Cost Principles for Government Affiliates

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MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

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The *Cost Principles for Government Affiliates* replaces the *Cost Principles for Accountable Entity Operations* which remains in effect until June 30, 2019 or as otherwise directed by MCC. The Cost Principles for Accountable Entity Operations is archived here.

1. Purpose

This policy ("Policy") sets forth the principles that govern whether an MCC Grant may fund an expense incurred in furtherance of a Program by a Government Affiliate serving as an Accountable Entity, an Implementing Entity, a Government Fiscal Agent, or a Government Procurement Agent. This Policy also applies to a Government Affiliate's use of alternative, non-MCC funding in furtherance of an MCC Grant, including additional Recipient Country and third-party funding, except as otherwise agreed in writing by MCC. This Policy is also intended for use in: (1) preparation of budget estimates by a Recipient Country Government, for example, during Program development and design; (2) negotiation of budgets between a Recipient Country Government and MCC; (3) procurement and contract administration and (4) during the evaluation of Program expenditures through audits, reviews, and inspections. All Government Affiliates shall prepare their cost estimates and account for expenditures consistent with the cost principles contained in this Policy.

This Policy does not govern costs related to cost-reimbursement-type contracts (including those with commercial organizations or non-governmental organizations). Such contracts are subject to the Cost Principles for Cost-Reimbursement Contracts under MCC Financed Grants published on the MCC Website (www.mcc.gov).

Government contributions of funding required under MCC Grant Agreements, if applicable, are governed by the MCC *Guidelines for Country Contributions*.

2. Scope

2.1. Application

2.1.1 The application of this Policy is based on the fundamental premises that:

a. Government Affiliates are responsible for the efficient and effective administration of MCC Grant and Recipient Country funds through the application of sound management practices.
b. Government Affiliates assume responsibility for administering MCC Grant and Recipient Country funds in a manner consistent with the terms and conditions of the MCC Grant Agreement.

c. Each Government Affiliate, in recognition of its own unique combination of staff, facilities, and experience, has the primary responsibility for employing whatever form of sound organization and management techniques may be necessary in order to ensure proper and efficient administration of the MCC Grant and application of this Policy.
d. The accounting practices of the Government Affiliate must be consistent with this Policy and support the accumulation of costs as required by this Policy, and must provide for adequate documentation to support costs charged to the MCC Grant.
e. Government Affiliates may not earn or keep any profit resulting from MCC Grant or Recipient Country financial assistance, except as authorized by the terms and conditions of the MCC Grant Agreement, including for purposes of successful implementation of a Results-Based Financing program, or as otherwise approved in writing by MCC.

2.1.2 The application of alternative procedures, processes, rules, and/or regulations of the Government Affiliate for MCC Grant-funded costs may be permissible, provided that such costs are not prohibited under the MCC Grant Agreement, U.S. law, or relevant MCC policies. The use of such alternative procedures, processes, rules, and/or regulations is subject to prior mutual agreement, in writing, between the Recipient Country Government and MCC. Absent such an agreement among the parties, the cost principles and procedures contained in this Policy will prevail.

2.1.3 Each Supplemental Agreement entered into in furtherance of an MCC Grant must contain explicit terms regarding the treatment of costs.

a. The cost principles in this Policy may be used by specific incorporation in the Supplemental Agreement, or by reference to this Policy in whole or in part.
b. MCC may develop additional cost principles for an MCC Grant that includes unusual cost elements. Such additional principles will be included in the appropriate Supplemental Agreement, and will govern the unusual cost elements to the same extent as if the additional cost principles were set forth in this Policy. However, those additional cost principles will only apply to the specific Supplemental Agreement.
c. In all cases, the specific provisions of the MCC Grant Agreement will prevail in the event of any conflict between such MCC Grant Agreement, on the one hand, and this Policy, on the other hand.

2.1.4 The failure in this Policy to address a particular cost does not imply that the cost is either allowable or unallowable. Rather, the allowability of the particular cost should be based on the principles and standards set forth in Section 5.1 of this Policy.

2.1.5 The cost principles in this Policy must be used in determining the allowability of costs of goods, works and services performed or procured by a Government Affiliate under each MCC Grant Agreement. Where applicable, these principles must also be used by each Government Affiliate as a guide for setting budget estimates for contracts to be funded by the MCC Grant.

2.2. Audits of the Government Affiliate

Pursuant to relevant provisions of each MCC Grant Agreement and MCC's *Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities*, audits and reviews of

a Government Affiliate may be required, and the costs of such audits and reviews are allowable to the extent they follow the cost principles of this Policy.

3. Authorities

3.1. Acts

The Millennium Challenge Act of 2003, as amended, (the "Act").

3.2. Federal Government Regulations, Standards, and Other Guidance

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (codified at 2 C.F.R., Subtitle A, Chapter II, parts 200, 215, 220, 225, and 230).

3.3. Related MCC Policies and Procedures

a. Cost Principles for Cost-Reimbursement Contracts under MCC-Financed Grants
b. Guidelines for Accountable Entities and Implementation Structures
c. Guidelines for Country Contributions
d. Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities
e. MCA Branding Guidelines
f. Policy on Approval of Modifications to MCC Compact Programs
g. Policy on Funding under Section 609(g)
h. Policy on Preventing, Detecting and Remediating Fraud and Corruption in MCC Operations
i. Program Closure Guidelines
j. Program Procurement Guidelines

4. Key Definitions

Accountable Entity	The entity designated by the Recipient Country Government and approved by MCC to carry out the Recipient Country Government responsibilities and obligations related to the MCC Grant. For purposes of a grant made under authority Section 609(g) or 616(a) of the Act, the Accountable Entity may be a team of individuals designated by the Recipient Country Government.

Closeout	The process by which MCC or each Accountable Entity determines that all applicable administrative actions and all required work related to the MCC Grant have been completed by the Accountable Entity, and that such actions are completed as required in the Program Closure Plan approved by MCC.
Governing Document	The charter, decree, agreement, bylaws, articles of incorporation, governance agreement, program implementation agreement or other documents evidencing the formation, establishment, or governance of the Accountable Entity in accordance with the terms and conditions of the MCC Grant Agreement.
Government Affiliate	Any ministry, agency, state-owned, -managed, or -governed enterprise or government designated entity or enterprise appointed by the Recipient Country Government to carry out certain Recipient Country Government responsibilities and obligations related to the MCC Grant. For purposes of this Policy, an Accountable Entity, an Implementing Entity, a Government Fiscal Agent, and a Government Procurement Agent are all individually a Government Affiliate.
Government Contributions	The Recipient Country Government's financial or in-kind contributions required to co-fund or co-finance a Program per the terms of an MCC Grant Agreement.
Government Fiscal Agent	For purposes of this Policy, a Government Affiliate appointed by the Accountable Entity to be responsible for funds control and documentation, proper and consistent accounting, financial reporting, and disbursements. In general, this Policy does not apply to costs incurred by commercial fiscal agents under contract to the Accountable Entity that are not Government Affiliates, with the exception of an applicable clause in Section 5.3.14 (c) on the determination of responsibility for late-payment interest payments.
Government Procurement Agent	For purposes of this policy, a Government Affiliate appointed by the Accountable Entity to be responsible for impartially administering and/or certifying the procurement process in accordance with a defined set of procurement standards. In general, this Policy does not apply to costs incurred by commercial procurement agents under contract to the Accountable Entity that are not Government Affiliates.

