Exhibit K-2 – Guidance on Grants Sub-recipients

The main project implementer will be the grant recipient. However, there may be circumstances where it is necessary to implement specific activities (or activities in particular countries) through sub-recipients. The grant recipient will remain accountable to IFAD for ensuring that grant resources are used in accordance with the provisions of the financing agreement, appropriately managed and fully reported on.

Due diligence
In the case of sub-recipients above a certain threshold[1], IFAD will perform ex-ante assessments as part of design due diligence; for the remainder, IFAD places the emphasis on assessing the recipient's own processes for selecting and monitoring sub-recipients[2]. IFAD defines sub-recipients as "significant" when they receive resources of USD 100,000 or more. In this case the related Implementation Agreement is subject to prior clearance by IFAD. Significant sub-recipients are normally identified at design, and the amount they will manage specified in the financing agreement. In some cases it is not possible to identify sub-recipients at design stage – for example, where grant resources will be made available through small sub-grants to sub-recipients on a bidding basis. This factor will be taken into consideration in assessing the risk of the project until it has been possible to carry out the due diligence on the sub-recipients.

Grant design document
If sub-recipients are expected to implement grant activities, the grant design document must:
- Provide a clear justification for the use of sub-recipients, including clarifying the reason for incurring two (or more) sets of management fees. Total overheads cannot exceed 8% of project direct costs;
- Describe how the grant recipient will ensure that grant resources are used in accordance with the provisions of the financing agreement and fully accounted for. This description should include an overview of the recipient's process for assessing and monitoring sub-recipients, how the financial reports will include the transactions, and confirm that the recipient's independent auditors will be granted access to the sub-recipient's project-related accounts and documentation.

Clearance of sub-agreements
The IFAD Grant Technical Manager (GTM)'s prior review of sub-agreements with significant sub-recipients is required. The GTM may opt to review other sub-agreements or conduct an ex-post review.

Distinction between sub-recipients and service providers
Some of the main differences between grant sub-recipients and service providers are highlighted below:

Principal differences between sub-recipients and contractors

An organization is likely to be a sub-recipient if it:	An organization is likely to be a service provider if it:
determines who is eligible to receive financial assistance under the grant	operates to provide similar goods and services to many different purchasers
has its performance measured against whether the objectives of the grant are met	performance depends on whether satisfactory goods/services are delivered on time
bears responsibility for decision making under the project	provides goods or services to the recipient that are ancillary to the grant operation
uses the funds to carry out project-related activities	is not subject to grant compliance requirements
aims to cover its costs	aims to make a profit

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[1] If sub-recipients are expected to receive resources of USD 500,000 or more, the submission of the Financial Management Assessment Questionnaire (FMAQ) and the entity's two most recent audited financial statements is required as part of the due diligence process.

[2] IFAD will typically examine whether the recipient reviews the sub-recipient's track record, financial standing, governance, internal controls, audit, transparency, reputation and references. IFAD also determines whether the process for selecting sub-recipients is transparent and follows criteria that are acceptable to the Fund.