

# Sub-recipient Management

## UNDP Global Fund Implementation Guidance Manual

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## Sub-recipient Management

### Sub-recipient Management in Grant Lifecycle

#### Sub-recipients in the country dialogue process

During the country dialogue process, the stakeholders discuss and agree on strategies to address the health priorities identified in the national strategic plan (NSP) and activities the country will ask the Global Fund to support. In most cases, at this stage, the Principal Recipient (PR) has not yet been selected. Despite not being nominated as PR at this stage, UNDP, as a development agency, might provide support by facilitating inclusion of all relevant parties in the process, which often include organizations representing key populations or other underrepresented stakeholders. Some of these organizations may be Sub-recipients (SRs) of currently active grants (in cases when UNDP is currently implementing a Global Fund grant) or future SRs. It is always advisable to include SRs of existing grants in the country dialogue, since these organizations have acquired experience through their work in the field. During the country dialogue, they will have the opportunity to share their practical knowledge on successful and unsuccessful implementation strategies, bottlenecks to address, weaknesses in the health system and adequacy of community systems. SRs' input is valuable and might influence funding request priorities and implementation approach.

#### Sub-recipients in funding request development

During funding request development, the stakeholders work together to provide targets and a high-level budget for activities detailed in the grant application. The Country Coordinating Mechanism (CCM) will typically nominate the PR at this stage.<sup>[1]</sup> Once the PR is nominated, some activities related to SR management can begin, in preparation for SR identification<sup>[2]</sup> and contracting. The most important preparatory activity at this stage is mapping organizations that can implement activities envisaged in the funding request in specific regions of the country. Other preparatory activities can include collection and analysis of historical information on SR coverage with services in specific regions and realistic budgets used for this purpose. This information will facilitate identification of potential SRs and planning realistic targets and budgets. Such preparatory activities will greatly assist in ensuring the timely start of grant activities shortly after grant signing and reaching targets set for the first reporting period.

#### Mentioning SRs in the funding request

UNDP Country Offices (COs) can use the **Proposal Defined Engagement modality** for SRs named in the grant proposal submitted by the CCM to the Global Fund. The UNDP Global Fund Project Management Unit (PMU) might take advantage of this modality by identifying the SRs early and working with the CCM to have them named in the grant proposal. This is particularly useful in situations where SR choice is limited due to the country context and/or nature of the activities. However, the fact that specific organizations are mentioned in the grant proposal as SRs does not make it mandatory for UNDP to contract them. Please see [here](#) for more information on other modalities for identification and contracting of SRs.

## Grant-making

### Implementation arrangements mapping

During grant-making, PRs are required to prepare an implementation arrangements map. This is a visual depiction of who is doing what with what portion of a grant. It is, in essence, an organogram of a grant and will include all SRs known at the time or a placeholder for SRs that are yet to be identified. The implementation arrangements map includes:

- all entities receiving grant funds and/or playing a role in program implementation;
- each entity's role in program implementation;
- the flow of funds, commodities and data;
- the beneficiaries of program activities; and
- any unknowns.

Please refer to the Global Fund [Implementation Arrangements Mapping Guidelines](#) for more information.

### SR capacity assessment and capacity development

Capacity assessments should start early, ideally during grant-making for the SRs already identified at that stage (per the grant proposal). The PR should strive to finalize capacity assessments before grant signing so that key activities can commence as the grant agreement is signed. The capacity assessment will determine whether finance (including asset management), monitoring and evaluation, health product management and programme management capacities are adequate. In case of significant capacity gaps, the PR and SR can agree on a capacity building plan to address major implementation gaps and risks, or the PR should consider engaging a different organization as SR. Understanding the available capacities and the required support and monitoring of SRs may also help understand the workload and inform the staffing of the PMU. When agreeing on capacity development activities, available resources for such activities should also be taken into account. Non-priority activities can be excluded from initial plans. During grant implementation, should resources become available through savings, these can be used for initially unfunded capacity development activities.

## Detailed budget and performance framework

The core work of the grant-making phase is the development and finalization of the grant **performance framework** (PF), **detailed budget**, and **list of health products**. Although the final SR budgets and targets will be agreed on at the stage of SR agreement signing, during grant-making it is important that the PR works in close cooperation with already identified SRs on the detailed cost of their programmatic and management operations. SRs' input is also important while preparing the grant's PF. The PR's role is to review SRs' past performance and discuss challenges during implementation in order to set realistic targets and identify bottlenecks early. During these discussions, the PR may inquire about the SRs' reporting system, including:

- the tools they use to collect data;
- the flow of data in case of Sub-sub-recipients (SSRs);
- link with the national disease programme; and
- existence of any electronic data management systems and other factors which could impact data management under the future grant.

When an SR has not yet been identified, the PR should collect information about realistic grant targets and reasonable budgets at the sub-national level, if this information is not already included in the national disease programme. The information can be obtained from different sources:

- SRs in current or previous grants, either when UNDP was the PR or from another PR or SRs themselves.
- Historical data such as cost per beneficiary for the same or similar activities will facilitate the preparation of realistic budgets and setting realistic targets.
- Any evaluations, population size estimations and similar sources available for the sub-national level.
- Organizations implementing similar activities funded by other donors, or in other regions of the country, or in neighbouring countries.

Any changes in key budget drivers (such as rent prices, salary rates, currency fluctuations and inflation rate for payments which will be made in local currency) should be taken into account while planning detailed SR budgets, which will be reflected in the detailed budget submitted to the Global Fund. For more information, please refer to guidance on **budget preparation** in the financial management section of the Manual.

Finally, during grant-making, the PR needs to submit to the Global Fund a list of pharmaceuticals and health products and plan procurement and supply management (PSM) costs. In relation to SRs, it is important to understand their stock management system, storage capacity, distribution channels (if relevant) and similar factors that may affect the budget or require capacity-building.

The detailed grant budget, list of health products and finalized performance framework is submitted to the Global Fund for its approval. It may sometimes be necessary to revisit the targets and/or budgets agreed with the identified SRs if the Global Fund requests changes to the grant PF or detailed budget.

## Other steps of the grant management cycle

The next chapters contain more information on the other steps of the grant management cycle. These steps are:

- Grant implementation that includes contracting the SRs, and monitoring financial and programmatic performance of the SRs approved projects; and
- Grant reporting.

**[1]** In Additional Safeguard Policy Countries, the GF may request that it pre-approves the implementation arrangement including PR selection. Although this is done in close consultation with the CCM and other development partners, the ultimate decision lies with the GF as part of additional safeguard measures for a country.

**[2]** In ASP Countries, selection of SRs may be subject to Global Fund approval based on the assessment of risks.

## Selecting Sub-recipients

### Defining Sub-recipients

A Sub-recipient (SR) is an organization/entity engaged by a Principal Recipient (PR) to carry out programme activities that are part of a Global Fund grant. Taking into account that UNDP-managed Global Fund grants are implemented under Proposal Defined Engagement, an SR is also referred to as a 'responsible party' (RP), while UNDP is the 'implementing partner' (IP).

UNDP classifies SRs into three categories:

- Government entities;
- Civil society organizations;<sup>[1]</sup> and
- United Nations agencies.

UNDP's selection and capacity assessment procedures vary according to the SR category.

### Sub-recipients versus Private Contractors

Private contractors may also provide services in the implementation of a Global Fund programme, but private contractors are not SRs and cannot be engaged as such. Engagement of private contractors is described in detail in the UNDP Programme and Operations Policies and Procedures (POPP). Table 1 below can be helpful in identifying whether an entity is an SR or a private contractor.



#### Practice Pointer

When it is not clear whether an entity should be contracted as an SR or a private contractor, the UNDP Country Office (CO) consults with the Global Fund/Health Implementation Support Team.

**Table 1**

Criteria	Sub-recipient	Private contractors
Type of organization	<ul style="list-style-type: none"> <li>· Government entity</li> <li>· Civil society organization (CSO)</li> <li>· United Nations agency</li> </ul>	<ul style="list-style-type: none"> <li>· Commercial entity</li> <li>· Private company/business</li> <li>· Provider of professional services</li> </ul>
Type of activity	<ul style="list-style-type: none"> <li>· Substantive development activities that require a substantive developmental approach: activities that lead directly to development outcomes and require selection of like-minded, non-commercial institutions</li> </ul>	<ul style="list-style-type: none"> <li>· Specific project inputs that do not require a substantive developmental approach: services that do not directly lead to development outcomes typically sold in the open market and provided by commercial non-development entities</li> </ul>
Example of activity	<ul style="list-style-type: none"> <li>· Treatment</li> <li>· HIV counselling and testing; TB and malaria testing</li> <li>· Training</li> <li>· Research</li> <li>· Advocacy</li> <li>· Community development</li> <li>· Care of people living with HIV</li> <li>· Behaviour change communication</li> </ul>	<ul style="list-style-type: none"> <li>· Manufacture of goods</li> <li>· Sale of goods</li> <li>· Facilitation of the procurement of goods</li> <li>· Innovation or delivery of services that is not directly tied to programme outcomes (e.g. provision of workshop services such as venue, meals, translation)</li> </ul>
Values and vision	Share UNDP's development values and vision	Do not necessarily share UNDP's development values and vision
Availability	Interventions/services are not available in the open market	Services or goods are readily available and traded in the open market

**Questions and answers:**

**Question:** UNDP wishes to engage the services of an organization to distribute large numbers of insecticide-treated nets; should this be an SR or a private contractor arrangement?

**Answer:** It depends on the actual service to be provided:

1. If the service involves delivering the insecticide-treated nets directly to beneficiaries, then behavioural change communication is a critical component of the activity and this should be contracted as an SR arrangement.
2. If the service is simply the delivery of the insecticide-treated nets to health facilities, and the health facilities will be responsible for providing the nets to beneficiaries, this could be contracted through a private contractual arrangement providing this is the most cost-effective approach and taking the risks into account.

## Excluded Organizations

Engagement of SRs should be in line with [UNDP policy on managing partnerships](#).

Organizations included in the [Consolidated United Nations Security Council Sanctions List](#) are summarily excluded from becoming SRs because they are on a list of terrorism-linked institutions, established by the Security Council Committee.

## Country Coordinating Mechanism membership of Sub-recipients

If an organization is a member of the Country Coordinating Mechanism (CCM) and at the same time wishes to become a grant SR, it should consult the CCM Secretariat to obtain guidance on CCM membership and conflict of interest. In most CCMs, SRs can continue to act as CCM members, as long as they disclose the potential conflict of interest (please see item 6 in the Global Fund [Guidelines and Requirements for CCMs](#)), and do not vote on any decisions that affect them. However, since an organization cannot provide effective oversight of itself, SRs are usually not members of the CCM Oversight Committee. In the case of potential conflicts of interest when identifying or contracting SRs, UNDP COs should consult the Global Fund/Health Implementation Support Team.

