



CARIBBEAN DEVELOPMENT BANK

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**DISBURSEMENT GUIDELINES FOR CDB-FINANCED PROJECTS**

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**January 2019**



## Disbursement Guidelines for CDB-Financed Projects

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## **Disbursement Guidelines for CDB-Financed Projects**

### **ABBREVIATIONS**

BOD	Board of Directors
CDB	Caribbean Development Bank
DA	Designated Account
DDD	Documentation Deadline Date
DL	Disbursement Letter
EA	Executing Agency
FM	Financial Management
IA	Implementing Agency
IDD	Integrity Due Diligence
PRISM	Project Resource Interface for Systematic Management
TDD	Terminal Disbursement Date



## Disbursement Guidelines for CDB-Financed Projects

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### CHAPTER I: INTRODUCTION

#### Background

1. The Caribbean Development Bank (CDB) recognises the need for appropriate guidelines to inform the disbursement arrangements on projects it finances. These Disbursement Guidelines (Guidelines) form part of CDB's wider financial management (FM) procedures to support clients' needs and contribute to a stronger portfolio disbursement performance.
2. Disbursement arrangements are set out in CDB's operational policies and procedures, as derived from the provisions of its Charter, which require CDB "to take the necessary measures to ensure that the proceeds of any loan<sup>1</sup> made, guaranteed or participated in by the Bank are used only for the purposes for which the loan was granted and with due regard to considerations of economy and efficiency<sup>2</sup>."

#### Purpose

3. This document has been prepared to assist (i) CDB staff responsible for project disbursements and FM issues; and (ii) Recipients of CDB financing<sup>3</sup>. It seeks to provide guidance on disbursement arrangements and to facilitate the efficient and speedy disbursement on CDB-financed projects.
4. This document is not intended to provide instructions for the use of the Project Resource Interface for Systematic Management (PRISM) system for disbursement purposes. Instructions for PRISM users will be provided separately.

#### Applicability

5. These Guidelines apply to all CDB-financed projects<sup>4</sup> approved on or after 1<sup>st</sup> January, 2019, except for policy-based operations, equity purchases, and financial contributions to projects executed by other institutions. Disbursement arrangements for those operations will be detailed in their respective Financing Agreements. These Guidelines apply only to projects executed by Recipients of CDB financing. Nothing in these Guidelines shall be construed to exclude, diminish or waive any of CDB's policies and procedures for the conduct of due diligence, specifically, the conduct of client/counterparty due diligence for money laundering, terrorist financing, financial sanctions and integrity due diligence (IDD), collectively.

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<sup>1</sup> This should also be deemed to be equally applicable to grants.

<sup>2</sup> Article 15(k) of the Agreement Establishing the Caribbean Development Bank (Charter).

<sup>3</sup> Recipients of CDB financing are the entity or entities, Borrower or Grantee, signing the Financing Agreement with CDB for a Project.

<sup>4</sup> CDB acting on its own account or in the capacity as administrator of funds provided by other donors.



## Disbursement Guidelines for CDB-Financed Projects

### CHAPTER II: KEY DOCUMENTS

#### Staff or Appraisal Report

6. For each project proposed for CDB financing, CDB prepares a paper, which sets forth CDB appraisal and assessment of the feasibility and justification for the project. This report usually includes, *inter alia*, the following information: project description and proposed components; project terms and conditions; project implementation arrangements; risk assessment and mitigation; project budget; and procurement plan.

#### Financing Agreement

7. For each loan/grant, CDB and the Recipient enter into a legal agreement that sets out the general and specific terms and conditions of the loan/grant. That agreement, the *Financing Agreement*, governs the legal relationship between the Recipient and CDB, in connection with the implementation or execution of the project. It usually includes, *inter alia*, the following information: (i) General Provisions applicable to loan/grant agreements and (ii) Special Provisions, which include:
  - (a) the amount and purpose of the loan/grant;
  - (b) repayment of interest and charges (if applicable);
  - (c) conditions precedent to first disbursement;
  - (c) period of disbursement; and
  - (e) Terms and Conditions for the Operation of a Designated Account (DA), where relevant.

