USAID Implementing Mechanisms

An Additional Help for ADS Chapters 200-203

New Reference: 09/01/2008
Responsible Office: M/MPBP/POL
File Name: 200sbo_090108

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HOST COUNTRY MANAGED MECHANISMS = Channeled through obligating Assistance Objective Agreements. The host country government, rather than USAID or a third party, manages these programs.[1, 2]

Type	Best Utilized When…	Pros	Cons
Host Country Contracts: Finance procurement transactions entered into by host government. Can be mixed with direct mechanisms, for example, for TA.	-- Country has technical, procurement, and financial management capacity and is willing to follow USAID rules --Infrastructure with local contractors is the focus -- Independent Audit Agency is available to oversee implementation -- Contractors are willing to accept HCC	-- Successfully used for years -- Builds local capacity and ownership -- Can tie to policy conditionality -- Consistent with Paris Declaration commitments -- Relies heavily on PDOs/engineers and RLAs rather than scarce contracting officers	-- Potential accountability questions -- Learning curve may be staff and time intensive -- Sensitive to auditors -- USAID procurement rules often conflict with host country procurement practices, engendering confusion or resistance -- May result in delay in payment or refusal to pay contractors
Host Country Grants: Finance assistance instruments entered into by host government. Promising mechanism, but not fully developed.	-- Country has technical and financial management capacity and ability to oversee grants and is willing to follow USAID rules -- Grantees are willing to accept HC grant – often local NGOs	-- Builds local capacity and ownership -- Leverages host country resources -- Can tie to policy conditionality -- Builds host government relationship with NGOs	-- Moderate USAID control -- Potential accountability questions -- Learning curve may be staff and time intensive
Fixed Amount Reimbursement (FAR): USAID agrees to pay a predetermined fixed price for each certified output completed.	-- There is a small component of imported commodities -- Local infrastructure development with large number of separate but similar construction activities is the focus -- Country can front expenditures -- Country possesses sufficient capacity (technical, financial, etc.) to implement -- Established targets are established that are easy to estimate and to verify	-- Builds local capacity -- Strong incentive to complete performance -- Oversight is based on performance rather than on detailed use of funds -- Consistent with Paris Declaration commitments -- Most USAID procurement requirements are waived	-- Moderate USAID control -- Potential accountability questions -- May be staff intensive -- Partial performance cannot be financed, leading to arguments with host government -- HC may need to advance money
Performance Disbursement (Expanded FAR): USAID agrees to finance all or percentage of cost when agreed-to performance targets are met. Targets may be a mix of institutional, physical, and programmatic.	-- Targets are established that are relatively easy to estimate and verify -- Host country can advance expenditures -- Country possesses sufficient capacity (technical, financial, etc.) to implement	-- Strong incentive for host country to achieve results -- Builds local capacity -- Leverages host country resources -- Consistent with Paris Declaration commitments --Most USAID procurement requirements are waived	-- Moderate USAID control -- Requires a relatively effective monitoring system -- Potential accountability questions -- May be staff intensive -- Can be difficult to estimate targets

[1] **Assistance Agreements** are made with host country governments on AOs to obligate funds with the host government for that purpose. They are best utilized when: (a) there is a country-level bilateral technical and related assistance agreement; (b) parties' roles are clearly defined; (c) USAID wants flexibility and shared control with host government; (d) USAID has in-country technical project development specialists.

[2] Assistance can be provided as a grant or loan; in either case, the Assistance Agreement would provide conditions for this arrangement.

