Host Country Financial Contribution

A Mandatory Reference for ADS Chapter 350

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I. Introduction

There are two primary types of host country financial contributions:

1. **FAA section 110**. One type is the required host country minimum 25% contribution under section 110 of the Foreign Assistance Act of 1961, as amended (FAA). Section 110 states that:

   > "No assistance shall be furnished by the United States Government to a country under Sections 103 through 106 of this Act until the country provides assurance to the President, and the President is satisfied, that such country will provide at least 25 per centum of the costs of the entire program, project, or activity with respect to which such assistance is to be furnished, except that such costs borne by such country may be provided on an "in-kind" basis."

2. **Policy contribution**. The other type is a host country contribution which Missions may decide to require in various amounts as a policy matter, either where the FAA section 110 statutory contribution has been waived, or where there is not a requirement for a FAA section 110 host country contribution (see below for further details).

It is important to be clear as to which type of host country contribution is being addressed because requirements may differ slightly.

For both types of host country contributions, the potential need and means for obtaining assurances and monitoring the host country's contribution should be considered early, during strategy and project design, as part of broader strategic, feasibility and sustainability considerations. The amount of the host country contribution will typically be included in any relevant DOAG or similar bilateral agreement.[1] DOAG negotiations are primarily to finalize contributions that were previously developed and socialized with the host country, so the nature and amount of those contributions should be discussed well in advance of signing an agreement.

II. Assistance Covered by FAA Section 110

FAA section 110 only applies if the following requirements are met:

a. **Source of Funding**. FAA Section 110 applies only to assistance authorized under Sections 103 through 106 (Development Assistance) and Section 496 (Development Fund for Africa (DFA)) of the FAA. Therefore, it applies to the following appropriation accounts:

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[1] This Mandatory Reference applies to all types of Bilateral Assistance Agreements (DOAGs, BPAs, LSGAs, and Program Assistance Agreements.) "DOAG" is used in this Mandatory Reference to refer to all types of Bilateral Assistance Agreements because it is the most common type.

1. Development Assistance, and

2. Global Health Programs (GHP).

It does not apply to assistance under other appropriation accounts, such as the following:

1. Economic Support Funds (ESF),

2. Assistance to carry out the provisions of the FREEDOM support Act (for the Independent States of the Former Soviet Union),

3. Assistance to carry out the provisions of the Support for Eastern European Democracy (SEED) Act,

4. International Disaster Assistance (IDA),

5. Transition Initiatives, and

6. International Narcotics Control (INL).

b. **Bilateral Assistance**. FAA Section 110 applies only to “bilateral assistance,” that is, funds obligated by a DOAG with the host country. Therefore, it does not apply to direct USAID grants, cooperative agreements, or contracts with public international organizations or nongovernmental organizations (NGOs) or other implementing partners, when those funds are not obligated through a bilateral agreement with the host country.

   Section 110 applies to regional programs covered by DOAGs only where the benefits to the host country can be clearly separated from benefits to other countries and the cost of the benefits can be adequately calculated to determine an overall cost to which to apply the 25 percent requirement.

c. **Host Country Benefit or Involvement**. FAA Section 110 applies only to bilateral assistance where there is substantial host country benefit or involvement.

   Even though the assistance may be initially obligated in a DOAG, FAA Section 110 does not apply unless there is substantial host country benefit or involvement. Substantial host country benefit or involvement exists when there is substantial benefit to the host country or direct and substantial involvement by the host country in the administration, management, or control of the assistance.

   For example, there is substantial host country benefit or involvement:

1. When the assistance directly finances the costs of a government organization, such as a ministry, municipality, or government school, or provides for the delivery of goods or technical assistance to them;

2. When there is a government-to-government (G2G) agreement or a host country contract (HCC) to finance activities that will directly benefit a specific government ministry, office or personnel (see **ADS 220** for more on G2G, and see **ADS 305** for more on HCCs); or

3. Where the host country retains the right in the DOAG to approve the specific, detailed terms and conditions of a non-government activity or to predominantly control the personnel, site selection, budget, or program content of a non-government organization and its activity. Note that host countries often have the right to approve activities at a notional level, but not necessarily at a significant level of detail.

Absent substantial host country benefit or involvement, FAA Section 110 does not apply to activities implemented through USAID grants, cooperative agreements, or contracts with private voluntary organizations, or other non-government entities or implementing partners. The host country signing an implementation letter or order to acknowledge or approve the use of funds obligated by a DOAG for non-governmental sector activities is not considered substantial host country involvement or benefit.

III. Host Country Written Assurances and Compliance

FAA section 110 requires the host country to provide a written assurance of the 25 percent contribution satisfactory to USAID before or at the time of the obligation of funds. The host country contribution must be briefly described and quantified in the written assurance. It may be made simultaneously with or as part of the DOAG.

