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Choosing G2G Modalities for Education

G2G Education Toolkit

Version: December 2013

Choosing G2G Modalities for Education

USAID government-to-government (G2G) implementation seeks to catalyze institutional reform necessary to improve early grade reading. The *Choosing G2G Modalities for Education* Tool provides a framework, decision tree, and a checklist to determine choice of government-to-government modalities for use in education programs. With this the tool, USAID Education Teams will learn: a) the advisability and feasibility of using G2G modalities; b) appropriateness of G2G modalities linked to components of a project; and c) steps in the design of G2G assistance for an education project.

Education Office
Economic Growth, Education and Environment
December, 2013

FOREWORD

Government-to-government Education Toolkit

In line with the compelling policy guidance of USAID Forward, Agency education officers are currently exploring, developing and implementing new government-to-government (G2G) modalities in education projects. An immediate need exists for tools and training materials that will assist Education Teams as they design, implement, and monitor G2G activities to achieve USAID Education Strategy Goals.

Under the leadership of the Bureau for Economic Growth, Education and Environment's (E3) Education Office, the **G2G Education Toolkit** has been developed to provide this support. The Toolkit includes a literature review; an analysis of lessons learned and best practice; an analytic framework and roadmap; operational tools; and case studies. Additionally, sample G2G operational documents from Missions currently undertaking government-to-government activities will be available to guide field staff.

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I. When Should G2G be Used in Education Projects?¹

Agency guidance on the use of government-to-government (G2G) assistance

Government-to-government (G2G) development assistance is a key element of US Foreign Policy, a commitment to rebuild USAID as a pre-eminent development agency. USAID Forward embodies a central pillar of aid effectiveness as articulated by the Paris Agreement, Accra Agenda, and Bussan Conference: country ownership of the development agenda through the use of partner country plans and systems. ADS Chapter 220 articulates the Agency's policy rationale:

USAID's assistance is most effective when it can work through reliable government systems rather than around them, to ensure that the aid received reinforces the accountability of a government to its people. In short, USAID uses reliable partner government systems because doing so supports sustainable development.

In line with this compelling policy guidance and drawn from decades of research, evaluation, and analysis of international development assistance, the Agency has begun a strategic shift to increase Mission funding directly to partner country institutions, private firms, and non-government organizations. Since 2010, USAID has increased funding to partner country institutions by almost 50 percent, a significant departure from USAID's previous reliance on the use of international contractors and international non-governmental organizations (INGOs) as implementers of education activities. ADS 220 states that "use of partner government systems is encouraged. It is a 'first option' or 'default approach' according to aid effectiveness communiqués and agreements to which the USG is a signatory."² However, the use of this funding pathway presents Mission education teams with significant challenges for project strategy, design, and management. The use of G2G is only appropriate when conditions are right. What are those conditions?

¹ The term *project* here means all of the activities planned within a Results Framework. An activity, such as a contract for technical services, in common usage is also called a 'project,' causing confusion. Generally, in both USAID and this document, contracts, grants and G2G modalities implemented under an education project are termed *activities*. Adding to the misunderstanding, G2G Project Assistance (in contrast to G2G Program Assistance) is a development activity within an education project.

² USAID ADS 220.1.1.b

The ADS provides the following guidelines:

Table 1: ADS Guidelines for G2G Use

Use of partner government systems should be considered as a means to achieve USAID development objectives when:
<i>1. The development objectives to be achieved by a specific USAID project or investment are such that the <u>role of the partner country government</u> is essential to maintaining, directing, or financing the results of USAID assistance into the future.</i>
<i>2. There is a good bilateral relationship such that USAID supports the partner government's strategy for achieving specific development results: e.g. delivering education services through a government system.</i>
<i>3. The use and strengthening of government systems in a sector are likely to empower the people through greater access to services (health, education, etc.), a better policy and regulatory environment for economic growth and transparency, access to markets, private sector services and communications.</i>
<i>4. Identified fiduciary risk that may result from use of partner government systems is low or can be mitigated appropriately using the procedures established in this Chapter and the implementing partner government entity is determined to have the necessary technical capacity. (p4).</i>

The USAID Egypt Education Team made the following suggestions based on their extensive experience with a gradual increase in the size and scope of G2G assistance within their education projects.

Table 2: Egypt G2G Design Recommendations

<p>G2G is appropriate when:</p> <ul style="list-style-type: none">• It supports a widely recognized problem.• It is based on successful pilots, true ownership, and developed capacities and systems.• It is built on the national vision for education reform of the government.• It is most effective when integrated into MOE strategy.
<p>About the monitoring plan:</p> <ul style="list-style-type: none">• Clarity of benchmarks and means of verification are crucially important. Vague statements must be avoided and mutual understanding and clear expectations ensured.• A monitoring system and building capacity must be established.
<p>About technical support:</p> <ul style="list-style-type: none">• Build sustainable capacity through targeted technical assistance to support and advise but NOT to set priorities and implement.

Challenges in the use of G2G

The USAID policy objective of enhancing partner country ownership of development through the financing of government systems is clear yet the use of G2G in education projects faces multiple challenges. These challenges must be taken into consideration when the use of G2G is contemplated.

1. *Financially supporting government systems may strengthen existing practices, but policy or institutional reforms are not leveraged unless they are already embraced as priorities by the partner government.* Since USAID education projects, particularly those which aim to improve early grade reading achievement, require significant curricular, materials, training, and evaluation reform, **G2G assistance is only effective when government leadership of education system reform is strong.** Weak government commitment to reform may be the case in fragile states. Equally, a shift in policy priority from expansion of access to improvement of early grade reading achievement (i.e. Goal 1) may be a difficult leap for some partner governments.
2. *Assessment and mitigation of risk of using partner country systems is a central directive for implementation of G2G.* A key objective of AID Forward is to strengthen country sector institutions to provide education services; however passing funding through government institutions to improve service delivery always involves risk.³ Expansion of an existing education system to increase access requires increased financing to build new schools, employ additional teachers, and provide additional textbooks. In contrast, the improvement of educational learning outcomes such as reading, places a high priority on system and institutional reform. This is especially true when the objective, such as Goal 1, requires significant innovation and transformation of practice and where reform is necessary from the central ministry of education all the way down to districts, schools and classrooms. The implication for project design and management therefore is that **G2G modalities should be integrated with strategies and support for institutional capacity development.**
3. *Over the past decade, USAID has increasingly emphasized the necessity of evaluation of results as the determinant of education project success.* Projects must not only demonstrate that inputs (trained teachers, curriculum and materials, classrooms, etc.) have been delivered but that these inputs are linked to improved performance (i.e. impacts) in the education system. Under Goal 1, that impact is defined as increased student reading achievement. Yet the pursuit of this central USAID education goal must be balanced with a strategy for strengthening institutional and human capacity which ultimately puts responsibility for achievement of improved student performance in the hands of country institutions. Building government institutions to effectively manage national reading programs takes time even with strong country leadership. At a minimum, time is needed to build consensus around a shift in sector priorities towards quality in early grade teaching and learning; to pilot interventions; to rework curricula; to design, produce and distribute materials; to retrain a critical mass of teacher trainers, educational leaders, and teachers; and to design and

