Deferred Drawdown Option: Major Terms and Conditions

**Highlights**

- An immediate source of liquidity to respond to economic shocks
- Deferred disbursement of a Development Policy Loan up to three years
- Periodic monitoring of borrower's compliance with drawdown conditions provides greater certainty of availability of funds when needed
- Similar pricing as regular IBRD Loans

The Development Policy Loan (DPL) with a Deferred Drawdown Option (DPL DDO) is a contingent credit line that allows the borrower to rapidly meet its financing requirements following a shortfall in resources due to adverse economic events such as a downturn in economic growth or unfavorable changes in commodity prices or terms of trade. The DPL DDO also provides a formal basis for continuing a policy-based engagement with the World Bank when no immediate need for funding exists.

The DPL DDO is part of a broad spectrum of financing and risk management available from the World Bank Group to help clients manage vulnerabilities.

**Key Features**

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– is not being met.

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.

**Pricing**

Disbursements will be priced at the prevailing spread over the reference rate for IBRD loans – comprising the contractual spread, funding cost, and maturity premium, – at the time of drawdown. The calculation of the average repayment maturity begins at loan effectiveness for the determination of the applicable maturity premium, but at withdrawal for the remaining components of the spread.

In addition to the one time front-end fee of 0.25%, DPL DDOs are subject to a stand-by fee of 0.50% per annum on undisbursed balances, accruing from the date of effectiveness.


**Country Example: Indonesia**

In the midst of the 2008-2009 financial crisis Indonesia used the DPL DDO to support ongoing access to international capital markets. The loan was the largest component in a US$5.5 billion contingent financing facility that helped Indonesia mobilize funding from the capital markets by sending a strong positive signal to international and domestic markets about its available economic strength.

The facility contributed towards improving market sentiment: Indonesia was one of the first countries to issue a bond in the international capital markets during the crisis and got better terms than it would have achieved without the facility. Between September 2008 and March 2009, Indonesia raised more than US$6.3 billion through five bond issuances in the capital markets. The DPL DDO, which was never disbursed, also acted as a back up financing facility, helping to ensure that the Indonesian government had access to resources if markets failed to provide the required financing at a reasonable cost.

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1 A Deferred Drawdown Option allows a borrower to postpone drawing down a Development Policy Loan for a defined drawdown period after the Loan Agreement has been declared effective.
## Major Terms & Conditions

<table>
<thead>
<tr>
<th><strong>Purpose</strong></th>
<th>To provide immediate liquidity when the borrower needs it.</th>
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<tbody>
<tr>
<td><strong>Eligibility</strong></td>
<td>All IBRD-eligible borrowers (upon meeting pre-approval criteria)</td>
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<tr>
<td><strong>Pre-approval Criteria</strong></td>
<td>Appropriate macroeconomic policy framework. Satisfactory implementation of the overall program.</td>
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<td><strong>Currency</strong></td>
<td>Same as regular IBRD loans.</td>
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<td><strong>Tenor</strong></td>
<td>The average repayment maturity of DDOs is limited to 12 years for loan agreements signed after March 5, 2021.</td>
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<td><strong>Drawdown</strong></td>
<td>Up to the full loan amount is available for disbursement at any time within three years from loan signing. Drawdown period may be renewed.</td>
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<td><strong>Repayment Terms</strong></td>
<td>Must be determined upon commitment and may be modified upon drawdown within prevailing maturity policy limits. The repayment schedule will start from the date of drawdown.</td>
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<tr>
<td><strong>Lending Rate</strong></td>
<td>Like regular IBRD loans, the lending rate consists of a variable base rate plus a spread. The lending rate is reset semi-annually, on each interest payment date, and applies to interest periods beginning on those dates. The base rate is the value of the 6-Month LIBOR at the start of an interest period for most currencies, or a recognized commercial bank floating rate reference for others.</td>
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<tr>
<td><strong>Lending Rate Spread</strong></td>
<td>The spread is variable. It consists of IBRD's average cost margin on related funding relative to LIBOR 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 on a quarterly basis. The calculation of the average maturity of DDOs begins at loan effectiveness for the determination of the applicable maturity premium, but at withdrawal for the remaining components of the spread.</td>
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<tr>
<td><strong>Front-end Fee</strong></td>
<td>0.25% of the loan amount is due within 60 days of effectiveness date; may be financed out of the loan proceeds.</td>
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<tr>
<td><strong>Stand-by Fee</strong></td>
<td>0.50% of the undisbursed balance accruing from the date of effectiveness.</td>
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<tr>
<td><strong>Conversion Options and Prepayments</strong></td>
<td>Currency Conversions, Interest Rate Conversions, Caps, Collars, Payment Dates, Conversion Fees are the same as for regular IBRD loans.</td>
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</tbody>
</table>

Download the term sheet for regular IBRD loans: [IBRD Flexible Loan: Major Terms and Conditions](#)