## Identifying Sub-recipients

As PR, UNDP is responsible for identifying and selecting SRs. Although the Global Fund and the CCM cannot determine which organizations are selected as SRs, it is good practice to keep the CCM informed of the SR selection process. The SR selection process should be detailed, transparent, open and fully documented. [\[2\]](#)

There are several possible procedures for selecting SRs, depending on the type of SR required:

- UNDP identifies government entities and United Nations agencies as potential SRs exclusively through a Proposal Defined Engagement. UNDP identifies CSOs through either a UNDP Proposal Defined Engagement, a UNDP procurement engagement (i.e., strategic engagement) or other forms of engagement (i.e., programmatic, micro capital grant) as described in the POPP on *Engaging CSO/NGO as a Responsible Party*.

The Proposal Defined Engagement for the selection of GF SRs differs from programmatic engagement as detailed in the POPP on *Engaging CSO/NGOs as a Responsible Party*. Programmatic engagement does not apply to GF SRs as they are considered Responsible Parties and not Implementing Partners. Please see more information below.

## Proposal Defined Engagement

This modality is used only for the following entities:

- All government entities (please refer to figure 1 below);
- United Nations agencies: in certain circumstances they may be asked to serve as SRs to provide technical support to grant implementation in line with their organization's expertise and mandates (please refer to figure 1 below); and
- Civil society organizations (CSOs)
  - If the CSO in question is named as SR in a grant proposal submitted by the CCM to the Global Fund, and UNDP has assessed the entity as having the programmatic and operational capacity to take on the SR role. Also, a CSO can be engaged through this modality if it was a former SR or PR when there is a transfer of the PR role from another PR to the UNDP CO.
  - If the CSO has not been named in the grant proposal and the CO wishes to select it through this modality, the UNDP CO provides a justification to UNDP Global Fund/Health Implementation Support Team. After analysis of specific circumstances described in justification, the UNDP Global Fund/Health Implementation Support Team may exceptionally authorize this engagement. Nevertheless, such engagement is still subject to a positive capacity and value for money (VfM) assessment. The VfM assessment is conducted by UNDP CO and evaluated and authorized by the UNDP Global Fund/Health Implementation Support Team.

Entities that qualify through this engagement modality are not required to undergo a formal competitive selection process under UNDP procurement rules and procedures with approval from the Contract, Assessment and Procurement Committee (CAP)/Regional Advisory Committee on Procurement (RACP)/Advisory Committee on Procurement (ACP). However, if the UNDP CO deems that there are alternatives to the entities so named, it is entitled to undertake a procurement engagement or other forms of engagement. The naming in the grant proposal; former SRs/PRs when there is a transfer PR role or authorization of the entities based on specific circumstances are the only cases in which CSOs are engaged through this modality. For this modality, a programming decision of the Local Project Appraisal Committee (LPAC) should be made prior to engagement. For all other cases, the engagement is subject to procurement engagement or other forms of engagement.

Figure 1. Selecting Government and UN Agencies by Proposal Defined Engagement

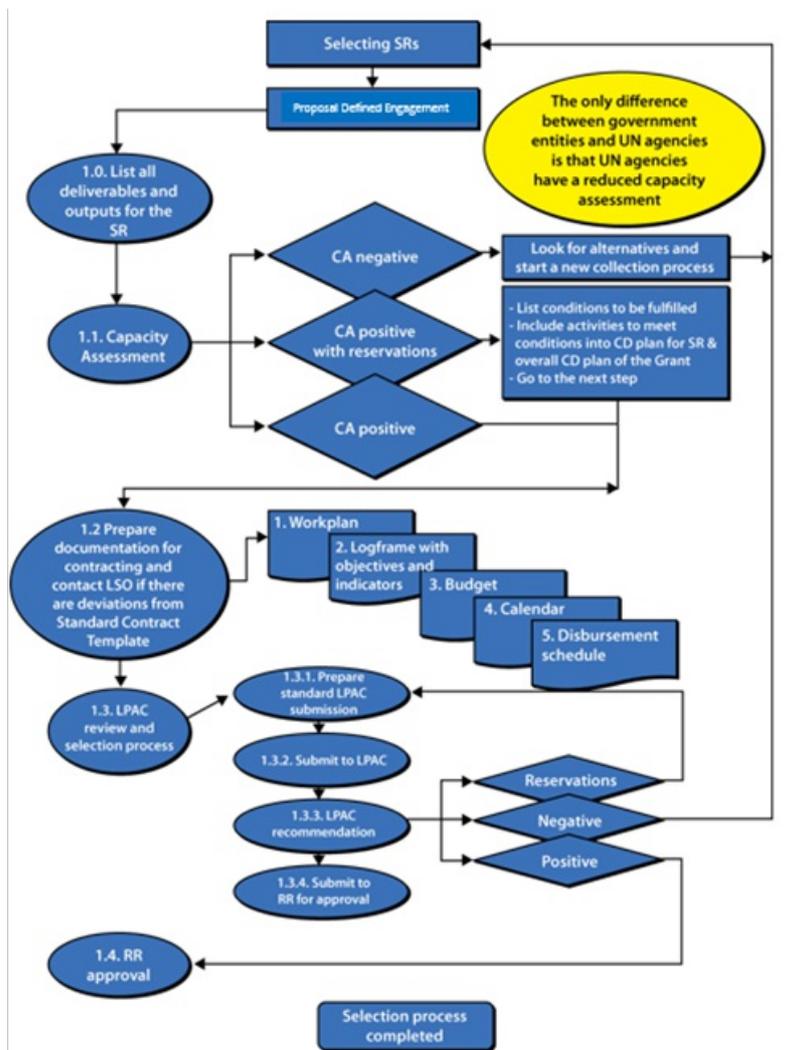
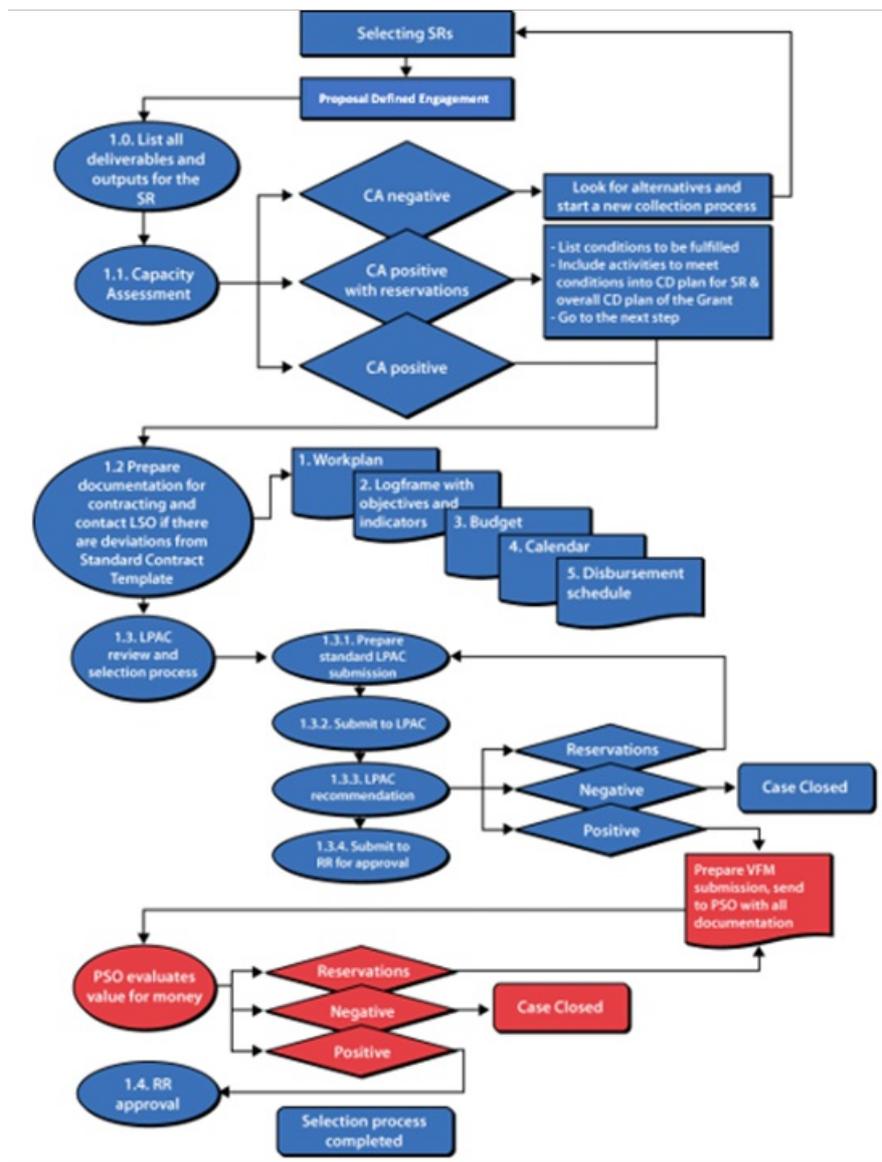


Figure 2. Selecting CSOs by Proposal Defined Engagement



## Procurement Engagement (strategic selection) and other forms of Engagement (programmatic, micro-capital grants) for selection of CSOs/NGOs

UNDP COs should use UNDP's POPP on *Engaging CSO/NGO as a Responsible Party* to select a CSO as an SR in the following cases:

- There is no CSO named in the grant proposal submitted by the CCM to the Global Fund;
- The CSO is not a former SR or PR when there is a transfer of the PR role from another PR to UNDP CO;
- The CSO is not exceptionally authorized by UNDP Global Fund/Health Implementation Support Team to go through proposal defined engagement modality; or
- The UNDP CO deems it appropriate to use another engagement modality.

The POPP outlines three modalities for UNDP's engagement with NGOs/CSOs and highlights that selection of the appropriate instrument depends on the particular set of shared goals and planned results:

### Procurement Engagement (strategic selection)

This modality foresees selection of NGOs/CSOs as Responsible Parties and is subdivided into the following modalities:

#### 1. Non-competitive procurement modality based on the assessment of NGOs/CSOs collaborative advantage.

#### 2. Based on a competitive procurement selection process that can be completed through:

##### 2.1. Quality-Based Fixed Budget Selection (QB-FBS).

2.2. Standard competitive procurement process - RFP selection process whereby NGOs/CSOs can participate in any UNDP selection of service providers to its projects. The competitive selection processes required by UNDP are fully set out in the **UNDP POPP**.

## 2.3. Direct contracting NGOs/CSOs, using the UNDP policy for justifying direct contracting.



## Practice Pointer

For the strategic selection non-competitive procurement modality (item 1 above) based on the assessment of NGOs'/CSOs' collaborative advantage as per the best practice, the UNDP COs are requested to complete the value for money (VfM) assessment in the form and substance as it is done for proposal defined engagement. This specific requirement serves as a risk mitigation instrument for engagement without competitive Strategic Selection. The VfM assessment, along with the other corresponding documents as described in the policy for collaborative advantage modality, should be evaluated and recommended for approval by the evaluation panel appointed by the UNDP CO's senior management.



## Practice Pointer

In case of strategic selection competitive procurement modality (item 2 above), it is also useful for UNDP COs to hold a tender consultation meeting with all potential SRs and organizations working with key populations to present the Global Fund programme, and answer and clarify questions and/or concerns. It is best practice that meeting minutes are distributed to all attendees and posted on the UNDP CO website.



