

# 5

## Content, Evaluation, and Harmonization

The MCA could fund an array of activities and institutions in qualifying countries, ranging from health to infrastructure to private equity funds to local foundations. Funding could be aimed at specific projects or broader programs, reopening a long-standing debate in development about project versus program funding. Whatever the content, the success of the MCA will depend heavily on a strong monitoring and evaluation system to guide the allocation of funds, learn what works and what does not, minimize absorptive capacity problems, and make the program more effective. Simply put, the MCA cannot fulfill its promise without a more effective monitoring and evaluation system than in current programs. In addition, the MCA will work better if its funding efforts are coordinated with those of other donors. The MCA provides opportunities to improve donor harmonization, but this will not happen automatically, and without proper attention it could add to current coordination problems. This chapter examines these issues in detail.

### What Activities Should the MCA Fund?

One approach would be to allow the MCA to fund a very broad range of activities across the development spectrum and not specify a set of activities that it would or would not finance. This approach would be most consistent with the spirit of allowing the recipients to fully choose their own priorities, but it would be a mistake. By trying to fund too many ac-

tivities, the MCA could spread itself too thin and not be able to bring to bear the expertise needed to effectively review proposals and monitor and evaluate ongoing activities. USAID fell into this trap over the years by ever-expanding its set of activities to match the perceived needs of the recipient country. It has followed the mistaken notion—common among many donors—that just because a particular problem exists, USAID should fund an activity to try to resolve it. In addition, Congress has pushed the agency to implement all kinds of activities. In trying to be all things to all people, USAID funds such a broad range of activities that, at times, it has lost its focus. It has established strong expertise in some areas, particularly health and family planning (and at one time agriculture), but its broad agenda has weakened its overall effectiveness.

The MCA should restrict its focus to a limited set of activities. It should build expertise and aim to become the highest-quality international organization providing assistance in these core areas of expertise. As most leading international businesses do, it should build itself a brand, so recipients and other donors know exactly where its expertise lies. It should shape its staff around its core areas; build expertise in program review, monitoring, and evaluation; and learn from results.

One approach would be for the MCA to finance initiatives in the three broad areas that the president specified as the criteria for eligibility: improved governance, investments in health and education, and private-sector initiatives. However, there is no particular reason why the activities funded must match the selection criteria. These criteria are designed to capture the extent to which a government is committed to development and poverty reduction, and progress in all three areas is essential for development. But that does not imply that the US government must fund activities in each area. Other donors and the recipient governments can fund activities that support aspects of the development strategy where the US government does not have expertise. Moreover, the three areas are so broad that almost any development activity could be funded, creating some of the same difficulties faced by USAID.

The most sensible approach would be for the MCA to focus its funding on a core set of areas/activities that meet four criteria.<sup>1</sup> First, the activities should be demonstrable contributors to economic growth and development. Second, they should be related to achieving the internationally agreed Millennium Development Goals (MDGs), where relevant. Third, they should be services that private markets underprovide. That is, they should be areas where private investment is unlikely, especially high-priority social sectors that have a direct impact on reducing poverty and supporting long-term growth. Fourth, they should be areas where foreign aid can make a difference and has an established track record, and in particular where the US government has more specialized knowledge, ex-

1. I am grateful to Lael Brainard for suggesting these criteria.

pertise, and experience than other donors. These guidelines suggest focusing MCA funding on the following five areas:

- **Health (including water).** This is perhaps the clearest example of where the MCA should focus its funds. Better health is clearly an outcome of faster growth, but significant research has shown that in the poorest countries it works the other way round as well: better health has a strong *causal* relationship with faster economic growth and other development outcomes (WHO 2001; Bloom and Canning 2001; and Bloom and Canning 2000). In addition, three of the eight MDGs focus on health (reducing child mortality; improving maternal health; and combating HIV/AIDS, malaria, and other diseases), indicating that this area is a major concern of the international community. Since the private sector makes few investments in health in low-income countries, public health initiatives are necessary to fight major diseases and support investments in new technologies. Yet public health spending on basic health remains small, averaging less than 2 percent of GDP per year in low-income countries (or \$10 per person per year in a country with average annual per capita income of \$500). Finally, aid programs have a proven record in supporting health programs. Health, particularly family planning and HIV/AIDS, is probably USAID's strongest area of competence.

