Gavi CSO funding mechanism

Financial Guidance:

2. Budget classification & management

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Introduction

This document presents grantee guidelines on the management of budgets for the Gavi CSO Fund (the Fund). The budgets set under the funds are awarded from existing Gavi support to beneficiary countries, as such the system of budgeting and classification is intended to align with the wider Gavi frameworks.

This guidance sets out the definitions to be used in these frameworks. It should be considered when setting budgets under the Fund and should also be read alongside the Performance Monitoring Framework.

The Fund practices adaptive management and allows as much flexibility as possible to grantees to manage and prioritise their budget as they need. However, there are controls in place to ensure the budget and the activities promised under the grant do not vary too far from the original intention. This guidance sets out classifications used in the budget and the limits of flexibility allowed by Gavi.

Structure of the budget

This section covers basic guidance on the classification of expenditure between the standard budget headings.

Cost Classification

The Gavi Cost Classification is the economic classification of transactions universally applied across Gavi projects. For the purpose of the Fund some adaptations have been made to this framework to make it more appropriate for the CSO context.

The classification is split between the higher-level Cost Groupings and the sub-groupings within, called Cost Inputs. A full schedule of the Cost Classification including the definitions to be used, is included in Annex A. The Cost Groupings are set out below:

1. Human Resources (HR)
2. Transport and Travel-related Costs
3. External Professional Services (EPS)
4. Health Products, consumables and equipment
5. Event related (trainings, meetings, workshops, launches)
6. Cold Chain
7. Infrastructure (INF) and Non-Health Equipment (NHE)
8. Communication Materials and Publications
9. Programme Administration (PA)

In most cases recording expenditure against the categories above should be simple, and self-explanatory, however some of the categories may require further detail and explanation. The following sections highlight some key issues in reporting.

Human Resources (HR)

HR includes all staff costs to be charged under the project. Staff costs will typically include expenditure incurred for:

- Staff associated with project activities

- Staff associated with administrative costs, unless judged to be inseparable from the overheads

- Employment costs not included in salaries (these may include payroll taxes, pensions, staff bonuses as dictated by contract). These additional costs are expected to be appropriate to the normal practice of the country of implementation.

Please note: payments to consultants should not be recorded as Human Resources, but External Professional Services (EPS).

To allow for verification of amounts in all cases it is required that timesheets will be completed, and formal payslips will be produced.

Budgeting for staff costs is based on percentage FTEs (full-time equivalents), so it is important that the grantee collects sufficient information to demonstrate compliance against their budget.

Grantees do have the flexibility to adjust pay if it is within their budget or the flexibilities identified in budget flexibility section of this guidance. However, where salaries are significantly adjusted upwards, and charged to the budget, there should always be a clear justification for doing so, and the grantee should be prepared to demonstrate that the change was necessary to achieve value for money in the context of the project.

Position level classification
The Fund uses a common grading for salaries and wages. Grantees are required to classify each role into one of the following designations:

- Director level

- Manager level

- Specialist level

- Coordinator level

- Assistant level.

These grades should be applied as consistently as possible, regardless of whether the staff member works on an administrative/programme management function, or in a technical/health position.

Some examples of how these classifications are applied to different roles is included in Annex B.

Capital Expenditure

The grantee must budget for all items of capital expenditure to be funded under the project. Recognition of capital, including de minimis limits should be in line with the grantee's own finance manual.

Grantees must report on capital expenditure in the year in which cash is exchanged. The cost of the transaction should not be spread over the lifetime of the project, i.e. the depreciation of an asset should not be included in reporting, nor should any impairment or revaluation.

Unless by exception, capital expenditure is expected to occur in the first half of the project. This is to avoid the grant being used to fund assets which will be used substantially for purposes other than this grant. Budget allocated towards items of capital expenditure in the closing phases of a project will be under additional scrutiny and may be rejected.

While capital expenditure may arise under projects, it is not expected that significant capital expenditures are the focus of any project.