## Practice Pointer

UNDP should advise potential SRs to review the CCM grant proposal before completing their quotation/proposal and to visit the Global Fund website to review documents relevant to their application. Proposals in response to the RFQ or RFP should include a work plan and budget as part of the proposal.

**Other forms of engagement that are not applicable to UNDP-managed Global Fund programmes**

a. Programmatic engagement: when NGOs/CSOs are engaged as Implementing Partners (IP) and the agreement between UNDP and the NGO/CSO shall be formalized through the signing of a Project Cooperation Agreement (PCA). This modality is not applicable for use by UNDP COs to select Global Fund SRs as they are considered Responsible Parties not Implementing Partners.

b. Micro-capital grants.

**[1]** For the purposes of this classification, this includes: non-governmental organizations (NGOs), faith-based organizations (FBOs), community-based organizations, community groups and academic institutions.

**[2]** Please refer to Global Funds Core Operational Policy Note on Additional Safeguards Policy (24 July 2015), for the Global Fund and CCM Role in an ASP Country.

**Capacity Assessment and Approval Process****Assessing Sub-recipient Capacity**

UNDP Country Offices (COs) must conduct a capacity assessment of the proposed Sub-recipients (SRs) before signing the SR agreement and transferring any funds. Since a competitive procurement engagement includes a technical assessment, the latter substitutes for a separate capacity assessment. The capacity assessment enables the UNDP CO to conclude whether the SR meets minimum UNDP requirements, and to take capacity development and other risk management steps for the proposed SR, if it determines such steps are needed before signing the SR agreement or during. The outcome of the capacity assessment is also used by UNDP CO to select the appropriate cash transfer modality for the SR. While the Principal Recipient (PR) conducts SR assessments, it may take into consideration other assessments carried out by other institutions – for instance, the Local Fund Agent (LFA), which may be requested by the Global Fund to conduct an assessment in Additional Safeguard Policy (ASP) country. However, under the Grant Agreement, the PR is responsible for the results expected from the SR and is also accountable for disbursed funds and, therefore, for the SR assessment. A sample capacity assessment template is available [here](#).

## Sub-recipient Minimum Capacity Requirements

In relation to each existing and new grant, UNDP requires a detailed mapping and analysis of its responsibilities and the corresponding capacities of each Country Office (CO) to effectively manage the associated accountabilities and risks. UNDP is included under the UN policy for the [Harmonized Approach to Cash Transfers](#) which requires, *inter alia*, that UN agencies adopt a risk management approach and select specific procedures for transferring cash on the basis of the joint assessment of the financial management capacity of implementing partners (IPs).

UNDP has determined that Sub-recipients (SRs) should meet minimum institutional and technical capacity requirements to sign an SR agreement with UNDP. The UNDP CO should assess whether the potential SRs meet the minimum requirements detailed in Box 1 below.

### Box 1. Minimum requirements for Sub-recipients

#### 1. Financial management systems that:

- a. correctly record all transactions and balances, including those to be supported by the Global Fund;
- b. allow for disbursing funds to Sub-sub-recipients (SSRs) (where applicable) and suppliers in a timely, transparent and accountable manner;
- c. support the preparation of regular, reliable financial statements;
- d. safeguard Global Fund property.

#### 2. Institutional and programmatic:

- a. legal status to enter into the SR agreement with the UNDP CO;
- b. effective organizational leadership, management, transparent decision-making and accountability systems;
- c. adequate infrastructure, transportation and technical information systems to support proposal implementation, including the monitoring of performance of SSRs and outsourced entities in a timely and accountable manner; and
- d. adequate health care expertise (relating to HIV and AIDS, tuberculosis and/or malaria) and cross-functional expertise (finance, procurement, legal, monitoring and evaluation (M&E)).

#### 3. Monitoring and evaluation systems that:

- a. collect and record programmatic data with appropriate quality control measures;
- b. support the preparation of regular reliable programmatic reports; and
- c. make data available for the purpose of evaluation and other studies.

#### 4. Supply chain management system that ensures:

- a. adequate storage conditions;
- b. good inventory management; and
- c. reliable distribution system (if SR will be distributing health products to service delivery points or SSRs).

In addition to the minimum requirements, capacity assessments can also include a review of:

- experience and expertise of the civil society organizations (CSOs) in implementing Global Fund activities or similar projects; and

- experience in managing SSRs carrying out Global Fund activities or contractors providing goods and services (10 percent of SR budget maximum); and technical assistance to other organizations where applicable.



#### Practice Pointer

CSO capacity often hinges on the competence of a few key individuals and should be assessed in great detail; staff rotation should also be carefully assessed.

**Note on UNDP accountability for SSR capacity:** While UNDP does not enter into a contractual agreement with an SSR, it is nevertheless indirectly accountable for the capacity of SSRs, where applicable, to effectively implement, monitor and report on programme activities. Therefore, UNDP must assure that the SR has the requisite capacity to adequately assess its SRs (the SSRs of the PR), following the detailed process outlined in this manual and to ensure that risks are identified and a plan to address them is developed. The UNDP guidance in this manual can be provided to the SR.

## Types of Capacity Assessment

### Government Entities and Civil Society Organizations

The UNDP Country Office (CO) must conduct a formal capacity assessment of governmental entities and civil society organizations (CSOs) identified as potential Sub-recipients (SRs), in addition to any assessment undertaken by the Global Fund through the Local Fund Agent (LFA). A positive capacity assessment should be part of the documentation submitted for UNDP internal review, prior to signing the SR agreement. A positive capacity assessment is also part of the documentation submitted for the 'value for money' (VfM) assessment of CSOs which means that capacity assessment of CSOs should be undertaken prior to development and submission of the VfM assessment in case the CSO is selected through direct programmatic engagement. When the selection process is based on a competitive process, the capacity assessment is embedded in the process and is part of the evaluation process. The documentation on capacity assessment is always included in UNDP's internal review.



#### Practice Pointer

As part of the minimum requirements of Global Fund, all SRs (and Sub-sub-recipients (SSRs)) are required to maintain a dedicated bank account for each grant. Since some government entities may require specific approvals from the Ministry of Finance and/or the Ministry of Foreign Affairs, it is helpful if UNDP informs all potential SRs of this specific requirement at an early stage.

### United Nations Agencies

Capacity assessment of UN agencies intended to be SRs (the so-called 'light capacity assessment') is not a formal assessment, since it is assumed that UN agencies have the capacity required to act as SRs. It is, instead, an exercise to identify any specific issues that may need consideration, given the agency's intended role.

Assessments of UN agencies as SRs should focus primarily on an examination of the additional and specific local resources – particularly human resources – that may be required for the SR to carry out its activities and meet its obligations under the SR agreement.

## Outcome of the SR Capacity Assessment

The UNDP Country Office (CO) needs to take different steps, depending on the outcome of the capacity assessment:

- **Positive assessment without reservations or significant assessed risks:** UNDP CO can proceed with the preparation of the Sub-recipient (SR) agreement documentations and contact the Legal Office (LO) if there are any deviations from the appropriate model **SR agreement**. Please refer to **figure 2 here** for next steps. The cash transfer modality may be used for the SR that has a positive assessment and is rated low risk. Depending on the programme needs, the other modalities can also be used or a combination of the three modalities. The cash transfer modalities are:
  1. **Direct cash transfers** – Funds are transferred by UNDP to the SR before the SR incurs expenditures to support activities agreed in the work plan;
  2. **Direct payments** – SR is accountable for the expense, does the sourcing but requests UNDP to effect payment to the vendor and other third parties to support activities agreed in the work plan; and
  3. **Reimbursements** – SR pre-finances grant activities with prior approval of UNDP and is reimbursed on submission of a request for reimbursements with supporting.
- **Positive assessment (with reservations):** UNDP CO determines that the SR does not possess all the required capacity to carry out the activities envisioned under the programme. UNDP and the SR need to address the identified capacity issues prior to signing the SR agreement – for example, through a **Condition Precedent/Special Condition** or a capacity development plan, as part of the agreement, or through specific cash transfer modalities, as risk mitigation measures. For an SR rated as moderate risk, direct cash transfers may be applied for specific areas found to be strong, while direct payments or reimbursements would apply in weaker areas.

For an SR rated as significant risk, direct cash transfers or reimbursements should not be used. Direct payments may be used only in selected areas where the SR internal control framework is assessed as adequate. UNDP CO retains and implements certain activities under direct implementation, through which UNDP incurs expenses directly on behalf of the programme and in the context of Global Fund grants, this includes procurement of health products and capital assets, procurement of high value professional services, all procurement for countries under the “Zero Cash Policy” and all other SR activities that cannot be financed through the three cash transfer modalities based on the risk rating. The UNDP CO can also consult with the Global Fund/Health Implementation Support Team about how to address the situation most appropriately.

- **Negative assessment and UNDP determines that capacity cannot be developed, even with appropriate measures:** UNDP should reject the entity as an SR and initiate a new selection process.

## Capacity Development of Sub-recipients

All Principal Recipients (PRs) are responsible for supporting development of the capacity of their Sub-recipients (SRs). Capacity development of national institutions, in particular, is a core mandate of UNDP and the ultimate aim of its technical assistance. UNDP works to build the skills, knowledge and experience of SRs so that they can implement Global Fund programme activities. Capacity development of SRs can take place throughout the lifetime of the SR agreement. It should be funded through the Grant Agreement, and UNDP CO can also contribute its own resources. It should build on the priorities, policies and desired results mutually identified by the UNDP Country Office (CO) and the SR.

Based on the results of the capacity assessment, budget availability and discussions with the SR, the UNDP CO and SR should create a capacity development plan, to be annexed to the SR agreement, addressing in detail how capacity will be developed in the identified areas of weakness, and how organizational capacities will be maintained and strengthened in other areas. Special focus should be placed on capacity development of national entities that are identified as potential future PRs.

Some SRs may ask UNDP to participate in the selection of key SR staff. Following a formal request from the SR, UNDP may participate as a non-voting member of the panel in the interview and selection of SR staff.

## Value for Money and Approval Process

### Value for money assessment

As part of the approval process, it is mandatory for the UNDP Country Office (CO) to conduct a value for money (VfM) assessment of all potential Sub-recipients (SRs) identified through Proposal Defined Engagement (except governmental entities and UN agencies). For potential civil society organization (CSO) SRs, the VfM assessment is undertaken by the CO using the UNDP **Guidelines for Submission of VfM Assessments**.

VfM analysis is the process of comparing the proposed total cost and benefits of the contract of several potential SRs, if there is more than one. If, as is often the case, there is only one proposed CSO SR, the VfM assessment looks at the proposed management fee, salaries and other costs, and compares them with national, regional and international standards to determine if the costs are reasonable. The VfM assessment should specifically determine whether the proposed SR management fee is in line with comparable Global Fund-implemented programmes or another appropriate benchmark, whether the personnel costs are in line with market rates for the specific country, and whether the final costs of the proposed activity/service per beneficiary are reasonable and justifiable. General fees/overhead costs of SRs should, as a rule, not exceed **UNDP's General Management Service (GMS) for third-party contributions[1]**.

