

Chapter 37:

Cost Principles for Government Affiliates Involved in MCC Compact Implementation



REDUCING POVERTY THROUGH GROWTH

Cost Principles for Government Affiliates Involved in MCC Compact Implementation¹

Last updated: August, 2007

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¹ Including Accountable Entities, Governmental Implementing Entities, Governmental Procurement Agents and/or Governmental Fiscal Agents

1.0 Introduction

1.1 Scope

- a. This policy document sets forth the Millennium Challenge Corporation's (MCC) cost principles applicable to a Government Affiliate serving as an Accountable Entity, Implementing Entity, Fiscal Agent or Procurement Agent financed, in whole or in part, under Grants financed by MCC, unless otherwise specified in writing by MCC. Grants include all those signed by MCC with a Recipient Country, whether a Compact entered into under the authority of section 605 of the Millennium Challenge Act of 2003 (the "MCA") or a Grant under section 609(g) of the MCA.
- b. These cost principles provide a framework within which items of cost can be identified, as allowable under MCC-financed Grants. They are especially intended for use in (1) preparation of budget estimates by Recipient Countries, (2) negotiation of budgets between the Recipient Country and MCC, and (3) audit. The Government Affiliate should prepare its cost estimate consistent with its accounting procedures and the cost principles contained in this policy document.
- c. Cost principles which govern cost reimbursement contracts with commercial organizations are included in a separate document, "Cost Principles for Cost-Reimbursement Contracts under MCC Financed Grants." This document is published on the MCC Website: www.mcc.gov.

1.2 Definitions

- a. Accountable Entity means the legal entity designated by the Government to carry out certain Government responsibilities and obligations, including contracting and exercising formal obligations and responsibilities under the Grant.
- b. Fiscal Agent means the Government Affiliate appointed by the Accountable Entity to be responsible for funds control and documentation, proper and consistent accounting, financial reporting and disbursement. If the Fiscal Agent is not a Government Affiliate, these cost principles are not applicable.
- c. Government Affiliate means any ministry, agency, state-owned enterprise or non-governmental organization that is not a private commercial enterprise appointed

by the Government to carry out certain Government responsibilities and obligations under the Grant.

- d. Governance Agreement means the bylaws of the Accountable Entity, as approved by MCC, or the agreement between the Government, the Accountable Entity and MCC setting forth the governance structure and principles for the Accountable Entity in accordance with the terms of the Grant.
- e. Grant means either of the following documents signed by MCC with a Recipient Country:
 - 1. a Compact entered into under the authority of section 605 of the Millennium Challenge Act of 2003 (the “MCA”) and its Supplemental Agreements, or
 - 2. a Grant under section 609(g) of the MCA and its Supplemental Agreements.
- f. Implementing Entity means the Government Affiliate responsible for managing the implementation of an element of the Program financed by MCC and initiating payment requests. If the Implementing Entity is not a Government Affiliate, these cost principles are not applicable.
- g. Procurement Agent is a Government Affiliate appointed by the Accountable Entity responsible for impartially administering and/or certifying the procurement process in accordance with a defined set of procurement standards. If the Procurement Agent is not a Government Affiliate, these cost principles are not applicable.
- h. Recipient Country is the country with whom MCC has signed a Compact or which is receiving MCC-financed assistance under a section 609(g) Grant.
- i. Supplemental Agreement means either the Governance Agreement, Implementing Entity Agreement, Fiscal Agent Agreement, Procurement Agent Agreement, and Procurement Agreement.

1.3 Application

- a. The application of these cost principles is based on the fundamental premises that:
 - 1. Governmental units are responsible for the efficient and effective administration of Grant funds through the application of sound management practices.

