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OCCASIONAL PAPERS

Expediting the Transfer of Funds for HIV/AIDS Services

Civil society has always been in the forefront of the response to the HIV/AIDS pandemic. Over the last few years, the shift in responses from mainly preventive activities to mitigating activities has again positioned civil society organizations as the primary implementers of programs that draw on new funding opportunities from the Global Fund, President's Emergency Plan for AIDS Relief (PEPFAR), and the World Bank's Multi-Country HIV/AIDS Program for Africa (MAP).

However, civil society organizations, which are the most suitable implementing partners for such programs, frequently do not have the capacity to take on the management burdens that come with the new funds to enable them to do this work. This limitation is often true of the commercial private sector, private hospitals, clinics, and the enterprises that are also being enlisted as primary implementers.

Financial management is the Achilles heel for rapidly scaling up civil society's role, especially when the donor community is caught between the "rock" of getting the money out there and the "hard place" of timely and accurate financial reporting to keep the funds flowing.

As the funds available for HIV/AIDS grow and increased funding is directed to community-based organizations, faith-based organizations, and other nongovernmental organizations (NGOs), as well as governments, the number of institutions whose capacity is insufficient to absorb and manage the available funding will also increase. Many donors and other stakeholders recognize the need for basic financial management systems in these organizations; fewer recognize that the traditional capacity-building approach requires more time than is available, given present funding allocations. The challenge is to develop innovative agreements and management mechanisms that will "get the money out" into the community where it can do the most good, without putting an undue administrative burden on either the giver or the recipient. Furthermore, where lives are at stake, there is a moral imperative to ensure that funds earmarked for prevention, care, and treatment of HIV/AIDS patients and orphans and vulnerable children are disbursed to organizations providing services as quickly as possible.

In its policy brief "Global Funding for HIV/AIDS in Resource Poor Settings," the Kaiser Family Foundation calculated that over $4.2 billion was *budgeted* for HIV/AIDS in 2003 alone; the brief also notes that funding *needs* would grow as high

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as $14.9 billion in 2007.[1] Despite the huge sums targeted toward HIV/AIDS, donors are more aware than ever before that lack of absorptive capacity and rapid funding mechanisms are hampering HIV/AIDS efforts and stalling programs. Given that early intervention can have a dramatic impact on overall infection rates and mother-to-child transmission, and proper and early case management helps people with HIV/AIDS survive longer, it is vital to streamline processes as much as possible and to help—rather than hinder—worthwhile programs in the field.

HIV/AIDS programs usually involve three basic types of resource transfers:

1. Funds transferred either directly to an implementing partner[2] or through another organization;

2. Commodities and associated support services (for example, outsourced supply chain management services such as procurement, quality assurance, freight forwarding, warehousing, and management information systems);

3. Technical assistance (for technical, clinical, and management capacity-building).

This paper focuses on the first type of resource transfer: the transfer of funds. Many conferences, workshops, and publications cover the public health aspects of implementing HIV/AIDS programs, but organizations seeking assistance in identifying options for rapidly transferring funds to the implementing level have few sources of guidance. Based on feedback that Management Sciences for Health (MSH) has received in its work from the local to the national level, as well as observations made in the field, we offer this paper in the hope that it will serve as an aid for finding approaches that balance the need for accountability with the imperative for keeping funds flowing through the pipeline.

This paper contains two major sections:

Section I provides an overview of the key issues and describes the overall framework and approach.

Section II is organized into nine parts that identify the major constraints hindering the rapid transfer of funds and provides some options for avoiding or mitigating these constraints. These options that can be adapted and applied in order to disburse funding where and when it is needed, while still satisfying accounting and contracting requirements. The list of possible solutions is illustrative, not exhaustive, highlighting a number of options that have been used successfully. The major constraints or challenges discussed are:

- capacity of primary transfer agents and implementing partners;
- risk tolerance;
- decentralization of decision-making and fiduciary control;
- the funds transfer cycle;
- funds disbursement;
- flow of funding through multiple entities;
- host-country governments;
- donors' requirements;
- multiple donors.

1. Todd Summer and Jennifer Kates, "Global Funding for HIV/AIDS in Resource Poor Settings," Henry J. Kaiser Family Foundation (www.kff.org), p. 1 (citing UNAIDS report), Dec. 2003.

2. The term "implementing partner" is used in this paper to mean the organizations that actually provide HIV/AIDS prevention, care, treatment, and support services to the population. These can be community-based organizations, faith-based organizations, nonprofit NGOs, the commercial private sector, private hospitals, clinics, small and medium enterprises, or governmental organizations and clinical facilities. The term "NGO" is used in this paper to describe both for-profit and nonprofit nongovernmental organizations.

SECTION 1: Overview

The rapid transfer of funds is just one component of an integrated approach to ensuring a successful program. Concentrating on the mechanics of the rapid transfer of funds is an important first step, while capacity-building is the long-term solution that underlies the sustainability of HIV/AIDS programs and must be launched in parallel with immediate efforts to improve the transfer of funds. While this paper does not provide an overview of capacity-building or financial management systems, policies, or procedures, the list of resources at the end provides information about some materials that do.

The transfer of funds usually occurs when an organization or a government is given funding by a donor and is tasked with transferring the funds to implementing partners in order to achieve the desired outcomes. Often the transfer of funds involves issuing relatively small grants or other types of agreements to a large number of small NGOs in scattered locations, with each grant requiring multiple payments to the grantee.[3]

Commonly, the funding flows through a number of entities in its path from the source of funds to the implementing level. Donors often do not distribute funds directly to the implementing partners providing the prevention or care services but instead rely on transfer agents to manage the HIV/AIDS program, including disbursements.[4] In turn, the primary transfer agent often finds that distributing funds directly to multiple implementing partners can be difficult and selects an intermediate transfer agent to handle in-country disbursement and monitoring of funds.

The following four tiers (see Figure 1) are often involved:

1. *donors:* Typically a bilateral agency (such as USAID or the Centers for Disease Control and Prevention), multilateral agency (such as the World Bank, World Health Organization, UNAIDS, or the Global Fund), or private foundation (such as the Bill & Melinda Gates Foundation);

2. *primary transfer agent:* Typically the host-country government (Ministry of Finance, Ministry of Health, or other), an international NGO, or a national NGO;[5]

3. *intermediate transfer agent:* Often a national for-profit business (such as an accounting firm), the affiliate of an international NGO, or a nonprofit NGO;

4. *implementing partner:* Typically a small community-based organization or entity that provides services.

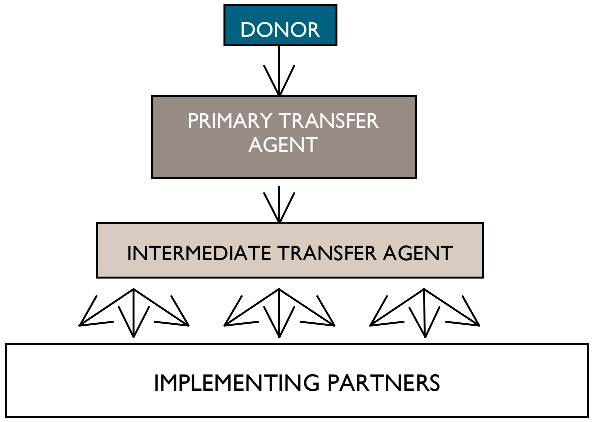
An example of this type of arrangement is the flow of PEPFAR funds for a program in Uganda: from USAID to MSH to the Inter-Religious Council (IRCU) to five different religious coordinating bodies (RCBs) and eventually to the implementing partners selected by the RCBs. In this example, there were five tiers because there were two levels of intermediate transfer agents: IRCU and the RCBs. This complicated structure was designed specifically to meet one of the program's aims: to build both the capacity of the IRCU so it could receive funds directly from USAID within 18 months and the capacity of RCBs to be intermediate transfer agents.

3. Many different types of agreements are used in connection with the transfer of funds to implementing partners. The term "grant" will be used in this paper to cover all the different types of agreements, although contracts and subcontracts are also very commonly used.

4. The donors themselves must deal with absorptive capacity issues if they turn to direct funding of implementing partners because of the magnitude of the funding and the large number of implementing partners. In addition, many donors must certify that an organization is eligible to receive funds before entering into an agreement, and many implementing partners will need capacity-building before they will be deemed eligible for direct funding. Some donors want to increase the direct disbursement of funds to implementing partners and are funding the capacity-building of the implementing partners.

