The Global Fund

Guidance: Transition between Allocation Utilization Periods

Version 2 – July 2017

In 2014, the Global Fund moved from a Rounds-based funding model to an allocation-based funding model. Whereas the first cycle of the allocation model was associated with a number of flexibilities to enable this transition, the move to the next cycle represents a shift to the "steady state" of the model. The move to the 2017-19 cycle will be the first transition between two allocation-based funding periods. With this, the concept of an allocation utilization period is introduced, which represents the principle that the allocation formula allocates three years of funding for a three-year timeframe to each eligible component[1].

This document provides practical guidance on how to move from one allocation cycle to the next including how to address extensions for a given component.

01 Key Concepts

1. Allocation. The allocation is the upper ceiling of funding made available by the Global Fund for each eligible country for the applicable allocation utilization period, in line with the Allocation Methodology.[2] The allocation includes the "co-financing incentive" which will be made available upon increases in co-financing of the national disease response and/or related health systems. Countries are informed of their overall country allocation across their eligible disease components, including the co-financing incentive, in an allocation letter[3]. The distribution across the components is confirmed through the program split.

2. Allocation period: The allocation period is the three-year period, aligned to each replenishment period, during which eligible applicants may apply for, and the Board may approve, funding for grant programs. For the 2017-2019 allocation period, this period starts on 1 January 2017 and ends on 31 December 2019.

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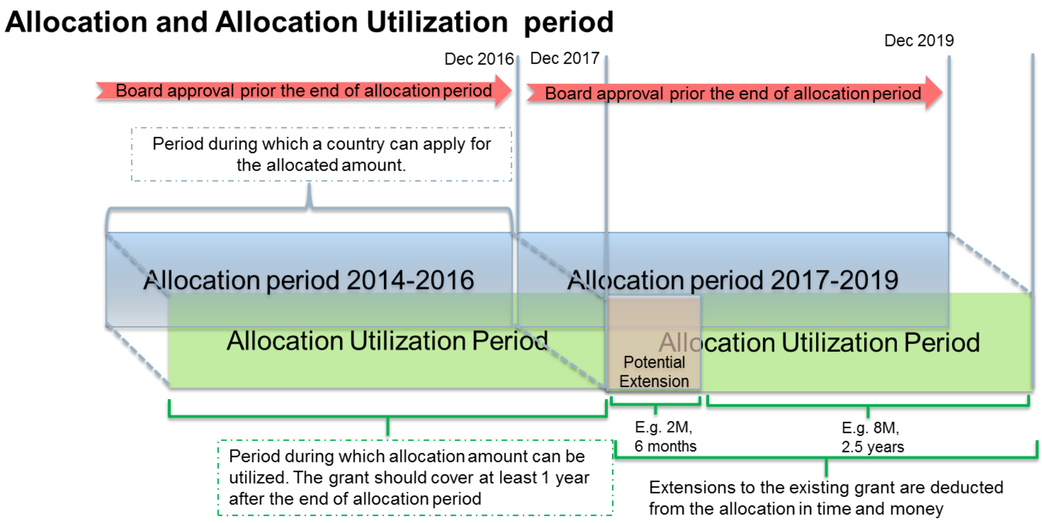
[1] Justifications for variations from the three-year standard will be provided to the Board as part of the Secretariat's grant approval requests (see Annex 1, GF/B35/05 Allocation Methodology 2017-2019). Should the allocation utilization period be more than three years, the maximum funding available remains the same; allocation utilization periods of less than three years should be accompanied by proportionate reductions in the allocation.

