



ISLAMIC DEVELOPMENT BANK

DISBURSEMENT MANUAL

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Chapter 1 - The Islamic Development Bank

AN OVERVIEW

Establishment of the Islamic Development Bank

1.1 The Islamic Development Bank (IDB) is an international development financing institution established in pursuance of the Declaration of Intent issued by the First Conference of Finance Ministers of the Islamic Countries held in Jeddah, Saudi Arabia, in Dhul Qa'da 1393H (December, 1973) and signed by representatives of twenty three member countries of the Organization of the Islamic Conference (OIC). The inaugural meeting of the Board of Governors of the Bank took place in Riyadh, Saudi Arabia, in Rajab 1395H (July 1975). The Bank started functioning on 15 Shawwal 1395H (20 October 1975).

Membership

1.2 At the end of 1419H (1999G) the membership of the Bank has increased to fifty three countries, compared with twenty-three at the time of inauguration in 1395H (1975). The membership of the Bank is expected to increase further in near future as and when required.

Purpose

1.3 The Bank is established to foster the economic development and social progress of member countries and Muslim communities individually as well as jointly, in accordance with the principles of Shari'ah.

Head Office

1.4 The principal office of the Bank is in Jeddah, Kingdom of Saudi Arabia, while current regional offices are located in Malaysia (Kuala Lumpur), Morocco (Rabat) and in Kazakstan (Al Maty).

Principles of Operations

1.5 The Islamic Development Bank operates according to the Shari'ah principles.

1.6 Shari'ah is the set of rules derived from the Holy Quran, the authentic traditions (Sunnah) of the Prophet (peace be upon him) and the scholarly opinions (Ijtihad) which are based on the Holy Quran and the Sunnah.

1.7 The principles of Shariah that govern Islamic banking are the following:-

- prohibition of interest (riba) in all financial transactions, such as: riba in debts, riba in sales, including forward currency deals and futures exchanges.

- Participation in profit and loss sharing, since return is not guaranteed in an Islamic transaction.

1.8 The IDB does not borrow from the market and its operations are sustained by share-holders capital, retained earnings and funds generated internally through its foreign trade and project financing operations. The IDB has no non-regional members. The IDB is an institution established by the Ummah, for the Ummah and operated and managed by the Ummah. The IDB finances trade and development projects both for the public and private sectors, finances large and medium sized projects and small enterprises in the member countries.

1.9 In non-member countries the IDB supports Islamic communities by providing scholarships and training facilities. Through the Islamic Research Training Institute (IRTI), the IDB conducts research on Islamic topics having modern day relevance. The IDB also mobilizes technical capabilities within member countries in order to promote exchange of expertise and experience. Science and Technology development are in the forefront of the strategic agenda of the IDB which forms an integral part of project financing. Additionally, the IDB provides merit scholarships for high technology to scholars for pursuing doctorate programme and post-doctoral research in centers of excellence in the world.

1.10 Through its Islamic Corporation for the Insurance of Investments and Export Credit (ICIEC), the IDB provides, in accordance with the principles of Shari'ah, export credits, insurance to cover non-payment of export receivables resulting from commercial (buyers) and non-commercial (country) risks.

Modes of IDB Financing

1.11 The Bank finances projects from its Ordinary Capital Resources (OCR) by way of interest-free loan or soft loan, under the modes of financing of loans, installment sale, technical assistance, equity participation, profit sharing, istisna'a and lines of financing extended to NDFIs. A brief explanation of the applicable modes of financing is given below:

1.11.1 Loan

This mode of financing is used for projects expected to have a significant socio-economic developmental impact, with a long implementation period and which may not be revenue-generating. Loans are given to governments or public institutions mainly in the Least Developed Member Countries (LDMCs) for implementation of social infrastructure projects.

At the moment the current policy is that the Bank charges a modest service fee, not exceeding 2.5%, to recover part of the administrative costs incurred in project identification, appraisal and supervision. In addition, the loans provided by the Bank include a grace period of 3-7 years and repayment is spread over a period of 15-25 years. These projects are usually given maximum grace and repayment periods.

1.11.2 Leasing

This is a medium term mode of financing for rental of capital equipments and other fixed assets such as plant, machinery and equipment for industrial, agro-industrial, infrastructure, transport, etc., both for public and private sectors. Lease financing is also

provided for acquiring ships, oil tankers, fishing trawlers etc. At the end of the rental period the Bank transfers the ownership of the equipment to the lessee as a gift. The Bank charges a percentage for Mark-up depending on whether it is member or non-member country for already existing projects approved on or before 1420H. This policy has been replaced by a floating rate mark-up for all new projects approved by BED starting..... 1420H..

1.11.3 Installment Sale

Installment Sale financing is similar to Leasing. The major difference is that in Installment Sale, the ownership of the asset is transferred to the beneficiary on delivery. Under this mode of financing, the Bank purchases the asset i.e. equipment and machinery and sells it to the beneficiary at an agreed value including a mark-up.

1.11.4 Equity Participation

The Bank participates in the equity capital of existing or new companies which are operating in accordance with Shariah in the public and private sectors. The Bank's participation is limited to one-third of the equity capital of the company.

1.11.5 Profit Sharing

It is a form of partnership in which two or more parties pool funds together to finance a venture. The partners share the profit (or loss) in proportion to their contribution to the capital.

1.11.6 Istisna'a

Istisna'a is a mode used for the promotion of trade in capital goods, enhancement of the production capacity and project financing. It is a contract for manufacturing goods or other assets in which the manufacturer agrees to provide the buyer with goods manufactured according to specifications within a certain time and for any agreed price. This mode enables the Bank to finance working capital and thus contribute to the enhancement of production capacity in member countries.

1.11.8 Technical Assistance

In addition to the above, the Bank provides Technical Assistance in the form of grant and/or loan for project-related tasks such as feasibility study and design, supervision of implementation and for tasks of an advisory nature such as definition of policies, sectoral plans, institution-building, research, etc. Technical Assistance is mainly extended to least Developed Member Countries (LDMCs).

1.11.9 Line of Financing to National Development Financing Institutions

Under this category the Bank extends financing through equity, leasing and installment sale to the NDFIs in member countries to promote the growth of small and medium size industries (SMEIS) mainly in the private sector.

Special Assistance Operations

1.12 The Bank maintains a Special Assistance Account which was established in 1399H (1979). The Account is kept separate from the ordinary resources of the Bank and is used,

among others, for training and research, provision of relief in the form of appropriate goods and services to member countries and Islamic communities afflicted by natural disasters and calamities, promotion and furtherance of Islamic causes and assistance to Muslim communities in non-member countries to improve their socio-economic conditions.

Other Operations of the Bank

1.13 In addition to the above modes of financing, there are three schemes which play a significant role in promoting trade among IDB member countries. These are (i) Import Trade Financing Operations (ITFO), (ii) Export Financing Scheme (EFS) and (iii) Islamic Bank's Portfolio for Investment and Development (IBP) (See Chapter No..... and No. For ITFO and EFS procedures of financing respectively).

Currencies of Disbursement

1.14 The accounting currency of the IDB is the Islamic Dinar (ID) with
1 ID = 1 Special Drawing Right (SDR)

1.15 The Bank disburses in all major convertible currencies as well as in local currencies of member countries depending on the supply contracts and the provision in the IDB financing agreement. The Bank accepts repayment in most major convertible currencies. All disbursements and repayments are converted into Islamic Dinars for accounting purposes.

1.16 The exchange rate for the Islamic Dinar vis-à-vis the currency of disbursement or repayment is based on the IMF rate for the SDR on the date preceding the day of the payment or receipt of funds.

The Project Cycle

The overall framework under which the Bank gets involved in a number country is the Country Assistance Strategy Study (CASS). This strategy establishes the composition and level of assistance to be provided based on priorities of the respective member country and the medium term strategy of the Bank. CASS is applied instrumentally in identifying and designing projects that fit into and support the developmental strategy of the country and the bank.

Identification

This is the first phase of the cycle and it provides against the background of the development plan of the country and the priorities of the Bank through its Medium-Term Strategy Agenda. Identification can come from several sources but must also meet a prime face test of feasibility.

One identified, a project is incorporated into a rolling three-year work program and it forms the basis of the Banks future operations in that country. Country rolling work programs are used for programming and budgeting operations and assuring that the resources are available to support each phase of the cycle.

Preparation

A "Project Document" is prepared for each project ----- its objectives, identifying principal issues and establishing the timetable for its further processing. Preparation of project feasibility study transforms the project idea into a detail proposal that cover the full range of technical, economical financial, social institutional and environmental aspects. The goal is to come up with the best method to achieve the project objectives.

The Bank plays an active role in ensuring timely flow of well-prepared project but formal responsibility for project preparation rests with the beneficiary. The Bank can extend financial and technical assistance for project preparation in a number of ways e.g. technical assistance for feasibility study detailed design, preparation of tender documents and project supervision.

Appraisal / Negotiation

After preparation, the Bank reviews the proposal and undertakes a full-scale project appraisal. It covers a comprehensive review of the technical, economic, financial and institutional aspects of the project proposal and lays the foundation for implementing and evaluating the project when completed.

Implementation and Follow-up

Implementation of the project is the responsibility of the beneficiary. The role of the Bank in this area is to follow the implementation and procurement processes.

The main purpose is to ensure that the project achieves its development objectives and in particular to work with the beneficiary in identifying and dealing with problems that arise during implementation. Follow-up is therefore primarily a problem solving exercise.

Evaluation

Upon completion, all Bank-assisted projects are subjected to post evaluation carried out by Operations Evaluation office which is entirely separate from the Bank's Operation Dept. and reports directly to the precedent.

Legal Provisions

1. The Bank has in separate booklet a number of standard conditions governing the loans that are contained in the General Conditions Applicable to Loans and Guarantee Agreements. These conditions which are a part of the Financing Agreement cover the following articles:
 - Application to Loan and Guarantee Agreements.
 - Definitions and Headings
 - Loan Account, Service fee, Repayment and place of payment
 - Currency Provisions
 - Withdrawal of Proceeds of loan-effective date
 - Cancellation and suspension
 - Acceleration of Maturity
 - Degree of priority of the Loan – Taxes and Restrictions
 - Enforceability of Loan Agreement and Guarantee Agreement. Effect of failure to Exercise Rights; Arbitration
 - Miscellaneous Provisions
 - Termination of Loan and Guarantee Agreements for failure to Request First Withdrawal.

2. Article III stipulates that the Bank opens a loan project account in its books in the name of the borrower and the amount of the loan credited therein. The article also describes the service fee, repayment and place of payment conditions.
3. Article V sets out the requirements for the withdrawal of proceeds and effective date as follows:

- **Withdrawal of proceeds**

The Borrower is entitled to withdraw funds for amounts spent on the project in accordance with the provisions in the Financing Agreement and General Conditions. Withdrawals can only be made for eligible expenditures.

- **Application for Withdrawal or issuance of special commitment.**

For withdrawal of any amount or request for issuance of irrevocable commitment, the Borrower must apply to the Bank in writing in such form and containing the information that the Bank requires.

- **Issuance of Special Commitment**

At the request of the Borrower, The Bank may issue an irrevocable commitment to reimburse a commercial bank through our correspondent bank for payments made to a supplier against a Documentary letter of Credit (L/C). The finance will be from the loan account.

- **Documentary evidence of Authority to sign withdrawal Applications.**

The Bank requires the Borrower to submit documents evidencing the authority of the person or persons authorized to sign all applications with authenticated specimen of their signatures.

- **Supporting Evidence**

The Borrower must provide to the Bank such other documents and evidence in support of each applications that the Bank shall reasonably request, whether before or after the Bank has permitted disbursement.

- **Sufficiency of Application and Documents**

Each application for withdrawal and its accompanying documents and other evidence must be complete and/or sufficient in form and context so as to satisfy that the Borrower is entitled to withdraw the amounts applied for that the amounts are eligible expenditures.

- **Reallocation of Proceeds**
- **Payment by the Bank**

The Bank shall pay the amount withdrawn by the Borrower from the Loan project account to the borrower only or his order.

The Borrower undertakes not to use the amount withdrawn from the loan except for eligible expenditures.

- Effective date

Except as otherwise agreed by the Bank and the Borrower and the Borrower, the Financing Agreement and Guarantee Agreement shall only come into force and effect on the date upon which the Bank dispatches to the Borrower and Guarantor notice of its acceptance of the evidence required by section on conditions precede to the first withdrawal.

4. Conditions precedent to First Withdrawal Financing Agreements

The main legal document that is required for the project, binding all concerned parties, is the agreement signed by the parties, is the agreement signed by the borrower and the bank. It sets out the terms and conditions of the financing.

This agreement may in different circumstances be called a Loan Agreement or Grant Agreement.

5. Amending Legal Agreements

The Bank has the right to make certain changes giving notice to the Borrower. Such changes may include:

Extending dates for first disbursement and closing disbursement.

Reallocating funds

Adjusting the percentages.

6. Schedule of Withdrawal of proceeds

The schedule of withdrawal of proceeds i.e. – schedule No.1 to the Financing Agreement is set up by agreement between the borrower and the Bank. It contains a list of the items to be financed by categories i.e. civil works, goods, consulting services, training etc.

Each category shows the estimated amount of expenditures and the percentages to be financed from the loan.

A portion of the loan is usually set aside for contingencies.

7. Disbursement Letter

After the Financing Agreement is signed, the Disbursement Division sends a letter to the Borrower outlining the disbursement procedures and other related arrangements to be followed during the administration of the project.

In some projects, several agencies as well as the borrower may be involved in project implementation and would therefore be entitled to send withdrawal applications.

The Borrower is responsible for providing the Bank with appropriate and accurate list of addresses of the project entities for all correspondence

8. Significant Dates (Milestones)

- Board approval date: The date the executive directors approve the loan. It determines the schedule of repayments subject to any modifications (Amortization Schedule).
- Signing date: The date the financing Agreement is signed by the Borrower and the Bank.

For OCR loans, service fee charges of 4% will start to accrue.

Effective date: The date when all the conditions of effectiveness of the financing Agreement have been fulfilled by the Borrower. The date is determined by the Bank and it heralds that disbursements may be made from the loan.

Project Completion date: The date on which the project is considered physically completed. It proceeds the loan closing date.

Closing Date: The date as specified in the Financing Agreement that the Bank may terminate the right of the Borrower to make withdrawals from the loan project account.

Conditions precedent to the First Withdrawal

The Borrower shall not be entitled to withdraw any amount from the loan project account unless the Bank is satisfied that the following requirements have been completed with:

(a) The signature and delivery of the Loan Agreement and guarantee agreement have been duly authorized or ratified by all necessary corporation and governmental action.

Chapter 2 - LEGAL PROVISIONS

General Conditions

2.1 The standard conditions which govern the financing of operations by the IDB are contained in the document entitled "The General Conditions Applicable to Financing and Guarantee Agreements". These conditions are an integral part of the Financing Agreement.' They cover the following:

Financing Agreement

2.2 The most important legal document for a project is the Financing Agreement signed between the borrower and the Bank. This agreement enumerates the terms and conditions of the loan.

2.3 When the Bank lends to the member country but implementation will be by the project entity, the Bank requires a guarantee agreement from the member country.

2.4 When the Bank lends directly to a party other than the member country concerned, the Bank requires a commercial bank guarantee or other recognisable form of security from a reputable financial institution approved by the Bank.

Amendments to Financing Agreements

2.5 The Bank has the right to make necessary changes to the Financing Agreement by giving notice to the borrower. Such changes include extension of the first date and/or closing date of disbursement.

2.6 Other amendments are subject to agreement between the borrower and the Bank. Any changes that will significantly affect the project may require the approval of the Board of Executive Directors.

Loan Amount

2.7 The amount of the Financing Agreement shall be expressed in Islamic Dinar or other fully convertible currency as approved by the Board of Executive Directors or the President, IDB, and shall be credited to a project account opened in the books of the Bank. Withdrawals therefrom will be made by the borrower or its representative as provided for in the Financing Agreement and General Conditions.

