

LFA Instructions

Principal Recipient Capacity Assessment

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1. Introduction

The Global Fund requires assurance that the Principal Recipient (PR) has **adequate systems and capacities to effectively manage grant funds and deliver program results**. Capacity assessments are a key component of the Global Fund's risk management approach and provide an evidence-based basis for confirming or rejecting nominated PRs and identifying necessary mitigating actions and controls.

Capacity assessments serve as an **assurance activity**, providing independent and objective evaluation of whether implementer capacities, systems, and controls are sufficient to identify, assess and manage risks to the achievement of grant objectives.

Specifically, capacity assessments:

- Provide assurance that a newly nominated PR has the institutional capacity required to implement grants effectively and in line with Global Fund expectations;
- Inform the identification and prioritization of risks, as well as the design of mitigating actions and assurance activities;
- Support decision-making during funding request review, grant-making, and implementation by ensuring risk-based selection of implementers; and
- Contribute to the broader risk management process by feeding into risk assessments and assurance planning across the grant life cycle.

Capacity assessments are typically conducted by the Local Fund Agent (LFA) using the Capacity Assessment Template (CAT), based on the scope defined by the Global Fund Country Team (CT).

2. Requirements

When a Capacity Assessment is required

A tailored capacity assessment **is conducted during the Funding Request** period in the following situations:

- **New PRs**, including cases where a PR acts primarily as a pass-through or pay-through entity;
- **PRs implementing Payment for Results (PfR) or Results-Based Contracting (RBC) for the first time**, through a tailored thematic assessment;
- **Existing PRs in High Impact and Core portfolios implementing new components or major new activities** for which their capacity has not previously been assessed.

Examples of triggers for assessing existing PRs include:

- Significant changes in the scale or complexity of programs;
- Introduction of new modules or interventions;
- Expansion into technical areas where the PR has limited or no prior experience;
- Persistent performance issues or elevated risk ratings;
- Changes in implementation arrangements that introduce new risks.

Other situations where Capacity Assessments can be conducted

Beyond the three requirements defined above, capacity assessments may also be conducted on a **risk-informed and discretionary basis** to support effective risk management. These include:

- When **streamlining implementation arrangements**¹ (e.g. consolidating grants that have previously implemented the disease components under a single PR), the Global Fund CT may conduct a **targeted thematic assessment of Program Management Unit (PMU)² arrangements** to ensure adequate structure and capacity to manage the expanded scope.
- **Thematic or targeted assessments of continuing PRs** where there are known or emerging risks, or where additional assurance is required;
- Situations where the Global Fund intends to rely on **country public financial management systems** or other arrangements requiring additional assurance
- Assessments of **existing PRs or selected Sub-Recipients (SRs)** when necessary to better understand or mitigate risks;
- **Any point during grant implementation**, where the Global Fund Country Team determines that additional assurance on implementer capacity is needed based on performance, risk profile, or emerging issues.

The **scope and depth** of capacity assessments are risk-based and proportionate, tailored to the materiality, complexity, and risk profile of the activities being implemented.

In **Focused portfolios**, capacity assessments are undertaken through a **PR self-assessment**, with an **LFA assessment only required in exceptional cases when major risks were identified**.

3. Timing

Capacity assessments must be planned and completed in line with grant life cycle requirements to ensure timely decision-making and adequate risk assurance. They are primarily conducted during the Funding Request, in exceptional cases during Grant-making, and as required during grant implementation.

Funding Request

- For all cases where a capacity assessment is required (e.g. new PRs, new activities, PfR/RBC), capacity assessments are:
 - **Initiated as soon as the PR is identified**; and
 - **Completed before the Technical Review Panel (TRP) review** wherever possible.

¹ Where disease components are consolidated under a single PR, a full capacity assessment is not required if the PR has already implemented the relevant disease components. However, an assessment is required to determine whether the PMU arrangements are appropriate for the consolidated scope, including whether the structure, staffing, systems, and management arrangements are sufficient to oversee all disease components being implemented. Existing PMU arrangements for one component should not be assumed to be adequate for the expanded mandate without this targeted review.

² The PMU is the internal structure within a PR responsible for the day-to-day management, coordination, and oversight of Global Fund-supported programs, including planning, financial management, procurement, monitoring and evaluation, and reporting. The PMU ensures implementation aligns with grant requirements, agreed workplans, and risk management expectations.

- Early initiation of the capacity assessment is required to avoid delays in grant-making and ensure capacity gaps are identified and **addressed in grant design**.

Grant-making

- In exceptional cases where a required capacity assessment is not completed during the Funding Request, the assessment must be **completed as soon as possible during Grant-making**.

Grant Implementation

- **Thematic or targeted capacity assessments** may be conducted as required depending on the portfolio context and needs:
 - At any point during implementation; and
 - When additional assurance is required based on risk profile, performance issues, or changes in context or implementation arrangements

4. Tailoring

The Global Fund CT provides the LFA with a tailored capacity assessment template based on risk, context, and the scope of activities being implemented.

