

**OFID** The OPEC Fund for International Development

# Disbursement Procedures

Handbook for Public Sector Borrowers



**Uniting against Poverty**



# **Disbursement Procedures**

Handbook for Public Sector Borrowers

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# Table of contents

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<b>1. Introduction</b>	<b>5</b>
1.1 About OFID	5
1.2 Purpose of the Disbursement Procedures	5
<b>2. Definition of terms</b>	<b>7</b>
2.1 Loan Agreement	7
2.2 Loan Account	8
2.3 Borrower	8
2.4 Authorized Representative of the Borrower	8
2.5 Authorized Signatory	8
2.6 Loan Administrator	8
2.7 Key dates	8
2.8 Withdrawal of loan proceeds	9
2.9 Disbursement methods	9
<i>Direct payment</i>	10
<i>Reimbursement</i>	10
<i>Special account</i>	10
<i>Special commitment</i>	10
<b>3. Basic principles and general guidelines</b>	<b>11</b>
3.1 Effectiveness of a loan	11
3.2 Authorized Signatory	11
3.3 Eligible expenditures	11
3.4 Loan components	12
3.5 Financing percentage	12
3.6 Submission of a withdrawal application	12
3.7 Supporting documentation	13
3.8 Disbursement currency	13
3.9 Loan cancellation and suspension	13
3.10 Loan closing date	14
3.11 Communications and supervision	14

<b>4.</b>	<b>General requirements for all withdrawal applications</b>	<b>15</b>
4.1	Evidence of authorized signature	15
4.2	Application for withdrawal	15
4.3	Summary sheet	16
4.4	Numbering system	16
4.5	Supporting documentation	17
4.6	Payment instructions	17
	<i>Beneficiary details</i>	17
	<i>Correspondent bank information</i>	18
4.7	Non-approval and refunds of payments	18
4.8	English language	18
<b>5.</b>	<b>Specific requirements for each disbursement method</b>	<b>19</b>
5.1	Direct payment to the supplier/contractor	19
	<i>Procedure for direct payments</i>	20
	<i>Supporting documentation</i>	20
5.2	Reimbursement	20
	<i>Procedure for reimbursements</i>	21
	<i>Supporting documentation</i>	21
5.3	Special account	21
	<i>Procedure for special accounts</i>	22
	<i>Supporting documentation</i>	23
	<i>Special account management</i>	24
	<i>Effects of suspension</i>	24
	<i>Repayment of unused balance of the special account</i>	24
	<i>Final liquidation of the special account</i>	26
5.4	Special Commitment	26
	<i>Procedure for special commitments</i>	26
	<i>Supporting documentation</i>	27
	<i>Qualified versus irrevocable special commitments</i>	27
	<i>Dollar limitation clause</i>	29
	<i>Amendments to a letter of credit</i>	29
	<b>Annex</b>	<b>30</b>



# I. Introduction

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## I.1 About OFID

The OPEC Fund for International Development (OFID) is a multilateral Development Finance Institution<sup>1</sup> established by the Member Countries of OPEC in 1976 as a collective channel of aid to the developing countries. OFID works in cooperation with developing country partners and the international donor community to stimulate economic growth and alleviate poverty in all disadvantaged regions of the world. It does this by providing financing to build essential infrastructure, strengthen social services delivery and promote productivity, competitiveness and trade.

## I.2 Purpose of the Disbursement Procedures

The purpose of this Handbook is to provide a set of definitions, general terms and specific practical guidance through OFID's Disbursement Procedures and methods. Knowledge of the requirements described in this document enables the Public Sector Borrower to obtain efficient and timely processing of the loan proceeds' withdrawal.

The underlying Disbursement Procedures apply to public sector loans, the financing agreements of which specify that the disbursements under such loans are to be made in accordance with the Disbursement Procedures. This requirement will be clearly stated in the financing agreement itself or the general conditions applicable to it.

In all cases, legal documents such as Loan Agreements provide the basic framework for any transaction. In the event of inconsistency between the Disbursement Procedures and the legal documents specific to each loan, the provisions of the legal documents will prevail.

The Disbursement Procedures are outlined in the following chapters:

- 1) Introduction
- 2) Definition of terms
- 3) Basic principles and general guidelines
- 4) General requirements for all withdrawal applications
- 5) Specific requirements for each disbursement method
- 6) Financial account management

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<sup>1</sup> OFID presently has 13 Member Countries: Algeria, Ecuador, Gabon, Indonesia, Iran IR, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, Venezuela.

**Note:** Qatar was a member of the OPEC Fund for International Development (the OPEC Fund) until July 1, 2019.

The document supersedes all previous versions and takes immediate effect.

It can be also obtained by making a request in writing to:

*The OPEC Fund for International Development*

*Parkring 8, A-1010 Vienna, Austria*

Mailing Address:

*P.O. Box 995, A-1011 Vienna, Austria*

The Operations Department within OFID is the point of contact for any questions related to the Disbursement Procedures. Other related documents and OFID publications can be obtained upon written request.

## 2. Definition of terms

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This chapter defines and explains the meaning of some important terms used by OFID in the context of disbursements.

Please keep in mind that the meaning of identical terms used by OFID and other development finance institutions can differ. Although several institutions use terms that indicate a common origin, such as ‘*special account*’ or ‘*special commitment*’, the related rules and procedures can be very different. Knowledge of the procedures of other institutions can be useful as a starting point, but it should never be relied on.

### 2.1 Loan Agreement

The Loan Agreement along with the General Conditions are the main legal documents for any project financed by OFID. The Loan Agreement is signed between the Borrower<sup>2</sup> and OFID, and sets out the specific terms and conditions of the loan, including, among other things, the following:

- Currency and amount to be financed
- Financial and repayment terms
- Authorized Representative of the Borrower
- Eligible expenditures
- Project activities for which expenditure can be incurred
- Allocation of loan proceeds and financing percentages
- Loan Administrator (where applicable)
- Key dates as defined in the Loan Agreement

The term ‘*Loan Agreement*’ refers not only to the Loan Agreement between OFID and the Borrower but also to the General Conditions as applied thereto and all schedules and agreements supplemental to the Loan Agreement.

Loan Agreements may be amended, as required, during project implementation. While some changes to the Loan Agreement may be made by notice to the Borrower, others are made by amendment of the Loan Agreement by the Borrower and OFID jointly.

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<sup>2</sup> The Borrower is normally the Government of the Country where the project is located; however, OFID may enter into a Loan Agreement with a non-State entity, i.e. the Executing Agency for the project, or municipalities. In such a case, OFID will enter into a separate Guarantee Agreement with the Government of the Country where the project is located to guarantee the obligations of the Borrower.

## **2.2 Loan Account**

The loan account refers to the account that is opened by OFID in its accounting system in the name of the Borrower to which the amount of the loan is credited.

## **2.3 Borrower**

The Borrower is the party to the Loan Agreement to which OFID extends a loan.

## **2.4 Authorized Representative of the Borrower**

The '*Authorized Representative of the Borrower*' is the person or entity that is duly authorized by the Borrower to take any binding action on behalf of the Borrower in connection with the Loan Agreement. The Authorized Representative of the Borrower is specified by title in the Loan Agreement.

## **2.5 Authorized Signatory**

An Authorized Signatory is a person who is authorized by the Borrower to sign withdrawal applications. The respective signature is referred to as '*Authorized Signature*'. The Authorized Representative of the Borrower has to provide OFID with sufficient evidence of the authorized signatories and with respective authenticated specimen signatures.

