



Guidelines on local subsidies

for concluding and managing contracts by consulting firms on behalf of GIZ

I. Introduction

What are local subsidies?

Local subsidies are purpose-tied payments from project funds to a recipient. A recipient is a local partner with which project activities are being implemented. Local subsidies assist in building the capacities of recipients by helping them to finance purchases or services and also gain the expertise required to procure the goods or services themselves. Local subsidies are direct contributions within the framework of the development cooperation guidelines.

Local subsidies as a direct contribution

As a direct contribution, GIZ or the consulting firm it commissions to procure the goods or services bears full responsibility for the correct provision and settlement of services. The consulting firm makes the funds available, advises the local recipient and manages/controls the proper use of funds, including the documentation on the use of funds by the recipient.

In the event of the funds not being used properly, BMZ will not reimburse the funds to GIZ. Accordingly, GIZ only reimburses local subsidy funds to the consulting firm if the funds are used correctly and the corresponding evidence of their use is furnished. This means that local subsidies should only be awarded if the consulting firm has adequate opportunity to manage and control their use.

Consulting firm's tasks when granting a local subsidy

When granting local subsidies, the consulting firm has an obligation to advise and control, and bears liability for the correct use of funds. It provides assistance in administering the local subsidy and in financial processing. It is also responsible for the proper use of the funds by the recipient, and for advising on and controlling compliance with regulations on the procurement of materials and equipment and the purchase of services from appraisers, consulting firms and construction companies.

Procedures for awarding contracts for the procurement of materials, equipment and services

When placing orders and awarding contracts for services that are to be financed from local subsidies, the relevant local regulations must be complied with.

The minimum standards outlined in the document '**Placement of orders for supplies and awarding of contracts for services**', which constitutes an integral component of the

contract, must be observed. Services provided by appraisers are purchased at market prices. As a general rule, contracts awarded for consulting services are subject to competitive bidding.

The recipient is to keep contract and procurement files that are to be submitted on request. The consulting firm assists with the placement of the order, and if necessary, assists the recipient in managing the procurement file correctly.

The key components of the procurement files are:

Contents of the file for procurement of materials and equipment

- Request for materials
- Documentation of the contract award procedure and the award decision (reasons to be given if there was no competitive tender)
- All enquiries
- All offers
- Bid assessment 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 applicable
- Invoice(s)

Contents of contract file for the award of services (appraisers/consulting firms)

- Request for service
- Documentation of the contract award procedure and award decision (reasons to be given if there was no competitive tender)
- Offer by the consulting company / proposed fee and CV of consultant/appraiser
- Tender documentation
- Bid assessment
- Negotiation documents
- Contract signed in duplicate (plus any supplements to the contract)
- Confirmation of performance
- All invoices and vouchers

Audit

The consulting firm is responsible for checking that the funds are used for the intended purpose. Depending on the amount of the local subsidy, it may be appropriate to use an independent local auditor.

Local subsidies may not be used for:

- Regular purchases of materials and equipment for offices and projects, such as vehicles and PC equipment as well as medicines and pesticides.
- Advance payments for purchases
- Top-up payments to counterparts

- Appraiser work by counterparts
- Regular salary payments to the recipient's employees (unless specified as a local subsidy in the offer/order)

Furthermore, no lump-sum payments may be made to the recipient out of local subsidies (e.g. x % for administrative costs), since direct contributions must be documented in full based on the presentation of the original vouchers as evidence of the use of funds.

II. Entering into a contract

Specimen contract

GIZ's specimen contract for local subsidies must be used.

Local subsidy contracts can be concluded up to the value of EUR 50,000.

The term of a local subsidy can be extended, but not beyond the duration of the associated contract with the consulting firm.

Contract format

Contracts entered into must be consecutively numbered.

Footnotes are integrated into the contracts to assist in drawing up and formulating the content of contracts. When you enter into a contract, please ensure that the field with a footnote is highlighted and deleted, and a corresponding entry made at this point. **A correctly completed contract contains no footnotes.**

The following specific details must be entered in the contract:

- ✓ Contract number
- ✓ General information on the project and recipient
- ✓ Intended use of funds
- ✓ Contract amount and term
- ✓ Contribution by recipient, disbursement arrangements
- ✓ Evidence to be provided
- ✓ Misuse/recall of funds

Content of the consulting firm's contract file on local subsidies

- Contract
- Correspondence
- List of expenses with vouchers
- Requests for advance payment
- Updated settlement sheet for each payment/statement of account (optional)

Special features of the contract

Currency

Contracts are entered into in local currency. Only under specific exceptional circumstances, for example in countries with high inflation rates, can contracts be entered into in foreign currencies, provided this is legally permissible.

