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HOST-COUNTRY CONTRACTING: AN APPROACH TO SUSTAINABILITY

Fixed Amount Reimbursement Agreements (FARA)

Moenes Youannis

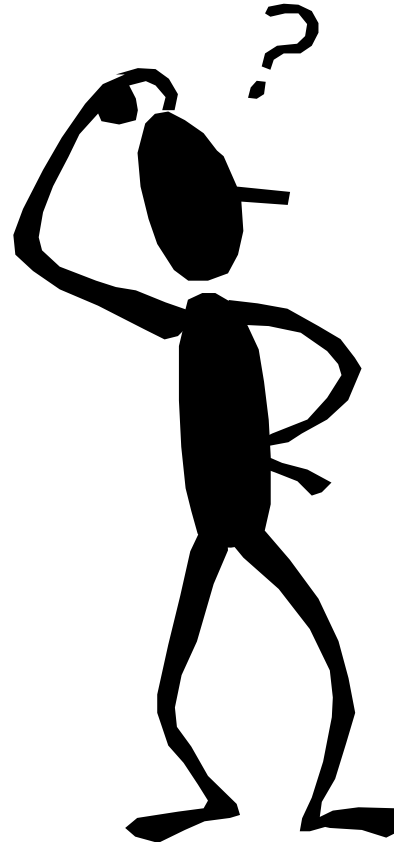
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Presentation Outline

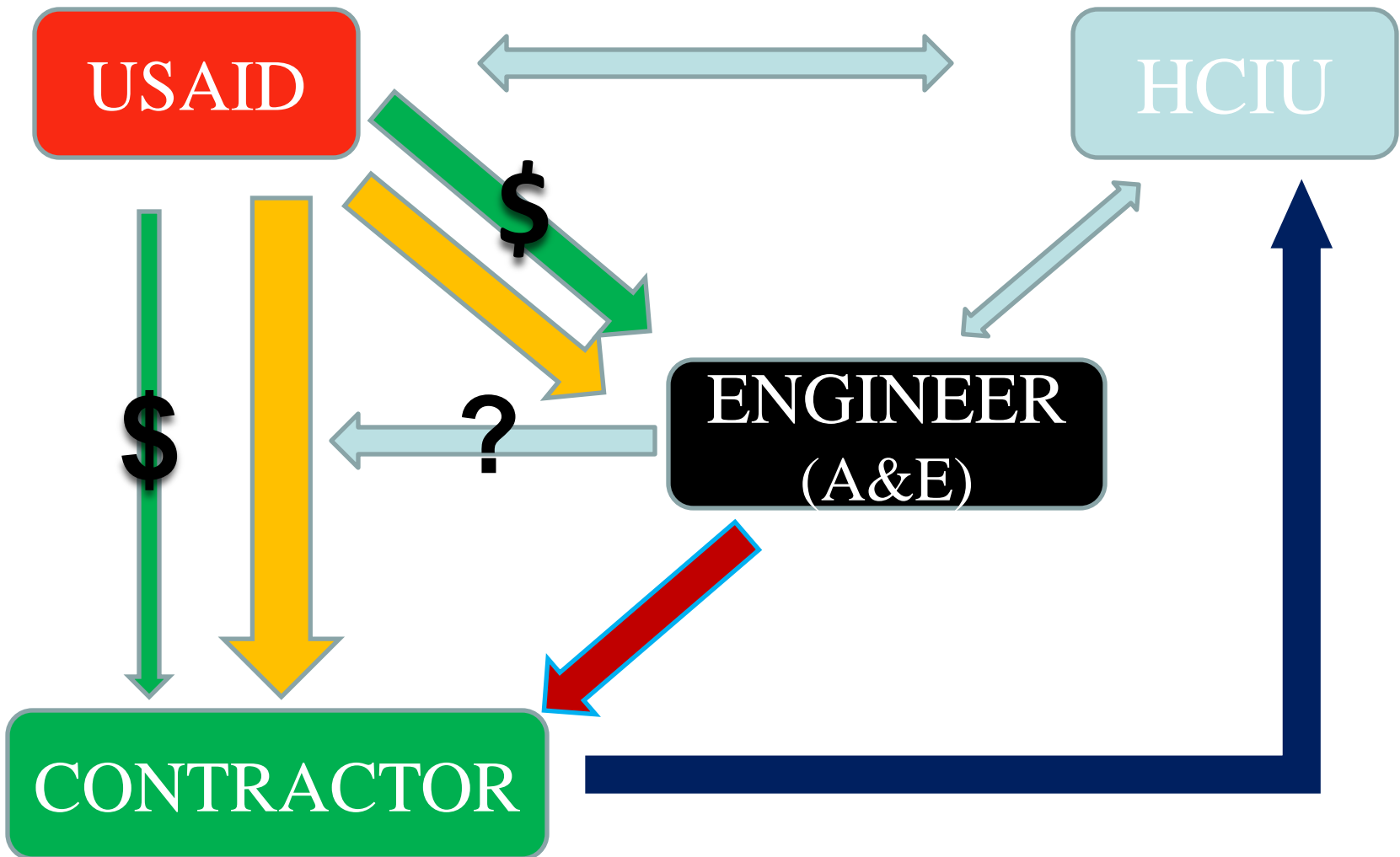
- Introduction
- USAID Contracts
- What is a FARA?
- FARA Guidelines
- USAID Experience
- Lessons Learned
- FARA Steps