MCA funding can complement other health initiatives, in particular the administration's proposed HIV/AIDS program announced in the 2003 State of the Union address. The HIV/AIDS initiative will focus on 14 African and Latin American countries. This list differs significantly from the list of potential MCA qualifiers.<sup>2</sup> Thus, the MCA can finance HIV/AIDS programs in countries not included in the president's initiative and other health activities where there is overlap.

- **Education.** Significant MCA funds could finance education projects in qualifying countries. In fact, the MCA would not do badly by focusing on education and health. Achieving universal primary education is one of the MDGs and also the focus of the international "Education for All" initiative.<sup>3</sup> The Bush administration has also emphasized education in its domestic agenda. Surprisingly, the evidence on the relationship between education and economic growth is relatively weak, partly because of data deficiencies and partly because education programs in low-income countries tend to focus on the quantity of stu-

2. The countries in the HIV/AIDS initiative include Botswana, Côte d'Ivoire, Ethiopia, Guyana, Haiti, Kenya, Mozambique, Namibia, Nigeria, Rwanda, South Africa, Tanzania, Uganda, and Zambia. See the White House fact sheet on the new initiative at [www.whitehouse.gov/news/releases/2003/01/20030129-1.html](http://www.whitehouse.gov/news/releases/2003/01/20030129-1.html).

3. For more information on the "Education for All" initiative, see [www.unesco.org/education/efa/index.shtml](http://www.unesco.org/education/efa/index.shtml).

dents rather than the quality of education. While some researchers find a relationship between education and growth, others do not (Barro 1998; Pritchett 2001; and Mankiw, Romer, and Weil 1992), but few would argue with the notion that quality education is an important goal in itself and is central to the development process. In addition, education is a classic public good, with private-sector investment generally focused on upper-income households in developing countries. The record of aid programs in education, while not as strong as in health, has been fairly successful, and the MCA can build on it, especially if the focus shifts from quantity to quality.

- ***Agriculture.*** In most low-income countries, the agricultural sector is central to economic growth and development, typically accounting for one-third or more of total production and over half of total employment. Although the share of agricultural output normally declines as incomes rise, a strong and vibrant agricultural sector is a prerequisite for sustained economic growth. Agriculture is key to achieving the first MDG of eradicating extreme poverty and hunger. Much of the investment needed for a vibrant agricultural sector can and should come from the private sector, including individuals and families. But public investment (partially funded by aid) is also necessary to provide public goods such as research and development facilities, extension services, and rural infrastructure (especially rural roads). Unfortunately, both donors and recipients have given less attention to agriculture in recent years, with donor funding for agriculture falling sharply in the late 1980s and 1990s. While donor programs in agriculture have had a mixed record, there have been major successes, from the Green Revolution to building rural roads in Indonesia and other countries. At one time USAID had strong expertise in agriculture, but it has weakened in recent years.
- ***Other limited private-sector activities.*** The private sector is the key to economic growth, and sustained economic growth is necessary to achieve a wide range of development goals, in particular the first MDG of eradicating extreme poverty and hunger. A more open question is the role of foreign aid in directly supporting the private sector, since the bulk of the investment needed for growth appropriately comes from private sources. There are ways in which the MCA can and should support private-sector activities. The most important, as described above, is by supporting agriculture, which is the central private-sector activity in most low-income countries. The MCA could also support microfinance programs, since private financial markets often undersupply microenterprises in both urban and rural areas. Moreover, foreign aid has successfully supported microfinance programs around the world for the past decade.

Another possibility would be to use MCA funds to finance either equity funds or enterprise funds in recipient countries, using basically the same arguments as for microfinance. In effect, the MCA could endow a fund that could be used to make equity investments or loans to for-profit companies, which would be repaid and used again, or to issue guarantees for loans. Proponents usually point to the successful Polish Enterprise Fund as an example of how this system could work (Birkelund 2001). However, enterprise funds have been tried in many countries, and their record is mixed, with many unsuccessful funds.