³ PFMRAF 1 and 2 provide a multi-stage methodology to assess the fiduciary risk of utilizing government systems to deliver aid.

conduct assessments of pupil learning. Ultimately, time is needed to develop effective management and supervisory systems, including formative assessment and program evaluation. Inevitably, a tension exists between a short-term strategy to achieve improved reading skills through reliance on experienced international implementing partners and the longer time needed to build the capacity and leadership within government and country institutions. Given these pressures and priorities, **the decision over the size and nature of G2G modalities, combined with building institutional capacity of non-government implementing partners, presents a challenge to project design.**

4. *A significant challenge in the design and management of projects is to ensure consistency with global good practices of aid effectiveness (Annex I).* **Existing Agency guidance and regulations place a strong emphasis on reduction of risk through the PFMRAF process and seek risk avoidance by increasing the responsibility for financial and results accountability of the partner government.** This increases the financial and technical management burden on governments, requiring additional accounting, evaluation, and reporting tasks. Without reform in the USAID regulatory guidance which highlights risk avoidance and requires US mandated standards and procedures for financial control, fund tracking, and reporting, the Agency will be challenged to attain higher rankings on the global evaluation of effective development aid.⁴
5. Over the past decade, *USAID has increasingly relied on contracts and grant mechanisms with implementing partners to provide technical services to partner country institutions.* Through such projects, implementing partners are often tasked to manage grants to schools, districts, regions, and even to national institutions. This project approach does not meet the criteria for G2G as these funds are not accounted for in government budgets. Nonetheless, implementing partners' provision of technical assistance, training, and systems development, coupled with grant funding, have made significant contributions to strengthening country institutions. This experience has also built the technical and management capacity of implementing partners, increasing their knowledge and competence to develop effective relationships with country institutions based on technical expertise, trust, reliability, and an understanding of institutional cultures. **Implementation of G2G assistance shifts this considerable management responsibility from implementing partners to USAID Mission Education Teams.** This shift requires Missions to expand the number of professional education personnel needed to handle the increased management tasks involved in implementation of G2G assistance. This may present significant challenges at a time when Agency operational budgets are under threat and pressures for performance increase.

These challenges to the design and implementation of G2G need to be understood and assessed within the processes of project design, approvals, management, and evaluation. Their inter-relationship is represented by Figure 3, a diagram of the conceptual framework of G2G in education.

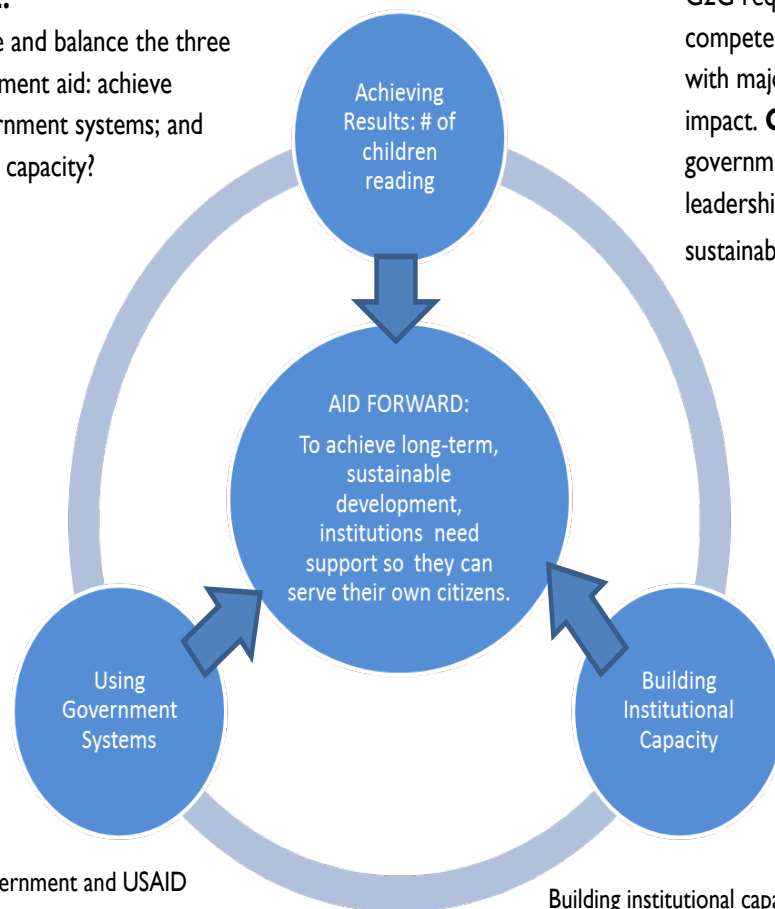
⁴ On the global ranking of aid effectiveness in 2011, USAID ranked 19 out of 27 donors. Birdsall, N., Kharas, H. and Perakis, R. (2011). *Measuring the Quality of Aid: QuODA Second Edition*. Washington, D.C.: Center for Global Development and Global Economy and Development, Brookings Institute. www.cgdev.org

Figure 1: Conceptual Framework for G2G Assistance in Education

CHALLENGE:

How to prioritize and balance the three pillars of development aid: achieve results; use government systems; and build institutional capacity?

G2G requires strong technical competence and experience along with major system reforms for impact. **CHALLENGES:** Without government ownership and leadership, technical work is not sustainable and non-systemic.



