Investment Project Financing with a Deferred Drawdown Option (IPF-DDO)

Investment Project Financing (IPF) with a Deferred Drawdown Option (DDO) is a credit line that provides timely access to funds for a project or a public institution to ensure the continuity of operations.

Governments around the world are prioritizing risk management

Economic crises or natural disasters can lead to severe and long-lasting impacts on a country's income and poverty levels. This can result in the loss of valuable physical and human resources and undo the country's progress toward development.

Governments have begun implementing measures to enhance their economy's resilience to shocks. One such measure is the implementation of pre-approved loans, which are established before a crisis occurs and can be accessed when needed. These instruments, called contingent credit lines, can provide much-needed liquidity during the most critical phase of the crisis.

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An IPF with a DDO feature can help protect projects or institutions

The World Bank supports clients in managing financial risk via contingent credit lines (see the reverse page for a full range of products). IPF-DDOs can be helpful for clients to shock-proof specific projects or specific public institutions' funds.

Like an insurance policy, the IPF-DDO allows borrowers to immediately access the entire financing amount for specific, pre-defined expenditures for projects or institutions (such as covering the increased cost of hydropower generation) when a pre-defined trigger is met (national declaration of drought conditions).

The IPF-DDO is not a standard WB lending instrument and is approved on a stand-alone basis. Treasury's Financial Products & Client Solutions team can support Operations staff to obtain Management approval and help clients to understand the financial terms of the IPF-DDO.

IPF-DDO Key Features	
Drawdown	• Up to 100% immediate drawdown possible during the drawdown period
Pricing	• Same lending rate as regular IPF loans, but set at drawdown • Average repayment maturity calculated from loan effectiveness • Tailored repayment schedule for each drawdown
Fees and Maturity	• One-time 25 bps front-end fee • 50 bps standby fee on undrawn balance • Fast-disbursing operation for FY23

Investment Project Financing (2)

Possible uses of IPF-DDOs

- **Mitigating impacts of shocks to the banking system.** Backstops the reserves of a Bank Deposit Guarantee Fund[4] to protect depositors' cash from bank failures.
- **Mitigating impacts of weather shocks.** Backstops an energy stabilization fund, financing specific payments to cover increased electricity generation costs in case of a decrease in hydropower generation due to drought.
- **Supporting disaster preparedness.** Backstops a national disaster risk finance or risk pooling fund, financing specific insurance payouts from the fund if a disaster hits and the fund's resources are depleted.
- **Contingent financing for future positive events.** Provides a contingent credit line for an anticipated positive event, for example, for anticipated investment expenditures if a sustainability target is reached.
- **Green transition financing.** Unlocks commercial financing through a financial intermediary for green transition through a risk-sharing program to cover the potential loss and partially mitigate the credit risk exposure of the participating financial institution.

How does the IPF-DDO differ from other contingent financing options?

The World Bank offers a range of contingent financing instruments, such as the Cat-DDO, DPF-DDO, and IPF Project-Based Guarantee.

	Cat-DDO [1]	DPF-DDO [2]	IPF-DDO [3]	IPF Project-Based Guarantee
Financing use	Finances all expenditures through general budget support addressing shocks related to natural disasters and health emergencies.	Finances all expenditures through general budget support.	Finances earmarked investment project expenditures, with financing available to be drawn down upon the occurrence of a prespecified trigger event.	Backstops government obligations to the private sector.
Approval criteria	The borrower must have an adequate macroeconomic policy framework and a satisfactory disaster risk management program in place.	Adequate macroeconomic framework and satisfactory program implementation.	Standard IPF approval considerations, following IPF policy, directives, and guidance.	Standard IPF approval considerations, following IPF policy, directives, and guidance.
Trigger	The Cat DDO has a prespecified drawdown trigger, typically the member country's declaration of a state of emergency or a specific parametric trigger.	For a DPF DDO, the drawdown is available upon the country's request. It is an immediate source of liquidity to respond to economic shocks or other fiscal needs.	Pre-specified triggers established for the particular project; can be a specific parametric trigger, a defined market event or contractual obligation, or another trigger.	Call on the Guarantee by the Private Sector as defined by the Legal Agreement.
Disbursement Expectation	Unknown at the time of Board approval and dependent upon the trigger. Sound macro framework required at approval and renewal, but not for drawdown.	Drawdown is possible at any time during the three-year period.	Unknown at the time of Board approval and dependent upon the trigger/event occurring.	Unknown at the time of Board approval and may be called by the private sector.
Duration	Three years; may be renewed up to four times (IBRD) or once (IDA).	Three years; may be renewed once for an additional three years as set out in the Letter of Development Policy and adequate macroeconomic framework.	Expected project length of up to five years, in line with standard IPF project duration. [May be extended for up to three years for a maximum total of eight years]	Duration depends on the Terms and Conditions of the Guarantee – e.g., 10-20 years.

(1) Cat-DDO Development Policy Loan (DPL) with a Catastrophe Deferred Drawdown Option
(2) DPF-DDO Development Policy Financing (DPF) with a Deferred Drawdown Option
(3) IPF-DDO Investment Project Financing (IPF) with a Deferred Drawdown Option
(4) On December 19, 2022, the World Bank Board of Directors approved a $452 million Investment Project Financing (IPF) with a Deferred Drawdown Option (DDO) for the "Institutional Strengthening and Financial Safety Net Resilience Project (P171039)".

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