

Guideline on local contributions in consulting contracts

Contents

I.	Introduction	2
1.	What are local contributions?	2
2.	Duties and obligations of the contractor	2
II.	Preparing a local contribution	3
1.	Introduction	3
2.	Commercial and legal eligibility check	3
3.	Project description	4
4.	Budget	4
5.	Contract award procedures within the scope of local contributions	5
6.	Control measures/checks	6
III.	Signing the contract	7
1.	Contract template	7
2.	Drawing up and amending the contract	7
3.	Contents of the local contribution contract file held by the contractor	7
IV.	Financial processing	8
1.	Disbursement	8
2.	Evidence of the use of funds	9
3.	Financial settlement of local contributions vis-à-vis GIZ	11

I. Introduction

1. What are local contributions?

Local contributions are payments made for a stipulated purpose out of project funds to a recipient, i.e. a local public-benefit partner with whom project activities are being carried out. They are granted to local partners who do not yet have sufficient capacity to manage financial contributions (grants) themselves.

This is the case when, for instance, the recipient does not yet have an adequate accounting system, or when GIZ is still not entirely confident of their ability to manage public funding independently. The decision as to whether the recipient is capable of managing financing itself or whether the only option (for now) would be a local contribution is taken as part of the commercial and legal eligibility check on the recipient (see Section II.2 below and Annex 2 to this Guideline).

Local contributions aim to finance measures implemented by the recipient, i.e. the local partner, while also equipping them to manage financing arrangements themselves in a commercially prudent manner in future and strengthening them in these efforts.

Since grants from public funds are geared primarily towards supporting the common good (public benefit), they are generally awarded to public-benefit organisations. In individual cases, however, a commercial company can obtain a limited grant for a measure that serves a demonstrable public benefit.

As is essentially the case with financing arrangements, local contributions exist to finance a measure being implemented by the recipient (e.g. an NGO or other public-benefit organisation). Unlike a contract for works or services, it does not involve the contractor purchasing works or services from the recipient. The contractor therefore has no right to receive works or services from the recipient and is merely entitled to see proper proof of the use of the funds. If the focus is on the performance of works or services for the contractor, however, a contract for works or services must be concluded between the recipient and the contractor.

2. Duties and obligations of the contractor

Contract preparation: the contractor is responsible for initiating and drawing up the terms of the local contribution. The available contract templates are to be used. Use of funds: The contractor supports and advises the recipient of local contributions on how to implement and invoice for the agreed measure in compliance with the contract. Local contributions are classed as direct contributions. Consequently, the contractor bears full responsibility for the correct use of the local contribution during implementation. The contractor makes the funds available to the recipient, gives them advice and monitors the proper use of the funds, including the documentation on this use by the recipient. The contractor thus has a duty to advise and monitor when local contributions are being awarded. If the funds for the local contribution are being used improperly, they will not be reimbursed by the commissioning party (BMZ). This also means that GIZ will only reimburse the contractor for the local contribution if the funds are used properly and documented accordingly.

Capacity building: The contractor will support the recipient who does not yet have sufficient capacity with implementation and financial processing. Building the recipient's

capacity in line with documented requirements (see Section II.2) forms an integral part of a local contribution.

II. Preparing a local contribution

1. Introduction

The contractor is responsible for checking the content of a measure to be implemented as part of a local contribution and for confirming that this measure has also been implemented in a materially correct way. As part of their regular reporting, therefore, the contractor is required to document the advice and support that the recipient has required throughout the term of the local contribution.

At the start, the contractor provides the documents required to prepare the contract:

- Documentation of the commercial and legal eligibility check on the recipient (see Section II.2 below and Annex 2 to this Guideline)
- A project description of the recipient's measure to be funded (see Section II.3)
- A budget in local currency (with no lump-sum administration allowance and no funds forwarded to other end recipients) (see Section II.4)

The applicable rules must be followed when procuring materials, equipment and services (see Section II.5). Control measures/checks should be carried out at the end of the measure (see Section II.6).

