

A Summary of Resource Transfer Mechanisms

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Acronyms

BRAC	Bangladesh Rural Advancement Committee
CIDR	Centre International de Development et de Recherche
CRG	Guinea's Rural Credit System
CVECA	Concept of Self-managed Village Savings and Loan Banks
ESF	Bolivia's Fondo Social de Emergencia
FECECAM	Federation des caisses d'epargne et de credit agricole mutual
FONCODES	Peru's Social Development and Compensation Fund Project
HIPC	Heavily Indebted Poor Countries
IADB	Inter-American Development Bank
IEC	Information, Education, and Communication Campaigns
IMF	International Monetary Fund
MASAF	The Malawi Social Action Fund
MIS	Management Information Systems
MOH	Ministry of Health
NGO	Nongovernmental organization
NHA	National Health Accounts
PAF	Uganda's Poverty Action Fund
PHR	Partnerships for Health Reform Project
PLWA	People Living With HIV/AIDS
PPPCR	Burkina Faso's Pilot Project for Small Rural Loans
QA	Quality Assurance
RFP	Request for Proposals
SIF	Social Investment Fund
SIP	Thailand's Social Investment Project
SRP	Zambia's Social Recovery Project
STD	Sexually Transmitted Diseases
TA	Technical Assistance
UNAIDS	United Nations Programme on HIV/AIDS
UNDP	United Nations Development Program
USAID	United States Agency for International Development

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Executive Summary

This paper analyzes mechanisms used to transfer funds from a central government level to implementing groups that provide priority services in key development areas (e.g., health, education, environment, etc.). Recent emphasis on debt relief has given countries the flexibility to utilize funds that otherwise would have been expended on servicing their foreign debts. In this paper, social investment funds and contracting/granting arrangements are discussed as potential mechanisms to move centrally located money to organizations implementing important HIV/AIDS prevention and care programs.

For each of the resource transfer mechanisms discussed, key issues such as transparency, accountability, monitoring and evaluation, and capacity of governments and NGOs to carry out activities developed under these mechanisms, are addressed. Further, the paper explores the different variables that have contributed to the success of resource transfer mechanisms in other countries to encourage thinking about ways in which the mechanisms can be customized for particular country contexts.

Introduction

As countries look increasingly to local level institutions to deliver priority services in key development areas (e.g., health, education, environment, etc.), it is critical that they use mechanisms that transfer funds from the central government level to implementing groups in a strategic, efficient, and transparent manner. Resources available from external and internal sources should be used so that they achieve goals in country priority areas, such as prevention and control of HIV/AIDS, as effectively as possible. Accountability and transparency of transfers is particularly important as international donors place increasing emphasis on achieving established targets.

Recent emphasis on poverty alleviation has given many heavily indebted poor countries (HIPC) an opportunity to increase their investments in social development programs with funds that would otherwise go toward paying down their debt (see box 1). In order to reach the poor, HIPC countries have to utilize resource transfer mechanisms that will afford local level implementing groups easy access to these earmarked funds.

The decentralization of health systems, a popular trend in many countries, involves the devolution of management and, in some cases, financial resources to local government and other implementing groups for the delivery of public services such as HIV/AIDS prevention programs. In a financially decentralized system, resource management is the principal responsibility of local government authorities and involves a large percentage of total resources. These funds are transferred to the regional or district level as part of the routine budget process (ideally, in a routine and transparent way). The remaining funds in these systems are transferred in a variety of ways to other implementing groups.

This paper focuses on the variety of mechanisms that transfer funds from the central government level to local implementing groups that deliver priority services. We provide details on three existing mechanisms — social investment funds, contracting, and granting — that meet this objective. Although we do not provide details on public sector transfers of funds from the central government level to local government authorities, we do, however, consider the other mechanisms in the context of this major intra-governmental transfer mechanism.

Status of debt relief

A recent World Bank article (World Bank, 2000) stated that thirty-two countries, twenty-four of which are in sub-Saharan Africa, are expected to qualify for assistance under the HIPC II Initiative. As of May 2000, four countries (Bolivia, Mauritania, Mozambique, and Tanzania) have reached the second of a three-phase HIPC II process. To date, only one country, Uganda, has met all the conditions for completion under HIPC II, and in 1998, it became the first country to receive debt reductions. The international community has recognized the substantial progress Uganda has made in terms of implementing economic reforms and poverty reduction. In May 2000, the World Bank and IMF agreed to offer debt relief service to Uganda for a total of \$1.3 billion. These resources will be channeled into Uganda's Poverty Action Fund (PAF). (See Annex A for more information on Uganda's PAF.)

Objectives

The intent of the paper is to highlight positive aspects as well as potential pitfalls of key transfer mechanisms in order to inform the strategic planning process of using central funds for HIV/AIDS programs. It is hoped that this approach will help decision-makers determine what mechanisms might work best in their own country contexts. We conclude with some recommendations that identify specific areas within each mechanism that require additional clarification or further research.

Structure and evaluation criteria

The paper is structured according to the three mechanisms mentioned above and evaluates each on the following criteria:

- Specific objectives and goals in place for poverty reduction and social service delivery
- Efficiency and effectiveness in meeting the local demands for services
- Timeframe and efficiency of fund transfer to implementing groups
- Accountability and transparency measures in place
- Political feasibility and governmental support for mechanism

We also present individual country case studies to further elaborate characteristics of each mechanism.

Mechanism definitions

Social investment funds (SIFs) have been defined by the World Bank as a mechanism through which resources are channeled, according to predetermined selection criteria, to demand-driven subprojects proposed by public, private or voluntary, formal or informal organizations. There is an increasing trend in many countries that utilize this mechanism to transfer funds for social development program. For example, during the recent International Conference on Social Funds, many participants recognized that SIFs had a role to play in supporting HIV/AIDS programs. Numerous recommendations from the meeting emphasize that strengthening local community and local government capacity can improve delivery of priority services through this mechanism (Levine, 2000).

In this paper, definitions for granting and contracting are based on a USAID document, "Acquisition and Assistance Agreement and Choice of Implementing Instrument." According to this document, granting differs from contracting in three principal ways:

- 1) In grants, there is limited involvement from USAID or central level authorities;
- 2) Goals of grants are to accomplish a public purpose of support versus purchase of property or services;

- 3) The number of times that funding is disbursed to grant recipients differs from contracts.

However, because contracting and granting both utilize the same mechanism for transferring funds, selecting/awarding funding, monitoring and evaluation, they will be addressed as a singular resource transfer mechanism in this paper.

