Money Matters:
Designing Effective CDD Disbursement Mechanisms

One of the key challenges associated with Community Driven Development (CDD) approaches is how to disburse funds to communities in an efficient and transparent way. This “how to note” uses two case studies, Indonesia’s Kecamatan Development Program (KDP) and Tanzania’s Tanzanian Social Action Fund (TASAF), to highlight many of the important issues that practitioners should consider in the process of designing effective disbursement mechanisms. It is important to note that this piece does not explore challenges that task teams will have to take into account after the funds have been distributed such as community financial management, monitoring and evaluation and procurement policies.

Basic Principles and Goals:
The design of disbursement mechanisms for CDD should be guided by the principles of simplicity, accountability, and cost effectiveness. Accordingly, disbursement mechanisms should be designed to ensure that:

1. Funds flow smoothly, adequately, regularly and predictably from those providing them to communities, NGOs or local government bodies implementing project activities.

2. Information on the disbursement of funds flows smoothly between and among stakeholders in the community, government and project team.

3. The disbursement mechanism is tailored to local circumstances. It is important to note that disbursement mechanisms which work in one country may not work in another. For example, whereas political economy considerations may necessitate that the local government be very involved in disbursement in some situations, in other instances it will be appropriate to distribute funds directly to communities.

KDP: KDP places funds, planning and decision making in the hands of villagers in order to effectively deliver resources to the rural poor. The community based planning process provides a powerful and efficient way to build large amount of simple productive infrastructure using mechanisms that mobilize and develop the capacities of rural communities.

TASAF: TASAF aims to empower communities so that they can identify, implement, and monitor sub-projects that contribute to improved livelihoods. Adopting a community driven development approach, the project also advances Tanzania’s ongoing decentralization efforts by improving local and village governments’ capacity to respond to community demand-driven interventions.

Did You Know?
Bank policies regarding financial management (OP 10.02), procurement (OP 11.00) and disbursement (OP 12.00) apply to CDD projects. However, provision 3.15 on “community participation in procurement” has been specifically designed to address procurement in CDD projects. It stipulates that procedures shall be “suitably adapted” to reflect the conditions and capacity of the community, provided they are “efficient”. This provision allows flexibility in defining acceptable procurement procedures at the community level.

Step 1: Decide on the best way to get funds to the community
Task teams often have multiple institutional options for disbursing funds to communities including local or municipal government, the private sector, civil society, and central government or social funds. However, it is important to note that the choice about which option to use will
necessarily be dependent on the specific operating environment within the country. Funds flow options include:

- **Government channels:**
  - Block, grant and/or discretionary funds can pass through a ministry to provincial, district, municipal or rural councils and onwards to the community.
  - Funds can be allocated directly to a community by a line ministry carrying out specific projects in that community.
  - In some countries, the Treasury Department or the Ministry of Finance has provincial or district treasuries through which the central government channels funds to communities.

- **Private Sector Channels:**
  - In countries with a good network of banks, branches can be used to channel funds to communities.
  - Government and donors can pass funds to communities through charitable institutions and other NGOs with a track record of success in community development.

- **Combination of Private and Public Sector Channels:** Funds can also originate in a government account and be channelled through NGOs, which manage government funded projects on behalf of communities.

**KDP:** While Indonesia’s fiscal transfer system works fairly well overall, it is often slow in reaching the district level and below. As a result of these delays, as much as nine months of the fiscal year can be lost. KDP’s disbursement system is fast, on average rarely taking longer than a month to get money electronically through the banking system from the Special Account to Villager’s collective account. The speed of disbursements is facilitated by the project’s design (see box in the next section). The funds go through five steps:

- Ministry of Finance
- Special Account (Bank of Indonesia)
- KPKN (Treasury State Office)
- Villagers’ Collective Account
- Communities

**TASAF:** Funds go from the project management unit, to the district government, which then electronically distributes funds directly to the community’s account. Since the funding goes directly from the management unit to the districts, bypassing the central government’s financial system, TASAF is typically able to get the funds to communities in two weeks after sub-projects are approved.

