

# **Guidelines for Grant Budgeting**

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# Introduction

1. This document sets out the Global Fund's grant funding principles and guidelines for the development and review of the budget for Global Fund-supported programs.<sup>1</sup>

- [Grant Funding Principles and Budgeting Guidelines](#). Include key grant funding principles (the **Funding Principles**) and budgeting guidelines (the **Budgeting Guidelines**) that are fundamental to the operations of Global Fund grants and shall apply to the relevant allocation period.<sup>2</sup>
- [Operational Guidance for Grant Budgeting](#) include detailed costing guidance and related appendices for budgeting in Global Fund grants and may be amended or supplemented from time to time during the relevant allocation period, to, e.g., align with the modular [approach and costing dimension](#).

2. This document is intended to support: (a) the Global Fund Secretariat; (b) the Global Fund's grant implementers, including Principal Recipients (**PRs**), sub-recipients (**SRs**) and other implementing entities, such as sub-sub-recipients (together, referred to as **implementers**); (c) Country Coordinating Mechanisms (**CCMs**);<sup>3</sup> (d) [Local Fund Agents \(LFAs\)](#); (e) the [Technical Review Panel](#) (TRP); (f) other suppliers, agents and technical assistance providers; and (g) any other Global Fund assurance providers, in the effective budgeting of the Global Fund-supported programs. This document:

- Allows implementers and other stakeholders to understand the Global Fund's funding principles, financial policies and procedures and implement them in a consistent manner.
- Enhances clarity in financial decision-making.
- Strikes a balance among flexibility and efficiency, transparency and accountability.
- Establishes broad requirements for Global Fund grants to meet their budgeting obligations.
- Establishes clear criteria for compliant grant expenditures.

3. PRs shall support the dissemination of these principles and guidelines to relevant personnel and other implementers, including SRs. To ensure compliance, implementers are required to provide regular trainings about the Guidelines for Grant Budgeting to all staff involved in implementing Global Fund-supported programs. LFAs and any Global Fund

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<sup>1</sup> Including catalytic investment funding incorporated into Global Fund grants and special purpose program/initiatives.

<sup>2</sup> This is the fixed three-year period during which eligible applicants may submit a funding request for, and the Board may approve, funding for grant programs. For the 2023-2025 allocation period, this period starts on 1 January 2023 and ends on 31 December 2025.

<sup>3</sup> May be a Regional Coordinating Mechanism (RCM), a Regional Organization (RO) or other application coordinating mechanisms. Refer to [CCM Policy Including Principles and Requirements](#) for more information. Also, this document applies to matters related to CCM funding.

assurance providers shall use this document to inform their work on the implementers' capacity assessment, budget review, expenditure verification and as a complement to other Global Fund tools and guidelines.

4. This document should be consulted in conjunction with the following:

- The Global Fund [Grant Regulations \(2014\)](#) (the **Grant Regulations**). Unless defined or the context otherwise required, terms defined in the Grant Regulations, shall apply to these guidelines.
- The [Operational Policy Manual](#), which provides the operational framework for managing Global Fund grants.
- Guidelines on [Country Dialogue, funding request development and grant-making](#).
- Pertinent clauses of the relevant grant agreement.<sup>4</sup>

5. The provisions of each relevant grant agreement (including this document as incorporated therein) are legally binding.<sup>5</sup> In case of conflict between the provisions set out in the relevant grant agreement and this document, the specific clauses of the grant agreement shall take precedence. All references in this document to the Grant Regulations and any other Global Fund regulations, policies, manuals, templates, reporting requirements, handbooks, models, instructions, guidelines and notes are to such documents as may be amended or replaced.

6. This document amends and replaces the previous version of the guidelines entitled "Global Fund Guidelines for Grant Budgeting" issued in December 2019 with effect from 1 February 2023. Further, the Operational Policy Note (OPN) on Support Costs and Indirect Cost Recovery (ICR) Policy for Non-Governmental Organizations has been retired with effect from 1 February 2023, and related requirements are integrated within this document. The following key changes have been proposed:

Section/Content	Key Changes	Applicable
Structure	<ul style="list-style-type: none"> <li>• The revised structure of the Guidelines for Grant Budgeting includes two documents:</li> <li>• <a href="#">Grant Funding Principles and Budgeting Guidelines</a></li> <li>• <a href="#">Operational Guidance for Grant Budgeting</a></li> </ul>	
General	<ul style="list-style-type: none"> <li>• Ensured alignment with <a href="#">Operational Policy Notes (OPNs)</a>, <a href="#">Funding Request/Grant-making documents</a> and updated <a href="#">modular approach and costing dimension</a>.</li> </ul>	

<sup>4</sup> References to "grant agreement" and "grant," include CCM funding agreements, as applicable. References to "grant funds" include funding provided under a CCM funding agreement, as applicable.

<sup>5</sup> Please consult with your respective Global Fund Country Team Legal Counsel to determine whether the relevant grant agreement(s) include any deviations to these guidelines.

	<ul style="list-style-type: none"> <li>• Clarity on content, structure and flow of information.</li> </ul>	
Funding Principles	<ul style="list-style-type: none"> <li>• Introduction of funding principles for special purpose programs / initiatives.</li> <li>• Reference is made to the <a href="#">Comprehensive Funding Policy</a>.</li> </ul>	Only applicable to 2023 – 2025 allocation period and beyond
Indirect Cost Recovery (ICR) and Shared Cost	<ul style="list-style-type: none"> <li>• Combined ICR and shared cost guidelines.</li> <li>• Update to the scope of ICR and shared cost principles.</li> </ul>	
Budgetary basis	<ul style="list-style-type: none"> <li>• Budget phasing changed from timing of cash outflow to the timing of goods or services received or delivered.</li> </ul>	
Compliance of grant expenditure	<ul style="list-style-type: none"> <li>• Introduction of decision trees for compliant and non-compliant expenditures.</li> <li>• Updates to include key and relevant information relating to the Global Fund recoveries process.</li> </ul>	
Budgeting approach	<ul style="list-style-type: none"> <li>• Update in the differentiated budget approach.</li> <li>• Introduction of Focused Portfolios Management Models.</li> </ul>	
Grant Budget Revision	<ul style="list-style-type: none"> <li>• Thresholds updated for Budget Revisions.</li> <li>• Global Fund written notification required for material Budget Revisions.</li> </ul>	
Foreign exchange management	<ul style="list-style-type: none"> <li>• Updated guidelines on foreign exchange management.</li> </ul>	
Recovery of Grant Funds	<ul style="list-style-type: none"> <li>• Key information provided for implementers about the Global Fund recoveries process.</li> </ul>	
Management of taxes	<ul style="list-style-type: none"> <li>• Updated guidelines on management of taxes.</li> </ul>	
Other key changes or updates	<ul style="list-style-type: none"> <li>• Introduction of Value for Money (VfM) considerations for grant budgeting.</li> </ul>	

# Grant Funding Principles and Budgeting Guidelines

## 1. Grant Funding Principles

### 1.1 Comprehensive funding policy

7. The Global Fund's amended and restated [Comprehensive Funding Policy \(CFP\)](#), dated 16 November 2016 (GF/B36/02 – Revision 1) that provides the basis for the management of Global Fund sources and uses of funds. This includes overarching principles to attract, manage and disburse additional resources to fight HIV, TB and malaria and to build resilient and sustainable systems for health and special purpose programs / initiatives.

### 1.2 Allocation-based funding model

8. **Country Allocation.** The Global Fund allocation-based funding model enables strategic investment for maximum impact, by focusing resources on countries based on their income level and disease burden. The Global Fund allocates funding to [eligible countries](#) to support HIV, TB and malaria programs, and to build resilient and sustainable systems for health in accordance with the [Allocation Methodology](#).

9. The Country Allocation may be supplemented<sup>6</sup> by other sources of funds (for example, through "[Catalytic Investments](#)" and "[Portfolio Optimization](#)")<sup>7</sup> or may be reduced due to, among others, outstanding recoveries or co-financing commitments not being met (for further details on co-financing, refer to the Global Fund [Operational Policy Manual, OPN on Co-Financing](#)).

10. **Special purpose program/initiative.** In addition to funding allocated to support HIV, TB and malaria programs, and to build resilient and sustainable systems for health, the Global Fund may also allocate funds for initiatives or funding categories authorized by the Global Fund Board, which may be subject to specific rules, principles and guidelines.

