

Millennium Challenge Corporation

# **Guidelines for the Use of Country Systems in the Implementation of Millennium Challenge Compacts**



MILLENNIUM  
CHALLENGE CORPORATION  
UNITED STATES OF AMERICA

# Guidelines for the Use of Country Systems in the Implementation of Millennium Challenge Compacts

## *Table of Contents*

1. PURPOSE .....	3
2. AUTHORITIES .....	3
3. KEY DEFINITIONS .....	3
4. GUIDELINES .....	4

## 1. PURPOSE

Use of countries' own institutions, processes and laws in the implementation of Millennium Challenge Compacts can provide a further opportunity to reinforce country ownership and to build capacity, thereby increasing the long-term sustainability of MCC interventions. Recognizing this, donor countries, including the United States, agreed in the Paris Declaration on Aid Effectiveness to use country systems to the maximum extent possible.<sup>1</sup> As a United States foreign aid agency, MCC endeavors to follow this principle.

These guidelines provide an overview of MCC's process for assessing the feasibility and appropriateness of using host country systems or elements thereof to implement Millennium Challenge Compacts in the areas of public financial management, procurement, environmental and social assessment, and monitoring and evaluation. The information gathered during this process allows MCC to make an informed decision as to whether a particular country's systems should be used in the implementation of its compact program. These guidelines describe the general principles of country system assessment that MCC expects to apply with respect to compact implementation, but are not intended to be prescriptive or definitive. MCC will review and revise the guidelines periodically to reflect lessons learned in their application as well as relevant changes in practice. MCC may also provide supplemental guidance to a partner country as appropriate.

## 2. AUTHORITIES AND REFERENCES

- 2.1 Millennium Challenge Act of 2003 (P.L. No. 108-199, codified at 22 U.S.C. 7701, et seq.), as amended.
- 2.2 Paris Declaration on Aid Effectiveness: Ownership, Harmonization, Alignment, Results and Mutual Accountability, High Level Forum, Paris, 2005.
- 2.3 Accra Agenda for Action, High Level Forum, Accra, 2008.
- 2.4 United Nations Millennium Declaration, September 2000.

## 3. KEY DEFINITIONS

*Compact* – The agreement known as a Millennium Challenge Compact, entered into between the United States of America, acting through MCC, and a country receiving assistance from the Millennium Challenge Account, under which agreement MCC provides the assistance to the country.

*country system* - a country's legal and institutional framework, consisting of its national, sub-national, or sectoral implementing institutions and applicable laws, regulations, rules and procedures.<sup>2</sup>

<sup>1</sup> In Paragraph 21 of the Paris Declaration on Aid Effectiveness, donor countries committed to "[u]se country systems and procedures to the maximum extent possible." (Available at <http://www.oecd.org/dataoecd/1/4/4428351.pdf>)

<sup>2</sup> Expanding the Use of Country Systems in Bank Supported Operations, The World Bank, March 2005.

*MCA Entity* – The entity designated by the government of a country receiving MCC assistance to be responsible for the oversight and management of compact implementation on behalf of the government.<sup>3</sup>

*MCC* – The Millennium Challenge Corporation.

## 4. GUIDELINES

### 4.1 Statement of Principles for MCC’s Use of Country Systems in the Implementation of Compacts

One of MCC’s core development model principles is that country ownership is vital for sustainable development. Country ownership in the MCC model is reflected by the country being responsible for developing and implementing its compact program,<sup>4</sup> and the use of a country’s systems for elements of compact implementation can deepen this ownership. However, MCC recognizes that the desirable goal of country ownership achieved through the use of country systems should not be pursued at the expense of program results or fiscal responsibility and accountability. MCC thus is careful and thorough in its decision-making, taking into account possible risk factors of particular concern to US foreign assistance policies and programs. MCC will continually monitor and revise its decisions when agreeing to use country systems, including revoking decisions as warranted. A policy of maximizing use of country systems should be adopted within this results and accountability framework.

Accordingly, in line with the principles of country ownership and alignment pronounced by the Paris Declaration and Accra Agenda for Action, MCC will use country systems to the maximum extent possible, subject in all cases, to the system’s capability, compact program requirements, partner country preferences and MCC’s modality of aid delivery. When a system cannot be used in its entirety, MCC will utilize aspects of the system where possible, and, if requested by the country, will consider supporting activities to improve such systems as a separate program activity during the Compact development process. Moreover, MCC will share its assessment findings with the partner country identifying the weaknesses found. Such sharing not only serves as a means of promoting transparency, but provides a useful tool that the country can use to undertake capacity building programs to improve its systems.