5. The word "transfer" is not meant to imply that what we term "transfer agents" only handle the receipt or disbursement of funds—the transfer role is usually just one aspect of the program. Nor is the word "agent" used in its strict legal sense, since contracted entities are not legally speaking "agents."

Figure 1. Entities Involved in Transferring Funds



A more typical example of the use of intermediate transfer agents is when the objective is to facilitate the flow of funds to implementing partners. For example, funds would flow from the donor to the primary transfer agent, which then engages a local accounting firm to disburse funds to the implementing partners.

Another comparable multilayered structure is represented by the approach of the Global Fund to Fight AIDS, Tuberculosis and Malaria (the Global Fund). Funds are transferred from the Global Fund to one or more *principal recipients* in each country, which then transfers them to subrecipients and through them to sub-subrecipients. Each layer has to pass a financial capacity test. In addition, there is a local fund agent (such as PricewaterhouseCoopers or KPMG), which acts as the eyes and ears of the Global Fund in-country. While it is relatively easy to pass the initial screening to get the funding, local fund agents must often spend a great deal of time and effort to obtain reports on utilization of funds from the principal recipients.

The World Bank's Multi-Country HIV/AIDS Program for Africa (MAP) also uses a multitiered approach. As described in the publication *Turning Bureaucrats into Warriors:*

> Because of the nature of the MAP program and structure, MAP financial management and control, especially internal financial systems which are essential to good implementation, is more complex than in traditional investment projects. This is because of the different levels and financial channels involved in the successful implementation of a MAP. These levels are: first, the primary organization (NAC/NAS [National AIDS Council/National AIDS Secretariat]) which is responsible for overall project coordination, financial management, and administration; second, secondary organizations which implement and supervise programs on behalf of NAC/NAS; and third, tertiary organizations, or local communities, which implement sub-projects at the local level. The cascading of funds down to these different levels also means that financial management and control must extend from the national NAC/NAS level to the community. Similarly, financial reporting must cascade back up from the community level, through district and other intermediate levels, to the national organization or the NAC/NAS.[6]

The influx of large amounts of financial and other resources for the rapid expansion of HIV/AIDS services is taking place in a climate where NGOs and the public sector are being increasingly scrutinized for the achievement of results, efficient use of funds, and evidence of accountability, transparency, and credibility. Concerns about accountability and transparency hamper rapid resource transfer as the entities involved have become increasingly aware of the monitoring of the use of funds and naturally become more cautious as each tries to mitigate the

6. World Bank, *Turning Bureaucrats into Warriors: Preparing and Implementing Multi-Sector HIV/AIDS Programs in Africa: A Generic Operations Manual.* Washington, DC: World Bank, 2004. http://www.worldbank.org/afr/aids/gom/gom.htm

potential risks of donors disallowing expenditures and then demanding refunds of money transferred to implementing partners.[7] On one hand, risk mitigation measures are usually imposed, slowing the transfer of funds as administrative actions are added for each of the entities through which the funding is flowing, from the donors down to the implementing partners, and at each step of the program, from design to closeout. On the other hand, the resource transfer is taking place because of an emergency situation, so each tier must constantly weigh the trade-off between using traditional approaches to avoid risk and the urgent need to get the funds flowing as quickly and efficiently as possible because lives are at risk.

As discussed in Section II, certain resource transfer mechanisms can be used that will accelerate the flow of funds and decrease the amount of resources spent by donors and recipients on the management of the funds at all phases of the process. Many of these solutions require that all levels change how they do business*, or at least how they do business in the context of the HIV/AIDS pandemic.* For example:

- Donors should consider re-examining the requirements they impose on HIV/AIDS programs.
- The primary and intermediate transfer agents must adapt their systems to enable rapid transfer.
- The implementing partners must develop systems to absorb and account for increased levels of funding, and transition in some cases to being direct recipients of funds from donors.

7. This paper does not address preventative or mitigation measures for fraud or employee misconduct at the primary transfer agent or intermediate transfer agent levels.

SECTION II: Challenges to Rapid Resource Transfer and Possible Solutions

Capacity of Primary Transfer Agents and Implementing Partners

THE CHALLENGE

The absorptive capacity of primary transfer agents (both governments and NGOs) channeling funds as well as the in-country recipients of funds is being strained by the magnitude of funding, the number of recipients, and the push to disburse funds quickly. Implementing organizations especially are often faced with the choice of whether to concentrate on the services they are to provide or on the mechanics of the resource transfer. Ideally both would be equally addressed, but building organizational capacity to handle both programmatic and funds management cannot happen overnight.

The capacity of the implementing partners is critical to successful implementation of HIV/AIDS programs, but the organizations involved are often small NGOs that have never had to deal with this level of funding before. They are not staffed to absorb this amount of funding and their systems are often inadequate to provide the type of accountability required for the levels of funding they are receiving. In addition, many donors would like to directly fund implementing partners, but these partners' financial management systems need to be enhanced in order for them to transition to being eligible for direct funding.

Many implementing partners are clinical facilities whose accounting, finance, personnel, procurement, property management, and internal control systems were not set up to be in compliance with donor regulations but were established as part of the larger local health system. Expecting them to shift to donor-driven systems would take them away from their basic missions. Furthermore, the types of mechanisms put in place at the beginning of a program to expedite the flow of funds, such as using intermediate transfer agents, are not all necessarily sustainable or desirable as solutions for the long term.

Entities in all four tiers, including donors, are overextended. While the level of funding would presumably permit adding staff to an organization, nearly all HIV/AIDS programs are struggling with shortages of qualified and experienced staff. Attention is usually given to the shortages of prevention and care personnel, but there is also a critical shortage of qualified and experienced management and accounting staff in many of the countries receiving the largest amounts of funding for HIV/AIDS programs.

Most countries do not regulate the NGO sector, and professional standards are seldom enforced across the sector, although this situation is beginning to change as NGO accountability and transparency come under increased scrutiny in certain countries. Since many of the implementing partners are relatively small or newly formed, their policies and procedures were often not designed to deal with a relatively large influx of funds in a short time. In addition, their systems often do not exhibit a separation of authority to ensure checks and balances, because policies and procedures may have been developed when the organization had few staff.

SOLUTIONS

To address the issue of the absorptive capacity of both the primary transfer agent and the implementing partners, additional accounting and contracting specialists need to be added at all tiers to handle the workload. Primary transfer agents that are international NGOs may need to increase the number of headquarters staff, but priority should be given to identifying and hiring qualified staff in-country whose role is to facilitate the resource transfer process and provide in-country control. Specialists can be brought in as consultants or temporarily assigned while the hiring process is ongoing. These staff can cover some of the monitoring functions to keep funds flowing while providing technical assistance to build the capacity of the implementing partners.

Implementing partners need to focus not only on hiring technical or clinical staff, but also on the support services needed to ensure proper management of funds, especially given that there may be a shortage of qualified financial management personnel. If donors place pressure on recipients to move and liquidate funds quickly, then the donors must be willing to assume the costs of adding financial management personnel and financial support systems at both the transfer agent and implementing partner levels, costs which are directly correlated with the compliance requirements of donors.

However, some implementing partners cannot find qualified staff quickly and do not yet have the capacity to manage the funds. Expansion of activities will not be rapid if the primary transfer agent must invest in capacity-building of the implementing partner before it can begin direct funds transfers. In such cases, an alternate solution that meets the immediate need is to set up a transitional structure to manage the funds while the organization's capacity is being built. Capacity-building of the implementing partner can run in parallel with the use of an intermediate transfer agent, and the agreement with the implementing partners can include terms and conditions that gradually increase their fiscal responsibility as they become more capable of managing funds and the role of the intermediate transfer agent is phased out.

Three types of intermediate transfer agents should especially be investigated in such cases: fiscal agents, NGO networks, and affiliates of international NGOs.

Fiscal agents. Fiscal agents are used by many HIV/AIDS programs. Fiscal agents can play many roles besides disbursing funds from the primary transfer agent to implementing partners: they can be the in-country eyes and ears of a disbursing organization, they can verify the accuracy of reports submitted by recipients and provide other control functions. The World Bank uses this type of mechanism in some of its multisectoral AIDS projects, in which the fiscal agents are called regional facilitating agencies.

