ADS Chapter 220

Use and Strengthening of Reliable Partner Government Systems for Implementation of Direct Assistance

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ADS 220 – Use and Strengthening of Reliable Partner Government Systems for Implementation of Direct Assistance
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ADS 220 - Use and Strengthening of Reliable Partner Government Systems for Implementation of Direct Assistance

220.1 OVERVIEW

Effective Date: 07/28/2014

This chapter specifies the policies and procedures to be followed when designing, negotiating, and implementing direct funding agreements to partner governments (Government to Government (G2G) assistance). A Mission's decision to use G2G agreements will result from both strategic planning and project design processes that consider the best means to invest USAID resources and achieve a clearly stated development purpose, taking into consideration a rigorous risk assessment and risk mitigation process. Use of G2G agreements is encouraged as a necessary element of sustaining development results beyond USAID funding. This chapter is meant to complement **ADS 201, Program Cycle Operational Policy** by expanding the description of Agency risk management practices that apply to G2G assistance and the mechanisms that are available for financing G2G assistance.

220.2 PRIMARY RESPONSIBILITIES

Effective Date: 07/28/2014

The following primary responsibilities for the design and implementation of projects that include G2G implementing mechanisms are based on function, not skill category (i.e., they are not backstop-specific).

Mission Directors/Principal Officers are encouraged to issue Mission Orders, as needed, to assign the functional responsibilities below.

a. Mission Directors/Principal Officers, with their partner government counterparts, promote collaboration and mutual accountability between USAID, the partner government, other donors, civil society, and other key stakeholders. The Agency encourages Mission Directors/Principal Officers, in coordination with the cognizant Embassy Chief of Mission, to serve as the designated U.S. Government representative.

b. Partner Government Systems Teams (PGS Teams) assist the Mission Director/Principal Officer in arranging, with partner government counterparts, an assessment of the partner government's Public Financial Management (PFM) systems, as well as organizing the Enhanced Democracy, Human Rights and Governance Review (Enhanced DRG Review) in **220.3.3.1**, if necessary. Following completion of Public Financial Management Risk Assessment Framework (PFMRAF) Stage 2, the PGS Team will be integrated into the Project Design Teams (PD Teams) referenced in **ADS 201**. This will establish a unified, collaborative and coordinated structure responsible for integrating the PFMRAF process into the design process.

c. The following offices in USAID/W have primary responsibility for providing support for the PGS Teams:

(1) The **Bureau for Management, Office of the Chief Financial Officer (M/CFO)**, supports Missions and Controllers in the application of the PFMRAF and related G2G activities. The CFO or designee also establishes, staffs, and administers the Government to Government Risk Management Team (G2GRMT). As requested, the CFO may also consult with the Mission Director/Principal Officer concerning the Approval for the Use of Partner Government Systems (AUPGS).

(2) **Government to Government Risk Management Team (G2GRMT)**, within M/CFO, is delegated the following responsibilities:

a. Assures quality control and consistency for:

(i) The use of the PFMRAF, including development and maintenance of the PFMRAF manual and related Agency training;

(ii) Analyzing data supporting PFMRAF conclusions and recommendations;

(iii) Stage 1 Rapid Appraisals, Stage 2 Risk Assessment Statements of Work and reports, and risk mitigation plans required under the PFMRAF; and

(iv) Development of a list of PFM risk assessment evaluation criteria (Stage 2 Questionnaire) for customization and use by Missions.

b. Clears the PFMRAF Stage1 Rapid Appraisal scope and final report package and Stage 2 Risk Assessment Statements of Work, strategies, and final report package (see **220.3.2.4** and **220.3.2.5**);

c. Provides continuing policy analysis and advice to the CFO, Agency leadership and Missions on assessment of PFM systems, as appropriate and necessary;

d. Coordinates with other USAID offices, Missions, and stakeholders for the maintenance of a repository of information related to PFMRAF, PFM, and the related subject matter;

e. Facilitates communication and activities between Missions, Bureaus, USAID leadership, external stakeholders, and the donor community regarding PFMRAF and related activities; and

f. Acts as subject matter experts on PFMRAF guidance, training, and related matters.

(3) The **Bureau of Policy, Planning and Learning (PPL)**, is responsible for the policies and guidance related to the Program Cycle. PPL has a key role in ensuring integration of G2G programs with other Agency programming systems.

(4) The **Bureau for Democracy, Conflict and Humanitarian Assistance/Center of Excellence on Democracy, Human Rights and Governance (DCHA/DRG**), is responsible for developing the democratic accountability components of the PFMRAF, as well as the methodology of the Enhanced DRG Review. DCHA/DRG may also provide assistance to the Mission in developing the DRG recommendations resulting from the PFMRAF Stage 1 Rapid Appraisal and/or Enhanced DRG Review. DCHA/DRG may also support PGS Teams and/or Mission DG Officers on DRG issues.

(5) **Regional, Technical, and Pillar Bureaus and Offices** assist Missions and PGS Teams in designing and reporting on G2G projects and activities, as well as coordinating G2G best practices and technical approaches between and among Missions.

(6) **Assistant Administrators of Regional Bureaus** consult, as necessary, with respective Mission Directors/Principal Officers concerning difficult or politically sensitive AUPGSs, determining whether an Enhanced DRG Review is required under **220.3.1.1**, and approving moving forward with G2G activities pursuant to any DRG-related waivers. They also direct and mobilize Bureau resources to assist Missions as necessary.

(7) The **Bureau for Economic Growth, Education and Environment/Economic Policy (E3/EP)** assist Missions and PGS Teams, upon request, in PFM risk mitigation, and PFM and public accountability strengthening and capacity development.

220.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES

Effective Date: 07/28/2014

a. Approach

Global best practice on supporting sustained development outcomes is embedded in principles of aid effectiveness first ratified in the Paris Declaration (2005) and reaffirmed in global compacts adopted in Accra (2008) and Busan (2011). The central idea is that external aid investments are most likely to catalyze sustained development processes when they reinforce a country's internally-determined development priorities (country ownership) and arrangements (country systems).

However, the Busan agreement added an important nuance that effective and sustainable development requires inclusive development. Inclusive country ownership means that development priorities are established in ways that ensure they are broadly responsive to citizen needs and aspirations. Inclusive country systems recognizes that all parts of society—certainly the government, but also civil society, the private sector, universities, and individual citizens—have important resources, ideas, and energy that are essential to sustaining development.

To operationalize the pledge USAID made at Busan to promote inclusive country ownership and inclusive country systems, and to further USAID's long-standing commitment to sustained development, the Agency developed **ADS 220maq, Local Systems: A Framework for Supporting Sustained Development**, which articulates the Agency's approach to supporting sustained development and identifying good practices.

The Framework is grounded in the recognition that achieving and sustaining any development outcome depends on the contributions of multiple and interconnected actors. Building the capacity of a single actor or strengthening a single relationship is insufficient. Rather, the focus needs to be on the system as a whole: the actors, their interrelationships, and the incentives that guide them. Realizing improvements in development outcomes is a product of increasing the performance of multiple actors and the effectiveness of their interactions. Sustaining development outcomes depends on the sustainability of the local system.

From a local systems perspective:

- *Strengthening* means building up the capacities of local actors—governments, civil society, and private sector—and the system as a whole. Strengthening can be accomplished through a variety of means, including direct assistance to partner governments.

- *Use* means relying on that local system to produce desired outcomes. Direct assistance to partner governments and to other local actors is an essential feature of using local systems.

- Where sustainability is our objective, USAID is committed to employing all of our development resources to strengthen and use local systems.

Governmental agencies in partner countries generally play important roles within local systems. Depending on the setting, governments may:

- Set goals and targets,

- Manage resources,
- Deliver services directly,
- Procure goods and services,
- Establish standards,
- Settle disputes,
- Monitor performance,
- Disseminate information, or
- Provide quality control and oversight.

Given their prominent role in most local systems, the ability of partner government agencies to perform their defined roles is an essential contribution to strengthening local systems and sustaining development gains.

This ADS chapter provides guidance on how to assess partner government procedures and practices, generally referred to in this chapter as PGS, especially a partner government's PFM practices. This ADS chapter also provides guidance on the ways assistance can be provided to partner governments either to strengthen internal PGS or to use them to facilitate effective government participation in local systems.

This ADS chapter should be used in conjunction with **ADS 201**. Determining which and how best USAID engages local systems should be addressed as part of the country-level strategic planning and project design processes outlined in **ADS 201**. Similarly, designing projects that strengthen and/or use local systems, which are likely to include a number of interventions including interventions directed at government actors, should follow the project design guidance provided in **ADS 201**.

At the same time, there are special strategic and design concerns that are particular to providing direct assistance to partner governments. These include fiduciary risks associated with providing funds to sovereign states, reputational risks associated with governments that have democratic accountability weaknesses, and selection of funding mechanisms that achieve programmatic results through support of governmental responsibilities. This ADS chapter specifies policies and procedures for addressing these special concerns.

b. Policies and Procedures

This ADS chapter outlines the policies and procedures that govern when USAID disburses funds directly to a partner government or relies upon partner government systems to implement direct assistance projects or project activities.

(1) To the extent that foreign policy considerations, existing bilateral relations, and resources allow, Missions should offer partner governments an assessment of partner government PFM systems to determine if USAID may use those systems for the implementation of USAID-financed projects. Mission Directors/Principal Officers are responsible for leading discussions with partner government officials that may result in an assessment of PGS, if appropriate. This assessment must be conducted in close coordination with relevant partner government institutions and officials. Consideration should be given to inviting other donors to participate, where appropriate.

(2) Missions must assess PGS using the PFMRAF, when required by this chapter, along with other factors in the design process, prior to authorizing obligations or sub-obligations that will involve the disbursement of funds directly to a partner government.

(3) If the partner government agrees to an assessment, Mission Directors/Principal Officers are responsible for designating Mission staff to coordinate and conduct the PFMRAF, defined as the PGS Team. The designated Mission staff should represent all Mission Offices or Teams who will have a role in the assessment, design, or implementation of the proposed project or project activity. Members of the PGS Team will be integrated into the PD Team following Stage 2, as described in **ADS 201**, and the Project Implementation or Development Objective Team. Mission Directors/Principal Officers must establish a PGS Team prior to initiating the PFMRAF process. For Missions contemplating a new Country Development Cooperation Strategy (CDCS), a PGS Team will support the integration of the PFMRAF initial appraisal with the CDCS. Prior to initiating PFMRAF, the PGS Team must notify and consult with the G2GRMT concerning application of the PFMRAF, due diligence responsibilities, and identification and management of any potential risks associated with the use of assessed government systems and implementing institutions.

(4) Subsequent to PFMRAF Stage 2, PD Teams are responsible for:

- Drafting the AUPGS;
- Incorporating the results of the PFMRAF and AUPGS into project designs that include the use of PGS;
- Assisting the Mission Director/Principal Officer, as needed and designated, in the negotiation of a G2G project activity with the partner government; and
- Managing the implementation of G2G project activities.

(5) The PD Team will be responsible for:

- Coordination, oversight, monitoring, and evaluation of any risk mitigation measures established by the Mission; and
- Ensuring that a monitoring and evaluation plan is in place for the project taking into consideration the use of PGS (see **ADS 203, Assessing and Learning**).

The above will be specifically addressed in the Project Appraisal Document (PAD) for each project including G2G implementing mechanisms.

(6) Though the full designation of the PGS Team is at the discretion of the Mission Director/Principal Officer, Missions should assign the following functional responsibilities:

(a) Controllers must be designated as members of the PGS Team. They should provide primary leadership for conducting the PFMRAF and addressing all technical issues concerning assessment of the PFM systems of partner governments. They should undertake a primary and substantive role in:

- Designing mitigation strategies for identified fiduciary risks, and
- Monitoring and oversight of partner government implementation of any such fiduciary risk mitigation measures in the AUPGS included in the PAD and negotiated with the partner government.

Controllers should also be members of PD Teams and participate in the design, implementation, monitoring, and evaluation of USAID-funded projects, as applicable, to build institutional capacity for PFM. Controllers are also responsible for the design of the fiduciary risk mitigation and monitoring plan appropriate to the level of risk for G2G activities when a Stage 2 Risk Assessment is not required by this ADS chapter.

(b) Resident Legal Officers (RLOs) must be designated as members of the PGS Team and subsequent PD Teams. RLOs assist in application of the PFMRAF, project design, and preparation of the AUPGS, and provide advice to the Mission on the:

- Negotiation of the bilateral assistance agreement (BAA),
- Selection of implementing mechanisms, and
- Negotiation and preparation of Implementation Letters (ILs).

Involving the RLO early in the process is essential to ensure identification of legal and negotiation issues prior to development of risk mitigation plans, project design, and negotiations strategy.

(c) Program Officers/Project Development Officers (PDOs) must work with the PGS Team to design the plans for the PFMRAF. Because of the leadership role Program Officers/Project Development Officers play in the PD Teams and the Program Cycle, they are primary actors in the overall process.

(d) Democracy, Human Rights and Governance Officers should assist in:

- Assessing key issues related to the partner country's democracy, human rights and governance environment; and

- Identifying any democratic accountability issues that may need to be addressed as part of a project that includes direct G2G funding agreements.

DRG Officers should participate directly in the PFMRAF Stage 1 Rapid Appraisal. They should also assume other tasks, as assigned, in the project assessment and design of projects that include G2G activities, assistance projects, and related PFM and Public Accountability (PA) capacity development activities. In cases where an Expanded DRG Review is conducted in conjunction with the PFMRAF (see **220.3.2**), DRG Officers must be included on the PGS Team. Where democratic or public accountability risks are identified by an Expanded DRG Review, DRG Officers must be included in designing, monitoring, and evaluating accountability of any democratic or public accountability risk mitigation measures set forth in the PAD (including the AUPGS annex) and negotiated with the partner government.

(e) Technical Officers must be included on the PGS Team when relevant partner government entities are identified for possible development assistance. Technical Officers help design the plans for the PFMRAF, and should be primary and active members in the PGS Team given their knowledge and experience with the partner government entities under assessment. As key members of the Project Design Teams, Technical Officers also lead the separate assessment of technical capacity of proposed partner government implementing entities during the development of the PAD (see **220.3.3.3f**). While Technical Officers provide leadership on the PGS Team for functions overlapping with those of the Development Objective Team (see **ADS 201**), they are not expected to lead the PFMRAF process.

(f) Contracting and Agreement Officers (COs/AOs) must be included as members of the PGS Team to:

- Provide input into the AUPGS and choice of implementing mechanism;
- Assist with negotiating prices and establishing payment bases (e.g., outputs or cost reimbursement budgets) for partner government agreements;
- Assist in reviewing estimated costs of partner government implementation;
- Provide advice and assistance regarding the partner government's engagement, administration, and management of local organization and contractor implementers; and
- Serve as the Mission subject matter expert on public sector procurement, including, if appropriate resources levels are available to the Mission, leading technical assistance, or procurement system strengthening activities.

(7) The PGS Team is responsible for retaining PFMRAF records in accordance with **ADS 502, The USAID Records Management Program**.

(8) In conducting assessments and using the PFMRAF pursuant to this ADS chapter, Missions must:

(a) Communicate initial PFMRAF planning and ongoing progress to the G2GRMT, including the designation of the PGS Team;

(b) Consult with the Regional Bureau regarding the applicability of an Enhanced DRG review, along with other aspects of G2G/PFMRAF planning;

(c) Document the weaknesses and/or needed improvements in the PGS and, if political and other considerations allow, share the weaknesses and needed improvements with the partner government, stakeholders, and other donors;

(d) Identify and manage fiduciary, political, project implementation, and other risks that might be incurred from use of partner government PFM systems as ascertained through the PFMRAF and project design and implementation processes; and

(e) Document the approval for, and the use of, PGS in accordance with the policies and procedures in this ADS chapter.