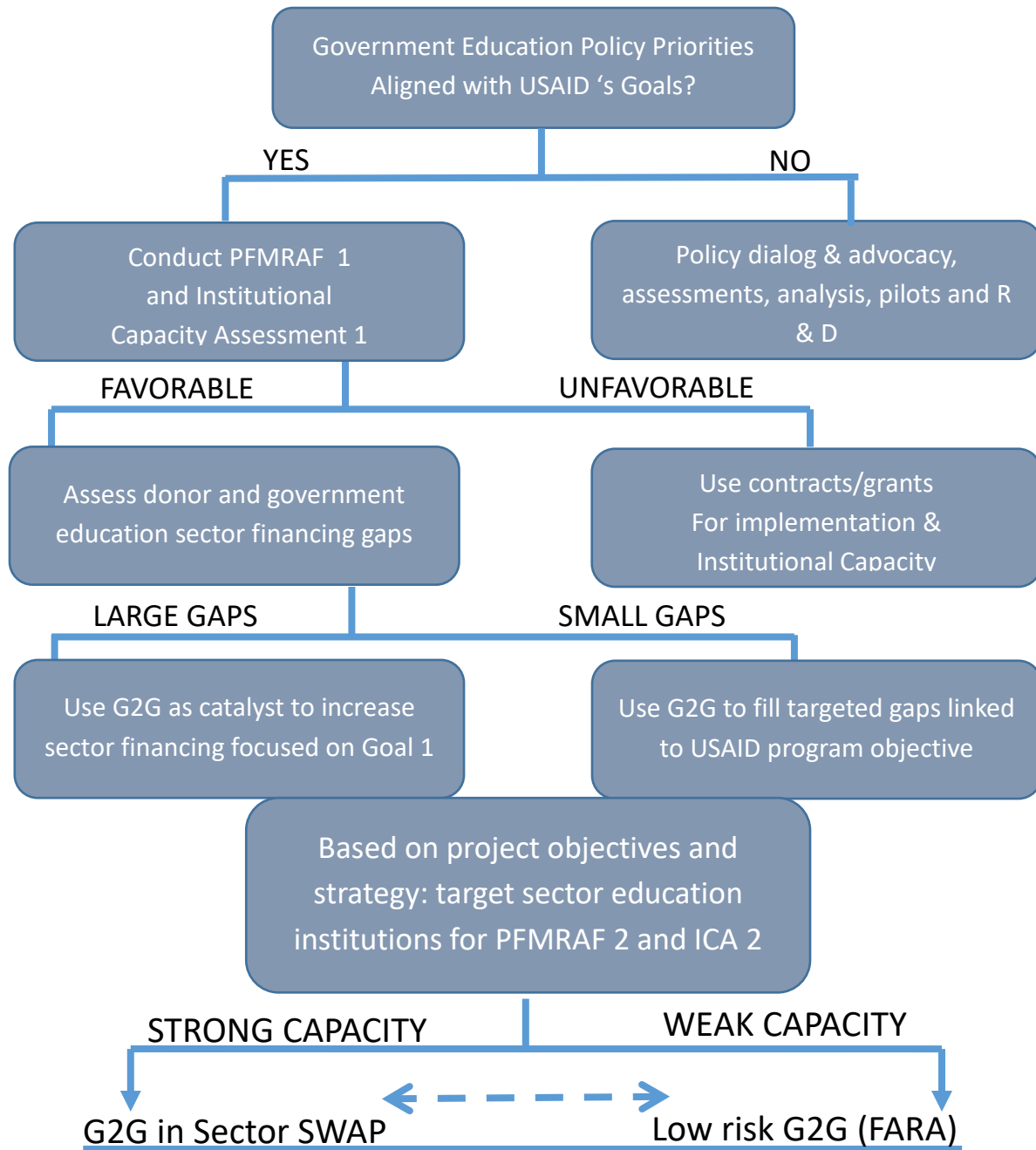
G2G increases government and USAID management burden and involves the evaluation and report of specific milestones and outputs against specified standards and tracking of G2G financing. G2G also requires strong technical and diplomatic capacity to leverage sector financing in support of quality basic education.

Building institutional capacity is not simply training, but requires system reforms at national, regional, district, school, classroom, individual, and community levels. It is a long-term process, especially in the need to develop capacity to realize Goal 1 results on a national scale.

When to Use G2G Assistance

The process involved in arriving at a decision to use G2G assistance in education projects is illustrated by Figure 2.

Figure 2: G2G Assistance: A Decision Tree



LINKED TO INSTITUTIONAL CAPACITY BUILDING

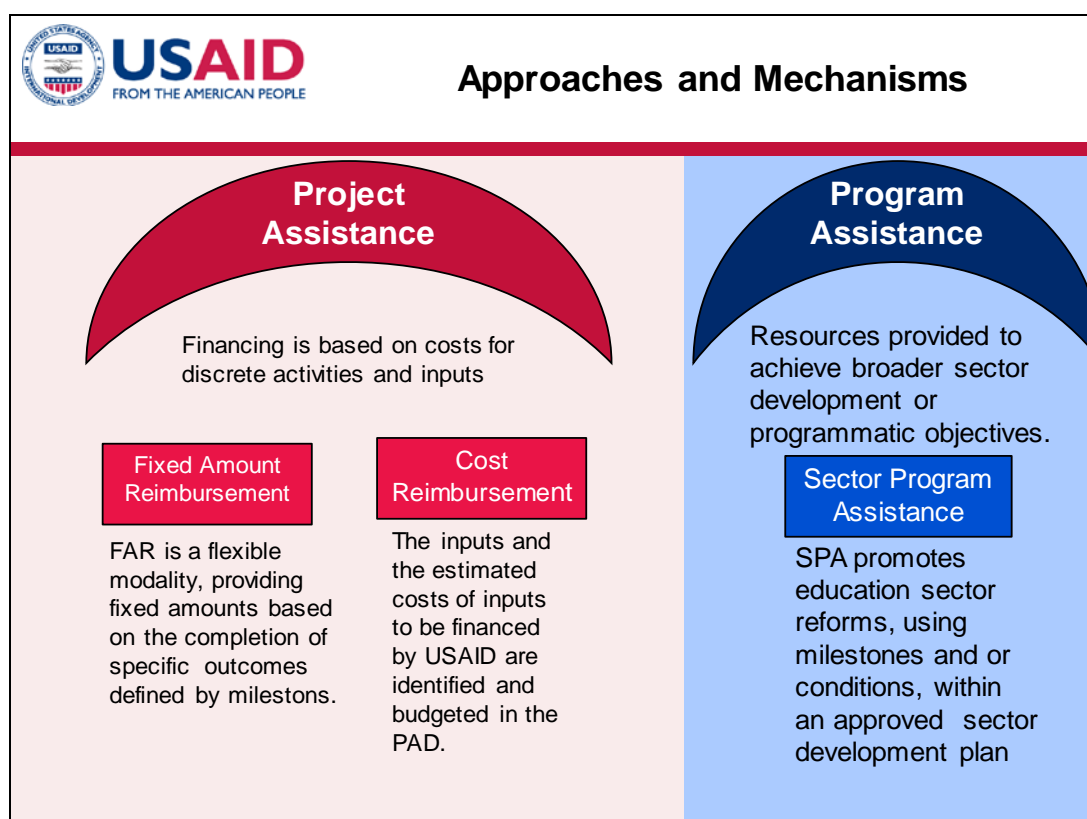
II. Which G2G Modality Should Be Used?

