

Chapter 18:

Assistance for 609(g) Compact Support Funding



REDUCING POVERTY THROUGH GROWTH

Policy Regarding 609(g) Compact Support Funding

Last updated: September, 2006

Section 609(g) of the Millennium Challenge Act of 2003 (the “Act”) provides:

Notwithstanding subsection (a), the Chief Executive Officer may enter into contracts or make grants for any eligible country for the purpose of facilitating the development and implementation of the Compact between the United States and the country.

The following summarizes the Millennium Challenge Corporation’s (“MCC”) policy with respect to funding under Section 609(g) to support development and implementation of Compacts.

1. Purpose

609(g) funding for Compact development and implementation is intended to assist eligible countries only after they have made significant, tangible, and material contributions of their own resources to develop a Compact proposal. The following criteria constitute acceptable evidence of significant, tangible, and material contributions to a Compact proposal, and will be considered evidence of country ownership of the Compact development process:

- a. Appointment and payment of the necessary full-time point of contact and core team members to make this process and subsequent implementation effective.
- b. A successful initial consultative process in accordance with MCC’s guidelines.

NOTE: An eligible country’s request for 609(g) funding for technical assistance on consultation is not subject to b. above.

2. Prime Condition for all 609(g) Funding

A commitment by MCC to provide 609(g) funding (other than funding provided as part of a Compact) is not an obligation by MCC to enter into a Compact with an eligible country, or fund a specific project the 609(g) funding supports.

3. 609(g) Funding Prior to Compact Signing

3.1 General Conditions

In general, each of the following conditions should be present before MCC will consider making 609(g) funds available prior to Compact signing for use in an MCA-eligible country:

- a. Either MCC or the partner country has defined satisfactory financial management and procurement processes to control 609(g) funds.
- b. MCC is satisfied as to how the funds will be used, including having a timeline and budget for the use of the 609(g) funds.
- c. If the amount of the 609(g) funding exceeds \$500,000, the Investment Committee has reviewed, and the CEO has approved, any such 609(g) funding; or if the amount of the 609(g) funding is equal to or less than \$500,000, the Investment Committee has reviewed and approved any such 609(g) funding.

3.2 Expected Uses

The expected uses of 609(g) funds prior to Compact signing can be divided into two categories:

Category 1 – Ensuring High Quality MCA Programs

Category 1 609(g) funding is intended to address country capacity constraints for Compact development, including without limitation:

- a. Ensuring that a country will develop projects that justify MCC investment.

- b. Putting successful implementation mechanisms in place such as baseline surveys, technical and feasibility studies, environmental and social assessments, ongoing consultations, technical assistance to procure fiscal and/or procurement agents, fees for fiscal and/or procurement agents, and the country's local counsel fees associated with review and finalization of the Compact and related agreements.

NOTE: Management support payments for items such as rent and equipment for the country's MCA core team are generally not eligible for 609(g) funding prior to Compact signing.

In addition, the following conditions shall apply to Category 1 609(g) funding uses:

- The country must own the Compact development process as evidenced by clear investment priorities established through the initial consultative process.
- A preliminary evaluation of the country's proposal by the MCC transaction team has determined that the proposal is likely to generate meaningful economic growth and poverty reduction benefits.

Category 2 – Temporary and Extraordinary Remediation Measures

Category 2 uses of 609(g) funds consist of (i) country MCA core-team salary support ("Salary Support"), (ii) technical assistance to carry out the consultative process, and (iii) any other category of monetary support to an eligible country as determined from time to time by MCC's CEO to be critical to the completion of the Compact development process.

609(g) funding for Salary Support is justified when:

- a. MCC is convinced that the country has paid as much as it can for the salaries and other expenses of Compact development from its own resources and can no longer continue doing so, and that the continued availability of the country team personnel is necessary

for the completion of Compact development and for successful implementation.

- b. There will be a 609(g) grant agreement or similar arrangement, which agreement shall, at a minimum: (i) stipulate the number of core team members receiving Salary Support, the amount of salary provided per core team member, and the areas of expertise or activities supported by such core team members; (ii) reflect the country government's commitment to provide all other necessary costs to ensure timely and efficient completion of the Compact, implementation plans, and related agreements, (iii) require payments be made on a strictly reimbursable basis to the country government on specified periodic payment terms (e.g., monthly) unless an approved fiscal agent has been selected, engaged, and is functional, or other fiscal arrangements satisfactory to MCC are in place; and (iv) limit availability of this 609(g) funding to a period not to exceed nine (9) months prior to Compact signature.

4. 609(g) Funding Upon Compact Signature

609(g) funds provided to a country upon Compact signature may include:

- a. Salary of the country's MCA-technical team, rent, equipment, information technology expenses, furniture, ongoing local legal counsel payments, and other items that will expedite entry into force of the Compact and first disbursement and otherwise assist the country's MCA implementing organization in becoming operational as quickly as possible.
- b. Other Compact implementation expenses, including fiscal and procurement administration, monitoring and evaluation expenses, and programmatic expenses (such as feasibility and design studies).

The transaction team should, wherever possible, request approval of post-Compact signing 609(g) funding in the Investment Memorandum. Such request should summarize the same type of information as would normally be provided in a 609(g) grant agreement (as described above).

For efficiency purposes, 609(g) funding provided at this juncture should, wherever possible, be provided for in the Compact itself, rather than in a separate grant agreement, and should become immediately committed, obligated, and available upon Compact signature.

The total amount of 609(g) funds provided upon Compact signature may not exceed 2.0 percent of the total amount of funding to be granted under the Compact, unless MCC's CEO explicitly waives this requirement as provided below. Amounts provided at this stage shall be included in the total Compact amount and are not in addition to the total amount of the Compact. This amount may be in addition to any 609(g) funding provided prior to Compact signature.

5. Legal Requirements for 609(g) Funding

609(g) payments, whether granted under the Compact or otherwise, will be subject to, among other things, the following conditions: (i) the use of funds may not violate statutory limitations on the use of MCC funding, (ii) the use of funds must comply with any requirements set forth in writing by MCC (which writing may include, for example, a requirement that payments be made on a strictly reimbursable basis to the country government on a specified periodic payment term (e.g., monthly) unless an approved fiscal agent has been selected, engaged and is functional), and (iii) the availability of 609(g) funding will cease upon the earlier of the expiration or termination of the Compact or five years from the date such funds are obligated.

6. Waivers

MCC reserves the right to waive the above-listed requirements and provide 609(g) funding within its sole discretion. A request for a waiver should be made by the transaction team to the Investment Committee and should specifically identify the applicable provision of this policy to be waived and a justification for such waiver. MCC's CEO may grant such a waiver in his sole discretion, consistent with the statutory requirements on the use of such funding.

7. Amendments

This Policy may be modified or amended from time to time at the discretion of MCC's Chief Executive Officer and supersedes any previous policy on this subject matter.