2. Governmental units assume responsibility for administering Grant funds in a manner consistent with the Grant and Supplemental Agreements, program objectives, and the terms and conditions of the Grant.
 3. Each governmental unit, in recognition of its own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration of the Grant.
- b. The cost principles and procedures contained in this policy document shall be applied to the costs incurred by any Government Affiliate financed under a Grant, unless the governing Supplemental Agreement provides otherwise.
 - c. The use of rules, procedures, or regulations in force in the Recipient Country related to the costs of any or all of the operations of the Government Affiliate is not precluded unless MCC is prohibited by U.S. statute from funding the costs. However, if the use of Recipient Country rules, procedures, and regulations is contemplated, there must be a mutual agreement between the Recipient Country and MCC as to their application. Absent such an agreement among the parties, the cost principles and procedures contained in this policy document will prevail.
 - d. The Recipient Country and MCC must recognize the importance of incorporating explicit terms with respect to the treatment of costs in all of the Supplemental Agreements. The cost principles in this policy document may be used by specific incorporation in the Supplemental Agreement, by incorporation by reference of this policy document, or by incorporation by reference of only the relevant sections. MCC may develop additional cost principles for Grants when there may be unusual cost elements. Such additional principles will be included in the appropriate Supplemental Agreement. In all cases, the specific provisions of the Grant and/or Supplemental Agreement will prevail.
 - e. Failure to mention a particular item of cost in this policy document is not intended to imply that it is either allowable or unallowable. Rather, determination in each case of allowability of a cost item should be based on the principles and standards set forth in Section 2.0 of this policy document.
 - f. Exceptions to the Cost Principles in this document may be approved by MCC in writing on a case-by-case basis.

1.4 Audit of the Government Affiliate

Pursuant to MCC's "Guidelines for Financial Audits Contracted by Foreign Recipients," audits of each Government Affiliate are planned and budgeted for in the Grant. An auditor is selected by the Accountable Entity in accordance with the Grant and its Supplemental Agreements. The scopes of the audits are defined in the "Statement of Work for Financial Audits of Accountable Entities" and "Statement of Work for Financial Audits of Covered Providers."

2.0 Allowability of Costs

2.1 General

The allowability of an item of cost is determined as set forth below.

- a. Costs are allowable if they are necessary for Grant administration, implementation, monitoring and evaluation, or oversight and are not defined as "unallowable" in this policy document. Allowable costs are usually classified as direct costs, but may include properly documented indirect costs if the use of indirect costs is the practice of the Government Affiliate.
- b. Any income or credits (discounts, rebates, refunds, outside rentals, etc.) must be applied in determining the total allowable cost under the Grant or Supplemental Agreement.
- c. Costs are allowable to the extent they meet the criteria in paragraph d. below and in Section 4. Selected Items of Cost.
- d. Costs, to be allowable, must meet all of the following criteria:
 1. Be allocable (see Section 2.2);
 2. Be reasonable (see Section 2.3);
 3. Be accounted for in a manner that is consistent with accepted international accounting practices or the policies and procedures of the Recipient Country;
 4. Be incurred within the Grant period, except as may be otherwise provided, in accordance with the conditions of the Supplemental Agreement;

5. Be documented; and
6. Not be excluded as an unallowable cost under Section 4.

2.2 Allocability

To be allocable, costs must meet one of the following criteria:

- a. Be incurred for work related to the Grant, or
- b. Benefit both the Grant and other work, distributed to them in reasonable proportion to the benefits received, or
- c. Be necessary to the overall operation of the Government Affiliate, although a direct relationship to any particular cost element cannot be shown. In such cases, there must be at least an indirect showing of benefit to the Grant.

2.3 Reasonableness

- a. The reasonableness of a cost depends upon a variety of considerations and circumstances, and determining reasonableness requires the application of sound administrative and professional judgment.
- b. In determining the reasonableness of a given cost, consideration should be given to the following criteria:
 1. The cost is of a type or amount generally recognized as ordinary and necessary for the conduct of the Government Affiliate's business and the performance of the Grant.
 2. Restraints or requirements imposed by such factors as generally accepted sound business and labor practices, arm's length bargaining, governmental laws and regulations, and the terms of the Grant.
 3. The cost incurred is one that a prudent person would incur in the circumstances, considering his/her responsibilities to his/her government and the public-at-large.

4. Significant deviations from the established policies and practices of the Government Affiliate, not provided for or justified by the Grant, which may unjustifiably increase the Government Affiliate's costs.

2.4 Accounts and Records

The Government Affiliate must maintain accounts and records adequate to demonstrate the allowability and allocability, including the nature, amount, and derivation, of costs charged to the Grant. An accounting system is acceptable if it is both adequate and suitable for the accumulation and billing of costs. The Government Affiliate's accounting system must be sufficient to enable an appropriate and equitable allocation of costs. The system should:

- a. Be consistently applied,
- b. Be nondiscriminatory against Grant-funded activities,
- c. Be reliable,
- d. Be equitable,
- e. Segregate costs, and
- f. Identify and accumulate costs by the Grant.

