Madagascar Field Report
MCA Monitor
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As the first country to sign a compact with the Millennium Challenge Corporation, Madagascar has been the global guinea pig for the MCA approach. Its early experience offers important lessons for countries following in its path—both about the real challenges of program administration, and the real potential of the MCA as a source of transformation and innovation. MCA Madagascar reached the one-year mark on its compact in July 2006,[2] offering an opportune time to assess its progress and gather lessons from its experience.

This report is based on interviews conducted in July and August 2006 and offers a snapshot of MCA Madagascar's (MCAM) first year of operations. It is not, however, a report about program implementation. Rather it is a report about an "invisible year" [3] focused on getting MCAM and MCC systems in place rather than ramping up specific program interventions. This year of progress is "invisible" because it includes many procedural steps that are foundational but not glamorous, and that perhaps should have been taken before the compact "entered into force." The year of progress is also "invisible" because despite some significant milestones, many cannot see the progress and thus believe the MCAM is moving too slowly.

There are three key lessons from Madagascar's first year. First, it is crucial to articulate and manage expectations about the program approach and goals, particularly in the context of an "invisible year," and more broadly in the face of ambitious targets. Second, early efforts to establish systems should include deliberate strategies for ongoing consultation with civil society. Ironically, the third lesson is that MCAM's strong potential as a source of transformation and innovation in Madagascar could be jeopardized by the very effort to lay a foundation for its success. This is because time devoted to getting essential systems in place consumed compact time that could have

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[1] This report is based on interviews conducted in Madagascar in July and August 2006. It does not reflect progress that occurred after that date.
[2] Madagascar signed its compact with the MCC in April 2005 but the compact "entered into force" in late July 2005. This marks the point at which official compact implementation began, and MCC started the clock on the four-year compact.
[3] The phrase "invisible year" was first coined by Ambassador Brito of Cape Verde when describing the first year of his country's MCA compact.

been used to work toward concrete program goals. The MCAM would be better positioned to meet its program goals on time, and live up to its potential for transformation, if many of the "invisible year" activities had occurred prior to "entry into force" of the compact. Despite the invisibility of the first year, the progress made in this time is very important to the sustainability and impact of the program.

This report tells three big stories in the MCAM's first year—the challenges of managing expectations, fostering civil society consultation, and making the most of innovation in the MCAM/MCC approach. To build context for these stories, Part I of this report summarizes the MCAM program and highlights early milestones. Part II then examines reasons that lay behind the perception that MCAM is getting a slow start. The report concludes with a series of recommendations that emerge from the Madagascar experience but have broader application for other MCA countries, the MCC and the U.S. Congress.

Part I A Snapshot of MCA Madagascar

Madagascar's MCA compact totals $110 million over four years. The MCAM program focuses on laying the groundwork, or creating an "enabling environment," for the country to promote economic growth and poverty reduction by transitioning from subsistence to market-oriented agriculture. This process entails national level policy reform and program interventions in five target zones around the country. The MCAM program has three focus areas: land tenure reform, financial sector reform, and agricultural business development. The land tenure component focuses on both macro and micro level reforms. For example, it strives to modernize national land tenure administration at the central level while facilitating the acquisition of land certificates for small farmers at the community level. The finance component also works on both levels. For example, it invests at the central level to streamline the national payments system while working at the regional level to increase the capacity of micro-finance institutions to reach the rural poor. The agriculture component is exclusively focused at the micro level. This component strives to link small producers to viable markets for their products, and through coordination with the other program components, to ensure that farmers also benefit from more secure land holdings and increased access to credit. (For much more detail on the MCA Madagascar program, see the MCC's summary of the Madagascar compact.)

Madagascar sees this compact as just the first phase in its MCA experience. If all goes as MCAM plans, a second phase will consist of a larger compact that overlaps with the final years of the first compact (though concurrent compacts are currently prohibited under the MCA authorizing legislation[4]). While phase one focuses on creating an "enabling environment," the MCAM expects the phase-two compact to fund more tangible investments (such as infrastructure) that build on and benefit from the improved policy and legal environment from phase one.

