IsDB
البنك الإسلامي للتنمية
Islamic Development Bank

IsDB DISBURSEMENT HANDBOOK 2025





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ABBREVIATIONS

BED	Board of Executive Directors
BIC	Bank Identification Code
CTA	Common Terms Agreement
D&D	Dues and Disbursement
DCA	Disbursement Capacity Assessment
DL	Disbursement Letter
EA	Executing Agency
EDP	Electronic Disbursement Platform
FA	Financing Agreement
FAA	Financial Accountability Assessment
FAR	Final Audit Report
FCD	Financial Control Department
FM	Financing Management
FMA	Financial Management Assessment
FMS	Financial Management Strategy
IA	Implementing Agency
IBAN	International Bank Account Number
ICD	Islamic Corporation for Development of the Private Sector
ICIEC	Islamic Corporation for Insurance of Investments and Export Credits
ICR	Irrevocable Commitment to Reimburse
INFOHUB	Project Information Hub
IsDB	Islamic Development Bank
ISFD	Islamic Solidarity Fund for Development
IRTI	Islamic Research and Training Institute
ITFC	International Islamic Trade Finance Corporation
LC	Letter of Credit
LoF	Line(s) of Finance
MC	Member Country
MCPS	Member Country Partnership Strategy
MoF	Mode(s) of Finance
NDFI	National Development Financing Institution
NOC	Non-Objection Confirmation

OCR	Ordinary Capital Resources
OIC	Organization of Islamic Conferences
PCG	Principles of Corporate Governance (IsDB Group)
PFM	Project Financial Management
PIM	Project Implementation Manual
PIU	Project Implementation Unit
PMU	Project Management Unit
PPP	Public Private Partnership
RBA	Risk-based Approach
RCA	Reimbursement Commitment Application
RGC	Reimbursement Guarantee Commitment
RMA	Relationship Management Application
RR'	Report and Recommendation of the President
SA	Special Account
SME	Small and Medium-sized Enterprise
SoE	Summary of Expenditure(s)
SOFE	Summary of Forecasted Expenditure(s)
SS	Summary Statement
TA	Technical Assistance
TC	Technical Cooperation
TOR	Terms of Reference
UCP-DC	Uniform Customs and Practice for Documentary Credit
WA	Withdrawal Application

FOREWORD

This Disbursement Handbook reflects a summary of the disbursement policies, guidelines, and procedures of the Islamic Development Bank ('IsDB' or 'Bank'). It is intended to serve as a reference tool for beneficiaries, executing agencies, project implementation units, co-financiers, suppliers and other external contracting parties involved in the preparation and implementation of projects and programs financed by or through the Bank.

The policies and procedures outlined in this Handbook apply to sovereign and non-sovereign guaranteed operations funded in whole or part, or through funds administered by the Bank. These Bank operations cover the projects and programs funded by the Bank from proceeds out of its Ordinary Capital Resources, Islamic Solidarity Fund for Development, WAQF Fund, as well as from Special and Trust Funds, and any other donor-originated funds administered by the Bank. This Handbook also covers co-financing from partners, who have requested the Bank to assume responsibility for the administration of projects or programs' disbursements.

The *Disbursement Handbook* is available electronically on the Bank's website. It will be updated regularly to reflect feedback from users and changes in disbursement administration policies and procedures. The Disbursement and Dues Division (D&D Division) in the Financial Control Department (FCD) of the Bank, also represented in the Bank's Regional Hub offices, is responsible for the disbursement administration and for updates to the Handbook.

Disclaimer

The Disbursement Handbook is for information purposes only. The information herein is subject to change at the discretion of IsDB and following the internal processes and procedures.

CHAPTER

01

INTRODUCTION





Chapter 1

INTRODUCTION

1.1 Purpose

The objective of this Disbursement Handbook ('Handbook') is to provide clear and easy-to-use guidelines of the required disbursement policies and procedures for beneficiaries[1] of the Islamic Development Bank ('IsDB' or the "Bank").

Apart from this general introduction (Chapter 1), the Handbook has five chapters that follow:

- Chapter 2 provides a broad overview of the structure and organization of the IsDB Group, with particular focus on the Bank's operations to which the disbursement-related policies and procedures summarized herein apply.
- Chapter 3 highlights relevant aspects of the Bank's policies that relate to disbursement operations, including those covering critical financing-related project events, such as suspension or cancellation. and
- Chapters 4 and 5 provide the broad procedural contours of the four standard modes of disbursement described therein.

The Handbook concludes with Chapter 6, which covers key aspects of project financial management relevant to disbursement operations of the Bank.

The **Glossary** at the end of this Handbook provides definitions of key terms and phrases used throughout the text and annexes.

1.2 Applicability

The policies and procedures, and their underlying guidelines, outlined herein, apply to any project financing extended or administered by the Bank, including grants financed or managed by the Bank.

The primary focus of this Handbook is the critical steps that beneficiaries are required to follow in submitting withdrawal applications and in obtaining proceeds for execution of projects and programs financed by or through the Bank. This Handbook also covers the processes required by the Bank for closing the relevant project or program disbursement accounts upon completion of project implementation.

The Handbook follows the relevant financing or grant documentation and applicable Bank regulations and guidelines such as the Bank's *General Conditions Applicable to Specific Mode of Financing*, *Guidelines for Procurement of Goods, Works and Related Services*, *Guidelines for Procurement of Consultant Services under IsDB Project Financing*, *Project Financial Management Policy*, *IsDB Group Integrity Policy, IsDB Group*

[1] A 'Beneficiary' in the Handbook includes any recipient and its authorized representatives of the Bank's Financing or Grants or Bank-administered funds from other donors or co-financiers, unless otherwise specified.

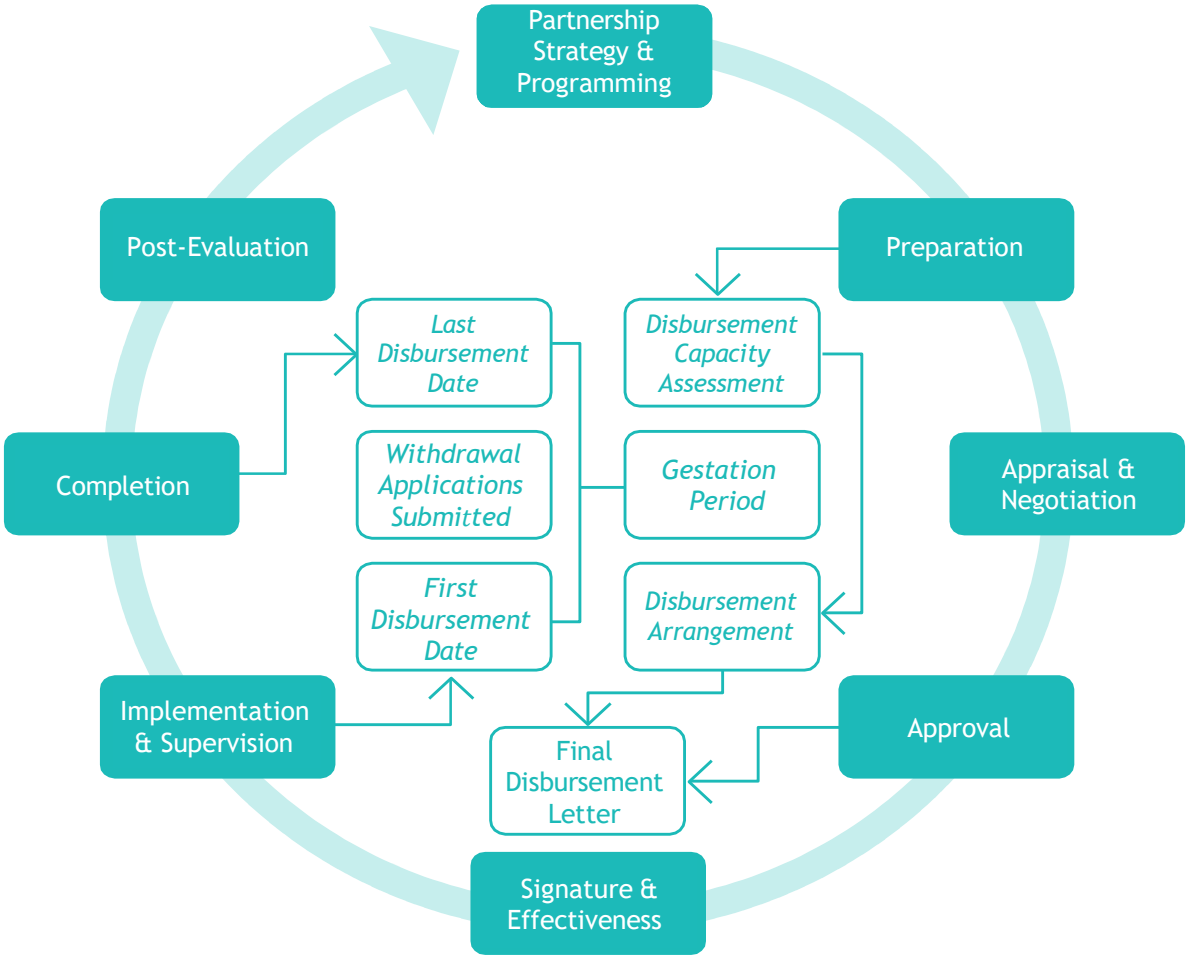
Integrity Principles and Guidelines; and IsDB Group Anti-Corruption Guidelines, as amended from time to time.

This Handbook is a compilation of relevant disbursement policies, procedures and guidelines and is not intended to replace the existing policies and procedures issued by the Bank for disbursement through any modes of finance provided by, or through grant funds administered by the Bank.

1.3 Key Project Dates

Projects and programs funded by the Bank (through either ordinary financing or grant) are managed through a typical project cycle comprising eight stages as set out in Figure 1.1.

Figure 1.1: Basic Project Cycle – Key Project Dates



Following the Member Country Partnership Strategy (MCPS)[2], projects proposed to be financed by IsDB will go through programming and due diligence process. After that, the standard project cycle is punctuated by the following critical dates:

[2] In preparing the MCPS, the financial management risk and public financial management environment are assessed at country and priority sector levels. The existing diagnostic studies are reviewed together with other relevant tools (used by other donors), taking into consideration the prevailing legal and institutional context and documentation (on governance, transparency, corruption perception index scores, any previous assessments, etc.). Based on the Country's Financial Accountability Assessment (FAA), the Bank shall prepare Country Financial Management

Key Project Dates	Description of Events
Approval Date	The date on which the relevant authority of the Bank approves the relevant financing or grant
Signature Date	The date on which the Beneficiary and the Bank sign the financing agreement. Such a date in the financing agreement determines the commencement of service charges and is crucial in preparing the repayment schedule for the "Loan" financing. Unless the Bank approves otherwise, this date should be within 180 days from the date of approval to avoid cancellation of the approval.
Effectiveness Date	The date on which the Bank determines that the Beneficiary has satisfied all conditions for effectiveness of the financing or grant agreement, as applicable, and issues a declaration of effectiveness to the Beneficiary where applicable. Unless the Bank approves otherwise, this date should be within 180 days from the date of signature to avoid the termination of the financing agreement.
First Disbursement Date	This is the date of the first payment by the Bank under respective financing agreement. Unless the Bank approved otherwise, this payment should be within 180 days from the date of effectiveness to avoid termination of the financing agreement.[3].
Last Disbursement Date	This is the date specified in the Financing Agreement on which the Beneficiary's right to submit disbursement requests shall terminate. This date typically coincides with the end of the Gestation Period for ordinary financing. Also, this date may be amended from time to time by the Bank, depending on the implementation progress and upon the Beneficiary's request.
Close Out Period	This is a period of 180 days before the planned end of the Gestation Period or planned Last Disbursement Date during which the Bank will work with the Beneficiary to ensure submission of disbursement requests covering all eligible expenditures, as well as the closure of the Special Account (designated account, if any) after returning any unutilized advance under the Financing Agreement.
Gestation Period	The Gestation Period (applicable only to ordinary financing) covers the period needed or elapsed for the completion of the activities financed by the Bank and delivers the same to the Beneficiary (i.e. from the date of the first disbursement to the date of the last disbursement). It also functions as the Grace Period of the payment of the financing's principal. Such a period may be extended at the request of the Beneficiary, upon approval by the Bank.
Grace Period	Only applicable to Loan mode of financing, it is the period where the Beneficiary doesn't have to pay the Loan principal instalments.



1.4 Electronic Access

1.4.1 Project Information Hub

The Project Information Hub (*Infohub*) is an online resource, under which users can access a secure electronic information platform for project-related transactions between the users and the Bank. The Infohub gives the users direct access to reports for relevant projects, including a summary of all Bank projects by country, with details of such projects' financial reports and updated project statements (summary status for disbursements and repayments). To access Infohub, users are required to apply

Strategy (FMS) to document the operating FM environment, summarize key Financial Management (FM) issues, plan priority tasks, set performance targets for a defined period (usually 3 years), and allocate the Bank's resources most effectively

[3] The first disbursement must take place within six months of the effective date of the financing agreement, to avoid automatic cancellation of such financing agreement (i.e. project), unless otherwise approved by the Bank.

and provide all requested information necessary for registration under the system by the Bank. The Infohub registration form can be obtained from the relevant IsDB project team members.

1.4.2 Electronic Disbursement Platform

In addition to the Project Infohub, the Bank has created an Electronic Disbursement Platform (EDP) for use by beneficiaries. The EDP is a secured website and online platform, which allows clients to submit projects' Withdrawal Applications (disbursement requests) and supporting documentation electronically, to simplify and expedite the disbursement process and accordingly leading to increased efficiency and effectiveness in project implementation and monitoring (Section 5.3.2). To register for EDP access, the identified users are required to submit the Authorization Request Form for EDP Users (Annex 5.2-B), for the Bank to provide a username and initial password for the created user account(s).

Since 2021, the EDP is the main official channel for submitting Withdrawal Applications (WA) to the Bank. However, using EDP does not override nor replace (neither fully nor partially) the internal control measures active and applicable in the Beneficiary's country. With the official submission of WAs through EDP, the Bank assumes that all related control measures have been undertaken, and all the necessary clearances have been fulfilled by the Beneficiary. In all cases, it is the Beneficiary's responsibility to ensure compliance with any applicable internal control measures before submitting the WAs to the Bank, similar to physical submission.



1.5 Outreach

External training is normally undertaken by the IsDB at the project level, through instructional sessions for Executing Agencies (EA), Implementing Agencies (IA), and Project Management Unit (PMU) held during project launch after project approval by the Bank for the Financing of the relevant project.



1.6 Inquiries

For further information, please visit the Bank's website or contact:

Dues & Disbursement Division
Financial Control Department
Islamic Development Bank
8111 King Khalid Road, Al-Nuzlah Al-Yamaniyah,
Jeddah 22332, Kingdom of Saudi Arabia
Tel: +966 12 636 1400

CHAPTER

02

THE IsDB GROUP





Chapter 2

THE IsDB GROUP

2.1 Overview

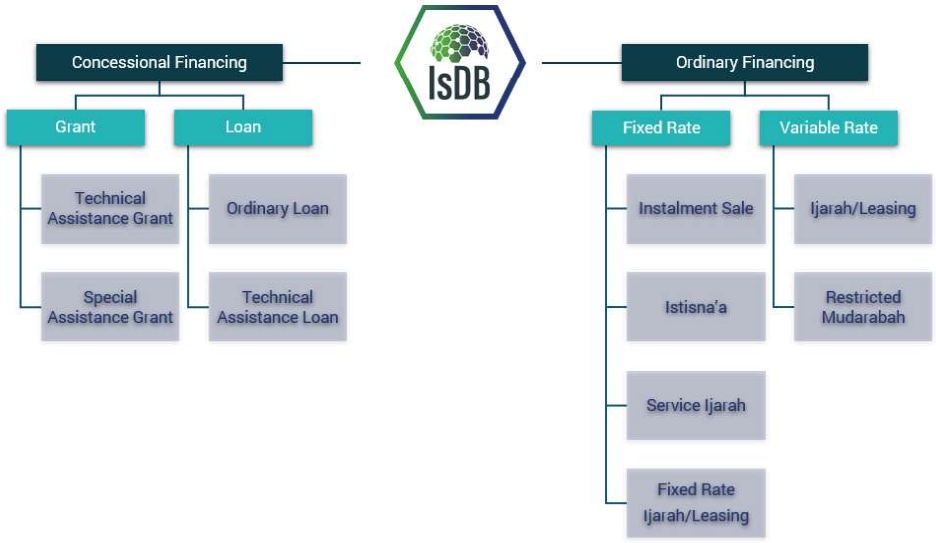
The IsDB Group is comprised of five main entities: the Islamic Development Bank (IsDB, Bank), the Islamic Corporation for Development of the Private Sector (ICD), the Islamic Corporation for Insurance of Investments and Export Credits (ICIEC), the International Islamic Trade Finance Corporation (ITFC) and the IsDB Institute.

This Handbook covers the disbursement process for financing the projects and programs ***originated or administered only by the Islamic Development Bank***. It does not apply to projects and programs administered by other Bank Group entities. The Bank has three main sources of its own funding: the Ordinary Capital Resources (OCR), the WAQF Fund and the Islamic Solidary Fund for Development (ISFD). OCR is currently provided under multiple main Islamic Modes of Financing (Ordinary Financing), as well as by Concessional Loans (Section 2.3). An overview of the Bank's Products is displayed in Figure 2.1.

The WAQF Fund and ISFD provide resources for concessional financing and for grant allocations by the Bank. IsDB grants may take the form of Technical Assistance (TA), Technical Cooperation (TC) activities, or Special Assistance. TA grants may be used for undertaking preliminary or detailed feasibility study and design, supporting project implementation and for advisory studies such as policy reviews, development of sectoral plans, institutional capacity building and research, etc. Special Assistance grants may be used for natural disaster, emergency and relief operations for the Bank's Member Countries (MC), as well as for assistance to Muslim communities in non-member countries.