2.5 Limitations and Understandings

- a. Care must be exercised by both the Recipient Country and MCC to ensure that the Grant and Supplemental Agreements reflect their agreement as to the costs which will be reimbursable. In order to minimize the chance for misunderstandings in interpretation of cost provisions, every effort should be made to negotiate agreed amounts, or limitations for specific costs which may not be exceeded without prior approval by MCC or the Recipient Country, as appropriate (i.e., maximum salary levels, non-monetary benefits, etc.).
- b. Regardless of the allowability, allocability and reasonability of costs, the total amount expended under the Grant or Supplemental Agreement can not exceed the maximum value stated in the Grant or Supplemental Agreement, within limitations on flexibility stated in the applicable document.

3.0 Cost Analysis

Cost analysis is an essential tool in the conduct of sound and meaningful negotiations. It provides MCC with a means of evaluating the Recipient Country's estimate regarding the costs related to the Government Affiliate's function. In negotiating such costs, MCC must be satisfied as to the adequacy and reasonableness (including the realism) of the costs proposed. Cost analysis is a primary means of accomplishing this end. The general technique of cost analysis is outlined below.

3.1 The Estimate

In preparing the pre-Grant documentation, MCC will work with the Recipient Country to prepare an estimate of the costs that will be incurred in managing the Grant, including the costs of the Accountable Entity, Implementing Entity(ies), Procurement Agent(s), and Fiscal Agent, regardless of whether these will be Government Affiliates or non-governmental organizations. This estimate should be systematically developed, using historical and statistical data, published indexes, prior Recipient Country experience, and any other source of information which will produce a valid and reasonable estimate.

3.2 Grant Negotiations

After MCC agrees to proceed to Grant negotiation, the estimate will be refined and negotiated by both MCC and the Recipient Country. The estimate is the foundation upon which the negotiations will be based in arriving at final amounts. The elements of the estimate must be clearly substantiated and supported in conformance with the requirements of this policy document. The Grant and Supplemental Agreements will contain appropriate budgeted amounts reflecting the results of the negotiations.

4.0 Selected Items of Cost

4.1 Introduction

- a. This Section sets forth selected costs which are representative of the costs typically encountered by Governmental Entities. However, not every element of cost and every situation that might arise in a particular case is covered. Failure to treat any item of cost is not intended to imply that it is either allowable or unallowable. Whether or not specifically covered, determination of allowability, allocability and

reasonableness shall be based on the principles and standards set forth in Section 2.0 of this policy document.

- b. Certain costs are of such a nature that they are normally considered unallowable under MCC-financed Grants. These costs may exist as actual expenses of the Government Affiliate and may well be legitimate and even desirable insofar as the Government Affiliate is concerned. However, because of their nature, these costs are not eligible for financing under an MCC Grant, and are identified below. The Recipient Country may reimburse the Government Affiliate for these costs from their own funds.

4.2 Discussion of Specific Allowable and Unallowable Cost Items

The following discussion limits the allowability of certain cost items. Unallowable costs are unallowable as either direct or indirect costs under MCC Grants.

a. Advertising Costs

Advertising costs are the costs of advertising in magazines, newspapers, radio and television, exhibits, electronic communications, etc. Advertising costs relating to the grant are allowable. Examples include, but are not limited to, those incurred for (a) the recruitment of personnel required for the performance by the Government Affiliate of obligations under the Grant, (b) the procurement of goods and services for performance of the Grant; (c) the disposal of surplus materials acquired in the performance of the grant, or (d) specific requirements of the Grant. (See also sections w, Public Relations, and aa, Websites, below. The costs of advertising for any purpose not related to the Grant are not allowable.

b. Audit Costs

The cost of audits required by, and performed in accordance with, Grant requirements are allowable. The cost of any other audits required or approved by MCC are allowable. For purposes of this section, "audit" includes financial audits, technical audits, program evaluations, data quality reviews and environmental audits.

c. Bad Debts

Any bad debts arising from the Grant or other obligations of the Government Affiliate are unallowable. However, collection costs and related legal costs related to financing projects under the Grant are allowable. Any credit programs under project activities shall be governed by the terms of the Grant.

d. Board Compensation

The payment of remuneration for service as a voting member on the Board of the MCA Accountable Entity, either with MCC Funds or from funds of Government or from other sources, is unallowable for any Government official or employee. Remuneration may be paid from Government funds to voting members who are not Government officials or employees for actual services rendered as members of the Board of the MCA Accountable Entity. Such remuneration shall be calculated on a daily basis for services actually rendered and shall not exceed the highest daily rate of salary and benefits for a government minister in the Recipient Country. The total amount of annual remuneration paid to each voting member of the Board that is a non-Government official or employee shall not exceed the equivalent of 90 days pay at the relevant daily rate. See also section 4.2.dd below for expenses related to Board meetings..

