's major powers are increasingly moving away from aid towards investment to support development, **we believe credit enhancements from the World Bank and other multilateral development banks play an increasingly important, if not essential, role in providing much needed financing to lower and middle-income countries.**

- **However, many of the countries benefiting from such credit enhancements are the countries most likely to experience future debt distress**, and we have learnt from recent restructuring cases that the complexity of a country's financing structure can add materially to the time and cost of resolution. **The lessons from Ghana's 2030 Eurobond teach us that such credit enhancements need to be carefully calibrated to address that potential issue.**

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[2] To be more precise, the additional liability born by Ghana after the restructuring compared to the counterfactual situation where the 2030 Eurobond would not have benefited from the PCG is estimated at around US$286 million (see part III).

- As discussed more fully in this brief, in order to address this complexity and create stronger incentives for creditors to engage, we recommend two primary changes to PCG products – applicable to loans or bonds – to address this complexity. First, we recommend that upon a prolonged sovereign default, the PCG would cover interest payments for a maximum period of 12–18 months (a reasonable timeframe to complete a debt restructuring). Second, we recommend that following this period, the PCG can be accelerated by bondholders, allowing them to recover the remaining portion of their guarantee limit in the form of principal guarantee. **We believe these changes will both support the marketability of PCG-backed financing by ensuring recovery by holders of their investment up to the guarantee limit but will also provide the right incentives for holders to participate constructively in restructuring discussions.**

Part I. Scene Setting: 2015 and a New Type of Capital Markets Instrument

The year 2015 was marked by significant global economic headwinds that shaped investor sentiment. Oil prices had fallen sharply from mid-2014 highs, putting pressure on commodity exporting countries, whose fiscal revenues were heavily reliant on crude exports. Geopolitical risks were elevated following Russia's annexation of Crimea in 2014 and the ongoing conflict in eastern Ukraine, which unsettled global markets and heightened risk aversion. At the same time, China's economy was slowing, with concerns over its growth trajectory and financial stability leading to volatility in emerging market currencies and capital flows. These factors combined to create a challenging environment for frontier and emerging market borrowers, with investors demanding higher risk premium and becoming more selective in their exposure to sovereign debt.

Against this backdrop, the Republic of Ghana was confronted with a challenging macroeconomic and financing environment. Fiscal pressures, high domestic interest rates exceeding 20% and deteriorating debt sustainability indicators had eroded investor confidence. Ghana needed financing, but its access to international capital markets was viewed as impossible, with yields on existing Ghana Eurobonds hovering between 12-15%.

To restore market access and refinance expensive short-term domestic debt, in October Ghana issued a US$1 billion amortizing Eurobond maturing in 2030. But this Eurobond was different from Ghana's previous Eurobonds; in fact, it was different from any Eurobond issued before or since in that it was supported by a partial credit guarantee (PCG) from the AAA-rated International Development Association (IDA) of the World Bank. The PCG covered up to US$400 million — equivalent to 40% of the original principal — of scheduled principal and interest payments (the Guarantee Limit).

The PCG was structured as a first-loss instrument: if Ghana missed any payment of principal or interest, IDA would step in to make the payment, up to the Guarantee Limit. Importantly, while the bond itself could be accelerated upon default, the guarantee could not be accelerated — IDA would continue making payments according to the original schedule until the Guarantee Limit was exhausted.

This structure had several important implications in the market:

- **Improved credit rating and pricing:** Fitch assigned the Bond a rating two notches above Ghana's Long-Term Foreign-Currency Issuer Default Rating (IDR) of 'B', reflecting the potential for higher recovery and the degree of liquidity protection offered by the PCG. This uplift was significant in the context of Ghana's market yields at the time: unsecured Ghana Eurobonds were trading at yields in the low-to-mid double digits, while the enhanced credit profile of the PCG bond allowed Ghana to place the instrument at a 10.75% coupon — still high, but materially lower than the cost of comparable unsecured borrowing.
- **Investor marketing:** The non-accelerable nature of the guarantee was presented as a stabilizing feature, ensuring predictable cash flows even in the event of default.

