



## Fiduciary Arrangements for Grant Recipients

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### Part 1: Introduction

1. The Global Fund was created in 2002 as a public/private partnership to rapidly provide large amounts of additional resources to those that can make a difference in the fight against HIV/AIDS, tuberculosis and malaria in poor countries. In less than a year, the Global Fund has committed US\$ 1.5 billion to proposals for grants for 92 countries, as submitted by broad, representative groups of stakeholders from the public and private sectors and civil society.

2. As a financing mechanism, the Global Fund needs certain fiduciary arrangements to ensure that grant proceeds are used for the intended purposes and results achieved without imposing unnecessary new burdensome requirements on grant recipients. In designing these fiduciary arrangements, the Global Fund aimed to find the right balance between three priorities according to its governing *Framework Document*:

- to promote the rapid transfer of resources to assist target populations;
- to ensure that these resources are used accountably and achieve results; and
- to support ownership of country stakeholders and sustainable local organizational development.

3. The Global Fund's fiduciary arrangements will be continuously monitored and periodically evaluated to establish whether an appropriate balance between these priorities has been achieved, and where improvements can be made.

4. This document describes the roles and responsibilities of different parties to the Global Fund's fiduciary arrangements for grant recipients, as established during the Global Fund's first year of operations. These fiduciary arrangements will be fine-tuned and adjusted as necessary based on lessons learned from the First and Second Rounds of grants in dialogue with the recipients of Global Fund grants and other key stakeholders.

### The Global Fund's Fiduciary Principles

The Global Fund is a financial instrument, not an implementing entity, and it provides performance-based grant funding to country-level recipients to fight HIV/AIDS, tuberculosis and malaria. The Global Fund will:

- Rely on local stakeholders at the country level to implement programs and manage grant proceeds
- Promote rapid release of funds to assist target populations
- Monitor and evaluate program effectiveness and make decisions on future funding based on program performance and financial accountability
- As far as possible encourage the use of existing standards and processes in grant recipient countries

5. The Global Fund's fiduciary arrangements are intended to be flexible and responsive to local contexts, to encourage sustainable local capacity building and to support donor best practices and harmonization efforts.<sup>1</sup> After a proposal for funding has been approved by the Board of the Global Fund, the Global Fund gives full ownership for implementation to that proposal's local stakeholders, including management of grant proceeds at the country level. The Global Fund does not prescribe or impose specific implementation solutions. Rather, the Global Fund takes a principles-based approach and encourages the use of existing arrangements, standards and processes at the country level as long as they:

- Assure an efficient flow of funds to all implementing parties with appropriate accountability arrangements to ensure that funds were used for the intended purposes;
- Provide adequate and transparent reporting of program results and financial accountability;
- Ensure transparent, competitive and effective procurement and supply management with appropriate quality assurance mechanisms and in accordance with national laws; and
- Ensure effective monitoring and evaluation with appropriate quality control mechanisms.

6. The Global Fund ensures that risks are reduced to an acceptable level through upfront assessments of implementation arrangements against required minimum capacities, as well as through periodic verifications of results achieved and financial accountability during the grant period.

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<sup>1</sup> According to the work of the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) *Task Force on Donor Practices on Financial Management and Accountability*

### Part 3: Roles and Responsibilities

7. **Country Coordinating Mechanisms (CCMs)**, involving the participation of stakeholders from the public and private sectors, civil society and development partners design and submit grant proposals to the Global Fund that identify priority needs and funding gaps at the national level for existing efforts against the three diseases as well as for new, innovative approaches. The Global Fund approves funding for an initial period of two years for quality proposals based on priority needs and the availability of financial resources to the Global Fund. Throughout the implementation of an approved proposal, CCM members assume different roles, as appropriate, to achieve results towards the objectives established in their proposal. As implementation proceeds, the CCM receives and reviews periodic programmatic and financial reports to assure that progress is made and quality data reported.