2. Commercial and legal eligibility check

The contractor must always perform and document a commercial and legal eligibility check on the recipient before a local contribution is granted (see Annex 2 to this Guideline). This examines the recipient's independent legal personality, public-benefit status and commercial processes. The contractor may obtain support for this from the officer responsible for the commission at GIZ or, in individual cases, from an external advisor or auditor. The recipient is not permitted to complete the commercial and legal eligibility check themselves. All they do is provide the contractor with the necessary documents and information.

Local contributions can only be granted to public-benefit legal persons and other associations that are 'in need' of additional funds and/or do not have the necessary administrative and commercial structures and therefore need support to manage the contribution. They must not (yet) be in a position to implement financing (a grant) all on their own, a fact that must be clear from the record of the commercial and legal eligibility check.

The following criteria in the commercial and legal eligibility check must be assessed whenever a local contribution is being agreed:

1. Sanctions list check (must produce a negative result; contact the GIZ project to have one carried out)
2. Legal personality (must have been proved)
3. Public-benefit status (of the organisation itself or of the individual measure at the very least)

4. Accounting (must consist of a list of income and expenditures as a bare minimum)
5. Contract award procedure (in accordance with national law and/or in compliance with minimum standards)
6. (Internal and external) controls (ensured via transparency and the cross-check principle as a bare minimum)
7. Experience of handling subsidies
8. Compliance with the law and anti-corruption (must have been demonstrated)
9. Risk assessment

Criteria 1–3 and 8 must be complied with in full in order for a local contribution to be granted. For criteria 4–6, minimum requirements will need to have been met. If the check reveals that the recipient is in need of support, the contractor will need to address these support requirements through targeted capacity building measures for e.g. transparent accounting, reliable internal controls and/or a transparent contract award procedure when they help to implement the local contribution.

The level of detail in the documentation of the commercial and legal eligibility check will depend on the potential risk of losing the funds. The contractor will make this assessment based on the contract value, its content, previous experience with the recipient, etc.

3. Project description

The project description forms a binding integral part of the local contribution contract between the contractor and the recipient and must be attached to it as an annex. It details the measures and associated activities that are to be implemented under and with funds from the local contribution contract.

The description must:

- Demonstrate the measure's eligibility for public funding
- Provide an overview of all the measures and explain all the technical aspects
- Be worded so as to make it unmistakably clear that the agreement relates to financial support for a specific measure implemented by the recipient rather than the contractor purchasing work or a service (which would entitle it to receive work or a service from the recipient). This does not rule out the possibility that the recipient in turn might use some of the funds to buy a service needed in order to carry out the measures
- If appropriate, contain an operational plan or schedule of the activities to be carried out that demonstrates their feasibility within the contract term
- As far as possible, only identify project staff by their job title rather than by name (as the project description is a binding integral part of the contract, any subsequent staffing changes (e.g. due to illness or parental leave) would make it necessary to amend or supplement the contract)

4. Budget

Just like the project description, the budget forms a binding integral part of the agreement (for a non-binding budget template, see Annex 3 to this Guideline).

The following criteria must be met:

- To facilitate allocation and settlement, the budget must be broken down into cost categories rather than activities
- The budget must be attached to the contract as an annex
- The structure should be clear without becoming too detailed
- The option of offsetting up to 20% of the costs between cost categories can be specifically included in the contract
- The following wording is to be added underneath the budget: 'All budget lines must be settled against evidence.'
- No lump sums or overheads can be invoiced for. All costs must be posted as direct costs
- If necessary, personnel costs may also be quoted in percentage form but must still be evidenced for settlement purposes (e.g. a copy of the employment contract, timesheets and evidence of salary)
- The value for money offered by the expenditures must be taken into account (e.g. reasonable prices and fees customary in the local market). The procurement guidelines must be followed (see Annex 2 to the contract template)
- The budget must always be in local currency. Local contributions may be concluded in USD or EUR only in exceptional cases, which must be justified, e.g. in countries with a high inflation rate and where admissible under partner country law
- The contributions of the recipient must be clearly separated from the contractor's contribution. The recipient's own contribution must not be financed using funds from the local contribution. If the agreement stipulates a contribution by the recipient, the reports subsequently produced by the recipient should explain how that contribution has been made. If the recipient's own contribution takes the form of cash, they must submit a separate invoice with a separate list of vouchers and copies of all vouchers linked to that contribution