USAID must determine in writing that the assurance is satisfactory before or at the time funds are obligated for an activity. In most cases, Mission Directors have been delegated in **ADS 103** the authority and the responsibility to receive and determine the adequacy of assurances of host country contributions (see **ADS 103**).

Successive assurances are generally required when using the incremental approach unless a blanket assurance covering the relevant amount of contributions for all activities planned through the term of the BAA is received at the outset.

IV. Waiver

Section 124(d) of the FAA provides that a waiver of the host country contribution requirement may be made for a relatively least developed country (RLDC) on a case-by-case basis. **ADS 103.3.5c(1)(c)** delegates this waiver authority to Assistant

Administrators. (Some Assistant Administrators further delegate this authority to Mission Directors and Principal Officers elsewhere in **ADS 103**.) It is USAID policy that the RLDCs include the "least developed countries," or "other low income countries" on the Development Assistance Committee (DAC) List of Aid Recipients and the “heavily indebted poor countries” (HIPC) under the World Bank HIPC Initiative. See **DAC List of Aid Recipients** and **HIPC List**.

The fact that a country is an RLDC is not a sufficient justification for a waiver. Nor is it the intent of FAA Section 124(d) to permit the granting of a waiver in all instances, since to do so would negate the case-by-case approach. A waiver is permissible whenever the initiation and execution of an otherwise desirable program, project, or activity is impeded by the 25 percent contribution requirement.

Operating Units must consider the factors below before granting a waiver:

a. **Financial Constraint**. Financial constraint is important but is not a sufficient justification for granting a waiver. In assessing the validity of the financial constraint, overall budgetary performance, existing expenditure patterns, and development priorities of the host country should be considered. Recent World Bank and IMF analyses of a host country's financial performance may justify granting a waiver. Even where a waiver of the 25 percent contribution requirement may be justified, a determination must be made whether a lesser contribution would be appropriate, either of a financial or in-kind nature. If it is decided that a contribution of less than 25 percent is inappropriate, a written justification must be prepared for the record and included in relevant program or activity files.

b. **Host Country Commitment**. Where a waiver is justified on financial grounds, other indications that a host country is interested in and committed to a particular program, project, or activity become more important. Examples of a host country's interest are a willingness to contribute even though it is not 25 percent and the importance attached to the program, project, or activity in the country's development priorities.

c. **Nature of the Program**. The nature of a particular program, project, or activity is a significant factor. Where the success of an activity depends upon a country's willingness and ability to assume an appropriate share of the cost, in some cases a waiver might be granted only if a contribution of less than 25 percent is considered sufficient. Also, there are situations where the successful implementation of certain programs or activities can be expected to generate the necessary financial resources, other benefits and/or support -- thus providing reasonable assurance that the program, project, or activity will be continued. Pilot and demonstration activities fall into this category. In that context, an additional host country contribution might be waived.

d. **Phased Contribution**. In some cases it may be desirable to condition the initial waiver of a host country contribution with a requirement for an anticipated contribution that becomes effective at a later date. This would allow the host country to adjust its expenditure pattern, and perhaps raise additional revenues without delaying the implementation of the program, project, or activity, while providing reasonable assurance that the host country will eventually assume the necessary share of expenditures in order to ensure the success of the program, project, or activity.

e. **Other Factors**. There may be other relevant considerations, such as how similar projects are funded by other bilateral donors. The host country may be engaged in a program of policy or institutional reforms that significantly support the project, the costs of which are difficult to calculate or audit or encompass a different time frame than the project. A host country's commitments may be part of a multi-donor effort that USAID may wish to support and separate USAID management of the contribution could undercut the multi-donor effort.

V. **Notwithstanding Authority**. Operating Units may consider reliance upon applicable "notwithstanding" authority to address the requirements of FAA section 110, pursuant to procedures applicable to the particular "notwithstanding" authority. In such cases the Operating Unit should consult with the Resident Legal Officer.

VI. Additional Principles

A host country contribution is intended to ensure the host country's commitment to the program, project or activity and its sustainability. Strategy and project design documents should use a flexible approach in determining the requirements for host country commitments to account for the full array of contributions, financial and non-financial, that may best reflect the host country's commitment.

Some of a host country's most important contributions occur through policy and institutional actions that affect the focused interventions of particular projects and activities and also have a wider impact. For example, a 50% across-the-board reduction in tariffs could be a significant contribution (*i.e.,* forgone revenue) toward lowering the cost of inputs for an agricultural production activity. Some important host country contributions occur through multi-donor coordination arrangements, such as donor coordination agreements, broadening their impact, as well as monitoring arrangements.