Before selecting and negotiating a particular implementing mechanism with a partner government entity, Missions should 1) identify all of the mechanisms suitable to the particular circumstances for the subject project activities, 2) fully understand the positive and negative aspects of each mechanism available, and 3) use the implementing mechanism that will most likely accomplish the development purpose(s) being financed. This section provides an overview of the modalities, followed by a checklist and rating process for the determination of appropriateness of modality to facilitate diverse interventions in education projects.

Overview of G2G Modalities

Two broad types of G2G assistance are supported by the ADS: **G2G Project Assistance** and **G2G Program Assistance**.⁵ The general purpose and modalities of each of these is illustrated in Figure 5.

Figure 3: Overview of G2G Modalities



⁵ General Budget Support is not discussed in this paper since it does not specifically support the education sector.

G2G Project Assistance

The first broad category of G2G assistance is classified as G2G Project Assistance. Project Assistance requires that a government spend funds from the national education sector budget for implementation after which USAID reimburses those costs. G2G Project Assistance has two modalities: a) **Fixed Cost Reimbursement (FAR)** and b) **Direct Cost Reimbursement (DCR)**. G2G Project Assistance is appropriate to support specific education activities (rather than sector policy or institutional reforms) since reimbursement depends on an assessment and verification that specific outputs have been completed to standards in the case of Fixed Cost Reimbursement or on a rigorous accounting of expenditures for specific, approved activities in the case of Cost Reimbursements.

a) Fixed Amount Reimbursement (FAR). The amount to be reimbursed for each outcome (milestone) in a FAR is fixed through assessments and negotiations before the start of the project. USAID is not required to track expenditures, only to verify that costed milestones have been satisfactorily completed. If the actual costs exceed this amount, the partner government covers the difference; if the actual costs are below the fixed cost, the government keeps the difference. This modality thus provides an incentive for governments to achieve the outputs as efficiently as possible.

The Fixed Amount Reimbursement (FAR) has typically been used for a single output such school construction. The fixed reimbursement modalities, and particularly a FAR with a focus on a single type of output, presents the lowest risk to the US government of all G2G modalities. A FAR agreement is therefore often a useful starting point for the implementation of G2G modalities when Missions have not previously used government systems.

However, in recent years, Mission Education Teams have been attempting to use low-risk G2G assistance to address Goal I through development of more complex FAR designs. For example, the current education project in Senegal has a single complex three-year FAR with approximately fifteen reimbursable milestones per year. Each milestone has a number of specific activities and outputs, and yearly milestones include goals for planning, capacity building, curriculum development, training, and monitoring and evaluation, all of which contribute to the project objective of improved reading performance.

b) Direct Cost Reimbursement (DCR) This G2G modality reimburses actual costs of a completed activity. Direct Reimbursements can include procurements for commodities, instructional materials, or technical services. This modality also accommodates an innovative approach to public-private partnerships whereby the government provides grants to NGOs to provide education services in under-served or conflict-affected areas. Similar to the Fixed Reimbursements, the government spends funds from its own budget before reimbursement from USAID. Unlike FAR, the amount for reimbursement in the Direct Reimbursement modality is not fixed but is determined by tracking and documentation of actual expenditures for the completed activity.

G2G Program Assistance

The second general category of G2G assistance is Program Assistance. Program assistance is the provision of financing to governments to assist achievement of agreed-on sectoral goals and objectives, articulated in benchmarks and conditions with verifiable indicators. The disbursement of US government resources is linked to the successful fulfillment of conditionalities agreed to between USAID and the partner government.

A variety of G2G Program Assistance modalities exist, including direct cash advances, a commodity import program (CIP), and Balance of Payment Support (BPF), all of which involve the conversion of US dollar resources into partner country-owned local currency (HCOLC) accounts. Program Assistance can be targeted to support a specific activity or output within the framework of a national education sector plan such as instructional materials procurement or a national assessment of early grade reading. Sector Program Assistance (SPA) is often in the form of a contribution to a Sector Wide Approach (SWAp) through which sector plans, financing, benchmarks, conditionalities, indicators, and verification procedures are jointly agreed by development partners and government.

A final distinction useful to characterize types of G2G program assistance modalities is the placement of aid in the government's budget. Two options exist: a) aid supports a single, discreet activity with expenditures from a government's Development Budget or b) aid is incorporated into the government/Ministry of Education's recurrent budget and involves a series of disbursements in tranches which meet mutually agreed, verifiable conditions or benchmarks. The single activity and disbursement modalities carry the lowest risk (and therefore would be most appropriate for Goal 3 i.e. fragile/conflict, contexts), yet their contribution to sustainable education reform such as improved early grade reading are minimal. G2G aid to the government's recurrent budget is generally a greater risk, requiring a higher level of institutional capacity, support for capacity building, and greater engagement in policy dialogue between the partner government, development partners, and civil society.

Sector Program Assistance reflects best practices in development aid, based on a high level of trust in government institutions. It can make a significant contribution to sustainable sector capacity and reform.

Tables 3 summarize key characteristics of the two types of G2G assistance: Project and Program assistance. More detailed descriptions of these modalities are in Annex 2.