Programme administration

There are two types of administrative costs which may be expensed under the Fund:

- Direct administration costs
- Indirect administration costs.

Direct administration costs

Direct administrative cost includes those costs which can be directly attributable to the Gavi project implemented by the grantee. Examples of direct administrative cost may include: rent/lease costs for a project office only used for the Gavi project, bank charges associated with the bank account used for Gavi funding, communications costs, etc.

These costs should be recorded with one transaction on each line of the detailed transaction listing, in the same way as all other costs.

Indirect administration costs

Gavi recognises the need for grantees to support any project through head office administration and expenditures which are not directly attributable to the Gavi project. Some examples of indirect costs may include: rent/lease costs of the HQ, support staff costs not

working on a project, external audit costs, governance costs (for example, registration, Board meetings etc.).

These costs should be minimised in order to maximise value for money for Gavi projects. Grantees are encouraged to consider where cost savings could be made through sharing administrative costs across projects. However, the Gavi grant can be used to pay a fair share of these costs.

The fund manager is aware that most grantees will already have their own internal guidance on the calculation of administrative support costs and, as far as is appropriate, are content for this to be used in the calculation of administration costs the Fund. However charging of indirect costs can only be up to a **maximum total of 7% of the grant value**. If grantees internal guidance on charging of indirect costs indicates that less than 7% should be charged, then the grantee should always include the lower of the two figures in their budget and financial reports.

For recording purposes, grantees are advised to include any indirect costs being charged on a single line in the reporting template.

Sub-grantees vs suppliers

In many cases the grantee will not deliver all services under the grant directly. There will be a number of partners/sub-grantees supporting delivery often spread between geographic areas. There will also be the need to work with service providers and suppliers to provide the goods and services needed in order to deliver. Identification of sub-grantees is an important step in setting a budget, as it determines the reporting treatment:

- Payments and transfer of funding to named partners/sub-grantees on the project are not recorded as project expenditure. The actual expenditure of the sub-grantee should be recorded against budgets in the same level of detail as the grantee.

- Payments to sub-contractors or service providers who are not named in the grant agreement should be recorded against the budget as a payment to the supplier.

Since the difference in treatment between sub-grantees and suppliers is significant, it is essential grantees consider this classification at the point of budgeting for their project, and understanding the definitions below:

Sub-grantees

Sub-grantees/Partners/Downstream Partner/Implementing Partner are organisations to which the grantee will have delegated responsibility not just for carrying out specific activities but for managing the delivery of certain project activities and spending a portion of the Gavi grant.

Sub-grantees will likely not be competitively procured and will work alongside the grantee towards a common aim in the completion of a mutual objective. The contractual relationship is expected to be a Memorandum of Understanding rather than a commercial contract.

Activities should be provided at cost on the same basis as those of the grantee themselves and will not include a mark-up or profit margin.

It is the responsibility of the grantee to ensure that any sub-grantee involved in the project operates within the same rules and standards in the delivery of the Gavi grant as the grantee do themselves. This includes reporting of expenditure on the same level of detail as the grantee.

Suppliers

Entities within the delivery chain that fall into this category will be commercial providers of services or goods that a grantee enters into a commercial arrangement with, after a competitive procurement process for the provision of specific goods or services to the project at a set / pre-defined price (which will likely include profit / mark up).

Working with Government

In some cases, grants may involve working with Government agencies as a partner. In these cases the Fund recognises that the same level of reporting may not be possible as Government bodies often have less flexibility in the area. Where grantees feel that this may be an issue they should contact the fund manager to discuss reporting options.

Activities and the Workplan

The classification used in the budget is Activities. This is the category that links grantee budgets with the Workplan. The list of activities to be included in the budget must match those included in the Workplan exactly.

For information on classification at an activity level, please see separate guidance on the Workplan.

Cross-activity expenditures

In most cases budget lines are expected to be allocated to a single activity, and if a single budget line requires expenditure on two activities then a second budget line should be created.