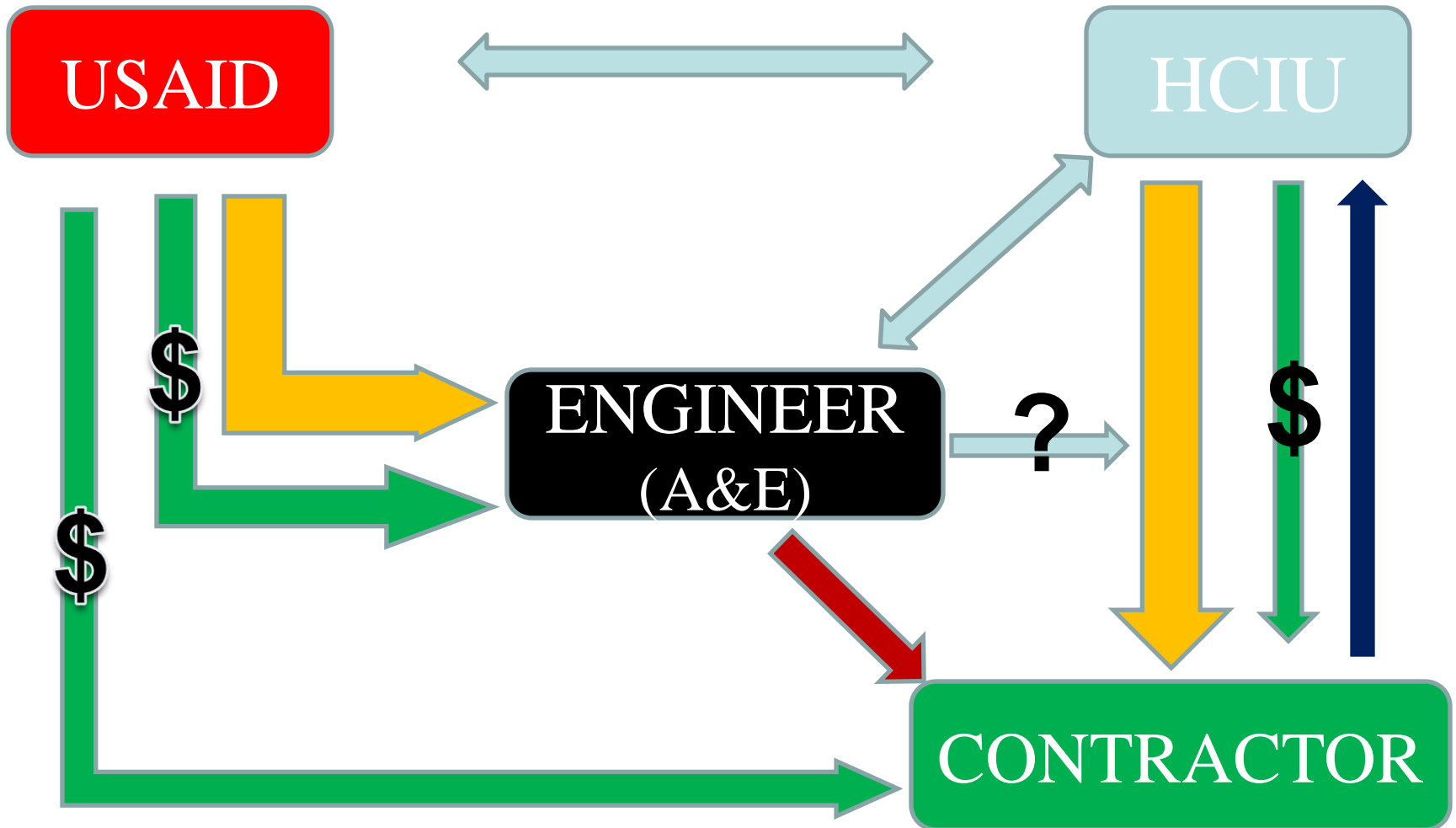
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USAID Direct Contract