## **2.6 Loan Administrator**

'*Loan Administrator*' means the financial institution named in the Loan Agreement which is to administer the loan on terms and conditions agreed upon between such financial institution and OFID.

## **2.7 Key dates**

Table 1 shows the key dates for each operation.

Event	Explanation
<b>Date of the Agreement</b>	Date on which the Loan Agreement is signed by the parties
<b>Date of Effectiveness</b>	Date on which OFID declares the Loan Agreement effective. A loan is declared effective when the Borrower has fulfilled the conditions of effectiveness specified in the Loan Agreement to OFID's satisfaction
<b>Eligible Expenditure Commencement Date</b>	Date on which the loan is approved by the Board as specified in the Loan Agreement. Expenditures incurred before that date can be considered eligible in specific cases as agreed upon between the Borrower and OFID
<b>Closing Date</b>	Date on which the Borrower's right to request withdrawals from the loan terminates (as specified in the Loan Agreement), or any extension of such date as established by OFID and as communicated to the Borrower
<b>Date of Application</b>	Date on which the Borrower prepares a withdrawal application. The date has to be entered on top of the application

## 2.8 Withdrawal of loan proceeds

A withdrawal of loan proceeds occurs when a part of the available amount of the loan is utilized, that is, debited from the loan account. A withdrawal is always effected in the loan currency. From the date of the withdrawal, the amount withdrawn accrues loan interest and, if applicable, service charges, and will be due for repayment in accordance with the repayment terms of the Loan Agreement. The actual amount paid out by OFID can be in another currency (as explained in 3.8), but the withdrawal of loan proceeds would still be the equivalent amount in the loan currency. This means that interest, charges, and principal repayments are always due in the loan currency.

## 2.9 Disbursement methods

Four different methods may be used by the Borrower to request withdrawal of loan proceeds from the loan account; namely, direct payment, reimbursement, special account, and special commitment.

### *Direct payment*

OFID directly pays a designated beneficiary at the Borrower's request. Disbursements are made for eligible expenditures directly to a supplier, contractor or consultant.

### *Reimbursement*

OFID reimburses the Borrower for all types of eligible expenditures that have been incurred and pre-financed by the Borrower.

### *Special account*

OFID makes an advance disbursement from the loan account to a previously approved special account. The Borrower uses the special account to finance eligible expenditures. There are separate requirements for the initial disbursement to the special account and subsequent replenishments.

### *Special commitment*

OFID may provide, at the request of the Borrower, an irrevocable or conditional special commitment to reimburse a financial institution for payments it makes to a supplier against a letter of credit. OFID makes payments to the financial institution for eligible expenditures covered by the special commitment.

## 3. Basic principles and general guidelines

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OFID disburses loans in the Public Sector under standard conditions. The basic principles and general guidelines are outlined in this chapter. Borrowers should consider the following conditions carefully as they are essential for the withdrawal of loan proceeds. This chapter also helps the Borrower to familiarize himself with the framework of the disbursement process and to establish a basis for the detailed Disbursement Procedures that are explained in the next chapters.

### 3.1 Effectiveness of a loan

The effectiveness of a loan is the most fundamental condition for disbursements. Borrowers can withdraw loan proceeds from the loan account only after the loan is declared effective. OFID declares a Loan Agreement effective when the Borrower has fulfilled the conditions of effectiveness as specified in the Loan Agreement to OFID's satisfaction.

### 3.2 Authorized signatory

Before disbursements can commence, the Borrower has to designate the officials that may sign withdrawal applications, i.e. act as authorized signatories. The Borrower has to provide originals of their authenticated specimen signatures to OFID. OFID must have received the names and titles of the designated officials along with the duly authenticated specimen signatures in order to verify that the application has been signed by an authorized official.

In order to avoid delays in the processing of withdrawal applications, it is important that the Borrower notifies OFID in a timely manner about any changes with respect to authorized signatories and provides OFID in due time with the respective valid authenticated specimen signatures.

### 3.3 Eligible expenditures

The Borrower may withdraw loan proceeds only for eligible expenditures. OFID's General Conditions define eligible expenditures as the reasonable cost of goods, works and services required for the project to be financed out of the loan proceeds and procured in accordance with Schedules I and II (*Description of the Project and Loan Allocation*) of the relevant Loan Agreement and during the loan disbursing period. The loan disbursing period starts on the Eligible Expenditure Commencement Date and ends on the Closing Date (see Table 1—Key dates).

### **3.4 Loan components**

As previously mentioned, loan proceeds may be used only for the purposes for which the loan was extended. Eligible expenditures are clustered in components that may be financed out of the proceeds of a loan. Loan components are formulated based on the nature of activities that a project is expected to execute over the period of the loan, such as civil works, equipment or consultancy services. They provide a means to monitor and manage the expenditures for project activities.

The loan components are specified in the Schedule 2 '*Loan Allocation*' of each Loan Agreement. Disbursements are made in line with the amounts allocated to each component.

If it is anticipated that one component might require more funding than originally allocated, OFID may, on request of the Borrower, reallocate funds from one component to another component.

### **3.5 Financing percentage**

Schedule 2 '*Loan Allocation*' of the Loan Agreement also indicates the financing percentage for eligible expenditures. The percentage is specified for each loan component and shows the portion of expenditures that OFID has agreed to finance.

### **3.6 Submission of a withdrawal application**

The Borrower may request a withdrawal from the loan account when the basic conditions and principles previously described are met. In other words:

- (1) the loan is declared effective,
- (2) the Borrower has provided OFID with the authenticated specimen signatures of the authorized signatories,
- (3) loan proceeds are used exclusively for eligible expenditures, and
- (4) expenditures can be allocated to loan components specified in the Loan Agreement and are within the limits of the component amount.

To withdraw from the loan account, the Borrower submits a withdrawal application to OFID in such form and substance as OFID reasonably requests. OFID requires the Borrower to submit the original application, which is to be duly signed and accompanied by summary sheets and supporting documents.

The detailed procedure and specific requirements are set out in Chapters 4 and 5 of this Handbook. Respective forms are enclosed in the Annex.

In case the loan is administered by an external Loan Administrator, the Borrower prepares two original conformed withdrawal applications. The Borrower submits one application to OFID and one to the Loan Administrator. OFID requires the clearance of each particular withdrawal application from the Loan Administrator before proceeding with the payment.

### **3.7 Supporting documentation**

As part of the withdrawal application, the Borrower has to submit supporting documents to OFID in order to demonstrate that loan proceeds have been or are being used for the purposes for which the loan was extended. OFID determines the supporting documents required to be submitted by the Borrower taking into consideration the disbursement method used. Detailed instructions for the submission of supporting documents are provided in Chapters 4 and 5.

### **3.8 Disbursement currency**

Loan disbursements are generally made in the currencies in which eligible expenditures have been paid or are payable. The General Conditions specify that OFID, acting as the agent of the Borrower, will purchase the currency in case a withdrawal is requested in a currency other than the loan currency. Disbursements for eligible expenditures in the local currency, that is to say in the currency of the project country, are made in the loan currency according to the relevant official exchange rate. If such a rate is not available, OFID will determine a prevailing market rate.