The Bank also manages individual or aggregated funds from external donors and/or partners in its projects and programs.

Figure 2.1: IsDB Financing Products Overview



2.2 Decentralization

For purposes of the Bank's disbursement function, the strategic shift to improve operational delivery through business process improvements and enhancements requires significant decentralization. Such decentralization contemplates project operational activities, including disbursements, handled through designated Regional Hubs of the Bank. The Bank staff in these Regional Hubs includes disbursement and financial management staff, who will coordinate the operational disbursements and project financial management aspects, from commencement to completion of project implementation.

2.3 Islamic Modes of Finance

The table below provides an overview of the Bank's pricing policy applicable for the various Islamic financing products (Modes of Finance).

MoF	Terms & Conditions	Scope
Loan	• As these are loans, the Bank only charges a service fee to cover its actual administrative cost. • All loan amounts are to be repaid in semi-annual, equal and consecutive instalments throughout the tenor of repayments. • The service fee accrues for payment immediately upon signature of Loan Agreement.	• Ordinary loans are for long-term project financing. • Technical Assistance (TA) loans are for feasibility studies for major projects.
Leasing / Ijarah	• The applicable rate is the sum of the fixed Financing Spread prevailing at the time of disbursement, and the Reference Rate (floating)*. • The Bank charges a rental amount periodically. The variable rental rate is accrued on each disbursement. The lease will start at the end of the Gestation period.	• Financing is to provide for capital assets such as infrastructure and fixed assets for development projects.
Instalment Sale and Murabaha**	• The applicable mark-up rate is the sum of the fixed Financing Spread and the Reference Rate that are prevailing at the time of disbursement *. • Immediately upon the delivery of the assets, the sale will be concluded with the sale price includes the disbursed amount plus the mark-up.	• Financing is to provide for assets such as equipment and machinery for development projects.
Service Ijarah	• The applicable mark-up rate is the sum of the Financing Spread and the Reference Rate that are prevailing at the time of disbursement *. • The sale price is agreed at the time of the agreement with a fixed rate, which is a ceiling rate. Then at the end of the gestation period the Bank will provide a rebate as per the sale price discount policy based on the applicable mark-up rate.	• Financing is to provide for any services such as studies, consultant and non-consultant services for the development projects.

MoF	Terms & Conditions	Scope
Istisna'a	• The Bank charges mark-up on each disbursement. The applicable mark-up rate is the sum of the Financing Spread and the Reference Rate that are prevailing at the time of disbursement*. • The sale price is agreed at the time of the agreement with a fixed rate, which is a ceiling rate.. Then at the end of the gestation period the Bank will provide a rebate as per the sale price discount policy based on the applicable mark-up rate	• Financing is to provide for constructing or manufacturing a capital asset such as infrastructure for development projects.
Restricted Mudarabah	• The Bank will expect a minimum profit on each disbursement. The applicable rate is the sum of the fixed Financing Spread prevailing at the time of disbursement, and the Reference Rate (floating)*. • The Bank invests its funds in the Beneficiary portfolio with specific conditions and minimum expected Bank's share of profit. • Following the liquidation, the Bank will receive capital plus the Bank's share of profits. If the profit is greater than what was agreed upon, the excess will be retained by Mudarib.	• Lines of Finance arrangement for development financing with restricted terms and conditions.

* The Reference rate and the Financing Spread is subject to a floor and a cap and updated on a semi-annual basis.
** *Murabaha* is a Mode of Finance like Installment Sale in pricing terms and conditions, except that it is applicable only for readily available product(s) or good(s), instead of asset(s) yet to be constructed or manufactured (as Installment Sale).

CHAPTER

03

DISBURSEMENT POLICIES





Chapter 3

DISBURSEMENT POLICIES

3.1 Basic Principles

The five paramount principles embodied in the Bank's *Articles of Agreement,* which apply to the disbursement of proceeds for the projects and programs financed or administered by the Bank are:

- *Article 1*: any Bank disbursement policies and procedures must conform to the Shari'ah principles.
- *Article 12*: the resources and facilities of the Bank must be used exclusively to implement its purposes and functions, based on sound economic principles.
- *Article 16 (1)(i)*: the Bank shall pay due regard to safeguarding its interest in respect of its financing.
- *Article 16(vi)(2)*: the Bank must take necessary measures to ensure that the financing made available by it will be used strictly for the purposes such funds have been provided for.
- *Article 16(vi)(6)*: every Bank financing contract shall provide for effective inspection and follow up by the Bank.
- Other Articles also provide guidance that specifically relates to the Loan as distinct from other modes of financing (for example, Articles 20(3) and 26).

3.2 General Conditions

3.2.1 General

The Bank has been updating certain critical legal conditionalities that apply to each of the Bank's modes of financing. These new provisions are embodied primarily in the following (collectively 'Updated Conditions'):

- *General Conditions Applicable to Loan Financing.*
- *General Conditions Applicable to Technical Assistance Grant Financing*
- *General Conditions Applicable to Istisna'a Financing.*
- *General Conditions Applicable to Installment Sale Financing.*
- *General Conditions Applicable to Leasing/Ijarah Financing.*

3.2.2 Critical Events Affecting Disbursement

These five sets of *Updated Conditions* are cross-referenced in the *General Conditions* that are embodied in the prescribed Bank's Financing Agreement (FA) templates for the related modes of financing, namely,

for Istisna'a, Installment Sale, and Service Ijarah, and supplemented in the respective Agency Agreement templates for each of these modes of financing.

In addition to providing detailed clarification on events of default under each mode of financing, these five sets of *Updated Conditions* also broadly deal with situations that may require acceleration, suspension, cancellation and termination of the underlying financing agreement between the Bank and the Beneficiary. These situations are summarized below:

- ***Acceleration:*** permits the Bank to declare as due and payable immediately all amounts disbursed to the Beneficiary and outstanding, together with any applicable charges, if particular events arise that constitute a default under the terms of the financing agreement and continue without correction. No disbursements are permitted if the Bank has taken steps to accelerate payments under a financing agreement.

- ***Suspension:*** if the Bank concludes that there is or may be an event of default, or any reasonable possibility for the occurrence of a material adverse effect on the project, the Bank may suspend (i.e. stop) further disbursements. Suspension may apply to one or more financing agreements or to a specific project component under a single financing agreement. Such suspension of disbursements takes effect from the date of the decision to suspend and remains in effect until (i) the date of cessation of the event(s) that led to the suspension, and (ii) notification by the Bank to the Beneficiary of the total or partial lifting of the suspension. In the case of repayment-related defaults (i.e. overdues), the Bank will suspend disbursements on all projects guaranteed by the IsDB member country[4].

- ***Cancellation***: under the *Updated Conditions*, the Beneficiary can typically cancel the whole or part of any unutilized available approved amount at its discretion, other than any amounts subject to the Bank's undertaking of a Reimbursable Guarantee Commitment (RGC) under a Letter of Credit (LC). Cancellation events include situations when the relevant agreement has not become effective, or a first disbursement request has not been submitted within the prescribed period. Automatic project cancellation broadly occurs upon the expiry of the period within which the related financing agreement should be signed (180 days, unless extended by the Bank), if there is no signing event. If the financing agreement has been signed, then automatic cancellation occurs if the signed agreement is not declared effective with the prescribed period (180 days, unless extended by the Bank). If the financing agreement has been signed and declared effective within the prescribed period, automatic cancellation may still occur if the Beneficiary fails to submit the first disbursement request within the period specified in the financing agreement (180 days), or any extended period for such purpose approved by the Bank.

- ***Termination***: under the *Updated Conditions*, the Bank may terminate financing or related agreements typically upon the occurrence of what is termed as 'termination event'. Such events include situations when the relevant agreement has not become effective, or a first disbursement request has not been submitted, within the prescribed period (unless extended by the Bank). Also included are events of default under the relevant agreement. Termination may also occur if all obligations under the relevant agreement have been fully discharged and completed.

Apart from the ***Updated Conditions***, the ***IsDB Group Principles of Corporate Governance*** (PCG, 2009) sets out basic Bank-wide governance principles. Among others, under the PCG, the Bank has committed to the principle of accountability, under the terms of which the Bank ensures the preservation of financial

[4] The Bank's Overdues Policy specifies the different types of, and exemptions from, sanctions that the Bank can apply in the event of borrower's overdues.

resources through implementation of best practices and appropriate systems of operational and financial control, internal and external audit and risk management.

3.2.3 Disbursement-related Provisions

Disbursement-related provisions in each of these sets of General Conditions (and the related agreement-specific general conditions) are substantially similar. These covenants relate to the requirements for the completion of disbursement requests by beneficiaries and set out the conditions that must be satisfied before the Bank can accept and execute any specific disbursement request submitted by a Beneficiary.

A Disbursement Letter is prepared by the Bank during project preparation and sent to the Beneficiary after signing the financing agreement. The Disbursement Letter sets out the specific disbursement procedures and processes to be followed during project implementation (Section 5.1).

3.3 Financing Agreement

A Financing Agreement (FA) sets out the critical elements of the relevant approved project financing. The FA details the specific terms and conditions, including the following (among other provisions):

- Currency and amount to be financed.
- Project components and specific activities, for which expenditure can be incurred.
- Mode of finance and project tenor and repayment terms, if applicable. (Section 2.3)
- Financial reporting and audit requirements (Chapter 6).
- Procurement provisions (Section 3.7).
- Applicable mode(s) of disbursement and related procedures (Chapter 5).
- Key dates in the project cycle (Section 1.3).

The financing agreement is normally signed by the Bank and the Beneficiary soon after IsDB's approval of the project and such date becomes the Signature Date of the Financing Agreement. In the event of any inconsistency between the terms and conditions of the *Financing Agreement* and any applicable ***General Conditions,*** the terms and conditions set out in the former prevail.

3.4 Effectiveness

Any Financing Agreement between the Bank and a Beneficiary only comes into legal force and effects upon its respective Effective Date[5]. The effective date is the date notified by the Bank, upon which the Bank is satisfied with the Recipient's confirmation that all conditions of the Financing Agreement are met. The Bank will dispatch to the Beneficiary a "Declaration of Effectiveness" notice, advising the acceptance of the submitted evidence (by the Beneficiary) as stipulated under the relevant Financing Agreement to establish such effectiveness. After effectiveness, the relevant disbursement process may commence upon submission of the withdrawal application(s) (Section 5.3.1) by the Beneficiary's authorized signatories, template of which will be communicated with the Disbursement Letter.

[5] If such effectiveness does not occur within the prescribed period set out in the financing agreement (unless extended by the Bank), the financing agreement will be automatically terminated. 'Financing' agreement includes, where the context requires, all companion legal agreements necessary for purposes of project operations and disbursement (e.g. Istisna'a Agreement, Services Ijarah Agreement, related Agency Agreements, etc.). Such companion legal agreements also may have their own respective 'effective dates', in addition to those specified in the main Financing Agreement.

3.5 Cost Eligibility

A Financing Agreement will specify the expenditures eligible and ineligible for financing. The Bank will only finance eligible expenses (Section 5.4). If the funds withdrawn by the Beneficiary are subsequently determined by the Bank to be ineligible for financing, the Bank may offset such amount against subsequent withdrawal applications submitted by the Beneficiary or may request the Beneficiary to refund such amounts.

3.6 Advance Contracting and Retroactive Financing

Disbursement may occur only after the financing agreement between the Bank and the Beneficiary has been signed and become effective, unless otherwise permitted by the Bank.

In certain circumstances, such as to accelerate project implementation or in emergencies when expedited mobilization of funds is needed, the Beneficiary may, with the Bank's no-objection, proceed with the procurement process and contract award prior to signing the Financing Agreement. This procedure is called Advance Contracting.

The Bank does not normally finance any expenditure incurred prior to the approval of the project. However, in very exceptional circumstances, financing may be considered, subject to the requirements of the Bank's Mode of Finance and *Procurement Guidelines*. This procedure is called Retroactive Financing.

In exceptional situations with adequate justification and following strict procedures, the Bank may approve Advance Contracting and Retroactive Financing. This approval and the related procedure(s) must be expressly provided for in the Financing Agreement.

3.7 Procurement of Goods, Works and Services

The procurement of works, goods and services financed by the Bank is governed by policies and procedures as set out in the *Procurement Guidelines, as* amended from time to time, for *Guidelines for Procurement of Goods*, Works and Related Services and *Guidelines for Procurement of Consulting Services* under IsDB Project Financing.

Project specific provisions for procurement are set out in the financing agreement and complement these rules and procedures. Compliance with these rules and procedures is a contractual obligation for the Beneficiary, as it contributes to proper project implementation and is necessary for facilitating the project disbursements.

The responsibility for project implementation, as well as the award and administration of contracts, rests with the Beneficiary. The Bank supervises the procurement processes and contract award activities carried out by the Beneficiary, to ensure its execution in accordance with the provisions of the Financing Agreement and as detailed in the respective project procurement plan.

CHAPTER

04

DISBURSEMENT MODALITIES





Chapter 4

DISBURSEMENT MODALITIES

4.1 Modes of Disbursement

There are four Modes of Disbursement that are permitted by the Bank. These modalities are summarized in Table 4.1. Any disbursement by the Bank can only be made upon submission of a satisfactory Withdrawal Application Form by the Beneficiary (Annex 4.1). Each Withdrawal Application is accompanied by a statement that provides a detailed breakdown of the project component(s) and/or category of expenditure approved in the Financing Agreement, along with a description of the related goods and services and identity of the contractor or supplier (Annex 4.1-A). The Beneficiary confirms in the statement, that all expenditures in relation to each of the identified project components and/or category are in accordance with the terms and conditions of the Financing Agreement (Section 5.3).

Table 4.1 Indicative Disbursement Modality

Indicative Disbursement Modality	Nature of Expenditure	Description
Direct Payment	Larger value expenditures such as progress payments under works or consulting contracts, purchases of equipment.	The Bank, at the request of the Beneficiary, makes a designated payment directly to the supplier, contractor, consultant, or service provider.
Reimbursement	Beneficiary pre-financed expenditures	For eligible expenditures that can be pre- financed and paid for by the Beneficiary of the project out of its own resources.
Irrevocable Commitment to Reimburse (ICR) / Reimbursement Guarantee (Special) Commitment	Financing imports of goods, equipment, plant	The Bank provides an irrevocable undertaking to reimburse a commercial bank (i.e. advising/ negotiating bank) for payments made or to be made to a designated Beneficiary supplier under a Letter of Credit (LC).
Special Account (SA)	Small and numerous expenditures; recurrent operating costs.	For small and typically recurrent eligible expenditures, advances are made by the Bank into a SA up to a prescribed ceiling, in accordance with the terms of the project Disbursement Letter. As a revolving account, the SA may be replenished upon liquidation of advances by the Beneficiary to the satisfaction of the Bank.

4.2 Direct Payment

Under this disbursement modality, the Bank makes direct payment to the designated supplier, contractor or service provider, at the Beneficiary's request. Such direct payment is made pursuant to the relevant terms and conditions of the underlying contract or agreement between the Beneficiary and the designated third party that has been approved by the Bank.

The direct payment procedure requires the Beneficiary to submit full supporting documentation to substantiate the correctness of the claim(s) for payment under the underlying contract or agreement between the Beneficiary and the supplier, contractor or service provider, unless otherwise agreed by the Bank. Please refer to Direct Payment Checklist (Annex 4-3). These requirements are summarized below:

Documentation Requirements *
• Withdrawal Application form and Summary Statement • Proof of commitment with the first request for payment. E.g. contract or confirmed purchase order, duly cleared by the Bank, and copy of the performance bond for civil works payments (if not yet submitted earlier). • Invoice/Bill/Claim/Payment Request from suppliers / contractors / service providers, with full bank account details (IBAN) • Proof of delivery of commitment, e.g. Delivery Receipt, Acceptance certificate, Bill of Lading, Interim Payment Certificate issued by supervision consultants, etc. OR a copy of guarantees for advance payments or for release of retention money before the end of defect liability period. • Reference documents for the applied exchange rate if the currency of payment is different from the requested currency.

** For electronic submission, the Beneficiary must keep the originals or certified true copies in his custody for at least seven years after project completion*



4.3 Reimbursement

Reimbursement is typically used when the Beneficiary has sufficient resources of its own to make payment(s) for the project expenditures, for which reimbursement is requested afterwards.

Under this disbursement modality, the Bank reimburses or refunds the Beneficiary for eligible expenditures that have been incurred (or pre-financed) by the Beneficiary from its own resources (or counterpart funding) after effectiveness of the financing or grant agreement (or earlier if retroactive financing has been approved).

Notably, under reimbursement, the Bank pays only the Beneficiary and, unlike in the case of direct payment, does not directly pay any third party such as a supplier or a contractor. The reimbursement procedure requires submission of full supporting documentation by the Beneficiary, particularly proof of payments. These requirements are summarized below:

Documentation Requirements *
• Withdrawal Application form and Statement of Expenditure • Proof of commitment with the first request for payment. E.g. contract or confirmed purchase order, duly cleared by the Bank, and copy of the performance bond for civil works payments (if not yet submitted earlier). • Invoice/Bill/Claim/Payment Request from suppliers / contractors / service providers, with full bank account details (IBAN) • Proof of delivery of commitment, e.g. Delivery Receipt, Acceptance certificate, Bill of Lading, Interim Payment Certificate, etc. OR copy of advance payment guarantees for advance payment, retention money guarantee for release of retention money. • Evidence of payments showing the amounts and date of payments and identify. • Reference documents for the applied exchange rate e.g. certification from the paying bank stating applicable exchange rate, if the currency of payment is different from the requested currency.