International Non-Government Organizations (INGOs) may be permitted to include in the grant budget a percentage based Indirect Cost Recovery (ICR) to compensate for services that are provided by their headquarters and /or regional offices. Local NGOs are generally expected to include all costs associated with the implementation of programme activities as direct charges to the grant. A percentage based ICR for local NGO is for exceptional cases and requires approval by the Global Fund. The local NGO cannot double charge for the same costs under percentage based ICR and direct support costs. The maximum ICR for UN agencies is 7%, INGOs it's 5% (ASP countries 7%) and local NGOs it's 3% (ASP countries 5%). (Refer to the Global Fund Operational Policy Note on Support Costs and Indirect Cost Recovery for Non-Government Organizations issued 13 March 2015).



#### Practice Pointer

Where similar positions are included by several CSOs, there should be an opportunity to standardize (i.e. reduce downwards) the unit costs, so that there is some consistency among CSOs working in the same areas. The cost of an outreach worker targeting men who have sex with men (MSM) should be similar to the cost of an outreach worker targeting sex workers in the same geographic area.

VfM analysis does not replace the Global Fund review and approval of a detailed budget, as VfM represents a UNDP process for risk mitigation as mandated by the POPP. Information on unit costs, cost assumptions and other budgetary detail obtained through the development of the Global Fund budget may be useful for the VfM submission.

The threshold from which proposal defined engagement with VfM assessment for NGOs/CSOs applies is US\$50,000 and above per the VfM submission, regardless of the duration of the proposed SR agreement.



#### Practice Pointer

The VfM assessment should specifically assess the programmatic and financial capacity, experience and reputation of the proposed CSO SR to consider whether the proposed SR engagement will deliver the required benefits. The VfM assessment should also determine whether the proposed SR management fee is in line with comparable Global Fund-implemented programmes or another appropriate benchmark, whether the personnel and other costs are in line with market rates for the specific country, and whether the final costs of the proposed activity/service per beneficiary are reasonable and justifiable. General fees/overhead costs of SRs should, as a rule, not exceed **UNDP's General Management Service (GMS) for third-party contributions[1]**.

## SR contracting approval process

The Proposal Defined Engagement of SRs should be submitted for review to the Local Project Appraisal Committee (LPAC).

In the case of a government entity or United Nations agency, an LPAC review is sufficient before final approval by the Resident Representative (RR).

For CSO SRs engaged through proposal defined engagement modality, in addition to the LPAC review, the VfM assessment should be submitted to the UNDP Global Fund/Health Implementation Support Team for clearance. If the UNDP Global Fund/Health Implementation Support Team does not approve the VfM assessment, the UNDP CO can either request the SR to revise its proposal or use the procurement process to select an alternative SR.

The UNDP Global Fund/Health Implementation Support Team evaluates the VfM assessment in accordance with the evaluation principles detailed in the POPP, including undertaking a background check of the submitted proposal. This stage, sometimes referred to as due diligence/post-qualification, is the final and mandatory step. This process should be properly documented and completed prior to recommendation for an award. As per **UNDP policy on evaluation of offers** "The extent of the background check will depend on the complexity, associated risk and budget for the procurement activity."

Also according to UNDP POPP, the following aspects and actions may be considered when conducting post-qualification:

- Verification and validation of accuracy, correctness and authenticity of legal, technical and financial documents submitted;
- Inquiry and reference checking with government entities with jurisdiction on the offeror, or any other entity that may have done business with the offeror;
- Physical inspection of headquarters, branches or other places where business transpires, with or without notice to the offeror; and
- Other means that UNDP may deem appropriate, at any stage within the selection process, prior to awarding the contract.

For contracts of \$150,000 or more, at least three references for past contracts must be obtained and checked. Where UNDP is aware of other references outside of the list provided by the offeror, it may exercise its rights to conduct verification and checking with such entities.

In all cases, the proposed organization's legal mandate (i.e. if it is authorized to be involved in the activity, etc.) and financial strength (i.e. does it have the resources to make advances (if any) and complete the contract) will be verified.

Moreover, for SR agreements of \$1 million or more, it is mandatory to obtain third party reference checks from credit rating and reporting agencies. For such high-value contracts and/or in cases involving technically complex activities, the reports on the organization's facilities, financial and management status from credit rating and reporting agencies (i.e. Dunn and Bradstreet, Moody's Investor Services) are provided by the proposed SRs.

**[1]** Please note that per agreement between UNDP and the Global Fund (October 2014) a GMS rate of 7% applies to contributions from the Global Fund.

## UNDP Country Office Review

For Sub-recipients (SRs) selected through a procurement process (i.e. strategic selection), the UNDP Country Office (CO) should submit the SR agreement and accompanying documents to the appropriate UNDP procurement committee (the Contract, Asset and Procurement (CAP) Committee, Regional Advisory Committee on Procurement (RACP) or the Advisory Committee on Procurement (ACP) for review. The different levels of UNDP procurement committees review actions on the basis of the total value of commitments in the engagement. There are model **SR agreements** for use with SRs in Global Fund programmes, agreed on with the Global Fund. Any substantive departures from these model SR agreements should be approved by the Global Fund/Health Implementation Support Team for programmatic issues and by the Legal Office (LO) for legal issues.



### Practice Pointer

If it is not clear whether the change to the SR agreement template is substantive, the UNDP CO should contact the UNDP Global Fund/Health Implementation Support Team for guidance.

If the proposed commitment is below \$50,000, the Resident Representative (RR) or a delegate of the RR reviews and approves the SR agreement, and no further committee review is necessary. If the commitment is between \$50,000 and up to the Delegated Procurement Authority (DPA), the SR agreement is reviewed by the local CAP. If it is between the DPA and up to \$2 million, the engagement is reviewed by the RACP; and if it is above \$2 million, it is reviewed by the HQ ACP. For direct contracting, the CAP review is mandatory for the range \$50,000 and up to 50 percent of the DPA. Any amounts between 50 percent of the DPA and \$2 million are reviewed by the RACP.

When providing the SR agreement for approval, the UNDP CO should include comments from the chairperson of the committee one level below the reviewing committee.<sup>14</sup>

CAP Committees are established by the RR in each UNDP CO to provide written advice to the RR on engagement processes. The policies covering CAP Committees are detailed in the **POPP**.

Once the UNDP procurement committee has reviewed and recommended the SR agreement for approval to the RR, the Regional Chief Procurement Officer or the Chief Procurement Officer, may approve the SR agreement. If the UNDP procurement committee does not recommend the SR agreement for approval, the UNDP CO is required to restart the procurement process, provided the RR, Regional Chief Procurement Officer and Chief Procurement Officer agree with this recommendation.

The Local Project Appraisal Committee (LPAC), CAP, RACP or ACP may direct the UNDP CO to negotiate some of the terms of the SR agreement with the SR. If the SR agreement is modified, it should be resubmitted to the same committee for approval (please see process in Figures 1 and 2).

Figure 1. Selecting Government and UN Agencies by Proposal Defined Engagement

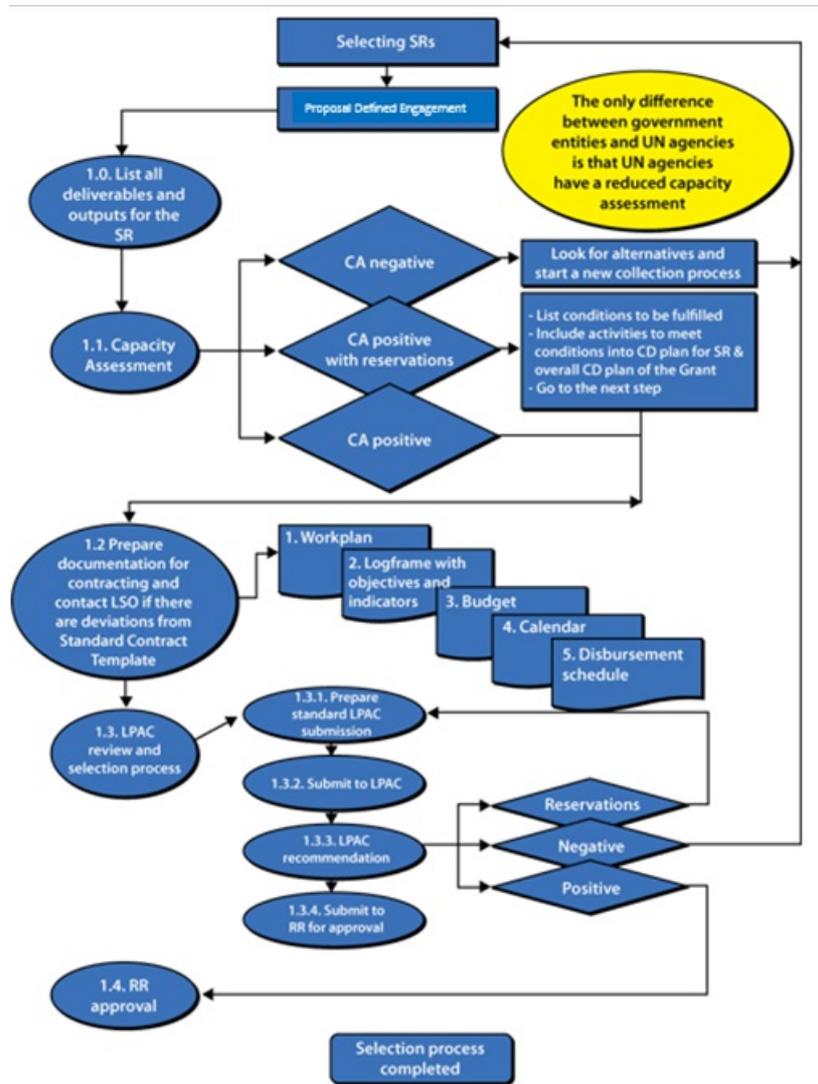
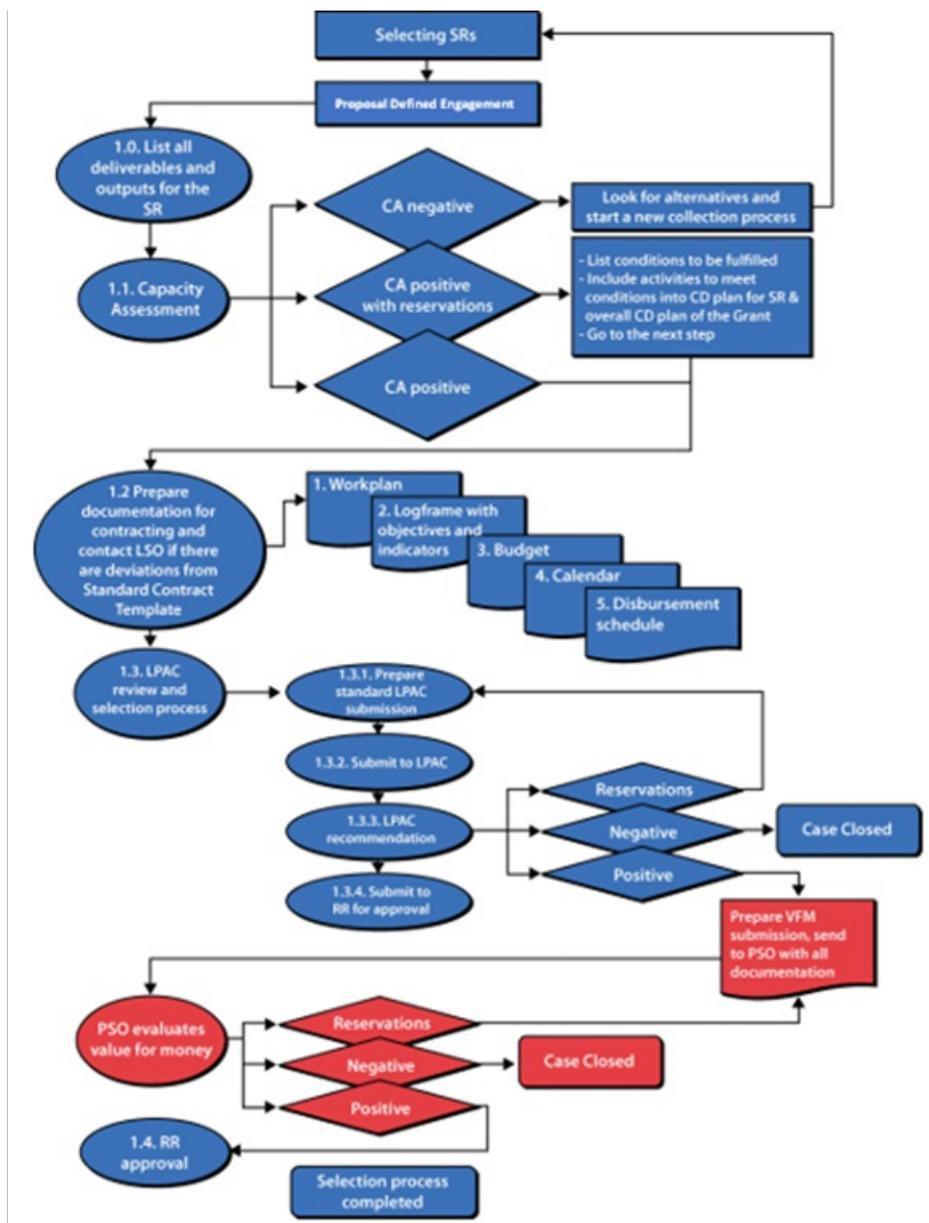