### **3.9 Loan cancellation and suspension**

If the Borrower fails to comply with the terms and conditions specified in the Loan Agreement or in the General Conditions, OFID may suspend or cancel the loan. This implies that the Borrower's right to make further withdrawals from the loan account is suspended or terminated.

A loan may be cancelled or suspended by OFID if the Borrower is in arrears with the payment of principal installments, interest or service charges. Another material reason for loan cancellation or suspension is the occurrence of corrupt and fraudulent practices or any other unlawful act in connection with procurement or contract execution. Further reasons are set out in OFID's General Conditions.

In the event of any cancellation or suspension, OFID notifies the Borrower in writing, giving details of the suspension or cancellation. The provisions of the Loan Agreement remain in full force and effect, except as otherwise agreed to by OFID.

Borrowers may also, by notice to OFID, cancel any amount of the loan balance that has not been withdrawn. The Borrower may not cancel amounts reserved against an irrevocable special commitment.

### **3.10 Loan closing date**

The Borrower's right to withdraw loan proceeds from the loan account terminates on the Closing Date. The Closing Date is determined on the basis of the anticipated project completion date as specified in the Loan Agreement. All eligible expenditures required for the project must be incurred prior to the Closing Date. This means that goods are delivered, civil works are completed and services are rendered on or before such date.

If it is anticipated that the project will not be completed by the Closing Date, OFID may extend the Closing Date, usually after consultation with or at the request of the Borrower. OFID informs the Borrower of such later date, if applicable.

### **3.11 Communications and supervision**

As stated in OFID's General Conditions, all documents are to be submitted in English.

The Borrower addresses all communications regarding disbursements to the following address:

OFID – The OPEC Fund for International Development  
Parkring 8, A-1010 Vienna, Austria

The Borrower is responsible for implementing the project and is requested to provide periodic reports on the execution of project activities. OFID or the Loan Administrator, in turn, supervise the project to review progress and to ensure that disbursed loan proceeds are used for the purposes that they are intended for with due regard to economy, efficiency and effectiveness.

## 4. General requirements for all withdrawal applications

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To withdraw loan proceeds from the loan account, the Borrower submits a withdrawal application to OFID. Each withdrawal application is made up of two integral parts. The first part is the application for withdrawal itself, which provides the total amount to be withdrawn or applied, and contains the required statements, agreements, payment instructions, and signature of the Borrower. The second part consists of one or more summary sheets, in which individual items are listed, accompanied by their respective supporting documents. This chapter describes the general requirements for all withdrawal applications regardless of the disbursement method used.

### 4.1 Evidence of authorized signature

All withdrawal applications (or applications for a special commitment<sup>3</sup>) need to be signed by an authorized signatory of the Borrower. Also each summary sheet submitted has to be duly signed. As discussed in Chapter 3, OFID must have received the names and titles of the designated officials along with the duly authenticated specimen signatures in order to verify that the application has been signed by an authorized official.

For convenience purposes, a sample letter for designating authorized signatories is provided at the end of this Handbook (see Annex 1). It should be signed by the Authorized Representative of the Borrower. Through this letter, OFID is informed of the persons who will be authorized to sign disbursement applications on behalf of the Borrower. Unless otherwise stated, designation will take effect from the date on which the designation is made.

*Note: It is important that the information about authorized signatories is kept up to date. For instance, some of the authorized signatories originally indicated may be replaced by others; in this case, the Borrower must promptly notify OFID and provide the names, functions and specimen signatures of the newly designated person(s).*

### 4.2 Application for withdrawal

To request withdrawal of loan proceeds, the Borrower has to send a formal application to OFID. The forms to use are specified for each disbursement method in Chapter 5 and are attached in the Annex of this Handbook.

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<sup>3</sup> Applications for a special commitment are also treated as a withdrawal application.

Forms and letters need to be submitted as originals and signed by an authorized signatory. A separate application should be submitted for each currency for which payment is requested.

***Note: When the OFID loan is administered by an External Loan Administrator, the procedure of the withdrawal might be slightly different. OFID's withdrawal procedures are applicable; however, the Borrower must submit the withdrawal application and related supporting documents in two original conformed copies. One set should be submitted to the Loan Administrator and the other to OFID.***

Furthermore, all documents required by OFID are to be submitted to the Loan Administrator, i.e. letter from the Borrower designating authorized signatories for signing withdrawal applications along with their specimen authorized signatures. In addition, OFID's own application forms are to be used.

### **4.3 Summary sheet**

Summary sheets form an integral part of withdrawal applications and list the individual items for which disbursement is requested according to their loan component. Forms for summary sheets are provided in the Annex. Borrowers should adhere to the following rules when filling out summary sheets:

- 1) Summary sheets are to be submitted as originals to OFID.
- 2) All summary sheets need to be signed by an authorized signatory.
- 3) Only items relating to the same component are to be listed on one summary sheet.
- 4) No more than ten items should be listed on any one summary sheet.
- 5) The subtotal of all items listed on each summary sheet is to be shown.
- 6) Where, in connection with the same component, there is more than one item from the same supplier to be listed, all such items should be grouped and listed consecutively.

### **4.4 Numbering system**

For ease of identification and reference to any single item included in a withdrawal application, the Borrower should adopt the following numbering system:

- 1) All withdrawal applications, irrespective of the disbursement procedure followed or the currency involved, should be numbered sequentially commencing with number one.

- 2) All summary sheets attached to an application should be numbered sequentially. The first sheet in each application should be number one.
- 3) The items listed on every summary sheet should be numbered sequentially. The first item on each summary sheet should be number one.

## 4.5 Supporting documentation

OFID requires supporting documentation that provides evidence that withdrawals from the loan account have been or are being made for eligible expenditures, as specified in Chapter 3 of the Disbursement Procedures.

Depending on the disbursement method used, the Borrower may provide the documents at the same time as the application is submitted or at a later date. The type and form of supporting documents that the Borrower has to provide depends on the disbursement method used. Therefore, the specific requirements in terms of supporting documents are discussed for every single disbursement method in the following chapter.

In general, OFID is satisfied with copies of the original supporting documents. However, OFID reserves the right to request any additional documents as and when required. In any case, the Borrower has to ensure the retention of all documents related to the loan (see also General Conditions).

## 4.6 Payment instructions

To avoid delays in disbursements, it is important that the Borrower provides OFID with accurate and complete banking details.

### *Beneficiary details*

Withdrawal applications should precisely indicate the full name and address of the beneficiary (account holder) as well as all banking details of the beneficiary bank. The beneficiary bank is the financial institution in which the beneficiary of the disbursement maintains its bank account.

The following information is requested from the Borrower:

- 1) full name and address of the beneficiary,
- 2) full name and address of the beneficiary bank,
- 3) SWIFT code of the beneficiary bank, and
- 4) account number of the beneficiary (or IBAN if available).

### *Correspondent bank information*

If a correspondent bank is required to effect payment, the Borrower needs to specify:

- 1) the full name and address of the correspondent bank of the beneficiary bank,
- 2) the SWIFT code of the correspondent bank, and
- 3) the account number (or IBAN if available) of the beneficiary's bank at the correspondent bank.

## **4.7 Non-approval and refunds of payments**

If an application – or part of it – is not approved, OFID promptly notifies the Borrower. The notification provides the reason(s) for the non-approval and may suggest action(s) for the Borrower to rectify the issues in question.

