

Chapter 19:

Overview of Due Diligence and Program Refinement



REDUCING POVERTY THROUGH GROWTH

Overview Phase 2: Due Diligence and Program Refinement

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Once a country has submitted a proposal for MCA funding, an MCC Transaction Team (TT) consisting of relevant MCC staff and technical experts will conduct a preliminary assessment of the proposal. It will provide guidance and feedback with respect to MCC objectives, evaluation methods, and requirements and, if necessary, work with the country to refine the proposal. When appropriate, the TT will prepare an Opportunity Memorandum for the MCC Investment Committee (IC) describing the proposed program and requesting resources for a full due diligence review of the activities proposed. The documents that follow this overview provide guidance for the due diligence and program refinement stage.

After due diligence resources have been authorized, the TT will carry out a detailed review of the country's proposal. Due diligence will focus on, *inter alia*, the country's strategy for economic growth and poverty reduction; the consultative process; any policy reform plans; how progress will be measured; technical feasibility and sustainability; fiscal accountability; governance structure and legal status of the compact; monitoring and evaluation; donor coordination; gender integration (see "MCC Gender Policy"); and environmental and social (including resettlement, indigenous people, etc.) safeguards (see "Guidelines for Environment and Social Assessment") For each component of the proposal, due diligence will address technical, economic and environmental feasibility as well as implementation issues and sustainability. The TT will conduct its assessment of project components within the framework of appropriate guidelines, such as "Guidelines on Incorporating Agriculture," "Guidelines on Incorporating Infrastructure," and "Guidelines on Land Policy and Property Rights."

The TT will also assess the proposal to estimate its distributive impact on potential beneficiaries as well as to analyze the economic rate of return (ERR) of the program. The ERR is an indicator of the economic growth impact of the program and a measure of its effect on poverty reduction when the targeted beneficiaries are poor. The TT is looking for significant and measurable increases in incomes of the poor and significant reductions in poverty as a result of successful implementation of the program proposal. Details on this step of the process are provided in "Guidelines for Economic and Beneficiary Analysis of a Compact Proposal."

A key principle of MCA Compacts is the inclusion of clear objectives and benchmarks to measure progress and results. A monitoring and evaluation plan must be included from the early stages of Compact design to enhance the effectiveness and accountability of MCC assistance. “Guidelines for Monitoring and Evaluation Plans” describes this component of the Compact design process.

Finally, each country must decide on procedures to implement a Compact. “Establishing and Accountable Entity/Governing Body” describes the key fiscal accountability elements as well as the characteristics of a governing body to guide implementation.

When the TT determines it has sufficient information and understanding with respect to the country’s proposed MCC program to justify entering into negotiations with the country regarding the terms of the Compact, the TT prepares a Consultation Memorandum for the IC recommending that MCC begin the required 15 day consultation with the United States Congress. (Under MCC’s authorizing legislation, MCC is required to undertake a 15 day consultation period with Congress prior to the start by MCC of negotiations of a Compact with an eligible country.)