

RCNF Due diligence and risk management

The Fund Management Agency (FMA) is responsible for RCNF grantee due diligence and risk management. The procedure consists of four phases:

1. Application & review
2. Contracting
3. Monitoring
4. Evaluation

1. Due diligence research

1.1 Application & review phase

When applying for RCNF funding, an applicant needs to provide documentation showing the lead organization of a network or consortium of network's:

- a. legal and financial status;
- b. capacity to carry out the proposed activities; and
- c. track record

The documentation required will be described in the RFP. If a network for some reason is unable to submit some of the required documents, this network needs to provide the RCNF with a justification. RCNF Request for Proposal (RFPs) require applicants to submit the following documents with their application:

1. A copy of a registration certificate or other proof of registration¹
2. A copy of the articles of association or bylaws
3. If not already in the above, a description of the governance structure
4. A strategic plan (at least one year) and overall annual budget
5. The most recent annual report and financial audit
6. Minutes or notes from the last meeting of network members
7. If the applicant is a consortium: A copy of the consortium's MoU.
8. If the network or consortium is financially represented by another organisation; a MoU between the lead organisation of the network/consortium and given organisation

All partners of a consortium of networks are also required to provide documents 1-5. This documentation is used by the FMA to assess an application on the eligibility criteria stated in the RFP, and by the Program Advisory Panel (PAP) to assess the application on the criteria stated in the PAP review form. The PAP funding recommendation to the ISC contains considerations per proposal, indicating, amongst other considerations, any risks to be mitigated per network, as well as a proposed approach. The FMA will take this approach into account in its own risk mitigation procedures.

1.2 Contracting phase

A grant letter, a copy of the grant regulations and a declaration of agreement to be signed by the grantee, form the contract between FMA and grantee. The lead organisation of a network or a consortium will be contracted on behalf of the network or consortium of networks. The lead organisation will be held responsible for the (financial) management, implementation and monitoring of the proposed project or activities. With the grant letter RCNF grantees will receive the grant regulations and a Declaration of Agreement (DoA). The DoA needs to be returned to the FMA within 4

¹ As these are different from one country to the next we ask that the first two document(s) show:
- The official registration of the organization within the local legal system
- The application carries (an) authorized signature(s)

weeks after the date of the grant letter. With this declaration, a grantee agrees to the grant regulations and the conditions mentioned in the grant letter. Because the FMA needs to be able to bind a lead organisation and not just the person signing on behalf of the lead organisation, the following questions are negotiated between FMA and grantee:

Questions	Consequences
<ol style="list-style-type: none"> 1. Who is entitled to sign documents and legally bind the organization? 2. Has the organization a registration certificate or can the organization otherwise prove that it is registered? 	<ol style="list-style-type: none"> 1. The declaration of agreement is accepted if signed by this person(s). Documentation submitted with the application (bylaws/articles of association/registration certificate) needs to prove the authority to sign of this person(s). If the organisation can only indicate the authority to sign, Aids Fonds minimizes this risk by contacting other donors, desk research, and gathering more (circumstantial) evidence from the grantee. In this case, the risk will be monitored. 2. The FMA identifies risks based on the documentation submitted with the application. If an organisation is not registered, Aids Fonds minimizes this risk by contacting other donors, desk research, and gathering more circumstantial evidence from the grantee. In this case, the risk will be monitored.

2. Risk management: inventory and mitigation of risks

Risk management by the FMA of the RCNF is never a static process. It is a way of securing the outcomes and impact of the RCNF. Possible risks are identified at the start of a grant, or during the grant, monitored and, if necessary, mitigated.

The perception of what entails a risk in a certain network or consortium of networks can change during the monitoring of that risk in each phase of the grant.

2.1. Monitoring phase

The monitoring phase overlaps with the contracting phase. The FMA's monitoring system is built to mitigate risks in general. Risk mitigation tools are anchored in the grant regulations and are used in a tailor made approach to each grantee. Tools available to the FMA:

- Grant regulations
- Smaller disbursements, spread over the duration of the project, up to 80% of the grant total, to mitigate financial risk.
- Annual reports, final reports, audits
- Phone calls and site visits

Specific situations lead to specific kind of risks and ask for an adjusted risk mitigation plan. The FMA forms a risk assessment and mitigation plan per grantee, based on application, supporting documentation, PAP considerations, the results of the contracting phase and desk research.