[4] See CGD MCA Monitor blog, MCA Reauthorization Bill Killed, by Sheila Herrling for analysis of failed congressional efforts to reauthorize the MCA and allow for concurrent compacts.

1. Program Milestones

While the first year of MCAM has focused on the "invisible" interventions of getting systems in place, by August 2006 the MCAM had made some initial strides in each of the three program areas.

Land tenure reform: The first steps in modernizing the land tenure administration are underway. The MCAM is supporting an inventory of existing land titles in the five zones and at the central level. This is a tedious process of wading through stacks of maps and titles that are in complete disarray and have rendered the countries' 29 land administration offices capable of granting only 330,000 land titles over the last century. Once inventoried, the titles and maps will be restored as needed, catalogued and digitized. At the community level, the first MCA-supported land tenure office ("guichet foncier") was established in the small town of Faratsiho in May and had granted approximately 300 land certificates by August.

Financial sector reform: The MCA has conducted background studies for the largest piece of the finance component, improvement of the national payment system (which accounts for approximately 60% of the finance component's budget). The MCAM is also working with the Commission for Supervision of Banking and Finance on ongoing reforms in new microfinance and banking laws.

Agribusiness development: The nucleus of the agribusiness component is a network of Agricultural Business Centers (ABCs). The MCAM has established these ABCs in the first two zones, and identified ABC sites in the other three zones. The MCAM is working with all five regions to identify priority areas for business development and investment that are consistent with each region's existing development plan. Investment plans range from agricultural production, (such as dairy, rice, and legumes) to fisheries, handicrafts, and ethanol production. As of August, the MCAM had started implementing agriculture activities in one zone, where MCAM field workers are supporting farmers in forming cooperatives and negotiating agreements with private sector firms. MCAM support helps farmers meet quality standards, negotiate favorable terms with the firms, and is planning to help the cooperative secure credit for productivity-enhancing investments.

Disbursement against targets: According to a June 2006 MCC status report on Madagascar, the disbursement target for the first year of the program (ending July 27, 2006) was $26.7 million, while actual disbursement at that time was $9.65 million. The MCAM has revised its disbursement goals downward to account for the fact that the first period after "entry into force" was dedicated to establishing core systems, rather than disbursing program funds. The current goal is $15 million disbursed and $30 million in the pipeline by December 2006.

2. Process Milestones

At the time of compact signing MCAM had very few staff and no office space of its own. The good news is that the MCAM now has all its core structures in place, and has reached several important milestones in establishing program systems. But had these steps been taken before the compact "entered into force," the compact period could be fully dedicated to reaching program goals.

Baseline survey: Using MCA 609g funds, USAID conducted a nationwide baseline survey on behalf of the MCAM. The survey captured information on household income, land productivity, and levels of investment in order to provide benchmarks against which to evaluate MCAM program success. Technically the survey was right on time because, as stipulated by the compact, it was conducted within the first ten months of the compact period. Ideally the survey would have occurred before the compact entered into force so that the data might have been used to help set program goals and feed into a Monitoring and Evaluation (M&E) framework.

Identification of five zones: At the time of the compact signing, only two zones had been identified, and without much consultation with civil society. Since signing, the MCAM has engaged in an exhaustive nation-wide participatory process to select the remaining three zones. The sequencing of this process certainly saved compact time, and allowed for program targets and an M&E framework to be in place at the start of the compact. But if the zone selection is seen as a key part of the MCAM's ownership of the program, an opportunity to solicit broad public input and a means of assessing where MCA resources can have a substantial impact on growth and poverty reduction, the entire process should precede compact signature. The bottom line is that a decision of this sort must be made with explicit awareness about the implications for timeline and progress in program goals.

MCAM Structures: The MCAM office is now staffed with approximately 65 Malagasy professional. The MCC also has two resident mission staff. The German development agency, GTZ, is serving as the fiscal and procurement agent. The MCAM has established both a Steering Committee (SC) charged with general oversight and accountability of the program, and an Advisory Counsel (AC) designed to represent the interests of civil society and regional governments. The MCAM has begun signing collaborative agreements with numerous development partners, including NGOs, multilateral donors and private sector firms.