Implementing Entity	A Government Affiliate that is not the Accountable Entity but that is responsible for managing the implementation of an element of a Program financed by an MCC Grant, and for initiating corresponding disbursements of funding that is provided by an Accountable Entity or that will be reimbursed by an Accountable Entity.
MCC Grant	Assistance furnished by MCC to a Recipient Country under any of the following: 1. a compact entered into under the authority of section 605 of the Act; or 2. a Compact Development Funding (as defined in the Policy on Funding under Section 609(g)) grant entered into by MCC and the Recipient Country Government under the authority of section 609(g) of the Act; or 3. a threshold program grant agreement entered into after the effective date of this Policy under the authority of section 616(a) of the Act.
MCC Grant Agreement	Any of the following: (a) a compact between MCC and the Recipient Country and any Supplemental Agreement; (b) an agreement between MCC and the Recipient Country Government for the use of a Compact Development Funding Grant; or (c) if applicable by its terms, an agreement between MCC and the Recipient Country Government governing the use of a grant issued under the authority of section 616(a) of the Act.
Modification	Any Change in Scope or Change in Cost, as defined in the MCC Policy on the Approval of Modifications to MCC Compact Programs.
Other Recipient Organizations	Entities other than Accountable Entities that receive MCC Grant funding via a grant, cooperative agreement, contract or Implementing Entity Agreement (as defined in the relevant MCC Grant Agreement) with an Accountable Entity, and that may have indirect costs.
Program	Any project or activity that is the purpose for which funding is provided under an MCC Grant.

Program Guidelines	Collectively, the MCC Audit Guidelines, Environmental Guidelines, Gender Policy, Governance Guidelines, Guidelines for Country Contributions, Program Procurement Guidelines, guidance issued on reporting to MCC, M&E Policy, Cost Principles for Government Affiliates, the Program Closure Guidelines, and any other guidelines, policies or guidance papers (including any successor to any of the foregoing) relating to the administration of MCC-funded Programs, and as from time to time other similar documents published on the MCC Website.
Recipient Country	The country receiving assistance under an MCC Grant Agreement.
Recipient Country Government	The government of the Recipient Country.
Results-Based Financing	An incentive instrument that links financing to pre-determined results, with payment ("results-based payment") made only upon independent verification that the agreed-upon results have actually been delivered.
Supplemental Agreement	Any agreement between (a) the Recipient Country Government (or any Government Affiliate, including the Accountable Entity) and MCC, or (b) MCC and/or the Recipient Country Government (or any Government Affiliate, including the Accountable Entity), on the one hand, and any other party, on the other hand, setting forth the details of any funding, implementing or other arrangements in furtherance of, and in compliance with, each MCC Grant Agreement.
Unallowable Cost	Any cost that is not compliant or consistent with this Policy as determined by MCC.

5. Policies

5.1. Factors Affecting the Allowability of Costs

Costs must meet the following general criteria in order to be allowable under the MCC Grant:

a. Be necessary and reasonable, as set forth in Section 5.1.1, for the performance, monitoring and evaluation, or oversight of a Program funded by an MCC Grant and be allocable thereto under these principles, as set forth in Section 5.1.2.
b. Conform to any limitations or exclusions set forth in this Policy, the Program Procurement Guidelines, or any other provision or guidance required as part of the MCC Grant Agreement as to

types or amount of cost items.

c. Be accorded consistent treatment in not being charged more than once to an MCC Grant. A cost may not be assigned to an MCC Grant as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the MCC Grant as an indirect cost.
d. Be calculated in accordance with accounting principles generally accepted by MCC and the Government Affiliate in performance of the MCC Grant.
e. Be incurred within the MCC Grant period, or as may be otherwise provided in the MCC Grant Agreement.
f. Be adequately documented.
g. Not be excluded as an unallowable cost under Section 5.3, or represent payment to an ineligible source per requirements of the Program Procurement Guidelines.

Failure to meet the criteria above may result in a determination by MCC that costs are unallowable.

5.1.1. Reasonable Costs

A cost is reasonable if, by its nature and amount, it does not exceed that which would be incurred by a prudent person, considering their responsibilities to the MCC Grant Agreement and the public-at-large, under the circumstances prevailing at the time the decision was made to incur the cost. In determining the reasonableness of a given cost, consideration must be given to:

a. Whether the cost is of a type or amount generally recognized as ordinary and necessary for the operation of the Government Affiliate and the proper and efficient performance of the MCC Grant;
b. The restraints or requirements imposed by such factors as sound business practices, arm's length bargaining, applicable United States and Recipient Country laws and regulations, and the terms and conditions of the MCC Grant Agreement;
c. Market prices for comparable goods or services that are commercially reasonable for the geographic area; and
d. Whether the Government Affiliate significantly deviates from established practices and policies of the Recipient Country Government regarding the incurrence of costs, which may unjustifiably increase cost.

5.1.2. Allocable Costs

A cost is allocable to a particular MCC Grant if the goods, works, and services involved are chargeable or assignable to that MCC Grant in accordance with relative benefits received. To be allocable, a cost must meet one of the following criteria:

a. Is incurred specifically for the development, implementation, or closeout of the MCC Grant Agreement;
b. Benefits both the Program funded by the MCC Grant Agreement and other activities of the Government Affiliate, and can be distributed in proportions that may be approximated using reasonable methods; or
c. Is necessary for the overall operation of the Government Affiliate and is assignable in part to the MCC Grant Agreement in accordance with this Policy.

5.1.3. Prior written approval (prior approval)

The reasonableness and allocability of certain items of costs may be difficult to determine. In order to avoid subsequent disallowance or dispute based on unreasonableness or non-allocability, the Accountable Entity may seek the prior written approval of MCC in advance of the incurrence of special or unusual costs.

The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required under this Policy or by the MCC Grant Agreement.

References in this Policy to MCC's prior approval can take several forms to ensure that such understanding can be documented practically and efficiently. For instance, requests related to proposed training expenses could be requested and approved via a periodic training plan or as part the terms and conditions of an Implementing Entity Agreement. Criteria for determining whether prior approval has been secured include whether the request was specific, made in writing with evidence of a clear response from MCC, and whether the facts and circumstances of the proposed expense made in the request are consistent with this Policy and ultimately with the costs actually incurred.

Per Section 6.1 of this Policy, any requests that require interpretation of this Policy for purposes of determining allowability of costs are the responsibility of MCC's Program Financial Services Practice Group.

5.1.4. Collection of unallowable costs

Payments made for costs determined to be unallowable by MCC, either as direct or indirect costs using MCC funding, must be refunded to MCC in accordance with instructions from MCC unless MCC statute, regulation, or the terms of the MCC Grant Agreement direct otherwise.

5.1.5. Accounts and Records

The Government Affiliate must maintain accounts and records adequate to demonstrate and provide evidence of the allowability and allocability, including the nature, amount, timing, relevance, and derivation of costs charged to the MCC Grant. The Government Affiliate's accounting system must be accurate, and must permit an appropriate allocation of costs for which funding is available under an MCC Grant.

The recording, allocation and reporting of costs related to MCC Grant activities should be based on a methodology that is:

a. Able to be applied consistently;
b. Able to apply costs proportionally;

c. Able to identify and segregate sources of funds (MCC Grant Agreement, Recipient Country Government contributions, and third-party funding);
d. Able to match costs to the appropriate source of funds; and
e. Able to be subjected to further review or audit.

5.1.6. Required Certifications

To assure MCC that expenditures are proper and in accordance with the terms and conditions of the MCC Grant Agreement, and within the approved project and activity budgets, the periodic financial reports and requests for payment under the agreements must include a certification, signed by an authorized official or officials of the Accountable Entity, consistent with MCC's requirements. These certifications include, but are not limited to, those which are part of periodic disbursement requests, payment authorization forms, and payment request forms.

5.1.7. Limitations and Understandings of the Cost Principles

Regardless of the allowability, allocability, and reasonableness of costs, MCC funding may not be committed or expended by a Government Affiliate in excess of the MCC funding made available under an MCC Grant. Each Government Affiliate must ensure that its expenses do not exceed the funding available for its activities in furtherance of the Program.

