

GOVERNMENT TO GOVERNMENT ASSISTANCE:  
A PRIMER ON CONTEXT, DEFINITIONS, AND IMPLEMENTING AND  
FUNDING MECHANISMS



PREPARED BY: USAID/M/CFO  
AUGUST 2012

# GOVERNMENT TO GOVERNMENT ASSISTANCE: A PRIMER ON CONTEXT, DEFINITIONS, AND IMPLEMENTING AND FUNDING MECHANISMS

## TABLE OF CONTENTS

	<u>Page</u>
I. Background	3
II. Why Focus on Government-to-Government Assistance?	3
III. What Constitutes Government-to-Government Assistance?	5
IV. What USAID Implementing and Funding Mechanisms provide Direct Assistance to Partner Country Governments?	6
A. Project Assistance	7
1. Direct Cost Reimbursement	
2. Fixed Amount Reimbursement	
B. Program Assistance	9
1. Sector Program Assistance	
2. General Budget or Balance of Payments Support	
3. The Commodity Import Program	

Attachment A: What is (and what is not) G2G Assistance?

Attachment B: Implementation and Methods of Financing G2G Projects

Attachment C: G2G Glossary (under preparation)

# GOVERNMENT TO GOVERNMENT ASSISTANCE: A PRIMER ON CONTEXT, DEFINITIONS, AND IMPLEMENTING AND FUNDING MECHANISMS

## I. Background

In response to the findings and recommendations of major empirical works produced by the World Bank, the Organization for Economic Cooperation and Development (OECD), and the international development community, many of the world's donors have built aid effectiveness (AE) criteria into their country assistance programs. The evolution of international agreements and the implementation of the aid effectiveness agenda are documented in the Paris Declaration on Aid Effectiveness (2005), the Accra Agenda for Action (2008) and the Busan Partnership for Effective Development Cooperation (2011)<sup>1</sup>. The US Government and USAID proudly support the objectives of the aid effectiveness agenda.

As a part of USAID Forward and within the Agency's Implementation and Procurement Reform (IPR) agenda, USAID recognizes that working directly with reliable partner country governments is important to achieving development objectives. In 2011, USAID issued new project design guidance,<sup>2</sup> developed the public financial management risk assessment framework (PFMRAF) and issued new policy guidance, entitled Use of Reliable Partner Country Systems for Direct Management and Implementation of Assistance (ADS 220)<sup>3</sup>. In this way, USAID seeks to re-introduce bilateral, government-to-government (G2G) assistance into USAID's development "tool kit," with special emphasis on tools and implementation mechanisms that modernize USAID's approach to the delivery of effective assistance.

This Primer aims to inform USAID stakeholders on "how" USAID is moving to implement this objective of USAID's Implementation and Procurement Reform (IPR). It also means to serve as a quick "desk reference" which (1) summarizes USAID's approach to implementing aid effective processes and procedures and (2) links these to additional sources of information that can provide greater detail.

The approaches, tools and mechanisms discussed in this Primer are under review and detailed guidance on their use is in progress. Eventually modifications to USAID standard processes and procedures will be incorporated into the USAID Automated Directives System (ADS). This may result in revisions to various ADS chapters as well as modifications within the ADS 200 series. All of the tools outlined here are authorized and viable mechanisms for the delivery of effective development assistance today.

## II. Why Focus on Government-to-Government Assistance?

There are numerous reasons for increasing the amount of assistance flowing to and through partner country government institutions. The following scenarios and examples describe a few of these:

---

<sup>1</sup> [http://www.oecd.org/document/32/0,3746,en\\_2649\\_3236398\\_46582624\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/32/0,3746,en_2649_3236398_46582624_1_1_1_1,00.html)

<sup>2</sup> [http://pdf.usaid.gov/pdf\\_docs/PDACS686.pdf](http://pdf.usaid.gov/pdf_docs/PDACS686.pdf)

<sup>3</sup> <http://transition.usaid.gov/policy/ads/200/220.pdf>

A. When the partner government is a main actor in a given development sector, its role, responsibilities and capacities need to be taken into consideration and addressed. Working outside of government or failing to build capacity in areas where government leadership and management is strategically important can lead to project “failure.”

Example. In most developing countries, the delivery of public services like health and education is the responsibility of public institutions or public-private partnerships directed by Ministries of Health and Education. Clearly these are the institutions where USAID assistance needs to focus to improve capacity, improve service quality and increase the efficiency of service delivery.

B. Even when government is not the main economic actor in a particular development sector, the role of government can still be very important to achieving growth objectives. For example, government may set the policy environment, provide or maintain public services that impact on growth, or regulate activities in a target development sector. The capacity of government to play that role will affect the outcome of projects in the target sector. Working with the government to develop its capacity and its role is an important part of project design and implementation.

Example. Agriculture and public works are sectors where government policies, regulations, and practices, including complementary investments, impact growth and economic efficiency directly.

C. USAID provides a financial flow for projects implemented in each country where it operates. In some countries these flows are quite large, and in other countries they are large relative to the size of the country’s economy or the size of its public sector budget. Country institutions need to be engaged in the decisions related to such financial flows and USAID intends to respect the policies and regulatory procedures of country institutions responsible for monitoring the economy and managing the national budget. To this end, to the maximum extent, USAID funds disbursed to and through partner country institutions should be captured on-budget, and incorporated into the partner government’s own planning and financial management processes.