Monitoring and evaluation: MCAM made public an initial monitoring and evaluation (M&E) plan at the time of compact signing, but it only included specific goals associated with the first two target zones and notional compact-wide goals. The comprehensive M&E plan is in the final stages of revision and is likely to be made public by January 2007. Some of the revisions are based on lessons learned in the first year (see below). These should be allowed, indeed encouraged through the life of the compact, because they stem from a conscientious and deliberate assessment of program progress. But other significant revisions are being made at this late stage partly because of the timing of the baseline survey and the selection of final target zones. The MCC should to do a better job of having the *comprehensive* M&E framework designed and made public when the compact period begins. Most importantly, it should be transparent about how it weighs tradeoffs between this goal, and other country-specific priorities such as the timing and pace of zone selection in Madagascar.

Second compact: By August, Madagascar was already beginning to design a phase-two compact proposal and planning a participatory process to solicit input into compact development. The MCAM team submitted a concept paper to the MCC in mid December 2006. An important snag in this plan is that the MCA authorization legislation currently prohibits the MCC from having concurrent compacts with a country. If this regulation is not revised, the MCAM will either have to wait until the end of the first compact to sign a second compact and receive additional funds from the MCC, or as the MCAM officials argue, they can solicit support from other donors for the phase-two investment plan.

While MCAM had achieved a fair bit in its first year, many of the accomplishments were invisible to the broader public (both in Madagascar and the U.S.). Most of them should probably have occurred before the compact entered into force. Partly because of this, the vast majority of people interviewed for this report lamented the slow pace of MCA process in Madagascar.

Part II The Pace of Progress

Government officials, MCAM staff, regional representatives, other donors and representatives of civil society all complained about the slow progress of the MCAM program to date. There was no consensus, however, about what was behind the delays. Some concerns are based on real delays such as those associated with being a start-up, navigating procedures designed for high accountability, and building in time for learning. Other concerns are more rooted in perception, and the product of misplaced expectations of the program. This section takes a look at some reasons behind the real and perceived slow pace of progress in MCAM's first year.

Start-up blues: The MCAM has been a global guinea pig for the MCA. As the very first MCA country, it has had to work hand-in-hand with MCC staff to test-run procedures and develop systems.[5] Before Madagascar, the MCC had no templates or standards for contracts, procurement procedures or tenders, terms of reference for service providers, cooperative agreements with government or private entities—or any of the other nuts and bolts of getting a multi-million-dollar program up and running. The managing director of the MCAM joked that "it is a pain to be a pioneer; we should get royalties for helping MCC set up its systems." Senior MCAM and MCC officials also attributed delays to the fact that the MCC pursues negotiation, deliberation and collaboration with partner countries in establishing program systems, rather than imposing them. Officials argued that this is part of the ownership principle, and that it means "you get a much better product in the end."

[5] As Madagascar designed its compact proposal, and even as it signed its compact, the MCC had very little formal guidance and few institutional systems in place. *Figure 4: Timeline of MCC Guidance Issuance and Investment Memo Dates* on page 14 of the July 2006 GAO report illustrates this point effectively.

Cumbersome procedures: A second implication of Madagascar being the first MCA country is that there is a lot riding on its success—it will be the first real test of the MCC's approach. Like a first-time parent, the MCC is rather risk-averse and protective. It has designed a strict and a multi-tiered oversight and decision-making structure that tends to slow things down. This is particularly true for financial accountability and procurement issues. For example, Washington-based MCC staff must sign off on all procurement over $100,000 including budget expenditures, terms-of-reference, and tenders for services (to be increased, in some cases, to $250,000 after an interim period), and clear the French/English translations of all binding documents. While staff see this as cumbersome, they acknowledge the importance of accountability. The MCC resident country director also acknowledged an important benefit of having to pass so much through Washington—a buffer for MCAM management and Antananarivo-based MCC staff from high-level Malagasy political pressures to move faster than is advisable.

Many interviewees partially attributed procurement delays to GTZ. MCAM staff explained that in the early months GTZ simply did not have enough staff or the proper expertise. But the good news, according to the MCC resident country director, is that GTZ is restructuring, bringing on more and better qualified staff, and is responding to MCAM concerns about its services. And even as MCAM staff complained about the delays in dealing with GTZ, they easily acknowledged that it is smoother and more reliable than working through the government procurement systems.