Host-Country Contract





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Host Country Contracting Overview

- HCIU & Contractor
- USAID finances HC Contract
- USAID is NOT a party
- USAID has approval rights
- HCIU/Engineer contract ???
- D&CM services (A&E) –
(Design, Tendering, CM)





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Overview, cont'd:

- USAID/Engineer contract (???)
- The Engineer ONLY gives directions to contractor
- USAID Monitoring responsibilities
- HC Contracting Assessment





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What is a FARA ?

- Legal agreement between USAID and the HCIU
- USAID provides funding
- **USAID has NO contractual relationships**
- Amount of reimbursement is generally fixed in advance



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What is a FARA ?

- Reimbursement is made upon the physical completion of an activity, a sub-activity, or a quantifiable element
- Emphasis is upon reimbursement based on outputs rather than inputs or costs. (ADS Chapters 317, 630).



When to use a FARA ?

Procurement of Goods

- Indigenous Goods:
 - ✓ Goods grown, mined, or produced within the HC, may be financed without limitation.
- Imported Items:
 - ✓ Goods from Geographic Code 000 may be purchased without limitation.
 - ✓ Imported items of free world (Code 935) origin, available locally may be financed up to 25% of the total cost of the commodity element



When to use a FARA ?

- Imported Items:
 - ✓ A higher percentage may be approved in the Implementation Letter.
- Goods Imported Specifically for the Activity:
 - ✓ Imported items from any free world country, which are imported specifically for the activity, may be financed if the cost of the transaction does not exceed \$5,000, exclusive of transport costs.



When to use a FARA ?

Procurement of Services:

Such as construction services

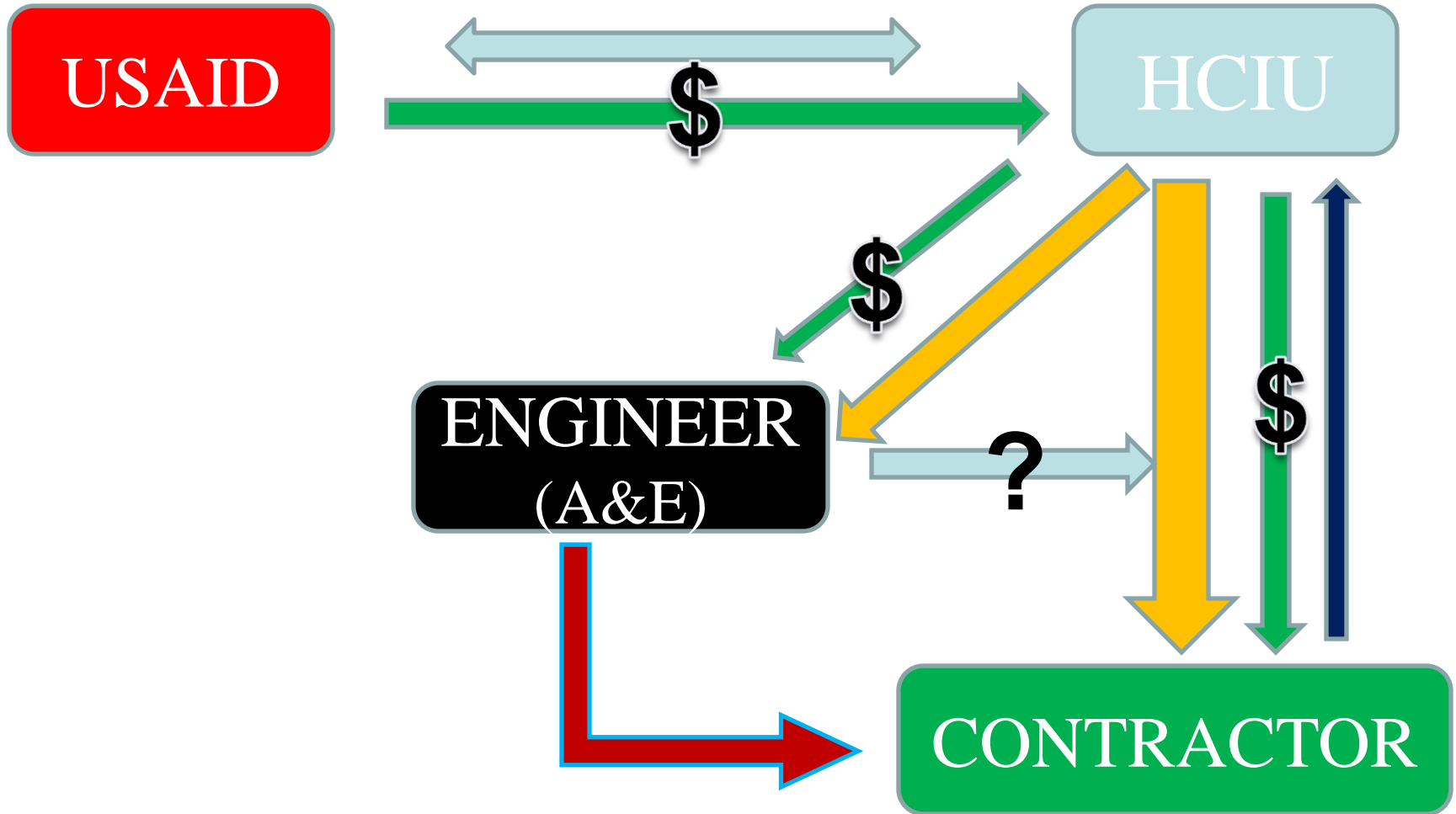
- ✓ USAID policies on nationality and for cooperating country contracts are waived for procurement of services under FARA activities.

FARA methods do not apply to situations where AID disbursements are not related to identifiable goods or services but to other criteria, such as budgetary or administrative performance.