Example. The typical Ministry of Finance is responsible for a combination of treasury management and fiscal policy functions; public financial management; donor coordination; and coordination with the Central Bank’s implementation of monetary policies. All donors need to engage this Ministry and use the reliable PFM systems of the country, including those under the purview of the Central Bank, where possible.

D. Ensuring that reliable partner country government institutions take a responsible role in managing and directing development projects empowers them to perform better and can increase the capacity of those institutions. Over time, this is likely to strengthen and improve governance in general.

Example. Line Ministries in a partner country have the responsibility to implement – or manage the implementation of – the sector elements of the country’s economic development and poverty reduction strategy. Engaging and strengthening those aspects of public management that can help the country successfully reach its poverty reduction goals should be considered. This may include technical, financial, and administrative management, as well as monitoring and evaluation policies and practices.

E. The sustainability of USAID investments in policy development and public services is enhanced when capable Government entities charged with providing public sector services in a target sector are also directly responsible for managing assistance. Working with a partner country entity, combined with helping to build its capacity, can strengthen that institution and its staff into the future. Use of partner country systems to deliver assistance and manage projects reinforces and builds sustainable systems.

As part of USAID Forward, the Agency has committed to gradually increasing the amount of assistance it manages through government-to-government assistance, grants to local institutions, and work with the local private sector to 30% of the Agency budget by 2015.<sup>4</sup> This is a significant increase over current levels of assistance provided to partner country institutions, public and private.

### III. What Constitutes Government-to-Government Assistance?

The vehicle used by USAID to deliver development assistance is a Project.<sup>5</sup> USAID's 2011 revised Project Design Guidance (ADS 201) provides a clear definition of the project that places primary focus on the development purpose to be achieved. During the design of a project, a Mission will identify each of the activities or conditions that need to be completed for the project purpose to be achieved. It is during this first step in the design process that the roles of various entities will be examined and their role(s) in implementing the project will be defined.

Using the logical framework tool<sup>6</sup>, the Mission design team will identify a series of outputs and inputs that are required to attain the project purpose. The provision of inputs and the achievement of outputs may require different approaches and involve a variety of implementing institutions, depending on the nature of the project. In this way, projects may employ a number of implementing mechanisms to achieve the project purpose. For many projects, the involvement of a government entity will be important; in some cases, the achievement of the purpose will almost solely depend on government actions that impact beneficiaries. In all cases, the involvement and active participation of relevant partner country institutions in the design of USAID projects is important to transparency and building partnership.

When an approved project, or project activity is managed directly by a partner government entity using its own financial management and procurement systems, that project or activity is defined as a "G2G project or activity."<sup>7</sup> It is managed and implemented directly by the partner government and financed with a combination of partner country resources (including staff) and USAID appropriated funds. USAID funding provided to the partner country for direct implementation is captured by partner country budget execution processes, and its management is subject to the normal administrative and funds management, oversight, and procurement regulations of the partner country government. These processes are assessed and approved for use by USAID prior to initiating the project utilizing the Public Financial Management Risk Assessment Framework (PFMRAF).<sup>8</sup>

---

<sup>4</sup> "total agency budget" = all program funds minus the combined financial obligations made to projects and contracts funded and managed in USAID/W.

<sup>5</sup> Note: While separate guidance for "program assistance" is contained in a separate Mandatory reference to ADS 201, much of the 2011 project guidance applies to program assistance. The Mandatory Reference provides additional guidance on the unique disbursement process and assessments required for "program assistance."

<sup>6</sup> See ADS 200.3.5.4.

<sup>7</sup> See Attachment A for a fuller explanation

<sup>8</sup> See ADS 220. <http://transition.usaid.gov/policy/ads/200/220.pdf>

This is very different from setting up, or using the services of a “Project Implementation Unit” (PIU) within a partner government. Typically<sup>9</sup>, such units are subject to special policies and procedures and operate outside the normal partner country government processes and systems. They may be staffed directly by donor organizations. They may not be using the partner country’s own systems to manage project funding. USAID funds disbursed to and through such PIUs are not considered G2G assistance.

Direct G2G assistance differs substantially from the way USAID has been doing business in recent years when USAID “contracted out” projects for implementation by U.S.-based private contractors and grantees – oftentimes contracting out the design of these projects as part of the procurement process. Under G2G projects or project activities, there is no intermediate contractor, grantee, or other implementing partner acting between the partner government and USAID. There is no “Chief of Party” for the project or activity. USAID has a direct bilateral working relationship with the partner country institution and personnel implementing the project or activity. The USAID Project Manager works directly with one or more government counterpart(s), and has authorities for project management delegated to her/him by the Mission Director.

The G2G project or activity is not an “acquisition” or an “assistance activity.” It is not entered into or tracked through USAID’s Global Acquisition and Assistance System (GLAAS); funds are, however, managed through USAID’s financial management system, Phoenix. G2G assistance is obligated under the delegated authority of a USAID Mission Director; not by the Contracting or Assistance Official. Projects or project activities managed directly by USAID contractors operate outside of normal partner government systems and funds managed through such contract instruments are not considered G2G assistance.

