



Loan Handbook for World Bank Borrowers

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Abbreviations and Acronyms

ARM	Average repayment maturity	IFR	Interim unaudited financial reports
ASD	Authorized signatories designation	IMF	International Monetary Fund
BSA	Basis swap adjustment	IPF	Investment Project Financing
BTF	billable trust fund	¥	Japanese yen
£stg	British pounds sterling	LIBOR	London Interbank Offered Rate
CPL	Currency pool loan	MDA	Master Derivatives Agreement
CTF	Clean Technology Fund	MDRI	Multilateral Debt Relief Initiative
DDO	Deferred Drawdown Option	PforR	Program-for-Results
DLI	Disbursement-linked indicator	PPA	Project/Program Preparation Advance
DPF	Development Policy Financing	PPF	Project Preparation Facility
DSA	Debt sustainability analysis	SBL	Single borrower limit
EEC	European Economic Commission	SC	Special commitment
€	Euro	SDPF	Special Development Policy Financing
FEF	Front-end fee	SDR	Special drawing rights
FSL	Fixed spread loan	SIDC	Secure Identification Device Credentials
GNI	Gross national income	SWIFT	Society for Worldwide Interbank Financial Telecommunication
HIPC Initiative	Heavily Indebted Poor Countries Initiative	UN	United Nations
IBRD	International Bank for Reconstruction and Development	UNSC	United Nations Security Council
IDA	International Development Association	US\$	U.S. dollar
IFL	IBRD Flexible Loan	VSL	Variable spread loan

Introduction

This *Loan Handbook for World Bank Borrowers* (the handbook) sets out guidance on disbursement arrangements and debt services for loans or financing provided or administered by the World Bank.¹ The handbook provides detailed information about the World Bank's lending instruments, financial products and terms, policy on overdue payments and sanctions, partial waiver of loan charges policy, and billing procedures.

The handbook has been arranged in three volumes:

- Volume 1 covers World Bank–financed operations and financing products.
- Volume 2 covers disbursements.
- Volume 3 covers debt service.

The Loan Operations Unit in the Financial Operations Department advises and assists in disbursement and billing arrangements, including processing withdrawal applications and overseeing debt service by borrowers.

Although the handbook comprehensively covers most aspects of the lending cycle, it is not exhaustive. If you are unable to find what you need, please contact the Loan Operations representative assigned for your country by logging in to Client Connection (under the 'My Portfolio' page, and 'Contact Us'), or write to loanclientservices@worldbank.org.

This handbook supersedes all previous editions of the handbooks on disbursement and debt servicing and takes effect immediately. The electronic version is available on the World Bank's website (<http://www.worldbank.org>) and in Client Connection. The handbook will be updated periodically to reflect feedback from users and changes in disbursement and debt service policies and practices.

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¹ The *World Bank* (or the *Bank*) includes the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), whether acting for its own account or as administrator of trust funds funded by donors. World Bank loan or *financing* includes any loan, credit, grant, or program or project preparation advances made by World Bank from its own resources or from trust funds funded by other donors and administered by the World Bank, or from a combination of such financing. *Borrower* means a borrower or recipient of a World Bank loan for an operation and any other entity involved in the implementation of the operation financed by the Bank loan.



Volume 1

World Bank–Financed Operations and Financing Products

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1. World Bank–Financed Operations

1. This section describes the financing instruments that are available to borrowers for operations financed by the World Bank. It also includes a step-by-step guide to the stages of the loan cycle and a brief overview of the key documents governing disbursement for World Bank–financed operations.

1.1 Key Documents

2. Disbursements for World Bank–financed operations are governed by the following key documents:
 - **Articles of Agreement.** The Articles of Agreement of the International Bank for Reconstruction and Development (IBRD)² and the International Development Association (IDA)³ are signed by all the member countries of the respective institutions and are their governing charters. The Articles require the institutions to ensure that funds from the financing account are used only for the purposes granted and that the borrower may withdraw funds only to meet expenditures as they are incurred.
 - **General Conditions.** The General Conditions⁴ set forth certain terms and conditions that are generally applicable to IBRD loans and IDA credits and grants. Provisions covered include withdrawals, financing terms, program and project execution, effectiveness, and cancellations.
 - **Standard Conditions.** The Standard Conditions⁵ set forth certain terms and conditions that are generally applicable to trust funds and advances made by the Bank under the Project Preparation Facility (PPF). Provisions covered include withdrawals, project execution, terms, cancellation, suspension, and refund.
 - **Financing Agreement.** A financing agreement for a loan sets out the terms and conditions of the loan. The agreement includes eligible programs and activities; reporting requirements; fiduciary requirements; procurement provisions for Investment Project Financing (IPF); expenditure categories for IPF; disbursement conditions, if any; and key program/project dates and financial terms, if applicable.
 - **Disbursement Guidelines for Investment Project Financing.** The Disbursement Guidelines for Investment Project Financing⁶ contain the standard provisions governing the withdrawal of proceeds from the financing account. The guidelines apply to IPF only. Provisions covered include disbursement arrangements, withdrawals, designated accounts, ineligible expenditures, and refunds.
 - **Disbursement Letter.** The disbursement letter specifies the disbursement arrangements to be used for each World Bank–financed IPF and Program-for-Results (PforR) operation.

² http://siteresources.worldbank.org/EXTABOUTUS/Resources/IBRDArticlesOfAgreement_links.pdf

³ <http://www.worldbank.org/ida/articles-agreement/IDA-articles-of-agreement.pdf>

⁴ http://siteresources.worldbank.org/BRAZILINPOREXTN/Resources/3817166-1242680408578/General_Conditions.pdf

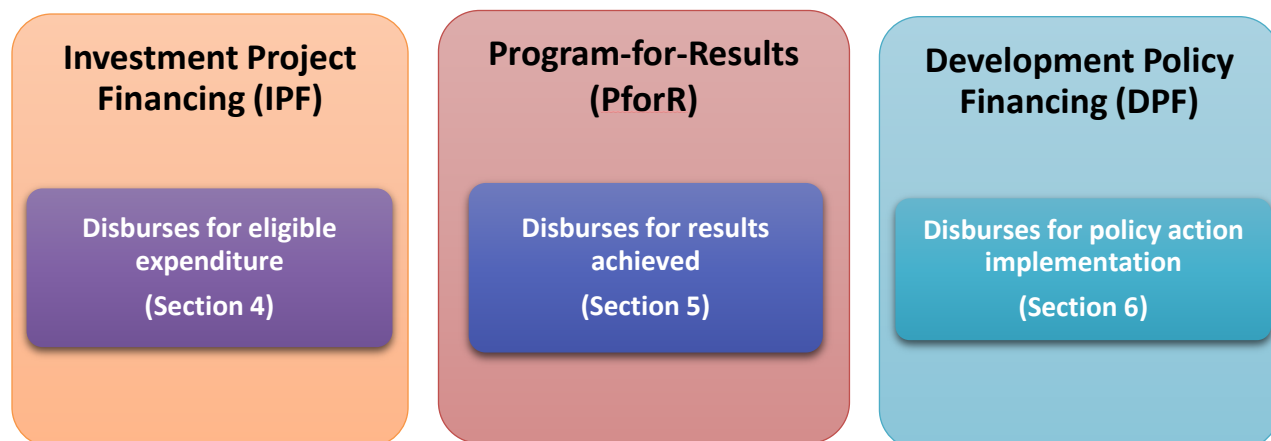
⁵ <http://go.worldbank.org/LXIOJ9CTI0>

⁶ <http://siteresources.worldbank.org/PROJECTS/Resources/DisGuideEng.pdf>

1.2 Financing Instruments

3. The World Bank provides financing to its borrowers through three financing instruments (figure 1).

Figure 1. Financing Instruments



Note: For more guidance on these financing instruments, refer to section 4 on IPF, section 5 on PforR, and section 6 on DPF.

4. *Hybrid financing* is the term used when a recipient's program or project is financed using two or more financing instruments. Hybrids typically involve a combination of IPF and DPF or IPF and PforR financing.
5. Depending on the nature of the program or project and the needs of the borrower, there may be separate financing agreements (that is, one for each instrument) or one consolidated financing agreement with separate sections describing the respective financing modalities. Even when a single financing agreement is used, withdrawals of financing proceeds follow the instrument-specific policies and procedures as set out in the financing agreement and disbursement letter.
6. In cases of hybrid financing, the disbursement method selected when submitting withdrawal applications depends on the instrument.

1.3 Loan Cycle Overview

7. Bank-financed operations follow a standard loan cycle,⁷ as depicted in figure 2 and described in table 1.

⁷ For the purposes of this handbook, *loan cycle* includes all World Bank financing other than guarantees.

Figure 2. Stages in a Loan Cycle

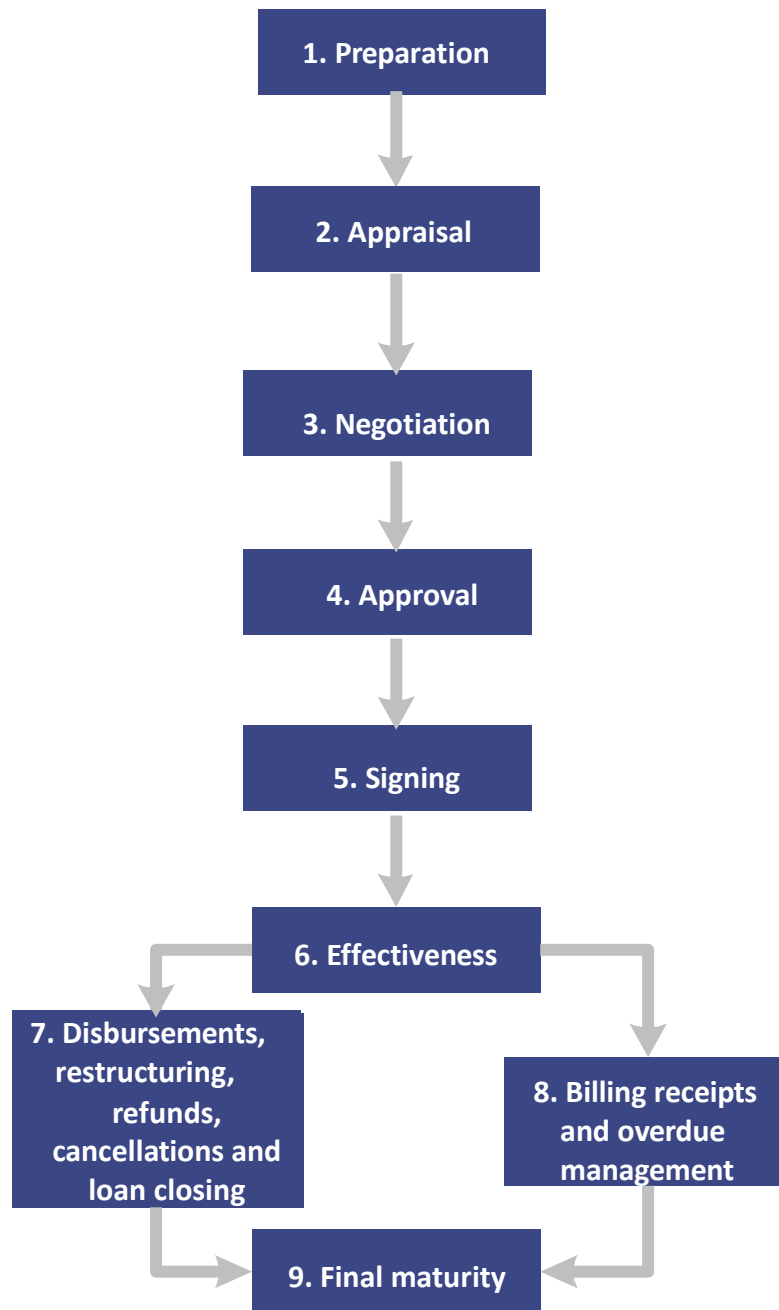


Table 1. Stages in a Loan Cycle

Stage	Description
1. Preparation	Comprises identification and concept review. This stage involves identifying programs/projects that support the Country Partnership Framework, the government agency responsible for preparation, key stakeholders, and target beneficiaries. Following this stage, a concept note is created; the design is determined; economic, technical, social, and environmental feasibility are assessed; and potential risks and safeguard issues are identified.
2. Appraisal	Involves confirming the expected outcomes of the program/project; reviewing economic, technical, environmental, social, and fiduciary aspects; and agreeing on the institutional arrangements to implement the program/project and timelines. The program/project appraisal document and draft financing agreements are prepared.
3. Negotiation	Involves resolution of any outstanding issues from the appraisal stage, agreement on the procurement strategy and procurement plan for Investment Project Financing (IPF), financing and disbursement arrangements (including disbursement letter for IPF), and terms and conditions.
4. Approval	Involves review and approval of program/project and financing documents by the Bank's Board of Executive Directors or by the management.
5. Signing	Involves signing of legal financing agreements by the Bank and client representatives.
6. Effectiveness	Involves determination by Bank officials that predetermined and agreed conditions have been met to begin disbursements.
7. Disbursements, restructuring, refunds, cancellations, and loan closing	Involves disbursements to borrowers based on valid withdrawal applications for program financing and eligible expenditures related to program/project activities up to the closing date. Refunds of ineligible expenditures and unused advances, cancellations initiated by the Bank or the client, final disbursements, and loan closure are handled at this stage.
8. Billing receipts and overdue management	Involves support to borrowers for debt service, by means of billing statements after signing in certain cases and after effectiveness in all cases (loans, credits, and guarantees). Debt service of charges by borrowers starts once disbursements are made under the loan or credit. In certain cases, debt service of charges begins after the signing date of the agreement. Principal repayments start after the agreed grace period ends. Applying borrowers' debt service payments to dues and following up on overdue cases, according to Bank policies and procedures, are the other activities carried out at this stage.
9. Final maturity	Represents the final repayment date as specified in the financing agreement.

2. World Bank Financing Products

8. This section covers the various products offered by the Bank. IBRD offers eligible member countries access to a flexible and low-cost set of tools for borrowing, hedging, and enhancing credit. IDA provides concessional lending to the poorest developing countries by providing credits at little or no interest and grants. Other products administered by the World Bank include guarantees, and Project Preparation Facility (PPF) and loans offered through Trust Funds or other special arrangements with donors. This section also covers IBRD risk management products and debt relief initiatives.
9. The Bank has developed a Financial Instruments application for iPad, iPhone, and the web. This is a public app and site that enables borrowers to access information such as financial terms and rates and to prepare amortization schedules for IBRD and IDA products. Client forms and reference documents are also available. More details about the Financial Instruments app are available at this link.⁸

2.1 IBRD Loan Products

10. This section describes the terms and conditions applicable to IBRD's current lending products.⁹ IBRD offers loans for project, program, or policy purposes, as well as hedging products to manage currency and interest rate risk exposures and guarantee products to eligible member countries. By using its AAA credit rating, IBRD can offer loans that are more competitive and flexible than other financing options in international financial markets.
11. The terms of the loans—including currency, repayment schedule, lending spread, and type (fixed and variable)—are decided at the time of loan negotiation.
12. IBRD currently offers the following types of loans:
 - IBRD Flexible Loan (IFL)
 - IFL with a Deferred Drawdown Option (DDO)
 - Special Development Policy Financing (SDPF)

2.1.1 IBRD Flexible Loan

13. The IFL offers a variety of terms to allow borrowers to customize their loans to meet their debt management or project or program needs. Table 2 describes the various features of the IFL.

⁸ <https://itunes.apple.com/us/app/financial-instruments/id857651189?mt=8>

⁹ <http://treasury.worldbank.org/bdm/htm/financing.html>

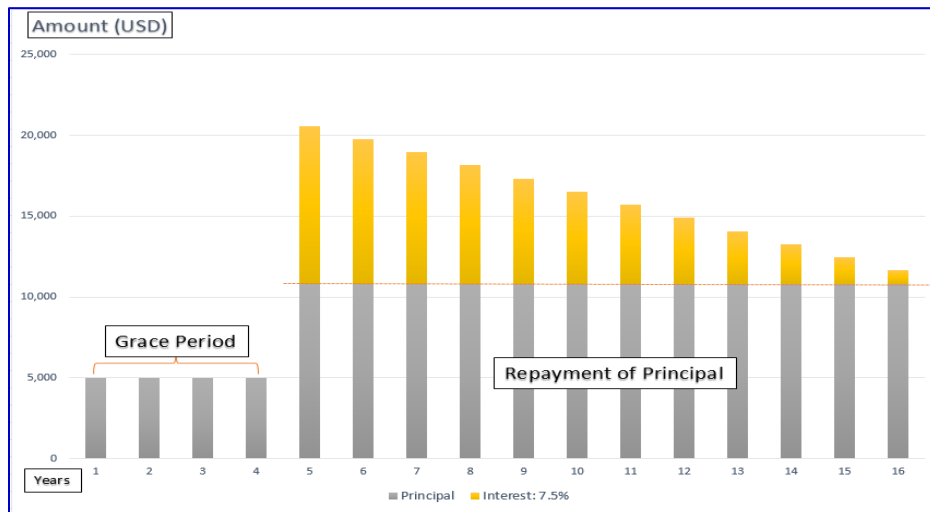
Table 2. IFL Key Terms and Conditions

Term	Details
Loan currencies	<p>Currency of commitment: Refers to the denomination of the loan as noted in the loan agreement. IBRD Flexible Loans (IFLs) are generally offered in the major currencies: the euro (€), the British pound (£stg.), the Japanese yen (¥), and the U.S. dollar (US\$). Other currencies may be available, subject to the existence of a liquid swap market.</p> <ul style="list-style-type: none"> • Currency of disbursement: Disbursements may be made in various currencies as requested by the client. Currencies are acquired by IBRD and passed on to the client. The loan obligation, however, remains in the currencies in which the loan is denominated. • Currency of repayment: The loan principal, interest, and any other fees are normally payable in the currencies of commitment unless a currency conversion has been executed.
Lending rate	<ul style="list-style-type: none"> • The lending rate consists of a variable reference rate plus a spread. • The lending rate is reset semiannually on the loan's interest payment dates and applies to interest periods beginning on those dates. • The reference rate or base rate is normally the six-month London Interbank Offered Rate (LIBOR) or Euro Interbank Offered Rate (EURIBOR) at the start of an interest period. For loans that have been converted to a local currency, the reference rate may be a recognized commercial bank floating rate. • The current lending rates^a can be found on the World Bank Treasury website.
Lending rate spread	<p>Borrowers have the choice between a fixed or variable spread.</p> <ul style="list-style-type: none"> • Variable spread $\text{Variable Spread} = \text{Contractual Lending Spread} + \text{Maturity Premium} + \text{Actual Funding Spread}$ <p>The Actual Funding Spread comprises the Bank's average margin relative to LIBOR for the preceding six months.</p> • Fixed spread $\text{Fixed Spread} = \text{Contractual Lending Spread} + \text{Maturity Premium} + \text{Market Risk Premium} + \text{Projected Funding Cost} + \text{Basis swap adjustment for non-US\\$ loans}$ <p>Projected Funding Cost refers to IBRD's projected funding cost margin relative to US\$ LIBOR.</p> <p>The fixed spread is determined at the time the loan is signed and is fixed for the life of the loan. It is the spread that is applicable the day before signing.</p> <p>The Bank adjusts the fixed spread when market movements for basis swaps and/or changes in the projected US\$ funding spread warrant such adjustments.</p>

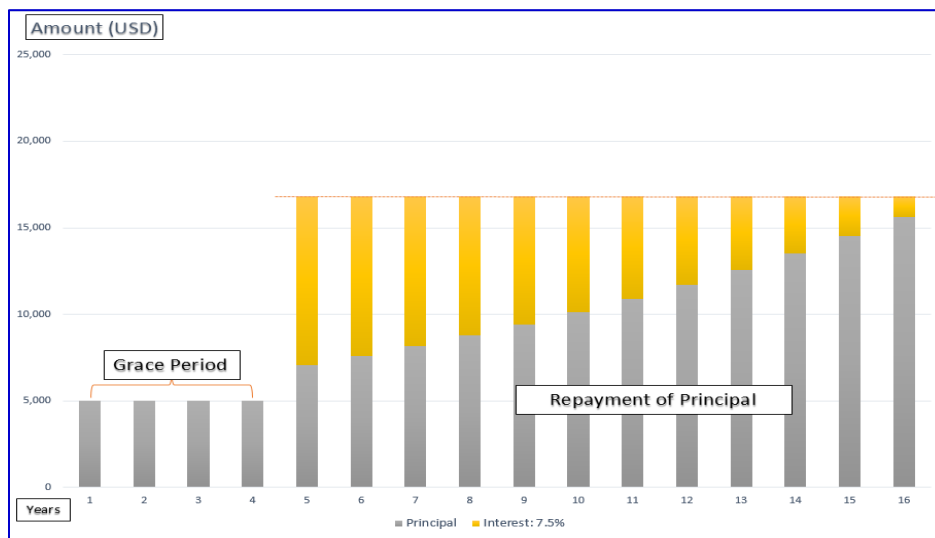
Term	Details
Repayment terms	<ul style="list-style-type: none"> Borrowers have the flexibility to tailor repayment terms to meet their program or project, asset, and liability management needs. They can select the grace period (time during which only the interest is paid), repayment period, and amortization structure as long as they are within these two limits: <ul style="list-style-type: none"> <i>Final maturity</i> of loans is limited to 35 years, including the grace period. <i>Average repayment maturity^b</i> (ARM) cannot exceed 20 years. Repayment terms are fixed at loan negotiation. Once the loan is signed, the repayment schedule cannot be changed for the life of the loan.
Repayment schedules	<ul style="list-style-type: none"> Borrowers can choose from these repayment schedules: <ul style="list-style-type: none"> <i>Fixed at commitment.</i> Commitment-linked repayment schedules are fixed at the outset when the loan is signed. Principal repayments are calculated as a share of the total loan amount disbursed and outstanding. <i>Linked to disbursements.</i> Disbursement-linked repayment schedules are tied to actual disbursements. Each semester's group of disbursements is similar to a tranche or a subloan with its own repayment terms—that is, grace period, final maturity, and repayment pattern—which must be the same for all tranches within the loan. For repayment schedules linked to disbursements, the 20-year limit is the sum of the ARM and the expected average disbursement period.
Amortization patterns	<ul style="list-style-type: none"> Amortization patterns may be level, annuity, bullet (one-time payment), or customized. With level repayments, the principal is repaid in equal installments over time. With annuity repayments, the principal is repaid with increasing installments over time to keep the payments of principal and interest even across all periods. Figure 3 illustrates the difference between level and annuity repayments for commitment-linked loans.
Fees	<ul style="list-style-type: none"> The front-end fee (FEF) is a one-time up-front fee currently set at 0.25% of the amount of the loan. At the option of the borrower, the FEF can be paid out of the financing or loan proceeds upon loan effectiveness or can be billed separately. The borrower must settle the FEF bill no later than 60 days after the effectiveness date, and the receipt is required before the first withdrawal from the loan. Commitment charges accrue on the loan's undisbursed amount 60 days after signing of the loan and become due only after loan effectiveness. They are currently set at 0.25%. A single borrower limit (SBL) surcharge applies to specific exposure of large borrowers. In FY14 the Board approved increasing the SBL for a small number of large borrowers, with the provision that any exposure above the original limit would be subject to a surcharge of 50 basis points (bps).
Embedded options	<ul style="list-style-type: none"> Borrowers have the following options to manage the currency and/or interest rate of their loan. These options are embedded in the loan agreement and can be executed at the borrower's request. <ul style="list-style-type: none"> Interest rate conversions Interest rate caps and collars Currency conversions

Term	Details
Payment dates	Debt service payment dates are on the 1st or the 15th day of the month, usually on a semiannual basis. The payment date is decided by the borrower during the loan negotiation.
<p>a. http://treasury.worldbank.org/bdm/htm/ibrd.html</p> <p>b. The ARM for commitment-linked schedules is equal to the aggregate of the principal repayment multiplied by time (in years) between approval and repayment and divided by the total loan amount. For disbursement-linked schedules, it is the aggregate of the principal repayment multiplied by time (in years) between disbursement and repayment and divided by the total loan amount plus average disbursement period.</p> <p>c. http://treasury.worldbank.org/bdm/htm/ibrd.html</p>	

Figure 3. Amortization patterns: Level payment loans schedule



Amortization patterns: Annuity payment loans schedule



2.1.2 IBRD Contingent Financing—Deferred Drawdown Option

14. The DDO is a contingent loan product that provides immediate liquidity in case of an adverse event, acts as a line of credit, and enables the borrower to defer the disbursement of funds until the financing is needed, up to a defined drawdown period after the financing agreement has been declared effective (table 3). The borrower must meet tranche release conditions before any disbursements being made.
15. IBRD offers two versions of the Deferred Drawdown Option (DDO): the Development Policy Financing DDO (DPF DDO) and the Catastrophe Deferred Drawdown Option (CAT DDO).

