

CASE STUDY

Kenya Secures First IDA Cat DDO

IDA Credit Supports Kenya's Efforts to Reduce Climate and Disaster Risk

OVERVIEW

Kenya is vulnerable to both natural and man-made hazards. An estimated 3 to 4 million people in Kenya are affected by such events annually. The economic cost of floods and droughts is estimated at 2.0 to 2.4 percent of GDP each year on average. A US\$200 million IDA Development Policy Financing with a Catastrophe Deferred Drawdown Option (Cat DDO) will help Kenya manage the impacts of climate and disaster risks. This is the first IDA Cat DDO approved by the World Bank.



Women watering mukau saplings in Kenya's arid Eastern Province. Photo credit: Flore de Preneuf / World Bank .

Background

Kenya is extremely vulnerable to floods and droughts. A severe drought in 2008–2011 affected 3.7 million people and caused US\$12.1 billion in damages and losses, according to a Global Facility for Disaster Reduction and Recovery -supported post-disaster needs assessment. To cope with natural disasters, the government has in the past relied on ad hoc donor support; between 2002 and 2012, international donors provided on average US\$276 million per year in humanitarian assistance to Kenya.¹ Such aid can be uncertain and subject to delays, however, and in recent years Kenya has sought to proactively manage disaster and climate risks by enacting a series of laws and policies:

- Kenya's national development strategy for 2008–2030 includes guidelines for disaster risk management and climate change adaptation.

- An interim disaster risk management strategy has been implemented pending ratification of the national policy.
- The National Climate Change Action Plan for 2013–2017 focuses on reducing vulnerability to climate change.
- Kenya's recently adopted national disaster risk finance strategy is the first in Africa.

Project Financing Objective

The objective of the Cat DDO is twofold:

1. Advance Kenya's disaster risk management strategy by supporting policy reforms that strengthen disaster risk finance, disaster risk reduction, and climate change adaptation measures in the country.
2. Help Kenya secure financing in advance to meet immediate liquidity needs after a disaster caused by natural hazards or health emergencies.

¹ Government of Kenya, "Kenya Post Disaster Needs Assessment (PDNA): 2008–2011 Drought," 2012, http://www.gfdrr.org/sites/gfdrr/files/Kenya_PDNA_Final.pdf.

Project Design and Financial Solution

On June 21, 2018, the World Bank approved a US\$200 million IDA credit to help Kenya manage the financial impacts of climate and disaster risks. This Development Policy Financing with a Catastrophe Deferred Drawdown Option (Cat DDO) serves as early financing while funds from other sources, such as bilateral aid or reconstruction loans, are being mobilized.

The operation includes policies that fill critical gaps in Kenya's institutional and financial framework for disaster risk management. It strengthens Kenya's ability to respond to the impacts of disasters; improves its financial resilience; enhances its capacity to adapt to climate change by addressing identified climate risks and vulnerabilities; and finances disaster response programs that protect and build the resilience of low-income households.

Drawdown trigger: the government of Kenya may draw down the credit after the declaration (in accordance with national law) of a disaster arising from a natural hazard and/or public health-related emergency, such as the threat or outbreak of a fatal or highly infectious disease (including endemics, epidemics, and pandemics). After an eligible drawdown request is made, the World Bank will disburse funds within two to three business days, making the Cat DDO a very rapid source of financing for response and relief efforts.

Drawdown period and renewal: The drawdown period for this operation is three years, and the government of Kenya has the option of renewing the Cat DDO for an additional three-year period. The World Bank will monitor the implementation of the disaster risk management program. Requests for disbursement of resources remain eligible as long as the program is being implemented in a satisfactory manner. The adequacy of the macroeconomic framework will be assessed at the project effectiveness stage and reconfirmed at renewal, but it is not required for drawdown. The renewal of the Cat DDO requires the approval of the regional vice president of the World Bank and needs to take place 6 to 12 months before the expiration of the Cat DDO. The original program must remain largely in place.

Borrowers can access several sources of financing for the IDA Cat DDO including

- The country's concessional core IDA allocation envelope
- Undisbursed balances
- IDA Scale-Up Facility

Kenya elected to fund the IDA Cat DDO through its concessional core IDA allocation, which means 50 percent of the amount requested will be funded by its concessional core IDA allocation, and the balance by IDA's overall resources. As a "blend" country—IDA-eligible but also creditworthy for some IBRD borrowing—Kenya will receive the IDA credit on blend terms.

Outcome:

The Cat DDO is expected to advance Kenya's efforts to build fiscal and physical resilience to exogenous shocks. Like many countries, Kenya needs multiple financial instruments, ideally as part of a risk layering strategy, to manage impacts of disasters, including health and man-made shocks. The Cat DDO complements the Pandemic Emergency Financing Facility (PEF) developed by the World Bank as a global solution to strengthen pandemic risk management. Together, the Cat DDO and PEF provide Kenya with liquidity (on different terms and conditions) and help strengthen resilience to shocks.

Outcome: Cat DDO Globally

As of July 2018, Cat DDO instruments have been deployed in Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Kenya, Panama, Peru, the Philippines, Romania, Serbia, the Seychelles, and Sri Lanka.

- In 2010, the Government of Colombia drew down a US\$150 million Cat DDO in response to heavy floods and a state of emergency. The loan was disbursed in less than 48 hours. Colombia has since signed another Cat DDO (US\$250 million) with the World Bank.
- In 2014, Sri Lanka became the first South Asian country to sign a Cat DDO. The loan proceeds were disbursed within four days of the withdrawal request following the declaration of a state of emergency after torrential rainfall caused floods and landslides that affected nearly 500,000 people in 2016.

In 2017, Serbia signed a US\$70 million Cat DDO with the World Bank; and disbursed US\$40.7 million following floods and hail in May–June 2018.

Customizing financial solutions is one of the many ways the World Bank helps member countries become more resilient to economic shocks. The AAA credit rating enjoyed by the World Bank (both IDA and IBRD), along with its market presence and convening power, enables Treasury's Financial Products team to develop innovative new products that help clients maximize financing and mitigate risk.

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