G2G projects and activities are agreed to with the partner government and funds are obligated through a Bilateral Project Agreement (BPA) or as part of a Development Objective Assistance Agreement (DOAG) signed with the partner government. Foreign Assistance Act (FAA) requirements for adequate planning and documentation requirements apply prior to the obligation of funds.<sup>10</sup>

#### **IV. What USAID Implementing and Funding Mechanisms provide Direct Assistance to Partner Country Governments?**

USAID implements G2G projects and project activities through two general types of assistance arrangements: Project Assistance and Program Assistance (also referred to as “Non Project Assistance”). The distinction between project assistance and program assistance traces from the Foreign Assistance Act, Appropriations legislation, legal guidance and interpretation over time. Differences relate to both the purposes of each type of assistance and the methods of financing them. Project and program assistance require somewhat different approaches to analysis and have different pre-obligation planning requirements.<sup>11</sup>

---

<sup>9</sup> Note: Caution! When funds flow through a PIU that is fully integrated into an implementing organization, staffed and financed by partner government employees; uses partner government mechanisms (not various donor or special management procedures); and is under the direct and sole supervision of partner country officials, USAID financing would be considered G2G assistance.

<sup>10</sup> See Foreign Assistance Act, Section 611(a) <http://transition.usaid.gov/policy/ads/faa.pdf> and USAID’s ADS 201.3.11 Pre-Obligation Requirements <http://transition.usaid.gov/policy/ads/200/201.pdf>

<sup>11</sup> See USAID Policy Paper on Program Assistance. [http://transition.usaid.gov/policy/ads/200/prog\\_asst/proasst.pdf](http://transition.usaid.gov/policy/ads/200/prog_asst/proasst.pdf) and USAID ADS 201 <http://transition.usaid.gov/policy/ads/200/201.pdf>

Both projects that propose direct assistance to a partner country entity for its implementation and program assistance follow standing USAID procedures for risk assessment (ADS 220); project design and analysis (ADS 201); authorization (ADS 201); and obligation of funds (ADS 201).

In accordance with delegations of authority, projects and program assistance are approved based on the information, analyses and data provided in the Project Appraisal Document (PAD) and a Project/Program Authorization. The PAD will contain the detailed budgets for a Project that finances inputs or outputs, or a justification for the level of financing for Program Assistance. For both project assistance and program assistance, a full discussion of implementing arrangements and methods of financing is required. Additional and more detailed guidance is provided in ADS 201, ADS 220, and the ADS Mandatory Reference on Program Assistance.

A more detailed discussion of Projects and how they are financed follows in section IV.A, below. Section IV.B provides detailed information on Program Assistance.

A. Project Assistance. Under ***project assistance***, the purpose of USAID assistance is one which seeks to substantively and sustainably improve the lives of USAID's target population through improved services (e.g., health, education); increased incomes; food security; stronger democracies, better governance, etc. To achieve the purpose, USAID provides financing for specific project inputs. All inputs are identified during the design of the Project and budgeted in the PAD, and budget tables are included in the PAD and the obligating or sub-obligating documents to facilitate implementation and ensure transparency. These should be sufficiently detailed to meet US Government requirements for estimating the costs of the Project.

G2G projects or project activities may employ a variety of funding mechanisms to finance all of the activities and inputs. ***The choice of funding mechanism is determined by the purpose of the project*** and selection of the best alternative to reach that purpose.

1. Direct Cost Reimbursement. This is often referred to simply as “cost reimbursement.” The inputs and the estimated costs of inputs to be financed by USAID are identified and budgeted in the PAD. Inputs may include salaries, commodities, management expenditures, government contracts for services, technical expertise, training, government grants to local institutions, bloc grants to local governments, etc. Budgets must provide sufficient detail to justify the level of financing approved by the Mission.

To implement the project, the government implementing entity or entities will present to USAID a detailed budget for project expenditures for a specified period of time; normally for a one year period that may correspond to the Government's budget, or other such period that USAID and the Grantee agree. Once the budget is approved by USAID, the implementing entity will use its resources to finance the approved inputs, requesting reimbursements from USAID on a periodic basis. Requests for reimbursement are accompanied by financial reports certified correct by the entity reporting the amount of expenditure incurred. Source documentation supporting the financial report such as contracts, invoices and payment documentation are retained with the implementing entity and are subject to financial audit in accordance with USAID recipient audit procedures.

Cost reimbursement is the most common method for financing partner country projects and activities. Partner countries are generally familiar with cost reimbursement and expense reporting under donor projects. Furthermore, since USAID's reimbursements to partner country

grantees for incurred costs must be fully documented and are subject to inspection and audit, this method of financing carries manageable fiduciary risk.

Cost reimbursement is a very versatile method of financing, and can be used to finance a variety of government-to-government activities. For example, cost reimbursement methods can be used to finance partner country grants to local institutions; partner government costs of project implementation; government contracts for project-approved goods and services; and, to capitalize line(s) of credit for local financial institutions, generally in conjunction with the central bank of the partner country.

For projects that are jointly approved by USAID and the partner country government outside of the government's budget cycle, or when funding from the partner country is not available, advance funding from USAID may be needed. Funds can be advanced in conjunction with cost reimbursement projects on a revolving (advance-liquidation) basis. Preference should be placed, however, on working with the partner country to ensure that adequate funds are made available each year within the partner country government budget to implement the project on a reimbursement basis. Ensuring budgeted funds are available and that expenditures of these funds can be reimbursed quickly by USAID, reduces fiduciary risk and builds country support for the activity into the future.

2. Fixed Amount Reimbursement (FAR). Under fixed amount reimbursement, specific units of project output are reimbursed as they are completed. The agreed rate for reimbursement is fixed in advance based upon detailed and reasonable cost estimates prepared and submitted by the partner country government implementing entity. These estimates are reviewed and approved in advance by USAID.