#### Disbursement Letter

8. The Disbursement Letter (DL) is the document that outlines the disbursement procedures to be followed by the Recipient, and provides clear instructions on withdrawal of funds for the particular project. It is a notice from CDB to the Recipient that specifies the disbursement arrangements to be used. Contents of the DL are detailed in Annex I: Standard Contents of the Disbursement Letter. CDB shall prepare the DL based on discussions during project appraisal. The initial DL shall be issued once the Financing Agreement is signed.
9. The need for a change to disbursement arrangements may arise because of changes in project needs, and/or changes in FM and procurement arrangements. When modifications to the disbursement methods and/or supporting documentation are required, the new arrangements are discussed by the Recipient and CDB, and subsequent DLs shall be issued to modify the disbursement arrangements for a project, as required during project implementation.



## Disbursement Guidelines for CDB-Financed Projects

### CHAPTER III: KEY DATES

10. According to CDB’s operational policies and procedures, *expenditures incurred before the loan or grant is **approved** are not eligible for CDB financing unless the expenditures were carried out in accordance with CDB’s procurement procedures and CDB has agreed to **retroactive financing** in the Financing Agreement (see paragraph 16, Table 2). Expenditures incurred after the **terminal disbursement date (TDD)** stipulated in the Financing Agreement would not be financed from the grant or loan unless the Bank has agreed to alter the TDD.*
11. Table 1 below provides an explanation on the key dates to consider when considering eligible project expenditure.

**TABLE 1: KEY DATES**

Key Date	Definition
<b>Loan/Grant Effective Date</b>	The date on which conditions precedent to first disbursement are met. CDB then provides notice to the Recipient of CDB’s acceptance of evidence that the conditions precedent to first disbursement have been met.
<b>Retroactive Financing<sup>5</sup> Date</b>	For loans that permit <a href="#">retroactive financing</a> , the date earlier than the date of approval, as specified in the Financing Agreement, for determining expenditures eligible for reimbursement.
<b>Period of Disbursement</b>	The period specified in the Financing Agreement for the disbursement of the loan/grant, which may be extended as specified in writing by CDB.
<b>Terminal Disbursement Date (TDD)</b>	The date after which eligible expenditure cannot be incurred, and CDB will stop accepting withdrawal applications under a Financing Agreement, and may cancel any undisbursed balances.
<b>Documentation Deadline Date (DDD)</b>	The date after which CDB will stop accepting applications from the Recipient to document advances already made to the DA. This date is normally four months after the TDD, unless stated otherwise in the DL.

<sup>5</sup> For further details see CDB’s Lending Policies - December 2016, paragraph 1.13.



## Disbursement Guidelines for CDB-Financed Projects

### CHAPTER IV: DISBURSEMENT ARRANGEMENTS

12. Planning for disbursement begins early in the project cycle. During project appraisal, CDB as part of its comprehensive due diligence, assesses the adequacy of overall fiduciary arrangements, including FM, disbursement and procurement arrangements, and discusses with the Recipient, strategically important disbursement issues, eligibility of expenditures for CDB financing, and conditions precedent to first disbursement. When designing disbursement arrangements for individual projects, both Recipients and CDB are encouraged to consider:
  - (a) CDB's policies and procedures;
  - (b) source of funds being used in the investment intervention;
  - (c) specific country and project considerations;
  - (d) Recipient's experience with CDB disbursement policies and procedures;
  - (e) simple and cost-effective disbursement alternatives;
  - (f) harmonisation with other donors; and
  - (g) supporting the use of country systems whenever appropriate.
13. Disbursement arrangements under CDB-financed projects comprise (i) the [disbursement methods](#) used to withdraw the proceeds from the loan/grant account to make payments to the Recipients, or to third parties and to ensure timely availability of funds for smooth project implementation; and (ii) the [supporting documentation](#) that is required from the Recipient to demonstrate that the loan/grant proceeds were used only for the intended purposes.

#### **Eligible Expenditures**

14. Disbursements can only be made to finance eligible project expenditures, in keeping with the purpose of the project, and in accordance with the provisions of the Financing Agreement.
15. According to CDB operational policies and procedures, "eligible expenditures" are those expenditures that can be financed under a CDB-financed loan or grant. Accordingly, the first steps in establishing disbursement arrangements include: determining the types of expenditures that are eligible for financing under the loan/grant; ascertaining what share of disbursement percentage<sup>6</sup>, if any, will be financed under the loan/grant; and considering whether retroactive financing will be needed.

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<sup>6</sup> Under some specific forms of financing, CDB may finance up to a certain percentage of eligible expenditures, while the remaining percentage would be required to be provided by the Recipient of CDB financing as a counterpart contribution. In those cases, such percentages will be defined in the Financing Agreement.



