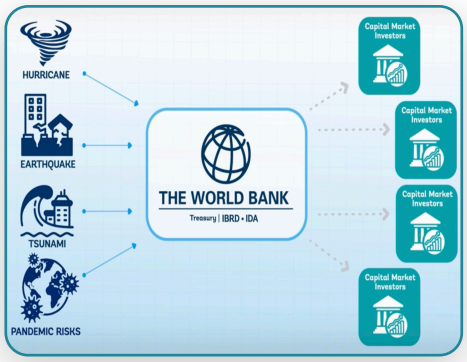
IBRD Development Policy Loan with Catastrophe Deferred Drawdown Option (Cat DDO)

- **A contingent financing line that provides immediate liquidity following a natural catastrophe including natural disasters and public health emergencies caused by a biological event.**
- **Funds become available for disbursement after the drawdown trigger – typically the country's declaration of a state of emergency – is met.**
- **At approval, a country must have an adequate macroeconomic policy framework and a satisfactory program in place to manage risks of natural disasters and public health emergencies, which the Bank will monitor periodically.**

The Development Policy Loan with a Catastrophe Deferred Drawdown Option (DPF Cat DDO) is an IBRD Flexible Loan (IFL) product. It enhances countries' crisis preparedness and prevention through policy and institutional actions as well as the requirement for a satisfactory program for managing related risks, which the Bank monitors during implementation.

The DPF Cat DDO also enhances countries' response to natural catastrophes, as it provides a contingent financing line that offers immediate liquidity to IBRD-eligible (including Blend) countries[1] to address shocks related to natural disasters and public health emergencies caused by a biological event. Approved prior to the disaster, the DPF Cat DDO disburses quickly once the event occurs, the drawdown trigger is met – if the program implementation remains satisfactory. It serves as early budget support while funds from other sources, such as bilateral aid or reconstruction loans, are being mobilized.



The DPF Cat DDO is most effective as part of a broader risk management strategy in countries highly exposed to natural disasters and public health emergencies. The DPF Cat DDO may also be complemented by other risk retention and risk transfer instruments that provide post-disaster liquidity, cover losses, or support reconstruction. Governments determine the mix of disaster risk financing instruments based on an assessment of risks, desired coverage, available budget, and cost efficiency.

Key Features

Access criteria: To access the DPF Cat DDO, the recipients must (i) have an adequate macroeconomic policy framework; and (ii) have a satisfactory program in place to manage risks of natural disasters and public health emergencies. The World Bank will monitor this program periodically. Both criteria must be met at approval and any potential renewals. Additionally, the effectiveness of the program for managing risks of natural disasters and public health emergencies will be continuously assessed throughout the implementation phase. Progress will be measured against established results indicators and the implementation of the reform program. Failure to maintain a satisfactory implementation of the program may result in the suspension of drawdowns.

1 Blend countries also have access to the IDA Cat DDO (refer to terms in IDA CAT-DDO.pdf)

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Country limit: The country limit is set at US$1 billion or 0.5% of GDP (whichever is less).

Drawdown trigger: The DPF Cat DDO has a pre-specified drawdown trigger linked to a natural catastrophe, typically the member country's declaration of a state of emergency.

Drawdown period: The three-year drawdown period may be renewed (with a fee) up to four times, for a maximum of 15 years in total.

Disbursement criteria: Once the drawdown trigger is met, the satisfactory implementation of the reform program supported by the DPF Cat DDO is required. The assessment of the macroeconomic policy framework is not needed at the time of disbursement.

Revolving feature: The DPF Cat DDO also has an optional revolving feature, which means that amounts repaid during the drawdown period are available for subsequent withdrawal.

Repayment schedule: The repayment schedule for the DPF Cat DDO is defined at the time of withdrawal, and compliance with the policy limit of 35 years final maturity and 20 years Average Repayment Maturity (ARM) is also evaluated from the withdrawal date. For some projects addressing Global Challenges with Cross Border Externalities, the maximum loan maturity is extended to up to 50 years and the ARM up to 25 years.