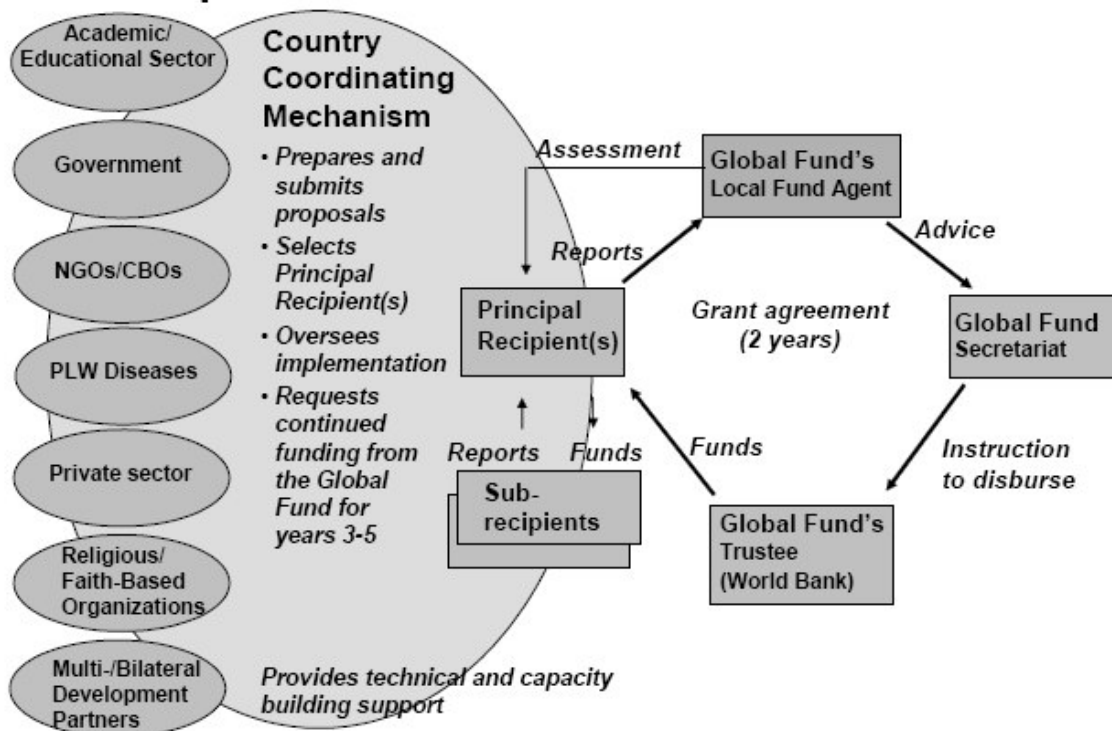
8. To facilitate grant management, the Global Fund requests the Country Coordinating Mechanism to propose one or a few suitable **Principal Recipients (PRs)** at the country level to be legally responsible for program results and financial accountability. Each PR may be responsible for several sub-recipients. If a proposed PR is not already member of the CCM, it is expected to become so. PRs receive periodic disbursements of funds directly from the Global Fund's **Trustee** account at the World Bank, employ these funds towards the implementation of the approved proposal, and periodically report on progress made with the grant proceeds to the Global Fund and to the CCM.

9. PRs must ensure that effective arrangements are put in place for (i) disbursement of funds to all implementing entities (sub-recipients); (ii) procurement and supply management; and (iii) monitoring and evaluation, including periodic reporting on program results and financial accountability to the Global Fund and the CCM. As far as possible, the Global Fund encourages PRs and other implementing partners to use and build on their existing systems and arrangements to implement an approved proposal. The full responsibilities of PRs are set out in the Global Fund's **Grant Agreement**. PRs are normally expected to be local stakeholders from the public or private sector or civil society.

10. Before the first disbursement of the grant for an approved proposal, **the Global Fund** assesses that the proposed PR(s)' implementation arrangements fulfill certain minimum requirements. Throughout the grant period, the Global Fund authorizes disbursements of funds periodically based on requests from PRs and updates on program progress and financial accountability.

11. The Global Fund does not have a country-level presence outside of its offices in Geneva, but contracts for independent advice from in-country experts: **Local Fund Agents (LFAs)**. The Global Fund normally contracts with one LFA per grant-receiving country to (i) assess that the proposed PR(s) have the minimum capacities required to assume financial and programmatic accountability for the grant before the signing of a Grant Agreement; and (ii) provide independent oversight and verification of program progress and financial accountability throughout the grant period. The level of work required for each LFA depends on the specific country context and the existing capacity of the proposed PR(s), and is expected to diminish as a PR over the course of the grant period demonstrates program results and financial accountability.

## Partners to the Global Fund's Fiduciary Arrangements for Grant Recipients



12. In order to avoid potential conflicts of interest with PRs for which they have oversight responsibility, the LFAs *must not* be involved in the design and implementation of the funded programs. The LFAs will be selected by the Global Fund after consultation with the relevant Country Coordinating Mechanism.