In some cases, donors hire fiscal agents directly and the fiscal agents do not actually disburse funds but provide the control function for the transfer of funds. For example, the Global Fund uses local funds agents to monitor financial and performance reporting. In other cases, the primary transfer agent issues the grants, but a fiscal agent is hired directly by a donor to handle the disbursements. A case in point is the Tanzania Rapid Funding Envelope for HIV/AIDS (RFE). The RFE, an innovative funding mechanism designed by MSH, operates through a partnership between the Tanzania Commission for AIDS and eight bilateral donors.[8] Each of the donors signs a memorandum of agreement covering its commitment to transfer funds to the RFE. The RFE issues requests for applications for grants valued between $50,000 and $200,000. One of the donors contributing to the RFE, USAID, has separately taken on the financing of the grants management component and contracted Deloitte & Touche to act as the fiscal agent for the program. Deloitte & Touche is responsible for grants management, financial oversight, and public relations for the RFE.

The RFE had awarded $3.75 million in one-year grants by mid-2004. These small grants served as a bridging mechanism so that vital activities could continue or be expanded. MSH and Deloitte & Touche have worked as a team to help coordinate funding with program priorities.

A fiscal agent such as Deloitte & Touche could also be an interim source of additional capacity for implementing partners by supplying the following services:

- Provide office space and equipment and be a mail drop (including electronic mail).
- Provide administrative staff.
- Handle the payroll and benefits package.
- Oversee the implementing partner's revenues and expenditures, prepare monthly financial reports, track expenditures against budgets, pay invoices, prepare financial reporting to clients, and prepare tax filings.
- Draft policies and procedures.

Such an arrangement can give small or newly formed organizations the breathing room and time to develop into more robust organizations and graduate to being eligible to receive funding directly. The relationship would be basically a conduit or pass-through. At a minimum, such an arrangement needs to be documented through a

8. "Review of the RFE for HIV/AIDS," an evaluation conducted for the Swiss Agency for Development and Cooperation and the Norwegian Embassy, Oct. 18–29, 2004. PowerPoint presentation available from Management Sciences for Health.

written agreement between the primary transfer agent and the fiscal agent, and through a separate agreement between the fiscal agent and the implementing partner. The latter type of agreement is often approved by the primary transfer agent as well.

If fiscal agents are accounting firms, care must be taken to separate any audit and accounting/technical assistance functions provided to implementing partners. If the fiscal agent is handling the implementing partner's financial transactions, it is preferable for the primary transfer agent to contract a different firm to perform the audit function and for the fiscal agent itself to be monitored and audited. However, in countries where it appears that extensive effort would need to be put into building the financial management capacity of the fiscal agent, this solution should not be pursued as a rapid response solution.

NGO networks. In many countries, organizations have banded together either around a sector (such as health) or a commonality in the type of organization (such as faith-based organizations). If an NGO network is an established one run by a legal entity that has an adequate financial management system, that entity can be used to receive the funds for the implementing partners in its network.

However, in many countries the NGO networks are in the early stages of development and need their own capacity built, which would lead to many of the same challenges for resource transfer as transferring directly to implementing partners. In some countries, networks formed around people living with HIV/AIDS have received significant organizational capacity-building and could play the intermediate transfer agent role. The networks built by faith-based organizations are another likely solution, since the member organizations often have longstanding systems in place to transfer funds to the various levels of their structures as well as to community-based organizations affiliated with their religious structure.

These arrangements, like those that use fiscal agents, need to be documented through written agreements between the parties.

Affiliates of international NGOs. Quite a few international NGOs have established affiliates throughout the world, and there are probably some in all the countries with significant HIV/AIDS programs. These affiliates already have systems and personnel in place in-country that could pass the financial management assessment of donors.

If a primary transfer agent already has an affiliate network, the agent could turn to its affiliates to handle the intermediate transfer agent role. When the primary transfer agent is a government or an international NGO without such a network, it should consider partnering with an organization that does have an established affiliate in-country.

Risk Tolerance

THE CHALLENGE

HIV/AIDS programs often involve disbursing large amounts of funds to implementing partners, with an emphasis on disbursing the funds as quickly as possible. The importance of risk assessment for HIV/AIDS programs is usually heightened because the primary transfer agency is often building new linkages and working with new partners that do not have the systems in place to handle the increased funding being channeled to them. Such programs are deemed especially risky when the primary transfer agent is legally responsible for reimbursing the donor if there is a misuse of funds at the lower tiers. The contracting and accounting staff of the primary and intermediate transfer agents, who have been tasked not only with transferring resources but also with mitigating the risk for their organizations, typically do not have a high tolerance for risk.

The primary transfer agent is also responsible for making sure that the financial resources are being efficiently used to benefit the program because, while the volume of funding for HIV/AIDS programs is large, it is not unlimited and it is being spread over many programs. Given the temptations posed by the levels of funding, fraud is a major concern. Given the desire for rapid disbursement of funds, waste is another major concern. The misuse or inefficient or ineffective use of funds will make those funds unavailable to the ultimate beneficiaries and can have the secondary impact of leading to decreased funding for the primary transfer agent if the donor's confidence wanes. All these factors lead primary and intermediate transfer agents to impose risk mitigation measures that slow down the transfer of funds.

SOLUTIONS

Donors, primary transfer agents, and intermediate transfer agents have to increase their risk tolerance if they are to be effective in the rapid resource transfer required by the HIV/AIDS emergency. Being effective means that risk mitigation measures used across the board by a primary transfer agent, such as requiring excessive documentation as part of the invoicing requirement for all grantees, should be eliminated, unless absolutely warranted. This type of change involves a major shift in organizational behavior, which must be communicated from the top management level to the rest of the organization.

Rapid expansion of HIV/AIDS programs involving significant amounts of funds is inherently risky, and both the primary and intermediate transfer agents have to approach such programs with a different attitude than the one they would bring to other programs in their portfolio. Senior managers must give the green light to contracting and accounting staff to explore transfer mechanisms that optimize rapid resource transfer rather than risk mitigation. This is not to say that the mitigation of risk should be ignored, but it cannot be the only factor used in selecting resource transfer mechanisms.

Hence, one of the fundamental challenges in streamlining resource transfers is changing the mindset of the personnel of transfer agents, especially the contracting and accounting staff. Individuals who choose to be in the contracting or accounting professions are usually risk-averse by nature, and many organizations select conservative types rather than innovators for these positions. Staff should be encouraged to find a way to say "yes" rather than default to "no," and they should not be penalized for taking risks.

The large amounts of funds being donated to HIV/AIDS programs have been accompanied by increased scrutiny, which has often led to a strict liability interpretation by donors, some major disallowances, and some refund claims. If the primary transfer agent will have to pay back misused funds, the organization's risk tolerance will of course be lower than it is for funding that does not have to be returned to the donor. One technique that would go a long way to decreasing the primary transfer agent's assessment of the riskiness of a program is for the primary transfer agent to get the donor to acknowledge risk and include a clause in the funding agreement that absolves the primary transfer agent of liability if there is a misuse of funds at lower tiers. Such a clause might read like this:

> "The primary transfer agent shall have no liability to the donor with respect to its awarding and administration of grants on behalf of the donor hereunder, or with respect to the acts or omissions of its grantees hereunder, except to the extent that losses to the donor's assistance program arise from the primary transfer agent's negligence or bad faith in performing its responsibilities hereunder."[9]

Another mitigation technique would be for the primary transfer agent to request a fee to cover the risk. Some donors, such as USAID, state that they will not consider a fee under an assistance agreement such as a grant or cooperative agreement. However, there is no statutory requirement that prohibits fees. Even for contracts, USAID often tries to negotiate a lower fee on what it considers "pass-through" funds, such as the amounts transferred to implementing partners. A fee is often considered synonymous with profit; however, in this case it would provide a cash reserve that would protect the primary transfer agent from the potentially ruinous impact of disallowances or refund claims resulting from actions occurring at a lower level.

Primary transfer agents should make an extensive investment in control, monitoring, and evaluation systems that run concurrently with the transfer of funds. If improperly designed, such systems could slow down implementation (for example, if the implementing partner is focusing on responding to monitoring and evaluation requests), but if properly designed, these systems would both permit the rapid transfer of funds and provide a way for the transfer agents to detect the misuse of funds and quickly halt the funding stream if needed. Because many of the

9. Diana Esposito drafted a variation of this language together with others at USAID to limit the liability of USAID contractors tasked with issuing grants under a contract (GUC). The language was never published in USAID's directives system and has not been promulgated as official USAID policy, but it is widely used.

implementing partners are in scattered locations, establishing an adequate monitoring and evaluation program can be a daunting logistical challenge and can absorb a large chunk of the program budget. If the funds transfer involves performance-based disbursements, they will entail the added burden, throughout the implementation period, of verifying and documenting that satisfactory performance has indeed occurred.