### 1.3 Allocation utilization

11. A country allocation amount for each eligible disease component is called the **Disease Allocation Amount** and represents the funding for that disease component which can be

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<sup>6</sup> Refer to [Funding Model page](#) of the Global Fund website and the [Operational Policy Manual](#) Section 1: Access to Global Fund Financing.

<sup>7</sup> This may also include joint investments (blended finance) with development partners, which may be subject to specific rules, principles, and guidelines.

accessed<sup>8</sup> over the relevant Allocation Utilization Period (AUP).<sup>9</sup> Any remaining funds from an existing grant, unused by the end of an AUP, will not be additional to the Disease Allocation Amount for the subsequent AUP. Refer to “[OPN: Design and Review Funding Requests](#)” for further details on timeframe to access and use the Disease Allocation Amount.

12. The **Disease Allocation Amount** cannot be reallocated or transferred across disease components without the Global Fund Board’s approval. Refer to the [OPN on Revise Grants](#) for further details. Additionally, the funds allocated to special purpose programs/initiatives authorized by the Global Fund Board cannot be reallocated or used for any other purpose including HIV, TB and malaria programs, or to build resilient and sustainable systems for health-related interventions and activities without the Global Fund’s prior written approval or authorization.<sup>10</sup>

13. Catalytic investments (such as [Matching Funds](#)) must remain invested in activities relating to the catalytic investment priority area and may only be reprogrammed for other activities supporting that catalytic investment priority area, unless otherwise approved in writing by the Global Fund. With respect to Matching Funds, the requirement to ensure continued investment in the catalytic investment priority area applies to both, (a) the total catalytic Matching Funds award; and (b) the portion of the Disease Allocation Amount that has been programmed towards the same catalytic investment priority area to access the award.

#### **1.4 Use of grant resources**

14. The Global Fund places a strong emphasis on the need to support sustainable responses for epidemic control and successful transitions away from donor support and towards domestic financing. The Global Fund stresses the need to support countries to use existing resources more efficiently, to increase domestic resource mobilization, and to make strategic investments to strengthen resilient and sustainable systems for health. For further details, refer to [the Global Fund Sustainability, Transition and Co-financing Policy](#).

15. Grant budgets must represent good [Value for Money](#) (VfM), maximizing and sustaining quality and equitable health outputs, outcomes and impact for the level of investment. The Global Fund’s VfM Framework includes five dimensions: effectiveness, efficiency, economy, equity and sustainability, which are further defined in the [Value for Money Technical Brief](#).

16. Implementers are responsible for ensuring compliance with the provisions of the relevant grant agreement, including the approved budget, and any amendments thereto as

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<sup>8</sup> For each country, the available allocation amount for eligible components can be accessed, jointly with other components or separately by each component, once per allocation period.

<sup>9</sup> The AUP is the period (usually three years) during which the country allocation per disease component can be utilized to implement a grant.

<sup>10</sup> The Global Fund may authorize the use of special purpose program/initiative funds for specific or cross-cutting areas, including for building resilient and sustainable systems for health through specific guidelines or written instructions.

contained in subsequent implementation letters or approved pursuant to this document, and applicable local laws and regulations.

17. Implementers are responsible for ensuring the effective management of Global Fund-supported program assets including appropriate safeguarding, insurance, maintenance,<sup>11</sup> maintaining asset records and regular physical account or verification in accordance with the applicable requirements of the [Grant Regulations](#), [Health Products Guide](#) (as relevant) and the [Global Fund Guidelines for Fixed Assets Management](#).

18. Grant financial reporting<sup>12</sup> scope and frequency is generally determined by the Global Fund based on the Global Fund's [portfolio categorization](#) (High Impact, Core and Focused).<sup>13</sup> Considering program and grant context, the Global Fund may require other ad-hoc reports or more frequent reporting cycles. The Global Fund financial reporting framework is forthcoming.

19. The Global Fund has zero-tolerance for [fraud and corruption](#), therefore swift and appropriate action is taken when misuse of funds is identified, or non-compliant expenditure is reported. A recoveries process is triggered when there is a decision by the Global Fund that expenditures incurred by implementers are non-compliant, in accordance with this document.

## **1.5 Financial risk management and assurance**

20. The Global Fund uses a combined assurance approach to ensure grant resources are used efficiently and effectively including management of financial risks:

- Implementers are responsible for putting in place adequate financial control environments<sup>14</sup> for effective management of grant financial risk(s).<sup>15</sup> Where the Global Fund Country Team identifies sufficient residual risk, the Global Fund may require other risk management mechanisms to be implemented in accordance with the Global Fund's [Guidelines on Financial Risk Management](#) (updated version is forthcoming).
- Implementers are responsible for ensuring the efficient and effective implementation of a [financial assurance plan](#), including submission of annual audit reports in accordance with the [Guidelines for Annual Audit of the Global Fund Grants](#).

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<sup>11</sup> Including appropriate warranty of program assets.

<sup>12</sup> Grant financial reporting may be different from the statutory financial reporting requirements in the country.

<sup>13</sup> Including [Focused Portfolio Management Models](#) (Aligned, Targeted, Light and Legacy) (as may be amended from time to time by the Global Fund).

<sup>14</sup> Refer to [Financial Management Handbook](#) for further guidelines on internal controls and management oversight including internal audit function

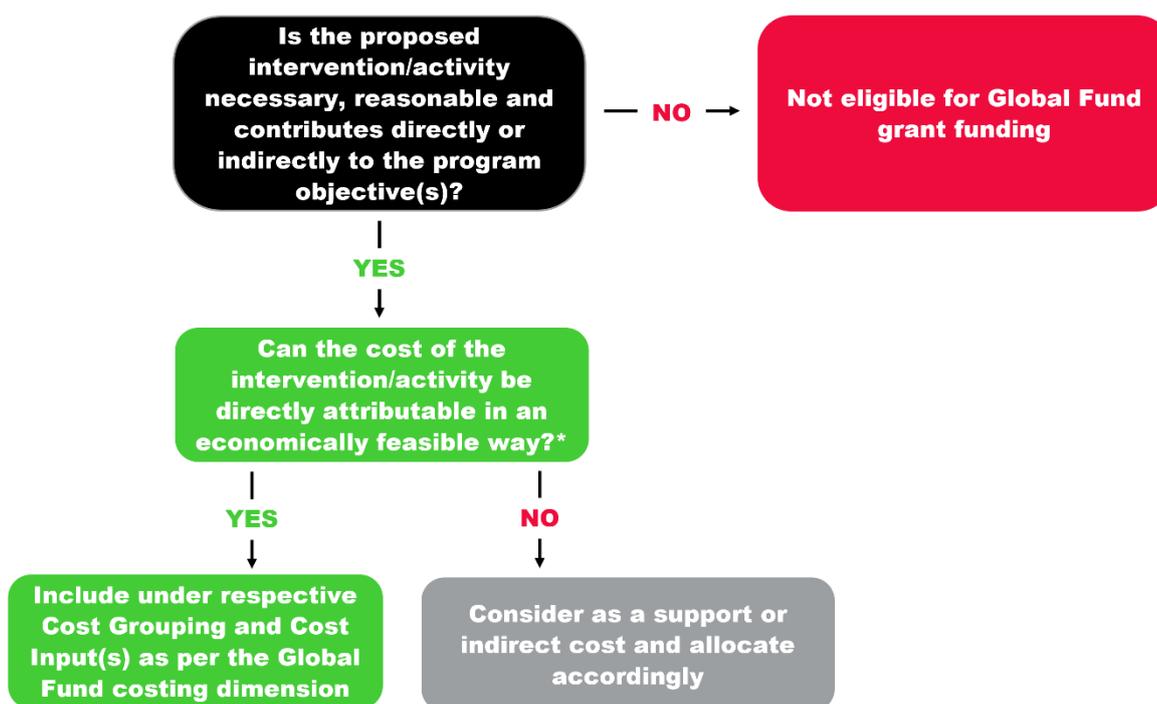
<sup>15</sup> Financial risks include, but are not limited to, Inadequate flow of funds arrangements; inadequate internal controls; financial fraud, corruption, and theft; inadequate accounting and financial reporting; limited [value for money](#) – financial management; and inadequate auditing arrangements.