FAR is appropriate for projects or project activities that involve the concrete completion of specific units of output that can be accurately measured. Reimbursement is made upon the concrete completion of an activity, a sub-activity, or a quantifiable unit or set of units within an activity. FAR is not appropriate for projects that do not produce concrete units of output that cannot be fully costed and physically verified as to quality and quantity; e.g., units of output that include policies revised, curricula adopted, basic administrative actions, etc., would not be appropriate. FAR is generally regarded as most appropriate for low-cost, short-term activities or sub-activities, or activities which can be divisible into segments small enough to complete quantified output units before receiving USAID disbursement. Such output units would generally be completed in nine (9) to twelve (12) months from the initiation of the work. The emphasis under a FAR is on reimbursement based on concrete outputs which are defined as self-sustaining units that will be useful and desirable in their own right, regardless if other sub-activities or output units are completed.

Before determining if a FAR is appropriate, a Mission should thoroughly understand how the partner country implementing entity will manage the project. Under a FAR, the implementing entity and country government assumes all financial risks. If the government's PFM system is not adaptable to a FAR method of financing, the partner government entity may be unwilling to accept the full level of financial risk. This is especially true in construction contracting unless there is some agreement to permit periodic adjustment of the unit costs.

The key to successful FAR implementation is to estimate costs accurately and to verify and document unit completion. Cost estimates must be based on market-tested, detailed, and accurately compiled cost information for the quality of output required. Estimates must be thoroughly defensible.

For design and implementation of construction activities, USAID will usually require the services of an independent architectural and engineering (A&E) firm to help prepare and/or review cost estimates and quality standards for each FAR project or activity, and to verify that quality standards are met. For all types of outputs, including non-capital outputs (e.g., textbooks produced, audits delivered, etc.), USAID must make a determination that an activity or output unit(s) has been completed to specification prior to reimbursement. It is typical under a FAR for some outputs to fail this determination. In such cases, reimbursement has to be refused. The partner country must be fully apprised of this risk prior to deciding to use a FAR system.

Under a FAR, the partner country implementing entity may request reimbursement periodically throughout the life of the activity or the project, as specific units are completed or project milestones (i.e., groups of specific units) are reached. Each request will be accompanied by certification that the quantity of output has been completed to the quality standards specified in the PAD and agreement document, or other documentation as applicable. For construction, the independently contracted A&E firm normally reviews the validity of certifications.

As in the case of the cost reimbursement method of financing, it is preferred that partner governments budget for FAR costs to ensure that funds are available for timely project implementation. Funds would be reimbursed periodically throughout the project as units of output are completed, certified and billed to USAID. However, USAID may agree to provide advances under FAR obligations where necessary, liquidating advances based on successful completion of outputs.<sup>12</sup>

**B. Program Assistance.** Under **program assistance** (or “non-project assistance”) contributions by USAID help to alleviate constraints to development that are policy or resource based. There are two types of program assistance in use by USAID: “Sector Program Assistance” (SPA) and “General Budget (or Balance of Payments) Support.” The distinguishing feature of program assistance is the manner in which USAID resources are provided. Under program assistance, USAID provides a generalized resource transfer, usually in the form of foreign exchange (hard currency, e.g., US Dollars), or sometimes in the form of commodities to the partner country. Individual transfers of funds are dependent on the completion of performance actions by the partner government and funds are only disbursed after program actions have been completed.

1. **Sector Program Assistance (SPA)** promotes medium-to long-term increases in production or efficiency in a specific economic sector or sub-sector. The sector may be a traditional development sector (e.g., health sector in Honduras or agriculture in Bangladesh), a more specific subsector (e.g., agriculture in northern Colombia; girls education in Malawi), or a “constructed” sector (e.g., private sector in Pakistan).

The provision of SPA resources is directly linked to specific policies, institutional reforms, or other partner country actions necessary to achieve agreed development objectives in the identified sector or subsector and is often supported by a country-owned sector strategy and planning document. That partner country strategy or planning document should normally demonstrate:

- (a) a suitable level of strategic planning;
- (b) a description of results to be achieved under the plan;

---

<sup>12</sup> For a fuller explanation of current statutory requirements for FAR, please see ADS 317.4.2(d) and Mandatory Reference 3176

- (c) a statement of how the results will be achieved; and,
- (d) an acceptable level of international donor buy-in, if additional donor funds are necessary.

To achieve the sector development purposes approved in the partner country sector plan or strategy, and to closely align USAID resources with aid effectiveness criteria, targets, and other donors, the SPA is often the preferred mechanism. A SPA can be funded with any category of appropriated funding in any definable, approved USAID sector.

Under SPA, USAID finances performance actions, which accomplish all or part of the program's purpose when completed. These actions are included in the bilateral program agreement<sup>13</sup> (BPA) as conditions precedent ("CPs") to the disbursement of USAID funds. In this way, the partner country is achieving all or part of the larger project purpose prior to receiving each increment of funding.

One of the keys to a successful SPA is the development of performance actions that are comprehensive, meaningful and achievable. Actions should be both ambitious and reasonable within the chosen time frame. Since these actions form the basis for USAID's decision to disburse funds – or to withhold disbursements – a USAID Mission must carefully consider its approach to establishing them and to verifying their achievement. Therefore, the development of performance actions should:

- Be based on partner country plans and strategies;
- Be negotiated with the partner country well in advance of Agreement signing; and,
- Include a joint agreement on how the performance actions will roll out over the time period and how achievement will be measured.

