Access to Management Fees and Overhead for National Civil Society Principal Recipients

Communities Delegation to the Board of the Global Fund to fight AIDS, Tuberculosis and Malaria

December 2021
## Contents

- Executive Summary  
- Dual-Track Financing  
- Global Fund Policies on Local Civil Society PR Expenditure  
- Voices from the Organizations  
- Conclusions  
- Recommendations
Executive Summary

The Communities Delegation to the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) Board has received several complaints and concerns related to the prohibition for national or local Principal Recipients (PRs) accessing Management fees, Overheads, or Indirect Cost Recovery (ICR) – a restriction aimed exclusively at them.

As we will see further on, this administrative limitation is laid out in the Global Fund Secretariat policies: the Global Fund Operations Manual and the Global Fund Grant Budgeting Guidelines. However, the United Nations (UN) Agencies and international NGOs (INGOs) operate under a framework agreement with the Global Fund Secretariat. It allows them to include all indirect costs in the budget, as well as a pre-agreed percentage of ICR that is, de facto, an Overhead, which is not subject to financial accountability or audits.

For years, this policy has generated double standards between national civil society PRs and INGOs and UN Agencies PRs that cannot be justified with any semblance of logical explanation. The imbalance exists because the Global Fund agreed to grant Overheads and ICRs, operating under framework agreements. Commonly, UN Agencies and INGOs receive management fees when they implement grants. In projects and programs, the inclusion of an Overhead or ICR is a policy required to cover organizational expenses that grants, direct and indirect costs that are not covered and that contribute to the sustainability of the organizations, such as: their governance board, senior management position, resource mobilization, audits and means of accountability. This is a management fee which, in a reasonable amount or percentage, is a common practice used to allocate a fee for the organizations who provide a service as PR to the Global Fund and other stakeholders for administering a grant.

Between November and December 2021, the Communities Delegation reviewed and analyzed the existing documentation on Global Fund policies and guidelines, surveyed more than 20 Civil Society Principal Recipients and conducted some in-depth interviews with a total of 11 Civil Society Organizations from Latin America, Africa, Asia, and Eastern Europe. One of these organizations has regional coverage and has negotiated a framework agreement with the Global Fund for access to ICR.

From this research, we have been able to conclude that local civil society PRs are discriminated against by the Global Fund when compared to other PRs, leading to a negative impact on the management of the NGO during the project and on the sustainability of the organization at the end of a grant cycle. There is an urgent need for the Global Fund to correct these unfair policies and to put into practice the principles and values behind dual-track financing.

Local organizations that fulfil the role of PR do not have secretaries or HQs to provide dedicated technical support. For national NGOs to receive GF grants, they need to change their processes. While this can strengthen them, it also diverts their efforts at financial sustainability. National organizations continue to exist beyond the rounds of grant funding, and applying for the grants could be pertinent for all types of sustainability-building.

– Corporación Kimirina, Ecuador.
Dual-Track Financing

In April 2007, at the 15th Board Meeting of the Global Fund, a decision was made to encourage countries to include a Principal Recipient (PR) from both the government and non-government sectors for each disease proposal. This was called “dual-track financing”.

Dual-track financing was introduced in Round 8 Financing and at its inception almost half of all applicants included both a government and a Civil Society PR. Since then, both the Delegation of the Board of Civil Society and the Communities Delegation, as well as other external partners have promoted and monitored the use of dual-track financing. However, this critical resource for communities has been steadily losing prominence and visibility to the point that, for example, in the instructions for applicants 2020-2022, there is not even a mention of Civil Society PRs.

Dual-track financing ensures both political support and programmatic logic. On the one hand, the Government PR manages the provision and distribution of medicines and supplies and invests in Health System Strengthening (HSS) interventions. On the other hand, the Civil Society PR focuses its role on the actions directed and implemented by the sub-recipients of civil society and communities, aimed at key populations, and Community Systems Strengthening. From a value for money effectiveness perspective, a Civil Society PR would have better access to community-based organizations and networks and would be able to invest in the most vulnerable groups in the contexts of criminalization and high levels of stigma and discrimination.