Table 3. Current Key Terms^a and Conditions of DDOs

Terms	DPF DDO	CAT DDO
Purpose	<ul style="list-style-type: none"> Provides immediate liquidity when the borrower needs it Grants access to long-term IBRD resources to maintain ongoing structural programs Provides a formal basis for continued policy-based engagement with the Bank when the borrower has no need for immediate funding but values the Bank's advice and access to immediate liquidity 	<ul style="list-style-type: none"> Develops and enhances the capacity of borrowers to manage hazard risk Provides immediate liquidity to fill the budget gap after a natural disaster while other sources—for example, concessional funding, bilateral aid, or reconstruction loans—are being mobilized after a natural disaster Safeguards ongoing development programs
Eligibility	All IBRD-eligible borrowers who meet the preapproval criteria	
Preapproval criteria	<ul style="list-style-type: none"> Appropriate macroeconomic policy framework Satisfactory implementation of the overall program 	<ul style="list-style-type: none"> Appropriate macroeconomic policy framework Preparation or existence of a disaster risk management program
Currency	Same as regular IBRD loans	
Drawdown	An amount up to the full loan amount is available for disbursement at any time within three years from signing the financing agreement. The drawdown period may be renewed for an additional three years.	An amount up to the full loan amount is available for disbursement at any time within three years of signing the financing agreement. The drawdown period may be renewed up to a maximum of four extensions for a total of 15 years.
Drawdown requirements	Funds are disbursed immediately upon request, unless the borrower has received prior notification from the Bank that one or more drawdown conditions are not met.	Funds are disbursed immediately upon occurrence of a natural disaster resulting in declaration of a state of emergency, unless the borrower has received prior notification from the Bank that one or more drawdown conditions are not met.

Terms	DPF DDO	CAT DDO
Repayment terms	May be determined either upon commitment or upon drawdown within prevailing maturity policy limits (the ARM and the final maturity are determined based on the drawdown date). The repayment schedule will start from the date of drawdown.	
Lending rate	Similar to regular IBRD loans, the lending rate ^b consists of a variable reference rate plus a spread.	
Lending rate spread	Borrowers have the choice between a spread fixed for the maturity of the drawdown or a spread that is variable and reset semiannually. The spread is the prevailing spread for regular IBRD loans at the time of each drawdown, with the exception that the maturity premium component of the spread is based on the effective date of the loan and not on the drawdown date.	
Fees	<ul style="list-style-type: none"> • FEF: 0.25%^b • Renewal fee: Nil • Standby fee: 0.50% per annum charged on undisbursed balances, accruing from the date of effectiveness of the loan 	<ul style="list-style-type: none"> • FEF: 0.50% • Renewal fee: 0.25%
Embedded options	Same as regular IBRD loans	
Other features	Not applicable	<ul style="list-style-type: none"> • <i>Country limit</i>: Maximum of 0.25% of GDP or the equivalent of US\$500 million, whichever is less. • <i>Revolving features</i>: Amounts repaid by the borrower will be available for drawdown, provided the closing date has not expired.
<p><i>Note:</i> ARM = adjustable rate mortgage; CAT DDO = Catastrophe Deferred Drawdown Option; DDO = Deferred Drawdown Option; FEF = front-end fee; GDP = gross domestic product; IBRD = International Bank for Reconstruction and Development.</p> <p>a. http://treasury.worldbank.org/bdm/htm/ibrd.html</p> <p>b. http://treasury.worldbank.org/bdm/htm/ibrd.html</p>		

2.1.3 Special Development Policy Financing (SDPFs)

16. SDPFs are offered to countries that are approaching crisis or are in a crisis with substantial structural and social dimensions and that have an urgent and extraordinary financing need. Their lending terms include a fixed spread over the index, with a grace period of 3 to 5 years and maturity of 5 to 10 years. They also include an FEF of 1.0 percent. Current rates¹⁰ can be found on the World Bank Treasury website.

¹⁰ <http://treasury.worldbank.org/bdm/htm/ibrd.html>

2.2 IDA Development Credits

17. IDA¹¹ is the World Bank's concessional lending window, extending funds to the poorest developing countries. It provides credits (the term used for its loans) at little or no interest, and repayments are stretched over 25 to 40 years, including a 5- to 10-year grace period.
18. A country's IDA eligibility is determined at the beginning of each fiscal year (July) based on the country's risk of debt distress, gross national income (GNI), and eligibility for borrowing from IBRD. Annex D of Operational Policy (OP) 3.10¹² captures the financial terms for each country.

2.2.1 IDA Credits

19. IDA currently offers the following types of development credits:
 - **Regular credits.** These credits are offered to countries with a GNI per capita less than the operational cutoff for IDA eligibility. For FY15, this would mean GNI less than US\$1,215 per capita. These credits are on concessional terms.
 - **Blend-term credits.** These credits are for countries that have a GNI per capita above the operational cutoff for more than two consecutive years, that is, GNI per capita greater than US\$1,215 (for FY15).
 - **Hard-term credits.** These credits are granted in addition to a country's regular performance-based allocation and are available to countries eligible for blend terms.
 - **Transitional support credits.** These are intended for countries, which have graduated from IDA but receive transitional support on an exception basis for the period FY15–FY17.
 - **IDA scale-up.**¹³ The Bank recently introduced these IDA credits, which are offered to all IDA 17 eligible countries that are interested in accessing additional funds on nonconcessional terms.

2.2.2 IDA Lending Currencies

20. The majority of IDA development credits are denominated in special drawing rights (SDRs). Disbursements and debt service payments are calculated in SDRs. Debt service payments are made in the following currencies—U.S. dollar, pounds sterling, or euro—specified in the financing agreement in an amount equivalent to the SDRs required under the agreement. On a pilot basis, IDA credits are being offered in the currencies of the SDR basket (US\$, €, £stg, and ¥). The currency is selected at the time of negotiations.

¹¹ <http://www.worldbank.org/ida/what-is-ida.html>

¹² <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTPOLICIES/EXTOPMANUAL/0..contentMDK:22635084~menuPK:64701637~pagePK:64709096~piPK:64709108~theSitePK:502184~isCURL:Y~isCURL:Y,00.html>

¹³ http://treasury.worldbank.org/bdm/htm/documents/IDASUFCredit_Handout.pdf

2.2.3 IDA Current Charges and Rates¹⁴

21. The following charges currently apply to IDA credits on concessional terms:

- **Service charge.** A charge of 0.75 percent is applied to disbursed amounts and is intended to cover the administrative expenses of IDA. A service charge is applied to all types of IDA credits and is embedded in the floating rate for transitional support and hard-term credits.
- **Commitment charge.** All IDA credits are subject to a commitment charge, which is currently zero but can be as much as 0.5 percent. The Board of Executive Directors review the commitment charge for IDA on an annual basis to decide partial or complete waiver of the charge. The charge applies to undisbursed amounts and starts accruing 60 days after the financing agreement is signed. It becomes due once the credit becomes effective.
- **Interest charge.** An interest charge on disbursed amounts is applied to IDA blend-term, hard-term, and transitional support credits. The rate is updated quarterly and varies with the currency selected.
- All IDA credits denominated in SDRs are offered only with a fixed interest rate.
- All IDA credits on blend terms are offered only with a fixed interest rate.
- IDA single currency credits with hard terms or transitional terms can opt for either fixed or floating rate.
- Charges for fixed rate credits (blend-term, transitional support, and hard-term credits):
 - For single currency credits with a fixed rate, a basis swap adjustment (BSA)—prevailing as of the date of credit approval and fixed for the life of the credit—is added to both service and interest charges. The BSA varies depending on the IDA credit type (small island, regular, blend-term, transitional support, hard-term); the charge (service, interest); and the currency (US\$, €, £stg, and ¥). The BSAs are notified at the beginning of every quarter.¹⁵
 - A floor of 75 bps is applied to service charge and a floor of 0 bps is applied to interest rates for all currencies.
- Charges for floating rate credits¹⁶ are applied only for single currency transitional support and hard-term credits):
 - Rate includes service charge; no separate service charge is due.
 - The floating rate for transitional support credits is
 - Reference market rate (6 months) + IBRD fixed spread – 100 bps + transaction fee 1 bps p.a. + 75 bps IDA service charge.
 - The floating rate for hard-term credits is
 - Reference market rate (6 months) + IBRD fixed spread – 200 bps + transaction fee (1 bp) + 75 bps IDA service charge.

¹⁴ <http://www.worldbank.org/ida/lending-terms.html>

¹⁵ <http://www.worldbank.org/ida/lending-terms.html>

¹⁶ <http://ida.worldbank.org/financing/ida-lending-terms>

- An interest rate floor of 0 bps is applied on interest rates.
22. The fixed rates and floating rate components for single currency credits are calculated and published quarterly. Credits approved in each quarter will be subject to the rates published at the beginning of that quarter. The new IDA lending terms are available from the website.¹⁷

2.2.4 IDA Repayment Terms

23. IDA repayment terms¹⁸ are decided every three years, at the time of the donor meetings. Currently, IDA regular credits have a 6-year grace period and a 38-year final maturity, with the exception of regular credits for small island economies. However, IDA blend-term, hard-term, and transitional support credits have a 5-year grace period with a 25-year final maturity. Repayments are done on a semiannual basis. IDA grants do not have to be repaid. See table 4 for IDA concessional terms.

Table 4. Current IDA Concessional Terms

	Service charge	Commitment charge	Interest	Acceleration clause	Maturity	Grace period (years)
Regular	✓	✓		✓	38	6
Blend term	✓	✓	✓	✓	25	5
Hard term	✓	✓	✓	✓	25	5
Transitional support	✓	✓	✓	n.a.	25	5

Note: n.a. = not applicable. The maturity, grace period, and principal repayments listed above are for FY16. These terms are subject to change in the future. Current terms are available on the International Development Association (IDA) website, <http://www.worldbank.org/ida/lending-terms.html>

IDA regular credits for small island economies (which have less than 1.5 million people, significant vulnerability because of size and geography, and very limited creditworthiness and financing options) will continue to have a 10-year grace period and 40-year maturity.

2.2.5 Acceleration of Credit Repayments to IDA

24. IDA has included an accelerated repayments clause in financing agreements since 1987 and redefined it in 1996. The clause allows IDA to double the principal repayments of the credit, that is, shorten the maturity if the borrower's GNI per capita exceeds a specified threshold and the borrower is IBRD creditworthy. Specifically under the clause, principal repayments would double, provided a 10-year grace period has elapsed (5 years under the new clause) and the GNI is above the historical cutoff for 5 years (above the operational cutoff for 3 years under the new clause).

¹⁷ <http://ida.worldbank.org/financing/ida-lending-terms>.

¹⁸ <http://www.worldbank.org/ida/lending-terms.html>

25. The borrower has a choice to exercise the following options:

- **Principal option.** The borrower doubles the principal repayment of each installment until the principal amount of the credit is fully repaid.
- **Interest option.** An interest charge is included in lieu of some or all of the increased principal repayments. This can be done only if the net present value of the repayment schedule, including interest, equals that of the principal option, provided both options have the same grant element.
- **Combination.** The borrower can combine the two options.

2.2.6 Policy Framework for Voluntary Prepayments

26. A voluntary prepayment option was introduced for countries that met the eligibility criteria for accelerated repayments but whose credits did not include the accelerated repayment clause because they were signed before 1987. To encourage these countries to voluntarily accelerate their repayments or to prepay their outstanding credits, a discount was offered under the framework for voluntary prepayments in cases where the country

- Elects to voluntarily prepay all outstanding credits in full; or
- Provides a partial prepayment for IDA to apply to the latest maturities of credits, that is, to use a bottom-up approach on the portfolio, as determined by IDA.

27. Discounts will not be available for prepayments of individual IDA credits specified by borrowers.

28. In addition to the financial benefits, borrowers, during voluntary prepayment, show their commitment to contribute to IDA by increasing resources available for current IDA recipients.

2.3 IDA Grants

29. IDA grants are offered to help low-income countries restore or maintain their external debt sustainability. According to the grant allocation framework, which was first introduced in IDA14, a country's risk of debt distress is the criterion for grant eligibility.

30. IDA grants are not subject to repayment or charges (service charge and interest), but they carry a 20 percent volume discount on the country's allocation. Commitment charges are applicable on IDA grants but are currently fully waived.

31. Grant eligibility under IDA is limited to IDA-only countries and based on the ratings of countries' risk of debt distress. It excludes IBRD/IDA blend countries or hard-term countries, because these countries have greater access to capital markets, and their debt compositions can differ from IDA-only countries.

32. The risk ratings emerge from country-specific, forward-looking Debt Sustainability Analyses (DSA) based on the joint World Bank–International Monetary Fund (IMF) Debt Sustainability

Framework for Low-Income Countries.¹⁹ The ratings reflect the share of IDA grants and highly concessional IDA credits for each country.

33. Recipients with a high risk of debt distress receive 100 percent of their financial assistance in the form of grants, and those with a medium risk of debt distress receive 50 percent in the form of grants. More information can be found on the IDA website.²⁰

2.4 Guarantees

2.4.1 Key Features of Guarantees

34. Bank guarantees expand the financing options for investment projects through political risk mitigation and credit enhancement. They can be provided with or without an associated Bank loan or credit.
35. Through its guarantees, the Bank (a) mobilizes commercial capital for development projects; (b) increases its lending leverage, because guarantees enable the Bank to be a key financier with smaller financing commitment than lending would have required; (c) improves commercial borrowing terms to better meet the requirements of development projects; (d) enables private sector participation by facilitating risk sharing between private participants and the government, by covering defined payment and performance obligations of the government or public entities to a project or private financiers; (e) acts as “honest broker” in a transaction between the government and private participants; and (f) expands access to financial markets to governments and implementing entities.
36. The Bank provides guarantees to the extent necessary to mobilize commercial financing for the project and/or to mitigate government (and its entities) payment risks of the project, taking into account country, project, and market circumstances. Properly structured guarantees could function as an important instrument for mobilizing capital and managing risk for a project in all sectors.

2.4.2 Guarantee Instrument—Type and Eligibility

37. The World Bank offers the three types of guarantee support to all member countries as outlined in figure 4. These guarantees are described in detail on the guarantee program website.²¹

¹⁹ <http://go.worldbank.org/A5VFXZCCW0>

²⁰ <http://www.worldbank.org/ida/debt-sustainability.html>

²¹ <http://www.worldbank.org/en/programs/guarantees-program>

Figure 4. World Bank Guarantee Products



2.4.3 Agreements for Guarantee Transactions

38. The various types of agreements associated with guarantees are described in table 5. The guarantee agreement and indemnity agreement are signed after the Bank Board's approval of the guarantee project and when negotiations with third-party financiers are finalized.

Table 5. Agreements for Guarantee Transactions

Agreement	Purpose and Details
Guarantee agreement	The guarantee agreement is usually executed by the Bank and the guaranteed lender or guaranteed payee, or an agent of those, and is the agreement under which the terms and conditions of the guarantee are specified. Depending on the structure of the guarantee transaction, the guarantee lawyer may decide that, instead of a separate self-standing guarantee agreement, it is appropriate for the terms and conditions of the Bank's guarantee to be embedded in the same legal document that sets out the terms of the loan offered by the guaranteed lender/payee or in another appropriate legal document.
Indemnity agreement	The indemnity agreement is between the member country and the Bank, setting forth that the member country will reimburse the Bank in the event that a payment is made under the Bank guarantee, and against any other amounts (including expenses and liabilities) incurred by the Bank.
Project agreement	The project agreement is executed between an implementing entity and the Bank. It specifies, among other things, the undertakings made by such implementing entity to the Bank relating to the implementation of the project. Depending on the nature of the guarantee transaction, for example, in a public sector project, the guarantee lawyer may decide that instead of a self-standing project agreement, it is appropriate for the terms and conditions that would usually be in a project agreement to be embedded in another legal document. Or in another example, the Bank may enter into a project agreement with a relevant project participant, if appropriate. This type of agreement does not apply to policy-based guarantees.

Additional legal agreements	Depending on the specific details of a project, the guarantee lawyer may decide that it is appropriate for the Bank to be a party to other legal agreements. For example, the Bank may enter into a cooperation-related agreement with a financier of a separate part of the larger infrastructure project that is not directly involved in Bank project implementation but is crucial for the larger infrastructure project's successful execution (and therefore also for the success of the Bank's project). The guarantee lawyer may also decide whether the Bank should receive, for example, the benefit of unilateral legal opinions or letters of undertaking.
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2.4.4 Fees and Pricing on Guarantees

39. The pricing of IBRD and IDA guarantees includes the fees or charges listed in the forthcoming policy that will replace OP 3.10.²² Fees and charges are determined based on the concept of loan equivalency with IBRD loans and IDA credits, respectively. These fees are generally paid by the implementing entity in the case of project-based guarantees, and by the government in the case of policy-based guarantees. Once the Bank guarantee fees are fixed, they remain unchanged for the life of the guarantee. The Bank charges standby fees (akin to commitment charges), a guarantee fee (akin to loan spread), and a front-end fee as applicable on IBRD and IDA projects. The IBRD and IDA guarantee pricing terms are accessible on the Bank Treasury website²³ as well as the guarantee website.²⁴

2.4.5 Guarantee Trigger Events and Disbursement Arrangements

40. The events triggering payments under the guarantee are specified in the guarantee agreement. All project-based Bank guarantees require an adequate dispute resolution framework so as to avoid entangling the Bank in the substance of any dispute between the parties, including any dispute between two governments.
41. Requests for payment under a guarantee (known as demands) can only be made in accordance with the guarantee agreement and relevant related contracts. Generally, payments are made after the government's failure to pay has been finally determined, and if applicable, in accordance with such dispute resolution mechanisms. Payments under a project-based guarantee can be triggered even if there is an underlying dispute, in situations where the underlying contracts include a clear obligation by the government or by a state-owned entity to make a payment even if it disputes it.

²² Financial Terms and Conditions of IBRD Loans, IBRD Hedging Products, IBRD Guarantees, and IDA Credits and Guarantees. See

<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTPOLICIES/EXTOPMANUAL/0,,contentMDK:22635084~menuPK:64701637~pagePK:64709096~piPK:64709108~theSitePK:502184~isCURL:Y~isCURL:Y,00.html>

²³ http://treasury.worldbank.org/bdm/htm/IBRD_and_IDA_GuaranteePricing.html

²⁴ <http://www.worldbank.org/en/programs/guarantees-program>

2.5 Other Products Administered by the World Bank

42. The Bank administers loans and guarantees under trust funds. These include funds such as the Climate Investment Fund, billable trust funds (BTFs), and European Economic Commission (EEC) credits.