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Fixed-Amount Reimbursement

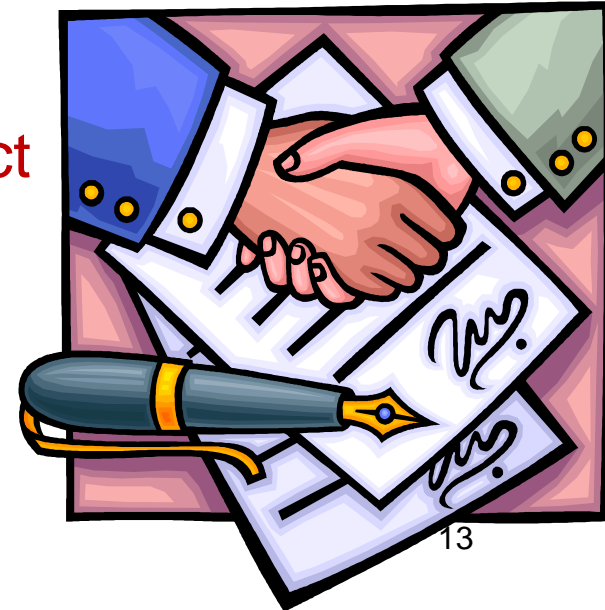




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FARA for Construction

- Formal agreement between USAID and the HCIU (ADS 317)
- The HCIU contracts with the Engineer (A&E services) and Construction Contractor
- **USAID is NOT a Party to either contract**
- A&E services (Design, Tendering & Construction Management)
- Reimbursement based on outputs





FARA for Construction

- Reimbursement amount is generally fixed in advance
- FARA Variations **????**
- USAID reimburses the HCIU upon physical completion of:
 - an activity
 - a sub-activity, or a quantifiable element
- USAID has to determine that the recipient organization is qualified to implement the FAR activity effectively.
- USAID liability ???



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HCC and FARA, Major Differences

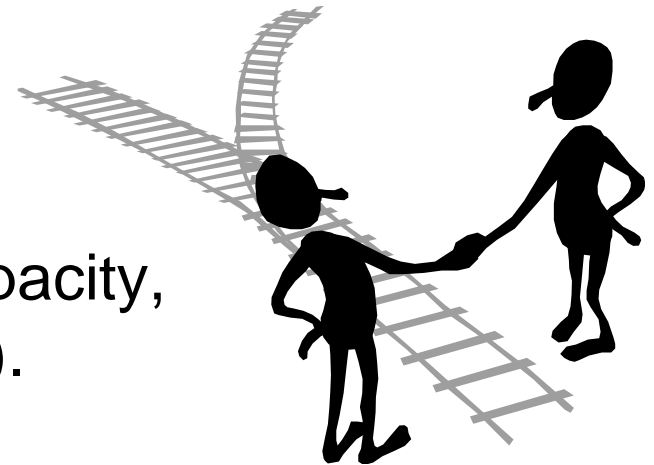
	HCC	FARA
ADS	305, 310, ...	317
Bilateral Agreement/IL	USAID - HC	USAID - HC
USAID Contribution	Contract Price	Fixed in Advance
A&E Contract	HCIU or USAID	HCIU
Payments to A&E	HCIU or USAID	HCIU
Construction Contract	HCIU	HCIU
Payment for Construction	USAID/HCIU	HCIU
Payment Mode	Progress	Reimbursement
HCC Assessment	Required	Not Required
USAID Approval of HC Procurement steps and Documents	Required	Not Required

LIABILITY



Bilateral Relationship

- **USAID & HC are the parties to a FARA**
 - ❑ Grant/Assistance Agreement
 - ❑ Implementation Letter
- **USAID & HC should agree on:**
 - ❑ Project Definition/Output (capacity, general specs., and end use).
 - ❑ Subprojects or Stages
 - ❑ Cost Estimates and Expected Inflation
 - ❑ USAID Contribution (exchange rate)





