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Government to Government Implementing and Funding Mechanisms Fixed Amount Reimbursement

A Mandatory Reference for ADS Chapter 220

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This reference provides the mandatory policy and procedures regarding the use of the Fixed Amount Reimbursement (FAR) funding mechanism.

Under a FAR, USAID pays a fixed amount for the partner government's completion of activity outputs or associated milestones, as opposed to cost reimbursement financing mechanisms, which reimburse the actual costs of activity inputs and expenditures. FAR payment amounts are based on a reasonable estimate of the costs likely to be incurred to produce or achieve an objectively verifiable, independently useful output or associated milestone and is not altered based on the partner government entity's actual cost experience. Outputs or associated milestones, defined in Section B below, must be clearly defined regarding quality standards and measured and verified by USAID or its third-party representative for completion in accordance with the agreed upon specifications. Unlike Fixed Obligation Grants to non-governmental organizations (see [ADS 303.3.25](#)), each payment amount under a FAR must be based upon the reasonable amount of costs estimated to be incurred by the partner government implementing entity in completing the corresponding output or associated milestone.

A. Selection of mechanism

Components of projects that include Government to Government (G2G) activities may employ a variety of funding mechanisms to finance approved activities and inputs. The choice of financing mechanism is determined by a variety of factors stemming from project design under [ADS 201](#) and referred to in [ADS 220.3.4.2e](#) and documented in the appropriate PAD (Project Appraisal Document).

FAR is best used when an activity meets the criteria and conditions discussed in this guidance. FAR may be considered when:

- An activity meets the essential requirements and definition of the FAR mechanism (see **Section B. Definition of FAR Outputs**);
- Outputs or associated milestones can be objectively verified to have met quantity and quality standards agreed in the (sub) obligating document;
- Outputs are sustainable and independently useful in their own right;
- Associated milestones are sub-components of outputs that are identifiable progress points toward and contribute directly to the production of a sustainable and independently useful output;
- All payments are each based on reasonably accurate cost estimates for the corresponding output or associated milestone; and
- Each output or associated milestone can be successfully completed by the partner as designed.

All concerns with use of the FAR for certain types of outputs or associated milestones have been considered and have been or can be adequately addressed (see **Section C. Fixed Amount Output Concerns**).

The implementing entity possesses sufficient technical, financial management, procurement, monitoring and verification capacity to successfully complete the subject outputs or associated milestones (see **Section D.1.a. Assessing the Partner Government Implementing Entity**).

The partner government understands and assumes all financial risk for cost overruns and unfinished outputs or associated milestones and USAID has considered its ability politically to refuse payment for any outputs or associated milestones that are not completed to the specified quality standards. (see **Section D.1.b. USAID Determination of Completion and Partner Government Risk**).

Each output or associated milestone is likely to be completed in 12 months or less (see **Section D.7 Timing of Outputs and Cost Changes Over Time**).

The other criteria warranting use of the mechanism are met (see **Section D. Other considerations and requirements for FAR** (other than as noted above)).

B. Definition of FAR Outputs

The essential requirements for using FAR are that outputs or associated milestones must:

1. Be objectively verifiable regarding completion and quality standards;
2. Be or contribute directly to sustainable and independently useful outputs, regardless of whether other outputs, associated milestones or activities are completed;
3. Be paid for in amounts based on reasonably accurate cost estimates. Outputs or associated milestones may not be flexibly priced to provide liquidity; the payment amount for each output or associated milestone must be fixed and based on a reasonable estimate of the corresponding output's or associated milestone's cost. FAR must not be used where each payment amount is not based on the reasonable estimate of the costs to complete the corresponding output or associated milestone, and
4. Within the partner's span of management control and ability to successfully implement.

FAR is well-suited for use with serial and capital outputs, and is appropriate for capital (e.g., physical) outputs whose completion can be easily verified as meeting established quantity and quality standards, such as small scale construction or other small scale, serial activities where similar units of output produced are concrete, tangible or physical. Payments for such uses are based on per unit prices, making FAR highly suitable for outputs such as a:

- Kilometer of road built;
- Textbook produced (as opposed to purchased);
- Health clinic constructed; or
- School rehabilitated.

The serial nature of such outputs creates efficiencies of scale where one cost estimate can be used to pay multiple outputs and avoid the increased burden of estimating, monitoring and verifying multiple, dissimilar outputs within the same activity.

