1. What is the Climate Resilient Debt Clause (CRDC) and why is it important?

Supporting vulnerable countries against economic shocks, including fiscal crises due to natural disasters, is an important objective for the World Bank. In June 2023, the World Bank announced a suite of new and expanded actions – crisis response toolkit – to help countries respond swiftly and effectively to an ever-growing onslaught of crises. To implement the deferral in loan/credit repayments, the World Bank Board of Executive Directors approved the introduction of the Climate Resilient Debt Clause (CRDC) on September 9, 2023, and broadened its scope on January 18, 2024.

The CRDC enables a Borrower (if the Borrower chooses to opt for its inclusion in financing agreements), to defer the principal and interest payments and other loan charges on new and existing IBRD loans and IDA credits for up to two years following the occurrence of a predefined eligible natural disaster.

By offering the CRDC feature to eligible Borrowers, the World Bank is offering additional crisis response tools to small islands and other small states struck by earthquakes and tropical storms, allowing governments to focus on disaster recovery instead of debt repayment when catastrophes occur.

2. What are the World Bank's considerations in offering CRDC to its eligible Borrowers?

In offering CRDC, the World Bank must strike the right balance between managing its balance sheet, preserving its financial and credit status, and providing a useful benefit to its Borrowers. The eligibility criteria and other conditions attached to the offer of CRDC are thus based on this framework ensuring that CRDC offer is not viewed as a debt restructuring by the credit rating agencies, and does not undermine the balance sheet management of the Bank.

3. Which countries are eligible to benefit from CRDCs?

CRDCs are available to IBRD and IDA Small State Economies, members of the Small States Forum, and Small Island Developing States as defined by the UN (See the current list of CRDC-eligible countries). This is because natural disasters and climate change-related extreme weather events have a disproportionately negative impact on small economies.

Borrowers must be current on their debt service to the World Bank at the time of requesting CRDC inclusion in loan agreements. Where it is requested that a CRDC be inserted into an existing loan/credit, the CRDC will not be included if the Bank reasonably determines that the Borrower is undergoing a debt restructuring with its other lenders.

While Borrowers that are not eligible for CRDCs are also exposed to natural disasters, other World Bank tools in the Crisis Toolkit (such as Crisis Response Window, Cat DDOs, IPF DDOs, CERCs, emergency operations, and disaster risk transfer products), are available.

4. Which loans and credits are eligible?

Currently, all new or existing IBRD loans and IDA credits, of eligible countries, with a remaining repayment period (final maturity) of more than five years are eligible for CRDCs. Loans with bullet maturity cannot benefit from a deferral of principal, but are eligible for interest (and other loan charges) deferral. The Borrower will have flexibility to select specific loans and include CRDCs in those loans only after discussions with the World Bank.

5. Which disaster events are covered by CRDCs?

Event coverage will be limited to tropical cyclones/hurricanes and earthquakes. These events accounted for more than 90% of the damages over the last twenty years among the group of eligible countries.

6. **How will the CRDC be activated?**

The Borrower will declare a national emergency following the covered natural disaster event and submit an activiation request to the World Bank to exercise the CRDC. The Borrower must be current on its IBRD and/or IDA loan payments at the time of deferral activation request. As part of the request, the Borrower will need to elect which payment types to defer (principal, interest and charges, or both). The Borrower and the World Bank will work to identify options available bthat suit the Borrower's needs.

Additionally, the World Bank will verify whether the natural disaster meets the thresholds for the pre-defined triggers. If confirmed, the World Bank will activate the CRDC.

7. **What are the qualifying events? ?**

There are two types of (pre-specified) event triggers that can activate a CRDC: (i) primary (parametric) trigger and (ii) secondary trigger.

a) Primary parametric triggers are measures of the intensity of the disaster event, such as the wind speed of hurricanes or the magnitude of earthquakes. CRDC can be activated if one of the below triggers are met:

   i. 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.

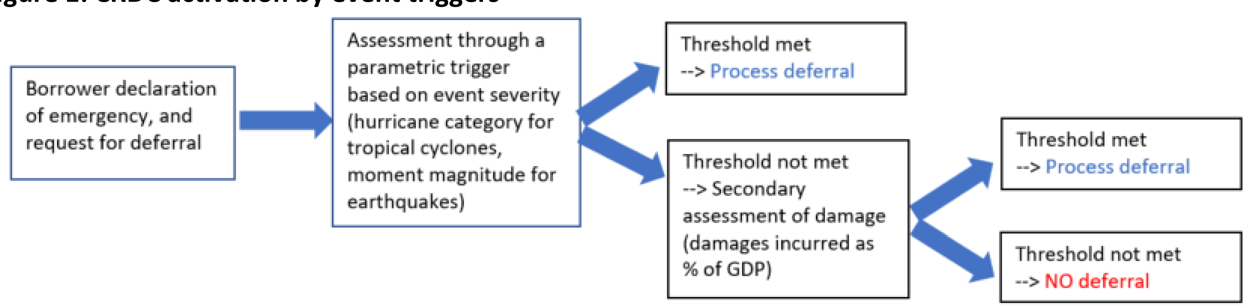
   ii. Earthquakes: The reported moment magnitude (Mw[9]) must be greater than or equal to 7.0 Moment Magnitude; and the reported depth less than or equal to 175km.