2.5.1 Clean Technology Fund—Grants, Loans, and Guarantees

43. The Clean Technology Fund (CTF) is one of the funding windows of the Climate Investment Fund (CIF). It provides resources to scale up the demonstration, deployment, and transfer of low carbon technologies with a significant potential for long-term greenhouse gas emissions savings. More information on CTFs can be found on the CIF website.²⁵
44. CTF project preparation grants are used to develop quality investment projects by financing project feasibility studies and associated analytical and design tasks. Preparation grants may be used for CTF investment plans, where needed, and CTF cofinanced projects.
45. The CTF offers two loan products based on an analysis of the financial internal rate of return of each project without CTF cofinancing:
- Harder concessional loans for projects with rates of return near or above normal market threshold, but below risk premium for project type, technology, country, or acceleration in deploying low carbon technology, will have higher opportunity costs.
 - Softer concessional loans are provided for projects with negative rates of return or below normal market threshold.
46. Table 6 shows the loan terms that are applied to CTF financing for the first year of operations.

Table 6. Current Loan Terms for CTF Financing

CTF loan	Maturity	Grace period	Principal repayments years 11–20	Principal repayments years 20–40	MDB fee ^a	Service charge ^b	Grant element ^c
Harder concessional	20	10	10%	n.a.	0.18%	0.75%	~45%
Softer concessional	40	10	2%	4%	0.18%	0.25%	~75%

Note: CTF = Clean Technology Fund; MDB = multilateral development bank; n.a. = not applicable.

a. The borrower will have two options for payment of MDB fees: (a) a fee of 0.18% of the undisbursed balance of the loan, in which case the fee payments will accrue semiannually after loan signing, or (b) a fee equivalent to 0.45% of the total loan amount, payable in a single lump-sum amount, which may be paid by the borrower out of its own resources or capitalized from the financing or loan proceeds following the effectiveness of the loan. The fees are to be retained by the MDB for its lending and implementation support costs.

b. The service charge is based on the disbursed and outstanding loan balance. Principal and service charge payments accrue semiannually to the CTF trust fund.

²⁵ <http://www-cif.climateinvestmentfunds.org/fund/clean-technology-fund>

c. Grant element is calculated using the International Development Association methodology on the basis of these assumptions: 6.33% discount rate for harder loans; 6.43% discount rate for softer loans; semiannual repayments; eight-year disbursement period.

47. CTF resources may be deployed for two categories of guarantee products:

- Loan guarantees cover the loss on account of debt service default for lenders up to an agreed portion of the actual loss, with a view to extend maturities of commercial loans for low carbon projects, so that they are competitive with base case technologies, or to address specific incremental operating or construction risks that could cause default.
- Contingent finance is disbursed to the project upon underperformance of a low carbon technology and where such risk is not commercially insurable at reasonable costs or has occurred beyond the period for which commercial insurance is available.

48. The Strategic Climate Fund is another window established as part of the CIFs. Eligibility for loans under this window must be in accordance with the governance framework for the Strategic Climate Fund. More information is available on the Climate Investment Fund site.²⁶

2.5.2 Billable Trust Funds (BTFs)

49. BTFs are lent to borrowers on IDA terms and are expected to be repaid by the borrowers. The sources of funds for the BTFs come from donor countries, the Bank's net income, or special funds, or a combination. The Bank serves as the administrator for these funds.

50. BTFs are treated in line with any other IDA loan product as far as billing, accrual of charges, overdue payments, and repayments are concerned.

2.5.3 European Economic Commission Credits

51. The Bank administers loans made by the EEC to various borrowers. Upon receipt of debt service, principal amounts are returned to the donors while service charges are retained by the Bank as compensation for managing the disbursement and collection of loan funds used to co-finance Bank projects.

²⁶ <http://www-cif.climateinvestmentfunds.org/fund/strategic-climate-fund>

2.5.4 Project Preparation Facility (PPF)

52. PPF advances are made by the Bank under a special authority granted by the Board of Executive Directors. The Board regularly determines the ceiling on the commitment authority of the facility and on the size of individual advances.
53. The Bank may make a Project Preparation Advance (PPA) from the PPF to a borrowing country to finance the following:
- Project preparation, design, and initial implementation activities
 - Preparation of programs
 - Start-up emergency response activities in cases of crises and emergencies
54. A PPA is made only when there is a strong probability that Bank financing will be approved for the operation under preparation. However, granting the PPA does not commit the Bank to finance any portion of the operation.
55. The PPA is made in US\$ and carries interest on IBRD fixed spread terms or regular IDA credit terms. Borrowers that are eligible for grants receive PPAs only on grant terms.
56. PPAs can be made to prepare the Bank guarantee operations. In such cases, the advance would be disbursed according to IPF procedures, which are applicable to preparation advances. Such advances are repaid to the Bank in the same manner as when an advance that is granted to a borrower does not materialize into a project. No refinancing of the advance is possible in such cases; therefore, the advance should be repaid to the Bank, except for those on IDA grant terms.
57. If the financing account for which the PPA was made is unlikely to materialize by the refinancing date, the PPA may be refinanced out of the proceeds of any other financing made to or guaranteed by the country.
58. Interest or service charges are accrued on the PPA at the Bank's interest or service charge rate. However, the payment of interest/charges on the advance is deferred until it is refinanced or terms of repayment are determined.
59. To refinance the PPA, the financing agreement of the follow-on operation will include a provision for the same. The withdrawal schedule of the follow-on financing will include an expenditure category to cover the principal amount of the advance plus estimated accrued interest or service charges, where applicable.
60. In cases where the PPA is not refinanced, the advance is repayable and the Bank informs the borrower that the amounts disbursed under the PPA and the accompanying charges will be billed shortly. The PPAs are repaid in 10 equal semiannual installments over a five-year period after the refinancing date. However, if the disbursed amount of the PPA is US\$50,000 or less,

Project Preparation Advances

- PPAs are usually refinanced by a loan or repaid by the borrower. PPAs that do not get refinanced carry interest on IBRD fixed spread terms or IDA credit terms. PPAs to IDA-grant-only countries do not get repaid because they are converted under grants.
- Repayable PPAs are to be paid in 10 equal semiannual installments. However, if the amount of the PPA is less than US\$ 50,000, it needs to be repaid within a period of 60 days from the date of the Bank's notice.
- PPAs are made in U.S. dollars only.

the country is required to repay the full amount as a lump sum payment within a period of 60 days after the Bank's repayment notice.

61. If the borrower is eligible to receive only IDA grants on the PPA approval date, the advance becomes a grant and is not repayable by the borrower.
62. For more information on disbursement-related aspects of PPAs, refer to section 4.1.5.

2.6 IBRD Risk Management Products

63. IBRD offers hedging products²⁷ for risk management in one of the following ways:
 - Embedded conversion options are built into the IBRD Flexible Loan (IFL).
 - Freestanding swaps are on a stand-alone basis to manage risk on the entire portfolio of Bank loans.
 - A non-IBRD hedge is used on a stand-alone basis to manage debt owed to other creditors.
64. Borrowers can access embedded conversion options by requesting the desired type and terms of the conversion. For IBRD loans without embedded conversion options or debt owed to creditors other than IBRD, borrowers can access swaps by signing a Master Derivatives Agreement (MDA) with IBRD.

2.6.1 IBRD Products with Embedded Conversion Options

65. IBRD embedded conversion options include interest rate conversions, currency conversions, automatic rate fixing, and interest rate caps and collars. The borrower can select the required options in the Loan Choice Worksheet²⁸ at the time of loan negotiations, so that they can be incorporated into the financing agreement. To exercise these options, except for automatic conversion options, the borrower needs to submit the completed request forms to the Bank. More information on the conversion options and request forms to exercise the options are available on the Treasury website.²⁹
66. Conversion options were earlier available only for loans on fixed spread terms. A borrower with a loan on variable spread terms wishing to exercise conversion options had to either (a) execute a MDA and then enter into a freestanding swap, or (b) execute a loan amendment and convert the loan to fixed spread terms.
67. The Bank allows access to conversion options for all IFLs on variable spread terms. Some of these options are also available to legacy single currency variable spread loans (VSLs), provided a loan amendment is executed. A loan amendment is required for IFLs on variable spread terms, where the borrower had not opted for the conversion options at the time of signing the agreement.

²⁷ <http://treasury.worldbank.org/>

²⁸ http://treasury.worldbank.org/bdm/htm/Loan_Preparation_Support.html

²⁹ <http://treasury.worldbank.org/Services/RiskMgmtProducts.html>

68. Under the current terms, a borrower can opt to convert the reference rate—that is, the LIBOR/EURIBOR or any other base rate—to a fixed rate for a part or the entire life of the loan without requiring conversion to fixed spread terms (table 7). The variable spread of the loan would be unaffected and would be subject to reset according to the original loan terms. For legacy single currency VSLs, automatic conversion options and the options to convert to local currency have not been provided.

Table 7. IBRD Conversion Products Available for IBRD Loans

Loan type	Interest rate conversions	Caps and collars	Currency conversions	Automatic conversions
IFL (fixed and variable spread)	✓	✓	✓	✓
Fixed spread loan (FSL)	✓	✓	✓	✓
Variable spread loan (VSL) ^a	✓	✓	✓	n.a.

Note: FSLs and VSLs were discontinued on February 12, 2008; IBRD = International Bank for Reconstruction and Development.

* Subject to amendment of loan terms. Automatic conversion is not applicable (n.a.).

2.6.1.1 Transaction Fees for Conversion Options

69. The transaction fees for the applicable conversions can be found on the Treasury website.³⁰
70. For early termination of a conversion—currency conversion, interest rate conversion, or interest rate cap and collar—the transaction fee prevailing at the time of early termination will apply. For example, an interest rate fixing that had no transaction fee will not bear a transaction fee for early termination. Transaction fees expressed as a percentage per annum will be converted to a lump sum.

2.6.2 IBRD Freestanding Swaps and Non-IBRD Hedges

71. IBRD's stand-alone hedging products for risk management are available to help borrowers manage their financial risks. Using standard risk management techniques, these products can transform the risk characteristics of a borrower's IBRD obligations without changing the terms negotiated in the financing agreements.
72. IBRD hedging products include interest rate swaps, interest rate caps and collars, currency swaps, and on a case-by-case basis, commodity swaps. To use hedging products, borrowers must enter into an MDA with IBRD. This agreement provides the contractual framework

³⁰ http://treasury.worldbank.org/bdm/htm/Loan_Conversion_Options.html

between the borrower and IBRD. The World Bank Treasury website³¹ shows the hedging products available to IBRD loans on disbursed and outstanding loan amounts.

73. IBRD also offers interest rate and currency swaps in relation to borrowers' non-IBRD debt. Borrowers eligible to use these products are sovereigns that have an existing portfolio of IBRD loans, are in good standing with respect to debt service obligations to the Bank, and are eligible for new IBRD loans. For more details, refer to the Treasury website.³²
74. Fees for interest rate caps or collars and commodity swaps are billed at the time of execution of the transaction and are payable within 60 days. For currency swaps and interest rate swaps, the transaction fee is added as a spread to the interest rate applicable for that loan or tranche. IBRD may revise the fee schedule from time to time. In such cases, the revised fees would apply only to hedge requests submitted after the new schedule is in effect. Current fee schedules for IBRD hedging products are available on the Treasury website.³³

2.7 Debt Relief Initiatives

2.7.1 Debt Service Trust Funds

75. The Debt Service Trust Funds (DSTFs) are established for the settlement of debt service amounts due to IBRD and/or IDA. These funds are administered by the Bank in accordance with the letter of agreement and the trust fund agreement between the Bank and the beneficiary. The use of the fund is governed by the terms in the letter of agreement between the Bank, the donor, and the beneficiary.
76. The Bank processes all disbursements from DSTFs and applies the funds to debt service payments due to IBRD/IDA. DSTFs are also used in customized ad hoc payment mechanisms agreed between the donor and the beneficiary. Such instances include a buy-down arrangement between a donor and a beneficiary. In this arrangement, the donor makes funds available in a trust fund that is to be used for servicing specific debts of a recipient, subject to the recipient fulfilling certain prespecified conditions. Once the conditions are fulfilled, the Bank uses the funds available in the donor-funded trust fund to prepay the preidentified debts of the beneficiary. Additional information on other trust funds and programs is available on the Bank's Development Finance web page.³⁴

2.7.2 Heavily Indebted Poor Countries (HIPC) Initiative

77. The HIPC Initiative was established in 1996 and enhanced in 1999 to reduce eligible countries' debt burdens to the thresholds established under the initiative, subject to satisfactory policy

³¹ http://treasury.worldbank.org/bdm/htm/hedging_products.html

³² http://treasury.worldbank.org/bdm/htm/hedging_products.html

³³ http://treasury.worldbank.org/bdm/htm/Hedging_Transaction_Fees.html

³⁴ <http://go.worldbank.org/GABMG2YEI0>

performance. More information on the HIPC Initiative and eligible countries can be found on the World Bank's HIPC Initiative web page.³⁵

78. For countries that have reached the enhanced HIPC decision point and are eligible for debt relief through a debt relief schedule, such relief is reflected as a reduction of debt service payments due, through the regular billing process. The decision point is reached when the Board of Executive Directors approves the provision of debt relief under the HIPC Initiative.

Enhanced HIPC Debt Initiative

- Provides partial debt relief on eligible credits
- Normally delivers debt relief through a reduction on the bill, starting after the country reaches the decision point

79. Countries begin receiving interim relief on a provisional basis at the decision point. Once countries reach the completion point, the full amount of debt relief becomes irrevocable. The completion point is reached when conditions specified in the legal notification sent to a country are met and the country's other creditors have confirmed their full participation in the HIPC Initiative.

2.7.3 Multilateral Debt Relief Initiative

80. The Multilateral Debt Relief Initiative (MDRI) was launched in 2005 to further reduce the debts of countries that have graduated from the enhanced HIPC Initiative and to provide them with additional resources to help them meet the Millennium Development Goals. More information on the MDRI can be found at the World Bank's MDRI web page.³⁶

Multilateral Debt Relief Initiative (MDRI)

- Provides full debt relief on eligible credits
- Starts on first day of the fiscal quarter following the date when the completion point is reached

81. Countries are eligible to receive debt relief under the MDRI on the first day of the fiscal quarter following the date that they reach the completion point under the enhanced HIPC Initiative. This date is referred to as the MDRI implementation date.
82. Under this initiative, the borrower is no longer required to (a) repay principal and (b) pay service charges, on or after the MDRI implementation date, on credit amounts that were disbursed and outstanding as of December 31, 2003. Such debt relief is provided for all principal repayments and credit charges payable to IDA, after any debt service relief available under the enhanced HIPC Initiative. However, all other obligations for such credits of the borrower under the development financing agreements remain in full force and effect until such time as they would have terminated, had the IDA credit amounts been fully repaid, in

³⁵ <http://go.worldbank.org/V1JZAAB1N0>

³⁶ <http://go.worldbank.org/WDZPNXK1Z0>

accordance with the terms of the agreements and applicable General Conditions³⁷ and Standard Conditions.³⁸

83. Where credits were partially disbursed by December 31, 2003, a new credit tranche is created to include only those amounts eligible for MDRI debt relief. For those credits, the repayment amounts are allocated proportionately to the MDRI and non-MDRI credit tranches. In addition, any enhanced HIPC relief based on debt outstanding after December 31, 2003, will also be allocated proportionately.
84. Once debt relief has been provided under the MDRI and credit balances have been effectively canceled, any charges relating to those credits that arose before the implementation date and that were not eligible for debt relief under the MDRI will be billed to the borrower. At the same time, any credit balances that were carried forward from a period before the implementation date, as well as any payments made by the borrower with respect to amounts subject to debt relief, will be refunded. The net amount due from or to the borrower will be determined at the country level, and a final settlement letter that includes this information will be sent to the borrower.

³⁷ http://siteresources.worldbank.org/BRAZILINPOREXTN/Resources/3817166-1242680408578/General_Conditions.pdf

³⁸ <http://go.worldbank.org/LXIOJ9CTI0>

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Volume 2

Disbursements

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3. Withdrawal of Financing Proceeds

85. This section describes the steps required for withdrawing financing proceeds. Requests for withdrawals of funds should be initiated electronically on the Bank's Client Connection web portal. The Bank may, at its discretion, temporarily or permanently disallow the electronic submission of withdrawal applications by the borrower. For IPF operations, see sections 3.3 and 3.4 of the Disbursement Guidelines for Investment Project Financing.³⁹
86. On an exceptional basis, the Bank may permit the borrower to complete and submit withdrawal applications manually in paper form. Paper application forms can be downloaded from the Client Connection site or may be obtained from the portfolio staff in the Bank, upon request. The detailed procedures for both electronic and manual options are set out in figure 5 and figure 6, respectively.

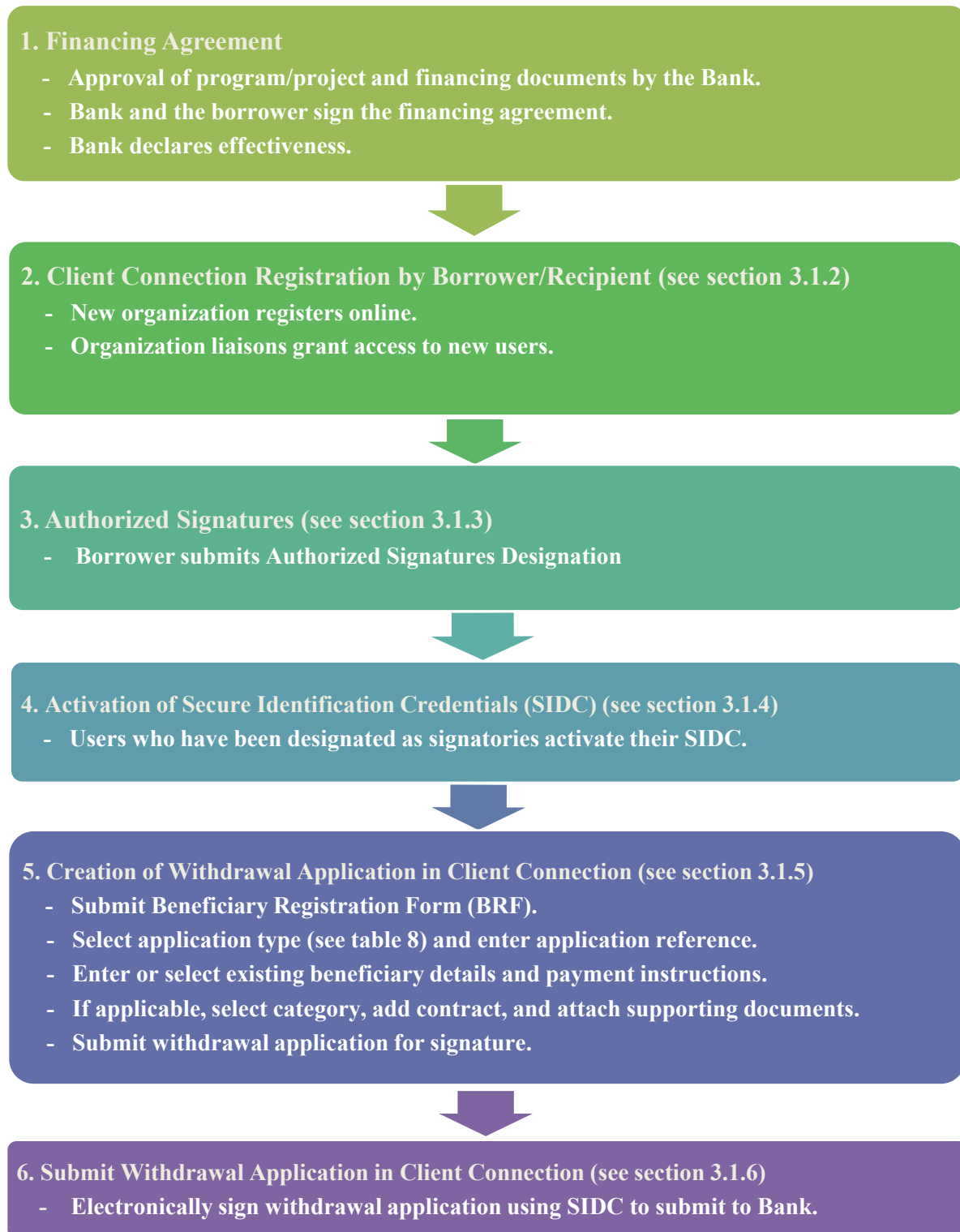
3.1 Electronic Submission of Withdrawal Applications through Client Connection

3.1.1 Client Connection

87. Client Connection is a secure website through which the Bank's registered clients can do the following:
- Access near-real-time information and data on disbursements status, charges, bills, and audit reports for a country, program/project, financing, or portfolio.
 - Electronically create and submit withdrawal applications and related supporting documentation to the Bank.

³⁹ <http://siteresources.worldbank.org/PROJECTS/Resources/DisGuideEng.pdf>

Figure 5. Steps for Electronic Submission of Withdrawal Applications through Client Connection (see section 3.1.7 for additional reference materials)



3.1.2 Organization Registration and User Account Access

88. Clients can initiate the organization registration process online from the Client Connection home page. Refer to section 3.1.7 for additional information and links to Client Connection resources.
89. As part of the organization registration request, clients are required to nominate at least two organization liaisons. A liaison plays an administrator's role for the organization.
90. A Bank staff member, also known as the Client Connection champion, is assigned to a specific country as the main contact person to guide clients through the registration process. The user can find the list of Client Connection champions at <https://clientconnection.worldbank.org>, under the My Portfolio page, Contact Us. The Client Connection champion validates the eligibility of the request and upon the organization liaisons' confirmation, the registration request is approved by the Bank. A system-generated e-mail will be sent to the organization's liaisons once the Bank approves the organization registration request. Until the organization is approved by the Bank, the borrower may contact clientconnection@worldbank.org with any questions.
91. Once the organization registration request is approved by the Bank, the organization liaisons can register individual users under the organization and assign specific roles and access. In addition, the organization liaisons can edit or delete an existing user, as needed. The liaisons are responsible for keeping the organization information updated.
92. Upon the organization liaisons' authorization of an individual user's access, a system-generated e-mail notification is sent to the user with the initial Client Connection Passkey and Login information. The user's first successful login to Client Connection completes the user registration process.