e. Bonding Costs

Bonding costs arise when the Recipient Country requires assurance against financial loss to itself or others by reason of the act or default of an employee or consultant, such as fidelity bonds. Costs of bonding required pursuant to the terms of the Grant or a Supplemental Agreement are allowable.

f. Commissions and Contingency Fees

Commissions, percentages, brokerage, or contingency fees to persons or groups are allowable when the person or group is a bona fide provider of services secured through a procurement process and the fees are normal, customary, and reasonable.

g. Communication Costs

Costs incurred for telephone services (mobile and land lines), local and long distance telephone calls, internet connections, telegrams, courier service, postage and the like, are allowable.

h. Compensation of Employees

1. Government Affiliates funded by Grants are generally one of three general types of government entity: (i) units or departments within the existing Government structure, such as program implementation units established for other donor programs, (ii) new units or departments established within the Government structure which are granted certain special rights, such as contracting and market-based compensation, or (iii) newly established Gov-

ernment Affiliates established outside the existing Government structure, such as state-owned enterprises.

2. Government Affiliates which are existing units or departments within the Government shall pay employees in accordance with the compensation level and benefits paid to Government employees of comparable rank, in accordance with the existing established Government law, regulations or policy. Compensation includes, but is not limited to, salaries, benefits (pensions, health, disability, unemployment, severance, etc.), holidays and leave, transportation or food allowances (in cash or in kind), bonuses (e.g. annual, Christmas, 13th month, etc.) and overtime. (See section 4.2.u below regarding motor vehicles.) MCC financing may only be used to compensate the additional staff or additional time of current staff needed to accomplish the purposes of the Grant. MCC financing may not be used to fund staff positions funded through Government appropriations prior to the Grant.
3. The Grant or a Supplemental Agreement could also require the establishment of a new unit or department within the Government structure with special rights or a new Government Affiliate outside the existing Government structure. In those cases, the Government Affiliate shall pay employees at compensation levels and benefits comparable to those paid by other donor organizations or the private sector to individuals of comparable rank and qualifications doing comparable work. Comparability may be established by the use of salary surveys conducted within the country by the private sector or other donors.
4. Special payments made to employees, such as signing bonuses, payouts, etc. are allowable only with the approval of MCC.
5. In all cases, employee compensation must be documented by after-the-fact reports of the actual time worked and payments made.

i. Consultant Costs

A Government Affiliate may hire long-term or short-term consultants in accordance with the Procurement Agreement. The reasonable cost of such consultants shall be established in accordance with the procurement procedures and process.

j. Contributions and donations to outside organizations are unallowable, unless explicitly authorized in the Grant or Supplemental Agreements.

k. Entertainment Costs

Entertainment costs are allowable only for the Accountable Entity when necessary to establish or maintain relationships of value to the Millennium Challenge Account Program. Examples include entertainment of a protocol nature on such important occasions as visits of noted personages or ceremonial occasions. Costs of amusement, diversion, social activities and incidental costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities, for the benefit of patrons, clients, or solely for a Government Affiliate's staff are unallowable. Entertainment costs are not allowable for any Government Affiliate other than the Accountable Entity.

l. Fines and Penalties

Cost of fines and penalties resulting from violations of, or failure of the Government Affiliate to comply with applicable laws and regulations are unallowable. However, penalties for late payments owed to contractors providing goods, works or services under the Compact are allowable if the contract with such contractor includes a provision for such late payment penalties. If the Fiscal Agent is not a Government Affiliate, and the late payment is caused by the action (or inaction) of the Fiscal Agent in violation of the Fiscal Agent Agreement, the late payment penalty shall be paid from the fees owed to the Fiscal Agent under the Fiscal Agent Agreement and is not otherwise an allowable cost under the Compact.

m. Indirect Costs

1. Indirect costs, also referred to as overhead and/or general and administrative expense, are those that have been incurred for common or joint objectives. After direct costs have been determined and assigned directly to specific work, indirect costs are those remaining to be allocated to benefiting work. They are gathered into one or more cost pools, after which they are allocated and reallocated, as appropriate, until they are ultimately charged to specific Grants or other work of the Government Affiliate, usually on a percentage basis. A cost may not be allocated as an indirect cost if that same cost has been assigned as a direct cost. Typical example of indirect costs for many organizations may include use allowances on building and equipment, the costs of operating and maintaining facilities, and general and administrative expenses, such as the salaries and expenses of executive officers, personnel administration and accounting