In a 2011 information note, the Global Fund considered that dual-track financing is important because it can help:

- Raise awareness of service availability, including primary prevention services at the community and sub-national level, by reaching a more comprehensive range of people.
- Scale-up existing service delivery to a broader range of population groups, and/or geographic regions.
- Move more quickly towards the provision of access to prevention, treatment, care, and support to all persons in need, including key populations and people who may not already be included in national disease programming.
- Contribute to sustainability of programmatic interventions over the longer term, through the increased capacity that comes from a broader range of implementing partners.

In 2017, ICASO published a policy paper on the lessons learned from dual-track financing that we will use as a reference.

In 2014, the Civil Society Principal Recipients Network (CSPRN) was created, bringing together 40 organizations with ongoing cooperation with the Secretary of the Global Fund and the Communities, Rights and Gender (CRG) team. In a document from the annual meeting in 2017, they articulate its added value:

---

1 GF/B15/DP14 [https://www.theglobalfund.org/board-decisions/b15-dp14/](https://www.theglobalfund.org/board-decisions/b15-dp14/)
Civil Society PRs reiterated the added value of their role in dual-track financing and asked the Global Fund to further strengthen their role by addressing the following issues:

- A lack of political commitment to human rights issues slows implementation of Global Fund grants. For example, when governments do not prioritize key populations that are the focus of Civil Society PR grants.
- A lack of clarity in delineating roles between Civil Society PRs and government PRs hinders constructive collaboration. The Global Fund needs to confirm the roles of Civil Society PRs and collaboration mechanisms before starting dual-track financing in any country.
- The low performance of one PR affects the progress report rating of the other PR when their indicator targets are linked and dependent.

Civil Society PRs opened a dialogue about how to overcome some ambitious and bureaucratic expectations required of them by the Global Fund. They also raised the question of the fiduciary responsibility of a civil society organization that becomes PR and must be accountable for the money invested in sub-recipients and sub-sub-recipients, which were not necessarily anticipated or prequalified by the Global Fund.

The CSPRN advanced several recommendations to the Global Fund regarding access to funding, including the following:

- Strengthen guidance for all countries to facilitate Civil Society PRs’ participation in the country dialogue and funding request.
- As a standard practice in all grants, include a budget provision to support costs incurred by Civil Society PRs during grant-making.
- Clarify the role of PRs and CCMs in SR selection.

From 2017, we can see a clear concern from Civil Society PRs regarding access to support costs incurred, for example, during the preparation of the final grant. The full article is available on AIDSpan⁴.

In 2018, there is an often-expressed sentiment that INGOs tend to be awarded PR roles to the detriment of indigenous civil society organizations. According to a thematic review⁵, just four INGOs—Catholic Relief Services, Population Services International, Save the Children, and World Vision— are responsible for implementing more than 30 active Global Fund grants worth over US$1.2 billion.

The inclusion of new policies in the budget development for national Civil Society PRs from the Global Fund Secretariat, vis-a-vis the better conditions for the UN Agencies and International NGOs (INGOs), added to the attrition and has meant that many local NGOs have given up on the role of PR. As a result, national nongovernmental PRs have become a minority.

ICRs and Overheads are not systematically granted by national PR organizations. Negotiations are often very tough between the PR and the portfolio manager as if it were not a right. The benefits granted to the International PR Organizations are greater.

— *Alliance Nationale des Communautés pour la Santé (ANCS), Sénégal.*

---

⁴ [https://gfo.aidspan.org/gfo_article/advantages-dual-track-financing](https://gfo.aidspan.org/gfo_article/advantages-dual-track-financing)

Global Fund Policies on Local Civil Society PR Expenditure

Below, we quote the two most specific policies that are the most specific regarding the prohibition of receiving Overheads, Management Expenses or ICR by Civil Society PRs.