A combination of accountability from implementing partners and oversight from transfer agents should be used. Establishing concurrent financial and performance reviews while the program is ongoing will help mitigate risk and identify areas where additional technical assistance in financial management is required. The risk of misuse of funds and lack of achievement of program objectives is greater if the only financial review of an implementing partner is an audit after the program has ended or long after the program has started, because there will be no opportunity to change course.

Primary transfer agents should consider minimizing the amount of funds being transferred to implementing organizations by not including commodity purchases and distribution in implementing partner agreements, especially for programs in which the donor has many compliance regulations for commodities (as is often the case for pharmaceutical products). Instead, these could be handled by either the primary transfer agent purchasing the commodities itself and distributing them to the implementing organizations, or outsourcing the procurement to a procurement services agent, which, because it is specialized in this field, may be able to shorten the procurement process. Such an approach may also provide cost savings to the program because the program can achieve economies of scale by consolidating all the implementing partners' requirements into one procurement. This approach requires anticipating future needs, so that the program is not slowed by the primary transfer agent having an inadequate inventory on hand to distribute to the implementing partners.

Transfer agents should have a standard set of financial review or audit tools ready at the start of the program, since these functions are often outsourced. Tools for technical assistance in financial management can also be developed and then can be rapidly adapted and applied to build the capacity of the implementing partners.

Decentralization of Decision-Making and Fiduciary Control

THE CHALLENGE

Many primary transfer agents have centralized decision-making processes for issuing agreements and transferring funds and are reluctant to delegate decision-making and fiduciary control to the field, especially when these agents have determined that a high level of risk is involved. In such cases, the whole chain of command—all the way to the top levels of the organization—may be involved in many decisions relating to the transfer of funds.

Many programs get to a certain stage in the funding process and then have to wait for final approval from an individual in another part of the world. This process often creates lengthy delays because questions are asked and must be answered before the approving individual makes a decision.

Disbursements made from outside the country also typically take time, even if electronic funds transfer methods are used, especially the first time a disbursement is made to an intermediate transfer agent or an implementing partner. Another complication is that a "them" and "us" mentality may exist between the field and headquarters; this underlying tension hinders efficient transfer of resources.

SOLUTIONS

Using a decentralized resource transfer model should increase the efficiency of resource transfer. The decentralized model would obviously streamline the decision-making process if there are in-country donor and primary transfer agent representatives who can meet with the host government, intermediate transfer agents, and implementing partners, and make decisions on the spot. Having decision-making close to where the programs are being implemented provides additional flexibility: the operating environment is well known to the decision-maker, and the decision-maker can quickly adapt to changing circumstances. Decentralized decision-making will also allow the primary transfer agent to act quickly if there is evidence of fraud or waste.

If the primary transfer agent does not typically decentralize decision-making, but rather makes an exception given the emergency nature of the program, a delegation of authority outlining what the in-country representative can and cannot do is critical. Being vigilant during program implementation that this delegation of authority is respected and that authority does not creep back to headquarters is also important.

One technique that has proven useful to some organizations in overcoming the "them" and "us" divide is to use on-line collaborative software, such as eRoom or Groove. Staff in the field can easily post copies of agreements, financial and performance reviews, and invoices as these documents are received so that the headquarters office can access them while reviewing invoices or doing an ongoing assessment of risk. For documents such as invoices and the signature page of agreements, the field staff must of course first scan the document. This type of software has even been used in remote locations with transmission by satellite phones. For this type of collaboration to work well, the field staff must be diligent about posting the material so that the headquarters office is confident that the information is up-to-date. An added benefit to this on-line platform is that there are copies of the documents in case documents and computers in the field are lost, destroyed, or stolen.

Transfer of financial resources from the primary transfer agent to the implementing partner can also be expedited if payment processing is all done in-country instead of by wire transfer or other means from outside the country. However, it must be recognized that in some countries this procedure increases the risk or cost to the primary transfer agent because of currency exchange rate fluctuations, bank transfer fees, funds control, tax, and other laws and regulations.

The key to the successful implementation of a decentralized system is to hire locally or post as many of the qualified staff in the decentralized location as possible: technical and managerial staff, and staff specialized in contracting and accounting functions.

The Funds Transfer Cycle

THE CHALLENGE

Because such a high volume of funding is involved, HIV/AIDS programs are often high-visibility programs. Quick distribution of funds is typically impeded by the desire to achieve transparency in the selection of recipients for the funds.

The actual contracting process for the transfer of funds from design to the first disbursement of funds can be a formidable roadblock to rapid resource transfer. If the approach used involves full transparency, getting to the agreement stage can take months as tenders or requests for applications are advertised, a large evaluation team is assembled, multiple entities asked to approve the selection, and so on. The following figures illustrate this point: Figure 2 shows a typical grants management cycle, while Figure 3 shows how long the timeline can be without attention to rapid transfer mechanisms.

This cycle and timeline are relevant to all types of resource transfers (funds, commodities, support services like supply chain management, and third-party technical assistance).

SOLUTIONS

Streamlining the grants management process will have an immediate impact on the time it takes to transfer financial resources. Preventing backsliding once the program is underway is also crucial, since the first transfer of funds often occurs relatively quickly, but subsequent disbursements drag. Setting up a log to keep track of each phase in the cycle is a useful tool for identifying whether the system is slowing down. The log will show whether each action is on schedule. If the same action is consistently taking longer than it should, that action can be examined and modified to reduce the time lag. The same holds true if one individual is consistently taking longer than scheduled to complete his or her tasks in the transfer of funds.

Planning phase. All the tools needed for the funds transfer cycle, from planning to close-out, should be identified during the planning phase and as many as possible drafted at the beginning of the cycle. These include a grants management manual and templates for such documents as prequalification questionnaires, tenders, instructions to the selection panel, selection criteria, award agreements, invoice approvals, and wire transfer requests.

Figure 2. Typical Grants Management Cycle

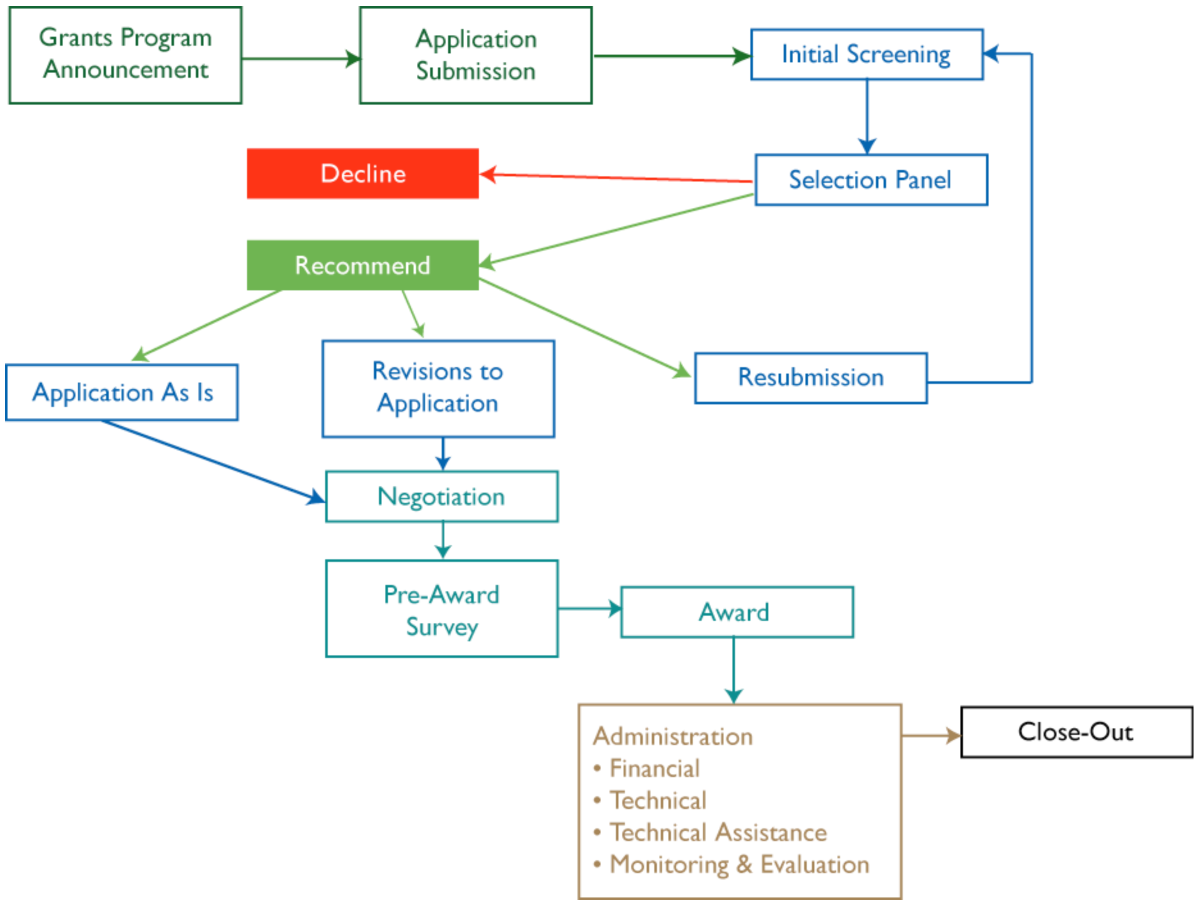
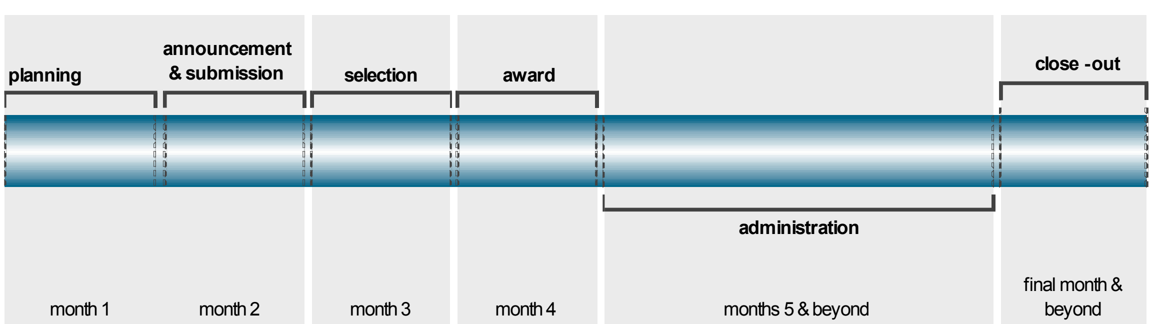