In some cases however, expenditure makes cross multiple activity lines – this is most common in the area of Human Resource costs where a single individual may work on all activities. In these cases it is preferred not to create too many new budget lines, and grantees should instead select "multiple activities" in their budget.

Items which may not be claimed

The Fund gives grantees as much flexibility as possible in the allocation of their budget. There are however some areas of expenditure which cannot be charged to Gavi budgets. The high-level principles to follow are:

- By default, transactions are expected to be 100% for the purposes of the Gavi grant. In some cases, (especially when related to administrative costs) cost sharing is allowed and encouraged, but this should not lead to the Fund paying disproportionately for a shared cost.

- All budgets should be fully allocated to a line of expenditure – budgets which include an unallocated reserve will not be permitted

- Inflation must not be included as a stand-alone cost in a separate budget line

- Large capital expenditures are not envisaged under the Fund.

All items of expenditure must confirm to the principles above and be allowable within the agreed budget. In addition to the principles listed above, the following list outlines types of expenditure NOT allowable within fund budgets. This list is non-exhaustive but covers some common points of confusion:

- Lobbying government, so, using grant funds to fund lobbying to influence or to attempt to influence legislative or regulatory action

- Using grant funding to petition for additional funding

- Tax, which will ultimately be reclaimable by the grant recipient

- Payments for activities of a political or exclusively religious nature

- Gifts

- Statutory fines, criminal fines or penalties

- Payments for works or activities which the grant recipient, or any member of their Partnership has a statutory duty to undertake, or that are fully funded by other sources

- Severance pay, payments for unfair dismissal or other compensation

- Land purchase

- Major capital expenditure cannot be supported as the primary focus of the proposed initiative

- Contingency / unforeseen costs arising during the project implementation should not be included as a separate item in the budget

- Depreciation is an accruals accounting concept and should not be included

- Debt Repayment, bad debts to related parties, or interest payments or service charge payments for finance leases

The above list is not exhaustive and not intended as a universal list of what is permissible or otherwise under this arrangement.

Budget management

Good practice

All grantees are expected to closely monitor their budget against the project plan and Workplan. The Fund allows some degree of flexibility within budgets, but the expectation is that accurate planning and forecasting should occur upfront and that the need for revisions to the budget will be by exception only and will in most cases be anticipated in advance by the grantee.

The quality of forecasting on all grants is important and will ensure the fund manager's ability to maintain a smooth schedule of disbursement. Repeated high variance against forecast is seen as a consequence of weak financial management, and grantees are asked to avoid this wherever possible.

All organisations should consider the below points of best practice when designing their systems:

- **Collaborative**. Management of the budget is only effective when it is a collaboration of the finance section and technical delivery sections. Financial forecasts should be activity based and consider the real-world actions taking place, with an awareness of the local context, rather than a simple apportionment of budget across months.

- **Forward looking**. The fund manager should be made aware of the need to adjust budgets as far in advance as possible. If grantees report budget variances only during annual reviews, then they are at risk of the fund manager and Gavi rejecting the budget adjustment and denying any disbursement of funds not in the agreed budget.

- **Regularly updated**. It is recommended that forecasts and plans are reviewed at least monthly, and accurate up to date financial forecasts are reported to the fund manager in every quarterly funding claim.

- **Realistic**. There is an inevitable tendency to over-promise on the delivery of projects. Effective planning should attempt to control this and set a project plan linked to a budget that is ambitious but achievable.

Budget flexibility

In most cases grantees are expected to operate within the constraints of their project budget. Grantee project expenditure should never exceed their total budget, as set out in the grant agreement, and where adjustments to the agreed budget are required, approval must be sought through the fund manager. However, to avoid the need for approval of many small changes there is some flexibility in budgets for adjustments which can be made without approval from the fund manager. This flexibility is set out in the grant agreements:
- Individual budget lines may vary by up to 20% of annual agreed value

- Budget lines must not be created or deleted without fund manager approval.