3.1.3 Authorized Signatories

93. The authorized representative of the borrower, as designated in the financing agreement, must furnish to the Bank the name(s) of the official(s) authorized to sign and submit applications for withdrawal and applications for issuance of special commitments (authorized signatories), through an authorized signatories designation (ASD). This letter may be submitted to the Bank office specified in the disbursement letter. The sample is provided as an annex in the disbursement letter. For IPF operations, see sections 3.1 and 3.2 of the Disbursement Guidelines for Investment Project Financing.⁴⁰

3.1.4 Secure Identification Device Credentials and e-Signatories

94. Upon approval of the ASD by the Bank, the users designated as authorized signatories are assigned the SIDC and are notified through an automated e-mail to activate their electronic signing credentials. The user's activation of the SIDC completes the authorized signatory approval process, thus allowing him or her to sign electronically. The list of authorized

⁴⁰ <http://siteresources.worldbank.org/PROJECTS/Resources/DisGuideEng.pdf>

signatories can be viewed under the e-Signatories tab of the financing account in Client Connection.

3.1.5 Electronic Withdrawal Application Creation

95. Before a withdrawal application can be electronically created in Client Connection, the following must be in place:
 - The financing must be in “effective” status.
 - e-Signatories must be assigned and their details available in the e-Signatories tab.
 - The status should be e-disbursement ready, in the e-Forms tab.
 - The beneficiary record must be approved
96. The withdrawal application link can be accessed from My Portfolio or the Loan Overview Disbursement page of Client Connection. To create a withdrawal application, users are required to first select the type of withdrawal application and enter the withdrawal application reference.. The user should then select the required beneficiary from a drop down list of approved payment beneficiaries. Where applicable, and based on the withdrawal application type selected, the user would then be required to enter the category expenditure details or select the applicable prior review contract(s), and attach the required supporting documentation before submitting the withdrawal application to the authorized signatories for electronic signing.
97. Users can create new beneficiary records or edit existing beneficiary records by accessing Beneficiary Registration forms from the “Beneficiaries “ Tab. Table 8 depicts the withdrawal application types that are available in Client Connection currently for each lending instrument. Borrowers can select from these options based on the lending instrument type. Additional application types may be provided as appropriate.

Table 8. Withdrawal Application Types

Lending instrument	Withdrawal application type
Investment Project Financing	Direct payment Reimbursement Advance to designated accounts Advance to and documentation of designated accounts Documentation of prior advance to designated accounts Special commitment issuance
Program-for-Results Financing	Disbursement-linked indicator advance Disbursement-linked Indicator payment
Development Policy Financing	Tranche

3.1.6 Electronic Signing of Withdrawal Applications

98. e-Signatories can access withdrawal applications that are pending review and signature in Client Connection from the My Portfolio page, then Pending Tasks, or by using the link provided in the system-generated e-mail notification that is sent when the application is submitted to the e-signatory for signature.
99. e-Signatories are able to review the entire withdrawal application details, including the payment details and supporting documents, before signing the withdrawal application. Once the e-Signatory is satisfied with the request details, it is electronically signed using the SIDC. If the withdrawal application requires any changes or deletion, the e-signatories can reject the withdrawal application and it is sent back to the user.

3.1.7 Reference Material for electronic disbursement

100. The current reference materials for electronic disbursements listed below are available in the “reference” tab of Client Connection. These include important reference documents and step-by-step instructions on the process of electronic withdrawal of financing proceeds. These materials shall be updated from time to time, as required, whenever there are enhancements to Client Connection.
 - Client Connection login brochure
 - E forms brochure
 - E signatures brochure
 - E disbursement Brochure
 - E disbursement quick reference guides on Beneficiary Registration, Withdrawal Application creation and signing

The following PDF forms for manual submission can be obtained from the portfolio team:

- Application for Withdrawal (for all IPF loans, PforR, and DPF payments)
- Application for Special Commitment

3.2 Manual Submission of Withdrawal Applications

101. The Bank may permit the borrower to complete and submit original signed applications manually in paper form. Copies of paper application forms can be found in the Client Connection or may be obtained from the portfolio staff in the Bank, upon request.

Figure 6. Steps for Manual Submission of Withdrawal Applications



102. The original ASD may be submitted to the Bank office specified in the disbursement letter. A sample of the manual ASD is provided as an annex to the disbursement letter. The official legal representative of the borrower in the financing agreement can sign withdrawal applications.

103. The manual withdrawal application may be submitted to the Bank office specified in the disbursement letter.

3.3 Clarifications on Withdrawal Applications before Bank Approval

104. Bank staff may contact the borrowers for clarification or additional requirements during application review, before approval of the withdrawal application.

3.4 Currency of Payments

105. According to the General Conditions⁴¹ and Standard Conditions,⁴² the Bank, acting as agent of the borrower, and on such terms and conditions as the Bank shall determine, will purchase such currencies as the borrower shall reasonably request to meet payments for eligible programs/activities/expenditures. At its discretion, the Bank will purchase such currencies if it is feasible to do so with a counterparty of its choice, without undue effort, cost, or risk related to market, counterparty, or operational issues. The Bank will purchase currency from a credit-approved major commercial market counterparty or the central bank of the currency if the former is not available. If the Bank is unable to purchase a requested currency because of the inability to meet these conditions, an alternative currency will be suggested.
106. For reimbursements and direct payments, the Bank normally disburses in the currency of the expenditure, but it can make payment in the currency of commitment, U.S. dollar (if U.S. dollar is not the currency of commitment), or the local currency. For example, when the borrower pre-finances local currency expenditures from its own resources and requests a reimbursement, the Bank normally makes the payment to the borrower in the currency of expenditures, but it can make the payment to the borrower in the currency of commitment for an amount that would cover the local currency expenditures, in U.S. dollars (if different), or in that local currency, if the above terms and conditions are satisfied for that currency.

⁴¹ http://siteresources.worldbank.org/BRAZILINPOREXTN/Resources/3817166-1242680408578/General_Conditions.pdf

⁴² <http://go.worldbank.org/LXIOJ9CTI0>

4. Investment Project Financing

4.1 Disbursement Arrangements

107. Disbursement arrangements are established through consultations between the borrower and the Bank considering assessments of the borrower's financial management and procurement arrangements, including determination of usage of the borrower's systems, procurement strategy and procurement plan and cash flow requirements of the project, and the borrower's prior disbursement experience (see section 2.1 of the Disbursement Guidelines for Investment Project Financing).⁴³ Effective disbursement arrangements facilitate the secure delivery of funds to borrowers, provide sufficient liquidity for project implementation, and enable monitoring and reporting to document the use of funds. Disbursement arrangements include the following:

- Identification of eligible expenditures
- Definition of expenditure categories and disbursement financing percentage for each category
- Identification of PPA refinancing and retroactive financing
- Definition of disbursement conditions
- Determination of disbursement methods and supporting documentation requirements

4.1.1 Eligible Expenditures

108. The General Conditions⁴⁴ and Standard Conditions⁴⁵ describe eligible expenditure as the reasonable cost of goods, works, or services required for the project to be financed and procured, in accordance with the provisions of the financing agreement. The main factors affecting expenditure eligibility include timing of the expenditure, consistency with country financing parameters,⁴⁶ and the nature of the expenditure. To be eligible, expenditures must have been (a) paid on or after the date of the financing agreement or, for projects that permit retroactive financing, on or after the retroactive financing date, and (b) incurred no later than the closing date of the financing.

109. The financing agreement defines eligible expenditures that can be financed under the project, as well as the financing mechanisms for such expenditures.

110. Projects may require special financing mechanisms such as lines of credit, subprojects, or cash transfers to the beneficiaries (refer to section 4.3 for more information). In such cases, the beneficiaries use the financing proceeds for expenditures (that is, the goods, works, and

⁴³ <http://siteresources.worldbank.org/PROJECTS/Resources/DisGuideEng.pdf>

⁴⁴ http://siteresources.worldbank.org/BRAZILINPOREXTN/Resources/3817166-1242680408578/General_Conditions.pdf

⁴⁵ <http://go.worldbank.org/LXIOJ9CT10>

⁴⁶ Country financing parameters, which only apply to projects financed by Bank loans, provide the overall framework for cost sharing arrangements to be used, and the extent to which recurrent costs, local costs, and taxes and duties may be financed by the Bank, under Bank loans in the country.

services purchased by the beneficiary using the proceeds of the subloan, grant, or transfer). Although the Bank is still financing the expenditure incurred by the beneficiary, the Bank's disbursement mechanism may differ, depending on the basis of how the Bank recognizes the expenditure for disbursement purposes: the subproject itself or the actual expenditures made under these subprojects, for example. This is also valid for output-based disbursements, capitation payments, or any other category of expenditure as defined in the financing agreement.

111. Payments prohibited by the decision of the United Nations Security Council (UNSC),⁴⁷ under Chapter VII of the United Nations Charter, are not eligible expenditures. Similarly, payments made under contracts and amendments entered into during the debarment period of firms debarred and suspended by the Bank are not eligible for financing.

4.1.2 Expenditure Categories

112. The financing agreement may state one or more expenditure categories. Categories provide means to monitor and manage expenditures for project activities. Categories may be grouped based on types of expenditure or project activities. Eligible expenditures that may be financed out of the proceeds of the financing are normally grouped under "Expenditure Categories" in schedule 2 of the financing agreement. In some cases, a portion of the financing is set aside as unallocated to cover physical and price contingencies (refer to section 4.4.2 for reallocation among categories). Expenditures incurred under each category should be evident in the supporting documentation attached to withdrawal applications.

4.1.3 Disbursement Percentage

113. A disbursement percentage is the portion of eligible expenditure that the Bank has agreed to finance. The Bank establishes a percentage for each expenditure category. The disbursement percentage for a category or categories may be 100 percent, provided the Bank's overall share of the project cost is within the country financing parameters⁴⁸ for cost sharing. In cases where there are multiple cofinanciers, the Bank's share and the cofinanciers' share is defined in the financing agreement. Borrowers must submit withdrawal applications for the Bank's share of eligible expenditure.

4.1.4 Retroactive Financing

114. Retroactive financing refers to eligible expenditures paid by the borrower before the date of the financing agreement but on or after the retroactive financing date specified in the financing agreement. Payments that borrowers make out of their own resources before the date of the financing agreement are not normally eligible for financing. However, to facilitate the prompt execution of Bank-financed projects, the Bank may agree to reimburse the borrower, from the

⁴⁷ <http://www.un.org/en/sections/un-charter/chapter-vii/index.html>

⁴⁸ <http://go.worldbank.org/LS93FXIMM0>

financing proceeds, for payments that the borrower has made before the date of the financing agreement and in compliance with Bank guidelines, including The World Bank Procurement Regulations for IPF Borrowers. The specific amount and the date from which payments for eligible expenditures can be financed are set out in the financing agreement. Borrowers should differentiate the retroactive expenditure from the ongoing expenditure to facilitate accounting.

4.1.5 Project Preparation Advances (PPAs)

115. PPAs are used for preparatory activities before a financing is approved. (Refer to section 2.5.4 for more details on PPAs.) At the end of preparation, PPAs are refinanced by the follow-on financing. The total PPA amount would appear as one of the expenditure categories in the follow-on financing. There is no closing date in a PPA; it is referred to as the refinancing date, which is the effective date of the follow-on financing.
116. The disbursement arrangements, disbursement methods, and supporting documentation requirements are included in the financing agreement and the disbursement letter.
117. Any designated account, which may be opened for the preparation advance, may continue to be used for the follow-on financing. Any amount outstanding in the designated account at the time of refinancing the PPA is treated as a partial advance of the amount agreed under the follow-on financing.
118. The financing agreement of the follow-on operations will include a provision to refinance the PPA. There will be an allocation in the withdrawal schedule section to cover the estimated amount needed. After refinancing the PPA, any excess in this disbursement category may be reallocated to other disbursement categories in the disbursement schedule of the financing agreement.
119. The Bank may give grants for preparatory activities for some operations. As these are grant funds, no repayment has to be made by the recipients, and they are also not refinanced.
120. If the financing account for which the PPA was made is unlikely to materialize, the PPA has to be closed and repaid. Any outstanding advance in the designated account should be accounted for and the PPA should be closed according to the closing procedures in section 4.8.

4.1.6 Disbursement Conditions

121. The Bank may require the borrower to meet certain conditions before withdrawing proceeds from the financing account (see section 3.8 of the Disbursement Guidelines for Investment Project Financing).⁴⁹ Such conditions are stated in the financing agreement. The Bank will not be able to disburse funds under expenditure categories where there are disbursement conditions until the Bank notifies the borrower that the conditions have been met. The Bank notifies the borrower, when it is satisfied with the evidence received, that the conditions have been achieved and disbursements can commence for the relevant expenditure categories.

⁴⁹ <http://siteresources.worldbank.org/PROJECTS/Resources/DisGuideEng.pdf>

4.2 Disbursement Methods

122. The Bank uses four disbursement methods, namely reimbursement, advance, direct payment, and special commitment (section 2.2 of the Disbursement Guidelines for Investment Project Financing).⁵⁰ For all disbursement methods, the Bank disburses funds in accordance with authorized instructions from the borrower. Disbursement methods differ in relation to the payee, supporting documentation requirement, and frequency. Borrowers can use only the disbursement methods indicated in the disbursement letter. They may use a combination of disbursement methods (specified in the disbursement letter), as required to implement the project efficiently.
123. The disbursement letter indicates a minimum application size, and withdrawal applications should not be submitted for less than the minimum amount.
124. The Bank may require supporting documentation, which provides evidence of eligible expenditure for withdrawals from the financing account. The Bank determines the type of supporting documentation required for each disbursement method. This is determined at the project preparation stage and is enumerated in the disbursement letter.
125. Supporting documentation may be in the form of the following (see section 4 of the Disbursement Guidelines for Investment Project Financing⁵¹):
- Copies of original records evidencing that payment has been made (invoices and receipts);
 - Summary reports providing information on payments for eligible expenditure. Summary reports may either be (a) interim unaudited financial reports (IFRs) or (b) statements of expenditure;
 - Bank statements and/or bank reconciliation statements;
 - List of payments against contracts that are subject to the Bank's prior review; or
 - Other supplementary information that the Bank may stipulate by means of the disbursement letter or by notice to the borrower.
126. The General Conditions⁵² and Standard Conditions⁵³ require the borrower to retain all the records (contracts, orders, invoices, bills, receipts, letters of credit, recurrent cost records, bank statements, records of approval, disbursements and balances available, and other documents) evidencing eligible expenditure and to allow the Bank's representatives to examine such records. The borrower is required to retain the records for a year after the Bank has received the final audited financial statements, in accordance with the financing agreement, or two years after the closing date, whichever is later.
127. Refer to section 2.4.5 for information related to disbursement for guarantees.

Disbursement Methods

- Reimbursement
- Advance
- Direct payment
- Special commitment

⁵⁰ <http://siteresources.worldbank.org/PROJECTS/Resources/DisGuideEng.pdf>

⁵¹ <http://siteresources.worldbank.org/PROJECTS/Resources/DisGuideEng.pdf>

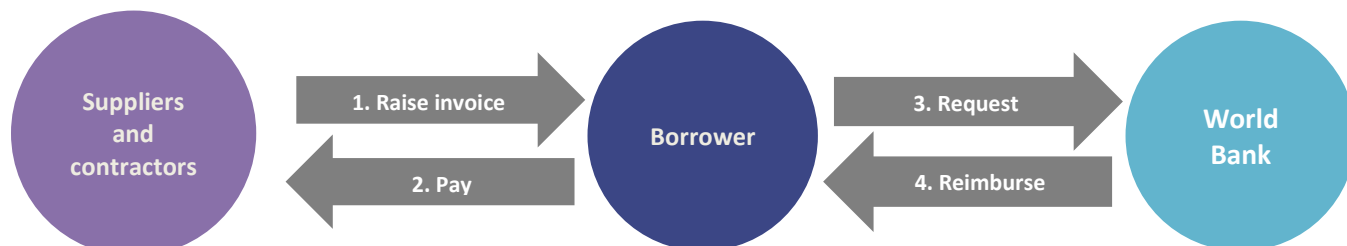
⁵² http://siteresources.worldbank.org/BRAZILINPOREXTN/Resources/3817166-1242680408578/General_Conditions.pdf

⁵³ <http://go.worldbank.org/LXIOJ9CTI0>

4.2.1 Reimbursement Method

128. The Bank may reimburse the borrower for expenditures eligible for financing that have been prefunded from the borrower's own resources (figure 7).

Figure 7. Process Chart for Reimbursement



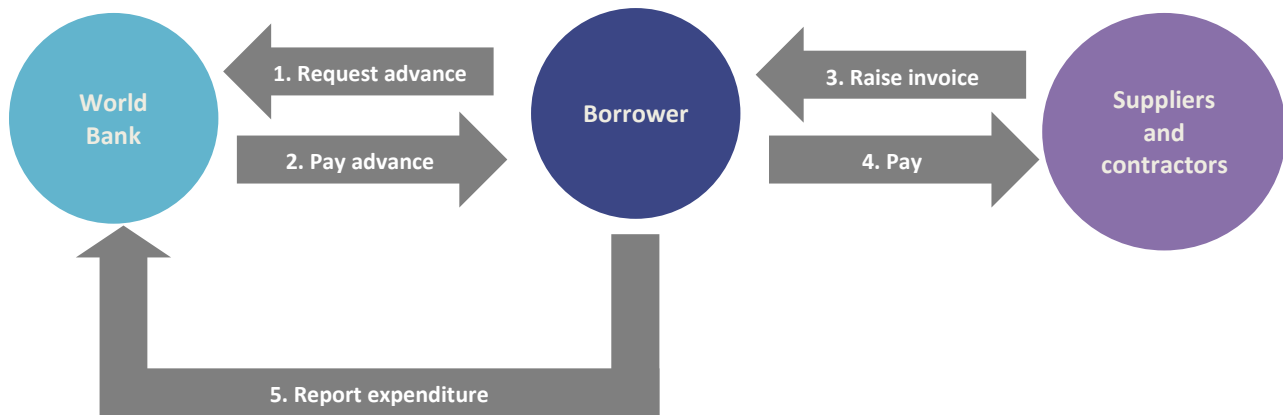
129. The supporting documentation requirements are indicated in the disbursement letter and may include one or more of the following:
- Summary reports (statements of expenditure or interim unaudited financial reports) and/or records
 - List of payments against contracts that are subject to the Bank's prior review
 - Evidence of payment, for example, bank statements, invoices, or any other documentation that the Bank has indicated as appropriate
 - Other supplementary information that the Bank may stipulate in the disbursement letter or in a notice to the borrower

4.2.2 Advance Method

130. The Bank may advance financing proceeds into designated accounts of the borrower to finance eligible expenditures (see sections 5 and 6 of the Disbursement Guidelines for Investment Project Financing⁵⁴ for additional information on advances and designated accounts). The Bank determines the limits and reporting requirements that apply to advances during project preparation, by considering the cash flow requirements and fiduciary framework (figure 8). Advances accrue charges for IBRD loans, IDA credits, and BTFs at the time of disbursement of the funds.

⁵⁴ <http://siteresources.worldbank.org/PROJECTS/Resources/DisGuideEng.pdf>

Figure 8. Process Chart for Advance Method



4.2.2.1 Designated Accounts

131. Designated accounts may be one of the following types (see section 5 of the Disbursement Guidelines for Investment Project Financing⁵⁵):
- **Segregated.** An account of the borrower into which only funds from the Bank's financing account may be deposited and can be tracked separately. This type may include a treasury account with subaccount and reporting functionality.
 - **Pooled.** An account of the borrower into which the funds from the financing account and the funds of other financing for the operation may be deposited.
132. The designated account is normally maintained in a freely convertible, stable currency (see subsection 5.4 of the [Disbursement Guidelines for Investment Project Financing](http://siteresources.worldbank.org/PROJECTS/Resources/DisGuideEng.pdf)).⁵⁶ The Bank may agree to accounts denominated in the local currency if the expenditures to be financed are primarily in the local currency.
133. In accordance with subsections 5.5 and 5.6 of the Disbursement Guidelines for Investment Project Financing,⁵⁷ the financial institution used for the designated account should be acceptable to the Bank. The financial institution may be a commercial bank, the central bank of the country, or another institution—as long as the relevant criteria are met.

⁵⁵ <http://siteresources.worldbank.org/PROJECTS/Resources/DisGuideEng.pdf>

⁵⁶ <http://siteresources.worldbank.org/PROJECTS/Resources/DisGuideEng.pdf>

⁵⁷ <http://siteresources.worldbank.org/PROJECTS/Resources/DisGuideEng.pdf>

4.2.2.2 Designated Account Ceiling

134. The *ceiling* refers to the maximum amount of financing proceeds that may be on deposit in a designated account (see section 6 of the Disbursement Guidelines for Investment Project Financing).⁵⁸ The Bank establishes the ceiling based on planned project expenditures and the borrower's capacity to ensure effective use of the designated accounts. The Bank may establish a ceiling that is (a) a fixed amount, or (b) a variable amount that is adjusted from time to time during project implementation based on periodic forecasts of cash flow needs.

Designated Accounts

- Segregated or pooled accounts
- Fixed or variable ceiling
- Advance and reporting of advance
- Statements of expenditure or interim unaudited financial reports

135. Borrowers may request advances as needed for project implementation. They must report on how the previously advanced funds have been used. The total amount under advance to the designated account must not breach the ceiling.