** For electronic submission, the Beneficiary must keep the originals or certified true copies in his custody for at least seven years after project completion.*

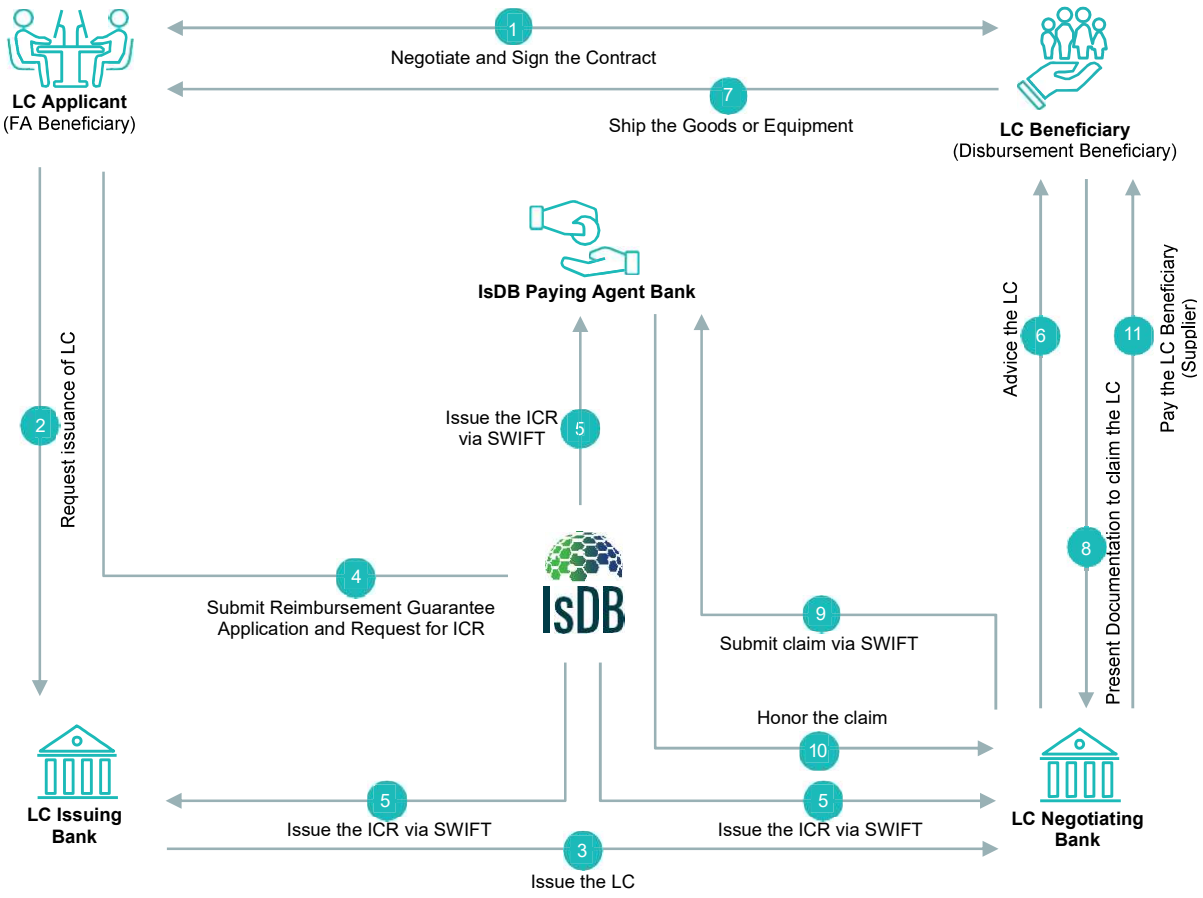
4.4 Reimbursement Guarantee / Special Commitment

An Irrevocable Commitment to Reimbursement (ICR, also referred to as Reimbursement Guarantee or Special Commitment) is an instrument through which the Bank undertakes to reimburse a negotiating bank under a Letter of Credit (LC) that the Bank finances.

An ICR gives assurance to the negotiating bank that payment(s) will be made to by a strong, AAA-rated institution as the Bank upon its claim. ICRs are issued for the procurement of goods or equipment and are in the same currency specified in the underlying contract.

IsDB's ICR template is a standard, non-negotiable template that proved to be acceptable to many commercial banks worldwide, notwithstanding any subsequent suspension or cancellation. The standard ICR process is illustrated in Figure 4.1.

Figure 4.1: Illustration Chart for Irrevocable Commitment to Reimburse



The Beneficiary of the Financing Agreement (FA) should consider the following when applying for ICR:

- The ICR is issued based on the Letters of Credit (LC), and it cannot be issued for a period extending beyond the project's closing date. Therefore, The ICR expiry date and the LC expiry date should be on or before the project's closing date.

- The latest version of the Uniform Customs and Practice for Documentary Credits (UCP-DC) shall govern the underlying LC. The LC requires supporting documentation (e.g. invoices, insurance certificates, bills of lading, etc.) that the negotiating bank can readily examine, to ensure compliance with the terms and conditions of the LC.

- The ICR does not cover interest, commission, or any other charges or expenses connected to the LC.

- The LC issued by the FA Beneficiary's bank (LC issuing bank) becomes operative only if and when IsDB issues its ICR to the negotiating bank.

- The FA Beneficiary takes the performance risk of the negotiating bank, since IsDB will honor the claim(s) of the negotiating bank subject to the confirmed certification that the documents presented are full and in strict compliance with the agreed terms and conditions of the LC. However, if an error, omission or misconduct is made by the negotiating bank, the FA Beneficiary shall remain liable and responsible for reimbursing IsDB for the amount(s) paid to the negotiating bank.

- Once an ICR is issued, IsDB will not be able to cancel or amend the ICR, except upon the consent of the negotiating bank.

Basic Requirement

For issuance of an ICR, a signed Reimbursement Guarantee Application (available in the Disbursement Letter) must be submitted to IsDB, together with a summary sheet for the commitment and the required supporting documents, including (i) the underlying signed contract, (ii) the Proforma Invoice, and (iii) a copy of the issued LC (MT 700).

Issuing the ICR

Upon approval of the FA Beneficiary's Reimbursement Guarantee Application, IsDB issues its ICR (MT 799) in favor of the LC Negotiating Bank, with copies sent to the LC Issuing Bank and the LC Reimbursing Bank (IsDB paying agent) to confirm that the Bank will honor an authenticated claim(s) under this LC.

Payment to Negotiating Bank

The Negotiating Bank will submit claims to IsDB's paying agent through authenticated SWIFT message (MT 742). The FA Beneficiary will ensure to include the following clause in field 78 of the LC:

> "…Please claim reimbursement from IsDB's paying agent, ….. [*insert name of bank*] (*SWIFT: SINTGB2LXXX*). The said paying agent is authorized to honor your claims within five (5) working days from the date of receipt of your claim through authenticated SWIFT message (MT 742) confirming that you have negotiated the documents in strict compliance with the terms and conditions of the credit and forwarded the same to the LC issuing Bank through courier service…."

Linking the Letter of Credit to the ICR

The LC is linked to IsDB's ICR with the following clause, and the FA Beneficiary will ensure the clause is included in field 47 of the LC:

> "…This LC is financed by Islamic Development Bank (IsDB) Jeddah. Therefore, the LC will be operative only upon receipt of IsDB's Irrevocable Commitment to Reimburse (ICR) by the LC negotiating/ Advising Bank…."

LC Amendments

IsDB's prior approval is required for the following material amendments to any LC against which IsDB issued its ICR:

- Extension of the LC expiry date
- Change in the LC value or currency
- Description or quantity of goods
- Country of origin
- Disbursement Beneficiary, and/or
- Terms of payment.

Discrepant Presentation

If a discrepancy is found in the documents presented, the approval of IsDB to waive such discrepancies will not be required, unless the discrepancies are in relation to the following:

- Presentation beyond LC expiry date
- Value or currency of the LC
- Description or quantity of goods
- Country of origin
- Disbursement Beneficiary, and/or
- Terms of payment

If the discrepancy is related to a clause specifically mentioned in the underlying contract, then the Beneficiary must also make the necessary amendment to the said contract.

IsDB's nominated reimbursing bank will not honor the claim(s) from the negotiating bank, if there is any discrepancy between the shipping documents and the LC terms. In such cases, IsDB needs the below confirmation:

- The LC issuing bank will confirm through authenticated SWIFT message (MT 799) that they have accepted the documents despite discrepancies and confirm the type of discrepancies.

- The FA Beneficiary will issue a payment authorization to IsDB, mentioning that they have accepted the discrepancies.

The steps and roles for the different participants in ICR process (the Beneficiary, IsDB, the issuing bank and the negotiation bank) are summarized in Table 4.2.

Table 4.2: The Overall Process and Participants' Roles in Processing LC under ICR

FA Beneficiary or Supplier	IsDB	Issuing Bank	Negotiating Bank
1. LC Issuance			
The Beneficiary of FA will request the LC Issuing Bank to issue the LC to the Negotiating Bank based on the signed contract between the Beneficiary and supplier.	Please refer to the Reimbursement Guarantee Checklist (Annex 4.4)	The Issuing Bank will issue an LC (MT 700) to the Negotiating Bank.	

FA Beneficiary or Supplier	IsDB	Issuing Bank	Negotiating Bank
2. Relationship Management Application (RMA)			
The Beneficiary of FA and supplier will ensure that their respective banks are willing to set up the RMA with IsDB and its nominated reimbursing (paying) bank.			
3. Reimbursement Commitment Application (RCA) for issuance of ICR			
The Beneficiary of FA will submit a signed RCA to IsDB with all necessary supporting documents to issue an ICR.	The Bank will issue the ICR (MT 799) to the LC Negotiating Bank, the LC Issuing Bank, and the nominated Reimbursing (paying) Bank. (Annex 4.4-B)		
4. Negotiating Bank claim(s)			
	The IsDB nominated Reimbursing (paying) Bank will honor the authenticated claim(s) and pay to the negotiating bank.		Authenticate claim (MT 742 or MT 799), unless otherwise instructed by IsDB.
5. Discrepant Claim(s)			
The Beneficiary of FA will provide IsDB with a payment authorization, mentioning that they have accepted the discrepancies.		The LC Issuing Bank will issue an MT 799 to IsDB, confirming that they have accepted all the documents despite any discrepancies and specify the type of discrepancies.	
6. ICR amendment (for LC amendment)			
The Beneficiary of FA will: 1. require IsDB's Non-Objection Confirmation (NOC) to amend the LC. 2. submit to IsDB an ICR amendment application with the LC amendment.	IsDB will review the LC amendment and issue the related ICR amendment (MT 799) to the LC Issuing Bank, LC Negotiating Bank, and the Reimbursing (paying) Bank.	The Issuing Bank will issue the related LC amendment (MT 799) to the LC Negotiating Bank.	

The terms and conditions for the Reimbursement Guarantee are detailed in the "Agreement and Certification" section of the Reimbursement Commitment Application (RCA). These provisions include (among others) the Beneficiary's obligation and specific amendments that require the Beneficiary's approval.

The Bank's standard reimbursement guarantee does not cover:

- Payments to be made pursuant to, or under, a transferable LC, or
- If negotiation of documents required under the LC is not undertaken by the nominated negotiating bank but by another bank, unless the Bank expressly approves such payments.

The documentation requirements are summarized below:

Item	Applicable procedure	Documentation Required
1.	The Financing Beneficiary completes and signs the Request for Reimbursement Guarantee (RG), using the Reimbursement Guarantee Application in Annex 4.4-A.	For each RG request, the supporting documents must include: - Copy of the LC to which the RG Request relates with a valid expiry date (i.e. before the closing date of the applicable Financing Agreement, unless extended). Copy of the underlying contract for supply of goods or services to which the LC relates and any required approval for such contract.
2.	IsDB will issue RG Commitment to the identified negotiating bank through an authenticated SWIFT message MT 799 (Annex 4.4-B).	The standard RG Commitment Application used by the Bank (Annex 4.4-A).
3.	If the Financing Beneficiary wishes to amend the underlying LC, then the Financing Beneficiary must notify IsDB in writing of the required amendments. IsDB must approve such an amendment.	The Financing Beneficiary must provide the text of the proposed LC amendment (Annex 4.4-C) and a copy of the amended LC.



4.5 Special Accounts

A Special Account (SA) is an account that provides advance payments on a revolving basis from the relevant financing or grant provided by the Bank for use by the Beneficiary to meet eligible expenses (Section 5.4).

The objective of using a SA is to provide more flexibility in facilitating timely payments by the Beneficiary during project implementation, typically for smaller contractors and suppliers and for other smaller types of eligible expenses. The SA makes funds readily available and reduces the disbursement processing time by reducing the number of withdrawal applications required.

To use the SA mode of disbursement, the Beneficiary should have (i) effective administrative, financial, and accounting systems and procedures in place; (ii) adequate internal control systems[6]; and (iii) the ability and commitment to undertake regular and timely independent audits for such account(s).

The assessment of the Beneficiary's financial management and disbursement capacity is undertaken to determine if, and the extent to which, a SA can be used in accordance with the applicable Bank's policy and procedure. This is undertaken during project preparation and finalized by the end of project

[6] Internal control involves everything that controls risk to an organization and is a means by which organization resources are directed, monitored and measured. It plays an important role in detecting and preventing fraud and protecting the organization's resources.

appraisal[7]. Therefore, the decision on whether to allow for opening a SA is made during project appraisal, while opening the SA, if recommended, should occur after the signing of the Financing Agreement.

The SA must be used exclusively for the Bank's share in financing project expenditures, typically for recurrent project expenses. SAs are held in a reputable commercial bank acceptable to the Bank[8] (or maybe in the MC's Central bank) that should generally have satisfactory capacity to:

- Provide the range of services necessary for servicing such accounts in the currency appropriate for the anticipated expenditure that the Beneficiary expects to incur from such account.
- Execute many transactions in a timely manner.
- Perform a wide range of banking services.
- Provide a detailed account statement of the SA.
- Effectively use a correspondent banking network.

The Bank reserves the right not to accept the commercial bank designated by the Beneficiary for opening the SA, if the above conditions are not met.

Special Account Use

The operation and management of the SA is subject to the following:

- The account shall be used only for the financing provided by the Bank and shall not receive any counterpart or co-financing funds or other resources[9].
- The SA may neither be used as collateral nor be subject to overdrafts.
- The Bank does not approve nor encourage interest/income bearing SA. However, if the Beneficiary receives (credit) income on the SA's funds, any income earned should be used in accordance with the Beneficiary's internal regulations with prior consent from the Bank, or to be refunded to account of Bank's choice.
- Funds must not be transferred by the Beneficiary from the SA for investment purposes. The Beneficiary is accountable for all funds advanced to the SA, including amounts that may have been transferred to SA sub- accounts.
- The opening and operation of SA sub-accounts, as well as the proceeds of SA are subject to specific conditions, justified by project requirements and in accordance with the agreed procurement methods, contractual expenditures and the Bank's SA policy and procedures.

Access and Control

The Beneficiary must make appropriate arrangements for the Project Management Unit (PMU) or Project Implementation Unit (PIU), or the executing or implementing agency, as circumstances require, to have control and efficient access to SA to finance the eligible expenditures. These appropriate arrangements for the proper operations of the SA shall be in accordance with the applicable Bank's procedures.

Normally, the Beneficiary requires at least two officials to authorize each payment from the SA. Withdrawals from a SA are typically made either by: (i) the same person(s) authorized to withdraw funds from the project account; or (ii) two designated projects officials (i.e. PMU or PIU) or a combination of one project official and one official from the executing agency.

[7] Project financial management (and related disbursement) capacity assessments will follow the Bank's Project Financial Management Policy (March 2019). See Chapter 6 .1-6.2 et seq for more details.

[8] The acceptance of the commercial bank (or the central bank, if applicable) is made within the Bank

[9] Any waiver or modification of this approach should be decided during the negotiations and included in the Financing Agreement.

Initial Advance and Ceiling

A request should be made for the initial advance by the Beneficiary through a withdrawal application, not exceeding the ceiling or limit set down for the SA[10] and agreed in the Financing Agreement and project Disbursement Letter. For any upward changes in the approved SA's ceiling, the Beneficiary must obtain prior approval from the Bank. During the project implementation, the Bank may authorize the SA ceiling modification, in accordance with the Bank's applicable policies and procedures[11].

All approved advances are transferred by the Bank into the SA. Using advances in the SA for payment(s) to any other account(s) without prior authorization from the Bank are not permitted and could be considered ineligible expenditure(s), which could cause the Bank's refusal to replenish the SA.

Reporting Eligible Expenditures and Replenishments

The funds for the SA may be maintained on a replenishable basis over the implementation period of the project. Liquidation of expenditures under the SA occurs through submission of the required documentation, which provide evidence(s) for the use of funds for the agreed purposes and to finance relevant eligible expenses duly incurred and paid for by the Beneficiary. This is to be done in. a Statement of Expenditure (SoE).

The SoE needs to be supported by documentation specified and agreed upon during negotiations and detailed in the Disbursement Letter. This includes the Bank statements for the SA (giving details of all transactions (monthly) irrespective of any movements in the account), a reconciliation statement (highlighting the difference of the balance in the account and its liquidation), and an auditor certification(s) or report unless otherwise approved by the Bank. Any payment of ineligible expenses must be promptly refunded back to the account.

Replenishment requests must be submitted regularly. If no replenishment request is submitted within the period set out in the Financing Agreement and/or Disbursement Letter due to excess advances or any other reasons, the Beneficiary must:

- Justify the utilization of the advance by providing a Statement of Expenditure (SoE), with its required supporting documentation.
- Provide a revised expenditure forecast and satisfactory evidence to the Bank that within the upcoming expenditure period any excess advance (i.e. SA balance) will be used to finance eligible expenditures.