## Disbursement Guidelines for CDB-Financed Projects

16. Table 2 below explains the key concepts to consider when determining eligible expenditures.

**TABLE 2: DETERMINING ELIGIBLE EXPENDITURES**

<b>Type of Expenditure</b>	They are normally specified in the “Project Cost and Financing Plan” section of the Financing Agreement. The type of expenditures may be grouped based on the nature of expenditures, project activities or components. The project design will determine whether more than one type of expenditure needs to be financed.
<b>Disbursement Percentage</b>	This is the portion of eligible expenditures that CDB has agreed to finance. CDB may establish a disbursement percentage for each type of eligible expenditure. Disbursement percentages are detailed in the “Project Cost and Financing Plan” section of the Financing Agreement and, in the case of loans, the terms and conditions also specify the maximum percentage of project expenditure that CDB will finance.
<b>Retroactive Financing</b>	Payments that the Recipient has made for a project out of its own resources prior to the approval of the loan are normally not eligible for financing under the loan. However, in some circumstances, to facilitate the prompt execution of CDB-financed projects, CDB may allow retroactive financing, that is, CDB reimburses the Recipient from the loan proceeds for payments that the Recipient has made for eligible expenditures and commitments made with respect to loans to financial intermediaries for on-lending <sup>7</sup> , before the approval of the loan (after conditions precedent to first disbursement have been satisfied). If such retroactive financing is allowed, the Financing Agreement will specify the date from which expenditures are covered and the amount, however, the general policy concerning retroactive financing is set out in CDB Lending Policies <sup>8</sup> .

### Conditions Precedent to First Disbursement

17. Before disbursements from the loan/grant account can commence, the Recipient must satisfy all conditions precedent to first disbursement of the loan/grant as specified in the Financing Agreement. In many instances, the Financing Agreement may also include subsequent disbursement conditions,

<sup>7</sup> Also known as Lines of Credit.

<sup>8</sup> CDB’s Lending Policies - December 2016, paragraph 1.13: Retroactive financing for direct capital projects is limited to expenses incurred within 12 months prior to the date of approval of the loan by CDB’s Board of Directors (BOD), or from the date of the request for the loan to the date of such approval, whichever is shorter. Retroactive financing for loans to financial intermediaries is limited to sub-loans approved by the financial intermediaries for processing from CDB’s resources within 12 months prior to the date of approval of the loan by CDB’s BOD, or from the date of the request for the loan to the date of such approval, whichever is shorter. In both cases:

- (a) the amount of retroactive financing sought and the period over which retroactive financing is sought must be justified;
- (b) retroactive financing is limited to 20% of the amount of the loan (except where CDB’s prevailing Disaster Management Strategy and Operational Guidelines permits a higher amount); and
- (c) expenditure for which retroactive financing is sought must meet all eligibility criteria under the loan agreement.



## **Disbursement Guidelines for CDB-Financed Projects**

which need to be satisfied if disbursements are to exceed some predetermined amount(s). In addition, in many instances, the Financing Agreement will include a condition precedent specific to a component of the project. In the case of additional financing being approved, all conditions necessary to make the Additional Financing Agreements effective, should be satisfied.

### **Disbursement Methods**

18. Once CDB has approved the project, and the Financing Agreement has become effective, CDB does not immediately transfer the amount of the loan/grant to the Recipient, but credits the full amount to a CDB loan/grant account. This is the account from which disbursements are made subject to the conduct of due diligence by CDB, specifically IDD.
19. There are four methods of withdrawing from a loan/grant account. These methods are detailed in Table 3 overleaf. Disbursements from the loan/grant account may be done by the Recipient using a single disbursement method, or a combination of different methods, depending on project specific circumstances, such as the FM assessment and procurement plan; the nature and volume of expected expenditures; the anticipated requirements from suppliers; and the Recipient's ability to pre-finance expenditures.

### **Supporting Documentation**

20. CDB requires supporting documentation providing evidence that disbursements from the loan/grant account have been or are being made for eligible expenditures as specified in the Financing Agreement. The types of supporting documentation required, and the timing for providing supporting documentation differ based on the disbursement method used (since Recipients may provide it at the same time as an application for withdrawal or at a later date).
21. Supporting documentation requested for each specific disbursement method is captured in an annex to the pertinent disbursement form or referenced on PRISM (see paragraph 28). However, the type of supporting documentation that the Recipient is required to submit to CDB may be customised depending on the circumstances of a particular project. Specific supporting documentation, including formats, will be determined during project appraisal and documented in the DL.