136. A fixed ceiling is appropriate when expenditures are expected to be incurred evenly throughout the life of the project. A variable ceiling, based on periodic forecasts, is appropriate when project expenditures are expected to vary over the life of the project. In such cases, the ceiling may be based on (a) the borrower's forecasts, as provided in the interim unaudited financial reports or (b) the task team's estimates of planned project expenditures. The Bank assesses the reasonableness of forecasts and may adjust the amount it is willing to advance if it is not satisfied that a forecast is justified. See subsection 6.4 of the [Disbursement Guidelines for Investment Project Financing](#).⁵⁹

137. The basis on which the ceiling is established can be modified through an amendment to the disbursement letter, from a fixed ceiling to a variable one or from a variable ceiling to a fixed amount.

4.2.2.3 Supporting Documentation

138. The requirements related to supporting documentation that needs to be attached with withdrawal applications are noted in the disbursement letter. Withdrawal applications for advance, advance to and documentation, and documentation of prior advances can be submitted along with the appropriate supporting documents. Table 9 indicates the supporting documentation that may be required on the basis of ceiling type and reporting requirements.

⁵⁸ <http://siteresources.worldbank.org/PROJECTS/Resources/DisGuideEng.pdf>

⁵⁹ <http://siteresources.worldbank.org/PROJECTS/Resources/DisGuideEng.pdf>

Table 9. Supporting Documentation for Designated Account Advances and Reporting

Type of summary reports	Variable ceiling		Fixed ceiling	
	Advance	Reporting of advances	Advance	Reporting of advances
Statements of expenditure	Cash or expenditure forecast approved by the Bank	<ul style="list-style-type: none"> • Statements of expenditure • List of payments for contracts subject to prior review • Copies of records evidencing expenditure • Any other documents specified in the disbursement letter 	None	<ul style="list-style-type: none"> • Statements of expenditure • List of payments for contracts subject to prior review • Copies of records evidencing expenditure • Any other documents specified in the disbursement letter
Interim unaudited financial reports	Cash forecast approved by the Bank	<ul style="list-style-type: none"> • Interim unaudited financial reports • List of payments for contracts subject to prior review 	None	<ul style="list-style-type: none"> • Interim unaudited financial reports • List of payments for contracts subject to prior review

139. The Bank records the use of the advances under eligible project expenditure when the borrowers provide documentation showing that expenditures have been incurred and paid from the advance. Borrowers may be required to submit other supplementary information or documentation that the Bank may stipulate in the disbursement letter or notice to the borrower.

4.2.2.4 Designated Account Management

140. While making payments from a designated account, the borrower is responsible for following all procedures specified in the financing agreement, the procurement strategy and procurement plan, project operations manual, and any additional instructions provided in the disbursement letter. The borrower should withdraw only the funds advanced to the designated account to pay for eligible expenditures and is responsible for maintaining appropriate records, including bank statements and reconciliations. The Bank may request to review these documents during project implementation support.
141. Payments of advances to designated accounts are made in the currency of the designated account. The borrower is required to report on the use of advances in the same currency. If the funds are used to finance expenditure in different currencies, the Bank recommends using, for reporting purposes, the exchange rate in effect on the date funds are withdrawn from the designated account.
142. Financing proceeds deposited into designated accounts of the project may be transferred to other accounts related to the project, if there is a need and appropriate arrangements are in place, to ensure that the advanced financing proceeds will be used for eligible expenses only.

The account opening, transfers, and reconciliation requirements for such accounts are similar to designated account requirements specified in section 5 of the [Disbursement Guidelines for Investment Project Financing](#).⁶⁰ Banks holding all transit and second-generation bank accounts are subject to the same process as the banks holding the designated account. Reporting on the transfers from the designated accounts and use must be done in the same currency as that of the designated account. The exchange rate in effect on the date funds were transferred out of the designated account should be used for all reporting purposes. Any foreign exchange losses arising from such transfers to accounts in other currencies are not eligible to be financed.

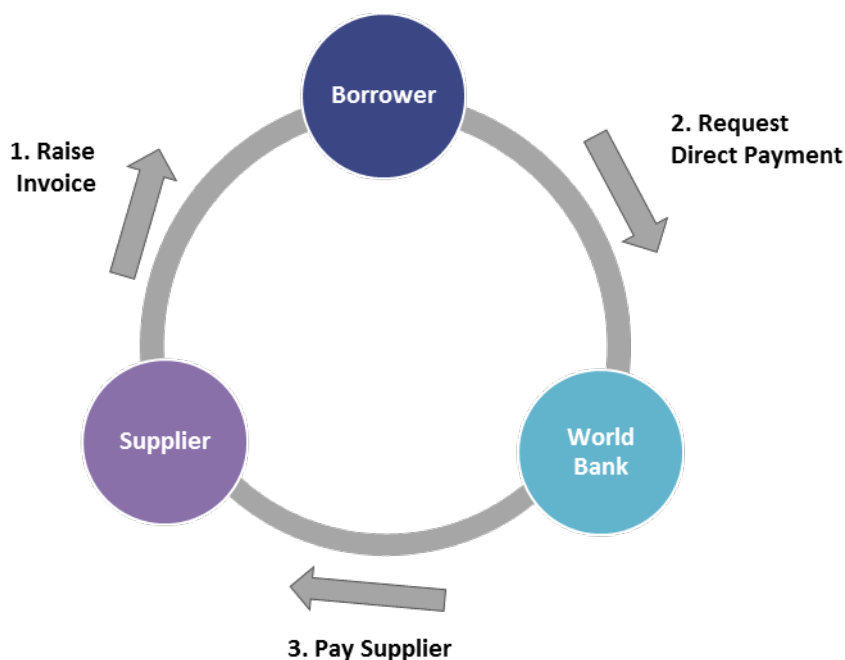
143. The borrower is accountable for all financing proceeds advanced to the designated account, including amounts that may be transferred to another account related to the project. If the Bank determines that an ineligible expenditure has been financed from a designated account, it may require a refund.
144. The frequency of submission of withdrawal applications for advances and documentation of advances is prescribed in the. The designated account may be deemed to be inactive if the Bank does not receive applications for extended periods beyond the prescribed frequency in the disbursement letter. The Bank may request borrowers to refund excess advances if the amounts advanced to the designated accounts are not required to finance eligible expenditures. Borrowers may also refund advances that are not required for planned project expenditure.
145. No new advances may be made after the closing date or when the operation is under suspension of disbursements (see section 4.10).

⁶⁰ <http://siteresources.worldbank.org/PROJECTS/Resources/DisGuideEng.pdf>

4.2.3 Direct Payment Method

146. The Bank may make payments, at the borrower's request, directly to a third party (supplier, contractor, and consultant) for the Bank's share of eligible expenditures (figure 9).

Figure 9. Process Chart for Direct Payment



4.2.3.1 Supporting Documentation

147. The supporting documentation requirements are noted in the disbursement letter and may include one or more of the following:
- A copy of original records, which can be the supplier's or consultant's invoice, or a summary statement of works performed, signed by the supervising engineer or other authorized officials.
 - In the case of advance payment and retention money payment, a bank guarantee must be attached. The currency of the bank guarantee is expected to be the same as the currency of payment stated in the contract.

4.2.3.2 Key Considerations for Direct Payment

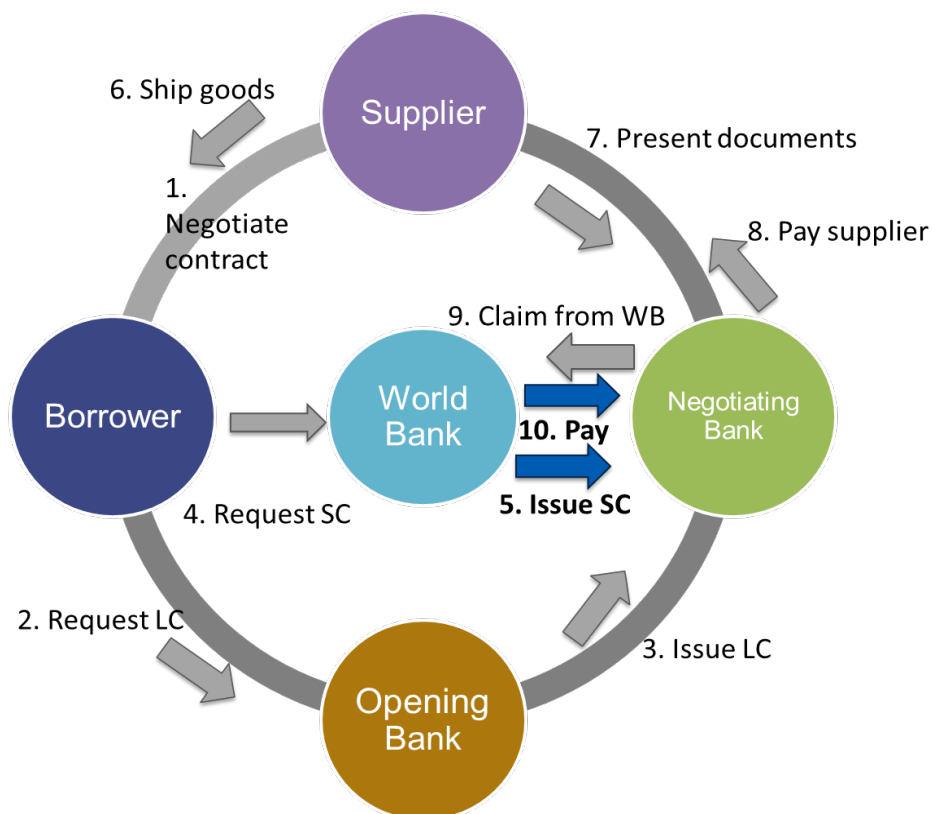
148. The borrower should consider the following when submitting applications for direct payment:
- The borrower must obtain complete payment instructions, including intermediary bank details, from the supplier or consultant and verify these instructions before filling out the withdrawal application.

- The intermediary bank is required when the currency of payment differs from the currency of the country in which the beneficiary bank is located.
- Multiple invoices in the same currency to the same supplier or consultant can be combined to meet the minimum application size.
- The Bank can make direct payments for eligible expenditures to suppliers; however, the Bank cannot make statutory deductions from these payments and remit to the concerned authorities. Withdrawal applications should be submitted for the net amount. The statutory payment amount can be subsequently claimed from the Bank.

4.2.4 Special Commitment Method

149. A special commitment is an irrevocable commitment by the Bank, made at the request of the borrower, when the Bank undertakes to reimburse a negotiating bank for payments it makes to a supplier against a letter of credit, notwithstanding any subsequent suspension or cancellation, as illustrated in figure 10.

Figure 10. Process Chart for Special Commitment



Note: LC = letter of credit; SC = special commitment; WB = World Bank.

4.2.4.1 Special Commitment Issuance

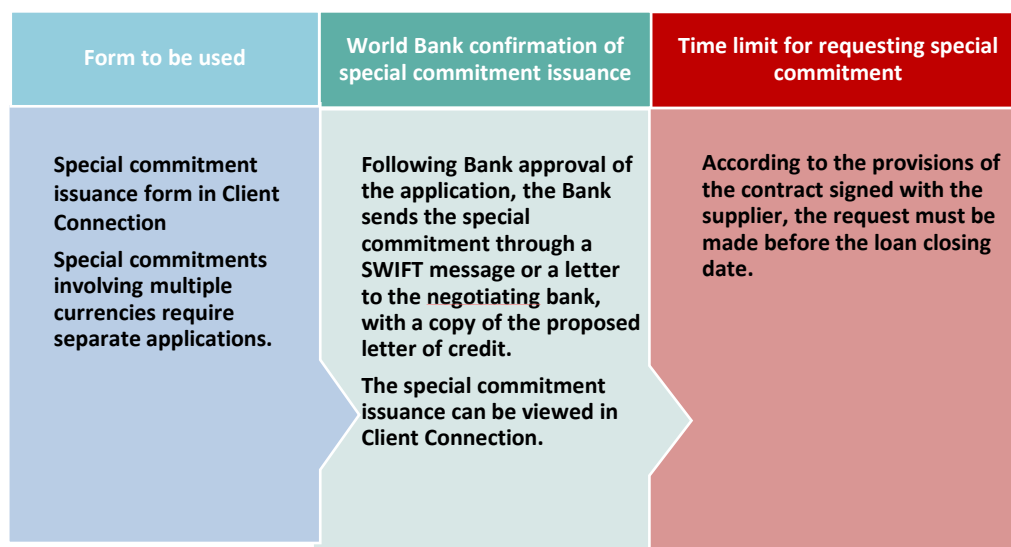
150. Special commitments are issued for procurement of goods and are in the same currencies as specified in the contract (see table 10). The application amount for special commitment issuance should be equal to or above the minimum application size mentioned in the disbursement letter.

Table 10. Key Terminology in Special Commitments

Letter of credit (LC)	A letter from the opening bank guaranteeing that a purchaser's payment to a supplier will be processed on time and for the correct amount as soon as required conditions have been met.
Opening bank	The borrower's or project implementing unit's bank issues the LC to the negotiating bank.
Negotiating bank	The supplier's bank, which receives the letter of credit and the special commitment and claims reimbursements from the Bank for payments made to the supplier. It is responsible for letting the Bank know about amendments to the LC.

151. A copy of the letter of credit issued by the opening bank (with valid expiry date, which is on or before the closing date) is a mandatory supporting document for all applications for a special commitment (figure 11).

Figure 11. Applying for a Special Commitment



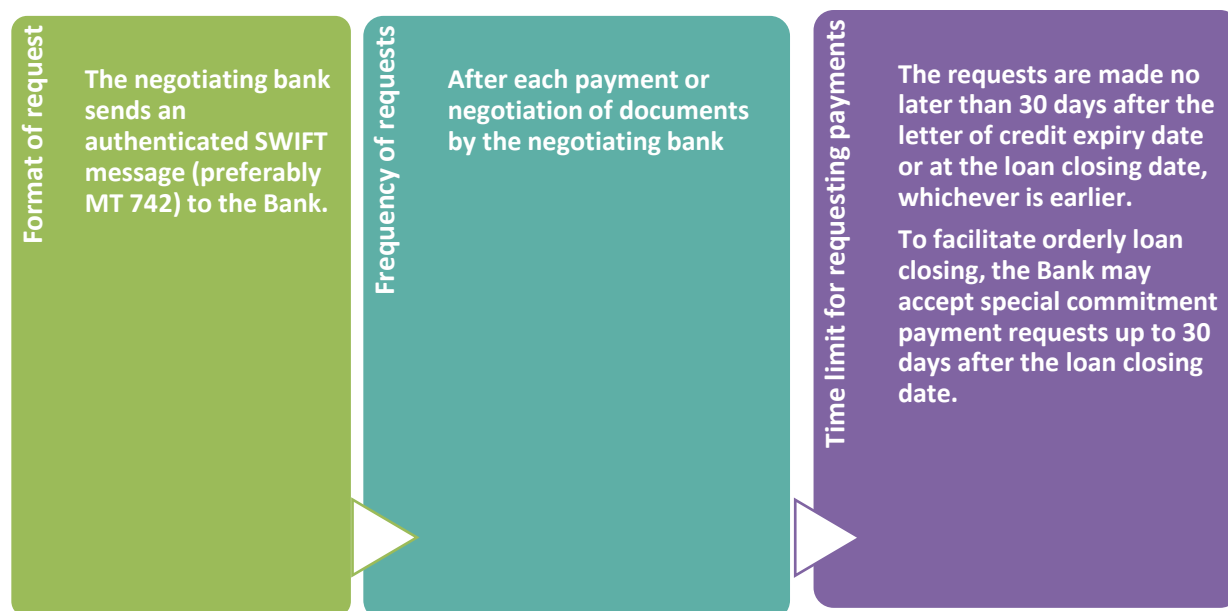
152. The borrower should consider the following when applying for a special commitment:
- Special commitments are issued based on letters of credit. The special commitment cannot be issued for a period extending beyond the closing date. The special commitment expiry date and the letter of credit expiry date should be on or before the loan closing date.

- Letters of credit are governed by the Uniform Customs and Practices for Documentary Credits, a universally recognized set of rules. A letter of credit requires supporting documentation (invoices, insurance certificates, bills of lading) that the negotiating bank can readily evaluate. For consultant services and civil works, the procedures of the Uniform Customs and Practices for Documentary Credits are not applicable, and the negotiating bank may not have the means to check the services provided.
- Because the loan amount is limited, each special commitment has a limitation clause specifying the aggregate limit in the currency of commitment of the loan, which the Bank is obligated to pay when conditions for payment have been met. In computing the limitation, the Bank uses the current exchange rate with a margin to cover normal currency fluctuations. Margins are not calculated if the currency of the special commitment is the same as the currency of the commitment.
- Special commitments do not cover interest, commission, and other charges or expenses in connection with the letter of credit. However, these charges are normally eligible for withdrawal from the loan account and can be claimed using another disbursement method.
- The World Bank task team leader must have no objection to the contract if the contract is subject to prior review.

4.2.4.2 Special Commitment Payments

153. The Bank undertakes to reserve funds in the loan account for later disbursement to a negotiating bank, normally in the supplier's country, for payments made or to be made under the letter of credit (figure 12). No supporting documentation is required for payment claims under special commitments.

Figure 12. Applying for a Payment under a Special Commitment



4.2.4.3 Special Commitment Amendments

154. Negotiating banks that receive the Bank's special commitment must advise the Bank through an authenticated Society for Worldwide Interbank Financial Telecommunication (SWIFT) message regarding any amendments to the letter of credit. The following amendments to letters of credit must be approved by the Bank in advance:
- Changes to the value of the letter of credit, the description or quantity of goods, or the beneficiary
 - Extension of the expiry date of the letter of credit by more than six months beyond the original expiry date or beyond the loan closing date specified in the commitment letter, whichever is earlier
 - Permission for an advance payment of more than 25 percent before the goods are shipped
155. The negotiating bank to which the special commitment is addressed is responsible for notifying the Bank about any amendment and change in the negotiating bank.
156. The Bank will not approve an amendment to a letter of credit covered by a special commitment if the expiry date is later than the loan closing date.

4.2.4.4 Special Commitment Cancellation

157. The obligation under the special commitment comes to an end on the expiry date. The borrower cannot unilaterally request the cancellation of a special commitment before the expiry date. The negotiating bank may initiate a request for cancellation and must send it to the Bank through an authenticated SWIFT message. The Bank, in consultation with the borrower, may carry out the cancellation. Once the special commitment is canceled, and if there is any eligible expenditure or pending payment, the borrower may send payment requests to the Bank using other disbursement methods mentioned in the disbursement letter.

4.3 Other Disbursement Mechanisms

4.3.1 United Nations Commitments

158. At the request of the borrower, a UN commitment is issued by the Bank to another UN agency to reserve loan funds to be paid later directly to the UN agency. This process is based on a contract between the borrower and the UN agency. Subsequently, the Bank makes advance payments to the UN agency on the basis of requests by the agency and the borrower. These payments are referred to as UN advances.
159. The procedure for submission is detailed below:
- The borrower submits a manual withdrawal application for the total amount of the contract. The borrower then contacts the loan operations representative assigned to the portfolio for the format of the withdrawal application.

- Following approval of the withdrawal application, the Bank issues a commitment letter to the UN agency indicating that funds have been reserved to cover the cost of the contract or agreement. This letter is delivered by mail to the UN agency.
- The UN agency subsequently requests advance payments from the Bank in the format stated in the contract.
- The Bank disburses the UN advance to the UN agency.
- The UN agency submits a utilization report, in the format stated in the contract, to document the advances given earlier.
- The UN agency refunds any unused advance amount to the Bank.

4.3.2 Co-Financing

160. Co-financing is an arrangement under which funds from the Bank and/or borrower's own funds are associated with funds provided by other sources (i.e. third parties), in the financing of a particular project. Co-financing can be channeled as either as joint or parallel co-financing.
161. In joint co-financing, procurement is carried out in accordance with the Bank's procurement regulations. The share of each co-financier (financing percentage) is pre-determined, as percentage of total financing, and included in the withdrawal schedule of the Financing Agreement. Disbursements, at transaction level, are based on the financing percentage mentioned in the Financing Agreement.
162. For parallel co-financing, the Bank and co-financiers finance different categories and/or components, using their internal rules.

4.3.3 Results-Based Financing or Disbursement-Linked Indicators

163. In IPF operations, the Bank disburses financing or loan proceeds against specific eligible expenditures. For IPF operations that are using results-based financing or disbursement-linked indicators (DLIs), the borrowers ensure that results or DLIs are achieved before they request disbursement of eligible expenditures (table 11). In results-based and DLI operations, disbursement is made against cumulative eligible expenditures⁶¹ or achieved DLI allocation, whichever is less.

⁶¹ The eligible expenditures made in local currency should be converted to US\$ or currency of commitment, because withdrawal schedules or DLI allocation are established in US\$ or currency of commitment.

Table 11. Comparison between a Results-Based or DLI-Based IPF Project and a Traditional IPF Project

Description	IPF project	Results—or DLI-based IPF project
Need for eligible expenditures	✓	✓
Achievement of results or DLI	not applicable	✓
Applicability of Bank's procurement regulations for borrowers	✓	✓
Disbursement method	Disbursement method(s) as listed in the disbursement letter	Disbursement method(s) as listed in the disbursement letter—normally, reimbursement method
Supporting documentation	Summary reports as listed in the disbursement letter	Summary reports as listed in the disbursement letter Letter from the Bank confirming achievement of results or DLI, if required
<i>Note:</i> DLI = disbursement-linked indicator; IPF = Investment Project Financing.		

164. For projects with scalable DLIs, disbursement can be triggered on the basis of partial achievement of DLIs.
165. Some loans have both DLIs and traditional IPF components under the same project. In such cases, the supporting documentation must clearly distinguish between expenditures of both parts. The supporting documentation required for each part is specified in the disbursement letter.
166. The concept of category overdraw is not applicable for a DLI-based IPF project, because DLI allocation is specified in the financing agreement or disbursement letter and can be changed only by an amendment.
167. DLIs should be achieved before the closing date of the loan. If the DLIs are not achieved, disbursements cannot be made, according to the provisions of the relevant financing agreement.