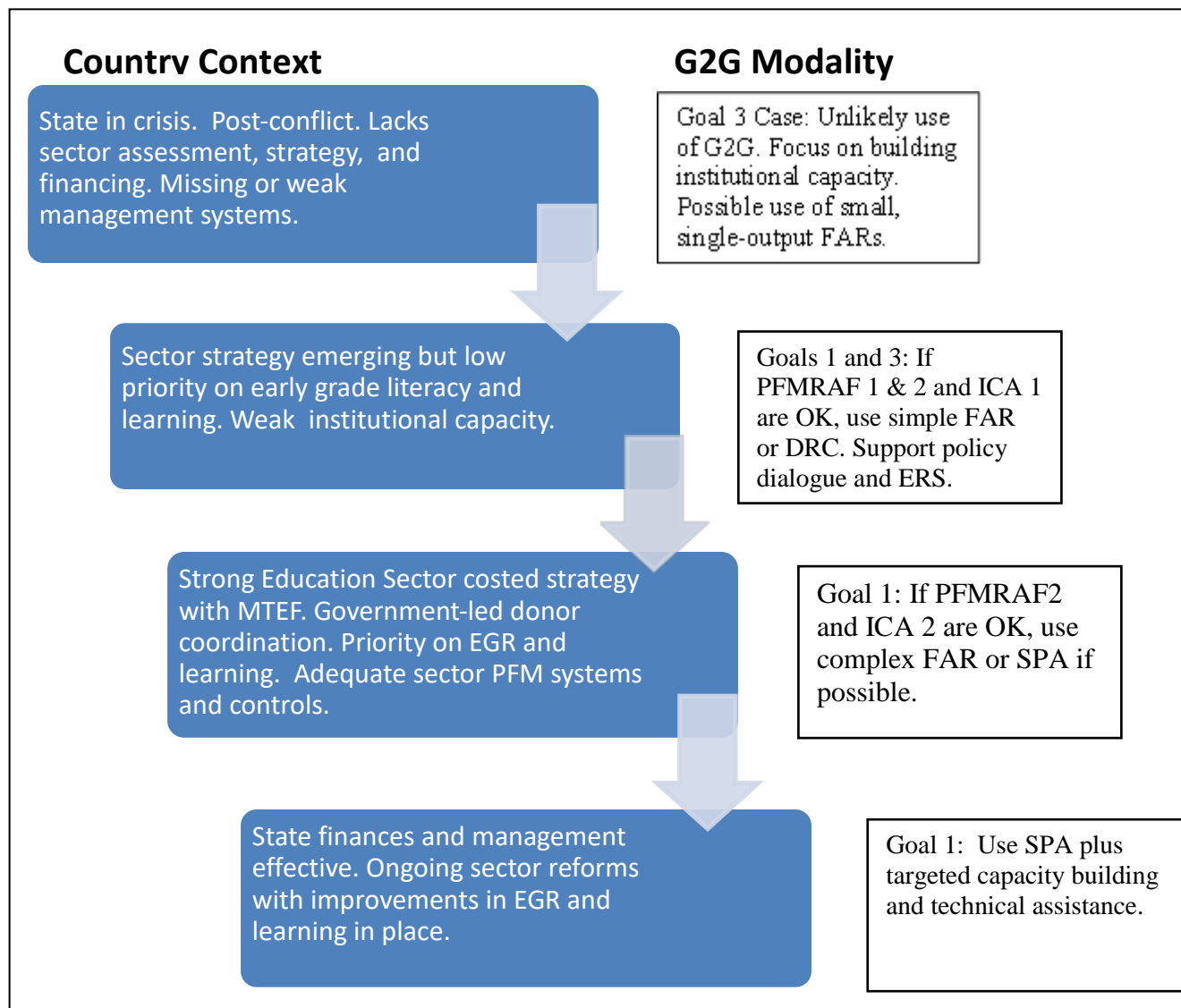
Table 3: Characteristics of G2G Modalities

PROJECT Assistance	Fixed Amount Reimbursement (FAR): agreed, fixed costs for specified outputs (milestones)	Direct Cost Reimbursement (DCR): actual costs of agreed inputs and activities
<p>Project Assistance: Partner government reimbursed for specific input costs or For outputs meeting quantity and quality standards</p>	<ul style="list-style-type: none"> ✓ Used for specific, costed outputs. Often used for construction (school buildings). ✓ Allows multiple milestones which contribute to a single project purpose. (e.g. a long term in-service teacher training activity based on new curricula). ✓ Fixed reimbursements based on outputs meeting quantity and quality standards not generally used by other donors. Governments may not agree to FARs as the financial risk is placed on the government (if outputs do not meet standards, then the government is not reimbursed). 	<ul style="list-style-type: none"> ✓ Requires an approved and detailed activity and expenditure plan. ✓ USAID must carry out oversight on financial management and control to verify costs; thus is management-intensive for both USAID and the partner government. ✓ Very flexible. May be used for multiple activities for example, for management and technical services, commodities, training, and grants to local organizations. ✓ A common modality used by other donors to fund targeted sector project activities. ✓ Should not be used to fill gaps in the government recurrent budget, but rather to support institutional strengthening to achieve education development targets.
PROGRAM Assistance	Assumptions	Mechanisms
<p>Provides financial resources to support sector programs and reforms. Disbursements made in tranches against predefined benchmarks and conditions generally linked to sector policy reforms.</p>	<ul style="list-style-type: none"> ✓ A sector strategy in place linked to a macro-economic framework (e.g. a medium term expenditure framework (MTEF)) with indicators and targets. ✓ Government has the institutional and financial capacity to implement the plan with some technical support. ✓ Performance of a rigorous and annual accounting of sector expenditures takes place (with audits) along with a review of sector plan progress based on achievement of indicators and targets. ✓ Established financial gap exists between the requirements of the plan and the government resources and sector budget. 	<ul style="list-style-type: none"> ✓ Cash Transfers paid in tranches against evidence that benchmarks or conditionalities have been met. ✓ Other mechanisms in place for provision of resources to the education sector budget. ✓ Includes the Commodity Import Program and Balance of Payment Support, which can be used to offset government expenditures, thereby releasing local currency funds for the education budget.

Factors for the Selection of G2G Modalities

The overall state of the partner country’s stability, governance, policy priorities, and financing conditions will shape the design decisions on the use of G2G assistance, a process illustrated here in Figure 4.

Figure 4: Stages of Education Sector Development and G2G Modality Choice



In addition to a country’s political, social and economic context, assessment of a number of other key factors will influence the choice of G2G modality (or modalities) to use. Consideration of each factor contributes to a determination of plausible use of individual G2G modalities. Table 4 presents a checklist and rating scale to assist selection of the most appropriate modalities for a given education project and activity. Each factor in the checklist should be weighted on a scale of 1 (weak) to 4 (strong) as it applies to a Mission’s education project and a particular G2G modality. A tally of results placed on the simple summary scale

following the table gives a perspective of the type of G2G modality which could be most appropriately used.

Table 4: Checklist of Factors Affecting G2G Modality Choice

<p align="center">KEY QUESTIONS TO ANSWER</p> <p align="center">Modality:_____</p> <p align="center">Weak 1-----2-----3-----4 Strong</p>	<p align="center">ISSUES FOR CONSIDERATION IN RATING EACH QUESTION</p>
<p>Does the specific G2G modality support the requirements of the specific project objective within the context of government and other donor sector financing and projects?</p> <p>– Goal 1: Improved reading Rating _____</p> <p>– Goal 3: Increased access in crisis and conflict environments. Rating _____</p>	<p>Goal 1 achievement requires systemic sector reforms of curriculum, teaching, materials, training, management and supervision, assessment and evaluation, and sector financing to achieve reforms.</p> <p>Goal 3 achievement will likely focus on development of budget activities (e.g. infrastructure and commodities) as well as system rehabilitation (e.g. teacher training).</p>
<p>Is the risk involved in using a particular G2G modality with a particular partner country institution acceptable?</p> <p align="center">High Risk ←————→ Low Risk</p> <p align="center">FAR ----- OBC ----- CR ----- SBA -----</p>	<ul style="list-style-type: none"> ○ PFMRAF 1 and 2 results. ○ Prior USAID and donor experience with budget support. ○ Complexity and technical demand on the partner country institution(s) to implement the project.
<p>Has an institutional capacity assessment been done of the partner institution(s)' ability to effectively manage and implement an activity leading to planned impacts/results?</p> <p align="right">Rating _____</p>	<ul style="list-style-type: none"> ○ Conduct an Institutional Capacity Assessment (ICA) in addition to PFMRAF 2. ○ As determined by the ICA, design and implement activities to strengthen management systems and training timed to contribute to institutional capacity for managing G2G aid.
<p>Is the G2G modality consistent with lessons learned and good practices of development aid?</p> <p align="right">Rating _____</p>	<p>Where feasible, move towards Sector Program Assistance with joint conditionalities and verifications within the framework of a country-led sector plan.</p>
<p>Is sufficient time allowed for the assessment, policy dialogue, negotiations, agreements (both from USAID and government), and implementation of the G2G activity within the education project time frame?</p> <p align="right">Rating _____</p>	<p>With short project timeframes, utilize lower risk, development budget G2G modalities (such as FAR). Longer project timeframes allow a move to support annual recurrent costs using G2G Program Assistance modalities</p>
<p>Does the Mission have the capacity to manage the G2G modality?</p> <p align="right">Rating _____</p>	<p>The level of effort and expertise needed to manage G2G assistance is generally greater than the level of effort needed to manage contracts and grants with experienced development firms and International NGOs. In particular the work load for reviewing DCR accounts can be very demanding.⁶</p>
<p align="right">Total rating _____</p>	