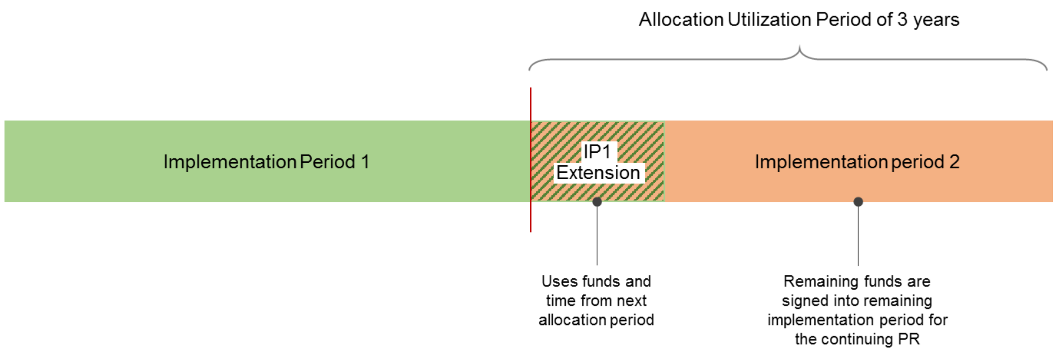
[2] Annex 1, GF/B35/05 – Revision 1, Allocation Methodology 2017-2019.

[3] In line with the Eligibility Policy, countries or components funded under an existing grant that become ineligible may receive funding for up to one additional allocation period following their change in eligibility , except a) upper-middle income countries that are members of the Group of 20 (G-20) countries unless they have an 'extreme' disease burden; b) high income countries: and c) countries that are Members of the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC).

3. Allocation utilization period: The allocation utilization period is defined per component and covers the three-year period[4] during which the country allocation can be utilized to implement programs. Allocation utilization periods for a given component cannot overlap. Any subsequent extension to existing grants beyond the end date of an allocation utilization period will therefore consume funds and time from the subsequent allocation utilization period. If the allocation utilization period, as requested by the applicant, is shorter than three years, the allocation funding available will be reduced proportionately. The start date of the upcoming allocation utilization period per component is documented in a country's allocation letter[5].



Implementation period. An implementation period is the period for a specific grant during which the relevant Program Activities are scheduled to be implemented and completed. The start and end dates of the implementation period are reflected in the grant agreement; the standard duration is three years. A grant extension will extend the existing implementation period, however it will not extend an allocation utilization period. This means that all extensions beyond the end of the allocation utilization period will be funded from the subsequent allocation utilization period. An implementation period is associated with a grant, while the allocation utilization period applies to all the grants in the given component.



[4] In the steady state of the allocation based funding model, the allocation utilization period is a three-year period. During the 2014-16 allocation it was not always three years, based on flexibilities to accommodate the transition from rounds-based to allocation-based funding model

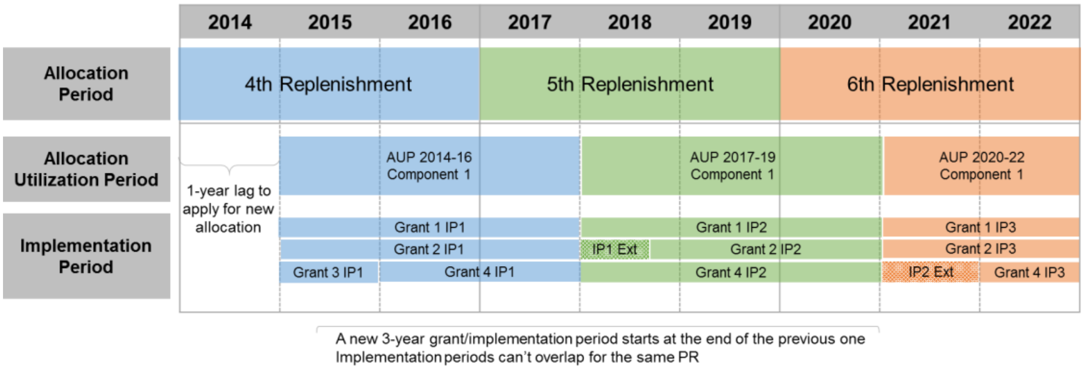
[5] The start date of the 2017-19 allocation utilization period was defined in December 2016 as the day after the existing grant(s) ends.

