Millennium Challenge Corporation
Reducing Poverty Through Growth

Fact Sheet

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Overview of MCC's Compact Development Process

The Millennium Challenge Account (MCA) is an innovative foreign assistance program designed to "reduce poverty through sustainable economic growth" in some of the poorest countries in the world. On January 23, 2004, the Millennium Challenge Corporation (MCC) was established as an independent United States Government corporation to administer the MCA. The process of developing a proposal for MCA funding is intensive, rigorous, and likely to take months of cooperative, hard work. The following summarizes MCC expectations and requirements during Compact development and implementation

Key MCC Principles

Poverty Reduction through Economic Growth

MCC supports programs that focus specifically on reducing poverty by making investments that simulate sustainable economic growth. 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 are selected to participate based on their performance in governing justly, investing in their citizens, and encouraging economic freedom. MCC believes good policies promote annvironment for sustainable economic growth and poverty reduction, and thus for MCC investment.

Partnership and Country Ownership

MCC countries are asked to demonstrate leadership and a high level commitment through full ownerhip of the MCC Compact process. Working closely with MCC, MCA countries are responsible for identifying the greatest barriers to their own development, ensuring civil society participation, and developing an MCA program.

Focus on Result

MCA assistance goes 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 MCAassistance, 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 Compact Development and Implementation

Each MCA eligible country will develop 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 1: Proposal Development and Program Design

Phase 1 provides guidance to eligible countries to develop a proposal for a Compact. During this phase, countries build a country team, identify the conditions that impede growth and sustain poverty, and initiate a timely and meaningful consultative process with the country's civil society. After the consultative process results in the identification of key constraints to economic growth and poverty reduction, countries develop and submit a proposal to MCC that integrates a range of issues including gender considerations, sustainability, and other donor activities. Countries may require assistance for Compact development activities, and MCC can offer limited financial assistance. The key milestone in Phase I is the submission of an initial proposal to MCC.

Phase 2: Due Diligence and Program Refinement

Once a country has submitted a proposal for MCA funding, MCC will conduct a preliminary assessment of the proposal. It will provide guidance and feedback to the country with respect to MCC objectives, evaluation methods, and requirements. As necessary, MCC will work with the country to refine the proposal. When appropriate, MCC staff will carry out "due diligence", an in-depth review of the country's proposal and the process used to develop it. MCC will also assess the proposal to estimate its distributive impact and measurable increases in incomes of the poor as a result of successful implementation of the proposed program.

When appropriate, MCC will notify the U.S. Congress of its intent to enter into negotiations with the country regarding the terms of the Compact. Negotiation between the eligible country and MCC of an MCA Compact marks the completion of Phase 2.

Phase 3: Mobilization and Start up

The first step in Phase 3 is for a country to establish an Accountable Entity which will be responsible for the implementation of most Compact activities. Then the Compact negotiated in Phase 2 is submitted to MCC's Investment Committee for approval and, if approved, to MCC's Board of Directors. Once approved by the board MCC notifies Congress of the intention to enter into a Compact. Shortly, thereafter MCC and the MCA country sign the negotiated Compact.

Following the Compact signing, a small portion of funds are specifically designated for use before Compact's Entry into Force. The Accountable Entity initiates work with fiscal and procurement agents 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 documents, including post-Compact agreements such as the disbursement agreement, necessary for a Compact to Enter into Force. Entry into Force and the first disbursement mark the end of Phase 3.

Phase 4: Implementation

During Phase 4, the Accountable Entity is responsible for overseeing implementation, tracking progress towards poverty reducing outcomes, submitting regular financial and activities reports to the MCC, and keeping the public informed about Compact progress. Countries are subject to reporting requirements, including Quarterly Progress reports, Procurement Performance reports, and Financial reports, throughout the life of the Compact.

[1] An "Accountable Entity" is a government created board consisting of public sector, private sector and civil society representatives as well as a technical group. The Accountable Entity then makes contracts with project managers who subsequently identify implementing entities.