Figure 3. Typical Grants Management Timeline (Unexpedited)



If the organization has already developed materials, it can place them on a collaborative software platform such as eRoom or Groove, which can be accessed by any field office that has Internet access. Professional organizations such as the Association of PVO Financial Managers (APVOFM), InterAction, and the Professional Services Council (PSC) should also consider posting models of such tools on their Web sites. Although these models and templates must be carefully adapted, using them will reduce preparation time.

The primary transfer agent should review its funding agreement with the donor agency as carefully as possible before award and negotiate to change any terms and conditions that will slow down the grants management cycle. The primary transfer agent can also request a modification of the agreement even if no such negotiations have taken place. If that is not possible, the primary transfer agent should obtain as many required donor approvals as possible early in the process to facilitate the rapid transfer of financial resources. For example, if the agreement states that the donor must approve all implementing partners, the primary transfer agent should ask whether approval could be obtained by submitting a funds transfer manual outlining the procedures to be used and the list of prequalified organizations (if a prequalification step was taken).

Competition phase. Because of the amount of funding involved, most donors and host-country governments expect some type of competition. Given the urgency of the situation, this expectation should be examined and the possibility raised of proceeding without competition, at least on those components of the HIV/AIDS program that will have the most immediate impact on people's lives. This possibility should ideally be raised by the primary transfer agent during negotiations with the donor, so that the agreed-on approach for identifying implementing partners can be immediately put into action. Most donors that require some type of competition also have guidelines for sole-source awards. The primary transfer agent should develop a procedure that allows a preselected executive committee to approve a sole-source award under certain defined conditions (such as unusual and compelling urgency, only a single source available, or an unsolicited application).

Each element of the competition process should be analyzed for the time it takes. A typical grants program can take five months between the time the program is designed and the first award is made if it involves advertisement, information sessions, questions, preparation of a lengthy application, and review of many applications. If competition is required, every effort should be made to adopt an approach that both avoids delays and fulfills the competition requirement—primary transfer agents should not simply imitate the competition approach used by the donors.

If there is a compelling reason to publicize the availability of the funding, one approach would be to advertise very early on through newspapers, national NGO associations, and communications with potential applicants. The information in the advertisement would be very basic, since at that stage the final design would not be ready. Potential applicants would be asked to complete a brief prequalification questionnaire that simply establishes whether they should receive the tender document when it is ready. Only prequalified applicants would be eligible to receive the tender document. Such an approach also helps the grants program identify whether there will be many applications for the funding. If there seem to be very few responses, the program has another challenge, which is to proactively seek potential applicants.

A variation of this approach was successfully used by the Rapid Funding Envelope and the Global Fund programs in Tanzania, where the prequalification requirement was the submission of a two-page concept paper. A small team of reviewers decided which applicants would be invited to submit a full application with a budget. This review was a simple, rapid, transparent process, based on criteria such as the applicants' experience, the feasibility of their proposed activities, and the possibility of reaching vulnerable groups through innovative means such as partnerships. Another approach is to create a short list by doing a market survey to identify a limited number of potential applicants, contacting them to ascertain if they are interested, and sending them the tender documents.

The request for applications should be kept as short and simple as possible, and the information requested for applications kept to a minimum, to reduce the time the applicants will need to prepare the application, and the time to review it. Informational sessions for applicants should be arranged whenever possible, and potential applicants should be given assistance in preparing applications. If there will be applicants clustered around the country, a series of informational sessions can be held throughout the country, if feasible. Assistance to individual applicants can be provided over the telephone or through e-mail if face-to-face meetings are not possible.

Still another approach to finding the most appropriate implementing partners is to facilitate the formation of a broad-based partnership during the design phase. The Global Fund promotes this approach. Once the partnership is formed, the lead agencies can begin to focus on addressing the issue of the transfer of funds before the funds arrive. Memoranda of understanding between partners at all levels can be prepared, with terms of reference for use of funds and accounting discussed, digested, and assimilated before pressures begin to build on the organizations to start using the funds. Audit, monitoring, and performance evaluation systems can be set up at the same time. In a partnership, implementing partners can be organized in a way that draws upon their respective technical strengths, service coverage, and management experience. In Tanzania, Global Fund partnerships, for example, have included more than 50 faith-based and community-based organizations, and NGOs, as well as governmental organizations.

In cases where it is anticipated that there will be a continuing need to make quick programmatic decisions, an executive committee can be established. Each group of stakeholders (such as the host-country government, the donor, and the primary transfer agent) provides a representative to review design, serve on selection panels, attend monitoring debriefings, and make major programmatic decisions, such as whether a grant should be terminated for cause. These meetings do not have to be held in person as long as decisions are documented. While having the same representatives at each meeting is desirable for continuity, each representative should have the option of sending a replacement so that the process does not grind to a halt. Ideally all representatives should be given decision-making authority from their respective organizations. A small committee approach has multiple benefits: scheduling is easier, true discussions can take place, and decisions can be made quickly.

Selection phase. Given the volume of awards for the kinds of treatment, care, and prevention services involved in HIV/AIDS programs, a fully transparent grants cycle can be a management nightmare and create a logjam as applications are being evaluated. Members of the selection team, who are often participating on top of their full-time jobs, may suffer from stress and eventually burnout.

The logistics of briefing, photocopying applications, scheduling and rescheduling meetings, and collating the scores produced by large selection committees is one of the main causes of delays in awards. The number of voting members of the selection committee should be kept as small as possible. The question of transparency often arises during the selection phase, however, so additional stakeholders can be invited to attend as observers. Technical experts who have reviewed all the applications can be brought in to brief the selection committee on the salient points of each application.

Evaluation criteria should be kept relatively broad and include as few items as possible so that the selection committee does not have to discuss and score many items and can quickly come to a decision. The scoring method used should be as simple as possible and need not be based on a point system. A simple system of pass, resubmit, or fail can be used, although most selection committees are uncomfortable with too much streamlining of the selection methodology. If a simple system is used, a nonvoting individual can be appointed to record the discussions leading to the selection decision.

Choice of funds transfer instrument. Contracting staff often have a number of possible contracting instruments at their disposal, although some donors may place limitations on what types of instruments can be used for a given type of resource transfer. These limitations may concern to whom the funds are being transferred, the level of funding, etc.

Primary transfer agents can develop standard agreements, reporting formats, and monitoring and control instruments and use them as the starting point for all HIV/AIDS programs. The size and complexity of the administrative machinery can be daunting, but having standard tools ready for adaptation will help.