02 General Questions

4. What is the difference between an allocation utilization period and an implementation period?

An allocation utilization period is a three-year period for a component during which an allocation can be used to finance activities for that component. An implementation period applies to a grant and determines the duration during which activities included in the grant agreement can be implemented.

An allocation utilization period can contain several implementation periods and an implementation period, when extended, may span across more than one allocation utilization period.



5. How the allocation utilization period of a component is determined when the component has more than one grant with different implementation periods?

For single components with allocations (HIV, TB, Malaria), the allocation utilization period was communicated in the allocation letter and was generally based on the end date of the final grant in the component. For single components without allocations, the start of the next allocation utilization period would be the day after the end date of the last grant's implementation period (as at December 2016).
For multi-components, where there is a misalignment between the end-dates of the grants in each single component, the allocation utilization period for the multicomponent must follow the standards for the single components (e.g., single components which might be longer than three years to match the multicomponent allocation utilization period are not entitled to funds above the allocation). Any proposed exceptions must be reviewed by the Grant Approvals Committee.

6. Which activities can be financed with approved funds from the 2014-16 allocation?

The 2014-16 allocation can be used for activities that were **budgeted**, **approved** and **completed** during the allocation utilization period associated with the country's 2014-16 allocation – regardless of whether or not the payment for such activities has occurred. The below principles must be applied:

- **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).[6] Financial commitments existing at the end of an allocation utilization period **can** be paid from that period's allocation (via available cash

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

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 (unless otherwise agreed 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 of time in the future, i.e., the goods or services are yet to be received. Financial Obligations existing at the end of an allocation utilization period **cannot** be paid from that period's allocation and have to be transferred and included in the budget of a new grant or an extension, to be covered by funds from the next allocation.

Therefore, using the example of the current allocation utilization period: all financial commitments existing at the end of the current allocation utilization period will be paid from with the 2014-16 allocation, while financial obligations existing at the end of the current allocation utilization period will be funded from the 2017-19 allocation. Generally these amounts will therefore need to be considered in the negotiation of the next grant and need to be included in the budgeting and programmatic planning for next allocation utilization period.

For example, a country's malaria allocation utilization period was from 1 January 2014 until 31 December 2017, and the implementation period was also from 1 January 2014 until 31 December 2017. All activities that were budgeted, approved and completed by 31 December 2017 can be financed from the 2014-16 allocation even if the actual payment will only happen in February of 2018 (e.g., commodities delivered in November 2017 that are invoiced in February 2018). Even if the implementation period is extended to June 2018, only activities that were budgeted, approved and completed by 31 December 2017 (i.e., the end of the allocation utilization period) can be funded from the 2014-16 allocation.
The allocation utilization period is specified in the allocation letter and may be different from the example above.

7. How do I determine if an activity has been completed?

Completion of activity depends on the contracts between the supplier and implementer, and verification of completion should follow same standard procedures as for a standard PU/DR. For example, regarding commodities, delivery will be considered completed based on a transfer of ownership (assuming Incoterms). For construction works in progress at the end of an allocation utilization period, a percentage of completeness may be assigned in order to attribute expenses to one or another allocation utilization period. Such percentage must be based on Local Fund Agent-verified documents.

8. What happens if there are last minute delays to goods/service deliveries that cause them to be delivered in the next allocation utilization period?

In certain cases, payments relating to goods and/or services delivered after the end of an allocation utilization period may be considered commitments to be funded from that allocation utilization period, where the following criteria are met:

- the implementing entity has placed the order(s) for the goods or services at issue with adequate consideration for relevant lead times such that the goods or services were expected to be delivered before the end of the allocation utilization period;
- the delivery of the goods or services is delayed for reasons beyond the implementing entity's control; and
- the delivery of the goods or services is completed within maximum 90 days of the allocation utilization period end date;

Cases meeting the above criteria will be assessed by the Global Fund for final determination of the appropriate allocation from which such payments should be funded. The application of this flexibility must be approved by the Global Fund.

