



## AAPD 02-xx Funding Foreign Government Delegations to International Conferences

**PURPOSE:** The purpose of this AAPD is to clarify USAID's policy regarding cost share under grants and cooperative agreements to non-governmental organizations, both non-profit and for profit, funded by USAID.

**BACKGROUND:** The most recent policy governing Cost Sharing was issued in a general notice in May, 1997. This notice made it clear that "USAID policy is that the principle of cost-sharing . . . should be flexible and case-specific." However, Agency policy continued to direct an SO team to use 25 percent as a suggested reference point. It also required the team to justify the cost share required based on a review of the factors outlined in the USAID-U.S. PVO Partnership Paper. This led many to continue to require a 25 percent cost share in cases where it was not appropriate.

**GUIDANCE:** ADS 303 is being revised to eliminate the reference to a suggested 25 percent cost share; to change the requirement of a justification of the required cost share to an explanatory memorandum for documentation purposes; and to clarify that the authority to determine the appropriate cost share lies with the Activity Manager. In the interest of encouraging participation by a broader spectrum of NGOs in competing for an assistance award, it also states that cost share in excess of any established minimum may not be used as a separate evaluation factor for award.

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## COST SHARING

### A. COST SHARE DETERMINATION

Although there is no general legislative requirement that recipients of grants or cooperative agreements must cost share, USAID policy is that cost sharing is an important element of the USAID-recipient relationship. When used, its application should be flexible, case-specific, and should be used to support or contribute to the achievement of results. Cost share should be based on whether it is appropriate for the recipient organization in the particular circumstances. There is no set formula for cost sharing. A determination whether cost share will be appropriate for an activity should be based on technical and or programmatic considerations. The policy does not contain a suggested numeric reference point. Cost share should be based on the needs or purpose of the activity. Examples of when it might be appropriate follow:

- a. Where there is a programmatic rationale for cost share, such as helping to assure the recipient will build its organizational capacity for resource mobilization. For example, when building fundraising capability is an objective of a capacity building activity, it would be appropriate to require the grantee to meet certain targets as a condition of USAID funding;
- b. When it is critical that the activity continues after USAID assistance ends, cost share requirements can assure that the recipient establishes adequate alternate sources of funding; or
- c. When an award supports an activity initiated by the recipient, or is based on an unsolicited proposal. Since most funding is reserved for development priorities already established by USAID, only limited funding may be available for even the best of such applications. USAID may only be able to partially fund the activity.

In all of these cases, the SO Team should discuss the amount and terms of cost share with the potential recipient prior to award.

The Activity Manager is responsible for determining the appropriate cost share for individual grants or cooperative agreements. This should be included in the Activity Manager's financial analysis of the program prior to issuance of a Request for Applications (RFA) or Annual Program Statement (APS). In the case of competitive awards, the Activity Manager is encouraged to communicate with a broad span of potential applicants regarding appropriate cost share prior to issuance of the RFA or APS. Even after an RFA or APS is issued, it may be appropriate to consider special circumstances and to change a cost share requirement. The Activity Manager may wish to discuss or negotiate cost share for non-competitive awards, including those based on unsolicited proposals, with the applicant.

The Activity Manager should not use a set formula in determining the level of cost share. He/she should take several considerations into account when making cost share decisions. For example, it might be difficult for a recipient to meet a cost share during an activity with a short timeframe. A specific program may require a level of risk that would discourage potential recipients from providing meaningful contributions. Competition may be limited to indigenous organizations with limited resources.

Consideration should also be given to the best uses of program income if the activity will generate income. In accordance with 22 CFR 226.24, with the approval of the Agreement Officer, program income may be used to finance the non-Federal cost share of the award. Or if program income would help achieve objectives such as sustainability or additional resources for the activity if it is added to the program instead of used for cost share, this may accomplish the same ends as cost share.

Cost share may be required regardless of the type of organization, whether non-profit – U.S. PVOs, international PVOs, local NGOs, universities, foundations, and others – or commercial organizations, including for-profit businesses. In the case of a non-U.S. recipient, it will be important to be flexible in establishing cost share requirements.

The Activity Manager must document the factors that he/she considered in determining the amount of cost share in a memorandum to the file.

## B. INCLUDING COST SHARE IN SOLICITATIONS

If a determination is made to require cost share, the requirements must be stated in the RFA or APS. If, after an RFA or APS is issued, the Activity Manager decides that the amount of cost share required should be changed, this should be carried out by the Agreement Officer through the issuance of a formal modification to the solicitation document.

Applications that do not meet at least the minimum cost-share requirement are not eligible for award consideration. Cost effectiveness is a required evaluation criterion in all competitive awards (ADS 303.5.5b). Cost effectiveness includes cost-share, when required. If an applicant proposes a higher than minimum cost share, this may be considered within the "cost effectiveness" evaluation criterion. A separate/additional evaluation criteria category for cost share may not be created because cost-share is included within cost-effectiveness.

