

# World Bank's IPF DDO: A Lifeline for Malawi's Essential Commodity Imports

## Highlights:

- Malawi faced significant macro economic challenges that caused shortages for importation of essential commodities, including fertilizers and pharmaceuticals.
- To address the issue, the World Bank deployed its [Investment Project Financing with Deferred Drawdown Option \(IPF DDO\)](#), offering flexible, contingent financing.
- The \$60 million IPF DDO for Malawi de-risks importation of strategic commodities by backstopping guarantee payment obligations of local issuing banks to their correspondent confirming banks.



African Farmer – Malawi, Adobe Stock by Adwo

## Background

Malawi's reliance on subsistence, rain-fed agriculture, makes the country highly vulnerable to recurring climate shocks that frequently trigger health and food insecurity crises. In 2023, the country struggled with foreign exchange shortage, high inflation, and large current account and fiscal deficits. These issues severely hampered Malawi's capacity to import essential commodities like fertilizers and pharmaceuticals.

Malawi's authorities reached out to the World Bank and IMF seeking support to restore a stable and sustainable macroeconomic position. As reforms would take time to show results, an innovative financial solution to enable the importation of essential imports became paramount. The government and the Bank, collaborated on the [De-risking Importation of Strategic Commodities \(DISC\) project](#), to establish a foreign currency trade finance facility for Malawi's commercial banks, with \$60 million contingent financing from IDA.

## Financial Objectives

Secure contingent financing in the unlikely event that local banks default on their payment obligations regarding their letters of credit commitments for the importation of strategic commodities.

## Financial Solution and Outcomes

The World Bank's IPF DDO, an essential component of the [World Bank Group's Crisis Preparedness and Response Toolkit](#), provided the right solution at the right time. The financial instrument provides a contingent credit line that allows borrowers to access pre-arranged financing when specific, pre-defined triggers are met. If unused, the IPF DDO does not increase the debt of the borrower and returns to the country's IDA envelope, thereby allowing for recycling of funds. No other World Bank financing instrument is designed to provide a contingent liquidity backstop.

The IPF DDO grant is designed to reestablish confirming banks' relationships in Malawi (which had diminished considerably due to macroeconomic deterioration) and enhance their risk appetite for letters of credit (LCs) issued by local banks. The structure provides a foreign currency (FX) trade facility to Malawi whereby the World Bank, backing the Ministry of Finance and Economic Affairs (MoFEA), assumes the payment obligations of local issuing banks in the event of default on LC commitments for essential commodities. The funds from the IPF DDO will be disbursed only if a local bank cannot pay for the import of critical commodities at the expiration of the letter of credit (draw down trigger).

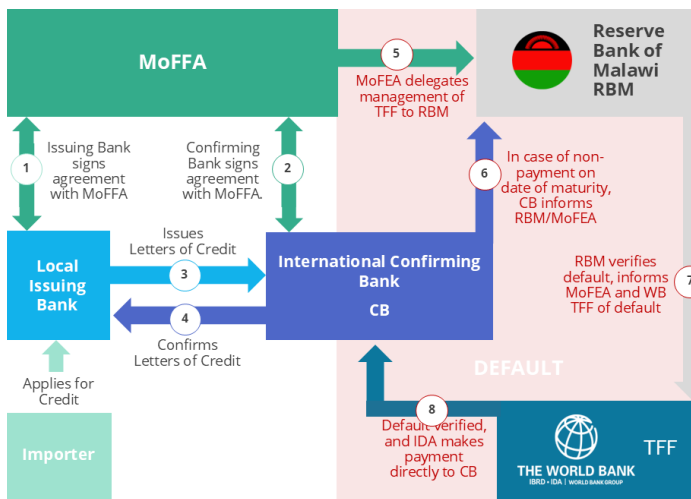
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The IPF DDO has the additional benefit of recycling released funds. When local issuing banks settle their payments on matured letters of credit, earmarked positions are freed up in the contingent financing. These positions can then be reused to backstop new letters of credit, offering a multiplication effect far outnumbering the initial allocation.

Finally, there is another benefit of the IPF DDO under IDA where the total loan amount is only counted 50 percent against the country's Performance Based Allocation envelope. This incentive built into the IPF DDO is designed to be aligned with other types of IDA contingent financing instruments.

In October 2024, the Malawi DISC IPF-DDO successfully initiated the first \$1 million transaction for 1,500 metric tonnes of fertilizer, with an additional pipeline of \$25 million under review to import critical fertilizer for the country, just before the rainy season in Malawi.

## Financial Structure



## World Bank's Role

For this project, units within the Bank collaborated including lead GP Finance, Competitiveness & Investment (FCI), the Country Management Unit, Legal, and Finance and Accounting. Together with the Treasury team, they:

- **Designed the IPF DDO terms and structure** for the project,

- **Conducted market research and stakeholder consultations** regarding the use of the IPF DDO,
- **Collaborated with IDA to implement** the IPF DDO and the related terms (e.g., securing the 50 percent set-aside against the IDA PBA allocation) and fees aligned with other IDA financing (e.g., 0% at the time of signing the projects).

By involving World Bank Treasury early in the conceptualization stage, the project teams can benefit from support in fit-for-purpose financial design and structuring, as well as the flow of funds between various entities of the project.

## About IPF DDO

The IPF DDO instrument complements other risk management tools available to governments, including the government's own budget resources, insurance options, and other World Bank [contingent financing instruments](#) (DPF DDO, Cat DDO) as well as the IPF Project Based Guarantees.

Due to its versatile nature, the IPF DDO product lends itself to multiple uses. It can mitigate shocks to the banking system by backstopping the reserves of a [Bank Deposit Guarantee Fund](#) or alleviate the impact of droughts on an [energy stabilization fund](#). In East Africa, the IPF DDO forms the financial backbone of the Regional Emergency Preparedness and Access to Inclusive Recovery ([REPAIR](#)) program, backstopping the reserves of the Regional Climate Risk Fund.

### Summary of Financial Terms

	Malawi
<b>Approval Date</b>	November 20, 2023
<b>Amount</b>	\$60 million
<b>Financing</b>	Grant
<b>Financial Product:</b>	IPF DDO
<b>Project Period</b>	4 years
<b>Project Link</b>	<a href="#">Malawi DISC pr</a>

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