

] DISBURSEMENT PROCEDURES

1.1 General:

The purpose of guidelines contained herein is to lay down the Disbursement Procedures for the projects funded by the SAARC DEVELOPMENT FUND (SDF). It intends to provide guidelines to the borrowers/recipients, executing agencies, co-financiers, suppliers etc. for the efficient withdrawal of loan/grant proceeds.

1.2 Definitions:

The following definitions are used in these guidelines:

- The term “**disbursement**” refers to the withdrawal of proceeds from the SDF financed grant or loan account.
- The term “**financing agreement**” refers to a loan/grant agreement, or a combined grant and loan agreement, as appropriate; the related counterparty is referred to as the “**recipient**” in a grant and the “**borrower**” in a loan/grant.
- The term “**grant account**” or “**loan account**” means the account opened by the SDF in its books in the name of the recipient of grant or borrower respectively, and to which the amount of the grant or loan/grant will be credited.
- The term “**closing date**” refers to the grant closing date or loan closing date as appropriate, and means the date the SDF terminates the right of the recipient or borrower to make withdrawals from the grant or loan/grant account respectively.

1.3 *Significant Dates*

- **Approval date:** The date on which the SDF approves the loan/grant.
- **Signature date:** The date on which the borrowers/recipients and the SDF sign the loan/grant Agreement. This date determines the start date for commitment fees, where applicable, and the repayment schedule of the loan/grant.
- **Effective date:** The date on which the SDF determines that the borrower/recipient has satisfied all conditions for effectiveness of the loan/grant agreement.
- **Deadline for last disbursement/closing date:** The date specified in the loan/grant agreement after which no withdrawals can be made from the loan/grant account.
- **Repayment date:** The date on which the borrowers/recipients make debt service payments (interest charges and principal) to the SDF. The repayment dates are determined during negotiations and are specified in the Loan/Grant Agreement.

1.4 *Agreement*

The main legal document for the SDF financed project is an ‘**Agreement**’ signed by the borrower/recipient, which sets out the terms and conditions of the loan/grant.

1.5 *Procurement of Goods and Works*

The procurement of goods and works financed by the SDF are governed by the Procurement Guidelines. Specific provisions set out in the loan/grant agreement will complement these guidelines and compliance with which will be an obligation for the borrower(s)/recipient(s).

1.6 Reallocating loan/grant Proceeds

Loan/grant proceeds may be used only for the purposes for which the loan/grant was granted. SDF, at the Borrower/Recipient's request, may agree to reallocate unallocated funds or other categories to another allowable category for the purposes of the project.

1.7.1 Currency of the loan/grant

The loan/grant amount is expressed in currencies chosen by the borrower/recipient and agreed to by SDF Board. The disbursements are made accordingly.

1.8 Compliance with the List of Goods, Works and Services

The list of goods, works and services by category of expenditure is agreed at project approval stage and included in the disbursement letter. Disbursements are made within the limit of the amounts allocated to each category. Changes, if any, to the list of goods, works and services may be made only with prior approval.

1.9 *Persons authorized to sign disbursement requests*

The borrower/recipient is required to designate officials authorized to sign withdrawal applications and provide copies of their specimen signatures.

1.10 *Payment on the basis of a Statement of Expenditure*

1.10.1 Reimbursements made by the SDF to cover expenses incurred by the Borrower/Recipient should be supported by documents showing evidence of payments made. Such documents include duly verified invoices, bank debit advice or bank statements, receipts, shipping documents such as bills of lading, cheques, encashed bills of exchange and letters of credit paid.

1.10.2 However, if SDF deems that a Borrower/Recipient has fulfilled certain conditions, the Borrower/Recipient may be permitted to submit only detailed statements of expenditure duly endorsed by the Borrower/Recipient and executing agency. During the negotiation of the loan/grant, the Borrower/Recipient and the SDF may agree upon the types of expenditure in respect of which detailed statements of expenditure will be required. The disbursement letter shall specifically mention these types of expenditure.

1.11 Submission of Disbursement Requests by the Borrower/Recipient

The SDF must receive an original disbursement application signed by the Borrower/Recipient's duly authorized representative(s). To expedite the processing of disbursement requests, the borrower/recipients should:

- Send a copy of the relevant contract.
- Ensure that the disbursement requests are signed by the authorized signatories;
- Ensure that the information contained in the request is consistent with the supporting documents;
- Attach, applicable supporting documents,
- Ensure availability of resources under the relevant expenditure category;
- Ensure that all disbursement conditions have been fulfilled;
- Ensure that required audit reports have been sent to the SDF.

1.12 Items verified by SDF

The items verified by the SDF when processing requests would include the following:

- The eligibility of the goods, works and services.
- Receipt of the required supporting documents or statements of expenditure.
- Availability of resources under the loan/grant or category to cover the request.

- Conformity of signatures on the disbursement request with the specimens of authorized signatures communicated to the SDF.