The costs listed below are generally not permitted. In exceptional cases that cannot be avoided, the contractor will need to discuss them with the officer responsible for the commission at GIZ before reaching an agreement with the recipient. The officer responsible for the commission will obtain the necessary approvals from the GIZ units on a case-by-case basis before any contract is signed.

- Procurement in special cases (medicines, agrochemicals and where it is primarily materials and equipment that are being procured)
- Construction measures
- Regular salary payments to the recipient's employees spread across several years
- Lump-sum payments to the recipient are not permitted (e.g. x-per cent for administrative expenses) as costs can be invoiced only against direct evidence.

5. Contract award procedures within the scope of local contributions

Where the recipient places orders for supplies and awards contracts for services that are to be financed from local contributions, the relevant local procurement regulations must be observed. The minimum standards are set out in the table '**Awarding contracts for supplies and services**', which also forms an integral part of the agreement between the contractor and the recipient (see Annex 2 to the contract template).

Services of appraisers are purchased on the basis of market prices.
Contract awards for consulting services are subject to competitive tender procedures.

The recipient is required to keep proper contract and procurement files. The contractor has to build the recipient's capacity in this regard insofar as this has been identified as a need. As a basic principle, the contractor will assist with the contract award and, if necessary, will help the recipient to keep a proper procurement file.

The key elements of the procurement file are:

a) Contents of the contract file for procurement of materials and equipment

- Request for materials
- Documentation of contract award procedure and award decision (reasons to be given if there was no competitive tender)
- All enquiries
- All tenders
- Assessment of tender and documentation
- Copy of the order (or any modifications to the order), signed in duplicate
- Correspondence with the project and supplier
- Copy of any shipping order
- Delivery note (if any)
- Invoice(s)

b) Contents of the contract file for services (appraisers, consulting firms)

- Documentation of the contract award procedure and award decision (reasons to be given if there was no competitive tender)
- Offer by the consulting firm, fee offer and appraiser's curriculum vitae
- Tender documents
- Tender evaluation
- Negotiation documents
- Contract signed in duplicate (plus any supplements to the contract)
- Confirmation of fulfilment of contractual obligations
- All invoices and vouchers

6. Control measures/checks

Control measures to verify the use of funds for their intended purpose is the responsibility of the contractor. Depending on the amount of the local contribution, the contractor can request advice and support for a control measure from the officer responsible for the commission at the GIZ project or, particularly in the case of larger contracts, from a national/international auditor, just as they would for the commercial and legal eligibility check. Under no circumstances may the potential recipient itself be involved in carrying out the eligibility check.

III. Signing the contract

1. Contract template

The binding GIZ template for local contribution contracts must be used (see the annex to the General Terms and Conditions 2020). Since the template used must be consistent with applicable national law, the contractor must request and obtain the template that is currently valid in the project country from the officer responsible for the commission.

2. Drawing up and amending the contract

Local contributions can be arranged up to a contract value of EUR 50,000.

Contracts and supplements to agreements entered into must be given serial numbers. The contract template must specify:

- Contract number
- General information on the project and recipient
- Intended use of funds
- Contract amount and term
- Contributions from the recipient's own resources (if any)
- Disbursement arrangements (Section 2 of the template for local contribution contracts)
- Evidence to be provided
- Misuse/recall of funds

Footnotes are integrated into the contract template as aids which provide information on the formulation and content of the contract. A correctly completed contract will no longer contain any footnotes.

The agreed term of a local contribution can be extended in principle but not beyond the term of the associated contract between GIZ and the contractor.