4.3.4 Output-Based Disbursements

168. Output-based disbursement is based on tangible deliverables or output; the cost of each output, which is determined in advance, is linked to the financing amount. Specific unit cost is assigned to each output in the financing agreement or disbursement letter. Each deliverable or output has a credible cost associated with it to justify disbursements being made against qualifying expenditures (figure 13).

Figure 13. Basics of Output-Based Disbursement

Fiduciary systems and cost tracking	<ul style="list-style-type: none"> • Evaluate fiduciary system during appraisal to assess financial management reporting. • Review readiness for reporting on procurement decisions.
Determination of unit costs	<ul style="list-style-type: none"> • Consider alternative information sources, using technical basis. • Consider government sources and nongovernment sources.
Output types and schedule	<ul style="list-style-type: none"> • Fit multiple sets, rather than a large set of outputs, into a single unit costing standard. • Prepare schedule of outputs.

169. Summary reports, as specified in the financing agreement or disbursement letter, should be submitted along with the withdrawal applications. The design of the summary report may include the following:
- Schedule of outputs and predetermined costs
 - Certified list of completed outputs
 - Product of the number of outputs multiplied by their unit costs, which must equal the disbursement request
170. A report on physical completion of outputs from an external verification agent may be required to be submitted to the Bank. The Bank confirms achievement of outputs to the borrower. The borrower should follow the instructions set out in the disbursement letter when processing withdrawal applications.
171. For projects with large components using output-based disbursements, a midterm review of actual expenditures versus output-based disbursements may be conducted to ensure that variances are within tolerance limits. If large variances are seen, a review of unit costs is to be done. If frequent increases in unit costs occur, conversion to traditional disbursements for outputs to be achieved is encouraged.

4.3.5 Community-Driven Development Projects

172. Community-driven development is an approach that gives community groups control over planning decisions and investment resources for local development projects. Community groups work in partnership with government or nongovernment agencies. This approach is generally used when disbursement is to be made to registered or unregistered community groups.
173. Financial reporting mechanisms should include clear definition of roles, links between project disbursement and financial reporting, and links between subproject agreements and financial statements or reports.

174. An expenditure incurred at the community level is considered by the Bank to be an eligible expenditure. Even if transfers are made to the community in the form of grants, the expenditure is considered as eligible only if it is incurred at the community level. In the same manner, transfers between government departments are not considered eligible by the Bank. Cash transfers to individuals for consumption purposes are considered an eligible expenditure by the Bank.
175. Expenditures should be recorded at the end-use point where they are incurred or paid. Reporting for disbursement purposes could be based on the records at the community level. Advance may be provided to the groups, but recording of expenditures with the Bank must be done on receipt of a utilization report from the community groups. These provisions are included in the disbursement letter. If such reporting is not feasible, then recording expenditures upstream is acceptable, provided there are mechanisms for oversight of actual end use of funds before the closing date, as described in the financing agreement, and provided the Bank is satisfied about the reporting arrangements. Any amounts disbursed for grants and not spent by the respective community groups or government agencies by the closing date should be refunded to the Bank.
176. Summary reports, as specified in the financing agreement or disbursement letter, should be submitted along with the withdrawal applications. The design of the summary report may include the following:
 - Reporting of expenditures incurred by the communities before the project closing date, even if they are not for disbursement purposes
 - Refund of any amounts lying in the Bank account(s) of the community, government, nongovernment organizations before the disbursement deadline date
 - Refund of amounts not used in accordance with the operations implementation manual
 - Percentage of reporting done for previous disbursements, in case of subsequent disbursements
 - Audit of community's accounts

4.3.6 Disbursement Arrangements for Subloans

177. Table 12 shows examples of disbursement arrangements for subloans.

Table 12. Recognition of Expenditures—Examples

Disbursement arrangements for subloans	
Example: If the borrower uses the financing proceeds to make subloans to beneficiaries, the unit of account may be the subloan itself or the actual expenditures under the subloan.	
Case A. Subloan is unit of account. Borrower may disburse an agreed percentage of the subloan in a block amount as long as it has controls in place to ensure that the subloan (block amount) will be used for intended purposes.	<ul style="list-style-type: none"> • The Bank records the expenditure in the loan account <i>at the time of disbursement</i> by the borrower to the beneficiary of the subloan. • The Bank checks the use of the subloan for eligible expenditures during implementation support.

Case B. Expenditure incurred is unit of account. Borrower may disburse the subloan on the basis of expenditures as they are incurred by the beneficiary.

- The Bank records the expenditure in the loan account *at the time of reporting* by the borrower to the Bank on the actual expenditures incurred by the beneficiary under the subloan.
- The Bank confirms the actual use of funds for these expenditures during implementation support.

In cases A and B, the terms and conditions of the subloan, as set out in the financing agreement, would specify expenditures and associated costs eligible for financing under the subloan.

4.4 Managing Project Restructuring

178. The Bank and the borrower are jointly responsible for ensuring that project management and disbursement arrangements during implementation continue to be appropriate and sufficient. During project implementation, if priorities or circumstances surrounding the project change, it may be desirable to introduce suitable changes in the project, its design, or its implementation arrangements.

4.4.1 Amendments to Financing Agreement

179. The Bank, in consultation with or at the request of the borrowers, can make disbursement-related amendments to the financing agreement. Such changes include extending the closing date to permit continued loan withdrawals, reallocating funds, or changing the disbursement percentages to meet financing needs of the project. Amendments are subject to agreement between the borrower and the Bank. Changes that will significantly affect the design and scope of the project may also require approval by the Bank's Board of Executive Directors.
180. To amend the financing agreement, the borrower typically sends a request for proposed amendments to the Bank. The amendment usually comes into force on completion of the signatures by both parties. In some cases, the amendment stipulates certain conditions that must be achieved before its effectiveness and would only come into force upon compliance with these conditions.

4.4.2 Reallocation among Expenditure Categories

181. Actual progress of a project during implementation may differ from original estimates for many reasons. Such circumstances may require reallocating some funds from one expenditure category to another and, in some cases, from the unallocated category. No disbursements can be made directly from the unallocated category; these funds must first be reallocated to another category listed in the schedule of withdrawal attached to the financing agreement. The Bank may reallocate funds from one category to another by notice to the borrower. In

most cases, however, funds are reallocated after project progress is reviewed with the borrower, during implementation support.

4.4.3 Expenditure Category Overdraw

182. The Bank does not normally approve claims in excess of category allocation. However, if the overdraw of the category does not entail any change in scope, the Bank may approve processing of an application subject to the approval of the task team.
183. To avoid delay in disbursements for expenditures under a category that has been or is about to be fully disbursed, the borrower should review its outstanding commitment, update the disbursement plan per expenditure category, determine whether the undisbursed balance of each category is sufficient to meet planned expenditures, and initiate discussions with the task team leading toward reallocation of funds at the appropriate time. Subsequently, a request for amendments to the financing agreement has to be furnished to the Bank, as stated in section 4.4.1.

4.4.4 Changes to Disbursement Arrangements

184. The need for a change to disbursement arrangements may arise during project implementation because of changes in project needs, financial management, and procurement arrangements. At the request of the borrower, the task team may recommend changes to disbursement arrangements or remedial actions.
 - If the disbursement arrangements for the loan are governed by the disbursement letter and Disbursement Guidelines for Investment Project Financing⁶² (for example, disbursement methods, designated account requirements, and/or instructions concerning how expenditures will be documented), the Bank may revise the disbursement letter to elaborate on the agreed changes to the arrangements and help clarify the requirements.
 - If the proposed changes are not governed by the disbursement letter and Disbursement Guidelines for Investment Project Financing⁶³ and touch on conditions or obligations set out in the Financing Agreement, an amendment to the disbursement provisions in the financing agreement may be required.

4.5 Ineligible Expenditures

185. The Disbursement Guidelines for Investment Project Financing⁶⁴ state that if the Bank determines that any amount from the financing account has been used to pay for expenditures that are not eligible pursuant to the financing agreement, the Bank may, at its discretion, require the borrower within a specified period of time to (a) refund the amount to the Bank or

⁶² <http://siteresources.worldbank.org/PROJECTS/Resources/DisGuideEng.pdf>

⁶³ <http://siteresources.worldbank.org/PROJECTS/Resources/DisGuideEng.pdf>

⁶⁴ <http://siteresources.worldbank.org/PROJECTS/Resources/DisGuideEng.pdf>

- (b) exceptionally, provide substitute documentation, evidencing other eligible expenditure. The appropriate course of action shall be decided by the Bank, and the borrower must take immediate action to resolve the issue when notified by the Bank.
186. If the Bank determines that any payment out of the designated account was not justified by the evidence furnished to the Bank or was made for ineligible expenditure, the Bank may, at its discretion, require the borrower to (a) provide additional evidence, (b) deposit an equivalent amount into the designated account, (c) refund the amount to the Bank, or (d) exceptionally, provide substitute documentation, evidencing other eligible expenditure. The appropriate course of action shall be decided by the Bank, and the borrower must take immediate action to resolve the issue when notified by the Bank.
187. Ineligible expenditures include the following:
- Expenditures outside the scope of definitions in the financing agreement
 - Expenditure declared ineligible on account of audit or review
 - Items not covered by the project and category descriptions in the financing agreement
 - Items not procured in accordance with the procurement strategy and procurement plan and agreed procedures
 - Payments made before the financing agreement date or effective date of retroactive financing, where applicable
 - Expenditures for which the borrower has been unable to provide sufficient and appropriate evidence
 - Payments made or due for expenditures incurred after the closing date

4.5.1 Recovering Ineligible Expenditures

188. For cases requiring provision of substitute documentation, the borrower should submit to the Bank documentation of expenditures that are eligible for financing and paid using counterpart funds, to the Bank. Once the Bank confirms, the borrower should submit a withdrawal application to the Bank offsetting ineligible claims in previous applications against substitute expenditures.
189. When refund to the Bank is required, all refunds should be paid to the Bank's account at its depository bank, within the time limit specified in the communication, citing appropriate references such as the loan number and withdrawal application number. Amounts refunded to the Bank are normally credited on the date of receipt of the refund.

4.6 Refunds

190. The Bank may request the borrower to refund the disbursed proceeds of a loan to the Bank for any of the following reasons:
- Excess funds in a designated account that are not needed for project implementation
 - Unused funds remaining in the designated account at the end of the project

- Expenditures deemed ineligible for financing under the loan (refer to section 4.5 on ineligible expenditures)
 - Declaration of misprocurement when payments have already been made against the misprocured contract
191. All refunds should be paid to the Bank within the time limit specified in the refund notice. Refunds should be paid to the Bank's account at its depository bank, citing appropriate references such as the loan number and reason for refund. Amounts refunded to the Bank are normally credited on the date of receipt of the refund. In some cases, the refunded amount may have to be converted to another currency (currency of the loan from which payment was made).

4.7 Noncompliance with Audit Covenants

192. Covenants in the financing agreement specify the audit requirements for all projects. Borrowers are responsible for timely submission of audited financial statements in accordance with the provisions in the agreement. If the borrower does not provide acceptable audited financial statements by the due date, as required by the financing agreement, the Bank may implement certain restrictions in accordance with the remedial measures for noncompliance with audit covenants (table 13).⁶⁵

Table 13. Remedial Measures for Noncompliance with Audit Covenants

Type of noncompliance	Actions the Bank may take
Failure to maintain acceptable financial management arrangements; failure to submit interim unaudited financial reports; audited financial statements not received by due date or considered unacceptable (ineligible expenditures, unreliable financial statements, deficiencies in internal controls, unacceptable scope or findings)	<ul style="list-style-type: none"> • May refuse to extend the closing date of the affected loan. • May delay negotiations and/or board presentation of any new loans benefiting the noncompliant entity.
Acceptable audited financial statements four months overdue	<p>All of the above and the following actions:</p> <ul style="list-style-type: none"> • May withhold further advances of amounts of the loan. • May discontinue disbursements based on summary reports (interim unaudited financial reports and statements of expenditure).
Acceptable audited financial statements nine months overdue or evidence that there are major deficiencies in internal controls or that funds have not been used for eligible purposes	<p>All of the above and this action:</p> <ul style="list-style-type: none"> • May suspend disbursements on affected loan in accordance with Bank policies.

⁶⁵ <http://siteresources.worldbank.org/PROJECTS/Resources/DisGuideEng.pdf>

4.8 Loan Closing

4.8.1 Closing Date Management

193. The loan closing date is established on the basis of the anticipated project completion date and is specified in the financing agreement. When implementation has been delayed, the Bank may extend the closing date, usually after consultation with or at the request of the borrower.
194. For expenditures to be eligible for financing, payments must have been made or be due for (a) goods and works delivered and accepted on or before the closing date, (b) consultancy or other services provided and accepted by the closing date, and (c) training activities completed by the closing date. Any expenditure incurred after the closing date is not eligible for financing except for the final audit fees, as discussed in section 4.8.5.
195. The borrower must be particularly vigilant in the final year of project implementation to avoid closing problems, such as contracts that go beyond the closing date, training and similar activities spanning the closing date, and unresolved cases of questionable or ineligible expenditures. If an extension of the closing date is contemplated, the borrower should submit a formal request to the Bank, accompanied by a specific action plan for project completion, well before the closing date.

4.8.2 Disbursement Deadline Date

196. The disbursement deadline date is the final date up to which the Bank will accept applications for withdrawal from the borrower or documentation on the use of the financing or loan proceeds already advanced by the Bank. The disbursement deadline date may be the same as the closing date or up to four months after the closing date. This date is indicated in the disbursement letter or in a notification by the Bank.
197. Recognizing that circumstances beyond the borrower's control may affect its ability to complete the provision of all applications and supporting documentation before the disbursement deadline date, the Bank may, on an exceptional basis, consider an extension of the deadline date up to an additional two months. The borrower should send a request for extension of the disbursement deadline date as soon as the delay is identified, specifying the reason for the delay and the estimated time required. If it is approved, the Bank shall notify the borrower in writing about the extension of the disbursement deadline.

4.8.3 Contract Management during Loan Closing

198. The borrower is accountable for managing and monitoring all contracts. Some issues that may require special attention at the time of closing are pending payments on contracts and retention monies on work contracts that have been completed successfully on or before the closing date but for which the warranty period goes beyond the closing date.

199. **Pending payments on contracts.** To avoid problems arising from unpaid obligations after loan closing, the borrower should carry out the following actions:

- Review outstanding commitments.
- Update the project disbursement plan.
- Check adequacy of available funds.
- Make prompt payments for activities satisfactorily completed.
- Document all eligible payments made from the designated account.
- Hold consultations with the concerned contractor or supplier on pending contract issues.
- Ensure that all documentation obligations for outstanding United Nations advances, if any, are completed.
- Closely monitor and follow up implementation of agreed actions on pending issues.

200. **Retention money.** This money is typically eligible for withdrawal from the loan account only after the borrower releases the funds to the contractor or supplier at the end of the contract warranty period or another specified date (for example, one year from the date of the original invoice). When the warranty period goes beyond the closing date, the Bank will accept retention money as an eligible expenditure if (a) the contract for the work has been completed and the work has been provisionally accepted before the loan closing date and (b) the contract provides for the option of replacing the retention money with an on-demand bank guarantee or other suitable performance security. The evidence of provisional acceptance and a copy of the bank guarantee must be submitted as supporting documentation, along with the withdrawal application, when this expenditure is submitted for payment to the Bank.

4.8.4 Designated Account Management during Closure

201. The borrower should ensure that all amounts deposited in the designated account are accounted for and their usage is reported to the Bank on or before the disbursement deadline date. If advances to the designated account are not documented by the disbursement deadline date, the Bank shall request a refund of the balance.

202. **Lapsed loan.** This term refers to a financing account that cannot be closed within two months following the disbursement deadline date because of an undocumented balance in a designated account or pending refunds for ineligible expenditure.

203. Until the undocumented balance or ineligible expenditure is cleared, the Bank may not permit the use of designated accounts for new projects with the borrower. Once the lapsed loan has been resolved, the use of the advance method and designated account may be permitted. The existence of lapsed

Designated Account Management

- Recovery may start six months before the loan closing date.
- Deposits and advances are typically not allowed after the closing date.
- Documentation on the use of advanced amounts must be submitted to the Bank.

loans does not affect the use of advances and designated accounts for projects already approved and under implementation.

204. ***Designated account management.*** The Bank monitors the movement of the designated account and endeavors to immediately bring to the attention of the borrower observations or findings noted during transaction review, particularly those related to inappropriate usage of the funds, and provide advice or guidance toward early resolution of the issue. The Bank may consider withholding further advances until the issue is resolved.
205. ***Designated account recovery.*** As the project approaches the closing date, the borrower may no longer need to maintain a large balance in the designated account. To close a designated account, especially for projects with a fixed ceiling, the Bank commences the recovery of the designated account by reducing advances to the designated account by a certain percentage or amount, depending on the cash flow requirement. Designated account recovery usually starts six months before the loan closing date. In some cases, the Bank may also initiate partial recovery of advances to the designated account because of inactivity. As an exception, the Bank may delay recovery of the designated account, on the basis of the forecast of planned expenditure.
206. ***Further deposits to the designated account after the closing date.*** The Bank does not typically allow further deposits or advances into the designated account after the closing date. However, when borrowers have depleted designated account balances because of previous recoveries by the Bank, but they have a substantial number of payments to make, the Bank may allow, on an exceptional basis, further advances to the designated account between the closing date and the disbursement deadline date.
207. ***Documentation of designated account advances before the disbursement deadline date.*** To ensure orderly loan closure, the Bank must receive documentation on the use of all financing or loan proceeds advanced to the designated account, including funds transferred to operating accounts, on or before the disbursement deadline date.

4.8.5 Payment of Final Audit Fees after Closing

208. When the audit fees are eligible expenditures for the project, and when audit work is completed and billed before the disbursement deadline date, the borrower can claim actual audit costs in a withdrawal application.
209. Special arrangements may be required for payment of final audit fees from the financing account (for example, escrow account) if the audit is to be completed after the disbursement deadline date. For the final audit fee to be eligible for withdrawal from the financing account, (a) the borrower should sign a contract for the final audit before the closing date, and (b) the contract should be a lump-sum or fixed-price contract that requires completion of the final audit within six months of the end of the fiscal year in which the final disbursement was made under the loan.
210. Payment may be made into an escrow account established by the borrower with a commercial bank before the disbursement deadline date. The procedure for establishing an escrow account is set out below:

- A letter of agreement (refer to annex C for a sample) for setting up an escrow account, that is acceptable to the Bank, is signed between the borrower (account owner) and the commercial bank (escrow agent). The letter of agreement should indicate the agreed lump sum needed to pay for the audit, or the remaining portion thereof if an advance has been paid, in accordance with the contract for the final audit, and should define the respective responsibilities of the commercial bank and the borrower.
 - The borrower may deposit the agreed amount into the escrow account from the designated account if there is sufficient balance remaining or submit a direct payment application to enable the Bank to deposit the amount directly into the escrow account. The deposit must be paid by the disbursement deadline date.
 - The commercial bank will make the payment to the auditor upon completion of the audit and the borrower's acceptance of the audit. The borrower should retain a copy of the invoice and receipt provided by the auditor. The borrower should refund to the Bank any amount deposited in the escrow account that exceeds the amount actually paid to the auditor.
211. Upon establishment of the escrow account, the borrower should send a withdrawal application, with supporting documentation to the Bank, including a copy of the signed contract, the terms of reference for the audit, and the letter of agreement.
212. If the borrower does not have access to an escrow mechanism or has other concerns, it should contact the Bank to discuss options before the closing date.

4.9 Cancellation

213. Under the [General Conditions](#)⁶⁶ and Standard Conditions,⁶⁷ borrowers may request cancellation of any undisbursed balance of the loan unless this amount has been reserved for special commitments issued by the Bank. The Bank may also cancel loan balances in accordance with the provisions of the [General Conditions](#)⁶⁸ and Standard Conditions,⁶⁹ in whole or in part, for reasons related to continuing suspension of disbursements (see section 4.10), savings in project costs, noncompliance with procurement provisions, and expiry of the closing date, among others.
214. When the cancellation is initiated by the borrower, it is normally backdated to the date of receipt of the borrower's request for cancellation. When the cancellation is done at the Bank's initiative, it takes effect on the date specified in the notice to the borrower. The effective date of cancellation is the date from which commitment charges will no longer accrue on the canceled amounts, where applicable.

⁶⁶ http://siteresources.worldbank.org/BRAZILINPOREXTN/Resources/3817166-1242680408578/General_Conditions.pdf

⁶⁷ <http://go.worldbank.org/LXIOJ9CTI0>

⁶⁸ http://siteresources.worldbank.org/BRAZILINPOREXTN/Resources/3817166-1242680408578/General_Conditions.pdf

⁶⁹ <http://go.worldbank.org/LXIOJ9CTI0>

4.10 Suspension of Disbursements

215. When a borrower fails to comply with the conditions specified in the financing agreement, the Bank may suspend disbursements. Suspension may apply to an entire loan, to a component of that loan, or to several loans. For debt service–related defaults, the Bank’s policy is to suspend disbursements on all loans to, or guaranteed by, the member country. The Bank notifies the borrower in writing whenever disbursements are suspended and gives details of any items that the Bank may, at its discretion, exempt from the suspension. For information on suspensions related to loan repayments, refer to section [8](#) of this handbook.
216. During full suspension of disbursements, new special commitments may not be issued and no new deposit or advance can be made to the designated accounts. In the case of partial suspension of disbursements, issuance of new special commitments and replenishments of the designated account is limited to parts of the financing account not affected by the suspension. Borrowers may continue to use any balance remaining in the designated account to meet eligible expenditures. Once suspension has been lifted, the Bank may agree to make further advances to restore the designated accounts to their original levels. Payments against special commitments issued before the date of suspension are not subject to suspension. Commercial banks may continue to notify the Bank of extensions to expiry dates of letters of credit covered by special commitments. The Bank may also give its approval of amendments, other than amendments that would materially change the value of the letters of credit, the description or quantity of goods, or the beneficiary.

