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PRODUCT NOTE

IBRD Catastrophe Deferred Drawdown Option (Cat DDO)

Highlights

- *A contingent financing line that provides immediate liquidity following a natural disaster, and/or health-related event*
- *Funds become available for disbursement after the drawdown trigger – typically the member country's declaration of a state of emergency – is met*
- *At approval a country must have an adequate macroeconomic policy framework and a satisfactory disaster risk management program in place (or under preparation), which the Bank will monitor periodically*

The Development Policy Loan with a Catastrophe Deferred Drawdown Option (Cat DDO) is an offering in IBRD Flexible Loan (IFL) product, which provides a contingent financing line that provides immediate liquidity to IBRD-eligible (including Blend) countries[1] to address shocks related to natural disasters and/or health-related events. It serves as early financing while funds from other sources such as bilateral aid or reconstruction loans are being mobilized.

Cat DDOs enhance countries' capacity to plan for and manage crises by securing access to financing before disaster strikes. It is approved prior to the disaster and disburses quickly once the event occurs, and the drawdown trigger is met.

The Cat DDO is most effective as part of a broader risk management strategy in countries highly exposed to natural disasters, including health related events. A disaster risk management strategy would typically include a Cat DDO to provide liquidity in the immediate aftermath, or at the onset, of an event. This may also be complemented by other risk transfer instruments that provide immediate 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

Approval criteria: In order to gain access to the Cat DDO, the recipient must (i) have an adequate macroeconomic policy framework; and (ii) be preparing, or already have, a satisfactory disaster risk management program, which the World Bank will monitor on a periodic basis.

Country limit: The country limit is set at US$500 million or 0.25% of GDP (whichever is less).

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

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

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

Repayment schedule: The repayment schedule for the 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)[2] is also evaluated from the withdrawal date.

Pricing

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

The calculation of the ARM begins at loan effectiveness for the determination of the applicable maturity premium, but at withdrawal for the remaining components.

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.

For current pricing information, please visit the Treasury website:

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

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

[2] All Cat DDOs approved in FY22, are subject to a 12-year ARM limit, inclusive of a grace period of up to 5-year.

Major Terms & Conditions	
Eligibility	All IBRD-eligible borrowers — including Blend countries — upon meeting approval criteria
Approval Criteria	• Existence of an adequate macroeconomic policy framework • Preparation, or existence, of a satisfactory disaster risk management program that addresses natural disasters, which may include health-related events
Currency	EUR, JPY, USD and GBP
Drawdown	Up to the full loan amount is available for disbursement upon occurrence of a natural disaster and when the pre-defined trigger condition is met, at any time within three years from loan signing. The drawdown period may be renewed up to a maximum of four times, for a maximum of 15 years in total.
Repayment Terms	Applicable from the time of drawdown. 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 time of withdrawal.
Front-end Fee	0.50% of the loan amount is due within 60 days of effectiveness date; may be financed out of loan proceeds.
Renewal Fee	0.25% of the undisbursed balance
Conversion Options	Standard IFL conversions are offered: Currency Conversions, Interest Rate Conversions, Caps, Collars, Payment Dates, Conversion Fees.
Other Features	Country Limit: Maximum size of 0.25% of GDP or the equivalent of US$500 million, whichever is less. Limits for small states are considered on a case-by-case basis.
	Revolving Features: Amounts repaid or prepaid by the borrower are available for drawdown, provided that the closing date has not expired.

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