If there is failure to submit timely replenishment requests without the above corrective actions, the Beneficiary may be instructed to refund to the Bank the unutilized amounts previously advanced to the SA, or the SA ceiling may be reduced, if appropriate.

The Bank may suspend replenishment of the SA if:

- The Bank suspends the financing to which such SA relates.
- The SA has no replenishment request for a period of more than 12 months.
- No audit report is submitted for the SA.
- If there are audit findings or Bank mission(s) documented unauthorized utilization of SA proceeds, the Bank may request the Beneficiary to refund such amount, or to offset it using counterpart funding for eligible expenditures. In serious cases, the use of the SA may be terminated under the relevant provisions of the project financing agreement.

[10] Such SA ceiling or limits, and their rationale and application, are described in detail in the Disbursement Letter.

[11] Details of SA ceiling modification shall be described in the Restatement Disbursement Letter.

Other situations may also result in suspension of SA replenishments, as in the case of breaches of the Beneficiary's commitments under the Bank's Integrity and Anticorruption Policy. During suspension, no additional funds will be advanced to the SA. However, the funds already available in the SA may continue to be used for financing eligible expenditures, as agreed.

Final Liquidation

Before the Closing Date / Gestation Period ends, the Beneficiary must refund to the Bank any unutilized or unliquidated balance in the SA, in the currency of the SA. Non-compliance with this request may lead to the suspension of the use of SA modality in any new project(s) in the Member Country. Unless otherwise agreed by the Bank, SA advance or replenishment requests will not be entertained during the 6-month (close out) period prior to the Last Disbursement Date (Section 1.3).

Any unliquidated balance of a SA, whether because of prior payment of ineligible expenses or otherwise, must be promptly refunded to the Bank, including any unutilized balances. Such refunds are typically in the currency of the SA or SA sub-account (if applicable). Any currency variation because of relative exchange rate differences shall be borne by the Beneficiary.

Payment Currency

The disbursement currency to the SA is restricted to the currency in which the fund (i.e. Financing Agreement) is denominated. However, the Beneficiary can open a sub-account in local currency if needed, to finance the agreed project's components and facilitate the execution of planned operations.

Special Account Closure

The SA should be finally closed after the Bank receives satisfactory documentation showing how the amounts advanced have been utilized by the Beneficiary and after full liquidation of any outstanding advances, including the payment of refunds (if required) by the Beneficiary to the Bank.

Audit Requirements

Unless otherwise approved by the Bank and in accordance with the provisions of the Financing Agreement, SAs are required to be audited annually by independent and qualified auditor(s) acceptable to the Bank. In addition, if agreed between the Beneficiary and the Bank, interim audit certification of the Statement of Expenditures (SoE) from the SA may be required in relation to second or subsequent replenishments.

If the Beneficiary fails to provide any of the audited reports and/or interim audit certifications, the Bank may at its discretion decide not to accept further application(s) for replenishment, even if such application(s) is accompanied by other supporting documents.

The relevant SA procedure and documentation requirements are summarized below:

Beneficiary Procedure	Supporting Documentation Requirements*
Initial Advance to the SA by the Bank	• Withdrawal Application form and Expenditure Forecast (Annex 4.1-B) • Letter from the Bank opening the SA account with account opening confirmation details.
Replenishment of the SA by the Bank	• Withdrawal Application form and Expenditure Forecast • Statement of Expenditure (SoE) form (Annex 4.1-A), with supporting documentation, as agreed with the Bank. • SA reconciliation statement (Annex 4.5-A), with corresponding bank statement for the SA and bank statements for sub-accounts, if any.

Beneficiary Procedure	Supporting Documentation Requirements*
	• Audit Report or Interim Audit Certification of the Special Account as per requirements.
Justification of Advances or Final Liquidation	• Statement of Expenditure (SoE) form (Annex 4.1-A), with supporting documentation, as agreed with the Bank. • SA reconciliation statement (Annex 4.5-A), with corresponding bank statement for the SA and bank statements for sub-accounts, if any. • Audit Report or Interim Audit Certification of the Special Account as per requirements. • In Final liquidation, evidence that prompt refunds are made to the Bank any amount that remains outstanding in the SA before the Closing Date, as specified in the Financing Agreement, and bank statement showing the balance before the final refund (if any).

** Please refer to SA Checklist and Form (Annex 4.5)*

CHAPTER

05

DISBURSEMENT PROCEDURES





Chapter 5

DISBURSEMENT PROCEDURES

5.1 Disbursement Letter

As a part of the Financing Agreement, the Bank sends a Disbursement Letter to the Beneficiary. The disbursement letter is addressed to the Beneficiary and sets out the specific disbursement procedures and processes to be followed during project implementation, including minimum disbursement amount, SA(s) threshold(s), among other disbursement provisions. The terms of the Disbursement Letter are agreed between the Beneficiary and the Bank at the time of negotiations.

To facilitate more efficient and effective operational project implementation, a draft Disbursement Letter is prepared by the Bank during project preparation, usually prior to completion of appraisal, based on the Disbursement Capacity Assessment of the Executing Agency.

After signing the Financing Agreement, the Bank sends the signed (i.e. final) Disbursement Letter to the Beneficiary. In some projects, several agencies as well as the Beneficiary may be involved in project implementation and therefore may be entitled to send Withdrawal Applications (disbursement requests) to the Bank. The Beneficiary is responsible for ensuring that all project entities receive a copy of the Final Disbursement Letter. A sample Disbursement Letter is available in Annex 5-1.

The Bank, following consultations with the Beneficiary, may issue a revised (restatement) Disbursement Letter to modify disbursement arrangements, as may be required during project implementation.

5.2 Withdrawal of Funds

5.2.1 Conditions Precedent

The following conditions must be met before submitting the withdrawal applications:

- The project must be declared effective, following compliance with all conditions specified in the Financing Agreement and the General Conditions of the respective Mode of Finance.
- There must be satisfaction of the applicable project covenants and/or express conditions of disbursement set out in the Financing Agreement and/or Disbursement Letter (such as compliance clearance for the Beneficiary (recipient) before processing the first disbursement, among others).
- The Bank must receive satisfactory evidence of authority to sign withdrawal applications and/or to submit it electronically through EDP.

- The Bank has given its approval to the relevant procurement of the contract (if required), to which the disbursement request relates.

5.2.2 Withdrawal Application (Disbursement Request)

Broadly, a disbursement request is considered duly complete provided that:

- The requested disbursement date is a business day that falls before the applicable Closing Date (coincides the Last Disbursement Date or end of the Gestation Period), except if otherwise extended by the Bank.
- The currency of the disbursement request complies with the applicable currency required.
- The amount of the disbursement request does not exceed the available approved amount for the project.
- Only one (1) disbursement currency is required for any single withdrawal application.
- The withdrawal application is submitted by an authorized user in case of electronic submission or signed by the authorized signatory in case of physical submission (Section 5.3.4).
- The disbursement request complies with the Bank's disbursement procedures and guidelines.

Once a disbursement request is duly completed, the Bank may accept and approve the submitted disbursement request to the Beneficiary, provided that the following main conditionalities have been satisfied, namely:

- The request is submitted within the validity of the Financing Agreement - The first disbursement request is submitted to the Bank not later than six (6) months after the relevant 'effective date' (and satisfied any requirement for compliance clearance), unless the Bank approves otherwise.
- Such a request is accompanied or preceded by submission of a full set of supporting documentation, to which the disbursement request relates (see Chapter 4).
- If the Bank requests, a copy of the other relevant documents is to be provided prior to or with the submission on the disbursement request.
- The requirements of the Bank's disbursement procedures and guidelines have been satisfied in relation to the requested disbursement.
- On the date of the disbursement request and on the date of the actual disbursement:
    - No event of default continues or would result from the disbursement.
    - All relevant undertakings of the required parties (e.g. agent) have been provided.
    - No event has occurred which, in the Bank's opinion, might have a material adverse effect on the project.

The Bank's staff may contact the Beneficiary for clarification or request additional requirements during application review before approval of the withdrawal application.

The Bank will undertake its best efforts to verify and validate the information provided in the withdrawal application and supporting documents. If the Bank is unable to resolve any issue based on the details

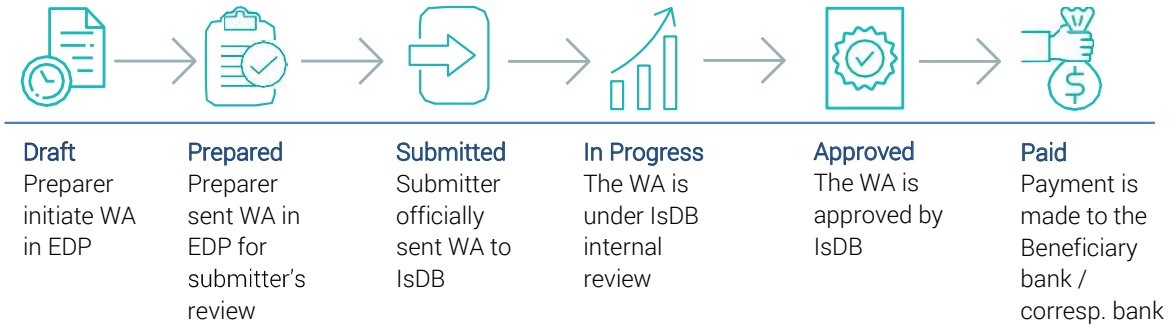
provided by the Beneficiary in a withdrawal application, the Bank may return such application unpaid to the Beneficiary or approval payment of a lesser sum than that requested by the Beneficiary.

5.2.3 Electronic Application via e-Disbursement Platform (EDP)

Requests for withdrawals of funds must be submitted electronically through use of EDP (Section 1.4.2) by authorized users (Annex 5.2-B). For step-by-step guidance on the use of and access to *EDP*, the user guide provides details on the respective roles of each participant.

The general workflow for a successful withdrawal application though EDP, starting from a draft until it is paid is displayed in Figure 5.1. The status and progress of each application can be tracked at any time, by checking the progress bar at the top of the withdrawal application page in EDP.

Figure 5.1: EDP General Workflow



5.2.4 Document Retention

The Bank requires the Beneficiary to retain all records of withdrawal applications (withdrawal application forms, invoices, receipts, and other supporting documents) confirming the eligibility of expenditures and to enable the Bank and the auditors to examine such records.

Throughout the life of the project, the Beneficiary retains all original records and copies of withdrawal application and supplementary forms sent to the Bank. These documents are required to be retained for at least ten (10) years from the closing date. Beneficiaries are responsible for ensuring that documentation retention also complies with their local laws and regulations.

5.2.5 Manual Application on Exceptional Basis

The EDP is intended to be the only channel to officially submit projects' Withdrawal Applications (WAs). However, only on an exceptional basis, the Bank may permit the Beneficiary to complete and submit withdrawal applications manually in paper form with the original or certified true copies of supporting documentation and send them to the address indicated in the Disbursement Letter (Annex 5.1, clause 10). Any form with multiple pages containing financial information must be initialed by the authorized signatories.

5.2.1 Authorized e-Disbursement Platform (EDP) Users and Authorized Signatories

Before any disbursements for the project can commence, the Beneficiary through its authorized representative for communication as in the Financing Agreement must designate - through an official

letter- official(s) who are authorized to prepare, submit, and correspond regarding withdrawal applications through the electronic Disbursement Platform (EDP).

A sample format letter for designating such authorization is provided in Annex 5.2-B. If any changes are to be made to the identities of such authorized users, the Beneficiary must send the Bank a new authorization letter, which must be accepted by the Bank before any disbursements under the authority of such new authorized users can commence.

to sign withdrawal applications in a prescribed form (Annex 5.2-A), including submitting originals of the specimen signatures of such authorized signatories, delivered to the Bank. The designation should follow the Beneficiary's internal control procedures. Unless otherwise stated, the designation takes effect from the date the Bank receives the letter designating authorized signatories.

The authorization request from the Beneficiary must clearly state the number and/or combination of signatories required for making withdrawal applications. The authorized signatory (ies) must countersign all related documents, such as Summary Statements / Statement of Expenditures that accompany disbursement requests. If authorized signatories change during project implementation, the Beneficiary must promptly notify the Bank of such changes and provide the names and original specimen of signatures for the new signatories.

5.2.2 Numbering Withdrawal Applications

Each withdrawal application is assigned (i) a project number and operational identification (i.e. Operation ID for the mode of finance); and (ii) a disbursement identification number. Withdrawal applications related to a particular agreement should be numbered sequentially based on the relevant project beginning with number one (1) for the first application of a specific executing or implementing agency. For ease in identification, all signed disbursement requests should be numbered chronologically, with a minimum of 2 digits (e.g., 01, 02, etc.) regardless of the applied Mode of Disbursement.

5.3 Eligible and Ineligible Expenses

The Bank will only finance the costs of eligible expenditures (Section 3.5). Expenditures eligible for financing are generally detailed in the Financing Agreement. The following cost items or expenses are ineligible for Bank's financing, except otherwise approved by the Bank:

- Expenditures were incurred after the Last Disbursement Date (as extended).
- Expenditures incurred before the effectiveness date of the Financing Agreement (except in the case of approved advance contracting and retroactive financing) not within the project and category description defined in the financing agreement.
- Items and services not procured in accordance with the Bank's policies and procedures for the procurement of goods, works and consulting services.
- Land acquisitions (although, in very rare cases, an exception may be approved by Bank's Management).
- Late payment penalties imposed by suppliers.
- Self-insurance: the Beneficiary, not the Bank, is typically the Beneficiary of insurance policies. Premiums paid by the Beneficiary in foreign currency are eligible for Bank financing. Self-Insurance and premiums in local currency are not eligible.

- Local freight charges for imported goods

Advance payments made upon signature of the contract for mobilization and expenses typically should not exceed twenty (20) per cent of the contract price (as per the Bank's applicable procurement guidelines).

Financing by the Bank does not cover the payment of taxes, duties, fees, and any other similar impositions as may be levied under the law applicable, except for reasonable market rate driven bank charges. 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[12].

The Bank may, at its discretion, require the Beneficiary to take one of the two actions in the event the submission of expenditures by the Beneficiary is disapproved. Upon notification by the Bank, the Beneficiary must (i) normally refund an equivalent amount to the Bank or, exceptionally, (ii) provide substitute documentation evidencing other eligible expenditures that cover the disapproved amount.

5.4 Components and Expenditure Categories

The Financing Agreement, and related Disbursement Letter, set out the permissible expenditure categories for the project, normally segregated by project components. Such categories are based on the anticipated nature of expenditure expected to occur under the project and formulated during project appraisal. Any disbursement must be made within the limits or ceilings set out for each of the agreed components or expenditure category. Any changes in such expenditure, or in their respective limits, must be based on prior approval by the Bank. If it is anticipated that one component might require more funding than initially allocated, the Beneficiary must obtain the Bank's prior approval of the revised allocation before incurring further expenditure or submitting a disbursement request under that component. A withdrawal application may only be submitted for expenditures within an approved (or revised) expenditure category and limit.

5.5 Reallocation of Proceeds

The proceeds of Bank financing may be used only for the purposes for which such financing has been approved and granted. However, the Bank, upon the request of the Beneficiary, may agree to the reallocation of uncommitted allocation from one expenditure category to another allowable expenditure category for the project, in accordance with the Bank's applicable policies and procedures. Reallocation of proceeds may be necessary to permit approved adjustments or changes during project implementation.

5.6 Contract Management

5.6.1 Prior or Post Review Approvals

In most instances, disbursements are made against contracts for goods, work and/or services concluded between the Beneficiary and the supplier, contractor, consultant and/or other service provider. Such contracts are subject to prior or post approval by the Bank as set out in the project procurement plan and Financing Agreement, following the Bank's procedures and guidelines for project

[12] In case imported goods are bought locally, the Bank usually disburses a percentage of the purchase price to avoid disbursing against duties or taxes. Similarly, the local cost component of contracts for works is usually financed at less than 100% to exclude taxes. For locally manufactured goods purchased directly from the factory, no adjustment to the disbursement percentage is made to exclude financing of customs duties.

procurement and engagement of consultants/contractors. The Bank will only make payment(s) subject to obtaining the required approvals, as set out in the project procurement plan.

5.6.2 Currency of Payment

A separate withdrawal application is required for each mode of finance and each currency of payment. The relevant exchange rate for such payment should be indicated. Withdrawal applications pursuant to a contract using a specific disbursement modality must continue to use the same modality for all subsequent payments under that contract, unless the Bank agrees otherwise.

5.6.3 Advance, Retention & Performance Guarantee

Except in cases of advances to the Special Account, the Bank normally makes payments against works, services, or goods delivered. Payments of advances based on contracts, e.g. for mobilization, or early liquidation of retention money, may be made if it is supported by an irrevocable, unconditional, and first demand guarantee. If the delivery of work, services, or goods spans a long period, the Bank also usually requires a performance guarantee against intermediate payments to cover any possible fault in the completion of the contract by the supplier or contractor in line with the contract requirements.

Any advance payment, retention money, and performance guarantees must be issued by reputable banks, in accordance with the terms and conditions (and formats) provided for in the underlying contract and acceptable to the Bank. The Beneficiary must monitor the validity of such guarantees and ensure that any amendments or extensions are made regularly, as necessary under project conditions.

All guarantees must be issued by a reputable bank located in any eligible country. However, if the guarantees are issued by a bank located outside the Beneficiary's country, the Bank must have a correspondent bank located in the Beneficiary's country to make it enforceable.

Advance payment and retention guarantees must be denominated in the currency of the advance payment made under the contract while Performance guarantees must also be in the currency stipulated in the contract. The requirements for payments of retention money, and for acceptance of the related guarantee(s), are detailed in the contract and must be followed.