With the exception of microfinance activities and perhaps a few small enterprise funds, the MCA should not directly finance for-profit activities, since it is far from clear that foreign aid is necessary to stimulate these activities. It seems unwarranted for the US government to get into the commercial and investment banking business in low-income countries. Existing US and international agencies (such as the International Finance Corporation, the Overseas Private Investment Corporation, and the Export-Import Bank) already play this role to some extent, and the MCA should not duplicate their activities. The MCA should focus on helping countries improve the environment for private-sector investment so that new loans become profitable rather than on supplying that financing directly.

- **Environment.**<sup>4</sup> The Bush administration has not strongly supported environmental initiatives and did not list the environment as a priority area for the MCA in its draft legislation. Yet, protection and improvement of the environment are important development objectives, as indicated by the seventh MDG of ensuring environmental sustainability. Growing evidence shows that protection of the environment can play an important role in supporting sustained economic growth. Key areas include reducing water and air pollution, improving soil quality, protecting biodiversity, slowing deforestation, and protecting against overfishing. The MCC should be prepared to fund well-developed proposals in these and related areas. Moreover, it should include environmental criteria in its proposal review process, where appropriate, to ensure that MCA-funded activities do no environmental harm.

The administration and Congress will be tempted to expand this list of activities to include the favorites of different individuals and groups, but doing so risks reducing the effectiveness of the MCA and increasing the size of the administrative structure needed to support it. They should therefore resist this temptation and focus the MCA on doing extremely well in a smaller set of activities rather than funding too many activities.

---

4. I am grateful to Nigel Purvis for his suggestions on this topic. See Brainard et al. (2003) for more details.

Some observers have suggested that MCA funds be used to either pay off existing debt or guarantee new debt. Neither of these are sensible options. Any additional debt relief should come through adjusting the existing debt relief mechanism for low-income countries, the Heavily Indebted Poor Country (HIPC) Initiative (which is far from perfect), rather than through the MCA. In any event, since most creditor countries (including the United States) have forgiven 100 percent of their bilateral loans to the HIPCs that have reached their completion points, any payments on existing debt would go to either hold-out creditors or to the international financial institutions (IFIs), chiefly the World Bank. This does not seem to be the best use of MCA funds. Similarly, guaranteeing new loans does not seem to be an appropriate option either. Low-income countries need grants, not loans, and the MCA should avoid private-sector financing for the above reasons.

Supporting democracy-building efforts is another possibility for the MCA. While the goal is certainly worthy, the impact of foreign aid programs on these efforts is not clear-cut. Donor efforts have focused on financing elections and supporting NGO activities such as mobilizing political participation. These activities are small and specialized in nature. Central governments are unlikely to seek large amounts of funding for democracy-related activities. USAID has some expertise in this area, and building similar expertise in the MCA would be a duplication of effort. Since it appears that USAID will continue to operate in MCA countries, democracy-building efforts can remain within its purview.

This discussion about which activities the MCA should or should not fund highlights the tension between recipient-government ownership of development projects and donor priorities. On the one hand, most development practitioners recognize the importance of consistency between donor-funded activities and recipient-government priorities and ensuring that those governments are committed to success. Countless donor programs, including many by the World Bank, IMF, and bilateral donors, have foundered because recipients were interested only in receiving funds and not committed to achieving successful development results. On the other hand, donors have priorities that they (and the taxpaying populations they represent) are most interested in. At times, donors and recipients differ on funding priorities, with recipients wanting funds for activities in which donors are not interested and donors offering funds for projects that recipients may not see as important.

Although the United States rarely funds activities that recipient governments are actively against, it often funds projects that are of low interest to host governments. For example, many governments are not interested in funding judicial or electoral reforms, even though these issues may be important for the United States. Some environmental protection projects funded by the United States are also not strongly supported by recipient governments. This tension can be minimized especially in coun-

tries (like the ones eligible for MCA funding) that have shown results and generated more confidence from the donors, since both donors and recipients are more willing to work together and trust each other's views. It is probably worth continuing to push some areas that are donor priorities, at least to signal to recipient governments the values and concerns of the United States. However, donors should recognize that without strong recipient-government commitment, the activities are likely to show weak results, even if the basic idea behind the project is sound.

