

# Investment Project Financing (IPF) with a Deferred Drawdown Option (DDO)

## Highlights

- *A contingent credit line that provides immediate funding for specific expenditures for a project or a public institution when an unforeseen shock occurs*
- *Funds become available for disbursement when a pre-agreed drawdown trigger is met*
- *The IPF DDO can cover a period of up to five years, and can be renewed for three more years*

Increasing resilience to fiscal shocks from crisis and improving risk management are becoming important development objectives for governments around the world. Shocks could be to the financial sector, such as a banking crisis that negatively impacts the finances of a government or state-owned institution, or health crises, such as pandemics, weather-related shocks, and natural disasters.

Investment Project Financing (IPF) with a Deferred Drawdown Option (DDO) is one of the contingent financing modalities offered by the World Bank that provides immediate access to funds in times of crisis. It can shock-proof specific projects or specific public institutions' funds to make sure resources are available for specific needs in times of crisis, when a pre-defined trigger is met.

Formalized as a part of World Bank's [Crisis Response Toolkit](#), the IPF DDO complements other risk management tools available to governments, including their own budget resources and existing national funds, insurance options, and other World Bank financing instruments such as DPF DDO, Cat DDO and IPF Project-Based Guarantee (see page 3 for comparison).

## Key Features

The IPF DDO is governed by World Bank's [IPF policies](#), and can be a component of a larger IPF contingent financing, in which case, the IPF DDO financial terms will only apply to that component of the project financing.

**Drawdown trigger:** The IPF-DDO has a pre-specified drawdown trigger as determined by the World Bank and borrower, depending on the nature of the project. For example, for an IPF-DDO, structured to backstop the reserves of a Bank Deposit Guarantee Fund, the pre-defined trigger may be a bank failure. Or if IPF-DDO is backstopping an Energy Fund that covers the increased cost of hydropower generation, the trigger may be a national declaration of drought conditions.

**Drawdown:** The five-year drawdown period may be renewed for three more years without a fee.

**Repayment schedule:** The repayment schedule for the IPF-DDO is defined at the time of withdrawal. A tailored repayment schedule for each drawdown is possible, subject to prevailing policy limits. In the case of a drawdown, average repayment maturity (ARM) would be calculated from effectiveness.

## Pricing

IPF-DDO has the same lending rate as regular IPF loans, and these are set at the time of drawdown. Disbursements will be priced at the prevailing spread over the reference rate for IBRD loans – comprising the contractual spread, funding cost, and maturity premium at the time of drawdown.

In addition to the front-end fee of 0.25%, IPF-DDOs are subject to a stand-by fee of 0.50% per annum on undisbursed balances, accruing from the date of effectiveness.

For current pricing information, please visit the Treasury website at:

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

## Examples

Trigger Event	Institution or Project that the IPF DDO backstops	So that...
Certain natural disasters, such as a major drought or flood	National disaster fund	Can immediately respond in rebuilding infrastructure after a disaster hits
Food security emergency	Social protection program	Can rapidly expand the coverage of cash transfers to poor households
Multiple bank failures	Deposit insurance guarantee fund	Can make a payout to insured depositors in a timely way
Local banks defaulting on payment obligations on their letters of credit to commodity importers due to currency risk	Local banks	Can allow trade financing to continue to allow the importation of strategic commodities
National declaration of drought conditions	Energy stabilization fund that covers the increased electricity generation costs from Hydropower	Can continue providing reasonably priced electricity to households and industry
Demand exceeding a pre-agreed amount for green public transportation	Financial intermediary for green transition	Can provide financing to an increased number of municipalities for transition to electric transportation.

## Major Terms & Conditions – For IBRD Loans

<b>Purpose</b>	To provide immediate liquidity when the borrower needs it. IPF DDO provides borrowers financial preparedness by committing contingent financing for pre-specified expenditures if a certain trigger event occurs, in contexts where other public and private sector instruments such as guarantees or trade finance backstopping are unavailable.
<b>Eligibility</b>	All IBRD-eligible borrowers (upon meeting pre-approval criteria).
<b>Currency</b>	Same as regular IBRD loans.
<b>Tenor</b>	Same as regular IBRD loans
<b>Drawdown</b>	Up to the full loan amount is available for disbursement at any time within five years from loan signing if the pre-defined trigger event occurs and as eligible project expenditures are incurred. Drawdown period may be renewed for an additional three years.
<b>Repayment Terms</b>	Must be determined upon commitment and may be modified upon drawdown within prevailing maturity policy limits. The ARM is calculated at effectiveness and the repayment schedule will start from the date of drawdown.
<b>Lending Rate*</b>	Like regular IBRD loans, the lending rate consists of a variable reference rate plus a variable spread, set at the drawdown.
<b>Front-end Fee**</b>	0.25% of the loan amount is due within 60 days of effectiveness date; may be financed out of the loan proceeds.
<b>Stand-by Fee**</b>	0.50% of the undisbursed balance accruing from the date of effectiveness.
<b>Cancellation</b>	The IBRD/IDA borrower can always cancel the financing before the closing date with no penalty.
<b>Conversion Options and Prepayments</b>	Currency Conversions, Interest Rate Conversions, Caps, Collars, Payment Dates, Conversion Fees are the same as for regular IBRD loans.