1. **Guidelines for Grant Budgeting**, paragraph 77, page 71:
   “378. In preparing the budget, the Principal Recipient is encouraged to include all relevant direct costs or indirect overhead costs. No other charges related to grant management should be budgeted. Any item presented as a management fee is ineligible for funding.”

   379. In the case of grants managed by international non-government organizations and other international organizations, provisions may be included in the grant budgets to remunerate services provided by the headquarters in support of the implementation of the grant at the country level. For further guidance, see the Operational Policy Manual, Section 1.4: OPN on Support Costs/Indirect Cost Recovery (ICR) Policy for Non-Governmental Organizations.

   380. Local nongovernmental organizations should include all costs associated with the implementation of the grant as “direct” charges and percentage-based indirect cost recovery may not be charged when the Global Fund is the main funder of the implementer’s operations. This is due to the fact that all costs to be incurred for the grant be locally generated without any headquarter-based support.

   381. Where a local nongovernmental organization is implementing programs and activities from several donors and has financial systems and capability to demonstrate transparent cost recovery, as determined by the Global Fund in its sole discretion, the Global Fund may authorize charging a percentage of direct costs as indirect cost recovery under similar conditions stipulated for international nongovernmental organizations and multilateral organizations (including provisions related to eligible and non-eligible costs for cost recovery).”

2. **Global Operation Manual numeral 1.6, page 98: Support Costs and Indirect Cost Recovery (ICR) Policy for NGOs**
   “1. International nongovernmental organizations (INGOs) implementing programs funded by Global Fund grants may request to include funds in their budgets to compensate for services that are provided by their headquarters, regional offices and/or parent organization (together referred to as “Headquarters” in this policy). Headquarters are generally located outside the country where the grant is implemented and support the in-country office of the organization to fulfill their activities and meet the grant’s objectives. This may be the case either when the Grant Agreement is signed directly by the in-country office or when it is signed by the Headquarters while the program is implemented by the local office.

   2. The Global Fund encourages the development of in-country capacity and strives to ensure optimal allocation of resources to service delivery and maintaining the overall level of administrative costs at a minimum level.

   3. Local nongovernmental organizations (local NGOs) are generally expected and strongly encouraged to include all costs associated with the implementation of program activities as direct charges to the grant. In exceptional circumstances as indicated in the Global Fund guidelines for grant budgeting and reporting, and at the sole discretion of the Global Fund, where a local NGO is implementing programs and activities supported by several donors and has the financial system and capacity to demonstrate transparent cost recovery, the Global Fund at its sole discretion may authorize the relevant local NGO to charge a percentage of direct costs as ICR.

   4. This policy does not apply to UN agencies for which separate arrangements for ICR apply.”

---

6 Except for UN agencies and multilateral organizations, where specific arrangements with the Global Fund may apply based on the respective agreement between the Global Fund and those agencies and organizations.
Voices from the Organizations

All the organizations surveyed consider it unfair that national NGOs accepted as PR cannot access an Overhead, management fees or ICR. On various occasions, exceptions are made only after arduous negotiation or because the Global Fund has no other options than to implement a grant in each country. Respondents are fully aware that international NGOs, regional NGOs, UN Agencies and International Health Institutions have agreed with the Global Fund. They receive a percentage towards Overheads or an ICR for which these budgets lines are not financially reported and audited.

Eight out of ten local NGOs know from their own experience that at the end of their role as PR, they will have to return equipment and furnishings at the instruction of the Global Fund, as with any other national entity, and make their project team redundant. Sixty percent of the organizations that responded to the survey stated that the Global Fund does not recognize the totality of labor cost and statutory requirements by national legislation, which exposes them as employers to lawsuits and compensation, for which they will not receive support from the Global Fund.

Most organizations and individuals who agreed to reply opted for personal and institutional anonymity. Some interviewees from NGOs that are currently or have been PRs in the past fear some form of retaliation from the Global Fund.