Contributions from the recipient's own resources

A clear distinction must be made between contributions/inputs from the recipient's own resources and from the project. The recipient's own contribution must be specified in the contract, and must not be financed from contract funds. If costs are shared (between the consulting firm and the recipient), it is important that vouchers are properly kept as evidence.

III. Financial processing – agreements and procedures

Disbursement

Funds for the local subsidy are provided and settled through the consulting firm. The specimen settlement forms (annexes to the contract) must be used.

Advance payments should match current requirements (generally for up to one month) and be settled after six weeks at most.

The next advance payment should not be made until at least 80 % of the previous payment has been settled (presentation of expenditure list and evidence of the use of funds).

In order to encourage the prompt final settlement of accounts, the contract may stipulate that a specific amount of the advance payment be withheld, and only reimbursed once the final payment has been made (retention guarantee).

If the recipient has sufficient funds, expenses may also be reimbursed following submission of the evidence of the use of funds (reimbursement procedure).

If, under exceptional circumstances, the contract is concluded in a foreign currency rather than in a local currency, the currency risk must be taken into account, for example, by providing funds in accordance with requirements and ensuring prompt settlement. If contracts are entered into with service providers or suppliers in foreign currency, disbursement may only be in a foreign currency if this is compatible with local foreign currency regulations. Otherwise, the disbursement is in local currency using the exchange rate valid at the time the disbursement is made.

Evidence of the use of funds

Evidence of the use of funds is to be presented no later than two weeks after the end of the advance payment period. For example, if advance financing is provided for one month,

evidence of the use of funds must be provided no later than six weeks after receipt of the advance payment.

The consulting firm is to ensure that the vouchers are checked.

The list of expenditure and the associated original vouchers (such as paid invoices for supplies and services (which must be made out to the recipient), initialled lists of participants, and vouchers for cash purchases) serves as evidence of the use of funds vis-à-vis the consulting firm.

Receipts for advance payments to the recipient do not constitute evidence of the use of funds. If contracts for supplies and/or services have been entered into within the framework of the local subsidy, a copy of these must be enclosed.

The recipient checks the vouchers and signs each voucher as 'materially correct' before settlement with the project.

The consulting firm advises the recipient on this. It also checks and initials the list of expenditures.

Reimbursed taxes from local subsidies are credited to the subsidy and used for the purpose of the subsidy. If funds are repaid after the completion of a subsidy contract, these funds are to be paid back to GIZ.

If, for legal reasons, the recipient has to retain original vouchers, the recipient must nevertheless first submit the original vouchers, duly signed as materially correct. After checking their eligibility (performance of contract, arithmetical correctness, voucher requirements), the consulting firm notes on the original that the amounts are 'paid from a GIZ subsidy' and prepares a copy for its documents. The fact that original vouchers were available must be noted on the expenditure list. The original vouchers are returned to the recipient of the subsidy.

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

Settlement of local subsidies vis-à-vis GIZ

Details on the settlement of local subsidies vis-à-vis GIZ are specified in the consulting contract, the price schedule, and in the explanatory notes to the price schedule.

For **each** local subsidy, we advise that you **maintain a settlement sheet** that shows the current financial situation.

The settlement sheet is provided as an attachment to these guidelines.

Annex: Specimen settlement sheet

Specimen – Settlement sheet for local subsidies

Country:
Proc. no.:
Contract no.:

Currency:
Designation
Contract
amount:

Date:
Officer:

Recipient:
Term:

				Currency: (contract currency)						
Consec. no.	Date	No. call/ Settlement of recipient	Type 1)	Disbursement	Settlement	Outstanding adv. payment	Remaining contract amount	Date of settlement	Date of posting	Voucher no.
1				0	0	0	0			
2				0	0	0	0			
3				0	0	0	0			
Total				0	0	0	0			

1) Please enter:
 A = advance payment
 D = Direct payment
 R = Reimbursement
 I = Interim invoice
 F = Final invoice

We hereby confirm that the above entries are complete and correct:

.....
 (Signed by consulting firm)

As at:

Created by: