Climate Resilient Debt Clause (CRDC)

Introducing a clause to defer principal and interest payments, and other loan charges to the IBRD Flexible Loan and IDA credits in case of certain natural disasters

Highlights

- Only for small states and small island economies
- Defers principal and interest payments of IBRD loans and IDA credits for up to 2 years in case of certain natural disasters
- Coverage for tropical cyclones/hurricanes and earthquakes

Supporting vulnerable countries against economic shocks, including fiscal crises due to natural disasters, is an important objective for the World Bank. Going forward, borrowers may choose to include in their IBRD loans and IDA credits contractual provisions (CRDC) that permit the borrower to defer principal and/or interest payments of the loan for up to 2 years, following the occurrence of a pre-specified natural disaster. This in turn will free up government resources to finance disaster response and recovery efforts.

Eligibility: CRDCs will be offered to IBRD and IDA-eligible Small State Economies, members of Small States Forum and Small Island Developing States as defined by the UN (See page 2 for the current list of eligible countries) for new loans, and existing loans with a remaining repayment period higher than five years.

Covered Disasters: Event coverage will be limited to tropical cyclones/hurricanes and earthquakes.

Activation of CRDC:

- Borrower will declare a national emergency following the extreme natural disaster event defined in the eligible events for CRDC, and submit a request to the World Bank to exercise the payment deferral. The borrower must be current on its World Bank loan payments at the time of deferral request.
- The World Bank will verify whether the natural disaster meets the relevant thresholds for a hard parametric trigger and/or secondary trigger. If it does, the Bank will activate the CRDC.

Event Triggers:

- Tropical cyclones/hurricanes: The reported maximum sustained windspeed must meet 178km/hour if reported as 1-min average windspeed; or 160km/hour if reported as 10-min average windspeed, which is approximately equivalent to a Category 3 Hurricane in the North Atlantic Basin.
- Earthquakes: The reported moment magnitude (Mw[9]) must be greater than or equal to 7.0 Moment Magnitude; and the reported depth less than or equal to 175km.
- If the above-outlined hard primary triggers are not met, yet the damage is significant (greater than or equal to 10 percent of the country's GDP) secondary triggers will come into effect. The assessment of damages will be based on the World Bank's Global Rapid Post-Disaster Damage Estimation (GRADE) approach.

Deferral duration: A one-time deferral of principal, and/or interest payments and other loan charges for a period of up to 2 years may be made at any time from the first regularly scheduled loan payments up until the date falling 5 years prior to the final loan repayment. The borrower will continue to service interest and applicable charges under the loan, if not included in the deferral.

Adjustments to repayment after the deferral:
After the 2-year deferral, borrower will commence repayment of the deferred principal and/or interest according to an amortization schedule that maintains the (original) average weighted maturity of the loan, and without extending the final maturity date of the loan. Within these parameters, the borrower has the flexibility to tailor, within original financial terms, the repayments to suit their debt management needs and as agreed with the Bank.

Fees: If borrowers choose to include CRDC in a specific new or existing financing agreement, they will be charged a CRDC fee of 5 basis points per annum on the disbursed and outstanding loan balance. This fee will start accruing one year before the first scheduled principal repayment and will continue accruing until the earlier of: (a) deferral option exercise; and (b) 5 years prior to the loan's/credit's final maturity. If the borrower decides to defer interest and other loan charges, as part of the new outstanding balance, it will generate loan interest.

Availability of conversion options: Borrowers who included CRDC in their loan will have access to the regular conversion options provided to World Bank clients, such as interest rate and currency conversions, and interest rate caps/collars. If borrower has an existing conversion in a loan with CRDC, at the time of the deferral, conversion may need to be early terminated or amended, which might result in additional costs to borrowers, and any such costs would not be deferred

List of countries Currently Eligible for CRDCs (including current borrowing terms) 1.16.2024

