



*These procedures were prepared for use by World Bank staff and are not necessarily a complete treatment of the subject.*

(Archived August 2004)

This Bank Procedures statement was revised in August 2004 to ensure consistency with the requirements of OP/BP 8.60, issued in August 2004. These changes may be viewed [here](#).

## Special Accounts

**Note:** OP and BP 12.20 provide for withholding replenishment if the borrower's audit report on its special account is overdue; this provision applies to Loan Agreements negotiated after June 30, 1994. These documents replace OD 12.20, *Special Accounts*, and reflect the recommendations of the *Report of the Working Group for the Review of Special Accounts*, September 8, 1993. They are complemented by GP 12.20, available online. Questions may be addressed to the Director, Loan Department.

1. During project appraisal, Bank<sup>1</sup> staff evaluate the need for advance disbursements to a special deposit account (SA)<sup>2</sup> and assess the adequacy of the borrower's administrative capability, internal controls, and accounting and auditing arrangements for SAs.
2. Bank staff assess the status of any existing SAs the borrower may have. If the Bank has required the borrower to document or refund SA balances under existing loans as a condition for advances of authorized allocations to an SA in a new loan, the requirement is made a condition of Board presentation or is incorporated into the new Loan Agreement as a condition of effectiveness or of disbursement of the advance into the SA.
3. Bank staff assess the borrower's ability to prefinance the required level of expenditures and estimate the amount the borrower will need to cover such eligible expenditures for a reasonable period. This amount is the recommended authorized allocation. Any exceptions to the established limits on authorized allocations<sup>3</sup> must be cleared by the Chief, Disbursement Division, Loan Department (LOA).
4. Bank staff identify any need for subaccounts or, exceptionally, a second-generation special account (SGSA).<sup>4</sup> For an SGSA, Bank staff specifically assess the adequacy of the borrower's accounting and auditing arrangements and obtain the approval of the Director, LOA.
5. The borrower selects a depository bank, acceptable to the Bank, to hold the SA. Bank staff discuss with the borrower the criteria such a bank must meet to be acceptable to the Bank.<sup>5</sup> Each proposal for a specific SA bank is accompanied by a statement from the borrower that it has assessed the nominated depository bank against these criteria and is satisfied that the bank is appropriate for the Bank's consideration. The task manager (TM) and the disbursement officer review the capacity of the bank selected by the borrower to hold the SA.<sup>6</sup> Major departures from the criteria are cleared with the chiefs of the operating and disbursement divisions.
6. Subject to Bank approval, the borrower decides on the currency of the SA. Exceptions to the conditions for establishing a local currency SA<sup>7</sup> require a recommendation from the country department director and the agreement of the Director, LOA.

7. Establishment of a joint SA with funds from both the Bank and a cofinancier requires approval by the lawyer and the Chief, Disbursement Division, LOA.

#### *Documentation and Negotiations*

8. The Staff Appraisal Report (SAR)<sup>8</sup> (a) justifies SA and SGSA use, the amount of the authorized allocation, the timing of the initial advance, and the financing of any SA operating charges; (b) describes the SA's currency, eligible categories, replenishments, and audit requirements; (c) indicates the type of financial institution that will hold the account; and (d) indicates the levels below which payments must be made and letters of credit funded through the SA. This information is summarized in the Memorandum and Recommendation of the President.

9. The Loan Agreement sets out the terms and conditions for establishing and using the SA. It specifies the amount of the authorized allocation and sets the levels below which payments must be made and letters of credit funded through the SA. Any measures needed to meet administrative and accounting standards are made a condition of effectiveness or of disbursement to the SA, and provision is made for the Bank to withhold replenishment if the borrower's audit report is overdue. The Loan Agreement may allow the Bank to limit the initial advance to an amount it judges sufficient to meet estimated project expenditures during the initial period. If SA operating charges are to be financed under the loan, the Loan Agreement provides for their eligibility in the definition of incremental operating costs in the disbursement schedule. When SGSA use is approved, the Loan Agreement requires audits of the SA and all SGSAs. The Agreement also provides that the Bank will replenish SA withdrawals for advances to an SGSA only on receipt of supporting documentation for expenditures from the SGSA.