Type	Best Utilized When…	Pros	Cons
Implementation Letter (IL) Financing: USAID provides funds to host government for its own costs.	--Host government has capacity to manage activity and takes transparency and anti-corruption seriously	-- Can be critical in achieving broader program objectives. -- Consistent with Paris Declaration commitments -- Encourages dialogue with host government on development concerns -- Demonstrates strong commitment to timely counterpart contributions and implementation	-- Heavy reliance on host government capacity -- Diverse methods of IL financing have been developed by individual Missions, with no consistency among methods
General Budget and Balance of Payments Support: Generalized resource transfers to support balance of payments or budget gap. May include policy benchmarks.	-- Support to strategic allies or strengthening of fragile states is principal objective -- Substantial funding is available	-- Fosters policy reforms aimed at stability -- Builds host government capacity for basic budget/financial management systems -- May generate local currency -- Reduces accountability requirements in strategic states -- Consistent with Paris Declaration commitments	-- Little USAID control other than disbursement decision -- Potential accountability issues -- Skepticism among some USG stakeholders -- Purpose inconsistent with DA funds -- Political pressure to disburse funding may trump policy leverage -- Cash is nontraceable
Multi-Donor Pooled Funding - Host Country Segregated Accounts: For USAID, this is a project-financing mechanism whereby funds from multiple donors are commingled in a segregated account by a host government and used to finance specific goods and services in an agreed-upon program.	--Coordinated donor response is desired in a country that possesses strong independent audit institutions and the ability to manage large amounts of funding in a transparent manner	-- Consistent with Paris Declaration commitments, although has less capacity-developing effect than funds into general budget -- Allows USAID to influence sector-wide policies and programs -- Leverages other donor resources -- Can develop host government capacity -- Allows more control and reduces risk	--Vulnerable to corruption in states with weak governance (but lower risk than GBS or SPA) -- USAID has little experience with this mechanism, and confusion exists on what is meant by “basket financing” -- Aid goes to/through host government, but into separate account -- Significant funds may be disbursed before performance in some cases -- Can subvert capacity development CD by drawing HC personnel off to tend separate account -- Complicated and time consuming
Sector Program Assistance: Generalized resource transfers where sector development purpose is accomplished by disbursement benchmark reforms.	-- Transformational development states, where favorable policies or climate for policy reform exist, are the recipients -- Key development constraints are best accomplished by policy or administrative reforms -- Local organizations capable of accomplishing benchmark reforms and maintaining accountability are required	-- Allows USAID to influence sector-wide policies and programs --Reform actions occur before, not after, USAID disbursement -- Can generate local currency -- Shifts USAID to more strategic, less operational role -- Consistent with Paris Declaration commitments -- Promotes host country, especially government, ownership and leadership for the program	-- Little USAID control -- Potential accountability issues -- Skepticism among some stakeholders --Labor-intensive as project assistance, but requires different USAID staff skills -- Difficult to determine whether the value of reform equals or exceeds amount of disbursement -- Ensuring reforming organizations receive full benefit of finance can be difficult -- Legislative prohibitions on some sources of funding being used for SPA (i.e., CSH)

Type	Best Utilized When…	Pros	Cons
Commodity Import Program (CIP): Program assistance mechanism to finance goods on a generalized basis (unnecessary to show development impact of end use).	-- Countries do not have foreign exchange to pay for necessary investment imports -- Local capacity to procure offshore exists -- Exchange rate is not controlled	-- Popular with many stakeholders -- May generate local currency -- Promotes mutually beneficial trade, investment, and financing links -- Improves host country public procurement and/or business practices -- Builds support for the US foreign aid program -- Offers transparency that resources are being spent on something tangible (unlike budget support), which Congress prefers -- May help improve productivity of private sector	-- Distorts FX allocation system and may distort exchange rate -- Requires significant funding commitment -- USAID commodity import specialists have all retired
PL480, Title III: Government-to-government grant food assistance. US-donated agricultural commodities provided on the basis of policy change, which are sold by the host government to generate resources for economic development activities.	-- Local institutions have programs/operations consistent with USAID objectives -- Benefiting institutions are capable of administering generated funds -- Establishes a long-term U.S. legacy	-- Useful tool for promoting change while making resources available to create a safety net during reform process	-- Interagency agreement to not use P.L. 480, Title III on a regular basis. -- Using P.L.480, Title III transfer authority (see note at right) could result in a trade-off with other uses of this resource
Funding of Management Unit Within Host Government: A USAID funded employee is placed within the host government's management unit to assist in the development of the unit and mentor host country administrators.	-- Government lacks capacity to implement program(s)	-- Reduces burden on USAID -- Helps to ensure accountability	-- Contrary to Paris Declaration commitments unless regulated by host country -- May fail to build host government capacity
Capitalization of Intermediate Credit Institutions: USAID provides a line of credit, such as in micro-finance projects.	-- Local financial institution has programs/operations consistent with USAID objectives -- Local financial institution has the capacity to administer credit program	-- Builds sustainable local capacity -- USAID can mobilize and leverage local funding -- Attractive mechanism for large scale outreach	-- Must rely on accountability systems of local institution(s) -- Local institutions may become dependent on donor financing
Local Currency Program Trust Funds: Host country-owned local currency generated by program assistance or debt relief used for program purposes by USAID.	-- Program assistance is in place and already generating local currency	-- Greater flexibility in programming than is available with appropriated funds	-- Host government may object to giving control to USAID
Local Currency Special Account: Host country-owned local currency generated by program assistance or debt relief jointly programmed with USAID	-- Program assistance is in place and already generating local currency	-- Greater flexibility in programming than is available with appropriated funds	-- May create off-budget funding which may distort host country allocations of budget and lead to sustainability problems

USAID MANAGED MECHANISMS = These mechanisms can be used as an option under an Assistance Agreement or directly funded by USAID without a bilateral agreement (including situations where legislation precludes USAID working directly with host country government).

