

**Functional Series 600 – Budget and Finance
ADS 602 - Forward Funding of Program Funds**

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ADS 602 - Forward Funding of Program Funds

602.1 OVERVIEW

Effective Date: 04/15/1999

This ADS chapter provides the policy directives and required procedures on forward funding for USAID program accounts.

This chapter also clarifies responsibilities for planning, managing, evaluating, and reporting the funding of new and ongoing activities for all program accounts except disaster assistance (which is administered by the Office of Foreign Disaster Assistance and the Office of Transition Initiatives), food aid, and credit programs.

This includes the following accounts:

- Development Assistance,
- Child Survival and Health Programs Fund,
- Economic Support Funds,
- International Narcotics Control,
- Assistance for Eastern Europe and the Baltic States, and
- New Independent States.

Except as specifically noted, the policy directives and required procedures in this ADS chapter cover the use of all program funds, including program-funded contract staff.

602.2 PRIMARY RESPONSIBILITIES

Effective Date: 04/15/1999

- a. Bureaus and Offices responsible for managing and approving programmatic resource allocations are to ensure that funding decisions by operating units comply with the policy directives and required procedures in this chapter.
- b. Mission and central operating unit managers are responsible for
 - Reviewing their forward funding requirements;
 - Providing relevant data to their Bureaus in their annual reports and as otherwise directed; and
 - Ensuring the quality of these data.

- c. Bureau development program (DP) offices are responsible for reviewing the operating unit's pipeline management during the yearly budgetary process.
- d. The Chief Financial Officer (CFO) has overall responsibility for monitoring and reporting on the Agency's pipeline.
- e. Mission Controllers are responsible for annual reviews to identify potential deobligations, as well as annual certification to the validity of obligations existing at year end. (See [ADS 621](#), Obligations, particularly section [621.2](#) dealing with responsibilities.)
- f. The Bureau for Policy and Program Coordination, Resource Allocation (PPC/RA) is responsible for drafting the forward funding policy directives and required procedures and monitoring pipeline levels in relation to budget planning.

602.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES

602.3.1 Forward Funding and Agency Standards

Effective Date: 04/15/1999

The Agency's pipeline has been closely scrutinized by the Agency's Inspector General (IG), the General Accounting Office (GAO), and others.

Appropriate budget and program staff in the field and USAID/Washington must follow forward funding policy directives and required procedures to ensure that the percentage of pipeline does not exceed Agency standards. A balance must be achieved between providing adequate funds for activities and the need to limit obligations to only required needs. (See [ADS 202](#), Achieving, particularly sections [202.3.5.4](#) on formulating resource requests and [202.3.6.3](#) on obligations management. See [ADS 203](#), Assessing and Learning, particularly section [203.3.3](#) on portfolio reviews.)

In addition to helping management prioritize how resources are programmed, these policy directives and required procedures are intended to ensure that the size of an operating unit's pipeline is appropriate to meet its program objectives, as agreed in the Management Agreement. (See [ADS 201](#), Planning, particularly section [201.3.4.16](#).)

602.3.2 Maximum Length of Forward Funding

Effective Date: 04/15/1999

Except as described in sections 602.3.3 and 602.3.5, Program Managers must not forward fund obligations for more than 12 months beyond the end of the fiscal year in which the obligation takes place. See [ADS 621](#), Obligations, particularly section [621.3.1](#), for the criteria for a valid obligation.

Since most obligations occur in the last half of the fiscal year, the upper limit of pipelines normally is not expected to exceed 18 months of anticipated expenditures for on-going

activities. The upper limit is obtained by adding 12 months to the number of months remaining in the fiscal year after the obligation is made.

For example, if a Program Manager makes an obligation for an activity near the end of September (the last month of the fiscal year), the pipeline for that activity must not exceed 12 months (0 months plus 12). If the obligation occurred in the middle of the fiscal year (i.e., at the beginning of April), the activity's pipeline must not exceed 18 months (six months plus 12).

602.3.3 Exceptions to the Maximum Length of Forward Funding

Effective Date: 04/15/1999

Some flexibility in forward funding is required to facilitate execution of some activities, and policy-conditioned forms of assistance might require an up-front commitment of assistance funds.

Operating unit directors have the authority to approve exceptions to the policy directives and required procedures if compelling reasons exist. Such reasons must be documented. This authority may not be redelegated.

The following are examples of exceptions to the forward funding policy:

- a. Participant training:** Each participant training program in the first acquisition and assistance request document must be fully funded.
- b. Construction activities:** Initial obligations should be sufficient to cover required upfront commitments such as feasibility studies, the development of detailed designs/specifications, etc. Obligations for actual construction and the procurement of related equipment and services should generally be sufficient to fund fully USAID's contribution to a planned, discrete infrastructure activity.
- c. New programs:** Obligations must be sufficient to cover at least the first 18 months, but not more than 24 months, if the life of the program funding is \$2 million or more. For programs costing less than \$2 million, full funding may be provided at the outset.
- d. Non-project assistance:** Policy-conditioned non-project assistance may be fully funded if disbursements are planned for two years or less.
- e. Close-out countries:** Missions designated as accounting stations for non-presence countries are encouraged to refer to the closeout instructions in [ADS 527.6, Closing of Mission Checklists for Normal Closeout](#), for guidance on how to terminate programs and staff. It is also recommended that these Missions pay special attention to Section VI of this reference. Pipelines must be liquidated as instructed in this section and [Handbook 19](#). The relevant section of Handbook 19 (which is in the process of being replaced) will vary depending on the unique requirements of a particular closeout Mission.