Prior to each disbursement of funds, the USAID Mission will prepare documentation which explains how each performance action was met (or not) and how the Mission made its decision to disburse (or withhold disbursement). Missions may use different approaches to this analysis and different approaches may be appropriate for different sectors and different programs. In the end, the decision to disburse is based on the Mission's best judgment, as documented, that the SPA is on track, that the right performance actions were achieved, and that the country has made appropriate decisions and changes where specific targets may not have been met to the letter of each CP.

Once actions or conditions are met, USAID disburses US dollars to the partner country. Disbursement of appropriated funds to the partner country government is generally made into a country-owned bank account held in an acceptable correspondent bank in the U.S.<sup>14</sup> As with all USAID programs that contemplate direct dollar disbursements via cash transfer, a separate Congressional Notification (CN) is required. SPA disbursements may be exempt from the separate dollar account requirement if an exemption is notified. Advances of appropriated funds are not authorized under a SPA.

If the US dollar disbursements under the program assistance agreement do not generate local currency (e.g., through the sale of foreign exchange or purchase of commodities), a separate

---

<sup>13</sup> A separate BPA is required to obligate program assistance funds.

<sup>14</sup> Note: This separate account requirement may be waived pursuant to Sec. 7027(d) of the Appropriations legislation. The US Federal Reserve Bank is preferred by USAID and the US Treasury.

deposit of Host Country Owned Local Currency (HCOLC) is not legally required. However, sometimes USAID and technical Ministries find it advantageous to require a separate, transparent deposit of HCOLC and may so determine and agree in the BPA. Such a deposit increases the accountability and auditability of the HCOLC and, for the implementing government entity, it provides a degree of assurance that funds will flow to it. If a deposit is made, then the HCOLC will be deposited into a separate local currency bank account. The use of the HCOLC will be jointly programmed in accordance with USAID policy and local currency programming guidance.<sup>15</sup>

A SPA is subject to the design parameters of the project design guidance in ADS 201<sup>16</sup> and a PAD covering the SPA must be authorized. However, those sections of the design guidance covering detailed, line item budgeting would not be appropriate given the nature of SPA financing. Also, the SPA PAD must meet the analytical requirements established in USAID's Program Assistance<sup>17</sup> guidance.

Monitoring and evaluation of a SPA is an important feature designed to contribute to public accountability. In the spirit of improving aid effectiveness, USAID and the partner country jointly monitor the progress of the development plan for which USAID resources are being provided. They are jointly responsible for programming and ensuring that all appropriate audits take place. They are mutually accountable for achieving development results. In recognition of aid effectiveness principles, preference is for evaluations to be jointly conducted, reviewed and accepted by the partner country and USAID.

The SPA mechanism most closely implements aid effectiveness criteria, closely aligning itself with the roles and responsibilities of donors and partner countries outlined in the Paris Declaration and subsequent aid effectiveness agreements.<sup>18</sup>

2. General Budget or Balance of Payments support may be provided where exceptional political or economic circumstances are present. This type of program assistance is used today in a limited number of countries to promote economic and political stability. This support is usually provided from Economic Support Fund (ESF) appropriations, and involves specific Congressional approval, either through special appropriation or through the Congressional Notification process.

This assistance typically addresses a short term resource constraint while assisting the partner government to take actions that alleviate constraints to future growth and/or establish a stable political environment. These actions are included in a bilateral program agreement that obligates funds as conditions precedent (CPs) to disbursement. Dollar resources are provided via cash transfer after the CPs are met. While the dollar resources are provided on a "generalized basis," their uses must be identified in the Agreement and they are tracked and auditable to their end use.<sup>19</sup>

---

<sup>15</sup> 87/91 cables: USAID. 2012. Legal Requirements for G2G Assistance: A Mandatory Reference for ADS 220. <http://transition.usaid.gov/policy/ads/200/220mac.pdf>

<sup>16</sup> USAID. 2011. Project Design Guidance. [http://pdf.usaid.gov/pdf\\_docs/PDACS686.pdf](http://pdf.usaid.gov/pdf_docs/PDACS686.pdf).

<sup>17</sup> USAID. 1996. USAID Policy Paper – Program Assistance. [http://transition.usaid.gov/policy/ads/200/prog\\_asst/proasst.pdf](http://transition.usaid.gov/policy/ads/200/prog_asst/proasst.pdf)

<sup>18</sup> OECD-DAC. n.d. Indicators of Progress. <http://www.oecd.org/dataoecd/57/60/36080258.pdf>

<sup>19</sup> Missions planning ESF-financed Balance of Payments/Budget Support Programs should work closely with their USAID Regional Bureau to determine the type(s) of programs that may be allowed and the design and analytical requirements that may be required. The applicable sections of the ADS 200 Mandatory Reference on Program Assistance provide detailed

The Commodity Import Program (CIP) is a form of program assistance that provides balance of payments or budget support. It is rarely used today. It does, however, continue to be a valid program assistance modality which may be an important method to consider for resource transfers to stimulate the private sector in countries where the economy is extremely unstable and basic economic institutions, especially foreign exchange management, are functioning very poorly.

Under this form of assistance, USAID enters into an bilateral program agreement with the partner country which allows for the private sector purchase of international commodities and equipment. The private importers purchase the equipment via the CIP in local currency (HCOLC), which is subsequently used to support the budget of the partner country. USAID arranges for the direct payment of the equipment and its importation. Under a CIP, both the dollar resources and the HCOLC are auditable to their end use.

