



FIDUCIARY ARRANGEMENTS FOR GRANT RECIPIENTS

Outline: The purpose of this document is to describe the Global Fund's Fiduciary Arrangements for Grant Recipients. The document presents the fiduciary principles of the Fund and describes the roles and responsibilities of different parties.

Summary of Decision Points:

1. The Board is requested to endorse the policies on Fiduciary Arrangements for Grant Recipients as described in this document.

Fiduciary Arrangements for Grant Recipients

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 Fund has committed USD 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 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 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 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.

Part 2. Overview

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.¹ After a proposal for funding has been approved by the Board of the Global Fund, the Fund gives full ownership for implementation to that proposal's

¹ According to e.g., 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*

local stakeholders, including management of grant proceeds at the country-level. The Fund does not prescribe or impose specific implementation solutions. Rather, the 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 programmatic 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 an up-front assessment of implementation arrangements against required minimum capacities, as well as through periodic verifications of results achieved and financial accountability during the grant period.

The Global Fund's Fiduciary Principles

The Global Fund is a financial instrument, not an implementing entity, and provides performance-based grant funding to country-level recipients to fight HIV/AIDS, tuberculosis and malaria. The 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 programmatic performance and financial accountability
- As far as possible encourage the use of existing standards and processes in grant recipient countries

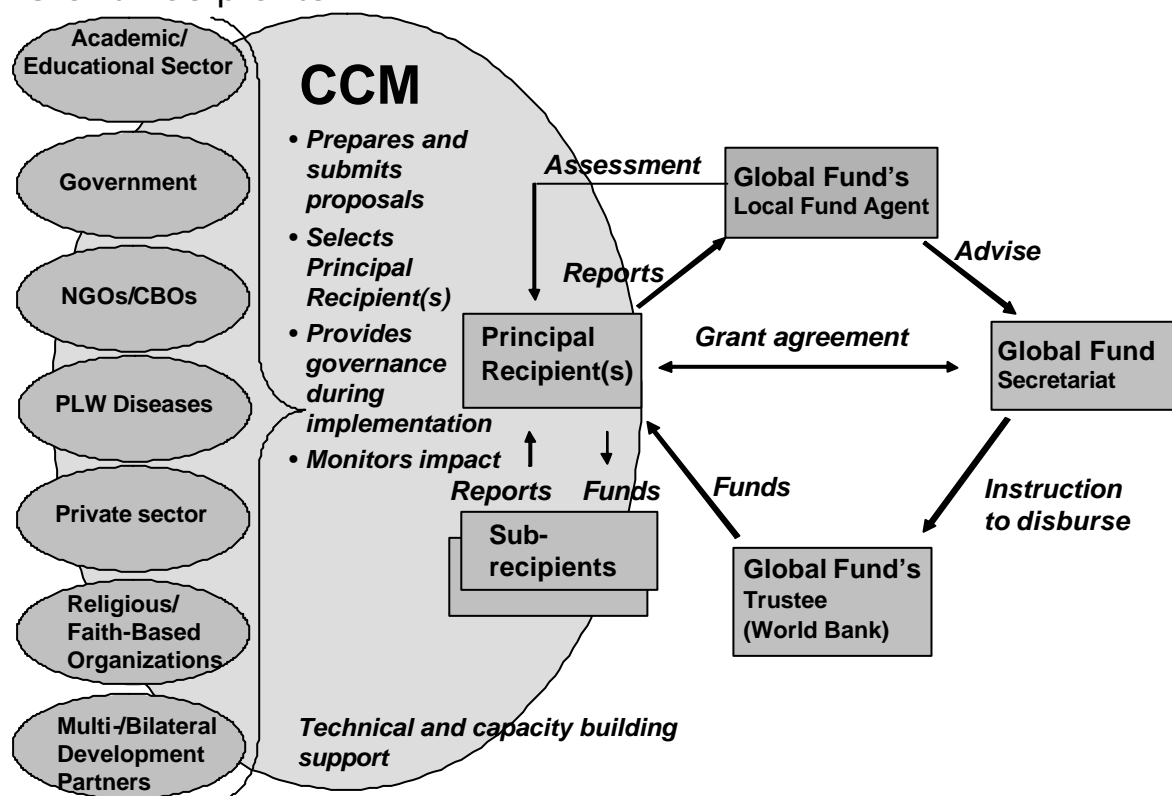
Part 3: Roles and Responsibilities

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 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 programmatic 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. Principal Recipients 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 reporting on programmatic results and financial accountability to the Global Fund and the CCM. As far as possible, the 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

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



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 Principal Recipient(s)' implementation arrangements fulfill certain minimum requirements. Throughout the grant period, the 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 Principal Recipient(s) have the minimum capacities required to assume financial and programmatic accountability for the grant before the signing of the 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 PRs over the course of the grant period demonstrate programmatic results and financial accountability.
12. In order to avoid potential conflicts of interest with Principal Recipients, for which they have oversight responsibility, the Local Fund Agents *should not* be involved in the design and implementation of the funded programs. The LFAs will be selected by the 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 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 Required Minimum Capacities

14. In order to successfully assume financial and programmatic accountability for the grant, Principal Recipients need certain minimum capacities and systems. The Global Fund does not prescribe specific implementation arrangements, but does assess whether the proposed PRs have (or have access to) these minimum capacities, as relevant for the particular proposal that has been approved for grant funding, before signing a Grant Agreement with that PR. 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:

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

15. If in-house capacities are insufficient, Principal Recipients may sub-contract or otherwise gain access to some required functions for the benefit of implementing the grant.
16. The Global Fund encourages implementation solutions that promote local ownership, capacity building and sustainable arrangements at the country-level. The Fund therefore normally expects the Country Coordinating Mechanism to nominate one or a few local stakeholders from the public or private sectors or civil society among its membership to become Principal Recipient(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 Principal Recipient 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 (SWAPs) or other similar arrangements already exist for pooled donor funding, Country Coordinating Mechanisms 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 Country Coordination Mechanism conclude that there is no local stakeholder qualified to be Principal Recipient, 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 Principal Recipient, the Global Fund will request its Local Fund Agent 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 long-term to enhance the efficiency and effectiveness of the implementation of the proposal.
21. The Global Fund does not prescribe specific implementation arrangements. Rather, the Fund encourages the use of Principal

Recipients' existing systems, as far as they can provide for the required minimum capacities.

22. If reliable assessment reports of a Principal Recipient are already available, e.g., from other donors, these assessments should not be repeated. The Local Fund Agent 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.
23. As a result of the assessment of a Principal Recipient, the Local Fund Agent will make a recommendation to the Global Fund that the PR either (i) has the required minimum capacities and systems, (ii) needs to acquire certain additional capacities and is able to do so in a timely and cost effective manner, or (iii) 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 (iii) above, the Global Fund may ask the Country Coordinating Mechanism to identify one or a few suitable alternative PR(s).
24. Based on the assessment, the Global Fund will decide whether to enter into a Grant Agreement with a proposed Principal Recipient and which capacity strengthening measures or other actions that PR must achieve before the first or a subsequent disbursement of funds. These actions will be included as conditions precedent in the Grant Agreement. The PR, assisted by other members of the Country Coordinating Mechanism 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

25. Principal Recipients and the Global Fund 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. These intended results should be linked to the objectives specified in the approved proposal. For monitoring purposes, the intended results should be measurable by a small number of easily verifiable indicators per program objective.² Expected targets should be established on a periodic basis during the grant period.³ The agreed-upon intended results should be included in the Grant Agreement and used as a management tool to monitor program progress: for the PR's

² E.g., *Objective*: Prevent mother to child HIV transmission; *Indicator*: Number of HIV+ women receiving antiretroviral therapy to prevent mother-to-child transmission of HIV.

³ E.g., *Planned target* end quarter 4 year 1: 1000 HIV+ women receiving antiretroviral therapy to prevent mother-to-child transmission of HIV; *Planned target* end quarter 4 year 2: 6000 HIV+ women receiving antiretroviral therapy to prevent mother-to-child transmission of HIV.

own management purposes, for the PR's progress reports to the Global Fund, and for the Fund's review of program progress and decisions on further disbursements.

26. Unless the Global Fund and a Principal Recipient agree otherwise based on the PR's existing reporting arrangements, the Grant Agreement should contain intended 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 - two indicators per main objective per period will be 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 can not be obtained, or is not recent, baseline surveys should be carried out as part of the initial activities of the program.

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.

27. 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 (e.g., additional districts or groups covered by a national DOTS program). 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 term⁴).

28. In the Grant Agreement, the Principal Recipient 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

⁴ 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).

Fund receives advice from the Local Fund Agent based on a review of the reasonableness of the program budget.

29. For their management purposes, Principal Recipients are expected to have their own work plans 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 the intended program results and the plan for periodic disbursements from the Global Fund should be based on these 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.
30. To harmonize planning and reporting with the Principal Recipient's normal annual planning, the PR may update its plans for the intended results to be achieved and the periodic disbursements from the Global Fund when it does its regular fiscal year planning. These updated plans should be reviewed by the Local Fund Agent 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

31. The Global Fund makes funding decisions based on performance to ensure that investments are made where impact in alleviating the burden of the three diseases can be achieved. For this purpose, the Fund links disbursements of grant proceeds to periodic demonstrations of programmatic progress and financial accountability. This approach is intended to provide a management tool for Principal Recipients to ensure that successes and issues are identified early on in order to facilitate early replication/expansion of effective efforts and corrective actions as necessary.
32. After the Grant Agreement has been signed, the Global Fund's initial disbursement to a Principal Recipient normally equals the estimated budget for the first two quarters of the program. As a basis for the next and subsequent disbursements of tranches of the grant, the PR submits **Disbursement Requests** to the Global Fund. The Fund uses the Disbursement Requests for decisions to disburse further funds to the program, and to identify early "success stories" as well as grant recipients that may need assistance. The Disbursement Requests contain a brief update on progress made during the period⁵ in achieving programmatic results as compared to targets, total expenditures made as compared to budget, and the amount requested from the Global Fund. Along with the

⁵ The disbursement period is defined as the periodic interval for which a Principal Recipient 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.