13. As a financial instrument rather than a technical agency, the Global Fund *does not* provide support other than financing at the country level. For capacity building and technical assistance, the Global Fund encourages local stakeholders to turn to their **development partners** with presence in country and/or other entities with the required expertise.

### Part 4: Selection of Principal Recipients and Minimum Requirements

14. In order to successfully assume financial and programmatic accountability for the grant, PRs need certain minimum capacities and systems. The Global Fund does not prescribe specific implementation arrangements. Rather, the Global Fund encourages the use of PRs' existing systems, as far as they can provide for the required minimum capacities. Before agreeing to enter into a Grant Agreement with an entity that has been nominated to be PR through a CCM, the Global Fund assesses whether that entity has (or has access to) the required minimum capacities, as relevant for the particular proposal that has been approved for grant funding. The Global Fund has defined minimum requirements for PRs in four areas:

**(a) Financial Management and Systems that:**

- (i) Can correctly record all transactions and balances, including those supported by the Global Fund;
- (ii) Can disburse funds to sub-recipients and suppliers in a timely, transparent and accountable manner;
- (iii) Can support the preparation of regular reliable financial statements;

- (iv) Can safeguard the PR's assets; and
- (v) Are subject to acceptable auditing arrangements.

**(b) Institutional and Programmatic arrangements that include:**

- (i) Legal status to enter into the grant agreement with the Global Fund;
- (ii) Effective organizational leadership, management, transparent decision-making and accountability systems;
- (iii) Adequate infrastructure and information systems to support proposal implementation, including the monitoring of performance of sub-recipients and outsourced entities in a timely and accountable manner; and
- (iv) Adequate health expertise (HIV/AIDS, tuberculosis and/or malaria) and cross-functional expertise (finance, procurement, legal, M&E).

**(c) Procurement and Supply Management Systems that can:**

- (i) Provide a basic procurement supply and management plan which outlines how the PR will adhere to the Global Fund's procurement principles, which include, among others, competitive and transparent purchasing, adequate quality assurance, compliance with national laws and international agreements, appropriate use of health products, mechanisms for the monitoring the development of drug resistance where necessary, and accountability safeguards;
- (ii) Deliver to the end-user adequate quantities of quality products in a timely fashion (especially in the area of health products) that have been procured through a transparent and competitive process; and
- (iii) Provide adequate accountability for all procurement conducted.

**(d) Monitoring and Evaluation arrangements that can:**

- (i) Collect and record programmatic data with appropriate quality control measures;
- (ii) Support the preparation of regular reliable programmatic reports; and
- (iii) Make data available for the purpose of evaluations and other studies.

15. If in-house capacities are insufficient, PRs may sub-contract or otherwise gain access to some required functions to successfully implement the approved grant proposal.

16. The Global Fund encourages implementation solutions that promote local ownership, capacity building and sustainable arrangements at the country level. The Global Fund therefore normally expects the CCM to nominate one or a few local stakeholders from the public or private sectors or civil society among its membership to become PR(s). The Global Fund requires CCMs to submit the minutes of the meeting where the PR nomination was discussed and decided.

17. The most suitable PR arrangement in some cases may be for an entity from one sector to assume PR responsibility for a certain part of the proposal, while an entity from another sector assumes PR responsibility for another part of the proposal. For example, a Ministry of Health or Finance could be PR for the public sector part of the proposal, while a representative from civil society or the private sector could be PR for the non-public sector part of the proposal.

18. Where Sector Wide Approaches (SWAs) or other similar arrangements exist for pooled donor funding, CCMs may use these arrangements as long as accountability systems are in place that will allow for transparent and reliable reporting of results and financial transactions and balances.

19. In **exceptional cases**, should the CCM conclude that there is no local stakeholder qualified to be PR, the Global Fund may agree to an arrangement whereby the local office of a multilateral organization assumes PR responsibilities. Such a PR solution would be required to meet the same minimum capacity requirements that local PRs meet. The Global Fund expects this arrangement to be of a temporary nature, and that one or a few local entities would be phased-in as PR(s) once their capacities had been strengthened.

## Part 5: Assessment of Principal Recipients

20. Before signing a Grant Agreement with a nominated PR, the Global Fund requests its LFA in-country to assess whether the nominated PR has the minimum required systems, management arrangements and implementation capacities to assume responsibility for the approved proposal. This assessment will identify any critical functional gaps that may need to be addressed in the short and/or long term to enhance the efficiency and effectiveness of the implementation of the proposal.