5.2. Cost Analysis

Cost analysis is an essential decision-support tool, particularly useful in negotiating or considering a Modification to an MCC Grant. It provides a means of evaluating the Recipient Country's estimate regarding the costs related to the Government Affiliate's function. Cost analysis provides MCC and the Government Affiliate information to ensure that proposed costs are adequate, reasonable, valid, and properly documented. The general technique of cost analysis is outlined below.

5.2.1. The Estimate

In preparing cost estimates for the MCC Grant, or in the case of a Modification, MCC will work with the Recipient Country Government or Accountable Entity to prepare a reasonable estimate of the costs that will be incurred in managing the MCC Grant, including the operating costs of Government Affiliates that will be funded by the MCC Grant. This estimate should be systematically developed, using a number of inputs, such as, but not limited to, expert judgment and analogous estimates from previous similar projects, historical and statistical data analysis, published commercial information such as resource and cost rate information available from commercial databases, prior Recipient Country Government experience, and any other information that will produce a reasonable estimate.

5.2.2. Contingency

Contingency is that part of a budget estimate of future costs (typically of large construction projects, IT systems, or other items as approved by MCC) associated with possible events or conditions that are still uncertain at the time of the estimate and that experience shows will likely result, in aggregate, in additional costs for the approved activity or project. Amounts for major project scope changes or extraordinary events may not be included.

It is permissible for contingency amounts other than those excluded in the paragraph above to be explicitly included in budget estimates, to the extent that they are necessary to improve the precision of those estimates.

Notwithstanding the inclusion of contingency amounts in budget estimates, Government Affiliates must not make payment or enter into contracts that cite contingency amounts as a basis for a payment.

5.3. Considerations for Selected Items of Cost

This section provides principles to be applied, in addition to the requirements of Section 5.1 of this Policy, in establishing the allowability of certain items of cost typically encountered by Government Affiliates. These principles apply whether or not a particular item of cost is properly treated as direct cost or indirect cost. Failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable; rather, determination as to the allowability, allocability and reasonableness in each case should be based on the treatment provided for similar or related items of cost and on the principles and standards set forth in Section 5.1 of this Policy.

5.3.1. Advertising, Public Relations and Media Costs

a. Advertising Costs
The term "advertising costs" means the costs of advertising media and corollary administrative costs. Advertising media include magazines, newspapers, radio and television, direct mail, exhibits, online media, electronic or computer transmittals, and the like.The only allowable advertising costs are those solely for the following purposes:
   i. The recruitment of personnel required for the Government Affiliate for performance of the MCC Grant;
   ii. The procurement of goods, works or services for the performance of the MCC Grant;
   iii. The disposal of program assets acquired in the performance of the MCC Grant except when Accountable Entities are reimbursed for disposal costs at a predetermined amount; or
   iv. Program outreach and other specific purposes set forth in the MCC Grant Agreement.

Advertising costs relating to the Program are allowable at a cost that is both reasonable and customary for the locality, so long as the advertisements are clearly labeled as advertisements [1] and the costs are associated with an overall communication strategy approved by MCC.

b. Public Relations Costs
The term "public relations" includes community relations and program outreach and means those activities dedicated to promoting or maintaining 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 Program.The only allowable public relations costs are the following:

i. Costs specifically set forth in the MCC Grant Agreement;
ii. Costs of communicating with the public and press about specific activities or accomplishments that result from performance of the MCC Grant (these costs are considered necessary as part of the outreach effort for the MCC Grant);
iii. Costs of meetings, conventions, convocations, or other events related to the Program, including reasonable costs of displays, demonstrations, and exhibits consistent with Section 5.3.9 related to, "Conferences, Meetings, Workshops and Official or Ceremonial Events".

c. Media and the Free Press Costs

The costs of conducting general liaison with news media, to the extent that such activities are limited to communicating to keep the public informed on matters relating to the MCC Grant, are allowable. For example, the cost of fuel for busing a group of reporters to an MCC Grant-funded project site is allowable when reporters are otherwise unable to get to the project location. In addition, reasonable funding for meals or refreshments when directly related to such events is allowable.All media and free press costs must be associated with an overall communication strategy approved by MCC. Such general liaison must not be discriminatory, but open to all media and press personnel, except for cases (to be determined by the Accountable Entity's overall communication strategy approved by MCC) where an exclusive coverage arrangement is warranted and followed-up by general press availability when appropriate.

d. Unallowable advertising, public relations and media costs

Unallowable costs related to advertising, public relations, and media include the following:

i. Costs of facilities, such as hospitality suites, that are unnecessary for the minimum requirements of fulfilling the public outreach objective;
ii. Costs of promotional items and memorabilia, including models, gifts, and souvenirs are allowable only with prior written approval from MCC on the basis that such promotional items are required for a programmatic purpose to further the objectives of the MCC Grant, in compliance with the MCA Branding Guidelines.
iii. Compensation to members of the press through any type of payment or bonus for services, honoraria, or lodging is strictly prohibited;
iv. Costs of advertising and public relations for any purpose not related to the MCC Grant.

5.3.2. Alcoholic Beverages

Costs of alcoholic beverages are unallowable.

5.3.3. Audit Services

The costs of audits required by, and performed in accordance with, MCC requirements are allowable. The costs of any other audits approved by MCC are allowable. For purposes of this subsection, "audits" include (but are not limited to) financial audits, technical audits, agreed-upon procedures engagements, limited scope reviews, program evaluations, performance audits, compliance audits, data quality reviews, and environmental audits.

5.3.4. Bad Debts and Debt Collection Costs

a. Debts owed to the Accountable Entity:
    i. Collection costs (including legal costs) incurred by an Accountable Entity to collect amounts owed to it related to programs funded under an MCC Grant are allowable.
    ii. Debts resulting from borrower default under credit programs (including on-lending facilities and guarantee facilities) funded under an MCC Grant are not governed by this Policy.
b. Debts owed by the Accountable Entity:
    i. Accountable Entity debts that arise from its normal course of business are subject to Section 5.1 of this Policy and the underlying agreement(s) or legal obligation(s) of each debt.

Bad debts (debts which have been determined by a Government Affiliate to be uncollectible), including losses (whether actual or estimated) arising from uncollectible accounts and other claims cannot be recorded as losses and remain the responsibility of the Accountable Entity per the terms and conditions of the MCC Grant Agreement.

5.3.5. Bonding Costs

Bonding costs arise when the Recipient Country Government requires assurance against financial loss to itself or others by reason of the act or default of the Government Affiliate's employees or consultants. They arise also in instances where the Government Affiliate requires similar assurance, including bonds as bid, performance, payment, advance payment, infringement, and fidelity bonds for employees and officials. Costs of bonding required by the Accountable Entity in the general conduct of its operations, or pursuant to the terms of the MCC Grant Agreement, are allowable to the extent that such bonding is in accordance with sound business practice and the rates and premiums are reasonable under the circumstances.

5.3.6. Communications

Costs incurred for telephone services (mobile, satellite and land lines), local and long distance telephone calls, internet connections, telegrams, courier service, postage and the like, are allowable, if used for the purposes and objectives of the MCC Grant.