⁶ See the memo from the Ghana Education Team about the management of G2G Direct Cash Reimbursements.

RATING SCALE FOR EACH MODALITY

- 15-20: The use of this modality is indicated
- 10-14: This modality is a possibility, but it will need careful design
- 5 – 9: Unlikely that this modality should be used for the project
- 0 – 4: Risk is too high. Do not use this modality

III. Next Steps: G2G Modality Design

In the final section, a tool is provided to enable a final analysis of the set of factors and considerations which will guide the design of specific modalities in conjunction with specific Ministry of Education institutions. Of course, the actual shaping of project G2G activities and modalities as well as non-G2G activities that may contribute to building capacity, will take place in consultation with the government, development partners, and stakeholders. Agreements on the terms, amounts, and requirements of G2G assistance with the Ministry of Finance, the Ministry of Education, and those specific institutional units that will be responsible for the establishment of G2G agreements, will be reflected in the PAD and Project Implementation Letters.

The design of an education project with G2G assistance calls for a finer determination of the types and characteristics of G2G assistance modalities. This must take place in relation to factors which will shape the selection of a particular modality for a specific purpose with specified government/country partners to achieve mutually-valued outputs. For example, an education project might use a FAR to reimburse a government's recurrent budget through a series of milestones and tranche releases for multiple outputs. These may encompass the completion of a new reading curriculum; the design and distribution of instructional materials; a system of formative and summative assessments of pupil reading achievement; and the implementation of a teacher training and supervision system.

Once the appropriate G2G modality(ies) has been selected, the detailed project design work will require a set of key steps in consultation with the partner government and other stakeholders. These steps are indicated in Table 5 which is a template for working through the technical development of a project design.

The G2G modality under consideration and the ranking it received from the checklist in Table 4 is placed at the top of the template. In step 1, the proposed government institution(s) responsible for management of G2G assistance is identified. Steps 2 through 8 are an outline of the process and the description, analysis and design decisions that must be made in planning the G2G project. This design work outlined here would input to the Project PAD and to the AUGPS.

Table 5: Steps in the Design of G2G Assistance in Education Projects

MODALITY SELECTED: _____ RANKING (from Table 4 Checklist) _____	
1. Identify the institution(s) which will manage G2G assistance:	
2. Outputs and reforms expected:	
3. Milestones and/or conditions:	
4. Amounts:	
5. Timeframe:	
6. Institutional Capacity Development Assessment Results:	
7. Institutional Capacity Development Strategy:	
8. Key Indicators for M&E:	

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Annex I: Summary of Global Lessons Learned and Good Practices in Aid Effectiveness⁷

USAID seeks to become a pre-eminent development agency, drawing on lessons learned from global evaluations, research and analysis of aid effectiveness. A review of this literature, particularly as it applies to the development of the education sector, highlights the following lessons learned and good practices:

- i. The vision of aid helping countries to own and lead their development will not be realized by greater volumes of financing through weak systems but by incrementally building government systems and capacities while increasing budget support to specific, collectively agreed outcomes and indicators. Strengthening institutions and systems for service delivery is at the heart of design and implementation
- ii. While risk-avoidance is an important consideration for any use of G2G, it cannot be the primary motivation for decision-making. Current practices promote risk aversion through the use of particular modalities as opposed to risk reduction through strengthening policy and practices by domestic institutions. Success depends more on the long-term development of robust national institutions than on particular aid modalities or on technical fixes.
- iii. G2G assistance should avoid significantly increasing the management burden on governments by requiring conditions and derogations (modifications) to existing financial management and control systems and by requiring that donor (i.e. USAID) funds be separately tracked to final usage in recurrent budget expenditures.
- iv. Inputs can be provided through G2G but evidence shows that the financing of existing systems does not result in the sustained reform of systems and instruction leading to improved classroom learning outcomes without a change or reform of incentives and accountability.
- v. G2G funds represent a small proportion of a country's total annual recurrent expenditures in basic education (where teacher salaries may typically use up to 90% of a government's recurrent budget). Conditions for success of G2G aid requires a) highly strategic placement and ii) use as a catalyst to increase government and donor financing to those critical recurrent expenditures necessary to improve access and quality (such as effective curricula, management, training, supervision, materials, and assessments). This requires that USAID engage in a high level of policy dialogue on the allocation and management of the recurrent budget with government and donors.

⁷ See USAID/E3 (2013) *Lessons Learned and Good Practices in Aid Effectiveness*.

Annex 2: Description of G2G Modalities

G2G PROJECT ASSISTANCE

I. Direct Cost Reimbursement (DCR)

Description

DCR is financing that reimburses the government for costs of inputs necessary to implement an approved project activity (in the PAD) to achieve the stated project purpose. Examples of inputs include: training; management or technical expertise, procurement of commodities (e.g. instructional materials), government contracts for services, and grants to local institutions and NGOs. A good example of an innovative use of Cost Reimbursement supports the implementation of a government policy assisting qualified local NGOs to provide literacy classes in remote or conflict-affected areas. The government provides a series of grants, based on NGO experience and capacity, and is reimbursed when a set of classes are completed.

When to use it

Both a Public Financial Management Risk Assessment Framework (PFMRAF) and Institutional Capacity Assessment (ICA) should indicate that the specific institution(s) which will implement the Cost Reimbursement activity have the technical and management capacity to effectively plan and carry out the activity. This assumes that, where necessary, the institution(s) can also receive technical and management systems consultation, training, and support either through the use of G2G funds or through project contracts/grants.