### 4.2 Methodology and Tools for Assessing Country Systems

MCC has established standards and objectives in each of the areas of public financial management, procurement, environmental and social assessment, and monitoring and evaluation to ensure the efficient and successful implementation of compact programs. Thus, generally a country system must be able to meet these standards and objectives if it is to be used for program implementation. In each potential case, MCC

<sup>3</sup> The MCA Entity is not considered a parallel project implementation unit (PIU) under the Paris Declaration, but rather an integrated PIU. This is because, while the salaries of MCA entity staff are typically higher than those of their civil service counterparts, the units themselves are accountable to the partner country government, rather than to MCC, and have professional staff whose terms of reference and appointment are decided by the government.

<sup>4</sup> *MCC’s Approach to Country Ownership* Working Paper. Millennium Challenge Corporation. MCC, September 2008.

will work with a partner country to make this determination through a detailed, transparent assessment process. The assessment process for the above mentioned areas are outlined below. In all areas, it will include: (i) comprehensive due diligence; (ii) consultations with donors and other stakeholders to draw on common diagnostics and lessons learned; and (iii) identifying capacity-building opportunities. Finally, as the definition of “country system” indicates, its scope is broad including both the legal and institutional framework of the country. As previously discussed, for policy or other reasons MCC may focus its use of country systems in a given partner country on certain elements of its systems only, such as its governmental entities and their personnel or, in other cases, its laws and procedures. Each of the four areas below also identify which elements of country systems typically are involved in the MCC assessment.

## 4.2.1 Public Financial Management

### 4.2.1.1 Basic Standards for Country System Use

Under MCC Compacts, the financial management function is generally conducted by a fiscal agent who works on behalf of the MCA Entity. As a result, MCC’s use of country systems in the public financial management area tends to focus on use of the country’s institutions. When a partner country proposes the use of a government entity to serve as fiscal agent, MCC will perform an examination, or due diligence assessment, to ensure that the proposed entity has the capacity to handle the financial management requirements of the Compact. In this context, “capacity” means the ability to provide reasonable assurance that compact funds (a) will be used for the intended purposes; (b) will achieve good value for the money spent; and (c) will be accounted for properly and in accordance with MCC requirements. To make this determination, MCC reviews a number of key areas that are critical to a successful financial management function, such as organizational structure, accounting policies and procedures, and reporting processes. In particular, MCC assesses the proposed entity’s: (i) legal structure, (ii) staffing, (iii) budgeting skills, (iv) funds control and funds flow processes, and (v) auditing practices. In addition, a special assessment of the proposed entity’s automated accounting system will be performed by a firm that has the technical skills and abilities to perform a thorough analysis of the system’s structure, functions and controls.

### 4.2.1.2 Assessment Approach

The assessment process begins when members of MCC’s fiscal accountability staff meet with appropriate government officials of the partner country to explain the specific roles and responsibilities of the fiscal agent. If the partner country believes it has the capacity to handle these financial management functions within an existing entity, the country submits an official proposal indicating the entity it wishes to use. At this point, the formal due diligence process begins. To assist with this process and create a final MCC assessment in which the partner country has participated, the proposed government entity will complete a Country System Assessment Questionnaire (a copy of this form is available on MCC’s website at [www.mcc.org](http://www.mcc.org)).

mcc.gov). The questionnaire is a series of questions designed to elicit information about the country's systems in the key areas of financial management mentioned above. During the assessment process, MCC staff will also perform one or more site visits to meet with the personnel of the proposed entity to clarify their responses to the questions on the questionnaire and document the processes and procedures they have described as necessary. MCC staff members also meet with other donors who have used the proposed entity for financial management when such situations exist. Once it has been determined that the entity has the basic capacity to handle the financial management function, MCC procures the services of a consultant to perform a thorough review of the entity's automated accounting system.

#### 4.2.1.3 Assessment Outcome

After completion of the assessment, MCC makes a determination to either accept or not accept the partner country's proposal to use an internal fiscal agent. In general, the country's proposed entity must have the capacity to perform the function without remediation to be accepted. This is because of the importance of ensuring fiscal safeguards over US taxpayer funds granted to the partner country, as well as the difficulty of making needed improvements within the five-year timeframe of a Compact.

## 4.2.2 Procurement

### 4.2.2.1 Basic Standards for Country System Use

Under the MCC implementing framework, MCC-funded procurements generally are conducted in accordance with MCC's *Program Procurement Guidelines*,<sup>5</sup> and by one or more procurement agents that serve the MCA Entity. Because the *Program Procurement Guidelines* provide the substantive framework for conducting procurements, MCC's assessment of country systems focuses on the operational capacities of the country's institutions. MCC expects its partner country to propose its preferred procurement agent arrangements when it presents the projects for potential MCC funding. The country may propose using one or more government entities to serve as procurement agent to the MCA Entity, or a competitively procured independent agent or a combination of both. Since MCC procurements are generally large, complex and must be completed in a short period to allow project completion within a 5-year Compact, any proposed procurement agent, including a government entity, will need to possess a high level of skill in managing the procurement process. In addition, because all compact procurements are conducted in compliance with the *Program Procurement Guidelines* (which require international competitive procurements), the proposed candidate must demonstrate that its procurement experience is rooted in procurements that followed international best practices. In the case of a government entity, the ability to function freely from governmental administrative controls is also essential, as it allows the entity to take direction