5.3.7. Compensation of Accountable Entity Board of Directors

Remuneration to members of the Accountable Entity's governing body is:

a. Unallowable for those members who are employees or officials of the Accountable Entity or Recipient Country Government [2] . However, such government members may be reimbursed for reasonable incidental expenses arising from their attendance at regular or special meetings (e.g., transportation or per diem expenses as detailed in Section 5.3.7 (b) below); and
b. Allowable for those members who are not employees or officials of the Accountable Entity or

Recipient Country Government. Costs of compensation to such members are allowable to the extent that they satisfy the following specific requirements:

i. Total compensation for eligible members of the Accountable Entity's governing body is reasonable for the services rendered and conforms to the bylaws and policies of the Accountable Entity approved by MCC, or as otherwise as agreed by MCC;
ii. Remuneration is calculated on a daily basis and does not exceed the highest daily rate of salary and benefits that a Recipient Country Government employee or official of comparable rank or function would receive; and
iii. Benefits for transportation or per-diem expenses must conform to the limits established by the Accountable Entity and MCC in the applicable Fiscal Accountability Plan.

MCC reserves the right to review the level of remuneration to be paid to non-Government members of the governing body. In the event of an inconsistency between this Policy and the MCC Guidelines for Accountable Entities and Implementation Structures, this Policy will prevail.

5.3.8. Compensation of Government Affiliate Employees

a. General Terms
Compensation to employees of a Government Affiliate is all compensation paid by the Government Affiliate for employee services (including the services of temporary employees). Compensation includes, but is not limited to, salaries, benefits (such as pensions, health coverage, disability pay, unemployment compensation and severance pay), holidays and leave, transportation, food, or other allowances (in cash or in kind), 13th month payments (as defined in paragraph c(iv) below), performance based awards, and retention incentives. This subsection 5.3.8 applies to employee compensation regardless of whether such employee's compensation is funded in whole or in part under an MCC Grant.

b. Standards of Reasonableness

i. Government Affiliates that are existing units or departments within the Recipient Country Government must pay employees in accordance with the compensation levels paid to Recipient Country Government employees of comparable rank and function, pursuant to the established Recipient Country laws, regulations and policies. Proposed compensation for Recipient Country Government staff paid for or reimbursed by MCC, when not supported by a salary survey developed or approved by MCC, must be supported by documentation proving consistency with Recipient Country laws, regulations and policies on both the salary scale applied and the method of setting employee compensation within the salary scale. In addition to a determination of the existing salary scale, the Recipient Country Government must maintain documentation, in the form of either pay records or other comparable information attributable to the specific individual's level of experience and education, consistent with a methodology and standards approved in writing by MCC. The absence of acceptable documentation will preclude an individual's starting pay level above the minimum respective salary range used by the Recipient Country Government. The MCC Grant may not be used to fund staff positions that were funded through Recipient Country Government appropriations prior to the MCC Grant. The MCC Grant may be used only to compensate the additional staff needed to complete the program funded by the MCC Grant. For instances where existing staff may be assigned temporarily or detailed to new positions to complete additional work required under an MCC Grant rather than hiring a new individual, procedures must be implemented to ensure that the

MCC Grant is only used in connection with compensation for MCC Grant-related activities. In addition, the MCC Grant may not be used to fund pay or benefits (including but not limited to leave, pension or severance benefits, etc.) that were accrued prior to an individual's start date performing activities related to the MCC Grant.

ii. The MCC Grant Agreement or a Supplemental Agreement could also require the establishment of a new unit or department within the Recipient Country Government structure with special rights or a new Government Affiliate outside the existing government structure. In those cases, the Government Affiliate should pay employees at compensation levels comparable to those earned by employees performing similar work in the labor market for which the Government Affiliate is competing for that kind of employee. Compensation for staff positions within the Government Affiliate in this context must be supported by a formal salary survey or another methodology approved in writing by MCC. The Government Affiliate must request and receive a written waiver from MCC for proposed salaries that exceed the maximum or fall below the minimum of the salary survey or other salary-setting methodology approved by MCC.

c. Special Considerations

i. Performance based award ("award") payments to current, full-time employees of the Accountable Entity are allowable only after a compact has entered into force (EIF) or, in the case of a Threshold Program grant, only after one year following EIF. To be eligible, employees of the Accountable Entity must have been employed by the Accountable Entity for a minimum of six months at the time of the award. Awards must be based on measurable performance goals and documented supervisor appraisals of the employee's performance and may only be made under an established, written and MCC-approved organizational compensation policy or, if unique to a position and outside that approved compensation policy, are documented in a valid individual employment agreement approved by MCC.

ii. Extra compensation paid by the Recipient Country Government, or any other entity, above the salary and benefit amounts established by MCC and the Government Affiliate, is prohibited unless MCC agrees otherwise in writing. This means that an employee is not allowed to accept outside employment. Furthermore, an employee is prohibited from accepting extra compensation from the Recipient Country Government in any form, including without limitation, money, allowances, vehicles, household staff, laundry services, staff support, and housing. This exclusion does not apply to reimbursement of valid expenses incurred and reimbursed by the Recipient Country Government, for instance payment of per diem for travel costs incurred by an individual in the performance of their duties.

iii. Signing bonuses are prohibited. Special payments made to employees, such as severance payouts, performance-based awards designed for specific positions, or retention incentive payments, are allowable only with the prior written approval of MCC.

iv. Payments mandated by local laws of the Recipient Country, or established as widespread local custom and practice, are allowed in the determination of compensation levels. An example of this type of payment would be a "13th month" payment where, in such country, an additional payment is traditionally made to an employee based on the employee's average monthly salary. Unless otherwise established by law, the basis for these types of payments should be the employee's base salary, not the employee's total compensation inclusive of other benefits. The basis, timing, and method of payment for these special payments must be considered as part of total compensation in the development of the salary survey and must be documented in the applicable Fiscal Accountability Plan and in

established written human resource and compensation policies of the Government Affiliate, as applicable, prior to payment.

v. Employee compensation may include overtime as required under local law, which may result in an additional or increased payment for hourly employees. Employees of a Government Affiliate who are exempt from or not eligible for overtime compensation must commit in writing their understanding that their salary includes any remuneration that may be due for overtime or related compensation, unless otherwise established under local law that the right to overtime does not extend to exempt salaried employees. MCC Grant funding cannot be used to pay for overtime for exempt salaried employees, absent MCC's written approval and a written agreement entered into between the employee and his or her Government Affiliate employer regarding such overtime.

d. Standards for Documentation of Compensation and Benefits

Charges to MCC Grants for salaries and wages must be based on records that accurately reflect the work performed. In all cases, employee salary payments must be supported by an employment agreement that was effective at the time the work was completed, as well as by timesheets signed by the employee and his/her supervisor or another method acceptable to MCC that documents each employee's time and attendance. Timesheets must provide an accurate recording of an employee's time and attendance.

5.3.9. Conferences, Meetings, Workshops, and Official or Ceremonial Events

a. *General*. For purposes of this Policy:

i. A "conference" is a meeting or workshop with the primary purpose of disseminating programmatic information that is necessary and reasonable for successful performance of the MCC Grant. A conference does not include day to day working meetings and discussions amongst Government Affiliate staff in the implementation of the MCC Grant, for which no significant costs may be incurred;

ii. An "official or ceremonial event" is a formal event performed or observed on a special occasion to foster relations or promote the accomplishments of the Accountable Entity or the MCC Grant. Examples of official or ceremonial events include: hosting rare visits of noted personages; groundbreaking ceremonies for a new activity of the Program; milestones in the Program such as (but not limited to) EIF, the Compact End Date (CED), or the Compact Closure Date (CCD); and celebrating thematic events related to implementation of the Program such as International Women's Day events to highlight what a Program is doing to promote gender equality.

b. *Allowable costs*. Subject to the limitations and conditions set forth in paragraphs (c), (d), and (e) of this Section 5.3.9:

i. Allowable costs paid by the Government Affiliate as a sponsor or host of conferences, meetings, workshops, and official or ceremonial events to facilitate implementation of the MCC Grant may include rental of facilities, conference fees, speakers' fees (for individuals not acting in their official capacity on behalf of the Recipient Country Government or the Government Affiliate), reasonable costs of meals and refreshments, travel costs, and other items incidental to such conferences unless further restricted by the terms and conditions of the MCC Grant Agreement.