Figure 2. Selecting CSOs by Proposal Defined Engagement



## Engaging Sub-recipients

### The Sub-recipient Agreement

Following the selection process, UNDP engages Sub-recipients (SRs) by entering into binding legal agreements with them (SR agreements). Depending on the type of SR, the appropriate template should be used (i.e. the template for a government entity, available in [English](#), [French](#) and [Spanish](#), or the template for an intergovernmental organization (IGO) or a civil society organization (CSO), also available in [English](#), [French](#) and [Spanish](#). The SR agreement template is consistent with the terms of the Global Fund Grant Agreement.

The SR agreement is based primarily on the proposal submitted by the SR. However, the UNDP Country Office (CO) may decide to have discussions/negotiations with the SR regarding particular aspects of the proposal, to modify the proposed SR agreement. Discussions can encompass programmatic and performance indicators and financial issues. Negotiations are generally conducted between the designated person in the project management unit (PMU) and the authorized representative(s) of the SR.

<p><b>Items that may be negotiated include:</b></p>	<p><b>Items that may <i>not</i> be negotiated include:</b></p>
<ul style="list-style-type: none"> <li>• Specific activities and deliverables;</li> </ul>	<ul style="list-style-type: none"> <li>• Replacement of key SR personnel;</li> </ul>

• Reporting template and schedule;	• Core activities the SR has indicated it will perform;
• Specific budget items;	• Performance indicators of the Global Fund; and
• Final budget amount; and	• Disbursement schedule.
• Geographical coverage of activities.	

Any substantive departures from the model SR agreements should be approved by the UNDP Global Fund/Health Implementation Support Team for programmatic issues and by the Legal Office (LO) for legal issues.<sup>[1]</sup>

The SR work plan, budget and performance framework (PF) form essential parts of the SR agreement and should be attached as annexes. While the SR activities may be part of a larger programme being carried out by the SR, the work plan, budget and PF should extrapolate only Global Fund activities. This means that, while SR targets and detailed budgets can be considered during grant-making, following grant signing between UNDP and the Global Fund it is necessary to ensure that targets agreed with SRs aggregate to the final PF agreed between UNDP and the Global Fund. Likewise, the SR's budget should be within the limit set for specific activities in the detailed grant budget approved by the Global Fund. The UNDP CO should ensure that the SR work plan, budget and PF are consistent.



#### Practice Pointer

The UNDP CO can include additional clauses in the SR agreement as required and appropriate, subject to LO clearance, when applicable.

There are clear advantages to entering into a one-year agreement when dealing with a completely new SR, which would allow reviewing achievement of targets, costs and staffing after the first year.

[\[1\] If it is not clear whether the change to the SR agreement template is substantive, the UNDP CO should contact Legal Office for guidance.](#)

## Induction Workshop

Following the signing of the Sub-recipient (SR) agreement, it is good practice for the UNDP Country Office (CO) to organize an induction workshop for the SRs on the specifics of UNDP/Global Fund-financed programmes. The project management unit (PMU) sends an invitation letter to the SRs soliciting the participation of one staff member from monitoring and evaluation (M&E), finance and programme units at the workshop. The workshop's objectives are to:

- Share the context of the project implementation and the objectives of the project;
- Explain the performance-based funding mechanism of Global Fund;
- Train the SRs on reporting tools; and
- Train the SRs on specific UNDP requirements.

After an introduction on the context of the project implementation, the agenda should include presentations about:

- The performance-based funding mechanism;
- The M&E system and data quality. In this section, in addition to other information, the PMU explains the verification process of the quarterly reports at SR office and data validation at site level;
- Financial management system;
- Capacity development activities and plan (if available); and
- The requirements of stock management of drugs and lab products.

To emphasize the partnership of the project, in addition to the presentations it is suggested that the training includes an opening and when possible a short discussion session with UNDP CO leadership, the coordinator of the national programme (TB, HIV or malaria, depending of the workshop) and a leader from the Ministry of Health.

## Procurement by Sub-recipients

UNDP has determined that direct procurement by Sub-recipients (SRs) constitutes significant organizational and operational risks to UNDP for a number of reasons, including the process itself, the amount of money involved, the risk of procuring sub-standard products, paying too much and the potential for fraud. Procurement in the framework of SR agreements should be limited to minor office supplies and other similar items of limited value. **UNDP COs should exclude from the SR agreements any funds for the procurement of health products, as this procurement must always be completed by UNDP.** Capital assets should be procured by the UNDP Country Office (CO). In no instance should the SR spend more than 10 percent of its cumulative budget or \$100,000 for the duration of the SR agreement period, whichever is less, for procurement of goods and services. At the time of SR contracting, when the SR work plan and budget are agreed, the UNDP CO should ensure this is observed.

For CSOs with value for money (VfM) assessments, the procurement value is reviewed by Global Fund/Health Implementation Support team and is part of the VfM approval. The UNDP CO should undertake all high value procurements and be responsible for the contracting i.e. studies, professional services. It is only in cases where it is not feasible /practical for UNDP CO to procure centrally will such procurement be delegated to SRs and such exceptions will be approved by the UNDP CO where there is no VfM assessment approved by the UNDP Global Fund/Health Implementation Support Team.

## Sub-sub-recipient Engagement

At times, the Sub-recipient (SR) may itself want to outsource a specific activity to another entity, which becomes a Sub-sub-recipient (SSR). The UNDP Country Office (CO) maintains overall responsibility for all SSR activities and should review and approve all SSR agreements, as SSR appointments carry high risks for UNDP. Prior to approving an SSR agreement, the UNDP CO should ensure that the SR has performed a capacity assessment of the prospective SSR, using a methodology acceptable to UNDP (such as the UNDP template) and that the assessment is positive. If the assessment is negative, the SR should not engage the SSR. It is important to stress that SSRs should contribute to a specific component mentioned in the SR agreement and should not be used as vehicles to circumvent UNDP procurement rules.



### Practice Pointer

As a best practice, UNDP COs should be involved in the SSR capacity assessment, which should use the same format and style as the SR capacity assessment.

The UNDP CO should carefully review the use of SSRs to carry out some of the activities stipulated in the SR agreement. The CO should also ensure that there is a sound rationale for using an SR as a conduit for funds to an SSR. The same rules that apply to working with SRs apply to working with SSRs:

- The SR–SSR agreement should carry the same terms as the SR agreement;
- Potential SSRs should be assessed by the SR; and
- UNDP procurement rules also apply to SSRs, and procurement should not be delegated to SSRs.

If an SSR is appointed, the UNDP CO is required to monitor the SR's management of the SSR. This monitoring should be a key component of the CO risk management plan and should be covered in the SR agreement.

## Renewal of Sub-recipient Agreements

At the end of the existing Sub-recipient (SR) agreement, the UNDP Country Office (CO) may choose to renew the SR agreement of an SR that has received a positive evaluation. However, the UNDP CO is not obliged to continue with the same SR if that SR received a negative evaluation or if any changes in the overall context would justify a variation. In those cases, UNDP conducts a new SR selection process.

When the UNDP CO intends to renew the SR agreement, it may amend the current SR agreement to enable the SR to continue the same activities without a gap or delay in implementation. The amendment should include the SR's new work plan, budget, calendar and performance framework for continued activities. In case of Proposal Defined Engagement the UNDP CO should obtain a new value for money (VfM) statement connected to the new activities/budget, but a new capacity assessment is **not** required. However, the UNDP CO should consider the value of a new capacity assessment to determine the risk profile of the SR.

The renewal request should be submitted to the appropriate review committee: SRs initially selected through Proposal Defined Engagement are recommended for approval by the Local Project Appraisal Committee (LPAC). Civil society organizations (CSOs) selected by procurement engagement (strategic selection) are recommended for approval by the Contracts, Asset and Procurement Committee (CAP), Advisory Committee on Procurement (ACP), or Regional ACP (RACP), depending on the monetary thresholds in the new proposal. The renewal request should include a statement from the Resident Representative (RR) or Country Director, confirming that the SR achieved all deliverables in the previous period to the satisfaction of the beneficiaries, and received a positive evaluation. The statement should also list the expected new deliverables, along with cost justification and the VfM statement (if applied).

In case the UNDP CO wants to extend the SR agreement with the CSO that has been selected through Proposal Defined Engagement modality with the VfM submission and the same scope of activities are to be performed by the CSO in the new period, the UNDP CO needs to receive the approval of the VfM for the new period from the UNDP Global Fund/Health Implementation Support Team. The UNDP CO needs to submit a short summary of the VfM and the minimum set of documents as per the [guidelines for submission of VfM assessment](#) to the UNDP Global Fund/Health Implementation Support Team for review.