(9) Missions should design projects that deliver development assistance through PGS if:

(a) The results of the PMFRAF and other assessments of risks support such use, including partner government agreement to any necessary risk mitigation measures; and

(b) Strong partner government institutions are required to achieve the project purpose and sustain project impacts into the future.

(10) Missions should select, negotiate, and use implementation and funding mechanisms with the partner government that meet the requirements of this ADS chapter and are appropriate to achieve the purpose of the project (see **220.3.3**).

(11) Missions should consider capacity building assistance to partner governments (training, technical assistance, etc.) if appropriate and as necessary to mitigate risks identified in the project design process and to help ensure sustainability of project results.

(12) Missions must use adequate and appropriate risk mitigation measures to address any identified fiduciary risks associated with the use of PGS for project implementation.

(13) Missions should monitor, evaluate, and provide oversight of project implementation and effectiveness, including the implementation of partner government PFM procurement systems, technical capacity used, as well as implementation of risk mitigation plans.

(14) Missions must close out funding mechanisms and related bilateral implementation arrangements after project completion.

220.3.1 Relation of This Chapter to Other Agency Guidance

Effective Date: 07/28/2014

This ADS chapter relates to other Agency policy and guidance based on the following guidelines.

a. This guidance supplements, but does not replace, existing Agency policy and guidance on Programming Policy (**ADS 200 series**), **ADS 624, Host Country-Owned Local Currency** and **ADS 350, Grants to Foreign Governments**. In addition to following the procedures for the AUPGS, Mission Directors/Principal Officers remain responsible for partner government procurement system assessment and certification requirements under **ADS 301, Responsibility for Procurement** when Host Country Contracting under **ADS 305, Host Country Contracts** is used. This ADS chapter incorporates and supersedes policy and guidance formerly contained in **ADS 317** for Fixed Amount Reimbursement activities.

b. When the policy, procedures, and guidance in this ADS chapter are applicable, they must be used in lieu of the policy, procedures, and guidance in **ADS 305**. By utilizing the policies and procedures outlined in this ADS chapter, it is intended that Missions will gradually move away from the project implementation processes and procedures outlined in **ADS 305** to those in accordance with this ADS chapter.

c. As described in **ADS 201** and **220.3**, the use of PGS is one approach for delivering USAID assistance. To fully strengthen PGS, use of PGS may often be combined with direct USAID support to and capacity development of local organizations and private entities. The use of PGS can be combined with USAID support for the activities of:

- Local non-governmental and private organizations,
- Non-local USAID contractors and grantees, and
- Other methods to achieve development objectives.

Capacity building and risk mitigation activities that strengthen the capacity of a government implementing entity to deliver services should also be combined with direct use of partner government PFM systems to ensure the soundness of the system, as appropriate.

d. The PFMRAF assessment processes fulfill the pre-financing due diligence requirements ("pre-award audits") described in **ADS 591, Financial Audits of USAID Contractors, Grantees, and Host Government Entities** for G2G projects and activities. No separate pre-financing, audit-like, or due diligence assessments, other than described in this ADS chapter, are required for USAID financing of G2G projects and activities.

220.3.2 Expanded Democracy, Human Rights and Governance Review
Effective Date: 07/28/2014

In order to ensure that all USAID assistance reflects broad U.S. Government (USG) commitments to promote democracy, human rights and good governance, Missions may be asked to undertake an Expanded Democracy, Human Rights and Governance Review (Expanded DRG Review) as part of the development of their CDCS. The purpose of the Expanded DRG Review is to determine if planned G2G assistance is likely to strengthen the relationship between the government and the people, or if such assistance will only serve to empower the government at the expense of its people. This analysis, when applicable, is intended to assist Missions in thinking through the reputational risk to the United States Government of direct engagement with a government that is perceived as restricting political freedoms and human rights, as well as the risk that USG resources or programming could be misused in a way that damages political freedoms or human rights. When applicable, the Expanded DRG Review is added to the PFMRAF Stage 1 Rapid Appraisal.

a. Notification. All Missions must notify their intent to consider the use of PGS to deliver assistance as part of the CDCS process or in conjunction with the initiation of a PFMRAF Stage 1 Rapid Appraisal, whichever comes first. Missions must give this notification to the Regional Bureau and G2GRMT. This notification will allow the cognizant Mission Director -- in consultation with the Regional Bureau Assistant Administrator, M/CFO, DCHA/DRG, and other cognizant USG officials -- to determine, given the specific country context and current circumstances, whether the country meets the required standard for democratic accountability, which may include the following elements:

(i) The country publicly discloses, on an annual basis, its government budget and enforces access to information laws;

(ii) The country's legislature, civil society, and media possess the rights and freedoms necessary to enable the monitoring of the proposed G2G-funded activities;

(iii) The legislature, supreme audit institution, and judiciary possess the independence to hold the executive accountable for enforcing the above rights and monitor the expenditure of funds for G2G activities; and

(iv) The country is taking steps to protect the rights of civil society, including freedom of association and assembly (imposed by section 7031, FY2014 Appropriations Act).

In the event that a country is not taking steps to protect the rights of civil society and a Mission cannot address this issue through mitigation measures, such as conditions precedent or pre-obligation project interventions that increase protections for civil society, the use of PGS for project implementation may not be considered (see **ADS 220.3.3.1**).

Based on this consultation, the Mission Director will make a determination as follows:

(1) The country meets basic standards for democratic accountability (DA). The Mission may move forward with project design and PFMRAF assessments that will further determine the use of G2G in the target country.

(2) The country does not meet basic standards for DA, and the PFMRAF Stage 1 or CDCS analysis should be expanded to include additional DRG questions that analyze the risk that use of G2G mechanisms will empower the government at the expense of the people (Expanded DRG Review).

(3) No further consideration of G2G should be made at the current time.

The Mission will communicate this determination, in writing, to the Regional Bureau Assistant Administrator.

b. Analysis. Missions required to conduct an Expanded DRG Review as part of a PFMRAF Stage 1 Rapid Appraisal or CDCS must include analysis that considers the current DA environment in the country. This analysis should draw upon a desk review of relevant reference materials, which could include:

- Recent DRG Assessments,
- Open Budget Index reports,
- Article 19 reports,
- State Department Human Rights reports, and
- Other Mission reporting as well as third party source material.

The Expanded DRG Review should involve interviewing cognizant partner government and non-governmental entities, other donors, USAID partners, and others.

The analysis should consider how risks associated with gaps in DA may be mitigated through the design, implementation, and monitoring of projects that include G2G mechanisms, and whether the proposed activities are able to effectively mitigate the reputational risk of direct assistance to the partner government. Mitigation activities could include:

- Support for citizen engagement in the development, implementation, and monitoring of project interventions to ensure the inclusion of all groups in project activities, specifically integrating civil society, media, or vulnerable populations into project interventions, or
- The incorporation of conditions precedent in bilateral agreements requiring that the government is taking steps to address gaps in democratic accountability. Missions may also consider whether the geographic targeting of project activities provide opportunities to address democratic

accountability gaps; in some contexts there may be opportunities at the regional or local level to more openly address democratic accountability issues.

c. Determination. All Stage 1 Rapid Appraisals, whether or not they include an Expanded DRG Review, will be reviewed by the G2GRMT pursuant to **220.3.3.4.d**. This review may include a video teleconference convened by the Mission, at the request of the Mission, Regional Bureau, PPL, DCHA/DRG, or M/CFO. In the case of an Expanded DRG Review, those involved in this video teleconference will consider the findings of the draft PFMRAF Stage 1 Rapid Appraisal to determine whether the proposed G2G activities are likely to mitigate the risks of direct engagement with the partner government empowering the government at the expense of its people. As a result of the review, the Mission Director will make a determination to be documented in the Stage 1 or CDCS, as follows:

(1) The proposed G2G investments mitigate the risks associated with direct engagement. As the Mission further develops its G2G projects, it will seek to address these issues in additional analyses and the project design process. This determination may also be employed in situations where use of PGS may be approved for use in certain sectors, but not others; or

(2) The proposed G2G investments fail to mitigate the risks associated with direct engagement, and use of PGS for project implementation may not be considered. However, in the event that the democratic accountability environment improves, a Mission may undertake a new analysis of the Expanded Review questions as stated in **220.3.2b** and submit this analysis for review by the Mission Director, Regional Bureau, PPL, DCHA/DRG, and M/CFO.

In the event of a disagreement regarding whether DRG conditions preclude the use of G2G mechanisms, the Deputy Administrator will make the final determination in consultation with interagency partners. The substance of the discussion will be documented in writing and may inform the finalization of the Stage 1 report.

d. Democratic Accountability Strengthening and Project Design. The PFMRAF Stage 1 and 2 analyses and other analyses may identify additional DA issues that the Mission will need to address as part of the project design (see **ADS 201**). Any such DA weaknesses must be identified and addressed in the PAD. This may require the incorporation of DA risk mitigation measures into the project, which could include:

- The development and funding of additional capacity building activities for governmental or non-governmental accountability institutions,

- Support for community monitoring of G2G projects, or
- Other interventions tailored to the country context.

The Mission must also include follow-up monitoring on any DA risk mitigation measures and capacity building activities built into the Project Implementation Plan and indicate the frequency with which these activities are measured for progress and assessed as to their effectiveness.

220.3.3 Public Financial Management Risk Assessment Framework (PFMRAF)

Effective Date: 07/28/2014

Except as otherwise provided in this ADS chapter, Missions must complete the PFMRAF process as part of an overall project design and authorization process before obligating or sub-obligating funds to a partner government for implementation of G2G project activities.

220.3.3.1 G2G Assistance Exceptions, Deviations and Waivers

Effective Date: 07/30/2020

a. Except as provided in **220.3.3.1.c.(3)** (statutory "notwithstanding" authority exception), before authorizing a project and subsequently obligating or sub-obligating funds to be disbursed directly to a partner government, Missions must do each of the following:

(1) Assess the implementing entity and all PGS to be used in connection with the assistance for:

(a) Technical, financial, and management capabilities;

(b) Competitive procurement policies and systems;

(c) Monitoring and evaluation systems;

(d) What steps the partner government is taking to publicly disclose the national budget, including income and expenditures, on an annual basis;

(e) Whether U.S. foreign assistance is taxed (through value added taxes or customs duties) or, if so, whether the partner government reimburses such taxes;

(f) Whether the recipient agency or ministry is headed or controlled by an organization designated as a foreign terrorist organization under section 219 of the Immigration and Nationality Act; and

(g) What steps the partner is taking to protect the rights of civil society, including freedom of association and assembly.

(2) Determine and document that the implementing agency or ministry has the systems required to manage the proposed assistance, including:

(a) The necessary technical, financial, and management capabilities;

(b) Competitive procurement policies and systems;

(c) Effective monitoring and evaluation systems are in place to ensure that such assistance is used for its intended purposes;

(d) The government of the recipient country is taking steps to publicly disclose, on an annual basis, its national budget, to include income and expenditures;

(e) Whether U.S. foreign assistance is taxed (through value added taxes or customs duties) or, if so, whether the partner government reimburses such taxes;

(f) The recipient agency or ministry is not headed or controlled by an organization designated as a foreign terrorist organization under section 219 of the Immigration and Nationality Act; and

(g) The recipient government is taking steps to protect the rights of civil society, including freedom of association and assembly (see **ADS 220.3.2**).

(3) Address, through a risk mitigation plan and the bilateral implementing agreement, any identified vulnerabilities or weaknesses, including ensuring that:

(a) Effective monitoring and evaluation systems are in place, and

(b) Mitigating all risks identified such that no acceptable level of fraud is assumed.

b. **Policy waivers and deviations:** The criteria outlined in **220.3.3.1a** are the minimum legal G2G assessment requirements for USAID assistance that Missions may not deviate from except as provided in **220.3.3.1.c.(3)**. See **ADS 220mac, Legal Requirements for G2G Assistance** for requirements. For deviations or waivers of any policies in this ADS chapter not legally required, the following apply:

(1) **Pilot projects:** The PFMRAF policies and processes in this ADS chapter other than those in **220.3.3.1.a**, are not required for small scale or "pilot" projects or activities implemented through PGS with a total estimated USAID funding life of project budget less than the Single Audit Act threshold (currently $750,000). Missions must undertake and document the requirements in **220.3.3.1.a** in the PAD for activities relying on this exception.

(2) **G2G Agreements Under $10 Million Funded by the President's Emergency Plan for AIDS Relief (PEPFAR), the President's Malaria Initiative (PMI), and the Global Accelerator to End Tuberculosis (TB):** The PFMRAF policies and procedures in this ADS chapter, other than those in section **220.3.3.1.a**, are not required for G2G Agreements with a total estimated agreement amount of less than $10 million for the life of the Agreement. This paragraph applies to any G2G Agreement that is at least 51 percent PEPFAR-funded, at least 51 percent PMI-funded, or at least 51 percent TB-funded. These agreements need to complete a fiduciary risk-assessment prior to award, as required under section **220.3.3.1.a** and Section 7031(a) of USAID's Annual Appropriations Act. Missions must undertake and document the requirements in section **220.3.3.1.a** for activities and ensure Mission Director/Principal Officer approval in coordination with the Controller and other Mission Technical offices. Missions are required to share information on such assessments with relevant Washington Bureaus and Offices at least quarterly (i.e., the Bureau for Global Health (GH), the Bureau for Management (M), and the Office of the Chief Financial Officer (M/CFO)). To undertake and document the requirements in **220.3.3.1.a**, Missions may rely on provisions of the **PFMRAF Manual** when assessing an implementing agency or entity's eligibility for assistance.

(3) **Waiver or deviation from the PFMRAF process based on Impairment of Foreign Assistance Objectives:** The PFMRAF, together with other requirements of the project design process, fulfills statutory and other requirements such as the "General Assessment" outlined in **ADS 624** and imposed by statute, such as the requirements contained in **220.3.3.1.a**. Deviations and waivers from this ADS chapter may only be requested pursuant to this paragraph.

(a) Many aspects of the PFMRAF policies and procedures are flexible and customizable for country-specific and project-specific contexts. Therefore, before requesting a policy deviation or waiver under this paragraph, Missions must consult with the G2GRMT regarding the scope of work for the PFMRAF Stage 1 or Stage 2 and the proposed deviation or waiver.

(b) Missions/Operating Units (OUs) may not deviate or waive legal requirements except as permitted by law.

(c) When circumstances warrant deviation or waiver from policy requirements of this ADS chapter that are not legally mandated, Regional Bureau Assistant Administrators (AAs) may approve a waiver of or deviation from the policy-based PFMRAF policies and procedures of this ADS chapter in order to avoid impairment of foreign assistance objectives in an action memorandum. In this case, the Mission must submit this action memorandum, with M/CFO clearance, documenting:

(i) The justification for the waiver or deviation;

(ii) The results of the consultations with the G2GRMT pursuant to **220.3.3.1.b.(2)(a)**;

(iii) Relevant circumstances concerning USAID's relationship and experience with the partner government generally and the partner government implementing entity specifically;

(iv) The value of the G2G activities being contemplated (the financial risk exposure); and

(v) Country development performance.