The MCA cannot do everything. By focusing on a few central areas in the development process, in which the US government has the greatest expertise, where the private sector is least likely to invest, and where foreign assistance can play and has played a critical role, the MCA can be most effective in spurring growth and poverty reduction.

### **Earmarks and Tied Aid**

Congress, of course, has both the right and the responsibility to direct appropriated dollars where they should be spent. But too much detail in this directive process is counterproductive. While Congress could designate some broad areas for MCA funding, it should not earmark levels of funding for any one purpose (say, health or education); instead it should let the proposal process dictate those levels. It is impossible to know in advance how much MCA funding should go for a specific purpose. The current foreign aid budget is subject to an astonishing amount of earmarking, and it cripples the US government's ability to effectively allocate funds to the highest-priority areas. Although some earmarking is well-intentioned, much of it is designed to please constituency groups that would receive the funding. This results in misallocation of funds, with too much money being forced into some areas, leaving too little for others. The MCA's ability to distinguish itself from existing development assistance programs in large part hinges on Congress resisting the temptation to earmark. There undoubtedly will be intense pressures from some constituents to do otherwise, but ideally there should be no earmarking of funds in the MCA.

The United States and other donors have pledged many times to reduce "tied aid" in which goods and services can be procured only from the donor country or the recipient country, but little has actually been done. Tied aid decreases the effectiveness of foreign assistance, by some estimates reducing the ultimate value to the recipient by 25 percent. According to the Congressional Research Service, 70 percent of USAID's program funding and 90 percent of food aid expenditures went to US contractors and suppliers in fiscal 2000 (Tarnoff and Nowels 2001). The MCA provides an opportunity for the US government to break from past practice on tied aid. The MCA should aim to support innovative development projects and programs using the best expertise available, not to support US firms

and organizations that are in the development business. Recipient countries should be free to import needed goods from the lowest-cost, most reliable source and be able to use the best expertise available to implement their projects, regardless of the country of origin. Often, US firms and organizations produce superior products at the lowest price and are the best at what they do, but they will be even better if they are forced to compete with similar organizations around the world. Sometimes, however, US firms are not the cheapest source for goods and services. Forcing recipients to purchase US goods when they are not the cheapest alternative may provide some short-term political support for funding, but it wastes development dollars and is one reason for the low rates of return on many development projects in the past. It also runs counter to the philosophy of open markets that the MCA tries to foster.

### Projects Versus Programs

The majority of US foreign aid funds specific projects. Only a limited amount is directed toward broader programs or to a recipient government's budget, mainly from the Economic Support Fund (ESF) controlled by the State Department. The US government generally strongly favors project loans for two reasons.

First, at least on the surface, project funding can be controlled and monitored more effectively than program funding, since the dollars target a specific activity. The purpose of the funding is clear, and funds can be traced easily to see if they achieved their goal. Second, since the project is a discernible activity or structure, it can be identified as being funded by the US government. All donors, and the United States is no exception, like to plant a flag with their aid programs, and project aid allows them to do that.

However, project funding has many shortcomings. First, the supposed control over spending is largely illusory. Money is fungible, and so to some extent donor funding for one project can free up funds from the recipient's budget, which can be used elsewhere for different (even questionable) purposes. For example, donor support for a school that the government would like to build may free up government funds to buy a new airplane for the president. In this case, the marginal impact of the donor funds is not on building a new school, however carefully it may be monitored, but on buying a plane. Second, projects are costly to the recipient because they are heavily monitored and require a large commitment of time and money to address all donor concerns. Third, donor-financed projects tend to hollow out the core administrative capacity of recipient governments rather than build it. Donors often finance significant portions of their projects outside the recipient government's budget (i.e., a health project sets up its own office with both expatriate and local staff, with funding going directly from the donor to the consulting firm that manages the

project). Donors want to put in place strict financial controls and so hire away the strongest accountants, auditors, and technicians to work on their own projects, thus weakening the government's capacity to administer its own projects and programs. Because they focus on their own projects, very few donors pay attention to building capacity in central budget administration, arguably one of the most important institutions in the development process. Fourth, project funding provides much less flexibility for the recipient country than does program funding (by design), inhibiting recipient governments from allocating funds to their highest priorities. This lack of flexibility, though, may be a good thing in countries with untrustworthy, nonrepresentative, or incompetent governments.