9. From which allocation are grant closure budgets financed?

The allocation to which a closure budget should be attributed will be determined by the last day of the grant's implementation period. The closure budget will be financed from the allocation related to the allocation utilization period in which the grant ends. For example, a grant that ends on the last day of the 2014-16 allocation utilization period will be financed from the 2014-16 allocation funds. This principle applies to both closing Principal Recipients and closing sub-recipients.

In line with the Operational Policy Manual, Section 3.1: *OPN on Grant Closure*, only closure activities should occur during the closure period, which is to be verified by the Local Fund Agent as per standard procedure.

03 Transferring funds and activities

10. What will happen to the remaining funds from an existing grant at the end of allocation utilization period?

Any remaining funds at Global Fund or Principal Recipient level (after liquidation of the Principal Recipient's financial commitments) from an existing grant, at the end of the current allocation utilization period, will not be additional to next allocation[7]. "Remaining funds" are composed of:

- **unused funds at the Secretariat level** – including undisbursed funds and signed uncommitted amounts. At the end of an allocation utilization period, unused funds are returned to the general resource pool with the balance put towards portfolio optimization to fund UQD and other funding gaps in the 2017-2019 period. This de-commitment should happen no later than six (6) months after the end of the implementation period and will establish the net commitment on each allocation utilization period covered by the implementation period.
- **available in-country funds** represent any available uncommitted in-country cash balances (e.g., held by Principal Recipient, sub-recipients, procurement agents, etc.). For Principal Recipients that are not continuing to implement grants for the Global Fund, the funds available in-country at the end of an allocation utilization period need to be returned to the Global Fund no later than nine (9) months after the start of the new allocation utilization period. In the case of a continuing Principal Recipient, to avoid delays in implementation, the Global Fund may allow the Principal Recipient to use the in-country cash for the new grant. In that case, this amount must be deducted from the 2017-19 allocation.

11. How do I determine the in-country cash balances from a grant that needs to be returned to the Global Fund or transferred into the next allocation utilization period (and deducted from the 2017-19 allocation)?

The amount that must be returned to the Global Fund or be transferred to the next allocation utilization period is the **Final Uncommitted In-Country Cash Balance** from the grant.

[7] This is because the allocation model allocates to countries a certain amount of funding for a defined period of time. Therefore supplementing the allocation for 2017-19 with unused funds at Global Fund level or in country cash balances is not possible. Any extension of an existing grant will be accounted for as part of the subsequent allocation utilization period, both in terms of time and money.

This balance is calculated as follows:

Uncommitted In-Country Cash =
Bank balance as per bank statements at the end of the allocation utilization period
- Payments in transit (transactions not yet processed by the bank, checks issued by the implementer not yet cashed)
- Open financial commitments
+ Actual pre-payments from previous allocation utilization period for activities in the next allocation utilization period
- Closure budgets for non-continuing Principal Recipients /sub-recipients

This amount will be audited through agreed upon procedures or be reviewed by the Local Fund Agent and/or other assurance providers at the Allocation Utilization Period end date of the relevant component.

12. How is the Final Uncommitted In-country cash balance validated?

For High Impact and Core countries, the auditor should undertake the agreed upon procedures to determine the final uncommitted cash balance. For focused countries, the appointed firm for the annual audit will conduct the agreed upon procedures to validate the final uncommitted cash balance.

In cases where the review of the uncommitted cash balance could not be performed on-time by the auditor, the Local Fund Agent could be requested to perform this review. The use of a Local Fund Agent instead of the External Auditor needs to be approved by the Global Fund. In all cases, the cost implications should be considered when deciding the mechanism for validating the in-country cash balance.

13. If the final uncommitted in-country cash balance won't be known until well into the implementation of the new allocation utilization period, how do I handle adjustments?

As soon as the first uncommitted in-country cash balance estimate is available, the estimated amount can be approved for use into the new allocation utilization period (either in a new grant or through an extension) and be made available to pay for activities in the new allocation utilization period. The amount of the uncommitted in-country cash balance will then be counted as part of the total grant funds to be provided under the new allocation utilization period when the final uncommitted in-country cash balance is known so adjustments should not be necessary.