Grantees may vary their budgets further than the flexibility above, however **any variance in expenditure outside of this allowed flexibility will require a formal budget revision in line with the process below**.

Budget revision

Grantees should inform the fund manager as soon as it appears likely that there will be a variance of the budget which requires a budget revision. Grantees must submit a Budget Revision according to the standard template which will be provided by the fund manager. This template requires the grantee to state the original budget, revisions, and the revised budget alongside each other. Grantees are also required to provide an explanation of any budget lines which are being revised and justify the reasons for the change. When the requested budget changes have an impact on project outputs and activities, the grantees must also submit a revised Workplan.

Where the fund manager approves the revised budget; if the revisions are significant then the grantee will also be issued an addendum to their grant agreement to reflect the changes.

Annex A: Gavi Cost Framework

Cost grouping	Cost Inputs	Category description
1. Human Resources (HR)	1.1 Salaries - Administrative (Director level)	**All costs charged to Human Resources represent payments for services delivered** - it therefore excludes any payments in lieu of out-of-pocket costs. For example, per diems, subsistence/overnight allowances, transport allowances.
	1.1 Salaries - Administrative (Manager level)	
	1.1 Salaries - Administrative (Specialist level)	Salaries and wages (1.1 and 1.2) should include all salaries, wages and other benefits (for example, social security contribution, housing, pension), provided as part of the standard remuneration package.
	1.1 Salaries - Administrative (Coordinator level)	1.3 relates to official schemes which have been endorsed by the ICC.
	1.1 Salaries - Administrative (Assistant level)	1.4 relates to allowances provided to persons who do not receive a formal salary and are provided with an allowance for performing defined services. For example, volunteers engaged in vaccine campaigns.
	1.2 Salaries - Technical/Health (Director level)	
	1.2 Salaries - Technical/Health (Manager level)	
	1.2 Salaries - Technical/Health (Specialist level)	
	1.2 Salaries - Technical/Health (Coordinator level)	
	1.2 Salaries - Technical/Health (Assistant level)	

	1.3 Performance-based supplements, incentives, top-ups	
	1.4 Other payments for support services	
	1.5 Other HR costs	
2. Transport and Travel-related Costs	2.1 Vehicle procurement	2.1 relates to the full cost of purchase of assets for the transportation of goods or people (Including Cars and pick-ups, Motorcycles, Trucks and Boats) but excluding any taxes and customs duties (which are ineligible).
	2.2 Vehicle rental	2.5 relates to the costs of travel and staying away from home station for service delivery, with amounts provided in lieu of out-of-pocket costs and are referred to as 'cost recoveries' . For example, travel allowances, per diems, subsistence allowances. The associated activities are most likely to be campaigns, outreach, monitoring, supervision.
	2.3 Fuel for vehicles	
	2.4 Vehicle maintenance	Any salary/wage costs related to transportation. For example, for drivers, remain under Human Resources (cost grouping 1).
	2.5 Per diems/allowances for travel-related activities	
	2.6 Other transports costs	The cost grouping does not include travel costs related to Trainings, meetings & other events which is separately covered under category 5: event-related costs.
3. External Professional Services (EPS)	3.1 Consultancy costs	Includes all costs related to technical/management assistance delivered by external agencies/individuals under service contracts, with specific categories for fiduciary agents and external audit. The costs include all fees, whether time or deliverables based, and associated expenses.
	3.2 Fiscal/Fiduciary agent costs	
	3.3 External audit costs	