(d) If a waiver or deviation is approved pursuant to this paragraph, the Mission must still undertake and document the requirements in **220.3.3.1.a** in the PAD for activities otherwise relying on such waiver or deviation.

c. For G2G assistance financed with funds that include "notwithstanding authority," the legal requirements of this ADS chapter (see **ADS 220mac, Legal Requirements for G2G Assistance**), including those in **220.3.3.1.a**, may be waived after formal consultation with the cognizant Regional Bureau AA, G2GRMT, and the Resident Legal Officer/Office of General Counsel (RLO/GC) attorney and upon documentation of the following in the PAD:

(1) Such consultations,

(2) The specific statutory requirement being waived, and

(3) The "notwithstanding" authority upon which the Mission is relying.

220.3.3.2 PFMRAF Administrative Requirements

Effective Date: 11/27/2018

The PFMRAF consists of two stages:

- Stage 1: a country level examination of the partner government PFM environment and associated fiduciary and related risks, as well as elements of governance and public accountability.

- Stage 2: an institutional-level examination to identify, evaluate, and propose measures to mitigate transactional-level fiduciary risks of target partner government institution's PFM systems at the country, sector, or sub-national government.

a. PFMRAF Administration

(1) Documentation: Undertaking and producing both the Stage 1 Rapid Appraisal and the Stage 2 Risk Assessment of proposed implementing partners must be recommended and/or agreed upon by USAID and the partner government. Documentation must demonstrate that the USAID Mission conducting and establishing risk mitigation measures exercised due diligence in its assessments. Documentation must be maintained in any resulting project files, and pertinent documents must be attached to the PAD. Missions must maintain and dispose of PFMRAF documentation in accordance with **ADS 502** policies and procedures.

(2) Disclosure: The PFMRAF is an Agency management tool and resulting documents must be treated as internal management documents and are subject to USAID record disclosure and other legal and policy requirements and procedures. Documents and records in USAID's possession may be subject to disclosure outside of USAID:

- Under the Freedom of Information Act,

- In response to an official audit or investigation, or

- In response to a request from the U.S. Congress.

Regardless of how the applicable phases of the PFMRAF process are conducted, Missions must take due care in appropriately communicating the results of the respective Stage 1 and Stage 2 reports. Overall results of the assessments should be communicated to the partner government prior to progressing in the assessment process or sharing with donors or other third parties. Consideration should also be given to redacting and otherwise controlling release of information that may be considered politically or procurement sensitive.

(3) Inherently Governmental Function: Because assessment and use of PGS involve the conduct of diplomacy, negotiations with the partner government, and decisions about the design and conduct of the USAID assistance projects in a partner country, the assessment process and related determinations constitute "inherently governmental" functions of the U.S. Government, and must be carried out by the cognizant USAID personnel (including USG direct hires and personal service contractors (PSCs)), as follows:

(a) As a matter of policy, USAID personnel (direct hires or PSCs) must perform all aspects of Stage 1 Rapid Appraisal, other than administrative tasks (scheduling meetings, copying documents, etc.);

(b) USAID personnel may conduct Stage 2 Risk Assessment, or contract or other private sector support can be utilized so long as USAID personnel:

(i) Design and lead the development of and approve the Scope of Work (SOW);

(ii) Adequately manage and supervise the activities of the contractor or private sector personnel;

(iii) Review and independently determine the adequacy of the contractor analysis, deliverables, products, and conclusions; and

(iv) Independently design, determine, and implement the risk mitigation plan with due consideration to contractor or private sector input, recommendations, products, deliverables, or conclusions.

(c) Potential conflicts of interest must be avoided or mitigated when a contractor or private sector support the Stage 2 Risk Assessment function. For example, the same firm providing such assessment services may not implement or assist in the implementation of any PFM mitigation or capacity development activities. Likewise, if contractor support is utilized to draft the Stage 2 Scope of Work, the contractor is precluded from conducting the Stage 2 Risk Assessment.

b. Other Assessments

(1) Relying Upon Assessments by Others:

(a) When other donors or Public International Organizations (PIOs) manage multi-donor trust funds (MDTFs) or when USAID finances trilateral assistance (development assistance from a recipient country to another recipient country), USAID, in contributing to the fund, relies on the trustee's assessment, oversight, and management of the partner government's implementation. In such situations, instead of using the PFMRAF process and requirements of this ADS chapter, the policies and procedures of **ADS 308, Awards to Public International Organizations** or **ADS 351, Agreements with Bilateral Donors** apply (see **220.3.3.2d**).

(b) When USAID finances another donor or PIO through a cost-type agreement (see **ADS 308** and **ADS 351**) that uses the partner government's PFM and procurement systems. USAID should not rely solely upon the PIO's assessment, oversight, and management of the partner-country government. In all cases, USAID must ensure and document an appropriate level of diligence. This includes review of, and/or participation in, a PIO's assessment of the partner-country government's public financial management system, technical capabilities, and monitoring and evaluation capacity. Alternatively, USAID may perform the PFMRAF processes pursuant to this ADS chapter or conduct a joint assessment (see **220.3.3.2b(2)** or policy/guidance on joint assessments).

(c) When a USAID direct contractor or grantee makes an award (i.e. sub-contract under prime acquisition instrument; sub-grant or contract under prime assistance instrument) to a foreign governmental organization, USAID relies on the prime entity's assessment and management systems to assure adequate accountability for USAID funds except for Grants Under Contracts that provide funds to partner government entities (see **ADS 302.3.4.12** and **220.3.4.3** for additional policy requirements).

(d) Where the partner government acts as the trustee or manager for a MDTF ("basket" fund), Missions must conduct a PFMRAF on the systems to which USAID disburses appropriated funds in accordance with this ADS chapter. See **ADS 624** for MDTFs that involve expenditures of Host Country-Owned Local Currency (HCOLC) contributed to the basket fund to implement development activities.

(2) Joint Assessments and Other Assessments' Equivalence:

Where the PFMRAF requirements are applicable, the policy and guidance regarding conducting joint assessments or relying upon other donors' assessments in **ADS 220mae, Public Financial Management Risk Assessment Framework Manual** apply.

c. PFMRAF Timing Requirements

(1) General Requirements: The PFMRAF requires up-to-date risk assessment and risk mitigation, as follows:

(a) Missions must arrange a PFMRAF Stage 1 Rapid Appraisal in every country where:

- USAID appropriated funds or resources with an estimated value of $500,000 or more will be provided directly to a partner government; or

- A quasi-governmental entity is being contemplated.

Planning for a Stage 1 Rapid Appraisal should commence once a Mission Director/Principal Officer determines that G2G assistance over $500,000 may be contemplated with the partner government (see **220.3.3.1** for exceptions, waivers, and/or deviations to the Stage 1 Rapid Appraisal requirement).

(b) PFMRAF Stage 2 Risk Assessments are required of all new or potential partner government implementing entities (including quasi-governmental entities, project implementation units, and sub-national entities, including regional, local, or other units of government) except as otherwise provided in this ADS chapter. A Stage 2 Risk Assessment should not be implemented unless it is part of a broader project design process, documented by an approved Concept Paper (see **ADS 201**).

This requirement includes central level partner government entities such as Ministries of Finance (or equivalent) through which donor assistance funds would flow, implementing line ministries or other government agencies, institutes, boards, etc. that are responsible for direct implementation of USAID-funded assistance activities, subject to the PFMRAF exceptions provided in **220.3.3.1**. Because respective partner government PFM systems are most often centered and managed by the Ministry of Finance or equivalent institution, Missions should map and understand the flow of funds in the proposed activity to identify all financial actors and assess the Ministry of Finance or Central Bank, as appropriate for their roles during the initial Stage 2, whenever possible, in order to maximize economies of scale in the collection of data and analysis of information.

(c) PFMRAF Stage 2 Risk Assessments should rely upon prior Stage 2 Risk Assessments, if applicable. They should be tailored according to need in terms of reducing the burden on central ministries (e.g., Ministry of Finance, Central Bank, etc.) for which prior Stage 2 Risk Assessments have already examined the relevant and material aspects of the systems contemplated for use. In such cases, only the new or unique aspects of the central ministry or system and its functional relationship with the implementing government entity may need to be assessed further.

(2) **Updates of the Stage 1 – Rapid Appraisal:** In addition to the initial Rapid Appraisal, as described above, Missions should consider undertaking a Stage 1 Rapid Appraisal whenever:

(a) USAID is beginning the development of a new CDCS in a country. Once an initial Stage 1 Rapid Appraisal is completed and the Mission has some experience with G2G programming, Missions should make every effort to align the schedule for conducting subsequent Stage 1 Rapid Appraisals to the CDCS cycle and calendar. This approach has the advantage of:

(i) Providing Missions the greatest economies of scale in the collection of data and analysis of information;

(ii) Ensuring that Rapid Appraisal conclusions on the overall country development PFM risk environment are considered as the Mission determines the approach and content of the Mission’s future strategy; and

(iii) Establishing and ensuring that the Rapid Appraisal is updated approximately every five years in accordance with the CDCS cycle.

(b) Over six years have elapsed from the previous Stage 1 Rapid Appraisal. As outlined above, the preference is that subsequent Stage 1 Rapid Appraisals be planned and completed to coincide with the five-year CDCS planning. However, Missions should initiate a new Stage 1 Rapid

Appraisal independent of the CDCS cycle if the previous appraisal is over six years old and if the Mission plans to continue its use of partner government implementing institutions.

(3) Updates of the Stage 2 Risk Assessments: In addition to the condition outlined in (1)(b) above, Missions should consider undertaking a new, or revising an existing, Stage 2 Risk Assessment and documenting it in a PAD amendment under the following conditions:

(a) Significant Increase in Funding

(i) If a Mission is planning to increase the amount of total estimated funding for existing projects or activities implemented by a previously approved government entity by more than 50 percent of the initially authorized amount, or authorizes an additional amount of more than $20 million, whichever is greater, an updated assessment must be conducted and documented, to ensure the entity's PFM systems are sufficient to bear the increased risk associated with the increased funding levels.

(ii) Such an updated assessment does not require a full reassessment; rather, it must include a sample review of the conclusions of the Stage 2 Risk Assessment for the government entity receiving the increase (including Ministries of Finance or other central ministry through which funds might flow). It must also include a review and revalidation of the risk management plan for every approved partner government entity receiving the funding increase. The Mission Controller must conduct or contract out the updated assessment.

(b) Updated risk assessment aligned with project life: In addition to the requirements above, USAID Missions financing project implementation through the use of PGS must update Stage 2 Risk Assessments on a schedule that coincides with the life of the project(s) being implemented, typically a five year period. This includes government entities (including Ministries of Finance, Central Bank, or other central ministry through which USAID funds might flow) that are implementing USAID-funded projects or project activities successfully.

(i) For enduring projects that may extend beyond a five year period without additional funding being provided to/through government implementing entities, a new Stage 2 Risk Assessment is not required within the (extended) life of the project or project activity for such implementing entities. Through ongoing monitoring, the Mission should continue to document and update risk and risk mitigation.

(ii) For each new project or project activity to be implemented by a previously assessed government entity, the conditions described in **220.3.3.2c(3)(a)(ii)** will apply, subject to **220.3.3.2 c(4)**.

(c) **Previously terminated activities:** In cases where the Mission suspends or terminates a project or project activity implemented by a partner government entity and where termination is a result of a negative PFM determination, a new, full Stage 2 Risk Assessment will generally be required if the Mission wishes to reconsider its use of the partner government's systems of that entity for the implementation of USAID activities.

(d) **Change in implementing mechanism:** A new or updated Stage 2 Risk Assessment may need to be performed prior to obligating or sub-obligating funds for the new implementing mechanism when:

(i) A prior Stage 2 Risk Assessment has been performed on a partner government entity tailored to a specific implementing mechanism (e.g., Sector Program Assistance); and

(ii) A new implementing mechanism will be used for which the prior Stage 2 Risk Assessment did not adequately assess risks associated with the new implementing mechanism (e.g., cost reimbursement project assistance).

(4) **Reassessment updates based upon material and significant changes to partner government environment in democratic governance, budget processes and transparency, legal requirements affecting G2G assistance, and changes in macroeconomic conditions:**

(a) Mission Directors/Principal Officers, at their discretion and in consultation with the Regional Bureau Assistant Administrators, as appropriate, are encouraged to require a Stage 1 and/or Stage 2 reassessment, or DRG Enhanced Review, in the event of significant changes in:

(i) The partner government's democratic governance systems and institutions;

(ii) Government budget processes, accountability, and transparency that materially increase risks of PFM practices;

(iii) Legal requirements, including public disclosure laws, concerning G2G assistance that significantly damage public transparency; or

(iv) Macroeconomic changes of condition that may affect risk.

(b) No reassessment is required if the Mission Director/Principal Officer determines, in writing, that changes in the above categories, while significant, do not materially affect or alter the conditions of the implementation of USAID assistance using approved PGS.

d. The Partner Government Implementing Entity

The assessment requirements in **220.3.3.1a** are applicable to Grants Under Contracts (GUCs) that provide funds to partner government entities (see **ADS 201**, **302.3.4.12**, and **220.3.4.3**). These requirements are not applicable to contracts or subcontracts with partner government entities awarded pursuant to **ADS 302, USAID Direct Contracting**, or to assistance subawards to partner government entities made by recipients pursuant to **ADS 303, Grants and Cooperative Agreements to Non-Governmental Organizations**, and in accordance with the following policies and procedures:

(1) Use of the PFMRAF may be undertaken with counterpart partner governmental, quasi-governmental, or other public entities on the national and subnational (regional, local, other unit of government) levels.

(2) Universities and other governmental entities providing technical assistance: Use of the PFMRAF is not required if USAID provides funds directly or through a contract, sub-contract, GUC, assistance award, or assistance sub-award to universities or other educational units of the partner government whose primary purpose is to provide education, research, or training services. These funds cannot flow through central government PFM systems otherwise used to execute central government budgetary authority. All direct contracts, subcontracts, GUCs, awards, or sub-awards to universities and other educational, research, or training government entities must comply with:

- The exceptions to those requirements for educational and related institutions under **22 C.F.R 228.13**; and
- **ADS 302** and **ADS 303**, as applicable to agreement type, including USAID's normal responsibility determination/pre-award survey requirements.

(3) Parastatals and Quasi-Governmental Entities

(a) Parastatals and quasi-governmental entities may be formed primarily for commercial or non-commercial purposes. Those that are formed primarily for commercial purposes are not generally subject to this ADS chapter and instead must follow **22 CFR 228** and either **ADS 302** or **ADS 303**, as applicable.

(b) Non-commercial government parastatals and quasi-governmental organizations should be treated as a partner government agency, requiring compliance by the financing Mission or OU with this ADS chapter, when the organization meets the following five criteria:

(1) A majority of the members of the supreme governing body is comprised of government officials,

(2) The entity delivers public goods or services,

(3) The entity is subject to audit by the partner government's Supreme Audit Institution,

(4) The entity uses the partner government's PFM and procurement systems, and

(5) Implementation will involve the use of the partner government's PFM or other systems.

(c) Missions or Washington OUs may decide, at their discretion, to carry out a PFMRAF assessment even when parastatals or quasi-governmental organizations do not meet all of the five criteria listed above, when the Mission Director/Principal Officer determines that application of the PFMRAF to a parastatal or quasi-governmental organization is in the best interest of the U.S. Government or USAID. The Mission must document such a determination in the AUPGS. Parastatals under consideration for funding by USAID without PFMRAF review are subject to **ADS 302** or **ADS 303**, including USAID's normal responsibility determination/pre-award survey requirements.

220.3.3.3 Overview of the Public Financial Management Risk Management Framework (PFMRAF)

Effective Date: 07/28/2014

The Stage 1 Rapid Appraisal and Stage 2 Risk Assessment are sequential. Missions considering the use of partner government institutions for implementation should strive to complete Stage 1 Rapid Appraisal (or revisions thereto) in conjunction with the development or revision of the CDCS. Stage 2 Risk Assessments may commence any time a partner government entity has been identified in an approved Concept Paper as being actively considered as an implementing entity, so long as a Stage 1 Rapid Appraisal has been completed in accordance with the timing requirements in **220.3.3.2.c**. Timing is otherwise at the Mission's discretion.

a. The Stages of the Public Financial Management Risk Assessment Framework

(1) Stage 1 Rapid Appraisal. This initial stage provides Missions/OUs with a high-level, country-wide snapshot of PFM, governance, and public accountability systems of the partner country government. The appraisal helps inform the decision of whether the Mission/OU should move forward to undertake a more rigorous, focused assessment of each potential implementing entity. It identifies and documents the existence and quality of policies, legal, and institutional framework and systems reflecting government commitment to development, transparency, and accountability. It also identifies political or security factors that may affect fiduciary risk.

(2) Stage 2 Risk Assessment. The second phase focuses on respective partner government implementing institutions and involves the identification, analysis, and mitigation of risks. The assessment identifies and, where appropriate, proposes measures to mitigate fiduciary risks in the proposed implementing entity or entities and may include mitigation actions to be taken by the entity, the Mission, or by third parties as determined by the final project design. The Stage 2 Risk Assessment entails a professional, institution-level examination of the PFM system(s) of targeted partner government implementing institutions proposed to be used to implement USAID-financed projects or project activities. Stage 2 Assessments should be completed as part of a project design process, as described in **ADS 201**.

b. Scope of the PFMRAF Stages

Within the flexibilities permitted by this ADS chapter and its references, the scope of both Stage 1 and Stage 2 should be informed by the project design process, including the technical capacity analysis under **ADS 201** (see **220.3.3.3f**). While the PFMRAF may be used to determine the best implementing mechanism in conjunction with planning and design guidance in **ADS 201**, Stage 2 should be customized to the degree this ADS chapter permits based on considerations such as funds flow and whether advances will be used, so as to minimize appraisal and assessment impacts and burdens on partner government entities. PFMRAF Stage 2 should focus on the systems relevant to and inherent in the actual use of USAID funds (see **220.3.3.2c** for additional scope and timing requirements for reassessments).

c. Negotiations with the Partner Government

Prior to and during the assessment and project design processes, the Mission Director/Principal Officer and other designated PD Team members will be actively engaged in consultations and negotiations about the direction of the project with representatives of the partner government. Consistent with the Local Systems Framework the participation of partner government counterparts in the design of projects should be solicited and such participation is critical when PGS are likely to be used. The partner government may have its own requirements for project design and approval when PGS are used. The Mission should be sensitive to partner government needs and planning systems in this area and support partner government efforts to employ and strengthen its own design and approval systems for projects.

Missions must realize that communications with the partner government concerning potential G2G assistance funded by USAID may create expectations. Consequently, Missions are encouraged to develop both a negotiation and public communication strategy toward the partner government before initiating the PFMRAF process. Missions are also encouraged to develop an open approach to working with the partner government so that governments are aware of what decisions affecting project approval and funding have been made and which have not. It is imperative that partner governments understand that USAID funding commitments are only secured once obligating agreements and sub-obligating documents have been jointly signed and delivered.

220.3.3.4 Stage 1 PFMRAF - Rapid Appraisal

Effective Date: 07/28/2014

The Rapid Appraisal provides USAID with a high-level, country-wide snapshot of the PFM, governance, and public accountability systems of the partner country government and helps inform the decision of whether USAID should move forward to undertake a more rigorous, institution-level Stage 2 Risk Assessment.

a. Stage 1 identifies and documents the existence and quality of policies, the legal and institutional framework, and the systems reflecting government commitment to development, transparency, and accountability. Stage 1 also identifies political or security factors that may affect fiduciary and other risks affecting USAID assistance.

b. The conduct of a Stage 1 Rapid Appraisal is a Mission responsibility and does not require formal G2GRMT approval to initiate. However, Missions should carefully consider/analyze their capacity to undertake a Rapid Appraisal without G2GRMT support.

c. G2GRMT is available to support the design, planning, and implementation of the Rapid Appraisal upon request and subject to the availability of resources.

d. Regardless of how Stage 1 Rapid Appraisal is initiated and managed, Missions are required to communicate and coordinate Stage 1 planning and progress to G2GRMT. The G2GRMT must clear the scope and reports of the Stage 1 Rapid Appraisal.

e. During Stage 1, the USAID Mission will identify the following:

(1) USAID-partner government joint development objectives that may lend themselves to implementation through partner government PFM systems;

(2) Sectors in which the USAID Mission and partner government may want to cooperate on projects implemented through PGS; and

(3) Any areas of PFM system weakness, relationship challenges, or other factors that could pose significant implementation risks, such as potential failure to adequately account for resources or to perform. Note should also be made of PFM reforms or strengthening initiatives that should also be taken into account.

f. To identify systemic partner government PFM practices that are potentially weak, the Mission should use current available information about the partner government's national-level PFM systems (e.g., recent Public Expenditure and Financial Accountability (PEFA) reports, Country Procurement Assessment Reports (CPAR), Organization of Economic Cooperation and Development-Development Assistance Committee (OECD-DAC) government procurement system assessments, partner government-generated and self-assessments and reports, and other donors' assessments). Lack of previous countrywide PEFA or other relevant OECD-DAC assessments or analysis may make risk identification more difficult than instances where such information is readily available. However, such should not ordinarily be a reason to turn down a request for a Stage 1 Rapid Appraisal. Countries lacking PEFA, OECD-DAC, or other relevant assessments or analyses should be encouraged to complete such an assessment, with USAID assistance, if appropriate and available.

g. Missions/OUs must also consider the technical capacity of the proposed counterpart partner government ministry, agency, or other unit of government to implement directly the assistance in its technical capacity analysis done for the PAD (see **220.3.3.3f**).

h. Additional guidance regarding Stage 1 Rapid Appraisals is contained in **ADS 220mae, Public Financial Management Risk Assessment Framework Manual**.

220.3.3.5 PFMRAF Stage 2 Risk Assessment, Identification, Analysis, Mitigation, and Recommendations

Effective Date: 07/28/2014

The Stage 2 Risk Assessment includes testing PFM and other systems as necessary to validate applicable and relevant systems operations and internal controls; identify performance risks; and develop associated risk mitigation options associated with a proposed USAID project that included G2G activities.

a. Unless the Stage1 Rapid Appraisal results in a determination by the Mission that there is an unacceptable level of government-wide fiduciary risk, political constraints, or other insurmountable barriers to the use of PGS, the Mission PGS Team may initiate an in-depth Stage 2 fiduciary risk assessment of potential implementing entities to inform the project design.

b. The Stage 2 Risk Assessment is a fiduciary risk tool, not one designed for programmatic and other types of risk; however, some programmatic and other types of risk may be identified as part of this process. Missions should plan to conduct separate, ideally concurrent with Stage 2, programmatic and technical risk analyses as outlined in **ADS 201**.

c. The Stage 2 Risk Assessment process consists of the following steps:

(1) At the Concept Paper stage of project design, the Mission, Project Design Team, and PGS team members will identify a clear statement of the Project Purpose (typically aligned with an Intermediate Result (IR) in the CDCS Results Framework and identify the partner government entity counterparts. The Concept Paper normally will be accompanied by a Statement of Work outlining the scope and objectives of the Stage 2 Assessment. This is prepared by the PGS and Project Design Teams, in consultation with G2GRMT. Missions will outline their approach to the Stage 2 Risk Assessment as part of the Project Concept Paper (see **ADS 201**).

(2) The Mission/OU must then develop a list of PFM risk assessment evaluation criteria (Stage 2 questionnaire) as outlined in **ADS 220mae, Public Financial Management Risk Assessment Framework Manual**.

(3) Risk assessment evaluation criteria (the questionnaire) guide the identification of fiduciary risks associated with the proposed project/activity to be implemented by the respective institution(s) or sector of the partner government.

(4) The Mission/OU may customize, as appropriate, the list of evaluation criteria (Stage 2 questionnaire) used to conduct the proposed Stage 2 Risk Assessment.

(5) The Stage 2 Risk Assessment and project design are iterative processes that must be repeated for each implementing entity included within a project or activity.

d. The Mission may perform the Stage 2 Risk Assessments or contract out or hire expert consultants, including auditors and accountants with local knowledge and PFM technical experience. When doing so, the Mission must closely monitor the PFMRAF Stage 2 Risk Assessment. The G2GRMT, DCHA/DRG, and GC are available to provide support to the design, planning, and implementation of Stage 2 Risk Assessments, subject to the availability of resources.

e. The G2GRMT must clear the Stage 2 Risk Assessment SOW and subsequently, the final report package (see **ADS 220mae, Public Financial Management Risk Assessment Framework Manual**).

f. During the Stage 2 Risk Assessment, the Mission-designated PGS Team must examine the current capacity, control systems, and day-to-day practices used in the PFM, including the procurement system in the ministries, departments, agencies or other partner government implementing entities (e.g., subnational) that may be responsible for managing USAID funding. This examination must include appropriate testing of PFM systems in order to validate operations, internal controls, and day-to-day practices as well as identify vulnerabilities and recommend appropriate risk mitigation measures and a risk mitigation plan to be finalized during project design.

g. If it is in the professional judgment of the PGS Team, in consultation with the G2GRMT that reliable and material analysis from relevant government-wide assessments by the partner government and/or the country's Supreme Audit Institution, other donors, other USG agencies, or international auditing authorities have assessed certain government PFM functions, the USAID-implemented Stage 2 Risk Assessment does not need to re-examine the practices covered by such assessment(s). Pre-existing/recent assessments should be compared with the factors being assessed by the Stage 2 Risk Assessment. The PGS Team may need to conduct a "validation" analysis, including limited on-site or other results testing, to identify areas or customized factors presenting particular risk to the proposed project or activity that were unaddressed by the prior assessment. G2GRMT is available for consultations on validation of pre-existing assessments, and the identification of additional factors, if any, that require further assessment by the Stage 2 PFMRAF. For joint assessments and reliance entirely on assessments conducted by other entities, see **220.3.3.2a(3)**.

h. The Stage 2 questionnaire in **ADS 220mae, Public Financial Management Risk Assessment Framework Manual** presents a comprehensive list of illustrative questions by function, criterion, and sub-criteria as a starting point to be evaluated as part of the Stage 2 Assessment. The questionnaire need not be used in its entirety, but rather focused on the areas and questions considered relevant and within the scope of the respective Stage 2 Risk Assessment. It is important to note that the risk assessment team may draw not only from the questionnaire, but also from other professional guidelines or checklists as applicable (i.e., AICPA or IIA).

i. Where possible, USAID Missions should consider including appropriate partner government representatives or those of other donors in the Stage 2 Risk Assessment process, as appropriate.

j. Missions/OUs should engage in PFMRAF processes in parallel with the project design process (i.e., preparing the programmatic/technical risk assessment, other analyses, working with the partner government to define the purpose, outputs and an overall funding level, identifying and costing out inputs, etc.). Prior to undertaking the Stage 2 assessment, the Mission must identify a set of government partners and implementing institutions in the finalized Project Concept Paper. As the Mission reviews preliminary results of the Stage 2 assessment(s), it should consider:

- Alternative implementation mechanisms (project vs. program);
- Alternative financing mechanisms (cost reimbursement, FAR, Sector Program Assistance, etc.); and
- Associated risk mitigation or capacity building requirements.

In the end, the Stage 2 Risk Assessment and project design will

- Establish the baseline level of risk corresponding to proposed project funding levels, flow of funds, and implementing mechanisms; and

- Identify PFM vulnerabilities of the partner government institutions that the USAID Mission is considering using to implement the project or specific project activities that will be established and approved in the PAD.

k. All design, planning, and pre-obligation legal requirements must be satisfied before obligating or sub-obligating funds for G2G assistance.

l. The PFMRAF identifies fiduciary risks associated with a particular project implementation proposal. A fiduciary risk mitigation plan is required for all G2G activities within projects and must be part of the AUPGS and reflected in the PAD.

m. After considering these factors, the PGS Team, in conjunction with any consultant or team that assisted in the Stage 2 Assessment, prepares the Stage 2 Risk Assessment Report.

n. All risk management decisions (whether defined in the AUPGS or other components of the project design process) must be made on the basis of identified, assessed, and evaluated risk after consideration of the information available at the time of the decision. Risk management decisions may require the partner government to undertake appropriate risk mitigating actions. Identification of risk management measures is intertwined with, and may overlap with, project design. Through the design process, risks will be analyzed for probability and impact, given a specific project design. Any identified risk must be treated through capacity building, imposition of additional controls, or other measures. Fiduciary risk mitigation measures identified in the Stage 2 report will be further analyzed and refined through the project design process with the final fiduciary risk mitigation plan being incorporated into the AUPGS (see **220.3.1.6**).

o. Additional guidance on Stage 2 Risk Assessments is contained in **ADS 220mae, Public Financial Management Risk Assessment Framework Manual**.

p. **Testing.** In conducting Stage 2 assessments, the limited use of testing should be used to ascertain information and develop conclusions about the viability of PFM systems. The application of testing is important to validate overall systems operations and internal controls, and identify fiduciary and performance risks and associated risk mitigation options. The type and extent of testing performed must be documented. Additional guidance on testing is contained in **ADS 220mae, Public Financial Management Risk Assessment Framework Manual**.

Corruption. If USAID's Stage 1 Rapid Appraisal and Stage 2 Risk Assessment produces clear evidence of specific institutional vulnerabilities to corruption, but the partner government fails to respond with appropriate policies and actions, the Mission should refrain from using those institutions and systems. If, however, the partner government acknowledges a vulnerability to corruption and demonstrates, by agreement in the BAA or Implementation Letter, a commitment to combat it with energetic enforcement or corrective actions, USAID should support such efforts and weigh them favorably when considering use of PGS.

220.3.3.6 Fiduciary Risk Mitigation Plans

Effective Date: 07/28/2014

Missions must include every project activity involving G2G in a project-specific risk mitigation plan describing the manner in which all identified fiduciary risks will be adequately mitigated during the entire implementation such that no acceptable level of risk/fraud is assumed. The plan must be included in the AUPGS which then becomes a mandatory annex to the PAD. Non-fiduciary risk and associated risk mitigation plans must be addressed elsewhere in the PAD.

a. The fiduciary risk mitigation plan must treat all risks identified in the final project design by:

(1) The selection of the most appropriate implementing mechanism;

(2) If appropriate, establish specific mitigation measures which may be expressed as time limits (such as quarterly or annual limits on commitments to the partner government) or amount limits (such as "not to exceed $5 million") or both;

(3) If appropriate, establish risk mitigation measures, which may take the form of short-, medium- or long-term technical assistance to build partner government capacity, supplemental control measures to mitigate identified risk areas during project implementation, or both; and

(4) Such other risk mitigation measures deemed appropriate during the project design process.

b. While the PGS/PS Teams should share and negotiate the mitigation measures identified in the risk mitigation plan with the partner government implementing entity, the contents and sufficiency of the risk mitigation plan must represent the independent judgment of the PGS Team and the Mission Director.

c. All risk mitigation measures in the fiduciary risk mitigation plan must be expressly incorporated into the BAA or IL. The specific actions that USAID and the partner government agree to undertake to mitigate each risk identified in the Stage 2 report and applicable to the G2G project activity must be incorporated into the agreement or IL.

220.3.4 Project Design for Use of Partner Government Systems

Effective Date: 07/28/2014

Missions must follow the strategy development and project design policies and guidance contained in **ADS 201** and this ADS chapter for all projects and project activities implemented through reliable PGS. Additionally, there are certain policies and procedures unique to projects proposed for implementation by partner government institutions. These include:

- The Approval of the AUPGS focused on fiduciary risk (discussed in **220.3.4.1**);
- The risk mitigation plan, (including all aspects of risk including but not limited to fiduciary risk) incorporated into project design, including how that plan will be monitored during project implementation;
- Measures (technical assistance, training, etc.) intended to strengthen the capacity of the partner government to sustain the project results following completion of USAID funding;
- The selection of funding mechanisms, consideration of project vs. program assistance; and
- Special requirements for the PAD and obligating documents for G2G activities.

a. G2G Project Design Overview

Successful project implementation is driven by project design. For example, after executing a Development Objective Agreement (see **220.3.2.4**) with the partner government, thereby obligating funds, one or more projects that support the development objective are further defined and designed by USAID in conjunction with the partner government, including any potential government implementing entities. When the PFMRAF Stage 2 assessment is completed as part of the project design process, the project-specific AUPGS will be incorporated as a mandatory annex in the PAD. Once the Mission Director signs the Project Authorization, the PD Team may initiate negotiations with the involved partner government entities. Funds for G2G activities included in the project are typically sub-obligated through an IL. The IL confirms financing and permits initiation of the G2G activities.

See **ADS 220sab, G2G Programming Lifecycle: Development Objective Agreement** for a diagram describing the process. For funds obligated in a Bilateral Project Agreement (BPA), see **ADS 220saa, G2G Programming Lifecycle: Bilateral Project Agreement** for a diagram describing the process. For program/non-project assistance, see **ADS 220sad, G2G Programming Lifecycle: Project Assistance Agreement** for a diagram describing the process. These different types of G2G agreements are described in more detail in section **220.3.5.2**.

b. AUPGS and Project Design

The PFMRAF process leading to the AUPGS must be integrated into the project design process, beginning with the Concept Paper.

(1) The project design process concludes with completion of the PAD (including the AUPGS) and the Mission Director signing the Project Authorization.

(2) The results of the Stage 1 Rapid Appraisal and Stage 2 Risk Assessment will be refined and adjusted by final project design decisions and documented in the AUPGS, and such risk mitigation measures as, capacity building, technical assistance, concurrent audits, and disbursements in tranches, etc. must be incorporated into project implementation plans, as appropriate. The results may facilitate transfer of greater responsibility for implementation to the partner government once capacity is built.

(3) Every project involving the implementation of a G2G activity must include a project-specific fiduciary risk mitigation plan in an AUPGS.

(4) While analysis contributing to an AUPGS may cover more than one project implemented by a single partner government entity or more than one partner government entity implementing the same project, the AUPGS should be project-specific because of distinct project purposes; and therefore, distinct risk analyses and mitigation plans.

(5) USAID is legally required to address or mitigate all partner government risks identified by the PFMRAF/project design process. However, Missions must be aware that the more extensive the risk mitigation measures become (particularly those of a verification or approval nature that are externally imposed), the less the PFM, procurement, and other government systems may be considered to be the partner government's own systems. In cases where weaknesses or level of risk need to be mitigated, Missions should identify PFM and public accountability strengthening, capacity development opportunities, and a strategy by which USAID assistance can move from employing special oversight to full use of PGS without the need for extensive, externally imposed risk mitigation measures. In such cases, associated technical assistance and its estimated cost must be included in the PAD.

(6) Missions may consider a phased approach to project design and implementation. It may be reasonable to authorize a PAD and begin activities that strengthen PFM systems and later amend the PAD to provide for direct G2G financing when the PHF or other PGS/capacity can successfully implement direct agreements.

c. Preparation of the Project Appraisal Document (PAD)

(1) As the design of a project progresses from concept paper through the analytical process, the Mission Project Design Team will prepare the PAD and, ultimately, the Project Authorization (PA) as part of the planning process outlined in **ADS 201** and in accordance with applicable Mission order(s) concerning project approval. Selection of implementation mechanisms, financing methods, and procurement planning are essential parts of this planning process.

(2) The separate, comprehensive PAD and the PA memorializes compliance with all project planning requirements including USAID planning, strategy, financial planning, the analytical basis for the project, the results of the PFMRAF, and all other policy and legal requirements.

(3) The PAD will contain the detailed budgets for the whole project, including all project activities (G2G and non-G2G) that finance inputs or outputs, or a justification for the level of financing for Program Assistance (see **Program Assistance Policy**). For both project assistance and program assistance, a full discussion of implementing arrangements and methods of financing is required in the PAD (see **220.3.3.2** for further discussion of G2G implementing mechanisms).

(4) The PAD will contain plans for project monitoring and evaluation, indicating how the project is complying with **ADS 203**. The plan should clearly describe how the project will collect needed data from project inception (baseline data), and periodically over the life of the project for both monitoring and evaluation purposes. Performance indicators and evaluation questions may be jointly identified with the host government, as appropriate. Missions should pay careful attention during the project design stage to clarify monitoring roles and responsibilities of the partner government entity, including indicator definitions, data collection methodologies, and reporting. In developing the project monitoring and evaluation plan, Missions should consider approaches for measuring the project's specific capacity building objectives. Missions should consider evaluation questions that include the effectiveness and sustainability of the use of PGS in meeting assistance objectives and the effectiveness of related capacity building support to partner government entities. The PAD may also include a Learning Approach (see **ADS 201**) which will outline processes to ensure the Mission and partner government entity collaborate for synergies, and combine critical analyses and periodic reflection with adaptive management to maintain relevance of project activities.

(5) The PAD must also include a sustainability analysis that, at a minimum, must include a technical capacity analysis of the partner government implementing entity to implement the project and a recurrent cost analysis pursuant to **ADS 201** and **220.3.4.3f**.

(6) The Mission can amend the PAD and PA, if the Mission has an ongoing project that it wishes to amend to add a G2G activity. The amendment must include the Stage 2 assessment and AUPGS, as well as other programmatic analyses related to the use of a partner government entity (institutional, technical, sustainability, etc.) and a revised budget. The Mission must also complete an amendment to the project authorization for the signature of the Mission Director.

(7) See **ADS 201** and **ADS 203** for further specific guidance on the PAD.

220.3.4.1 The Approval for Use of Partner Government Systems (AUPGS)

Effective Date: 07/28/2014

The AUPGS is an addendum to the PAD which documents the due diligence requirements and associated fiduciary risk mitigation plan for using PGS. The AUPGS establishes USAID's and the partner government's fiduciary risk management strategy and guidelines for the life of the respective project. The AUPGS must:

a. Result from a Stage 1 Rapid Appraisal and Stage 2 Risk Assessment;

b. Be incorporated into the PAD for projects that include G2G activities and must be completed prior to PAD finalization and Project Authorization;

c. Describe a project-specific fiduciary risk mitigation plan (see **220.3.1.6**) which accounts for all identified fiduciary risks as informed by the project design process;

d. Outline management, monitoring, and reporting roles and responsibilities over G2G activities included within the project, including adherence to the risk mitigation plan;

e. Document that the PFM systems that will be used for the implementation of USAID development assistance will be subject to:

(1) Periodic financial audit as provided in the BAA and **ADS 591**;

(2) Periodic re-assessment of the Stage 1 Rapid Appraisal and the Stage 2 Risk Assessment, as described in this ADS chapter;

(3) Periodic reporting and oversight, including compliance with any risk mitigation measures established in the risk mitigation plan;

(4) Evaluation, in accordance with **ADS 203**, of the outcomes and effectiveness of the project and its G2G activities and of related capacity building support to implementing partner government entities; and

(5) Be reviewed for concurrence by the PGS Team.

The Project Authorization, to be signed by the Mission Director, will clearly state that the AUPGS is approved.

220.3.4.2 Types of G2G Assistance and Design Overview

Effective Date: 07/28/2014

a. USAID generally finances implementation of development assistance through four general types of implementers:

(1) Partner government entities;

(2) Private sector contractors or recipients (see **ADS 302** and **ADS 303**, respectively), including local civil society organizations and other non-governmental organizations (see **220.3.4.3**);

(3) Other U.S. Government agencies (see **ADS 306, Interagency Agreements**); and

(4) Public International Organizations or bilateral donors (see **ADS 308** and **ADS 351**, respectively).

b. For implementation by partner government entities, G2G project activities may employ a variety of funding mechanisms (outlined below), but an initial choice between two basic categories of assistance is required: program assistance or project assistance (see **Program Assistance Policy**). Their most salient features are described in more detail in the implementation section, **220.3.5.2**. Note: the term “program” in the context of “program assistance” as used in this ADS chapter is not meant to coincide with the term “program” as used in **ADS 201**. Both project assistance and program assistance may be involved in "projects" as defined in **ADS 201**.

c. Project Assistance: Under project assistance, the purpose of USAID assistance is 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, and
- Better governance, etc.

To achieve the purpose, USAID provides financing for specific project inputs, such as technical assistance, training, equipment, vehicles, capital, construction, etc. All inputs are identified during the design of the project activity and budgeted in the PAD. 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 U.S. Government requirements for estimating the costs of the activity. There are two methods of financing G2G project activities:

(1) Cost reimbursement (inputs), and

(2) Fixed amount reimbursement (outputs or associated milestones).

d. Program Assistance: Under program assistance, USAID provides a generalized resource transfer, in the form of foreign exchange or commodities, to the partner government to alleviate constraints that are policy (DA/ESF) or resource (Economic Support Funds (ESF)) based. Under program assistance, 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. There are two types of program assistance implementing mechanisms; both involve resource transfers, but are used to achieve different results and are implemented differently:

(1) Sector program assistance, and

(2) Balance of payments (BoP) or general budget support (GBS).

e. Choice of Funding Mechanism: The choice of the appropriate funding mechanism for all project activities must be based on a clear statement of the overall project purpose. Projects may finance different activities with very different funding and implementing mechanisms. G2G project activities may employ a variety of funding mechanisms to finance approved activities and inputs. The selection of G2G funding mechanisms should be determined by, among other things:

(1) Whether the project purpose lends itself to project assistance or program (non-project) assistance (see **220.3.4.3c**);

(2) The applicability, availability, and accuracy of input cost data;

(3) The nature of the project or activity and how its results will be sustained into the future;

(4) The technical capacity and institutional strength of the implementing entity;

(5) The results of the PFMRAF Stage 2 Risk Assessment; and

(6) Management burdens on available resources in the Mission and partner government.

Before selecting and negotiating a particular implementing mechanism with a partner government entity, Missions should identify all of the mechanisms available for the project activities and fully understand the positive and negative aspects of each mechanism.

220.3.4.3 Design Considerations for G2G Projects and Activities

Effective Date: 07/28/2014

The design of projects that include activities implemented by partner government entities involve several important considerations.

a. Incorporation of PFMRAF and AUPGS

(1) Risk mitigation measures, such as capacity building, training and technical assistance, concurrent audits, and tranched disbursements should be incorporated into project design, where appropriate. If employed, these may facilitate increasing direct implementation responsibility on partner government entities once capacity is strengthened.

(2) Depending on the results of the PFMRAF Stages 1 and 2, inclusion of an incremental approach may be useful, under which the partner government would be expected to demonstrate measured progress in addressing identified PFM weaknesses. Quantitative limits on funds advanced or simply dividing the project into phases may be used to limit USAID’s fiduciary exposure at any one point and should be incorporated into the risk mitigation plan. See **ADS 220maj, Advances for G2G Assistance** and **ADS 636, Program Funded Advances** for guidance on advances of project funds.

(3) USAID and its partner government counterparts must agree on a reporting plan that includes periodic progress reports from the responsible government counterpart. These will include:

- Reporting on the performance indicators identified in the Monitoring and Evaluation Plan and Learning Approach that measure progress towards goals and objectives of the USAID-funded project;

- Periodic implementation progress meetings; and

- Subsequent, jointly-agree plans of action to address implementation problems.

Monitoring of all project activities will be reflected in the broader project monitoring and evaluation plan presented in the PAD. Such monitoring plans should include provisions to ensure partner government follow-up on any risk mitigation measures established in the AUPGS, the PAD, and/or the Project Authorization.

(4) Consideration must be given to incorporating the results of the PFMRAF Stages 1 and 2 and any technical assistance provided to address diagnosed weaknesses, into the monitoring and evaluation plan, if appropriate. In the case of program assistance, disbursement of USAID funds may be linked programmatically to the success of mitigation measures agreed upon in the Program Agreement. These mitigation measures may also be defined as project activities in the PAD or spelled out as covenants or conditions precedent to disbursement in the PA and the subsequent sub-obligating document (the IL).

(5) As appropriate, Missions should use the following financial oversight provisions for projects being implemented by government partners:

(a) Use of existing partner government indicators and reporting mechanisms for financial reporting, to the greatest degree possible;

(b) Fixed and appropriately timed periodic reporting by the partner government on the receipt and use of funds, including (where applicable) policy or performance benchmarks; and

(c) Adjustment of risk mitigation features as implementation progresses; i.e., adding, deleting, or changing risk mitigation approaches by joint agreement, as necessary.

(6) Procurement. The use of PGS generally includes use of partner government procurement systems. It is USAID policy to rely on the partner government's own procurement laws and regulations, policies, and procedures to the greatest extent permitted by USAID regulations and policy, subject to the results of the risk assessment process. However, in deciding how to rely on partner government procurement systems, USAID Missions should take into consideration the following:

(a) The way in which USG legal and policy requirements apply vary with the G2G implementing modality. Below are some examples, but Missions should consult their cognizant RLO or GC attorney for additional information.

(b) Procurement under a Fixed Amount Reimbursement mechanism must follow the requirements of **ADS 220mah, G2G Implementing and Funding Mechanisms Fixed Amount Reimbursement**;

(c) Requiring USAID pre-approval of partner government procurements, if imposed by a Mission as a financial risk mitigation measure, may potentially trigger certain requirements (e.g., Defense Base Act insurance, third party liability, etc.). To adequately balance burdens and benefits involved in risk management, the Mission will need to consult with the relevant RLO, GC attorney, or M/OAA on the legal implications of USAID approvals of partner government actions.

(d) Payment directly by USAID to a partner government contractor or grant recipient for project assistance requires the use of **ADS 305** procedures;

(e) Except as described in **ADS 310, Source and Nationality Requirements for Procurement of Commodities and Services Financed by USAID**, **ADS 312,Eligibility of Commodities**, and this ADS chapter, USAID's source/nationality regulation at **22 CFR 228** applies to partner government procurements for project assistance unless such procurements are limited to local costs (available for purchase in the partner country); and

(f) While the partner government implementing entity is not legally required to follow the competition requirements legally applicable to USAID's own direct contracting such as provided in the Federal Acquisition Regulation, USAID should encourage the maximum use of competition by the partner government implementing entity, subject to:

(i) The partner government's own legal and policy requirements, and

(ii) Sound public procurement principles and practices.

