



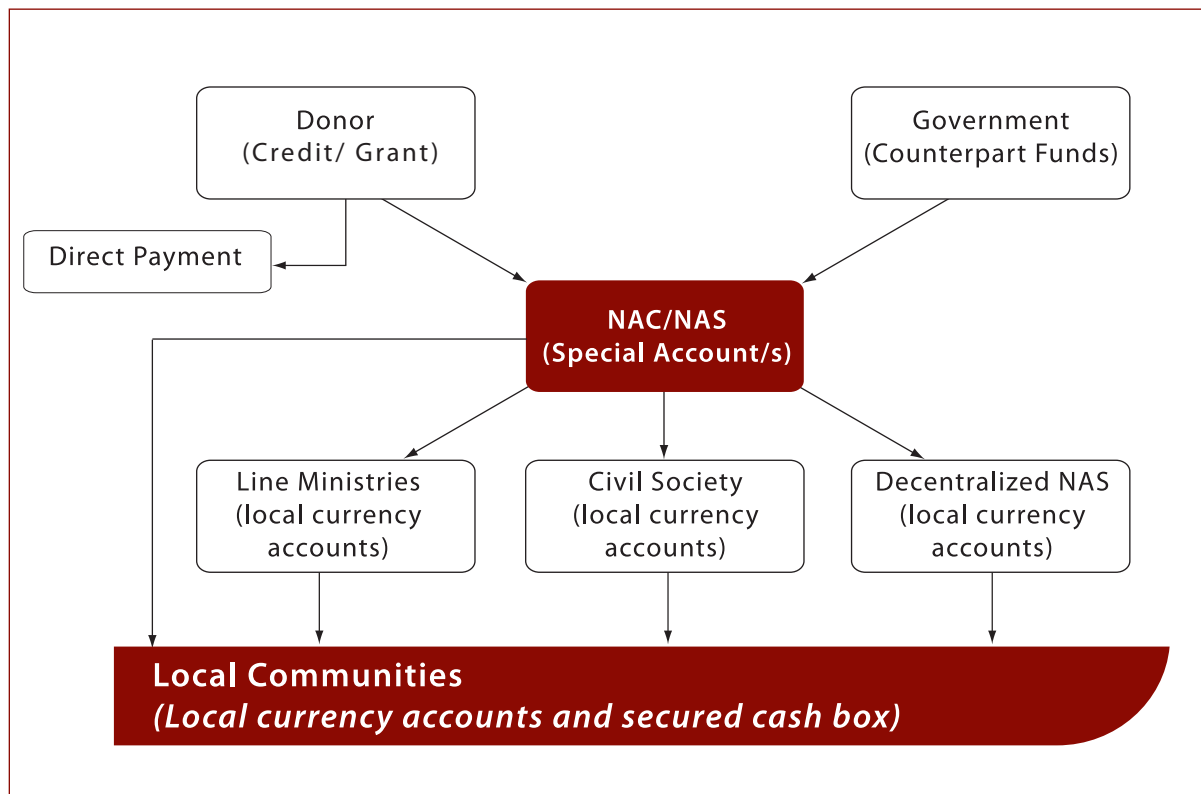
# Chapter 20

## Disbursement

### 1. What is “disbursement”?

Disbursement is the process of withdrawing funds from project related bank accounts or a cash box at the community level to pay for eligible project investments, operational costs, and to make and replenish project advances. Accounts include the project account(s) held by the donor, the Special Account, local currency accounts held by the NAC/NAS, NGOs and other intermediaries, and local bank accounts and cash held by local communities. In addition, there is possibility of direct payments being made by donors, such as IDA, to third parties on request of NAC/NAS. The chart below shows a simple flow of funds for a MAP project.