Operating Units are encouraged to assess host country contributions by recognizing and including actions that have the greatest impact on the success and sustainability of USAID's strategic goals and projects, rather than narrowly focusing on "bean-counting" actions. In other words, those contributions that are the easiest to translate into financial amounts are not always the ones that will be the most important contributions towards ensuring the success of the activity or project. At the same time, Operating Units are also encouraged to seek ways to value and monitor host country contributions in ways that are efficient, practical and cost-effective.

Some basic principles:

1. “In kind” host country financial contributions may include the cost of actions such as difficult policy and institutional changes that further USAID’s strategic and/or project goals, when the cost of such contributions can be readily quantifiable. For example, over the five-year life of an activity, the cost of lost income due to the abolition of a particular tariff may be estimated by reference to the inflation-adjusted amount of tariff income collected over the past five years. The cost of studies and staff time to develop and implement a changed law may also be quantifiable.

2. In the context where financial contributions are required as a matter of policy, and where non-financial contributions are more valuable or impactful than financial contributions, a modification of the policy requirement for a host country financial contribution may be justified. For example, a covenant to enact a privatization law may be more valuable and more efficient to measure than a commitment to provide a specified number of person-years of staff time.

3. The time frame when contributions “count” may include time periods preceding or continuing beyond the DO or project time period, where appropriate. For instance, a host country should not be penalized for taking actions early, before a given USAID activity has been finalized or obligated. Similarly, some actions that involve budget cycles may need to be completed after an activity is formally finished.

VII. Determining and Documenting the Host Country Financial Contribution

1. **Type of Contribution**. Both cash and in-kind contributions are acceptable. The contribution of the host country may cover operating or capital costs, including but not limited to cash; capital goods; counterpart personnel; services and studies; rental or purchase of materials for operations or construction; administrative costs; contributed land; and costs related to the above items. The cost of implementing a reform (such as lost revenue from abolishing a tariff) and host country budgets in a relevant area would count.

2. **Sources of host country contributions**. Normally the host country’s contribution comes directly from the host country (for instance through existing or increased budget allocations). However, in some cases an acceptable contribution may come from other resources in the host country.

3. **Documenting in the DOAG***.* Normally, where a host country is required (for legal or policy reasons) to make a financial contribution and there is an applicable DOAG (or other BAA), the contribution should be included in the DOAG (at section 3.2(b)), to create a clear nexus to USAID’s contribution and

the leverage that is thereby afforded. However, there may be cases where a host country's financial contributions are appropriately included in other documents, such as multi-donor arrangements or MOUs, even when a DOAG is used. For example, where an important host country commitment was made through a multi-donor agreement, including the same commitment in a USAID DOAG could hinder the ability to make necessary adjustments to the host country's commitment in the multi-donor agreement. Also, some important contributions might be too sensitive for a host country to make to a single donor but might be acceptable when made in a multi-donor context. If the host country's contribution is required but not specified in the relevant DOAG, Operating Units should note the reason for this in project documentation.

4. **Valuation and Exchange rates**. In-kind contributions are estimated at fair market value in the partner country at the time the host country commits in writing to making the in-kind contribution whether in a DOAG or in a similar instrument.

   The host country's contribution may be stated in a DOAG in dollars, in local currency, or both.

   However, where the host country's contribution is required to be a percentage of the total program or project, contributions denominated in local currency (in-kind or cash) must have their USD equivalent value included in the relevant document (whether a DOAG, an IL, or similar instrument) together with their local currency value for budgetary purposes at the time the relevant document is signed. The exchange rate used to calculate the amount of the contribution must also be stated. This forms the basis for determining the host country's real resource contribution and percentage share of the total project throughout its life and insulates the host country's contribution from the effect of any exchange rate fluctuations which may occur. This applies to FAA section 110 contributions where no waiver has been approved, since the statute requires the host country to contribute at least 25% of the program or project's cost.

   Often, though, it is more important to sustainability goals that the host country makes certain specific contributions, irrespective of their particular percentage. This might be the case where a waiver for FAA section 110 has been approved or financial contributions are required only as a policy matter. In such cases, whether or not to include the exchange rate provision in the DOAG should be considered as part of the determination of the appropriate host country contribution.

5. **Incremental obligations and contributions**. It may be most appropriate to quantify the host country contribution and document it in the DOAG at various points during implementation of a DOAG.

6. **Reporting**. There should be a provision for the host country to report on its contribution at least annually in a format to be agreed upon with USAID. The

Operating Unit should review the report and determine if the host country contributions are reasonable in relation to the activity, staffing progress, and other factors. Operating Units are authorized to take additional steps to determine if the contribution is being made; for example, periodic site visits, reviews, or evaluations.

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