Time for learning: The degree to which the MCAM is managed and staffed by Malagasy nationals is unique among donor-funded programs. There is an explicit effort to create a cadre of professionals with expertise in priority-setting, program planning, financial management, coordination with other development actors, and monitoring and evaluation. While this takes time up front, it is an investment that will last well beyond the life of the MCA compact in Madagascar.

Revision of M&E plan: The decision to revise the MCAM plan for M&E has caused delays as well. There were four key aspects to the revision of the M&E framework. First, MCAM had to add the newly-selected target zones and their areas of investment. Second, the MCAM wanted to better coordinate goals across the three components. Rather than have specific targets for the land tenure, finance and agriculture components, the MCAM is designing program-wide goals that are supported by all three components. Third, MCAM staff was readjusting targets that were overly optimistic or significantly underestimated. For example, the initial goal of the number or loans and amount of new microcredit available will easily be met in the first few years, and therefore will be revised upward. Finally, the MCAM was working to build in external risk factors, such as increasing fuel prices.

Inflated and incorrect expectations: Finally, the perception of a slow start is partially due to the fact that some people simply have the wrong expectations about what the MCAM is designed to deliver. People observed a ceremonious compact signing in April 2005, and heard the sum of $110 million broadcast over the airwaves, so they expected to see the things they associate with big new aid programs—seeds, tractors, water pumps, financial hand-outs, new buildings and other tangibles. The MCAM approach of investing first in an “enabling environment” deviates from the instant-gratification approach that some have come to expect from aid programs. For example, two different regional leaders independently complained, “we have lost two planting cycles waiting for the MCAM.” This illustrates that they are waiting for the wrong things. Rather than provide direct inputs for a given crop cycle, the MCAM is designed to help farmers gain the capacity to meet their needs for many crop cycles to come, and this takes longer to deliver. The issue of expectations of the MCAM program is one of the key themes in the MCA Madagascar story and is discussed at length in the next section.

Part III Three Big Stories: Expectation, Consultation, Innovation

There is actually a lot to see in Madagascar’s “invisible year.” Three big stories came into view. First is the challenge of managing expectations in the context of an invisible year, and more broadly, in the context of lofty program goals. Second is the difficulty of fostering ongoing consultation with civil society in a country with very thin experience in public participation in development planning. Third is the should-be headline story of the innovative nature of the MCAM/MCC approach that is hidden behind concerns about pace and progress. This section tells these three stores and identifies the risks and opportunities that each represents for the MCAM and MCC.

1. The Challenge of Managing Expectations

MCAM elicits higher expectations than any other donor-funded program in Madagascar, even though the MCC is far from the largest donor. At an average of $27.5 million per year, the MCC comes in as the fourth or fifth largest donor in Madagascar. It falls well behind the E.U., the World Bank and the French Development Agency (AFD) in annual support. Despite this, as the following quotes illustrate, the MCAM has generated mammoth expectations. “Malagasy people expect the MCA to change their lives.” “We have worked with a lot of donors and are still poor; this is our big chance!” “The MCAM is the first aid program really committed to rural development.” And most dramatically, “In Madagascar the MCA is like Jesus coming back!” Given the number of donors in Madagascar, and the years of their investments in rural development, why are the expectations of the MCAM so high?

Reasons for High Expectations

Lots of publicity: The MCC has set high standards for transparency and public participation in the MCA process, but all this transparency has created high expectations. In Madagascar transparency has meant lots of media coverage (television, radio and newspapers) and public meetings at the central and regional levels. It was big news that Madagascar was the first to sign a compact with the MCC, and the $110 million figure was broadcast far and wide. The selection of last three target zones was a nationwide, public process, and the newspapers have been filled with countless advertisements for services needed by the MCAM. All of this public discussion has made the MCAM more widely known than other donor-funded programs, and has contributed to the high expectations that the public and officials hold of the program.

Legacy of past aid programs: In all its hype about the MCA program, the media coverage did not explain how the MCAM differs from what people traditionally expect of donor-funded programs. Madagascar has a history of subsidy-based programs that operate through high-profile handouts to regions, communities and individuals. The MCAM simply does not operate that way, yet people do not know to expect anything different.