If the UNDP CO wants to conclude an SR agreement with the same CSO that has been selected through Proposal Defined Engagement with the VfM submission and performed in a satisfactory way within the previous contract, and there is more than a 20 percent change in the budget of a renewed SR agreement OR there are substantial changes to the terms of reference for the new period of the SR agreement (for example, a new activity or activities are added, increase/decrease in coverage that can influence costs per beneficiaries and management fee), several steps are necessary. The CO needs to prepare a new VfM submission and minimum documentation in accordance with the guidelines for VfM assessment, submit them to and receive the VfM approval (for the new period) from UNDP Global Fund/Health Implementation Support Team. A new capacity assessment is recommended to assess the organization's capacity to implement new activities, and to implement several activities at once.

If the performance evaluation of the current SR is negative, no SR agreement renewal (extension, or a new contract) should be signed with the organization.

If there are questions regarding extension/renewal modalities, the UNDP CO should consult with UNDP Global Fund/Health Implementation Support Team.



#### Practice Pointer

- In case the first capacity assessment of the proposed SR was borderline (low rating, an action plan should have been developed to improve risky areas), it is necessary to conduct a new capacity assessment and submit evidence that the action plan has been implemented (which means that the new capacity assessment will not highlight the improved areas as risky). The evidence of fulfillment of the action plan can be also gathered through regular M&E activities and programmatic/financial reporting of the SR that is verified by the CO. In such cases a new capacity assessment is not necessary.
- About performance evaluation: Although there are no prescribed forms for performance evaluation, one has been developed by the Global Fund/Health Implementation Support Team.

#### Questions and answers:

**Question:** The SR agreement will expire in three months. Based on performance evaluation of the SR during the previous quarters, we would like to renew the SR agreement with the Sub-recipient. Should we wait until the last day of the SR agreement and conduct a final performance evaluation in order to start the renewal?

**Answer:** If the UNDP CO is able to put on record a positive performance evaluation (PE) of the SR for the previous periods, then there is no need to wait until the last day of the agreement. If the PE is positive, you can start preparations for renewal of the agreement to ensure there will be no gap or delay in implementation (please see the clauses about the changes in TOR). However, a performance evaluation for the entire length of the current SR agreement should be completed later.

**Question:** Can one organization have more than one SR agreement?

**Answer:** One organization can implement activities in the framework of several Global Fund grants that have discordant disbursement schedules. In such cases, and to insure operational efficiency and effectiveness, one organization can have more than one SR agreement.

**Question:** What is a no-cost extension of an SR agreement?

**Answer:** A no-cost extension of an SR agreement means that there is no change to the already approved budget, but there is an extension of the length of the agreement to allow enough time to reach the objectives. The payment for works/services is continued until the end of the extension period.

## Termination of Sub-recipient Agreements

If a Sub-recipient (SR) wishes to end their agreement with UNDP, or UNDP wishes to end their agreement with the SR before the end of the existing SR agreement, UNDP needs to ensure a formal termination of the existing SR agreement. It is important that UNDP Country Office (CO) discusses the issues leading to the potential termination, and seeks guidance from the Global Fund/Health Implementation Support Team before terminating the contract. The Global Fund and Country Coordinating Mechanism (CCM) should be informed of major issues with SR performance, including contract termination. Please refer to [the legal framework section of the Manual](#) for further details.

## Managing Sub-recipients

The UNDP Country Office (CO) should manage SRs according to the UNDP POPP and the terms of the Sub-recipient (SR) agreement. During implementation, it is the CO's obligation to monitor the contract and ensure SR compliance.

The UNDP Global Fund/Health Implementation Support Team has developed an [SR Mapping Tool](#) (and [instructions](#)) to support COs in maintaining a comprehensive overview of SRs and their contracts. This tool contains information on each SR such as type, address, budget, regions served, activities, and beneficiaries. This tool can be used to monitor SR contract duration and provide a high-level overview on project partners and activities, as well as support in the creation of a visual geographic representation of the SRs.

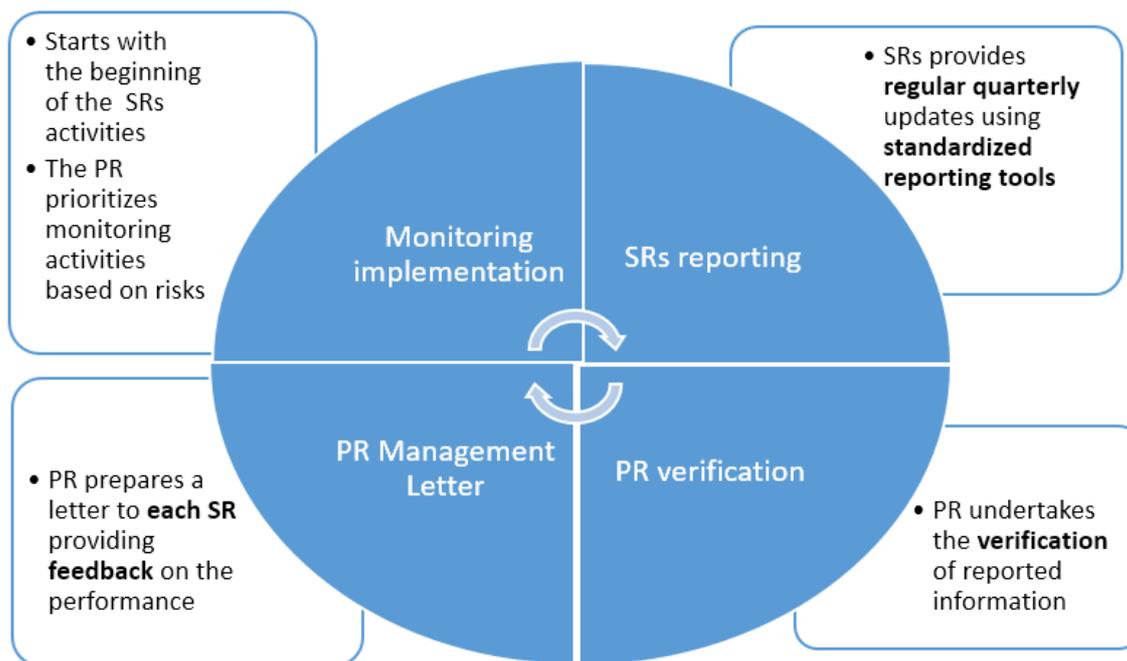
## Managing partnership with Sub-recipients

UNDP, as a Principal Recipient (PR), is responsible for grant implementation. However, the Sub-recipients (SRs) are the entities that implement most of programmatic project activities. SRs' capacity to successfully implement their activities will determine grant performance and its contribution to the national disease programme. Therefore, the PR should cooperate with SRs in grant implementation and work to build SR capacity and, at the same time, ensure that SRs deliver the results they are responsible for in an accountable manner. To play both roles—capacity development and risk management—the UNDP Country Office (CO) should establish good working relationships with the SRs, as well as an effective management and oversight system.

Within the unit, the Project Management Unit (PMU) identifies persons in charge of monitoring the SR agreement and overseeing the SRs. For specific M&E, programmatic, financial and procurement topics, the PMU designates a person in each unit to supervise a specific group of SRs. Depending on its organizational chart, the PMU might decide to monitor SRs differently. Regardless of particular PMU structure, coordination is essential to ensure that the PMU oversees all aspects of all SRs projects. Once the SR agreement has been signed, the PMU informs the SRs about the UNDP contact persons for the overall SR project and for specific questions: M&E, finance, asset and health products management.

In the induction workshop, the PMU informs the SRs about the processes in place in UNDP for monitoring and evaluation of activities, as well as financial and supply chain management. It is good practice for UNDP SR focal points in each unit of the PMU to plan additional meetings with the contact person and other relevant staff of the SRs (M&E, finance, procurement) for more detailed information about each system, in regard to the reports, management, quality requirements and controls.

## Cycle of Sub-recipient Monitoring



- **Monitoring implementation:** The cycle of Sub-recipient (SR) performance monitoring starts with the beginning of the activities implemented by the SR. The Principal Recipient (PR) should adopt a risk-based approach to prioritize the SRs, sites and activities to supervise based on the SR assessment, the importance of a site in regard to project performance, volume of funds and/or commodities managed by an SR and the risk related to the implementation of a specific activity. Following each monitoring activity, the PR should provide feedback in order to allow timely correction and improve implementation.
- **SR reporting:** SRs provide regular quarterly updates using standardized reporting tools to record the programmatic and financial achievement of the quarter.
- **PR verification:** As the third step, the PR undertakes the verification of reported financial information, inventory of health commodities (where applicable) and programmatic results. The verification is a team effort and part of it can take place on PR premises (reviewing the supporting documentation provided by SRs) and, if required, at the SR's office according to the process previously described. The PMU should plan the data verification within a week after reception of the SR report to allow timely reporting of the PR to the Global Fund. Each Programme Management Unit (PMU) unit works with its contact person at SR level.
- **PR Management Letter:** It is good practice, after review and verification of SR reports, for the PR to prepare a letter to each SR providing feedback on the SR's performance during the reporting period. The letter will also provide information about the disbursement amount for the next period. This Management Letter ([English/French/Spanish](#)) should be prepared and sent to the SR after the submission of the SRs programmatic and financial reports, after all information is verified and finalized. The PR will inform the SR about:
  - Status of management actions from the previous reporting period(s);
  - Management issues identified during the reporting period; and
  - Corrective actions required to address observed issues including deadlines.

## SR Reporting

The Principal Recipient (PR) is required to submit regular progress updates to the Global Fund. To obtain information on grant results, the PR consolidates information on Sub-recipient (SR) activities. Although the PR is usually not required to report to Global Fund quarterly (but annually or semi-annually), UNDP SRs are required to report quarterly. This way, the PR can follow grant performance more closely and discuss delayed activities with the SR, identify any performance challenges and timely implement corrective measures. Based on the results of the capacity and risk assessment, the UNDP Country Office (CO) might instruct the SR to provide monthly reports.

As per the terms of the SR agreement, the SRs are required to provide their reports within 15 days after the end of the quarter. The Programme Management Unit (PMU) should follow up on the timeliness of the submission of SR reports. Hence, it is good practice for the PMU to identify one person to receive and register all documents, and then provide them to the adequate unit. At the unit, the person responsible for a specific SR verifies the completeness of the report and the availability of supporting documents. Each unit, programme/monitoring and evaluation (M&E) and finance, designates one person responsible for keeping track of the reports. One person, assigned as the PMU focal person for communication with this SR, combines information about programmatic and financial incomplete or late reports. When possible, it is recommended that one SR receives one consolidated PMU request for additional information.

### Additional information for UN agencies

As with all SRs, even when a UN agency is the SR, the primary responsibility for implementing grant activities remains with UNDP. For more information, please refer to the [financial management section](#) of the Manual for details related to financial reporting and verification with UN SRs. There is no requirement for the UN agency to submit an audit report. However, if there are Sub-sub-recipients (SSRs) under the UN SR, UNDP should request copies of the SSR audit reports.