## C. MEETING COST SHARE REQUIREMENTS

Cost share applies to the life of the agreement, and the cognizant technical officer (CTO) should monitor the grantee's financial reports to ensure that is making progress toward meeting the required cost share. If it appears that the recipient is not making adequate progress, the CTO must bring this to the attention of the Agreement Officer. The Agreement Officer is obliged to initiate discussions with the recipient to resolve the issue. The Agreement Officer has the authority to reduce the amount of USAID incremental funding in the following or funding period or to reduce the amount of the agreement by the difference between the expended amount and what the recipient agreed to provide. If the award has expired or terminated, the Agreement Officer may request the grantee to refund the difference to USAID.

In-kind contributions are allowable as cost share, in accordance with OMB Circular A-110 and 22 CFR 226.23. These include such things as volunteer time, valuation of donated supplies, equipment and other property, use of unrecovered direct costs, etc.

As part of his or her analysis of the applicant's proposed budget, the Agreement Officer must review the applicant's proposed cost share contributions (e.g. categories or items) for cost realism and to verify that they meet the standards set in 22 CFR 226.23 for U.S. organizations, or the Standard Provision entitled "Cost Sharing" for non-U.S. organizations (See [22 CFR 226.23](#); and [Standard Provisions for Non-U.S. Nongovernmental Recipients](#)). USAID's policy is not to apply its source, origin, and nationality requirements or the restricted goods provision established in the Standard Provision entitled "USAID Eligibility Rules for Goods and Services" to cost share contributions. (See Internal Mandatory Reference, [Standard Provisions for U.S. Nongovernmental Recipients](#)). The Agreement Officer may authorize the recipient to attribute cost share contributions from subrecipients to the prime award.

In the [Standard Provisions for U.S. Nongovernmental Recipients](#), delete the Required As Applicable Standard Provision No. 12 Cost Sharing (Matching) (April 1998) with the following:

**12. COST SHARING (MATCHING) (Jan 2002)**

(This provision, along with 22 CFR 226, is applicable when the recipient has agreed or is required to cost share or provide a matching share.)

(a) If at the end of any funding period, the recipient has expended an amount of non-Federal funds less than the agreed upon amount or percentage of total expenditures, the Agreement Officer may apply the difference to reduce the amount of USAID incremental funding in the following funding period. If the award has expired or has been terminated, the Agreement Officer may require the recipient to refund the difference to USAID.

(b) The source, origin and nationality requirements and the restricted goods provision established in the Standard Provision entitled "USAID Eligibility Rules for Goods and Services" do not apply to cost sharing (matching) expenditures.

(END OF STANDARD PROVISION)

In the [Standard Provisions for Non-U.S. Nongovernmental Recipients](#), delete the Required As Applicable Standard Provision No. 20. Cost Sharing (Matching) (April 1998) with the following:

## **20. COST SHARING (MATCHING) (JAN 2002)**

(This provision is applicable when the recipient is required to provide a matching share or to cost share.)

(a) During the period of this award, the recipient agrees to spend funds from non-U.S. Government sources in an amount at least equal to the amount or percentage of the total expenditures under this award specified in the schedule of the award. The schedule of this award may also contain restrictions on the application of cost sharing (matching) funds. The schedule of the award takes precedence over the terms of this provision.

(b) Eligibility of non-U.S. Government funds applied to satisfy cost sharing (matching) requirements under this award are set forth below:

(1) Charges incurred by the recipient as project costs. Not all charges require cash outlays by the recipient during the project period; examples are depreciation and use charges for buildings and equipment.

(2) Project costs financed with cash contributed or donated to the recipient by other non-U.S. Government organizations (may include public international organizations or foreign governments and institutions, private organizations, or individuals), and

(3) Project costs represented by services and real and personal property, or use thereof, donated by other non-U.S. Government agencies and institutions, and private organizations and individuals.

(c) All contributions, both cash and in-kind, shall be accepted as part of the recipient's cost sharing (matching) when such contributions meet all of the following criteria:

(1) Are verifiable from the recipient's records;

(2) Are not included as contributions for any other U.S. Government-assisted program;

(3) Are necessary and reasonable for proper and efficient accomplishment of project objectives;

(4) Are types of charges that would be allowable under the applicable Federal cost principles;

(5) Are not paid by the U.S. Government under another grant or agreement (unless the grant or agreement is authorized by U.S. Government law to be used for cost sharing or matching);

(6) Are provided for in the approved budget when required by USAID; and

(7) Conform to other provisions of this paragraph.

The source, origin and nationality requirements and the restricted goods provision established in the Standard Provision entitled "USAID Eligibility Rules for Goods and Services" do not apply to cost sharing (matching) expenditures.