When OFID determines that an ineligible expenditure has been financed by loan proceeds, OFID may require the Borrower to (a) refund the amount to OFID or to the special account; or (b) in exceptional circumstances, provide substitute documentation. The appropriate course of action is decided based on the size of the ineligible expenditure and the Borrower's previous performance. OFID notifies the Borrower promptly, specifying the nature of the ineligible expenditure and requesting a refund or substitute documentation within a specified period of time. The refund is to be paid into an account specified by OFID. OFID reserves the right to cancel the amount refunded or to credit the loan account for future eligible expenditures.

## **4.8 English language**

The Borrower has to deliver to OFID all withdrawal applications (including summary sheets) in English.

## 5. Specific requirements for each disbursement method

Four disbursement methods are available for withdrawal of loan proceeds – direct payment, reimbursement, payment to a special account, and payment against a special commitment (see Table 2—Overview of disbursement methods). The Borrower may use a single disbursement method or a combination of different methods depending on the particular circumstances for a given project. For all disbursement methods, OFID disburses loan proceeds in accordance with properly authorized instructions from the Borrower. However, the disbursement methods differ in relation to the payee, the type of supporting documentation required, and the timing for providing supporting documentation. This chapter describes the specific requirements and procedures for each disbursement method.

### OVERVIEW OF DISBURSEMENT METHODS

TABLE 2

Method	Explanation
<b>Direct payment</b>	OFID directly pays a designated beneficiary at the Borrower's request
<b>Reimbursement</b>	OFID reimburses the Borrower for expenses incurred and pre-financed by the Borrower
<b>Special account</b>	OFID makes an advance disbursement to a special account to be used exclusively for OFID's share of eligible expenses
<b>Special commitment</b>	OFID provides a commitment to reimburse a financial institution for payments it makes to a supplier against a letter of credit

#### 5.1 Direct payment to the supplier/contractor

Under this method, OFID directly pays a designated beneficiary at the request of the Borrower. Disbursements can be made to:

- a supplier for goods supplied or to be supplied;
- a contractor or consultant for work or services done or to be done.

Direct payments are useful when relatively large payments are required or when payments are in currencies that are difficult to obtain for the Borrower. They are also used when suppliers or contractors require them. In general, this method is suitable for expenditures related to work progress payments, consultant's progress claims or purchasing of goods and equipment.

### ***Procedure for direct payments***

To request a direct payment, the Borrower completes the *Application for Withdrawal* (Form 1, see Annex) and one or more summary sheets (Form 1a, see Annex). A separate application should be filled out for each supplier, contractor or consultant, and for each currency in which payment is requested. Each item for which payment is requested should be related to the appropriate loan component in the summary sheet. The Borrower submits the withdrawal application as an original, duly signed and accompanied by complete supporting documents to OFID. After approval of the application, OFID directly pays the designated beneficiary and notifies the Borrower and the Loan Administrator, if any, of the payment.

### ***Supporting documentation***

The withdrawal application should be supported by:

- Copy of contract(s) or confirmed purchase order(s) (*required only with the first withdrawal application*)
- Copy of invoice(s), bill(s), or claim(s)
- Copy of advance payment bank guarantee and performance bond/guarantee (*in case of works*) for a given contract (*only with the first request for payment under a given supply/services/works contract*)
- Evidence of receipt (*only for withdrawal applications concerning the payment for goods, in accordance with technical specifications included in the respective contracts or purchase orders*)

## **5.2 Reimbursement**

The reimbursement method may be used for all types of eligible expenditures that the Borrower has pre-financed. Upon receipt of a withdrawal application and sufficient supporting documents, OFID makes a disbursement to the Borrower. To promote good project management, requests for reimbursement should be made on a regular basis as and when expenditures are incurred.

The reimbursement procedure should be applied in line with applicable budget and finance law requirements of a given country. It is generally suitable for the payment of local currency costs, small purchases or small civil works. It may be also necessary when immediate payment of the Borrower is required.

### *Procedure for reimbursements*

To request a reimbursement, the Borrower completes the *Application for Withdrawal* (Form 1, see Annex) and one or more summary sheets (Form 1b, see Annex). An application may cover a number of purchase transactions, provided they are all in the same currency. A separate application is required for each currency involved. Each item for which reimbursement is requested should be related to the appropriate loan component in the summary sheet. The Borrower submits the withdrawal application as an original, duly signed and accompanied by complete supporting documents to OFID. After approval of an application, OFID reimburses the Borrower and notifies the Borrower of the disbursement made.

### *Supporting documentation*

The withdrawal application should be supported by:

- Copy of contract(s) or confirmed purchase order(s)  
*(required only with the first withdrawal application)*
- Copy of invoice(s), bill(s), or claim(s)
- Copy of advance payment bank guarantee and performance bond/guarantee *(in case of works)* for a given contract *(only with the first request for payment under a given supply/services/works contract)*
- Evidence of receipt *(only for withdrawal applications concerning the payment for goods, in accordance with technical specifications included in the respective contracts or purchase orders)*
- Evidence of payment to the supplier

## **5.3 Special account**

Under this method, OFID makes an advance disbursement from the loan account to a previously approved special account. The special account is an account opened by the Borrower with a commercial bank or a financial institution acceptable to OFID. From this account, the Borrower can make payments to contractors, suppliers and others to cover eligible expenses financed by OFID.

The first payment into the special account is the initial deposit, for which evidence of expenditures is not required in the first place. Satisfactory evidence of the expenditures incurred is required when the Borrower requests replenishment of the special account.

The option of a special account provides mechanisms not only to assist the Borrower in financing small and numerous expenditures but also to facilitate adequate and rapid availability of funds to ensure prompt payment of contractual

and/or project related financial obligations. It is practical when there is a high number of contractors and/or when frequent payments are necessary to facilitate the swift flow of funds.

Projects operating special accounts are expected to have:

- effective administrative, financial and accounting procedures and systems by the Borrower
- satisfactory internal control systems and
- a commitment to undertake regular and independent audit of the special account.

### *Procedure for special accounts*

Before the special account method can be used, the Borrower has to send an official request for the setup of a special account signed by the Authorized Representative of the Borrower to OFID. The request should specify

- (1) why the Borrower needs a special account
- (2) the amount requested justified by projected expenditures as established by a projected disbursement plan and
- (3) a statement that the Borrower will open a special account exclusively for that purpose.

If the special account is approved by OFID, OFID sends a letter with the conditions for the special account to the Authorized Representative of the Borrower who has to return his approval of the conditions to OFID. The special account may be opened by the Borrower with the Central Bank, a commercial bank or financial institution acceptable to OFID, and may be used exclusively for eligible expenditures financed by OFID.

After the approval and opening of the special account, the Borrower completes and sends an *Application for Withdrawal* (Form 1, see Annex) as an original and duly signed to OFID to request an initial payment into the special account. The amount of the initial deposit, that is to say the ceiling of the special account, is specified in the letter with the conditions sent to the Borrower. Upon receipt of the application, OFID transfers the agreed amount to the special account and notifies the Borrower of the disbursement made.