Disbursement Request, the PR submits a *Statement of Sources and Uses of Funds* for the period, as derived from its normal accounting and reporting systems.

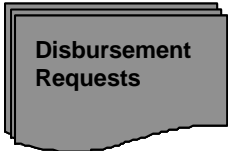


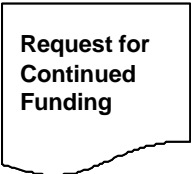
33. At least for the first year, the Global Fund normally expects Principal Recipients to submit Disbursement Requests on a quarterly basis, unless another agreement is reached between a PR and the Fund during Grant Agreement negotiations based on a PR's existing reporting arrangements. Disbursements normally cover program needs for the next disbursement period (e.g., the next quarter) plus a one quarter "cash cushion" 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.
34. A Principal Recipient forwards its Disbursement Requests to the Global Fund through the Local Fund Agent, who reviews and validates its contents, performs ad hoc verifications of program performance and financial accountability, as deemed necessary by the Fund, and advises the Fund on the next disbursement. The PR provides a copy of its Disbursement Requests to the other members of the Country Coordinating Mechanism, who may comment on the progress of implementation 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.
35. Initial implementation difficulties should not imply a permanent discontinuation of funding, except when there is evidence of misuse of funds. When difficulties arise, Principal Recipients must provide mechanisms to improve programmatic or financial performance. The Global Fund with advice from the Local Fund Agent will determine the appropriate level of funding as improvements are made.
36. At the end of its fiscal year, a Principal Recipient submits a **Fiscal Year Progress Report** to the Global Fund with consolidated programmatic and financial information for the program. 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 Fiscal Year Progress Report contents and provides advice as appropriate to the Global Fund. The Fund reviews the Fiscal Year Progress Report and the LFA's advice, and decides on any necessary actions
37. Where the Global Fund **co-finances a program with other donors** as proposed by the CCM and agreed during grant negotiations (e.g., as part of a Sector Wide Approach (SWAp) arrangement), the timing, frequency and contents of the Disbursement Requests and Fiscal Year Progress Reports should be co-ordinated with the PR and other donors, and could be aligned with existing 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.

38. 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 efforts⁶ and best-practice recommendations. 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.
39. The Principal Recipient submits its Audit Report to the Local Fund Agent 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.
40. When a Principal Recipient 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 PR forwards copies of the audit reports it receives from its sub-recipients to the LFA.
41. 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 1-3 years, as specified in the approved grant proposal. The Fund's decision is based on a **Request for Continued Funding** from the Country Coordination Mechanism 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.

⁶ 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*

Performance Based Funding: Basis for Global Fund decisions

	Content	Timing/Frequency	Responsible
	<ul style="list-style-type: none"> • Disbursement request with funding requirements for the next disbursement period plus one quarter “cash cushion” • Programmatic and financial progress updates: <ul style="list-style-type: none"> – Actual results achieved vs. plans – Actual expenditures vs. budget 	<p>First year: within 45 days after the end of PR fiscal quarters*</p> <p>Future years: may be provided on a semi-annual basis based on agreement between Global Fund and PR</p>	PR(s)
	<ul style="list-style-type: none"> • Consolidated programmatic and financial information for program for PR’s fiscal year 	Within 90 days after the end of the PR’s fiscal year	PR(s)
	<ul style="list-style-type: none"> • Report by qualified auditor covering all program expenditures 	Within six months after the end of the PR’s fiscal year	PR(s)
	<ul style="list-style-type: none"> • Assessment of implementation progress during first 18 months • Complementary information as relevant to the program including: <ul style="list-style-type: none"> – Country indicators on disease status – Description of functioning of CCM and partnerships – Description of linkages with other national programs – Level/distribution of other financial resources at the country level to the 3 diseases and broader purposes related to program • Request for funding for years 3-5 including: <ul style="list-style-type: none"> – Budget, objectives and expected results – Proposed changes in implementation arrangements (if any) 	Within 60 days after the 18 th month of the program	CCM

* Unless another agreement is reached between the Global Fund and the PR during Grant Agreement negotiations based on the PR’s existing reporting arrangements