

## Chapter 10: MCC Policy on 609(g) Funding

### *Purpose*

The following sets forth the policy of the Millennium Challenge Corporation (“MCC”) with respect to assistance under Section 609(g) of the Millennium Challenge Act of 2003, as amended, to support development and implementation of compacts (“609(g) funding” or “609(g) funds”) before and after such compacts are signed.

### *Scope*

This policy applies to all assistance MCC provides under Section 609(g) of the Millennium Challenge Act of 2003, as amended.

### *Authorities*

#### **Statutory Authorities**

Section 609(g) of the Millennium Challenge Act of 2003, as amended (the “Act”).

#### **Related MCC Policies and Procedures**

609(g) Financial Management Policy and Procedure Manual (A&F-2007-78.2)

Guide on Appropriate Funding Sources for MCC Activities (A&F-2009-01.1)

### *Policies*

#### **Purpose**

As Section 609(g) of the Act states, the purpose of 609(g) funding is to support the development and implementation of compacts. While the statute does not specify the timing of 609(g) funding, since implementation of a compact continues through the term of a compact, activities to *facilitate* compact development and implementation are most likely to happen before entry into force (“EIF”) of a compact or soon thereafter, and therefore most obligations of 609(g) funds will occur before that milestone or soon thereafter, although the expenditure of 609(g) funding has often continued beyond EIF.

#### **Pre-Compact 609(g) Funding Not a Further Commitment**

A commitment by MCC to provide 609(g) funding to a particular eligible country before compact signing is not a commitment by MCC (i) to enter into a compact with that country, or (ii) to fund any project that may be developed with the use of such 609(g) funding.

#### **Uses for 609(g) Funding**

609(g) funding must be used to support the development and implementation of compacts. In practice, 609(g) funds have been used in the following ways (but this list is not intended to limit how 609(g) funding can be used):

By MCC, or to allow a recipient country, to develop investment projects early in the process, such as for technical feasibility, social and environmental assessments, and detailed design work;

To assist an eligible country to conduct a consultative process; and

To develop and put into place the compact implementation framework, which includes the accountable entity responsible for the implementation of the compact (the “**Accountable Entity**”), the fiscal agent, the procurement agent, the bank, and any implementing entities or project managers to allow work to start promptly at EIF.

#### **Approval Process for 609(g) Funding**

Investment Management Committee review, approval by MCC’s CEO, and notice to Congress are required before 609(g) funds may be committed. Furthermore, a grant and implementation agreement or other written instrument is required to obligate 609(g) funds.

Country teams should make every attempt to formulate comprehensive 609(g) budgets that anticipate, to the extent possible, current and future funding needs (including for expenditures that may occur after compact signing and before EIF) to avoid the need to request additional funds. If necessary, however, requests of additional 609(g)

funds for compact implementation will again require Investment Management Committee review, approval by MCC's CEO, and notice to Congress.

In the documentation submitted to the Investment Management Committee and MCC's CEO for review and approval, country teams will establish a reallocation threshold amount, in no event greater than ten percent of the total amount requested, under which the country team with the review and approval of the Vice President, Compact Operations, may reallocate 609(g) funds without Investment Management Committee and MCC's CEO review and approval.

### **Limitations on Uses for 609(g) Funding**

#### Country contributions

609(g) funding is intended to assist an eligible country only after it has made significant, tangible, and material contributions of its own resources to develop a compact proposal. The following generally constitutes acceptable evidence of such contributions to a compact proposal:

- a. Appointment and adequate support (*e.g.*, salaries and other remuneration and administrative expenses, including the cost of office space, office furniture, information technology, computers, and vehicles) of the necessary full-time point of contact and compact development core team (together, the “**Core Team**”);
- b. A successful initial consultative process in accordance with MCC's guidelines for conducting such a process;
- c. A thorough constraints analysis; and
- d. The development of project concept papers.

An eligible country may be required to make additional contributions as well, especially if it is pursuing a second compact, pursuant to MCC's recommendations on country contributions distributed from time to time.

Notwithstanding the foregoing, MCC may consider 609(g) funding for an eligible country pursuing an initial compact but facing resource constraints that may otherwise delay preparation and development of the compact or receipt of concept papers.

#### Funding Core Team

MCC may consider providing 609(g) funding for Core Team expenses if MCC has determined that the country has insufficient resources available to establish a Core Team, or has paid an amount that MCC deems, in the aggregate, as being appropriate for the salaries and other expenses of the Core Team from the country's resources, and that the continued availability of the Core Team personnel is necessary for the completion of compact development.

To provide 609(g) funding for Core Team expenses, MCC must enter into an agreement with the country that will, at a minimum: (i) stipulate the number of Core Team members receiving salary support from 609(g) funding, the amount of salary provided per Core Team member, and the areas of expertise of or activities supported by such Core Team members; (ii) reflect the country government's commitment to provide for all other necessary costs not funded by the 609(g) funding granted to the country to ensure timely and efficient completion of the compact development process; (iii) require that payments be made strictly on a reimbursable basis to the country government on specified periodic payment terms (*e.g.*, monthly); (iv) specify the maximum amount of time that 609(g) funding for Core Team expenses will be available; and (v) specify that all salary payments for the Core Team must cease within a specified period of time following the establishment and staffing of the Accountable Entity.

### Additional Limitations

In general, before MCC will consider making 609(g) funds available for use by or for an eligible country:

- a. A country has identified clear investment priorities through its constraints analysis and consultative process;
- b. A preliminary evaluation of the country's concept paper(s) by the MCC country team has determined that the concept paper(s) is likely to generate meaningful economic growth and poverty reduction benefits;
- c. MCC is satisfied as to how the funds will be used, including having a timeline and budget for the use of the 609(g) funding; and
- d. Either MCC or the eligible country has defined satisfactory financial management and procurement processes to control 609(g) funds (including provision for auditing the use of the 609(g) funds).

### Legal Requirements for 609(g) Funding

609(g) funding, as discussed in this policy, is subject to, among other things, the following conditions:

- a. the use of funds may not violate statutory limitations on the use of MCC funding;
- b. the use of funds must comply with any written requirements by MCC; and
- c. the availability of 609(g) funding will not extend beyond the earlier of the expiration or termination of the grant and implementation agreement or the compact.

## ***RESPONSIBILITIES***

### **Chief Executive Officer**

The Chief Executive Officer is responsible for approving this policy and any revisions to it.

### **Vice President, Compact Operations; Vice President, Administration and Finance; Vice President and General Counsel**

A request for waiver of any provision under this policy shall be requested by the relevant DCO regional Deputy Vice President (or his/her delegate) via action memorandum to the Vice President, Compact Operations who shall be responsible for approving any requests for waiver of any requirements under this policy. A request to waive a provision of this policy may not be granted without clearance by the Vice President, Administration and Finance, and Vice President and General Counsel. Any such waiver request should specifically cite the applicable provision of this policy that is the subject of such waiver request.

### **Deputy Vice Presidents, Compact Operations**

The applicable Deputy Vice President, Compact Operations is responsible for requesting a waiver of any requirements under this policy for a country.

### **Reorganization**

In the event of a reorganization of MCC, the responsibilities ascribed to any officer in this section 5 will be carried out by his or her successor.