### **Fiduciary Oversight Arrangements**

22. Disbursement arrangements vary among projects depending on the Recipient's FM and procurement capacity. Hence, the assessment of the Recipient's fiduciary arrangements is another key step in establishing disbursement arrangements.
23. Robust project fiduciary arrangements are required to ensure CDB financing is used for the intended purpose as detailed in paragraph 2.
24. Project fiduciary aspects, including FM capacity of the Recipient and Executing or Implementing Agency (EA/IA), need to be assessed as part of CDB's Project Fiduciary Assessment and IDD during project appraisal. Disbursement arrangements will be established in consultation with the Recipient



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and taking into consideration the fiduciary arrangements assessed during the fiduciary assessment. Those arrangements will be documented in the Appraisal Report.

**TABLE 3: DISBURSEMENT METHODS**

	Method	Description
<b>Disbursement to the Recipient</b>	Reimbursement	CDB reimburses the cost of eligible expenditures that have been paid by the Recipient. The reimbursement method may be used for all types of eligible expenditures that the Recipient has pre-financed from its own resources.
	Advance	This method of withdrawal provides for advances from the loan/grant for use by the Recipient to finance eligible expenditures under the loan/grant. Advances are normally deposited into a DA <sup>9</sup> with the exception of <i>small grants</i> <sup>10</sup> and loans to financial intermediaries for on-lending where, unless otherwise agreed, CDB shall allow these advances to be deposited into other suitable counterpart operative accounts.
<b>Disbursement to Third Parties</b>	Direct Payment	The Recipient requests CDB to make a payment to a third party (contractor, supplier, or consultant) for goods, works or services provided or as an advance or mobilisation payment. This method may be used when relatively large payments are required or when payments are in currencies that Recipients may have difficulty obtaining. It is also used when suppliers or contractors require it. The risks related to use of this method can be mitigated by the conduct of due diligence on the third party recipients, by the client and IDD by the Bank.
	Letter of Credit	This method is normally used when the Recipient needs to open a letter of credit to finance the purchase of imported goods under a project.

### **CHAPTER V: GENERAL WITHDRAWAL PROCEDURES**

#### **Authorised Signatures**

25. Before disbursements may commence, pursuant to the Loan/Grant Agreement; the Recipient’s representative must notify CDB which official or officials may sign applications for withdrawal or applications for a letter of credit and “*shall furnish to the Bank evidence of the authority of the person or persons authorised to sign applications for withdrawal and the authenticated specimen signature of such person or persons*<sup>11</sup>”. Original copies of such authenticated signatures must be received prior

<sup>9</sup> See Chapter VIII “Withdrawal Procedures Under the Advance Method”.

<sup>10</sup> Small Grants are those not exceeding the three hundred thousand United States Dollars (USD300,000) threshold, unless otherwise approved by the Vice President of Operations.

<sup>11</sup> Section 4.07 of the General Provisions Applicable to Loan Agreements.



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to disbursement. If authorised signatories change during the life of the project, the Recipient must promptly notify CDB and provide the names and specimen signatures of the newly designated officials.

### **Application Forms**

26. When a Recipient wishes to make a withdrawal from the loan/grant account or have a letter of credit established, the appropriate application form must be completed and, together with the required supporting documentation, be submitted to CDB. Different forms are used for different disbursement methods. The appropriate application forms and details of the required supporting are available through Annex II: Disbursement Forms.
27. The application forms can be used for the following:
  - (a) to request reimbursement to the Recipient for a payment or payments the Recipient has already made from its own resources;
  - (b) to request an advance or to report on how a previous advance has been used;
  - (c) to request direct payment to a third party for services provided or goods supplied; and
  - (d) to apply for a commercial letter of credit.

### **Electronic Delivery of Applications**

28. PRISM allows the electronic delivery of application forms and supporting documentation. The Recipient shall use PRISM for this purpose unless otherwise agreed with CDB.