FAR may also be used to finance more complex outputs identified in the PAD that are non-serial or non-capital in nature, so long as each output meets the requirements for FAR outputs (objectively verifiable, independently useful and paid in an amount corresponding to the output's cost estimate). Some examples of such outputs are a:

- Specified number (or range) of professionals certified/licensed/trained;
- Number of service facilities (e.g., health clinics) successfully operated/supervised for x time period; or
- Specified number of beneficiaries serviced (e.g., people vaccinated).

When FARs include reports as outputs, each output (e.g., the report, or the programmatic activity) must be separately costed and then objectively verified by USAID or an independent third party. For each output (e.g., the report, or the programmatic activity), Missions must (1) document a process to verify each output through objective and independent means; and (2) base the payment amount on the reasonable and documented cost estimate of each output.

FAR may also be used to finance milestones associated with an output. Some examples of such associated milestones are kilometers of road graded (or paved or lined), a foundation or wall of a building constructed, a site visit conducted, or a workplan outlining how the partner country government will complete subsequent FAR outputs or associated milestones. Each associated milestone payment amount must be based on the reasonable estimate of the costs to complete the corresponding

associated milestone and be refundable if the final output is not completed. Missions make the determination as to when an output is considered sustainable and independently useful based on the intended design and when associated milestones will be appropriate.

When workplans outline how the partner country government will complete subsequent FAR outputs or associated milestones, those subsequent outputs or associated milestones may not be approved for USAID funding until the workplan has been accepted by USAID. Missions may also use a cost reimbursement implementing mechanism to finance the creation of workplans.

C. Fixed Amount Output or Associated Milestone Concerns

Particular concerns arise from the three essential requirements of FAR; Missions must avoid outputs or associated milestones that:

1. Can be characterized as the acquisition of individually identifiable inputs. Outputs or associated milestones consisting of the acquisition of individual inputs, such as hiring personnel, procuring materials/equipment, or paying individual components of mobilization costs undermine the independently useful output or associated milestone requirement and make it difficult to justify USAID's assumption of overpayment risk. For such partner government input acquisitions and mobilization costs, either the cost reimbursement implementing mechanism should be used (see [G2G Implementing and Funding Mechanisms Cost Reimbursement Projects](#)), the partner government should finance such costs (e.g., as part of its 25% project contribution), or advances should be used (see [Advances for G2G Assistance](#)).
2. Appear to be payment for the effects or benefits of reform actions. Outputs or associated milestones that appear to be or rationally can be considered to be resource transfers undermine the legal and policy distinctions between project and program (non-project) assistance. The amounts of FAR output or associated milestone payment amounts must be calculated based on documented cost estimates, not anticipated benefits.
3. Because large procurements, especially those involving off-shore commodities or international bidding processes, require long lead times, FARs are best suited to financing local costs (goods and services available for purchase locally- see definition for "available for purchase" in 22 CFR 228.01).

D. Other considerations and requirements for FAR

1. Risk:
 - a. [Assessing the Partner Government Implementing Entity](#)

To fulfill its statutory requirements, USAID must assess and determine that the partner government entity's financial management and budgetary capacity is sufficient to manage its financial risk under a FAR.

Given the level of financial risk the partner government assumes by use of the FAR, questions arise regarding the appropriate scope of the PFMRAF Stage 2 assessment when FAR is the likely implementing mechanism. Missions have authority to customize the Stage 2 risk areas, interview questions and the testing of partner PFM systems to fit the planned activity. In the process of defining the parameters of the PFM risk assessments, Missions should consider the degree to which financial risks exist to successful partner financing of planned outputs or associated milestones. This assessment should aid in determining if USAID advances will be required. If advances will be required, the assessment should examine the level of fiduciary risk to ensure that adequate funds control processes are in place. If the defined FAR outputs or associated milestones require partner procurement actions, Missions should consider the effectiveness and overall integrity of the procurement function. The PFM risk assessment should be shaped to identify those financial and procurement weaknesses that could adversely impact FAR success. Mitigation and capacity development efforts to address identified weaknesses will subsequently be designed into the non-FAR components of the project and/or structured into the Mission's project monitoring plan as appropriate.