602.3.4 Analyzing and Reporting Forward Funding

Effective Date: 04/15/1999

For monitoring purposes, PPC/RA uses several methods to calculate forward funding length, depending on the availability of data.

If estimated expenditure data are available, PPC/RA uses the following formula (in this example, at the end of fiscal year (FY) 2001):

$$\text{Length of pipeline in months} = 12(\text{FY 2001 pipeline})/\text{FY 02 estimated expenditures}$$

When estimated expenditure data are unavailable, PPC/RA uses the following formula to calculate the forward funding length of a program (in this example, at the end of FY 2001):

$$\text{Length of pipeline in months} = 12(\text{FY 01 pipeline})/[(\text{FY 99 expenditures} + \text{FY 00 expenditures} + \text{FY 01 expenditures})/3]$$

PPC/RA compares the results of this pipeline analysis with the standards in section **602.3.2**.

For new programs with less than three years' worth of expenditures, PPC/RA calculates the number of months from the available data. PPC/RA substitutes obligations for expenditures to calculate pipeline length when expenditure data are not readily available.

See section **602.3.2** for the policy on the maximum length of forward funding. Mission calculation of pipeline is clarified in section **602.3.6**.

602.3.5 Minimum Pipeline Standards

Effective Date: 04/15/1999

While the assumption underlying the forward funding policy directives and required procedures is that expenditures tend to lag behind obligations and thereby cause pipelines to increase, the insufficiency of pipelines to manage programs may also be addressed by operating units.

For example, operating units are expected not to submit budget requests with less than six months of estimated pipeline at the end of planning periods. A pipeline of at least six months ensures that operating units have sufficient funds to carry them through the period required for the establishment of the operating year budget.

Whenever the projected pipeline is less than six months at the end of the fiscal year, operating units are encouraged to reassess their estimated expenditure levels, reduce

mortgages by eliminating activities where appropriate (for example, request revisions to Management Agreements), or request additional funds.

In assessing the appropriateness of the pipeline, operating units may consider the predictability of the funding source and their own capacity to manage their programs at that level of pipeline.

602.3.6 Operating Unit Pipeline: Restrictions and Assessment

Effective Date: 04/15/1999

Operating units must calculate pipeline availability at the strategic objective level. Operating units, however, must be sensitive to the restrictions of specific funding sources within strategic objectives and advise DP offices of their budgetary impacts.

Forward funding requirements for operating units are normally based on pipeline plus projected expenditures. This requires well-planned expenditure estimates to complement efforts to ensure that sufficient new funding is available for the Agency's highest priority activities.

602.3.7 Program Management

Effective Date: 04/15/1999

Operating units must use the forward funding policy directives and required procedures contained in this chapter when proposing funding levels and managing program budget allocations.

Program Managers must review annually all unliquidated obligations and make adjustments to bring pipelines, at least at the strategic objective level, into compliance with the forward funding policies. (See [ADS 621.3.7](#) for responsibilities, policies, and procedures for annual certification of obligations.) In reviewing these obligations, Program Managers should comply with the following procedures:

- a. Any amounts identified as excessive for programmatic needs may be considered candidates for deobligation. If possible, in conformity with the Agency's deobligation/reobligation authority, these funds may be reallocated and reobligated to those strategic objectives that are underfunded and that warrant additional funding on the basis of performance and other relevant criteria used by the Agency in making resource allocation decisions.
- b. Older funds are to be expended before newer funds.
- c. For an ongoing activity, available pipelines are expected to be committed before new funds are added.

USAID/W will review the operating unit's pipeline management during the annual report process. Bureaus will summarize the outcomes of these reviews in their Bureau Program Budget Submissions (BPBSs).

602.3.8 Bureau Guidance
Effective Date: 04/15/1999

Bureau guidance may supplement these policy directives and required procedures as needed.

602.4 MANDATORY REFERENCES

602.4.1 External Mandatory References

- a. Foreign Assistance Act (FAA) of 1961, as amended, section 635(h), "Forward funding" authority (Authority)
- b. "No-year authority" of the section entitled "Availability of Funds" in USAID appropriations acts (e.g., in the FY 1999 appropriations act it was section 511) (Authority)
- c. Availability of obligated balances as referenced in [31 USC 1502\(a\)](#), known as the "Bona fide needs rule"

602.4.2 Internal Mandatory References

- a. [ADS Series 200, Programming Policy](#)
- b. [ADS 621, Obligations](#)
- c. [Handbook 19, Financial Management](#)

602.5 ADDITIONAL HELP
Effective Date: 04/15/1999

- a. [Closing of Mission Checklists for Normal Closeout \(Supplementary Reference to ADS 527\)](#)

602.6 DEFINITIONS
Effective Date: 04/15/1999

The following terms have been included into the ADS Glossary. See the [ADS Glossary](#) for all ADS terms and definitions.

forward funding

The availability of funds to support future expenditures for a specified time period after a planned obligation. This definition of forward funding applies to the use of program funds. (Chapter 602)

mortgage

A claim on future resources, which have been authorized in the operating unit's management contract; the difference between the total authorized level of funding and the cumulative total amount of funds obligated to a particular strategic objective, intermediate result, or activity. (Chapter 602)

pipeline

The amount of funds obligated but not expended; the difference between cumulative obligations and cumulative expenditures, including accruals. (Chapter 602)

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