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. As part of the enhancements to the World Bank crisis toolkit, the World Bank Board of Executive Directors approved the introduction of the Climate Resilient Debt Clause (CRDC).

   The CRDC provides an option to eligible Borrowers (if the Borrower chooses to include the clause in their new or existing loan/financing agreement), to defer principal and interest payments (and other loan charges) for up to two years in the face of a natural disaster.

   The World Bank is therefore offering an additional crisis response tool for small islands and other small states struck by earthquakes and tropical cyclones, which allows governments to focus on disaster recovery instead of debt repayment.

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

   CRDC is 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] as natural disasters and climate change-related extreme weather events have a disproportionately negative effects on small economies. Subnational borrowers in eligible countries are also eligible for CRDC.

   Borrowers must be current on their debt service to the World Bank at the time of requesting CRDC inclusion in loan agreements. A CRDC will not be included in existing loans/credits if the Borrower is undergoing a debt restructuring with its other lenders.

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

3. **Which loans and credits are eligible?**

   All new or existing IBRD loans and IDA credits of eligible countries with a remaining repayment period (final maturity) of at least five years are eligible for CRDC. Loans with a bullet maturity cannot benefit from a deferral of principal but are eligible for interest (and other loan charges) deferral. Borrowers will discuss CRDC incorporation with the World Bank to select what loans (if any) will be eligible for payment deferrals.

4. **Can a Borrower elect to include the 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 CRDC in existing IBRD loans and IDA credits will require amendments to the relevant existing loan and financing agreement. CRDC is not offered for existing loans if the Borrower is undergoing a debt restructuring with other creditors.

5. **Which disaster events are covered by CRDC?**

   Event coverage is limited to tropical cyclones/hurricanes and earthquakes. These events accounted for more than 90% of the damage over the last twenty years among the group of eligible countries.
6. What are the qualifying triggers for the eligible events?

There are two types of (pre-specified) event triggers that can activate a CRDC (See Figure 1 below):

1. **Primary parametric triggers**, which measure the intensity of the disaster event, such as the wind speed of hurricanes or the magnitude of earthquakes.
   a) **Earthquakes**: Moment magnitude (Mw) 7.0 or above, with reported depth less than or equal to 175km with an epicenter within the covered area.
   b) **Tropical cyclones/hurricanes**: Reported maximum sustained windspeed in the covered area at 178km/hour or above if reported as 1-min average windspeed; or 160km/hour or above if reported as 10-min average windspeed.\(^1\)

2. **Secondary Trigger**: If, upon verification by the World Bank, it is established that the Primary Trigger has not been satisfied, the World Bank will determine whether estimated damages from the eligible event are greater than or equal to 10% of the country’s GDP, as last published by the World Bank, based on the World Bank’s Global Rapid Post-Disaster Damage Estimation (GRADE)\(^2\) approach (the “Secondary Trigger”).

![Figure 1: CRDC deferral request by event triggers](image)

7. Will the Bank consider lower intensities for the primary triggers?

Not at the moment. CRDC is built to complement the World Bank’s existing crisis preparedness and response tools by helping small and vulnerable states address a particular layer of risk and magnitude of damage/need. Typically, it is advisable that countries first develop a Climate and Disaster Risk Finance strategy to identify their financial protection gap and develop a mix of financial instrument to reduce this gap, combining risk retention for frequent events and risk transfer for more severe events.

CRDC is expected to be triggered for **low frequency/high severity events**, thereby positioning it in the risk layering above Catastrophe (CAT) DDOs that may trigger for relatively lower severity events, and below CAT risk transfer instruments. Despite that, CRDC features a secondary trigger, whereby if the primary triggers are not met—because the event magnitude is not sufficiently high— but the economic damage as a percentage of GDP is of a considerable magnitude, the countries will still benefit from the CRDC.

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1 Approximately, equivalent to a Category 3 Hurricane in the North Atlantic Basin.

8. **Will the Bank consider extending coverage to other events like floods or draughts?**

The event coverage is currently proposed to be limited to tropical cyclones/hurricanes and earthquakes. These events are the most amenable to availability of parametric triggers, which, via avoidance of discretion, provide an important mitigation against the risk of the deferrals being viewed as restructuring.

As reliable parametric triggers become available for other natural disasters such as floods and droughts, the World Bank may consider the expansion of the event coverage during the review of the CRDC at the end of 2025.

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

A government declaration of national emergency following the occurrence of covered event is required before a CRDC deferral request is submitted to the World Bank.