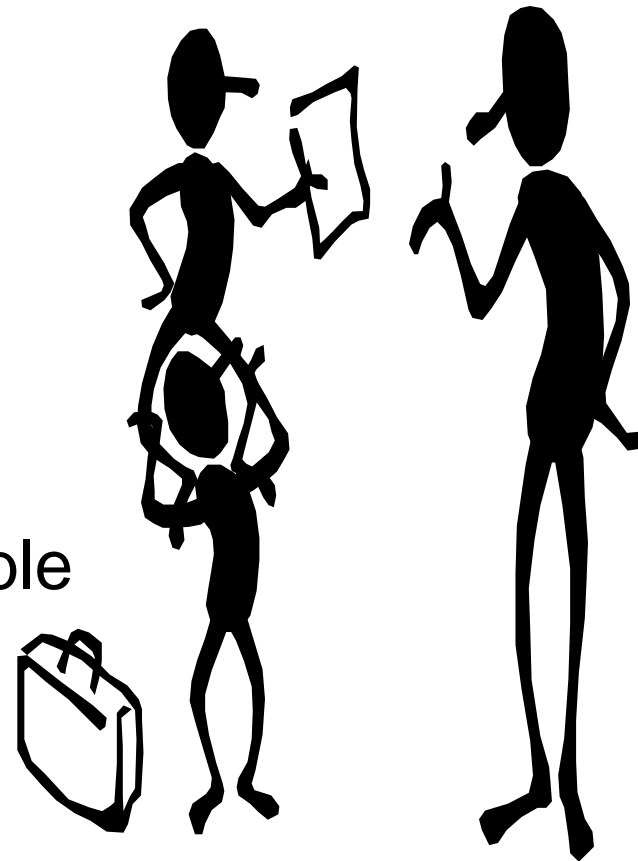
USAID & HC should agree on:

- Time schedule.
- Required TA
- Procurement procedures (competition, private sector, construction management.
- USAID procurement and environmental regulations.
- Procedures for reimbursement
- Utilization of project



Roles of the Parties

- HCIU identifies projects and estimated cost
- USAID determines its contribution
- USAID determines if HCIU is capable to undertake a FARA
- HCIU ensures availability of funds





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Roles of the Parties

- HCIU contracts for engineering (A&E) and construction
- USAID monitoring responsibilities ???
- USAID reimburses the HCIU
- HCIU to operate/outsource
- Sustainability ?????





Cost Sharing & Terms of Payment

- HCIU provides USAID with cost estimates
- USAID share: % or all of the estimated cost
- Cost is allocated to stages or subprojects
- USAID share is fixed
- USAID may reimburse the HCIU for a percentage of the actual cost not to exceed a fixed amount
- HCIU pays contractors first
- USAID reimburses HCIU upon completion of stages, subprojects, or total project



Stages & Subprojects

- **Stages:**
 - segments of the work/usable when completed
- **Subprojects**
 - self sustaining units when completed
- **Benefits of Dividing FARA into stages:**
 - Keep track of progress
 - Milestones and dates
 - Better cash flow
 - Funding flexibility



USAID Responsibilities and Staffing

- **Mission Director/designee:**
 - HCIU is qualified to implement the FARA activity effectively
 - HCIU's procurement system is adequate
- **SO/RP Team:**
 - Compliance with the USAID Regulations





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USAID Responsibilities and Staffing

- **Activity Manager:**

- **Overall management**
 - Design process - monitoring implementation
 - Verifying that the outputs meet the plan, and design standards are met (engineering ???)



FARA VARIATIONS

1. Advancing USAID Funds:

- ✓ When HCIU does not have the budget to provide working capital
- ✓ AID considers advancing funds to permit work to begin.
- ✓ AID deducts an amount from each payment until the advance is completely worked off with final reimbursement.



FARA VARIATIONS

2. FARA with Escalation Negotiated Periodically:

- ✓ When inflation is a major problem
- ✓ USAID may consider negotiating periodic increases in its fixed amount contribution, suitable for funding small subprojects of the same type over a long period (e.g., construction of 150 schools over a period of 2-3 years).
- ✓ Benefits: realistic – avoiding unnecessary costs



FARA VARIATIONS

3. Percentage of Actual Cost FARA

- ✓ large number of small subprojects
- ✓ Wide geographic area
- ✓ Incomplete design & specifications:
 - Not complete early enough to develop cost estimates
 - Developed during the life of the project.
- ✓ Identify design criteria and construction procedures
- ✓ Reimbursement is based on a percentage of cost (ceiling ???)