## Special Considerations for IDA Credits

For IPF DDO operations confirmed to have a specific crisis or emergency preparedness objective, IDA would cover half the cost of the IPF DDO for IDA countries, where 50% of the funds would come from a country's Performance Based Allocation (PBA) and 50% from the IDA General Pool. IDA resources from a country's national IDA allocations that are committed to an IPF DDO operation but not disbursed (if a shock does not occur) would revert back to the country's national IDA allocations.

\* Pricing and repayment terms for IDA concessional IPF DDOs would be set at commitment and not at the time of disbursement.

\*\* IDA-financed IPF DDO operations follow standard IDA concessional fee terms. The standby fee for IPF DDO financed from IDA's concessional windows is determined on an annual basis from 0% up to a maximum of 0.50% per year (0% for FY24).

**DDO: Comparison Against Other World Bank Contingent Financing Options**

	<b>Cat-DDO <sup>(1)</sup></b>	<b>DPF-DDO <sup>(2)</sup></b>	<b>IPF-DDO <sup>(3)</sup></b>	<b>IPF Project-Based Guarantee</b>
Financing use	Finances all expenditures through general budget support addressing shocks related to natural disasters and health emergencies.	Finances all expenditures through general budget support.	Finances earmarked investment project expenditures, with financing available to be drawn down upon the occurrence of a prespecified trigger event.	Backstops government obligations to the private sector.
Approval criteria	The borrower must have an adequate macroeconomic policy framework and a satisfactory disaster risk management program in place.	Adequate macroeconomic framework and satisfactory program implementation.	Standard IPF approval considerations, following IPF policy, directives, and guidance.	Standard IPF approval considerations, following IPF policy, directives, and guidance.
Trigger	The Cat DDO has a prespecified drawdown trigger, typically the member country's declaration of a state of emergency or a specific parametric trigger.	For a DPF DDO, the drawdown is available upon the country's request. It is an immediate source of liquidity to respond to economic shocks or other fiscal needs.	Pre-specified triggers established for the particular project; can be a specific parametric trigger, a defined market event or contractual obligation, or another trigger.	Call on the Guarantee by the Private Sector as defined by the Legal Agreement.
Disbursement Expectation	Unknown at the time of Board approval and dependent upon the trigger. Sound macro framework required at approval and renewal, but not for drawdown.	Drawdown is possible at any time during the three-year period.	Unknown at the time of Board approval and dependent upon the trigger/event occurring.	Unknown at the time of Board approval and may be called by the private sector.
Duration	Three years; may be renewed up to four times (IBRD) or once (IDA).	Three years; may be renewed once for an additional three years as set out in the Letter of Development Policy and adequate macroeconomic framework.	Expected project length of up to five years, in line with standard IPF project duration. May be extended for up to three years for a maximum total of eight years	Duration depends on the Terms and Conditions of the Guarantee – e.g., 10-20 years.
Pricing and fees	Pricing and fees consist of a variable reference rate plus a variable spread, a one-time front-end fee of 0.50% and a renewal fee of 0.25%	Pricing and fees consist of a variable reference rate plus a variable spread, a one-time front-end fee of 0.25%, and a stand-by fee of 0.50% per annum.	Pricing and fees consist of a variable reference rate plus a variable spread, a one-time front-end fee of 0.25%, and a stand-by fee of 0.50% per annum.	<a href="#">Pricing of World Bank Guarantees</a> is set by the World Bank Board following the same principles as those applied to its lending instruments. The level of the guarantee fee is set at IBRD, and the IDA level is adjusted by the average life of the guarantee and <a href="#">pricing group of the host country</a> .

(1) Cat-DDO Development Policy Loan (DPL) with a Catastrophe Deferred Drawdown Option (2) DPF-DDO Development Policy Financing (DPF) with a Deferred Drawdown Option (3) IPF-DDO Investment Project Financing (IPF) with a Deferred Drawdown Option