   The primary trigger covered area for tropical cyclones will correspond to the administrative boundary of the country with an additional geographic buffer equivalent to 20 km plus the reported radius of maximum winds for the given segment of the tropical cyclone track.

   The primary trigger covered area for earthquakes will correspond to the administrative boundary of the country with an additional geographic buffer of 100km.

b) Secondary Trigger: If the above-outlined primary triggers are not met, yet the damage is significant (greater than or equal to 10 percent of the country's GDP), the World Bank will evaluate the secondary trigger, which is an assessment of damage based on the World Bank's Global Rapid Post-Disaster Damage Estimation (GRADE) approach. See Figure 1 below.

Figure 1: CRDC activation by event triggers



8. **Which payments can a Borrower defer?**

Borrowers can elect at the time of the activation request to defer principal or interest and other loan charges, or both.

9. When and how long can a Borrower defer payments ?

Borrowers can activate a deferral of payments once over the life of a loan/credit. The deferral period can be for up to 2 years during the eligible window which starts with the first loan repayment and ceases 5 years prior to the final maturity. If an existing loan is amended after the first loan repayment date, the window starts with the amendment effectiveness date. If only principal is deferred, the Borrower continues to service interest and applicable charges under the loan during the deferral period.

10. What happens after the deferral period?

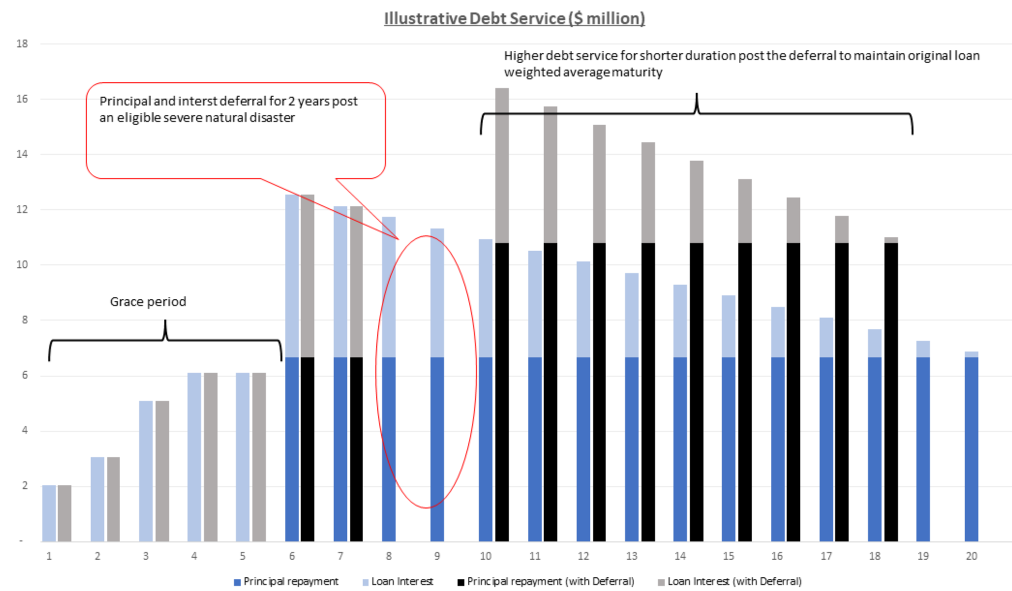
At the time of the deferral activation request, the World Bank and the Borrower will discuss and agree on the modalities of the payments post-deferral period. For principal-only deferrals, the World Bank will notify the Borrower of the revised amortization schedule to the loan (reflecting the repayment arrangements agreed by the World Bank and the Borrower) soon after the acceptance of the principal deferral request. For deferrals involving interest, the final repayment schedule will not be available until the end of the deferral period for variable rate IBRD loans and IDA credits, and will similarly be agreed between the World Bank and the Borrower.

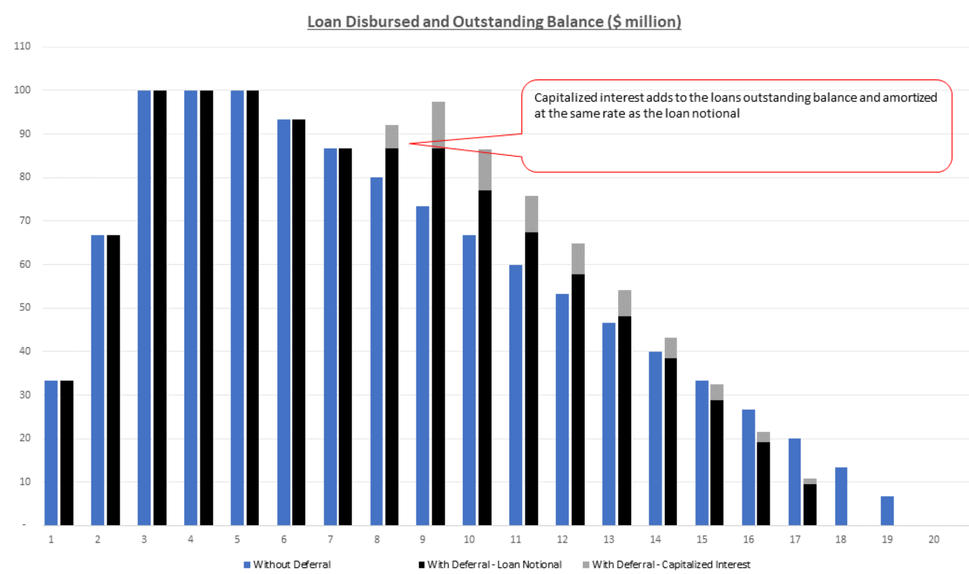
After the deferral period , the Borrower will commence repayment on its loans, including the deferred amounts (i.e., combination of principal or interest and other loan charges) according to the adjusted repayment schedule. ..