Effectiveness Conditions: (Conditions Precedent To The First Withdrawal)

2.8 Under Loan Financing

2.8.1 The Borrower shall not be entitled to withdraw any amount from the Loan Account until the following requirements have been complied with to the entire satisfaction of the Bank :

(A) (i) Evidence satisfactory to the Bank shall have been furnished

that the execution and delivery of the Agreement on behalf of the Borrower have been duly authorized or ratified by all necessary governmental actions;

- (ii) The Borrower shall have furnished a Legal Opinion acceptable to the Bank emanating from a Government Legal Authority declaring that the Loan Agreement has been authorized and properly signed on behalf of the Borrower. The declaration shall state that the Agreement constitutes a binding obligation on the Borrower in accordance with its terms;
- (B) A Letter of Authorization shall be issued by the Ministry of Finance or any other duly authorized organ of the government to the Central Bank or the entity that performs the functions of a Central Bank instructing the said Bank that payment by the government under this Agreement of the loan and service fee installments shall be effected by the Central Bank or the entity that performs the functions of a Central Bank on the dates on which they fall due. A copy of this Letter of Authorization together with an acknowledgement from the Central Bank or the entity that performs the functions of a Central Bank indicating that it has received the said Letter of authorization and that it will adhere to the instructions contained therein, shall be forwarded by the Government to the Bank.
- (C) All conditions precedent to the Borrower's right to obtain funds under other loans have been fulfilled (in case of co-financing with other financiers).

2.33.3 Declaration of Effectiveness of the Financing Agreement : Except as shall be otherwise agreed by the Bank and the Borrower, the Loan Agreement and the Guarantee Agreement shall come into force and effect on the date upon which the Bank dispatches to the Borrower and to the Guarantor notice of its acceptance of the evidence required by para 4.1.1. of

Under IS, Leasing and Istisna'a financing

2.9 This type of financing requires that the beneficiary acts as an Agent of the Bank for the implementation of the Agreement. The Agent should present to the Bank (through a legal opinion) the following :

- (a) that it is a Company/Corporation/Statutory body incorporated/ established under the Laws of the country of beneficiary/lessee etc. and that it has the necessary power to enter into, exercise its rights under and perform the obligations undertaken by it in this Agreement and in the Lease Agreement (not required in case the Agent is the Government);
- (b) that all necessary actions legally required to enable it lawfully to enter into, exercise its rights under and perform the obligations undertaken by it in this Agreement and in the Lease Agreement, have been duly taken and are in full force and effect;
- (c) that the obligations undertaken by it under this Agreement and under the Lease Agreement are legal, valid and binding obligations binding on it in accordance with their terms under the Laws of the country of beneficiary/lessee etc., and that it is not necessary for the legality, validity or enforceability of the Agreements that they be filed, recorded or enrolled with any court or government agency of the beneficiary/lessee etc.

2.10 Effectiveness Conditions : Agreement shall not become effective until :

- (i) Evidence satisfactory to the Bank shall have been furnished to the effect that the signature of this Agreement on behalf of the Agency has been duly authorized in accordance with the laws in force in the country of the beneficiary/lessee etc..
- (ii) The Agent shall have furnished a Guarantee in the form provided in Appendix V of the financing agreement hereto from (a) a commercial bank acceptable to the Bank or (b) the Government (in case of Governmental guarantee)

Termination of agreement for Failure to become effective

2.11 If the Agreement shall not have entered into effect within 18 months of its signature the Agreement and all obligations of the parties thereunder shall terminate, unless the Bank, after consideration of the reasons for the delay, shall establish a later date for the purposes of termination of the Agreement. The Bank shall promptly inform the agent of such later date.

Cancellation And Suspension

2.12 Under Loan Financing

2.12.1 Cancellation By The Borrower:

The Borrower may by notice to the Bank cancel his right to draw any part of the Loan not drawn prior to the giving of such notice and the Bank has not entered into a special commitment in respect thereof.

2.12.2 Suspension By The Bank:

The Bank may by notice to the Borrower suspend the Borrower's right to draw all or part of the Loan in any of the following cases :

- a) Failure of the Borrower or the Guarantor to discharge his obligations to pay the principal amount of the Loan, service fee or any other amount due in accordance with this Loan Agreement or any other Loan Agreement between the Bank (or any body affiliated to the Bank) and the Borrower or any Guarantee Agreement between them;
- b) The Borrower or the Guarantor shall have failed to perform any other obligation under the Loan Agreement or the Guarantee Agreement;
- c) (i) The Bank (or any other affiliated body to the
 - i. Bank) shall have suspended in whole or in part the right of the Borrower or the Guarantor to make withdrawals under any loan agreement with the Bank (or any affiliated body to the Bank) because of a failure by the Borrower or the Guarantor to perform any of its obligations, under such agreement.

- d) The Bank shall have suspended in whole or in part the right of the Borrower, under any loan agreement with the Bank guaranteed by the Borrower or Guarantor, to make withdrawals from the Loan Account because of a failure by the Borrower or Guarantor to perform any of its obligations as such Borrower or Guarantor;
- e) An extraordinary situation shall have arisen which
 - (i) shall make it improbable that the project can be carried out by the Borrower, or
 - (ii) which prevents the attainment of the purposes for which the loan and guarantee agreements were entered into;
- f) The member of the Bank which is the Borrower or the Guarantor shall have been suspended from membership in or ceased to be a member of the Bank;
- g) A representation made by the Borrower or the Guarantor, or pursuant to the Loan Agreement or the Guarantee Agreement or any statement furnished in connection therewith and intended to be relied upon by the Bank in making the Loan, shall have been incorrect in any material respect;
- h) A loan by a co-financing body is suspended and in this particular case suspension may continue until the Bank takes appropriate decision;
- i) The right of the Borrower to make withdrawals shall continue to be suspended in whole or in part, as the case may be, until the event or events which gave rise to such suspension shall have ceased to exist or until the Bank shall have notified the Borrower that its right to make withdrawals has been restored, whichever is the earlier; provided, however, that in the case of any such notice of restoration, the right to make withdrawals shall be restored only to the extent and subject to the conditions specified in such notice and no such notice shall affect or impair any right, power or remedy of the Bank in respect of any other or subsequent event described herewith.

2.13 Suspending Of Disbursements Due To Country Overdues:

2.13.1 As soon as the overdues (in all windows) of a member country, in aggregate, exceed ID 1 million, IDB suspends further approval of projects or operations as well as disbursements on all approved projects in that country.

2.13.2 In addition, the Bank will also suspend further commitment or disbursement on approved projects :

- (i) if amounts less than ID 1,000,000/= to ID 500,000/= remain overdue for 6 (six) months or more, or
- (ii) if amounts less than ID 500,000/= to ID 100,000/= remain overdue for 12 (twelve) months or more .

2.13.3 Two exceptions have been made to the above mentioned general procedures for suspension.

- (a) Technical Assistance and Technical Cooperation can be extended to countries with overdues when certain conditions are fulfilled.
- (b) Where IDB is contractually bound to pay the said amounts to the supplier of the goods through an already opened L/C under ICR.

Distinction between Arrears on Public Sector and Private Sector Project

2.14 Generally speaking, a Private Sector Project is a project which is beneficially owned by private individuals or private companies or corporation. A Public Sector Project is a project whose majority share is owned by the state or public corporation. However, there are cases where private sector projects may be guaranteed by public sector banks or public sector projects guaranteed by private sector banks. In such cases, the categorization has been made by the Guaranteeing bank.

2.15 Suspension of payments due to arrears takes into consideration whether these arrears are on public or private sector projects.

- i. IDB may not suspend further approval of operations or disbursements on the already approved projects in the public sector because of overdues of projects in the private sector in a member country. However, suspension can still apply to a member country if the government fails to make available the required foreign exchange to repatriate the dues of the IDB, or a government controlled guarantor bank fails to honour its obligations or the Central bank of the concerned country fails to take appropriate measures within the power under its own regulations to oblige the defaulting bank to honour its obligations. Suspension in such a case will be enforced after a grace period of 90 days from the date of default to enable the government to take appropriate action as required under the circumstances.
- ii . Similarly, if a borrower in the private sector is in default, that should not affect new operations or disbursements in favour of other borrowers in the private sector so long as all other requisite conditions are fully met.
- iii . In case, the government of a member country is in default with IDB, IDB (including other windows) should not enter into a new commitment in that country even in its private sector unless the new commitment is guaranteed by a Bank acceptable to IDB from outside the member country concerned. Disbursements can, however, continue in the already approved private sector projects on the strength of the guarantees from private sector banks.
- iv . In case, a private sector project is in default, even for one installment irrespective of the amount involved, the sanction in the form of suspension of new commitments and disbursements on already approved projects, will apply to the defaulting project with immediate effect.

Cancellation by The Bank

2.16 Cancellation by the Bank comes into effect for the following reasons :

- (a) the right of the Borrower to make withdrawals shall have been suspended with respect to any part of the loan for a continuous period of thirty days
- (b) at any time the Bank determines, after consultation with the Borrower, that any part of such amount will not be required to finance the Project's costs to be financed out of the proceeds of the loan

- (c) if a part of the loan remains not withdrawn after the closing date of withdrawal from the loan, the Bank may after consultation with the Borrower give notice to the Borrower terminating the Borrower's right to withdraw such part. That part of the loan shall be considered cancelled upon delivery of such notice.

Amounts Subject to Special Commitment Not Affected by Cancellation or Suspension by the Bank

2.17 No cancellation or suspension by the Bank shall apply to amounts subject to any special commitment entered into by the Bank except as expressly provided in such commitment.

Effectiveness of Provisions After Suspension or Cancellation

2.18 Notwithstanding any cancellation or suspension, all the provisions of the General Conditions, the Loan Agreement and the Guarantee Agreement shall continue in full force and effect except as in this Article specifically provided.

Under IS, Lease, Istisna'a, Murabaha Financing

2.19 Unless a commitment has been made with a third party by, or on behalf of, the Bank :

- i) The Agent may request the Bank to cancel the Approved Amount or any part thereof.
- ii) The Bank may, by notice to the Agent, suspend payment of the Purchase Price or any part thereof in any of the following cases:
 - a) Failure of the Agent, or the Guarantor, to discharge its obligations to pay any amount due to the Bank, or to any other affiliated body to the Bank, under any agreement other than this Agreement;
 - b) The Agent, or the Guarantor, shall have failed to perform any obligation under this Agreement;
 - c) The Guarantee shall have, for any reason, ceased to be in full force and effect as the legal, valid and binding obligation of the Guarantor;
 - d) The Agent or the Guarantor shall have declared a moratorium on the payment of its indebtedness;
 - e) An extraordinary situation shall have arisen which shall make it, in the opinion of the Bank, unlikely that the Guarantor can meet its obligations as a Guarantor.
 - f) An extraordinary situation shall have arisen which
 - (i) shall make it, in the opinion of the Bank, improbable that the Project can be carried out by the Agent
 - (ii) prevents the attainment of the purposes for which the financing Agreement is entered into;
 - g) Any action shall have been taken or legal proceedings shall have been started for the winding up, dissolution or reorganisation of the Agent or the Guarantor (otherwise than for the purposes of an amalgamation or reconstruction while solvent on terms approved by the Bank in writing) or for the appointment of a receiver, trustee or similar officer of the Agent or the Guarantor or of any or all revenues and assets of the Agent or the guarantor;

- h) Country of the beneficiary/lessee etc. shall have been suspended from membership in the Bank or ceased to be a member of the Bank;
- i) A representation made by the Agent or the Guarantor, or any statement furnished and intended to be relied upon by the Bank in processing the Project for approval or for entering into this Agreement, shall have been incomplete or incorrect in any material respect;
- j) Any financing of the Equipment by a co-financing body is suspended

2.20 Payment of the Purchase Price by the Bank shall continue to be suspended in whole or in part, as the case may be, until the event or events which gave rise to such suspension shall have ceased to exist or until the Bank shall have notified the Agent that the undertaking of the Bank to pay the Purchase Price has been restored, whichever is earlier; provided, however, that in the case of any such notice of restoration, the undertaking to pay the Purchase Price shall be restored only to the extent and subject to the conditions specified in such notice, and no such notice shall affect or impair any right, power or remedy of the Bank in respect of any other or subsequent event described in this Section.

Chapter 3 -

PROCUREMENT OF GOODS WORKS AND SERVICES

Purpose

General Information

3.2 The procurement of goods and services are governed by the Guidelines for procurement of goods and services under the IDB and also the use of the services of consultants is governed by the IDB Guidelines for the use of consultants.

3.3 The above guidelines at 3.2 fully document the requirements of the Bank for procurement and use of consultants. Borrowers or their representatives who prepare disbursement applications must fully understand these requirements so that disbursement for goods, works and services can be effected promptly and efficiency must understand these requirements so that disbursements can be effected efficiently and promptly. The noncompliance of the procedures may cause delays in disbursements.

International Competitive Bidding (ICB)

The most effective form of procurement in most cases is international competitive bidding.

Expenditures under Contract

The bidding documents always state that the proceeds of Bank financing should be applied for payment of goods produced in and services rendered from eligible countries. Bidding documents therefore require the contractor or supplier to provide necessary information on the country of origin of the goods, works or services to comply with this requirement.

3.4 General

Purpose

3.4.1 The purpose of International Competitive Bidding is to provide the Recipient with a wide range of choices in selecting the best bid from competing suppliers/contractors, and to give all prospective bidders from eligible source countries adequate, fair and equal opportunity to bid for the goods and services which are being procured under the Bank financing. The Articles of Agreement of the Bank require that goods and services (other than consultancy services) be procured, ordinarily, through International Competitive Bidding, open to suppliers and contractors from all countries of the world.

3.4.2 Exceptions to this rule are those countries which are disqualified by the Bank, or where the required goods and services are available in the Bank's Member Countries. Furthermore, where it is ascertained that there are sufficient number of Member Countries which have the production capability to manufacture a certain plant, equipment or machinery according to the required standards and which may be interested in providing after-sales services, the bidding for such plant, machinery or equipment will be restricted to the Bank's Member Countries.

The guidelines for the Bank set out the procedures to follow for (ICB). They cover the following areas:

3.5 Advertising and Notification

- Type and Size of contracts
- Pre and post-qualification of bidders
- Bidding documents
- Bid evaluation criteria

3.6 Prequalification of Bidders

3.6.1 The Bank requires the use of formal prequalification inter-alia for large or complex contracts, supply contracts of specialized equipment and machinery or turnkey contracts, to ensure, in advance of bidding, that only contractors with a relevant technical expertise and adequate resources for implementing the contract will bid.

3.7 Bidding Documents

General

The bidding documents should include among others, instructions to bidders, proforma conditions of contract and the forms of the securities required (usually bid, advance payment and performance securities).

3.7.1 The bidding documents should furnish all the information necessary for a bidder to prepare a tender for the goods and services to be supplied. While the details and complexity of these documents will vary with the size and nature of the proposed contract, they should normally include:

- invitation to bid,
- instructions to bidders,
- form of tender,
- form and conditions of contract, both general and special,
- technical specifications,
- bills of quantities and drawings,
- schedule of prices and necessary appendices,
- proforma bid bonds,
- performance guarantee and
- advance payment guarantee.

3.7.2 Guidelines on particularly critical components of the bidding documents are given in the Guidelines for Procurement under Islamic Development Bank Financing. The Financing Agreement will specify that bidding documents should be submitted to the Bank for review and clearance before issuance to bidders.

3.8 Reference to the Bank

3.9 Language and Interpretation

3.10 Validity of Bids

3.10.1 Bidders should be required to submit bids valid for a sufficient period specified in the invitation to bid, to enable the Recipient to complete the comparison and evaluation of bids, and obtain all the necessary approvals from the Bank and other co-financiers so that the award can be notified within that period.

3.11 Bid Bond or Guarantee

3.11.1 A bid bond or other bidding guarantee may be required to secure the validity of the bid within the period specified in the invitation to bid.

3.12 Conditions of Contract

3.12.1 The contract should contain general conditions which will cover, inter alia, definition of the scope of work to be performed or the kind of goods to be supplied, the rights and obligations of the Recipient and the contractor or supplier, and the powers and authority of the engineer or architect who may be employed by the Recipient in the administration of the contract, payment terms (including advances to be made, if any), provision for bonds, guarantees, retention money, price adjustment clauses, insurance, and liquidated damages. In addition to the customary general conditions, special conditions appropriate to the nature of the goods or works or the project should be included. All conditions of contract and any negotiated amendments thereto are subject to Bank's prior approval.