The **scope and depth** of the assessment are to be proportionate to the:

- Materiality and complexity of the program;
- PR's role and implementation arrangements;
- Risk profile and known capacity gaps.

When completing a tailored CAT, the LFA focuses on the areas and questions included in the agreed scope. Existing evidence and available information from prior assessments, audits, assurance reports, or other relevant sources can be used where relevant to avoid duplication and focus the assessment on information gaps.

Capacity assessment costs are proportionate to scope and risk. The scope may be reduced by leveraging existing assessments and available evidence.

The scope and LoE need to be agreed between the Global Fund CT and the LFA prior to commencing the work and in line with the assessment needs.

5. Capacity Assessment Process and Outputs

Initiation and Preparation

- The Global Fund CT defines the scope of the assessment, provides the LFA with the relevant CAT and indicates:
 - Type of assessment
 - Relevant risk areas to be covered;
 - LoE and timelines.

The LFA confirms agreement and understanding of the scope, expected outputs, LoE/timelines, and any documentation required to complete the assessment.

Assessment and Review

- The LFA (or PR for Focused portfolios) conducts the assessment and:
 - Completes the CAT template (sections marked for LFA plus the summary of actions table);
 - Provides capacity ratings for each assessed area, supported by evidence;
 - Identifies key capacity gaps and system weaknesses;
 - Recommends actions to address identified issues.
- The LFA assessment is evidence-based and focused on whether the PR has adequate systems, processes, staffing, controls, and management arrangements to implement the relevant grant activities.

Review by the Global Fund

After the LFA submits the completed CAT, the Global Fund reviews the assessment and determines the final position on PR capacity and suitability. The Global Fund can validate, adjust, or supplement LFA findings and ratings based on broader country context, available evidence, and internal risk considerations.

The completed capacity assessment includes:

- Capacity ratings and key findings;
- Identified capacity gaps and corresponding priority actions.

Capacity assessment results are used by the Global Fund to inform:

- PR suitability;
- Mitigating actions and assurance activities;
- Risk assessment and assurance planning across the grant life cycle.

Where significant capacity gaps are identified and PR capacity is deemed insufficient, the Global Fund requests the Country Coordinating Mechanism (CCM) to recommend an alternative PR.

Communication of Capacity Assessment Outcomes

The Global Fund CT is responsible for communicating the **Global Fund's consolidated position** of the outcome of the capacity assessment to the CCM and the PR, as applicable.

The communication approach depends on the outcome:

- **Positive outcome (PR deemed suitable):**
 - The Global Fund CT shares:
 - A summary of the assessment outcome;
 - Key capacity gaps or system weaknesses identified (ideally for those areas rated moderate or high);
 - Recommended mitigating actions to address these gaps.
- **Negative outcome (PR deemed not suitable):**
 - The Global Fund CT shares:
 - A summary of the decision and rationale;
 - The key factors considered in reaching the decision.

6. Responsibilities

Responsibilities for the capacity assessment process are summarized below.

Actor	Role in the Process	Key Responsibilities
Global Fund CT	Defines scope and manages Global Fund decision-making	<ul style="list-style-type: none"> • Defines scope and tailoring of the assessment • Selects relevant risk areas • Agrees LoE and timelines with the LFA • Shares CAT with the LFA • Reviews and validates findings and ratings • Assigns final capacity ratings • Defines mitigating actions • Determines PR capacity and suitability • Communicates outcome of the assessment to the CCM and PR
LFA	Independent assessor	<ul style="list-style-type: none"> • Conducts the capacity assessment per defined scope • Completes the CAT • Provides evidence-based ratings for each risk area • Identifies capacity gaps and system weaknesses • Recommends actions to address identified issues • Provides supporting documentation and analysis
PR	Assessed entity / information provider	<ul style="list-style-type: none"> • Provides access to information, documentation, and systems • Facilitates engagement with relevant stakeholders • Completes the self-assessment where applicable (Focused portfolios) • Supports validation of findings, as needed

ANNEX 1: Capacity Assessment Forms and Their Use

Assessment Category	Scope	Description / Application of the Form
Capacity Assessment	Can cover all functional areas, as required	Required for new PRs or where a reassessment is warranted based on risk.
Thematic Assessment	UNDP	Used for tailored assessment of United Nations Development Programme (UNDP) PRs, using a streamlined approach adapted to UNDP systems and operating model.
	Governance	Used for targeted assessment of governance structures, oversight mechanisms, and institutional controls at PR level.
	PfR	Used for targeted assessment focused on capacity to implement PfR modalities, including internal controls, verification mechanisms, and performance management systems.
	RBC	Used for targeted assessment focused on capacity to design and manage RBC arrangements, including contract management, performance monitoring, and accountability mechanisms.
	Additional Thematic Assessments (forthcoming)	Additional thematic assessments may be introduced as new risk areas or implementation modalities are prioritized. The scope and availability of these assessments will be updated periodically by the Risk function.