



Grant Budgeting

GENEVA, JANUARY 2020

 **The Global Fund**

Agenda

01 Introduction

02 Expectation from the LFA during Grant Making

03 Budget Revisions Essentials

04 Updates and Changes in the Budgeting Guidelines

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01 Introduction



Objectives of
this session



LFA assurance
services



Presenting
your facilitators



Rules during
this session

Objective of this session

- To have a **forum for discussion** on how the CTs and LFA Teams **collaborate better** and **more efficiently**
 - How to ensure that we don't duplicate the work of the LFA and the CT
 - How to position the LFA to provide a service to the CT
 - Define accountability and responsibility of the LFA
- To **prepare for the Grant Making** in 2020
- To provide the LFA Teams the **most updated information** on Guidelines and Policies
- To share **lessons learnt** and provide constructive **feedback** for improvement



LFA assurance services related to grant making and budgeting

Financial and Fiduciary

List of assurance activities

1	Budget Review	2	Review of adequacy of the funds flow	3	Value for money reviews and analysis
4	Review of independence and effectiveness of the audit arrangement and function	5	Domestic funding and co-financing, willingness to pay verification and analysis	6	Review preparedness for reliance on country financial management systems/assurance mechanisms
7	Review design and/or effectiveness of the internal control environment	8	Financial data quality review	9	Expenditure verification and / or review of compliance
10	Validation of financial statements	11	Audit related activities (a,b,c,d)	12	Country Coordinating Mechanism expenditure verification
13	Review of reconciliations of imprests, SR/SSR advances and decentralized activities	14	Financial spot checks	M&E 3	Joint programmatic, financial and supply chain spot checks
15	Fraud specific review	16	Review of Financial Management Transition	17	Analysis of root causes of systemic/structural bottlenecks
18	Budget Variance Analysis	19	Fixed (non-health) Asset Verification		

Rules during this session



Interactive session

Be present, participate, comment, ask, speak up, challenge and be ready to be challenged.

Mutual respect

No work, no phones, no laptops, no emails



Competition (Quiz)

The teams will be competing against each other. Have fun! May the best team win the prize!

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02 Expectation form the LFA during Grant Making



Planning



Review



Report



Negotiation

02 Expectation form the LFA during Grant Making



Planning



Review



Report



Negotiation

Timing

- Plan the timelines with the CT and with the PRs in advance.
- Have you got many PRs? Plan sequential review and submission.
- Agree on the GAC dates and plan the work backwards.
- Take into account other deliverables with fixed deadlines, such as PU/DRs, audit reports, tax reports (if applicable).
- Take into account and manage deliverables that are “movable”, such as spot checks and other ad hoc requests and reviews.
- Together with the CT, agree on the exact submission deadlines with the different PRs on each grant and proactively follow up with them.

Resources

- Resource planning goes along with planning the timelines.
- Mobilize the specialist by areas (Finance, M&E, HPM).
- Make sure that the specialists have time to collaborate with each other and do not work in silos.
- Encourage the specialist to reach out to their GF CT counterpart whenever in doubt.

TOR

- The LFA is expected to provide assurance that the budget is implementable, value for money and has resources to reach the targets to make an impact. While we expect the LFAs to review everything, CTs may suggest the LFAs to focus on certain areas:
 - Thresholds and the granularity of the review
 - Scope of LFA's liberty to make budgetary changes and direct negotiations with the PR/SRs
 - Specific cost groups and interventions that require more attention

Tools

- Consider using tools for your initial analysis, such as the **80/20 tool** – or **Initial Analysis Tool** that is
 - Designed by the Global Fund
 - Based on Pareto's principle
- Sorts the activities by size and identifies the 20% that drives the 80% of the budget

For many events, roughly 80% of the effects come from 20% of the causes.

02 Expectation form the LFA during Grant Making



Planning



Review



Report



Negotiation

Review during the Grant Making (1/7)

First check

- Check budget for **completeness, errors, hacks**. Typical items:
 - Summary Budget does not reconcile
 - Summary sheets for Intervention, Cost input, etc do not reconcile
 - Detailed Budget subtotals when filtering don't not work
 - Pivot table shows strange results
 - Error messages and red flags
- In case of a suspected hacked budget file, please **alert the CT** immediately.

Review during the Grant Making (2/7)

Obvious errors

- Budget **amount is higher than the allocation** amount. When multiple PRs within the same disease, budget split should equal to what was agreed by the CCM
- Every activity should have a detailed assumption (**no lumpsums**)
- Wrong **categorization**
 - Be mindful of “creative” categorization (modular approach and costing dimensions)
 - RSSH modules are the new “other” categories; PRs use it often when they are not certain
- Wrong **currency** (activity should be budgeted in the payment currency)

QUIZZZZZZZ

In which currency should an activity be budgeted?

YOUR

TURN

- A. In local currency
- B. In the currency of grant
- C. In USD
- D. In the currency in which the item will be invoiced and paid

Review during the Grant Making (3/7)

Strategic check

- Activities are **in line with Funding Request**
- Activities follow the **TRP recommendation** and any recommendation given by the CT
- Savings are reinvested into activities as per **UQD**
- LFA's program specialist agrees with the proposed activities and finds them necessary to achieve the desired targets
- Budget is aligned with the targets in the **Performance Framework**
- Budget is aligned with **LoHP**
- **Implementation arrangement** is logical, strategic, economical and free from bottlenecks

Review during the Grant Making (4/7)

Other considerations

- **Arithmetic checks** are performed
- Activities are budgeted in the quarter when the **cash outflow is expected**
- **Activities to address risks and findings** identified during the previous implementation period are included in the budget (i.e. new accounting software, staff training, etc)
- Activities that are restricted by countries' income level is budgeted accordingly (i.e. construction)
- Budget is **free from VAT** and custom duties, or follow the guidelines on first year's provision for tax
- Expected **income from revenue generated activities** are considered

QUIZZZZZZ

Can an activity include VAT in the budget?

YOUR

TURN

- A. Yes
- B. Yes, with the approval of the CT
- C. Yes, as long as it is in line with local law
- D. Yes, for the first year of the budget if the implementer receives reimbursement from the Tax Department

Review during the Grant Making (5/7)

Specific cost groups - HR

- Human resources
 - **Government staff** should not be receiving salaries top-ups from GF
 - **NGO staff** salaries are budgeted as per salary scale of the organization
 - Benefits are budgeted as per **local labor law** or the applicable policy
 - **Shared staff** is budgeted correctly using an acceptable cost sharing method
 - Annual **incremental** proposed for local currency salaries is in line with projected inflation rate
 - **Number of staff** and the functions are necessary to support the program implementation
 - **Categorization** between management staff and service staff as per cost input

QUIZZZZZZZ

How should staff salaries be budgeted in an NGO?

YOUR

TURN

- A. As per government salary scale
- B. As per private sector salary scale
- C. As per salary scale of the NGO**
- D. As per Global Fund policy

Review during the Grant Making (6/7)

Specific cost groups - TRC

- Travel Related Cost
 - Necessity and **relevance** of the activity
 - Assumptions follow the applicable **cost norms/rates**
 - Frequency, timing, number and composition of participants are relevant to reaching the targets
 - Sequence of the activities that are linked is logical and implementable
 - **Capacity** of the implementer to carry out the activities is adequate
 - **Historical absorption** of similar activities of the same implementers

Review during the Grant Making (7/7)

Other cost group items

- Health Products and Equipment
 - Budget is in line with **LoHP**
 - **Cost input categories** are correctly selected
- External Professional Services
 - **Relevant and required** TA for program implementation
 - **Not to be confused** with HR or TRC categories
- Program Admin Cost
 - **Shared cost** is based on acceptable methodology
 - No double financing
 - **ICR** is calculated and applied as per the OPN

02 Expectation form the LFA during Grant Making



Planning



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Report



Negotiation

Report preparation

Reporting

- **Level of reporting** required
 - Comments on the budget lines
 - Summary report (LFA Budget Review Checklist)
 - Additional Analysis
- Use tables, charts and comparisons
- **Be short and concise** but provide the necessary information
- Use colors
- Make easily identifiable comments:
 - Recommended, Not recommended, Conditionally recommended
 - In line with Budgeting Guidelines/TRP recommendation/etc, Not in line...

02 Expectation form the LFA during Grant Making



Planning



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Report



Negotiation

Negotiation

Negotiation

- **Participate** in the negotiation
- Be ready to defend the budget review
 - Have the supporting documents handy
 - Policies
 - Historical cost
 - Have the junior staff (or the ones who did the detailed review) available in person or online
- **Support** the CT

Case Study – Grant Making

The LFA in MYT has reviewed the budget for the new grant MYT-Z-MOH. Based on the additional information below, you are to answer the questions that follow:

Question 1/7

The procurement of LLINs for the grant will be done in Q3 of Y1, both the LFA and the PR have kept the relevant budget in Q1 of Y1 without explanation. As a reviewer, what questions would you ask to **decide on the quarter in which the budget should be?**

Question 2/7

The corresponding targets in the Performance Framework (PF) for the mass campaign resulting from the procurement in question 1 above are in Q2 of Y2. **Would that be fine with you?**

Case Study – Grant Making

The LFA in MYT has reviewed the budget for the new grant MYT-Z-MOH. Based on the additional information below, you are to answer the questions that follow:

Question 3/7

A quick comparison between the PF and the Budget for the Malaria component revealed that only 50% of the budget can be linked to the targets in the PF. As an LFA, **what would convince you to submit such a budget to the Country Team (CT)?**

Question 4/7

At the end of the budget review, efficiency savings have been identified and the PR proposes to use them for procurement of Gen-Xpert as a donor pulled out; **what would you consider or what reference would you make before taking a position on this?**

Case Study – Grant Making

The LFA in MYT has reviewed the budget for the new grant MYT-Z-MOH. Based on the additional information below, you are to answer the questions that follow:

Question 5/7

For the HIV component, there were significant changes at grant making, between the TRP approved Summary Budget and the grant making budget. **What need to be done before submitting the budget for review?**

Question 6/7

In the HIV component, you realize that the Management Cost budget is more than 20% of the overall budget (16% is the GF average), **what due diligence procedures would you perform in reviewing this category?**

Case Study – Grant Making

The LFA in MYT has reviewed the budget for the new grant MYT-Z-MOH. Based on the additional information below, you are to answer the questions that follow:

Question 7/7

MOH under-absorbed in the previous IP, especially in Year 1 due to various reasons. **What would you add to your review reports before submission to the CT.**