**Figure 20.1- Simple Example of Flow of MAP Funds**



## 2. Why effective disbursement is important?

- To get money as quickly and as simply as possible to beneficiary groups
- To satisfy lenders', government and beneficiaries' fiduciary requirements

## 3. What is required for an effective disbursement system?

### Introduction

Specific disbursement procedures should be developed with stakeholder participation for each country and sub-regional project based on the particular situation and design of the project. These procedures should comply with the disbursement policies and procedures of the financier (e.g., World Bank, government and other donors) and with the project objective of channeling funds quickly and simply to beneficiaries.

As was noted in the Financial Management Chapter, the number and type of implementing organizations may differ from one MAP to another. For simplicity, the same three generic models are used in this chapter: (i) primary organizations such as a NAC/NAS; (ii) secondary or intermediary organizations including NGOs and other decentralized service providers; and (iii) tertiary organizations which are mainly communities.

### Box 20.1: Disbursements

The key considerations for the disbursement procedures include:

- A link between physical progress and project expenditures
- An efficient and effective flow of funds to meet the needs of the project during a relatively short implementation period
- The need for a sufficient balance in the Special Account for decentralized and emergency activities
- The requirements of Financial Monitoring Reports of the World Bank funded reports.

As with financial management, many people see donor requirements for the disbursement of funds as being difficult and daunting. Similar comments apply here in the Disbursement Chapter as were noted in the Financial Management Chapter. In particular, World Bank disbursement policies and requirements are specifically formulated to provide projects with the utmost flexibility while providing sound financial control. MAP projects have even more flexibility than most other Bank financed projects, particularly at the community or district level. Disbursement procedures are relatively simple, very flexible, and can be easily accommodated, particularly with competent and qualified people. Disbursement and expense categories have been simplified for MAP. For NAC/NAS, and secondary or intermediary organizations which disburse funds on behalf of NAC/NAS, the disbursement categories are goods, civil works, consulting services & training, and operating costs. Communities do not have to categorize disbursements in the same manner. A simple list of expenditure items is all that is required.

### Disbursements to NAC/NAS for World Bank financed activities

Experience with MAP implementation has shown that disbursement management capacity varies among NAC/NASs. Two disbursement approaches are generally available under World Bank funded projects. NAC/NAS, or their agents, that are assessed as having adequate financial management capacity and have adequate procedures in place have the choice of using either of the two, i.e. "transaction-based" or "report-based" disbursements (see below). NAC/NAS, or their agents, that do not have sufficient capacity will use transaction-based disbursement procedures.

**Transaction-based disbursement** requires the submission of supporting documentation each time NAC/NAS request the disbursement of loan proceeds from the Bank (with the exception of the initial deposit to the Special Account). For reimbursements, or direct payments, supporting documentation is submitted with the withdrawal application before

disbursement is made. However, where use of Statement of Expenditures (SOEs) disbursement procedure allowed for specified type of expenditures, supporting documentation is retained at the NAC/NAS office for post review by World Bank staff and audit purposes at a later stage. Where SOEs are used, the eligible expenditures are summarized in a summary sheet, which is attached to a withdrawal application. For Special Account arrangements, supporting documentation for each disbursement is submitted with the next replenishment request. This enables the Bank to confirm past eligible expenditures before the next advance is made.

**Report-based disbursement** provides more flexibility. Using these procedures a forecast of project expenditures is agreed between NAC/NAS and the Bank covering the current and next reporting period. After this, the total disbursement requests not exceeding this forecast amount are payable by the Bank. Expenditures incurred are reported and submitted with the next FMR for review by the Bank to confirm eligibility. The bulk of the supporting documentation is retained by NAC/NAS for future review by Bank missions and for audit purposes. The expenditures are as much as is possible matched with the physical progress of the project. The FMR also gives a new forecast for the next two reporting periods.

The key differences between transaction-based and report-based disbursements are: (i) the timing of submission of expenditure reports ; and (ii) the linkage between expenditures and the physical progress of the project and status of procurement plan .

**Table 20.1** at the end of this chapter, gives details regarding the timing, and type of supporting documentation by disbursement method. **Tables 20.2 and 20.3** also at the end of the chapter outline the supporting documentation needed by the Bank from the NAS for transaction-based disbursement and report based disbursement respectively.