- World Bank
- TASAF Management Unit
- District Government’s Account
- Community Account
Although there are a multitude of institutional options, the challenge for task teams is to identify the best funds flow mechanism for their particular operating environment. It is important to note that task teams should consider both the initial funds flows and the flow of funds throughout the project cycle when making this decision. Factors that should be taken into account when designing the disbursement mechanism include the operation’s geographic coverage, location of financial management entities, the local government’s financial and accounting regulations, the country’s banking network, and the capacity of government and communities to manage funds. Task teams should also keep the following lessons in mind:

- Task teams should identify the most appropriate disbursement channels at the local level in consultation with community members and other stakeholders who have a good understanding of the local dynamics. For example, communities will often be able to identify individuals who can effectively manage community funds. The dual aims should be to minimize the potential for corruption while ensuring that funds are distributed effectively and efficiently.

- Task teams must pay close attention to the flow of funds, especially in relation to the number of tiers before the funds reach the end users and the size and number of payments that will be made. For example, task teams should consider if transferring funds electronically from the banking system directly to communities is a better option than physically transferring the money between different layers of the bureaucracy. It is important to note that while electronically transferring funds between different funding tiers poses little risk, physical transfers of funds create greater opportunities for corruption and graft. As a general rule, funds should be transferred to the bank account of the entity in charge of project implementation.

### CDD Disbursement Tips for Post-Conflict Settings

Designing disbursement mechanisms in post-conflict settings requires different considerations than in normal settings. Given that there will often be weak or non-existent banking infrastructure, task teams should keep the following lessons in mind:

- It is important to establish a secure point to disburse funds from. This could be in a government building, residence of a local leader, etc...

- Put safeguards in place to ensure that funds are distributed with minimal corruption. Work with whatever you have. For example, if you have to bolt a safe down in a community member’s house to store the money in, then do it.

- Be aware and make use of existing disbursement mechanisms used by the government or other organizations. In order to distribute funds quickly, previous projects have piggybacked disbursements on government processes for distributing salaries, used the informal banking system, and even deployed helicopters to shuttle in bags of money. Remember, if the beer truck can get there, so can your CDD funds.

### Factors that Slow Down CDD Disbursement

- If government funds are not released until late in the project cycle or during a time where it is difficult to distribute them (for example, the rainy season or harvest season), disbursements are inevitably slower.

- If decision making procedures for project selection are too complex, communities may be unable to identify projects quickly enough to adhere to the timetable of the funding cycle. Accordingly, task teams should design simple and transparent procedures for project selection at the district and sub-district levels.

- If national fiscal transfer systems are slow at reaching the district level, disbursements are often delayed. Accordingly, at times it will be necessary to design disbursement mechanisms which bypass national fiscal transfer procedures.

- If disbursements are dependent on compliance at the aggregate level, one non-compliant district/community can disrupt disbursements in the entire area.
Step 2: Implement measures which increase the likelihood that funds will be disbursed quickly and efficiently

- **Clear and Simple Financing Agreement:**
  The plan and budget for subprojects are usually documented in the financing agreement between the beneficiary community and the Project Management Unit and should be kept as simple as possible. The agreement should include not only a comprehensive list of activities, their approximate timing, their estimated costs, sources of financing (including community contributions) and estimated benefits but also outline responsibilities for each aspect of the subproject before, during and after implementation.

- **Forge Clear Agreements with Intermediary Agencies:** It is important for Bank staff and the national level PMU to establish the basic agreements with the channeling agencies, including aspects such as the expected minimum and maximum amounts of time required to transfer funds between each level and obtain government approval for sub-projects. Moreover, it is often useful to have the Ministry of Finance outline the project’s timetable in advance so that banks will know how and when they are expected to release funds. If possible, agreements should also be signed with the banks involved in the project to ensure that funds are released in a timely fashion.

**KDP:** In KDP, sub-district grants are transferred into the provincial treasury at the start of the planning cycle, where they are blocked for release until the final signoffs are approved. Sending the money to locations at the beginning of the cycle gives the government several months of leeway to correct mistakes and delays in the funds flows. Moreover, because KDP disburses against local plans rather than actual expenditures, the actual cash outlay that the Indonesian government must make is limited and occurs within a relatively short time frame. Accordingly, government financial counterpart contributions and government pre-financing in KDP are relatively limited and do not cause the delays that they often do in other projects.

