

IBRD Catastrophe Deferred Drawdown Option (Cat DDO)

The Development Policy Loan with a Catastrophe Deferred Drawdown Option (Cat DDO) is a contingent financing line that provides immediate liquidity to IBRD-eligible (including Blend) countries¹ to address shocks related to natural disasters and/or health-related events. It serves as early financing while funds from other sources such as bilateral aid or reconstruction loans are being mobilized.

Cat DDOs enhance countries' capacity to plan for and manage crises by securing access to financing *before* disaster strikes. It is approved prior to the disaster and disburses quickly once the event occurs and the drawdown trigger is met.

The Cat DDO is most effective as part of a broader risk management strategy in countries highly exposed to natural disasters, including health related events. A disaster risk management strategy would typically include a Cat DDO to provide liquidity in the immediate aftermath, or at the onset, of an event. This may also be complemented by other risk transfer instruments that provide immediate liquidity, cover losses or support reconstruction. Governments determine the mix of disaster risk financing instruments based on an assessment of risks, desired coverage, available budget, and cost efficiency.

Key Features

Approval criteria: In order to gain access to the Cat DDO, the recipient must (i) have an adequate macroeconomic policy framework; and (ii) be preparing, or already have, a satisfactory disaster risk management program, which the World Bank will monitor on a periodic basis.

Country limit: The country limit is set at US\$500 million or 0.25% of GDP (whichever is less).

Drawdown trigger: The Cat DDO has a pre-specified drawdown trigger, *typically* the member country's declaration of a state of emergency.

Drawdown: The three-year drawdown period may be renewed (with a fee) up to four times, for a maximum of 15 years in total.

At a Glance

- A contingent financing line that provides immediate liquidity following a natural disaster, and/or health-related event
- Funds become available for disbursement after the drawdown trigger – typically the member country's declaration of a state of emergency – is met
- At approval a country must have an adequate macroeconomic policy framework and a satisfactory disaster risk management program in place (or under preparation), which the Bank will monitor periodically

Revolving feature: The Cat DDO also has a revolving feature, which means that amounts repaid during the drawdown period are available for subsequent withdrawal.

Pricing

The Cat DDO provides an affordable source of contingent credit for governments to finance recurrent losses caused by natural disasters. It has a LIBOR-based interest rate that is charged on disbursed and outstanding amounts. Disbursements will be priced at the spread over the reference rate for IBRD loans – comprised of the contractual spread, funding cost, maturity premium, and market risk premium. 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.

In addition, there is a front-end fee of 0.50% on the loan amount and a renewal fee of 0.25% on the undisbursed amount. For current pricing information, please visit the Treasury website:

<http://treasury.worldbank.org/en/about/unit/treasury/ibrd-financial-products>

¹ Blend countries also have access to the IDA Cat DDO [IDA CAT-DDO.pdf](#)

Major Terms and Conditions	
Eligibility	All IBRD-eligible borrowers — including Blend countries — upon meeting approval criteria
Approval Criteria	<ul style="list-style-type: none"> • Existence of an adequate macroeconomic policy framework • Preparation, or existence, of a satisfactory disaster risk management program that addresses natural disasters, which may include health-related events
Loan Currency	EUR, JPY, and USD
Drawdown	Up to the full loan amount is available for disbursement upon occurrence of a natural disaster and trigger is met, at any time within three years from loan signing. Drawdown period may be renewed up to a maximum of four times.
Repayment Terms	Commences at time of drawdown. Must be determined upon commitment and may be modified upon drawdown within prevailing maturity policy limits.
Lending Rate	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.
Lending Rate Spread	<p>The prevailing spread, either fixed or variable, for regular IBRD loans at time of each drawdown.</p> <ol style="list-style-type: none"> 1. <u>Fixed for the life of the loan</u>: Consists of IBRD's projected funding cost margin relative to LIBOR, plus IBRD's contractual spread of 0.50%, a risk premium, a maturity premium for loans with average maturities greater than 8 years, and a basis swap adjustment for non-USD loans. 2. <u>Variable, resets quarterly</u>: 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 variable spread is recalculated quarterly on January 1, April 1, July 1, and October 1 and is applicable to all rate reset dates on or after each recalculation date. <p>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.</p>
Front-End Fee	0.50% of the loan amount is due within 60 days of effectiveness date; may be financed out of loan proceeds.
Renewal Fee	0.25% of the undisbursed balance
Conversion Options and Prepayments	Currency Conversions, Interest Rate Conversions, Caps, Collars, Payment Dates, Conversion Fees are the same as for regular IBRD loans.
Other Features	<p>Country Limit: Maximum size of 0.25% of GDP or the equivalent of US\$500 million, whichever is less. Limits for small states are considered on a case-by-case basis.</p> <p>Revolving Features: Amounts repaid or prepaid by the borrower are available for drawdown, provided that the closing date has not expired.</p>

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