10. At negotiations, the Bank and borrower agree on the terms and conditions for establishing and using the SA. Bank staff outline for the borrower the foreign exchange risks associated with the use of SAs.

11. The disbursement letter provides any further explanations of the SA's terms and conditions.

#### **Operation of Special Accounts**

##### *Payment Practices*

12. The Loan Agreement establishes that the borrower may open an SA, but does not require the borrower to do so. Once the borrower has provided evidence that it has opened the SA, it may ask the Bank for an initial advance to the account, using an Application for Withdrawal (Form 1903).

13. When project entities make payments from the SA to contractors, suppliers, and others to cover the Bank's share of eligible expenses, the bank holding the account charges the SA the equivalent of each payment in the SA currency, based on the exchange rate prevailing at the time of payment. Alternatively, the project entity may pay first from other resources and reimburse itself from the SA,<sup>9</sup> or draw an amount from the SA sufficient to meet eligible expenditures for a period of less than 30 days. In making payments from an SA, the borrower follows all procedures specified in the Loan Agreement for the prior and post review of procurement documents.

14. The borrower requests replenishment of the SA by submitting an Application for Withdrawal together with (a) summary sheets, (b) full supporting documentation (if Sows are not being used; see OP/BP 12.00, *Disbursement*); and (c) the statement from the bank holding the account (including opening and closing balances and details of all transactions through the account), reconciled by the project entity or borrower against items included in the replenishment application.<sup>10</sup> LOA reviews the disbursement documentation and passes to the TM all procurement documents received with replenishment requests.<sup>11</sup> Supervision missions inspect documents retained by the borrower in the field.<sup>12</sup> The TM advises LOA of any lapses in the procurement procedures that may make ineligible any of the expenditures financed through an SA.

##### *Monitoring of Special Accounts*

**Deleted:** 15. In an adjustment operation, when the authorized allocation is equal to the full amount of the first tranche (less any retroactive financing), replenishment is made only after subsequent tranche release is approved (provided the borrower has submitted satisfactory documentation for amounts withdrawn from the previous advance and has complied with audit requirements for any SOEs.)

15. As part of the supervision process, Bank staff (a) monitor the SA (including subaccounts) and any SGSAs to ensure that project objectives are being met, (b) review audit reports to determine that the SA and SGSAs are being correctly used, (c) identify causes for an inactive SA and take corrective measures promptly, and (d) monitor the SA balance to ensure that available funds are commensurate with requirements for project implementation. The authorized allocation may be increased or reduced by an exchange of letters amending the Loan Agreement.

16. LOA monitors the financial aspects of SA use by reviewing documents that support replenishment requests and by making periodic field visits. LOA advises operating staff on issues associated with SA operations during reviews of individual projects and during the Country Portfolio Performance Review. For countries with serious SA problems, the country department (in consultation with the disbursement officer and the lawyer) establishes a timetable for corrective action.

17. The disbursement officer (in consultation with the TM and the lawyer, as required) is responsible for notices to the borrower on administrative matters relating to the approval, reduction, or rejection of withdrawal applications, including SA replenishment applications. TMs and disbursement officers report any misuse of SA funds and any dysfunctional SAs to their managers and recommend the application of remedies<sup>13</sup> or threat of suspension. If any ineligible expenditures are financed from the SA, the Bank may withhold further deposit into the SA until the borrower has refunded the amounts involved, or (if the Bank agrees) submitted evidence of other eligible expenditures that the Bank can use to offset the ineligible amounts. If it becomes necessary for the Bank to withhold further deposit into the SA, the formal notice is prepared by the disbursement officer, cleared by the TM and the lawyer, and signed by the division chief in charge of the operation. Any exception to established policies requires the approval of the Director, LOA.

18. *Audit Requirements.* Audit requirements and follow-up procedures in case of audit report delays are detailed in OP / BP 10.02, *Financial Management*. If the audit report is overdue, the Bank may withhold replenishment of the SA; if it is overdue by 12 months, the TM (after consultation with the disbursement officer and the lawyer) reports the situation to the country department and recommends the application of remedies or threat of suspension.<sup>14</sup>

19. *Inactive Accounts.* When more than six months elapse without receipt of a replenishment application, the disbursement officer prepares a formal notice to the borrower that the Bank will require a refund of the outstanding balance of the account unless the borrower submits, within 90 days, evidence of eligible expenditures financed through the SA. The notice is cleared by the TM and the lawyer and signed by the division chief in charge of the operation.