Country ownership: When pushed to articulate why they have higher expectations of the MCAM than other donor-funded programs, many people replied, "because of country ownership." This has two aspects. First is the perception that the MCAM programs are more likely to succeed because they were designed by the Malagasy themselves, and are based on national plans and priorities. Secondly, there is a sense of pride and excitement stemming from the fact that the program is being run predominantly by Malagasy staff. For example, one leading donor explained that after a very impressive presentation by an MCAM team, his mission's Malagasy staff exclaimed, "There were no vazaha (white folks) in that group!" While there are several white faces associated with the MCAM, including an MCC resident country director and deputy, all full-time MCAM staff members are Malagasy.

Anticipation of a second compact: A potential phase-two compact further boosts expectations with the prospect of big money. Malagasy officials are watching the MCC sign huge compacts with other countries (notably Ghana's record-breaking $547 million compact, and most recently $460 compacts for both El Salvador and Mali) and foresee similar opportunities for their own country. Among close MCAM observers, especially government officials and Antananarivo-based civil society, the psychological line between the first and second compact has begun to blur. This tends to inflate the expectations of what the MCC and MCAM can accomplish.

Risks and Opportunities of High Expectations

The key to managing expectations is to stem the risks caused by incorrect or misplaced expectations, while exploiting the opportunities created by having high expectations in the right areas. The risks of failing to correct misplaced or wrong expectations are needlessly lost confidence in the MCA approach (that would extend far beyond Madagascar into the halls of the U.S. Congress), and in Madagascar's capacity to manage its own development. But these risks can be avoided through a communications and public education strategy that explains exactly what the MCAM does and does not offer, and provides insight into how the MCC/MCAM approach differs from that of other aid programs.

It is more challenging to manage the risks associated with expectations that are essentially appropriate (i.e., in line with those set by the program itself) but greatly inflated. For example, the MCAM program does include some direct investments at the regional level that will yield the tangible improvements everyone expects from aid programs. But even if all of these program goals are met, they are unlikely to yield satisfaction commensurate with expectations simply because they represent the smallest part of the MCAM budget. Regional level investments such as linking small producers to new markets and granting of land certificates are tiny compared to other program priorities. The big-ticket items are harder to see because they occur at the macro level or behind office doors—reform of the land tenure and finance sectors, modernizing of the national land registry, streamlining the national payments system, etc. This highlights the importance of including short-term, high-profile interventions in a compact heavy on central-level reforms. The MCAM team thinks they have the mix right, and have just been hampered by a slow start on program implementation. Time (and a good communications strategy) will tell if they manage to align public expectations and program achievements.

Part of the problem is that some of the inflated expectations are driven by what might come with a second compact. If a second compact is not forthcoming, Madagascar will have an “enabling environment” to better manage its development but no funding to take advantage of more secure land tenure and better financial services. Why did the GOM subject itself to this risk by creating a two-phase approach to winning MCC funding? Some argue that it was a conscientious calculated risk—to limit the first compact to something commensurate with the country’s capacity to absorb and manage the funds, and to acknowledge the need to set the stage from major investment funds to be effective. Others argue that motivations were more political—the President’s desire to be the first MCA country; or practical—a decision to avoid big infrastructure investments and their associated, time-consuming environmental impact assessments. Whatever the case, the insecurity about a second compact to fund high-profile investments puts the MCAM in a particularly risky situation when it comes to meeting high expectations.

While these risks are significant, the high expectations of the MCAM also offer opportunities. The most important is the opportunity for the MCAM to change the national mindset about aid and development by showing that its approach can affect fundamental change. Some early doubters are beginning to see the value of the MCAM approach. For example, in the words of the head of one of the MCAM regions, he finally understands that “The MCA is not a product; it is a system.” He is starting to understand that the MCAM will not give farmers seeds and tractors, but help link them to buyers for their products, keep their quality standards high, and leverage their land to acquire credit. Others are starting to see that rather than just (unsustainably) providing cash to microcredit institutions, the MCAM will help these institutions to create new financing mechanisms that fit the needs of the rural poor, and to attract new clients, thereby generating at least $5 million in new resources from the market itself.