5.6.4 Cost Overruns

During contract implementation, cost overruns may occur due to price escalation or physical contingencies resulting from price adjustments or variations made during implementation. Such changes in cost require a contract amendment or addendum approved by the contract parties and the Bank. The approval process for contractual amendment or addendum is set out in the underlying contract.

5.7 Disbursement Currency & Exchange Rate

Disbursement is made in the currency in which the cost of the goods and services has been paid or is payable (or in the currency of the SA as agreed by the Beneficiary and the Bank during negotiations and reflected in the Disbursement Letter)[13].

[13] For SAs, the currency for disbursement should be denominated in a fully convertible and stable currency, widely used in international trade.

For expenditures incurred by the Beneficiary in local currency, the amount requested in the relevant withdrawal application(s) must be in local currency. A separate withdrawal application is required for each currency of disbursement.

In making payments, the Bank may purchase the requested currency using another currency. In such cases, the Bank purchases the payment currency using the exchange rate quoted by the selling bank on the date of disbursement. In such cases, the Beneficiary bears the exchange rate risk, if any, arising from payments made by the Bank.



5.8 Minimum Disbursement Amount

For each project Disbursement Letter, the Bank stipulates a minimum withdrawal application value for operational guidance. This threshold varies depending on the size and the mode of financing (or nature of the grant) under the project.

For operational efficiency, beneficiaries should accordingly aggregate eligible expenditures until they reach the minimum value for a withdrawal application. The minimum disbursement amount is determined during project appraisal and is specified in the project Disbursement Letter.

For payment of smaller amounts, the Bank may authorize the Beneficiary to open a Special Account in accordance with the required procedures for opening special accounts (Section 4.5). Alternatively, the Beneficiary can pay such an amount less than the minimum disbursement threshold and subsequently claim reimbursement from the Bank.



5.9 Bank References

For any disbursement modality requiring inter-bank correspondence, all references to the Bank must be accurate and complete. For the Beneficiary's bank account, the information must include the following:

(i) account holder name, (ii) name and full address of the Beneficiary bank, (iii) the Beneficiary account number and (if applicable) IBAN, and (iv) the applicable SWIFT code of the Beneficiary bank.

If the settlement currency for the contractual payment is different from the currency of the disbursement to the Beneficiary bank, the payment will be made through a correspondent bank that can make payment in the requested currency. In such cases, the disbursement request must include: (i) name of the correspondent bank of the Beneficiary bank, (ii) the address of the correspondent bank, (iii) SWIFT code of correspondent bank, and (iv) account number of Beneficiary's bank with the correspondent bank.



5.10 Refunds

If there is an excess of disbursed funds by the Bank, either due to overestimated advances (hence unutilized balances) or ineligible expenditures under the provisions of the Financing Agreement, the Beneficiary must refund such amounts to the Bank.

The Bank may require the Beneficiary to refund the disbursed amounts for any of the following reasons:

- advances to the SA that have not been justified within a reasonable time.
- unutilized funds in the SA that are no longer needed for project implementation.

- amounts that have been disbursed due to Beneficiary error but should not have been disbursed.
- amounts that have been disbursed due to Bank error but should not have been disbursed.
- expenses deemed ineligible for financing under the agreement.
- declaration of mis-procurement (i.e. payments have already been made against mis-procured contract).

All refunds must be paid to the Bank account specified by the Bank including the appropriate reference (e.g. project number, description or nature of the refund, currency and amount of refund, etc.). Such amounts are normally credited by the Bank to the related project statement on the date of receipt, subject to the applicable Bank's policy on value date for receipt. Any difference (i.e. surplus or shortfall) will be notified by the Bank to the Beneficiary for necessary action.

5.11 Cancellation of Undisbursed Balances

The Beneficiary may request cancellation of any undisbursed proceeds of financing provided by the Bank, unless such amounts have been reserved for any reimbursement guarantee or similar commitment issued by the Bank during project implementation. The Bank also reserves the right to cancel such undisbursed balances in full or part. In either case, notice for cancellation must be issued, in accordance with the terms of the Financing Agreement, that specify the effective date of such cancellation.

5.12 Project Closure

The Financing Agreement stipulates the Last Disbursement Date for the project implementation which, in the case of ordinary financing modes of the Bank, coincides with the expiry of the Gestation Period and the corresponding Closing Date.

The Close Out Period covers 180 days prior to the Last Disbursement Date, during which the Beneficiary should ideally ensure that all withdrawal applications, and related disbursements for eligible expenses, and refunds have all been completed. In addition, the process for the Final Audit Report should be initiated during this phase.

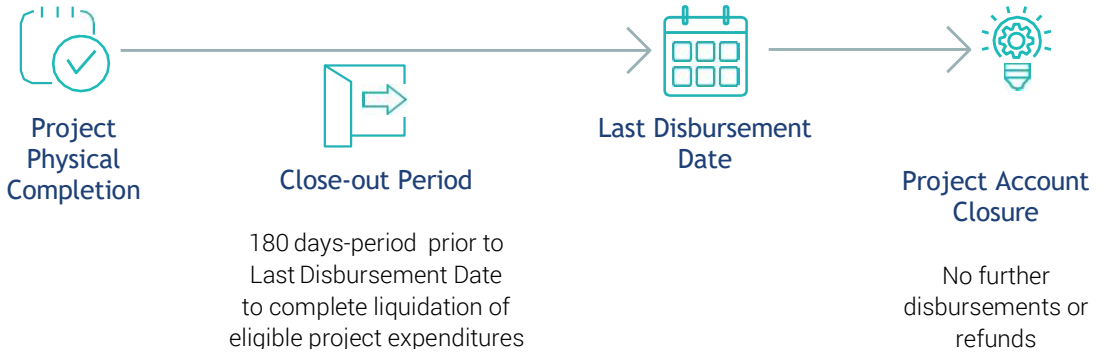
For purposes of project implementation, there are two other critical dates in connection with closure of a project, namely: the project physical completion date or the operational completion date. This occurs when a project is declared physically complete, i.e. when all goods, work and/or services as part of the project scope have been delivered and project implementation is physically completed. The Beneficiary and Bank may mutually agree to complete the project earlier without full delivery of goods/works and services.

Upon expiry of the Gestation Period or Last Date of Disbursement, the Bank reserves the right to cancel the unutilized approval amount and any withdrawal application submitted by the Beneficiary for payment of project expenses will not be accepted. The project will be subject to financial account closure and the issuance of (Re)payment Schedule. Therefore, it is critical to ensure that all disbursements and refunds are all made prior to such expiry and accounted for to avoid unnecessary financial cost to the Beneficiary. The Bank will apply any amounts refunded after such expiration by the Beneficiary to debt service (as an early settlement), unless the Bank and the Beneficiary otherwise agree.

On an exceptional basis[14], the Last Disbursement Date or Gestation Period may be extended if the Bank so approves at the request of the Beneficiary.

These terms are defined earlier in Section 1.3, but for convenience are summarized in Figure 5.2:

Figure 5.2: Steps for Project Closure



5.12.1 Special Account Liquidation

Within the Close Out Period, project completion should take place, and the Beneficiary should fully refund to the Bank any outstanding advance balances that have not been liquidated in any SA. If the Beneficiary fails to fully refund such balances, the Bank may, among other remedial actions, decline to permit the use of SA by the Beneficiary for any new projects financed by the Bank, until such time the Beneficiary makes the outstanding refund to the Bank. Any SA advance or replenishment request(s) will not be entertained during the Close Out period, unless with prior approval by the Bank in exceptional cases.

5.12.2 Payment of Final Audit Fees

If any external auditor fees are financed by the Bank, if practical, the audit fee should be paid within the Close Out Period, after completing the final audit report. The final audit must be completed and submitted to the Bank within six (6) months of the project completion. The final payment to the auditor is subject to the Bank's approval of a final audit report. When the final audit report is not completed by the Last Disbursement Date, special arrangements will be required for payment of the due audit fee by opening an escrow account or other means. According to the standard practice, payment(s) for audit fees should be made through direct payment.

5.12.3 Payment of Retention Money

Payments of retention money under civil works and supply procurement contracts are usually made at the end of the warranty or final operational acceptance (i.e. the defects and liability period) or after the issuance of completion or handing over certificate. The Bank may disburse the retention money to the contractor or supplier (as expenditure incurred) against an unconditional bank guarantee of equivalent amount, provided by the contractor or supplier to the Beneficiary and acceptable to the Bank.

The Bank and Beneficiary may also agree on other financial arrangements, if acceptable to the Bank. The unconditional bank guarantee is issued in compliance with the Beneficiary government's financial rules and regulations by a reputable bank in a manner acceptable to the Bank.

[14]. For example, if there are major changes in project implementation at or near the project completion date or subsequently.

5.13 Steps to Avoid Disbursement Delays

To expedite the processing of disbursement requests, the Beneficiary should undertake the following practical steps:

- Ensure that effectiveness and first disbursement conditions have been fulfilled.
- Complete forms as per the instructions provided (Annex 4.1).
- Ensure that the disbursement requests are signed by the authorized signatories, and the names and designations of the signatories are legible on the request (in physical submission).
- Indicate the chargeable cost categories.
- Send original requests to the Bank, as identified in the Disbursement Letter (in the case of manual submission), or submit them electronically through EDP.
- Send a copy of the relevant (signed) contract and any amendments before submitting the related requests for disbursement.
- Ensure that the wording, currency, amount and validity period of any advance payment and/or performance guarantee are as stated in the related contract.
- Submit withdrawal applications denominated in a single currency.
- Attach applicable supporting documents in any of the official languages of the Bank (English, Arabic or French). If these supporting documents are in the local language, translations must be submitted in any of the Bank's official languages.
- Ensure that the invoice or billing statement contains complete payment instruction (i.e. bank name, branch, bank address, account number (or IBAN for payments in the Euro zone), and payee's bank SWIFT or BIC code).
- Ensure that the correspondent bank is indicated if the payee's bank is not located in the country of currency for payment.
- Ensure that the information contained in the request is consistent with the supporting documents.
- Ensure availability of resources under the relevant cost expenditure category.
- Ensure that any changes to expenditure categories and list of goods and services have been approved by the Bank.
- Ensure that the required audit reports have been sent to and approved by the Bank.
- Ensure that advance payment and performance guarantee remain valid.
- Indicate contact details of the person handling the project at the relevant agency of the Beneficiary or, if applicable, at the PMU or PIU (i.e. telephone and fax number and email address).

- Ensure that the Beneficiary has commenced the auditor engagement process (e.g. commenced the relevant shortlisting process, issued the request for proposal or other relevant documents for engagement of the auditor, etc.)



5.14 Disbursement for Special Situations

There are certain circumstances which may require special attention in the context of disbursement processing and implementation. These situations are briefly illustrated in the following points.

5.14.1 Co-financing

Co-financing refers to a financing arrangement in which more than one financier contributes to funding a project under the same or different terms and conditions. Under co-financing arrangements, the Bank and external financing sources (other than the Beneficiary) provide funds for a particular project or operation.

Co-financing arrangements may be structured in two main ways, namely:

- Joint Co-financing: an arrangement under which the Bank and external donors agree to finance a common list of goods, works and services for a project or operation in agreed proportions under commonly applicable terms, conditions and procedures[15][17].

- Parallel Co-financing: an arrangement under which the Bank and external donors agree to finance separate lists of goods, works and services for a project or operation in accordance with their own respective procurement procedures and/or other donor-specific or special requirements.

When the Bank administers the co-financed funds, eligible expenditures are typically financed in one of three ways: (i) pro rata, (ii) front loading of the co-financed funds (i.e. co-financed funds are disbursed sequentially before the funds of the Bank), or (iii) different ratios of disbursement are specified for each expenditure category and/or sub-category of the co-financed project.

The detailed disbursement arrangements for co-financed funds should be set out in the project Disbursement Letter (Section 5.1), along with any special requirements applicable to such funds (e.g., alternate last disbursement date of a specific co-financier's fund).

5.14.2 Bank-administered Funds

In addition to handling funds of external donors in the context of co-financing partnerships, the Bank also may be entrusted with administration of specific funds provided by external donors for designated purposes that cover any eligible project or operation approved during the term of external donor's originated fund(s).

Such funds provided by external donors are distinct from the internal Trust Funds or Special Funds set up within the Bank in terms of the Bank's *Articles of Agreement*. The terms and conditions of establishment, operation (including applicable disbursement procedures) and closure of such external donor funds administered by the Bank are detailed in the specific partnership and/or other agreements

[15] In such cases, normally the lead co-financier's procurement policies will apply. If the Bank is not the lead co-financier, waiver by the the Bank from application of the Bank's procurement policies, particularly regarding eligibility, must be obtained. See Procurement Guidelines, Section 1.46 (Footnote 7). Joint co-financing can be the subject of financing syndications in private-sector contexts when commercial banks are involved. A syndication refers to a highly structured group of financial institutions that provide financing to a borrower under common terms and conditions. See Operational Glossary

between the Bank and these external donors. The terms and conditions of such agreements are donor-specific, as negotiated and agreed between the relevant external donor(s) and the Bank.

The agreement with external donor(s) for the Bank-administered funds can be project-specific or cover a portfolio of projects approved by the Bank and the donor(s) for a specific sector or multiple sectors over a designated period. Under such agreements, procurement of goods, work and consulting services is normally undertaken in accordance with the Bank's policies and procedures, unless otherwise agreed by the Bank and the donors.

5.14.3 Public Private Partnerships

The Public Private Partnerships (PPP) is a modality of financing which includes mobilizing private sector resources (technical, managerial and financial) to deliver essential public services. PPP projects are normally non-Sovereign operations, and require additional due diligence in structuring financing, including disbursement arrangement in order to mitigate non-performance or non-repayment risks.

The disbursements under the Bank-financed PPP projects (mostly withdrawn by the Beneficiary of the proceeds of financing) are conditioned on specific initial and subsequent conditions of disbursement that must be satisfied before the proceeds of such financing can be released. The conditions of disbursement are specified in what is typically called a "Common Terms Agreement" (or CTA). The initial and subsequent conditions of disbursement are stated usually in considerable detail in a separate schedule(s) or annex(s) for such purpose.

Typical CTA initial conditions of disbursement cover the satisfactory execution of threshold documentary requirements and required governmental and other consents for commencement of the PPP project(s). Examples of documentary requirements include provision of legally valid and operative foundation documents such as corporate charter, articles and by-laws, Board resolutions, certificates of incumbency of authorized signatories, among others.

5.14.4 The Line(s) of Finance

The Line of Finance (LoF) refers to funds that are disbursed to financial institutions, microfinance institutions and/or financial intermediaries, to be channeled to the ultimate/end-beneficiaries, based on identified criteria previously agreed with the Bank, to serve agreed development purposes (such as supporting Micro, Small and Medium size Enterprises, etc.). The ultimate users (end-beneficiaries) of these funds are required to repay the funds received based on agreements with the respective financial intermediaries.

When selecting a convenient disbursement modality for the line of financing, the Beneficiary and Bank undertake necessary due diligence or take measures to identify appropriate solutions for project implementation. The following aspects should be duly considered as part of the assessment process:

The nature and volume of expected line of finance.

- The financial reporting arrangements for the project.
- The Beneficiary's capacity to ensure effective use of funds is channeled through the line of finance.
- The project's procurement plan and cash flow requirements.

- The mandate of the financial institution, financial intermediary and/or microfinance institution and its consistency with the project's (development) objectives.
- The internal financial control system and mechanism of the financial institution, financial intermediary and/or microfinance institution.
- The relevant institution capacity and previous experience(s) of the financial institution, financial intermediary and/or microfinance institution in financing Shariah compliant projects.

Based on the detailed assessment during the project preparation and appraisal phases, the Bank will determine the convenient mode of disbursement (whether Direct Payment or Special Account) for the project, in line with the prevailing internal procedures and guidelines. For more information regarding disbursement requirements and procedures, please refer to section 4.3 for Direct Payment and section 4.5 for the Special Account.

CHAPTER

06

PROJECT FINANCIAL MANAGEMENT





Chapter 6

PROJECT FINANCIAL MANAGEMENT

6.1 Background and Introduction

Project Financial Management (PFM) responsibility derives from the Articles of Agreement of the Bank (1974) which sets out the Bank's operating principles. The aim is to ensure the intended use of funds provided by the Bank to its Member Countries (MCs) by contributing to building sustainable capacity of their PFM systems and guiding the Bank's partnerships with other development institutions.

The Bank's Project Financial Management (PFM) Policy has four (4) objectives, mainly to:

- ensure the quality of PFM throughout the project cycle (Figure 1.1).
- contribute to providing reasonable assurance for the intended use of funds.
- support MCs in improving their Financial Management (FM) capacity, promoting faster project implementation, and strengthening development effectiveness.
- enhance the harmonization of PFM practices with other donors.

Accordingly, the PFM policy stipulated eight (8) comprehensive and selective principles for PFM:

- Requirements to maintain acceptable FM systems, to ensure accurate and timely information regarding project resources and expenditures in Financing Agreements with MCs.
- Risk-Based Approach[16] (RBA) for assessing and managing project's FM risks, categorized into inherent, control and residual, and classified as high, medium and low level.
- Reflection of PFM requirements into Member Country Partnership Strategy (MCPS) as an engagement tool with the MCs, covering the status of public financial management systems, capacity constraints (if any), fiduciary and portfolio risks to be addressed, to ensure the integrity of the Bank's transactions within its MCs and support the role of developing sustainable FM capacity in the MCs.
- Combating fraud and corruption, through considering the MCs overall governance, anti-corruption environment and risks, as well as sector and project specific governance, to advise the mitigation measures from PFM perspective.
- Compliance with Anti-Money Laundering, Combating Financing of Terrorism and Know Your Client Policy.