20. *Suspension of Disbursements.* No replenishment is made to an SA after a warning of suspension or during suspension of disbursements; however, borrowers may continue to use SA balances to meet eligible expenditures. Telexes to the borrower warning or giving notice of suspension specify the status and use of the SA during the suspension period and state that the borrower should continue to submit applications documenting SA expenditures (for details, see BP 13.40, *Suspension of Disbursements*). During a suspension of disbursements, the borrower fully draws down and documents SA balances before requesting payment for exempted activities (other than payments against existing special commitments) through other disbursement procedures. Any exceptions to this practice must be approved by the country department (CD) director with the concurrence of the Chief, Disbursements Division, LOA. During a partial suspension of disbursements, the Bank may continue SA replenishments for only the parts of the project not affected by the suspension. Once suspension is lifted, further disbursements may be made to restore the SA to its original level. When the loan closing date approaches and applications have not been received to fully document use of SA funds, the disbursement officer sends a follow-up telex reminding the borrower to furnish documentation and make any refunds. On the closing date, the chief of the operating division sends a notice calling for a refund of any remaining SA balance.

21. *Joint Special Accounts.* If the Bank or a cofinancier independently suspends or cancels its loan, the borrower's eligibility for further disbursements is established in consultation with the cofinancier, the Region, LOA, and the lawyer.

*Recovery of Special Account Advances*

22. No replenishment of an SA is made after the loan closing date. The recovery of amounts advanced as authorized allocations into an SA begins at least six months before the loan closing date (not the final date for receipt of withdrawal applications), or when the undisbursed balance of the loan (excluding amounts reserved to cover special commitments) is equal to twice the amount of the advance, whichever occurs earlier. On the final date for receipt of withdrawal applications, the chief of the operating division sends the borrower a notice requiring the prompt refund of any amounts remaining in the SA. The disbursement officer alerts the TM to any problem case, and the Bank makes every attempt to recover amounts advanced to the SA before closing the loan account. When, after reasonable attempts have been made, the SA balance is deemed unrecoverable, staff consider applying remedies<sup>15</sup> and canceling the undisbursed loan balance. The CD director, the Director, LOA, and the Assistant General Counsel, Operations, decide on a course of action.

1. "Bank" includes IDA; "loans" includes credits, Project Preparation Facility advances (PPFs), Institutional Development Fund grants, and cofinanciers' loans or grants administered by the Bank; and "Loan Agreement" includes Credit, PPF, and Grant Agreements.
2. Not all lending operations may need SAs; for example, certain development policy loans to financial intermediaries, and PPFs that finance only a limited number of contracts may not need them.
3. See OP 12.20, para. 5.
4. See OP 12.20, Annex B.
5. See OP 12.20, Annex A.
6. See GP 12.20, para. 2.
7. See OP 12.20, para. 6.
8. For technical assistance loans and other loans that do not have an SAR, the Memorandum and Recommendation of the President presents this information; for development policy loans, the Program Document presents it.
9. Local currency expenditures are normally reimbursed from the SA at the exchange rate prevailing at the time of withdrawal. If the local currency is undergoing rapid depreciation, the exchange rate in effect at the time of expenditure may be used; but the use of such historical exchange rates is limited to expenditures that occurred within 90 days before the withdrawal from the SA (see Annex A to BP 12.00, *Disbursement*).
10. During periods of heavy expenditure, applications may be submitted at intervals of less than a month. In such cases, the disbursement officer may grant an exception to the rule that applications must be accompanied by reconciled bank statements, provided that the statements are submitted promptly after the end of the month.
11. See OP / BP 11.00, *Procurement (Review of Procurement Documentation and Decisions for Lending Operations)*.
12. See OP / BP12.30, *Statements of Expenditure*.
13. See OP 12.20, para. 7.
14. See OP 12.20, para. 7.
15. See OP 12.20, para. 7(a), (b), and (d).

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