The Borrower withdraws money for eligible expenditures from the special account. When a certain threshold is reached, such as 50% of the initial deposit, the Borrower completes and sends an *Application for Withdrawal* (Form 1, see Annex) as an original and duly signed to OFID to request replenishment of the special account. The threshold is agreed between the Borrower and OFID individ-

ually and depends on the nature of the project and its implementation schedule. When the Borrower requests replenishment of the special account, the Borrower has to submit concurrently supporting documents for all payments made out of the special account since the previous deposit was made. All individual items are to be listed on one or more summary sheets (Form 1a, see Annex). Upon receipt of the application for replenishment and sufficient supporting documents of the expenditures already incurred, OFID replenishes the special account of the Borrower and informs the Borrower about the replenishment.

Please refer to Chart 1 ‘Special account method’ for detailed instructions and documentation requirements.

### ***Supporting documentation***

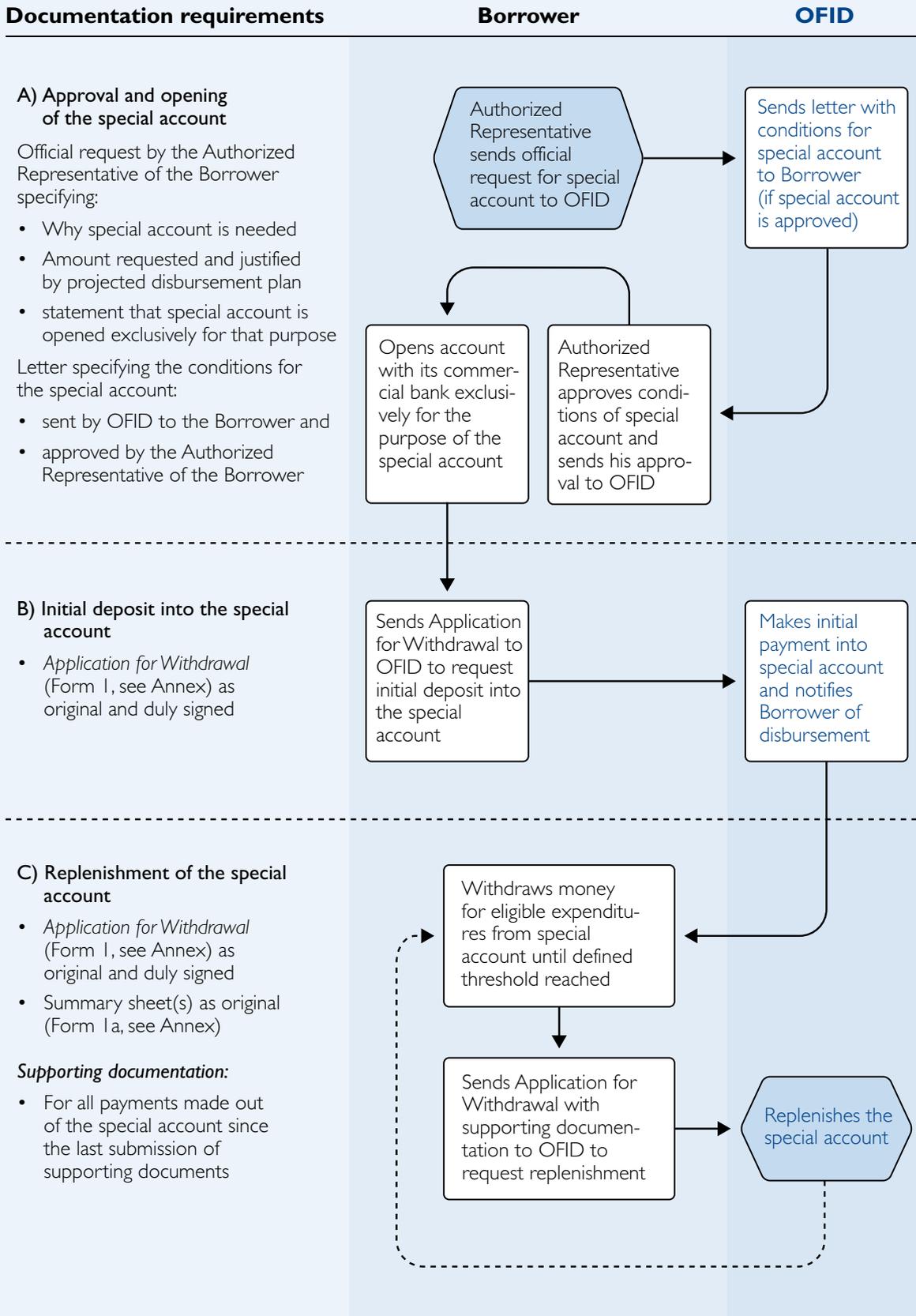
The Borrower submits supporting documents for expenditures incurred in the course of the request for replenishment of the special account or in the course of the loan account closing. Requested documents are specified in the letter of approval of the special account sent to the Borrower by OFID.

In general, the withdrawal application should be supported by the following:

- Copy of contract(s) or confirmed purchase order(s) (*required only with the first withdrawal application*)
- Copy of invoice(s), bill(s), or claim(s)
- Copy of advance payment bank guarantee and performance bond/guarantee (*in case of works*) for a given contract (*only with the first request for payment under a given supply/services/works contract*)
- Evidence of receipt (*only for withdrawal applications concerning the payment for goods, in accordance with technical specifications included in the respective contracts or purchase orders*)
- Bank account statement
- Statement of expenditures or payments made under a special account – the statement should include:
  - (a) Expense or payment reference and name of expense,
  - (b) Payment date,
  - (c) Currency of expense or payment and amount,
  - (d) Exchange rate,
  - (e) Equivalent amount in loan currency,
  - (f) Amount to be financed by OFID, and
  - (g) Amount to be financed by others (if any).

# SPECIAL ACCOUNT METHOD

CHART I



### *Special account management*

The management of the special account is to comply with the following requirements:

- The special account is established in the loan currency. Exceptions are to be decided by OFID.
- Bank account details are communicated to OFID by the bank/financial institution where the special account is established.
- In some instances, a revision of the approved amount of the special account may be required.
- Statements of the special account outlining all transactions are to be provided by the Borrower to OFID on a regular basis (as agreed between the Borrower and OFID).
- The account is to be used only for the loan, and shall not receive any counterpart funds or other resources.
- The special account may neither be used as collateral nor incur overdrafts.
- Bank fees related to the management of the special account should be paid from the special account.
- The special account may be an interest-bearing account. Any interest or earnings accruing from the special account must be credited to the account and the Borrower may use the interest earned exclusively for the benefit of the project. Funds may not be transferred from the special account for investment purposes.
- The Borrower is accountable for all loan proceeds advanced to the special account.

### *Effects of suspension*

During suspension of a loan, as described in Chapter 3 of this Handbook, no replenishments are made by OFID to the special account. However, available funds in the special account may continue to be used to meet eligible expenditures.

### *Repayment of unused balance of the special account*

There are various circumstances under which OFID may require the Borrower to repay an unused balance of the special account to OFID:

- OFID determines that funds on deposit are no longer needed for their original purpose.
- Justifications for the utilization of the loan proceeds are not satisfactory.
- OFID is not satisfied with the financial management of the special account.

The Borrower may also decide to repay funds from the special account if these funds are no longer needed or if the Borrower decides not to use the special account method any longer.

### *Final liquidation of the special account*

In the course of the loan account closing or in case any of the above mentioned circumstances apply, the Borrower has to refund any unutilized balance of the special account to OFID. In addition, the Borrower has to provide supporting documents for the previous replenishment without requesting a new replenishment. If the Borrower wishes to utilize the remaining special account balance, a request together with a justification should be sent to OFID.