### Disbursements: NAC/NACS to intermediaries (eg. Line ministries, NGOs)

#### Box 20.2: Disbursement Documentation

Documentation attached to the claim for disbursement must include at least:

- Physical progress report
- Cash book reconciliation with bank statement and copy of bank statement
- Reconciliation of project Special Account
- Summary of funding to communities
- Summary of intermediary expenditure by disbursement categories
- List of assets purchased by the intermediary and liabilities incurred
- Vouchers for expenditure on individual amounts exceeding \$-- by the intermediary, and
- Summary of projected cash requirements for the next two financial reporting periods.

Prior to project effectiveness NAC/NAS must have evaluated the financial management capacity of proposed intermediary agencies. Similarly, if new intermediaries are identified during project implementation they too should be assessed. Funds should not be transferred to any intermediaries until they have been assessed, agreements have been determined and formally put in place, and appropriate training and briefings provided on the financial management procedures adopted by the MAP.

The disbursement procedures between the NAC/NAS and the intermediaries and communities will largely depend on the procedures adopted between the Bank and NAC/NAS. The key consideration for documentation flow between the intermediaries and NAC/NAS is that it must be consistent with and complement the NAC/NAS reporting procedures and requirements for rapid disbursements.

Submission of reports should be either time bound or tied to a particular level of the project bank account held by the intermediary.

## Disbursements: NAC/NAS and intermediaries to communities

### Introduction

Although a high degree of variation among community projects precludes across the board rules and procedures, some general principles and working procedures apply. In particular, rules and guidelines apply to community projects in the same way that they do for any other project. **However, the application of these rules must be scaled down to the project and to the community's capacity.** The policy requires communities to maintain financial management systems and procedures which are adequate to ensure that they can provide NAC/NAS with accurate, reliable and timely information regarding project resources and expenditures. This is generally a simple record keeping system based on cash in and cash out. The topics noted below clarify procedures associated with key activities at the community level .

### Key procedures and considerations

**Channel selection.** Designers of MAP projects should identify the most appropriate channel to disburse funds in consultation with community members and other stakeholders, ensuring that the chosen channel is compatible with other attributes of good management. Using channels that have been tried and proven successful in the past rather than creating new ones may reduce the risks of funds failing to arrive in the proper place and in a timely fashion, and strengthens the community's capacity to plan and carry out their own programs.

**Channeling funds.** The general rule is that funds should be channeled to the level where the activities are actually carried out. Funds should therefore be transferred to the bank account or cash box of the entity in charge of the implementation (the community, NGO or local government, for example), except in the absence of adequate banking or other security arrangements, or capacity for implementation, when they may be managed by an intermediary agency.

**Financing agreements.** The approval process for community projects includes the need for the community to plan, program, and budget its projects. The forms of the plan and the budgets should be simple and are usually documented in the finance agreement between the beneficiary community and the NAC (or its designated entity). The agreements should contain:

- A comprehensive list of activities, their approximate timing, their estimated costs and sources of financing (including community contributions), and estimated benefits
- A listing of responsibilities for each aspect of the subproject before, during, and after implementation

**Subproject appraisal.** Subproject plans, complete with basic specifications and budget estimates should, in all but extremely exceptional circumstances, be reviewed before they are approved for funding. No matter how simply, the plans should identify the actions needed to complete the project, their approximate cost and timing and expected impact, as well as potential sources of finance and how this will be obtained. This simple procurement planning can help identify which goods, works and services the community can procure for itself, and which will require additional assistance.

**Fiduciary aspects of subproject appraisal.** The sub-project review process should include all pertinent fiduciary aspects. For example, does the team designated to manage the process on behalf of the community include a treasury or bookkeeper? If not, who can be trained quickly to undertake these responsibilities and how will this training be given. Can project funds be located in a secure environment?

**NAC/NAS contribution.** The financing agreement between the NAC/NAS or NGO or other intermediary must specify payment terms to the community. One of two processes can be selected.