The heavy reliance on project financing contributes to a related issue known as the recurrent-cost problem. Most project funding is used to cover capital and other start-up costs, with very little for ongoing (or recurrent) project costs, such as personnel, material, or operations and maintenance costs. Historically, this practice resulted from the view that the primary role of foreign aid was to augment saving and finance investment, not consumption. Economists classify capital costs as investment and recurrent costs as consumption. In addition, donors see recurrent expenditures as being much harder to monitor and evaluate than capital expenditures, and they are wary about getting involved in long, open-ended commitments that financing recurrent costs might imply. Finally, donors want recipients to contribute a share of project costs to demonstrate commitment and ownership, and this distinction between capital and recurrent costs provides a convenient rule for cost sharing.

However, the reluctance of donors to finance recurrent costs poses major problems. The distinction between capital and recurrent costs is blurry, and the monitoring costs of trying to keep accounts separate are high. More seriously, once construction is completed, many development projects are chronically underfunded because recipient countries either cannot or will not devote sufficient funds to maintain donor-initiated projects. Developing countries are littered with donor-funded roads and wells that quickly fell into disrepair for want of adequate maintenance funding.

Program funding can reduce (although not eliminate) many of these problems. Since program funding goes through the budget, the focus is on strengthening government institutions rather than hollowing them out. Donors monitor the entire budget, thus reducing the opportunities for governments to spend money on aircraft or other questionable items. When donors finance only projects, they have much less leverage to question aircraft purchases than they do if they partially finance the budget. In addition, the recurrent-cost problem generally is much less of an issue with program funding, since recipients can allocate funds to activities that truly are high priority and can distribute funds among capital and recurrent costs as appropriate. Program funding is also administratively much less costly than project funding. Monitoring and evaluation of programs

is in some ways more complicated than that of projects, and in some ways easier. It is more complicated because the entire budget must be monitored (at a broad level), so no single part can be monitored in detail. Moreover, it is harder to trace the impact of donor funds on specific outcomes. However, by monitoring the whole budget, donors have a much more accurate picture of the impact of their funds.

The key to reconciling the project-program debate is to recognize that different approaches are appropriate in different countries. Donors should rely heavily on program funding in countries with governments that are committed to allocating their resources to high-priority development activities and building their budget administrative capacity. In countries with less effective and less honest governments, project funding is more appropriate, with a significant share allocated to NGOs.

Since the MCA-eligible countries have a stronger track record of setting priorities and delivering results, the MCA can and should rely more on program funding. Proposals for program funds should set specific goals, including goals for improving budget and financial capacity, and articulate the activities the funds would support. Careful tracking of baseline (preprogram) budget spending can clarify the marginal impact of program funds. This approach would significantly reduce the bureaucratic costs associated with myriad donor-funded projects and allow governments in MCA-eligible countries to set their own priorities and build their budget capacity. In return for this flexibility, the US government should maintain strict standards in its program funding: if a recipient government's budget performance begins to falter with poor allocation of funds, mismanagement, or weakening audit and oversight systems, the United States should cut its funding. Recipients could also be required to contribute some funding, without specifying that the donor covers capital costs and the recipient, recurrent costs.

For example, a government could propose that the MCA help fund its education program, specifying that it would like to build a certain number of schools, buy a certain number of textbooks, train a certain number of teachers, buy school supplies, establish curriculums and testing procedures, etc. It should also specify goals for strengthening its related budget and financial systems. The recipient would estimate the total cost, set specific goals, and request that the MCA partially fund the program. It would be unnecessary to draw a distinction between funding for capital and recurrent costs. The important issue would be to monitor and evaluate progress toward the specified goals as the yardstick for continued funding.