In addition to the Public Financial Management Risk Assessment Framework (PFMRAF), a technical capacity assessment must be conducted as part of all project designs as required by [ADS 201](#) (see [ADS 201.3.15.3c](#)). This assessment may be conducted separately as part of the technical capacity analysis required by ADS 201 (see ADS 201.3.15.3 c.), 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. As required by statute, the Mission must determine that the implementing entity has sufficient technical and qualified management staff and experience, or access to the necessary expertise, to proceed with effective implementation of the project activity and to produce the identified outputs or associated milestones in a timely manner. This determination should include an analysis of whether the implementing entity has carried out similar activities of similar size and scope, how technical constraints or weaknesses have been or will be addressed, and the ability of the implementing entity to manage and/or coordinate with other stakeholders essential to output or associated milestone achievement. Any technical assistance and/or capacity development to implementing entities included in FAR payment amounts is subject to the FAR definition requirements in B.1-4 above.

b. USAID Determination of Completion and Partner Government Risk

Prior to disbursement under a FAR, USAID is required make a determination that an output or associated milestone has been completed according to specifications. This determination applies to both quantity and quality of the completed output or associated milestone. It is USAID experience that it is probable that there will be cases where USAID will be unable to determine that the output or associated milestone has been successfully achieved due to a failure to meet previously agreed upon specifications. Where outputs or associated milestones are not accomplished in conformance with the agreed specifications, and incremental output or associated milestone achievement was not designed/contemplated in the FAR IL (see below), reimbursement must be refused. If an output or associated milestone is not completed in conformance with specifications, USAID may agree to a reasonable amount of additional time for the partner country implementing entity to remedy the nonconformance. Note that any change to the terms of the FAR Implementation Letter (IL) will require formal documentation, usually through issuance of a subsequent IL that modifies the relevant terms of the original FAR IL. In the case of force majeure events, defined to include natural disaster (including floods, earthquakes, tsunamis, hurricanes, and cyclones), man-made disasters (including civil strife, coup d'états, labor strikes, and fires) or other events beyond the control of the partner government that result in the nonconformance, it may be appropriate to incorporate new design parameters into the project activity and finance reasonable, additional costs incurred from the force majeure event. Again, these changes to the terms of the FAR IL would need to be documented appropriately, most likely through an IL.

In some cases, the design of outputs or associated milestones and corresponding payment amounts can be structured in the Implementation Letter (IL) as a range or sliding scale so long as the payment amount corresponds to the estimated cost of each performance level in the range (e.g., using unit costs, such as 75-100 teachers trained paid at \$40/teacher). Additionally, FAR may be incrementally funded such that subsequent outputs or associated milestones are designed, cost estimated, negotiated and funds obligated or sub-obligated after initial output or associated milestone implementation has begun so long as each output or associated milestone is fully funded at the time of USAID's confirmation of financing.

Because the partner government bears significant financial risk under FAR, it is necessary that the Mission carefully consider in the PAD the implications of denying payment on the relationships between USAID and the partner country government. The partner government and implementing entities should be fully apprised of the risk involved in using fixed amount reimbursement procedures during the project design period, before a decision to use the fixed amount reimbursement method has been finalized.

2. FAR Activity Monitoring and Outputs or Associated Milestones Produced

Consistent with the essential FAR element restricting its use to financing outputs or associated milestones that are objectively verifiable, use of FAR requires that the Mission, using its own staff or contracted personnel, periodically inspect the activity during implementation as well as verifying that the outputs or associated milestones have been completed in accordance with plans and specifications to the required quality standards. As USAID reimbursement is based upon agreed upon amounts for completed outputs or associated milestones rather than actual costs, savings from the estimated costs may accrue to the partner country government. It is, therefore, particularly important that monitoring and inspections ensure that the activities are implemented in accordance with agreed plans and specifications and that any possible collusion between implementing and inspection personnel concerning modifications in inputs or output/associated milestone quality be avoided. Additionally, USAID's monitoring and inspections during implementation and for verifying output or associated milestone completion should include compliance with the legal requirements specified in the terms and conditions of the FAR mechanism (see [Fixed Amount Reimbursement Implementation Letter Template \(non-health\)](#) or [Fixed Amount Reimbursement Implementation Letter Template \(health\)](#)).

