

# Major Terms and Conditions of the Deferred Drawdown Option (DDO)



The Development Policy Loan Deferred Drawdown Option (DPL DDO)<sup>1</sup> provides the borrower with the flexibility to rapidly fund its financing requirements following a shortfall in resources due to adverse economic events such as downturns in economic growth or unfavorable changes in commodity prices or terms of trade. The Catastrophe Risk DDO (Cat DDO) enables the borrower to access an immediate source of funding to respond rapidly in the aftermath of a natural disaster.

Please refer to the table on page 2 for the Major Terms and Conditions of the IBRD Deferred Drawdown Option (DDO).

## DDO for Development Policy Loans

The **DPL DDO** is intended to provide an immediate source of financing to borrowers as well as a formal basis for continuing a policy-based engagement with the Bank when no immediate need for funding exists.

### Key Features

Under the DPL DDO, the borrower may defer disbursement of a DPL for up to three years, renewable for an additional three years.

The loan proceeds may be drawn down at any time during the three year drawdown period unless the Bank has notified the borrower that one of the drawdown conditions – adequate macroeconomic framework and satisfactory program implementation – is not being met.

In order to provide greater certainty to the borrower that the funds will be available when needed, the Bank will periodically monitor the borrower's compliance with the drawdown conditions.

## DDO for Catastrophe Risk

The **Cat DDO** is meant to serve as bridge financing, while other sources of financing are mobilized following a natural disaster. It is part of a broad spectrum of World Bank Group catastrophe financing instruments available to assist borrowers in planning efficient responses to catastrophic events. The Cat DDO is most effective as part of a broader risk management strategy.

### Key Features

The borrower is expected to implement a disaster risk management program, which the Bank will monitor on a

## At a Glance

- An immediate source of liquidity to respond to economic shocks or natural disasters
- Deferred disbursement of a Development Policy Loan up to three years
- Periodic monitoring of borrower's compliance with drawdown conditions provides greater certainty of availability of funds when needed
- Similar market-based pricing as regular IBRD loans

periodic basis. Funds may be drawn down after a natural disaster and upon declaration of a state of emergency *unless* the borrower has received prior notification from the Bank that the disaster risk management program is not being implemented in accordance with the agreed framework.

The maximum amount available under the Cat DDO will be the lesser of 0.25% of GDP or \$500 million. Cat DDO volume limits for small states will be considered on a case by case basis.

The Cat DDO has a revolving feature; i.e. amounts repaid during the drawdown period will be available for subsequent drawdowns. The three-year drawdown period may be renewed up to four times, for a total maximum drawdown period of 15 years.

## Pricing

Disbursements will be priced at the prevailing spread over LIBOR for IBRD loans – comprised of the contractual spread, funding cost, maturity premium, and market risk premium – at the time of drawdown. The calculation of the average maturity begins at loan effectiveness for the determination of the applicable maturity premium, but at withdrawal for the remaining components of the spread. The DDO is also subject to a one time front-end fee of 0.75% for the DPL DDO and 0.50% for the Cat DDO. There is also a renewal fee of 0.50% for the DPL DDO and 0.25% for the Cat DDO.

For current pricing information, please visit the Treasury website at: <http://treasury.worldbank.org>.

<sup>1</sup> A deferred drawdown option (DDO) or deferred drawdown option for catastrophic risks (Cat DDO) allows a borrower to postpone drawing down a development policy loan (DPL) for a defined drawdown period after the Loan Agreement has been declared effective.

	DPL DDO	Cat DDO
<b>Purpose</b>	To provide immediate liquidity when the borrower needs it.	To enhance/develop the capacity of borrowers to manage catastrophe risk. To provide immediate liquidity to fill the budget gap after a natural disaster. To safeguard on-going development programs.
<b>Eligibility</b>	All IBRD-eligible borrowers (upon meeting pre-approval criteria)	
<b>Pre-approval criteria</b>	Appropriate macroeconomic policy framework. Satisfactory implementation of the overall program.	Appropriate macroeconomic policy framework. The preparation or existence of a disaster risk management program.
<b>Currency</b>	Same as regular IBRD loans	
<b>Drawdown</b>	Up to the full loan amount is available for disbursement at any time within three years from loan signing. Drawdown period may be renewed.	Up to the full loan amount is available for disbursement at any time within three years from loan signing. Drawdown period may be renewed up to a maximum of four extensions.
<b>Repayment Terms</b>	Must be determined upon commitment and may be modified upon drawdown within prevailing maturity policy limits. The repayment schedule will start from the date of drawdown.	
<b>Lending Rate</b>	The base rate is the same as regular IBRD loans.	
<b>Lending Rate Spread</b>	The prevailing spread for regular IBRD loans at time of each drawdown.	
<b>Front-End Fee</b>	0.75% of the loan amount is due within 60 days of effectiveness date; may be financed out of the loan proceeds	0.50% of the loan amount is due within 60 days of effectiveness date; may be financed out of the loan proceeds
<b>Renewal Fee</b>	0.50% of the undisbursed balance	0.25% of the undisbursed balance
<b>Currency Conversions, Interest Rate Conversions, Caps, Collars, Payment Dates, Conversion Fees, Prepayments</b>	Same as regular IBRD loans	
<b>Other Features</b>		<b>Country Limit:</b> Maximum size of 0.25% of GDP or the equivalent of USD 500 million, whichever is smaller. Limits for small states will be considered on a case by case basis. <b>Revolving Features:</b> Amounts repaid by the borrower will be available for drawdown, provided that the closing date has not expired.

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