The main challenges of not being able to access management fees, Overheads or ICR are:

- The organization ends up spending more financial and human resources than it was allocated in the grant received from the Global Fund, either because the Global Fund does not recognize the expenditure or because they were not adequately estimated in the budget that was signed at the beginning of the grant, including, for example, the impact of currency fluctuation and inflation.
- Most of the problems that arise during implementation are resolved on a discretionary basis, depending on the capacity and commitment of the Fund Portfolio Manager and how empowered the NGO feels to negotiate.
- Sustainability is a recurring concern since organizations find they have devoted too much attention to it at the end of the PR role. In most cases, they have lost social capital and strained relationships with their peers by demanding compliance with Global Fund policies or CCM’s decisions.
- Staff labor costs are not duly recognized, frequently violating local law, thus exposing local NGOs during or at the end of the project to compensation costs, fines, lawsuits and extra-judicial arrangements with officials.
- Fiduciary responsibility and liability for many expenses that are deemed ineligible by the Fund Portfolio Manager or the Local Fund Agent (LFA), even if a sub-recipient has generated them.
Conclusions

• There can be no doubt that there have been blatant double standards for including a management fee, Overhead or ICR for many years. While the UN Agencies, Global Health Institutions and most INGOs have signed a framework agreement that allows them to include this type of cost in their budgets, national NGOs are prohibited from doing so.

• This generates an unfair approach whereby all international PRs receive allocations denied to local PRs. There is neither logical nor financial reason for this unequal treatment. When an organization, whatever its nature, assumes the role of Principal Recipient, it is providing a service to the Global Fund, the Country Coordinating Mechanism, and the sub-recipients and should receive a fee or compensation for exercising that role.

• Denying access to Overheads, Management fees, or ICR contradicts the spirit and logic of dual-track financing. It has been shown that assuming the role of local PR places a significant, additional and complex workload on national NGOs that cannot be covered through indirect costs in the budget. Consequently, national organizations that are PRs end up subsidizing the Global Fund.

• During the period of performing as PR, the organization must prioritize this role, affecting its technical, financial, and management teams. They are forced to upsize their teams, space and equipment, much of which must be returned or, in the case of personnel, declared redundant upon termination of the PR role. Additionally, the PR is held accountable as fiduciary, a part exercised without insurance or endorsement.

• Principal Recipients act as the interface with sub-recipient grassroots implementers, NGOs and CBOs and must repeatedly communicate and act on decisions and adjustments from the Global Fund Secretariat. In country, the responsibility for these changes, often with damaging consequences, is that of the PR. This implies that they assume a political cost regarding their image and reputation. Upon termination of their duties in the project (due to their role as intermediary between the Fund and the implementers), they will have lost social capital and the support of many local grassroots organizations.

• It has become clear that national NGOs resort to hiring personnel with minimum standards and sometimes violate local laws. These informal or illegal hires, including layoffs after the project ends, result in lawsuits or compensation pay-outs which are not covered by grants. Additionally, the requirement to return computer equipment (which in three years have lost their capacity and value) and furniture at the end of a project does not make much sense. It is evident that being a local PR has many intangible costs and that the Global Fund has not found a formula to mitigate these.

• According to the interviewees and experience of members of the delegation, the number of national NGOs willing to take on the role of Principal Recipient continues to fall to such an extent that double-track financing is in danger of extinction. At the same time, international agencies and NGOs have been demonstrating their unwillingness to build local capacity to be able to withdraw and transfer this role to national PRs within a reasonable timeframe. Additionally, regional portfolio managers and teams may be biased and feel more comfortable and secure working with international organizations. At the same time, an international organization has less exposure if it is forced, for example, to violate a labor law or enjoys special status with local governments.
Recommendations

The Global Fund Secretariat should implement necessary measures to adapt the policies that prohibit the Civil Society Principal Recipients from receiving Implementation Expenses, Overheads or ICR to align policies and provide equitable treatment for all PRs.