ii. See also Section 5.3.12 for entertainment costs, Section 5.3.25 for participant support costs, and Section 5.3.37 for travel costs. Costs associated with conference attendance for Government Affiliate attendees for training purposes are addressed in Section 5.3.35 on Training and Education Costs.

c. *Unallowable costs*. Speakers' fees, stipends, and other allowances for persons acting in their official capacity on behalf of the Recipient Country Government or the Government Affiliate are unallowable. The sole exception is when members of the Recipient Country Government or the Government Affiliate have been authorized the reimbursement of expenses incurred for travel for a MCC Grant-related purpose under an Implementing Entity Agreement or other, similar agreement formally approving travel expenses. Such an exception does not extend beyond travel costs and is only applicable if such travel costs are not also paid by the Recipient Country Government.

d. *Special limitations and conditions*. Government Affiliate hosts or sponsors must exercise discretion and judgment in ensuring that conferences, meetings, workshops, and official or ceremonial event costs are appropriate, reasonable, necessary, and managed in a manner that minimizes costs charged against the MCC Grant. In addition, the following requirements must be met:

   i. The number of conferences, meetings, workshops, official or ceremonial events, and the number of participants for each should be reasonable, cost-effective, and aligned with the purposes and objectives, as well as the terms and conditions, of the MCC Grant Agreement. Likewise, the locations of conferences, meetings, workshops, official or ceremonial events must be determined on the basis of lowest total cost (including all travel and organizational costs) while still meeting the minimum mission critical requirements of the Program. While there may be instances where a location other than the lowest cost for holding an event may individually conform to a standard of reasonableness due to some mission critical requirement, the Government Affiliate must consider the frequency of such proposed deviations across the Program to ensure prudent overall management of the MCC Grant.

   ii. Costs for conferences, meetings, workshops, and official or ceremonial events are allowable only when the events are hosted or sponsored by an authorized and appropriate senior representative of the Accountable Entity (e.g., Chief Executive Officer, Chief Operating Officer, or other senior official designated in the Fiscal Accountability Plan). Appropriate senior representatives of the Accountable Entity or another Government Affiliate may be authorized in the Fiscal Accountability Plan to facilitate select conferences, meetings, workshops, and official or ceremonial events when necessary.

   iii. Allowable costs for inviting stakeholders, beneficiaries, and the donor community are limited to those participants who are necessary for the implementation of the MCC Grant.

e. *Standards for Documentation of Conferences, Meetings, Workshops, and Official or Ceremonial Events.* Charges to MCC Grants for costs of conferences, meetings, workshops, and official or ceremonial events must be set forth in records that accurately reflect the names, titles, contact information and affiliations of all participants at each event, as well as the specific purpose of each such event. These records must

   i. be supported by a system of internal control that provides reasonable assurance that the charges are accurate, allowable, and properly allocated;

   ii. be incorporated into the official records and documentation of the Government Affiliate; and

   iii. comply with the established accounting policies and practices of the Government Affiliate. Where necessary and when approved in advance by MCC, these policies may include exceptions for the documentation of participant requirements when and where impractical (e.g. – ground-breaking ceremony with wide geographic participation not necessarily determined in advance). Under no circumstances, however, may the Government Affiliate incur charges on behalf of an individual or direct payment of any kind to a participant without documentation of participant information.

5.3.10. Contributions and Donations

Costs of contributions and donations, including cash, property, and services from a Government Affiliate to other entities are unallowable, unless explicitly authorized by MCC in the MCC Grant Agreement or Supplemental Agreement, such as Accountable Entity program closure plans approved by MCC.

Services donated or volunteered to a Government Affiliate may be furnished by professional and technical personnel, consultants, and other skilled and unskilled labor. The value of these services may not be charged to the MCC Grant either as a direct or indirect cost. However, the value of donated services may be used to meet cost sharing or matching requirements in accordance with the MCC's Guidelines for Country Contributions.

5.3.11. Dispute Resolution Proceedings

A dispute resolution proceeding (DRP) is a proceeding related to bringing or defending an arbitral, judicial, administrative (including bid challenge procedures under the Program Procurement Guidelines) or other legal proceeding that results in a binding judgment. DRP costs typically include administrative and clerical fees, travel expenses to the site of proceedings, and costs of legal representation and other experts hired to assist with the proceedings. The allowability of DRP travel costs is addressed in Section 5.3.37 of this Policy. All DRP-related airfare must be for travel in economy class.

Except as provided below, DRP costs are generally allowable if the costs are reasonable, payment of the costs is not restricted by any provision of the MCC Grant Agreement, and, in the case of arbitration costs, the applicable contract includes a provision for the payment of such costs (or if the parties otherwise agree to binding and final dispute resolution proceeding). Awards, fines and penalties resulting from a DRP are subject to subsection 5.3.14 below of this Policy.

DRP costs are not allowable:

a. In criminal matters, if a binding judgment (including a conviction entered upon a plea) is entered against the Government Affiliate:
    i. For failure to comply with a law or regulation;
    ii. For fraud or similar misconduct [3] ; or
    iii. Imposing monetary damages or penalties on the Government Affiliate.
b. In civil or administrative matters (including arbitration), if a binding judgment (including resolution by consent or settlement) is entered against the Government Affiliate
    i. for failure to comply with a law or regulation (including when the failure triggers a cross-default clause in a commercial agreement); or
    ii. for fraud or similar misconduct [4] .

DRP costs made unallowable by this subsection may be allowed if MCC determines that the costs were incurred as a result of a specific term or condition of the MCC Grant Agreement or specific written direction of an authorized official of MCC.

5.3.12. Entertainment Costs

Costs of entertainment, including amusement, diversion, gratuities, gifts, and social activities and any associated costs are not allowable, except where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized by MCC in advance in writing.

5.3.13. Exchange Rates

MCC Grants are denominated in United States Dollars. Although cost increases due to exchange rate fluctuations can be absorbed by the MCC Grant funding, the overall funding available will not be adjusted to accommodate these cost increases.

Cost increases for fluctuations in exchange rates are allowable costs subject to the availability of funding under the MCC Grant and the recording of this expenditure consistent with the Accountable Entity's Fiscal Accountability Plan. Prior approval is required only when the exchange rate fluctuations result in the need to increase the funding available under the MCC Grant, or the increased costs result in the need to significantly reduce the scope of the project.

5.3.14. Fines, Penalties, Damages and other Settlements

a. Costs resulting from Government Affiliate violations of, or failure to comply with applicable United States, or Recipient Country laws and regulations are unallowable, except when incurred as a result of compliance with specific provisions of the MCC Grant Agreement, or with prior written approval of MCC. See also Section 5.3.11 on Dispute Resolution Proceedings.
b. Penalties for late payments owed by the Accountable Entity to contractors providing goods, works, or services under the MCC Grant are allowable only if the contract with such contractor includes a provision for such late payment penalties. However, repeated late payments, or payments, fines or penalties resulting from gross mismanagement (as determined by MCC), are not allowable.
c. 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 or Accountable Entity Fiscal Accountability Plan, 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 MCC Grant.
d. Liquidated damages and contractual penalties will be handled on a case-by-case basis and require MCC approval to be allowable costs. If MCC were to determine, at its own discretion, that a Government Affiliate was grossly negligent in the management of a contract, the use of MCC funding for payment of such penalties may be determined to be unallowable. Funds awarded to the Accountable Entity as a result of a DRP (including damages and negotiated settlements) shall be refunded to MCC or used to pay for additional expenses of the Program, as directed by MCC.