## WHAT IS (AND WHAT IS NOT) G2G ASSISTANCE?

**Forward Note:** *Because there are several interpretations as to what “use of country systems” means, the G2G working group put together this short attachment in an attempt to add clarity to a definition of what is, and what is not, G2G assistance. It is based on the various definitions found in the ADS and other IPR documents. It discusses various assistance scenarios from the perspective of country systems and how they work. In the end, the systems in use in a particular partner country and reviewed via the PFMRAF assessment process will define what approaches are considered G2G in each partner country.*

\* \* \*

When an approved project, or project activity is managed directly by a partner government entity using its own public financial management and procurement systems, that project or activity is defined as a “government-to-government (G2G) project or activity.”<sup>1</sup> A public financial management (PFM) system consists of a full set of processes that relate to the management of public funds from appropriations to audit. The first stage of USAID’s Public Financial Management Risk Assessment Framework (PFMRAF), the “Appraisal” stage, will cover most aspects of the partner country’s PFM system. The second PFMRAF stage, or the “Assessment” of a proposed implementing partner institution, will examine the specific elements of the PFM and procurement systems to which U.S. funds are to be exposed.

For the purpose of defining G2G assistance, however, there are two core systems to consider: the financial management (budgeting, accounting and payment) system and the procurement system. Use of partner country systems to perform these core functions (financial management and procurement) by partner country implementers is a minimalist definition of G2G assistance, but includes the fundamentals that meet aid effectiveness criteria.

The distinguishing characteristic of a G2G project or project activity is that it is managed and implemented directly by a partner government entity (or entities) and financed with a combination of partner country resources (which may include staff and/or financial resources) and USAID appropriated funds. The list below describes other characteristics to which USAID G2G assistance activities will conform:

1. When USAID provides funding to the partner country for direct implementation, this funding is captured by partner country budget execution processes, and its management is subject to the normal administrative and funds management, oversight, and procurement regulations of the partner country government. Missions are encouraged to ensure that USAID funds disbursed through reliable partner country systems are registered on the budget of the partner country. Funds are captured in national accounts reporting by virtue of their becoming “public funds.” Further, USAID disburses these funds, as approved, into reliable country systems of partner country institutions.

<sup>1</sup> ADS 220.1 definition: “Partner country systems are national arrangements covering public financial management, procurement, audit, and the internal monitoring and evaluation functions of partner country governments. They can include external monitoring, and in some cases, supporting project implementation, by civil society and private sector entities. Partner country systems include public financial management (PFMP systems at both the government-wide and ministerial/sector level. In addition to systems established at a sub-national level, such as regional or local Public Financial Management, procurement, design and implementation, and related systems.”

2. G2G assistance is, by definition, managed directly by a partner country entity with country personnel, through the administrative and management systems of the partner entity. Special project management units operating outside of standard government procedures are not considered G2G management. For example, funds managed through a special project implementation unit (PIU) or project management unit (PMU) would not be considered G2G funds for Agency purposes. The reason for this is that such units typically operate with special policies and procedures that have agreed by, or introduced by donors. These procedures are often outside the normal partner country processes and systems (including procurement, budgeting, accounting, control, personnel and HR policies and audit).

Sometimes, a Mission may encounter an implementing entity that was originally established as a PIU or PMU, most likely by a donor, but has evolved into a full implementing entity of the partner government. If such a unit is staffed by government hired personnel, uses government financial management and procurement systems, manages activities on-budget, and utilizes general administrative processes that are used government-wide, USAID funds managed by that entity will be considered G2G assistance by USAID.

3. While USAID seeks to work through partner country audit systems and monitoring and evaluation systems, these are two areas where, by policy, USAID will typically retain its own authority and capability to work with partner countries on a non-G2G basis. USAID prefers to utilize the services of reliable Supreme Audit Institutions (SAIs) for auditing G2G projects. However, SAIs that will undertake audits and prepare audit plans for USAID G2G projects need to be approved by USAID's Inspector General for Audit (IG/A). Many SAIs have been approved. However, if the SAI of a partner country is not (yet) approved by the IG/A, a USAID project or activity would still be considered G2G if it employs core partner country systems (i.e., financial management and procurement) for implementation. Project funds set aside for non-SAI audits, however, would not be calculated as part of the G2G financing.
4. Direct G2G assistance differs substantially from the way USAID has been doing business in recent years when USAID "contracted out" projects for implementation by private contractors and grantees – oftentimes contracting out the design of these projects as part of the procurement process. Under G2G projects or project activities, there is no intermediate contractor, grantee, or other "implementing partner" acting between the Partner Government and USAID. There is no "Chief of Party" for the project or activity.

When USAID uses project assistance to contract directly for expert, technical assistance (TA) under a project to build capacity of the implementing institution (e.g., to train country counterparts, introduce new technologies, prepare policy alternatives, or improve management, etc.), the cost of such TA would not be included in the calculation of G2G assistance. Activities and costs managed by the partner government directly utilizing its financial management and procurement systems under the same project, however, would not lose their G2G character by the simple presence of TA personnel whose roles complement the G2G activities of the Project. Alternatively, the partner

government entity may wish to procure and contract expert TA directly on its own behalf. If so, USAID funds that finance such TA would be calculated as G2G assistance.