One particularly efficient contracting instrument when dealing with organizations that lack robust financial reporting systems is the fixed price grant or subcontract, which essentially provides the total fixed price amount, the disbursement schedule, any performance indicators that need to be met or deliverables submitted in order to receive a payment, the period of performance, the statement of work, and any other terms and conditions that need to be met. The benefits of using this instrument include:

- There are usually few strings attached, so the implementing partner does not need to know and follow a large body of rules and regulations.
- Funding can be provided in tranches so that the organization has the money it needs when it needs it.
- The instrument is easy to issue and modify—so the transfer agent can use relatively inexperienced contracting staff.
- It easily lends itself to making payments based on performance.
- The risk to the transfer agent is relatively low, as payment is not made on a cost reimbursement basis.

Table 1 lists the major types of contracting instruments and the characteristics of each. The terms and conditions of the donor funding will usually dictate what instrument can be used. Each type of instrument has many variations, which are not covered in this paper.

Primary transfer agents should contemplate issuing awards that cover as long a period of performance as possible. Doing so will provide incentives for the implementing partner to hire staff and carry out financial management tasks.

Pre-award risk assessment. The donor typically requires that a primary transfer agent determine before award whether the implementing partner is eligible for funding. This determination often involves examining the financial management systems in place and checking references, although many primary transfer agents use elaborate pre-award surveys. The instrument used should be carefully chosen to check whether it will yield only the information necessary to determine whether the organization has the capacity to manage the funds. Such a survey usually includes questions about number of staff; financial management policies, procedures, and systems; and programs and funding amounts. The instrument should be used only to determine whether the implementing partner is eligible for funding, not to determine what long-term capacity-building will be required. Capacity-building assessments are much more detailed and take much longer to administer than an assessment of an organization's eligibility for funding, including whether it has the basic systems to manage funds.

The tool should be designed so that it can be administered and scored by non-accountants. The pre-award survey should have a scoring system so that the transfer agent can rapidly determine by the number of points if the implementing partner is high risk. If a potential implementing partner is deemed high risk, conditions can be placed on the funding that will still allow the implementing partner to implement the program. Such conditions might include having a fiscal agent handle the funds until the implementing partner has the requisite capacity or having a member of the primary transfer agent's staff assigned to the organization until the organization's capacity is increased to an acceptable level. The rest of the applicants would be fast-tracked to award and initial cash flow needs addressed, with additional monitoring of medium-risk grantees put in place.

Pre-award agreement. Often there is a backlog of awards being prepared while the final programmatic and cost details are being hammered out. In such a case, the primary transfer agent can issue a pre-award agreement that allows the implementing partner to get started on aspects of the program that have been decided on, rather than wait until the final negotiations are complete.

Table 2 summarizes the options discussed in this section for speeding the funds transfer cycle.

Table 1. Major Types and Characteristics of Contracting Instruments

Type	*Terms and Conditions*	*Financial Implications*
Grant, fixed price	▪ Typically very simple and easy to modify ▪ Few compliance issues	▪ Tranche payments upon achievement of defined milestones ▪ Typically do not have to report on amounts actually spent by the implementing organization ▪ Typically does not include audit requirements ▪ Some donors (e.g., USAID) do not allow fixed price grants over a certain dollar threshold ▪ Some donors allow an initial tranche to provide cash flow. Under USAID funding, it is possible to issue an initial tranche for an easy-to-achieve early milestone. ▪ Typically easy to increase the funding ceiling ▪ If grantee overbudgets, no mechanism to retrieve the funds
Grant, cost reimbursement	▪ More complicated than a fixed price grant ▪ More potential compliance issues	▪ Recipient must prepare, submit, and reconcile invoices. ▪ Transfer agent must do invoice verification. ▪ Requires reconciliation of advances ▪ Audit typically required if over a certain threshold (varies by donor) ▪ Can issue advances to cover cash flow ▪ Typically easy to increase the funding ceiling
Subcontract, fixed price	▪ Typically very simple and easy to modify ▪ Typically few compliance requirements ▪ Lends itself easily to performance-based contracting ▪ Bonus for achievement can be built in	▪ Disbursement schedule is easy to follow. ▪ There is a risk to the subcontractor if it is underbudgeted. ▪ Typically more difficult to increase the funding ceiling without major modifications to the statement of work
Subcontract, cost reimbursement	▪ Typically includes more terms and conditions than fixed price instruments ▪ Gives more control to the transfer agent	▪ Typically more difficult to increase the funding ceiling without major modifications to the statement of work
Purchase order	▪ Very simple ▪ Typically used for small value resource transfers	▪ Can set up a payment schedule based on a percentage of the full amount, or a per transaction cost (e.g., number of patients seen) ▪ Typically does not have to report on amounts spent ▪ Typically does not include audit requirements
Memorandum of understanding	▪ No direct funding ▪ Typically outlines who will be funding what and under what conditions	▪ No financial transactions involved

Table 2. Tips for Making the First Payment on a Grant in Two Months from the Launch of the Grants Program

Stage	*Timesavers**
Planning (3 weeks)	▪ Have someone in-country, at least through award. ▪ Gather the decision-makers and decide on activities and costs eligible for funding, eligible applicants, process, timeline, selection criteria, and level of competition (if any). ▪ Place generic announcements in newspapers and through professional associations of upcoming grants program asking interested parties to contact the program to receive the prequalification questionnaire. ▪ Create a timeline with a focal point and a backup for each event. For programs where it is anticipated there will be many applicants, line up plenty of reviewers for the prequalification questionnaires. ▪ Gather all existing grants management templates. ▪ Revise the announcement, prequalification questionnaire, request for application, pre-award agreement, award agreement, and financial management templates. ▪ Create a Web site for the grants program if Web access is generally available. ▪ Set up the mechanism for the transfer of funds.
Announcement and submission (3 weeks)	▪ Issue (by e-mail if possible) a very short prequalification questionnaire with a one-week turn-around. Questions should determine if the organization is eligible and a one-paragraph concept paper can be requested (eligibility is easy to determine, but concept papers take time to review). ▪ Use the Web site to issue a request for applications that is streamlined to request only essential information (other information, especially on financial systems, can be requested after selection). Inform applicants by e-mail. Request proposals within 10 days. ▪ Hold a prequalified applicant workshop one week before proposals are due.
Selection (1 week)	▪ Keep selection criteria simple and limit the number of criteria. ▪ Keep the selection committee small.
Award or pre-award and first payment (1 week)	▪ Issue a simple pre-award agreement for the elements of the application that have been agreed upon and issue a first payment immediately. ▪ Start negotiations immediately after selection. ▪ Use fixed price agreements whenever possible.

*Not all items will be needed for all programs.

Funds Disbursement: Geographic and Logistical Challenges

THE CHALLENGE

Selecting and getting an award agreement is only half the challenge. Actually getting funds to the implementing partners can be a major headache. Many implementing partners are located in remote areas with no bank facilities. Getting funds to them often means the physical displacement of staff from either the transfer agent or the implementing partner to deliver or pick up cash.

Most countries now have reliable e-mail access (although it is sometimes very slow), but this communication method is often limited to major urban areas. Another obstacle is that the primary transfer agent is frequently not based in the same country as the implementing partners and may not have an in-country presence or bank account. Electronic funds transfers are often used to get the money in-country, but these transfers sometimes go astray and time is lost as the funds are tracked down.

SOLUTIONS

An in-country presence facilitates funds disbursement, since a local person will be familiar with the banking requirements or can identify the quickest mechanisms for getting funds to remote locations within the country. For example, in some countries the postal system is a reliable method for transferring funds within the country.

If necessary, funds should be budgeted for couriers to transport cash to the implementing partners. The cost of the courier can be included in either the transfer agent's or the implementing partner's budget.

Funds Disbursement: Payment Processing

THE CHALLENGE

Many types of fund transfers require the recipient to prepare an invoice detailing how funds were spent before those costs are reimbursed or another advance is issued. The process of preparing an invoice in the format required by either the prime or intermediate transfer agent, internal review of the invoice, and approval within the organization before it is sent to the transfer agent is then followed by a review process at the transfer agent, approval, and transmittal to another office for payment. Thirty or more days may elapse between receipt of an invoice and the actual disbursement of funds against it. If there are any questions about an invoice, or if a key individual in the process at either organization is absent, there is likely to be more delay before the disbursement is made.

SOLUTIONS

Whenever possible, workshops should be held for the implementing partners to review the payment documentation requirements and any rules or regulations applicable to the grant. Implementing partners should be required to submit a draft invoice at the beginning of the agreement period so that issues about format and content are identified before the first invoice is due.