5.3.15. Fundraising

Costs of organized fundraising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable.

Fundraising costs for the purposes of meeting the MCC Grant objectives are allowable with prior written approval from MCC.

5.3.16. Indirect and Direct Costs for Other Recipient Organizations under MCC-funded Grants, Contracts, Cooperative Agreements and Implementing Entity Agreements

a. All costs of the Accountable Entity should be charged as direct costs, rather than a combination of direct and indirect costs. Direct costs are those costs that can be identified specifically within the MCC Grant and can be directly assigned to grant activities relatively easily with a high degree of accuracy. When properly implementing a Results-Based Financing program, indirect costs that have been determined to be necessary and reasonable to realize the objectives of the program are considered direct costs for purposes of this Policy.
b. Other Recipient Organizations that receive any amount of the MCC Grant under a grant, contract or Implementing Entity Agreement with the Accountable Entity may have indirect costs. Indirect costs are those that have been incurred for common or joint objectives and cannot be readily allocated to the MCC-funded grant, contract or Implementing Entity Agreement. These costs are also referred to as "facilities and administrative" costs, and are those that have been incurred for common or joint objectives. Typical examples of indirect costs for many organizations may include use allowances on buildings 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.
c. Government Affiliates that receive any amount of the MCC Grant under a grant or an Implementing Entity Agreement with an Accountable Entity must not receive funding that exceeds the total of the direct and indirect cost elements necessary to implement the relevant agreement. As such, performance bonuses or other results-based payments from which the Government Affiliate may derive profit are unallowable. The sole exception to this principle is regarding payments that are part of Results-Based Financing that is explicitly required by the MCC Grant and thereby includes the full range of project life-cycle design, implementation and monitoring elements necessary to realize the benefits of such an approach. The payment structure for Results-Based Financing, which may vary significantly depending on the Program objectives and conditions, must be supported by due diligence and documentation that establish the total amount of Results-Based Financing payments that will exceed the direct costs incurred by the Government Affiliate. In order for the total amount of such payments to be considered reasonable, MCC must provide prior written approval that the amount does not exceed the value of the desired outcomes of the MCC Grant.
d. Charging of indirect costs is appropriate only if all of the following conditions are met:
    i. All standard criteria for determination of allowability are met (see Section 5.1 of this Policy);
    ii. The cost has not been allocated as a direct cost; and
    iii. MCC has approved the established indirect cost rate.

5.3.17. Insurance and Indemnification

a. Costs of insurance required or approved and maintained, pursuant to the MCC Grant by a Government Affiliate are allowable.
b. Costs of other insurance in connection with the general conduct of activities are allowable subject to MCC approval and to the following limitations:

i. Types and extent and cost of coverage are in accordance with the Government Affiliate's policy and sound business practice.
ii. Costs of insurance or of contributions to any reserve covering the risk of loss of, or damage to, Recipient Country Government property are unallowable except to the extent that MCC has specifically required or approved such costs.

c. Costs of premiums paid to an insurer for a guarantee to secure debt or other financing are allowable subject to MCC prior approval and to the following limitations:
i. The guarantee is purchased during the MCC Grant term (even if the guarantee extends beyond the MCC Grant term).
ii. The guarantee furthers stated objectives as stated in the MCC Grant Agreement.

d. Actual losses that could have been covered by required insurance are unallowable, unless approved by MCC in writing. However, costs incurred because of losses within nominal deductible limits associated with the insurance coverage provided in keeping with sound management practice, as well as minor losses not covered by insurance that occur in the ordinary course of operations, are allowable.

e. Indemnification includes securing the Government Affiliate, its staff, and governing body members against liabilities to third persons and any other loss or damage, not compensated by insurance or otherwise. Indemnification costs are not allowable.

f. Contributions to a reserve by an Accountable Entity for certain self-insurance programs including workers' compensation, unemployment compensation, and severance pay are allowable if required by applicable law or regular practice and are subject to MCC approval. See also the section on compensation (see Section 5.3.8).

5.3.18. Interest, Bond Discounts, and On-Lending Programs

a. Except as provided in 5.3.18.b, interest payable on borrowing and bond discounts are unallowable.

b. Financing costs (including interest) to acquire, construct, or replace capital assets that are part of a program funded by an MCC Grant are allowable, subject to the conditions of the MCC Grant.

c. Principal and/or interest repaid to a Government Affiliate responsible for an MCC Grant-related on-lending program will be credited to MCC or designated for specific purposes at the end of the MCC Grant term (or such other time as may be agreed) in accordance with the arrangements agreed to in writing between the Accountable Entity and MCC.

5.3.19. Lobbying

a. The cost of influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost.

b. Executive lobbying costs. Costs incurred in attempting to improperly influence either directly or indirectly, an employee or officer of the United States Government or the Recipient Country Government to give consideration or to act regarding an MCC Grant or a regulatory matter are unallowable. To improperly influence means to exert any influence that induces or tends to induce an employee or officer to give consideration or to act regarding an MCC Grant or regulatory matter on any basis other than the merits of the matter.

c. In addition to the above, costs associated with the following activities with respect to the U.S. Government or the Recipient Country Government and any political subdivisions thereof are unallowable (subject to paragraph d below):
i. Attempts to influence the outcomes of any election, referendum, initiative, or similar

procedure, through in-kind or cash contributions, endorsements, publicity, or similar activity;

ii. Establishing, administering, contributing to, or paying the expenses of a political party, campaign, candidate, political action committee, or other organization established for the purpose of influencing the outcomes of elections;

iii. Any attempt to influence

a. the introduction of legislation not related to the terms and conditions of the MCC Grant Agreement;

b. 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);

c. 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; or

d. any government official or employee in connection with a decision to sign or veto enrolled legislation.

iv. 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 lobbying.

d. However, the costs of the following activities are allowable:

i. Providing technical and factual presentations on topics directly related to the performance of the MCC 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 travel, lodging or meals are unallowable unless incurred to offer testimony at a regularly scheduled legislative hearing pursuant to a written request for such presentation.

ii. Any lobbying made unallowable by the above subsection of this Policy to influence national, state or local legislation is allowable if it is in order to directly reduce the cost, or to avoid material impairment of a Government Affiliate's authority to perform the grant, contract, or other agreement, or

iii. Any lobbying related to policy reform in support of, related to, or required by, the purposes of the MCC Grant Agreement.

5.3.20. Materials, Equipment and Supplies

Costs incurred for materials, equipment and supplies necessary to carry out the MCC Grant are allowable. The reasonable cost of such items must be established in accordance with the procurement procedures established in MCC's Program Procurement Guidelines or such other procurement rules approved by MCC for use by the Government Affiliate.

Purchased materials and supplies must be charged at their actual prices, net of applicable credits, as set

according to the terms of the applicable contract. The inclusion of contract terms that incentivize outcomes (cost reduction, efficient performance, etc.) through results-based payments are allowable provided such payments are clearly disclosed as part of the procurement process, considered within the overall cost reasonableness analysis prior to award, and captured in the formal written agreement before the services are rendered. All such contracts must be procured in a manner consistent with the requirements for performance based procurement in the *MCC Program Procurement Guidelines*.

Incoming transportation charges (including costs to guarantee payment on incoming goods) are proper parts of materials and supplies costs.

5.3.21. Capital Expenditures / Maintenance and Repair Costs

Capital expenditures for improvements to land, buildings, or equipment are allowable when consistent with the objectives of the Program and the terms and conditions of the MCC Grant Agreement.

Costs incurred for utilities, insurance, security, necessary maintenance, janitorial services, repair, or upkeep of buildings and equipment, which neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition during the period of the grant, are allowable.