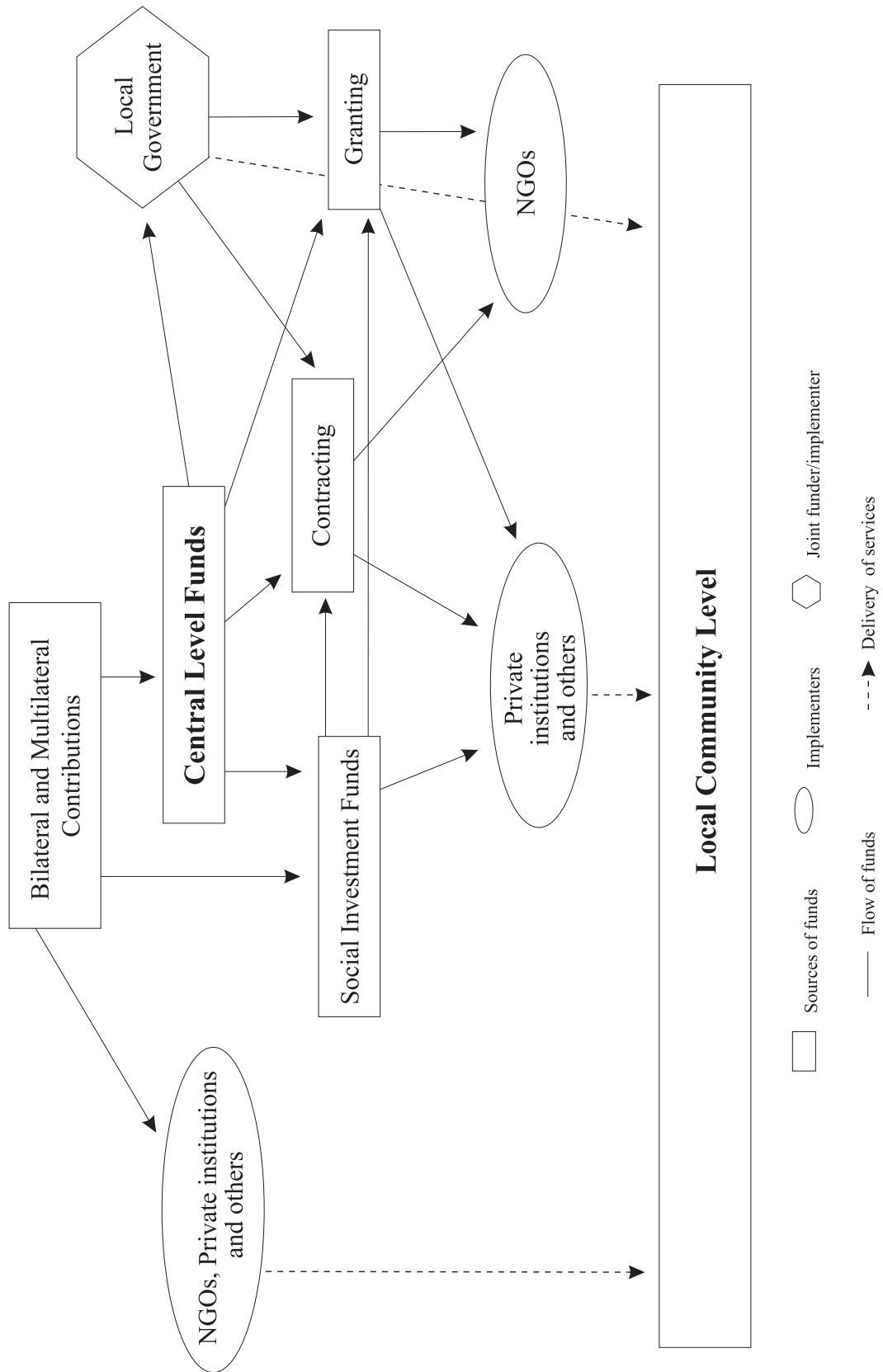
Conceptual Model

The diagram below serves as a visual tool to summarize the various pathways that resources and services follow from the central government level to intermediaries and implementing groups. It illustrates the various transfer mechanisms that could be utilized by governments during a strategic planning process for resource allocation, and also highlights the complex relationships between mechanisms and implementing groups.

Several geometric shapes represent different implementing or intermediary groups. The rectangular shapes represent sources of funds, such as bilateral, multilateral or internal government contributions, as well as the mechanisms of transfers. The oval shapes represent implementing groups such as NGOs, private institutions, community groups, civil societies and others. NGOs in this diagram represent different levels of organizations, small organizations as well as more established international entities. Finally, the hexagons, representing local governments institutions, denote organizations that act as both funder and implementer of programs. In the diagram, local government describes both the regional and district level authorities. The dotted arrows in the figure depict the delivery of services to the community while solid arrows describe the flow of resources either to intermediaries or directly to implementing agencies.

The existence of the many relationships between the various mechanisms and implementing groups illustrate that the flow of resources can be a complicated process. For example, SIFs act as financial intermediates but they also utilize contracting and granting mechanisms to deliver services to both public and private institutions. Intra-government transfers from the central level to local authorities also utilize the contracting and granting mechanism. The intricacies and frequency of these relationships demand a high level of coordination among groups to ensure transparency of resource transfers.

Flow of Funds and Services



Social Investment Funds

Description and objectives

Social funds or social investment funds (SIF) are increasingly being considered as a successful instrument for poverty alleviation and social development in many different countries. Most early funds were developed in the 1980s to alleviate economic hardships during periods of adjustment programs. Initially envisioned as short-term responses, these funds have evolved into longer-term poverty alleviation and community development instruments (IADB, 1998; Narayan and Ebbe, 1997).

Since the first internationally known fund, Bolivia's Fondo Social de Emergencia (ESF), was established in 1986, there has been an explosion of similar SIFs in many other countries (see box 2). Numerous Latin American and Caribbean funds have been established in the last decade. More recent examples exist in Asia and the Middle East (Egypt's social fund is one of the world's largest), and new funds are being established in Eastern Europe and Central Asia. In addition, as of 1998, about 24 sub-Saharan African countries had established social funds and many others were in the preparation and piloting phase.

Regional networks of social funds now exist in Africa (AFRICATIP), Latin America, and the Caribbean (the Red Social) (IDB, 1999).

Although they are diverse, generally, most SIFs aim to improve infrastructure, provide employment, facilitate community development, and improve delivery of social services (Dudzik and McLeod, 2000). Newer funds enhance and strengthen decentralized delivery systems by supporting both public and private organizations that are responsive to community needs (Bigio, 1998). Typically, social funds support a wide array of activities in different sectors. While infrastructure projects constitute about 80% of funds, many newer funds are initiating community training programs, establishing micro credit agencies, supporting community environment projects, and sponsoring programs for vulnerable groups like HIV/AIDS patients (Levine, 2000). (See box 2 for social funds and HIV/AIDS projects.)