Attachments to the invoice should be assessed for reasonableness. For example, does a primary transfer agent typically require the implementing partner to attach a list of all its expenditures and copies of receipts for all costs above a certain amount to the invoice? It takes time to prepare and review such documentation. Such a requirement should be imposed on a case-by-case basis and only if the organization has been assessed as being high risk.

When international NGOs are the primary transfer agents, payments to implementing partners should be made in-country whenever possible. If payments are being made from headquarters and there is reliable e-mail access in the country, the in-country staff should have a computer and a scanner in order to scan invoices received and send them to headquarters electronically.

A simple payment tracking system should be devised to see what invoices have been received and whether they have been paid or are pending. Staff should be encouraged to think of the invoice as a "hot potato" to be dealt with immediately on receipt as a high priority and not left to languish in a pile of other transactions. The system should track processing time to ensure that turnaround stays on target. If the tracking system shows that a particular staff member is routinely behind on processing invoices, that finding should be followed up as quickly as possible, although in some cases it will be determined that the delays were legitimate because there were indeed issues with the invoices submitted. Staff who routinely meet or exceed their processing targets should receive recognition or incentives, which would be especially welcome because such staff in most organizations are rarely recognized for their work.

The number of individuals who have to review and approve the invoice should be kept to a minimum, without sacrificing proper internal controls. The number of approvals could be based on a threshold system: small payments could be authorized by a single individual who can attest that the work took place and larger payments would need a second approver. A payment flowchart should be developed and reviewed periodically to see if it can be streamlined.

Unless the program is carefully designed, disbursements tied to performance can lengthen the invoice preparation and processing timeline because performance-based programs require that the implementing partner report on agreed-upon indicators to demonstrate that performance was achieved before payment is released. The implementing partners have to document that the indicators have been met, and the transfer agent then has to verify that the indicators have been achieved.

The transfer agents have to review what deliverables they require for a payment to be made. Excessive requirements may cause implementing partners to devote a disproportionate amount of time to fulfilling the reporting requirements rather than focusing on program activities. Targets should be attainable and easily measured.

Funds Disbursement: Initial Cash Flow

THE CHALLENGE

Most implementing partners require up-front funding to begin work. Advance funding is commonplace in many programs, but there is often volatility in cash flow, with a corresponding halt of program activities while invoices are being prepared, submitted, approved, and the funds transfer effected.

SOLUTIONS

If a cost reimbursement agreement is used and donor regulations allow it, an advance that covers a six-month period should be given, coupled with a requirement for quarterly financial reporting and a strong monitoring program. Prior approval would be required from some donors, such as USAID, which limits advances to immediate disbursement needs. The transfer agent would have to have a procedure for immediately halting the funding agreement and recovering remaining advance funds if the program is seriously underperforming or if any misuse of funds is discovered. Such an advance would guarantee an adequate cash flow so that the implementing partner can continue its program while financial reports go through the preparation, submission, review, and payment cycle.

Fixed price agreements should provide sufficient funding in each tranche so that the implementing partner does not experience cash flow problems. The number of payments should be minimized by spacing the payments as far apart as possible. Again, a strong monitoring program must support such a payment scheme.

Donors should not require that bonds be posted as security for initial payments or advances. Some donors impose this requirement in deference to local procurement practices.

Flow of Funding through Multiple Entities

THE CHALLENGE

The flow of funding from the donor through various primary and intermediate transfer agents to the implementing partner is a lengthy, unwieldy, and expensive process to manage. The primary and intermediate transfer agents and implementing partners have to be selected, funding agreements put in place, management systems established, and monitoring and evaluation systems launched. Another characteristic of such a tiered system is that the amount of funds that actually reaches the implementing partner is reduced by the amounts taken by the entities it has already flowed through, in order to pay for their management services.

Bank charges can also lead to diminished amounts of funding available for the implementing partner because both originating banks and destination banks charge fees. In some countries, the destination bank takes a percentage of the funds instead of a flat fee.

SOLUTIONS

If possible, the primary transfer agent should cut out the intermediary level and transfer the funds directly to the implementing partners. Since intermediate transfer agents are often used because the primary transfer agent is an international NGO without an in-country presence or affiliate, the primary transfer agent should consider hiring either a national staff member or consultant to handle the in-country funds transfer process.

Primary transfer agents should also investigate funds disbursements methods such as the remittance system to get funds from outside the country to remote areas of the country. Immigrants working in developed countries periodically send small amounts to their families in villages in their countries of origin. It is estimated that the global amount of remittances in the mid-1990s was $59 billion per year and that the amount has continued to increase since then.[10]

Banks should be asked if they will waive transfer fees as a social contribution to HIV/AIDS programs. If they insist on taking a large fee, they should be asked if they will take on some of the financial management tasks in return for the fee, given the large amounts of funds that will be transferred through their bank. If an intermediate transfer agent is needed, the primary transfer agent should negotiate to limit the amount going to the intermediate transfer agent so that the maximum amount of funds is going to the implementing partners rather than to pay for the services of the intermediate transfer agent.

Host-Country Governments

THE CHALLENGE

The host-country government is often asked to show commitment to and leadership in scaling up national HIV/AIDS efforts, which leads to one or more government entities such as the Ministry of Health or the Ministry of Finance becoming involved in the planning and implementation of the financial resource transfer of NGO-implemented HIV/AIDS programs. Resource transfer can be slowed when governments must approve which programs are funded and which implementing partners receive the funds. Obtaining these approvals is often a lengthy process and not transparent.

Despite a decade of efforts to build public-private partnerships, in some countries the two sectors have an adversarial relationship. The large-scale funding that goes directly to government as the primary recipient necessitates a battery of memoranda of understanding to facilitate its distribution to the private sector or civil society. Funding flows often reflect difficulties in this relationship.

Often governments have policies they want to see reflected in health programs, such as keeping NGO salaries in line with government salaries to help prevent the migration of government workers to the NGO sector. Such requirements may add administrative burdens to the design and implementation of HIV/AIDS programs. Building partnerships during the design process can facilitate the transfer of funds later on during implementation.

When the host-country government itself is the primary transfer agent, it may have to undergo an extensive assessment by a donor-assigned local fiduciary agent to determine its capacity to manage programs and finance. This process may delay the funding stream if the government cannot demonstrate the management requirements set by the donor.

Another challenge faced by HIV/AIDS programs when the host-country government is the primary transfer agent is delays in getting government funds to government institutions, especially when these funds are going to districts where decentralization is underway. Very often the ministries do not have the mechanisms for getting money to districts and the districts do not know how to request the funds. This leads to delays in getting the funds to implementing partners at the local or district level. This problem is exacerbated in the current environment of reform and decentralization where a Ministry of Health is the primary recipient and a Ministry of Local Government has the line authority over the district. Moving funds between ministries is often extraordinarily complicated, and expecting one bureaucracy to understand and commit to the program goals of another is unrealistic. Unless there are programs for mainstreaming HIV/AIDS activities throughout all government sectors or ministries of local government are involved in the design phase, funds will flow slowly, be misdirected, or be disbursed without much guidance on their purpose.

10. Ralph Chami, Connel Fullenkamp, and Samir Jahjah, "Are Immigrant Remittance Flows a Source of Capital for Development?" IMF Working Paper, International Monetary Fund Institute, September 2003.

SOLUTIONS

Design of HIV/AIDS programs by a multisectoral partnership, as described in *Scaling Up HIV/AIDS Programs,*[11] is one way to overcome this challenge. Partners see how they need to work together and what changes in administrative and management practice need to be made to facilitate effective collaboration. On a national scale, Country Coordinating Mechanisms like those being set up by the Global Fund, if they function properly, can also help pave the way for resources to flow between sectors.

Host-country governments should be asked to re-evaluate any policies, especially approval requirements, that would slow the resource transfer process. Governments should also consider the use of fiscal agents when they have problems getting the funds to implementing partners through their usual channels.

Donors' Requirements

THE CHALLENGE

Donors' rules and regulations are detailed and complex for all the entities involved. Donors' requirements about competition, selection, and clauses that must be included in all agreements issued by the primary transfer agent or intermediary transfer agent are often designed with an eye to providing accountability, transparency, and governance, rather than flexibility to allow swift resource transfer. Compliance with the requirements is cumbersome in itself, but delays can result when intermediate transfer agents for HIV/AIDS funding and implementing organizations are unfamiliar with donors' requirements. In many cases, these requirements limit what mechanisms can be used to expedite financial resource transfers. For example, USAID has limited the use of fixed price grants to $100,000 for US organizations and $250,000 for non-US organizations.