(d) Values for recipient in-kind contributions will be established in accordance with the applicable Federal cost principles.

(e) Specific procedures for the recipient in establishing the value of in-kind contributions from non-U.S. Government third parties are set forth below:

(1) Valuation of volunteer services: Volunteer services may be furnished by professional and technical personnel, consultants, and other skilled and unskilled labor. Volunteer services may be counted as cost sharing or matching if the service is an integral and necessary part of an approved program.

(i) Rates for volunteer services: Rates for volunteers should be consistent with those paid for similar work in the recipient's organization. In those instances in which the required skills are not found in the recipient's organization, rates should be consistent with those paid for similar work in the labor market in which the recipient competes of the kind of services involved. In either case, paid fringe benefits that are reasonable, allowable, and allocable may be included in the valuation.

(ii) Volunteers furnished by other organizations: When an employer other than the recipient furnishes the services of an employee, these services shall be valued at the employee's regular rate of pay (plus an amount of fringe benefits that are reasonable, allowable, and allocable, but exclusive of overhead costs) provided these services are of the same skill for which the employee is normally paid.

(2) Valuation of donated supplies: Donated supplies may include such items as expendable equipment, office supplies, laboratory supplies or workshop and classroom supplies. Value assessed to expendable personal property included in the cost (matching) share shall be reasonable and shall not exceed the market value of the property at the time of the donation.

(3) Valuation of donated equipment, buildings, and land or use thereof:

(i) The method used for charging cost sharing or matching for donated equipment, buildings, and land for which title passes to the recipient may differ according to the purpose of the award as follows:

(A) If the purpose of the award is to assist the recipient in the acquisition of equipment, buildings, or land, the total value of the donated property may be claimed as cost sharing or matching.

(B) If the purpose of the award is to support activities that require the use of equipment, buildings, or land; normally only depreciation or use charges for equipment and buildings may be made. However, the full value of equipment or other capital assets and fair rental charges



for land may be allowed provided that the USAID Agreement Officer has approved the charges.

(ii) The value of donated property will be determined in accordance with the usual accounting policies of the recipient with the following qualifications:

(A) Land and buildings: The value of donated land and buildings shall not exceed its fair market value, at the time of donation to the recipient as established by an independent appraiser (e.g. certified real property appraiser or General Services Administration representative) and certified by a responsible official of the recipient.

(B) Equipment: The value of donated equipment shall not exceed the fair market value of equipment of the same age and condition at the time of donation.

(C) Use of space: The value of donated space shall not exceed the fair rental value of comparable space as established by an independent appraisal of comparable space and facilities in a privately owned building in the same locality.

(D) Loaned equipment: The value of loaned equipment shall not exceed its fair rental value.

(f) The following requirements pertain to the recipient's supporting records for in kind contributions from third parties. With the authorization of the Agreement Officer, the recipient may attribute cost share contributions from subrecipients to the prime award.

(1) Volunteer services must be documented and, to the extent feasible, supported by the same methods used by the recipient for its employees.

(2) The basis for determining the valuation for personal services, material, equipment, buildings, and land shall be documented.

(g) Individual expenditures do not have to be shared or matched provided that the total expenditures incurred during the year (or funding period) are shared or matched in accordance with the agreed upon amount or percentage set forth in the schedule of the award.

(h) If at the end of any or funding period hereunder, the recipient has expended an amount of non-U.S. Government funds less than the agreed upon amount or percentage of total expenditures, the Agreement Officer may apply the difference to reduce the amount of USAID funding for the following funding period, or, if this award has expired or been terminated, may require that the recipient refund the difference to USAID.

(i) If the recipient fails to act in good faith to meet the cost sharing (matching) requirements set forth in paragraph (a) above, the Agreement Officer may consider it sufficient reason to terminate this award for cause in accordance with the Standard Provision of this award entitled "Termination and Suspension".

(j) The restrictions on the use of USAID funds set forth in the standard provisions of this award are applicable to expenditures incurred with USAID funds provided under this award. Except for the requirements of this standard provision, the restrictions set forth in the standard

provisions of this grant are not applicable to costs incurred by the recipient from non-U.S. Government funds. The recipient will account for the USAID funds in accordance with the standard provision of this award entitled "Accounting, Audit, and Records"; however, in the event of disallowances of expenditures from USAID award funds, the recipient may substitute expenditures made with funds provided from non-U.S. Government sources, provided they are eligible in accordance with all the standard provisions of this award.

(k) Notwithstanding paragraph (b) of the standard provision of this award entitled "Refunds", the parties agree that in the event of any disallowance of expenditures from USAID award funds provided hereunder, the recipient may substitute expenditures made with funds provided from non-Federal sources provided they are otherwise eligible in accordance with paragraph (b) of this provision.

(END OF STANDARD PROVISION)