## 2. Grant Budgeting Guidelines

21. The level of detail required in a grant budget is based on the Global Fund [portfolio categorization](#), management model, and stage of the grant life cycle. Refer to the following OPNs: [Design and Review of Funding Requests](#), [Make, Approve and Sign Grants](#) and [Instructions for completing Detailed Budget Template](#) for the detailed requirements of the grant budget at each funding request and grant-making stage. Grant Budgeting Principles provide finance-specific requirements and guidance complementing the requirements and procedures of the afore-mentioned OPNs and other relevant OPNs as included in the [Operational Policy Manual](#).

22. Set out in **Figure 1** are the criteria to determine the cost of an intervention / activity eligible for budgeting, either as a direct cost charged or indirect cost allocated, in the Global Fund grant budget.

**Figure 1: Eligibility criteria for Global Fund grant funding**



\* **Economical feasible way** means that the cost or level of effort of attributing any cost to a particular intervention or activity does not exceed the related benefit (i.e. cost can be attributed easily using appropriate basis).

23. The budget should be prepared based on the timing of actual implementation of activities. For example, when goods, supplies or services are received or delivered, irrespective of related cash outflows. This is aligned with the definition of financial

commitments and financial obligations for the purposes of expenditure recognition. For grants applying the Payment for Results (PfR)<sup>16</sup> modality, budgets should align with the above principle of budgeting at the time of results delivery and not based on timing of disbursements, whether linked or not.

24. The allocation amount must be used for activities that were **budgeted, approved and completed** during the related AUP regardless of whether the payment for such activities has occurred or not. The following principles apply:

- **Financial commitments** are current contractual obligations to pay a specified amount of cash against goods and services already received, but for which the related payment has not yet been made (all or partial).<sup>17</sup> Financial commitments existing at the end of an AUP can be paid from that related allocation amount (via available cash balance or a disbursement from the Global Fund) and must be liquidated no later than six months after the end of the grant Implementation Period (IP)<sup>18</sup> (unless otherwise approved in writing by the Global Fund).
- **Financial obligations** are current contractual obligations to pay an agreed amount of cash (i.e., as per signed contract and/or purchase order) to a third party for the provision of goods/services at a certain point in time in the future, i.e., the goods or services are yet to be received. Financial obligations existing at the end of an AUP cannot be paid from that period's allocation and must be transferred and included in the budget of a new grant or an extension, to be covered by funds from the next allocation period.<sup>19</sup>
- In certain cases, payments relating to goods and/or services delivered after the end of an AUP may be considered as financial commitments to be funded from that AUP<sup>20</sup> provided that:
  - Order(s) for the goods or services were placed with adequate consideration for relevant lead times<sup>21</sup> such that the goods or services were expected to be delivered before the end of the AUP.
  - The delivery of the goods or services is delayed for reasons beyond the implementer's control.

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<sup>16</sup> Refer to Section 1.11 of the [Operational Guidance for Grant Budgeting](#) for further details.

<sup>17</sup> Timing difference between goods/service receipt and payment date can be due to either delay in/non-receipt of invoices or use of favorable payment terms or a prolonged payment process (including checks issued but not cashed). Financial commitments mainly include accounts payable and creditors.

<sup>18</sup> Implementation Period means the term of an approved Grant, as determined by the start and end dates reflected in the grant agreement, which when aggregated with any Extension period from a preceding Grant, has a standard length of three years, unless otherwise approved by the Global Fund (see the OPN [Design and Review of Funding Requests](#) for further details).

<sup>19</sup> The Global Fund may also apply a one-time flexibility to facilitate the transition between two allocation periods for certain countries identified by the Global Fund.

<sup>20</sup> Same requirements also apply to the [Catalytic Multi-country Funds](#).

<sup>21</sup> See the Global Fund [Category and Product-level Procurement and Delivery Planning Guide](#) for indicative lead times for key HIV and Malaria health products procured via the Global Fund's Pooled Procurement Mechanism. See the [Stop TB Partnership's Category and Product-level Procurement and Delivery Planning Guide](#) for indicative lead times for key TB health products procured via the Global Drug Facility.

- The delivery of the goods or services is completed within a maximum of 90 days<sup>22</sup> of the end of the AUP.

## 2.1 Funding request budget

25. Applicants provide their strategic investment and intervention priorities in the funding request budget. Those using the Program Continuation funding request approach, or nominating continuing PR(s), are strongly encouraged<sup>23</sup> to work with the PR(s) to provide a budget<sup>24</sup> with the level of detail expected for grant-making<sup>25</sup> (by cost input, interventions and assumptions). For new Programs or PR(s), initial “best estimate” budgets by intervention and cost grouping are the minimum requirements for the submission of a funding request for High Impact and Core portfolios. As part of a simplified and differentiated approach, Focused Portfolios are required to budget in accordance with the management model attributed to them by the Global Fund in accordance with the approach set out in [Appendix 2 – Focused Portfolios Management Models](#).

26. Funding requests and grants are expected to integrate [Value for Money \(VfM\)](#) considerations, reflecting an appropriate balance among all five VfM dimensions (effectiveness, efficiency, economy, equity and sustainability). This balance needs to be considered given the country context, including epidemiological trends, programmatic gaps, expected results, available budget, contributions from other funding sources, as well as health system capacity constraints. Applicants and implementers are strongly encouraged to make efforts to improve VfM throughout the Global Fund grant life cycle. Practical considerations to enhance VfM of grant budgets can be found in Annex 8 of the [Operational Guidance for Grant Budgeting](#).

27. Applicants and PRs should include relevant program management costs that support proper management, risk mitigation and assurance:

- These costs should be appropriate to the risk and context of the program and represent a balance between optimizing essential services and programmatic needs, while ensuring management support required to deliver results.
- While the Global Fund does not prescribe a specific proportion of program management costs from the overall funding allocation, the portion used should be comparable to similar programs in similar country contexts.
- Implementers should seek relevant benchmarks from partners and other donors and approach the Global Fund to understand the expectations given country specific risks and challenges.

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<sup>22</sup> The Global Fund has exceptionally extended this timeline to 180 days for 2017-2019 and 2020-2022 allocation period grants due to COVID-19 and related supply chain challenges.

<sup>23</sup> Particularly when the time between funding request review and anticipated Board approval is short.

<sup>24</sup> In cases where the latest historical costs of certain known activities in an intervention are already available, and to avoid the risk of under- or over-budgeting, instead of a narrative on key activities as required for funding requests, the applicant can submit a detailed budget.

<sup>25</sup> Detailed guidance on grant-making budgets is provided in the following section: 3.2 Grant-making budget.

- Program management costs, their proportion and composition reflecting program implementation structure, and risk management model should be discussed with the CCM prior to the funding request submission to the Global Fund. The funding request must provide an explanatory note justifying the value of the overall program management costs.
- Program management costs can include the following types of costs for the implementation of a Global Fund-supported programs: (a) human resources (excluding the cost input “1.6 and 1.7”); (b) travel-related costs; (c) external professional services; (d) non-health equipment; and (d) indirect and overhead costs. Refer to [Operational Guidance for Grant Budgeting](#) for further details on cost grouping and cost units.

## 2.2 Grant-making budget

28. Once a funding request is recommended by the TRP, the nominated PR(s) are required to finalize a detailed budget using the full [modular approach and costing dimension](#). During the grant-making stage, the standard budget requirements for High Impact and Core portfolios are set out in the [standardized detailed budget template](#), by interventions, cost inputs and year. Focused Portfolios will budget according to the model listed in [Appendix 2 – Focused Portfolios Management Models](#). PR(s) under High Impact and Core portfolios may be authorized to budget and report by cost groupings, through written approval from the Global Fund prior to submission of the detailed budget at the grant-making stage.

29. Implementers must put in place rigorous systems<sup>26</sup> and procedures to plan activities, collect information from appropriate entities in charge of the different components, and prepare budgets. The costing approach and systems underpinning Global Fund grants must provide relevant information and analysis to support strategic investments for increased impact, VfM, performance evaluation, planning and investment decisions. To determine the reasonableness of the budgets, they should present the following attributes:<sup>27</sup>

- Be consistent with the funding request and its strategic direction to maximize impact.
- Reflect any adjustments required by TRP and Grant Approvals Committee (GAC), as applicable.
- Demonstrate clear and tangible linkages among programmatic indicators (outputs and outcomes), financial targets and historical trends.
- Ensure grant management plans and budgets are realistic, based on valid assumptions, are developed by appropriately qualified individuals (as considered by the Global Fund), and represent good VfM.