Operational Features

Most SIFs share several operational features. In general, SIFs exist solely to appraise, finance,

The role of social funds in HIV/AIDS programs

At the recent International Conference on Social Funds, participants discussed the appropriate role of social funds in complementing national HIV/AIDS strategies. It was emphasized that as social funds support a community-development model, they are well placed to help communities develop HIV/AIDS educational and support programs. Such programs are known to work best when they are community driven. Social fund practitioners caution that social fund operators must work in close partnership with government agencies and NGOs. As these entities are more informed about HIV/AIDS programming, the likelihood of good integration and coordination will increase. (Levine, 2000).

supervise and evaluate small-scale social projects. Social fund employees are not involved in project implementation activities but occasionally offer technical assistance in project design. Typically, funds are demand-driven in that local implementing groups, local non-governmental organizations (NGOs), and other community groups, propose and design projects. These groups are also responsible for the implementation of their small-scale community projects.

In most cases, social funds have been created by a central level authority but are quasi-autonomous organizations that enjoy flexible funding, procurement, and disbursement procedures. Most tend to be more akin to private organizations in practice, and use performance contracts and higher salaries to obtain quality work or outputs from their staff. For example, Peru's FONCODES, which was created in 1991, is presided over by the Ministry of the President but remains an autonomous body. The fund, managed by a board of directors, regularly coordinates with ministerial representatives but is not directly under the supervision of any line ministry (Leach, 1997). Due to such arrangements, social funds are better able to avoid bureaucratic interference, and respond directly and quickly to community needs.

Efficiency and effectiveness in meeting local demands

As mentioned above, SIFs are regarded as an effective mechanism to disburse funds to local implementing groups. Community participation is also a key aspect of effectiveness. Because such participation enhances a sense of ownership, it increases the level of commitment, and, ultimately, the sustainability of a project (Alcazar and Wachtenheim, 1998). Community involvement in the initiation, design and implementation of proposed projects is a critical element of achieving sustainable improvements in poor people's welfare (Narayan and Ebbe, 1997). A limited number of SIFs (e.g. Zambia and Angola SIFs) are actively seeking to achieve greater community participation by encouraging more local involvement in the planning process (see box 3 on Zambia's Social Recovery Fund).

Social funds that are committed to capacity building at the community level have shown the importance of investing in operational tools for community groups. Simplified application forms, community-level implementation manuals, registration forms of project committees, as well as contractual agreements, are not just paperwork but serve to aid communities to effectively implement subprojects (Frigenti et al., 1998).

An increasing number of SIFs require that community groups also make a contribution towards the implementation and operation of their subproject. Many fund managers view this as a concrete way to judge the interest and commitment of a subproject and also create project ownership. For example, the community's contribution (either labor, material, and/or cash) in the Armenia Social Fund must be collected by the community and deposited in a bank account as a condition for the first payment of the fund. Eritrea's Community Development Fund requests communities to establish a fund and collect a minimum of 10 percent of total operation and maintenance cost of the subproject as a precondition of project appraisal (Narayan and Ebbe, 1997)

Social funds have targeting mechanisms in place to ensure that the poor receive benefits. Typically, three types of mechanisms have been utilized: 1) investments in basic social services, 2) screening projects to ensure that beneficiaries are poor, and 3) geographical screening (poverty mapping) to allocate resources to poorest regions (IADB, 1998). Thailand's social investment project uses a project-targeting map that allocates resources by province and according to population, poverty level, and unemployment status. (World Bank, 1998).

Zambia's Social Recovery Project — community participation during subproject cycle

Based on available information, it appears that Zambia's Social Recovery Project (SRP) is an effective financial agency that empowers communities to facilitate their own development. While the fund is placed in the Ministry of Finance and Economic Development and works through the Micro-Unit (MPU), it is fairly independently managed and focuses on community participation. The following is a description of the subproject cycle, which is meant to enhance community participation (Narayan and Ebbe, 1997):

- *Subproject identification* — Subproject identification begins at the community. The community must hold a public meeting, at which the entire community is represented to discuss their immediate needs and priorities. One of the SRP's criteria for project selection states that a project must meet a "priority need for a majority of the community." Fund managers also attend these meetings to facilitate discussion. Once a project has been identified, then a community project committee is elected to develop a proposal.
- *Community contributions* — Communities that apply for subprojects must contribute up to 25 percent of project costs, in cash or in kind. Poor communities are evaluated by fund managers to determine if a smaller contribution can be offered. As part of their subproject

planning process and to strengthen commitment, every community must establish an operation and maintenance committee.

- *Community authority and control* — Once the subproject has been approved by the SRP, the project committee must sign a legally binding agreement with the fund that describes the conditions for financing and the responsibilities of all parties. The community opens a bank account with detailed assistance from SRP staff, if necessary. This account only holds money from the fund and does not include community contributions. SRP sends money to community accounts via bank transfers and requires that a payment voucher be sent back as an acknowledgement of receipt. SRP recommends that all community payments for goods and services be made by check to avoid theft. The community committee is responsible for purchasing materials, hiring labor, organizing work schedules, monitoring progress, and reporting on progress and financial status.
- *Community capacity building* — SRP provides training sessions to communities and funds field staff on numerous capacity building topics. Local district and government officials also receive training in methods to assist communities with subproject identification, appraisal, implementation, and monitoring.

Timeframe and efficiency of fund transfer to implementing groups

Many studies (Biogio, 1998; Frigenti and Harth, 1998; Goodman et al., 1997; IADB, 1999) have concluded that most social fund disbursements are transferred to local implementing groups more rapidly than traditional mechanisms of government bureaucracies.

Social funds are often most effective and flexible when they are free from government procurement procedures and can offer private sector salaries to their staff (Glaessner et al., 1994; Biogio, 1998). Both political and institutional autonomy is critical to maintaining consistent, transparent and objective criteria for allocating fund resources. Institutional autonomy consists of legal status including authority to approve projects, exemptions from civil service salary schedules and exemptions from the government's procurement and disbursement schedules (Biogio, 1998). While placement of funds outside government line ministries is ideal, many funds (e.g. Zambia) reside in government ministries. In these cases, political authorities should understand the advantages of autonomy and flexibility found in SIFs.

To a great extent, local NGO involvement has enabled SIFs to reach poor and isolated communities, enhanced community participation, contributed to subproject sustainability through follow-up and maintenance activities, and improved project design. NGOs act as subproject implementers and also play the role of financial intermediaries. Occasionally, SIFs contract NGOs to provide technical assistance and training to communities to improve project design and implementation (De Silva, 1998). However, there are some risks involved with working with NGOs in SIFs. Many smaller NGOs have a limited capacity, which increases the burden of SIFs to identify and assess organizations. In these cases, additional training for capacity building may be necessary (De Silva, 1998; Glaessner et al., 1994).

Degree of accountability and transparency

Because of their organizational autonomy, most SIFs operate under strict accountability and transparency criteria. Independent audits and intense public scrutiny are common characteristics of a system of checks and balances. In terms of both financial and public accountability, social funds tend to outperform other development interventions (IDB, 1999). However, pressure to disburse for political purposes is a serious challenge for many funds (Carvalho, 1994).

