

# IDA Catastrophe Deferred Drawdown (Cat DDO)

The Development Policy Loan with a Catastrophe Deferred Drawdown Option (Cat DDO) is a contingent financing line that provides immediate liquidity to countries 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 a maximum of US\$250 million or 0.5 percent of GDP, whichever is lower. IDA clients with limits below US\$20 million may request a Cat DDO up to a maximum of US\$20 million.

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

**Drawdown period:** The drawdown period is three years, which may be renewed once for a maximum of six years in total.

## At a Glance

- A contingent financing line that provides immediate liquidity following a natural disaster, including a 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

## Sources of Funding and Pricing

**Concessional Core IDA Allocation:** A country can fund the Cat DDO through its concessional core IDA allocation envelope. Of the amount requested, 50 percent will be funded by the country's concessional core IDA allocation, with the balance financed by IDA's overall resources<sup>1</sup>. Upon drawdown, IDA concessional rates will apply.

**Undisbursed Balances:** A country can utilize up to five percent of its aggregate undisbursed balances to fund the Cat DDO as long as it avoids or minimizes disruption to ongoing programs. Upon drawdown, IDA concessional rates will apply.

**Scale-up Facility (SUF):** Eligible countries may fund the Cat DDO through the SUF. Upon drawdown, non-concessional rates will apply. See current pricing here:

<http://treasury.worldbank.org/bdm/htm/ibrd.html>

## Other Disaster Risk Financing Products

The Cat DDO is part of a broader crisis management toolkit available from the World Bank, including the Crisis Response Window (CRW), Pandemic Emergency Facility, and intermediation of disaster

<sup>1</sup> This only applies to the Concessional Core IDA Allocation option, and not the other two options.

risk management products such as bonds, derivatives, and insurance.

<b>Major Terms and Conditions</b>	
<b>Eligibility</b>	All IDA-eligible clients — including blend countries — upon meeting approval criteria
<b>Approval Criteria</b>	<ul style="list-style-type: none"> <li>• Existence of an adequate macroeconomic policy framework</li> <li>• Preparation, or existence, of a satisfactory disaster risk management program that addresses natural disasters, which may include health-related events</li> </ul>
<b>Currency</b>	<ul style="list-style-type: none"> <li>• <u>Concessional Core IDA Allocation option and Undisbursed Balances option</u>: SDR, USD, EUR, JPY, and GBP</li> <li>• <u>SUF option</u>: USD, EUR, JPY, and GBP</li> </ul>
<b>Drawdown</b>	<ul style="list-style-type: none"> <li>• Drawdown is available only if a pre-specified trigger linked to a catastrophe – typically the member country’s declaration of a state of emergency – has been met.</li> <li>• Up to the full commitment amount is available for disbursement at any time within three years from the signing of the financing agreement</li> </ul>
<b>Renewal</b>	Drawdown period may be renewed once, for a maximum of six years in total
<b>Repayment Terms</b>	<ul style="list-style-type: none"> <li>• <u>Concessional Core IDA Allocation option and Undisbursed Balances option</u>: Repayment terms would follow that of standard IDA concessional credits applicable to the country at time of commitment</li> <li>• <u>SUF option</u>: Repayment terms would follow that of SUF credits. They must be determined upon commitment and may be modified upon drawdown within prevailing SUF maturity policy limits.</li> </ul>
<b>Front-End Fee</b>	<ul style="list-style-type: none"> <li>• <u>Concessional Core IDA allocation option and Undisbursed Balances option</u>: zero percent</li> <li>• <u>SUF option</u>: 0.50% of the credit amount is due within 60 days of effectiveness date; may be financed out of loan proceeds</li> </ul>
<b>Renewal Fee</b>	<ul style="list-style-type: none"> <li>• <u>Concessional Core IDA allocation option and Undisbursed Balances option</u>: zero percent</li> <li>• <u>SUF option</u>: 0.25% of the undisbursed balance</li> </ul>
<b>Commitment Fee</b>	No commitment charge
<b>Recommitment of Undisbursed Balances</b>	The country’s Concessional Core IDA Allocation portion of undisbursed Cat-DDO balances may be recommitted upon expiry.

### For more information:

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