<sup>26</sup> Financial risks and capacity gaps (based on the initial risk assessment performed during the funding request stage (if any) and further developed during grant-making based on a completed capacity assessment, known risks and gaps, and review of grant documents) that are required to be addressed as part of the design of the grant and implementation arrangements must be reflected in the finalization of grant documents to be submitted to the Global Fund’s Grant Approvals Committee.

<sup>27</sup> The attributes can be tailored to focused portfolios based on the selected Focused Management Model as per the requirements outlined in the [Appendix 2](#).

- Be based on existing national and organizational policies and follow national and/or international best practices (as appropriate).
- Ensure complementarity to and alignment with other sources of funding (domestic financing, other donors, government subsidies, and other sources) and avoid duplication.
- Include all significant activities<sup>28</sup> of implementers, in sufficient detail, using the Global Fund’s modular approach and costing dimension and have transparent and verifiable definitions and sources of data (qualitative and financial) and methods for calculating costs.
- Assumptions<sup>29</sup> used for quantities and unit costs of inputs based on historical data, robust projection of future trends (e.g., commodity price, labor cost, service delivery modality changes) as relevant, and/or pro forma invoices when necessary.
- Clearly identify reasonable quantities and unit prices that: (a) are based on the latest and legitimate historical cost with +/- adjustments due to change in macro-economic factors (FX rate and inflation); (b) reflect more efficient and/or equitable service delivery modalities and/or implementation arrangements; (c) are consistent and enable comparison of costs over time; and (d) reflect the balance between the benefits of better information and the costs of obtaining it.
- Align the health product budget (cost groupings “4 to 7”) with the [Health Product Management Template](#) (HPMT), where HPMT is applicable/required.
- Reflect a realistic rate of utilization of funds, taking into consideration absorption capacity of the PR and other implementers, including procurement and other deliverable lead-times.
- Include any requirements by the Global Fund Board (for example, inclusion of Green Light Committee fees for approved multidrug-resistant TB programs).

30. To increase the efficiency in funds management and mitigate risks, goods and services provided by the third-party organizations listed below and which are contracted by Principal Recipients will trigger a mandatory direct disbursement by the Global Fund, on behalf of the PR, unless otherwise agreed in writing by the Global Fund:

- Procurement service agents under [Pooled Procurement Mechanism \(PPM\)/Wambo or the Global Drug Facility \(GDF\)](#).
- [The United Nations Funds, Programs, Specialized Agencies and Others](#).
- The IDA Foundation (IDA), the Partnership for Supply Chain Management (PFSCM) and iPlus Solutions (i+) – when used outside PPM/Wambo.org or GDF.
- The Alliance for Malaria Prevention (AMP).
- Others as notified in writing<sup>30</sup> by the Global Fund.

<sup>28</sup> Including any risk mitigation and assurance activities agreed with the Global Fund (if applicable).

<sup>29</sup> Focused Portfolios should follow the requirements of the applicable Focused Management Model as outlined in [Appendix 2](#).

<sup>30</sup> The list of organizations will be updated as needed by the Global Fund, and PRs will be notified accordingly. For further information, refer to the [OPN on Annual Funding Decisions and Disbursements](#).

31. If a budget includes activities for goods or services to be provided by these third-party organizations, PRs are required (unless otherwise approved in writing by the Global Fund) to report or include these organizations separately under the “payment modality dimension” of the detailed budget template for mandatory direct payments by the Global Fund to these entities.

32. The initial risk assessment performed during the funding request stage (if applicable)<sup>31</sup> is further developed during grant-making, based on a completed capacity assessment (if applicable), and known risks and gaps (as applicable) and review of grant documents. Financial risks and capacity gaps that are required to be addressed as part of the design of the grant and implementation arrangements must be reflected in the finalization of grant documents and are required to be submitted to the Global Fund’s Grant Approvals Committee<sup>32</sup>. The use of a country’s public financial management system to manage a grant is key to sustainability and transition (refer to [The Global Fund Sustainability, Transition and Co-financing Policy](#)). Applicants and implementers are encouraged to strategically budget the optimization or introduction, as the case may be, of the use of public financial management (PFM) systems.<sup>33</sup> Applicants and implementers are required to use the [Modular Framework Handbook](#) to identify appropriate module and intervention for any investment in PFM systems and use the PEFA<sup>34</sup> score to ringfence (indicative amount, if reliable budget assumptions are not available at this stage) the budget for this purpose as:

- a. Up to US\$750,000: if score is above 2.25 based on a simple average of each of the 31 individual PEFA component scores.
- b. US\$750,000 to US\$1.5 million: If latest country national PEFA score is between 1.80 and 2.25, inclusive, based on a simple average of each of the 31 individual PEFA component scores.
- c. US\$1.5 million to US\$2.2 million: if latest country national PEFA score is less than 1.80 based on a simple average of each of the 31 individual PEFA component scores.
- d. Where there is no available country national PEFA score, an implementer can refer to paragraph (c) above as an indicative amount to ringfence.

## 2.3 Management of taxes

33. This section provides key guidelines for the effective management of taxes:

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<sup>31</sup> OPN: Design and Review Funding Requests and OPN: Risk Management across the Grant life cycle provide requirements and the process for determining if a capacity assessment is required for a nominated Principal Recipient or a Sub-Recipient.

<sup>32</sup> GAC provide oversight and governance mechanisms on Secretariat funding review, renewals, investment proposals and recommend grants for Board approval.

<sup>33</sup> The components of these systems presently relevant for Global Fund grants include: a) the Global Fund grants being recorded on national budgets; b) the use of a government’s information systems for budgeting, accounting and financial reporting of Global Fund’s interventions; c) the application of internal audit mechanism of government on Global Fund grants; and d) the employment of Country’s Supreme Audit Institution (or Office of Auditor-General) to provide external audit assurance on the Global Fund’s investments.

<sup>34</sup> PEFA is the Public Expenditure & Financial Accountability Report of the World Bank, which is a methodology for assessing public financial management performance in a country across 31 key components of PFM within 7 broad pillars. The latest national scores for each of the 31 individual components can be accessed under the “download data” section of PEFA’s report: <https://www.pefa.org/global-report-2022/en/> Global Report on PFM.

## Types of applicable taxes

- Article 3.5 of the [Grant Regulations](#) includes a non-comprehensive list of taxes from which the use of Grant Funds shall be exempt:  
“The purchase and/or import of any goods or services using the Grant Funds shall be exempt from relevant taxation applicable in the Host Country, including, but not limited to, (a) customs duties, import duties, taxes or fiscal charges of equal effect levied or otherwise imposed on the Health Products imported into the Host Country under the grant agreement or any related Sub-recipient or supplier contract, and (b) the value-added tax levied or otherwise imposed on the purchases of goods and services using Grant Funds.”

## Obtaining tax exemption

Implementers<sup>35</sup> are responsible for obtaining tax<sup>36</sup> exemptions, and the Host Country is obliged to provide the required exemption (see Article 3.5 of the [Grant Regulations](#), as applicable). In particular:

- Tax exemption<sup>37</sup> should cover all goods and services purchased and/or imported using grant funds.
- Tax exemption or potential tax exemption status<sup>38</sup> should be considered in the selection of implementers and suppliers. If an implementer has not obtained the relevant tax exemption upon the conclusion of the grant-making process, the Global Fund may consider modifications<sup>39</sup> to the proposed implementation arrangements to minimize the imposition of taxes.
- If SRs and other implementers are not nominated or selected at the grant signing stage, the PR and applicant have joint responsibility to ensure the SR and other implementers understand the tax-exemption requirements and obtain the required exemptions at the time of selection. CCMs are required to comply with the applicable tax and duty exemption provisions of the relevant CCM agreement(s).

