

Advances for Government to Government (G2G) Assistance

A Mandatory Reference for ADS Chapter 220

New Edition Date: 07/28/2014 Responsible Office: M/CFO File Name: 220maj 072814 If the partner government does not have the budget to provide working capital on a current basis so as to permit projects/subprojects to get underway expeditiously, which may particularly be true in developing countries, Missions may consider advancing funds pursuant to this guidance.

Before advances may be used, Missions must thoroughly review the partner government entity's financial position and budgetary procedures to establish the need for advances. Advances are permitted only if they are determined to be essential to the successful achievement of project activities and there are reasonable assurances that cash provided by USAID will be used to finance project activities.

Considering the precedent the use of advances sets with the partner government, Missions should negotiate a plan with the partner government for avoiding the need for advances in future mechanisms. Missions should identify and address (through risk mitigation, capacity development, or other assistance) the constraints limiting the implementing entity's ability to self-finance.

The following policies and procedures must be followed when advancing appropriated funds directly to partner governments for G2G assistance under ADS Chapter 220.

- 1. Advance Payment Method for G2G Cost Reimbursement Activities
 - a. G2G advances for activities financed through a cost reimbursement mechanism must conform to <u>ADS 636</u>, including <u>ADS 636saa, Managing</u> <u>Program Advances for Non-U.S. and Nongovernmental Recipients</u> (allowing for the optional 3-month rolling advances for 90 days in 30-day increments), except that:
 - The standards for approving the use of advances is informed by the Public Financial Management Risk Assessment Framework (PFMRAF) process and <u>ADS 220</u> rather than those stated in <u>ADS 636</u> (e.g., 22 CFR 226 compliance is not relevant to the determination);
 - ii. The use of advances must be authorized in the Project Authorization (PA)/ Project Appraisal Document (PAD) and documented in the Approval for the Use of Partner Government Systems (AUPGS);
 - iii. The partner government is not required to deposit advances in interest bearing accounts or in separate, unique bank accounts as a general rule. However, the partner must have adequate internal controls and systems to assure advances are used to meet project liquidity requirements and to be expended for allowable project costs. If advances are deposited in an interest bearing account, the partner must have a reliable system to account for interest earned

- earnings on funds advanced and must refund interest over \$250/year, if earned.
- iv. USAID retains the right to refund any unliquidated advance amount, and obligating or sub-obligating documents must contain appropriate language to this effect.
- **b.** Advances must be limited to the minimum necessary for immediate disbursement needs, which is no more than 30-days from the receipt of funds by the implementing entity until expended, unless otherwise previously approved by the Bureau for Management, Office of the Chief Financial Officer (M/CFO), Deputy CFO for Overseas Operations.
- c. USAID may not disburse advances to partner governments for any non-USAID funded purposes, including partner government project contributions.
- **d.** USAID may not disburse advances to partner governments that are then advanced to partner government contractors or grantees unless:
 - Such sub-advances comply with <u>ADS 636</u>, <u>ADS 220</u>, and this ADS reference;
 - ii. Adequate recourse, oversight, management and responsibility by the partner government over such sub-advanced funds is assessed in the PFMRAF processes or other advance justification documentation;
 - **iii.** Identified fiduciary risks associated with the sub-advances of USAID funds to partner government contractors and sub-recipients have been mitigated and reflected in Implementation Letters, as appropriate; and
 - iv. When a project advance requirement arises during project implementation which was not contemplated in the original PA/AUPGS, an amendment to the PA/AUPGS should be done in the form of an Action Memorandum approved by the Mission Director which sets forth the rationale and justification for advances, an analysis of the fiduciary risks associated with providing advances, and the risk mitigation measures to be adopted with approval of the proposed provision of advances under the project.
- Advances Payment Method for G2G Fixed Amount Reimbursement (FAR) Activities:

- a. G2G advances for activities financed through a FAR should be disbursed in increments of 30 day's estimated requirements based on cost estimates and the project implementation plan to achieve the outputs or associated milestones. Advances for subsequent 30-day periods for a FAR activity may be provided prior to liquidation of previous advances provided for such activity. However, where advance disbursements are needed to cover periods longer than 30 days estimated costs, prior approval must be obtained from M/CFO, Deputy CFO for Overseas Operations.
- b. Missions must not liquidate FAR advances except on output or associated milestone completion and acceptance, i.e., after USAID verifies that outputs or associated milestones conform to the previously agreed quality standards and specifications. Under no circumstances may USAID liquidate advances under FAR mechanisms based on actual costs or expenditures. Therefore, advance accountability dates will be the planned output or associated milestone completion dates. Such accountability dates can be set for a date later in time than the last day of the 30 day estimated requirements period (or longer estimated requirements period as provided for in section 2.d. above). Such future accountability dates may correspond with the next logical output or associated milestone, whenever that occurs, that relates to estimated costs which were funded by the advance.
- **c.** Cash management under FARs differs depending on whether a FAR includes associated milestone payments.
 - i. Cash disbursed prior to associated milestone completion and acceptance is recorded as an advance. The advance is recorded as an expenditure upon acceptance of the milestone.
 - ii. Cash disbursed upon associated milestone completion and acceptance is recorded as an expenditure but refundable under the obligating/sub-obligating document if the final output is not completed.
 - **iii.** If some amount of cash has been advanced for an associated milestone, completion and acceptance of the associated milestone liquidates the outstanding advance amount.
 - iv. In all cases, the partner government's retention of cash disbursed, either for advances or for associated milestone disbursements, under a FAR prior to output completion and acceptance is contingent upon USAID's acceptance of the output. Where outputs are not accepted, prior cash disbursements must be collected from the partner government except as provided in ADS 220mah, G2G <a href="Implementing and Funding Mechanisms Fixed Amount Reimbursement D.1.b.</p>

- d. The use of advances must be authorized in the Project Authorization (PA)/ Project Appraisal Document (PAD) and documented in the Approval for the Use of Partner Government Systems (AUPGS);
- **e.** USAID Controllers, in consultation with the Partner Government Systems (PGS) Team, must exercise prudent judgment in determining the FAR advance amount, frequency and duration, subject to the following limits:
 - i. Missions must apply the "immediate disbursement needs" standard to FAR advances as noted in **2a** above.
 - **ii.** The Agreement or Implementation Letter must specify that the FAR advance is liquidated upon USAID's written verification of the completion of outputs or associated milestones in accordance with the terms and quality standards previously agreed.
- f. In the exercise of such judgment, Missions must balance the partner government implementing entity's cash flow needs and constraints with the incentives and commitment to completing outputs or associated milestones that comes from self-financing;
- **g.** Missions must retain the right to a refund of any unliquidated advance, with appropriate language included in obligating or sub-obligating documents, for non-completion of outputs or associated milestones in accordance with the specified quality and design requirements.
- h. One or more advances may be liquidated either by a single output or associated milestone or as a pro-rata liquidation by several outputs or associated milestones. In which case, USAID deducts a pro-rata amount from each payment until the advance is completely expensed with final output acceptance.

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