Countries Currently Classified as Small States by World Bank

Country	World Bank Eligibility
Antigua and Barbuda	IBRD-only
Belize	IBRD-only
Bhutan	Gap
Cabo Verde	Blend
Comoros	IDA-only
Djibouti	Gap
Dominica	Blend
Eswatini	IBRD-only
Fiji	Blend
Grenada	Blend
Guyana	Gap
Kiribati	IDA-only
Maldives	IDA-only
Marshall Islands	IDA-only
Mauritius	IBRD-only
Micronesia, Fed. Sts. Of	IDA-only
Montenegro	IBRD-only
Nauru	IBRD-only
Palau	IBRD-only
Samoa, Independent State of	IDA-only
Sao Tome and Principe	IDA-only
Seychelles	IBRD-only
Solomon Islands	IDA-only
St. Kitts and Nevis	IBRD-only
St. Lucia	Blend
St. Vincent and the Grenadines	Blend
Suriname	IBRD-only
Timor-Leste	Blend
Tonga	IDA-only
Tuvalu	IDA-only
Vanuatu	IDA-only

*Member of SSF † Classified as SIDS

Countries not currently Classified as Small States by World Bank (but part of SSF/SIDS)

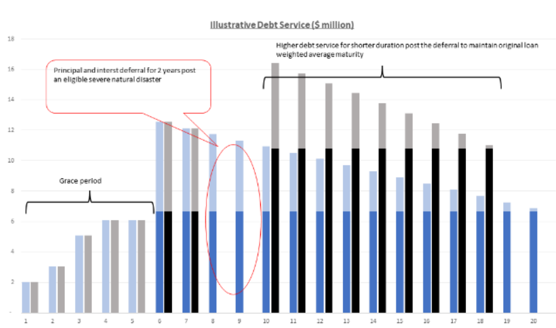
Country	World Bank Eligibility
Botswana*	IBRD-only
Equatorial Guinea*	IBRD-only
Gabon*	IBRD-only
Gambia, The*	IDA-only
Guinea-Bissau* †	IDA-only
Lesotho*	Gap
Namibia*	IBRD-only
Jamaica* †	IBRD-only
Trinidad and Tobago* †	IBRD-only
Dominican Republic†	IBRD-only
Haiti†	Gap
Papua New Guinea†	Blend

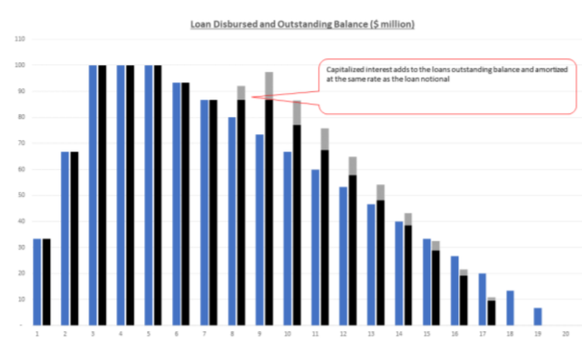
IBRD Graduates with Current Outstanding Exposure

Country
Bahamas, The* †
Barbados* †

Annex 2: Illustrative Borrower Repayments with CRDC

In this illustrative case, borrower a loan with CRDC and an eligible natural disaster occurs that meets the trigger criteria. The principal (and interest) deferral is exercised for years 8 and 9, the borrower could defer the $7 million principal repayment per the original amortization and the $5 million interest payments p.a. scheduled per the outstanding balance. To achieve PV neutrality and maintain the loan's original weighted average maturity of about 13 years, the loan payments post-deferral would be repaid over a shorter timeframe (by 18 years of the remaining maturity instead of the original 20 due to the 2-year deferral period). As the second chart below demonstrates, the loan's outstanding balance, once the deferral is exercised, would increase not just by the principal payments deferred, but also the $10 million deferred interest payments over the 2 years, which will incur the regular loan interest (at 6%).





Contact: Miguel Navarro-Martin, Manager, Financial Products & Client Solutions, The World Bank Treasury
• mnavarromartin@worldbank.org • +1 (202) 458 4722 1225 Connecticut Avenue NW, Washington, D.C., 20433, U.S.A.