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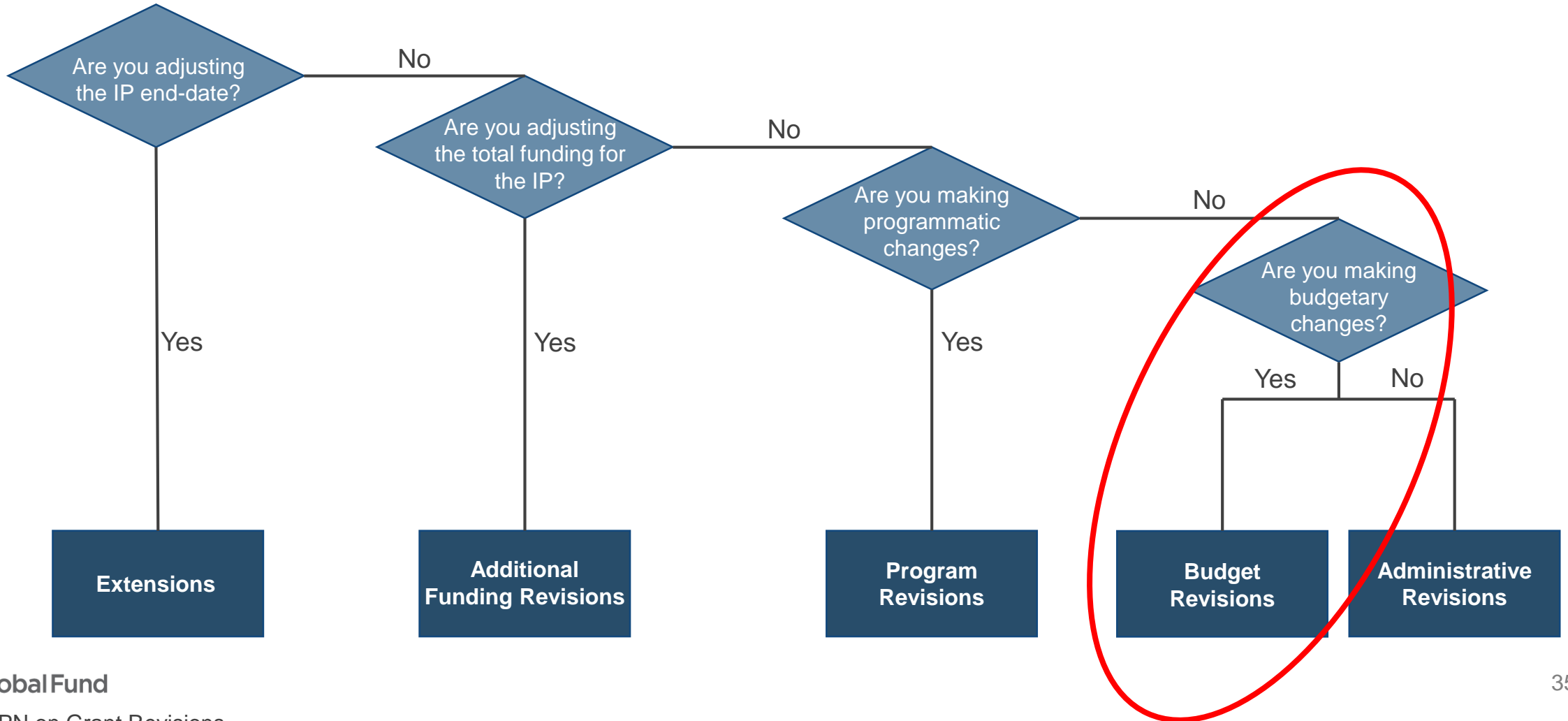
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03 Budget Revision Essentials

Types of Revisions



Material and non-material budget revisions (effective immediately)

	Budget revision for any <u>standard intervention</u>	Budget revision for any <u>discretionary cost category</u>	Is Global Fund prior written approval required?
Non-material budget revision	<p><u>For Core and High Impact countries</u> Less than 15% change to the total budget for any intervention (either an increase or decrease)</p>	<p><u>For Core and High Impact countries</u> Less than 5% increase to the total budget of any discretionary cost category</p>	No
	<p><u>For Focused Countries</u> Less than 30% change to the total budget for any intervention (either an increase or decrease)</p>	<p><u>For Focused Countries</u> Less than 10% increase to the total budget of any discretionary cost category (other than human resources categories); less than 5% increase to the total budget for human resources categories</p>	
Material budget revision	<p>(i) Any budget revision above the non-material budget revision thresholds defined above (ii) Any budget revision that introduces new modules and interventions</p>		Yes

Revising the Summary Budget

The summary budget only needs to be revised **through an implementation letter** signed by the Global Fund and the Principal Recipient in the following circumstances:

1. Program Revision (OPN on Grant Revisions);
2. Additional funding or a reduction in funding;
3. Extension of the grant implementation period;



Material budget revisions

5. Addition of a close out period budget.

Case Study – Budget Revision

The INGO office in MYT is a PR managing an HIV grant and a Malaria grant all under the new funding model.

In addition to the standard discretionary categories, CMP has been added.

Question 1/5

Five months during program implementation, a significant change in the exchange rate between the grant currency and MYT's local currency led to an increase of US\$20,000 in the intervention 'Behavioral interventions for other vulnerable populations' which has a total budget of US\$165,000. The INGO plans to fund this gap from 'Other intervention(s) for general population' with an initial budget of US\$70,000 with a just-realized actual lower target population. **Is the proposed change material?**

Case Study – Budget Revision

The INGO office in MYT is a PR managing an HIV grant and a Malaria grant all under the new funding model.