FAR cannot succeed without accurate cost estimates. Because FAR payments are tied to completion of outputs or associated milestones and not to actual costs incurred, the FAR mechanism requires a significant commitment of time and resources by the Partner Government and USAID to estimating costs at the design stage. Once properly established, FAR should require less ongoing work by USAID to monitor and oversee performance and payment that would be required under cost reimbursement methodology. Missions need to consider this initial investment of time in designing and planning for the implementation of FAR.

Once payments are made to the Partner Government for outputs or associated milestones verified by USAID, no further monitoring or oversight is required by USAID related to those completed, independently useful outputs or associated milestones. USAID does not track or require any reporting on funds disbursed upon achievement of an output or associated milestone.

3. USAID Policies and Statutory Requirements

USG legal and policy requirements apply to the means, methods, costs and expenditures for component goods and services used to produce FAR outputs or associated milestones. For specific legal requirement applicability, see (see [Fixed Amount Reimbursement Implementation Letter Template \(non-health\)](#) or [Fixed Amount Reimbursement Implementation Letter Template \(health\)](#)) or consult the cognizant General Counsel Attorney or Regional Legal Advisor. USAID's monitoring and output or associated milestone completion verification should account for compliance with such legal and policy requirements.

4. Audit Requirements

An activity funded via FAR is subject to USAID audit. The focus of such an audit, however, will typically focus on conformance with the agreement terms and the verification of output or associated milestone completion to established quality standards and USAID legal/policy requirements. Since the actual cost experience of the implementing entity under FAR is immaterial to the verification of the achievement of outputs or associated milestones, no financial audit of actual input costs should be performed under FAR.

5. Determination of Project or Activity Payments and Amount of USAID Contribution

As part of jointly defining and designing the activity prior to sub-obligation of funds, USAID and the partner government must negotiate and agree upon the activity outputs or associated milestones to be financed on a fixed amount basis, including quality requirements, specifications and completion verification methods. The recipient government should then prepare an estimate of costs for achieving each output or associated milestone. Consultants may be employed to assist with the preparation of cost estimates. Cost estimates may include a reasonable amount for inflation based on recent experience and inflationary trends within the partner country. If currency exchange fluctuations or inflation are likely to be an issue over the life of the project, or if the economic environment is particularly unstable and prices for key inputs can be expected to vary substantially, the Mission should consider cost reimbursement as a financing mechanism or segmenting the FAR into implementation periods with fewer outputs in each segment/period financed.

The recipient government submits design specifications and the cost estimates of each output or associated milestone for review and approval by the USAID Mission. USAID must independently verify the reasonableness of the cost estimates and negotiate payment amounts with the partner government for each output or associated milestone that are no more than a reasonable estimate of each output's or associated milestone's cost. The amount of USAID's contribution to the project and each output or associated milestone is thereby fixed: if unforeseen cost increases are encountered, these will be borne by the recipient; if actual costs are less than those estimated, USAID's payment amounts will not be reduced.

In approving a specific FAR activity, the Mission may wish to indicate dates by which it is expected that outputs or associated milestones are completed in the form of an anticipated delivery schedule derived from the Project implementation plan contained in the PAD. If dates are included in implementation documents, they should be clearly indicated in the IL if completing the outputs or associate milestones by the dates are conditions of payment.

Once outputs or associated milestones and their corresponding payment amounts are agreed upon, USAID then confirms financing for the activity and approves payment amounts, designs and specifications in an Implementation Letter.

6. Partner Government Financing

The FAR method requires that the recipient country and organization have sufficient financial resources to provide necessary working capital so that delays in reimbursement until completion of a specified number of outputs or associated milestones will not have a detrimental effect on project implementation. In the PFMRAF Stage 2 Risk Assessment and further considered in the PAD, the Mission should thoroughly analyze the budgetary procedures of the partner country government and the financial standing and resources available to the implementing organization prior to recommending the use of FAR.

If financing for the project has not been budgeted by the partner country, USAID should negotiate with the appropriate officials of the government and, if necessary, consider the use of advance-liquidation processes for a limited period of time until the partner government can make financing available for the project activity through its budget, as described below.

a. Reimbursement Method

When advances are not used to finance a FAR, the Partner Government, using its own funds, proceeds with implementation of the project activity. The USAID Mission, with its own staff or through third parties, monitors and conducts periodic inspections to verify that the activity is being implemented in accordance with agreed specifications in order to facilitate the final inspection and acceptance of the output or associated milestone.