5. Program-for-Results Financing

217. This section provides an overview of Program-for-Results (PforR) financing, describes the different disbursement types, and explains the procedures for applying for withdrawals and closing the loan.

5.1 Overview

218. In January 2012, the Bank introduced a new financing instrument, Program-for-Results (PforR) financing, to complement the DPF and IPF it already provided. The following are the main features of PforR operations:

- Disburses funds on the achievement and verification of specific program results
- Uses a country's own institutions and processes
- Finances and supports borrowers' programs of expenditure and activities
- Focuses on strengthening the institutional capacity and systems needed for programs to achieve their desired results
- Provides assurance that Bank financing is used appropriately and that the environmental and social impacts of the program are adequately addressed

5.1.1 Disbursement-Linked Indicators

219. Disbursement of funds under PforR operations is based on disbursement-linked indicators (DLIs). Thus, the identification, selection, and structuring of DLIs play a critical role in PforR operations. During the PforR preparation stage, a limited set of indicators is identified from the program's results framework and program action plan. These indicators, defined as DLIs, are included in the operation's DLI matrix, which is incorporated into the financing agreement for the PforR operation (table 14). During implementation, the Bank and the recipient monitor their achievement of DLIs, among other aspects of the operation. Once DLIs have been achieved and verified, financing proceeds are available for disbursement.
220. The amount allocated for the achievement of each DLI is not attributed to specific program expenditures, nor does it need to be commensurate to program expenditures that are necessary to achieve the DLI. The financing agreement specifies the nature of each DLI.

Table 14. Disbursement-Linked Indicators (DLI)

Time-Bound DLIs	A DLI may be defined as time bound if disbursement can be made only if the DLI is achieved by a specific date.
Scalable DLIs	Where disbursement of financing proceeds is proportional to the progress toward achievement of DLIs, such DLIs are considered scalable.
Nonscalable DLIs	Where the DLI refers to an action, which is either done or not done, the DLI is usually not scalable.

5.2 Disbursement Arrangements

5.2.1 Prior Results

221. For certain programs, some results may need to be achieved before the signing of the financing agreement. For example, a program might need to put in place a system for collecting baseline data used to measure progress toward program results or possibly a monitoring system to measure progress on its results framework. In these situations, the Bank may agree to disburse up to 25 percent of the amount of the financing against DLIs achieved by the borrower between the date of the program's concept review and the date of the financing agreement (prior results financing). The starting date of expenditure incurrence is agreed during appraisal and is stated in the financing agreement. Prior-results financing may be provided when (a) the results are within the scope of the program supported by the PforR financing and (b) the systems used to achieve the results are assessed by the Bank in accordance with the provisions of the Bank policy or directive. Prior-results financing should be agreed during negotiations.

5.2.2 Advances

222. The Bank may make an advance payment of up to 25 percent of the financing for one or more DLIs, which have not yet been achieved. To request an advance, the borrower attaches a "request for advance" letter (annex B and also available in Client Connection) to the withdrawal application.
223. When DLIs are achieved, the amount of the advance is recovered from the amount due to be disbursed under such DLIs. The advanced amount recovered by the Bank is then available for additional advances ("revolving advance").
224. When an advance has been provided and the DLIs are achieved and verified, the advance is always recovered first. If the amount allocated to a DLI that has been achieved and verified is larger than the advance, then the Bank will disburse the amount in excess of the advance.
225. The Bank requires that the recipient refund any advances (or portion of advances) if the DLIs have not been achieved (or have been partially achieved) by the program closing date.

5.3 Disbursements for PforR

226. The financing proceeds are disbursed upon the achievement of verified disbursement-linked results specified as DLIs. Such disbursements are not dependent on or attributable to individual transactions or expenditures of the program.

5.3.1 DLI Achievement Process

227. The Bank disburses proceeds from the financing account established for each loan to an account of the borrower, on the order of the borrower, for achieved results (including prior results) or advances. PforR funds are normally disbursed to the borrower's central treasury account that is normally held at the central bank.
228. The Bank disburses upon achievement of results once these have been verified and confirmed by the Bank. Although the programs financed by PforR financing are underpinned by expenditures, individual disbursements are not attributed to specific transactions. The following is the procedure for documenting and confirming the achievement of results:
- ***Borrower notifies the Bank.*** When a DLI has been achieved (or partially achieved in the case of scalable DLIs), the borrower informs the Bank through a PforR results achievement notification letter (see annex A) and provides evidence in accordance with the verification protocol as justification that the DLI has been achieved.
 - ***Bank's acceptance of DLI achievement.*** The Bank reviews the documentation submitted by the borrower and decides if the DLI has been achieved, partially achieved, or not achieved. The country director sends an official communication to the borrower informing the borrower of the Bank's decision as to the achievement of the DLI and the level of PforR financing proceeds available for disbursement. The letter must be attached to the withdrawal application for the corresponding achieved result(s).
 - ***Partial achievement of DLIs.*** For scalable DLIs, it is possible that partial achievement of the DLI can lead to disbursement of an appropriate portion of the amount allocated to the DLI. The amount to be disbursed will depend on how the DLI is described in the financing agreement and the Bank's assessment of the partial achievement. The country director's notification will inform the borrower of the amount available for disbursement against progress achieved toward the particular result.

5.3.2 Withdrawing Financing Proceeds

229. The process of withdrawal from the financing account, mentioned in section 3 of this handbook, applies to PforR financing. Withdrawal applications can be submitted after loan effectiveness, based on provisions of the financing agreement and disbursement letter. Borrowers should attach a copy of the official communication to the withdrawal application that confirms that the Bank has accepted the achievement of the results.
230. Borrowers are required to submit all withdrawal applications electronically using the e-disbursement function in Client Connection (figure 14). On an exceptional basis, manual applications can be submitted to the address mentioned in the disbursement letter. It is recommended that results achieved be grouped and withdrawal requests be submitted every 6 to 12 months.

Figure 14. Disbursement Applications

Prior results and achievement of results	Advances	Recovery of advance
<ul style="list-style-type: none"> • DLI payment application type to be used in Client Connection • Withdrawal application and Bank's results achievement notification (annex A) required 	<ul style="list-style-type: none"> • DLI advance application type to be used in Client Connection • Withdrawal application and borrower's request for advance (annex B) required 	<ul style="list-style-type: none"> • A withdrawal application is not required • Bank's results achievement letter required

Note: DLI = disbursement-linked indicator

5.4 Closing and Refunds

5.4.1 Closing Date and Disbursement Deadline Date

231. The loan closing date is established on the basis of the anticipated program completion date, which is normally specified in the program document. For program expenditures to be eligible for financing, results must be achieved and corresponding expenditures must be incurred on or before the loan closing date.
232. To facilitate orderly program closing, including completion of verification protocols, the Bank may decide to allow borrowers to submit withdrawal applications after the closing date. These withdrawal applications must be received within six months after the closing date for results achieved by the borrower before the closing date. The deadline for receiving applications and supporting documentation is known as the disbursement deadline date, and this date is indicated in the disbursement letter or other notification by the Bank.
233. As an exception, upon the borrower's request, the Bank may decide to extend the period for receipt of such withdrawal applications. The borrower must notify the Bank as soon as the delay is identified but no later than the disbursement deadline date, specifying the reason for the delay and the estimated time required to provide the remaining applications for withdrawal and supporting documents.

5.4.2 Closing of Loan Account

234. The Bank closes the financing account within two months after the disbursement deadline date or within two months after the closing date, if no additional period is granted.

5.4.3 Refunds

235. Refunds may be required in the following cases:
 - If the Bank's financing exceeds the total amount of program expenditures, the borrower is required to refund the difference to the Bank.
 - The Bank requires that the borrower refund any advances (or portion of advances) if the results have not been achieved (or have been only partially achieved) by the program closing date.

6. Development Policy Financing

236. DPF provides rapidly disbursing finance to help a borrower address actual or anticipated development financing requirements. DPF aims to help promote growth and sustainable poverty reduction through a program of policy and institutional actions.

6.1 DPF Overview

237. Funds are disbursed against satisfactory implementation of the development policy lending program, including compliance with tranche release conditions and maintenance of a satisfactory macroeconomic policy framework. The borrower commits not to use DPF funds for excluded expenditures. The Bank normally disburses the financing proceeds into an account that forms part of the country's official foreign exchange reserves (normally held by the central bank), and an amount equivalent to the financing proceeds is credited to a government account to finance budgeted expenditures. DPFs normally do not link financing proceeds to pre-identified expenditures of the borrower.
238. DPF operations are usually disbursed in a single tranche; however, some DPF operations may have multiple tranches. Compliance with tranche release conditions is required for each tranche. The Bank may request an audit of the DPF deposit account.
239. The DPF DDO allows IBRD-eligible borrowers to postpone the drawdown of development policy financing or loan proceeds. Borrowers may elect to draw down the financing account in one or more tranches, when a financing need arises. CAT DDO enhances the capacity of borrowers to manage natural disaster risk and provide a source of immediate liquidity that could serve as bridge financing while other sources are being mobilized after a natural disaster. Refer to section 2.1.2 for additional information.

6.2 Disbursement

240. Borrowers can submit withdrawal applications after effectiveness and fulfillment of tranche release conditions. Borrowers are required to submit all withdrawal applications electronically using the e-disbursement function in Client Connection, then selecting tranche type withdrawal application for DPF. On an exceptional basis, manual applications can be submitted to the Bank. The process of withdrawal from the financing account, mentioned in section 3 of this handbook, applies to DPF. A copy of the Bank's notification to the borrower that the conditions of the tranche release have been met has to be enclosed as supporting documentation.
241. No withdrawals may be made from the financing account after the closing date. The disbursement deadline date is the same as the closing date.
242. Refer to section 2.4.5 for information related to disbursement for guarantees.

Annexes

Annex A. Program-for-Results (PforR) Achievement Notification

(from the borrower)

[Ministry/Implementing Agency Letterhead]

[Date]
The World Bank
1818 H Street NW
Washington, DC 20433
United States of America
Attention: [Country Director]

Re: [Loan/Credit/Grant number] [Program name]
Results Achievement

Dear [Madam/Sir],

We refer to the [Loan/Credit/Grant] Agreement (“[Loan/Credit/Grant] Agreement”) between [name of borrower/recipient] (“Borrower”/“Recipient”) and the [International Bank for Reconstruction and Development/International Development Association] (“World Bank”) dated [date] for the above-noted Program.

In accordance with the provisions of schedule 2, Section IV, B.1 of the [Loan/Credit/Grant] Agreement, we are pleased to inform you that the following Disbursement Linked Results (DLR) have been achieved:

- DLR # {insert number and brief description}
- DLR #
- DLR #

Achievement of [this/these] result(s) has been verified according to the “Summary Protocol for Verifying Achievement of DLIs” as referred to in the Program/Project Appraisal Document [and the Program Operations Manual]. Documents evidencing achievement of the DLRs are attached.

Sincerely,

[Name] ⁷⁰
Position

Attachment. Evidence of Results Achievement

cc. Task Team; Finance Officer, WFAFO Regional Team Lead; Country Lawyer; others as appropriate

⁷⁰ To be signed by a representative of the implementing/coordinating agency of the borrower/recipient.

Annex B. Borrower Request for PforR Advance

(to be attached to withdrawal application)

[Ministry/Implementing Agency Letterhead]

[Date]

The World Bank
[location] Regional Center
[Address of Regional Center (from Disbursement Letter)]

Subject: [Loan/Financing/Grant Number] [Program Name]
Request for Advance

Dear [Madam/Sir],

We refer to the [Loan/Financing/Grant] Agreement between [name of borrower/recipient] (“Borrower”/“Recipient”) and the [International Bank for Reconstruction and Development/International Development Association] (“World Bank”) dated [date] providing for the above [Loan /Financing/Grant].

In accordance with the provisions of the Disbursement Letter and schedule 2, Section IV, B.2 of the [Loan/Financing/Grant] Agreement, to support the implementation of the above Program and to facilitate the achievement of the planned results, we request an Advance in the amount of [insert amount].
71

[We request that the Advance be disbursed in [currency requested for disbursement] equivalent to the Total Advance Requested above.]⁷² We acknowledge that the amount disbursed will be charged to the [Loan /Financing/Grant] Account in the currency of the [Loan/Financing/Grant] at the exchange rate in effect at the time of disbursement.

Sincerely,

[Name, Position]⁷³

⁷¹ The proposed advance should be in the currency of the DLI/DLR as set out in the disbursement table in the financing agreement, and in accordance with provisions in the disbursement letter. Normally, this is the currency of commitment of the loan/credit/grant.

⁷² Use this text to designate the currency of the advance if it should be different from the currency set out in the disbursement table in the financing agreement.

⁷³ To be signed by a representative of the implementing/coordinating agency of the borrower/recipient, or by the person(s) authorized on behalf of the borrower/recipient to sign applications for withdrawal under the loan/financing/grant as set out in the applicable Authorized Signatory Designation.

Annex C. Sample Agreement to Create Escrow Account for Audit Fee

To: [Commercial bank]
[Address]

The [name of the borrower] (the “Account Holder”) wishes to establish an escrow account for the payment of the attached final audit contract with [name of auditor] (the “Auditor”).

The [name of the commercial bank] (the “Escrow Agent”) agrees to open and maintain an escrow account for this purpose. The Escrow Agent confirms that it will not assert any claim to set off, seize, or attach amounts on deposit in the escrow account.

Account Setup

The Escrow Agent will open the escrow account in the name of the Account Holder and assign an account number. The Account Holder will deposit [currency and amount] into the escrow account.

Account Notification

The Escrow Agent will provide a monthly account statement. On receipt of the claim for the contract payment from the Auditor, the Escrow Agent will notify the Account Holder immediately. The Account Holder will authorize the Escrow Agent to make payment within five working days.

Account Closure

The account will be closed once the Auditor’s claims have been paid in accordance with the terms of the contract. Any unutilized amount will be refunded to the Account Holder.

Signed by Account Holder: _____
(Name of Account Holder) _____
(Address) _____
Date: _____

Agreed:
Account approved date: _____
Account number assigned _____
Signed by Escrow Agent: _____
(Name of the Escrow Agent) _____
(Address) _____

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Volume 3

Debt Service

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7. Billing

243. This section provides information on billing procedures and describes billing concepts for IBRD loans, IDA credits, and loans offered through trust funds or other special arrangements. Procedural aspects such as the billing frequency, payment due dates, cancellation of undisbursed amounts, and capitalization of charges are explained. In addition, various sections of a billing statement, such as payment instructions, payment activity, computation of fees and interest accruals, principal, carry-forward receivables, and current dues are described.

7.1 Billing Cycle for Loans and Credits

7.1.1 IBRD Loans

244. The billing statements are normally prepared two months before the payment due date, and charges are estimated for the two-month period based on the balances and exchange rate values available at the billing cutoff date. The borrower's obligation is recomputed on the payment due date.
245. If the billed amount is less than the amount the borrower is legally obligated to pay, as calculated on the due date, the difference is carried forward to the next billing date on a non-interest-bearing basis as a deferred balance. If the due date obligation is less than the amount billed, the resulting excess is carried forward as a credit for application on the next bill and payment due date. No interest is charged or paid on deferred or carry-forward credit amounts.

7.1.2 IDA Development Credits

246. At the time of negotiations of IDA credits denominated in special drawing rights (SDRs), the borrower selects the currency in which the debt service will be billed. Currently, all IDA development credits are billed in US\$, £stg, or €. The borrower may change the currency of repayment by giving appropriate advance notice to IDA. However, if there is a shortfall in remittance because of the exchange rate, conversion is treated as an overdue amount. For IDA single currency lending, the billing currency would be the currency of commitment.
247. Upon receipt, the borrower's payment is translated at the exchange rate on the value date of receipt or payment date, whichever is later, into the currency of commitment, which is either US\$ or SDR. Shortfalls or surpluses, which may arise because of exchange rate changes or transactions on individual credits between the billing date and due date, are carried forward on the borrower's account for settlement or application on the next payment due date.

7.2 Components of a Billing Statement

248. Table 15 describes the components of the billing statement.

Table 15. Billing Statement Components

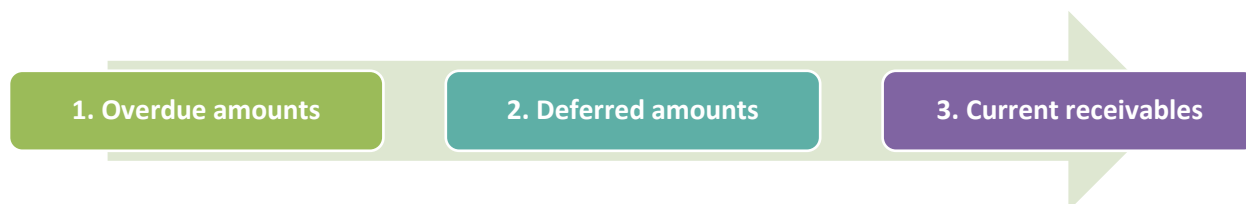
Payment instructions	Contains details of the payment instructions in the cover letter, including the depository bank account, currency amount, and payable date
Payment activity	Contains details of amounts billed from previous period and the application of any payments
Fees	Contains details of commitment fee billed (Gross fees and waivers are shown separately.)
Interest accruals/ service charges	Contains details of interest or service charge amounts (Computations of interest and waivers, if any, are shown separately for International Bank for Reconstruction and Development loans.)
Principal	Contains amounts due according to the amortization schedule for the loan or credit
Carry-forward receivables	Contains amounts carried forward from the prior billing cycle, if applicable
Current dues	Contains the total amount due for the current period (This amount is the sum of fees, interest/service charges, principal, and carry-forward receivables, less any applicable debt relief and carry-forward credits.)
Determination of definitive amounts due for previous billing	Contains the total amount actually due for the previous period (Details are presented by category of charges and/or credits.)
Loan receivable application	Contains the billed amount, due amounts, and the application of funds received from the borrower and/or other sources for the previous billing cycle, by loan category (Details include any overdue and deferred amounts.)
Principal activity	Contains the calculation of principal recall on reference date

7.3 Additional Concepts Related to Billing

7.3.1 Payment Applications

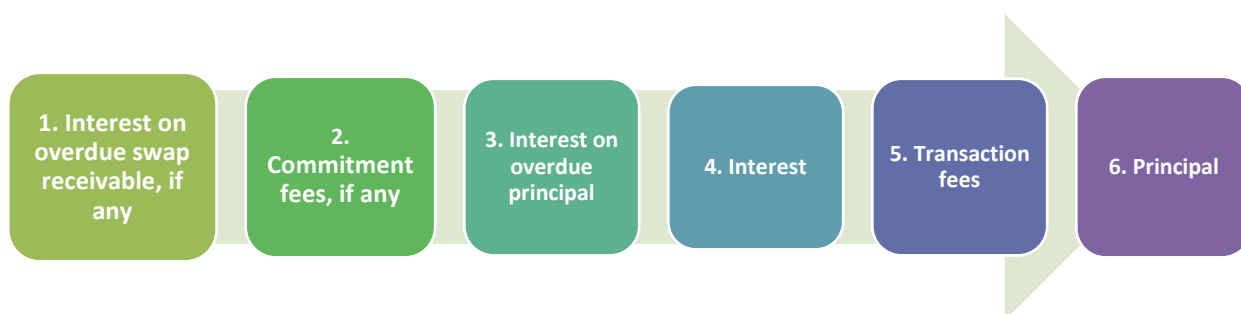
249. IBRD and IDA debt service receipts are applied in the order listed in figure 15.

Figure 15. Application of International Bank for Reconstruction and Development and International Development Association Debt Service Receipts



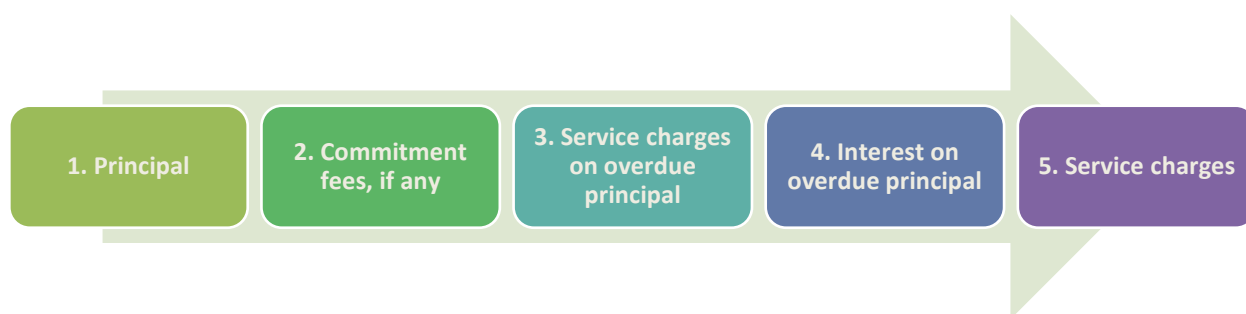
250. Within each of the categories overdue amounts, deferred amounts and current receivables, the funds received by IBRD are applied in the order listed in figure 16.

Figure 16. Order of Application of Funds Received by the International Bank for Reconstruction and Development



251. Within each of the categories, given in figure 15, the funds received by IDA are applied in the order listed in figure 17:

Figure 17. Order of Application of Funds Received by the International Development Association



7.3.2 Billing Advice Notification

252. Billing Advice Notification lists all upcoming debt service obligations at the borrower level, excluding overdue payments, currency, and payment due date. The notification is sent to borrowers approximately 45 days in advance of the payment due date. Borrowers can send a request to loanclientservices@worldbank.org to be included in the mailing list of the Billing Advice Notification.