In addition to the standard discretionary categories, CMP has been added.

Question 2/5

After printing training modules for Malaria case management, the INGO notes that the CMP budget (US\$73,528) will increase by US\$6,000 whilst total cost grouping “Health Products-Non-Pharmaceuticals” (US\$85,000) funding this gap can only provide 5% of its budget.

- a) **What would you recommend that the INGO Management does?**
- b) **Does the PR have to seek the CT’s approval on the reduction in ‘Health Products – Non-Pharmaceuticals’?**

Case Study – Budget Revision

The INGO office in MYT is a PR managing an HIV grant and a Malaria grant all under the new funding model.

In addition to the standard discretionary categories, CMP has been added.

Question 3/5

After a revision of the country's NSP, the INGO decides to replace the IRS which it initially planned to carry out by a number of mass distribution campaigns. In addition, the NMCP (SR) will be engaged on this new strategy.

- a) **What category of budgetary adjustments would you call these changes and what steps would you take to obtain approval?**
- b) **What would you be expecting from the CT after presenting your changes and having them reviewed and (supposedly approved)?**

Case Study – Budget Revision

The INGO office in MYT is a PR managing an HIV grant and a Malaria grant all under the new funding model.

In addition to the standard discretionary categories, CMP has been added.

Question 4/5

The CT approves those changes and the NMCP recruits four additional staff assigned specifically to bed nets distribution and these positions would not significantly affect the HR cost (just about 1.5% of the total budget) over the remaining two and a half years of grant implementation.

What would be your position on this increase as the LFA?

Case Study – Budget Revision

The INGO office in MYT is a PR managing an HIV grant and a Malaria grant all under the new funding model.

In addition to the standard discretionary categories, CMP has been added.

Question 5/5

At the beginning of the last year of program implementation, exchange differences are very favorable, and the SRs of the INGO realized savings of US\$280,000 over the expenditure in Year 2, which they intend using for the acquisition of program vehicles for the campaign in the grant for the next implementation period.

As an LFA, what would you indicate to your CT?

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Updated Guidelines for Grant Budgeting



Major Changes to the Guidelines

Main changes to the revised version (1/2)

The major changes to the revised version of the budgeting guidelines include:

- Budget Revisions
 - **New thresholds** for the definition of material and non-material budget revisions for Focused countries
 - **New discretionary categories** – external professional services and non-health equipment
 - Material budget revisions will require an implementation letter to be sent to the Principal Recipient
- Change in the treatment of salary top-ups
 - Effective from 2020-2022 cycle, **Global Fund resources cannot be used for the payment of “salary top-ups”**
- Introduction of the **approval process for foreign exchanges gains reinvestment**
- Introduction of a **standard methodology for budgeting, monitoring and management of foreign exchange rate fluctuations** from allocation to grant closure for implementers
- **New guidance on Shared costs** budgeting, execution and reporting for implementers

Main changes to the revised version (2/2)

- New section on **Payment for Results** – to define the different type of PfR scheme:
 - Results Based Financing
 - Activity Based Contracts
 - Incentives Payments
- New requirement for **payments to partners**
 - To increase the efficiency in funds management and mitigate risks, all activities implemented or contracted by partnering organizations will trigger a direct disbursement by the Global Fund, on behalf of the PR.
- **New cost inputs** were added to facilitate the tracking and reporting of:

- Shared Costs
- Severance Costs
- Activity Based Contracts, Community Based Organizations and other service providers

- Incentives for PR and SR staff members
- Incentives for Community Health Workers, outreach workers, medical staff and other service providers

Source of Information

- **Finance webpage.** We have improved access to Finance-related resources for our external audiences by reorganizing information and creating a [dedicated page on our website](#).
- [Modular Framework Handbook](#)
- [Guidelines for Grant Budgeting](#)
- [Guidelines for Annual Audit of Global Fund Grants](#)
- [Instructions for Completing the Detailed Budget Template](#)
- [Operational Policy Manual](#)
- [Instructions for Completing the Detailed Budget Template](#)



THANK YOU!

Q&A