21. If reliable assessment reports of a PR are already available, e.g., from other donors, these assessments should not be repeated. The LFA should only perform an original assessment in those areas in which the PR does not have a track record or there is a need to validate certain capacities. The Global Fund has developed guidelines for the assessment, as well as certain forms, checklists and questionnaires that the LFA can use.

22. As a result of the assessment of a PR, the LFA will make a recommendation to the Global Fund that the PR either (a) has the required minimum capacities and systems, (b) needs to acquire certain additional capacities and is able to do so in a timely and cost effective manner, or (c) requires major capacity strengthening that appears excessive under the circumstances. The assessment report should be discussed with the PR, who should identify ways to supplement its capacities or otherwise address any identified weaknesses. In case (c) above, the Global Fund may ask the CCM to identify one or a few suitable alternative PR(s).

23. Based on the assessment, the Global Fund will decide whether to enter into a Grant Agreement with a nominated PR and which capacity-strengthening measures or other actions that PR must achieve before the first or a subsequent disbursement of funds. Such measures or actions will be included as Conditions Precedent in the Grant Agreement. The PR, assisted by other members of the CCM as appropriate, decides how the necessary capacity strengthening may be acquired and which entities may be of assistance for this purpose.

## Part 6: The Grant Agreement: Intended Program Results and Budget

24. The Global Fund and PRs enter into a **Grant Agreement** that defines their respective legal obligations. An essential part of the Grant Agreement negotiations is agreement on intended program results to be achieved during the grant period as linked to the main program objectives specified in the approved grant proposal. For monitoring purposes, progress towards each main program objectives should be measurable by a small number of easily-verifiable indicators with periodic targets.<sup>2</sup> The main program objectives and the agreed-upon key indicators and periodic targets are included in the Grant Agreement and used as a management tool to monitor program progress: for a PR's own management purposes, for the PR's progress updates to the Global Fund and for the Global Fund's review of program progress and decisions on further disbursements.

<sup>2</sup> e.g., *Planned target* end quarter 4 year 1: 1000 HIV-positive women receiving antiretroviral therapy to prevent mother-to-child transmission of HIV; *Planned target* end quarter 4 year 2: 6000 HIV-positive women receiving antiretroviral therapy to prevent mother-to-child transmission of HIV

25. Unless the Global Fund and a PR agree otherwise, e.g., based on the PR's existing reporting systems or common donor arrangements, the Grant Agreement should contain intended program results on a quarterly basis for the first year of the grant period as well as intended results by the end of the two-year grant period. The indicators selected to measure these results *need not* be the same for each period (e.g., quarter). One or two indicators with specified targets per main program objective per period is usually adequate. Where relevant, and at appropriate intervals, the selected indicators should include some widely-used public health indicators that can measure progress towards affecting the course and impact of the disease, with baseline data. In case verified baseline data for the selected public health indicators cannot be obtained, or is not recent, baseline surveys should be carried out as part of the initial activities of the program.

26. If the Global Fund grant will finance an expansion of an existing program, the indicators should be selected to demonstrate the *additional* results made possible through the *additional* funds.<sup>3</sup> If the grant will finance a pilot initiative, the indicators should be selected to demonstrate a successful progression from establishing the initiative towards achieving the objectives of the approved proposal (i.e., from *process indicators* in the short term, to *coverage indicators* in the medium term, to *impact indicators* over the long term<sup>4</sup>).

27. In the Grant Agreement, the PR and the Global Fund also agree on the total amount of funding for the two-year grant period and the amounts to be disbursed at periodic intervals. For this purpose, the Global Fund receives advice from the LFA based on a review of the reasonableness of the program budget.

#### Indicators to Measure Results

- **Process** – the activities, systems, actions and other outputs that need to be completed in the near term to achieve improvements or increases in coverage or delivery of services to target groups;
- **Coverage** – the changes in key variables in the medium term that demonstrate that larger numbers of individuals in identified target groups are being reached by and benefit from improved services or interventions;
- **Impact** – the changes over a longer period in sickness and death, or the burden of disease, in the target population that indicate that the fundamental objectives of the interventions have been achieved.

28. For their management purposes, PRs are expected to have their own workplans and budgets, a basic plan for procurement and supply management and a plan for monitoring and evaluation (the M&E plan). The indicators and periodic targets selected to monitor program progress and the plan for periodic disbursements from the Global Fund should be based on the PR's plans. In case a PR has not yet completed its implementation plans at the time of Grant Agreement negotiations, the PR and the Global Fund may agree on certain specific outputs based on the planned activities for the first one or two quarters while implementation plans are being completed.