3.13 Pricing and Currency of Bids

3.13.1 Tender documents must clearly state the currencies in which bid prices may be expressed and the contract price to be paid. For this purpose, bidding documents should normally require the bidders to state the bid price either in the bidder's own currency or in an international trading currency specified in the bidding documents.

3.14 Price Adjustment Provisions

3.14.1 Bidding documents should contain a clear statement as to whether prices are subject to adjustment upwards or downwards on the occurrence of specified events over which the contractor has no control.

3.14.2 The specific formula for price adjustment should be clearly defined in the tender documents so that the same provisions will apply to all bids. Such formula should only be applicable from a point in time not less than 12 months after the opening of the bid. In the case of construction contracts, no price escalation shall be applicable for the work completed after the original contract period except for the extension period officially granted as per terms of the contract.

3.14.3 For supply and procurement contracts for materials, equipment and machinery to be delivered within one year from the date of opening of the bids, no price adjustments are allowable.

3.15 Terms and Methods of Payment

3.15.1 Payment terms should generally be in accordance with standard international commercial practice and disbursement of the proceeds of the financing should be made in accordance with the Bank's Disbursement Procedures and Financing

Agreement. Payment under the contract should be made in the currency or currencies in which the price has been stated in the successful bid and in conformity with the bidding documents.

3.16 Advance and Progress Payments

3.16.1 Where it is deemed necessary by the Recipient, an advance to the contractor to meet mobilization expenses may be included in the contract. Advance payments made upon signature of the contract for mobilization and similar expenses should be reasonable and should not exceed 20% of the contract price. Advance payments should always be covered by an unconditional and irrevocable Bank guarantee issued by a Bank acceptable to the IDB. A specimen of an advance payment guarantee is shown in Annex 3.1

3.16.2 Other advances to be made, as.-for example, the actual or fair cost of materials delivered to the site for incorporation in the work(s) should also be clearly described in the bidding documents. In case of supply contracts for equipment and machinery, up to 50% of the cost of machinery and equipment shipped and/or delivered on site, may be paid against shipping documents/or certificate of receipt on site.

3.16.3 In civil work contracts, an advance payment against cost of major machinery and equipment may be paid up to 50% of the value of the machinery and equipment provided that such advance is covered by a Bank guarantee from a Bank acceptable to the IDB and that the aggregate of such advance together with a mobilization advance does not exceed 30% of the contract sum.

3.16.4 Progress payments under the contract should be made in the currency or currencies in which the price has been stated in the successful bid, except where a different arrangement is clearly justified.

3.17 Performance Bond Guarantee/Retention Money

3.17.1 Some form of security should be required in the bidding documents to guarantee that the works will be carried to completion in the case of failure of the contractor to perform under the contract. In civil works, a performance bond, or Bank guarantee, or cash deposit, should be required of the selected bidder prior to contract signature, the validity of which should cover the contract period including warranty or maintenance period i.e. the final handing over. The amount of the security will depend upon the type and magnitude of the works to be done; normally 10% of the contract value is deemed adequate to protect the Recipient.

3.17.2 In case of contracts for the supply of goods such as equipment, only a performance bond or Bank guarantee will be required to guarantee the performance of the equipment according to the specifications during the warranty period. Although the amount would depend upon market conditions and commercial practice for the particular type of goods, 5% to 10% of the contract amount is considered appropriate in most cases.

3.17.3 Retention Money: In addition, retention money to ensure compliance by the contractor of his warranty or maintenance obligations may be required in an amount not less than 5% but not exceeding 10% of the payments. Such retention money will be withheld until the provisional hand over. Alternatively, half of the retention money may be released on provisional hand over and the balance retained until final hand-over or expiry of the Warranty period. The retention money may at the option of the Recipient, be replaced with a suitable Bank guarantee from a Bank acceptable to the IDB. Specimen of Performance Bond guarantee is presented in Annexes 3.2.

3.17.4 Insurance and transportation

3.17.5 The tender documents should state precisely the type and extent of insurance to be provided by the successful bidder. Marine and transport insurance up to the site and insurance of work and of risks against third party are mandatory. The type and extent of insurance to be taken out is to be fully covered in the Financing Agreement.

3.18 Indemnification Requirements

3.18.1 It should be clearly stated in all contracts that performance bond(s)/guarantee(s), advance payment guarantee(s) and any insurance policies entered into by the contractor under the terms of the contract, shall stipulate that the proceeds of any claim arising thereof shall be payable to the IDB to the extent of its financial participation for the account of the Recipient. The IDB, upon receipt of such proceeds, will credit the same to a special account for the account of the Recipient. Upon reaching agreement, any amount which is rightly due to the Bank as reimbursement of previous disbursement on any item which is the subject of the claim, will be deducted and the balance of the amount received under the claim will become due for payment to the Recipient or the contractor, as the case may be.

3.19 Liquidated Damages and Bonus Clause

3.19.1 Liquidated damages or similar clauses in an appropriate amount should be included in bidding documents in view of delays in completion of works or delivery of goods or failure of the works or goods to meet performance requirements which result in extra cost, loss of revenues, or loss of other benefits to the Recipient. Liquidated damages should be limited to 10% of the contract price unless the laws of the Recipient dictate otherwise.

3.19.2 Provision may also be made for a bonus to be paid to contractors for completion of contracts ahead of the times specified in the contract when such earlier completion would be of benefit to the Recipient.

3.20 Force Majeure

3.20.1 The conditions of contract included in the bidding documents should stipulate that failure on the part of the parties to perform any of their obligations under the contract would not be considered a default if such failure is due to force majeure as defined in the contract.

3.21 Settlement of Disputes

3.21.1 Whenever possible, the conditions of contract should contain provisions dealing with the applicable law and the forum for the settlement of disputes. It would usually be advantageous to consider international commercial arbitration in contracts for the procurement of goods and services. The Bank, however, should not be named an arbitrator.

3.22 Document Approval Requirements

3.22.1 The draft tender documents should be submitted to the Bank allowing sufficient time for its review and comments and shall be issued for bidding only after obtaining approval of the Bank.

3.23 Preference to Member Countries

3.23.1 The Bank permits a margin of 15% preference for its Member Countries, when comparing bids from the Member Countries with those of non-member countries. The tender documents should refer to this preference and specify the manner in which it will be applied. The preference will be stated in the tender documents with prior consent of the Bank and applied to goods which are strictly in accordance with specifications and standards.

3.23.2 With the concurrence of the Recipient, and under conditions to be agreed and set forth in the bidding documents, a 10% margin of preference their bids may be provided to local contractors in the evaluation of bids when comparing with those of member country firms

Other Forms Of Procurement

3.24 Introduction

3.24.1 There may be circumstances when International Competitive Bidding is not the most economic and efficient method for procurement or implementing the project, and where other methods may be more appropriate. Such procurement arrangements include: (a) competitive bidding advertised locally and in accordance with local procedures (b) comparative shopping or purchase of stock item off-the-shelf (c) construction by Force Account. The appropriate procedures and the categories of goods works and services to which they apply should be agreed between the borrower and the Bank and are reflected in the Financing Agreement.

3.24.2 The prior approval of the Bank is necessary before the award of any contract whose value exceeds the equivalent of ID 150,000 (Islamic Dinars one hundred and fifty thousand). In cases when cost of procurement of goods does not exceed ID 150,000, the Bank may allow international or national shopping or local tendering. For the purpose of international shopping, reasonable competition among suppliers within at least two Member Countries or non-Member Countries approved by the Bank will be required.

International or National Shopping

3.25 International shopping, if permissible by the Bank, is employed when the amount of the contract is not large enough to interest foreign suppliers and contractors to go through the International Competitive Bidding process. International shopping may also be appropriate when the particular items needed are available only from a limited number of suppliers, or when early delivery is of paramount importance in carrying out certain works under the project or the goods are off-the-shelf or of a standard specification and in small quantities.

Local Competitive Bidding

3.26 Local Competitive Bidding may be allowed in cases where the Bank is satisfied that:

3.27 Local production or construction facilities are available at reasonable cost, efficient, and adequate in terms of prompt delivery;

3.28 The procedures to be followed for domestic procurement (e.g. domestic competition, prequalification, etc.) are satisfactory to the Bank.

3.29 Local Competitive Bidding will be open to local firms only and the criteria for a local firm is as follows:-

- i) It is incorporated or otherwise organized in a Member Country;
- ii) Its principal place of business is located in a Member Country;
- iii) It is more than 50% beneficially owned by a firm or firms in one or more Member Countries (which firm or firms must also qualify as to nationality) and/or by citizens of such Member Countries;
- iv) Not less than 80% of all persons who will perform services under the contract in the country where the goods and services are to be provided, whether employed directly by the firm or by a sub-contractor, will be citizens of a Member Country.

Negotiated Contract, Single Tender or Direct Purchase

3.30 Direct purchase/negotiation or single tender involves dealing with a particular supplier or a limited number of suppliers and may be allowed by the Bank in the following situations:

- i) When buying small or off-the-shelf items generally valued at less than U.S.\$10,000;
- ii) When standardization is important and equipment and spare parts required for expansion or repair of existing equipment must be procured from the original supplier or from a supplier of identical goods;
- iii) When the equipment is proprietary in character and is obtainable only from one supplier;
- iv) When critical items are to be procured from specialist suppliers;
- v) When the civil works to be undertaken are a natural extension of an earlier or ongoing job and it can be shown that the engagement of the same contractor will be more economical and will ensure compatibility of results in terms of quality of work;
- vi) When the emergency nature of the project does not allow time for normal bidding.

Limited Tendering or Repeat Order

3.31 Where, after the items originally envisaged for the project have been procured through International Competitive Bidding, an additional quantity of the same items is urgently needed to meet the requirements of the project and funds are available under the Bank financing for this purpose, the additional items may be procured through limited tendering where it can clearly be shown that no advantage could be gained by adopting International Competitive Bidding. Under this procedure, bids may be invited only from those who had submitted responsive bids for the earlier order or, if there was a large number of responsive bidders, only from the five lowest responsive bidders. In exceptional cases where there was a small number of responsive bidders for the earlier order and the winning bid was clearly superior to the other bids not only in terms of price but also as regards reliability of equipment, and delivery period, the additional items required under the above mentioned circumstances may instead be procured by placing a repeat order

with the supplier who provided the same item previously, provided that the repeat order follows shortly after the earlier order, that no better offer is likely to be received, and that the price to be paid for the repeat order is not more than the original price.

Force Account

3.32 Force Account involves the use of the Recipient's own work force, equipment and other resources in carrying out civil works. This method is employed when the size, nature and location of the works make it unsuitable to adopt Competitive Bidding, and the Bank is satisfied that the construction facilities available are adequate and efficient, and the Recipient has the capability to undertake the works expeditiously and at reasonable cost.

3.33 In cases where the Implementing Agency is distinct from the Executing Agency, the two should enter into a contract for the execution of the project which shall have the prior approval of the Bank.

Community Participation

3.34 Where, in the interest of project sustainability, or to achieve certain specific social objectives of the project, it is desirable to

- (i) call for the participation of local communities and/or non-governmental organizations (NGOs),
- (ii) increase the utilization of local know-how and materials,
- (iii) employ labor-intensive and other appropriate technologies, the procurement procedures, specifications, and contract packaging shall be suitably adapted to reflect these considerations, provided these are efficient.

Chapter 4

DISBURSEMENT PROCEDURES

Introduction

4.1 Disbursement arrangements and procedures have evolved over the years to meet changing needs of the beneficiaries. This chapter describes the current process and procedures for handling a withdrawal application for direct payment, reimbursement or a Letter of Credit. It also addresses related issues for opening of Special Account (an imprest account), ineligible items for IDB's financing, co-financing and retroactive financing.

4.2 All payments for goods and services should be made in accordance with the provisions of a contract which specify the currencies and mode of payment. Prompt payment is of considerable importance since suppliers may have to borrow to continue operations, and since these extra costs are usually reflected in current or future contract prices.

Basic Requirements

4.4 The Bank's *Articles of Agreement* stipulate that proceeds of financing are used only for the purposes set out in the financing documents and that the financed goods and services are procured with due regard to economy and efficiency and are suitable and satisfactory for the project. The Articles further stipulate that funds may be withdrawn only to meet project expenses as they fall due. The disbursement procedures described below have been designed to ensure compliance with the said Articles. Borrowers should send applications for withdrawal or for issuance of Irrevocable Commitments to Reimburse directly to the Finance Department at the Bank's headquarters in Jeddah, Saudi Arabia.

Applications should not be sent to other Bank

First Steps Before Withdrawals

4.5 Before withdrawals can begin, the following conditions must be met :

- The financing must be declared effective by the Bank following compliance with all conditions specified in the financing agreement and the general conditions.....
 - The Bank must receive evidence of authority given to representatives of the borrower to sign withdrawal requests.
 - Disbursement conditions (if any) relating to the category must be fulfilled.
- * For all withdrawals, the Bank must receive a withdrawal application in a form acceptable confirming compliance with procurement procedures and accompanied by acceptable supporting documents.

Withdrawal Process

4.6 In order to be eligible for payment, all disbursement requests require the following

- Compliance with the conditions of the financing agreement
- Submission of specimen signature(s) of person(s) authorized to sign application requests
- Submission of original application (photocopies or facsimile are not acceptable) plus one copy duly signed by authorized representative
- Original application signed by authorized signatory including the amount to be paid along with full instructions for payment
- Documentation showing eligibility of goods works or services (including evidence of procurement)
- Sufficient funds available in the disbursement category of the project to cover the request.

4.7 The financing agreements (in the relevant attachment) specify the percentages of expenditures to be financed for each category. These percentages of expenditures are applied to each invoiced related expenditure as payments become due.

4.8 When the Bank has approved the payment based on the request of the borrower, it will either :

- a) effect disbursement to the borrower or a specific third party or
- b) issue irrevocable commitment to reimburse to a commercial bank.

Types of Expenditure

4.9 The financing agreement will specify the percentages of expenditures to be financed and provides legal definitions of those expenditures.

Foreign Expenditures

4.10 These are expenditures in the currency of any country other than that of the borrower/guarantor for goods or services of any country other than that of the borrower.

Local Expenditures

4.11 These are expenditures in the currency of the borrowers/guarantors or for goods and services obtained from the borrower/guarantor. This definition includes imported goods purchased from a local supplier or the services of a local consultant even if invoiced in foreign currency.

Ex-factory

4.12 These are expenditures for goods manufactured in the country of the borrower representing the price at the factory gate excluding any transportation costs, exercise or manufacturing taxes.

4.13 The percentage of expenditures eligible for financing is applied to each invoice as payment becomes due.

Supply of Application Forms

4.14 A supply of printed application forms and summary sheet is sent to the borrower with the disbursement letter. Forms are available in Arabic, English, French and Russian. Additional forms can be obtained from the Finance Department when needed.

Application for Withdrawal Form

4.15 The form is used for :

- reimbursement of payment(s) made by the borrower from its own funds
- advance to Special Account
- Replenishment to a Special Account
- direct payment to a third party for amounts due.

Summary Sheet

4.16 Summary sheets should be attached to each application. Separate summary sheets are used if expenditure covers more than one category or sub-project.

4.17 Alternatively one summary sheet may be used provided items are grouped by category and sub-totals provided for each category.

Documentation

4.18 Generally, the documentation required to support disbursements depends on the type of expenditures involved. Examples of documentation provided to the Bank with withdrawal applications are :

- Suppliers or consultants invoice or a summary statement of works performed signed by the supervising engineer or other authorized official
- Evidence of shipment for equipment and materials purchased i.e. Bill of Loading, etc
- Evidence of payment for reimbursement i.e. receipted invoice or formal receipt, commercial bank's report of payment, etc.
- Performance security i.e. Bank guarantee for advance payment, Performance Bond, etc..

Disbursement Procedures

4.19 The disbursement procedures start by submitting an original Disbursement Application Form. A supply of printed application forms is sent to the borrower. Forms are available in Arabic, English and French.