### **Document Retention**

29. The Recipient should retain all records (contracts, orders, invoices, bills, receipts, and other documents) evidencing eligible expenditures and permit CDB's representatives to examine such records. Records shall be retained by the Recipient for at least one year following receipt by CDB of the final audited financial statements of the project, required in accordance with the Financing Agreement, or two years after the DDD, whichever is later. Recipients are responsible for ensuring that document retention beyond the period requested by CDB complies with their government's or organisation's regulations

## **CHAPTER VI: WITHDRAWAL PROCEDURES UNDER REIMBURSEMENT METHOD**

30. A Recipient having made a payment that is eligible for financing under the loan/grant, may apply to CDB for reimbursement. The Recipient is required to provide documentation showing that such expenditures have been incurred and paid from its own resources *at the time* a request for payment is made.



## **Disbursement Guidelines for CDB-Financed Projects**

### **Minimum Application Value**

31. To reduce the transaction costs for both CDB and the Recipient, CDB may set a minimum value for applications for reimbursement, which is established for each loan/grant during project appraisal and varies depending on the size of the loan/grant, the nature of the project, the types of expenditures to be financed, and the circumstances of the country. Where relevant the minimum value for each project will be documented in the DL. Expenditures under the minimum value should be aggregated until the minimum is reached (e.g., by grouping numerous small expenditures that have been pre-financed) or financed using the advance method. Each application shall only aggregate expenditures made in the same currency. A separate application is required for each currency involved. To promote good project management, requests for reimbursement should be made on a regular basis.

### **Application Form and Supporting Documentation**

32. If PRISM is not utilised, Application Form - Procedure 1 Form A will be required, which, details the anticipated required supporting documentation.

### **General**

33. In the case of expenses made under contracts for which the amount does not exceed the specific thresholds set out in the DL, no copy of records need to be submitted to CDB. However, these supporting documents must be kept in accordance with the Document Retention provisions, as described in paragraph 29 above.
34. After approval of an application, CDB makes disbursement to the Recipient or to the Recipient's order and notifies the Recipient of each disbursement made.

## **CHAPTER VII: WITHDRAWAL PROCEDURES FOR DIRECT PAYMENTS**

35. Recipients may also submit applications to make a payment to a third party (contractor, supplier, or consultant) for goods, works or services provided or as an advance or mobilisation payment. In such cases, the application will request that CDB, if it so agrees, will make payment directly to a supplier, contractor or consultant on the Recipient's behalf.

### **Minimum Application Value**

36. To reduce transaction costs for both the Recipient and CDB, CDB may set a minimum value for applications for direct payment. This value is established for each loan/grant during project appraisal and varies depending on the size of the loan/grant, the nature of the project, the types of expenditures to be financed, and the circumstances of the country. The minimum value for each project is documented in the DL. Expenditures under the minimum value should be aggregated until the minimum is reached (e.g., by grouping two or more invoices from the same supplier, contractor or consultant).



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37. Since the disbursement is to a third party, supporting documentation is required *at the time* the Recipient makes the request for direct payment.

### Application Form and Supporting Documentation

38. If PRISM is not utilised Application Form - Procedure II - Form A will be required. This form details the anticipated required supporting documentation.

### General

39. Where Recipients elect to use this method of disbursement for payments under contracts which incorporate time limitations for such payments, CDB does not accept responsibility for ensuring that such time clauses are satisfied and will therefore not honour payment of any late charges incurred. This method will only be allowed where there are no arrears of principal, interest or other charges due to CDB. In addition, Recipients should ensure that banking details are complete confirming that the full bank address and beneficiary name are included in the application form.

## **CHAPTER VIII: WITHDRAWAL PROCEDURES USING THE ADVANCE METHOD**

40. CDB may agree to provide funds to the Recipient so that it can finance expected project expenditures as they are incurred. The Recipient may only use the funds advanced by CDB for eligible project expenditures. Because funds are advanced to the Recipient, supporting documentation under this method will be provided *at a later date*.

### Types of Advances

41. With the exception of small grants and loans to financial intermediaries for on-lending, CDB normally disburses advances into a DA<sup>12</sup>. DAs are accounts in a financial institution funded with advances from a CDB loan/grant, and are used exclusively to pay for eligible expenses included in the Financing Agreement<sup>13</sup>. The project implementing entity can make payments from the DA to contractors, suppliers, or consultants and for other forms of expenditure permitted under the Financing Agreement to cover CDB's share of eligible expenses. The DA is replenished regularly to maintain adequate funds, following procedures detailed in paragraph 55.
42. However, in the case of small grants and loans to financial intermediaries for on-lending, unless otherwise provided for in the Financing Agreement, CDB shall advance funds to an account in a financial institution, which does not have to be used exclusively for project expenses. Further advances shall be sought and reconciliation governed in accordance with the requirements of the Financing Agreement and the DL, which shall draw, as far as relevant, on the general principles underpinning the operation of DAs.