## Monitoring and Evaluation

Stronger monitoring and evaluation capacity than in past programs is essential for MCA's success. Without it, the program is doomed to fail. More

effective monitoring and evaluation is necessary to address three core issues in the MCA. The first, and the most obvious, is the emphasis in the MCA on achieving results. From President Bush's speech proposing the MCA through the recent proposed legislation, a strong and common theme is the desire that MCA-funded programs be driven by results. Countries that achieve the benchmarks specified in the program will continue to receive funding; those that do not will be cut off. This process cannot occur without a solid monitoring and evaluation system built into the MCA contract process from inception to completion. The main intent, however, is not punitive. Rather, the idea is to keep the program on track to achieve its intended results, and an effective monitoring and evaluation program is necessary to detect problems at an early stage and make the necessary mid-course corrections to keep things on track. The second is the incorporation of those results into new programs. New funding contracts must incorporate the lessons learned from previous programs to continually improve the effectiveness of the MCA. This process is easier said than done. The third is absorptive capacity. Some observers have raised concerns that \$5 billion is an awful lot of money for approximately 20 low-income countries to absorb effectively, an issue explored in detail in chapter 7. The main point is that an effective monitoring and evaluation process is the best way to detect potential problems with absorptive capacity and make the necessary adjustments in both the level and direction of funding.

Three aspects of monitoring and evaluation are critical: financial accountability, institutional strengthening, and substantive goals.

- Financial accountability should ensure that funds are spent where they are supposed to be spent, that the project remains within budget, that regulations on procurement and payment are followed, and that funds are not stolen.
- Institutional strengthening should focus on improving internal systems (e.g., reducing the time to close the books at the end of the month, removing ineffective bureaucratic procedures, etc.), bolstering legal frameworks, and enhancing personnel capacity (through training, reorganization, and recruiting new staff where necessary). Grant proposals should specify goals in these areas, just as they would in substantive areas. These institutional goals historically have been underemphasized by donors, although that has changed to some extent in recent years.
- Monitoring and evaluation of substantive goals should ensure that progress is being made toward underlying health, education, or other objectives.

As mentioned previously, MCA contracts should specify benchmarks and targets to be met during the course of the project. Some of these

should be intermediate targets (such as building a certain number of schools, purchasing a certain number of textbooks, etc.) and some should be longer-term goals (such as increasing the primary school completion rate or the immunization rate by a certain amount). The administration's proposal considers only two aspects of monitoring and evaluation, in effect combining financial accountability and institutional strengthening into one aspect. However, the two are sufficiently different from each other to be considered separately.

To monitor progress toward these goals, it is essential that implementers gather relevant baseline data at the outset of every project and program, and that progress be monitored continuously throughout the project. In other words, monitoring and evaluation must be built into projects and programs from the outset, not added on as an afterthought halfway through the process. In many aid projects, monitoring and evaluation begin only two years into the project for a mid-term review, with consultants who have never been involved in the project parachuting in for a short review. These evaluations rarely achieve any good. Projects can be kept on track and more can be learned if monitoring and evaluation are integral and ongoing aspects of projects and programs. Moreover, benchmarks can be modified and adjusted as appropriate. The MCA's success will depend heavily on holding recipients to high standards in achieving results, and continuous monitoring and evaluation are the foundation of this effort.

The second role of strong monitoring and evaluation is that they help donors and recipients learn what works and what does not, which in turn helps future programs and projects to be more effective. The lessons learned from monitoring and evaluation should be incorporated into the design of new activities, a process that is far from automatic. The same panels that approve projects should review monitoring and evaluation reports. Evaluations of every MCA activity should be made publicly available to researchers and analysts, who can help decipher best practices in a variety of development activities.

The MCA's focus on monitoring and evaluation is consistent with the recent efforts of some other donors toward results-based management. For example, the "Partnership in Statistics for Development in the 21st Century" (PARIS21) is designed to promote evidence-based policymaking and monitoring in developing countries. The group promotes the improvement of basic statistics and the connection of data to sound policies.<sup>5</sup> The World Bank and other multilateral development banks also have recently focused on results-based management. The MCA provides the United States with the opportunity to play a strong leadership role in implementing effective monitoring and evaluation systems that complement existing efforts and become a model for other donors to follow.