To increase transparency and accountability of resource transfers, more established funds are utilizing computerized management information systems (MIS) and developing information, education, and communication (IEC) campaigns. The Malawi Social Action Fund (MASAF) has made special efforts to ensure accountability and transparency of its subprojects. An IEC campaign was designed to help implementing groups understand fund objectives and working principles. An information system was also developed to support the management of project cycle processes and tighten control of project activities (Biogio, 1997) (see box 4 on MASAF).

Although most funds allocate some resources for monitoring and evaluation, this remains an area that needs additional attention especially in regards to supervision of project staff (Frigenti

et al., 1998). Thailand's SIF uses project wide indicators for subproject evaluation to justify reallocation of resources or enhancement of project design features. Examples of these indicators include:

- Percentage of estimated disbursements
- Percentage of target person months of employment and training
- Program management indicators for procurement review success rate
- Technical quality of program supported activities as compared to project specifications
- Beneficiary satisfaction with program (as measured by beneficiary assessments)
- Targeting efficiency indicator

Information management system in Malawi's Social Action Fund

Malawi's Social Action Fund (MASAF) was established in 1994 after the formation of a new government. Although its central objective is poverty alleviation, community development is also a strong goal. One of its five working principles includes transparency and accountability at all functional levels of the project management structure. To support this principle and review operational performance of subprojects, an MIS was designed.

The MIS has a project tracking program as well as an automated accounting system. Under the tracking system, four major databases are maintained:

- A database that records generic information on each project at various stages of implementation. This includes reports on expenditures and project progress.
- A database that contains relevant subproject documentation (project agreement forms, approval forms, bank letters and subproject bank account information).
- A unit price database that contains a standard price list for materials that communities can procure directly.
- A stakeholder database that contains information on all active stakeholders that work in partnership with the fund.

While the tracking databases follow a project starting from application submission, the accounting system is combined with the tracking process after each project has been approved by the steering committee. To facilitate accountability of funds, resources are released to subprojects in four segments of 25 percent, 40 percent, 25 percent and 10 percent, respectively. Monthly summary reports about project implementation, costs and expenditures are circulated widely among subprojects and community groups.

Areas to Address

SIFs enjoy a great deal of both financial and technical support from international organizations. Given their popularity and success, many national governments are also embracing SIFs as transparent and efficient transfer mechanisms. But social funds have had a mixed record on sustainability as a vast number of funds are extremely dependent upon external financing. For example, Bolivia's EFS fund (1986-1989) utilized 87% funding from the World Bank and Inter-American Development Bank.

Measuring the impact of SIFs to maximize effectiveness is an area that needs further consideration. Although some funds have developed sophisticated computer systems for project management and administration, there has been inadequate collection of the type of data necessary for evaluating the socioeconomic impact of projects (IADB, 1998). Baseline data collection is necessary at household and community levels to measure the impact of the program. A scarcity of indicators that measure community participation has also been noted due to the difficulty in determining a specific measure (Narayan and Ebbe, 1997).

While mechanisms for identifying the poor have improved in many of the funds, more attention needs to be given to verify that the poorest poor receive benefits. For example, a recent study showed that 57% of project beneficiaries in Uruguay's social fund had incomes above the poverty line (IADB, 1997). Successful targeting of poor communities depends upon the ability of those same communities to develop clear funding proposals. Many such communities do not have the ability or resources to formulate, design and propose projects (Subbarao, 1997).

The Second International Conference on Social Funds met in Washington, D.C. in June 5-7, 2000. Among other things, participants discussed ways to make the management of social funds more efficient. Their overall recommendations included:

- Better integration of social fund objectives with national poverty reduction policy and practice in their development agenda.
- Recognizing the global trend towards devolution of central government authority to local municipalities, social funds need to focus on helping local governments identify and manage projects.
- Social funds need to help communities develop broader skills necessary to identify, manage, and maintain their projects. Thus, to enhance their ability to target the poorest populations, funds should explicitly incorporate capacity-building assistance into their objectives and budgets for project development.
- Governments should continue to encourage innovative funds that support programs in new areas such as HIV/AIDS prevention, care and support activities.
- Develop more effective impact measurements that are not just output measures.

Summary

The growing number of social funds illustrates their institutional replicability and adaptability. This type of mechanism allows governments to support and build upon the strengths and resources of community groups. Originally envisioned as a short-term program, SIFs today have diverse goals that allow them to support many social programs as well as poverty reduction objectives. Their organizational structure and placement gives them more freedom to work directly with local implementing groups and distribute funds quickly without much central government involvement.

Despite these strengths, a greater emphasis must be placed on measuring the impact of social funds. Consistent baseline data collection efforts are necessary to verify that implementing programs are meeting organizational goals. SIFs need to continue to support training programs for the poorest communities to enable them full and equal participation in fund selection. With the increasing global trend of decentralization of government authority, monitoring and accountability measures will continue to be closely watched to ensure that corruption is kept under control and transparency of funds is sound. To strengthen local government involvement, there needs to be a focus on additional incentives, training, and communication management activities. Finally, while innovative programs, including those focusing on HIV/AIDS prevention programs, are being established, additional research and programmatic support are necessary for such activities.

Contracting/Granting NGOs

Governments and international agencies alike have recognized that NGOs are formidable partners in expanding services, access and quality of care for under-served populations. Typically, these organizations are rooted in the community and have a clear mission to provide certain services to particular populations. Further, because of the nature and mission of most NGOs, they are often able to provide services in a cost-effective manner. Understanding this, governments and international organizations have looked to engage in formal relationships with NGOs, through either a granting or contractual relationship with them. Utilizing, incorporating and investing in NGOs, through formal relationships such as contracting or granting, builds the capacity of the NGO sector to continue to deliver services, and ideally promotes a level of sustainability. Consequently, contracting and granting with NGOs for HIV/AIDS service delivery can serve as a resource transfer mechanism, while serving programmatic needs as well.

Objectives of contracts and granting

Governments engage in NGO contracting/granting for several reasons. One reason is because the government itself is not capable or not willing to deliver particular services, and therefore it farms out services to the NGO sector. The government may be also be making a deliberate attempt to shift from its role of service provider to that of “service financier,” and thus, view this type of relationship with NGOs as a way to promote efficiency, control costs, and reduce public expenditures. Underscoring both these reasons is the recognition that because NGOs are

mostly community based, they are usually both trusted and serviced by populations that would otherwise not seek services offered by the government. Such has been the case with HIV/AIDS services, particularly with education campaigns directed toward hard-to-reach vulnerable populations such as commercial sex workers and men who have sex with men.