[16] Identify and assess the key financial management due diligence and potential risk areas, to develop mitigation strategies addressing key weaknesses and risks. The fiduciary risk (that financing proceeds will not be used for the purposes intended) is the main concern for PFM. Financial Management risk is a component of Fiduciary risk, which is a combination of country, sector and project specific factors. The FM risk model (has qualitative focus) involves assessing the project's inherent risk and control risk, considering the relevant mitigation measures to arrive at the residual risk

- Harmonization and coordination of PFM practices with other donors, particularly in co-financing projects or programs, where common arrangements (e.g. formats, content, reporting periods, etc.) are agreed to among all donors and MCs, to the extent practical.

- Use of MC systems (for audit, financial control, etc.), where the capacity is adequate and to the extent possible, to potentially improve the impact of the Bank's operations.

- Strengthening the public financial management capacity in MCs, to allow making sound decisions and responding to changes in the operating conditions for fiduciary compliance, including accountability for results.



6.2 Financial Management Capacity

Project Financial Management is an integral part of the development process, necessary to ensure accountability within the MCs and efficiency in the management of public resources to donors, both aspects are critical to achieving the public policy objectives (including poverty reduction). Financial Management Arrangement defines FM arrangements as the planning & budgeting, accounting procedures & standards, internal control, funds flow management, financial reporting, and auditing arrangements of the entity or entities responsible for implementing the Bank-financed operations. For each operation supported by the Bank financing, the Bank requires the recipient to maintain FM arrangements that are acceptable to the Bank and that, as part of the overall arrangements for implementing the operation, provide reasonable assurance that the proceeds of the financing are used for the intended purposes.

The objective of Project Financial Management (PFM) is to determine whether the entity (or entities) implementing the Bank-financed projects have acceptable financial management systems and environment. The arrangements include the entity's systems of planning and budgeting, implementation of accounting standards, effectiveness of internal controls, funds flow, financial reporting, and auditing. The entity's FM systems are acceptable if they are considered capable of recording correctly all budgets, transactions, and balances, supporting the preparation of regular and reliable financial statements, safeguarding the entity's assets, and are subject to auditing arrangements acceptable to the Bank. Acceptable PFM arrangements are finalized during project preparation and appraisal and agreed formally during negotiations.

The goal is to provide each of the fund providers (including the government) with an appropriate assurance on the use of all funds and to confirm their utilization for the intended purpose. The financial management system needs to incorporate internal controls that ensure the prerequisites to utilizing the funds are first met, any restrictions on the use of the funds are observed and that there is a timely accounting to the providers of the funds. The Bank is required to take measures to ensure that the funds it provides are used appropriately. This requirement is sometimes known as the Bank's fiduciary obligation, as derived from the principles of Corporate Governance. It is also necessary to sustain confidence in the Bank by its shareholders, other stakeholders, and the public at large.



6.3 Capacity Assessment

Any FMA is undertaken by the Bank in parallel with the Disbursement Capacity Assessment (DCA). Therefore, the Bank works closely with the Beneficiary to prepare and complete the project's DCA and framing the relevant terms and conditions in the related draft Disbursement Letter. To this end, the Bank's policy requires both bottom-up and top-down approaches with extensive collaboration and coordination, involving the executing / implementing agencies and the Bank's team, to ensure that the

proposed financial management and related disbursement arrangements and their implementation are based on practical realities, simple and implementable.

The Bank is responsible for assisting the EA's project team during the project preparation phase, negotiation of the Financing Agreement, and subsequent project implementation, in developing and applying the Bank's disbursement modalities and procedures, to promote optimal efficiency and effectiveness in project flow of funds management. The Bank is responsible for processing all disbursement requests submitted by the Beneficiary in conformity with the Bank's applicable disbursement procedures and guidelines.

The Bank participates with the project operational and financial management staff in the project design and preparation by assessing the Beneficiary's capacity to effectively implement the agreed disbursement arrangements during the project implementation. The result of such Disbursement Capacity Assessment is reflected in the terms and conditions and appropriate disbursement arrangement for the project that will be spelled out in the Disbursement Letter.



6.4 Project Preparation

During the project preparation, starting from fact finding up to appraisal, the Bank's different disbursement modalities and procedures are discussed in detail with the Beneficiary, in coordination with the operational project team within the Bank that is also concerned with assessing the financial management capacity and resources of the executing and/or implementing agency, to effectively manage the financial aspects of the project.

Such disbursement modalities and procedures are amplified in the draft Disbursement Letter, prepared by the Bank, in consultation with the relevant operational project team. The draft Disbursement Letter is submitted to the Beneficiary by the Bank during project preparation and, in all events, before the end of the project appraisal.

In parallel, the specific assessments of the executing and/or implementation agency's financial management capacities cover the adequacy of planning and budgeting, proposed funds flow management, internal control systems, accounting systems and procedures, financial reporting and auditing. The FMA will ensure the practical application of existing regulations, existence of appropriate control mechanism, presence of sufficiently competent human resources, adequacy of organizational and functional structure (including record keeping), adequacy of audit capacity, and overall management capacity. This will accordingly ensure that any prerequisites to utilize the funds are first met, any restrictions on the use of funds are observed and that there is timely accountability for the use of funds towards the Bank (i.e. funds provider).

During the project negotiations, along with the finalization of the terms and conditions of the Financing Agreement (incorporating the essential PFM requirements) between the Beneficiary and the Bank, the content of the draft Disbursement Letter is also agreed between the Beneficiary and the Bank.



6.5 Project Implementation

After project approval, the Bank and the Beneficiary sign the Financing (and any other) Agreement(s). The financing agreement only becomes legally binding and enforceable between the Bank and the Beneficiary on its Effective Date (Section 3.4). The project implementation commences after the declaration of effectiveness.

The Disbursement Letter between the Beneficiary and the Bank must be finalized and agreed on or before the signing date. The substantive terms and conditions of the Disbursement Letter are incorporated into the Project Implementation Manual (PIM), if a PIM is prepared for the relevant project to facilitate implementation activities by the PMU. A PMU is normally established after the signing of the Financing Agreement and prior to effectiveness, or sometimes as a condition of effectiveness[17].

The FMA will be reviewed regularly during the project implementation, to verify the status of the proposed mitigation measures and identify any constraints and key issues during the implementation phase, and to update the action plan as necessary. In these reviews special attention will be given to the risks identified in the earlier project's stage, and the assessment will verify the mitigation measures or proposed actions were fully implemented, including their impact on the risks.



6.6 Audit Reports

6.6.1 Timing and Scope

Normally, the Financing Agreement requires that project accounts are audited each year in accordance with the relevant generally accepted standards. The audit should be conducted in accordance with the auditing standards and by independent and technically competent external auditors that are acceptable to the Bank. The audit should cover the entire project, not only the Bank's contribution but also (joint) Co-financiers and counterpart funding(s), including the project's Beneficiary contributions, if any. Depending on the project identified risks (and its specific circumstances), the normal scope should be expanded to include a report or opinion on specific aspects of the operation, such as internal controls and financial management, maintenance of proper books and records, existence of registry for project fixed assets, eligibility of expenditures, compliance with Bank guidelines and covenants of the Financing Agreements, or effective use of Bank proceeds.

The auditors should meet the required standards, in terms of technical competencies, independence and acceptability. Where capacity permits, the Bank seeks to use the MCs own financial reporting and auditing processes, hence intending to contribute to the development of sustainable audit capacity, while considering the possibility of improvements or enhancements that would enable the Bank to reply on the undertaken audits.

The first audit for the project is critically important, as it will reveal the ability of the systems, processes, and staff to produce the required reports and will also provide an initial baseline for documentation timeliness, accuracy, and completeness. Based on the performance of the first audit, course corrections can be explored and implemented.

The audited financial statements should be submitted to the Bank annually for each reporting period (typically fiscal year)[18] from the date of effectiveness (to capture retroactive financing, if any) until the last date of disbursement, unless otherwise agreed by the Bank. The auditors are required, among other things, to examine pertinent documents, review project financial control mechanisms to identify deficiencies and weaknesses that could affect the efficiency of the project, form an opinion on the quality

[17] See IsDB. Glossary of Operational Terms, Item 29.5-29.6. A PMU is defined as follows: "…A dedicated unit setup within an EA or IA to support the implementation and administration of the project, including managing its day-to-day activities under a project and to interact with the Bank…" A Project Implementation Unit or PIU is defined as: "…A unit set up for monitoring project implementation activities. It is a setup within the overall project implementation arrangements and generally reports to the PMU. PIU is generally instituted in a project when it covers large number of project locations or project area at multiple places, which makes one PMU difficult to support project monitoring".

[18] In certain circumstances, the Bank may agree to accept reporting period other than the twelve (12) months, such as (i) the project life time is relatively short (12-18 months), (ii) disbursements during the fiscal year were insignificant (~10% of total project cost estimate), (iii) considerations for project dates (effectiveness and closure) in relation to the Beneficiary's fiscal year, (iv) accounting for Project Preparation Facility advances (if any).

of the financial statements and confirm that the funds granted to the project have been used for the intended purpose(s). Any audit report should be submitted to the Bank no later than six (6) months after the end of the financial year for the project to which the audit report relates.

To facilitate the process of auditor selection, the Bank has standard Terms of References (ToR), which can be used by the executing and/or implementing agency or PMU to agree on the terms of the engagements and record them in a suitable form of engagement (eg. audit engagement letter). This ToR includes the main aspects, such as (i) background, (ii) standards, (iii) scope, (iv) reports to be prepared, (v) available information, and (vi) timing for submitting the report.

6.6.2 Special Account Audits & Certifications

In addition to the annual audit for all project statements, the SA must be audited at the end of each financial year. As noted earlier (Section 4.5), SAs that require interim replenishments before the annual audit is completed may be subject to interim audit certifications issued by auditors acceptable to the Bank, if the Bank so requires. Such audit certifications are necessary for replenishment and include essentially the interim findings on the part of the auditors that focus on the accounting of items covered by the initial or subsequent replenishment into the SA.

Auditing the SA should be performed to (1) ensure that the individual payments for expenditures stated in the Summary of Expenditures (SoE) are (i) supported by evidence, (ii) in accordance with the agreed procedures, and (iii) comply with the approved project purpose and cost categories stipulated in the Financing Agreement, (2) determine any critical matter relating to accounts or disclosures that are material to the financial statement, (3) identify ineligible expenditures disbursed by the executing agency, nature and timing of significant unusual transactions and audit judgment related to these transactions, (4) determine any weakness in the internal control, inadequate financial management, unacceptable quality of financial statements, (5) assessment of the risks of material misstatement, including significant risks. In addition to any required project specific requirement.

6.6.3 Additional Audits

The Bank may, in certain cases, and depending on the nature of the Beneficiary and the project, arrange to undertake, at its discretion, a separate audit (or opinion) to provide a more comprehensive view of project execution using its own staff or independent experts selected by the Bank. These reports may cover areas such as (i) interim financial reports, (ii) the operation of the entity's control framework during the reporting period, (iii) the entity's compliance with the Bank's procurement guidelines, (iv) physical verification of activities, other performance reviews, existence and usage of property, plant and equipment.

6.6.4 Failure to Audit or Identified Deficiencies

If the Beneficiary fails to provide acceptable audit reports, or if the audited financial statements reveal deficiencies in agency controls, or that Bank funds have been used for ineligible expenditures, the Bank may suspend further disbursements until the Beneficiary takes adequate remedial action. For SAs, the Bank may withhold additional advances or reimbursements to the SA until the Beneficiary provides acceptable audit reports. In the case of identified control deficiencies, the Bank may require the Beneficiary to take other satisfactory remedial action.

If the Beneficiary is unlikely to submit the required audit report in satisfactory form within a reasonable period, the Bank may engage independent auditors of its choice for this purpose and may finance the cost of such an audit from the approved amount.

6.6.5 Audit Costs

The annual audits of project financial statements are eligible for IsDB financing if approved as part of the project financing plan and on such terms and conditions as the Bank may agree. For SAs, payment of audit costs shall be made exclusively through direct payment.

6.6.6 Review of Audit Reports

Reviewing the audit reports required due attention and professional judgement. For that, the Bank uses a standard checklist to validate the following relevant aspects:

- The auditor is acceptable (independent, qualified, competent, ToRs were acceptable to IsDB)
- Submission of complete requirements of auditor's opinion on project financial statements, management letter, audited financial statements, and specific auditor's opinion)
- The auditor's opinion format is in accordance with recognized standards (e.g. international standards of auditing, etc.) to establish the credibility of the financial statements, as to whether they present a true and fair view of the projects.
- A management letter is provided, where the auditor's concerns and suggestions on identified issues, in addition to its impact and recommendations that were not reflected in the auditor's opinion but should be reported and addressed to recipient (e.g. weakness in the internal control systems, inappropriate accounting policies or practices, incompliance with broad covenants like implementing projects economically and efficiently, etc.).
- Audit report must be in English, Arabic, or French language.
- An audit report is received within the period indicated in the Financing Agreement.

Consequently, the Bank will conclude whether the submission of the audit report is acceptable to IsDB in substance and form. After reviewing the financial audit reports (completeness, format, auditor's findings if any), an action plan should be prepared (if necessary) to address the potential critical findings, for which close follow-up with the executing agency should be undertaken.

6.7 Project Documents

The Beneficiary is required to keep up-to-date and preserve all project documentation, including primary documents and supporting documents relating to disbursements, and to make them available to the Bank's representatives, as needed.

The Beneficiary must retain all records (e.g. contracts, purchase orders, invoices, bills, receipts, etc.) evidencing the eligibility of expenditure to enable the Bank's representative to examine and verify such records. The original records should be retained for a period of at least seven (7) years from the project's closing date. Beneficiaries are responsible for ensuring that documentation retention also complies with their local laws and regulations.

In particular, the Beneficiary must maintain the following types of records for each project:

- General file: The signed Financing Agreement, the appraisal report, the list of authorized signatories, the categories of expenditures, and correspondence relating to the project should be kept in this file.

- Method file: copies of disbursement requests 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.

Examples of the original records to be maintained include:

- General:
    - Procurement documents (bidding documents, invitations to bid, evaluation reports)
    - Contracts (consultants, contractors and suppliers)
    - Invoices (consultants, contractors and suppliers)

- Certificates:
    - Certificates of origin
    - Shipping or importing documents
    - Inspection certificates
    - Evidence of receipt of goods or services
    - Certificates of completion

- Guarantees:
    - Performance security guarantees
    - Advance payment guarantees
    - Retention money guarantees

- **Other:**
    - Recurrent costs records.
    - Progress reports.
    - Aide-memoirs.
    - Bank statements.
    - Accounting records.

GLOSSARY OF ESSENTIAL TERMS





GLOSSARY OF ESSENTIAL TERMS[19]

"Acceleration" refers to the Bank's right to demand immediate payment of any and all amounts disbursed to the Beneficiary for the project under the financing agreement, including any additional amounts payable in relation to such disbursements, in the event of occurrence of certain events as detailed in the financing agreement.

"**Approval Date"** means the date on which the relevant authority of the Bank approves the relevant financing or grant.

"Authorization Request" refers to the Beneficiary's request to the Bank that designates one or more authorized signatories required for making any withdrawals and for signing any withdrawal application, summary statement form, and any supporting documentation. Such a request includes submission of originals of the specimen signatures of any authorized signatories.

"Authorized Signatory" is the person or persons designated by the Beneficiary to sign the original Withdrawal Application for disbursement of Financing and any other documents required by the Bank to complete a disbursement request.

"Bank" means the Islamic Development Bank;

"Beneficiary" means a recipient of one or more financings and/ or Grant funding from the Bank and/ or through funds administered by the Bank

"Cancellation" refers to the premature termination of disbursement, or the ability to make any disbursement, under a financing agreement for reasons specified in such agreement prior to the expiry of the gestation period, except for disbursement that has been specifically approved for any commitment incurred prior to such cancellation.

"Close Out Period" is a period of 180 days before the Last Disbursement Date, during which the Bank will work with the Beneficiary to ensure submission of disbursement requests covering all eligible expenditures, as well as closing the SA (if any) and return of (any) unutilized advance before the Last Disbursement Date under the financing agreement.

"Closing Date" is a date designated as such in the financing agreement and typically coincides with the Last Disbursement Date. Any expenditure incurred by the Beneficiary after such date (as may be extended from time to time if the Bank approves such extension) are not eligible for payment through disbursement of proceeds of financing for the project.

"Co-financing" means a financing arrangement in which more than one financier contributes to funding a project under the same or different terms and conditions.

"Common Terms Agreement" (CTA) refers to the agreement in a Public Private Partnership (PPP) project, which sets out the financial and operational contractual provisions agreed to among the co-financiers and the Beneficiary for such PPP project, including all terms and conditions relating to disbursement of funds for the PPP project.

[19] The definitions set out here are broadly taken from The Glossary of Terms and Concepts Related to Operational Policies (Operations Glossary)

"Completion Date" refers to the date on which the project funded by the Bank is considered physically and financially completed and which should normally precede the Closing Date.

"Direct Payment" refers to a mode of disbursement under which the Beneficiary requests the Bank to make a direct payment to a supplier, contractor or service provider for goods, works or services that are in the process of delivery or have been delivered or completed and for which payment remains due under the relevant contract.

"Disbursement" refers to a payment made by the Bank at the request of a Beneficiary in accordance with the terms and conditions for making such payment set out in the financing agreement.

"Disbursement Capacity Assessment" refers to the process of review by the Bank's Dues and Disbursement Unit of the capacity of a Beneficiary's assigned Executing and/or Implementing Agency to use specific modes of disbursement, and related procedures, permitted by the Bank for contemplated financing to be provided to the Beneficiary for a specific Project.