5. For more information on PARIS21, see [www.paris21.org/index.htm](http://www.paris21.org/index.htm).

How should monitoring and evaluation of results be carried out? Monitoring and evaluation should be the responsibility of *both* the recipient and the MCC, implying the need for both internal and external monitoring and evaluation, as suggested in Radelet (2002b). On the internal side, each grantee should include in its proposal monitoring and evaluation procedures. The proposal would designate who would perform the monitoring and evaluation, how they would do it, and how the results would be measured and publicized. NGOs and civil society groups also can contribute to the monitoring process, both formally (as part of the review team) and informally (by publicly commenting on the effectiveness of MCA projects). This internal process will be critical for the recipient to understand at an early stage whether activities are on track and provide ample opportunities for corrections where necessary. However, on its own, internal monitoring and evaluation will not be sufficient, since the recipient will have obvious incentives to overlook problems and inflate results. To be effective, the internal review should be complemented by an independent external review.

The external review should be carried out by outside contractors (hired by the US government) with expertise in monitoring and evaluation in specific substantive areas or by the General Accounting Office. These reviewers would be directly accountable to the donor—the US government—and would complement the work of the internal reviewers of the grantee. The MCC could follow something similar to USAID's request for proposals (RFP) process. For example, the MCC could issue an RFP for monitoring and evaluation of all HIV/AIDS projects for a group of, say, five African countries. The bidders would need expertise in both substantive health and financial issues (thus, public health firms might team with accounting firms). The organization that wins the bid would then be responsible for monitoring and evaluating all HIV/AIDS projects in these countries. As new HIV/AIDS projects are developed in these countries, proposal authors would be required to work with this organization *from the outset* to build into the proposal appropriate mechanisms for monitoring and evaluation. The funds for this function should not be part of the recipient's grant budget but should come from the MCC's administrative budget. If done correctly, this option would ensure that independent external monitors and evaluators (who work on behalf of the US government and not the implementers) are well integrated into the overall project.

Evaluating results is a tricky business. For example, if at the end of a five-year health project, a village shows a 10 percent decline in infant mortality, how much of this is due to the project and how much is due to other factors? In many cases evaluators can learn a great deal by examining and comparing trends in adjacent villages, the province, or the nation as a whole. But this is possible only if comparable baseline data are available for these other groups. Under the best of circumstances, these comparisons yield ambiguous conclusions.

The MCA provides the opportunity for introducing, for at least a small number of projects, a more rigorous evaluation process involving randomized trials and/or comparison with control and treatment groups, as is done in most medical trials and other experiments.<sup>6</sup> A small amount of MCA funds—say, 3 to 5 percent of project funds—could be designated for projects that incorporate evaluations with control and treatment groups. Project design would include specifying a control group and systems for monitoring that group in tandem with the treatment group throughout the project. For example, if an NGO wanted to offer breakfast to school children to improve attendance and learning capacity, it would designate in its proposal a control village that did not introduce such a program. Project monitors would track attendance, body weight, school achievement, and other indicators in both villages throughout the project. Introducing control and treatment groups is time consuming and expensive, and all projects do not need this approach. It can also raise certain ethical issues, especially in health care interventions, although this technique is essential for testing medications and commonly used worldwide. Ultimately, it is the surest way to evaluate what works and what does not, and the results would be invaluable for designing subsequent projects and making aid more effective.

How should the US government react when countries miss performance benchmarks? The reaction should depend on the events that hindered achievement and the extent of the problem. For example, if a country regularly misses benchmarks on its education program but continues to do well on its health program, full funding for the health activity clearly should continue. But on the education program, a “graduated” approach could be taken, depending on the extent of the problem. Some missed benchmarks could lead to partial reduction in funding (say, a reduction to 90 percent of baseline funds), with further reductions if problems persist. Donors rarely use such an approach; typically, they either make full disbursements or none at all. So when a relatively small number of benchmarks are missed, most donors opt to continue full funding. One result is that recipients learn there is no penalty for missing a few benchmarks, which effectively lowers standards. Partial reduction in funding for missing some targets would help minimize this problem.