7.3.3 Payment Due Dates and Banking Dates

- 253. The semiannual debt service payment due dates in all IBRD loans and IDA credits are fixed on either the 1st or the 15th of the month. Should the payment due date fall on a depository bank holiday or on a weekend, the payment or settlement is requested to be paid on the next available banking day of the respective depository bank. For this reason, the bill payable date may sometimes be later than the due date of the loan or credit.
- 254. If debt service payments are delayed beyond the bill payable date, the interest on the overdue principal, if any, is charged from the actual loan due date and not the bill payable date. Bank holidays are in accordance with the holiday schedules of depository banks for various billed currencies.

7.3.4 Cancellation of Undisbursed Amounts

- 255. The borrower has the right to cancel any amount of the loan that is not yet withdrawn, except for amounts for which the Bank has entered into a special commitment. The Bank may cancel an amount of the loan for reasons related to continuing suspension of disbursements, savings in project costs, misprocurement, expiration of closing date, or cancellation of the guarantee by the guarantor. In any of these cases, the Bank may partially or totally cancel the undisbursed balance of the loan by notifying the borrower of this action.
- 256. Once an amount of the loan has been canceled by either the borrower or the Bank, the withdrawal and amortization schedules are revised to reflect the cancellation. The canceled amount is applied to the amortization schedule pro rata. Cancellations processed after the billing cutoff date are reflected in the subsequent billing period. Commitment charges cease to be applicable on the canceled amount, effective on the cancellation date.

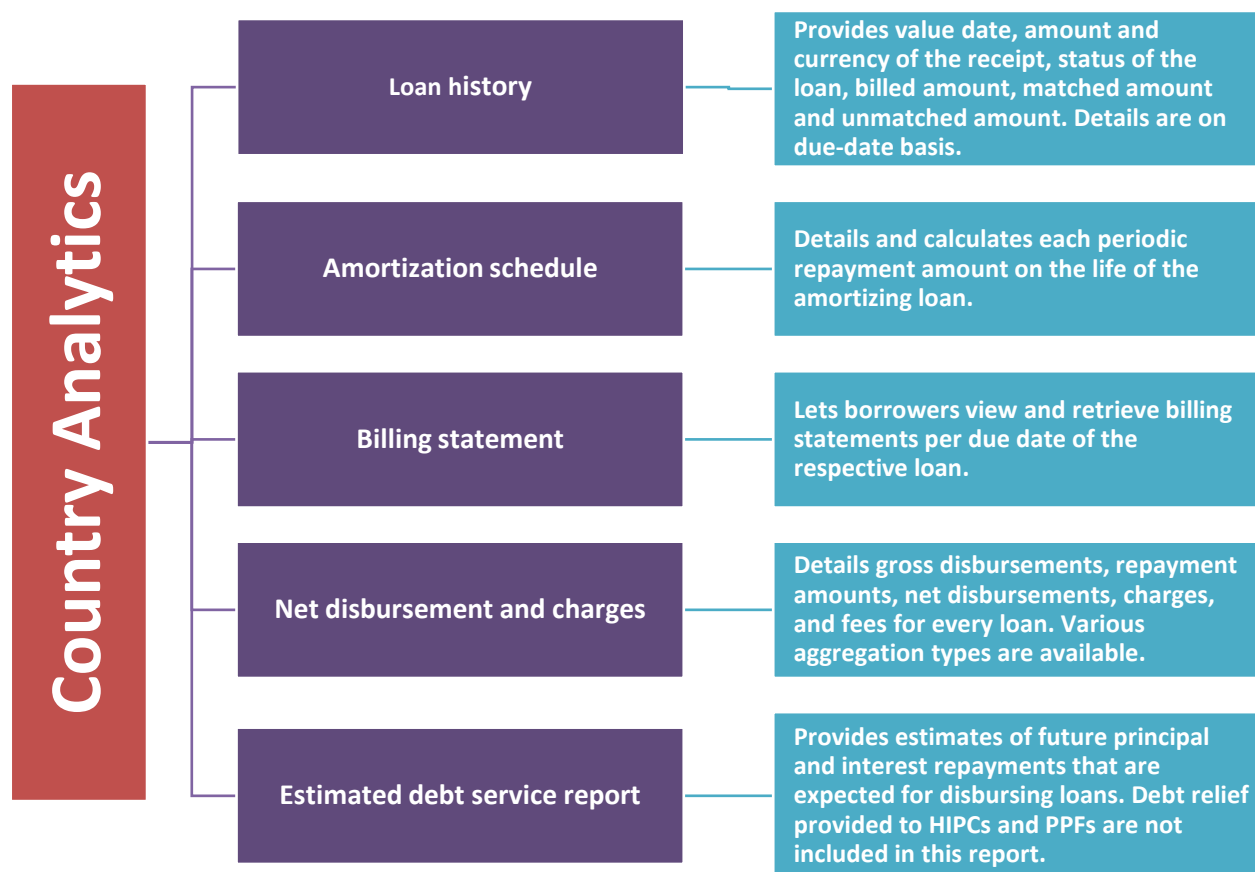
7.4 e-Billing

- 257. The Bank offers electronic delivery of the debt service billing statements. Delivery of e-billing statements is more efficient and environmentally friendly by replacing the printing and delivery of physical copies of statements.
- 258. To sign up for e-billing, the authorized representative of the borrower, as identified in the financing agreement, is required to sign an e-billing agreement. Within two weeks of receipt of the signed e-billing agreement, the Bank will commence delivery of a secure electronic billing statement by e-mail to the borrower's Client Connections liaisons as well as any other requested recipient. The first time a user receives an e-bill, he or she would be requested to set up an account and password, which will be used to access future e-bills. Borrowers may contact loanclientservices@worldbank.org if they are interested in opting for e-billing.

7.5 Debt Service Management Reports on Client Connection

259. The Country Analytics tab in the Client Connection portal contains the following information reports that borrowers can refer to and use as aids in managing the debt service aspects of their portfolio (figure 18).

Figure 18. Debt Service Management Reports on Client Connection



Note: HIPCs = Heavily Indebted Poor Countries; PPF = Project Preparation Facility.

8. Overdue and Sanctions Policy

260. When a borrower fails to service its loans, credits, or PPAs on the due dates, the Bank has the option of immediately suspending disbursements on all loans and credits to the borrower. The Bank's current practice is to follow a graduated approach using reminders, incentives, and sanctions. Reminders are sent to defaulting borrowers on the 5th and 15th days after the due date. Notices are sent on the business days following the 30th, 35th, and 45th day informing the borrower of the sanctions applied at each overdue stage and suspension of disbursements that will take effect on the 60th day.
261. When an event unrelated to payment constitutes the basis for suspension, the Bank determines case by case whether to suspend disbursements on a loan. The Bank may decide to suspend disbursements as of a specified date or warn the borrower that suspension will occur unless the borrower takes certain remedial actions by a specified date. Most, but not all, suspensions that are unrelated to payment occur because a borrower or other contracting party fails to carry out covenants under a loan, project, or other relevant agreements.

8.1 Overdue Reminders and Sanctions—5, 15, 30, 45, 60, and 90 Days, and 6 Months

262. Table 16 lists the reminders and sanctions that are used when loan payments are overdue.

Table 16. Overdue Reminders and Sanctions

Trigger	Action
5 to 15 days (reminder)	The Bank notifies the borrower of the amount overdue and the actions that may apply if the amount is overdue for more than 30 days after the due date.
30 days overdue (sanctions)	<p>The Bank informs the borrower that if the payment becomes 30 days overdue, these actions will apply:</p> <ul style="list-style-type: none"> • The borrower will become ineligible for any applicable interest waiver. • No new loans will be presented to the Board for approval. • No agreements related to previously approved loans will be signed.
35 days overdue (waiver loss notification)	The Bank informs the borrower that it has lost its eligibility for any partial waiver of interest in eligible International Bank for Reconstruction and Development (IBRD) loans. The loss of waiver occurs when payments are 30 days overdue but the notice is sent on the 35 th day.
45 days overdue (sanctions)	<p>The Bank informs the borrower and the country that unless all outstanding payments are made, including those falling due by that date, the following will apply:</p> <ul style="list-style-type: none"> • No new loans to or guaranteed by the country will be presented to the Board for approval. • Agreements related to previously approved loans to or guaranteed by the country will not be signed.

Trigger	Action
	<ul style="list-style-type: none"> The guarantor becomes ineligible for any applicable interest charge waiver.
50 days overdue (notification)	The Bank informs the guarantor that it has lost eligibility for any partial waiver of IBRD interest on all loans guaranteed by it.
53 days overdue (notification)	The Bank informs the project cofinanciers and relevant regional development banks of the impending suspension.
60 days overdue (sanctions)	The Bank informs the borrowers and country that a suspension of disbursements is in effect and notifies the Board. At the discretion of the Bank, the notice may specify items that are exempted from the suspension.
90 days cancellation following suspension	After 90 days of continuous suspension, the Bank prepares a notice recommending cancellation of all undisbursed balances.
Six months overdue (nonperforming status)	When service payments on a loan or development credit become six months overdue—specifically, on the date that the second consecutive service payment is missed—the Bank sends a notice to the member country. A formal notice is also sent to the Board within two days of that date, known as the trigger date, and a news release may be distributed. Information on borrowers with loans for which payments are more than six months overdue is included in the Bank’s financial statements.

8.2 Late Payment Charges

263. In accordance with IBRD’s pricing terms, loans signed on or after September 27, 2007, do not qualify for waivers of charges. To preserve the incentive for timely debt servicing of IBRD loans, a 50 bps late payment charge applies to principal payments received 30 days after the due date.
264. If an overdue amount remains unpaid for a period of 30 days, the borrower may pay a higher interest rate—referred to as the default interest rate—on the overdue principal amount until the overdue amount is fully paid. This higher interest rate is in lieu of the interest rate specified in the financing agreement. Interest accrues at the default interest rate from the 31st day following the date on which the amount becomes overdue. Interest is payable semiannually on arrears on each payment date.
265. If the interest was payable at a variable rate before the default interest rate was applied, the default interest rate would be the default variable rate plus 0.5 percent, as in the following example:

LIBOR + fixed spread + 0.5 percent

If the interest was payable at a variable rate based on a fixed reference rate and a variable spread, then the default rate would be equal to the default reference rate plus the variable spread plus one-half of 1 percent, as in the next example:

LIBOR + variable spread + 0.5 percent

266. If the interest was payable at a fixed rate before the default interest rate was applied, the default interest rate would be the default reference rate plus the fixed spread plus 0.5 percent, as follows:

LIBOR + fixed spread at the time of signing the loan + 0.5 percent

9. Partial Waiver of Loan Charges

267. On September 27, 2007, the Board approved the elimination of the waiver system, withdrawal of the commitment fee, and introduction of a small front-end fee. These changes in the IBRD pricing level apply to standard loans signed on or after September 27, 2007. On February 11, 2014, the Board reintroduced the commitment fee. This change applies to all standard loans with an invitation to negotiate date after June 30, 2014, and to loans with an invitation to negotiate date before June 30, 2014, but approved after September 30, 2014. Because of the changes in pricing policies, a borrower may have a mix of old (with waiver) loans and new (no waiver) loans in the outstanding portfolio. The applicable charges and waivers on IBRD loans are listed in table 17.

Table 17. Applicable Current Charges and Waivers on IBRD Loans

	IBRD loans signed before September 27, 2007 ^a		IBRD loans signed on or after September 27, 2007	
	With invitation to negotiate before July 31, 1998	With invitation to negotiate on or after July 31, 1998	With invitation to negotiate on or before June 30, 2014, and approved on or before September 30, 2014	With invitation to negotiate on or after June 30, 2014, or approved after September 30, 2014
Interest waiver	0.05% for borrowers paying on time	0.25% for borrowers paying on time	Not applicable	Not applicable
Commitment fee waiver	0.50% p.a. waived unconditionally on a yearly basis to all borrowers	0.50% p.a. waived unconditionally on a yearly basis to all borrowers	Not applicable	Not applicable

Note: IBRD = International Bank for Reconstruction and Development; per annum.

a. Loan signed before May 16, 2007, or signed between May 16 and September 27, 2007, on which the borrowers elected not to convert the terms of their loans to the terms for new loans introduced on September 27, 2007.

9.1 Applicability

9.1.1 Loans Signed on or after September 27, 2007

268. In accordance with IBRD's new pricing terms, loans signed on or after September 27, 2007 (and loans signed between May 16 and September 27, 2007, that converted to the terms for new loans), do not qualify for waiver of charges. These loans are entitled to a reduced contractual loan spread, FEF, and commitment charge. In addition, to preserve the incentive for timely debt servicing of IBRD loans, a late charge of 50 bps is applied to principal payments received 30 days after the due date. Section 8.2 gives details on late payment charges.

9.1.2 Loans Signed before September 27, 2007

- 269. Loans signed before September 27, 2007, and not converted to new pricing terms are subject to the old terms. For such loans, the Bank may waive a portion of the loan charges applicable in a fiscal year. However, loans signed between May 16 and September 27, 2007, and amended to the new pricing terms are not eligible for such waivers.
- 270. Waivers are subject to the approval of the Board and are based on the annual review of IBRD's net income. A waiver of charges applies to all such IBRD loans except SDPFs. Borrowers are notified of the applicable waiver rate at the beginning of each fiscal year. Partial waivers apply to all payment periods that commence within the fiscal year for which the waivers are approved.
- 271. If a waiver is not approved for a given fiscal year, the charge for that fiscal year will revert to the contractual rate in the financing agreement. The waivers for commitment charges are expressed and accrued on an actual 365-day or 366-day convention, while waivers for interest charges follow the same convention as the interest. The amount waived is reflected in the billing statement of the loan.

9.2 Eligibility

9.2.1 Commitment Charge Waiver

- 272. All loans, except SDPFs signed before September 27, 2007, under the old pricing terms, are eligible for the commitment charge waiver, regardless of payment performance.

9.2.2 Interest Waiver

- 273. Eligibility for the partial waiver of interest is limited to borrowers who have made full payments of the principal and charges on all their loans within 30 calendar days of the due dates during the preceding six months. All IBRD loans signed before September 27, 2007, under the old pricing terms are eligible for the partial waiver of interest, except for SDPFs and currency pool loans (CPL) or single currency pool loans that have been amended to LIBOR-based variable or fixed rate loans. The partial waiver of interest policy does not apply to charges on PPA withdrawals.
- 274. If a payment under any loan to a borrower is not received by IBRD within 30 calendar days of the due date, all loans that qualified for a partial interest waiver to the borrower will be ineligible for the waiver of interest charges. This waiver ineligibility will be in effect until a new qualifying period of six months with a record of full and timely payment—within 30 days of the due date. If a loan made to or guaranteed by a member country becomes more than 45 days overdue, all loans guaranteed by the guarantor will be ineligible for the partial waiver of interest charges. The waiver ineligibility is independent of the individual loans' eligibility status and will be in effect until all amounts overdue and outstanding under all loans have been paid.

10. Prepayments

275. On a date acceptable to the Bank, borrowers have the right to prepay, in advance of maturity, either of the following:
- The outstanding principal amount of the loan
 - The principal amount of any one or more maturities of the loan, as elaborated later in this section
276. IBRD may charge a prepayment premium, which will depend on the specific type of loan.⁷⁴
277. The borrower is expected to notify the Bank at least 45 days in advance of its intention to repay any amount before the loan maturity date. This advance notice is required for the Bank to provide the borrower with a detailed estimate of the prepayment amount.

10.1 IBRD Loans

278. Partial prepayments of FSLs and fixed spread IFLs are applied in the manner specified by the borrower. In the absence of any specification by the borrower, the prepayments can be applied in the two ways described below:
- If the financing agreement provides for separate amortization of specified disbursed amounts of the principal, such prepayment shall be applied in the inverse order of the said disbursed amounts, based on the withdrawal date. That is, the last withdrawn disbursed amount is repaid first. The prepayment is then applied based on the maturity date—within each tranche, the amount to be prepaid is applied in inverse order of maturity, starting with the latest maturity date—as is the case for disbursement-linked FSLs.
 - In all other cases—that is, for commitment-linked FSLs—such prepayment shall be applied in the inverse order of maturity of the loan, with the latest maturity repaid first.
279. IBRD may charge a prepayment premium to cover the cost to IBRD of redeploying prepaid funds. The calculation of the redeployment cost for all or any portion of an FSL that has not been converted is carried out as detailed in the following paragraphs.

10.1.1 Unconverted Loans

280. If the borrower chooses to repay a loan that has not been converted through an interest or currency conversion, the prepayment premium is determined as follows:
- Step 1. The amount of the prepayment premium is based on the difference between the fixed spread payable on the prepaid loan and the fixed spread in effect for the fixed spread loan in the relevant loan currency at the date of prepayment.

⁷⁴ See www.worldbank.org, at <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTPOLICIES/EXTOPMANUAL/0,,contentMDK:20066338~isCURL:Y~menuPK:4564185~pagePK:64709096~piPK:64709108~theSitePK:502184,00.html>

- Step 2. The present value of the stream of costs to the Bank is computed using the difference in the cost basis computed in step 1 and depends on the maturities being prepaid. The discount rate used in the present value computation is the prevailing cost basis for loans, adjusted for basis swap cost. This present value computation takes into account current market rates and the fixed spread in effect for such loans in the initial loan currency at the date of prepayment.
- Step 3. The present value computed in step 2 is the premium the borrower is charged by the Bank. If the present value computed in step 2 is negative or zero, no charges will apply.

10.1.2 Converted Loans

281. If a conversion has been effected on the loan being prepaid, and the conversion has not been terminated at the time of prepayment, the borrower or the Bank will pay the following:
- **Prepayment premium.** This premium is paid on account of the underlying floating rate loan as described in the Unconverted Loans, in the previous section.
 - **Unwinding amount.** An unwinding amount is based on the early termination of the conversion, if applicable. The Bank may have effected the relevant conversion by entering into a hedge transaction with a market counterparty or by applying a screen rate (in the circumstances described in the Conversion Guidelines⁷⁵). In both cases, an unwinding amount may be payable by either the Bank or the borrower, as the Bank would have taken a position to effect the conversion that would have to be reversed because of a loan prepayment.
 - **Transaction fee.** For unwinding each conversion, the borrower will be charged a transaction fee. The transaction fee is applied to the amount of the principal that is being prepaid. For transaction fee information, refer to the Treasury website.⁷⁶

10.1.3 Prepayment Policy for VSLs and IFLs with a Variable Spread

282. IBRD charges a prepayment premium based on the cost of redeploying the amount to be prepaid from the prepayment date to the maturity date. The total spread on a VSL or variable spread IFL consists of a contractual lending spread⁷⁷ and a variable cost margin. The prepayment premium amount is based on the difference between the contractual lending spread of the prepaid loan and the contractual lending spread in effect for VSLs in the currency of the prepaid loan on the date of prepayment. Article III, section 3.04, of the [General Conditions](#),⁷⁸ applicable to VSLs and variable spread IFLs, provides that the premium payable on prepayment of any maturity shall be an amount reasonably determined

⁷⁵ <http://treasury.worldbank.org/bdm/pdf/ConversionGuidelines.6thEdition.0402014.pdf>

⁷⁶ <http://treasury.worldbank.org>

⁷⁷ As approved by the Board of Executive Directors from time to time; <http://www.treasuryworldbank.org>

⁷⁸ http://siteresources.worldbank.org/BRAZILINPOREXTN/Resources/3817166-1242680408578/General_Conditions.pdf

by the Bank to represent any cost to the Bank of redeploying the amount to be prepaid from the date of prepayment to the maturity date.

283. The spread on the VSL or variable spread IFL includes a variable margin adjusted every six months on the basis of the weighted average cost margin of the debt allocated to VSLs and variable spread IFLs. Under current practices, the calculation of the redeployment cost derived from the difference in the variable margins would result in a de minimis amount being payable to the Bank. This negligible charge is equal to the difference in spreads for the period from the date of prepayment until the next interest payment date. As this amount is not likely to be significant, under current practices, the difference in the VSL's and variable spread IFL's variable margin is not included in the calculation of the prepayment premium. Prepaid amounts are applied first to the latest maturities due on the loan; that is, a bottom-up approach is used.

10.2 IDA Development Credits

284. According to the [General Conditions](#)⁷⁹ applicable to IDA development credits, section 5.1, the borrower has the right to repay in advance of maturity, all or any part of the principal amount of one or more maturities of the credit specified by the borrower. Currently, there are no prepayment premium charges on regular prepayment of IDA credits. Following IDA's policy framework for voluntary prepayments, IDA graduates that elect to prepay their outstanding credits receive a discount on the principal being prepaid subject to certain conditions being fulfilled. For more details, refer to section 2.2.6 on voluntary prepayments, under IDA Development Credits.

10.2.1 Terms and Procedures for Prepayment of Loans

285. Borrowers can contact IBRD's [Loan Client Services](#) about the loan prepayment. At the request of the borrower, Loan Client Services can send borrowers an estimate of the prepayment premium and other charges that they will incur if they choose to prepay the loan. The actual premium and charges to be paid on prepayment may be different from the estimates provided.
286. The following links can be used to access the prepayment forms and must be completed and submitted to the Bank to start the process.
- Application form for prepayment of IDA credits:
<https://clientconnection.worldbank.org/borrowersportal/e-forms/pdf/2378.pdf>
 - Application form for prepayment of IBRD loans:
<https://clientconnection.worldbank.org/borrowersportal/e-forms/pdf/2377-1.pdf>

⁷⁹ http://siteresources.worldbank.org/BRAZILINPOREXTN/Resources/3817166-1242680408578/General_Conditions.pdf