2. *MCC strongly prefers that all costs of the Government Affiliate are charged as direct costs, rather than using both direct and indirect costs.* However, if the Government Affiliate has an established indirect cost rate accepted by the Recipient Country's government, this indirect cost rate may be used.

n. Insurance and Indemnification

1. Insurance includes insurance which the Government Affiliate is required to provide, or which is approved, under the terms of the Grant and any other insurance which the Government Affiliate maintains in connection with the general conduct of its operations. Such costs are allowable as agreed by MCC and the Government Affiliate.
2. Any provisions for a reserve covering the risk of loss or damage to property belonging to the Government Affiliate or Recipient Country are not allowable unless specifically authorized in the Grant or Supplemental Agreement and then, only to the extent that the Government Affiliate or Recipient Country is liable for such loss or damage.
3. Indemnification includes securing the Government Affiliate, its staff, and Board members against liabilities to third persons and any other loss or damage, not compensated by insurance or otherwise. The Recipient Country is obligated to indemnify the Government Affiliate and individuals only to the extent expressly provided in the Grant. Grant funds may not be used for purposes of indemnification.

o. Interest and Other Financial Costs

1. Interest on borrowing (however represented) and bond discounts are unallowable.
2. Principal and/or interest repaid to a Government Affiliate responsible for a Grant-related on-lending program will be credited to MCC or designated for specific purposes at the end of the Grant term (or such other time as may be agreed) in accordance with the arrangements established between the Accountable Entity and MCC.

p. Lobbying Costs

1. Costs associated with the following activities with respect to the U.S. Government or the Government of the Recipient Country and any political subdivisions thereof are unallowable:
 - 1) Attempts to influence the outcomes of any election, referendum, initiative, or similar procedure, through in kind or cash contributions, endorsements, publicity, or similar activities;
 - 2) Establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections;
 - 3) Any attempt to influence (i) the introduction of legislation, or (ii) the enactment or modification of any pending legislation through communication with any member or employee of a legislature (including efforts to influence officials to engage in similar lobbying activity), or with any government official or employee in connection with a decision to sign or veto enrolled legislation;
 - 4) Any attempt to influence (i) the introduction of legislation, or (ii) the enactment or modification of any pending legislation by preparing, distributing or using publicity or propaganda, or by urging members of the general public or any segment thereof to contribute to or participate in any mass demonstration, march, rally, fund raising drive, lobbying campaign or letter writing or telephone campaign;
 - 5) Legislative liaison activities, including attendance at legislative sessions or committee hearings, gathering information regarding legislation, and analyzing the effect of legislation, when such activities are carried on in support of or in knowing preparation for an effort to engage in unallowable activities; or
 - 6) Attempts to improperly influence, either directly or indirectly, an employee or officer of the US Government or Government of the Recipient Country to give consideration to or act regarding a regulatory or contract matter.

2. However, the costs of the following activities are allowable:
 - 1) Providing a technical and factual presentation of information on a topic directly related to a Grant through hearing testimony, statements or letters to a legislature, or subdivision, member, or cognizant staff member thereof, in response to a documented request (including a request for testimony or statements for the record at a regularly scheduled hearing) made by a legislative body or subdivision, or a member or cognizant staff member thereof; provided such information is readily obtainable and can be readily put in deliverable form; and further provided that costs under this section for transportation, lodging or meals are unallowable unless incurred for the purpose of offering testimony at a regularly scheduled legislative hearing pursuant to a written request for such presentation.
 - 2) Any lobbying made unallowable by paragraph (1)(c) above to influence national, state or local legislation in order to directly reduce Grant costs, or to avoid material impairment of an Government Affiliate's authority to perform its responsibilities, except for lobbying related to policy reform in support of, or related to, the purposes of the Grant.
 - 3) Any activity specifically authorized by a US Government statute to be undertaken with funds from the Grant.

q. Materials, Equipment and Supplies

Costs incurred for materials, equipment and supplies necessary to carry out the Grant are allowable. The reasonable cost of such items shall be established in accordance with the procurement procedures and process established in the Procurement Agreement. Non-expendable equipment shall be disposed of at the end of the Grant term (or such other time as may be agreed) in accordance with the arrangements established between the Accountable Entity and MCC.