"Disbursement Currency" refers to the currency in which a particular disbursement may be made from the proceeds of the financing provided by the Bank under the terms and conditions of the financing agreement for the project.[20]

"Disbursement Letter" refers to a letter sent by the Bank, and agreed by the Beneficiary, under the terms of which the Bank provides Executing (and, as applicable, Implementing) Agencies with specific instructions for application of the Bank's modes of disbursement under the project for which the financing has been approved.

"Effective Date" means the date on which the Bank determines that the Beneficiary has satisfied all conditions for effectiveness of the financing or grant agreement, as applicable, and issues a declaration of effectiveness to such effect to the Beneficiary, where applicable.

"Electronic Disbursement Platform" or EDP refers to an online portal that sets out the prescribed method for submission of project disbursement withdrawal applications.

"Eligible expenses" (or expenditures) refer to those specific cost items under the project for which disbursements may be made from the proceeds of the Bank's financing in accordance with the terms and conditions of the financing agreement for such Project.

"Executing Agency" or EA means an agency, organization or authority in the project country that is responsible for administration and/or implementation of a project.

"**Expenditure Category"** refers to a cost item grouping based on the nature of eligible expenditure that is expected to be incurred for activities financed under a project. Each expenditure category is set out in the financing agreement for the project and the related Disbursement Letter and disbursements are made within the limits of the amounts allocated for each such expenditure category.

"Financial Intermediation" refers to the provision of financing by the Bank to eligible National Developing Financing Institutions (NDFIs) located in the territory of a Member Country directly or indirectly (through a Beneficiary that relends to such entities) that, in turn, relend or on-lend the proceeds of such financing to sub-beneficiaries.

[20] The disbursement currency in withdrawal application(s) may be different from the payment currency agreed for the project. See definition of "payment currency" below.

"Financing" includes provision of Modes of Financing and any other modalities by which the Bank provides funds to a Beneficiary, including by way of grant or through resources mobilized by way of Sukuk, from any of the financing resources of the Bank.

"Financing Agreement" refers to an agreement signed between the Beneficiary and the Bank that details the terms and conditions of the financing provided by the Bank to such Beneficiary and includes a Guarantee Agreement as the context permits.

"Financing Resources" refers to funds used to finance the Bank's development projects, operations and activities in its Member Countries and for Muslim communities in its Non-Member Countries, originating from Ordinary Capital Resources (OCR), WAQF Resources, Islamic Fund for Development (ISFD), Trust Funds and Sukuk Resources.

"First Disbursement Date" is the date of the first payment by the Bank under an approved project and signed financing agreement. This date is planned to be generally within 180 days of the date of effectiveness of the financing agreement or any later date, in case such period is extended by the Bank.

"Gestation Period" is applicable to ordinary financing modes and covers the period needed or elapsed for the completion of the asset financed by the Bank and transfer of the same to the Beneficiary (i.e. from the date of the first disbursement until the date of the last disbursement). Such a period may be extended at the request of the Beneficiary, upon approval by the Bank.

"Grace Period" is only applicable to Loan mode of financing. It is the period where the Beneficiary doesn't have to pay the Loan principal instalments.

"Guarantee Agreement" means an agreement between a Member Country of the Bank or private organization and the Bank providing for the guarantee of financing provided by the Bank.

"Ijarah" refers to a medium-term Mode of Financing, which involves constructing or procuring an asset and subsequently transferring of the right of use (or leasing) of this asset to the Beneficiary for a specific period, during which the Bank retains the ownership or useful right of the asset and receives rental from the Beneficiary.

"Implementing Agency" or IA means an entity responsible for implementing the project. It may be either an Executing Agency (EA) or another entity designated by the EA to implement a project.

"Ineligible expenses" refer to those specific cost items under the project, which are not eligible expenses for purposes of disbursement of proceeds from the Bank's financing.

"Installment Sale" refers to a medium-term Mode of Financing, whereby the Bank purchases machinery and equipment, then sells them to the Beneficiary at a higher price (on the agreed mark-up rate). The ownership of the asset is transferred to the purchasing Beneficiary on delivery.

"Istisna'a" refers to a medium-term Mode of Financing, which is based on a contract for manufacturing (or construction) whereby the manufacturer (seller) agrees to provide the buyer with goods identified by description/specifications after they have been manufactured/ constructed in conformity with the description/specifications within a predetermined timeframe and price. The asset belongs to the seller (which is the Bank) during the construction period, which is transferred to the buyer upon its delivery.

"Joint Co-financing" refers to a co-financing arrangement in which the Bank with a Co-financier finances the procurement of a common list of goods, works and/or services in agreed proportions and in accordance with agreed upon procedures.

"Last Disbursement Date" is the date specified in the financing agreement (as may be amended from time to time by the Bank) on which the Beneficiary's right to submit a disbursement request shall terminate. This date typically coincides with the Closing Date or end of the Gestation Period for ordinary financing.

"Member Country" refers to a country that has subscribed to the capital of the Bank, accepted the terms and conditions setup by the Board of Governors, and is a member of the Organization of Islamic Conference or OIC.

"Minimum Disbursement Amount" refers to that minimum monetary amount that must be requested for disbursement by a Beneficiary in any withdrawal application.

"Modes of Disbursement" refer to one or more modalities of disbursement approved by the Bank under a project and typically refer to reimbursement, reimbursement guarantee commitment, direct payment or special account, or any combination of such modalities.

"Modes of Financing" refers to a Shari'ah compliant instrument which is used by the Bank to extend financing depending on the nature of the underlying project or operation and the party to which the financing is extended.

"Mudaraba" refers to a Mode of Financing based on partnership, where one party provides the funds ('fund provider') and the other provides the expertise and management ('fund manager'). Any profits accruing under the Mudaraba are shared between the fund provider and the fund manager under a pre-agreed ratio, while the capital loss is borne by the fund provider.[21]

"Murabaha" refers to a contract of sale between a buyer and a seller, in which a seller purchases the goods needed by a buyer and sells the goods to the buyer on a cost-plus profit basis. Both the purchase price and the time of repayment (usually in installments) are specified in an initial contract.

"Musharaka" refers to an equity sharing financing technique using different types of profit and loss sharing partnerships. The Musharaka partners share both the capital and the management of a project, while the profits are distributed between them according to pre-determined ratios based on their equity participation.

"Operational Completion" means when a project is declared to be operationally completed (i) with no more disbursements to be made; (ii) after issuance of the final repayment schedule for the financing by the Bank and acceptance thereof by the Beneficiary; and (iii) after project closure in the Bank's Operations Management System.

"Parallel Co-financing" means a co-financing arrangement in which the Bank and each Co-financier finances the procurement of separate goods, works and/or services or separate part(s) of a project or operation and each financier's follows its own procedures and processes for those components for which it has provided financing. In such cases, the Bank ensures that parallel financed items are procured economically, in a timely manner, and are compliant with the objectives of the project.

"Payment Currency" refers to the currency in which the eligible expenses under the financing agreement for cost of goods, works or services has been paid or is payable under the relevant procurement or consulting contract.

[21] The fund provider may restrict the activities to be financed under this Mode of Financing and this modality is termed a "Restricted Mudaraba".

"Project" means a tangible or intangible development activity with a defined scope, specific results (or deliverables) and assigned resources approved by a competent authority in the Bank for a given country or region.

"Project Completion" refers to the stage in a project, when all implementation activities contemplated under the relevant financing agreement have been fully accomplished.

"Project Cycle" refers to the critical stages for the preparation and implementation of a project and are broadly divided into the following phases: identification, preparation, appraisal, approval, implementation, completion and evaluation.

"Project Implementation" means the period from the Effective Date of the project until project completion.

"Project Implementation Unit" or PIU means a unit set up for monitoring project implementation activities generally set up when a project covers large number of implementing locations or areas at multiple places, which cannot be reasonably monitored by a single PMU.

"Project Management Unit" or PMU means a dedicated unit setup within an Executing Agency or Implementing Agency to support the implementation and administration of a project, including managing its day-to-day activities under a project and intermediation with the Bank.

"Project Start-up Workshop" refers to a workshop organized by the Bank after the project approval to familiarize the stakeholders involved with the project implementation about the Bank's project implementation policies and procedures, including operations, procurement and disbursement.

"Public-Private-Partnership" or PPP refers to a modality of financing, which includes mobilizing private sector resources (technical, managerial and financial) to deliver essential public services.

"Reimbursement" refers to a mode of disbursement under which the Beneficiary pre-finances and pays for eligible expenses under the project and then requests reimbursement for such payments upon submission of required supporting documentation.

"Reimbursement Guarantee Commitment" refers to a mode of disbursement under which the Beneficiary requests the Bank to issue an Irrevocable Commitment letter in favor of a negotiating bank that has been designated to pay a supplier under a Letter of Credit opened by the Beneficiary in favor of such supplier for eligible goods or services under the financing agreement for the project.

"Repayment Period" refers to the period within which the Beneficiary is required to pay installments or any other dues or payables to the Bank arising out of, or in connection with, any disbursements made by the Bank to such Beneficiary under financing for a project.

"Retroactive Financing" means the financing of eligible expenditures incurred by the Beneficiary prior to the Effective Date of the financing agreement.

"Retroactive Financing Date" refers to the date earlier than the date of the relevant financing agreement, as specified in such agreement, for determining payments eligible for reimbursement under those projects, for which retroactive financing is permitted.

"Shari'ah" means Islamic law, governing the life of Muslims, which is derived from the Holy Qur'an and the Sunnah.[22]

"Signature Date" means the date on which the Beneficiary and the Bank sign the financing agreement. Such a date in the case of "Loan" financing agreement determines the commencement of service charges and the repayment schedule for the financing.

"Special Account" means a designated revolving account into which an initial advance disbursement is deposited and subsequently replenished from time to time, in accordance with the terms and conditions regulating such account that are set out in the financing agreement for the project, and related disbursement letter. Such an account is used to make payments to contractors, suppliers, and/or service providers, and for recurring payments of other eligible expenditures under the project.

"Summary Statement" or SS means a summary sheet form or contents table, in a format acceptable to the Bank, sent by the Beneficiary to the Bank that identifies eligible expenses evidenced by accompanying supporting documentation, as agreed between the Beneficiary and the Bank.

"Supporting Documentation" refers to documentation required by the Bank evidencing eligible expenses incurred or to be incurred under a project, and for which the Beneficiary has submitted withdrawal application(s) to the Bank.

"Suspension" refers to the Bank's right to temporarily terminate the right of the Beneficiary to obtain disbursement of the proceeds of financing by the Bank for a project in specific situations as set out in the relevant financing agreement.

"WAQF" refers to an Islamic charitable endowment fund maintained by the Bank in trust for financing of projects or components of projects consistent with WAQF endowment objectives.

"Withdrawal Application" means a request for disbursement of proceeds of financing from the Bank under any approved mode of disbursement for payment of eligible expenses in the format required by the Bank, signed by one or more authorized signatories, including such information and documentation as the Bank may require.

[22] The Bank maintains a Shari'ah Committee. This is an independent body comprising specialized jurists in Fiqh al-Muamalat (Islamic commercial jurisprudence) responsible for directing, reviewing and supervising the financing activities of the Bank to ensure compliance with Islamic banking principles.

ANNEXES





Annex 4.1: Withdrawal Application Form

To: Dues and Disbursement Division
Financial Control Department
Islamic Development Bank

Project Application No.: _____

Project (Code): _____
Contract No: _____ Mode of Disbursement: _____
Operation ID (Mode of Finance): _____ Payment Type: _____

Payment Instructions

Requested Currency: _____ Requested Amount: _____
Req. Amount (in words): _____

Beneficiary Details
(As per Bank Account)

Name _____
Country and Address: _____

Bank Details

Beneficiary Bank		Correspondent / Intermediary Bank	
Bank Name:		Bank Name:	
Bank Address:		Bank Address:	
Account No.:		Account No.:	
IBAN Code (if applicable):		IBAN Code (if applicable):	
Routing Number (if app.):		Routing Number (if appl.):	
SWIFT Code:		SWIFT Code:	

Special Payment Instructions and Other References: _____

This Withdrawal Application Includes

☐ Statement of Expenditure / Summary Statement
☐ Evidence of Payments (for reimbursement)
☐ Other supporting documents: _____
☐ Expenditure Forecast (for Sp. Account)
☐ Bank Statement and Account Reconciliation (for Sp. Account)
☐ Audit Verification of the SoE and Bank Statement (for Sp. Account)

By: _____ [name of Beneficiary]

Signatures of Authorized Representatives:

_____ /Signature/	_____ /Signature/
_____ /Name/	_____ /Name/
_____ /Title of the Authorized Representative/	_____ /Title of the Authorized Representative/

Dates: _____

Contact Details

Phone: _____
Email: _____

Certifications:

The undersigned authorized signatories certify and agree as follows:

a. The expenditures are eligible for payment from the proceeds of the Bank financing
b. The expenditures were or will be made for the purposes specified in the Agreement and in accordance with its terms and conditions, and the undersigned has not been previously withdrawn from the Project Account or obtained any other financing, credit, or grant for the purpose of fully or partially meeting these expenditures.
c. The works, goods, or service claimed for direct payment, reimbursement, or liquidation of advance in any special account have been procured in accordance with the Agreement and the cost and terms of the purchase are reasonable and in accordance with the relevant contract(s).
d. The works, goods, or services were or will be produced in and supplied by a member country of the Bank, unless specifically permitted otherwise under the Agreement by the Bank.
e. This application is claimed in accordance with the Bank's Disbursement Handbook, and all documents related to the expenditure covered by this application are available for examination by auditors and by the Bank upon request.
f. Unless otherwise restricted in the Agreement, if the disbursement pursuant to this application results in the agreed allocation of the corresponding expenditure categories of the Account being exceeded, the Bank may process the disbursement and subsequently reallocated to such categories from other categories to the extent required to meet the shortfall.
g. At the date of this application the Beneficiary is not in default of any obligations under any financing agreement with the Islamic Development Bank.
h. For expenditures claimed based on a Statement of Expenditure (SOE), all documentation which verifies these expenditures is retained in the location stated on the summary sheet and is available for review by the Bank or auditors upon request.

* Please ensure your application and annexes are complete and correct to avoid any delays

General Instructions for Preparing:

1. The Withdrawal Application Form

- Submit electronic Withdrawal Application (WA) form to the Bank through the EDP (or an original WA to the Banks Headquarter, if so instructed).
- The value of a WA should be at least US$. equivalent, or __% of the financing provided by the Bank, whichever is lower, unless otherwise agreed by the Bank. Individual payments below this amount should be paid (i) by the Beneficiary and subsequently claimed from the Bank through reimbursement, or (ii) through the special account procedure (if such procedure has been approved by the Bank), unless otherwise accepted by the Bank.
- Prepare a separate WA for each operation (mode of finance), for each application currency and for each Beneficiary.
- When the WA is completed, verify completeness of supporting documentation and accuracy of details before passing to the authorized representative(s) for signature. Mistakes and omissions may result in delayed disbursement.

Withdrawal References

- Number the WAs consecutively by each project not by each operation/financing agreement/mode of finance. Meaning, the second disbursement for a given project, which is also the first disbursement for the loan agreement portion of the same project is WA Number 2.
- If the Project has more than one executing agency (EA) or implementing agency, they should nominate one central coordinator to ensure the WA Number remains sequential.

Application Type

- Choose the appropriate option for the Type of Disbursement modality from the related drop list in EDP (or check the box applicable in the WA form).

Application Currency & Amount

- Currency: Indicate the name of the currency requested for disbursement.
    - For Reimbursement (of contract or non-contractual expenditure)/Direct Payment/Reimbursement Guarantee: this is the currency in which the cost of goods, works and/or services has been paid or is payable.
    - For Special Account: this will be the currency the Special Account was opened in.
- Amount: indicate the amount requested for disbursement in figures and words.

Project Code, Operation ID and Mode of Finance

- Project Number: IsDB's alphanumeric reference assigned by the Bank
- Operation ID: IsDB's numeric reference for the specific Financing Agreement/Mode of Finance.
- Mode of Finance: The specific product type relevant to the Operation ID.

Payment Instructions

- Beneficiary's Name and Address: indicate full name and address of the payee for identification of payment.
- Name and Address of Beneficiary's Bank and Account No: indicate full name and address of the payee's bank, which may include a bank and/or branch designation. Account number or IBAN is mandatory. Provide SWIFT code, if the payee's bank is a member of SWIFT.
- Correspondent Bank: When payment is to be made to a payee's bank not located in the country of the disbursement currency, indicate full name and address of its correspondent bank located in the country of the disbursement currency. Provide SWIFT code, if the Bank is a member of SWIFT.
- Special Payment Instructions: indicate any particular or special instructions, or references to facilitate payment or identification of payment. Common example for these instructions is when the disbursement currency is different from the application currency, indicate «pay the application amount in [the currency name to be disbursed] equivalent to amount in requested currency».

Supporting Documentation

- Special Account Reconciliation Statement Form: submit this form for liquidation and for each replenishment of the special account (Annex 4.5).
- Copies of supporting documentation: itemized supporting documentation should be provided in accordance with the requirements set out in the Bank's Disbursement Handbook to substantiate eligibility of the expenditure claimed, unless abbreviated documentary requirements have been approved for use by the Bank (in the context of special accounts or in connection with any other disbursement modality) e.g. copy of the closing balance per the corresponding bank statement.

Certifications and Signature

- By (Name of Beneficiary or Recipient): fill in the name as it appears in the Financing Agreement.
- Date Signed: Enter the date WA is signed by authorized representative(s), not the date it was prepared.
- Authorized Representative(s): Pass this application to the authorized representative(s), who is (are) designated in the Authorization Request form submitted to the Bank (Annex 5.2-A). Verify that the list of authorized signatories has not been changed.
- Certifications: modifications to any authorized signatories are not valid or binding, unless otherwise agreed by the Bank.