In a risk assessment and mitigation plan, management risks, financial risks and risks related to the ability to deliver and account for results are taken into consideration. Risks are identified as "high" when the risk scale on management, financial management or ability to absorb funding, or M&E risk, is

high and the probability that something will happen is high. The below schedule shows the questions used to identify situations wherein an adjusted risk profile is appropriate. There are three different ways to deal with risks: accept risks, avoid risks or to mitigate risks.

Questions	Risk scale	Probability	Mitigation strategy
	High/medium/low	High/medium/low	
Has the due diligence procedure been followed?			If not, then closer monitoring and smaller disbursements may be appropriate
Is the organization new?			If yes, then closer monitoring and smaller instalments may be appropriate
- Mismanagement			Technical assistance
- Not enough expertise for results			Technical assistance
- No link to target population			
Does the organization have a positive track record?			If not, a strategy linked to the specifics of the track record is appropriate
Have there been specific incidents or complaints about this organization?			If yes, a strategy linked to the specifics of the incidents or complaints are appropriate
- No results			
- Specific issues			Technical assistance
Is it a fast growing organization? (growth of more than double the budget in one year)			If yes, then closer monitoring is appropriate
- Mismanagement			Technical assistance
- Not enough expertise for results			Technical assistance
- No link to target population			
Does the organization have a governance structure in which the management is supervised by an independent board?			Closer monitoring, planning for new governance structure
- Mismanagement			
- Financial mismanagement			
Have there been a lot of changes of personnel? What has been the reason for these changes?			Closer monitoring with specific questions
- Mismanagement			
- Not enough expertise for results			

Does the organization work in a dangerous environment (violence, economically)			Closer monitoring and specific mitigation plan tailored to the specifics of the situation.
- Violence			
- Legal persecution			
- No results			
Have the activities been done before? Is a project very innovative?			Division of the process in phases which can be evaluated per phase
- No results			
Does the organisation have a M&E system in place and the capacity to follow up on it?			Closer monitoring with specific questions
- Results cannot be accounted for			

For consortia of networks, additional questions will be raised:

Has this consortium of networks worked together before?			Closer monitoring with specific questions
- Mismanagement			
- Not enough expertise for results			
Does the consortium have a governance structure?			Closer monitoring with specific questions
- Mismanagement			
- Financial mismanagement			
- No link between partners in consortium?			
Is the consortium structure complex?			Closer monitoring with specific questions
- Mismanagement			
- Financial mismanagement			
Does the lead organisation have the capacity to represent the consortium?			Closer monitoring with specific questions
- Mismanagement			
- Financial mismanagement			
Does the consortium have a M&E system in place and the capacity to follow up on it?			Closer monitoring with specific questions
- Results cannot be accounted for			

The FMA will inform the ISC at a regular basis on the risks identified (on a portfolio wide perspective, rather than on an individual grant level) and the way they are monitored and managed.

The FMA may fully or partially suspend advances if – and as long as, amongst others – there is a reasonable suspicion that there is corruption, fraudulent conduct or mismanagement – management that does not contribute to the project’s goal – occurring within the Organisation (Article 25, grant regulations). The grantee will receive official notice of this, with referral to the next steps in the procedure. The FMA can change or fully or partially revoke a grant or set the grant at an amount lower

than that stated in the decision on the application if, amongst others – the FMA has established that, despite its warning to the Organisation in this regard, mismanagement continues to occur within the Organisation (Article 26, grant regulations). If there is proof of mismanagement or fraud, the FMA may refer to other donors for consultation. The ISC and the PAP will be notified in such a situation.

3. Evaluation phase

Based on the results of each funding round, the FMA assesses its due diligence and risk management strategies and tools and processes the lessons learned. The ISC and the PAP will receive reports annually. Individual cases will not be reported other than to the grantee involved and the ISC, PAP and FMA, except if there is a good reason, consolidated in writing by the ISC, to do so. This due diligence and risk assessment policy will, if necessary, be adapted accordingly and be presented to the ISC for consolidation. The due diligence and risk assessment policy will be accessible at the RCNF website.