- **Indemnity Agreement:** Ghana would indemnify IDA for any payments made by IDA under the PCG, a contractual protection for IDA but also one that it was reasonably certain Ghana would perform on even in the event of a default due to the World Bank's preferred creditor status. Even Fitch commented on IDA's preferred creditor status to Ghana, indicating that this was an important feature of the transaction (more on that later).
- **Collective Action Clauses:** The 2030 Eurobond documentation included collective action clauses with aggregation features in line with the two-limb/single-limb ICMA standards, despite Ghana's previous (and post-issuance) bonds not benefitting from any similar guarantee.

This perception of preferred creditor status was important. At the time, some market participants believed that, because Ghana would have to reimburse IDA for all amounts paid under the Indemnity Agreement irrespective of a wider restructuring, Ghana would be less likely to default on this PCG bond than it would on Ghana's other debt. In its rating action report, Fitch[3] noted that it "believes IDA is a preferred creditor to Ghana and its participation provides additional credit support to the transaction." Despite the PCG, and the perception of strength that some in the market attributed to it, the bond was very expensive with a yield of 10.75% (the highest yield Ghana had ever paid in the international capital markets).

The World Bank PCG used for the Ghana 2030 Eurobond was originally designed on the model where the World Bank would guarantee commercial loans directed to project companies. In those contexts, the guarantee is intended to address temporary cash flow interruptions — for example, if a project company experiences an operational incident that halts revenue generation for several months before normal operations resume. Under this model, the guarantee provides liquidity support until the project recovers, after which the borrower resumes scheduled payments. At the time of the issuance of the Ghana PCG Bond, the World Bank had not guaranteed any sovereign bond issuance for almost 15 years (however, the World Bank granted many PCGs on loans over that period).

Due to its relative novel use as a capital markets instrument, bond investors grappled with how to price the PCG Bond. To assist investors, in February 2016 the World Bank published its Financial Solutions Occasional Paper 001/16[4] where it laid out four different methodologies to price a World Bank guaranteed bond. While the four methodologies differed from one another, the fourth method, labelled Recovery Analysis, proved to be the most comprehensive and provided the best guidance for pricing the PCG Bond. The method analyzed the pricing of the bond pursuant to two methods: one simulated the probabilistic bond cash flows received by the Republic of Ghana, based on Ghana's unsecured bond market implied annual probability of default and post-default recovery, and another simulated the World Bank guarantee payout once Ghana has defaulted, assuming the World Bank guarantee pays out until the Guarantee Limit is reached.

[3] Fitch Affirms Ghana's Partially Guaranteed Notes at 'BB-'. Fitch Rating Action. See: https://www.fitchratings.com/research/structured-finance/fitch-affirms-ghana-partially-guaranteed-notes-at-bb-16-05-2019

[4] Pricing Partially Guaranteed Bonds: Valuation of Bonds Benefitting from a World Bank Partial Guarantee. World Bank. February 2016. See: https://openknowledge.worldbank.org/entities/publication/5317eeed-62a7-5e48-a8d2-eb77c9feb8b4

Part II. Restructuring Challenges and the Need for a Middle Ground Solution

In December 2022, Ghana announced a moratorium on most of its external debt service payments to bilateral and commercial creditors. Despite claims at the time that Ghana would be unlikely to ever restructure this bond, the Ghanaian authorities made the decision to include the PCG bond in the perimeter of the external debt restructuring.

The PCG bond quickly attracted significant media attention, with several articles in the *Financial Times* highlighting its unique features and the potential complications it posed[5]. The bond's structure — particularly the PCG — meant that its treatment in the restructuring could have far-reaching consequences for Ghana, its creditors, and the World Bank.