r. Meetings and Conferences

Costs of meetings and conferences held to facilitate implementation of the Grant are allowable, including the cost of meals, transportation, facility rental, speakers' fees (except for persons speaking in their official capacity on behalf of the Government or the Government Affiliate) and other items incidental to such meetings or conferences. Costs of attendance at professional meetings or conferences on a topic related to the Grant are also allowable.

s. Office Space

The reasonable costs of leasing or purchasing office space are allowable. In deciding whether to lease or buy, the Government Affiliate shall conduct and document a cost-benefit analysis supporting the decision.

t. Organization Costs

Expenditures in connection with planning or executing the organization or reorganization in the structure of a Government Affiliate are allowable to the extent that they are necessary and appropriate to such purposes. Such expenditures include, but are not limited to, incorporation fees, licenses and cost of attorneys, accountants, and/or management consultants.

u. Personal Use of Assets Acquired with Grant Funds

Assets acquired with Grant funds shall only be used in furtherance of Grant objectives and shall not be used for the personal benefit (other than incidental use) of an employee or consultant unless the Government Affiliate has an established and published procedure (approved by MCC) for reimbursement for personal use. Such assets would include, but not be limited to:

- Vehicles
- Communications devices (cell phones, pagers)
- Computers
- Copiers and fax machines, etc.

v. Preaward Costs

Preaward costs are those incurred prior to the effective date of the Grant where such costs are necessary to comply with the Grant provisions or Grant implementation. Such costs are allowable only to the extent that they would have been allowable if incurred after the Entry into Force of the Grant and only with the written approval of MCC or if specifically authorized in the Grant.

w. Professional Service Costs

Costs of professional and consultant services (such as lawyers, accountants, etc.) rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the Government Affiliate, are allowable

if such services are obtained in accordance with the procurement procedures and process established in the Procurement Agreement.

x. Public Relations Costs

Public relations means those activities dedicated to maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public as well as maintaining a positive image of the Accountable Entity. Allowable public relations costs include: (a) the costs of communicating with the public and press pertaining to specific activities or accomplishments which result from performance of the Grant, (b) the costs of conducting general liaison with news media to the extent that such activities are limited to communication and liaison necessary to keep the public informed on matters relating to the Grant, and (c) costs specifically required by the Grant. Reasonable costs for ceremonial events are allowable costs only for the Accountable Entity. Costs of any public relations activities not related to the Grant are not allowable.

y. Publication and Printing

Publication costs include the costs of printing (such as the processes of composition, plate-making, press work, binding, and the end products produced by such processes), distribution, promotion, mailing, and general handling are allowable.

z. Recruiting Costs

The following recruiting costs are allowable: cost of “help wanted” advertising, travel expenses including food and lodging of employees while engaged in recruiting personnel, travel costs of applicants for interviews for prospective employment, and relocation costs incurred incident to recruitment of new employees. Where the Government Affiliate uses employment agencies, costs not in excess of standard commercial rates for such services are allowable.

aa. Retainer Fees not supported by evidence that specific bona fide services were furnished are not allowable.

bb. Taxes

The discussion of taxes below is MCC’s general policy. The provisions of a specific Grant may differ from these cost principles. In such a case, the provisions of the Grant control.

1. In general, payments by the Government Affiliate for taxes on goods, works and services funded with Grant funds shall not be allowable.
2. Taxes which the Government Affiliate is required to pay, and which are paid or accrued in accordance with generally accepted accounting principles, and payments made to local governments in lieu of taxes which are commensurate with the local government services received are allowable. It is assumed that such taxes would only be withholdings for taxes on local employee compensation, or perhaps taxes for services (police, fire, trash) related to the location of the Government Affiliate's office.

cc. Training

The costs of training in furtherance of the Compact purposes (including implementation of Supplemental Agreements) are allowable to the extent that they conform with those normally allowed by the government of the Recipient Country.

dd. Travel and Transportation Costs

1. Travel costs are the expenses for transportation, lodging, subsistence and related items incurred by the Board of the Accountable Entity or employees of any Government Affiliate who are in travel status on office business related to the Grant. Such costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and results in charges not exceeding those which would be paid in accordance with MCC's policies.
2. Lodging and subsistence costs (including meals and incidental expenses) shall be allowable to the extent they conform with uniform written standards and procedures approved by MCC.