Definitions of NGOs, Granting and Contracting

According to the World Bank, NGOs are “private organizations that pursue activities to relieve suffering, promote the interest of the poor, protect the environment, provide basic social services, or undertake community development.” (World Bank: Working with NGOs). The NGO sector as a whole is diverse, and the term NGOs comprises a variety of organizations including, but not limited to, churches, research organizations, groups that implement activities and projects, advocacy groups, religious-based or secular focused organizations and service delivery organizations. These organizations commonly enjoy non-profit status.

These “public-private” partnerships are typically recognized through formal agreements such as grants or contracts. These agreements formalize the relationship between the public and private entity, and clearly delineate the roles and responsibilities of each partner. Whether an NGO is in a granting or a contractual relationship is often dependent upon the goals of the activity that is to be executed by the NGO, and on the organizational capacity of the NGO and the funding entity administering the agreement.

In order to clarify the difference between contracts and grants, the authors referenced the USAID regulations governing ‘Acquisition and Assistance Agreement and Choice of Implementation Instrument.’ The USAID document, which establishes how the U.S. Government distinguishes between grants and contracts, is informative and its definitions are generally applicable to contracting between government agencies and NGOs. For the purpose of this paper, and Partnerships for Health Reform (PHR) case studies documenting contracting in Brazil and Guatemala, these definitions will be used to differentiate contracting and granting.

Grants

The purpose of a grant is to “transfer money, property, services, or anything of value to the recipient in order to accomplish a public purpose of support or stimulation.” In this granting relationship, the recipient of the grant is to “have substantial freedom to pursue its stated program,” and substantial involvement from USAID (or central level authorities) is not anticipated during the performance period. Often a grant is awarded to an NGO to engage in a non-service activity such as grassroots mobilization. The grant often serves to build the NGO’s capacity to do more work in that field. Funding for the designated activity usually comes in the form of an advance for a certain percentage of the anticipated costs, and organizations will typically receive 80% of the allocated money as part of a grant.

Contracts

Contracts, on the other hand, are “used when the principle purpose of the instrument is the acquisition, by purchase, lease or barter, of property or services for the direct benefit or use of USAID.” Contracts are essentially designed in such a manner that NGOs are obliged, by the contractual terms agreed upon, to deliver particular services or products within a certain time frame for a fixed price. Contracts are awarded primarily on the quality of the proposal and cost considerations. Noncompliance, or failure to deliver services or products, results in non-payment. When NGOs contract with the government their costs, such as overhead, utilities, transportation and various other direct costs, are not included in the costs of the contract.

NGOs who are contracted out essentially “function as market-oriented non-profit businesses that sell their services to aid donors and government agencies to implement projects and programs” (Robinson, undated). Implied in this definition of NGO contractors is the notion that contracts are “performance based” and payment is directly linked to performance. However, very few examples of pure “performance based contracting,” especially to deliver health services, exist. Organizations that have engaged in contracting, whether with a government or an AID agency, tend to have the management capabilities to develop proposals, and to administer the contract independently.

In a contractual agreement funds are disbursed incrementally. For instance in the case of contracting in Brazil, funds were disbursed to NGOs in two or three payments. The first payment was made soon after the contract was signed, and subsequent payments were made only after the NGO had accounted for 80% of the prior payment, through submission of an accounting report and original receipts.

The table below outlines some of the key differences between grants and contracts: when they are used, how they are monitored, and what services they usually provide.

	Grants	Contracts
Desired Objective	Transfer money, property, services, or anything of value to the recipient in order to accomplish a public purpose of support or stimulation	Used when the principle purpose of the instrument is the acquisition, by purchase, lease or barter of property or services for the direct benefit or use of funding entity
Characteristics	Competitive Funds allocated are often used at the discretion of the grantees. Grants are considered to be an investment in the organization	Cost proposals are important part of selection criteria. Competitive Funds are disbursed incrementally based on achieving performance objectives

	Grants	Contracts
Typically Used When?	Doing “value” oriented work that often does an outcome that is difficult to measure. For example: counseling services, care and support etc.	Contracts have been used for building projects, for delivering services. Contracting is undertaken with the objective of delivering particular services or products within certain time frame for a fixed price.
How are Accountability Mechanisms Enforced?	NGOs with grants are subject to both financial and performance reporting requirements, and can be audited for mismanagement of funds.	Contracts specify performance indicators and non-compliance results in financial consequences, or inability to participate in subsequent rounds of contracts.
Who Enforces Accountability?	NGOs in granting agreements are typically subject to review by the granting organization.	Performance is evaluated based on criteria established in the contract and is usually judged by a monitoring and evaluation committee designated by the contracting entities.

Operational Issues

When governments are deciding whether or not to give an NGO a contract or grant, there are a number of operational issues that must be addressed including variables that have led to the success of previous contracting experiences, and the organizational structure to actually carry out contracting/granting. It is important to note that contracting and granting is not limited to the central or national government level. Regional and district governments can also administer contracts and grants, provided they have the capacity to assume the many roles and responsibilities that accompany this process.

Although there is no standard way to contract or grant, there are several variables that contribute to the success of contracting and granting. Before initiating contracting or granting, governments should consider the following:

- Contracting/granting entity’s capacity to administer and manage the contract, including transferring funds to the NGOs in a timely fashion;
- NGO’s capacity to carry out activities contracted out, and the ability to meet financial and reporting requirements;
- The legal and political environment within the country and whether or not there are barriers to public/private partnerships (Abramson, W., 2000);
- A selection process that is fair and transparent with the selection committee being made up of representatives/stakeholders from various sectors;

- Underlying environmental factors: Critical to successful contracting/granting is the development of a positive, trusting relationship between the government and the NGO community.
- Evaluation and monitoring of projects
- Contracting/granting is a part of an overall strategic plan to address the HIV/AIDS epidemic

Contracting with NGOs is a process, and different institutional actors have the capacity to help carry out the different components of this activity. The table below presents the required roles and responsibilities necessary for NGO contracting, and the options available to fill those needs. In the table, “government” includes the Ministry of Health (MOH) or any official government entity, “international agents” refer to multi-lateral and bilateral donors, international NGOs (also known as mentoring NGOs):

Roles and Responsibilities involved in NGO Contracting		
Activity	Who can do it	
	Options	Best Practice
Advocate for introducing or expanding an NGO contracting program	International agents, the local NGO community, individual champions within the government	As many different individuals, organizations, and sectors as possible
Organize multi-sector planning and coordination meetings	Government, international agents	Government in the lead with support from international agents
Be the contracting agent that signs the contract, and procures services from NGOs	Government, international agents	Government
Administer/manage the contracting program	Government, international agents	Government
Provide funding for administration of the NGO contracting program	Government, international agents	Mix of government and international agents
Provide TA to the entity administering the NGO contracting program to develop systems and procedures, and train staff to apply and refine the systems and procedures	International agents	International agents providing TA to government entity
Select the NGOs to be contracted	Independent committee of experts, staff of entity that is administering the contracting program, committee of representatives from a mix of institutions	Whomever the NGOs would most trust