Scale-up Options: An existing DPF Cat DDO can be scaled up with new financing (the Scalable DPF) to allow an increase in disbursements of up to 100 percent of the parent DPF Cat DDO financing amount. A request for a Scalable DPF is subject to (i) compliance with the disbursement conditions for the parent DPF Cat DDO; (ii) due consideration of the availability of IBRD resources and prudential limits; and (iii) an assessment that additional funds needed for disaster response. This additional funding is intended to bridge the gap in situations where the amount available for drawdown in the parent Cat DDO may be small relative to the expected costs associated with the disaster response. An existing DPF Cat DDO may be topped up with up to 10 percent of undisbursed balances across the country's Bank portfolio of Investment Project Financing and Program for Results operations, under the Rapid Response Option (RRO). When the RRO is linked to a DPF Cat DDO, its disbursement conditions are the same as those of the existing DPF Cat DDO.

Pricing

The DPF Cat DDO provides an affordable source of contingent financing for governments to finance recurrent losses caused by a natural catastrophe, including natural disasters and public health emergencies due to a biological event. It has a variable interest rate (market-based reference rate plus a variable spread) that is charged on disbursed and outstanding amounts. Disbursement pricing is determined based on the IBRD pricing policies effective on the date of withdrawal. DPF PRODUCT NOTE Cat DDOs are currently priced at the spread over the reference rate for IBRD loans, comprising the contractual spread, funding cost and maturity premium.

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The calculation of the ARM begins at loan effectiveness for the determination of the applicable maturity premium but at withdrawal for the remaining component. As such, the total spread will be different for each separate disbursement.

In addition, there is a front-end fee of 0.50% on the loan amount and a renewal fee of 0.25% on the undisbursed amount.

The pricing for the Scalable DPF follows regular DPF pricing. There is no additional cost for using the RRO.

For current pricing information, please visit the Treasury website:

http://treasury.worldbank.org/en/about/unit/treasury/ibrd-financial-products

Major Terms & Conditions

Eligibility	All IBRD-eligible borrowers — including Blend countries — are eligible upon meeting approval criteria.
Approval Criteria	The existence of an adequate macroeconomic policy framework and a satisfactory disaster risk management program, including results indicators defined for implementation of the Program that addresses natural disasters, which may include health-related events, are required for approval.
Currency	EUR, JPY, USD, and GBP
Drawdown	Up to the full loan amount is available for disbursement when a natural catastrophe, including a natural disaster and a public health emergency due to a biological event, occurs and when the pre-defined trigger condition is met at any time prior to the loan closing date. Eligibility for drawdown also requires satisfactory implementation of the reform program. The drawdown period may be renewed up to a maximum of four times, for a maximum of 15 years in total.
Repayment Terms	Repayment terms are applicable from the time of drawdown. They must be determined upon commitment and may be modified upon drawdown within prevailing maturity policy limits.
Lending Rate	As in all IFLs, the lending rate consists of a variable market-based reference rate plus a variable spread. The lending rate is reset semi-annually on each interest payment date and applies to interest periods beginning on those dates.
Lending Rate Spread	The spread is variable and consists of IBRD's average cost margin on related funding relative to the applicable reference rate plus IBRD's contractual spread of 0.50% and a maturity premium for loans with average maturities greater than 8 years. The spread is recalculated quarterly and is applicable to all interest rate reset dates on or after each recalculation date. The calculation of the average maturity of DDOs begins at loan effectiveness for the determination of the applicable maturity premium, but the spread level is the IBRD applicable spread at the time of withdrawal.

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Major Terms & Conditions (cont.)

Front-end Fee	0.50% of the loan amount is due within 60 days of the effectiveness date; it may be financed out of loan proceeds.
Renewal Fee	Renewal fee is 0.25% of the undisbursed balance.
Conversion	Options Standard IFL conversions are offered: Currency Conversions, Interest Rate Conversions, Caps, Collars, Conversion Fees.
Other Features Repayment Terms	The country limit is 0.5% of GDP or US$1 billion, whichever is less. Limits for small states are considered on a case-by-case basis.
	Revolving Features (optional): Amounts repaid or prepaid by the borrower are available for drawdown, provided that the closing date has not expired.

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