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<sup>12</sup> Subject to CDB's project fiduciary assessment during project appraisal, in some instances CDB may permit the DA to take the form of a sub-account.

<sup>13</sup> DA may be exclusively for advances from CDB for the project, or "pooled", where CDB advances are commingled with the Recipient's funds or funds from development partners.



## Disbursement Guidelines for CDB-Financed Projects

### Designated Account

#### A. Purpose

43. The primary objective of the DA is to promote project management efficiency. It contributes to timely Recipients' disbursement by making funds readily available and reducing the number of withdrawal applications to be submitted to CDB.

#### B. Legal Requirements

44. The legal requirements for establishing and operating a DA are set out in the Financing Agreement: Aside from the General Provisions applicable to the loan/grant, incorporated into the Financing Agreement, the Terms and Conditions for the Operation of a DA are also included as a schedule in the Financing Agreement.
45. **Disbursement Letter:** Additional instructions issued by CDB regarding the withdrawal of loan/grant proceeds are provided in this separate document, which form part of these Guidelines, and which in turn shall be referenced in the Financing Agreement.

#### C. Criteria for Using Designated Accounts

46. For CDB to consider disbursement under the DA advance method, the Recipient should have adequate FM arrangements and internal controls, in particular, those related to the administrative and accounting capability to prepare and maintain DA records (including the reports on the uses of advances); and the ready availability of such records for CDB and/or auditor examination. FM arrangements will be assessed as part of CDB project fiduciary assessment during project appraisal.

#### D. Financial Institution

47. The Recipient is responsible for selecting and conducting its own due diligence on the financial institution to hold the DA, however such institutions will be subject to prior approval and IDD by CDB. Although the DA is normally held in a commercial bank, in certain circumstances, subject to CDB's approval, it may be held in other financial institutions or the relevant Central Bank.
48. A financial institution will be considered acceptable to CDB if it:
  - (a) is financially sound<sup>14</sup>;

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<sup>14</sup> To the extent that CDB can reasonably determine from available sources of information, including that provided by courts, financial regulators or other supervisory bodies.



## Disbursement Guidelines for CDB-Financed Projects

- (b) is regularly audited by an auditor acceptable to CDB, and the audit opinion is satisfactory to CDB;
- (c) is able to maintain the DA in the agreed currency;
- (d) can provide monthly bank statements;
- (e) charges reasonable<sup>15</sup> fees;
- (f) can satisfactorily perform a wide range of banking services; and
- (g) can promptly execute a large number of transactions.

### **E. Currency**

49. The DA will normally be maintained in United States Dollars, however in specific circumstances CDB may accept it to be maintained in another fully convertible and stable currency. The Recipient may need to open a local currency account (an Operative Account) to make payments in local currency. To this end, the Recipient shall transfer money from the DA to the Operative Account, only as eligible expenditures in local currency are incurred. The Recipient bears the risk of exposure to foreign exchange fluctuations.

### **F. Ceiling**

50. The ceiling is the maximum amount of loan/grant proceeds that may be on deposit in a DA pending the provision to CDB of supporting documentation evidencing the use of advanced funds. The ceiling may be either (i) a fixed amount or (ii) a variable amount.
51. The *fixed* ceiling is normally set for the life of the project, although it may be modified during project implementation depending on the Recipient's ability to manage the DA and project implementation pace.
52. The *variable* ceiling will be based on periodic forecasts of eligible expenditures. The forecast period will be defined on a case by case basis, but would normally not exceed a period of six (6) months. CDB will assess the reasonableness of forecasts and may adjust the amount it is willing to advance if it is not satisfied that a forecast is justified by planned project expenditures.
53. CDB will establish the ceiling and specify it in the DL. CDB may consider modifying the basis on which the ceiling is established, from a fixed amount to one that is based on periodic forecasts.

### **G. Operating the Designated Account**

54. Once conditions precedent to first disbursement have been satisfied, the Recipient shall make a

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<sup>15</sup> A reasonable fee is a charge that is broadly consistent with what other financial institutions would charge for a similar service.



## Disbursement Guidelines for CDB-Financed Projects

request to CDB for an advance. Recipients may request advances for an amount not exceeding the ceiling specified in the DL.