<sup>3</sup> E.g., Additional districts or groups covered by a national DOTS program

<sup>4</sup> E.g., *Process*: Training program for HIV life-skills education established; *Coverage*: Knowledge of HIV/AIDS prevention among age 15-24 (% target against baseline); *Impact*: HIV prevalence among age 15-24 (% target against baseline).

29. Based on implementation progress, a PR may need to periodically update its plans for the results to be achieved and the periodic disbursements needed from the Global Fund. To harmonize planning and reporting with the PR's normal annual planning, the PR may also choose to update its plans when it does its regular fiscal year planning. These updated plans will be reviewed by the LFA and agreed with the Global Fund. At the latest, plans for the second year of the grant must be agreed at the time of the last disbursement of funds for the first year.

## Part 7: Performance-based Funding, Disbursements and Reporting

30. During the grant period, the Global Fund links disbursements of tranches of the grant to periodic demonstrations of program progress and financial accountability. This approach is intended to provide a management tool for PRs and the Global Fund to ensure that effective efforts or issues are identified early on in order to facilitate early replication/expansion of effective efforts and corrective actions as necessary. The Global Fund encourages common donor reporting arrangements as well as the use of the PR's existing reporting systems as far as these provide adequate and transparent reporting of program results and financial accountability.

31. Disbursement and reporting arrangements may be agreed between a PR and the Global Fund based on e.g., a PR's existing reporting systems or common donor arrangements. Where the Global Fund **co-finances a program with other donors** (e.g., as part of a SWAp arrangement) the timing, frequency, contents and format of financial and programmatic reports should be coordinated with the PR and other donors, and the reporting for Global Fund's purposes could be aligned with common reporting arrangements. In these cases, the PR reports on the *additional* results that were made possible through the *additional* funds from the Global Fund, as indicated in the Grant Agreement, and the Global Fund's *proportional share* of total expenditures.

32. Unless another agreement for disbursement and reporting is reached between a PR and the Global Fund, the Global Fund normally disburses tranches of the grant to PRs on a quarterly basis for at least the first year of the grant. Subsequently, the Global Fund and a PR may agree that disbursements should be made on a semi-annual basis. Unless another arrangement is agreed between the Global Fund and a PR, disbursements are based on projected program cash requirements and performance as reported by PRs in **Disbursement Requests and Progress Updates**. Disbursements normally cover program cash requirements for the next *disbursement period*<sup>5</sup> (e.g., the next quarter) plus one additional quarter to allow PRs to always have adequate cash on hand while their Disbursement Requests are being considered by the Global Fund. A PR may request additional disbursements outside of its normal disbursement periods with appropriate justifications.

33. The *Disbursement Requests and Progress Updates* contain (i) the amount requested by a PR from the Global Fund to cover program cash requirements for the next disbursement period plus one additional quarter, (ii) a brief update on progress made during the disbursement period in achieving program results as compared to targets, and (iii) total expenditures during the period as compared to budget. Along with the *Disbursement Request and Progress Update*, the PR submits a *Statement of Sources and Uses of Funds (Cash Flow Statement)* for the period, as derived from its normal accounting and reporting systems.

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<sup>5</sup> The disbursement period is defined as the periodic interval for which a PR receives funds from the Global Fund and provides a progress update. During the first year of the grant, the disbursement period is normally equal to one quarter.

34. A PR forwards its *Disbursement Requests and Progress Updates* to the Global Fund through the LFA, who reviews and validates the contents, performs ad hoc verifications of program performance and financial accountability as deemed necessary by the Global Fund, and advises the Global Fund on the next disbursement. The PR provides a copy of its *Disbursement Requests and Progress Updates* to the other members of the CCM, who may comment on implementation progress based on their local knowledge and experience through the LFA or directly to the Global Fund. The Global Fund decides on the Disbursement Request, including the amount of disbursement, and instructs the Trustee to disburse the approved amount to the PR. Based on the progress updates, the Global Fund can identify early success stories as well as grant recipients that may need assistance.

35. Initial implementation difficulties should not imply a permanent discontinuation of funding, except when there is evidence of misuse of funds. When difficulties arise, PRs must provide mechanisms to improve programmatic or financial performance. The Global Fund with advice from the LFA will determine the appropriate level of funding as improvements are made.