4.20 No alterations of application forms are permitted except when initialed by authorized officials of the IDB.

4.21 Three different procedures may be used for withdrawing funds from a project account:

Reimbursement

- Reimbursement to borrowers for payments made from their own funds. Reimbursement goes to the borrower, the project entity or special account depending on the source from which the payment was made. Supporting documentation provides evidence of payment.

Direct Payment

- Direct payment to a supplier/ contractor/ consultant for goods or services. The payment goes to a third party, and supporting documentation shows evidence of amounts due.

4.22 All applications for withdrawal should be submitted in duplicate (i.e. original plus one copy)

Payment Instructions for the above Procedures

4.23 Payment instructions must show the complete name and address of the payee and his bank, the SWIFT code (for Banks that are members of this system), the account number and name as they appear on the account, as well as any references (such as invoice, purchase order, or contract numbers) to ensure proper identification of the payment.

4.24 In addition, if the payee's bank is not located in the country of the currency of payment, the name and address of the bank's correspondent in that country should be provided.

Separate applications are required for each currency and for each beneficiary. Normally disbursements are made by electronic transfer of funds to banks. Only under exceptional circumstances will the Bank approve payment by cheque.

4.25
Issuance of an Agreement to

The with

Reimburse under an L/C

4.26 To finance the purchase of goods under a project, the borrower frequently needs to open a letter of credit. If a commercial bank is unwilling to open, advise, or confirm the letter of credit without some guarantee or security, the Bank, at the request of the borrower, can provide the commercial bank with the guarantee it requires in the form of a Special Commitment. This procedure normally covers major contracts for imported goods.

4.27 Under this procedure the borrower request the IDB to issue to the commercial bank, normally in the supplier's country, its Special Commitment agreeing to reimburse that bank for payments made or to be made under the letter of credit. Such commitments by the IDB are irrevocable even though the IDB loan may later be suspended or cancelled. The IDB charges no fee for these commitments.

4.28 A borrower wishing to use this procedure sends to the IDB an Application for a Special Commitment (Annex-4.3) in duplicate that is, original plus one copy supported by the following documents:

- o Two copies of the contract or purchase order (unless this document was previously submitted to the Bank)
- o Two copies of the letter of credit (with valid expiry date) that the commercial bank proposes to issue

Instructions for completing the form are shown in Annex-4.4.

4.29 When approved, the IDB issues the Special Commitment to the negotiating bank that will negotiate the documents with a copy to the opening or issuing bank. A copy of the Special Commitment is also sent to the paying agent of the Bank (IDB). The

commercial bank's first request for payment under the Special Commitment constitutes its acceptance of the terms and conditions of the Special Commitment.

Minimum Disbursement Application Amount

4.30 For each financing agreement, the Bank stipulates a minimum application value. This value varies between loans depending on the size of the loan and the mode of financing under the project. Borrowers should aggregate eligible expenditures until they reach the minimum value for application. The absolute minimum for any loan is normally US\$20,000 equivalent. For payment of smaller amounts, the Bank may authorize the

beneficiary to open a Special Account (an imprest account) as per the rules set by the Bank (see para 4.25).

Numbering system for withdrawal applications :

4.31 For control purposes all withdrawal applications related to a particular agreement should be numbered sequentially beginning with the number one for the first application . If more than one entity is authorized to submit applications each entity should identify its own application with a special code i.e. Alpha numeric code.

Internal Processing of Withdrawal Applications

4.32 Withdrawal applications sent to the Bank are processed as follows :

i. All withdrawal applications should be sent directly to the Operations Financing Division in the Finance Department at the address shown at the top of the application form. When applications are received by the Division, they are stamped with the date and time of receipt and entered into the computer system for tracking applications in the Registration Unit.

ii. The concerned staff check each application to ensure :

- ◆ the application has been signed by authorized signatory
- ◆ the expenditures are eligible and properly documented
- ◆ there are sufficient funds at the loan and category level
- ◆ there are no reasons for stopping the disbursement
- ◆ the dates are in accordance with the agreement or extension thereof

iii. A standard form is sent by the Assistant Disbursement Officer to the Chief of the Projects Division in the concerned Operations and Projects Department requesting its no objection for payment. Similarly a standard memorandum is sent to the Legal Department requesting clearance, if first disbursement. Replies must be sent within two working days

iv. The disbursement officer reviews the work of the assistant disbursement officer particularly from the stand point of consistency with contracts or other information he may have gained through his interaction with the beneficiary or the Operations and Projects Department or Legal Department

v. The disbursement request is then sent to the Division Chief for approval of the payment

vi. After approval of the application for payment, the Budget and Disbursement Division makes arrangements to execute the payment. Banking channels are utilized as they are secured and offer the fastest means.

- vii. Special report is to be prepared by the registration unit related to pending disbursements needing further investigation.

Codes Used by the Bank

4.33 The Bank classifies disbursements for reporting purposes primarily according to the type of item being financed. Annex No. shows the current member countries of the Bank, currency names, codes used by SWIFT system for these currencies and the numeric codes used by the Bank for each currency.

Refunds

4.34 The borrower must ensure that the Bank receives refund of any amount withdrawn in excess of the amount of eligible expenditures. All refunds must be paid into the account of the Bank with its correspondent Bank, indicating the appropriate references i.e. project number etc.

4.35 Amounts refunded to the Bank are normally credited on the date of receipt subject to the Bank's policy on value date. Any difference i.e. surplus/short fall will be notified to the borrower.

Suspending Disbursements

4.36 When a borrower does not comply with the conditions of the financing Agreement, the Bank may suspend disbursement. Conditions for suspension on account of overdues can be found in Chapter 7.

4.37 The Bank notifies the borrower in writing whenever disbursements are suspended. Payments against Special Commitment issued before the date of suspension are not subject to suspension or cancellation.

Cancellation of Loan Balances

4.38 Under the general conditions of financing, borrowers may request cancellation of any undisbursed loan balances unless they have been reserved for Special Commitments issued by the Bank. The Bank also reserves the right to cancel loan balances in full or part.

4.39 Notices for cancellation specify the effective date of the cancellation.

4.40 A check-list to be filled by the various officers concerned is shown in Annex-4.5. The instructions to fill the checklist is shown in Annex 4.6.

Special Accounts (Imprest Accounts) in Member Countries for Quick Disbursement

4.41 *Definition of Imprest Account.* This is a Special Account which will be employed by the IDB from time to time to provide adequate flow of funds to the beneficiary for financing eligible expenditures and enhancing project implementation. The Imprest Account will be a revolving fund and funded with an advance against the financing provided by the IDB and used exclusively to cover the IDB's share of eligible expenses in both local and foreign currencies.

4.42 *Purpose of Account.* The principal objective of the Account is to provide assistance to facilitate timely payments to small contractors, suppliers etc. The Account will help overcome any immediate cash flow problems and accelerate disbursements by means of::

- (a) making funds readily available;
- (b) drastically reducing the processing time;
- (c) reducing the number of withdrawal applications; and
- (d) giving greater control to the beneficiary.

Conditions for Use of the Procedure

4.43 The IDB should be satisfied that the following conditions exist before the borrower may be allowed to use the procedures :

- The borrower should justify the need for the procedure indicating the cash flow requirement for effective project implementation
- The borrower must have sufficient administrative and accounting capabilities to establish adequate internal control, accounting and auditing procedures to ensure efficient use of the account and its operations
- The borrower must also have the capability to arrange for periodic and annual independent audit of the account by auditors acceptable to the Bank.

Approval of the Procedure

4.44 During appraisal missions, the Bank's mission should identify the need for the procedure. If the procedure is required, it should be mentioned in the Report and Recommendations of the President (RRP) and the Financing Agreement.

4.45 The procedure may also be explained in the Disbursement Letter indicating the location, currency and maximum amount. The procedure for applying for advances, replenishment size and frequency

Establishment of Account

4.46 The borrower is required to open the bank account for the exclusive use of the project where advances shall be deposited. The borrower will submit to the Bank evidence that the account has been established according to approved procedures. The borrower should indicate to the Bank the financial institution where the account is opened, the special nature of the account and that it will be financed by the IDB. Any special

charges and interest should be agreed by the borrower. The financial institution selected must be acceptable by the IDB.

4.47 *Nature/Type of Components:* The procedure may be applied where the project components consist of:

- (i) sub-projects or sub-components which are geographically dispersed; and
- (ii) contracts or orders spread out among small contractors and suppliers.

4.48 *Location of the Account:* The Account may be opened in any of the following institutions:

- (i) a Central Bank;
- (ii) a reputable commercial Bank approved by the IDB;
- (iii) a recognized NDFI; or
- (iv) any other Institution including Islamic Banks approved by the IDB.

4.49 The NDFI concerned and any other institutions should, however, be financially sound and also capable of fulfilling the following conditions:

- (a) execute foreign exchange and local currency transactions;
- (b) handle Documentary Credits;
- (c) carry out regular audits and maintain satisfactory audit reports;
- (d) handle large number of transactions promptly;
- (e) issue prompt and detailed monthly bank statements;
- (f) perform a wide range of banking services satisfactorily;
- (g) establish a correspondent banking network satisfactorily;
- (h) charge reasonable fees for its services; and
- (i) willing to issue Comport Letter from its Head Office to assure the IDB that it will not set-off, seize or attach funds deposited to settle monies due from the beneficiary.

4.50 *Currency of Denomination:* The Account should be denominated in a fully convertible and stable currency widely used in international trade. It should be determined between the beneficiary and the IDB in the course of negotiation's for financing and specified in the Financing Agreement.

Reasons for Currency Denomination

4.51 However, the reasons for maintaining the account in a fully convertible and stable currency widely used in international trade are :

- to cover eligible expenditures in both local and foreign currencies
- reduction in the value will occur if it is denominated in a currency that devalues.

4.52 *Initial Advance and Ceiling:* A request should be made for the initial advance (which will be the basis of the Imprest Account) by the beneficiary in the IDB withdrawal application form, not exceeding the smallest of the following:

- (i) three months coverage of the eligible expenditures to be incurred and supported by an estimate of expenditure statement.
- (ii) 25% of the IDB approved financing.
- (iii) US\$ 2.0 million.

Operating the Account

4.52.1 The borrower shall utilize the account to pay contractors, suppliers and others only for the Bank's share of eligible expenditures incurred in local and foreign currency.

4.52.2 Borrower counterpart funds must not be deposited in the account. Under no circumstances may funds in the account be used in anticipation that counterpart funds to cover the borrower's share of expenditures will shortly become available. Borrowers may pre-finance items from their own resources and reimburse themselves from the account for the Bank's share of these expenditures.

4.52.3 Advances from the account into other account opened by the borrower without authorization from the Bank are not permitted and constitutes serious grounds for refusal to replenish the account.

4.52.4 The borrower must obtain prior Bank approval for any upward changes in the approved ceiling.

Comfort Letters

4.52.5 In order to protect the interest of the borrower and that of Bank for an account held in commercial bank, the IDB requires a letter of comfort from the commercial bank to assure that amounts deposited in the account will not be set off or otherwise seized or attached to satisfy amounts due to the commercial bank by the borrower. Such a letter is a free condition for the bank to disburse the authorized allocation or ceiling. A single letter from the Head Office of a commercial bank to cover accounts opened at all branches by the borrower will suffice. To ensure that the protection of the comfort letter applies to the account, the borrower must clearly state the nature and speciality of the account at the time of opening the account.

4.52.6 The beneficiary shall periodically furnish the IDB in respect of all payments made out of the Account, a settlement statement form in accordance with the IDB policy together with the supporting documents showing the eligibility of each expenditure.

Replenishment

4.52.7 As eligible expenditures are incurred and paid from the account, the advance deposited in the account reduces accordingly. The borrower shall request replenishment by submitting a Withdrawal application duly supported by documents as required together with the corresponding bank statement and a reconciliation statement. Replenishment application should be submitted regularly after bank statements are received and reconciled preferably on monthly basis or intervals of three months. The Disbursement Letter should specify the intervals at which replenishment applications may be submitted.

4.52.8 To replenish the Account, a withdrawal application supported by a statement of estimates of expenditure for the forthcoming period shall be submitted. Replenishment should be made after a careful review of the status of the Account by:

- (a) deposit of an amount equal to payments made out but limited to the prevailing ceiling established at the initial state, or

- (b) deposit of an amount equal to the prevailing ceiling after 50% of the previous advance shall have been utilized.

4.52.9 If any ineligible expenditures are made through the Account, including those unaccompanied by justifiable evidence, the IDB may not make further deposits until:

- (a) the corresponding amount is refunded;
- (b) the IDB agrees that the beneficiary may submit evidence of other eligible expenditures paid from its own resources which can be used to offset the ineligible expenditure; and
- (c) the IDB may offset the unjustified payment against new withdrawal application for replenishment.

Access and Control

4.53 **Access and Control** : The borrower is responsible for making appropriate arrangements for the project entity or executing agency to have control and efficient access to the account so as to finance eligible expenditures. Controls for compliance must not hinder project implementation or delay payment for these expenditures. In most cases borrowers require at least two officials to authorize each payment. Imprest Accounts are audited as part of the annual audit in accordance with the provisions of the financing agreement. The beneficiary shall make appropriate arrangements for the proper operations of the Account. Withdrawals therefrom may be made either by:

- (a) the same person(s) authorized to withdraw funds from the loan account, or
- (b) two officials of the project or a combination of one project official and one official of the executing agency; and
- (c) IDB will prepare detailed procedures for withdrawals from the Account.

Review By Bank Staff

4.54 The borrower is responsible, when making payments, to follow all procedures specified in the financing agreement. The bank carries out normal review of disbursement documentation after payments have been effected from the account. If any ineligible expenditures are identified including those unaccompanied by justifiable evidence, further advances will not be made until the borrower has refunded the corresponding ineligible amounts.

4.55 However, the borrower may submit evidence of other eligible expenditures paid from its own resources which the Bank can use to offset the ineligible items.

Interest and Charges

4.56 Since any amount advanced into the account will be considered as a disbursement, interest or service charges will accrue from the date of disbursement.

4.57 Conversely the borrower may arrange to earn interest on the unwithdrawn balance especially if the account is maintained with a commercial bank. Any interest so earned need not be reported to the Bank but should be used in accordance with the borrower's internal

regulations. The interest paid by a depository bank should preferably be credited to a separate account. If interest earnings are paid into the Imprest Account, the reconciliation statement must provide appropriate details.

4.58 Reasonable charges incurred from operating the account are eligible for financing.

Reconciling Bank Statement

4.59 The documentation submitted with applications requesting replenishment of the account must include related bank statements from the bank holding the account. Bank statements must give details of all transactions and must be provided monthly irrespective of any movements in the account.

4.60 These statements must be reconciled against items in the replenishment applications. Any discrepancies or irregularities must be explained satisfactorily. Where explanations are not satisfactory the Bank may take appropriate actions i.e. suspension of replenishment.

Suspension of Replenishment

4.61 The Bank may suspend replenishment of the account when the following events occurs :

- The financing of the project is declared suspended by the Bank
- Audit reports or Bank missions indicate significant irregularities in the operation of the account
- The account has been inactive for more than nine (9) months and no application has been submitted.

4.62 During the period of suspension, no additional amount may be advanced to the account. However, available balance in the account can be applied to meet eligible expenditures. Withdrawal applications submitted for these expenditure will be applied to liquidate the balance of advances.

Recovery of Advances on Final Liquidation

4.63 Before closing the account, the Bank must receive satisfactory documentation to show that the entire amount advanced was used to meet eligible expenditures. Recovery of the outstanding balance usually starts :

- When the undisbursed balance is equal to twice the amount of the advance
- When the closing date to submit withdrawal applications is less than six months away.

4.64 When recovery process begins, the Bank applies part of the amount documented in each replenishment application to reduction of the outstanding advance. Recovery is usually gradual. Thus ultimately ensuring full documentation to cover the entire outstanding advance. The process can be accelerated if required.

Closing the Account

4.65 Because of the nature and special characteristics, the account should be finally closed after receiving satisfactory documentation showing how the amounts advanced have been

used. A bank statement to show the balance as zero and that the account has been closed should be provided.

Interest Income and Charges

4.66 The beneficiary may arrange to earn interest on the unwithdrawn balance of the Imprest Account. Interest so earned will be notified to the IDB for deduction against final disbursements and transfer to the Special Account of the IDB.