55. After the initial advance, the Recipient shall submit subsequent application forms as may be needed to:
  - (a) Report on the use of previous advances.
  - (b) Request a replenishment of the amount previously reported. The replenishment amount in this case, shall not exceed the amount of the eligible expenditures forecast for the subsequent period.
  - (c) Request a new advance. Aggregate outstanding/undocumented advances, shall not exceed the ceiling.
56. CDB shall not be required to make further advances into the DA once the total unwithdrawn amount of the loan/grant allocated to the eligible expenditures, less the amount of any outstanding special commitment entered into by CDB pursuant to the Financing Agreement with respect to the Project, is ten percent (10%) of the loan/grant amount.
57. Should the Recipient fail to provide reporting to the satisfaction of CDB, including in terms of expenditures and audits, or to resolve instances of ineligible expenditure, in accordance with paragraph 59, CDB may notify the EA/IA that it will request a refund of the outstanding balance, in accordance with paragraph 66.

### H. Frequency of Reporting Expenditures

58. Reports on the use of advances should be submitted by the Recipient at regular intervals acceptable to CDB. The DL shall specify the minimum frequency requested to the Recipient for reporting expenditures.

### I. Ineligible Expenditures

59. If CDB shall have determined at any time that any payment out of the DA was made for an expenditure that is determined to be ineligible whether by nature or amount; or was not properly documented by the evidence furnished to CDB, the EA/IA shall promptly upon notice from CDB:
  - (a) provide such additional evidence as CDB may request;
  - (b) if CDB agrees, substitute the ineligible expenditures by submitting evidence of other *eligible* expenditures paid; or
  - (c) deposit into the DA, an amount equal to such ineligible payment or the portion thereof<sup>16</sup>;

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<sup>16</sup> The Recipient will bear the risk of exposure to foreign exchange fluctuations that may arise between the date of the original



## Disbursement Guidelines for CDB-Financed Projects

### **J. Interest Earnings**

60. Interest earned on DA balances will accrue to the Recipient and should be used in accordance with the Recipient's internal regulations. If interest is paid into the DA, it needs to be disclosed in the DA reconciliation.

### **K. Interest Accrued**

61. Since amounts advanced by CDB to the DA are considered a disbursement from the loan account; the interest or any other charges (if any) that are applicable to the loan will accrue from the date of the disbursement.

### **L. Financial Institution Charges**

62. Reasonable<sup>17</sup> charges incurred from operating the DA are normally eligible for financing from the loan/grant, provided there is an adequate category of expenditure foreseen in the Financing Agreement to finance such costs<sup>18</sup>.

### **M. Audit Requirements**

63. CDB-financed projects using DAs will be subject to audits in accordance with CDB's prevailing financial management guidelines for CDB financed projects or their equivalent, and the Terms of Reference for such audits shall be acceptable to CDB.
64. CDB may agree to finance the Project audit cost out of the loan/grant proceeds. When audit fees are eligible expenditures, special arrangements may be required for payment of the final audit fee, since it should normally be completed and paid after the TDD. In this case, suitable arrangements, acceptable to CDB, shall be put in place, which may involve payment being made into an escrow account prior to the terminal disbursement deadline. After the establishment of the escrow account, the Recipient shall submit an application for withdrawal together with supporting documentation acceptable to CDB (normally copy of contract; the Terms of Reference for the audit, and Letter of Agreement between the escrow agent and the Recipient). Upon receipt of the final audit report, CDB will examine the final payment and supporting documentation. If CDB does not receive the project audit report by the due date it may request a refund of the fee.

### **N. Inactive Designated Accounts**

65. If a DA is inactive for a period of six (6) months, CDB shall notify the EA/IA that it will request a refund of the outstanding balance. Unless within sixty (60) days, the EA/IA submits evidence

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withdrawal from the DA and the final deposit into the DA of the amount deemed ineligible.

<sup>17</sup> Reasonable charges are those that are broadly consistent with what other financial institutions would charge for a similar service.

<sup>18</sup> Bank charges are typically financed under the "Operating Cost" category of expenditure.



## Disbursement Guidelines for CDB-Financed Projects

satisfactory to CDB of eligible expenditures financed through the DA.

### O. Refunds

66. The disbursed proceeds of a loan/grant may be refunded to CDB for credit to the Loan/Grant Account<sup>19</sup>. If a refund is deemed needed, CDB shall provide the Recipient with the pertinent payment instructions.
67. The Recipient also has the right to refund to CDB all or any amount of the loan/grant on deposit at the DA.

