

# India's largest state bank refinances an IBRD loan via private lenders, with MIGA<sup>1</sup> guarantee

## Highlights

- A pioneering refinancing mechanism by the World Bank Group enabled India's largest state-owned bank, the State Bank of India (SBI), to mobilize private capital for development.
- SBI refinanced \$200 IBRD loan with commercial lenders, backed by a MIGA guarantee, after the completion of the project.
- This "One World Bank Group Approach":  
1) mobilized private capital by derisking investor funds, 2) increased lending capacity for World Bank financing to India, 3) released IBRD resources for other projects and 4) set a scalable precedent for future refinancing initiatives in the renewable energy sector.

## Background

The Government of India has set an ambitious goal to reach carbon neutrality by 2070 and wants a growing share of the country's electricity generation to come from renewable energy to achieve this goal. To meet these targets, India requires approximately \$170 billion annually in green financing - far exceeding the current \$44 billion available from public, multilateral, and private sectors.

In 2016, the IBRD, the World Bank's main lending arm, extended a \$500 million loan to SBI. This loan funded grid-connected rooftop solar photovoltaic systems (GRPV) for commercial and industrial customers across India.

Prior to this program, India had only 500 MW of commercially financed solar rooftops, with the sector considered financially unviable for investors.

The program helped the development of the solar rooftop sector, helped to derisk the sector, made it more bankable and came to a completion in 2023. However, although the program was finished, the loan had another 13 years repayment period left, tying up IBRD's equity. The World Bank Group and the Government of India saw an opportunity to mobilize the private sector



Indian worker installing solar panels on roof of house. Maintenance of photovoltaic panel system. Photo Credit: Adobe Stock - By Gajendra

to invest into the – now bankable – solar rooftop sector, and release IBRD resources for other projects.

## Financial Objectives

- Pilot the refinancing of a portion of SBI's loan in the private sector by reducing risk for the investors.
- Free up a portion of World Bank's lending capacity for India.

## Financial Solution and Outcomes

### Challenge

A team comprising MIGA, Energy GP and WB Treasury approached SBI with the proposal of refinancing a portion of IBRD's existing \$500 million loan with a MIGA guarantee. However, SBI would have to pay a prepayment premium of \$8.5M<sup>2</sup> to IBRD, making the transaction not financially viable for them.

### Financial Solution

The World Bank Group developed a financial structure to enable this transaction, consisting of the following elements:

- SBI will pay the \$8.5M prepayment premium to IBRD.
- MIGA will absorb the \$8.5M prepayment fee paid by SBI to IBRD by discounting its guarantee premium.
- IBRD will pay \$4.55M<sup>3</sup> to MIGA in recognition of the transaction's benefits.

### Outcome

After a year of developing the right financial solution, and obtaining the approval of all the stakeholders, the

<sup>1</sup> Multilateral Investment Guarantee Agency

<sup>2</sup> Compensating for the potential loss of income from the early prepayment.

<sup>3</sup> Estimated based on several factors, including IBRD's capacity to redeploy the released capital for a longer tenor.

\$200 million portion of the loan was refinanced from a syndicate of commercial lenders (Citibank, N.A., Crédit Agricole Corporate and Investment Bank, and Standard Chartered Bank) with a MIGA guarantee signed on April 24, 2024<sup>4</sup>. The 10-year MIGA guarantee, totaling [US\\$317.5 million](#) including principal and interest, provides risk mitigation to the commercial lenders with respect to debt service payment defaults by SBI.

## Benefits of the Transaction

### Freed up IBRD Lending Capacity to India

This refinancing solution is the first example where MIGA and IBRD are working in concert, freeing up \$200 million in lending capacity for IBRD to undertake new initiatives in the country before IBRD reaches its lending limits for India.

### In Line with Country Partnership Framework

The proposed project is consistent with India’s Country Partnership Framework FY18-22 (extended to FY24), in which MIGA’s credit enhancement guarantees for mobilizing private capital and meeting the borrowing requirements of state-owned enterprises for infrastructure projects are explicitly mentioned.

### Proof of Concept for the World Bank

This pilot project proved the concept that refinancing an IBRD loan with private sector was possible. And it helped the World Bank Group identify issues that are paving the way for innovations, which could enable scaling up of future transactions.

### Additional Benefits for India and SBI

The MIGA guarantee reduced the Government of India’s exposure to SBI’s credit risk and eliminated the need for SBI to pay a sovereign guarantee fee to the Indian government for the refinanced amount. Also, it lowered the financing and debt costs for SBI.

*“MIGA-guaranteed refinancing of IBRD loan for operational GRPV systems is a unique deal duly empowering the transformative environmental upgrades in the domestic energy space. This deal has opened a new vista of collaboration in funding, wherein international commercial lenders with MIGA guarantee and banks like SBI are coming together to pioneer the journey towards a greener and better tomorrow.”*

**Challa Sreenivasulu Setty, Chairman of SBI.**

## World Bank Group’s Role

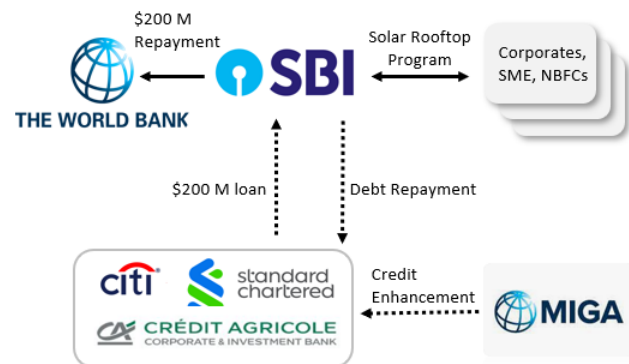
This pilot refinancing transaction reinforced the "One World Bank" mission through collaborative efforts across World Bank Group entities. It also showcased that an “originate to distribute” model, where loans originated by a lender and then refinanced by private

sector investors, will pave the way for innovations that would enable us to scale it up.

- **MIGA** provided the guarantee and reduced its guarantee premium to cover for SBI’s prepayment fees for the IBRD loan.
- **IBRD** designed the financial solution to make the transaction financially viable for SBI by contributing to MIGA’s ability to offer a discount on its guarantee fees.
- **Energy GP** developed a strong rationale for the need to transfer the project to private sector as the solar rooftop sector for commercial and industrial consumers became bankable after project completion.
- **Private Sector Investment Lab** recommended the approach in its advisory capacity to find potential solutions to private investment in developing countries.

As a result of this transaction, the World Bank, as a part of the [broader IBRD pricing reform](#), removed the prepayment fee from its pricing structure on October 15, 2024, making the model even more scalable.

## Transaction Structure



Summary of Financial Terms	
<b>MIGA Guarantee Signing Date</b>	April 24, 2024
<b>Amount</b>	USD 317.5 million (principal and interest)
<b>Term</b>	10 years
<b>Commercial Lenders</b>	Citibank N.A., Crédit Agricole Corporate and Investment Bank, and Standard Chartered Bank
<b>Risk(s)</b>	Non-Honoring of Financial Obligations by a State-Owned Enterprise (NHFO-SOE)

Contact: **Miguel Navarro-Martin**, Manager, Financial Products & Client Solutions, The World Bank Treasury  
 ✉ [mnavarromartin@worldbank.org](mailto:mnavarromartin@worldbank.org) ☎ +1 (202) 458 4722 📍 1225 Connecticut Avenue NW, Washington, D.C., 20433, U.S.A.

<sup>4</sup> The engagement with SBI on the refinancing started on July 2022. October 17, 2024