Closing of the Fund

4.67 When the project is near completion, or in the final operating period, it may not be necessary to make full replenishment. The Project Manager should review the needs of the project and set a limit beyond which further replenishment should not be made.

4.68 In the event of any amount remaining outstanding after the closing date specified in the Financing Agreement, the beneficiary shall promptly upon notification by the IDB refund to the Project Account with IDB any balance outstanding in the Account.

Audit Requirements

4.69 Special Accounts are audited as part of the annual audit in accordance with the provisions of the financing agreement.

Cofinancing

4.70 Cofinancing arrangements may be made in different ways. For purposes of this handbook, "Cofinancing" covers projects implemented by a member country with financial assistance from external donors. In most cases, this term is used to describe projects receiving assistance from the Bank and other donors.

4.71 Cofinancing includes the following:

i) Joint Financing

An operation with a common list of goods and services, for which the Bank and other cofinanciers share the financing and disbursement for certain items in agreed proportions. The procedures to be followed for cofinancing should be agreed upon with other parties.

ii) Parallel Financing

An operation in which the Bank and the cofinancier finance different goods and services or part(s) of a project. In parallel financing, the procurement arrangements may follow each donor's requirements. The Bank ensures that parallel-financed items are procured economically, in a timely fashion, and are compatible with the rest of the project.

Administering Loan Agreements on Behalf of Sister Institutions

4.72 Some multilateral aid agencies ask the Bank to administer disbursements on their behalf. Normally the Bank requires that these donors agree that the Bank's procurement and disbursement procedures will apply to their funds. Exceptions, however, are sometimes granted. In general, the Bank will agree to administer funds only if the procurement rules meet the Bank's general requirements of economy and efficiency.

Ineligible Items For IDB Financing

4.73 The Bank does not finance customs duties and other taxes imposed by the borrowing (or guaranteeing) member country. This policy is applied by selecting items to be financed and setting eligible disbursement percentages so that the overall level of Bank financing excludes taxes. In the case of imported goods bought locally, the Bank usually disburses a percentage of the purchase price in order to avoid disbursing against duties or taxes. Similarly, the local cost component of contracts for works is usually financed at less than 100 percent to exclude taxes. For locally manufactured goods purchased directly from the factory, no adjustment to the disbursement percentage is made in order to exclude financing of customs duties or taxes on imported components entering into the cost of a final product.

4.74 Additionally, the Bank do not finance the following :

- * Items not within the project and category description defined in the financing agreement.
- * Items not procured in accordance with *IDB's Procurement Guidelines*,
- * Payments made or due for goods, works, and services provided after the closing date
- * Land acquisitions (although, in very rare cases, an exception may be approved by Bank's management)
- * Late payment penalties imposed by suppliers, unless the penalties were incurred in connection with a disputed payment which was under arbitration
- * Excessive advance payments
- * Self insurance

4.75 Local freight charges for imported goods are not eligible for Bank financing, unless clearly indicated in the financing agreement.

4.76 The borrower, not the Bank, must be the beneficiary of insurance policies. Premiums paid in foreign exchange are eligible for Bank financing. Self insurance and premiums in local currency are not eligible unless provided for in the financing agreement.

Retroactive Financing

4.77 Under the existing IDB disbursement policies and procedures, a project has to be approved, an Agreement between the beneficiary and the IDB has to be signed and come into effect before any funds could be disbursed to the beneficiary. Similarly, disbursement could be made only to meet approved expenditures which must be supported by adequate documentation in accordance with the provisions of the Agreement. These steps are aimed at ensuring that the financing made available by the Bank is used strictly for the purpose for which it is provided.

4.78 However, these procedures often result in IDB not being able to undertake some of the projects which are otherwise feasible owing to the inability of the beneficiaries to wait for IDB financing. In some cases, the beneficiaries could have agreed to wait for the IDB appraisal and approval process provided there was assurances that the IDB would reimburse expenses incurred during this process.

4.79 *Purpose of Retroactive Financing:* The purpose of retroactive financing is to facilitate the efficient and prompt execution of Bank financed operations. It is, however, to be used only in exceptional circumstances with appropriate justification.

4.80 It is to permit a beneficiary, entirely at its option and without commitment on the part of the Bank, to proceed with the procurement of goods and services before the signing of the Agreement.

4.81 Since it is liable for certain additional risks which may not exist under normal financing, special efforts will have to be made to minimize such risks to the Bank and the beneficiary. Sufficient justification would have to be provided for projects requiring retroactive financing. Some of the typical reasons which may justify retroactive financing for a project could be: (a) early project start-up, (b) avoidance of gaps between sequential projects, as in the case of repeater projects for financing intermediary on-lending operations, (c) maintenance of momentum achieved during project preparation, and (d) prevention of delays.

4.82 *Types of Retroactive Financing:* There should be clear understanding, in a Memorandum of Understanding, with the beneficiary on the types of expenditures and items to be covered by retroactive financing. Ordinarily this facility should be restricted to:

- (a) reinvestment work such as feasibility studies, engineering, and architectural work,
- (b) preliminary physical work, such as access roads,
- (c) seasonal work, such as crop planting or construction which unless undertaken at a particular time of year could delay the start of a project by a year or more,
- (d) activities which require long lead time and where significant economies are possible,
- (e) office equipment such as photocopying machines, fax machines, personal computers and other office equipment,
- (f) electricity and gas items, required to supply power to the project, and

- (g) any other item deemed essential at the pre-operating stage of the project.

4.83 Limitations of Retroactive Financing: Retroactive financing would normally be restricted to expenditures incurred and paid for by the beneficiary between the date of appraisal and the date of effectiveness of the project. However, in cases where the project objectives, design, implementation arrangements, and conditionalities are worked out at the pre-appraisal stage, retroactive financing may be provided for expenditures incurred and paid for by the beneficiary between the pre-appraisal stage and the date of effectiveness of the project.

4.84 Retroactive financing should not exceed ten (10) percent of the total project cost.

4.85 In case of an emergency, the Bank may be required to respond quickly and effectively to the situation e.g. natural disaster and its aftermath. The Bank's response should continue to reflect the nature of each emergency and justify, case by case, the need for retroactive financing. For these operations, the Bank could consider retroactive financing of up to 20% of the loan amount for expenditures incurred within 4 months prior to the expected date of signing the Agreement but after the occurrence of the emergency.

4.86 *Control Measures:* The following control measures should be applied for retroactive financing:

- a) Under retroactive financing, procurement and the use of Consultants must be processed and cleared by the Bank as if the loan had already been signed.
- (b) The beneficiary should be specifically advised that procurement actions taken in expectation of retroactive financing are at the beneficiary's risk and does not commit the Bank to agree to finance the project.
- (c) Disbursement for retroactive financing shall be made to meet expenditures on approved items and must be supported by adequate documentation in accordance with the provision of the agreement.
- (d) Documentation requirements for expenditures claimed under retroactive financing should be the same as those for disbursement of expenditures incurred after signing the agreement.
- (e) The Appraisal Report should state the amount of retroactive financing, the percentage of the project cost being retroactively financed, the period of retroactivity, the nature of goods and services involved, and the justifications for such financing.

4.87 **Exemptions for Retroactive Financing:** There is a need to provide a certain measure of flexibility so that exceptions to the established policy may be accommodated when justified by extraordinary circumstances (particularly in emergency recovery operations). **Such exceptions shall require the approval of the IDB President.**

Chapter 5

DISBURSEMENT REPORTS

5.1 The aim of the Bank's reporting is to keep borrowers informed of their loan status. Two documents help borrowers to update their records :

- Payment (Debit) Advice
- Quarterly Disbursement Summary

5.2 Borrowers should immediately advise the Operation Financing Division, Finance Department if any discrepancies such as charges to the wrong operation, category or contract are identified.

Payment (Debit) Advice

5.3 When the Bank executes a payment, the borrower is notified promptly of all the details of the payment. The Bank mails to all borrowers and other authorized interested parties a computerized form called a Payment/Debit Advice (see Annex-5.1) that provides the following information :

- Project number
- Component charged
- Application number (assigned by the borrower)
- Value date of payment
- Paying agent of the IDB through which the payment is effected
- Currency and amount of payment
- Exchange rate and the equivalent in Islamic Dinar charged to the project account in the currency of commitment
- Undisbursed balance of the loan account.

5.5 Borrowers are asked during financing negotiations to provide names and addresses of agencies, not more than four (4), that should receive copies of Payment Advices. The borrower must notify the Division, promptly whenever addresses change, or new agencies should be added to the list.

Quarterly Disbursement Summary

5.5 Promptly after the Hegira quarterly closing of its accounts, the Bank mails to all borrowers and authorised parties a copy of the project statement. It details all transactions that have occurred under a given financing agreement in the preceeding quarter. (See Annex 5.2 for a sample of a quarterly project statement). The Bank automatically sends copies of quarterly project statements to all agencies receiving mailed payment advices.

5.6 The two parts of a quarterly project statement provide the following information :

- Part One:

Opening balance and list of all up-to-date transactions under the project, including all applications paid or refunds processed, along with value dates, currencies and amounts paid, and amounts charged to the financing account.

- Part Two:

End-of-quarter balances for each contract for each component approved and for the financing as a whole, as well as amounts set aside to cover irrevocable commitment to reimburse.

Applicable Exchange Rates (Aers) Used To Value Disbursement

5.7 In making payments, currency exchanges are frequently required. These currency exchanges are valued to assure all borrowers of equal treatment in their transactions.

5.8 The proceeds of loans and credits are disbursed in the currency of the contract approved by the Bank or at the request of the borrower, its equivalent in any foreign currency at the exchange rate prevailing on the date of effecting the disbursement.

D-DISBURSEMENT MANUAL (1)
A:CHAPTER 5
20/05/2000

Chapter 6

ACCOUNTS AND AUDIT

Objective

6.1 The financing covenant applicable to loans and the other modes of financing (leasing , instalment sales, Istisna, etc..) require the beneficiary to maintain according to generally accepted accounting practices, the necessary records and accounts for projects and programs financed by the Bank

6.2 Although accounting standards and practices may differ from country to country or from one case to another, the accounts of the Bank is funded projects should disclose:

- (a) full accountability of all funds available to the project; such funds may comprise proceeds from the Bank, and resources from co-financiers, including the beneficiary's contribution.
- (b) all material information relevant to the project in the financial statements
- (c) a true and fair view of the financial position including the financial performance of the project as presented by the financial statements
- (d) the accounting principles and financial policies of the beneficiary

Accounting System

6.3 It is the responsibility of the Bank to ensure that the beneficiary establishes accounting records for the project. In this respect, as soon as a financing agreement enters into force the Bank should take the necessary steps to assess the adequacy of the accounting records of the beneficiary. If necessary the beneficiary would be authorized to recruit a qualified consultant/accountant to put an appropriate accounting system in place.

Project Accounts

6.4 The accounting records that the beneficiary is required to keep to record project expenditures financed by the Bank are summarized below. Records of supporting documentation relating to these expenditures, such as withdrawal application and their attachments are also required to be kept.

6.4.1 The Summary Ledger:

During the disbursement of the Bank financing, the beneficiary is required to maintain a summary ledger account. The financing amount is credited to the account and disbursements both in currencies and their ID equivalent (at their value date), advised to the beneficiary are posted to the debit of the account. The account is maintained in ID or other approved currencies and serves as a check for the balance of the loan.

6.4.2 The Currency Ledger:

A beneficiary's liability to the Bank is in the currencies disbursed or ID equivalent. In this ledger, accounts are established in which the various currencies disbursed and repaid as well as their ID equivalents (at their value date) are recorded. The ledger should show all outstanding disbursements due from the borrower.

6.4.3 The Category Ledger:

A loan is broken down into categories of expenditure from which disbursements are made. It is the sum of these allocations that make up the amount of the loan or financing granted by the Bank. The category ledger contains accounts for recording disbursements made from these categories. The balances remaining under the various categories of expenditure will apply to applications which may be rejected because of the exhaustion of the related category of expenditure. When categories of expenditure of a project are exhausted and where there is a need for additional expenditure, the borrower should apply to the Director of the Operations Department concerned for a reallocation of funds between categories. The beneficiary should understand that a proposed revised list of categories of expenditure will not become effective until it has been approved by the Bank.

6.4.4 Contract Ledger:

Contracts are financed against categories of expenditure. The values of all contracts signed and disbursements made therefrom should be recorded in the individual contract accounts in currencies of disbursement. These accounts are equally useful in monitoring the outstanding balances on contracts. Where the value of a contract is fully disbursed, no further disbursement can be made on such a contract unless an addendum fully justified by the beneficiary is approved by the Bank. For the purpose of clarity, the beneficiary should ensure that the contract document shows the following:

- * The contract price
- * The proportion of the contract price to be funded by the Bank
- * The proportion of the contract price to be funded by the beneficiary
- * The exchange rate applicable where the contract price is denominated in one currency and payments are made in another currency
- * The account number where funds have to be transferred. In case a payment being made in a currency other than that of the country's currency where the works are being implemented, an account number in a Bank in the country of that currency should be specified

6.4.6 The Cash Book :

A cash book should be maintained to record all cash transactions of the project. The cash book should, at any time, show the following cash balances :

- i. balance of funds in the current account of the project;
- ii. any time deposit for the project;
- iii. balance of funds for the imprest, if any, and
- iv. petty cash.

6.4.6 Assets and Liabilities Ledger:

This ledger should contain accounts reflecting the assets of the project, such as land and building, plant and machinery, vehicles, equipment and computer hardware. It should also show any liabilities due by the project.

Records

6.6 A beneficiary is required to maintain all accounting documents relating to the project and to make such documents available to Bank's staff and experts. In particular, the beneficiary must maintain the following records for each project:

- * General file: The signed financing agreement , the appraisal report, the list of authorised signatures, the categories of expenditures and correspondence relating to the project should be kept in this file.
- * Method file: copies of disbursement applications submitted to the Bank should be kept in this file together with supporting documents.
- * Box files: These should be used for keeping contracts or other documents.

Audit Reports

6.7 The beneficiary shall as a rule, have accounts of the project or program audited by independent auditor, acceptable to the Bank. The audit report prepared in this respect should clearly summarise all the financial transactions undertaken for the project during the financial year under review. The report should also give the written opinion of the auditors indicating the extent to which the financial statements provide a true and fair view of the financial position and performance of the projects. In addition, the Bank may, at its discretion, without prior notice dispatch audit team to conduct a comprehensive review of projects execution.

6.8 An audit report should be submitted to the Bank no later than nine months after the financial year to which the project relates. Non compliance with this provision could lead to suspension of disbursements on projects.

6.9 Statement of expenditures sent to the Bank for reimbursement of payments made or for the replenishment of special account together with related supporting documentation retained by the borrower with the consent of the Bank will be audited from time to time by the Bank authorised staff or experts.

6.10 All auditing expenses will be borne by the Bank as part of the project cost. Depending on the size of the project and the auditing expertise in the country, the Bank may consider accepting audit of the project account by a local firm, an international auditing firm or rely entirely on the Bank's Internal Audit Department

Chapter 7

DUES, INVOKING OF GUARANTEES AND RESCHEDULING

Introduction

7.1 In order to secure repayment of the IDB financing, the primary security of a sovereign guarantee where the Government is the beneficiary and/or a Commercial Bank guarantee where the beneficiary is the private sector should be provided.

Joint Bank Guarantees

7.2 If two or more banks are providing a joint guarantee, then the banks shall have a joint and several liability under the guarantee. A valid claim can be lodged on the banks jointly or severally for the full amount of the claim.

Release of Banks From Liability

7.3 Banks may be discharged from liability under the guarantees provided by them, on receipt of installments for settlement of dues. IDB shall continue to hold the banks liable for any balance of the total outstanding installments.

Follow-Up Prior To Due Date

7.4 As a routine follow-up, the following procedures are observed for all IDB operations:

Six Months Before The Due Date

7.5 The follow-up staff prints the forthcoming dues report, listing all installments due six months from the date of producing the report. On the basis of the information in the report, a standard telex/fax is sent to the borrower (the beneficiary agency of the Government or the company, as the case may be) as a reminder for the installments due. For Leasing and Installment Sale operations, further checks to confirm the installment/s due are made by the Rescheduling Unit. They include confirmation that the operation is complete and the final repayment schedule has been entered in the system. It must also be certified that the installment/s does not exceed the actual amount due on the basis of actual disbursements made to the beneficiary.