## Format of SR Progress Reports

The UNDP Global Fund/Health Implementation Support Team has developed a template for SR programmatic reports ([English](#), [French](#), [Spanish](#)), which, along with financial reports, facilitate assessment of SR performance. The programmatic section of SR reports should contain:

- Project information (name of SR, Grant Agreement number, reporting period, etc.);
- Quantitative data with targets, realization and the performance of the key indicators;
- Explanation of programmatic performance. The SR:
  - Provides reasons for any deviation. The SR also explains any modification of the activities in the work plan of the reporting period and the proposed changes for the next period;
  - Shares challenges to activity implementation, and actions taken;
  - Updates the progress and implementation of management actions;
  - Describes success stories and lessons learned and
- The list of monitoring visits undertaken by the SR during the period to SSRs or service delivery points with the names of the sites, key findings and recommendations.

## SR financial reporting and audit

Please refer to the [financial management](#) and [audit](#) sections of the Manual.

## PR review of SR reports

Accurate and timely reporting is an essential instrument for management of SRs and SSRs, and needs to be maintained as a high priority. This section describes the process of a PR's review of SR reports.

The M&E team verifies the results reported for the key indicators.

The PMU designates a focal point and instructs all SRs to submit their reports and supporting documentation to the focal point. When the report is received, the M&E unit verifies the following:

- The report is stamped with the signature of the person initially designated by the SR;
- The SR used the required template;
- All sections are complete with adequate information and all indicators and activities of the period are included. If the report is incomplete, the PMU should request the SR in writing to submit amended report and record only the time of the submission of a complete report;
- Previously agreed supporting documents that should be provided with the report are available; and
- The date each SR submits its report is recorded.

The team refers to the SR's performance framework to confirm the SR's target for the period. Using a verification template, the team compares the SR's targets and the results from the SR's report for each indicator. It is also important that UNDP and the SR agree on the minimum required supporting documentation and that this be specified in an annex to the SR agreement. The PMU specifies if copies of those documents should be sent with the quarterly report or archived at the SR's office for on-site verification.

Supporting documentation packages might include:

### For trainings:

- Complete report with list of participants, photographs of the training (providing this is not in breach of patients' confidentiality and taken with their consent), agenda with topics to be covered, detailed budget with the cost of per diem, meals and material;
- Documentation of the competitive selection of trainers, training facilities, supplies and materials purchased; and
- Contract of meeting room rental and receipt of other expenses for trainings.

**For SR site visits:** Report.

**For other indicators:** Site reports and other documents agreed with the SR.

It is recommended that the PR retains copies of SR supporting documentation and archives them after the verification. During the verification, the PR will use the supporting documents to:

- Confirm the information reported. For instance, the team will review the reports of the sites visits and analyse the supporting documents of the trainings as already discussed.
- Re-aggregate the results reported for the service delivery points. For indicators such as number of persons currently on antiretroviral therapy (ART), number of people who inject drugs (PWID) reached with prevention activities or number of TB cases notified, the team verifies the table (prepared by the SR) with the list of sites in the SR's network and the list of indicators to verify. The team verifies the number reported using the original report of each site. The team recalculates the total for each indicator and transcribes it to the verification template. The detailed table of verification is an important document that should be annexed to the verification report. The PMU can refer to those tables to quickly provide information about a specific indicator when sites data are required for future Local Fund Agent sites verification or audit. Depending of the report format of the sites, the PMU decides if a copy of all site reports is required at the PMU.

For national indicators, the national programme (usually engaged as an SR) should be able to provide disaggregated data for each indicator.

After the verification, the team compares its findings to the data submitted by the SR. For each indicator where the team found a discrepancy, the result is recalculated together with the SR representative. Both discuss possible explanations for the discrepancy and agree on the final number to report. Based on the SR explanations, the team makes comments about reasons for the difference (a site report was not available when the SR submitted its report, calculation error, etc.).

During the verification, the team reviews SR performance and discusses with the SR the corrective actions or plans for accelerated implementation, when required. The SR should archive the sites reports and other supporting documents for future verifications.

When feasible and for SRs contributing a substantial part of grant results, the PR meets with the SR contact person to discuss the challenges to activity implementation during the reporting period, as well as the progress and implementation of management actions from previous periods.

The PR's functional units (e.g. finance, M&E, programme) discuss each SR and cross-check information; for instance, the utilization of the funds for a training without any information provided on training implementation in the programmatic report; or the implementation of site visits without the utilization of funds related to this activity. Should there be any inconsistencies between financial and programmatic verification reports, the PR explores further and discusses with the SR.

A **Management Letter** (French and Spanish templates also available) is then issued to the SR to inform them of the results of the verification and analysis of SR programmatic and **financial reports** and to issue recommendations for actions to address key findings.

## Sub-recipient funding requests

SRs request funds for the next quarter when they submit their progress reports to the UNDP CO, except for the first funding request. The first funding instalment is provided to the SR as an advance so that implementation of activities can be initiated, on the basis of the SR agreement requested through the Face Form. The second and subsequent disbursements are advanced on a quarterly basis following review of the financial and programmatic reports for the previous quarter. Total disbursement for the fiscal year should not exceed the approved annual work plan and budget.

Although quarterly SR budgets are agreed upon as part of SR agreement, the budgeted amount presents only a ceiling. The disbursement amount depends on the approved realistic forecast and the overall programmatic and financial performance, taking into account any corrective measures the SR is proposing for the upcoming period. If the UNDP CO's analysis shows that an SR is not performing according to the SR agreement, the UNDP CO communicates required corrective actions to the SR in a quarterly Management Letter. The CO and SR should work together to address these deficiencies. Future funding requests may be halted, reduced or made contingent upon corrective measures being implemented. A decision on contract extension or termination of an SR agreement is based on performance monitoring.

Depending on an assessment of programme needs, risk assessment and the nature of activities, the UNDP CO can decide to provide funds to SRs over shorter time-frames than requested. SRs assessed as having weak financial management capacity should be given smaller instalments of funds more frequently, or given funds in connection with carrying out specific activities. Finally, for SRs with weak financial management capacity, UNDP can apply direct payment modality.

Prior to accepting an SR disbursement request, the UNDP CO should verify that at least 80 percent of the funds provided to the SR in the previous disbursement have been utilized, and that 100 percent of all disbursements before the previous disbursement have been spent in accordance with the SR agreement. No new funds should be given to an SR for any of the activities it is implementing until the previously allocated funds have been utilized according to these rules. The UNDP CO may require that the SR refunds any funds that have been used to finance goods or services not stipulated in the SR agreement, within 15 days of the request. Otherwise, all unspent SR funds must be returned to UNDP within three months after the expiry of the agreement. For details related to financial verification of SR reports, please refer to the **financial management section** of the Manual. In view of the importance that some SRs play in achieving strong grant performance, UNDP CO should identify key activities that should continue irrespective of the rate of funds' liquidation. In this scenario, the UNDP CO may consider moving to direct implementation to allow key activities to continue, while supporting the SR in accounting for the previously disbursed funds.

For SRs with a high burn rate, and where there is a risk that critical activities will not be implemented due to lack of funds between the end of the quarter and until UNDP's next disbursement, the SRs can request another disbursement as soon as 80 percent of a previous disbursement and 100 percent of all earlier disbursements are liquidated, even if that happens well before the end of the quarter. When seeking further funding, the SR must follow the standard requirements stated in the SR agreement, and in particular submit a financial report to UNDP, showing the liquidated funds. This report along with all other relevant information is verified by the UNDP Project Management Unit, recorded in Atlas, and a new disbursement is processed for the next quarterly period. At the end of the relevant quarter, the SR is required to report to UNDP on the liquidation of the 20 percent balance. This arrangement ensures that SRs with high delivery rates always have sufficient cash flow on hand.

## Ongoing Monitoring of Sub-recipient Activities

Monitoring is the ongoing routine tracking of key elements of Sub-recipient (SR) performance through review of regular reports and on-site observation. Evaluation is the point-in-time assessment of the outcomes of the program against its objectives. Monitoring and evaluation (M&E) provide the PR with the information needed to make evidence-based decisions for programme management and improvement as well as SR funding requests.

The Principal Recipient (PR) should have a strong M&E system in place to continually monitor the implementation of SR activities and assess SR project progress against intended results. Therefore, in addition to the team organization discussed previously, the Project Management Unit (PMU) should:

- Assure that data collection tools are available to allow collection of information for all indicators;
- Evaluate the adequacy of the PR's PMU staff in regard to the SR sub-projects implemented;
- Have a quarterly monitoring visit plan and implement supervision visits;
- Keep records of all project documents (SR reports and supporting documents, PMU verification reports, monitoring visits etc.). The PMU should establish an archiving system where information regarding the PR's management of each SR can be easily accessed;
- Have regular (at least quarterly) meetings of all PMU focal points covering one SR (e.g. in programme, finance, supply chain, audit etc.) to review the SR's progress and decide if any corrective actions are required; and
- Communicate with the SRs about the PMU's findings and requirements and SRs challenges. Each quarter following the SR performance review, the PMU is advised to organize a meeting in which all SRs share their performance and challenges. The UNDP Country Office (CO) also presents the overall programmatic and financial achievement and other important issues for the period (follow up of audit findings, timeliness of reports). This is an opportunity to discuss challenges and learn about successful implementation strategies.

## Integrated Site Visits

Visits to Sub-recipient (SR) facilities or service delivery points are important to ensure that programmatic activities are implemented as intended and to required quality, that funds and physical items provided through the SR agreement are being used and maintained according to the agreement and that record-keeping is up to date. Site visits include access to all items and documentation related to the Global Fund-financed activity, as well as discussions with key SR personnel and grant beneficiaries. Taking into account limited resources for site visits, the Project Management Unit (PMU) prepares the site visit plan using a risk-based approach. Each quarter, the PMU updates its monitoring visit plan based on the findings of previous visits to follow up, specific indicators to validate, the importance of the sites (number of clients/patients), volume of funds and commodities managed by specific SRs and other additional information. It is advisable for the PMU to share a monthly calendar of site visits with the National Programme and encourage the realization of joint visits.<sup>[1]</sup> The PMU also informs the SR in advance of the planned visit in order to assure the on-site presence of the needed staff and encourage the SR to facilitate access to and discussion to beneficiaries to obtain their feedback on the programme. In case one SR implements the programme in numerous locations or through Sub-sub-recipients (SSRs), it is the SR's responsibility to plan for field monitoring and supervision visits. Based on the SR's quarterly site visits calendar, the PMU might decide to join a SR during the SR's visit in certain challenging sites. The main findings of the site visit should be discussed with the staff in place. A complete monitoring visit report should be shared with the SR and ideally with the national programme.

The Principal Recipient (PR) should prioritize integrated site visits that aim to supervise different aspects (monitoring and evaluation (M&E), health products management, programme, asset management) during one visit. The format of an integrated site visit report includes different sections:

### A. An update of the previous visit's recommendations

Before the visit, the PMU should review the reports of the previous visits and note the recommendations that were not fulfilled in order to follow up during the planned mission. It is good practice for the PR to maintain an Excel file to compile the main recommendations of all visits. Before a new visit, the team should consult the file in order to follow up on the previous recommendations during the planned visit. After undertaking the site visit, the team should update the status of the previous recommendations and provide new ones. This file allows monitoring the challenges and progress over time. At the site, the team should note the actions taken in regard to each recommendation and update its status. The report of the mission will end with new recommendations and timeline.