One reason judgments on reducing funding need to be taken with care is that some projects and programs funded by the MCA may fail, even when governments are fully committed and making the best efforts toward success. Strong and well-integrated monitoring and evaluation programs can take this into account and appropriately adjust benchmarks. Also, the MCA provides the opportunity for the US government to allow well-intentioned governments to experiment (to some extent) with

---

6. For an example of this kind of evaluation for health and education programs in Mexico, see Gertler (2000).

promising new ideas and approaches. Of course, if these new approaches fail, funds should be directed to other activities. But the concern of being harshly penalized for poor performance should not deter countries from trying promising new approaches.

## Harmonization with Other Donors

Harmonization of different donor programs is a constant challenge, since most donors finance discrete projects that match their own priorities and are implemented outside the recipient country's budget. Recipient countries labor under the conflicting demands of many different donors, which can add significantly to the cost of aid and undermine its effectiveness. Donor requirements can overwhelm recipients that are asked to produce multiple project audits, environmental assessments, procurement reports, financial statements, and technical reports. According to the World Bank, developing countries typically work with 30 or more aid agencies across a variety of sectors, with each sending an average of five missions a year to oversee their projects. Governments can find themselves hosting three or more aid missions a week.<sup>7</sup> The proposed MCA model, in which recipient countries write proposals for broad areas of program funding, creates opportunities for better harmonization across different aid programs, for three reasons.

First, under this proposal, funded activities will be recipient-driven. Experience has shown that donor activities are better harmonized when the recipient government is committed to development, has a track record that gives it credibility in the eyes of the donors, and has a vision for combining different donor activities. For example, one of the best-functioning donor coordination mechanisms is in Uganda, where the government chairs the donor consultative group. Most observers credit its success both to the Ugandan government, which is implementing a development strategy that donors find credible, and to donor willingness to work together (by and large) to ensure their activities are complementary to one another. The MCA process, by relying on proposals from recipient countries, could provide the basis for a similar approach.

Second, and related, in order to develop good proposals, recipients will have to develop strategies that detail their priorities and clarify how components of their strategies fit together. (Although the MCA would not require such broader strategies, the process should encourage governments to develop them, as it will be hard to write good programwide proposals without a sector strategy.) These strategies provide the blueprint for harmonizing aid programs. Since the US government will fund only a share of most sector programs, there will be plenty of scope for other donors to

7. "Cutting the Red Tape," *World Bank Development News Media*, February 21, 2003.

contribute to the same program, without requiring the recipient to prepare separate strategies for each donor (although they may have to prepare slightly different proposals, drawing on the same broader strategy). In other words, the broader program approach provides a consistent vehicle for multiple donors to finance complementary activities that fit into the recipient's development strategy.

Third, by providing funding through the recipient's budget, MCA activities can be better coordinated with those of both other donors and the recipient government. After all, the fundamental purpose of a government budget is to coordinate public finance. In effect, the MCA provides the opportunity for the United States to move closer to an "aid pooling" approach in which many donors jointly finance a set of activities (Kanbur and Sandler 1999). However, other donors may not yet be prepared to move as far as the MCA in country selectivity and a strong focus on results. Working through the budget also provides the opportunity for the donors and recipients to jointly develop generic standards for reporting, financial management, and other donor requirements. Currently, most donors insist on their own unique reporting requirements, placing a very heavy burden on recipient governments and adding to the bureaucratic costs of aid delivery.<sup>8</sup>

Unfortunately, this rosy outcome is far from assured. It is possible that the MCA could move in a direction that is against harmonization. If the US government insists that the recipient government develop unique strategies, proposals, and reporting requirements for the MCA that are simply in addition to current demands, it will only add to the cost of aid rather than make it more efficient. This is a significant danger. It will be especially acute if the US government operates both the MCA and USAID in the same country simultaneously, each with different procedures and reporting requirements. As part of the MCA process, the administration and Congress must be willing to work with recipients and other donors to find ways to reduce the multiple burdens on recipients while at the same time insisting on high standards for project design, reporting, and monitoring. The key is to recognize that high standards need not be the same as multiple standards and should not require more bureaucracy.

---

8. For a similar argument, see Smith (2002).