Before USAID processes any payment requests under a FAR, USAID must verify, either by relying on USAID personnel (direct hires or PSCs) or the input of a USAID contractor, that the outputs or associated milestones to be reimbursed have been completed in conformance with the agreed quality standards and specifications. Once USAID has verified output or associated milestone completion in accordance with the quality standards and specifications, the USAID Mission will process payment requests in accordance with standard USAID payment policies and procedures, including the Project Manager's certification that the output or associated milestone and the quality of output or associated milestone conforms to the requirements of the IL. Reimbursement procedures, including required forms, reports and any other supporting documentation should be specified in the IL approving FAR financing

As noted above, if the Mission has chosen to include a payment schedule for the activity(s) based on the implementation plan, payment dates should be clearly

indicated as estimates, not as binding conditions for payment. USAID Missions should not request or attempt to verify the implementing entity's actual costs incurred in completing outputs or associated milestones reimbursed. Unless otherwise specified by implementation letter as agreed by the parties, USAID should verify completion and quality and, if appropriate, pay as promptly as possible after payment is requested.

b. Advance Payments for FAR Projects and Activities

For projects that are approved by USAID and the partner country government outside of the government's budget cycle, or when funding from the partner country is not available, advance funding from USAID may be provided in accordance with [Advances for G2G Assistance](#). USAID advances under FAR must be liquidated based on successful completion of outputs or associated milestones rather than actual costs incurred by the partner government.

Cash advance financing should be used on as temporary a basis as possible. Once implementation and funding of the Project or Activity is aligned with the partner Government's budget cycle, USAID, the Development Objective Team, and the Project Manager should work with the funding authorities of the partner country government to replace USAID advances with budgeted partner country financing. This is achieved by working with budget planners in both the implementing entity and the Ministry of Finance to establish funding line items for the USAID project in the budget of the partner country implementing entity. This requires aligning the project funding with the partner government budget priorities and including project financing in its budget planning and approval processes.

7. Timing of Outputs or Associated Milestones and Cost Changes Over Time

Each output or associated milestone should generally be completed in not more than twelve months from the initiation of the output's or associated milestone's work, although timing may vary depending on the nature of the output associated milestone, the security environment and other challenges common in developing countries.

To address uncertainties in performance and costs over the life of a project, FAR may include periodic adjustment of subsequent output associated milestone payment amounts based on changed conditions, such as price escalation or unforeseeable inflation, but such adjustment must not be retroactive to works in progress or previously completed. If not planned in the original project design, such adjustments must be documented as an amendment to the PAD and ILs that clearly modify relevant sections of previous ILs that established payment amounts.

When inflation is a major problem or where other economic circumstances may result in highly unstable prices, USAID can and should consider negotiating

periodic increases in its fixed amount contribution (unit costs) for outputs or associated milestone. This arrangement would be most applicable where USAID is financing many small outputs or associated milestones of the same type over a number of years.

For example if the FAR method finances an activity to construct 150 standard primary schools over a period of two to three years, USAID might want to consider a periodic review of costs. In this situation, USAID and the partner country would agree to a unit cost per school for a fixed period of time, say, 50 schools to be completed during the first year. Towards the end of the year, USAID and the partner country implementing entity would review in the cost estimates for the construction of schools during the first year in light of current and projected cost estimates for the second phase construction time period and then, as required and jointly agreed, would renegotiate the fixed amount contribution for the schools to be constructed during subsequent years. Any renegotiation of price would not apply to the first set of schools approved for which a fixed unit price had been previously negotiated and approved.

The advantage of this approach would be to permit USAID and the partner government to price project costs more realistically and to reach agreement on a realistic fixed amount contribution periodically. It avoids including substantial escalation in the AID fixed amount contribution.

Alternatively, Missions should consider cost reimbursement as a method of financing where costs cannot be accurately estimated or there is a high likelihood of changes affecting output or associated milestone costs over the life of the project.

8. Other Information

Missions are encouraged to use the (see [Fixed Amount Reimbursement Implementation Letter Template \(non-health\)](#) or [Fixed Amount Reimbursement Implementation Letter Template \(health\)](#)).

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