A considerable variety of project objectives exist that the G2G Cost Reimbursement can support. For Goal 1, this may be in the area of assessments, curriculum development, materials development, staff training, teacher training, or management systems strengthening at central and local levels. For Goal 3, Cost Reimbursement is useful when the costs of carrying out activities are difficult to pre-assess and where local currency fluctuations are likely.

What to consider

DCR imposes a heavy planning, management and reporting burden to implement. It requires that the partner government, with USAID assistance, prepare a detailed project description, a log frame and time frame with benchmarks, and overall and annual budget requirements. The project description must include all costed activities, including sub-contracts, grants, and procurements necessary to complete the activities along with specification of foreign exchange costs. The project must be approved through an *Authorization for the Use of Partner Systems* (AUPGS). The details of the negotiated conditions for reporting, review, and release of funds are formalized through an Implementation Letter.

The government needs to have a budget line for this project activity, so that project expenditures can be reviewed and audited. To be allowable, costs must meet the following criteria: reasonable (generally recognized as ordinary and necessary); allocable (e.g. attributed to an approved cost element of the project); accountable in a manner that is consistent with

the Partner Government's usual accounting practices and with generally accepted accounting principles and practices; and incurred within the project implementation period.

USAID personnel have the responsibility to monitor the pace of activities and the progress towards benchmarks to verify reimbursement requests, based on vouchers and documentation. The Cost Reimbursement modality is the most commonly used form of financial support to government by donors. It has the advantage of being well understood in principle by the Ministries of Finance and Education. On the other hand, since it targets very specific sub-sector inputs, it requires a separate account in the government budget and must meet USAID-driven program and financial conditions for reimbursement. Its use does not reflect good practices of development aid.

II. Fixed Amount Reimbursement (FAR)

Description

A FAR reimburses fixed costs for specific units of output.

When to use it

A FAR is suitable for financing specific outputs, such as school building, although it can be also used for other carefully-defined outputs such as curriculum development, teacher training, or monitoring and evaluation. Reimbursements are given for specific units of output (milestones) which meet agreed standards. Unlike Cost Reimbursements, FARs do not require USAID to track and account for input costs. USAID is only concerned that the defined output meets predefined standards of quantity and quality. On the basis of completed outputs, USAID pays the government the fixed amount which may be less or more than actual costs.

A FAR assumes that reasonably accurate fixed costs for units of output can be established and that completion of work to standard and on time is highly probable usually within a year (although timing is not a condition for reimbursement).

A FAR may also address more complex, multi-year, and broadly-targeted project outputs. Disbursements may be made based on the achievement of individual milestones that contribute to an overall output (e.g. milestones that results in 5,000 teachers trained with a new curriculum for early grade reading over a two year period). This allows financing to flow in defined increments to achieve project results as stated in the PAD

What to consider

Partner governments must provide funds up-front for a FAR project; these have to be accounted for in the education sector budget.⁸ FARs with single outputs have the lowest risk since governments bear all the risk of an incomplete or unsatisfactory output. They can be effective as a means of initiating G2G activities where the mission has little recent prior

⁸ For both Direct Cost Reimbursements and Fixed Cost Reimbursement, provision is made for a *temporary* advance of funds (30 – 90 days) usually so the necessary funds are available for activity start-up and subsequently can be drawn from the annual education sector budget. Agency guidance on this procedure is provided in the document *Advances for G2G Assistance: A Mandatory Reference for ADS Chapter 220 07282014* .

experience with government- to-government financing. They can be influential in strengthening relationships with government institutions, including the Ministry of Finance; therefore FAR projects with a high probability of success should be considered.

Unlike Direct Cost Reimbursements, FAR reimbursement amounts are NOT determined by expenditures, but on negotiated agreements of estimated fixed costs for achieving milestones. This shifts the focus of the project planning process from inputs (although these of course are necessary to specify) to outputs or results. The project is less concerned about means and more about results and how these are verified.

A complex FAR with multiple milestones over an extended period of time would typically be done in parallel with technical assistance to strengthen institutional capacity based on a pre-assessment using the PFMRAF 2 and the Institutional Capacity Assessment. Management and technical support may need to be factored into the project using either USAID personnel directly⁹ or through an institutional contract. This can be an effective modality for building institutional capacity while achieving results.

The activities and inputs which contribute to the results, for which provision of reasonable cost estimates is necessary, may include (among other components) commodities, project operating costs, grants to local institutions and NGOs, government contracts for technical and management services, and training.

If actual costs for a completed benchmark or output are greater than the negotiated fixed reimbursement, the government must cover the gap. If costs are less than the fixed reimbursement amount, the government keeps the difference. This provides an incentive for MOE implementation to be efficient, timely, and cost-effective.

G2G PROGRAM ASSISTANCE

I. Sector Program Assistance (SPA)

Description

SPA provides financing directly to governments through mechanisms such as cash transfers, the Commodity Import Program, and Balance of Payments Support. These funds for the education sector budget are released in tranches based on mutually agreed benchmarks, with indicators and evidence that conditions related to sector objectives are achieved.

When to use it

SPA promotes medium- to long-term improvements and reforms in the education sector or more typically in a sub-sector (such as basic education). SPA may also focus on a specific education policy and program target such as Goal I, *improving early grade reading achievement*.

⁹ USAID/Senegal's PALME project has highly qualified and experienced FSNs, through the Institutional Development Initiative, embedded within Ministry of Education implementing directorates as advisors and colleagues to assist in planning, management, and evaluation of FAR milestone activities and outputs.

The disbursement of funds for SBA is linked to benchmarks for specific policies, institutional reforms or other government actions necessary to achieve agreed development objectives.

The assumptions necessary for effective SPA include:

- An existing education sector policy and reforms are desired, led by the government, and provide a strategic framework supported by donors and USAID.
- In collaboration with other donors, USAID can support needed institutional reforms through budgetary support and conditionalities.
- Institutional capacity can be developed simultaneously with implementation of the sector program.
- The nature, timing, and costs for policy and institutional reforms can be estimated with annual negotiations on benchmarks of progress and conditions for fund disbursements.

What to consider

During the 1990s, a large proportion of USAID education aid for nine countries was provided through SPA (66 percent by 1995), then termed Non-Project Assistance (NPA).¹⁰ Currently no USAID education projects utilize SPA, although it is the preferred modality of the Paris, Accra and Bussan agreements for provision of aid and reflects lessons learned and good practices of effective aid.

However, SPA requires strong leadership from governments on education sector priorities consistent with USAID goals. Management of SPA requires Mission capacity for policy dialogue with governments, including the Ministry of Finance and donors (effective SPA projects have annually revised the negotiated articulation of benchmarks and conditions for tranche releases, based on sector reviews); a strategic approach to institutional capacity building linked to SPA benchmarks; and a significant level of effort to (cooperatively) assess compliance with conditions for tranche releases. Much of this work needs to be done in consultation with other donors providing SPA, so as to have consistent sector review requirements and schedules for tranche releases.