	3.4 Other EPS costs	
4. Health Products, consumables and equipment	4.1 Immunisation session supplies	Costs of health products and consumables which are not covered by the in-kind support provided through Gavi's NVS grant portfolio.
	4.2 Waste management supplies	Cost of printed materials such as vaccination cards and registers are included in 4.1 Immunisation session supplies.
	4.3 Health equipment and maintenance costs	Health equipment such as incinerators and microscopes, with the associated running/maintenance costs, are included in 4.3
	4.4 Other health products, consumables and equipment	
5. Event related (trainings, meetings, workshops, launches)	5.1 Per diems/allowances related to events (trainings, meetings, workshops, launches)	Costs specifically allocated to the conduct of ONE-OFF meetings, workshops, trainings, launches or other public events, relating mostly to vaccination campaigns and introductions. This category does not include the costs of meetings and other fora used in the routine conduct of immunization programmes. For example, related to planning and supervision. Such costs would be shown under travel related costs (cost input 2.5).
	5.2 Other costs (venue, subsistence, facilitation, materials etc.)	Travel cost including transport allowance and fuel cost related to events (trainings, meetings, workshops, launches) should be included in 5.1
		Other cost refers to refreshments, hall hire, venue, and other event-package costs.
6. Cold Chain	6.1 Cold storage large equipment	Includes specific Cold Chain related costs, i.e. procurement/purchase of storage equipment (freezers, fridges); cold vehicles (refrigerated boats, trucks, etc.); small equipment (vaccine carrier, ice packs…); and maintenance (including reparation, upgrading, service costs) and additional equipment. For example, generators and solar installations.
	6.2 Cold vehicles	
	6.3 Cold Chain small equipment	Also includes joint-investment share of CCEOP-eligible equipment.

	6.4 Cold Chain running and maintenance costs	Does not include costs linked to Cold Chain infrastructure (for example, construction of cold chain facilities) which falls under 7. Infrastructure, nor costs related to training and HR which fall under separate categories.
7. Infrastructure (INF) and Non-Health Equipment (NHE)	7.1 Construction and renovation	Includes construction, renovation or rehabilitation of facilities, furniture and fittings, and IT and telephony equipment. Non-health equipment includes generators for example. Also includes associated running and maintenance costs.
	7.2 Furniture and fittings	Does not include EPS linked to software creation or tool design (cat. 3).
	7.3 IT equipment, telephony, software and connectivity	
8. Communication Materials and Publications	8.1 Printed materials	Communication materials include any printed materials and other communication costs associated with the immunization programme, TV spots, radio airtime, advertising, media events, education, dissemination, promotion, promotional items.
	8.2 Television/radio spots and programmes	Any HR or technical assistance component should be included under HR (cat.1) or external professional services (cat.2).
	8.3 Promotional materials (non-print)	
9. Programme Administration (PA)	9.1 Direct administrative costs	Office related costs includes other indirect costs related to office administration (for example, office supplies, consumables, rent, utilities, mail, telephones, internet, bank charges, security). This excludes services provided by external professionals (cat.3) and related HR costs (cat.1).
	9.2 Indirect administrative costs	

Annex B: Position level classification

Level	Position title (examples only)	Position description (examples only)
Director level	Director	Lead the team in establishing the necessary processes for projects deployment and setting up robust practices in budget management and programs/projects achievements reporting
	Country Director	Prioritise and coordinate activities and with technical team to ensure technical soundness of strategies, and achieve program/project progress
	Project Lead / Project Director	Oversee program/project strategy, activities, work plans, M&E, and reporting
	Partner	Provide relationship management at senior level to support program/project work
Manager level	Program/Project Manager	Ensure the high quality and timely implementation of all activities in the workplan.· Provide overall oversight for implementation of all planned activities.
	Program/Project Specialist	Provide specialist inputs in dedicated area of its expertise
Specialist level	Program/Project Advisor	Ensures the availability of accurate, complete and up-to-date information
	Analyst	Provides specialist input required for effective program/project design, implementation, management, monitoring and evaluation
Coordinator level	Program/Project Officer	Engage with program/project staff at various different levels
	Program/Project Manager	Conduct information gathering and analysis

	Coordinator	Map out relevant program/project processes
	Technical Officer	Work alongside program/project to identify potential improvements in tools and processes
Assistant level	Program/Project Assistant	Data collection and entry, logistics and coordination support to the team
	Finance & Administration	Assist in delivering the needed Finance and Administration inputs for the program/project