## **5.4 Special Commitment**

To finance the purchase of imported goods under a project, the terms of the contract with the supplier may require the Borrower to open a letter of credit. If a commercial bank is unwilling to open, advise, or confirm the letter of credit without some reimbursement guarantee or security, OFID may provide the commercial bank with a special commitment. Under a special commitment, OFID undertakes to reserve funds in the loan account for later disbursement to the commercial bank, normally in the supplier's country, for payments made or to be made against the letter of credit.

***Note: It has to be emphasized that OFID is under no obligation to issue special commitments and that OFID considers all circumstances of each particular case before issuing a special commitment.***

### *Procedure for special commitments*

Before the Borrower can apply for a special commitment with OFID, the Borrower has to open a letter of credit with its (local) commercial bank, referred to as the issuing bank. After the letter of credit is issued with a valid expiry date, the Borrower completes and sends the *Application for a Special Commitment* (Form 2, see Annex) and the *Summary Sheet for Special Commitment* (Form 2a, see Annex) as an original and duly signed to OFID. Two copies of the letter of credit and a copy of the contract or purchase order should be attached to the application.

If OFID approves the issuance of a special commitment, it sends the *Special Commitment* together with a copy of the letter of credit to the commercial bank of the supplier, referred to as the supplier's bank. OFID also sends a copy to the Borrower. The supplier's bank completes and sends its *Acceptance of the Special Commitment* to OFID. In case the supplier's bank rejects the special commitment, it should return all documents received to OFID, detailing the reasons for rejection.

When payment is due according to the terms and conditions of the special commitment, the supplier's bank pays the supplier. Upon receipt of the *Special Commitment Bank Report* (Form 3, see Annex) from the supplier's bank, OFID effects payment to the supplier's bank and informs the Borrower of the disbursement. If the request for payment by the supplier's bank does not indicate that payment was made against documents evidencing shipment, the Borrower needs to send such evidence to OFID.

Please refer to Chart 2 'Special commitment method' for detailed instructions and documentation requirements.

### ***Supporting documentation***

The Special Commitment Bank Report should be supported by the following:

- Copy of contract(s) or confirmed purchase order(s)  
(*required only with the first withdrawal application*)
- Copy of invoice(s), bill(s), or claim(s)
- Evidence of shipment
- Evidence of payment to the supplier
- Copy of valid letter of credit
- Copy of the bill of lading
- Statement of the supplier that the goods have been shipped

### ***Qualified versus irrevocable special commitments***

OFID uses two forms of special commitment:

- (1) conditional special commitments
- (2) irrevocable special commitments.

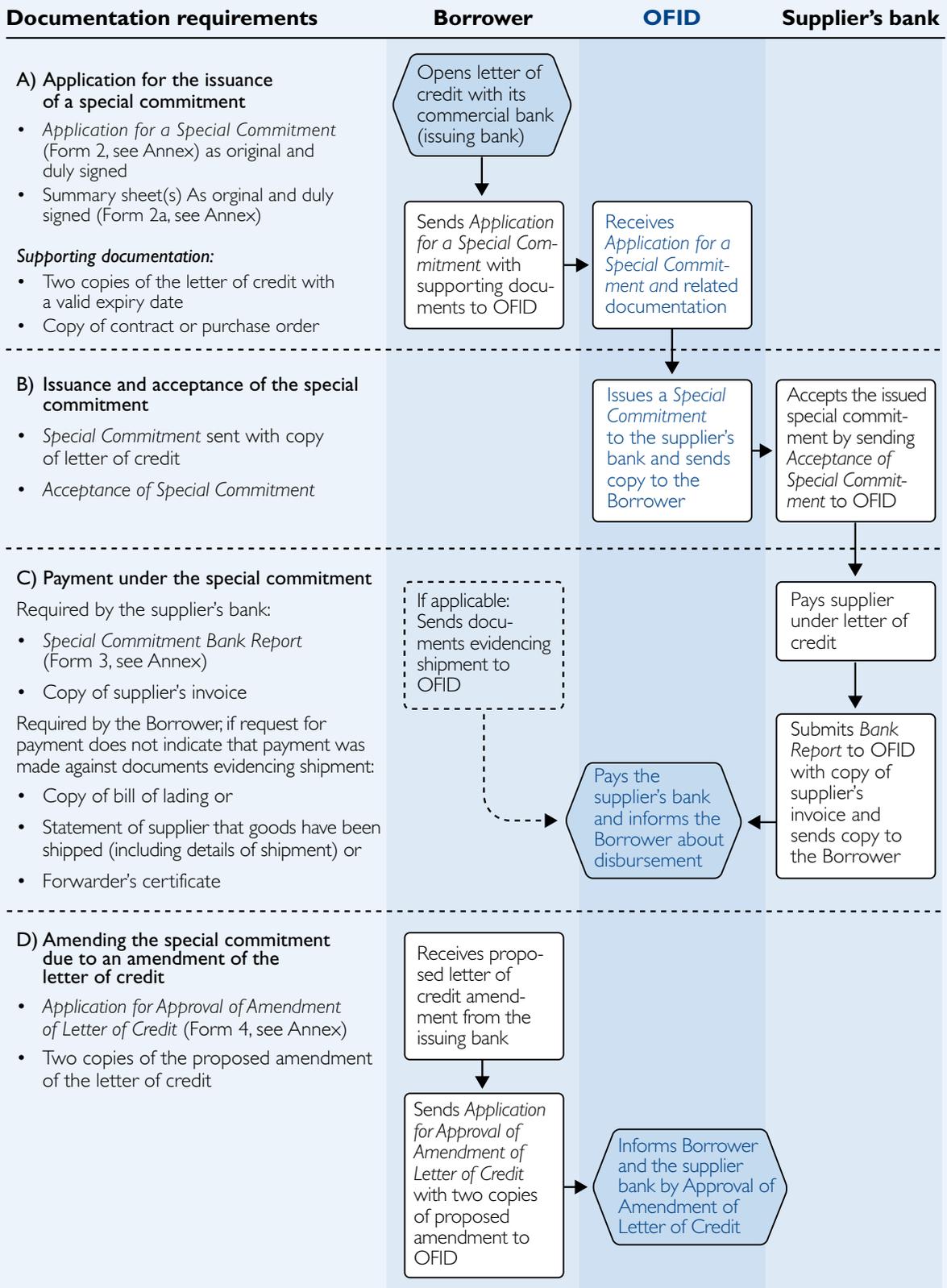
These two forms of special commitment are identical in their operational procedure, but in the first case, OFID's special commitment is conditional, and in the second case, it is irrevocable. Conditional in this context means that, in the event of a loan suspension or cancellation, OFID's obligation to the supplier's bank ceases.<sup>4</sup> The irrevocable special commitment is not affected by any subsequent loan suspension or cancellation. Therefore, OFID will enter into an irrevocable special commitment only if it is sufficiently justified in terms of the relationship with the Borrower and the contractual subject. An additional commitment charge is payable by the Borrower for an irrevocable commitment.

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<sup>4</sup> Nevertheless, OFID may under certain circumstances decide to reimburse the supplier's bank for any amounts expended, in relation to the special commitment, after any such suspension or cancellation. In this case, the amount reimbursed is deemed to be a withdrawal by the Borrower from the loan account.