Roles and Responsibilities involved in NGO Contracting		
Activity	Who can do it	
	Options	Best Practice
Provide the contract funding to the NGOs	Government, international agents through social investment fund, donor loan funding,	Mix of government and international agents
Provide TA to the NGOs in programmatic areas (service delivery, IEC, behavior change, etc.)	Government, international agents, other NGOs	Whomever has the best expertise
Provide TA to the NGOs in contract management (proposal writing, budgeting, compliance with accounting and reporting requirements)	Government, international agents, other NGOs	Entity that is administering the contracting program
Organize and fund dissemination/information sharing events for NGOs that focus on explaining the NGO contracting program overall, the selection process, programmatic themes, contract management, or M&E	Government, international agents	Mix of government and international agents
Monitor NGO performance	Entity administering NGO contracting, government (e.g. auditors), international agents, independent group hired by either the government or international agents	Entity administering NGO contracting
Evaluate the programmatic impact of the NGO contracting program	Entity administering NGO contracting, government, international agents, independent group (evaluation specialists) hired by either the government or international agents	Evaluation specialists reporting to a multi-sector coordinating body
Evaluate the operation of the NGO contracting program	Entity administering NGO contracting, government, international agents, independent group hired by either the government or international agents	Staff of the entity that is administering NGO contracting

NGO Contracting: Speed, Efficiency and Responding to local needs/demands

To address the growing HIV/AIDS epidemic, governments will need to select resource transfer mechanisms that allow them to respond to the needs created by the epidemic in a fast and efficient manner. The speed at which contracting moves money from the central level to the implementing organization, and the degree to which this process is considered efficient is determined by the government’s capacity to quickly procure contracts and the NGO’s capacity to submit appropriate proposals and quickly implement projects. Whether or not the needs of the community are truly taken into consideration is also determined by how the contracting process is undertaken. Contracting in Brazil and Guatemala was particularly fruitful because the process involved stakeholders from NGOs, communities impacted by HIV/AIDS, and people living with HIV/AIDS (PLWHA).

The PHR (Partnerships for Health Reform) Project’s case studies on the contracting experience in Guatemala and Brazil reveal that contracting can be fast and efficient. Because NGO contracting will evolve differently in every country, it is impossible to speak generally about how efficient and fast contracting will be in other country contexts, but it is possible to identify variables that contribute to quick, efficient and responsive contracting. In the chart below, the basic criteria by which contracting will be judged, and the various ways that NGO and government behavior and capacity can affect those variables are outlined. Also included are positive and negative examples of how these variables affected the outcome in Brazil and Guatemala.

Criteria	Affected by the Government’s ability to:	Affected by the NGOs capacity to:	Examples
Speed of Mechanism	<ul style="list-style-type: none"> establish a contracting unit within the government develop RFP’s (Requests For Proposals), advertise, compose selection committee procure contracts and transfer funds quickly conduct monitoring and evaluation 	<ul style="list-style-type: none"> Develop technical and cost proposals in response to the RFP Quickly implement projects Carry out projects with limited technical assistance Report financially and technically on activities undertaken under the contract 	<p>Best Scenario <i>In Brazil, the World Bank II loan was procured quickly through the use of automated web-based forms. Funds were then dispersed by the government in a timely fashion.</i></p> <p>Worst Scenario <i>The first round of contracting under the Expanded Theme Group in Guatemala was stalled because several NGOs submitted unsatisfactory proposals. To resolve the issue TA was provided and proposals were re-submitted weeks later.</i></p>

Criteria	Affected by the Government's ability to:	Affected by the NGOs capacity to:	Examples
Efficiency	<ul style="list-style-type: none"> Contracting is part of a larger strategy to respond to HIV/AIDS Contracting strategy avoids duplication in the provision of services Administrative burden placed on NGOs is not overwhelming 	<ul style="list-style-type: none"> Services performed by NGO are less costly than other service providers 	<p>Best Scenario</p> <p><i>In Guatemala and Brazil, NGOs provided services that were not undertaken by any other public entity in the health sector such as palliative care, counseling, and advocacy. NGOs were able to provide critical services to communities at a minimal cost.</i></p>
Meeting Community Demands	<ul style="list-style-type: none"> Develop RFPs based on epidemiological data and fashioned by community representatives Involve key stakeholders from various sectors and People Living with HIV/AIDS (PLWHA) 	<ul style="list-style-type: none"> Be integrated and trusted by the community it serves Maintain confidentiality with customers Provide input to contracting organization 	<p>Best Scenario</p> <p><i>Contracting in Brazil was based on epidemiological studies which allowed the Government and NGOs to work together to target vulnerable populations</i></p> <p>Worst Scenario</p> <p><i>NGOs expressed frustration that within the United Nations Expanded Theme Group, RFPs and projects were designed by priorities determined by donors, not by the community or epidemiological data.</i></p>

Accountability Issues: Monitoring and Evaluation

Monitoring

Monitoring and evaluation is critical for both sides of the contracting/granting relationship and can help address questions of whether or not funds are being spent appropriately. For NGOs, monitoring and evaluation is also important for their success as an organization. Most NGOs have diverse funding bases, and positive evaluations of their programs and abilities as an organization can help assure continued funding and support from the government or international agency.

The monitoring and evaluation of contracting/granting needs to take place on both a programmatic and financial level. Further, contract performance should also take place internally and externally. Previous experience with contracting/granting has shown that developing contracts in which disbursement of funds is linked with performance is an effective mechanism to encourage positive outcomes. Performance can be evaluated based on quantitative and qualitative meas-

ures; for example, the *UNAIDS/USAID Handbook of Indicators* is an effective tool for gauging performance of NGOs dealing with HIV/AIDS.

Financial Monitoring

Donors and international agencies' fiduciary responsibility to account for funds can generate demanding administrative procedures for contracted NGOs. Those procedures can include obtaining multiple bids for any purchases over a certain level, documenting salary history to justify fees charged by consultants, requiring two NGO staff to co-sign all receipts, and writing receipts for all expenses. Periodic financial reports typically track actual expenditures to date against the proposed budget. Submission of complete financial reports, with original receipts and other backup documentation, serves as part of the basis for the release of contract payments to the NGOs.

The NGOs may need ongoing technical assistance to meet the administrative and accounting requirements as they implement their contract. The Administrative Unit should provide TA through: phone access to respond to questions, site visits to work directly with the NGO "bookkeeper," training workshops, or Q/A meetings. International NGOs (mentoring NGOs) may also provide this type of TA.

Financial monitoring should be seen as a means and opportunity to refine the administrative and accounting procedures themselves, especially in the early stages of a contracting program. While some requirements are not negotiable, many procedures can be improved and rationalized if the administrative unit is open to listening to feedback from the NGOs and can broker solutions with the funding agents. It should be emphasized, however, that there is a cost to monitoring and evaluation for both the contracting/granting entity and the NGO, and costs should be included in the overall budget in each contract.