II. Pooled Donor Funds

Description

USAID places funds into a ‘pool’ with other donors in support of a country’s education sector policies and plans. These funds are disbursed to the government and managed through the government’s education sector budget by a lead agency (often the World Bank), based on detailed plans for sector development activities and financial controls.

When to use it

This modality is now widely utilized by the Global Partnership for Education, which has a body of detailed manuals and procedures guiding the assessment of pre-conditions and the management of pooled funds for the education sector.

¹⁰ The lessons learned and good practices from that experience are described in detail in the publication from USAID/AFR/SD, *Basic Education in Africa: USAID’s Approach to Sustainable Reform in the 1990s*. Technical Paper No. 14, 1995.

What to consider

USAID's contribution to a pooled fund has the advantage of buying a 'seat at the sector planning and budgeting table' and thus can catalyze increased program attention and funds to activities supporting Agency Goals 1 and 3. USAID is not able to plausibly attribute impact of funds on sector reforms or outputs through the use of this modality. The only argument for possible attribution is that disbursed USAID G2G funds represent a proportional contribution to the achievement of sector objectives that are consistent with USAID sector goals and results. Pooling funds are therefore not a strategic choice for all or most of a Mission's education G2G aid.

III. Sector Wide Program Approach (SWAP)

Description

The SPA is provided within an overall agreement among a set of donors in which all program assistance is aligned to government policies, priorities, plans, budgets and financial controls, as negotiated collectively.

When to use it

SWAPs require a high level of confidence in government sector policies, strategies, plans, and management capacity with appropriate financial controls. Funding is negotiated through a Medium Term Expenditure Framework (MTEF) and a sector strategic plan and budget, on a rolling annual basis with input from annual sector reviews and audits. SWAPs assume a very high level of government institutional capacity, with technical and management capacity building managed by the Ministry of Education in consultation with the donor group.

What to consider

SWAPs are in one sense a goal of development aid whereby the role of USAID and donors is to provide a diminishing proportion of sector financing to implement education sector policies and plans, albeit with ongoing consultations on policy and implementation issues. Like pooled funds, SPA for a SWAP can only represent a proportional contribution to the achievement of sector objectives.

However, in the countries where USAID is currently involved in the education sector, the conditions necessary for a SPA within a SWAP as the G2G modality of choice do not exist. Indeed, when the point is reached in a country's education sector development where a SWAP is feasible, the argument can be presented that USAID's role is no longer necessary given that the Agency's comparative advantage is provision of technical rather than financial support.

Annex 3: Glossary

Activity: An activity is a structured undertaking of limited duration and narrow scope. It mobilizes inputs such as commodities, technical assistance, training, or resource transfers in order to produce specific outputs that will contribute to achieving an Assistance Objective. It is developed through the same administrative analytical and approval processes as a more complex project (ADS 200.6).

AUPGS: *Approval of Use of Partner Systems.* This is the formal approval given by a Mission to use a G2G modality within a Project.

G2G assistance: A project or activity is defined as a 'G2G project or activity' when USAID disburses funds directly to a partner government for a project or project activity that is managed and implemented directly by a partner government entity using its own financial management and procurement systems (ADS 220 07.28.2014).

Commodity Import Program (CIP): This is the method by which USAID finances the foreign exchange costs of procuring and shipping eligible commodities on a generalized, sector, target group, or product basis. It is one of the major disbursement instruments used in program assistance (USAID Program Assistance 1995).

Conditionality: These stipulated requirements must be met by the recipient of USAID assistance prior to the disbursement of designated funds, typically used with General or Sector Program Assistance.

Disbursement Tranching: This is the preferred form of provision of medium-to-long term Program Assistance when conditions are to be met in stages over an extended period of time. It allows funds to be disbursed periodically in accordance with progress on pre-established conditions.

General Budget Support (GBS): This term is used when HCOLC disbursements are made into a general budgetary account of the partner government.

Partner Country-Owned Local Currency (HCOLC): Program Assistance provides a resource transfer from the U.S. Government to the partner government. Local currency can be 'generated' in two ways: 1) Through the sale of foreign exchange, CIP commodities, or PL 480 commodities to the public, or 2) The banking transaction which effects the transfer, in some cash disbursements increases the foreign assets of the banking system and simultaneously creates a banking system liability owned by the government. This liability can be in the form of HCOLC.

Implementation Letters (IL): Formal correspondence between USAID and another party following a formal agreement that obligates funding. Implementation letters serve several functions, including provision of more detailed implementation procedures, terms of an agreement, conditions precedent to disbursements, and approved funding commitments and mutually agreed upon modifications to program descriptions (ADS 200.6).

Implementing Mechanism: This is a legally binding relationship established between an executing agency (generally a USG agency like USAID or a partner government agency) and an implementing entity (contractor or grantee) to carry out USG-funded programs. An

implementing mechanism is authorized to use USG funds to: acquire services or commodities; provide assistance (a grant or loan); or fulfill specific agreements such as cash transfers to partner country governments. Examples of implementing mechanisms include contracts, cooperative agreements, grants, inter-agency agreements, fixed amount reimbursement, performance agreements, and cash transfers to governments (ADS 200.6).

Project: A project is a structured undertaking of limited duration and broad scope. Through its component activities, a project mobilizes inputs such as commodities, technical assistance, training, or resource transfers in order to produce specific outputs or results that will contribute to achieving an Assistance Objective (ADS 200.6).

Program Assistance: Program assistance is also known as Non-project Assistance. The distinguishing feature of program assistance is the manner in which USAID resources are provided. Under this mode, USAID provides a generalized resource transfer, in the form of foreign exchange or commodities, to the recipient government. This is in contrast to other types of assistance in which USAID finances specific inputs, such as technical assistance, training, equipment, vehicles, or capital construction (ADS 200.6).

Sector Program Assistance (SPA): This is the provision of general resources to assist partner country governments in achievement of agreed-upon sectoral goals and objectives. This type of assistance focuses on sector constraints to sustainable growth and facilitates the implementation of reforms and other actions to alleviate those constraints to attain measurable development results. The disbursement of USAID resources is always linked to the successful fulfillment of conditionality, previously agreed to by USAID and the government.

Sectoral Budget Support (SBS): Consistent with USAID SBA, it is direct financing for education sector development objectives. This term is commonly used by other education sector development partners (DfID, EU, World Bank).

SWAP (Sector Wide Program Approach). This multi-donor commitment aligns resources to government policies, strategies, programs and sector financing with mutually agreed conditions or milestones, indicators, verifications audits and evaluations.