### B. Monitoring and Evaluation

**Verification of the availability of data-collection and reporting forms and tools:**

For each program, whenever available, the site should use the national forms and tools or, in cases where national tools are not available, prescribed grant-specific tools to collect and report against the indicators. For specific project-related activities, data collection tools should be harmonized in the facilities implementing the same activity.

**C. Data quality assessment:**

As performance-based funding projects, the disbursements of Global Fund's projects are tied to the results obtained. Therefore, the quality of data collected and reported are important for programme management.

At site level, the team assesses the percentage of availability, timeliness and completeness of the reports. Using the data sources, the team recounts the data and compares the verified data to the site's report for each indicator selected.

**D. Health product management**

The verification of the pharmaceutical system management at site level is part of the activities required to assure the quality of the products that reach the patients. The UNDP Country Office (CO) verifies:

- The availability of procedures for drug management and inventory;
- The availability of the report of the last supervision visit and status of previous recommendations;
- The storage conditions, drug management and security of the pharmacy;
- Stock levels at the moment of the visit and any stock issues in the previous period; and
- The comparison between number of patients covered and consumption of health products

**E. Laboratory**

The assessment of the laboratory system assures that the system in place guarantees the reliability of laboratory results. In addition to the supervision of the environment in which the services are provided, the UNDP CO verifies:

- The availability of tests procedures and laboratory registers up to date;
- The training of designated laboratory technicians;
- The availability of the report of the last lab supervision visit; and
- The stock of laboratory consumables and reagents since the last visit

**F. Programme quality assessment**

The programme assessment's objective is assuring the quality of services delivered. During the data validation, the team should hold discussions with the service providers responsible for the services related to the selected indicators. The team requests information about service provision organization, the system in place to ensure optimal service quality, and the application of national guidelines. The team also notes the service provider's thoughts on challenges, the adequacy of resources (human, laboratory, drug management etc.) and in general, the factors that might have impeded or enhanced service performance.

When possible, it is advisable for the team undertaking the monitoring visit to talk with beneficiaries and inquire about their experience with the provided services: accessibility, waiting time, interaction with service provider, privacy.

At the end of the visit, the team should verify that:

- A copy of the national treatment guidelines is available;
- The algorithms of treatment and drug regimens are posted in the examination rooms;
- There is a procedure for recording adverse effects of medicines; and
- The health staff was trained

For monitoring visits for prevention services, the visit should check the number of times beneficiaries are 'reached' and how services are delivered to them. Although outreach workers or health facilities may provide condoms or needles and syringes as part of prevention services, the quality of the services provided may be assessed in terms of the percentage of clients with regular/recurring visits; provision of information about the importance of consistent condom use; the importance of safe injections and the benefits of HIV testing. Another important aspect of monitoring visits is looking at referrals of clients to other services (for example for sexually transmitted infections (STI), testing and counselling or provision of antiretrovirals (ART)).

**[1]** In general UNDP encourages joint monitoring visits; however, depending on the environment and sensitivities around key populations, in some instances UNDP will have better access to target beneficiaries without the presence of national disease programme representatives.

## Monitoring Sub-recipient Training Activities

Training activities organized by Sub-recipients (SRs) pose a particular risk to the Principal Recipient (PR) in terms of both possible fraud and inefficient use of funds. Before the training is delivered, the PR's team should verify that:

- The training is included in the SRs approved work plan/budget and Global Fund-approved training plan.
- In addition to the general information about the training, the SR should provide:
  - Location and date of the training;
  - Profile and number of participants (health care professionals, non-governmental organization (NGO) staff, teachers, lab technicians, youth);
  - Agenda with topics to be covered; and
  - Detailed budget with the costs of per diem, meals and material.

With the quarterly report, the SR should submit a training report and supporting documentation for every training delivered during the period. The Programme Management Unit (PMU) should ensure that:

- The expenses were done accordingly to the approved terms of reference (TORs);
- There was a competitive and well-documented approach to the selection of trainers, training facilities, supplies and materials purchased;
- If there is a government institution mandated to provide trainings, the trainers should not receive fees for activities which are part of their terms of reference, but can be reimbursed for travel cost and receive per diem;
- Per diems were provided according to the Global Fund- and PR-approved budgets; and
- The targeted participants attended the training. The PMU verifies the list of participants and compares the profile of the attendees to the required participant profile previously submitted. The list of participants should include information such as name, telephone number, email, institution, title (e.g. administrator, programme coordinator, programme assistant), and qualification (e.g. nurse, doctor, economist, lab technician). The PMU might prepare a database with all the information to reduce the risk of multiple participations on the same topic. In addition to its use for verification purpose, such a database is very useful in providing information and overview of trained service providers and facilitating planning. The PMU might confirm the attendance of a participant during site visits.

## Sub-recipient Performance Management

Sub-recipient (SR) progress reporting, composed of financial and programmatic reports, and other collected information, should show satisfactory management and use of Global Fund resources before the UNDP Country Office (CO) can disburse funds requested for the upcoming period.

To evaluate the overall performance of the SRs, as part of progress reporting for a given period, the Programme Management Unit (PMU) must take into account all information available for the reporting period, which usually includes:

- The programmatic performance against the agreed targets;
- The findings of Principal Recipient (PR) monitoring visit;
- The fulfilment of the management actions/capacity assessment recommendations;
- Financial and asset management. Other criteria are included in the overall performance evaluation: Fund utilization in accordance with the request for funding, unauthorized use of funds, severity of audit findings and inventory and asset management by the SR also influence the performance evaluation;
- The PR should cross-check the financial and programmatic information for consistency, e.g. by comparing the financial delivery rate and programmatic performance in key areas and clarifying any inconsistencies; and
- Fulfilment of SR audit management actions. The PR should ensure that SRs implement all audit recommendations to address the issues identified by the audit, particularly weaknesses in internal controls and systems.

The UNDP Global Fund/Health Implementation Support team has developed a template ([English](#), [French](#), [Spanish](#)) for the SR programmatic report. Please refer to the [financial management](#) section of this Manual for guidance on financial reporting.

In addition, the [SR Performance Evaluation Tool](#) can be used to assess and track over time the quality of work of SRs in the areas of reporting, monitoring, programmatic performance, funds utilization, audits, inventory and asset management and capacity to implement management actions.

## Performance improvement measures

When the PR's monitoring reveals that the SR is not achieving its objectives or facing difficulties in adequately managing resources, some corrective actions can be taken. The actions listed are initial measures to strengthen management and address irregularities in financial reporting at the SR level when the issues do not yet warrant the launch of an investigation:

- Reduce the size and increase the frequency of advances (if quarterly, make them monthly), and intensify the scrutiny of financial reporting.
- If the SR is not providing satisfactory financial reporting on advances, consider switching to direct payment to vendors. However, direct payments carry their own risks in terms of accountability and oversight, which need to be carefully considered.
- If the SR's financial reporting is more seriously inadequate or gives initial indications of irregularities, freeze further disbursement and send a management letter with conditions that need to be met before disbursements can resume. If there are stronger indications of irregularities, consider **suspending or terminating the SR agreement** and alert UNDP Office of Audit and Investigations (OAI) in consultation with the Global Fund/Health Implementation Support Team.
- Intensify the scrutiny of the programmatic and financial reporting of advances, as this provides a key opportunity to identify problems with unsupported expenditures or other expenditure anomalies, and provides an opportunity to then stop further advances if deemed necessary.
- If it is determined that the SR has weak contract management or M&E capacity, ensure that the SR does not engage Sub-sub-recipients (SSRs).
- Consider risk management between the PR and the SR, and whether there should be a change in PR staff dealing with specific SRs over time to bring a fresh perspective to managing those SRs.
- Ensure that each responsibility contracted to the SR has an effective performance indicator against which the SR must report. Consider undertaking spot checks on the accuracy of the SR's reporting.
- For high-risk one-off activities by SRs such as training, COs should monitor directly (send someone along and check that the appropriate training function took place to the agreed standard).
- Undertake spot checks, the frequency of which should be related to risks which themselves may vary according to the geography of the SR's operations. Spot checks should not be announced in advance and may be linked with other missions.
- Follow up closely on audit findings, and link further disbursement to their implementation.
- If other performance improvement measures did not yield results, consider contract termination.

## Managing Risks Related to Sub-recipients

Risk management is a set of coordinated activities to direct and control a programme with regard to risk, while risk is defined as an effect of uncertainty on objectives. All project plans, including those for Sub-recipient (SR) sub-projects, are based on certain assumptions, for example that the SR will fulfil conditions related to capacity development activities to address weaknesses identified during the capacity assessment.

By signing the **Grant Agreement** the PR accepts the responsibility of managing the grant(s), including related risks. When a Principal Recipient (PR) engages other entities (i.e. SRs) to implement grant activities, it retains accountability for any risks related to the SRs, including their Sub-sub-recipients (SSRs) where applicable. Therefore, the PR should undertake a robust assessment of SRs' capacity and any related risks and address any issues accordingly.

The following issues should be considered when managing SR-associated risks:

- SR capacity assessment prior to contracting is essential to identify weaknesses that may prevent the SR from reaching the agreed targets.
- As the SR implements the activities in line with the SR agreement, the PR can reassess the capacity of the SR, from time to time. This enables assessing whether the agreed capacity development measures had the anticipated outcome, especially if the assessment was positive with reservations.
- Capacity in smaller organizations often hinges on the competence of a few key individuals. Therefore, staff turnover at SR level is a common major risk and should be monitored so staff transition and induction of new staff can be planned.
- Engagement of SSRs carries additional risk, as the PR is ultimately responsible for SSRs (including their ability to reach agreed objectives and their use of grant resources) while having only indirect control over them, through its management of SRs.

## Responses to materialized risks

Should the PR notice weak SR performance and weak fiduciary controls, it would normally implement performance improvement measures. In cases of repeated issues, the performance improvement measures have not yielded results and/or the UNDP Country Office (CO) identifies more serious indications of unsatisfactory reporting or potential irregularities, the following actions are recommended:

- Inform the Global Fund/Health Implementation Support Team, to obtain guidance and support;

- Conduct a rapid review of financial reporting to determine the extent of the problem;
- Suspend any further disbursement to the SR. If any critical and lifesaving activities must continue, UNDP should take over full implementation of the activities;
- In consultation with the CO, notify the UNDP Office of Audit and Investigations (OAI) as soon as the information about potential irregularities, or indications thereof is confirmed. OAI will determine whether an investigation is required;
- Liaise with the Global Fund Secretariat and Local Fund Agent (LFA) as appropriate;
- Hold urgent discussions with the government about the situation;
- If the SR is a government entity, advise the government to take firm action;
- Urgently formulate an action plan to respond to the situation, including measures to be taken to further strengthen financial controls to ensure that the problem does not occur again; and
- Review all SR agreements to determine whether the problem extends further.