However, there was a snag. The structure of the PCG did not allow for a simple mechanism that would replicate the pricing methodology as laid out by the World Bank in its 2016 paper. If followed, such methodology stipulated that in the event of a default, market investors would be paid the sum of (i) the World Bank $400m payout (spread over four years corresponding to the 2030 Eurobond's existing contractual payment schedule) and (ii) the same recovery as received by all unsecured bondholders. This outcome, however, was not directly achievable as the guarantee structure did not allow for the acceleration of the guarantee once triggered. Besides, it wouldn't make economic sense for bondholders to accelerate the bond until the World Bank $400m guarantee payout was fully exhausted, hence postponing any restructuring discussions until much later in the future.

Based on the legal documentation related to the bond there were two possible restructuring outcomes of the PCG bond. However, these outcomes would either (i) impose a disproportionate burden on Ghana, or (ii) expose the country and the World Bank to large reputational and legal risks.

In a first scenario, with Ghana not servicing any of its bond debt, including the PCG bond, the holders of the PCG bond would ultimately receive $400 million in coupon payments from the World Bank as per the existing bond documentation. In this scenario, the bond would continue to be fully serviced. The PCG would be exhausted in almost four years, i.e. a point in time where one can reasonably assume that Ghana would have completed the restructuring of its external debt (which as we know now, was completed in 2024). At this point, Ghana would be in a very weak position to negotiate the same restructuring terms as in 2024 with the 2030 Eurobond's investors, as defaulting on the bond would cross-default to the rest of Eurobond instruments and would put Ghana in default again[6]. Therefore, one result could have left the 2030 Eurobond investors totally unscathed as Ghana would have no other option than to resume servicing this (relatively) expensive bond once the World Bank guarantee would be exhausted. Arguably, this might have been the intention of the structure in the first place. However, once faced with the reality of what this meant, this outcome would have been acceptable by neither Ghana nor by

[5] See https://www.ft.com/content/34f1198c-6d36-4328-816a-e30a85ada6d7 and https://www.ft.com/content/fa3fddbf-72a7-475d-81f3-22bb68caaea6

[6] We acknowledge that in the event of any delayed restructuring of the 2030 Eurobond, Ghana would have been obligated by the requirement to satisfy comparability of treatment and most-favored creditor provisions included in its restructured bonds.

the World Bank. First, it would set a dangerous precedent whereby the World Bank would de facto fully extend its preferred creditor status to a set of commercial bondholders. Second, it would create a disproportionate burden on the Republic of Ghana, which would have to continue servicing a very expensive bond AND repay the World Bank for the $400 million, as per the Indemnity Agreement.

In a second scenario, utilizing the single-limb CAC provisions, Ghana would propose uniform restructuring terms to all existing bondholders – including the 2030 Eurobond – and, provided it obtained the approval of three-quarters of bondholders, identical restructuring terms would apply to both Ghana's unsecured bonds and its PCG bond[7]. In essence, 2030 holders would recover exactly the same as unsecured creditors, being de facto deprived completely of their PCG as the underlying bond would no longer exist[8]. This restructuring outcome would have certainly exposed the World Bank to potential legal challenges (under the terms of the PCG the consent of the World Bank would have been required to put such a restructuring into effect). It would also severely undermine the credibility of the World Bank's credit enhancement structures as the guarantee would have proven to be worthless.

[7] Given that single limb resolution has never been tested, there would have been a risk of legal challenge had Ghana pursued this path.
[8] This is the type of provision our friend Mitu Gulati, whose class at UVA inspired the writing of this paper, would call a "landmine."

Part III. A Cooperative Solution Found

For reasons that should be apparent, neither of the two scenarios were considered acceptable by Ghana, the World Bank or bondholders, prompting extensive tripartite negotiations to look for a solution outside of the contracts.