(7) Additional Project Design guidance and materials are available in **ADS 201**, from PPL/SPP, and on **ProgramNet** to assist with project design.

b. Use of Different Modalities for Project Implementation

(1) It is typical for a USAID-financed development project to employ various complementary project activities and funding mechanisms to achieve the project purpose.

(2) From the Logical Framework, a required component of USAID's project design approach (see **ADS 201**), project activities produce a set of project "outputs" that, when completed, achieve the project purpose. How the project achieves each distinct project output should be considered individually. For example, building a series of standard elementary school classrooms may be most efficiently achieved through a FAR activity. Increasing the pedagogical capacity of the teacher training facility may be most efficiently achieved through a combination of training and technical assistance. Textbooks may be procured most efficiently via contract from a local book publisher or printer. Some of these activities may be completed most efficiently by the partner government; others may be completed most efficiently through USAID-direct contracts.

During the project design process, the partner government and USAID should first determine the outputs necessary to reach the project purpose. Then, USAID and the partner government entity will determine how these outputs will be achieved; e.g., what kinds of activities are required and what methods of implementation and financing are most appropriate to successfully complete these activities. The flexibility of the design approach allows the Mission and the partner government to choose the most appropriate, effective, and efficient means of achieving the project outputs.

Throughout the design process, Missions will strive to ensure that the partner government is charged with responsibility for the success of activities most important to the sustainability of project results.

(3) Budgets, cost estimates, and implementation of all G2G assistance (project assistance and NPA) must follow Recurrent Cost Policy and Salary Supplement Policy (see **ADS 220mac, Legal Requirements for G2G Assistance**).

c. Consideration of Program (or Non-Project) Assistance Modalities

(1) Program Assistance includes two sub-types: sector program assistance (SPA), and BoP/GBP (see **Program Assistance Policy**). Whereas these sub-types share some common elements (e.g., resource transfer mechanisms and, often, host country owned local currency operations), they differ in focus and objectives.

(2) In certain countries with particularly well-developed national development strategies, technical capacity, and strong PFM systems, SPA should be considered as a means to achieving broad-based, sector development results. SPA promotes medium- to long-term increases in production or efficiency in a defined economic or social sector or sub-sector. Such assistance is directly linked to specific policy, institutional or other partner government actions necessary to further or achieve agreed-upon development objectives at the sectorial level. Disbursement in foreign exchange (or internationally procured commodities) occurs after the agreed-upon actions are taken. As resources are provided, they are deposited or transferred to the partner government for its use, governed largely by its own PFM and other systems. These programs are generally appropriate when the purpose is to transform a particular sector (e.g., agriculture, health) and the main constraints to achieving significant sector development results require a mixture of institutional improvements, systems strengthening, policy changes, and budget expansion. SPA approaches are often combined with project assistance activities that provide technical assistance, or complementary sector project investments in infrastructure, training, etc.

(3) BoP/GBS is a modality that may be primarily concerned with promoting economic and political stability by bridging short-term public sector budget and/or BoP short-falls. In appropriate cases, this assistance may be accompanied by, or conditioned upon, institutional or policy reforms. Typically this assistance is provided to fragile states and strategic partners. The time horizon for this type of resource transfer program may be short-, medium-, or long-term, depending on the structural nature of the resource short-falls. Such programs are normally financed with ESF and have a generally high level of USG, international, or foreign policy support.

d. Multi-Donor Approaches

(1) Missions planning projects using PGS may consider coordinating with other bilateral and multilateral donors (also referred to as public international organizations) on project approaches, joint funding arrangements, and other coordination measures such as those in **ADS 308** and **ADS 351** as part of the project design process

(2) When working with another donor serving as the Trustee of a MDTF or lead donor of a pooled funding arrangement where USAID and the other donors' funds will flow through a partner government's systems, the PGS Team must review and confirm the MDTF trustee's or lead donor's administrative arrangements for the pertinent multi-donor (or other) trust fund under consideration for USAID financing. The review must include fiduciary risk management and other accountability arrangements, to be established by the MDTF trustee/lead donor to assess and monitor partner government PFM systems. This is assuming that those systems will be used for project implementation. PGS Teams should refrain, to the maximum extent possible, from duplicating the work of the administrative agent (the MDTF trustee or its agent) of such funds by directly examining the partner government PFM systems. Effectively, it is the MDTF trustee's oversight, not the PGS themselves, which must be examined. The documentation establishing USAID's participation in such MDTFs must include provisions that clearly establish the trustee's responsibility as the administrative agent for risk management and treatment.

(3) Trust funds managed by the partner government (multi-donor trust funds or "baskets") may involve issues similar to those involved when a multi-lateral or other bilateral donor acts as a trustee/lead donor. When a fund is managed by the partner government itself and the funds will use the partner government's PFM or other systems to implement development activities, the policies and procedures of this ADS chapter apply to the fund. PGS Teams should attempt to coordinate with and rely upon, other contributing donors' assessment of the trustee's financial and other oversight capacity and risks. Missions must ensure that such other donors' efforts are compatible with and sufficiently meet the processes and requirements of this ADS chapter.

e. USAID direct contracts and grants

(1) Pursuant to **ADS 201**, **ADS 302**, and **ADS 303**, as applicable, USAID may:

(a) Award a contract to or consent to a sub-contract with a partner government pursuant to **ADS 302.3.3**;

(b) Approve a Grant under Contract to a partner government pursuant to **ADS 201** and **ADS 302.3.4.12**; and

(c) Approve a sub-award to a partner government by a direct assistance recipient pursuant to **ADS 303.3.21**.

(2) It is USAID policy to increase its direct assistance to partner governments to achieve sustainable development results. After 07/28/2019, no prime award to a contractor or recipient may contain sub-awards that provide funds to partner governmental entities unless a PAD or Determination & Finding, as specified in **ADS 302.3.4.12** or **ADS 303.3.21**, is approved by the cognizant Bureau AA (in consultation with relevant Pillar or Regional AAs, as applicable) and the AA for Management and is provided to the Contracting Officer. Pursuant to **ADS 201**, progress toward this deadline will be evaluated approx. three years after the date of implementation and may be extended or cancelled by the Administrator upon a finding that implementation of the policy will unnecessarily interfere with the Agency's work.

220.3.4.4 Bilateral Assistance Agreements (BAA)

Effective Date: 07/28/2014

The project design process must result in a determination to use appropriate obligating and sub-obligating instruments for each project. Missions must document this determination in the PAD and PA.

a. The PAD and the PA approve a set of project or program activities. Funds for activities approved in the PAD/PA may be obligated and sub-obligated in different ways through different types of implementing mechanisms and documents.

b. A BAA may be

(1) A Development Objective Grant Agreement (DOAG) (or Assistance Agreement or Strategic Objective Grant Agreement (SOAG)) (see **ADS 350**);

(2) A BPA;

(3) A Program Assistance Agreement (PAA); or

(4) A Limited Scope Grant Agreement (LSGA) (for small project obligations of less than $500,000 (see **ADS 350**)).

BAAs are different in form and function from non-obligating documents such as Memoranda of Understanding, sometimes used for bilateral program coordination or political relationship purposes and non-obligating Framework Bilateral Agreements (see **ADS 349, International Agreements**), which establish the general terms and conditions of the U.S. Government bilateral assistance relationship with the partner government, including diplomatic privileges and immunities for USAID staff.

c. Often, USAID foreign assistance funds are initially obligated bilaterally through mechanisms such as DOAGs or SOAGs. In other cases, USAID-funded bilateral projects are obligated for specific projects through a BPA or a LSGA, which can then be sub-obligated to the government, a direct USAID contractor or grantee, or a Public International Organization. Program assistance (Sector Program Assistance or BoP/GBS) must be obligated separately from project assistance in a Program Assistance Agreement (see **ADS 220sai, Sector Program Assistance Agreement Template** or **ADS 220saj, Balance of Payments/General Budget Support Assistance Agreement Template**).

d. In all cases, adequate technical and financial planning requirements must be fulfilled prior to obligation in a DOAG or SOAG as required by FAA Section 611(a) (see **ADS 201**). In some instances, the BAA (e.g., DOAG) is executed prior to the completion of a PAD. Multiple project activities identified in the PAD are subsequently sub-obligated with a portion of the funding obligated in a DOAG. See **ADS 201** and **ADS 350** and consult the Mission Program Officer or RLO for additional information.

e. A project funded through a DOAG or BPA may include multiple project activities and these may utilize one or more implementation or funding mechanisms (e.g., USAID direct contract, cost reimbursement, FAR). Activities may also be managed directly by institutions of the partner government as well as contractors and recipients funded directly through USAID sub-obligations (see **220.3.2.2**). See **ADS 220sab, G2G Programming Lifecycle: Development Objective Agreement** for a diagram describing the G2G design and project delivery process.

f. Where funds are obligated in a DOAG or BPA, subobligation of funds for specific activities to a partner government implementing entity must be made by IL. An IL is used to approve the activity, approve a budget for the activity, and confirm an initial amount of financing for all or a portion of the activity being funded.

g. When G2G activities are sub-obligated with funds obligated in a DOAG, Missions must follow these guidelines:

(1) When a DOAG is the obligating document, it must describe the actual or illustrative activities that are intended to achieve the defined development objective as described in **ADS 201**.

(2) G2G activities contemplated for financing under a DOAG must be described in the DOAG at the same level as other DOAG implementing activities. Final approval of G2G implementing activities and funding instruments will then be made by IL upon completion of the project design process, a PAD, and a Project Authorization. No funds made available under a SOAG/DOAG may be sub-obligated until the corresponding PAD has been completed and the Mission Director has approved the Project Authorization.

(3) When G2G activities or projects are revised or refined after the DOAG is signed, the DOAG may need to be amended, particularly when the DOAG describes actual activities rather than illustrative activities.

(4) The DOAG must include an illustrative budget and the files must document adequate financial planning (see **ADS 201**). The illustrative budget may be further modified as needed (most easily in conjunction with incremental obligations) to reflect actual funding decisions, negotiations, unanticipated requirements, and other changes that the partner government and USAID agree upon.

(5) Missions/Operating Units must follow the guidance in **ADS 350** for SOAGs and DOAGs and must use the **Development Objective Agreement and Bilateral Project Agreement Template (non-health)** or the **Development Objective Agreement and Bilateral Project Agreement Template (health)**.

h. Direct obligation of funds for G2G activities into BPAs or PAAs must be done according to the following:

(1) Program assistance must be obligated directly into a PAA, and not obligated initially into a broader SOAG or DOAG that combines both program and project assistance (see **220.3.3**). See **ADS 220sad, G2G Programming Lifecycle: Program Assistance Agreement** for a diagram describing the Program Assistance G2G design, authorization, and implementation process.

(2) Direct obligation of appropriated and allowed funds into a BPA may be considered for projects with substantial G2G activity. See **ADS 220saa, G2G Programming Lifecycle: Bilateral Project Agreement**

for a diagram describing the BPA G2G design, authorization, and implementation process.

(3) Missions may consider funding BPAs when funds have not been obligated in a DOAG (e.g., when there is no DOAG); when the PAD has been approved and the project has been authorized; and when other circumstances exist, such as:

(a) When a development objective (DO) contains one or two, narrowly defined Intermediate Results; or

(b) When management wishes to complete the design of the full project (PAD/PA) and project technical and implementation analyses prior to obligation of funding for activities.

(4) Sub-obligation of G2G project funds obligated in a BPA is accomplished via IL, as for DOAG-obligated funds.

(5) The documentary form and legal content of a BPA closely resembles that for a DOAG, although its approach, scope, and degree of specificity largely differ (see **ADS 350mac, Development Objective Agreement and Bilateral Project Agreement Template (non-health)** or **ADS 350mad, Development Objective Agreement and Bilateral Project Agreement Template (health)**).

(6) See **ADS 220sai, Sector Program Assistance Agreement Template** or **ADS 220saj, Balance of Payments/General Budget Support Assistance Agreement Template** for more information on Program Assistance Agreements.

i. Because both G2G and non-G2G funds are obligated in DOAGs, BPAs, or LSGAs, no document modeled after an approved obligating document (see **ADS 621, Obligations**) may be used to sub-obligate funds for a G2G activity.

(1) A BPA/PAA may not be used to sub-obligate funds for a G2G activity obligated in a DOAG.

(2) The following may not be used to sub-obligate funds directly to a partner government for a G2G activity for which funds are obligated in either a DOAG or BPA:

(a) Limited Scope Grant Agreements;

(b) **ADS 303**: Grants;

(c) **ADS 302**: Contracts;

(d) **ADS 308**: PIO grants;

(e) **ADS 351**: Agreements with Bilateral Donors;

(f) **ADS 349**: Framework Agreements;

(g) Fixed Amount Reimbursement Agreements (note: FAR activities authorized in a PAD and financed with funds obligated via DOAG are treated as G2G activities in accordance with this guidance and therefore are sub-obligated via FAR ILs); or

(h) Memoranda of Agreement or Understanding (MOAs/MOUs).

j. All Foreign Assistance Act requirements, USAID policy requirements, and standard operating requirements applicable to foreign assistance provided under the BAA (DOAG or BPA) are normally included in the agreement (and further referenced or amplified in an IL) to the extent they will be applicable to the partner government's implementation (see **ADS 350** and **220.3.2.5**).

(1) All compliance issues must be identified in a compliance plan outlined in the PAD.

(2) Partner government contributions, unless waived or inapplicable, must be included in the DOAG or BPA, and in the project level budgets presented in the PAD.

(3) Additional explanation of legal requirements is contained in **ADS 220mac, Legal Requirements for G2G Assistance** (Also, see **ADS 350mac, Development Objective Agreement and Bilateral Project Agreement Template (non-health)** or **ADS 350mad, Development Objective Agreement and Bilateral Project Agreement Template (health)**).

220.3.4.5 Implementation Letters for Sub-obligations

Effective Date: 07/28/2014

An Implementation Letter is the document for approving and managing G2G assistance project activities and sub-obligating funds obligated in a DOAG or BPA. An IL confirms financing for all or a portion of the total anticipated cost of the activity (see **220.3.4.3**). Project assistance ILs may describe, approve, and sub-obligate funds for one or more G2G project assistance activities using different methods of financing (see **220.3.5.2 b**).

220.3.5 Project Implementation When Using Partner Government Systems

Effective Date: 07/28/2014

It is important for the PGS Team to monitor progress and periodically evaluate the effectiveness of the fiduciary and other risk mitigation measures put in place throughout implementation via the selected partner government system. This is crucial for the effective and efficient use of appropriated funds.