2. Summary Statement (SS), Statement of Expenditures (SOE) and Expenditure Forecast (SoFE):

- The Summary Statement (SS) or the Statement of Expenditures (SoE) form applies to all disbursement modes.
- The Expenditure Forecast (SoFE) forms apply to WAs that relate to disbursement mode "Special Account".
- For either SS or SOE forms the supporting documentation must be identified and attached. List the items of payment to the same supplier together, one below another.

- Submit the SoFE form(s) for all advances into the Special Account, and the SoE forms in replenishment to justify utilization of previous advances.

3. Instructions for Initial Disbursement and Replenishments to a Special Account

- Complete and sign a Withdrawal Application (Annex 4.1) or submit it electronically through EDP.
- For an initial advance to the Special Account: complete the Expenditure Forecast (SOFE, Annex 4.1-B). The requested amount cannot be greater than the allowed ceiling as per the financing agreement.
- The forecasted expenditure for the forthcoming 3 to 6 months should normally be based on the amount expected to come due under the contracts awarded and to be awarded during the reported period. For expenditures related to operational costs, the amount should be linked to the Project's annual budget provision.
- For a replenishment to the Special Account: complete a Summary of Expenditure (SOE, Annex 4.1-A) and SA Reconciliation Statement Form (Annex 4.5-A)
- Attach all required supporting documentation, especially the audit certification or report for the reported period.

Annex 4.1-A: Summary Statement / Statement of Expenditures Forms

1. Project No & Name: _____
2. Operation ID & Mode of Finance: _____
3. Currency _____
4. Statement Period _____
5. Application Number _____

Type: ☐ Summary Statement (for direct payment)
☐ Statement of Expenditure
(for reimbursement or Special Account utilization)

6	7	8	9	10	11	12	13	14	15	16	17
Ref	Component.	Description of Goods & Services	Contract No. Name & address of Contractor / Supplier	Total Contract Amount / Cost	Cumulative Previous Payments	Current Request / Statement	IsDB Share %	(14 = 12 x 13) IsDB Share Amount	Date Paid	Amount in SA currency*	Remarks & Clarification (if any)
1											
2											
3											
4											
5											
6											
7											

Prepared By

_____
Name and Position

_____
Signature

Approved by:

_____
Name and Position

_____
Signature

General Instructions for preparing the Summary Statement (SS) and Statement of Expenditures (SoE)

1.	Project No (OMS) & Name	Insert the Project Code and Name of Project
2.	Operation ID (CML) & Mode of Fin.	Insert the Operation ID and Mode of Finance
3.	Currency	Insert the Currency of the request
4.	Statement Period	Period the expenses on the statement were incurred
5.	Application Number	Insert application number as per the WA form Sequential Item.
6.	Ref	Reference Number
7.	Component &	Identify the approved component as per financing agreement
8.	Description of Goods & Services	Provide details of the goods and services to be procured
9.	Contract No. /Contractor/ Supplier	The Beneficiary of the expected payment
10.	Total contract / cost	Insert the currency and total amount of the contract or cost. If the contract has multiple payment currencies, create a separate line for each currency
11.	Cumulative previous payments	Total amount paid to the vendor – from IsDB and other financiers – prior to the current request / statement
12.	Current request / statement	Current amount due to be paid to the vendors OR already paid during the current statement period
13.	IsDB share (%)	Indicate the percentage of the cost to be financed by IsDB (as per the financing agreement)
14.	IsDB share (amount)	Amount due from IsDB
15.	Date Paid	Insert the date the expenses were actually paid from the Special Account in case the SoE is related to Special Account, or by the Beneficiary in case the SoE is related to reimbursement.
16.	Amount in the SA currency	Insert the amount deducted from special account, in case the SoE is related to Special Account.
17.	Remarks	Any further clarifications; also insert the date the non-objection was granted by IsDB to the contract / commitment

Annex 4.1-B: Expenditure Forecast (SoFE) Form

1. Project No & Name: _____
2. Operation ID & Mode of Finance: _____
3. Currency _____
4. Statement Period _____
5. Application Number _____

6	7	8	9	10	11	12	13	14	15	16	17
Ref	Component.	Description of Goods & Services	Contract No. Name & address of Contractor / Supplier	Total Contract Amount / Cost	Cumulative Previous Payments	Amount to be paid for the Forecasted Period	IsDB Share %	(14 = 12 x 13) IsDB Share Amount	Exchange Rate	(16 = 14 x 15) Est. Amount in SA Currency	Remarks
1											
2											
3											
4											
5											
6											
7											
						18. Total estimated expenditure from the Sp. Account					
						19. Less – Current outstanding amount in the Sp. Account					
						20. Less – Amount to be refunded to Sp. Account					
						21. Requested advance to the Sp. Account					

Prepared By

_____
Name and Position

_____
Signature

Approved by:

_____
Name and Position

_____
Signature

General Instructions for preparing the Expenditure Forecast (SoFE)

1.	Project No (OMS) & Name	Insert the Project Code and Name of Project
2.	Operation ID (CML) & Mode of Fin.	Insert the Operation ID and Mode of Finance
3.	Currency	Insert the Currency of the Special Account
4.	Statement Period	Period the expenses on the statement were incurred
5.	Application Number	Insert application number as per the WA form Sequential Item.
6.	Ref	Reference Number
7.	Component &	Identify the approved component as per financing agreement
8.	Description of Goods & Services	Provide details of the goods and services to be procured
9.	Contract No. /Contractor/ Supplier	The Beneficiary of the expected payment
10.	Total contract / cost	Insert the currency and total amount of the contract or cost. If the contract has multiple payment currencies, create a separate line for each currency
11.	Cumulative previous payments	Total amount paid to the vendor – from IsDB and other financiers – prior to the current statement
12.	Current request / statement	Current amount due to be paid to the vendors during the current statement period
13.	IsDB share (%)	Indicate the percentage of the cost to be financed by IsDB (as per the financing agreement)
14.	IsDB share (amount)	Amount due from IsDB
15.	Exchange Rate	Anticipated exchange rate of the expenditure against the currency of the Special Account
16.	Amount in the SA currency	Insert the equivalent amount in the special account currency
17.	Remarks	Any further clarifications; also insert the date the non-objection was granted by IsDB to the contract / commitment

Annex 4.2: Direct Payment Checklist

1. Has the pertinent contract been sent to the Bank?
2. If the contract is subject to prior review, has the affiliated division in the Bank approved the contract for payment?
3. If the contract is subject to post-review, has the responsible project's staff confirmed that the requested payment is due and payable?
4. Is the withdrawal application signed by an authorized signatory?
5. Has a separate application been completed for each currency?
6. Has a separate application been completed for each payee, as appropriate?
7. Has a separate Summary Statement (SS) sheet been prepared for each category or subcategory and are items grouped by contract number?
8. Are expenditures eligible for financing in accordance with the terms and conditions of the Financing Agreement?
9. Are the identified Beneficiary's (payee) bank account number, name of bank, and correspondent bank (if applicable) shown on the payment instructions in the WA?
10. Are supporting documents attached and completed, as appropriate?

Annex 4.2: Reimbursement Checklist

1. Has the pertinent contract been sent to the Bank?
2. If the contract is subject to prior review, has the affiliated division in the Bank approved the contract for payment?
3. If the contract is subject to post review, has the project's staff responsible confirmed that the requested payment is due and payable?
4. Is the withdrawal application signed by an authorized signatory?
5. Has a separate application been completed for each currency?
6. Has a separate application been completed for each payee, as appropriate?
7. Has a separate Statement of Expenditure (SoE) sheet been prepared for each category or subcategory and are items grouped by contract number?
8. Are expenditures eligible for financing in accordance with the terms and conditions of the Financing Agreement?
9. Are the financing Beneficiary's (payee) bank account number, name of bank, and correspondent bank (if applicable) shown on the payment instructions in the WAs?
10. Are the supporting documents attached and complete, as appropriate?

Annex 4.4-A: Reimbursement Guarantee Commitment Application

To: Islamic Development Bank (IsDB) Jeddah, KSA Attn: Dues & Disbursement Division, Financial Control Department Application for Reimbursement Guarantee Commitment	
1. Project No (OMS):	[-----]
2. Project Name:	[----]
3. Operation ID:	[-----]
4. Mode of Finance:	[----]
5. Contract No:	[-----]
6. Executing Agency Details:	Name: Contact Person: Address: Email: Tel/Fax:
7. Application No:	[-----]
8. Application Date:	[.....]
9. Letter of Credit Details:	LC Issuing Bank Name: Address: Bank Code: LC Negotiating Bank Name: Address: Bank Code: LC No.: Commitment Amount and Currency: LC Amount and Currency: LC Expiry Date: Last Shipment Date:
10. Agreement & Certification	The undersigned hereby agrees and certifies as follows: (a) You will pay the negotiating bank the amount paid or expected to be paid by them under the terms of the Letter of Credit (LC). (b) The negotiating bank shall request reimbursement of the amounts paid by them pursuant to the LC in accordance with the terms and conditions of the Guarantee that you issue. (c) You will accept all amendments that the issuing bank submits in respect of: (i) the expiry date of the LC; (ii) the last date for negotiating documents. We understand that these extensions will not exceed the validity date of this Guarantee that you issue. (d) All amendments will be requested by us, directly to yourselves, for your approval. Such amendments include: (i) the country of origin; (ii) the goods description; (iii) the quantity of goods; (iv) insurance details; (v) the value or currency; (vi) the Beneficiary; (vii) expiry date of the letter of credit; and (viii) the extension of the shipment date. (e) Your obligation under the Guarantee shall terminate: i. You will not issue a reimbursement guarantee if the underlying contractual shipment date occurs after the relevant closing date,

	unless otherwise approved by you. ii. The issuing bank LC expiry date must also fall by the closing date (Last Date) of the Financing Agreement. iii. Upon the earlier of the closing date of the Financing Agreement and 30 days after the expiration of the LC, unless the IsDB shall agree otherwise. iv. Upon payment of the full value of the LC in accordance with the terms and conditions of the Guarantee. (f) Unless otherwise agreed, all bank charges, fees, commissions, and any other charges from the date of payment of the negotiating bank to the date of reimbursement shall be at our charge and paid by us directly to the negotiating bank. (g) The undersigned has not previously withdrawn any amount from the Project Account to meet these expenditures. The undersigned has not, and does not, intend to obtain other funds for this purpose out of the proceeds of any other financing, credit or grant of any type whatsoever. (h) The goods/services covered by this Application shall be purchased in accordance with the terms and conditions of this Agreement and the Financing Agreement. (i) The expenditures under the LC and this Agreement shall be made only for goods and services from eligible sources and for eligible items under the applicable contract. (j) At the date of this application, the Financing Beneficiary or Recipient is not in default of any obligations under any financing agreement with the IsDB.
AUTHORIZED SIGNATORIES	
1. Name and Title of Financing Beneficiary or Recipient:	
2. Signature of Authorized Representative:	
3. Date Signed:	

NOTE: Please ensure your application and annexes are complete and correct to avoid any delays.

Annex 4.4-B: Reimbursement Guarantee - Swift-based Sample

Attn: DOCUMENTARY CREDITS DEPT

Transaction Reference Number (F20): ___
Related Reference (if applicable [F21]): ___

OUR REF:_____[Reference] (QUOTE IN ALL OUR CORRESPONDENCE)

WE HEREBY ISSUE OUR IRREVOCABLE COMMITMENT FOR REIMBURSEMENT OF CLAIMS UNDER FOLLOWING LC NO _____ ISSUED ON _____ BY _____ SWIFT:_____, FOR THE AMOUNT OF _____ [amount in figures and currency code] _____[amount and currency in words].

LC DETAILS:

1. LC NUMBER : _____
2. ISSUED BY : [Bank name and branch] (SWIFT: _____)
3. BY ORDER OF : _____
4. FAVOURING : _____
5. AMOUNT : [currency]_____
6. DATE OF EXPIRY :
7. SHIPMENT DATE :
8. PAYMENT TERMS :
9. BANKING CHARGES: ALL BANKING CHARGES AND COMMISSONS INSIDE AND OUTSIDE OF [country] ARE FOR BENEFICIARY'S ACCOUNT.

WE IRREVOCABLY UNDERTAKE TO HONOUR YOUR CLAIMS THROUGH OUR NOMINATED REIMBURSING BANK, [Name of bank, branch] (SWIFT Code:_____) WITHIN 5 BANKING DAY(S) FROM THE DATE OF RECEIPT OF YOUR REIMBURSEMENT CLAIM UP TO A MAXIMUM AMOUNT OF [amount in figures and currency code]. (THIS AMOUNT IS NOT TO INCLUDE ANY COMMISSIONS AND EXPENSES INCURRED IN CONNECTION WITH THE LETTER OF CREDIT), PROVIDED THAT THE NEGOTIATING BANK CERTIFIES TO OUR NOMINATED REIMBURSING BANK, [Name of bank, branch] (SWIFT Code:_____) BY AUTHENTICATED SWIFT MESSAGE THAT (1) THE TERMS AND CONDITIONS OF ABOVE MENTIONED LC HAVE BEEN COMPLIED WITH (2) AND ORIGINAL DOCUMENTS HAVE BEEN SENT TO THE LC OPENING BANK THROUGH COURIER SERVICE.

WE HAVE SENT OUR STANDING INSTRUCTIONS TO [Name of bank, branch] (SWIFT Code: _____) AUTHORIZING THEM TO HONOUR YOUR CLAIMS ACCORDINGLY.

IN CASE OF ANY DISCREPANCY IN THE DOCUMENTS PRESENTED OR AMENDMENTS TO THE ABOVE-MENTIONED LC DETAILS INCLUDING (I) THE COUNTRY OF ORIGIN (II) THE GOODS DESCRIPTION (III) THE QUANTITY OF GOODS AND (IV) THE INSURANCE DETAILS, THE PRIOR APPROVAL OF THE ISLAMIC DEVELOPMENT BANK MUST BE OBTAINED TO WAIVE THE DISCREPANCY OR ACCEPT THE AMENDMENT(S) IN ORDER THAT THIS COMMITMENT REMAINS OPERATIVE.

THIS MESSAGE IS DEEMED TO BE THE OPERATIVE INSTRUMENT AND NO MAIL CONFIRMATION WILL FOLLOW.

KIND REGARDS
DUES & DISBURSEMENT DIVISION
FINANCIAL CONTROL DEPT

Annex 4.4-C: Amendment Request for Reimbursement Guarantee Underlying Letter of Credit

[Financing Beneficiary Letterhead]

Date: [___] Ref: [___]

Islamic Development Bank

Attn: Dues and Disbursement Unit
Financial Control Department

Dear _____:
RE: PROJECT NO: _____: PROPOSED AMENDMENT OF LETTER OF CREDIT (LC) NO: _____
APPLICATION FOR APPROVAL

We request your written approval for a proposed amendment of the captioned LC as follows:

[Specify what is being amended in the LC]

This LC is covered by Reimbursement Guarantee Commitment No: [_____] A SWIFT copy of the amended Letter of Credit is attached for your review.

We consider the proposed amendment necessary and reasonable and therefore request that you advise the opening bank of your approval of the amendment.

(Name of Financing Beneficiary)
_____ (Name/Title/Signature of Authorized Representative)
_____ (Name/Title/Signature of Authorized Representative)

Annex 4.5: Special Account Checklist and Forms

1. Is the advance fund procedure authorized by IsDB for this Financing?
2. Is the withdrawal application signed by an authorized signatory?
3. Are both the advance account reconciliation statement and the ending balance per corresponding bank statement included to support the request for liquidation or replenishment?
4. Are expenditures eligible for financing in accordance with the terms and conditions of the Financing Agreement?
5. Has the relevant contract reference number been linked to the Special Account?
6. Are the necessary supporting documents attached, such as the audit report of expenses against each component and the certification letter from the auditor confirming that the previous funds have been used for the purpose intended?
7. If the closing date/Last Disbursement Date is within the next 6 months, has consideration been given to whether the account should be replenished or treated for liquidation only?
8. Is the projection for the next 3 to 6 months for initial or additional advance attached to the withdrawal application?
9. Is the currency of withdrawal application the same as the currency of the advance account?
10. Are the payment instructions complete?

Annex 4.5-A: Special Account - Reconciliation Statement Form

SPECIAL ACCOUNT RECONCILIATION		
Code	Description	Amount in [Currency]
1	Opening Balance at …. / …. /……	
2	Payment Received from IsDB • Application No. ….. Date: ….. / …. / …… • Application No. ….. Date: ….. / …. / ……	
3	Reimbursement of ineligible expenditure • Date: ….. / …. / ……	
4	TOTAL RESOURCES	
5	Contract / Component 1: (Specify) Contract / Component 2: (Specify) Contract / Component 3: (Specify) Contract / Component 4: (Specify)	
6	TOTAL EXPENDITURES	
7	Balance of Special Account (7) = (4) – (6)	
8	Closing balance of the Special account as at …. /…. /….. and according to the Bank statement	
9	Difference (9) = (7) – (8)	
10	Justified difference • Item a • Item b	
11	Difference to be justified (11) = (9) – (10)	

Instructions:

1. Enter the amount shown in the closing balance of Special account of the latest special account reconciliation.
2. Enter the total replenishments received from IsDB during the period.
3. Enter the total refund of ineligible expenditures made by the Executing Agency during the period.
4. Total of 1, 2, and 3
5. Enter the total eligible expenditures paid from the SA during the period for each component.
6. Total of 5
7. Difference of 5 and 6
8. Enter the closing balance of the special account according to the Bank statement.
9. Difference of 7 and 8
10. Enter the total justified difference - Please provide a separate note for the explanation of the differences.
11. Amount to be justified or refunded to the Special Account.

IsDB
البنك الإسلامي للتنمية
Islamic Development Bank

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Jeddah 22332-2444
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