**Installment based disbursement.** The financing agreement will specify an advance percentage of the total grant which will depend on the nature of the project. Subsequent installments will depend upon the achievement of certain physical milestones and will not be tied to any specific level of expenditure by the community.

**Progress based disbursement** The financing agreement will specify an advance percentage of the total grant which will depend on the nature of the project. Subsequent payments will be based on financial and progress reports on certain physical milestones. To allow for unforeseen adversity and slow disbursement from the NAC/NAS or intermediary organization, communities should not let their advances fall below 50 percent of the initial grant before they apply for additional advance which should be supported by a copy of the approved sub-project budget.

In the case where funds are to be used for a specific sub-project such as constructing a clinic, the cost should be fully reflected in the proposal and if budget shortfall arise, this can only be met by increasing community contributions or reducing the scope of the sub-project. Where there are budget savings, it is usually good practice to allow the community to use these to finance eligible expenditures under the project without having to undergo a process of formal approval.

**Delinking disbursement of project funds to communities from Reporting of Expenditures and Physical Implementation Progress.** One of the lessons learned in community sub-projects, is the need for availability of cash at all times to ensure smooth implementation of activities. To enable this work, the communities are in turn expected to ensure NAC/NAS receives expenditure reports that include implementation progress not only regularly but also on time. This has not often been possible due to inability of communities to provide formal commercial documentation as evidence that project funds have used efficiently and economically for the intended purposes. This has resulted in many instances of community expenditures being rejected by NAC/NAS. This matter has seriously affected the cash flow available to communities over time, which has brought their activities to a halt, and increased their frustration and apathy. This problem has been fully recognized by donors, and as a result of this, the Bank took the decision to allow the Community Driven Development (CDD) guidelines to be explicitly applied in HIV-AIDS activities at community level. Notification to Bank staff of this decision is included in the relevant annexes.

**Financing agreement topics.** Items which should be addressed in the community financing agreement are located in references.

**Arrangements with an intermediary agency.** In almost every case it is better for the NAC/NAS to establish the basic agreements with the channeling agency, including such aspects as the expected minimum and maximum time needed to transfer funds between each level, payment of fees to the channeling agency, and use of interest earned by the channeling agency on funds held. These arrangements must be transparent and must be adequately explained in the project operational manual.

**Community contributions.** Community contributions reduce overall project costs and are essential to sustain achievements in the long term. Contributions should be established as an element in the project financing plan and in the contract with the community and should be determined during the design stage. The contribution can be in kind which may then be converted to a financial value.

**Tracking community contributions.** Tracking community contributions depends on the overall project design and justification but, in most cases, a rough approximation can be used based on initial proposals or a comparison between the estimated total value of the project and the amount of funding received by the project. The system communities use for tracking contributions will vary and may be based on the type of contribution. Systems for cash contributions should monitor cash received, cash balances, and payments made. Systems for in-kind contributions will vary depending on

whether the contribution is measured by input (e.g. number of days of labor), or output (e.g. length of a trench dug).

**Mitigating risks and internal control.** NAC/NAS should ensure that the risks associated with community projects are mitigated by clear transparent rules and other methods for empowering and training communities to exercise fiduciary control as well as for suitable internal control procedures. The mitigation system should be simple and effective.

Ethiopia has developed an effective mechanism and channel for the disbursement of MAP funds which is described in the box below.

#### **Box 20.3: Experience in Ethiopia**

Disbursement of funds in Ethiopia is achieved: (i) from the NAC/NAS directly to government organizations at federal level and to NGOs and private organizations working in more than one region; (ii) through eleven regional councils to government bureaus, NGOs, private organizations, religious organizations and other groups; and (iii) to about 11,000 kebeles (village units) through 550 woreda (Sub-district AIDS Councils). Woredas receive funds for kebeles from, and account directly to, the NAS.