SOLUTIONS

Many donors agree that HIV/AIDS programs merit an expedited approach and are reviewing their rules and regulations to identify where roadblocks to implementing programs can be removed. For example, USAID has broad statutory authorities and in 2001 put in place expedited acquisition and assistance procedures to facilitate the implementation of HIV/AIDS programs.[12] According to a General Accountability Office report,[13] the Global Fund has also made great strides in simplifying its procedures.

Donors could inventory their approval requirements and put in a blanket waiver for requirements that do not add value to HIV/AIDS programs. Obtaining approvals during implementation often delays implementation because the donor staff reviewing and approving these requests typically have a large portfolio.

Donors could also consider adopting standard liability language like that on page 9 above. USAID, for example, might review whether to adopt this type of clause as policy when it authorizes grants under a contract, since the clause is already being authorized on a case-by-case basis.

To accelerate the funding process, new approaches can include easing existing regulations and minimizing unnecessary regulations. Donors could consider giving primary transfer agents more latitude to try creative approaches to expedite the transfer of funds.

Ideally, donors who handle more than just HIV/AIDS programs should introduce a separate set of rules and regulations. USAID has already implemented such an approach for disaster assistance, since the Office of US Foreign Disaster Assistance (OFDA) operates under different competition and implementation guidelines than the rest of USAID. The type of flexibility given to the OFDA could be extended to HIV/AIDS programs.

11. Saul Helfenbein and Catherine Severo, *Scaling Up HIV/AIDS Programs: A Manual for Multisectoral Planning.* Boston: Management Sciences for Health, 2004.

12. US Agency for International Development, "Expedited Acquisition and Assistance Procedures for the HIV/AIDS and Infectious Disease Initiatives," Washington, DC: USAID Contract Information Bulletin 01-04, http://www.usaid.gov/business/business_opportunities/cib/pdf/cib0104.pdf

13. General Accountability Office, "Global Health: The Global Fund to Fight AIDS, TB, and Malaria Is Responding to Challenges But Needs Better Information and Documentation for Performance-Based Funding," Report GAO-05-639, June 10, 2005, http://www.gao.gov/cgi-bin/getrpt?GAO-05-639. Highlights: http://www.gao.gov/highlights/d05639high.pdf

Although some donors have limitations on the use of fixed price grants, fixed price type–agreements are much more suited to HIV/AIDS implementing partners than cost reimbursement–type agreements. They also have the benefit of shifting accountability to partners for results rather than costs. The focus is thus on performance, not systems, and partners can concentrate on implementing the technical or clinical aspects of the HIV/AIDS program rather than on setting up systems and hiring nontechnical and nonclinical personnel to handle compliance with regulations.

Donors could also consider the use of longer-term agreements, such as those used by the Global Fund with its local funds agents, which allow the primary transfer agents to build long-term relationships, invest in local staff, and provide real technical assistance in capacity-building, rather than going through the learning curve, spending a short while in full implementation mode, then closing down for another primary transfer agent to go through the same cycle. It would also be more cost efficient to eliminate repetitive start-up costs and the learning curve phase.

If some of these recommendations are considered useful, they will take time to implement. Meanwhile, there are some mitigation measures that can be taken by primary and intermediate transfer agents. Whenever possible, the primary transfer agent should identify rules and regulations applicable to the funding agreement that might inhibit rapid resource transfer and ask the donor to waive those rules. For example, upon individual requests from a number of HIV/AIDS programs, USAID has provided approvals to primary transfer agents to raise the ceilings of fixed price grants.

The primary and intermediate transfer agents should identify key rules and regulations with which implementing partners will need to be familiar. These rules can be compiled in a crib sheet. Workshops for implementing partners should be held early on in the program to explain the requirements, and every effort should be made to communicate changes to regulations.

The primary and intermediate transfer agents should refrain from imposing additional requirements that will slow the transfer of funds, if they are not required by donors. Examples of such additional requirements are requiring separate bank accounts or attachment of copies of receipts to invoices.

Multiple Donors

THE CHALLENGE

Because there are so many different sources of funding in the countries receiving significant HIV/AIDS funding, donor coordination can become an obstacle as the different donors go through the process of coming to agreement with each other and the host-country government on what each will fund, in order to avoid duplication of effort and conflicting programs. The number of external players can pose a challenge for the transfer agents and implementing partners because if an organization has funding from multiple sources, each donor may insist that priority be given to the program and approach it is funding.

Having multiple donors also means multiple sets of rules and regulations, reporting requirements, and funding cycles, as all the sources of funding come with strings attached. These multiple funding streams mean that organizations at all levels require a financial system robust enough to identify expenditures against a specific funding source and an accounting system flexible enough to be able to report to the funder in the way it requires and for whatever reporting periods are required.

Some funders also require that funds be placed in separate bank accounts. In some cases, an implementing partner's HIV/AIDS program is supported by multiple funding streams, which makes the separate bank account difficult to administer. For example, a single invoice, such as one for rent of a clinic, may be covered by a number of different funding sources and a requirement for separate bank accounts would mean that different checks would have to be used to pay a single invoice.

SOLUTIONS

Donor representatives should be made aware of coordination problems and their impact on achieving results. Representatives of different donors should consider harmonizing their administrative requirements and lifting those that impede the work without providing a significant benefit.

Conclusion

Is it possible to walk the line between quickly getting funds to the frontlines of the battle against the HIV/AIDS pandemic and keeping risk at an acceptable level? The answer is yes, but everyone involved must realize that delays in the funding of the frontlines puts lives at risk and that a special expedited approach is essential.

Those transferring the funds—donors, governments, and NGOs—can adjust how they view risk for HIV/AIDS programs. The major financial risks are that there will be a severe misuse of funds at the implementing partner level (either through fraud at the organizational level or misconduct at the employee level) and that primary transfer agents will have to refund the donor. Because funding for HIV/AIDS programs may involve large sums of money, each level involved in the transfer of funds has been cautious and put in place many controls to mitigate risk that slow down the transfer of funds. Instead, those responsible for funding should re-examine the amount of risk they are willing to tolerate and establish mechanisms that require as few controls as possible.

The greatest impact will come from a change at the *donor* level: if donors change the amount of risk they pass on to primary transfer agents, the primary transfer agents will feel more confident. The same is true for rules and regulations. If donors re-examine and streamline requirements that apply to HIV/AIDS programs, it will facilitate getting the programs implemented at all levels.

Primary transfer agents have many options for speeding up the funding process. These include maintaining good relations with donors, creating an enabling environment, having appropriate staffing, taking measures to mitigate risk, and streamlining procedures.

Donor Relations

- Consider asking the donor to waive the liability of the primary transfer agent for fraud or misconduct at the implementing partner level or to provide a fee to cover the risk of repayment of funds transferred to the implementing partner.
- Negotiate terms and conditions that slow down the transfer of funds.
- Obtain as many required approvals ahead of time as possible.

Enabling Environment

- If you are a senior manager, accept more risk than usual and communicate this tolerance of reasonable risk to staff in the organization who handle any aspect of funds transfer, to create an atmosphere that optimizes rapid transfer of funds rather than risk mitigation.
- Have a full suite of grants management templates easily available for adaptation by the program.
- Make grant documents available to both headquarters and field offices.
- Simplify financial requirements and encourage accounting staff to deal immediately with invoices.

Staffing

- Have staff on the spot with sufficient authority to make things happen.
- Have on hand sufficient accounting and contracting specialists to handle the workload.
- Use transitional elements such as intermediate transfer agents if doing so would be faster than using a direct transfer process.

Risk Mitigation

- Set up monitoring systems to identify implementing partners that are having difficulties in managing finances or achieving program objectives. Provide early interventions to fix the problems—and be willing to stop a grant if fraud or misconduct is identified.

- Minimize the amount being transferred to implementing partners by paying directly for commodities, such as medicines.

Streamlining

- Trade competition and complete transparency for a shorter timeline between planning the program and issuing the first payment to the implementing partner.

- Use fixed price agreements whenever possible.

Implementing partners must develop their systems and capabilities for managing and reporting on the use of funds, especially by hiring additional financial staff. The primary transfer agent should provide ongoing capacity-building in parallel with any transitional systems and support.

The HIV/AIDS pandemic is so devastating in some countries that the impact of any significant pauses in the funding of HIV/AIDS programs can be seen immediately in the populations they serve. Donors, primary transfer agents, and implementing partners have all made great strides in addressing the issue of timely funding so that the implementing partners can concentrate on program implementation rather than cash flow. We hope to see continued progress made in this direction.

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