1. Termination of the guarantee:

- Subject to Bondholders' consent (pursuant to a single series extraordinary resolution) and following the World Bank's approval, IDA would terminate the guarantee in exchange for an upfront cash payment to bondholders.
- The payment from the World Bank would be equal to the present value of the remaining Guarantee Limit (approximately US$222 million after several payments by the World Bank in accordance with the original payment schedule under the Bond terms[9]), discounted at 5% (the rate used in the IMF–World Bank Debt Sustainability Framework). The payment would not offset any principal amounts due under the 2030 Eurobond.
- This payment was set at US$212 million.

2. Restructuring of the residual claim:

- The outstanding principal claim of US$930 million of the 2030 Eurobond was restructured on the same terms as the principal component of Ghana's other Eurobonds, including giving holders the option to select a "disco" package of new bonds with a 37% principal haircut or a "par" package of long-dated, low coupon new bonds with no haircut on principal.
- As there were no post-default interest amounts on the 2030 Eurobond (these had been covered by IDA under the guarantee), holders did not receive the post-default interest instruments that were allocated to Ghana's unguaranteed bonds.
- Compare this to a counterfactual scenario where the 2030 Eurobond was not guaranteed and would have gone through the restructuring on the same terms as Ghana's other unsecured Eurobonds – in this scenario Ghana would have accumulated approximately US$121 million of post-default interest up until end 2023 (when, under the terms of Ghana's restructuring, its creditors stopped accruing post-default interest), which would not have been covered by any guarantee. In this scenario, the bondholders claim eligible for restructuring would have been US$1.051 billion (based on the then outstanding principal amount of US$930 million on the 2030 Eurobond and US$121 million of accrued interests) and would have been reduced to US$662 million following the applicable 37% haircut. In comparison, the 2030 PCG bond led to a new unsecured (post-haircut) claim of US$586 million (US$930 million reduced by 37%), in addition to the US$362 million liability owed to the World Bank under the Indemnity Agreement. The PCG thus created an additional liability of US$286 million for the Republic of Ghana.

[9] Ghana had bought back US$70m of the 2030 Eurobond prior to the default bringing the outstanding principal to US$930m and reducing the guarantee limit to US$372m. IDA made US$150m of payments from the date of Ghana's default to the settlement date of the restructuring, covering 18 months of interests. The US$222m of guarantee amount remaining was terminated through the consent process, in exchange for the US$212 million upfront payment. The total indemnity between Ghana and the World Bank was thus US$362 million.

3. **Conditional execution and voting mechanics:**
   - The World Bank's payment was contingent on Ghana securing the necessary votes to ensure the full restructuring of the 2030 Eurobond.
   - Under the bond documentation, despite the fact that the acceleration of the PCG required a single series extraordinary resolution to be passed, Ghana provided for the possibility that it could aggregate the votes of the 2030 Eurobondholders on such single series extraordinary resolution with those of the holders of other Eurobonds benefiting from the ICMA CAC provisions for the purpose of meeting the aggregate voting thresholds required under the two-limb CAC provisions. This was provided for as particularly high participation was expected from 2030 Eurobondholders. However, aggregation ended up being unnecessary as participation in the overall restructuring exceeded 96%, comfortably surpassing the required thresholds for the two-limb CAC provisions.
   - Following the World Bank cash payment to bondholders under the PCG, IDA communicated to Ghana the reimbursement terms that would apply. The reimbursement terms were made compatible with Ghana's debt sustainability constraints through a combination of long maturities, grace periods and low interest rates. This new exposure was included in the World Bank's country envelope for Ghana.

Like most restructuring solutions, we know this was a good deal because no one fully got what they wanted. However:

- This solution was sufficient to give holders of the 2030 Eurobond incentives to participate in the restructuring instead of waiting for the guarantee to expire, which had the potential to create a disorderly process and a second restructuring event for Ghana.
- This solution reflected the current and historical trading price differences between standard Ghana Eurobond series and the 2030 guaranteed bond. The solution that was delivered was in line with what the market was pricing on average since the default in 2022.
- It allowed Ghana to achieve debt relief consistent with its overall restructuring framework.
- It avoided reputational damage to the World Bank's guarantee program, particularly following the launch of the Joint Guarantee Platform in July 2024.
- It provided a clean resolution to a complex legal and financial problem without undermining the credibility of partial guarantees in future sovereign issuances.