5.3.22. Memberships, Subscriptions, and Professional Activity Costs

a. Costs of the Government Affiliate's membership in business, technical, and professional organizations as well as subscriptions to business, professional, and technical periodicals are allowable.
b. Costs of an individual's membership in these organizations or such subscriptions is unallowable unless individual representation of the Government Affiliate is required to secure necessary memberships or the membership of a specific individual is a requirement for fulfilling a specific MCC Grant objective.
c. Costs of membership in any civic or community organizations are allowable with prior MCC approval only if necessary for performance and completion of the MCC Grant rather than as a representational or public outreach expense.
d. Costs of membership in any social, dining, or entertainment clubs are unallowable.
e. Costs of membership in organizations whose primary purpose is lobbying are unallowable.

5.3.23. Office Space

The reasonable costs of leasing office space necessary for implementation of the MCC Grant are allowable. The costs of leasing office space are allowable to the extent the rates are reasonable in light of such factors as: leasing costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased. Complete documentation of price reasonableness prior to entering into a lease is required.

Leasing costs under "less-than-arm's-length" rental agreement are allowable only up to an amount

otherwise determined to be reasonable considering the factors above. For this purpose, a less-than-arm's-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Particular care should be taken in determining price reasonableness in any instance where the potential for a less-than-arm's-length lease scenario has been identified. Notwithstanding the above, the lease of any property, including commercial or residential real estate, owned by any individual or entity affiliated with the Accountable Entity, for purposes such as office workspace is unallowable unless approved by MCC.

The cost of purchasing real property for Accountable Entity office space is unallowable.

5.3.24. Organization Costs

Expenditures in connection with planning or executing the organization or reorganization in the structure of a Government Affiliate or meeting legal and regulatory requirements for the Government Affiliate are allowable to the extent that they are necessary and appropriate to such purposes and related to an existing MCC Grant. Such expenditures may include, but are not limited to, the cost of attorneys, accountants, and management consultants.

Expenditures in connection with planning or executing the organization or reorganization in the structure of a Recipient Country Government entity organized for the purposes of fulfilling responsibilities of the Recipient Country Government after the end of the term of an MCC Grant are not allowable unless explicitly provided for as part of the MCC Grant.

5.3.25. Participant Support Costs

Participant support costs, or direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees in connection with meetings, conferences, symposia, or training projects, are allowable only with the prior written approval of MCC or as explicitly included in the MCC Grant or a supplemental agreement such as an Implementing Entity Agreement.

5.3.26. Personal Use of Goods and Services Acquired with the MCC Grant

Goods and services acquired with the MCC Grant must be used only in the performance of the MCC Grant and must not be used for the personal benefit (other than for incidental use) of a Government Affiliate employee or consultant unless the Government Affiliate has an established and published procedure approved by MCC for reimbursement of the MCC Grant for personal use.

Certain goods and services that may be subject to greater risk of misuse, including but not limited to communications devices and services, electronic equipment, and vehicles must be managed in accordance to policies established by the Government Affiliate to prevent misuse.

5.3.27. Pre-Award Costs

Pre-award costs are those incurred prior to the effective date of the MCC Grant, where such costs are necessary to implement the MCC Grant or comply with the MCC Grant provisions. Such costs are allowable only to the extent that they would have been allowable if incurred after the effective date of the MCC Grant and only with the written approval of MCC (including through the approval of a periodic disbursement request) or if specifically authorized in the MCC Grant. Program funding provided under a compact may not be used for any pre-award cost that predates EIF of the compact.

5.3.28. Professional Service Costs

Costs of professional and consultant services, whether short-term or long-term, 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 (1) such services are obtained in accordance with the procurement procedures and processes established in MCC's Program Procurement Guidelines or such other procurement rules approved by MCC; (2) such contracted services have been determined to be necessary to the fulfill the purposes of the MCC Grant; and (3) the costs are normal, customary and reasonable for the nature and scope of the services rendered in relation to the services required.

The inclusion of contract terms that incentivize outcomes (such as cost reduction and efficient performance) through results-based payments are allowable provided such payments are clearly disclosed as part of the procurement process, considered within the overall analysis of cost reasonableness prior to award, and set forth in the signed contract before the services are rendered. The contract must have been procured in a manner consistent with the requirements for performance-based procurement in the *MCC Program Procurement Guidelines*.

Contracts for professional services that include any element of retainer fees must be supported by evidence of bona fide services available or rendered.

5.3.29. Publication and Printing Costs

Publication costs for electronic and print media, including distribution and promotion, are allowable when directly related to specific projects within the Program or are associated with the communications strategy of the Accountable Entity. Publication costs, for example, include costs of composition, plate-making, press work, binding, and the final products for distribution, promotion, mailing, and general handling.

5.3.30. Recruitment and Relocation Costs

The following recruitment costs are allowable: cost of "help wanted" advertising; travel costs, including food and lodging, of applicants for interviews for prospective employment with the Accountable Entity [5]; and relocation costs incurred incidental to the recruitment of new employees. If the Accountable Entity engages employment agencies to recruit staff, any costs in excess of standard commercial rates for such services are unallowable.

Special fringe benefits and salary allowances incurred to attract professional personnel that do not meet the test of reasonableness are unallowable.

Allowable relocation costs include reasonable costs of transportation of the employee and members of the employee's immediate family (as defined in the Accountable Entity's MCC approved operational policies), and expenses of moving personal effects to the new work location. These costs may be reimbursed by the Accountable Entity provided that:

a. The move is for the benefit of the MCC Grant and occurred after selection of the employee in question;
b. The reimbursement does not exceed the employee's actual expenses for the types of expenses noted above; and
c. The specific eligibility criteria, terms and limitations of allowable relocation costs considered to be reasonable are included as part of written procedures approved by MCC. At a minimum, these limitations must ensure that allowable relocation costs are not paid for moves within the immediate metropolitan area of the work location and cannot be paid for moves undertaken prior to the employee's selection as part of the Accountable Entity.

Unallowable relocation expenses include the following:

a. Fees and other costs associated with acquiring a new home in excess of any explicitly allowable housing allowances included as part of overall compensation;
b. A loss on the sale of a former home;
c. Continuing mortgage principal and interest payments on a home being sold; and
d. Income taxes paid by an employee related to reimbursed relocation costs. In some cases such taxes may be exempted or eligible for reimbursement under the governing tax provisions of the grant agreement.

Where relocation costs incurred incident to recruitment of a new employee have been funded in whole or in part with the MCC Grant, and the newly-hired employee resigns for reasons within the employee's control within 12 months after hire, the Accountable Entity is required to have procedures in place and to secure a refund or credit of the portion of such relocation costs funded by the MCC Grant.

5.3.31. Security Costs

Necessary and reasonable costs incurred for the protection and security of facilities, personnel, and work products are allowable provided they are consistent with MCC prohibitions on funding of military or police. Such costs may include, but are not limited to, wages and uniforms of personnel engaged in security activities; equipment; barriers; protective (non-military) gear, devices, and equipment; contractual security services; and consultants.

5.3.32. Selling and Marketing Costs

Costs of selling and marketing any products or services of the Government Affiliate are generally unallowable with two important exceptions. The first exception is for direct costs connected with

disposition of program assets consistent with program Closeout. The second exception is for direct costs associated with a Build Operate Transfer (BOT) program in which a Government Affiliate sells assets funded by the MCC Grant to a private operator to maintain and use for an intended benefit.

Incurring allowable costs under either exception requires prior written approval by MCC. In the case of a BOT program exception, transactions must meet stringent legal requirements before being undertaken. Failure to comply with these requirements could result in a determination that the underlying asset costs, as well as any associated selling and marketing costs, are unallowable. Any proceeds from BOT transactions must be segregated and used only in furtherance of explicitly-agreed objectives of the MCC Grant.