The World Bank will verify whether the natural disaster meets the thresholds of the pre-defined triggers. If confirmed, the World Bank will accept the request for payment deferral, provided that the Borrower is also not overdue in their debt service with the World Bank. A payment deferral is activated at the request of the Borrower only once per loan life for up to 2 years. Borrowers cannot cancel or withdraw an approved request for payment deferral.

10. **Which payments can Borrowers defer?**

Borrowers can elect at the time of submitting a deferral request (i) to defer principal or interest (and other loan charges), or both, and (ii) the deferral period (up to 2 years). The World Bank will work with the Borrower to agree on the appropriate repayment terms following the deferral period, provided, however, that (i) the weighted average maturity of the loan is preserved, and (ii) the original final maturity of the loan is not extended.

If only principal is deferred, the World Bank will notify the Borrower of the revised amortization schedule. The Borrower continues to service interest and other applicable charges under the loan during the deferral period.

For interest (and other loan charges) payment deferrals of loans with a variable interest rate, the final repayment schedule will similarly be agreed between the World Bank and the Borrower, but it will not be available until the end of the deferral period. Borrowers should also consider whether interest (and other loan charges) deferrals will necessitate additional country-specific internal approvals as any interest (and other loan charges) deferred may be added to the loan balance, thereby possibly increasing the approved original loan amount.

Early repayments of the deferred principal amount during the deferral period will be allowed, but will be considered a prepayment (i.e. may be subject to a prepayment premium for IBRD and IDA non-concessional financing loans). This does not apply to deferred interest payments (and other loan charges), which can be paid early during the deferral period without incurring prepayment premium.

Loans with a bullet maturity are only eligible for interest payment deferrals.

11. **Will there be any changes to a Borrower’s billing cycle during the deferral period?**

There will be no change to the billing cycle or presentation during the deferral period. The World Bank will continue to provide bills depending on the option selected (i.e., combination of principal, interest and other loan charges).

12. **Can borrowers defer payments more than once?**
CRDC (and the subsequent payment deferrals) can be activated only once over the life of a loan for up to 2 years during the eligible window, which starts on the first loan repayment date and ends 5 years prior to the final maturity of the loan. If an existing loan is amended after the first loan repayment date, the window for CRDC activation starts on the amendment effective date.

13. What happens after the deferral period?

After the deferral period, the Borrower will resume repayments of the deferred amounts (i.e., combination of principal, interest and other loan charges) under the loan in accordance with the terms notified by the World Bank to the Borrower.

In the case of interest (and other loan charges) payment deferrals, the World Bank will notify the Borrower at the end of the deferral period the final amounts deferred. Deferred amounts of interest (and other loan charges) will typically be segregated within the original loan balance and will accrue regular interest (interest on interest) thus increasing the total loan amount following the deferral period. Figure 2 below illustrates the impact of a payment 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 maintain the loan’s original weighted average maturity of about 13 years and not extend the original maturity, the loan payments post the deferral period 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.
14. What does it cost to have a CRDC?

The Bank is arranging to make the CRDC available to eligible borrowers at no cost to the borrower.

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

Borrowers with CRDC in their loans 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.

16. What should Borrowers consider before including the CRDC in the 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, without assessing cons and pros of including the CRDC, may not be in its best interest.

- For existing IBRD loans and IDA financing agreements, an amendment will be needed. Borrowers should consider their own internal procedures for loan amendments and processing time.

- Deferring interest (and other loan charges) would result in these deferred amounts accruing regular loan interest (service charge for applicable IDA credits), which may increase the post deferral debt burden of the Borrower. While the World Bank and the Borrower will agree at the time of the deferral request whether interest (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.
• If the Borrower elects to only defer principal, it will continue servicing interest (and other applicable loan charges) at the contractual loan rate during the deferral period (no overdue charge would be imposed). If the Borrower elects to defer interest (and other loan charges), additional interest will accrue on the deferred amounts until they are fully repaid.

17. How will the World Bank help Borrowers to make an informed decision about including 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 (i.e. on the World Bank Treasury website), and host a series of virtual information-sharing sessions, along with this Q&A which will be updated as needed.

Eligible Borrowers who wish to consider a CRDC in their eligible loans can reach out to their World Bank Country Director, or to the following World Bank representatives:

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

Finance & Accounting
Paty Hoyes (phoyes@worldbank.org)
David Tan (dtan@worldbank.org)