36. Unless another reporting arrangement is agreed between the Global Fund and a PR, the PR submits a **Fiscal Year Progress Report** to the Global Fund with consolidated programmatic and financial information for the program at the end of its fiscal year. A PR forwards its Fiscal Year Progress Report to the Global Fund through the LFA and provides a copy to the other members of the CCM. The LFA reviews and validates the report contents and provides advice as appropriate to the Global Fund. The Global Fund reviews the report and the LFA's advice, and decides on any necessary actions.

37. The financial statements of the program must be audited on an annual basis. The audit requirements of the Global Fund are based on donor harmonization efforts and best practice recommendations.<sup>6</sup> Applicable international audit standards or national standards that are consistent with international standards in all material respects should be used for conducting the audit. Where the Global Fund co-finances a program with other donors (e.g., as part of a SWAp arrangement), a single **Audit Report** covering all program expenditures is acceptable as long as the Global Fund grant and expenditures for program purposes can be clearly identified.

38. The PR submits its Audit Report to the LFA and provides a copy to the other members of the CCM. The LFA reviews the audit report, and advises the Global Fund on the appropriate response to any issues identified therein. The LFA *does not* itself audit the program financial statements.

39. When a PR transfers all or part of the grant to **sub-recipients**, the PR must have its own appropriate systems in place to assess and monitor sub-recipient implementation and usage of grant proceeds, including reporting and audit requirements similar to those of the Global Fund. The Global Fund *does not* require a consolidated financial statement for the expenditures of PR(s) and sub-recipients for audit purposes. The PR forwards copies of the audit reports it receives from its sub-recipients to the LFA.

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<sup>6</sup> As recommended in the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) Task Force on Donor Practices *Good Practice Reference Paper on Reporting on Financial Aspects and Auditing*

40. Before the end of the two-year grant period, the Global Fund decides on a discretionary basis and subject to the availability of funds whether to continue funding a program for the next one to three years, as specified in the approved grant proposal. The Global Fund's decision is based on a **Request for Continued Funding** from the CCM and a review of overall program performance and financial accountability of the PR(s). The Request for Continued Funding should include a self-assessment by the CCM of program performance for the first 18 months based on the PR(s)' progress updates and reports, certain relevant information beyond the responsibilities of the PR(s), and the objectives, intended results, and requested funding for up to three additional years of financing.

### Performance Based Funding: Basis for Global Fund decisions\*

	Content	Timing/Frequency	Responsible
Disbursement Requests and Progress Updates	<ul style="list-style-type: none"> <li>Disbursement request with funding requirements for the next disbursement period plus one additional quarter</li> <li>Programmatic and financial progress updates:               <ul style="list-style-type: none"> <li>Actual results achieved vs. plans</li> <li>Actual expenditures vs. budget</li> </ul> </li> <li>Statement of Sources and Uses of Funds</li> </ul>	<i>First year:</i> within 45 days after the end of PR fiscal quarters <i>Future years:</i> may be provided on a semi-annual basis based on agreement between the Global Fund and a PR	PR(s)
Fiscal Year Progress Reports	<ul style="list-style-type: none"> <li>Consolidated programmatic and financial information for program for PR's fiscal year</li> </ul>	Within 90 days after the end of a PR's fiscal year	
Audit Reports	<ul style="list-style-type: none"> <li>Report by qualified auditor covering all PR program expenditures during the fiscal year</li> <li>Copies of audit reports covering sub-recipients' program expenditures during the fiscal year</li> </ul>	Within six months after the end of a PR's fiscal year	PR(s)
Request for Continued Funding	<ul style="list-style-type: none"> <li>Assessment of implementation progress for first 18 months</li> <li>Complementary information including:               <ul style="list-style-type: none"> <li>Country indicators on disease status</li> <li>Description of functioning of CCM and partnerships</li> <li>Description of linkages with other relevant national programs</li> <li>Level/distribution of total national financial resources to the three diseases and broader purposes related to program</li> </ul> </li> <li>Request for continued funding including:               <ul style="list-style-type: none"> <li>Funding period, budget, objectives and intended results</li> <li>Proposed changes in implementation arrangements (if any)</li> </ul> </li> </ul>	Before the end of the 20 <sup>th</sup> month of the program	CCM

\* Unless another agreement is reached between the Global Fund and a Principal Recipient, e.g., based on the PR's existing reporting systems or common donor arrangements