220.3.5.1 The Project Manager and the National Counterpart(s)

Effective Date: 07/28/2014

The Nature of the Bilateral Relationship. The success of and inherent nature of bilateral development assistance is premised on a relationship of equal partnership between two sovereign entities. USAID personnel must engage with partner government personnel with the highest degree of professionalism, collegiality, diplomacy, and collaborative intentions.

a. **Designated Representative**. The Mission Director/Principal Officer serves as the designated U.S. Government representative for the BAA. After approval of G2G activities in the respective PAD, Mission Directors/Principal Officers are responsible for negotiating, signing, administering, and, if needed at the implementation stage, amending, suspending, or terminating an approved G2G project activity with the partner government. Only the Mission Director/Principal Officer, or other delegated officer pursuant to **ADS 103, Delegations of Authority** has the authority to:

- **(1)** Execute the BAA, and
- **(2)** Approve and execute amendments to the BAA.

b. **Delegations of Authority**. Mission Directors/Principal Officers may designate additional representatives from the Mission and the PGS Team to manage the project and establish long-term, professional relationships with partner government counterparts. These delegations may include the authority to:

- **(1)** Sign Implementation Letters, and
- **(2)** Take formal implementation actions under a BAA.

c. Due to the inherently governmental functions involved, individuals designated as delegated representatives of USAID for the BAA and/or implementation and management of the project activities must be USAID personnel (direct hires or PSCs (US or Foreign Service Nationals). PSCs must not be delegated the authority to sub-obligate funds. See other restrictions on delegations to U.S. PSCs and non-U.S. citizen employees in **ADS 103.3.1.1**.

d. **Additional Authorized Representatives**. The Mission must notify the partner government, in writing, of the USAID personnel and their delegated authorities as Additional Authorized Representatives under the agreement.

220.3.5.2 Project and Program Implementing Mechanisms

Effective Date: 07/28/2014

Because the Mission Director/Principal Officer or other delegated officer is responsible for negotiating and signing the BAA under which funds will flow through PGS for implementation (see **ADS 103.5.1**), ultimately, he or she is responsible for selecting the funding mechanism(s) to be used to finance G2G activities. The Project Design team and other designated staff will assist and advise the Mission Director/Principal Officer.

a. Selection of an Implementation/Funding Mechanism

Selection of G2G implementing mechanisms takes into account several considerations.

(1) Competition is not required prior to entering into a BAA or issuing ILs for implementation through PGS.

(2) Missions should consider and select implementation/funding mechanisms that can best achieve the purpose of the project or activity, foster and deepen PFM capacity, and efficiently implement the project or activity while guaranteeing accountability and promoting sustainability. A brief description of the key bilateral implementing mechanisms can be found in **ADS 220maa, Key Bilateral Funding Mechanisms**. Often, more than one implementing mechanism may be able to achieve the project/activity purpose.

(3) Financial and programmatic risks will vary depending on the type of implementing mechanism under consideration, as well as the capacity of the implementing institution. Risk mitigation measures should be established in bilateral agreements and other implementation documents with due care, not to undermine the integrity of partner government PFM and procurement systems. The goals are to increase partner government capacity and sustain the benefits of USAID investments.

(4) A project assistance BAA (DOAG), LSGA, or BPA may incorporate:

- One or more USAID bilateral funding mechanisms, and
- Activities implemented by contractors and recipients.

See **ADS 220sab, G2G Programming Lifecycle: Development Objective Agreement** for a diagram describing the DOAG G2G design and project delivery process or **ADS 220saa, G2G Programming Lifecycle: Bilateral Project Agreement** for a diagram describing the BPA G2G design and project delivery process.

(5) Program/non-project assistance and resource transfer mechanism(s) must be obligated using a separate instrument than projectized assistance approaches/mechanisms (see USAID's **Program Assistance Policy**). Also, see **ADS 220sad, G2G Programming Lifecycle: Project Assistance Agreement** for a diagram describing the Program Assistance G2G design, authorization, and implementation process.

(6) To the extent possible, Missions and Operating Units must avoid negotiating or funding the establishment of separate, donor-funded project implementation/management units (PIUs/PMUs) that operate outside the existing systems and structure of the partner government. It is USAID policy to use existing PGS entities and institutions in order to strengthen those already established by the partner government rather than create or maintain unsustainable, separately operated project management or implementation units.

(7) As part of the selection of the implementing mechanism, Missions must determine that the proposed implementing ministry/agency/other unit of government has staff with sufficient technical capacities to implement the assistance being offered. This is accomplished through a technical capacity analysis completed as part of the project design process, as described in **220.3.2.3 f**.

b. G2G Project Assistance Methods of Finance

(1) **Cost Reimbursement**. Under this mechanism, USAID reimburses the partner government entity for its actual costs and expenditures incurred in carrying out the project or project activities.

(a) Missions must identify the inputs and the estimated costs of inputs to be financed by USAID and the partner government in the DOAG or a BPA and budgeted in the PAD (see **ADS 201**).

(b) Budgets must provide sufficient detail to justify the level of financing approved by the Mission.

(c) For projects that are jointly approved by USAID and the partner government outside of the government's budget cycle, or when funding from the partner government is not available, advance funding from USAID may be provided. Advances:

(i) Can be provided in conjunction with cost reimbursement projects on a revolving (advance-liquidation) basis;

(ii) Should be subject to:

1. Mission determination that adequate funding will become available within the partner government's budget to implement the project on a reimbursement basis; and

2. Periodic review and a renewal process subject to USAID approval of continued funding.

(iii) Must follow **ADS 220maj, Advances for G2G Assistance**.

(d) USAID agrees to pay reasonable, allowable, and allocable actual costs up to the amount sub-obligated for the activity, and subject to periodic progress reviews of satisfactory activity progress.

(e) Additional policy and guidance on the use of Direct Cost Reimbursement for G2G project assistance is contained in **ADS 220mag, G2G Implementing and Funding Mechanisms Cost Reimbursement Projects**.

(f) Missions are encouraged to use the **Cost Reimbursement Implementation Letter Template (non-health)** or **Cost Reimbursement Implementation Letter Template (health)**.

(2) **Fixed Amount Reimbursement (FAR)**. Under fixed amount reimbursement, USAID reimburses a fixed amount per output or associated milestone as the partner government completes each identified output or associated milestone. The payment amount for each output or associated milestone is the amount agreed to and fixed in advance in the IL as a reasonable estimate of the cost to produce the output or associated milestone and is not altered based on the partner government entity's actual cost experience. The IL must also establish quality standards for each output or associated milestone that must be met and verified by USAID or its representative prior to reimbursement.

(a) The requirements for using FAR are:

(i) Outputs or associated milestones must:

1. Be objectively verifiable regarding completion and quality;

2. Be or contribute directly to sustainable and independently useful outputs, regardless of whether other outputs or activities are completed;

3. Be paid for in amounts based on reasonably accurate, documented cost estimates. Outputs or associated milestones may not be flexibly priced to provide liquidity; and the payment amount for each output or associated milestone must be based on a reasonable and documented estimate of the output's or associated milestone's cost; and

4. Be within the partner government's span of management control to successfully complete as designed.

(ii) Each output or associated milestone should be likely to be completed in less than 12 months from the initiation of work, although some variation in timing may result from the nature of outputs or associated milestones contemplated and actual implementation experience;

(iii) The payment amount for each output or associated milestone must be based on:

1. A detailed and reasonable estimate of its cost (or a percentage thereof); and

2. Documented verification by USAID of output or associated milestone completion.

(iv) Programmatic risk increases for the partner government entity assuming a significant portion of the financial risk for actual costs under a FAR. Therefore, USAID must assess and determine that the partner government entity's management and budgetary capacity is sufficient to produce the financed outputs or associated milestones under a FAR before obligating or sub-obligating funds for a FAR. This assessment may be conducted as part of the technical capacity analysis required by **ADS 201** or combined with the PFMRAF. When the technical analysis is combined with the PFMRAF, the SOW and report should provide separate sections covering fiduciary and technical matters.

(b) Additional policy and guidance on the use of FAR is contained in **ADS 220mah, G2G Implementing and Funding Mechanisms Fixed Amount Reimbursement**.

(c) On an exceptional basis, as justified, USAID may provide advances under FAR, where necessary, so long as advances are liquidated based on successful completion of outputs or associated milestones rather than actual costs incurred. Associated milestone payments must be refundable if the final output is not completed.

(d) FAR may include periodic adjustment of subsequent output or associated milestone payment amounts based on changed conditions, such as price escalation or unforeseeable inflation. However, such adjustment must not be retroactive to works in progress or previously completed. Missions must document such adjustments and modify ILs in writing.

(e) Missions are encouraged to use the **Fixed Amount Reimbursement Implementation Letter Template (non-health)** or **Fixed Amount Reimbursement Implementation Letter Template (health)**.

c. Program Assistance Implementing Mechanisms

(1) Sector Program Assistance

(a) Missions may undertake Sector Program Assistance operations where such use promotes medium-to long-term increases in production or efficiency in a specific economic sector or sub-sector.

(b) The provision of SPA resources must be directly linked to (based on and disbursed after execution of) specific policies, institutional reforms, or other partner government actions necessary to achieve agreed development objectives in the identified sector or subsector.

(c) A SPA may be funded with any category of appropriated funding in any definable, approved USAID sector.

(d) Under SPA, USAID provides financial support for sector performance actions, which accomplish all or part of the program's purpose when completed.

(i) SPA performance actions must be verifiable, comprehensive, meaningful, and achievable.

(ii) SPA performance actions must be included directly or by reference as conditions precedent to the disbursement of USAID funds under the Program Assistance Agreement.

(iii) 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).

(e) Once performance actions or conditions are met, USAID disburses U.S. dollars to the partner government.

(i) Disbursement of appropriated funds to the partner government is generally made into a partner government-owned bank account held in an acceptable correspondent bank in the U.S., preferably the Federal Reserve Bank.

(ii) A Congressional Notification (CN) is required for Non-Project Assistance (NPA), including SPA, that is separate and additional to those required for G2G assessments and USAID programming.

(iii) SPA disbursements may be exempt from the separate dollar account requirement if an exemption is justified and notified in the Congressional Notification.

(iv) Advances of appropriated funds are not authorized under a SPA.

(f) If the U.S. 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 deposit of Host Country Owned Local Currency (HCOLC) may be stipulated in the agreement. However, a separate HCOLC deposit is not legally required. Generated or deposited HCOLC will be deposited into a separate Special Local Currency bank account. The use of the HCOLC will be jointly programmed in accordance with USAID policy and local currency programming guidance. Generation (or deposit) of HCOLC is typically used when USAID wishes to be more closely involved in ensuring the allocation of funding to specific sector budgets or budget line items. This increases USAID's management responsibility for the program, but also allows USAID to influence the partner government's budget for the target sector in a meaningful way.

(g) A SPA is subject to the design parameters of the project design guidance in **ADS 201**. The Mission Director/Principal Officer must authorize a PAD covering the SPA. 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 **Program Assistance Policy**.

(h) SPAs must include a monitoring and evaluation plan.

(i) Additional policy and guidance on the use of SPA is contained in **Program Assistance Policy**.

(j) Missions are encouraged to use the **Sector Program Assistance Agreement Template**.

(2) Balance of Payments/Budget Support (BoP/GBS) (also commonly referred to as cash transfer assistance)

(a) These types of resource transfers may be provided where exceptional political or economic circumstances are present and there is a need to promote economic and political stability.

(b) This support is usually provided from ESF appropriations, and normally involves specific Congressional approval, either through special appropriation or through the Congressional Notification process.

This assistance addresses a short- to long-term resource constraint and may also include partner government actions (conditionality) that help alleviate constraints to future growth and/or establish a stable political environment. Typically these programs finance foreign exchange and/or budgetary shortfalls.

(i) Actions to be taken by the partner government are included in an obligating bilateral program assistance agreement as conditions precedent to disbursement.

(ii) Dollar resources are provided via a cash transfer after the conditions precedent are met. The dollar resources are provided on a "generalized basis," (i.e., their end use is not tied to specific project inputs or costs), and they generally support a program purpose that relates to a foreign exchange or budgetary shortfall. However, the end use of the dollar resources must be identified in the Program Assistance Agreement and they are tracked and auditable to their end uses.

(c) Commodity Import Programs (CIPs)

(i) CIPs are a form of program assistance that provides BoP/GBS in countries where the economy is unstable and basic economic institutions, especially foreign exchange management, are functioning poorly.

(ii) Under this form of assistance, USAID enters into a PAA with the partner government which allows for the private or public sector purchase of international commodities.

1. The importers deposit the cost of the commodities in local currency (HCOLC), which is subsequently jointly programmed by the partner government and USAID;

2. The importer enters into the import contract and imports the commodities; and

3. USAID arranges for direct payment to the seller.

(iii) Under a CIP, both the dollar resources are auditable to their end use and the HCOLC is auditable to the point to which it is jointly programmed.

(d) See **ADS 220saj, Balance of Payments/General Budget Support Assistance Agreement Template** for BoP/GBS agreement content.

220.3.5.3 Managing Bilateral Implementation and Communications- The Role of the Implementation Letter (IL)

Effective Date: 07/28/2014

a. General Guidance for the Content of ILs. An IL is an implementing document that approves actions for activities for which funds have been obligated via DOAG/BPA. An IL may not amend the DOAG/BPA's purpose or the total amount of funding obligated by the DOAG/BPA, nor may it otherwise amend its provisions except as noted below.

(1) An IL may:

(a) Amend Annex 1 of the DOAG/BPA;

(b) Amplify or explain DOAG/BPA provisions;

(c) Provide details on how DOAG provisions apply to a particular financing mechanism (e.g., a cost reimbursement);

(d) Approve exceptions or changes to DOAG/BPA requirements where permitted in the DOAG/BPA (e.g., requirements that state "except as USAID or the parties may otherwise agree in writing");

(e) Amplify terms, conditions, and working arrangements established in the DOAG/BPA or initial IL;

(f) Describe and provide detailed information about a project, provide project level implementation guidance, and jointly approve a project, as described in a PAD; and

(g) Subobligate funds for G2G project activities.

(2) Prior to approving or issuing any IL for G2G implementation or sub-obligation of funds, the Mission must ensure that the following documents have been completed, approved, and/or authorized:

- PFMRAF,
- AUPGS,
- Overarching PAD, and
- Project Authorization.

b. Establishing Bilateral Implementation Arrangements for G2G Activities

(1) **G2G Activity Approval and Initial Funding**. For G2G activities, an IL is used to describe and approve a specific activity for which funds have been obligated in a SOAG/DOAG. The activity approved is an implementing activity which implements provisions of the SOAG/DOAG.

(a) Funding for specific G2G activities is sub-obligated in an IL for activities obligated in a SOAG/DOAG or in a BPA. Every IL that sub-obligates funds must be approved and signed by the Mission Director/Principal Officer or as delegated.

(b) Depending on the nature and scope of the activity and the funding available in the SOAG/DOAG/BPA, an IL may sub-obligate funds for an entire activity or it may sub-obligate funds for an identified period or a lesser amount of funding. Additional, incremental funding for an activity would be subobligated in a subsequent IL (see **220.3.5.2b** for a sub-obligating IL template).

(c) The Project Manager, Program Officer/Project Development Officer, and RLO are responsible for ensuring that the initial IL, and the BAA under which it is issued, is properly drafted and prepared. The Mission Director/Principal Officer is ultimately responsible for the content of the IL.

(d) Once the initial IL is drafted, USAID may submit it to the partner government in draft form for review. The IL may be subject to clarifications and negotiations at the request of the partner government. After any negotiations, the IL will be revised to incorporate any changes, and the negotiations and changes may be recorded in a separate memorandum prepared by the designated Mission Officer.

(e) The Mission should then internally clear the IL and present it to the partner government for its signature.

(2) **Basic Implementation Letter or Letters**. Missions/Operating Units may find it useful to negotiate and approve one or more bilateral implementing ILs with the partner government that provide guidance and specific implementation details for the specific project and/or the specific G2G activity or activities approved in the BAA.

(a) While all terms and conditions, as well as standard provisions, applicable to the partner government's implementation of project assistance under the BAA are normally in the relevant SOAG/DOAG or BPA (e.g., audit, evaluation, government counterpart financing, delegations of authority, source/nationality, etc.), some terms may require amplification, reference, or modification, if the latter is expressly provided in the BAA. Such amplification, reference, or modification would be accomplished via IL (modification is permitted via IL if the BAA expressly permits this through language such as "except as USAID or the parties may otherwise agree in writing…").