# SPECIAL COMMITMENT METHOD

CHART 2



### *Dollar limitation clause*

If the letter of credit amount is denominated in a currency other than U.S. dollars, OFID will impose a maximum limit in U.S. dollars upon its special commitment. This so-called dollar limitation clause is applied to ensure that exchange rate fluctuations will not create a commitment larger than the amount available and reserved for this purpose. In computing the dollar limitation, OFID uses the current exchange rate with a margin to cover normal currency fluctuations.

OFID's policy is to retain sufficient funds in the loan account to fully cover all outstanding special commitments. OFID routinely reviews the dollar limitation of its special commitments and increases the limits as warranted subject to the particular conditions if uncommitted loan funds are available. Borrowers who request special commitments agree in the application form that if, because of this limitation clause, OFID cannot disburse the full amount needed to make payments against the letter of credit covered by the special commitment, any uncommitted portion of the loan may be disbursed to cover the deficiency.

### *Amendments to a letter of credit*

Once a special commitment has been issued, all amendments to the letter of credit are subject to prior approval by OFID, as such amendments could substantially alter or increase OFID's commitment. Those amendments can relate among other things to the terms of payment, the description or quantity of goods, the extension of the expiry date or terms of delivery.

The issuing bank sends to the Borrower two copies of the proposed amendment with a request for approval by OFID. The Borrower submits an *Application for Approval of Amendment to a Letter of Credit* (Form 4, see Annex) to OFID together with two copies of the proposed amendment of the letter of credit. After approval by OFID, the *Approval of Amendment of Letter of Credit* (Form 4, see Annex) is sent to the supplier's bank together with one copy of the proposed amendment. Another copy is sent to the Borrower.

***Note: Payment under a special commitment is not possible when the letter of credit has expired. Expiration of the letter of credit requires an extension of the expiry date and therewith an amendment to the letter of credit. This is costly and time-consuming for both the Borrower and OFID. Therefore, the Borrower should consider an appropriate period when issuing the letter of credit to ensure that the letter of credit is still valid at the time of payment.***

# Annex

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The following forms or standard texts are attached:

- Checklist for withdrawal applications
- Letter Designating Authorized Signatories
- Form 1—Application for Withdrawal
- Form 1a—Summary Sheet
- Form 2—Application for a Special Commitment
- Form 2a—Summary Sheet for Special Commitment
- Form 3—Special Commitment Bank Report
- Form 4—Application for Approval of Amendment to a Letter of Credit

## CHECKLIST FOR WITHDRAWAL APPLICATIONS

	Yes or No
1 Is OFID informed as to who is authorized to sign withdrawal applications? Is this information up-to-date?	
2 Do I have the latest version of OFID's Disbursement Procedures and forms?	
3 Have I chosen the correct forms?	
4 Have I chosen the correct application type on the form Application for Withdrawal? A separate application needs to be prepared for each individual application type.	
5 Have I entered the correct date at the top of the application? (Date of filling out the application)	
6 Did I pay attention to the loan closing date?	
7 Have I correctly entered the application serial number?	
8 Does the withdrawal application amount tally with the sum of the summary sheets?	
9 Is the correct currency indicated?	
10 Is a separate application prepared for each individual currency?	
11 Are the banking details provided both accurate and complete?	
12 Do I need to provide correspondent bank details?	
13 Are the expenditures related to the right loan components? Are sufficient resources available in this component?	
14 Did I apply the correct financing percentage (as specified in the Loan Agreement) for the particular component?	
15 Are the summary sheets numbered according to the Disbursement Procedures?	
16 Did I attach all required supporting documentation?	
17 Are all documents to be submitted signed by an authorized signatory?	
18 Is there an external Loan Administrator? <i>If yes: Did I prepare two original conformed withdrawal applications? One application is to be submitted to OFID and one to the Loan Administrator.</i>	

# Letter Designating Authorized Signatories



Uniting against Poverty

To: OFID – The OPEC Fund  
for International Development  
Parkring 8, A-1010 Vienna, Austria

\_\_\_\_\_  
Date

Re: Loan Agreement (loan no \_\_\_\_\_ ) dated \_\_\_\_\_  
between the OPEC Fund for International Development (OFID) and

\_\_\_\_\_  
*The Borrower*

Dear Sir/Madam,

Please be advised that any one of the persons, whose authenticated specimen signatures appear below, is authorized on behalf of the Borrower to sign withdrawal applications (including applications for a special commitment) and any other notices or documents required or permitted to be executed under the above mentioned Loan Agreement.

## Authorized signatory/ies

\_\_\_\_\_  
*Name*

\_\_\_\_\_  
*Position*

\_\_\_\_\_  
*Specimen signature*

\_\_\_\_\_  
*Name*

\_\_\_\_\_  
*Position*

\_\_\_\_\_  
*Specimen signature*

\_\_\_\_\_  
*Name*

\_\_\_\_\_  
*Position*

\_\_\_\_\_  
*Specimen signature*

All previous notices providing signatures of officials authorized to sign on behalf of the Borrower under the above Loan Agreement are hereby revoked.

Yours sincerely,

\_\_\_\_\_  
*Authorized Representative of the Borrower*

# Application for Withdrawal Form I



Uniting against Poverty

To: OFID – The OPEC Fund  
for International Development  
Parkring 8, A-1010 Vienna, Austria

Date of application \_\_\_\_\_  
Loan number \_\_\_\_\_  
Loan closing date \_\_\_\_\_  
Application serial number \_\_\_\_\_

### Type of application

- Direct payment
- Reimbursement
- Special account
- Initial deposit
- Replenishment

### Borrower details

Name \_\_\_\_\_  
Contact person \_\_\_\_\_  
Borrower address \_\_\_\_\_  
City/Country \_\_\_\_\_  
E-Mail \_\_\_\_\_  
Phone/Facsimile \_\_\_\_\_

### Please pay

\_\_\_\_\_ Amount

\_\_\_\_\_ Currency

We apply for this disbursement under the above Agreement, and hereby certify or agree as follows:

- (1) The undersigned has not previously withdrawn any amount to meet these expenses. The undersigned has not and does not intend to obtain funds for this purpose from the proceeds of any other loan, credit or grant.
- (2) Said amount is required for expenditures made or to be made in said currency as described in the attached summary sheet(s) which forms an integral part of this application. A summary sheet is not required for an application for an initial deposit into the special account.
- (3) The goods and services covered by this application have been or are being purchased in accordance with the conditions of the Loan Agreement.
- (4) The expenditures are for eligible items to be financed under the loan and do not include taxes, duties and other ineligible items.
- (5) At the date of this application, there is no existing default under the said Loan Agreement.