Type	Best Utilized When…	Pros	Cons
Contract: Agreement with contractor to provide goods and services. Includes: IQC, Grants Management Contract, Purchase Order, Performance Based Contract, Personal Services, Delivery Order, and Task Order.	-- Quality control imperative, as in A&E contracts, is in place-- Contractors (small or TA) need the reliability of USAID as contracting entity -- Host country government is uncomfortable with/unwilling to pay high US salaries	-- Contractors responsive to USAID desires -- Wide range of potential awardees -- High accountability -- High USAID design input --Generally strong technical skills	-- Usually entails minimal host-country ownership -- Mixed capacity building -- Time consuming -- Minimal NGO innovation -- Requires large USAID contracting staff -- May entail higher overheads which would equal higher costs
Cooperative Agreements: Purpose is to support the recipient's own program and substantial USAID involvement is needed.	-- Nature of the program requires substantial USAID involvement	-- Wide range of competition -- USAID involvement may improve results and increase transfer of knowledge to NGO -- Leverages recipient funding -- Supports NGO innovation	-- Less accountability than contract -- More time-consuming to implement than basic grant -- Greater administrative burden than basic grant -- May exacerbate tendency to unauthorized involvement in program management or the perception of unauthorized involvement
Grant: Purpose is to support the grantee's own program and substantial USAID involvement is not needed. Includes: Grant Funding of Unsolicited Proposals, Leader with Associates, Grant Funding of Proposal Solicited through Annual Program Statement, Matching Grants, Limited Scope Grant Agreements, Collaboration Agreements.	-- USAID does not need or desire oversight or management -- Particularly useful when USAID lacks field presence	-- Wide range of competition -- Limited USAID involvement in implementation -- Supports NGO innovation -- Leverages grantee funding	-- Limited reporting to USAID -- Less accountability than contract or CA
Endowments: Dollar and/or local currency funds used to generate an income stream to support institution's operations/ program.	-- Local institutions have programs consistent with USAID objectives -- Reinforces post-USAID legacy-building -- More developed countries are the recipients	-- Limited long-term administrative burden after initial administrative investment -- Encourages NGO innovation -- Leverages other donor funding -- Enhances long term organizational sustainability	-- Expensive -- Start-up takes time -- Statutory authority for appropriated funds no longer exits -- Risk of financial loss from lower than anticipated investment yield -- Limited, direct, short-term programmatic impact
Enterprise Fund: Grant to US NGO that has been established for the purpose of managing a fund to promote the development of indigenous businesses.	-- Local private financial institutions do not exist or lack capacity -- TD countries with high foreign policy visibility are the recipients	-- Minimizes reliance on local financial institutions -- Involves high level of U.S. private sector	-- USAID oversight of private sector board is high-level management intensive and highly political -- Involves large dollar amounts -- Congressional skepticism -- USAID evaluations show they don't produce lasting results

Type	Best Utilized When…	Pros	Cons
PL 480, Title II: Transfers of U.S. agricultural commodities to foreign countries through partner organizations to address famine and promote food security.	-- Linked with non-food resources to supplement health needs and improve livelihoods -- Missions integrate food aid in their strategies	-- A substantial resource that maintains significant support in Congress -- Can be programmed to meet multiple needs related to health, livelihoods and nutrition, and agriculture development -- Appropriate for multiple circumstances in food insecure environments	-- Can take several months to purchase and ship food to meet needs -- Can be costly compared to locally purchased food in some situations -- Can depress local food prices if not carefully programmed
Excess USG Property: Authorized by Sections 607 and 608 of the FAA, as amended, the Limited Excess Property Program (LEPP) makes excess property available to registered PVOs to send to their overseas programs.	-- PVOs identify excess property needed to support host country NGOs in developing countries with community-building activities such as clinics, hospitals, trade schools, senior citizen facilities, and orphanages.	-- Excess property is free of charge and often in excellent or new condition -- Results in capacity building at the community level when excess property supports schools, clinics, and hospitals	-- Shipping costs can be expensive and some property might need re-furbishing -- Missions must agree to monitor recipients for one year -- Requires PVO registration with USAID
Multi-Donor Funding - Gift to USAID: Other donors may provide their funds to USAID for USAID to implement in accordance with USAID's gift authority.	-- USAID has accepted comparative advantage in managing multi-donor resources in a particular sector or area -- USAID is willing to reciprocate with other donors taking the lead in other sectors	-- Funds are used under USAID rules -- Consistent with Paris Declaration and donor harmonization	-- Increased USAID management burden
Direct Implementation by USAID Staff: USAID staff implements its programs and activities itself.	-- USAID has staff resources to implement part of a program, for example, policy dialogue	-- Program is identified directly with USAID, not intermediary	-- USAID staff constraints -- Liability issues -- Does not build local ownership -- Dependent on OE budget levels

THIRD PARTY MANAGED MECHANISMS = These mechanisms can be used as an option under an Assistance Agreement or directly funded by USAID without an Agreement.

