

Chapter 9:

# Overview of the Compact Process



REDUCING POVERTY THROUGH GROWTH



## Overview of the Compact Process

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This collection of documents is intended to provide guidance for countries selected as eligible for MCC Compact assistance on the Compact development process and MCC expectations and requirements during Compact implementation.

We ask that countries develop a Compact proposal with some key principles in mind:

- **Poverty Reduction through Economic Growth:** MCC's goal is to support programs that will focus specifically on reducing poverty by making investments that stimulate sustainable economic growth. While MCC does not instruct countries regarding which sectors to invest in, we do ask that these investments address key constraints to economic growth and stimulate economic opportunity.

MCC believes a country's development is sustainable only if aid is eventually replaced with economic activity and investment led by the private sector. MCC's role is meant to be transformational and transitional as assistance is replaced by private capital flows.

- **Reward Good Policy:** MCC countries were selected to participate based on their performance in governing justly, investing in their citizens, and encouraging economic freedom. Backed by lessons learned from development practice, MCC believes good policies promote an environment for sustainable economic growth and poverty reduction, and thus for MCC investment. MCA countries must maintain their relatively good policy performance on the selection criteria to remain eligible for MCC assistance. Policy improvements may also be needed to achieve the objectives of an MCC investment.
- **Partnership and Country Ownership:** MCA countries are asked to demonstrate leadership and a high level commitment through full ownership of the MCC Compact process. Working closely with MCC, MCA countries will be responsible for identifying the greatest barriers to their own development, ensuring civil society participation, and developing an MCA program.

- **Focus on Results:** MCC assistance will go to those countries that have developed well-designed programs with clear objectives, benchmarks to measure progress, procedures to ensure fiscal accountability for the use of MCC assistance, and a plan for effective monitoring and objective evaluation of results. Programs are designed to enable sustainable progress even after the funding under the MCA Compact has ended.

### **Phases of MCA Compact Development and Implementation:**

Each MCA country will work to develop and enter into a Compact with MCC that includes a multi-year plan for achieving development objectives and identifies the responsibilities of each partner in achieving those objectives.

#### **Phase I: Proposal Development and Program Design**

The documents contained in Phase I provide guidance on the steps an eligible country needs to take to develop a proposal for Compact program. During this phase, countries are requested to undertake the following steps:

- Identify a full-time point of contact (POC) to lead the country's program development process and to manage its day-to-day relationship with MCC.
- Take the necessary steps to build a country team led by the POC that is empowered to run the MCA process, enjoys a high level of political commitment, and has access to senior officials so that it can quickly make decisions and stay actively engaged. Countries that have assigned personnel full-time to the MCA process and have dedicated financial and administrative resources have developed their proposals and moved to Compact faster.
- Conduct a constraints analysis to identify the conditions that impede growth and sustain poverty and develop a framework that will focus domestic discussions on what programs would best ease constraints to growth and poverty reduction.
- Initiate a timely, participatory and meaningful consultative process with the country's civil society, non-governmental organizations and private sector in order to further discuss key constraints to economic growth and poverty reduction, as well as priority activities to help address such constraints.

On the basis of these activities, the country will provide MCC a Compact proposal describing a program of activities for MCA funding. The key milestone in Phase I is the submission of this proposal to MCC.

In some cases, countries may require assistance for Compact development. MCC can offer limited financial assistance, when justified, for such purpose.

## **Phase 2: Due Diligence and Program Refinement**

The documents contained in this section provide guidance for the due diligence and program refinement stage. Once a country has submitted a proposal for MCC funding, MCC will build a Transaction Team (TT) of relevant MCC staff and technical experts to provide guidance and feedback with respect to MCC objectives, standards and requirements. The transaction team will also work with the country to refine the proposal, when necessary, and at the appropriate time will ask MCC to authorize resources for a full “due diligence” review of the activities proposed.

Once due diligence is authorized, MCC staff will carry out an in-depth review of the country’s proposal and the process used to develop it. At a general level, due diligence may address issues related to the country’s strategy for economic growth and poverty reduction; the consultative process; coordination with other donors; plans for policy reform; fiscal accountability; and environmental and social safeguards. For each component of the proposal, the transaction team will conduct due diligence on technical, economic and environmental feasibility as well as on implementation issues and sustainability. MCC will also assess the proposal to estimate its distributive impact on potential beneficiaries as well as to analyze the economic rate of return. MCC will look for significant and measurable increases in incomes of the poor and significant reductions in poverty as a result of successful implementation of the proposed program.

During this process of evaluation, MCC will work with, and may provide support for, the refinement of the program and its components. When appropriate, MCC will notify the U.S. Congress of its intent to enter into negotiations with the country regarding the terms of a Compact. Phase 2 draws to a close when MCC and the eligible country have reached agreement, received the approval of the MCC Board of Directors, and sign a Compact.

### **Phase 3: Mobilization and Start up**

The documents relating to this phase provide guidance on the steps necessary for a Compact to “enter into force” and for its implementation to begin. During this phase, a country must establish and staff an Accountable Entity which will be responsible for the implementation of the Compact activities, develop the proper systems for financial control and oversight, finalize the post-Compact legal documentation requirements, and conclude detailed project planning.

Fiscal and procurement agents are mobilized as soon as possible. The Accountable Entity and the selected agents will typically execute contracts for such services as necessary. The fiscal and procurement agents will begin work with the Accountable Entity to establish financial and reporting systems, develop standard bidding documents, and begin work on any procurement activities as may be required prior to entry-into-force of the Compact. The Accountable Entity further develops and concludes detailed work plans.

During this phase, the MCC legal team and the country legal counsel finalize all legal documentation, including post-Compact agreements such as the disbursement agreement, necessary for Compact to enter into force. Other than a small portion of the funds specifically designated for use before Compact’s entry into force, it is only after a Compact has entered into force that the first disbursement of the funds under the Compact can be made. Entry into Force marks the end of Phase 3.

### **Phase 4: Implementation**

The documents contained in this section provide guidance for the implementation of a compact. During this phase, the Accountable Entity is responsible for overseeing implementation, tracking progress in implementation and towards poverty reducing outcomes, making regular financial and activities reports to the MCC, and keeping the public informed about Compact progress.