### P. Final Documentation of Advances and Closing of Designated Accounts

68. CDB will not accept applications from the Recipient to document advances already made to the DA after the DDD. The DDD is normally up to four months after the TDD, unless otherwise stated on the DL.
69. Given the special characteristics of DAs, these shall be closed after all advances have been satisfactorily documented to CDB and the external auditors have issued the final audit report on the activities of the account. Any remaining funds shall be refunded to CDB in accordance with paragraph 66.

### Application Form and Supporting Documentation

70. If PRISM is not utilised, Application Form – Procedure III Form A, will be required. The advance application form has dual functionality and can be used to (a) withdraw proceeds from the loan account, or (b) document expenditures. This form details the anticipated required supporting documentation.

## **CHAPTER IX: WITHDRAWAL PROCEDURES FOR A COMMERCIAL LETTER OF CREDIT**

71. A Recipient may request CDB to open a Letter of Credit in favour of a specific supplier or contractor. In such an instance, the supplier or contractor draws on the Letter of Credit in accordance with the terms specified therein and the commercial bank makes payment to the supplier. The commercial bank in turn claims reimbursement from CDB; CDB pays and debits the Recipient's account accordingly.

### Application Form and Supporting Documentation

72. If PRISM is not utilised, Procedure IV - Form A, will be required, which details the anticipated required supporting documentation.

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<sup>19</sup> When a financing agreement becomes effective, CDB does not pay the amount of the loan/grant to the Recipient, but credits the full amount to an account, which is called the *Loan or Grant Account*.



## **Disbursement Guidelines for CDB-Financed Projects**

### **ANNEX I: STANDARD CONTENTS OF THE DISBURSEMENT LETTER**

- (i) Reference to the Financing Agreement.
- (ii) Disbursement Methods to be used.
- (iii) Template of the Letter to CDB regarding Authorised Signatures (Names and Specimens).
- (iv) Terms and Conditions for the Electronic Delivery of Applications.
- (v) Minimum Value of Applications (for Direct Payments and Reimbursements).
- (vi) Ceiling (only under the Advance Method).
- (vii) Currency of the Designated Account (only under the Advance Method).
- (viii) Financial Institution of the Designated Account (only under the Advance Method).
- (ix) The DDD (only under the DA Advance Method).
- (x) Supporting Documentation required under each of the Disbursement Methods<sup>20</sup> described in (ii) above and any requirements for their provision through electronic means.
- (xi) Frequency of Reporting Eligible Expenditures Paid from the Designated Account (only under the Advance Method).

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<sup>20</sup> This includes the definition of specific thresholds for contracts. Payments against contracts above those thresholds will be accompanied by copies of original records.



## **Disbursement Guidelines for CDB-Financed Projects**

### **ANNEX II: LIST OF DISBURSEMENT FORMS**

PROCEDURE I - FORM A - APPLICATION FOR REIMBURSEMENT.

PROCEDURE I - FORM B(1) - SCHEDULE OF WITHDRAWAL OF PROCEEDS.

PROCEDURE I - FORM B(2) - SCHEDULE OF WITHDRAWAL OF PROCEEDS BY FINANCIAL INTERMEDIARIES AND OTHER FUNDS.

PROCEDURE I - FORM B(3) - SCHEDULE OF WITHDRAWAL OF PROCEEDS.

PROCEDURE I - FORM D - PROJECT SUPERVISOR'S CERTIFICATE.

PROCEDURE II - FORM A - APPLICATION FOR A DIRECT PAYMENT.

PROCEDURE III - FORM A - APPLICATION FORM UNDER ADVANCE METHOD.

DESIGNATED ACCOUNT RECONCILIATION STATEMENT - STATEMENT OF EXPENDITURES (SUMMARY SHEET).

PROCEDURE IV - FORM A - APPLICATION FOR A COMMERCIAL LETTER OF CREDIT.

PROCEDURE IV - FORM B - DETAILS OF LETTER OF CREDIT.

PROCEDURE IV - FORM C - STATEMENT OF UNCOMMITTED BALANCE.

PROCEDURE IV - FORM D - CERTIFICATE OF PROJECT SUPERVISOR.

PROCEDURE IV - FORM E – APPLICATION FOR AMENDMENT TO COMMERCIAL LETTER OF CREDIT

PROCEDURE IV - FORM TR2 – BANK'S REPORT OF PAYMENT AND REQUEST FOR REIMBURSEMENT