Introducing a USAID-contracted and financed general implementation “support contractor” to assist the partner country to implement a G2G project or activity is discouraged. If there is a compelling justification and if the country implementing entity specifically requests such support, this should be documented in the PAD. USAID’s direct financing for such a support contract would not be considered G2G assistance, and any project support costs financed through that contract would not be considered G2G assistance.

5. Under G2G assistance, USAID has a direct bilateral working relationship with the partner country institution and personnel implementing the project or activity. The USAID Project Manager works directly with one or more government counterpart(s), and has authorities for project management delegated to her/him by the Mission Director.
6. The G2G project or activity is not an “acquisition” or an “assistance activity” per ADS 300 definitions. It is not entered into or tracked through USAID’s Global Acquisition and Assistance System (GLAAS); funds are, however, managed through USAID’s financial management system, Phoenix. G2G assistance is obligated under the delegated authority of a USAID Mission Director; not by the Contracting or Assistance Official. Projects or project activities managed directly by USAID contractors operate outside of normal partner government systems and funds managed through such contract instruments are not considered G2G assistance.
7. G2G projects and activities are agreed to with the partner government and funds are obligated through a Bilateral Project Agreement (BPA) or as part of a Development Objective Assistance Agreement (DOAG) signed with the partner government. Foreign Assistance Act (FAA) requirements for adequate planning and documentation requirements apply prior to the obligation of funds.<sup>2</sup>
8. Project activities that utilize Host Country Contracting (HCC) provisions of USAID’s ADS (ADS 305) are not considered G2G activities because the process and procedures used for procurement and contracting are dictated by USAID. Under HCCs USAID generally pays vendors directly; therefore, funds are not necessarily captured or managed by partner country systems.
9. If partner country systems are used to procure and contract goods or services for a USAID bilateral project, but USAID pays contractors directly on behalf of the partner country government, these payments transactions are not considered G2G assistance. In such cases, Missions may wish to consider project design alternatives that could assist partner countries overcome vendor concerns.
10. If the partner country manages a grants program under a Project, but requests that USAID pay the grantees directly, this is not considered G2G assistance. In such cases,

---

<sup>2</sup> See Foreign Assistance Act, Section 611(a) <http://transition.usaid.gov/policy/ads/faa.pdf> and USAID’s ADS 201.3.11 Pre-Obligation Requirements <http://transition.usaid.gov/policy/ads/200/201.pdf>

---

Missions may wish to consider project design alternatives that could assist partner countries overcome grantee concerns.

11. If a partner country has formally adopted procurement and payment processes and procedures that conform to those of another donor (e.g., the World Bank), and has published and promulgated these rules and regulations as its own official procedures, then project assistance managed and expended utilizing these procedures is G2G assistance.
12. When USAID disburses appropriated funds via cash transfer to a partner country bank account for its management, this is considered G2G assistance. However, if the partner country requests that USAID manage dollar cash transfer funding directly (i.e., USAID makes the debt payments directly or issues the letter of commitment for commodity imports on behalf of the partner country), the assistance is not considered G2G.

**USAID G2G IMPLEMENTING ARRANGEMENTS AND METHODS OF FINANCING (ADS 200-203)**  
**(August 2012)**

<b>PROJECT ASSISTANCE</b>	<b>MOF<sup>1</sup></b>	<b>Best Utilized When.....</b>	<b>Benefits</b>
Country Awarded Contracts- USAID funds are used to finance procurement transactions entered into through reliable procurement actions of the partner government	Cost Reimbursement	<p>Country/Local government entity has adequate technical, financial management and procurement procedures and capacity to manage procurements financed with USAID funds (PFMRAF).</p> <p>Commodities and services identified in the Project design are available for local procurement</p> <p>Country government is proficient in international procurement and the international vendor and the country government entity agree on contract terms, have experience working with each other, and recognize that USAID is NOT a party to their contract or agreement.</p> <p>USAID policy concerns are acceptable to country partner and applied to use of USAID funds.</p>	<p>Use of country systems will strengthen these systems</p> <p>Government is treated as a real partner</p> <p>Government entities will gain contracting expertise among non-procurement personnel through service on selection and procurement committees</p> <p>Contract funding and payments will be registered on-budget</p> <p>Builds partner government relationship with private sector; raises importance of partner government among international suppliers.</p>
Country Awarded Grants- USAID funds are used to finance grants made by the partner	Cost Reimbursement	Country/Local government entity has adequate technical, financial management and procurement procedures and capacity to	Raises the credibility of partner government among NGO community; increases their mutual reliance.

<sup>1</sup> Method of Financing

government to NGOs		<p>manage USAID funds (PFMRAF).</p> <p>Government entity has a development strategy that involves use of grants – e.g., to provide community services through local NGOs; to expand service delivery to areas where government does not reach; etc., to finance government-sponsored research in accordance with approved Project; etc.</p> <p>Local grantee and government entity agree on terms and conditions, have experience working with each other; and recognize that USAID is NOT a party to their agreement</p> <p>Partner government and grantee agree to standard provisions and policies applicable to USAID funding.</p>	<p>Builds capacity and ownership among local NGO community; builds relationships between government and NGOs.</p> <p>Use of grants to provide services in remote areas (e.g.) can expand the government’s credibility among underserved, marginal populations</p> <p>Country-awarded grants to qualified country research institutes can contribute to building evaluation capacity</p>
Partner Government Expenses - Operating Expenses	Cost Reimbursement	<p>Country/Local government entity has adequate technical, financial management and procurement procedures and capacity to manage funds.</p> <p>Project design has indicated a need for, and has budgeted for funding to support administrative costs related to the Project-staff, office space, support equipment, commodities, and general administrative actions for Project implementation..</p> <p>USAID wishes to build reliable and capable country systems and implementing entities for activities that USAID expects partner country to carry out into the future.</p>	<p>Contributions to on-budget activities ensure that USAID funds are captured and managed through reliable country systems as opposed to off-budget management</p> <p>USAID contributions to increased operating expenses (esp. personnel) can serve as a way to build financial sustainability of project results as these funds will be managed through transparent budget line items</p> <p>As the most common MPF, partner government has experience with cost reimbursement.</p>