5.3.33. Taxes

Payments by the Government Affiliate for taxes on goods, works or services funded with MCC Grant funds are not allowable, unless otherwise determined as an exception to the general rule consistent with *MCC's Tax Policy on MCC Assistance* and the MCC Grant Agreement.

5.3.34. Technical Evaluation Panels

A technical evaluation panel (TEP) is often used to evaluate expressions of interest or proposals submitted by prospective vendors. Compensation to an employee of the Government Affiliate or Recipient Country Government for service as a member of a TEP is not allowable. Reasonable compensation to other individuals who are not employees of the Government Affiliate or Recipient Country Government for service as a member of a TEP is allowable.

The Government Affiliate may provide members of a TEP a maximum of one working meal per day. A working meal is only allowable if members are engaged in evaluation activities during the normal meal time (as stated on an agenda). Only a nominal amount of the MCC Grant may be used per member for working meals.

If the technical evaluation is held in a location which requires travel outside the city of the procuring entity, all TEP members may be reimbursed for their transportation and per diem expenses directly related to their participation as a panel member. Similar to the limitations stated in Section 5.3.9 (d) related to conferences, workshops and other meetings, the location of technical evaluations must be determined on the basis of lowest total cost (including all travel and organizational costs) while still meeting the minimum mission critical requirements. While there may be instances where a location other than the lowest cost for holding an evaluation may individually conform to a standard of reasonableness, the Government Affiliate must also consider the frequency of such proposed deviations across the Program to ensure prudent overall management of the MCC Grant.

The allowability of TEP-related travel costs is addressed in Section 5.3.37 of this Policy. All TEP-related airfare must be in economy class.

5.3.35. Training and Education Costs

The cost of training and education provided for the development of Government Affiliate employees is allowable only with the prior written approval of MCC [6] for a reasonable number of attendees who are employees or consultants of a Government Affiliate if directly related to the purposes and objectives, and the terms and conditions, of the MCC Grant; and directly related to the employee's job function within the Government Affiliate.

5.3.36. Transportation costs

Costs incurred for freight, express, cartage, postage, other transportation services, and insurance, and costs to guarantee payment on goods, relating either to goods purchased, in process, or delivered, are allowable. When such costs can readily be identified with the items involved, they may be charged directly as transportation costs or added to the cost of such items.

5.3.37. Travel costs

Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by the governing body of the Accountable Entity or by employees of any Government Affiliate who are in travel status on official business related to the MCC Grant. Such travel expenses are allowable as provided in this section. To avoid ambiguity, the Accountable Entity must outline the application and management of travel expenses in its Fiscal Accountability Plan. Other individuals' travel costs may be incurred when specifically allowed for in a Supplemental Agreement, such as an Implementing Entity Agreement, and when necessary for the performance of the MCC Grant.

a. Lodging, Meals, and Incidental Expenses
    i. Lodging expenses are reimbursable for actual expenses incurred up to the limits set forth, at MCC's option, as follows: (1) by applicable Recipient Country Government laws or regulations; (2) by the international per diem rates according to the U.S. Government Federal Travel Regulations promulgated by the United States Department of State (www.state.gov); or (3) by written agreement between MCC and the Government Affiliate. Lodging expenses for travel in the continental United States will be reimbursed according to the U.S. Government Federal Travel Regulations promulgated by the U.S. General Services Administration (www.gsa.gov). All lodging costs must be supported with payment receipts.
    ii. Meals and incidental expenses (M&IE) rates cover the cost of meals and some incidental expenses for each day of travel at a fixed rate. The rates are determined, at MCC's option, as follows: (1) by applicable Recipient Country Government laws or regulations; (2) by the international per diem rates according to the U.S. Government Federal Travel Regulations promulgated by the United States Department of State (www.state.gov); or (3) by written agreement between MCC and the Government Affiliate. M&IE rates for travel in the continental United States will be reimbursed according to the U.S. Government Federal Travel Regulations promulgated by the U.S. General Services Administration (www.gsa.gov).
    Incidental expenses include costs for laundry, cleaning, and tips for services. Incidental

expenses do not include costs such as renting a conference room or making a phone call for strictly business purposes (these costs may be expensed separately to the Government Affiliate).On the day of departure on temporary travel, the traveler is eligible for M&IE at the rate of 75 percent of the M&IE rate applicable to the temporary travel destination. On the day of departure for home base, the traveler is eligible for M&IE at the rate of 75 percent of the M&IE rate applicable to the temporary travel destination.

b. Commercial Air Travel

Airfare costs in excess of the basic least expensive unrestricted accommodations class (economy class) offered by commercial airlines are unallowable except when such accommodations would:

i. Require circuitous routing or otherwise excessively prolong travel beyond the most direct routing to the intended destination;
ii. Result in additional costs that would offset the transportation savings; or
iii. Offer accommodations not reasonably adequate for the traveler's documented medical needs.

The Accountable Entity must secure prior written approval from the Accountable Entity's senior management and MCC if any of these exceptional circumstances exist.

The Recipient Country Government, at its discretion, may utilize non-MCC funding for airfare costs in excess of the cost for the basic, least expensive, unrestricted accommodations class (economy class) offered by commercial airlines for reasons other than those listed above. In these instances, the Accountable Entity must follow procedures included in the Fiscal Accountability Plan to determine the basis for any portion of such travel funded by the MCC Grant. Non-MCC funding utilized for airfare costs in excess of the cost for economy class cannot be considered a Country Contribution.

While this Policy does not allow airfare costs in excess of economy class unrestricted fares, Government Affiliates are encouraged to develop internal procedures designed to make most efficient use of grant funds using restricted and/or non-refundable fares, where practical.

c. Rest Stops During Travel

The purpose of a rest stop is to break up long flight schedules and allow travelers to rest prior to reporting to work or continuing their business travel. The cost of economy class airfare combined with a rest stop not to exceed 24 hours is allowable. Under no circumstances may travel include both business-class airfare and a rest stop to or from the destination. For rest stop costs to be allowable, the Accountable Entity must have specific rest stop procedures for all travelers approved by MCC in the Fiscal Accountability Plan or other governing document.

6. Responsibilities

6.1. Program Financial Services

The MCC Program Financial Services Practice Group is responsible for the review, interpretation, and application of this Policy.

With the approval of the MCC Program Financial Services Practice Group Lead and Senior Director, MCC may periodically publish clarifications, explanatory notes, or responses to questions of interpretation in one or more annexes to this Policy.

Endnotes

1. This requirement can be satisfied by reasonable inference if notices are placed in a manner clearly set aside for the purpose of advertising (e.g. recruitment and procurement notices).
2. Status as a government member for purposes of compensation is at the determination and discretion of MCC. Such remuneration may be allowable if using Recipient Country Government funding and if such payment is subject to appropriate controls and limitations and in compliance with the Accountable Entity Guidelines and applicable Accountable Entity's bylaws.
3. At the discretion of MCC, the term "similar misconduct" could also extend to gross mismanagement by the Government Affiliate and, per this Policy, such costs be determined to be unallowable.
4. At the discretion of MCC, the term "similar misconduct" could also extend to gross mismanagement by the Government Affiliate and, per this Policy, such costs be determined to be unallowable.
5. Recruitment costs are primarily relevant to Accountable Entity staff, but in exceptional circumstances could be included as part of an Implementing Entity Agreement or Supplemental Agreement and be applicable to Government Affiliates other than the Accountable Entity as well.
6. With MCC approval, procedures may be developed which: 1. provide prior approval of organization wide-training plans versus approving each individual training requests; or 2. delegate authority to approve training requests for which no material cost is associated with program-related training.