7.7 The reminder telex/fax should specify the project name and number, installment amount due, the currency involved and the IDB bank details to which the payment should be made. The Section Head reviews the details on the telex/fax and if found in order will approve it for transmission to the beneficiary.

Follow-Up Of Installments Due In The Reporting Week

7.7 During the week in which the payment is due, the forthcoming dues report will be constantly monitored. Credits received from our correspondent bank through the Link machine and SWIFT system are duly checked and processed against installments due.

7.8 After processing of the credits received, acknowledgement is sent to each beneficiary specifying the amount received, value date, ID equivalent, installment due and shortfall or surplus arising thereof.

7.9 A grace period of one week is normally accorded for installments falling due to allow payments in transit to reach our correspondent banks.

7.10 A copy of the payment instructions is usually sent to the IDB for information by the paying agencies of the member countries. If this copy is not received within the grace period, another reminder is sent informing the paying agency of the installment due. The forthcoming dues report will also include projects that have been revised or updated since the last report.

7.11 If payment is not received during the one-week grace period, the installment becomes overdue. One week after the due date, another request to pay is sent requesting early settlement of the overdue amount.

Procedure For Invoking of Guarantees

7.12 In accordance with the resolution of the Board of Executive Directors passed at the 131st meeting, the following procedures shall be observed in the event of non-payment by the borrower:

- If payment is not received within one week (5 banking days) after the due date, the Finance Department shall invoke the guarantee by sending a tested telex or SWIFT message to the respective Guarantor Bank. The invocation message shall be checked for validity and correctness of IDB's claim.

- In case of guarantee provided by a commercial bank the approval of the Director, Finance Department, is required. However, in lodging claims against a guarantee by a Government, the approval of the Vice President (Finance and Administration) is required. Copies of the message shall also be sent to the Guarantor Bank, the IDB Executive Director and the Governor of the esteemed member country.

- If the borrower is a Government, on invoking of the guarantee, all new operations for the country, except for assistance in cases of natural disasters and calamities, shall be suspended forthwith.

- If the borrower is a company, and the claim is not honoured within two weeks (10 banking days), all new operations for that company will be suspended and IDB will institute legal proceedings against the borrower and guarantor bank.

- Any shortfall in payment exceeding 2% of the due amount received, shall be treated as a default, and the guarantee shall be invoked. If the shortfall is 2% or less, the same may be adjusted against the next installment, unless it is paid prior to the due date of the next installment.

Where the Bank approves a plan for the settlement of overdues, no new ordinary operation should be submitted to the Board of Executive Directors for approval in favour of the member country concerned until 50% of the overdues have been cleared on the date of settlement. As a general rule, new import trade financing operations should not be processed in favour of a defaulting member country until all overdues have been settled.

Repayment Schedules

7.13 Tentative Repayment Schedule:

This schedule is prepared during the appraisal of the project and is an integral part of the financing agreement.

7.14 Final Repayment Schedule:

The preparation of this schedule starts on completion of the project implementation.

7.15 Source of Information:

The request to prepare the final repayment schedule could be made by one or more of the following:

(a) Beneficiary

The Beneficiary may directly request the IDB to prepare the final repayment schedule on completion of the project or as deemed necessary. The Beneficiary can also request the rescheduling of the concerned project.

(b) The Operations and Projects Department

The O&P Dept. may on the advise of the beneficiary request the Rescheduling unit to prepare the final repayment schedule.

7.16 Documentation Required:

To prepare the final repayment schedule the following documents are required:

- (a) project statement from OFIS reconciled with GL
- (b) agreement signed with IDB
- (c) the date of completion of the project

Types of Repayment Schedules

7.17 Installment Sale:

This schedule is prepared taking into account the following information obtained from the financing agreement and project statement:

- i. **Date Agreement was Signed:**
This is the date the financing agreement between the IDB and the borrower was signed.
- ii. **Total Amount Approved:**
This is the amount approved for the project by the IDB
- iii. **Total Amount Actually Disbursed:**
This refers to the amount actually disbursed. It may be less than the amount approved and could also be more in case of foreign exchange fluctuation. The later is however uncommon.
- iv. **Date of First Disbursement:**
The date the first disbursement is actually made.
- v. **Date of Last Disbursement:**
The date of the last disbursement. After this date, no more disbursements will be effected except by mutual agreement between the beneficiary and IDB.
- vi. **Gestation period:**
The gestation period covers the period needed for the items financed by the IDB to be ready for use by the beneficiaries i.e. the date of the first disbursement to the date of the last disbursement. The last date of disbursement should occur before the end of the gestation period.
- vii. According to BED resolution No. BED/25/3/419 (179)31, authority was given to the President, IDB, by clause 2.3 to extend the first and last dates of disbursement for a period of one year. Further extension may be granted if the beneficiary provides, to the satisfaction of the President, adequate justification for the extension. If the President is not satisfied with the justification the project shall be submitted to the Board of Executive Directors for cancellation.
However, the President, IDB Vide Memo.No..... dated has further delegated the authority to extend the first and last dates of disbursements to the Director of the concerned Operations and Projects Departments.
- viii. Repayment Period**
This is the period within which to repay the installments due. If, for any reason, the gestation period is extended, the repayment period should also be extended. Extension should be approved by the President, IDB.
- ix. **Number of Rental Installments:**
The number of installments required to make the repayment.
- x. **Due date of First Installment:**
The first installment is due six months from the end of the gestation period.
- xi. **Mark-up Rate:**
This is the rate of return to the IDB expects to earn from financing the project.

- xii. Semi-annual Installments:
This usually falls on 30th June and 31st December for the sake of convenience.
- xiii. The above information will be processed to produce the Basic data information, Disbursement profile and the Rental Schedule. These statements will be sent to the beneficiary for confirmation.

7.18 Lease Schedule

The Lease schedule is processed like the Installment Sale Schedule except the due date of the installments. According to Board Resolution No. 404/71/120 the rental payment for Lease operations should be standardized on a quarterly basis i.e. 1st January, 1st April, 1st July, and 1st October.

7.19 Loan Repayment Schedule

The Loan repayment schedule is prepared using information for the Installment Sale and Leasing Schedules except for the following:

- i. Grace Period:
The grace period is usually stated in the Financing Agreement and it starts from the date of signing the agreement to end before the last date of disbursement.
- ii. Service Fee Factor:
The service fee factor is predetermined and is calculated as per the "Guidelines for Calculation and Levy of Service Fees". One factor is calculated in each year. The last date of disbursement determines which yearly factor is to be used to calculate the service fee.
- iii. Calculation of Service Fee:
The fee is calculated by multiplying the principal amount disbursed with the service fee factor and the number of days between the date of signing the financing agreement and the last date of disbursement. The lump sum amount resulting from this calculation is divided by 375 days.
- iv. Distribution of Service Fees:
The service fee calculated will be distributed as follows:
 - 4% from the date of signing to the date of 1st disbursement
 - 40% from the date of 1st disbursement to the date of last disbursement
 - 57% in 5 years from the date of the last disbursement.
- These amounts are entered in the system and are reflected on the respective Loan Accounts on the due dates.

Chapter 8- HINTS TO AVOID DELAYS IN PROCESSING DISBURSEMENT REQUESTS

This Chapter highlights some useful hints to the executing agency that are worth checking before sending the withdrawal application form to the Bank for payment to avoid any delays in the transfer of funds.

8.1 Send all completed disbursement documents directly to the Operation Financing Division, Finance Department

8.2 Number the applications, ad seriatum

8.3 Forward signed copies of all contracts (and addenda, if any) to the Division with the first withdrawal application of each contract

8.4 Submit the list of signatories who will be responsible for signing requests for disbursements duly authorized by the concerned Ministry (e.g. Ministry of Finance)

8.5 All disbursement applications must be signed by the authorized officials. If there are any changes in the list of authorized signatories, please inform the Division and provide a revised list duly authorized

8.6 Indicate the reference and date of IDB's "no objection" notice for the awarded contracts.

8.8 Ensure full consistency between the information in the disbursement request and the attached supporting documents

8.8 Initiate advance action to extend closing dates of first and last disbursement dates, where applicable

8.9 For replenishment of SPECIAL ACCOUNTS, provide reconciled statements of expenditure and an audit report on the physical progress of the project as well as contributions of the Government

8.10 Ensure that the percentage requested for a project category is according to the financing plan annexed to the financing agreement for that category and that there is still an undisbursed amount for that category.

8.11 Whenever applicable, the consultant should sign the contractor's invoice certifying that the works have been implemented.

8.12 In case of co-financed projects, the invoice should clearly indicate the percentage financing of each financier for the category concerned.

ANNEXES

Annex 1 – A

GLOSSARY OF DISBURSEMENT TERMS.

1. Applicable Exchange Rate : An exchange rate established for each currency for the valuation of all transactions of a particular value date.
2. Application : A request by the recipient for withdrawal of funds or issuance of irrevocable commitment to reimburse in accordance with the provisions of the Financing Agreement
3. Appraisal Report : Detailed evaluation and recommendation on a project prior to approval of finance.
4. Borrower : The party to the Financing Agreement to which the loan finance is offered.
5. Category : A grouping of items to be financed in a project. The categories are stated in a schedule to the Financing Agreement.
6. Closing Date : The dated stated in the Financing Agreement which may be amended from time to time, after which the authority of the borrower to withdraw from the Project Account can be terminated and the unwithdrawn balance may be cancelled.
7. Co-financing : Project financed jointly by the Bank and at least one other external source of funds.
8. Contract : An agreement between the borrower and a supplier of goods or services for an agreed amount under the contract.
9. Currency of a Country : The currency as at the time referred to, is legal tender for the payment of public or private debts in that country.
10. Currency of Disbursement : The currency used by the Bank to disburse from its resources against the Project Account.
11. Currency of Expenditure : The currency expended by the borrower for which payment or reimbursement is requested under the respective withdrawal procedure.
12. Disbursement Letter : Information sent to the borrower when an agreement is signed containing agreed procedures for withdrawing funds within each category of the project and a request for specimen of authorized signatures.
13. Effective Date : The date on which the Financing Agreement and the Guarantee Agreement shall come into force and effect, binding all parties that have signed it and on which withdrawals from the approved amount can be made.
14. Force Account : Civil works executed by a local Government agency of the borrower using its own labour force.
15. General Conditions : Terms and conditions generally applicable to Bank finance and

incorporated in Financing Agreements and to any guarantee agreement of Bank finance.

16. Goods : Means material, machinery, equipment and services required for the project.
17. Guarantee Agreement : The agreement between a member country of the Bank or private organization and the Bank providing for the guarantee of the loan, as amended from time to time. It includes the General conditions applicable, supplementary agreements and all schedules to the Guarantee Agreement.
18. Guarantor : The member of the Bank or private organisation which is a party to the Guarantee Agreement and guarantees a loan granted by the Bank.
19. Imprest Account : A special account into which an advance disbursement is deposited from which the project may make payments to contractors, suppliers. etc. to cover banks share of eligible expenditures.
20. Installment Sale : A mode of financing under which the Bank procures tangible assets and sells them for a mark-up, allowing the beneficiary to pay on a deferred basis.
21. Irrevocable Commitment : At the request of the borrower an undertaking to reimburse a commercial bank for payments it makes to a supplier against a Letter of Credit. The reimbursement request is submitted to the paying agent of the Bank.
22. Islamic Dinar : The Islamic Dinar specified in Article 4(i) (a) of the Agreement establishing the Bank the value of which shall be equivalent to one Special Drawing Rights of the International Monetary Fund. It is the accounting currency used by the Bank.
23. Joint Financing : Shared project financing in which funds are independently disbursed from a number of sources in proportion to an agreement.
24. Leasing (Ijara) : A mode of financing in which arrangement is made for a long term rental of capital equipments and other fixed assets.
25. Letter of Credit : An undertaking by a commercial bank that bills drawn on it in compliance with the terms of the Letter of Credit will be duly honoured when presented.
26. Line of Financing : An arrangement whereby the Bank approves a specified amount to NDFI/Islamic Bank with the authority to approve sub-projects in the member country.
27. Loan Agreement : The particular loan agreement to which the general conditions shall be applicable as amended from time to time and includes all supplementary agreements and all schedules to the Loan Agreement.
28. Loan : This is the loan provided by virtue of the Loan Agreement.
29. Mark-up : A rate of return composed of a bench-mark rate plus a spread payable by the beneficiary.

30. Negotiating Bank : The commercial bank, usually in the suppliers' country, that issues, advises or confirms a Letter of Credit and claims payment against the irrevocable commitment to reimburse of the Bank through the IDB paying agent bank.
31. Opening Bank : The Bank, usually in the borrower's country, that opens a Letter of Credit and acts for the borrower in dealing with other banks.
32. Project Account : The account in the books of the Bank to which the transactions of the loan are booked.
33. Project : The project or programme for which the loan is granted as described in the Financing Agreement and as the description thereof may be amended from time to time by agreement between the Bank and the Borrower.
34. Retention Monies : Funds withheld for a certain period pending successful completion of a contract. Such funds are not eligible for reimbursement until released to the supplier.
35. Retroactive Financing : The financing of eligible expenditures made by the borrower prior to the signing on the Financing Agreement.
36. Revolving Fund : See Imprest Account.
37. Shariah : The set of rules derived from the Holy Quran, the authentic traditions (Sunnah) of the Prophet (Peace be upon him) and the scholarly opinion (Ijtehad).
38. Special Account : See Imprest Account.
39. Special Drawing Rights : Basic equivalence currency used by the International Monetary Fund as an accounting currency.
40. Statement of Expenditures : A Specialized summary sheet sent by the borrower to the Bank, used when the submission of normal documentation is not practicable.
41. Supporting Documents : Documents related to applications for withdrawal of funds or issuance of irrevocable commitments to reimburse which provide evidence that expenditures are eligible for financing.
42. The Bank : Means the Islamic Development Bank.
43. Value Date : The calendar date on which a transaction takes place.

GLOSSARY OF DISBURSEMENT TERMS

Annex 1 – B

Islamic Development Bank Members, abbreviations, and Currency Code

Country	Currency Code	Country Abbreviation	Currency Abbreviation
Afghanistan			
Albania	01	ALB	ALL
Algeria	02	AL	DZD
Azerbaijan			
Bahrain	03	BH	BHD
Bangladesh	04	BD	BDT
Benin Republic of	05	BEN	XOF
Burkina Faso	05	UV	XOF
Cameroon	05	CM	XAF
Chad	05	CD	XAF
Comoros	05	COM	KMF
Djibouti	06	DJI	DIF
Egypt, Arab Republic of	07	EGT	EGP
Gabon	05	GA	XAF
Gambia, The	08	GM	GMD
Guinea	09	GUI	GNF
Guinea-Bissau	10	GUB	GWP
Indonesia	11	IND	IDR
Iran, Islamic Republic of	11	IRN	IRR
Iraq	11	IRQ	IQD
Jordan	13	JO	JOD
Kazakhstan		KZ	SUR
Kuwait	14	KU	KWD
Kyrgyz			
Lebanon	15	LE	LBP
Libya	16	LBY	LYD
Malaysia	16	MA	MYR
Maldives	18	MAL	MVR
Mali	19	MLI	XOF
Mauritania	20	MAU	MRO
Morocco	21	MOR	MAD
Mozambique		MOS	MSM
Niger	05	NIR	XOC
Nigeria			
Oman	22	OM	OMR
Pakistan	23	PAK	PKR
Qatar	24	QA	QAR
Saudi Arabia	25	SAU	SAR
Senegal	05	SE	XOF
Sierra Leone	26	SL	SLL
Somalia	27	SO	SOS
Sudan	28	SU	SDP
Suriname		SUR	SRG

Country	Currency Code	Country Abbreviation	Currency Abbreviation
Syrian Arab Republic	29	SYR	SYP
Tajikistan			
Togo	05	TO	XOF
Tunisia	30	TUN	TND
Turkey	31	TU	TRL
Uganda	57	UG	UGX
United Arab Emirates	32	UAE	AED
Uzbekistan			
Yemen, Republic	33/34	YEM	YER

D-DISBURSEMENT DISK.
A:CURRENCY CODES

Annex 2-A

NOTE ON THE PROPOSED WAYS AND MEANS TO IMPROVE THE DISBURSEMENT PROCESS AND PROCEDURE

I. INTRODUCTION

1.1 IDB procedures for disbursement are detailed in the Disbursement Manual developed in 1404H. Since then, the disbursement process has been rapidly evolving as new modes of financing, increase in volume of activities and new facilities to enhance the disbursement cycle have been introduced. This, together with the fact that on average disbursement takes 16 days to be cleared in the Bank (compared to 5 days in some sister institutions) and the associated complaints from the borrowers led H.E. the Vice President (F&A) to form a Task Force to review the disbursement process and procedures, identify drawbacks of the current system and propose enhancement measures for quick disbursement. The composition of the Task Force and its Terms of Reference are shown in Annex (1).