<sup>5</sup> The MCC Program Procurement Guidelines are based on "Guidelines: Procurement Under IBRD Loans and IDA Credits, May 2004, revised October 2006" and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers, May 2004, revised October 2006". © 2004 by the International Bank for Reconstruction and Development/The World Bank. All rights reserved. For further information, please visit <http://www.worldbank.org>.

from the MCA Entity and effectively carry out its duties as an agent of the MCA Entity. Finally, a government entity must have or be able to acquire adequate staff to manage the increased workload effectively and efficiently.

#### 4.2.2.2 Assessment Approach

The process for assessing whether a government entity has the capacity to serve as procurement agent for MCC-funded projects begins when the partner country identifies its proposed candidate. At that point, MCC makes a preliminary determination of whether the entity might serve based upon a desk review of relevant laws, implementing procedures, and available research on the proposed entity, including donor reports such as Country Procurement Assessment Reports prepared by The World Bank. MCC procurement staff members also make an initial visit to the country to meet with the proposed agent. If a decision is made to move forward with a detailed assessment of the candidate, MCC asks the entity to complete a Procurement Agent Due Diligence Survey (a copy of this form is available on MCC's website at [www.mcc.gov](http://www.mcc.gov)). The Procurement Agent Due Diligence Survey is a series of questions that seek information about the organization's capability to function as procurement agent generally, and the skills and capacities of the individuals within the organization to conduct procurements in compliance with the *Program Procurement Guidelines*. After reviewing the information provided in the survey, an MCC procurement professional or consultant conducts direct discussions with the proposed agent's personnel and meets with representatives of the private sector.

#### 4.2.2.3 Assessment Outcome

MCC concludes its assessment of the proposed government entity by approving or disapproving it to serve as a procurement agent, or approving the entity subject to certain conditions. Such conditions often focus on changes in the entity's organization to help it fully meet the MCC criteria. Examples include: (1) increasing the staffing level of the proposed entity so it can take on the additional workload; (2) building the technical skills and knowledge of the entity through training or mentoring; and (3) requiring that procurements be monitored by outside procurement experts.

### 4.2.3 Environmental and Social Assessment

#### 4.2.3.1 Basic Standards for Country System Use

The MCC *Environmental Guidelines* establish a process for the review of environmental and social impacts of MCC-funded projects to ensure that the projects are environmentally sound, designed to comply with applicable regulatory requirements, and, as required by the legislation establishing MCC, not likely to cause a significant environmental, health, or safety hazard. This process relies primarily on partner-country laws, policies, procedures, and institutions to undertake the environmental and social assessment

of compact projects, and to implement environmental and social mitigation measures. MCC recognizes that most partner countries have existing environmental and social safeguard policies and/or are accustomed to following internationally recognized safeguard practices required by other donors. Therefore, as a first principle MCC requires that all compact projects comply with partner-country environmental laws, regulations, standards, and permitting requirements, as well as obligations by which the partner country is bound under international agreements.

However, many partner country systems are not entirely consistent with other core principles and requirements set forth in the *Environmental Guidelines*, and partner countries often do not have the technical, institutional or financial capacity to effectively implement their own systems. Consequently, beginning with the initial engagement and continuing throughout the due diligence process, MCC assesses the capacity of our partner countries to manage the environmental and social implications of proposed compact projects consistent with partner country and MCC requirements. At a minimum, this means that there must be a sufficient number of technically qualified and available government staff to (i) review and approve environmental impact assessments for the proposed projects, (ii) implement and oversee the environmental management plans, resettlement action plans and other anticipated environmental and social mitigation requirements necessary to implement the proposed projects, (iii) enforce applicable environmental, health and safety standards, and (iv) coordinate or participate in public disclosure and consultation about the compact program. Another important element of the assessment is to identify gaps or inconsistencies between partner country environmental policies and the *MCC Environmental Guidelines*, particularly with respect to cross-cutting issues such as resettlement and land acquisition, protected areas, hazardous substances, and gender.

#### 4.2.3.2 Assessment Approach

MCC's principal tool for conducting its assessment is a standard set of due diligence questions ( a copy of the questions is available on MCC's website at [www.mcc.gov](http://www.mcc.gov)).. The questions are used as a guide to evaluate the country's environmental regulatory and institutional framework and the capacity of relevant institutions in the key focus areas mentioned above. During initial visits to the partner country, MCC environmental staff share the questions with the country and seek to gather the relevant information. In addition, MCC interviews other donors to solicit their knowledge and perspectives of the systems. In many cases, these donors have a longer history in the country than MCC and therefore have firsthand experience working with the relevant country systems and institutions. Tapping into such experience is a vital part of the assessment process, as past and similar experience can be a good guide to how adequately current country systems can address environmental and social issues.

