Managing Catastrophe Risk in Guatemala

Background

Guatemala, one of the largest economies in Central America, made significant progress in achieving macroeconomic and democratic stability after a 36-year civil war. Prudent macroeconomic management enabled an annual average growth of 4.2% between 2004 and 2007. However, the global economic crisis of 2008-2009 had a significant impact on the country. Remittances — a key driver of Guatemala’s economy — dropped by 9.5% in 2009. Exports to the US, its main trade partner, also fell. Guatemala is also challenged by significant exposure to natural disasters. Between 1902 and 2005, the country experienced 62 natural disasters, which affected approximately six million people.

Since 1969, Guatemala has been building institutions in order to better respond to events affecting its macroeconomic stability. Since 2005, the country has taken significant steps to move from a reactive to a proactive approach to addressing disaster risk by investing in risk mitigation measures.

Financing Objectives

Natural disasters can throw important long-term development programs off course by forcing a government to divert resources to respond to an immediate crisis. The Government of Guatemala wanted to ensure that they had access to funds immediately after a natural disaster, while other sources of financing (concessional funding, bilateral aid, and reconstruction loans) were being mobilized. This would allow them to respond quickly to emergency needs, without hampering the continuity of development programs.

IBRD Financial Solution

A loan from the International Bank for Reconstruction and Development (IBRD) with a Catastrophe Deferred Drawdown Option (Cat DDO), a form of contingent financing offered by the Bank that provides countries with assurance of rapid access to funds at cost-effective levels after a natural disaster has occurred, was part of the solution to Guatemala’s challenge. Guatemala requested and received a US$85 million Development Policy Loan (DPL) with a Cat DDO in April 2009.

The Cat DDO provides immediate liquidity up to US$500 million or 0.25% of GDP (whichever is less) to IBRD member countries in the event of a natural disaster. Funds may be disbursed (partially or in full) when a state of emergency is declared by the government.

Outcome

The Cat DDO allowed the government to quickly respond to the damages caused by the eruption of the Pacaya volcano and the Agatha tropical storm in May 2010. The cost of the two disasters was US$982 million, approximately 2.6% of the 2009 GDP.

In June 2010, the government disbursed the full balance of the Cat DDO to finance part of the reconstruction and other expenses.
# Terms & Conditions

<table>
<thead>
<tr>
<th><strong>Approval Date</strong></th>
<th>April 14, 2009</th>
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<tbody>
<tr>
<td><strong>Amount and Currency</strong></td>
<td>US$85 million</td>
</tr>
<tr>
<td><strong>Repayment Schedule</strong></td>
<td>24 years of final maturity (including a 9 year grace period) with leveled amortizations of principal</td>
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<tr>
<td><strong>Interest Rate</strong></td>
<td>Fixed at 4.77% for 24 years</td>
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<tr>
<td><strong>Disbursement Period</strong></td>
<td>3 years; renewable up to 15 years if original program remains in place</td>
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<tr>
<td><strong>Fees</strong></td>
<td>0.25% Front-End Fee[^1]</td>
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**For more information, please contact:**

**Contact:** Miguel Navarro-Martin, Head of Banking Products, [mailto:mnavarromartin@worldbank.org](mailto:mnavarromartin@worldbank.org), +1 (202) 458-4722

[^1]: On August 5, 2009, IBRD increased the front-end fee from 0.25 percent to 0.50 percent and introduced a 0.25 percent renewal fee for new DPLs with a Cat DDO.