1.2 Major drawbacks of the current disbursement system include :

- absence of a tracking system of the disbursement requests,
- involvement of too many officers of various departments in the process without adding value,
- absence of control on disbursement by contracts and components,
- poor filing system and also
- a checklist with a number of redundant areas.

1.3 Coupled with the fact that the beneficiary is not aware of how to complete the withdrawal application forms neither informed on the documents that need to be attached nor fully informed of all the disbursement procedures to follow, the processing is inefficient, cumbersome and very long delays are encountered in the eventual transfer of funds.

II. Areas for Improving THE Disbursement Process

2.1 Centralisation of the disbursement process within the Finance Department.

2.1.1 This is an approach which is used by sister institutions (World Bank, AfDB, ADB) that will have a direct impact on substantially improving the disbursement process as a result of the following :

- a. Submission of Withdrawal Applications : All withdrawal applications will be sent from the beneficiary directly to the Finance Department instead of the current system whereby the withdrawal applications may be sent to 4 different places, i.e. General Archives, Finance Department, Operations & Projects Departments or received as fax (ordinary operations) a telex/swift message (Foreign Trade Operation). **The time taken to channel the withdrawal applications to the**

Finance Department currently estimated at 1 to 2 days will be eliminated.

b. Upgrading of Project and Dues Sections : Upgrading the Disbursement Section in the Finance Department to a full fledged Operations Financing Division (OFD) properly staffed and equipped with all necessary resources. The Division will comprise of :

- registration unit
- Dues Monitoring Section
- Foreign Trade Operations Section
- Projects Section for :
 - Arabic
 - English
 - French

This proposed upgrading is based on the following :

- The division will be fully responsible for handling all the aspects of disbursements in a more efficient and effective way if compared to the current system where the responsibility is diluted between various departments. It is proposed that the OFD takes over certain aspects of the tasks and procedures that are currently being performed by the O&P Departments, Special Assistance Office and Unit Investment Fund. This will reduce the time spent by these departments in the processing of disbursement applications. It will also allow these departments to focus on the appraisal, implementation and follow-up of the projects and other ancillary matters and therefore making a more efficient use of their resources in meeting operational targets.
- The projected increase in the Bank's activities arising from the following :
 - (i) The targeted level of operations for the O&P departments, set at US\$ 680 million for 1419H, have been raised to US\$ 817 million for 1420H and is expected to increase even further for 1421H.
 - (ii) The projected increase in the ITFO and intra-trade operations to US\$ 4 billion-from US\$ 830 in 1419H to US\$ 1 billion in 1420H, to be financed from the Bank's own resources with the balance of US\$ 3 billion financed through Syndication and Two-Step Morabaha Financing.
 - (iii) The increase in the number of member countries. As the Bank increases its scope of activities over time it is expected that more and more countries will seek admission to membership. This will have a direct impact on the workload of the Division.
 - (IV) As the regional offices activities gather momentum within their respective regions, particularly the Central Asian Republics, it is expected that there will be considerable opportunities for the Bank to finance both projects and trade.
- Additional duties given to the Disbursement Officer that constitute of :

- i) An interaction with the officers of the authority of the countries and executing agency to ensure that issues arising throughout the lifecycle of the project and presently communicated to the O & P departments for onward transmission to the beneficiary, will now be dealt with directly by the officers of OFD. This will minimise the delays in obtaining the relevant information necessary for expediting disbursements.
- ii) Posting of disbursements to the OFIS (English, French & Arabic countries). The reallocation of this task to the disbursement officers, each in charge of the postings of the amounts disbursed in respect of those countries assigned to each officer, would ensure that the input is done on a timely basis and with greater efficiency.

The proposed OFD will be staffed as follows :

- Registration Unit (2 G staff)
- Assistant Disbursement Officer (8 S2/S3 staff)
- Disbursement Officer (4 P2/P3 staff)
- Trade Operations Section (as is)
- Dues and Monitoring section (as is)

The OFD can be staffed through the redeployment of existing manpower in the Bank. It is to be noted however that as a result of tasks that will be performed by the OFD instead of the O&P Depts it is expected that an excess capacity estimated at 3 staff will arise in these departments and will have to be reassigned accordingly.

The assumptions used to derive the staffing requirement are outlined in Annex 2A and the proposed organigram of the OFD is shown in Annex- 2B.

- c) Communication : The disbursement officers will communicate directly with beneficiaries (externally) and with Operations and Projects, Legal, Trade Finance and Promotion, Unit Investment Fund, Business Development, Special Assistance Office and other Departments (internally). This will considerably shorten the time of communication if compared to the current system that requires that such external or internal communication be done through the respective Department.
- d) Role of Operations and Projects Departments : The role of the Operations and Projects Department will be radically revised. In the proposed structure, the role of the Operations Officer and the Director of the O&P Department concerned will be eliminated. The Project Officer will be responsible for :
 - * entering the basic contract data into the Contract Management System (CMS) once a contract is approved (see section);
 - * following up the technical execution of the project (through field missions, consultant's progress report, completion report, etc.) and regularly and accurately reporting all pertinent information to the Disbursement Division. The Project Officer should actively monitor the progress of the project and immediately indicate whether further disbursement requests for a certain contract can be processed or withheld. This reporting will be done through a direct access to the CMS whereby a red flag (as an alarm or warning) is raised

against those contracts that should not be disbursing with an explanatory note on the reasons that led to such a decision.

Projects Division Chief : The projects Division Chief in the concerned O&P Department responds within 2 working days to requests received from the registration unit of the Disbursement Division. In case no response is received, the disbursement will be processed.

This function will be on a temporary basis until a fully functional information technology system probably ISP, have been installed through which communication will be quicker.

By streamlining the role of the O&P Departments as proposed above there is a savings of 2-5 processing days in the disbursement cycle depending on the complexity of the disbursement request. Such valuable time savings to the Projects and Operations Officers can be directed to other vital tasks such as follow up of approved projects, careful review of tender documents and contracts, project preparation, etc.

- e) Role of Legal Department : The role of the Legal Department will basically remain unchanged. The Legal Officer will be given complete access to the (CMS) to enter the basic project data as well as the dates of approval and clearance of the various contracts. The Legal Officer will also be requested to clear the first disbursement of each new contract. Standard forms of the IDB Bank Guarantees, Performance Bonds and other allowable securities, the text of which will be approved by the Legal Department will be utilized for all operations requiring securitisation.
- f) Role of the Special Assistance Office (SAO) : Access to the CMS would be given to the respective project officers to enter the relevant data and amendments thereof on approval of contracts.

Should there be any reasons to stop disbursements, information in this regard should be immediately stated in the CMS so that action will be taken by the Disbursement Division.

SAO will continue to provide the Division with project code numbers as at present, on the approval of each operation.

- g) Role of Unit Investment Fund (UIF) : For consistency, access will also be given to the respective Project Officers so that they can review, amend and indicate reasons for stopping disbursements through the CMS.
- h) The Role of OTS Unit : Currently, after the approval by the BED of any ordinary operation, the OTS is responsible to enter some of the basic data information in their computer system which will eventually be reflected in OFIS in Finance Department. The data that is entered is :

- Name of project

- Amount approved in US\$ and ID equivalent irrespective of the currency of disbursement or repayment
- Date of BOD approval
- Date of signing
- Date of effectiveness

The remainder of the data will be outstanding until the operation is ready to disburse i.e.

- Amount approved in actual currency and the equivalent of same in the currency of repayment
- Tentative repayment schedule
- Address of beneficiaries

In order to maintain internal controls, it is proposed that the functions of OTS in terms of disbursement be maintained with the following additions :

- Basic data for ITFO be entered by the OTS as for ordinary operations
- Basic data for EFS (LTTF) also be entered by OTS.

2.2 The introduction of a disbursement letter

Once the Financing Agreement is signed, a disbursement letter will be sent to the beneficiary giving him instructions on the withdrawal of proceeds from the approved financing. This reduces the chances of receiving at the Bank a disbursement request that cannot be processed either due to lack of accompanying information or because of its ineligibility. A sample of a disbursement letter is shown in Annex (3).

2.3 The use of new simplified withdrawal application forms

The withdrawal application forms have been revised for clarity and simplicity. Instructions to fill these forms have been devised to guide the borrower in order to avoid delays in processing the disbursement requests resulting from erroneously filled forms or lack of supporting documents. Sample of the forms are shown in Annex-4.

2.4 The use of a simple checklist

The current check list has also been revised and streamlined to reflect the proposed disbursement process. It is to be noted that the check list has been reduced from 11 pages to 3 pages eliminating redundancy and the involvement of many officers without added value. A sample of the check list is shown in Annex-5.

2.5 Control and centralisation of Project Implementation Contracts.

2.5.1 Under the current procedure the Operations and Projects Departments are responsible for taking the necessary steps to seek the operational, financial and legal clearances from the respective departments for any contract entered into by the borrowers of the Bank under Financing Agreements. The current procedures for this pre-approval are :

- a. Distribution of all contracts and addenda to the concerned departments (Operations, Legal and Finance).

- b. Review of the contract to ensure that its terms and conditions are in accordance with the disbursement and procurements procedures of the Bank;
- c. Each department has to keep a copy of the signed contract.

2.5.2 The following inefficiencies have been identified in the current practice:

- a. Copies of contracts are kept in each department of the Bank, leading to unnecessary duplication and accumulation of paperwork;
- b. Contracts are not entered into the computerized accounting system, and, accordingly there is no readily available information for any disbursement under the contracts;
- c. Disbursement applications are recorded and controlled by reference to the entire project without any linkage to the relevant components/contracts under each project;
- d. There are no updated centralized controlled records in the bank for the commitments under various types of contracts.

2.5.3 These inefficiencies continuously lead to extra potentially redundant procedures during disbursement under approved contracts, lack of clear and definite responsibilities and delays in processing the relating disbursement applications while gathering necessary information for processing them.

2.5.4 In order to overcome the above deficiencies, it is proposed to establish a **Contract Management System (CMS)** with the aim of establishing :

- a. A secured provision in the Operations Financing Information System (OFIS) for the components to be financed as per the Financing Agreement;
- b. A new Contract Management Sub-system which will be linked to the OFIS;
- c. A new summary sheet for the basic data of each contract to be designed into 3 sections. The form is to be initially completed by the borrower, the data is to be entered into the system by one officer from the Operations and Projects Departments and reviewed/approved by a second officer. The effectiveness of the agreement, and the dates of approving the contracts will also be entered by one Legal Officer and reviewed by a second officer;
- d. A unique reference number for each approved contract will be given automatically by the system. This reference will be the starting point for processing any disbursement application by the Finance Department as it will allow prompt access to the Disbursement Officer to view the basic contract data for a specific component under the said project;
- e. A secured enough and flexible system .

2.5.5 The advantages of the proposed system are as follows :

- a. Proper contract accounting through the linkage of the (CMS) with the (OFIS);
- b. Full control of disbursements by components as per the Financing Agreement
- c. Minimization of paper work.
- d. Faster processing of disbursement applications under any contract by enabling users to view the relevant information on screen and thus shortening the processing of disbursement cycle;
- e. Readily available and accurate information about the disbursement status by contract/component including commitments and accruals, thus improving the quality of service and the image of the Bank;

- f. Availability of a reliable statistical data base which will assist the management in decision making;
- g. Readily available data which would be easily accessed to provide necessary information to the borrowers and other users.

The basic contract data under a specific component for a given project is shown in Annex (6) and the newly designed project statement is shown in Annex (7).

2.6 A revised Disbursement Manual

The disbursement manual has been updated to take into consideration the new modes of financing introduced since the current disbursement manual was prepared in 1404H as well as the proposed enhancement in the disbursement process. A copy of the disbursement manual is attached in Annex-8.

2.7 Introducing a Minimum Disbursement Application Amount

2.7.1 A minimum disbursement application amount is proposed to be set at \$ 20,000. This will reduce the amount of work load in the Disbursement Division since on average the Bank receives about 40 disbursement requests of less than \$ 20,000 every month excluding requests of US\$ 20,000 or less for issuance of irrevocable agreement to reimburse.

2.7.2 While this approach has a positive impact in improving the efficiency of resources utilisation for handling disbursement requests it may be a drawback for small contractors in LDMC's who cannot pre-finance their works, waiting for their successive monthly invoices to be \$ 20,000 or more. It is therefore, proposed that such cases be anticipated at the project appraisal stage in order to have such invoices paid through an imprest account to be opened by the borrower as per the prevailing guidelines. In this case a statement of expenditure (SOE) will be sent to the Bank regularly justifying the small expenses and requesting the replenishment of the imprest account. A specimen of the SOE form is shown in Annex-9.

2.8 Accounts and Audit

The utilisation of the imprest accounts necessitates rigorous auditing of the project records kept by the beneficiary on a regular basis. This can either be done through :

- audit missions from the Bank or the regional offices
- the use of local or international auditors depending on the nature and size of the project.

It is proposed that the auditing cost be borne by the project.

2.9 The Debit Advice

2.9.1 In order to further improve the image of the Bank, a debit advice will be sent to upto 4 destinations with the necessary information on the relevant transfer. A copy of the debit advice is shown in Annex-10.

2.10 Involvement of the Disbursement Officer in Field Visits

The project cycle envisages to hold a project start up seminars at the early stage of the implementation of a project in order to familiarise the beneficiary, consultants, contractors, etc. with IDB's policies and procedures. It is proposed that the Disbursement

Officer participates whenever possible in IDB missions related to the start up workshops as he will be dealing directly with the beneficiary during implementation and at project completion either with post-evaluation mission or before.

The Disbursement Officer will apprise beneficiaries, contractors, etc. of the disbursements procedures and practices of the Bank, the importance of the completeness and accuracy of documents provided in support of withdrawal applications, list of authorised signatories, guarantees to be furnished, etc. and for the follow-up of certain issues such as the reconciliation of project data, etc..

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12.9.1999.
D-250.A:DISBURSEMENT LETTER

Annex 2-B

Proposed Staffing Structure of the Operations Financing Division”

Assumptions to Calculate the Staff Needed to Operate the OFD

The Bank processes on average 250 disbursement applications for projects and 100 for trade operations per month. Different applications require varying level of efforts depending on whether the disbursement relate to civil works, acquisition of equipment, consulting services or Special Assistance Operations. An analysis of the 1419H disbursement applications relating to active countries showed that the mix of the projects disbursements applications were as follows: -

Table 1 – Analysis of Application Types

Nature of disbursements applications	%
Civil works	33 %
Acquisition of equipment	28 %
Consulting services	5 %
Spl. Assistance Operations	34 %
Total	100%

The time taken to process each type of application was estimated in order to arrive at the number of hours required on an annual basis.

Table 2 - Estimated Hours for Processing Disbursement Applications

	No of disbursements per year	Estimated time to process an application (hours)	Hours required per year
Civil works	990	4	3,960
Acquisition of equipment	840	8	6,720
Consulting	150	1	150
Spl. Assistance Operations	1020	4	4,080
Trade	1200	4	4,800
	4200		19,710

The manpower required to handle these disbursement applications is calculated in Table-3.

Table 3 - Estimated number of staff required to process disbursement applications.