In cases where the country's in-country cash balance isn't sufficient to cover all financial commitments at the end of the Allocation Utilization Period, it is possible to make a final disbursement against the previous allocation.

14. When should financial commitments from the previous Allocation Utilization Period be liquidated?

Financial commitments must be liquidated no later than six-month after the end of the grant implementation period unless otherwise agreed by the Global Fund.

15. How are open financial obligations from the previous allocation utilization period transferred to the new allocation utilization period?

Financial obligations existing at the end of an allocation utilization period must be paid out of the next allocation utilization period and should be identified during the grant making stage of the new grant/implementation period and included in that period's budget.

16. Are Principal Recipients required to have a separate bank account for the funds from each allocation utilization period?

Principal Recipients are encouraged not to open multiple bank accounts for the same program when moving from one implementation period to the next. The requirement is that the Principal Recipient is able to track fund balances as of the end date of allocation utilization period at the Principal Recipient and Sub-recipient levels, as well as financial commitments that belong to the previous allocation utilization period.

17. How does the transition between allocation utilization periods impact grant closures?

Transitioning from one allocation-based funding model cycle to the next is not in itself viewed or treated as a grant closure. Therefore, for continuing Principal Recipients, the guidance in this document should be followed in addition to that in the Operational Policy Manual, Section 1.1: *OPN on Access to Funding, Grant-Making and Approval*. Where there is a grant closure (e.g., change in Principal Recipient or transitioning out of Global Fund financing), the Operational Policy Manual, Section 3.1: *OPN on Grant Closure* should be followed.

18. How does the transition between allocation utilization periods impact buffer stocks?

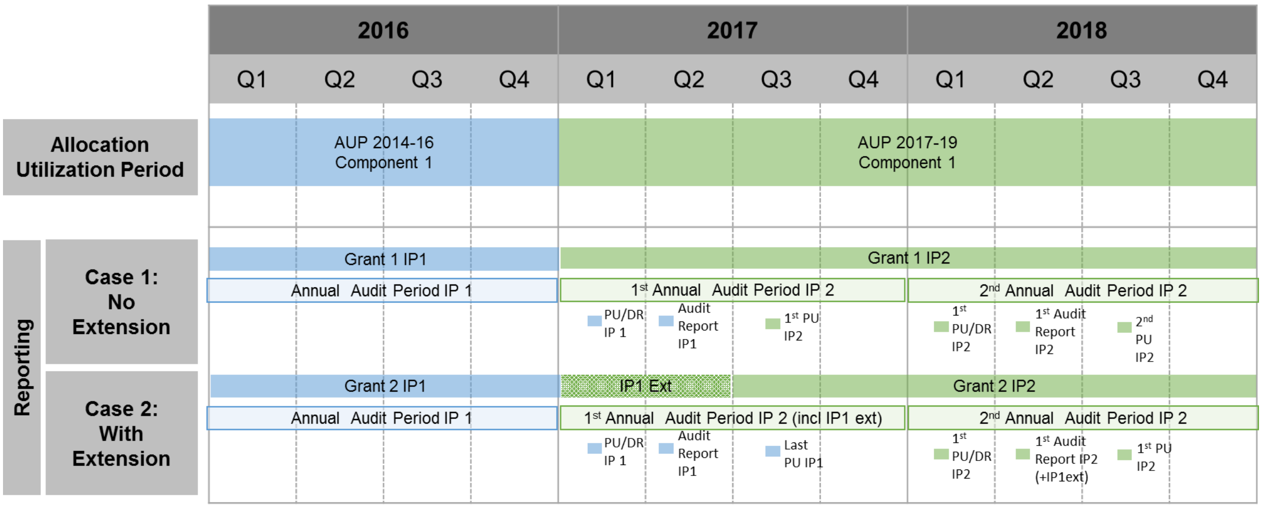
The buffer stock is the stock that should always be on hand at the national, regional, district and/or facility level to mitigate the risk of stock-outs due to delays in delivery of products or unexpected increase in consumption. It represents the quantity of stock required to allow for variations in supply lead-times or consumption rates. The amount of buffer stock can be calculated by multiplying projected average monthly consumption by average lead time (month) or a buffer stock can be defined as a (reasonable) fixed number of months. The amount of buffer stock, unless explicitly agreed by the Global Fund, shall follow the applicable national policy/SOP/requirements.