While the government is involved in approving the release of funds, KDP’s process for approving funds transfers allows for very little discretion by officials: project proposals either meet the criteria and get funded, or they do not, in which case they must be rejected. While the cost of this system may be some loss of technical oversight, one of the benefits has been much higher release rates. Finally, KDP uses a flexible disbursement mechanism which bypasses poorly performing sub-districts while continuing to fund sub-districts which comply with project obligations.

**TASAF:** TASAF’s funds are centrally held in its management unit’s account and the unit has the primary responsibility for managing and disbursing funds. While this arrangement allows TASAF to disburse funds rapidly to the district level without going through the central government’s financial channels, it does entail some costs. Indeed, since projects must receive approval at numerous levels of government including sector ministries, and there is no agreed upon time frame for approval decisions, TASAF projects can experience lengthy disbursement delays in some instances.

TASAF also uses a flexible disbursement mechanism that bypasses poorly performing district governments by providing funds directly to communities; this ensures that citizens are not punished for the actions of under-performing district governments.
• **Design Mechanisms to Circumvent Problem Areas:** If disbursement is contingent on performance at the district level, one non-performing sub-district can undermine an operation’s progress. Accordingly, disbursement mechanisms should be flexible enough to circumvent problematic villages and sub-districts while ensuring that the operation moves forward in high-performing areas. For example, projects in compliant villages should continue to be funded even if funding for non-performing villages in the area is withdrawn.

**Step 3: Choose a Financing Model**

Next, task team leaders should decide which financing model is most appropriate for disbursing funds. This decision largely determines the degree of the PMU’s involvement in the oversight of expenditures. There are essentially three possible financing models:

- **Actual Cost Method:** This model is most appropriate in situations where costs are difficult to estimate in advance, the project needs significant technical knowledge or engineering inputs, and/or there are large value subprojects (e.g., urban water supply). Formal procurement procedures apply and disbursement is based on eligible actual expenditures. Since the formal procurement procedures associated with this method require a high level of technical knowledge, communities may require assistance from the PMU. Because disbursement occurs on the basis of expenditures, this method can involve a significant amount of paperwork, expenditure reporting, and fiduciary controls by the PMU.

- **Payments on a lump-sum basis:** This is the preferred method for subprojects that are large in number, small in scope, and technically simple. In this type of agreement, communities select subprojects based on pre-determined criteria. This method involves direct community participation, and often will include in-kind labor or materials contributed by the community or subcontracting of procurement of goods and skilled labor. As such, funds flow issues pertaining to community contributions (such as counterpart funds requirements) also need to be taken into account. The financing agreement is a contract between the PMU and the community, disbursements are made in one or more tranches on the basis of physical progress (outputs) and communities execute subprojects with or without subcontracting. In this model, there is minimum documentation since the PMU receives progress and completion reports and technical inspection certificates from its staff and consultants. Moreover, community contributions provide stakeholders with a built-in incentive for economy and efficiency.

It is important to note that, depending on the mix of sub-projects, task teams may need to incorporate a hybrid financing model based on the two models discussed above.

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**KDP:** KDP project disbursements take place on a lump sum basis against agreed plans that have been verified by the sub-district project manager, not against actual receipts. All procurement receipts are kept at the sub-district level. The distribution of funds occurs from sub-district forums to villages. The payments are made in 40-40-20 installments.

**TASAF:** TASAF disburses funds based on actual expenditures. The Project Management Unit is responsible for monitoring financial details and procurement issues. The payments are made in 50-50 installments based on the sub-projects’ physical progress.
Conclusion: CDD projects typically generate significant enthusiasm in communities. However, operations cannot capitalize on this momentum to achieve their development objectives unless funds flow quickly and predictably to communities. Designing flexible and efficient disbursement mechanisms is a crucial part of ensuring that funds reach communities, and ultimately promoting more effective operations and sustainable development outcomes.

For Further Reading on Disbursement:

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Portions of this note were adapted from the readings listed in the sources section. The note was compiled and authored by David Post. The author would like to thank Caroline Kende Robb, Gillette Hall, Rob Chase, Scott Guggenheim, Dan Owen, Julien Labonne, Danielle Christophe, and Robin Mearns.