



# IBRD Contingent Loans: Enhancements to the Deferred Drawdown Option

As part of its engagement strategy with MICs, on March 4, 2008 the World Bank's Executive Directors approved enhancements to IBRD Deferred Drawdown Option<sup>1</sup> for Development Policy Loans (DPL DDO), and introduced a new instrument, the Catastrophic Risk DDO (CAT DDO). These contingent loans provide borrowers with flexibility in funding their financing requirements (DPL DDO) and enable rapid response to natural disasters (CAT DDO).

## Key Messages on the DDO

Under the **DPL DDO**, the borrower may defer disbursement of a DPL for up to three years, renewable for an additional three years. The loan proceeds may be drawn down at any time during the three year drawdown period unless the Bank has notified the borrower that one of the drawdown conditions (adequate macroeconomic framework and satisfactory program implementation) are not being met. It is intended to provide an immediate source of financing to borrowers as well as a formal basis for continuing a policy-based engagement with the Bank when no immediate need for funding exists.

### DPL DDO enhancements:

- Improved pricing in line with the September 2007 pricing reforms. The DDO is subject to a 0.25% one time front end fee and no commitment fee. Disbursements will be priced at the prevailing interest rate for IBRD loans at the time of drawdown.
- In order to provide greater certainty to the borrower that the funds will be available when needed, the Bank will periodically monitor the borrower's compliance with the drawdown conditions. Funds may be drawn down at any time during the drawdown period and for any reason *unless* the borrower has received prior notification from the Bank that one or more of the drawdown conditions are not being met.
- The repayment schedule may be determined at, and commences from, time of drawdown.

The **CAT DDO** is part of a spectrum of World Bank Group catastrophe financing instruments available to assist borrowers with immediate liquidity following a natural disaster. It is meant to serve as bridge financing, while other sources of financing are mobilized. The borrower is expected to implement a disaster risk management program, which the Bank will monitor on a periodic basis. Funds may be drawn down in the event of a natural disaster resulting in a declaration of a state of emergency.

### CAT DDO features:

- Funds may be drawn down after a natural disaster and upon declaration of state of emergency *unless* the borrower has received prior notification from the Bank that the disaster risk management program is not being implemented in accordance with the agreed framework.
- The maximum amount available under the CAT DDO will be the lesser of 0.25% of GDP or \$500 million.<sup>2</sup>
- Pricing consists of 0.25% front-end fee payable upon loan effectiveness, and the prevailing interest rate for IBRD loans at time of drawdown.
- The CAT DDO has a revolving feature; i.e. amounts repaid during the drawdown period will be available for subsequent drawdowns.
- The three-year drawdown period may be renewed up to four times, for a total maximum drawdown period of 15 years.
- The repayment schedule may be determined at, and commences from, time of drawdown.

### For more information please contact:

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<sup>1</sup> A deferred drawdown option (DDO) or deferred drawdown option for catastrophic risks (Cat DDO) allows a borrower to postpone drawing down a development policy loan (DPL) for a defined drawdown period after the Loan Agreement has been declared effective.

<sup>2</sup> CAT DDO volume limits for small states will be considered on a case by case basis.