There is no need for changes to procurement cycles or buffer stock levels due to the transition between allocation periods and as such there should be no short term increase in buffer stock levels at the end of the allocation utilization period.

04 Reporting Requirements

19. What are the reporting requirements when transitioning between allocation utilization periods and when are they due?

In the majority of cases, the allocation utilization period end date will be aligned to the country's national financial reporting cycle and there is no impact on the timing of financial reporting.
In such cases, reporting follows the standard process as described in the [Global Fund Guidelines for Grant Budgeting](#).
In the case where a reporting period of a Progress Update covers more than one allocation utilization period (e.g., in cases of extensions), within the total Annual Financial Reporting for the full period that is reconciled to the financial statements, the financial reporting needs to be broken down by allocation utilization period with an intermediate cash balance (committed and uncommitted) provided at the allocation utilization period end date in the associated Progress Update.



20. How are commitments from a previous allocation utilization period reported on in subsequent Progress Updates?

The most recent Progress Update templates, which are currently available to all, include a section for the "Principal Recipient Reconciliation of Cash Balance from the previous Implementation Period"[8]. This table should be used by Principal Recipients that have moved from one implementation period to the next. The purpose of the table is to give the final cash balance at the end of the previous allocation utilization period after all the commitments have been liquidated.

21. Which activities should be included in the Progress Update for a given period?

In the financial reporting included in Progress Updates, expenditures reported should include all activities for which the goods and services have been received by the grant implementer. This will include:

- Payments made for all goods and services delivered during the reporting period, and
- Open financial commitments at the end of the period.

[8] In the case of an extension (grant end date revision), this will be the Cash Balance at the end of the Allocation Utilization Period.

22. What are the audit requirements when transitioning between allocation utilization periods?

The Audit requirements for a Principal Recipient will remain as per the requirements outlined in the grant agreement. The timelines and frequency will not be impacted. Further guidance on standard procedure is in the audit guidelines. However, to capture the full extent of activities being conducted to transition from one allocation utilization period to the next the first audited financial statement after the end of an allocation utilization period needs to include, in addition to the usual elements in Grant Program Financial Statement, the following elements related to the allocation utilization period that just ended:

- Cash Balance at previous allocation utilization period end date
- List of outstanding financial commitments at allocation utilization period end date including justification and expected date of payment
- List of any pre-payments on next period's activities including justification and expected date of activity completion
- Closure budgets for non-continuing Principal Recipients or sub-recipients

23. How will fixed assets be considered for continuing Principal Recipients across allocation periods*?*

Inventory of fixed assets: During grant-making, the Principal Recipient must conduct an inventory of fixed assets for the ending implementation period, in order to determine the fixed assets to be procured in the new implementation period and/or transfer to another Principal Recipient/Country Coordinating Mechanism to reach the objectives of the new grant being negotiated. This inventory will be updated as of the implementation period end date and confirmed through the final audit. Such inventory will determine the list of fixed assets to be managed under the new implementation period.

In particular, the list of fixed assets as of the implementation period (IP) end date will be the starting list of fixed assets for the new implementation period.

05 Other Considerations

24. What is the treatment for obligations in cases, where the transition to allow alignment with the national procurement cycle has not happened yet?

In certain countries, which have already been identified, Global Fund grant-specific procurement of health products and pharmaceuticals relies heavily on national quantifications and stock management, and thus needs to be aligned with national procurement cycles. There may be countries in which such alignment has not happened during 2014-2016 allocation utilization period, where additional flexibilities may be needed. Please bring these cases to the Global Fund for specific decisions in line with the Grant Approvals Committee (GAC) guidance.