Technical Monitoring

Programmatic technical monitoring is a high priority for all participants because it indicates the "success" of the NGO contracting program. Depending on the design of the technical monitoring system and the amount of resources committed, it can:

- confirm that contracted NGOs are delivering what they were contracted to deliver;
- collect quantitative data on intermediate results (e.g. number of people counseled, number of brochures/condoms/syringes distributed, number of nurses trained);
- collect qualitative data on different approaches NGOs are employing to deliver services and programs;
- compare actual and planned performance in terms of timing and intermediate results;
- measure the quality of the services and programs delivered by the NGOs;
- provide some measure of impact through data collected from the beneficiary population; and
- improve the technical performance of the NGO if monitoring includes technical assistance and especially if monitoring is done through site visits.

Evaluation of Contracts

Evaluation implies measuring impact and results, and involves a greater methodological rigor compared to monitoring. However, there are serious challenges to measuring the impact of any intervention on people's behavior, on people's quality of life, or reducing the incidence and transmission of HIV and STDs. Impediments include lack of baseline data, the cost of quality research, separating the effects of multiple interventions, and the methodological difficulties in measuring the number of infections avoided and behavior changes like adaptation of safe sex practices.

Assuming these challenges can be met, many different questions can be answered through evaluation of the NGO contracting program. For example:

- Impact that the work of the contracted NGOs has had on the epidemic
- Effectiveness of NGO contracting versus other means of partnering with NGOs
- Effectiveness of using NGOs versus the public sector

Challenges with Contracting

There are several challenges in the contracting/granting process that need to be highlighted. For example, contracting is a labor-intensive process. It requires full-time personnel to orchestrate each stage of the process, which includes advertising, selection, money transfer, monitoring and evaluation, promoting capacity building and information sharing activities. Further, critical to the success of contracting/granting is the need to involve stakeholders from other key sectors to serve on selection committees to monitor and evaluate. It is a process that cannot happen in a vacuum.

Contracting/granting with funding proportionally disbursed based on performance can be a challenge for NGOs with limited funding. For many NGOs it is difficult or impossible to pay for services and goods without initial funding. Moreover, without an endowment or a large membership, covering administration and overhead costs is challenging for most NGOs in part because donor funding is often restricted to programmatic use. The contracting/granting agency should consider different options for payment to NGOs, including the possibility of providing "seed capital" grants to enhance organizational capacity.

Summary

Governments and international organizations are increasingly working with NGOs to implement various programs through contracting/granting mechanisms. NGOs are well suited to deliver community level programs because they are small, agile, and have low overheads. Successful programs will result only if programmatic goals have been considered as part of a larger strategic plan and approach.

NGOs require resources and training for continual capacity building, which should be recognized as part of the contracting/granting process. Additional resources are also needed to cover administration and overhead expenses.

Transfer of funds from the contracting/granting entity should be made as simple as possible to ensure accountability and transparency. This means that reporting and financial requirements must be standardized and simplified as well.

Overall conclusions and recommendations

The international donor community has embraced the above mentioned resource transfer mechanisms, primarily for poverty reduction goals, by providing substantial financial and technical assistance to developing countries. Examples of donor assistance exist across all of these mechanisms and programs in many different regions. Strong donor interest in such mechanisms has persuaded many governments to utilize similar approaches for their individual poverty reduction programs. However, countries must integrate these programs within the framework of their national policy for debt relief. Programmatic goals should also be considered as part of a larger strategic plan and approach to combating the HIV/AIDS epidemic.

Given the complexity of the flow of funds and the existence of many different implementers at various levels, it is important that decision-makers elaborate a clear map of these pathways, perhaps using the type of flow diagram we included in the beginning of this paper. This generic conceptual model based on information from a variety of sources should be re-structured and tailored to accurately reflect the local situation. This exercise could inform the strategic process of the country.

Developing a strategic plan is central to the efficient transfer of resources whether through the mechanisms described above or through internal government means. By elucidating a plan with clear objectives, measurable indicators, and appropriate resource transfer mechanisms, planners will be better able to coordinate numerous projects in a way that maximizes the potential to achieve established targets in priority areas. In addition, this process will help avoid overlap, redundancies, and cross purposes among the various projects. Finally, this process will promote transparency and efficiency.

In this paper, we highlight for country officials various technical aspects of several resource transfer mechanisms based upon a set of criteria. We have compiled the salient features of each of these mechanisms in a summary table. This matrix provides the positive features, cautionary aspects, and recommendations pertaining to HIV/AIDS programming for each of the transfer mechanisms (see Annex B).

Although transparency and accountability are stated goals for all the mechanisms, the extent of this is not clear and needs further elaboration. This is an area that will need to be continuously monitored and reworked to order to achieve effective control of corruption. The specific indica-

tors that measure transparency and accountability need to be explicitly defined at the onset of the program.

Most of the resource transfer mechanisms mentioned in this paper do not just act as financial intermediaries but also provide important social services to the poor. The community level focus of many programs strengthens local capacity. Many programs such as those funded through social funds are demand driven, in that local community groups initiate and design programs for their own communities. Through contract/granting arrangements, local NGOs are working in their own communities to provide essential HIV/AIDS programs based upon the needs of the people. All results to date indicate that the effectiveness of these mechanisms to meet local demand depends largely upon involvement with key stakeholders. Additional training and capacity building is necessary to ensure that local government officials have the resources and ability to effectively work with community groups.

External resources from the international donor community are necessary for the financial survival of many programs. This is because none of these programs have a way to generate funds. Even with donor funding, meeting administration and overhead expenses is challenging for most programs in part because most of this funding is restricted to programmatic use. Financial and institutional sustainability are more likely when programs are implemented at the community level with strong local support. Eventually, long-term sustainability will depend on a shift from donor to government funding.

Additional research and evaluation is necessary to determine the extent to which any of the aforementioned mechanisms contribute to poverty reduction and other programmatic goals. Despite the several advantages of social investment funds in addressing social and economic issues, the authors would like to offer a few cautionary words to decision-makers who plan to use this mechanism in HIV/AIDS programs. While the autonomous status of SIF makes them agile and allows them to disburse funds quickly to local implementing groups, there is a possible danger of creating a separate vertical entity that operates outside of the primary health care system. The main problem to avoid is lack of coordination; if this mechanism is adopted governments should make an effort to maintain clear linkages with existing systems to ensure that the SIF is complementary and not redundant.

Impact assessments for social funds also need more attention. Programmatic indicators need to be clearly identified, initially, to evaluate impacts of the program. Community and household level baseline data collection efforts should be conducted to determine the effectiveness of programs. Disbursement of funds should be accompanied by conditions of collecting household and community level data and conducting a baseline analysis of the existing situation. This will facilitate the evaluation of the fund itself or the community projects financed by the fund. If these conditions are in place, additional technical assistance may be necessary to ensure that the country has sufficient capacity to obtain the required data. Without such assistance many countries will be unable to take advantage of the debt relief program.