Amendments and supplements to the details agreed in the contract, including the project proposal, and material changes to the expenditures estimated in the budget are permitted only on the basis of a revised plan and must first be approved in writing by the contractor. This will require the contractor and recipient to conclude a supplement to their contract in writing before implementing the modified measures.

3. Contents of the local contribution contract file held by the contractor

The local contribution contract file held by the contractor must make clear the full contents of the contract and the associated statement of account. Accordingly, the contract file must contain:

- Originals of the signed contract including all annexes and any preparatory documents
- Originals of any amendments to the contract together with any annexes
- Details of any agreed recipient contribution and the payment plan
- Correspondence linked to the drafting of the contract and settlement
- Justification for any payment in foreign (non-local) currency

- Justification/decision if the disbursement period is to exceed one month
- Copies of employment contracts (if funding personnel costs)
- Copies of all payment requests from the recipient
- Copies of expenditure lists confirmed by the contractor
- Settlement sheet for each payment and invoice (see Annex 1 to this Guideline for a template)
- Any requests for return of the original vouchers
- Confirmation by the contractor that the measures have been implemented (records showing that the supported activities have been implemented as specified in the contract)
- Records produced by the contractor setting out which measures were taken to support the recipient and develop its capacity

IV. Financial processing

1. Disbursement

The contractor is responsible for the provision of funds and financial settlement under a local contribution agreement. The settlement sheet template (see Annex 1 to this Guideline) must be used.

Advance payments must match actual requirements (generally for up to one month) and be settled after six weeks at most in order to avoid losses due to a failure to take due commercial care.

If funds are needed in advance for more than one month (up to three months) in an exceptional case, this must be stipulated in the contract. The reasons must be set out and documented in the contract file (Section 2.2 of the contract template).

The next advance payment should not be made until at least 80 per cent of the previous tranche has been settled (presentation of expenditure list and evidence of the use of funds). To encourage the prompt final settlement of accounts, it may be stipulated in the contract on a case-by-case basis that a certain amount is to be withheld and not reimbursed until the final payment is made (retention guarantee).

Alternatively, the parties may agree to use the reimbursement procedure. In this case, the recipient does not receive any funds until the relevant evidence of use has been submitted. All or part of the agreed subsidy may be disbursed directly to a third party if the recipient submits a request to that effect together with the associated invoice and corresponding documentation (Section 2.3 of the contract). This should be stipulated in the contract.

If, by way of an exception, the contract was concluded in a foreign currency rather than the local currency, the currency risk must be taken into account, e.g. by providing funds as the need arises and ensuring swift financial settlement. Where contracts in foreign currencies are entered into with suppliers or service providers, funds may be disbursed in a foreign currency only if this is compatible with local foreign currency regulations. Otherwise, funds will be disbursed in the local currency at the exchange rate applicable at the time.

The recipient compiles evidence of payments made in the list of expenditures (see GIZ's template for local contribution contracts).

2. Evidence of the use of funds

Once the activities funded under the agreement have been implemented, the recipient must submit a corresponding statement of accounts to the contractor.

Evidence of the use of funds must be presented no more than two weeks after the end of the advance payment period in order to avoid losses. In the case of prefinancing for one month, therefore, evidence of the use of funds must have been provided no later than six weeks after receipt of the advance payment. Interim statements of account may be submitted.

The contractor must ensure corresponding checks of vouchers.

The recipient's list of expenditures (see GIZ's template for local contribution contracts) with the associated original vouchers serves as evidence of the use of funds. These vouchers will include:

- Paid invoices for supplies and services (always issued in the name of the recipient)
- Signed-off lists of participants
- Vouchers for cash payments etc.

Receipts for advances to the recipient do not constitute evidence of use.

The list of expenditures must contain all the recipient's incoming and outgoing payments with serial numbers referring directly to the corresponding voucher. The vouchers must be attached as an annex and numbered accordingly.

If specific measures with budget caps have been stipulated in the contract, it makes sense to list the expenditures separately for each measure.

