FAQ - Climate Resilient Debt Clause (CRDC)

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

Going forward, new IBRD loans and IDA credits will contain a clause (if the borrower chooses to opt for its inclusion), that will allow the Borrowers to defer the principal repayments on that loan, in the case of a predefined natural disaster.

Supporting vulnerable countries against economic shocks, including fiscal crises due to natural disasters, is an important objective for the Bank. CRDCs embedded in new IBRD loans and IDA credits will strengthen the Bank's Crisis Response Toolkit. The new clause allows Borrowers to have the option of temporarily deferring principal repayments on the World Bank financing to free up government resources to finance disaster response and recovery efforts.

2. **Which countries are eligible to benefit from CRDCs?**

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 UN (See Annex 1 for the list of eligible countries). This is because natural disasters and climate change-related extreme weather events have a disproportionately negative impact on small economies.

While other Borrowers are also exposed to natural disasters, other World Bank tools in the crisis toolkit (such as Crisis Response Window, Cat DDOs, CERCs, emergency operations, and disaster risk transfer products), would still be available.

3. **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.

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

- The 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 CRDC. 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 thresholds for the pre-defined trigger. If it does, the Bank will activate the CRDC.

5. **What event triggers are embedded in the CRDC?**

There are two types of pre-agreed event triggers that can activate a CRDC: Primary (parametric) triggers and secondary trigger. Parametric triggers are measures of the intensity of the disaster event, such as the wind speed of hurricanes or the magnitude of earthquakes. A CRDC will be activated if the below outlined primary (parametric) triggers are met:

- **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) 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 primary triggers are not met, yet the damage is significant (greater than or equal to 10 percent of the country's GDP) secondary triggers come into effect. The assessment of damages will be based on the World Bank's Global Rapid Post-Disaster Damage Estimation (GRADE) approach. See Figure 1 below.

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1 The maximum sustained windspeed, radius of maximum winds, and track location data used for the trigger calculation will be based on data from the applicable Tropical Cyclone Reporting Source (the Regional Specialized Meteorological Centre or Tropical Cyclone Warning Centre agency tasked by the World Meteorological Organization with regional responsibility). Magnitude of the earthquake will mean the moment magnitude (Mw) as reported by the Earthquake Reporting Source with respect to the relevant earthquake.
6. **For how many years can the Borrowers defer their principal repayments?**

The Borrowers can defer their principal payments for up to 2 years. This deferral can be exercised from the first loan repayment to 5 years prior to the final loan repayment. There will be no additional deferral. The borrower will continue to service interest and applicable charges under the loan during the deferral period.

7. **What happens to the maturity of financing if the Borrower defers repayments?**

After the 2-year deferral, the Borrower will commence repayment of the principal according to the original average weighted maturity and without extending the final due date. The Borrower will have the flexibility to tailor the repayments to suit their debt management needs.

See Figure 2 below which illustrates the impact of the deferral based on a $100 million loan with 5-year grace period, 25-year final maturity, and a level amortization.

8. **Is there any fee for CRDC?**

If Borrowers choose to include the CRDC in their financing, they will be charged a 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 earlier of (a) deferral option exercise, and (b) 5 years prior to the loan’s final maturity. This covers the World Bank’s additional administrative and operational costs involved in the assessment and recording of the clause.

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

Borrowers who included the CRDC option 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 terminated. Any such conversion termination costs would not be deferred.