#### 4.2.3.3 Assessment Outcome



Based upon MCC's assessment of a country's environmental and social management capacity and systems, MCC and the partner country will agree on specific measures to be included in the Compact to address gaps and inconsistencies with the *MCC Environmental Guidelines* and, as necessary, to improve partner country capacity to effectively implement their own country systems. These measures often include technical assistance and institutional strengthening programs, incorporation of key environmental and social considerations in project design and implementation plans, integration of site-specific monitoring and mitigation measures in project environmental management plans and resettlement action plans, and the inclusion of specific conditions precedent to disbursement.

#### 4.2.4 **Monitoring and Evaluation**

##### 4.2.4.1 Basic Standards for Country System Use

An important aspect of implementation for MCC Compacts is the monitoring and evaluation (M&E) of programs and results. The foundation for effective M&E consists of good, measurable indicators and functional management information systems. Any system that is to support the M&E function for a Compact must have capacity in these two key areas. Accordingly, MCC's assessment of a proposed partner country M&E system focuses on these areas, which encompasses both country processes and institutions.

For indicator selection, partner countries are required to propose possible indicators and associated data sources for monitoring project outcomes. MCC's indicator assessment looks to determine whether the partner country has the ability to define relevant indicators for monitoring, and the ability to understand indicator data collection, measurement and analysis methodology. To the extent the partner country is working with other donors, MCC will also review whether there are harmonized indicators in sectors relevant to MCC programs and whether the indicators in the harmonized framework are applicable to effective monitoring of the Compact.

Good, measurable indicators are also a function of the quality of the data used. In terms of data quality, all proposed compact indicators undergo an independent external review. MCC uses criteria related to validity, reliability, timeliness, precision and integrity as criteria to assess the quality of country data. Data quality reviews are conducted as early as possible to identify and implement recommendations for remedying any country weaknesses. MCC's review of a partner country's management information systems focuses on data collection capacity. This includes an examination of (i) the institutional capacity of the country (usually its national institute of statistics) to gather data of sufficient quality; (ii) the national management information systems to determine whether they can be drawn upon for MCC project specific monitoring at the process, output and outcome levels; and (iii) the evaluation capacity for undertaking rigorous impact evaluations. Specifically, the country M&E systems must have the ability to coordinate various data sources, gather data, track performance, field large surveys, and support impact analysis. If the partner

country has national or sectoral capacity building efforts underway that can be leveraged to strengthen the M&E plan of the Compact, MCC will also consider that.

#### 4.2.4.2 Assessment Approach

Once the partner country proposes the use of country systems, which is usually a proposal of a government entity to serve as a data source, MCC proceeds with its assessment. It begins with a desk review of documents such as national sector strategies, poverty reduction strategies, national statistical development plans, and the World Bank's Database on Country Statistical Capacity. The review continues with meetings with existing data sources, such as sector ministries and national statistics institutes, during country visits. These meetings are often supplemented by use of available assessments and MCC's Due Diligence Methodology for Monitoring and Evaluation. The methodology is a set of questions designed to elicit information about the experience and capability of the proposed government entity to perform the data collection, analysis and reporting functions that are required during compact implementation. Also included are questions related to the consistency of indicators, performance measurement, and M&E capacity-building activities ( a copy of the questions is available on MCC's website at [www.mcc.gov](http://www.mcc.gov)). Finally, MCC staff members also meet with other donors involved in data collection in the country to discuss their assessment of the quality of national data, the content and frequency of reporting on their projects and any past and planned M&E capacity-building efforts.

#### 4.2.4.3 Assessment Outcome

As a result of its assessment, MCC may agree or decline to use the country's M&E systems, or agree to use the systems subject to certain conditions. Use of country systems typically involves utilizing the systems for a particular sector related to a project (e.g. transport) or for national impact indicators related to poverty and incomes. Typically, country systems are used for some M&E activities and not for others. In all cases, during compact implementation, the MCA Entity and MCC continually monitor the performance of the selected data sources and if necessary, act to address any problems. Where conditions are required, they normally focus on requiring additional capacity-building support to improve the quality of data produced by the country. It should be noted, that even where MCC accepts use of the M&E country systems, the MCA Entity will always require additional data collection by private actors (often project implementers), to complement existing country systems for lower-level progress reporting.

Given the time frame of MCC Compacts, MCC may conclude in its assessment that the use of country systems is not conducive to effective monitoring and evaluation of the Compact in the short time frame available for implementation. In such cases, MCC will use other mechanisms to monitor and evaluate the program.