



Key Bilateral Funding Mechanisms

A Mandatory Reference for ADS Chapter 220

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The following is intended strictly as a summary/introduction of existing/frequently used bilateral funding mechanisms. Each summary contains references to additional information/guidance.

As noted in [220.3.2.3, Project Design, Monitoring, Evaluation, and Designation of Responsibilities](#), there is a basic division between input based (cost reimbursement) funding mechanisms, output/performance-based (fixed amount reimbursement) funding mechanisms, and resource transfers. Generally speaking, federal procurement policy now favors output/performance-based mechanisms. Consistent with this trend, USAID Operating Units are encouraged to consider and use output/performance-based bilateral funding mechanisms whenever practical and possible.

As referenced above, USAID has several different types of direct government-to-government assistance mechanisms. Among those most widely used methods of implementation for project assistance are cost reimbursement for specified inputs and fixed amount reimbursement for completion of specified outputs. The most widely used method of implementation of non-project assistance is Sector Program Assistance. Less common methods of implementation include host country contracting, cash transfers, general budget support and multi-donor joint funding pools. Regardless of the method of implementation, however, the Agency's PFMRAF appraisal/assessment processes apply. Below is a brief description of the basic forms of USAID government-to-government assistance:

- Cost-reimbursement, or cost-plus, is a contract in which a contractor is paid for all of its allowed expenses to a set limit plus additional payment to allow for a profit. Cost-reimbursement contracts contrast with fixed-price contracts, in which the contractor is paid a negotiated amount regardless of incurred expenses. These contracts provide for payment of the allowable costs incurred in contract performance, to the extent prescribed in the contract. An estimate of total cost is established so that the government can obligate funds. The estimate is also used to establish a ceiling, or limit, on the amount of costs that the contractor may incur without the contracting officer approval and that the contractor exceeds (at his own risk). Cost-reimbursement contracts may be used only when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed-price contract. Under a cost-reimbursement contract, the contractor agrees to provide its best effort to complete the required contract effort. These contracts provide for payment of allowable incurred costs, to the extent prescribed in the contract. These contracts include an estimate of total cost for the purpose of obligating funds and establishing a ceiling that the contractor cannot exceed (except at its own risk) without the approval of the contracting officer.

- Fixed Amount Reimbursements: Fixed amount reimbursement is a form of assistance under which the amount of reimbursement is fixed in advance based upon cost estimates reviewed and approved by USAID. Reimbursement is made upon the physical completion of an activity, a sub-activity, or a quantifiable element within an activity. The emphasis is upon reimbursement based on outputs rather than inputs or costs. ([ADS 317, 630](#))
- Sector Program Assistance is a form of assistance in which contributions are made by USAID to carry out wide-ranging development plans in a defined sector such as agriculture, education, transportation, etc. Assistance is made available “in cash” or “in kind,” with or without restrictions on the specific use of the funds, but on the condition that the recipient executes a development plan in favor of the sector concerned ([ADS 221](#)). Sector Program Assistance includes a requirement to undertake detailed analysis as part of the special planning requirement for sector program assistance under USAID’s February 1996 [Program Assistance Policy Paper](#). This document specifies that “[r]igorous analysis is crucial to a successful sector program assistance effort. Planners must be concerned with cost/benefit, feasibility, and sustainability questions from six analytical perspectives, including, among other things, “institutional, which frankly examines the capacity within the host government and other involved organizations to develop, agree upon, and implement all aspects of the assistance (including sectoral reform measures,...cash disbursements, programming and accounting for [host country owned local currency]).” This policy document further specifies that USAID “[p]lanners must have a clear understanding of...any risks associated with the activity either in terms of implementation or sustainable development impact.”