Type	Best Utilized When…	Pros	Cons
Grants to Public International Organizations (PIOs): Grants supporting specific activities of PIOs.	-- USAID wants multi-donor coordination or lower profile -- PIO has presence in post-crisis country	-- Low staff intensity -- High accountability for financial resources -- Increased influence in donor community -- PIOs sometimes able to leverage reforms/changes that bilaterals acting alone cannot -- Country that is member of PIO accepts PIO intrusion in country sovereignty more easily -- Congress supports work of some PIOs such as UNICEF, Global AIDS Fund	-- Loss of USAID identity and control -- Little ability to correct problems -- PIOs often reject USAID extra requirements -- PIO may have high overhead costs -- Some PIOs desire to develop good relationship with host government may result in failure to push for sensitive reforms -- Congressional opposition may exist when working with some PIOs -- Other executive branch agencies that provide oversight of PIOs may be concerned about USAID support
Multi-Donor Trust Funds administered by PIO:	-- To finance reconstruction and development in post-crisis country -- USAID's purpose accomplished by capitalizing fund, not by implementation of specific activities	-- Consistent with Paris Declaration commitments -- Promotes host government ownership	-- USAID has limited experience with this mechanism -- USAID lacks control and identity of funds -- PIOs often reject USAID extra requirements
Multi-Donor Pooled Funding - Projectized Assistance: (Co-Financing with PIO or Bilateral Donor(s) Jointly financing an activity with a PIO or bilateral donor, not by passing funds to the PIO or bilateral donor, but by co-funding the same activity. This mechanism requires blending our acquisition or assistance rules with those of the PIO or bilateral donor.	-- Other donor, PIO or bilateral donor, has acceptable capability and is willing to manage pooled funds -- Multiple donors are willing to identify a lead donor to manage a program	-- Consistent with Paris Declaration commitments -- Specialization should generate management efficiencies	-- USAID must rely on policies and processes of the lead donor -- Joint, as opposed to parallel, financing may require waiver of or deviation from many USAID rules, including procurement and source/origin rules -- US contribution may lose USAID identity unless outreach is monitored carefully
Third Country Grants: Grants to third countries to implement program in recipient country	-- Third country is uniquely qualified to administer program -- For programmatic reasons USAID concurs in loss of funding identity -- USAID wants to promote the status of the intermediary country	-- Reduces management burden -- Minimizes USAID role -- Promotes status of intermediary	-- Funds lose USAID identity
Loan Guarantee (DCA): Loan guarantees for private financing of micro-enterprise, infrastructure, etc. May be tied to TA to build capacity.	-- Government credit policies are right -- Local financial markets are viable	-- Leverages investment capital from private sources -- Addresses market imperfections -- Private risk-sharing partners undertake credit analysis and loan oversight -- Taps private commercial lenders and financial markets to meet the needs of creditworthy but underserved borrowers	-- Time to arrange credit deals

Type	Best Utilized When…	Pros	Cons
Mixed Credit Financing: Loan guarantee combined with grant funding to support non-commercially viable exports	-- Commodities/Services being procured are integral to achieving USAID program objective -- USEXIM is willing to co-finance or guarantee commercial credit -- Proposed transaction is in compliance with OECD rules on mixed credits	-- Involvement of EXIM leverages USAID resources -- Leverages private sector resources -- Builds US trade links with the host country -- Recent guidance exists	-- Use of Tied Aid contrary to Paris Declaration commitments -- USAID staff lacks capacity to utilize
Public-Private Alliance Collaboration Agreement (GDA): Public and private partners combine resources in pursuit of mutually agreed objectives	-- Private entity has funding available for corporate social responsibility activities	-- Encourages NGO innovation -- Leverages private and local resources -- Increases number of stakeholders supportive of foreign aid	-- Contracting officer learning curves -- Time consuming to make matches -- Does not necessarily result in host government ownership of outcome
Inter-Agency Agreements (IAAs): Includes PASA/RSSA/CASU and PAPA/632(b) Transfers	-- Other agency has particular suitability for implementing USAID program	-- Increases number of stakeholders supportive of foreign aid	-- U.S. private sector does not like -- Other agencies not familiar with operating in overseas environment, so staff-intensive for USAID -- Loss of USAID identity and control
Participant Training: Training activities implemented by USAID and a contractor; includes long-term training and scholarships	-- USAID chooses not to set up separate administrative mechanisms for training under an SO	-- Economies of scale in using central mechanisms	-- Would require USAID to establish a central training capability -- Tracking individuals and impact can be difficult

*Note: The drafting of new regulations to untie local procurements from source/origin rules will impact many implementing mechanisms.