

# »» Disbursement of Funds in Financial Cooperation

The progress of the project determines the gradual disbursement of funds for projects within the framework of Financial Cooperation. This applies to loans and non-repayable financial contributions.

## Principles

KfW disburses loans and non-repayable financial contributions ("funds") at the request of the borrower, recipient or project-executing agency ("Authorized Parties"). The demonstrated progress of the projects is the determining factor for the disbursement. The supplies and services to be financed and the disbursement procedure to be applied in each case are specified in binding form in the "Separate Agreements" to the loan and financing agreements.

The Authorized Parties may request disbursement of funds from KfW in accordance with the agreed disbursement procedure as soon as all contractual preconditions for disbursement have been fulfilled. All requests for disbursement under a loan or financing agreement must be signed by representatives of the Authorized Party who have been designated as authorized representative towards KfW and of whom KfW possesses specimen signatures.

Payments in a currency other than the currency specified in the loan/financing agreement ("foreign currency") will be debited by KfW to the borrower or recipient with the contractual currency amount it expends on raising the funds in foreign currency including ancillary costs. KfW supervises the contractually agreed utilization of the funds.

KfW's disbursement procedures are in line with the Paris Declaration on Aid Effectiveness (2005) which calls on the donors to align their procedures more strongly with those of the partner countries. In particular, this includes the objective of reporting all flows of funds of the donors in the public budget of the respective partner countries. Financial Cooperation applies this principle by giving the partner countries all necessary information for allocating the funds in their budgets. This is ensured by, amongst others, disbursement advices which KfW sends to the respective borrowers, recipients or project-executing agencies on a regular basis. The partners themselves are responsible for forwarding this information to the ministries in charge of budget planning and budgeting.

## Disbursement procedure

The following procedures may be applied for the disbursement of funds. Different arrangements may be made in specific cases to provide for special methods of financing such as joint financing.

### 1. Direct disbursement procedure

Upon request of the Authorized Party, KfW disburses funds directly to the companies ("contractors") whose goods and services are to be financed by KfW.

## **2. Reimbursement procedure**

The Authorized Party first performs the full payment of amounts due and subsequently requests reimbursement by KfW of the amounts to be financed. A minimum reimbursement amount is usually fixed. In some cases, a specific audit by an independent auditor is necessary to examine whether the funds were used for the contractually agreed purpose.

## **3. Disposition fund procedure**

A disposition fund can be made available to the Authorized Party in a reasonable amount if it is unable to pre-finance the supplies and services, if a number of payments and/or force account work is involved or other procedures would delay the progress of the project. The funds, which are to cover the needs of the project over a period of three to four months, are disbursed to a separate interest-bearing account (special account) with a bank which is to be specified by the Authorized Party. As a rule, disposition fund accounts should be kept in Euros to hedge against the risk of currency devaluation. In order for this procedure to be applicable the project-executing agency must have an adequate financial management and controlling system. A specific audit of the disposition fund must be performed regularly by an independent auditor to examine whether the funds were used for the contractually agreed purpose.

If you have further questions about the disbursement of funds in Financial Cooperation, please send us an e-mail to [info@kfw-entwicklungsbank.de](mailto:info@kfw-entwicklungsbank.de)