Kebeles are advanced \$1000 in two tranches for project preparation through their respective woreda which approve kebele projects up to a maximum value of \$2500. Once approved by the woreda a proportion of kebele funds, as determined by a work plan, are transferred from the NAS to the woreda which passes these to the kebele. Replenishment of advances are made by the NAS, via the woreda, after project work has been inspected by the Regional AIDS Secretariat and the kebele has completed a simple form which sets out work completed and the amount of money spent.

## **4. Lessons learned and recommendations**

**One single prescriptive disbursement mechanism does not fit all projects.** Project designers must show flexibility during project preparation and tailor disbursement systems to suit the needs of the program and the capacity of the implementing agencies and communities. This is particularly true for challenging situations such as remote areas and post-conflict countries. Adequate training must also be provided;

**Contracting financial management including disbursement services** has been found to be the most effective way of managing project funds and complying with a donor's fiduciary requirements. However, there is a need for NAC/NAS to provide clear information about MAP and provide guidelines and information on the operations, flow of funds, and reporting requirements to both civil society and stakeholders in the public sector;

**Early evidence suggests funds will flow slowly, or not at all, if the financial management system does not closely monitor implementation progress and be proactive in detecting problems and solving them.**

**Projects that begin quickly after fund approval are more likely to succeed. Mechanisms such as retroactive financing may significantly improve prospects for effective implementation.** MAP should consider reimbursement of eligible expenditures by ex-post examination and reimbursement (including retroactively for expenditures dating back to the date of completion of negotiations) as a measure to provide working capital to NGOs which can scale up quickly.

**Table 20.1 : Timing of Submission of Supporting Documentation By Disbursement Method**

Disbursement method	Transaction-based Disbursement		Report-based Disbursement
Title of supporting document submission	Before each disbursement, with the Withdrawal Application	After each disbursement, with the subsequent Special Account replenishment request	After one or more disbursements, with the subsequent FMR
Reimbursement	√	-	√
Direct payment	√	-	√
Special Account replenishment	-	√	√

**Table 20.2 Documentation Requirements for Transaction Based Disbursements**

Reimbursement	<ol style="list-style-type: none"> <li>i. For contracts above the prior review threshold <ul style="list-style-type: none"> <li>• Summary Sheet &amp; full supporting documentation <ul style="list-style-type: none"> <li>- Invoice from supplier</li> <li>- Evidence of payment to supplier</li> <li>- Proof of shipment of goods or delivery of services</li> </ul> </li> </ul> </li> <li>ii. For contracts below the prior review threshold <ul style="list-style-type: none"> <li>• Statement of Expenditure (supporting documentation to be retained by the NAS for inspection as requested)</li> </ul> </li> </ol>
Direct Payment	<ol style="list-style-type: none"> <li>i. For goods: invoice from the supplier and proof of shipment of goods</li> <li>ii. For services: payment certificate and proof of delivery of services</li> </ol>
Special Account Replenishment	<ol style="list-style-type: none"> <li>i. Special Account Reconciliation statement</li> <li>ii. Special Account bank statement</li> <li>iii. Reimbursement document</li> </ol>

**Table 20.3 Documentation Requirements for Report Based Disbursements**

FMR Includes	<ol style="list-style-type: none"> <li>i. Required minimum FMR content on financial, procurement and physical progress, plus</li> <li>ii. Statements containing Institutional Information <ul style="list-style-type: none"> <li>• Source of supply information <ol style="list-style-type: none"> <li>a. For contracts above the prior review threshold <ul style="list-style-type: none"> <li>- the contractor/consultants name, nationality and zip code</li> <li>- the amount disbursed under each contract</li> </ul> </li> <li>b. For contracts below the prior review threshold <ul style="list-style-type: none"> <li>- aggregate disbursements by country of supply</li> </ul> </li> </ol> </li> <li>• Breakdown of aggregate disbursements by legal disbursement category and disbursement percentage</li> </ul> </li> <li>iii. Special Account reconciliation statement</li> <li>iv. Special Account bank statement</li> <li>v. Forecast of expenditures for the next two FMR reporting periods</li> </ol>
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See Annex 20 (CD-ROM) for further references