Part IV. Lessons Learned and Recommendations for Future Guarantee Structures

There are several lessons that can be drawn from this restructuring case.

First, it is important to acknowledge that the issuance of the Ghana's 2030 Eurobond marked a turning point for Ghana's market access. Despite its very high cost, in the years following the 2015 guaranteed bond issuance, Ghana was able to return to the international capital markets and issue unsecured Eurobonds at single-digit coupons between 2016 and 2021 — a sign that the partial guarantee may have helped restore investor confidence and re-establish Ghana's presence in the bond market. Ghana defaulted on its debt later in 2022.

Second, it appeared that the design of the guarantee, while well-suited to loans in the context of project finance, was not adequate for sovereign default situations. In the case of Ghana, the guarantee couldn't be accelerated, meaning that once triggered, the guarantor (IDA) would continue making scheduled payments according to the original timetable until the Guarantee Limit was exhausted. While designed to minimize the risk of a default, once the decision was made to include the PCG bond in the restructuring perimeter the inability to accelerate created incentives for holders of the guaranteed bond to wait for four years until the guarantee was fully paid out rather than agreeing to an early restructuring, something that could have materially delayed the completion of the restructuring exercise. In the end, while a solution was found, Ghana could not offset any of the World Bank payment under the guarantee against the principal of the 2030 Eurobond.

Third, it illustrated how a preferred creditor can contribute to the restoration of a country's debt sustainability. The Indemnity Agreement between IDA and the Republic of Ghana would have allowed the World Bank to ask for the immediate repayment of the US$362 million that the World Bank covered on behalf of Ghana. That would not have been compatible with Ghana's debt sustainability. The World Bank therefore played its part and agreed to repayment terms that were aligned with its debt sustainability and IMF program parameters.

What can be done? A simple fix.

The Ghana case illustrates that partial guarantee structures can provide much needed market access at a time of liquidity constraint but should be revised to ensure they do not create further impediments to sovereign debt restructurings. Simple solutions exist. We believe that the best reform would be to ensure that (i) in the event of a sovereign default, any partial guarantee should cover only interest payments for a maximum period of 12–18 months; (ii) after that period, the guarantee can be accelerated by holders – since holders of the instrument will no longer receive any interest payments under the guarantee they would have a strong incentive to accelerate their claim; and (iii) any additional payment under the guarantee after the 12–18-month period would cover any loss of principal.

This approach would:

- Align incentives among all parties — the sovereign, bondholders, and the guarantor.
- Ensure that it is not up to the guarantor to decide whether to accelerate.

- Limit any material delays in the restructuring process to a reasonable timeframe (12–18 months after default), which is consistent with the period typically required to complete a sovereign debt restructuring.

- Provide that the impact on investors' pricing should be limited or non-existent given the partial guaranteed nature of the instrument (it does not fundamentally alter the loss given default, especially in contexts of higher interest rates)[10]. Investors should also welcome the fact that it would create more certainty in case of default.

By adopting such provisions, future partial guarantees could continue to provide valuable credit enhancement without undermining the efficiency and timeliness of sovereign debt resolution processes.

We believe that credit enhancements are important tools to help sovereign governments gain market access and provide better funding opportunities. These tools are more important in today's macroeconomic environment than ever. However, they should not just be short-term solutions, and we should learn from the experience of the Ghana World Bank Partial Guarantee.

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[10] The impact of such changes on the pricing of second-loss instruments provided by private parties in some PCG context is unclear as it has never been tested.

Contact Information

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