## Key consideration at budgeting stage

- The total Global Fund grant budget should be net of applicable taxes on unit costs.
- When tax exemption is obtained on a reimbursement basis, (i.e., the implementer must pay the taxes first and then claim reimbursement), the implementers can either: include projected tax in the detailed budget along with the projected reimbursements for a projected net effect; or not include the taxes in the detailed budget and manage the related cash/funds through the forecasting process.
- Where national legislation does not provide exemptions for personal income taxes for national staff working on Global Fund grants, the implementer concerned, in accordance with the

<sup>35</sup> Including both Government and Non-Government implementers

<sup>36</sup> In instances where taxes are paid the general approach is to consider these as non-compliant expenditures and the Global Fund in its sole discretion may use other modalities to mitigate the impact of taxes paid.

<sup>37</sup> Tax exemption certificate or official notification should clearly state the type of taxes from which implementers are exempt.

<sup>38</sup> In accordance with the Grant Regulations and national laws and regulations, as applicable.

<sup>39</sup> For example, shifting responsibility for procurement to alternative organizations that have tax exempt status.

appropriate laws, should ensure payment to the relevant tax authorities of relevant withholding taxes from such national staff salaries when making disbursements out of the grant budget, and declaration of earnings to such tax or other appropriate authorities. Any taxes withheld on behalf of the staff or levied on top by the employer as required by applicable national laws are compliant and allowable as per Global Fund policies.

### Recording, accounting and reporting on taxes

- Each implementer is required to maintain a tracking mechanism for taxes paid, claimed and reimbursed respectively by the tax authorities in the relevant Host Country to ensure timely and complete reimbursement of taxes paid, if any. In administering the tax exemption, the PR should follow up on taxes paid and recovered at all implementation levels.
- The tax related information must be reported to the Global Fund in accordance with the Global Fund [Financial Reporting](#) requirements.

## 2.4 Foreign exchange management

34. Implementers must follow the applicable accounting and reporting standards<sup>40</sup> and best practices for effective foreign exchange (FX) management, accounting of FX gains and losses, and related risk management. This section establishes requirements for FX management for the effective budgeting of Global Fund grants.

### Allocation currency and grant currency denomination

- The funding request(s) and the resulting grant(s) are denominated in the same currency as the Global Fund-approved allocation currency under which they are funded (refer to OPN on [Design and Review of Funding Request](#)). In the exceptional situation of a change of allocation currency between two Allocation Periods, the PR must complete the existing grant Implementation Period (IP) in the existing grant currency and will switch to the new allocation currency (as per the relevant grant agreement) upon the commencement of the new IP. In this situation, uncommitted in-country cash balances should be converted using the spot rate at the end-date of the existing IP:
  - **Local currency bank balances:** must be maintained in the local currency, no physical conversion is required. For reporting purposes, implementers must use the same spot rate (as of the existing IP end-date) for both the [Financial Closure Report](#) and opening cash balance of the new IP unless otherwise agreed in writing by the Global Fund.
  - **Grant currency bank balances:** the remaining balance in the previous grant currency should be returned to the Global Fund unless otherwise agreed in writing by the Global Fund.

<sup>40</sup> May include International Financial Reporting Standards (IFRS), International Public Sector Accounting Standard (IPSAS), Generally Accepted Accounting Principles (GAAP), etc.

## Budget preparation currency and budget exchange rate

Using an appropriate exchange rate at the time of budgeting improves the reliability of the budget, ensures adequate allocation of available resources and provides flexibility to manage foreign exchange fluctuations during budget execution. Global Fund grant budgets must be prepared using different currency denominations<sup>41</sup> of each budget line (i.e., the currencies in which the budgeted item will be invoiced and paid) converted, where needed, to the grant currency using the Global Fund's approved rate.<sup>42</sup>

The Global Fund uses a 200-day exponential moving average as an FX rate for budgeting purposes. This provides a sufficiently long historical pricing series, weighted toward the current date. Any deviation, from this methodology needs to be approved in writing by the Global Fund, including the examples below:

- Where the grant is operating under the arrangement that disbursements in certain currencies are made at a fixed pre-determined rate (reference rate), this rate should be used for budgeting purposes.
- If the country's exchange rate is fixed or managed by the domestic authorities, the budget should follow the given official fixed rates, as fixed by the country's monetary authority.
- Where there is a parallel FX market and the official rate is overvalued compared to the unofficial rate, implementers must use the rate which maximizes the value of Grant Funds in local currency, while remaining compliant with the laws of the country and related mitigation measures (as may be required by the Global Fund).
- Where there is a significant and rapid depreciation of the local currency, e.g., due to changes in National Bank controls or as a result of the macroeconomic and fiscal factors, the Global Fund may approve a different rate that better represents the current exchange rate.
- The exchange rate applied for budgeting purposes must be factored into any proposed inflation adjustment on budgets in local currency. The exchange rate and inflation assumptions must be mutually consistent and lead to an overall accurate estimation of the grant currency-equivalent costs at the time of payment of expenditures. Implementers must not include any contingency reserve for exchange rate variations in the funding request budget or the grant-making budget.
- The Global Fund may disburse Grant Funds in local currency directly to the PR when the Global Fund determines that the PR's FX policy or rates applicable to its FX transactions are not optimal (local currency disbursement). Such arrangements will be discussed beforehand and agreed in writing with the Global Fund before implementation.

## Change in the budget exchange rate

An updated budget exchange rate approved by the Global Fund should be used for Budget Revision purposes, in the case of **material** FX fluctuations (more than **10% movement** of the exchange rate as compared to the previously approved budgeted exchange rate in any defined reporting period)<sup>43</sup> due to:

<sup>41</sup> Items should not be budgeted directly in the currency of the grant if the underlying transaction will be in the local currency or other currency. For example, local currency-based salaries should be budgeted in local currency

<sup>42</sup> Refer to [Instruction for completing Detailed Budget Template](#) for further detail on using Global Fund's approved rate.

<sup>43</sup> Annual Progress Update and Disbursement Request and/or semi-annual Progress Update

- An important exogenous event, for example, a managed devaluation of the currency, which results in a marked and lasting change/trend in the FX rate at which implementers can expect to make FX transactions under the grant.
- Short-term foreign exchange volatility increases.

### Management of foreign exchange gains/losses:

FX gains can only be reinvested with the Global Fund's prior written approval. Implementers can propose reinvestment of realized<sup>44</sup> and/or projected<sup>45</sup> gains to cover any inflation adjustment of already approved activities and/or to finance activities in the Register of Unfunded Quality Demand (UQD). If FX gains are used to finance activities not in the UQD, then the [PAAR/UQD](#) update process must be followed to include the proposed activities in the UQD before the reinvestment of foreign exchange gains.

- As it is difficult to project future FX rate fluctuations, not all projected FX gains can be reinvested and a **contingency reserve** (10-40% depending on the remaining budget period, context, and approval by the Global Fund)<sup>46</sup> for potential future appreciation/recovery of the FX rate needs to be provisioned. The contingency reserve must be included as a separate budget line.
- If the proposed **investment of FX gains is not approved** by the Global Fund (e.g., because the absorption capacity of the grant is not able to effectively use the FX gains or there are no UQD activities approved by the TRP<sup>47</sup> for the grant), the net<sup>48</sup> FX gains must not be disbursed by the Global Fund Country Team or expensed at country level. The FX gains (net of contingency reserves) not approved for reinvestment could then be used for Portfolio Optimization purposes in other Global Fund portfolios in accordance with Global Fund policy.
- If the appreciation of a payment currency has resulted in actual and projected FX losses, the PR, in consultation with the Global Fund Country Team, should identify any savings or deprioritized activities that can cover such losses. If the grant budget cannot absorb all the FX losses, the country can request additional funding through the Portfolio Optimization process, which will be reviewed in accordance with the Global Fund's prioritization framework. In case a FX loss occurs after a contingency reserve has been constituted, implementers, with the written approval of the Global Fund, can use this reserve to cover the loss.

## 2.5 Grant implementation

35. During the implementation stage,<sup>49</sup> implementers should ensure that the financial management systems in place are optimal and can: (a) support effective Program

<sup>44</sup> **Realized foreign exchange gains or losses** arise each time an actual conversion between the grant's currency and another currency is performed and settled, and when the actual foreign exchange rate is different from the budgeted foreign exchange rate.

<sup>45</sup> **Projected foreign exchange gains and losses** are forecasted for the remaining duration of the grant to estimate the impact the fluctuation of another currency, for example the local currency, has on the purchasing power of the budget in the grant currency.

<sup>46</sup> As part of the approval of reinvestment of foreign exchange gains.