(b) A Basic Implementation Letter (or a series of ILs) might cover the following topics, among other things:

(i) **Designations and Delegations of Authorities**. For G2G assistance projects in which the implementing partner government entity (e.g., technical or line ministry, sub-ministry service, district or municipality) will be different from the BAA signatory entity (e.g., Ministry of Planning, Finance or Central Bank), an IL may designate an Additional Authorized Representative for specified purposes. The Mission Director will also inform the partner government implementing entity of the name of the person serving as Project Manager for the G2G project or activity.

(ii) **Disbursement Procedures and Documentation**. Within the scope of flexibility expressly allowed in the BAA, ILs must include provisions explaining how BAA requirements apply to the specific financing mechanism (e.g. cost reimbursement, FAR, etc.) and how the project financing mechanism operates.

(1) See **220.3.5.2** for templates with common IL terms by implementing mechanism and funding type.

(2) Where advances are authorized, see **ADS 220maj, Advances for G2G Assistance**.

(iii) **Procurement Guidance and Principles**. Any weaknesses identified by the PFMRAF Stage 2 Risk Assessment and retained in the final project design related to the relevant procurement system(s) must be:

- Addressed by the Mission in the mitigation plan in the AUPGS, and
- Incorporated into the terms of the agreement or by IL.

Missions might find it useful to reiterate some of the expected and basic principles that apply to implementation of the activity, including the points at which, and the means in which, SOAG/DOAG provisions and requirements apply to the particular project activity. This articulation may also include identification of the documentation or certifications required for review and/or approval by USAID. When designing G2G projects and their procurement system risk mitigation measures, Missions must mitigate all identified risks while preserving to the maximum degree possible the use of partner government procurement procedures.

(iv) Records, Inspections, and Audits and Terms of the Assistance. ILs may be used to explain and amplify SOAG/DOAG provisions regarding USAID's rights, as applied to the specific activity, to:

(1) Audit the use of USAID funds by the partner government on behalf of the USAID Inspector General, the Government Accountability Office, and other oversight bodies (see **ADS 591**).

(2) Inspect and review books, records, and documentation associated with partner government implementation of USAID-funded activities.

(v) Reports to be Submitted to USAID. A basic implementing IL may be used to describe the nature, content, and frequency of reporting during the implementation of a project activity.

(1) Reports may include financial reports, activity implementation reports, or progress reports on achieving important activity benchmarks or project level indicators, as determined by the Mission in conjunction with the partner government implementing entity.

(2) This IL should establish the partner government entity responsible for the reporting, the details to be reported (providing a report template), the frequency of reporting, and the USAID individual or office to where the report must be sent.

(vi) Project Committees or Joint Working Groups. Establishing a partnership relationship for G2G project management goes beyond formal communications transmitted by IL. Such a relationship involves meeting with partner government officials and implementing institutions.

(1) At a higher level, there are implications of managing USAID funds through partner governments that may involve several government entities, such as the Ministries of Finance, Central Bank, Planning and the implementing Ministry or organization; e.g., the Central Bank, local governments, etc. Within USAID, issues related to project or activity implementation may often involve Mission staff in addition to the designated DO team.

(2) In order to firmly establish a partnership approach to G2G implementation, it is often appropriate to establish one or more bilateral project working groups that meet regularly over the life of the project or activity. Such working groups could include representatives from a variety of government entities with an interest in the project. Depending on the nature and level of management cooperation involved, such committees or groups may be formally established by the Basic Implementation Letter. USAID participants may include PGS Team members, as designated by the Mission Director, as well as non-governmental and other stakeholders, as appropriate.

(3) **Managing Implementation Actions and Approvals**. ILs are used to approve or concur in the full display of project actions, including the following:

(a) Activity approval and sub-obligations;

(b) DOAG conditions precedent;

(c) Compliance with DOAG covenants;

(d) Changes to the Description of the Activity;

(e) Establishment and Monitoring of Risk Mitigation Measures, if any;

(f) Approve work plans, as required;

(g) Establish an evaluation plan;

(h) Establish an audit plan;

(i) Provide detailed descriptions of project activities; and

(j) There may be exchanges of letters that do not rise to the level of an IL.

c. IL Management

(1) **Drafting of ILs:** It is the responsibility of Mission management to outline how it will use ILs for project management, including responsibilities, content, delegations of authority, etc. The project manager, assisted by the DO Team, will initiate an IL when necessary to effect or approve a project action. The DO Team Leader will assign primary responsibility for drafting the IL and the Mission clearances required, except as otherwise provided in Mission Orders or other written policy.

(2) **Mission Clearances:** Since ILs form the written record of G2G project activity or project implementation, there must be a record of formal clearances for each IL. Missions should direct how the clearance process is managed and what offices must clear specified actions via a Mission Order or other protocol.

(3) **Partner Government Concurrence:** Partner government signature of ILs is required where specified by the agreement, for instance to amend Annex 1 or where the agreement states "except as the parties otherwise agree in writing." However, obtaining partner government signature on ILs, even where not required, is helpful to facilitate partner government officials' understanding and acceptance of the projects, USAID requirements, and partner government commitments. There may be other ILs where partner government signature is not necessary, such as ILs communicating a waiver or time extension, unless required by the agreement.

(4) **Maintaining a Record of ILs**. Each IL must be titled, describe the action it takes, and reference the BAA and the activity.

220.4 MANDATORY REFERENCES

220.4.1 External Mandatory References
Effective Date: 07/28/2014

a. **22 CFR 216**

b. **Foreign Assistance Act of 1961, as amended (FAA)**

c. **Section 529 (a) of the FY 2002 Appropriations Bill for Foreign Operations, Export Financing, and Related Programs**

d. **SFOAA FY 12 Section 703**

e. **State Department Cable # 119780 (April 15, 1988; Unclassified)**

220.4.2 Internal Mandatory References
Effective Date: 07/28/2014

a. **ADS 103, Delegations of Authority**

b. **ADS 201, Program Cycle Operational Policy**

c. **ADS 204, Environmental Procedures**

d. **ADS 220maa, Key Bilateral Funding Mechanisms**

e. **ADS 220mac, Legal Requirements for G2G Assistance**

f. **ADS 220mae, Public Financial Management Risk Assessment Framework Manual**

g. **ADS 220mag, G2G Implementing and Funding Mechanisms Cost Reimbursement Projects**

h. **ADS 220mah, G2G Implementing and Funding Mechanisms Fixed Amount Reimbursement**

i. **ADS 220maj, Advances for G2G Assistance**

j. **ADS 220maq, Local Systems: A Framework for Supporting Sustained Development**

k. **ADS 301, Responsibility for Procurement**

l. **ADS 302, USAID Direct Contracting**

m. **ADS 303, Grants and Cooperative Agreements to Non-Governmental Organizations**

n. **ADS 305, Host Country Contracts**

o. **ADS 306, Interagency Agreements**

p. **ADS 308, Awards to Public International Organizations**

q. **ADS 310, Source and Nationality Requirements for Procurement of Commodities and Services Financed by USAID**

r. **ADS 312, Eligibility of Commodities**

s. **ADS 320, Branding and Marking**

t. **ADS 349, International Agreements**

u. **ADS 350, Grants to Foreign Governments**

v. **ADS 350mac, Development Objective Agreement and Bilateral Project Agreement Template (non-health)**

w. **ADS 350mad, Development Objective Agreement and Bilateral Project Agreement Template (health)**

x. **ADS 351, Agreements with Bilateral Donors**

y. **ADS 502, The USAID Records Management Program**

z. **ADS 591, Financial Audits of USAID Contractors, Grantees, and Host Government Entities**

aa. **ADS 621, Obligations**

ab. **ADS 624, Host Country-Owned Local Currency**

ac. **ADS 627, Local Currency Trust Fund Management**

ad. **ADS 636, Program Funded Advances**

ae. **Policy Directive 18**

af. **Program Assistance Policy**

ag. **Salary Supplement Policy**

220.5 ADDITIONAL HELP
Effective Date: 07/28/2014

a. **ADS 220saa, G2G Programming Lifecycle: Bilateral Project Agreement**

b. **ADS 220sab, G2G Programming Lifecycle: Development Objective Agreement**

c. **ADS 220sad, G2G Programming Lifecycle: Project Assistance Agreement**

d. **ADS 220sae, Cost Reimbursement Implementation Letter Template (non-health)**

e. **ADS 220saf, Cost Reimbursement Implementation Letter Template (health)**

f. **ADS 220sag, Fixed Amount Reimbursement Implementation Letter (non-health)**

g. **ADS 220sah, Fixed Amount Reimbursement Implementation Letter Template (health)**

h. **ADS 220sai, Sector Program Assistance Agreement Template**

i. **ADS 220saj, Balance of Payments/General Budget Support Assistance Agreement Template**

j. **ProgramNet**

220.6 DEFINITIONS
Effective Date: 07/28/2014

This section defines terms including acronyms used in this document. For additional definitions, please see the **ADS Glossary**.

Approval for the Use of Partner Government Systems (AUPGS)
An addendum to the PAD which documents the due diligence requirements and associated fiduciary risk mitigation plan for using PGS. The AUPGS establishes USAID's and the partner government's fiduciary risk management strategy and guidelines for the life of the respective project. The AUPGS is incorporated into the Project Appraisal Document for projects that include G2G activities and must be completed prior to PAD finalization and Project Authorization. (**Chapter 201** and **220**)

Bilateral Assistance Agreement (BAA)
A bilateral obligating agreement entered into for achievement of development or strategic objectives, program assistance or to accomplish project activities, including a Development Objective Grant Agreement (DOAG) (or Assistance Agreement or Strategic Objective Grant Agreement (SOAG)) (see **ADS 350**), Bilateral Project

Agreement (BPA), Program Assistance Agreement (PAA), or Limited Scope Grant Agreement (LSGA) (see **ADS 350**).When funds obligated in a Strategic or Development Objective Agreement (S/DOAG) are used to finance USAID's contribution to a Government to Government (G2G) assistance project, the mechanism for approving and managing project activities and sub-obligating funds for G2G activities is an Implementation Letter (IL). When funds financing USAID's contribution to a G2G assistance project are not obligated in a SOAG/DOAG, a BPA may be used to obligate project funds. ILs are also used to sub-obligate G2G assistance project funds directly to the partner government under a BPA or S/DOAG. Both S/DOAGs and BPAs may contain a combination of activities carried out using implementing mechanisms that do and do not use PGS (e.g., a combination of G2G assistance activities, grants to NGOs, direct USAID contracts, delegated cooperation agreements with other donors, etc.) An LSGA may be used for small project obligations to a partner government of less than $500,000.When implementing program assistance (sector program assistance or BoP/GBS), a Program Assistance Agreement must be used to separately obligate program ("non-project") assistance funds. (**Chapter 220**)

democratic accountability
A standard based upon the degree to which a country publicly discloses on an annual basis its government budget and enforces access to information laws, the country's legislature, civil society, and media possess the rights and freedoms necessary to enable the monitoring of the proposed G2G-funded activities, and the legislature, supreme audit institution, and judiciary possess the independence to hold the executive accountable for enforcing the above rights and monitor the expenditure of funds for G2G activities. (**Chapter 220**)

Government to Government (G2G) Assistance
When USAID disburses funds directly to a partner government entity, including all instances in which USAID finances a partner government entity of a bilateral foreign assistance recipient country to implement a project or project activity, including non-project assistance, using the partner government's own financial management, procurement or other systems. (**Chapter 220**)

Implementation Letter (IL)
Formal correspondence between USAID and another party following a formal agreement that obligates funding. Implementation letters serve several functions, including providing more detailed implementation procedures, providing details on terms of an agreement, recording the completion of conditions precedent to disbursements, and approving funding commitments and mutually agreed-upon modifications to program descriptions. (**Chapters 201, 220**)

Intermediate Result (IR)
A component of a Results Framework in a Mission CDCS. An important result that is seen as an essential contribution to advancing a Development Objective (DO). IRs are measurable results that may capture a number of discrete and more specific lower-level results and typically define the purpose of projects. (**Chapter 220**)

multi-donor trust funds
Pooled funding arrangement where USAID is one of multiple donors contributing to a "trust" (or "trust fund", or "fund in trust") in which an entity (Public International Organization or other donor) serves as a trustee, and title in the funds passes to a PIO or other donor as a recipient. (**Chapters 220** and **308**)

parastatal
Government-funded or-owned organizations that are often otherwise independent of government and whose debt obligations are generally not backed by the full faith and credit of the sovereign government. (**Chapters 220** and **249**)

Partner Government Implementing Entity
An office, organization or body at any level of a public administration system (ministry, department, agency, service, district or municipality) of a bilateral foreign assistance recipient country that implements activities financed by or jointly programmed as a result of funds disbursed by USAID directly to the partner government public financial management system. (**Chapter 220**)

Partner Government Systems (PGS)
All government systems involved in the management of government operations regardless of function, including financial, procurement, human resources, performance monitoring, audit, disclosure, adjudication, regulation, enforcement and others. In the context of Public Financial Management Risk Assessment Framework (PFMRAF), Public Financial Management (PFM) systems are a subset of PGS. (**Chapter 220**)

Partner Government Systems Teams (PGS Teams)
Assist the Mission Director/Principal Officer in arranging, with partner government counterparts, an assessment of the partner government's Public Financial Management systems, as well as organizing Democracy Rights and Governance reviews, as necessary. The PGS Team will be integrated into specific Project Design Teams referenced in **ADS 201**. (**Chapter 220**)

Project Appraisal Document (PAD)
Documents the complete project design and serves as the reference document for project approval and subsequent implementation. The PAD should: define the highest level purpose to be achieved by the project; present the theory of change regarding how the process of change is expected to take place and how USAID intends to influence these changes; describe an overall project management and implementation plan, including a brief description of the family of activities that will execute the project design; and present a financial plan and MEL plan. The PAD should be developed based on an understanding of the project context, an assessment of the development problem, and a review of evaluations and other mandatory and non-mandatory analyses. (**Chapter 220**)

Public Financial Management (PFM)
A class of systems and elements involved in the management of public resources. It primarily refers to the processes, procedures and activities associated with spending

public resources to include budgeting, treasury, cash management, disbursement, accounting and reporting, audit and control, and may include the financial management features of various government systems such as procurement and human resources, as well as the financial management aspects of transparency, governance and public accountability. In the context of financial management and fiduciary risk identification, “procurement” may be referred to as a separate system from other systems involved in PFM for clarity and precision. (**Chapter 220**)

Public Financial Management Risk Assessment Framework (PFMRAF) is USAID’s risk management process to identify, mitigate and manage the fiduciary risks encountered when considering Government to Government (G2G) assistance. It focuses on fiduciary risks to which USG funds may be exposed to when administered directly by the Public Financial Management (PFM) systems of the individual entities intended to implement G2G funded activities. PFM assessments of individual entities must include all systems that may be used in implementing an individual project. (**Chapter 220**)

Public International Organization (PIO)
An international organization that appears on the List of Public International Organizations or has otherwise been designated in accordance with the terms of ADS Chapter 308. (**Chapters 220** and **308**)

trilateral assistance
Where USAID finances development activities implemented or financed by a development assistance recipient country for the benefit of another development recipient country. (**Chapter 220**)

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