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USAID FARA Experience in Egypt

- 30 years !!!
- Various needs
- Different sizes and complexities
- HCIUs at different stages of development
- Engineering staff





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USAID FARA Experience in Egypt

- HCIU financial capabilities
- Institutional development contracts
- Sustainability
- “Refund” clause
- Publicity





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FARA MODELS IN EGYPT

Local Construction Contractor & local Engineer (A&E)

- Small-scale construction projects
- Community upgrading /W&WW
- Qualified HCIU & adequate systems
- Qualified private sector Const./Eng.
- Local language and specifications
- USAID shares cost of Const. & Eng.
- Engineering cost is reasonable
- USAID regular monitoring & site visits





FARA MODELS IN EGYPT

Local Construction Contractors - US Engineer (A&E)

In relatively large multidisciplinary projects

- Water and wastewater systems
- Qualified HCIU staff & adequate systems
- Qualified local contractors (public vs private)
- US Engineer with local engineers as subs
- Local language and specifications.
- USAID shares cost of construction
- USAID pays Engineer
- Engineering cost is reasonable
- USAID regular monitoring and site visits



Local Construction Contractors - US Engineer (A&E)

In small-scale construction projects

- Small water and wastewater projects
- Adequate HCIU staff capabilities/systems
- Qualified local private sector contractors
- US Engineer & local engineers as subs
- local language and specifications
- USAID shares cost of construction
- USAID pays Engineer
- Engineering cost ???
- USAID regular monitoring and site visits



Lessons Learned

- A FARA is not just a funding mechanism. It is also a tool for development.
- The HCIU is not just a recipient of USAID funds. It is the ultimate owner and a partner.
- Sustainability issues are serious.
- Enhancing HCIU systems is a long term benefit.
- Spend sufficient time to design a FARA program, engage USAID team & HCIU early.



Lessons Learned

- Clearly define the role of each party. Resolve disagreements before starting a FARA
- Make sure each party sticks to its defined role. Doing less is unacceptable. Doing more is dangerous.
- Do not interfere in the HCIU's selection process. Just make sure that agreed upon procedures are being followed.
- Remember: USAID is not a party to HCIU contracts with the Contractor or Engineer.



Lessons Learned

- Do not give written or verbal instruction to the Contractor or Engineer.
- If you see a problem, talk to the HCIU's Authorized Representative.
- Enforce USAID requirements especially those for competition, encouraging private sector, transparency, ...etc.
- Land acquisition and right of way are problem areas.



Lessons Learned

- Use the refund clause carefully. This may help HCIU meet the project schedule.
- Site visits are essential to have a better understanding of the progress and problems.
- Joint site visit are even better to enable USAID and HCIU witness progress and issues.



Lessons Learned

- FARA documents and correspondence should be in English.
- A copy in the local language ensures better understanding of the terms and conditions.
- HCIU contract documents should be in the local language.
- Document success stories and plan early for public event upon completion of the work



FARA STEPS FROM CONCEPT PAPER TO PROJECT COMPLETION

- Identify problem, potential activity, and responsible HCIU
- Establish relationship with HCIU
- Assess HCIU's capabilities
- Coordinate with Donors
- Develop Concept Paper (Mission approval)
- Share documents with HCIU
- Bilateral Agreement / Implementation Letter



FARA STEPS...

- “Pure” FARA - FARA variations.
- FARA stages or subprojects.
- USAID approval documents.
- FARA Implementation Letter (IL)
- HCIU Contracts with Engineer
- Designs, schedules, final cost estimates, environmental studies, bid documents
- USAID Reviews final cost estimates, environmental mitigation measures, etc.
- HCIU financial obligations ?????



FARA STEPS...

- HCIU and USAID sign FARA
- Land acquisition/right of way
- USAID sub-obligates funds
- Prequalification of construction contractors
- IFB issuance, receipt, evaluation, award
- Construction management services
- O&M responsibilities / Outsourcing
- End-use verification



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THANK YOU