Item		Quantity	Source
1.	Hour required to process disbursement applications on an annual basis	19.,710	Table 2
2.	Estimated number of work days	240	(52 weeks – 4 for Eid)*5
3	Estimated number of disbursement related work Hours on a daily basis	82.1	Annual hours (item 1)/ estimated number of work days in the year (item 2)
4.	Estimated required staff	10	Item 3/8hours

As a result of certain tasks being performed by the Finance Department instead of the O&P Departments, an excess capacity will arise in these departments. It is estimated that the excess capacity will be approximately equivalent to 3 staff.

Annex 3

Disbursement Basic Data

Project Component	:						
Civil Works	:						
Equipment	:						
Furniture	:						
Supervision	:						
Others	:						
Financing Plan	:	IDB		Co-financiers			
		Amount	%	Amount	%	Amount	%
Civil Works	:						
Equipment	:						
Furniture	:						
Supervision	:						
Others	:						
Total	:						

Annex 3.1

FORM OF ADVANCE PAYMENT GUARANTEE

Name & address of the Guarantor Bank

To :
The Islamic Development Bank
P.O. Box : 5925
Jeddah 21432
Kingdom of Saudi Arabia

Dear Sirs :

Since you have awarded our client Messrs _____
_____ (“The Contractor”) a Contract (“The
Contract”), and since under Section _____ of the said Contract, an amount of
US\$ _____ (U.S.Dollars _____) is payable by you to the
Contractor as an advance payment representing ___% of the value of the
Contract, we _____ Bank (“The Guarantor”), waiving
all objections and defences under the aforesaid Contract, hereby irrevocably
and unconditionally guarantee the payment to you on your first written demand
the sum of US\$ _____ (U.S.Dollars _____
_____) being % (per cent) of the value
of the said Contract and accordingly, covenant and agree as follows :

- (A) On your first written demand to the Guarantor that the said sum of
_____ (_____) or any part thereof,
as you shall demand, shall be paid to you, the Guarantor shall
forthwith and notwithstanding any objection by the Contractor pay
you the said amount of _____
(_____) or any part thereof as you shall
demand by transfer to an account in your name at such bank as
you shall stipulate or in such other manner as shall be acceptable to
you;

(B) Any payment made hereunder shall be made free and clear of, and without deduction for or on account of, any present or future taxes, levies, imports duties, charges, fees, deductions or withholdings of any nature whatsoever and by whosoever imposed;

(C) The covenants herein contained constitute unconditional and irrevocable direct obligations of the Guarantor. No alteration in the terms of the Contract or in the extent or nature of the work to be performed thereunder and no allowance of time by you or other forbearance or concession or any other act or omission by you which but for this provision might exonerate or discharge the Contractor shall in any way release the Guarantor from any liability hereunder.

(D) This guarantee shall remain valid and in full force and effect up to by which time any claim hereunder must be received by the guarantor

(E) This guarantee is governed by and shall be construed in accordance with the laws and regulations of _____
_____.

Yours faithfully,

(For and on behalf of the Guarantor)

Annex 3.2

FORM OF PERFORMANCE GUARANTEE

Name & address of the Guarantor Bank

To :
The Islamic Development Bank
P.O. Box : 5925
Jeddah 21432
Kingdom of Saudi Arabia

Dear Sirs :

Since you have awarded our client Messrs _____
_____ (“The Contractor”) a Contract (“The
Contract”), waiving all objectives and defences under the aforesaid Contract,
hereby irrevocably and unconditionally guarantee the payment to you on your
first written demand the sum of _____
(_____) being 10% (Ten per cent) of the value of
the said Contract and accordingly, covenant and agrees as follows :

(A) On the Contractor’s failure to fulfil any of the conditions
of the Contractor as determined by you in your absolute
judgement, the Guarantor shall forthwith and notwithstanding any
objection by the Contractor pay you the said amount of
_____ (_____) or
any part thereof as you shall demand by transfer to an account in
your name at such bank as you shall stipulate or in such other
manner as shall be acceptable to you;

(B) Any payment made hereunder shall be made free and
clear of, and without deduction for or on account of, any present or
future taxes, levies, imposts, duties, charges, fees, deductions or
withholdings of any nature whatsoever and by whosoever
imposed;

(C) The covenants herein contained constitute unconditional and irrevocable direct obligations of the Guarantor. No alteration in the terms of the Contract or in the extent or nature of the work to be performed thereunder and no allowance of time by you or other forbearance or concession or any other act or omission by you which but for this provision might exonerate or discharge the Contractor shall in any way release the Guarantor from any liability hereunder.

(D) This guarantee shall remain valid and in full force and effect until full implementation of the contractors duties/obligations according to the contract for performance guarantee.

(E) This guarantee is governed by and shall be construed in accordance with the laws and regulations of

_____.

Yours faithfully,

(For and on behalf of the Guarantor)

Annex – 4

Special Definition of Imprest Account

Purpose of the Account

The IDB should be satisfied that the following conditions exist before the borrower may be allowed to use the procedure :

- The borrower should justify the need for the procedure, indicating the cash flow requirement for effective project implementation
- The borrower must have sufficient administrative and accounting capabilities to establish adequate internal control, accounting and auditing procedures to ensure efficient use of the account and its operations
- the borrower must also have the capability to arrange for periodic and annual independent audit of the account by Auditors acceptable to the Bank.

Approval of the Procedure

During appraisal missions, the Bank's mission should identify the need for the procedure. If the procedure is required, it should be mentioned in the Report and Recommendations of the President (RRP) and the Financing Agreement.

The procedure may also be explained in the Disbursement Letter indicating the location, currency and maximum amount. The procedure for applying for advances, replenishment size and frequency, audit and recovery of advance.

Establishment of the Account

The borrower is required to open the bank account for the exclusive use of the project where advances shall be deposited. The borrower will submit to the Bank evidence that the account has been established according to approved procedures. The borrower should indicate to the bank financial institution where the account is opened, the special nature of the account and that it will be financed by the IDB. Any special charges and interest should be agreed by the borrower. The financial institution selected must be acceptable by the IDB.

Location of the Account

The institution must be able to :

- Execute foreign exchange and local currency transactions

- Handle large number of transactions promptly
- Open Letters of Credit
- Handle large number of transactions promptly
- Issue prompt and detailed monthly bank statements

Currency Denomination

However, the reasons for maintaining the account in a fully convertible and stable currency are :

- to cover eligible expenditures in both local and foreign currencies
- reduction in value will occur if it is denominated in a currency that devalues.

Operating the Account

The borrower shall utilize the account to pay contractors, suppliers and others only for the Bank's share of eligible expenditures incurred in local and foreign currency.

Borrower counterpart funds must not be deposited in the account. Under no circumstances may funds in the account be used in anticipation that counterpart funds to cover the borrower's share of expenditures will shortly become available. Borrowers may pre-finance items from their own resources and reimburse themselves from the account for the Bank's share of these expenditures.

Advances from the account into other account opened by the borrower without authorization from the Bank are not permitted and constitutes serious grounds for refusal to replenish the account.

The borrower must obtain prior Bank approval for any upward changes in the approved ceiling.

Comfort Letters

In order to protect the interest of the borrower and that of Bank for an account held in commercial bank, the IDB requires a letter of comfort from the commercial bank to assure that amounts deposited in the account will not be set off or otherwise seized or attached to satisfy amounts due to the commercial bank by the borrower. Such a letter is a free condition for the bank to disburse the authorized allocation or ceiling. A single letter from the Head Office of a commercial bank to cover accounts opened at all branches by the borrower will suffice. To ensure that the protection of the comfort letter applies to the account, the borrower must clearly state the nature and speciality of the account at the time of opening the account.

Access and Control

The borrower is responsible for making appropriate arrangements for the project entity or executing agency to have control and efficient access to the account so as to finance eligible expenditures. Controls for compliance must

not hinder project implementation or delay payment for these expenditures. In most cases borrowers require at least two officials to authorize each payment.

All payments shall directly be deposited in the account.

Replenishment

As eligible expenditures are incurred and paid from the account, the advance deposited in the account reduces accordingly. The borrower shall request replenishment by submitting a Withdrawal application duly supported by documents as required together with the corresponding bank statement and a reconciliation statement. Replenishment application should be submitted regularly after bank statements are received and reconciled preferably on monthly basis or intervals of three months. The Disbursement Letter should specify the intervals at which replenishment applications may be submitted.

Review by Bank Staff

The borrower is responsible, when making payments, to follow all procedures specified in the financing agreement. The bank carries out normal review of disbursement documentation after payments have been effected from the account. If any ineligible expenditures are identified including those unaccompanied by justifiable evidence, further advances will not be made until the borrower has refunded the corresponding ineligible amounts.

However, the borrower may submit evidence of other eligible expenditures paid from its own resources which the Bank can use to offset the ineligible items.

Interest and Charges

Since any amount advanced into the account will be considered as a disbursement, service fee payable to the Bank accrue from the date of disbursement.

Conversely the borrower may arrange to earn interest on the unwithdrawn balance especially if the account is maintained with a commercial bank. Any interest so earned need not be reported to the Bank but should be used in accordance with the borrower's internal regulations. The interest paid by a depository bank should preferably be credited to a separate account. If interest earnings are paid into the Imprest Account, the reconciliation statement must provide appropriate details.

Reasonable charges incurred from operating the account are eligible for financing.

Reconciling Bank Statements

The documentation submitted with applications requesting replenishment of the account must include related bank statements from the bank holding the account. Bank statements must give details of all transactions and must be provided monthly irrespective of any movements in the account.

These statements must be reconciled against items in the replenishment applications. Any discrepancies or irregularities must be explained satisfactorily. Where explanations are not satisfactory the Bank may take appropriate actions i.e. suspension of replenishment.

Suspension of Replenishment

The Bank may suspend replenishment of the account when the following events occurs :

- The financing of the project is declared suspended by the Bank
- audit reports or Bank missions indicate significant irregularities in the operation of the account
- the account has been inactive for more than nine (9) months and no application has been submitted.

During the period of suspension, no additional amount may be advanced to the account. However, available balance in the account can be applied to meet eligible expenditures. Withdrawal applications submitted for these expenditure will be applied to liquidate the balance of advances.

Recovery of Advances on Final Liquidation

Before closing the account, the Bank must receive satisfactory documentation to show that the entire amount advanced was used to meet eligible expenditures. Recovery of the outstanding balance usually starts ;

- When the undisbursed balance is equal to twice the amount of the advance
- When the closing date to submit withdrawal applications is less than six months away.

When recovery process beings, the Bank applies part of the amount documented in each replenishment application to reduction of the outstanding advance. Recovery is usually gradual. The ultimately ensuring full documentation to cover the entire outstanding advance. The process can be accelerated if required.

Closing the Account

Because of the nature and special characteristics, the account should be closed after receiving satisfactory documentation shown how the amounts advanced have been used. A bank statement to show the balance as zero and that the account has been closed should be provided.

Audit Requirements

Imprest Accounts are audited as part of the annual audit in accordance with the provisions of the financing agreement.

Annex 5.1

REPUBLIC OF SENEGAL

MINISTERE DES FINANCES
DIRECTION DE LA DETTE ET DES INVTEMENTS
DAKAR – SENEGAL
(Exec-Agency)

16th June, 1999

Our Ref. 01-20-01129

DEBIT ADVICE

Dear Sirs,

We would like to advise you that we have paid the amount, as shown below and debited your account accordingly.

PROJECT 2-SE-0056 EXECUTION 34 V.PTS KAOLACK KOLDA TAMBA

COMPONENT : A

CONTRACT : CIVIL WORK SE 777
CONTRACTING CO.

CONTRACTOR'S NAME : XYZ

Value Date	Amount in Currency	Conversion Rate	Equivalent in Islamic Dinar
----- -----	----- -----	----- -----	----- -----
02/06/99	15,868.45 FF French Franc	8.4358040	1,881.08

Description : Application No.1, Invoice Ref. 2XYN

Conversion to Islamic Dinars is at the I.M.F. rate for S.D.R.
On the date preceding the value date.

This advice is a computer generated form requiring no authorized signature. It is considered correct unless we receive notice in writing from you of exceptions within thirty days from its issuance. Any exceptions to the details and change of your address, if any, should be addressed to the "Operations Financing Division", Finance Department

Annex 5.2

QUARTERLY DISBURSEMENT SUMMARY

PROJECT STATEMENT

Leasing

PROJECT NO. 2-EGT-8006

REPUBLIC OF EGYPT

MASTER PLAN R. DEV. OPERATION

Executive Authority	Ministry of Planning P.O. Box 1111 Cairo, Egypt	Agreement amount approved	27-Oct-91	10,000,000 ID
		Agreement signed	09-Jan-92	
Payment Agency	National Bank of Egypt	Agreement effective	21-Aug-92	

Components of Financing

No.	Description	%	Amount approved in ID	Disbursed Amount in ID	Balance undisbursed ID
A	Civil work	80	8,000,000.00	74,621	7,925,379
B	Consultancy	10	1,000,000.00	11,818	988,182
C	Machinery & Equipment	10	1,000,000.00	118,821	881,179
Total			10,000,000.00	204,260	9,794,740

Contracts Summary

Contract Ref.	Contract No.	Components Ref.	Contractor Name	Approved amount	Disbursed	Balance undisbursed
EGT-8006 Civil 1	TFB	A	X Contracting Co.	US\$ 600,000	US\$ 100,000	US\$ 500,000
EGT-8007 Consu 1	NTD	B	X Consultancy Office	FRF 600,000	FRF 100,000	FRF 500,000
EGT-8007 Equip.1	EMI	C	X Mech.& Equipt.Co.	GBP 600,000	GBP 100,000	GBP 500,000

DISBURSEMENTS

Voucher L/C No.	Value Date	Amount	Currency	ID. Equiv.	Exch.Rate	Description	Component Ref. No.	Contract Ref.No.
01-17-07937	26-Oct-93	100,000	US\$	74,621	1.3401	Set.Appl.No. 1 INV F 205	A	TFB
01-17-07938	05-Dec-93	100,000	FRF	11,818	8.4621	Set.Appl. #2 INV E 50296-45	B	NTD
01-17-07939	05-Dec-93	100,000	GBP	118,821	0.8416	Set-App. #3 INV E 91000	C	EMI
Total				<u>205,260</u>	Balance Undisbursed under operation		ID 9,794,740	

RECEIPTS

Voucher L/C No.	Date	Amount	Currency	ID. Equiv.	Description
01-18-07937	30-06-95	67,005	US\$	50,000	Set of 1 st installment due on 30-06-95
01-18-09940	30-12-95	423,105	FRF	50,000	Set of 2 nd " " 30-12-95
01-19-1110	30-06-96	42,080	GBP	50,000	Set of 3 rd " " 30-06-96
01-19-5400	30-12-96	67,005	US\$`	50,000	Set of 4 th " " 30-12-96
Total				200,000	

DUES

Up to Date	ID
30-06-95	50,000
30-12-95	50,000
30-06-96	50,000
30-12-96	50,000
Total Due	200,000
Net Due	0,000

Annex 6

CONTRACT BASIC DATA (2) GUARANTEES

Project ID	:	Project approved on	:
Project Name	:	Agreement signed on	:
Country	:	Agreement Effective on	:
Component ID	:		
Contract Sign. No.	:		
Amount	:		

Advance Payment Guarantee

	Guarantee Number	:
% of contract value	:	
Amount	:	
Currency	:	
Issuing Bank	:	
Tel	:	
Fax	:	
Address	:	
Issuing Date	:	
Expiry Date	:	
Recovery :	:	
Others	:	

Retention Money Guarantee

	Guarantee Number	:
% of contract value	:	
Amount	:	
Currency	:	
Issuing Bank	:	
Tel	:	
Fax	:	
Address	:	
Issuing Date	:	
Expiry Date	:	
Recovery :	:	
Others	:	

Performance Bond Guarantee

	Guarantee Number	:
% of contract value	:	
Amount	:	
Currency	:	
Issuing Bank	:	
Tel	:	
Fax	:	
Address	:	
Issuing Date	:	
Expiry Date	:	
Recovery	:	
Others	:	

Prepared by :

Reviewed by:

D-DISBURSEMENT MANUAL.A:DISBURSEMENT BASIC DATA(3)