<sup>47</sup> The Country Team may go to TRP for approval of activities that were not part of previously approved activities or approved UQD

<sup>48</sup> Projected gains less contingency reserve

<sup>49</sup> For further details, refer to the [Operational Policy Manual](#), Section 2: Grant Implementation.

implementation; (b) provide timely and accurate financial information; and (c) manage approved grant resources efficiently and effectively to achieve greater impact. Financial management systems include people, process and information system/s; for further details, refer to the Global Fund [Financial Management Handbook for Grant Implementers](#). To strengthen the financial, fiduciary and risk management of Grant Funds and to improve programmatic goals delivery, the Global Fund may require by written notice, implementers to use an appropriate cashless payment modality acceptable to the Global Fund (**Cashless Payment Modality**) for the use of Grant Funds to make payments to individual natural persons (refer to [Appendix 7](#) for further details).

36. Implementers are responsible for instituting a budgetary control mechanism that documents: (a) actual expenditures as compared to the budget; (b) programmatic progress; and (c) variations from the Global Fund-approved budget, with reasonable frequency.

### **2.5.1 Compliance of grant expenditures**

37. The compliance of grant expenditures may be initially considered by the LFA and/or other Global Fund assurance providers, such as internal auditors and external auditors, with the final determination being at the sole discretion of the Global Fund. In addition, the Global Fund's Office of the Inspector General, as part of its audits and investigations, can identify non-compliant expenditures.

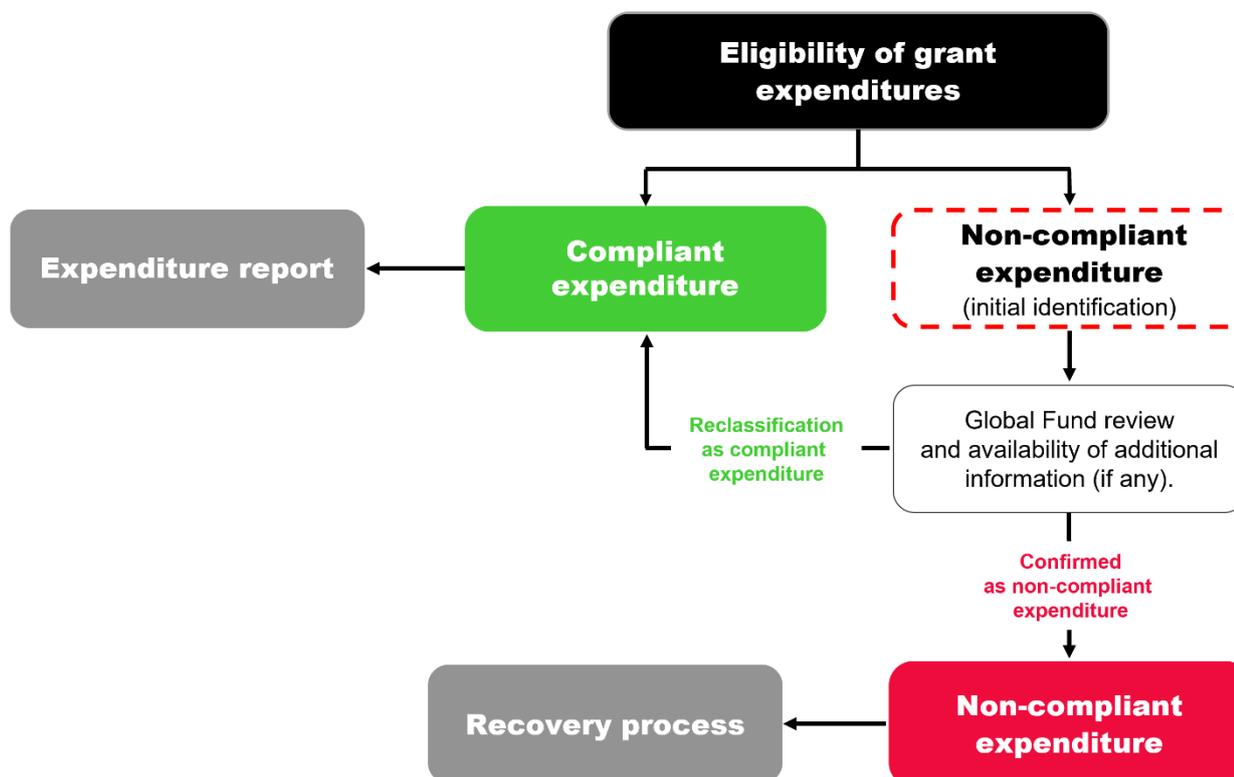
38. Expenditures incurred under a Global Fund grant may be classified as "compliant" or "non-compliant". **Compliant expenditures** are those incurred within the relevant AUP and in accordance with the applicable terms of the relevant grant agreement, including the grant budget and the provisions of this document. Additionally, the expenditure must comply with the implementer's applicable financial and procurement regulations, policies and procedures, consistent with best practices and this document. **Non-compliant expenditures**<sup>50</sup> are those expenditures under a Global Fund grant that do not meet these requirements and may include:

- Unsupported expenditures.
- Expenditures incurred outside of the scope or period of the grant.
- Expenditures compromised by prohibited practices.
- Expenditures relating to other types of non-compliance or mismanagement of Grant Funds (or goods or services purchased with Grant Funds).

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<sup>50</sup> Once an expenditure is classified as a confirmed non-compliant expenditure, the Global Fund's [Recoveries Process](#) will apply and related expenditure must not be restated (adjusted) thereafter.

**Figure 2: Eligibility of Grant Expenditures**



39. A recoveries process is triggered when there is a decision by the Global Fund that expenditures incurred under a Global Fund grant are non-compliant. The following is a summary of the key requirements relevant to the recovery of Grant Funds:

Recoveries process – summary of key steps and guidelines
<p><b>Non-compliant expenditure and potential recovery amount</b></p> <ul style="list-style-type: none"> <li>• Generally, the Global Fund communicates potential recoverable amounts through a dedicated recoveries Notification Letter (NL) or as part of the regular Performance Letters (PL) within 60 days of the issuance of the report of non-complaint expenditures.</li> <li>• The Principal Recipient must reimburse the stated amount or provide the relevant justification with appropriate supporting documents for review by the Global Fund within a specified timeframe (usually 60 days from the date of issuance of the official notification (NL/PL) by the Global Fund).</li> </ul>
<p><b>Demand recoverable amount</b></p> <ul style="list-style-type: none"> <li>• Funds are to be recovered in the grant currency, except for local currency disbursing grants. As a general principle, any exchange losses are to be borne by the implementer, in accordance</li> </ul>

with the Global Fund's rights under the grant agreement. In some cases, the Global Fund may seek interest on the amount to be recovered.<sup>51</sup>

- Upon receipt and review of any additional justification and supporting documentation, the Global Fund may fully or partially re-classify the expenditure as compliant or may confirm that the expenditure remains non-compliant and recoverable. If no justification or response is provided by the PR within the given deadline, the potential recoverable amounts will be deemed to be confirmed recoverable amount. The Global Fund will then issue a Demand Letter (DL) to the entity responsible for repayment to the Global Fund (usually the PR), to request the recoverable amount to be repaid within a specified timeframe (usually 60 days from the issuance of DL).
- Expenditures classified as non-compliant by the Global Fund's Office of the Inspector General in an audit or investigation report follow a different process. The demand letter will be issued to the entity responsible for repayment to the Global Fund after finalization of the OIG audit / investigation report and decision taken by the Recoveries Committee and Executive Director of the final recoverable amount.

#### **Refund of recoverable amount:**

- For all recoveries cases, cash recovery (in the Global Fund's designated Bank Account) of the full recoverable amount in the grant currency is recommended. Any other form of refund requires formal approval in writing by the Global Fund.

40. The following is a summary and non-exhaustive list of the type or category and of expenditures that could be classified as non-compliant by the Global Fund:

#### **Type or category and list of non-compliant expenditures**

##### **Unsupported Expenditures**

This category includes expenditures for which all or part of the documentation or approvals required under applicable rules (e.g., the implementers' procedures, generally accepted accounting principles, national procurement regulations, etc.) were not provided during the review by the Global Fund or relevant assurance provider. Specific types of unsupported expenditures are detailed below:

- **Absence of supporting documents:** where no evidence/supporting document was available or provided to justify the expenditure of Grant Funds.
- **Insufficient and/or inappropriate supporting documents:** where the documentation available or presented was either insufficient and/or inappropriate to support the expenditures and compliance with the terms of the relevant grant agreement.
- **Missing or inappropriate signatures/authorizations:** where the expenditures were not duly authorized, as stipulated in the applicable manual of procedures.