See Figure 2 below which illustrates the impact of a deferral based on a $100 million loan with 5-year grace period, 20-year final maturity, level amortization, and interest charge at 6%.

Figure 2: Illustrative Borrower Repayments with CRDC activated

In this illustrative case, if the Borrower opts for including the CRDC in the loan and an eligible natural disaster occurs that meets the trigger criterion and 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 Present Value (PV) neutrality and maintain the loan's original weighted average maturity of about 13 years, the loan payments post the 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 interest payments over the 2 years, which are added to the loan balance and will incur the 6% loan charge.





11. What does it cost to have a CRDC?

If Borrowers choose to include the CRDC in a credit or loan, 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 (after loan agreement signing or signing of the CRDC amendment) and will continue accruing until the earlier of (a) deferral option exercise, and (b) 5 years prior to the loan's final maturity. This charge is necessary to cover the services offered. The World Bank is exploring interest among international donors to provide funds to cover CRDC fees to assist borrowers in availing of the CRDC product offering.

Over time, the World Bank may adjust the current fee of 5 basis points per annum to reflect changes in the updated cost of offering the CRDC. Any change in the CRDC fee would onlyapply to new CRDC inclusions in the loan agreements. Should there be any fee changes expected in the future, the World Bank will notify the Borrowers in due course.

12. How will the CRDC work with conversion options such as interest rate and currency conversions?

Borrowers with 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. Borrowers who have already used these conversion options might have to pay additional costs when the CRDC is exercised, and the existing conversion is replaced or terminated. Any such conversion-related costs would not be deferred. The World Bank and the Borrower will agree on whether the existing conversion would have to be replaced with another conversion and/or terminated early, subject to the market availability and terms for such conversion.

13. Will there be any changes to a Borrower's billing cycle during the 2-year deferral period?

There will be no change to the billing cycle or presentation during the deferral period. The Bank will continue to provide bills depending on the option selected (principal only, interest only or principal and interest together).

14. How will the World Bank help Borrowers make an informed decision whether to include a CRDC in their loans?

To facilitate the understanding of the CRDC, the World Bank will contact each eligible Borrower and also make supporting material available such on the World Bank Treasury website, and host a series of virtual information-sharing sessions, along with this Q&A which will be upated as needed.

Eligible Borrowers who wish to consider a CRDC in their existing eligible loans can reach out to their World Bank Country Director, or the contacts mentioned in the last question of this FAQ .

15. Can a Borrower elect to insert CRDC in their loans at any time in the future?

As long as the CRDC eligibility requirements are met, the CRDC terms can be included in both new and existing IBRD loans and IDA credits.

Inclusion of CRDCs in existing IBRD loans and IDA credits will require amendments to existing financing agreements. Borrowers shouldcontact their World Bank country director, or contacts mentioned in the last question of this FAQ to initiate a discussion.

16. What should a Borrower consider if contemplating inclusion of CRDC in a loan?

- Borrowers should consider the impact of the post-deferral loan payments, which will be increased with a shorter period for repayments, in order to maintain the weighted average and final maturity of the loan. Including and activating CRDC in the entire loan portfolio of a Borrower may also be not in its best interests.
- For existing financing agreements, an amendment will be needed. Borrowers should consider their own internal requirements for amendments and processing time.
- Deferring interest and other loan charges would result in these deferred amounts accruing regular loan interest, which may increase the post deferral debt burden of the Borrower. While the World

Bank and the Borrower will agree at the time of CRDC activation whether interet and other loan charges will be deferred, if the loan is a variable rate loan, the Borrower will not have the final payment amounts until the end of the deferral period.

17. Where can a Borrower obtain more information, and who do they contact about CRDCs?

The World Bank will update the FAQs sharing additional details of the CRDC terms on a periodic basis. Further, if you have additional questions and would like to discuss, please reach out to the following representatives:

Treasury
Ghislain Yanou (gyanou@worldbank.org),
Miguel Navarro-Martin (mnavarromartin@worldbank.org);

Finance & Accounting
Victor Ordonez (vconde@worldbank.org)
David Tan (dtan@worldbank.org)