Contracting of NGOs by government agencies to deliver health services, whether at the central, regional or district level can serve as an effective mechanism to move money from the central level to implementing groups while increasing the scale, coverage and access of critical HIV/AIDS services. However, contracting is an intensive process that requires human and financial resources as well as the technical capacity to administer and implement contracts.

Monitoring and evaluation are critical to the success of the aforementioned resource transfer mechanisms and should be utilized to ensure that: 1) transfers of funds from the government to implementing organization are done in a fair and transparent fashion; and 2) organizations receiving resources from the government are using those funds in an appropriate and accountable manner. One tool that can assist in monitoring the sources and flows of funding from the central government level to various parts of the health system is the National Health Accounts (NHA) framework. NHA tracks the flow of resources through a health system and could be instrumental in tracking changes in funding over time. Another advantage to using the NHA tool is that it creates a basis for data based decision making for policy makers. The NHA matrices track not only the amount of funds transferred, but also the types of services for which the resources were utilized. This data is useful for future strategic planning. Often the strategic planning in Ministries of Health in most developing countries is based on historical evidence and not current data. Availability of up-to-date data through NHA will enhance the MOH's capacity to address changing needs of its populace effectively by promulgating data based national policies.

Governments adopting these various resource transfer mechanisms must customize the mechanisms to fit their country context. Governments should consider conducting an assessment of their capacity (in terms of financial resources available, human resources, political commitment, relationship with the NGO sector) to meet certain criteria and execute the different components of the transfer mechanisms.

In this paper, we have provided a synthesis of the existing mechanisms that transfer resources to implementing groups. Our conclusions state that these innovative programs have many strengths but further efforts are necessary to ensure that local demands for social service and, ultimate poverty reduction, are reached in an effective and transparent manner.

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Annex A

Uganda's Poverty Action Fund

Uganda has been recently recognized by the international community for the progress it has made towards the implementation of economic reforms and poverty reduction. In April 1998, it became the first country to access debt relief through the HIPC II initiative. While it remains one of the poorest countries in the world, the share of its population living in poverty declined from 56% in 1992/1993 to 44% in 1996/1997. Because it has met the necessary conditions for debt relief outlined by the enhanced HIPC II initiative, it has recently been granted a total debt relief service of roughly \$2 billion (World Bank 2000). Both the IMF and World Bank also recognize and support Uganda's poverty reduction strategy, as outlined in its Poverty Reduction Strategy Paper, that aims to continue to contribute to economic growth and improvement of the quality of life of the poor.

Based on its Poverty Reduction Strategy Paper (PRSP), Uganda established the Poverty Eradication Action Plan (PEAP) that identifies critical areas of intervention for poverty alleviation. These include macro-economic stability, education, primary health care, water and sanitation and agricultural projects.

To ensure transparency of funds, the resources made available by the debt relief initiative, and other international donor funds, are being channeled into the Poverty Action Fund (PAF). The PAF contains both donor and government resources and mobilizes funds for priority programs that are identified in the PEAP. Funds are released to districts either through conditional grants, which allows for more specific financing requirements of different sectors to be addressed, or via the government's development budget.

Several mechanisms are in place to support more transparency and accountability. The Ministry of Finance, Planning and Economic Development (MFPED) provides quarterly summary reports to donors, which are based on reports from individual line ministries. These reports detail the flows of funds to and from the fund and information on the implementation of the programs. Quarterly meetings have provided a valuable forum to discuss issues and program performance. An independent audit of fund activities is conducted on an annual basis and results are circulated to the international donors. PAF includes a contingency fund of 5% that is designated to the use of monitoring and accountability activities. This amount will be made available to districts, the Inspector General of Government, the Auditor General and the Treasury Officer to ensure that guidelines are enforced (Government of Uganda, 1998).

Annex B: Resource Transfer Summary

Type of Mechanism	Manager of Funds	Entity Funds are Transferred Into	Criteria Used in Mechanism	Speed/Efficiency	Pros of Mechanism	Cons of Mechanisms	Recommendations For HIV/AIDS Programming
Social Investment Funds (SIF)	Most overseen by a board of directors, and managers who are outside of a government department or line ministry	NGOs, private institutions, civil groups and others	Eligibility criteria for projects include: <ul style="list-style-type: none"> • determining whether project is designed to protect the poor; • the effectiveness of implementing group to deliver services; and • technical ability of implementing groups 	Generally, SIFs are known to disburse funds to subprojects quickly and directly to implementing groups	<p>Quick disbursement of funds;</p> <ul style="list-style-type: none"> • tend to more participatory and work directly with local groups; • well targeted to reach poor • are cost effective with low admin. costs 	<ul style="list-style-type: none"> • Mixed record on financial sustainability and most are highly dependent on external funding. • More attention needs to be paid to ensure that poorest of poor are reached and • More attention also to measure impact of programs 	<p>Work closely with NGOs and local government agencies that are more informed about HIV/AIDS programming.</p> <p>In solely using SIFs for HIV/AIDS programming, there is a danger of creating a stand-alone vertical entity outside of primary healthcare system.</p>

Annex B: Resource Transfer Summary (continued)

Type of Mechanism	Manager of Funds	Entity Funds are Transferred Into	Criteria Used in Mechanism	Speed/Efficiency	Pros of Mechanism	Cons of Mechanisms	Recommendations For HIV/AIDS Programming
Contracting	Managed by government entity: It is advised to establish a specialized unit tasked with executing grants and contracts (i.e. a special unit for NGO contracting)	NGOs, private institutions	<ul style="list-style-type: none"> Capacity of both the government and the NGO community must be evaluated. Legal and political barriers to contracting. Ability to select, let, monitor and evaluate contracts in a fair and transparent fashion 	The speed at which funds are disbursed through the contracting mechanism is determined by both the capacity of the contracting entity to administer and manage the contracts, and the NGO responsible for implementing activities	<ul style="list-style-type: none"> Contracting can expand scope of services and reach vulnerable population that would otherwise not have access to government programs. Partnering with NGOs also serves to build their capacity and is a way for governments to promote efficiency, control costs and reduce expenditures 	<ul style="list-style-type: none"> Contracting is a process that has many cycles and requires a small full time staff to manage all aspects of the process. Contracting can also be an administrative burden for NGOs with limited capacity to develop proposals and monitor and evaluate activities 	<ul style="list-style-type: none"> Contracting should be a part of a larger strategy to address the HIV/AIDS epidemic and should involve all key stakeholders in process of design, letting and monitoring and evaluation contracts for HIV/AIDS services. Monitoring and Evaluation are critical to the success of contracting Resources to undertake internal and external monitoring and evaluation should be included in contract costs



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