			Can be critical to achieving broader program objectives.
Fixed Amount Reimbursement	Fixed Amount per unit delivered (Estimated and Negotiated)	<p>Accurate and defensible cost estimates for a unit of output (with specifications) can be prepared and a fixed price for reimbursement per unit of output is agreed.</p> <p>Units of output are self-sustaining units that are useful and desirable in their own right.</p> <p>Units of output are verifiable in both quantity and quality.</p> <p>Cost components that require imported commodities are limited in scope and value.</p> <p>Country possesses sufficient technical, financial management, procurement, monitoring and verification capacity to implement a FAR.</p> <p>The partner country's procurement system can accommodate a FAR.</p> <p>Project outputs can be approved and delivered over short periods of time (9-12 months) per approved FAR agreement.</p> <p>The partner country implementer understands and assumes all financial risk for all cost overruns and unfinished outputs.</p>	<p>Transfers fiduciary risk from USAID to the recipient (or partner government) entity. Viewed as a benefit for USAID; may not be a benefit for the partner country.</p> <p>Results in less paperwork for USAID to effect a reimbursement.</p> <p>Builds local capacity in country government and in private sector to design, manage, and fund local infrastructure.</p> <p>Provides strong incentive to complete project units and achieve agreed outcomes.</p>

		Used for local infrastructure development, but can be adapted to other non-construction activities provided unit cost estimates for inputs are defensible and outputs can be verified conclusively.	
ICI Credit	Line of Credit/Cost Reimbursement	<p>Mobilizing the private sector in resource-restricted environments is a priority -- especially where there is little finance available for private sector activities/investment</p> <p>There is a need to target a general type of borrower; type of loan, an economic sector, etc. where private sector investment is key to growth and development;</p> <p>The banking system is generally sound and there are a sufficient number of banks that meet CB requirements</p> <p>Guaranty financing through DCA may not be sufficient to attract banks to take do new lending, reach new customers, etc.</p>	<p>With clear definition and guidance, can reduce active involvement of USAID staff in day-to-day mgt. while maintaining a high degree of oversight/accountability over USAID funds</p> <p>Makes private banks a partner in development; perhaps coaxing them to try new financing mechanisms with little up-front risks.</p>
<b>PROGRAM ASSISTANCE</b>	<b>MOF</b>	<b>Best Utilized When .....</b>	<b>Benefits</b>
Sector Program Assistance (SPA)	Cash Transfer	<p>Partner country and Mission wish to be fully compliant with Aid Effectiveness criteria and intent;</p> <p>Country-owned sector planning and strategy is in place;</p>	<p>USAID gains influence of a larger pool of resources than simply USG assistance</p> <p>Reinforces partner country ownership</p>

		<p>Country PFM systems are reliable and in countries that routinely manage donor resources on budget</p> <p>Adequate technical and administrative systems and personnel are in place</p> <p>Country/sector level budget execution is good (i.e., a high percent of budgeted funds are expended as approved);</p> <p>Country experience with SAI for audit is positive and audits meet international standards.</p> <p>Sector M&amp;E systems are adequate, or can be improved with limited assistance, to register the anticipated results of a SPA.</p>	<p>Utilizes and strengthens partner government systems and capacity</p> <p>Reduces transactions costs for the partner country implementing entity</p> <p>Increases transparency over donor and country financing</p>
	with HCOLC	There is concern that funds disbursed to general revenue account may not reach sector budget, HCOLC can be jointly programmed	Increases transparency to implementing entity's budget
	without HCOLC	Government has history of working well to ensure that donor resources do result in agreed levels of sector financing	Reinforces reliance on country systems; strengthens partnership
Balance of Payments Support	Cash Transfer	<p>Economic/political stabilization is an immediate concern.</p> <p>Resource gaps are large – example: post-conflict or post-disaster.</p> <p>Use(s) of dollars disbursed can be tracked</p>	May alleviate constraints to development that are policy or resource based.

		(auditable) to their end use.	
	Commodity Import Program (CIP)	The market-based FX system is not functional; or where FX prices are administratively determined.	Ties resource transfer-type assistance to specific commodities and end user; can provide greater assurance to donor that funds achieve positive impact.
General Budget Support	Cash Transfer	A cash transfer of dollar resources generates HCOLC that is jointly programmed to support the sector (SBS) or general budget (GBS).  Partner government allows auditing of the budget line items by SAI or SAI-contracted auditors.	HCOLC for SS/GBS can be programmed to achieve greater transparency/accountability and some development benefit
	CIP	Where HCOLC generated from the sale of CIP commodities is used for GBS (or SBS)	Ties USG resources to specific imports that are managed by USAID, tracked to end user.