<sup>51</sup> See Article 7.4.9 of the UNIDROIT Principles of International Commercial Contracts (2014) that governs most grant agreements, which provides that if a party does not pay a sum of money when it falls due the aggrieved party is entitled to interest upon that sum from the time when payment is due to the time of payment.

Examples of unsupported expenditure include, but are not limited to, the following situations as determined by the Global Fund:

- Incomplete books and records.
- Lack of supporting documents to explain variances in the financial reports submitted by the implementers (e.g., reconciling cash advances and actual expenditure).
- Indirect cost recovery (ICR) and shared costs not appropriately justified.
- Lack of evidence of receipt of goods or performance of services (especially for training activities and other information/education/communication events).
- Lack of third-party documentation such as original invoice or absence of receipt acknowledgment (for example a training per diem).
- Absence of justification for fuel consumption/purchase (especially in the presence of conflicting odometer readings or expected programmatic scope).
- No evidence of consumption or delivery of goods or services as per applicable policies including lack of boarding passes/hotel invoices to support travel claims; lack of supporting documentation for supplies and suppliers evidencing the existence of goods or services (inventory, receipt, invoices and proof of payment, as the case may be).
- Lack of signature of employee on employment contract.
- Absence of signature on per diem claims and attendance sheets, or duplications/inconsistencies in the signature sheets.
- Insufficient number of authorized signatures for the amounts claimed.
- Payment was made to an individual, but the supporting invoice was provided by a company.
- Cheques endorsed and cashed by the implementer-associated individual without appropriate justification.
- Lack of documentation to support expenditures (e.g., only cash register receipts or bank statement entries, no other accounting records).
- Absence of original tender documentation and lack of or insufficient evidence of request for quotes or quotations received.

### **Expenditures incurred outside of the scope or period of the grant**

Expenditures that occurred outside of the scope or period of the grant, including:

- **Expenditures incurred outside of the Implementation Period or closure period.**
- **Expenditures not approved in the budget<sup>52</sup> during grant-making or grant revision or approved by the Global Fund in writing during grant implementation or during IP reconciliation or closure.**
- **Expenditures exceeding approved budgets:** where expenditures exceed the amount approved in budgets, in amounts or quantity, for the applicable period and outside the implementer's flexibilities as outlined in section [2.5.2 Budget Revision](#) below and that are not approved by the Global Fund.
- **Expenditures in breach of the grant agreement:** such as losses where Grant Funds are not prudently managed or are not held in an appropriate bank account.

<sup>52</sup> Except in cases where the implementer is within the allowed budget flexibilities (non – material Budget Revision) and the changes follow their internal procedures of budget modification.

## Expenditures compromised by prohibited practices

Expenditures compromised by prohibited practices, include:

- An undisclosed or unmitigated **conflict of interest**.
- **Falsified or fabricated documents:** documents have been proven to be falsified or otherwise not authentic, either by the implementer or the supplier.
- **Expenditures compromised by prohibited behavior,** such as practices that could be: corrupt, fraudulent, coercive (including those related to sexual exploitation, abuse and harassment), collusive, abusive, obstructive; also retaliation, money laundering, asset substitution/payment without delivery and financing of terrorism as defined in the Global Fund [Policy to Combat Fraud and Corruption](#). These include expenditures in which there is a proven deception with an intent to mislead the implementer or the Global Fund and/or derive a benefit for the deceiving party, as per the applicable definitions under the grant agreement or in the [Code of Conduct for Recipients](#) and/or the [Code of Conduct for Suppliers](#);
- **Non-competitive tenders/collusion/inappropriate facilitation payments:** include collusive/coercive/corrupt practices, conflict of interest issues, and tender specifications manipulated to favor a bidder.
- **Partial or total diversion of assets to non-Program uses:** misuse, embezzlement, misappropriation.
- **Waste and spoilage:** disregard for VfM and spoilage or loss of goods due to negligence or mismanagement, poor storage conditions, procurement within budget but with materially inadequate quantification, resulting in unused surplus.

## Other types of non-compliance and mismanagement of Grant Funds

Other types of non-compliance and mismanagement of Grant Funds, include:

- **Non-compliant taxes:** Taxes (including, but not limited to, customs duties, import duties, fiscal charges and VAT) paid using Grant Funds that have not been reimbursed to the grant. Where taxes have been paid with Grant Funds on a reimbursable basis, as exceptionally pre-approved in writing by the Global Fund, reimbursement must be affected within six months from the end of the relevant reporting period in which such taxes are paid.
- **Expiration or spoilage:** of pharmaceutical and other health products resulting from negligence or mismanagement by the implementer(s) or procurement within budget but with materially inadequate quantification, resulting in expiries.
- **Cancellation costs:** for which the prior written approval from the Global Fund has not been obtained.
- **Procurement irregularities:** an absence of a competitive tender<sup>53</sup> or other procurement issues at the implementer level including absence of appropriate level of competition. Suppliers or Program Assets are not selected or procured in compliance with applicable regulations (see Article 5 of the [Grant Regulations](#), as applicable).
- **Prices more than the prevailing market prices:** for goods and services without proper rationale or justification.

<sup>53</sup> Except in a case where single source procurement is permitted under written procurement policies and practices provided to the Global Fund (see Article 5 of Grant Regulations, as applicable).

- **Inadequate contracting practices:** lack of tangible deliverables, failure to apply Global Fund Codes of Conduct and access rights as required (see Articles 6.6 and 7 of the [Grant Regulations](#) as applicable).
- **Non-compliance with quality assurance for health products and non-health products, and related issues:** procurement of products that do not meet the requirements outlined in the Global Fund's quality assurance policies (including the [Health Products Guide](#)).
- **Failure to replace lost,** damaged or stolen assets in accordance with the grant agreement.
- **Non-compliant SR agreements:** SR agreement not corresponding with relevant requirements (see Article 4.3 of the [Grant Regulations](#), as applicable (such as failure to apply Global Fund Codes of Conduct and provide access rights).
- **Audit reports:** audit report missing, falsified or not submitted in time or where the selection of the audit firm was compromised.
- **Non-recognition of grant income** of revenues from income-generating projects and interest income related to Grant Funds.
- **Use of interest income and/or other revenues**<sup>54</sup> (such as those from income-generating projects) by implementers in contravention of the grant agreement.
- **Amounts impermissibly retained under the terms of the grant agreement** such as cash balances that were not returned to the Global Fund on time as required pursuant to the [OPN: Implementation Period Reconciliation and Grant Closure](#).
- **Loss incurred** due to inappropriate usage and inadequate customer clearance arrangement (implementers has not arranged timely customs clearance that leads to additional storage and detentions fee) and inadequate maintenance and insurance of Program Assets, not pursuant to the terms of the grant agreement.
- **Non-complaint HR cost** including payment of salary bonuses using grant funds, increase in salary or incentive without prior Global Fund approval, payment of salary and allowances that are not in compliance with the employment contract and applicable policies, laws and regulations and any contribution from staff to support the organization's operational expenditures. Unauthorized payments to the organizations listed **under para 30**.

## 2.5.2 Budget Revisions

41. The [Operational Policy Manual, Section 2.5: OPN on Revise Grants](#) describes the different types of grant revisions and related procedures. This sub-section complements the OPN and covers further requirements and guidelines for budget revisions only.

42. Budget Revisions are a type of grant revision and refer to the reallocation of approved Grant Funds across modules, interventions or cost categories. They do not involve changes to the Grant funding ceiling, or the duration of the relevant IP or the Performance Framework. A Budget Revision can take place periodically in the normal course of grant implementation to respond to grant context and circumstances (e.g., to reflect changes in administrative or

<sup>54</sup> Income generated from Global Fund grant investments (such as cash or commodity sales).

operational costs, changes in unit costs of items being purchased or to allow for assurance activities like Health Facility Assessments or Data Quality Reviews).

43. Budget Revisions are classified as “material” and “non-material” for Global Fund approval purposes as defined in the table below. Subject to paragraphs 44 and 50 below, the thresholds are cumulative for the entire Implementation Period and are always compared to the original Global Fund-approved budget to establish the materiality level:

Type	Category	Criteria	Approval
Non-material Budget Revision	High Impact and Core portfolios with Implementation Period Grant Budget > US\$30 million	<p><b><u>Interventions level:</u></b></p> <p>≤ 25% increase/decrease to the total budget for any intervention in the Grant Budget; and/or</p> <p><b>Discretionary cost category level:</b></p> <p>≤ 10% increase for any discretionary cost category* in the Grant Budget.</p>	PRs to follow their formal internal organizational budget review and approval process and maintain audit trail for review by the Global Fund or assigned assurance provider as per the PR’s document retention policy and consistent with the requirements of the Grant Regulations.
	High Impact and Core portfolios with Implementation Period Grant Budget ≤ US\$30 million and Focused Portfolios**	<p><b><u>Module level:</u></b></p> <p>≤ 30% increase/decrease to the total budget for any module in the Grant Budget; and/or</p> <p><b>Discretionary cost category level:</b></p> <p>≤ 10% increase for any discretionary cost category* in the Grant Budget.</p>	
Material Budget Revision	High Impact, Core and Focused portfolios**	<p>(i) Any Budget Revision above the non-material Budget Revision thresholds defined above</p> <p>(ii) Any Budget Revision that introduces new modules and interventions</p>	PRs to follow their formal internal organizational budget review and approval process and obtain written approval (written notification) from the Global Fund prior to starting the activity or related payments.
<p>*Refer to the table in paragraph 50 below for additional requirements on discretionary cost categories.  ** For Focused Portfolios, read this in conjunction with the requirements of <a href="#">Appendix 2 – Focused Portfolios Management Models</a>.</p>			

### 2.5.3 Key considerations on Budget Revisions

44. A Budget Revision does not require changes to the baseline budget (i.e., latest approved budget formalized through a Grant Confirmation or Implementation Letter).

Changes to the budget related to Budget Revisions are internally documented and tracked by the Principal Recipient. For changes to the baseline budget related to other types of grant revision, please refer to the OPN on Revise Grants.

45. In specific cases, including those based on the country risk assessment, the Global Fund may establish alternative definitions of “material” and “non-material” Budget Revisions, which might differ from the above-mentioned definitions. In such cases, the Global Fund will communicate the alternative definitions, in writing, to the relevant Principal Recipient.

46. The thresholds set out in the table above are only applicable to Budget Revisions. If Budget Revisions are accompanied by another type of grant revision, including changes to the indicators and targets in the Performance Framework, [the OPN on Revise Grants](#) should be followed.

47. Implementers are expected to inform the CCM of material Budget Revisions prior to submitting them for approval by the Global Fund.

48. The triggers for the materiality of Budget Revisions are calculated on both the “increasing” intervention/module (which receives the funds) and the “decreasing” intervention/module (where the funds are taken from). Similarly, triggers for Budget Revisions of discretionary cost categories are calculated on the cost grouping budget for the full Implementation Period. Material Budget Revisions can, therefore, be triggered by cumulative non-material Budget Revisions. Consequently, PRs should put in place mechanisms to track and ensure that cumulative non-material Budget Revisions do not constitute a material Budget Revision without the prior written approval of the Global Fund throughout the Implementation Period.

49. In cases where Global Fund prior written approval of a material Budget Revision is not obtained, the approval of the post-incurrence reporting of material variances will be at the discretion of the Global Fund, based on the nature of the expenditure and the programmatic and financial context. If such expenditures are not accepted by the Global Fund, they will be classified as non-compliant, and the Global Fund recoveries process shall apply.

50. In some cases, the Global Fund may require pre-approval for all Budget Revisions, irrespective of the amount (the examples are indicative and may be applied at the discretion of the Global Fund based on the context of the grant and/or associated risks). Any such requirement will be communicated to the Principal Recipient in writing.

51. The default discretionary cost categories for changes requiring Global Fund’s prior written approval include human resources, travel-related costs, external professional services, non-health equipment and any indirect and support costs. Other pre-defined categories may be added to the list of discretionary cost categories considering country context and grant-associated risks and will be communicated by the Global Fund to the

Principal Recipient in writing. The following are examples of Budget Revision cost categories that shall require pre-approval by the Global Fund:

<b>Specific Budget Revision requirement for discretionary cost category</b>
<b>Human resources</b>
<ul style="list-style-type: none"> <li>• Any increase in salary or incentive,<sup>55</sup> above those as per the approved budget, to staff/ agents working for a Global Fund grant-supported Program must be approved in writing by the Global Fund regardless of the percentage of increase. The increase of staff headcount is under the PR's discretion provided it:               <ul style="list-style-type: none"> <li>○ Follows the PR's own procedure and approval process for a Budget Revision.</li> <li>○ Follows the PR's own procedure and approval process for recruitment and is programmatically justified and documented.</li> <li>○ Is within the limit of 5 percent of the total Human Resources (HR) cost grouping budget.</li> <li>○ Is compliant with the terms of the grant agreement.</li> </ul> </li> </ul>
<b>Travel-related costs</b>
<ul style="list-style-type: none"> <li>• The PR must promptly notify the Global Fund in writing of any change in their organizational per diem policy. Any increase in the per diem rate outside the PR's per diem policy and/or different from those as per the approved budget must be approved in writing by the Global Fund.<sup>56</sup> The cost increase in other areas related to travel, for example, number of participants, is under the PR's discretion, provided it:               <ul style="list-style-type: none"> <li>○ Follows the PR's own procedure and approval process for a Budget Revision.</li> <li>○ Is programmatically justified and documented.</li> <li>○ Is within the limit of 10 percent of the total cost grouping budget depending on <a href="#">portfolio categorization</a>.</li> </ul> </li> </ul>
<b>External Professional Services</b>
<ul style="list-style-type: none"> <li>• Any increase in consultant fees because of changes in rates and/or duration of the assignment above those as per the approved budget must be approved in writing by the Global Fund regardless of the percentage of increase. The budget increase in other areas related to external professional services is under the PR's discretion, provided it:               <ul style="list-style-type: none"> <li>○ Follows the PR's own procedure and approval process for a Budget Revision;</li> <li>○ Is programmatically justified and documented; and</li> <li>○ Is within the limit of 10 percent of the total cost grouping budget depending on the <a href="#">portfolio categorization</a>.</li> </ul> </li> </ul>
<b>Non-health equipment and Infrastructure</b>
<ul style="list-style-type: none"> <li>• Any increase in number or cost, above those as per the approved budget, to vehicles must be approved in writing by the Global Fund regardless of the percentage of increase.</li> </ul>

<sup>55</sup> For Focused Portfolios, changes in salary scales must be notified to Global Fund and no approval is required.

<sup>56</sup> For Focused Portfolios, changes per diem policy must be notified to the Global Fund and approval is not required.

- Any increase in number or cost, above those as per the approved budget, to infrastructure must be approved in writing by the Global Fund regardless of the percentage of increase.

### Indirect costs and overheads

- Any increase in the agreed rate for ICR or shared cost must be approved in writing by the Global Fund irrespective of materiality.

## Operational Guidance for Grant Budgeting

Operational Guidance for Grant Budgeting includes detailed costing guidance and related appendices for budgeting in Global Fund grants and may be amended or supplemented from time to time during the relevant allocation period, to, e.g., align with the modular framework and costing dimension.

The Operational Guidance for Grant Budgeting [is available on the Global Fund website](#).

## Change History

No.	Approved By	Change Description	Date	Version No
1	EGMC	Original Version	26 January 2023	1.0
2	Not applicable	<p>Correction of error in paragraph 24:</p> <p><i>“Order(s) for the goods or services were placed with adequate consideration for relevant lead times<sup>21</sup> such that the goods or services were expected to be delivered before the end of the AUP”</i> (replacing “IP” which was incorrect).</p> <p><i>“The delivery of the goods or services is completed within a maximum of 90 days<sup>22</sup> of the end of the AUP.”</i> (replacing “IP” which was incorrect).</p>	19 April 2023	1.1

3	EGMC	Targeted updates to Budget Revision Sections (2.5.2 and 2.5.3) to align with the updated OPN on Revise Grants.	1 December 2023	1.2
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