Measures must be urgently undertaken urgently to resolve the double standard between PRs in such a way as to encourage and foster dual-track financing and provide those organizations willing to assume the role of national PR with more safeguards. This would include receiving resources not related to implementation that will allow them to cover essential non-project expenses and build a resource base that supports medium-term sustainability.

The Communities Delegation will include this issue as part of their policy and advocacy agenda within their work plans in the various areas of the Global Fund to resolve this unequal treatment.

December 2021
Testimonies from the field

The Communities Delegation and the research team would like to thank the organizations that shared their experiences and challenges as local nongovernmental PRs, which can be found in this section:

“The Global Fund, after tough negotiation, accepted expenses that enabled us to respond to national regulations for staff obligations. However, it would not accept bonuses that are stipulated in the regulations or other compensation expenses for personnel. Faced with a situation of dismissal of personnel that the Fund would not provide resources for, Kimirina had to bear the expenses of lawyers for a labour lawsuit.” – Kimirina Corporation, Ecuador.

“It is important to note that a national organization, by becoming a PR, suffers damage to its reputation with other civil society organizations. The salaries, the amounts they receive as PR and the rules with which they monitor and oversee the implementation of the grant are criticized. In many cases they become “the bad guys.” – Kimirina Corporation, Ecuador.

“In Nigeria, local NGOs do not have the luxury of overheads as while the INGOs have huge percentages for them. The prohibition greatly reduces the efforts of the local NGOs in terms of sustainability.” – CS PR West and Central Africa.

“The inability to pay running costs or build reserves negatively impacts the improvement of the organizations and frustrates the staff. The GF has very strict rules to avoid fraud and bad management, the PR is a subject for 3 or 4 layers of audit, the internal, external, the LFA and the CT. Often the LFA mistreats the PRs and makes them refund some pre-approved spending judging that it was ineligible. They treat the humanitarian work we are doing as if they were bankers, and this is unfair.” – CS PR MENA.

“The impact is that National NGOs may circumvent systems and cut corners on Program funds to provide funds for sustainability. Not providing overhead and management funds may lead to PRs and SRs engaging in activities that may be termed fraud. The case of Nigerian NGOs being blacklisted for requiring staff members to contribute some of their wages for organizational sustainability is a case in study. It causes circumvention that may be seen as fraud by OIG.” – CSO from Nigeria.

“The Global Fund has already scrutinized the budget for civil society organizations. Not having ICR will hinder an organization’s willingness to engage more partners and communities because community-based activities need some flexibility for organizations to allocate some resources from ICR.” – Humanitarian Organization working in Asia.
“Civil society organizations in Africa, and particularly in the Ivory Coast, receive little or no government support, unlike Western NGOs. Consequently, in the absence of subsidies and of the organizations’ own activities, they cannot support development and sustainability. Not having management fees or being subject to restrictions on their use, such as the reserve to plan timely organizational development actions, is a barrier to the viability and emergence of a strong national civil society. Furthermore, this practice, which is not required of international NGOs, is seen as an injustice by a donor who claims to fight inequalities and promote equity. We understand that this rule is applicable to all entities that benefit from management commissions, but applying it only to the weakest, that is, to national NGOs, seems discriminatory to us. The Global Fund encourages us to adhere to the country’s employment standards for Principal Recipient staff. However, in the case of community health workers, who are the last link in the chain and at the centre of the system, we have not been able to negotiate suitable conditions because national policies in this area do not include these provisions.” – Francoophone African NGO.

“This ban will have a considerable impact on the sustainability and development of civil society organizations, which is one of the goals of the Global Fund to have strong civil society organizations for a sustainable and quality response to the three pandemics. The Global Fund should encourage civil society organizations to apply the provisions of each country’s labour laws regarding labour costs and this should not be challenged during grant making.”