If the local contribution is relatively small, or if the recipient may find it difficult to allocate expenditures to specific measures, items can simply be listed in chronological order. In that case, expenditures are added to the list as they arise, i.e. by payment date. The corresponding vouchers are numbered and included in the annex.

If contracts for supplies and/or services have been entered into under the local contribution, a copy of these contracts must be attached.

Reimbursed taxes from local contributions are offset against the contribution and used for the same purpose. Any repayments made after a local contribution has come to an end are to be passed on to GIZ.

The recipient checks the vouchers and signs each voucher as factually correct before settling with the contractor. The contractor will provide the recipient with advice on this as part of their capacity building.

The contractor checks that the project activities receiving support are being carried out as stipulated in the contract, verifies the vouchers submitted and confirms that the funds provided have been used for the stipulated purpose on the list of expenditures.

Vouchers must be submitted as an annex to the list of expenditures. They must be affixed to a sheet of A4 (or local equivalent format) with the same numbering and in the same order as they appear in the list of expenditures. It is important to use paper wisely.

GIZ's general voucher requirements must also be observed:

- Handwritten vouchers must be legible. For all vouchers not in German, English, French or Spanish, the main contents must be translated.
- Vouchers must be given serial numbers and marked with the date of posting.
- The voucher issue date may be outside the contractual term, but the works or services to which a voucher relates must have been provided within the contractual term. The contractor must ensure corresponding checks of vouchers.
- The recipient should mark their (original) invoice slips as 'paid' (bank, cash). Each voucher must be initialled by the recipient to indicate that it is factually correct.
- The recipient must also initial the list of expenditures as confirmation that it is factually correct. This must be done before giving the vouchers and the list of expenditures to the contractor.
- The contractor confirms that the vouchers are correct in writing on the list of expenditures.

If the law requires the recipient to retain the original vouchers, the recipient must still present the original vouchers, duly signed by them as materially correct, to the contractor. After running a check (performance of contract, arithmetical correctness, voucher requirements), the contractor stamps 'paid from a GIZ contribution' on the original and prepares a copy for their records. The fact that original vouchers were available must be noted on the expenditure list. The original vouchers are returned to the recipient.

In the case of foreign currency payments to a local bank account, a copy of the bank statement generally serves as evidence of the rate of exchange. For cash disbursements in foreign currencies, the recipient must submit original exchange vouchers.

If full supporting documentation is not provided for such payments, GIZ may convert the amount using the exchange rates published in the EU currency converter (www.giz.de/en, Procurement, Exchange rates) and reimburse the payment in the currency stipulated in the contract.

The contract may also stipulate that the evidence of use of funds must also include the following documentation in addition to the list of expenditures and the original vouchers:

- Delivery notes, insurance certificates
- Copies of all contracts for supplies, works and services
- Tender and contract award documents (for checks to ensure that they are formally correct)
- Evidence that any contractually agreed partner inputs have been provided (cofinancing, progress report, bank receipt)
- Progress report/final report
- Information on handling local taxes
- Record of journeys as evidence of travel expenses

- Lists of participants and evidence of travel expense payments for seminars and other events
- Travel instructions issued to the local subsidy recipient's employees and the corresponding expense claims, etc.

The contractor must request any missing documentation from the recipient.

3. Financial settlement of local contributions vis-à-vis GIZ

A settlement sheet (see Annex 1 for a non-binding template) must be maintained for each local contribution that shows the current settlement status. After each disbursement and each settlement relating to the agreement, the settlement sheet must be completely updated and stored in the contractor's contract file together with a copy of the list of expenditures (list of vouchers/costs) and/or the advance payment request.

On completion of the measures, the last statement of accounts and supporting vouchers are checked, and the corresponding amount is entered in the settlement sheet. The contractor will then claim back from the recipient any funds that have been disbursed but not used (or evidenced). The contract file must not be closed until any unsettled advance payments have been repaid. The settlement sheet on which any such repayment is documented is added to the contractor's contract file.

Annexes:

1. Template – Settlement Sheet for Local Contributions
2. Commercial and legal eligibility check
3. Template – Budget