1.13 Ineligible Expenditure

If the SDF determines that any amount of the loan/grant was used to pay for an expenditure that is not eligible pursuant to the loan/grant agreement, the SDF may, at its discretion, require the borrower/recipient to take one of the two actions listed below.

- Refund an equivalent, or
- In exceptional cases, provide substitute documentation evidencing other eligible expenditures.

1.14 Suspension of Disbursements

The disbursements may be suspended if the borrower/recipient fails to comply with conditions specified in the loan/grant agreement. The suspension may be lifted if the borrower/recipient complies with the conditions prescribed.

2. DISBURSEMENT METHODS

The disbursement methods selected during project approval are based on project characteristics, the categories of expenditures to be financed and the capacity of the executing agency to manage project resources. Disbursements are made using one or, a combination of the methods outlined below:

2.1 Reimbursement:

The SDF may reimburse the borrower/recipient for expenditures eligible for financing that are in compliance with the loan/grant agreement that the borrower/recipient has financed from its own resources. The originals or certified copies of the following documents shall be required:

- Supplier's invoice or certificate stating the country of origin of the goods and/or services
- A copy of the contract or purchase order
- A provisional acceptance report for goods supplied or a works implementation certificate.
- A copy of the letter of credit, where necessary.
- Any evidence of payment.

2.2 Reimbursement Guarantee:

2.2.1 In this disbursement method, the SDF provides an irrevocable undertaking to reimburse a commercial bank for payments made or to be made to a supplier against a letter of credit. The letter of credit issued by the borrower/recipient's bank gets operative only when the SDF issues reimbursement guarantee to the commercial bank.

2.2.2 It is the borrower/recipient's responsibility to make all necessary arrangements with the advising and/or confirming bank regarding charges and fees in respect of letters of credit guaranteed by the SDF, including interest on payments there-under from the date of payment by the commercial bank to the date of reimbursement by the Bank.

2.2.3 Upon receipt of the payment request, the SDF will make payment directly to the confirming and/or advising bank and at the same time notify the borrower/recipient of the disbursement made.

2.3.1 Special (Designated) Account:

2.3.1 In this disbursement method, the SDF makes an advance disbursement from the loan/grant account to a Special Account. However, before the SDF authorizes establishment of a Special Account, the borrower/recipient must have adequate administrative capability, internal controls, and accounting and auditing procedures to ensure effective use of the Special Account. The size of the initial advance shall depend on the nature of the project and eligible items of expenditure, as well as on the capacity of the executing agency to efficiently manage the resources placed at its disposal.

2.3.2 The main categories of goods, works and services to be financed by the Special Account shall be determined at project approval stage; and agreed with the borrower/recipient during negotiations. The SDF and the borrower/recipient may, during project implementation, modify the types of expenditures to be financed by mutual consent.

2.3.3 The special account is to be audited at the end of each financial year, as well as on completion of the project. Provisions shall be included in the terms of reference of the auditor to review documents relating to the use of the special account, including creation of a revolving fund, to ensure that:

- The requests for replenishment of the revolving fund submitted are consistent with relevant information;
- The internal controls and procedures are reliable enough to justify the requests for replenishment; and
- The goods and services financed from the special account have been received by the project.

2.4 Direct payment:

In this disbursement method, at the borrower/recipients request, the SDF agrees to pay a designated agency/supplier directly for eligible expenditures. The supporting documents required for direct payment are:

- A supplier's invoice or certificate stating or certifying the country of origin of the goods and/or services.
- A copy of the contract or purchase order and a copy of the non-objection notice from the Bank if the payment is for the first time or is an advance.
- A Bank guarantee bond covering the entire contract.
- A provisional acceptance report for the goods supplied/ a report or a certificate of proper implementation of works.

3. ACCOUNTING MANAGEMENT, FINANCIAL COMMUNICATION AND AUDIT

3.1 Accounting Management

3.1.1 The loan/grant agreements require the borrower/recipient to maintain accounts and books as well as prepare financial statements for projects financed from the SDF's resources.

3.1.2 Although accounting standards and practices may differ from country to country, the accounts of the project shall, irrespective of the system adopted, comply with the principles of transparent management and provide exhaustive information on the accountability of funds provided to the project and disclosure of expenditure and specific information on components financed by the SDF.

3.1.3 The borrower/recipient is expected to have a sound accounting system, proven administrative and financial management capacity, and satisfactory internal control systems.

3.1.4 The borrower/recipient and/or executing agency must maintain all supporting documents and make them available for examination by auditors and the SDF during supervision missions.

3.2 Financial Communication

3.2.1 The borrower/recipient is required to regularly communicate accounting and financial information on the project to the SDF. The information should contain details as per the SDF's existing formats and tools.

3.2.2 The borrower/recipient is required to preserve project documents and supporting documents, and to make them available to the SDF's experts and audit missions for verification, if required.

3.3 Audit

3.3.1 It is necessary that the project accounts are audited each year. The borrower/recipient must have the accounts of the project audited by qualified and independent auditors.

3.3.2 The audit reports should be submitted to the SDF within six months after the end of the financial year to which they relate.