# Application for Withdrawal Form 1



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## Beneficiary details

Beneficiary name \_\_\_\_\_

Beneficiary address \_\_\_\_\_

City/Country \_\_\_\_\_

Bank name \_\_\_\_\_

Bank address \_\_\_\_\_

City/country \_\_\_\_\_

SWIFT code \_\_\_\_\_

Account number \_\_\_\_\_

IBAN code \_\_\_\_\_

## Correspondent bank (where applicable)

Bank name \_\_\_\_\_

Bank address \_\_\_\_\_

City/Country \_\_\_\_\_

SWIFT code \_\_\_\_\_

Account number \_\_\_\_\_

IBAN code \_\_\_\_\_

## Authorized signatory(ies)

_____ Name/Title	_____ Signature
_____ Name/Title	_____ Signature
_____ Name/Title	_____ Signature

\_\_\_\_\_  
Date signed



Uniting against Poverty

**Application type**

- Direct payment
- Reimbursement
- Special account

Loan number \_\_\_\_\_

Summary sheet number \_\_\_\_\_

Application serial number \_\_\_\_\_

Loan component \_\_\_\_\_

**Summary Sheet  
Form Ia**

Item number	Description of goods, works or services	Name and address of contractor/supplier	Date and contract/purchase order no.	Currency and total amount of contract	Currency and amount requested	Date of payment	Remarks

Subtotal \_\_\_\_\_

\_\_\_\_\_  
Date

\_\_\_\_\_  
Authorized signatory

# Application for a Special Commitment Form 2



Uniting against Poverty

To: OFID – The OPEC Fund  
for International Development  
Parkring 8, A-1010 Vienna, Austria

Date of application	_____	<b>Type of special commitment</b>	
Loan number	_____	<input type="checkbox"/> conditional	
Loan Closing date	_____	<input type="checkbox"/> irrevocable	
Application serial number	_____		

## Borrower details

Name \_\_\_\_\_

Contact person \_\_\_\_\_

Borrower address \_\_\_\_\_

City/Country \_\_\_\_\_

E-Mail \_\_\_\_\_

Phone/Facsimile \_\_\_\_\_

## We apply for a Special Commitment and subsequent withdrawal from the loan account, and hereby certify and agree as follows:

- (1) The undersigned requests that a Special Commitment be issued to the supplier's bank in accordance with the terms of the Agreement in order to make payment to the supplier's bank from the loan account. The undersigned irrevocably authorizes such withdrawal on the basis of any written statement by the supplier's bank that payment has been made or is due, and will be promptly made under and in accordance with the terms of the letter of credit as such may be amended.
- (2) Said amounts are required to enable the Borrower to meet expenditures to be made or to be provided, as set forth in such summary sheet(s) which forms an integral part of this application.
- (3) The undersigned agrees that if, because of the dollar limitation clause, OFID cannot disburse the full amount needed to pay the supplier's bank, any uncommitted portion of the loan may be disbursed to cover the deficiency. In the event that the uncommitted portion of the Account is insufficient to cover the deficiency, OFID will notify the undersigned who will arrange to make such payment promptly to the supplier's bank.
- (4) The undersigned has not previously withdrawn from the loan account to meet these expenditures. The undersigned has not and does not intend to obtain funds for this purpose out of the proceeds of any other loan, credit or grant.
- (5) The goods or services covered by this application are being purchased in accordance with the terms of the Loan Agreement.
- (6) The expenditures are being made only for goods or services from eligible sources.
- (7) At the date of this application, there is no existing default under the said Loan Agreement.
- (8) Only in the case of a Conditional Special Commitment, OFID shall not be obligated to reimburse the supplier's bank for payments under such letter(s) of credit, made by it subsequent to the date of any suspension of the Borrower's right to make withdrawals from the loan account or subsequent to the date of any cancellation; provided, however, that OFID may in its discretion, reimburse the supplier's bank for any amounts expended by it after any such suspension or cancellation, and the amount so reimbursed shall be deemed a withdrawal by the Borrower from the loan account.

# Application for a Special Commitment Form 2



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## Details of letter of credit (LC)

Supplier's bank name \_\_\_\_\_  
Supplier's bank address \_\_\_\_\_  
Name of confirming bank \_\_\_\_\_  
Address of confirming bank \_\_\_\_\_  
Name of issuing bank \_\_\_\_\_  
Address of issuing bank \_\_\_\_\_  
LC number by issuing bank \_\_\_\_\_  
Currency name/amount \_\_\_\_\_  
Date of issuance of LC \_\_\_\_\_  
Expiry date of LC \_\_\_\_\_

## Details of expenditure

Name of supplier \_\_\_\_\_  
Address of supplier \_\_\_\_\_  
Contract/Purchase order no. \_\_\_\_\_  
Date of contract/purchase order \_\_\_\_\_  
Date of no-objection notice \_\_\_\_\_  
Brief description of goods/works/services \_\_\_\_\_

## Authorized signatory(ies)

\_\_\_\_\_  
*Name/Title*

\_\_\_\_\_  
*Signature*

\_\_\_\_\_  
*Date signed*



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## Summary Sheet for Special Commitment Form 2a

**Loan no.:** \_\_\_\_\_

Application serial no.: \_\_\_\_\_ Summary sheet no.: \_\_\_\_\_ Loan component: \_\_\_\_\_

Name of Bank: \_\_\_\_\_

Item number	Name of purchaser	Category symbol	Brief description of goods	Issuing bank		Letters of credit				Remarks
				Name	Credit no.	Beneficiary (supplier)	Number	Expiration date	Amount and currency	

\_\_\_\_\_ Date

\_\_\_\_\_ Authorized signatory

# Special Commitment Bank Report Form 3



Uniting against Poverty

To: OFID – The OPEC Fund  
for International Development  
Parkring 8, A-1010 Vienna, Austria

Date of application \_\_\_\_\_  
Loan number \_\_\_\_\_  
Letter of credit no. \_\_\_\_\_  
Special commitment no. \_\_\_\_\_  
Bank report no. \_\_\_\_\_

### Type of special commitment

- conditional  
 irrevocable

We have paid or will pay \_\_\_\_\_ to or on the order of \_\_\_\_\_  
*currency and amount*

\_\_\_\_\_  
*Name and address of beneficiary*

under the letter of credit, special commitment and Loan Agreement mentioned above. Such payment has been made, or is due and will be promptly made to the beneficiary under and in accordance with the terms and conditions of the said letter of credit and amendments, if any, appropriately approved. We request payment of the amount pursuant to said special commitment. The copy of the supplier's invoice is attached.

Balance of the letter of credit \_\_\_\_\_  has been cancelled  will be utilized

\_\_\_\_\_  
*Payment routing instructions*

Best regards,

\_\_\_\_\_  
*Name*

\_\_\_\_\_  
*Authorized signature*

\_\_\_\_\_  
*Name and address of commercial bank*

# Application for Approval of Amendment to a Letter of Credit Form 4



Uniting against Poverty

To: OFID – The OPEC Fund  
for International Development  
Parkring 8, A-1010 Vienna, Austria

Date of application \_\_\_\_\_

Loan number \_\_\_\_\_

Application serial number \_\_\_\_\_

Letter of credit number \_\_\_\_\_

There is forwarded herewith a request dated \_\_\_\_\_ by \_\_\_\_\_  
(issuing bank) for your written approval of a proposed amendment of \_\_\_\_\_  
of the above letter of credit, together with two copies of the proposed amendment.

The undersigned hereby requests that you confirm directly to the said issuing bank your approval  
of such proposed amendment.

\_\_\_\_\_  
*Borrower*

\_\_\_\_\_  
*Authorized signatory*

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## OFID – The OPEC Fund for International Development Approval of Amendment of Letter of Credit

We hereby confirm our approval, for the purposes of our special commitment no. \_\_\_\_\_,  
of proposed amendment of the above letter of credit, in accordance with the copy of said amendment  
annexed hereto.

OFID – The OPEC Fund  
for International Development

\_\_\_\_\_  
*Authorized signature*





**Uniting against Poverty**