High expectations also serve to motivate. One senior government official sent this message to the MCAM: “No cold shower!” In its effort to correct expectations of the program, he argued, the MCAM should not dampen expectations too much because they create momentum—people work harder and take more responsibility for program success. Another benefit of high-profile expectations is that the Government of Madagascar has been attentive to MCAM (and MCC) priorities. For example, the government is pushing hard on the policy reforms on which the success of the MCA program (and subsequent disbursements) depend. Senior officials reported that the government is keenly aware of the importance of maintaining MCA eligibility. It has, for example, responded quickly to USG concerns about trafficking of persons with serious crackdowns.

The MCAM knows that it has backed itself into a corner in terms of expectations, and that failure to meet these high expectations could undermine the program. Thankfully the MCAM is beginning to think about how to bring expectations back in line with reality. Key ingredients to realigning (and meeting) expectations are a strong communications strategy, improved mechanisms for public engagement (as discussed in the next section), and effective implementation of tangible programs at the regional and community level while the slower-paced macro-level reforms progress. The MCAM now has a team dedicated to communications and public affairs. Members of the SC and AC acknowledge that they themselves have been guilty of exaggerated expectations. They recognize their role in better educating their constituents about the program approach and goals. But even when expectations are corrected, the MCAM goals will remain ambitious. Ultimately, to prove the importance of creating an "enabling environment," and to meet expectations about its power, the MCAM will have to be successful in translating macro-level policy reforms into improved livelihoods.

2. Consultation with Civil Society

The challenge of managing civil society consultation features prominently in all MCA Monitor field reports to date, and was the subject of an InterAction report on Madagascar's early MCA experience. These reports all focused on the challenges of civil society participation in the early phase of compact development. This report focuses instead on the period since compact signing, and illustrates that managing public participation, especially with NGOs, does not get easier after the compact is signed. Madagascar's example highlights the need for explicit investments of time and expertise in engaging with civil society, similar to the level of investment that the MCC and partner countries demand in technical areas such as financial management, specific sectoral issues, and M&E. This is especially important in countries like Madagascar where civil society is relatively weak.

Compared with those in many countries in Africa, NGOs and community-based organizations in Madagascar have low capacity, are poorly organized and have little experience with policy engagement or advocacy. Madagascar lacks well-established umbrella organizations that serve as liaisons between broader civil society, the government and donors. NGO leaders described a lack of effective platforms for NGOs to coordinate programs or develop advocacy strategies, and very limited NGO capacity to come together with one vision and engage with the government. In contrast, business leaders described good organization and collaboration within the sector. There are numerous professional associations and other organizations that represent specific industries and private sector interests. These organizations regularly promote dialogue between firms and engage in coordinated policy advocacy. Despite this, business leaders lamented that most of their policy recommendations are not followed and dialogue with the government is not yet well developed.

In this context, this section describes three aspects of the MCAM's approach—selection of the program zones, collaboration with partners, and systems for managing ongoing consultation. The MCAM has made good strides on the first and second, but needs improvement on the third, most challenging, aspect.

Components of Managing Civil Society Consultation

Selection of the program zones: The MCAM's process to select the last three program zones was innovative and broadly participatory. The nation-wide, participatory process included civil society members and local government officials from each of Madagascar's regions (except the two already selected for the MCAM program). Together they went through an exhaustive process to select criteria to measure the regions' degree of *potential* and level of *need* in terms of economic growth and poverty reduction, and to design a survey tool to select target zones.

The regional selection was an illustration of MCAM's desire to greatly expand opportunities for consultation (beyond that which occurred for compact design), and the MCC's willingness to fund consultation efforts. On the other hand, the process was so exhaustive that it left the MCAM overextended and wondering if it had gone too far. And one could argue that the process came too late. These issues raise key questions of sequence, guidance and support. That is, should the MCC insist on a sequence in which countries identify target zones in initial proposals and in compacts before signing? Can the MCC offer better guidance so that partner countries neither fall short nor go overboard on civil society consultation? And can the MCC find creative ways to use pre-compact funding to support thorough consultative processes earlier on?

Programmatic collaboration with civil society organizations: The MCAM is pursuing programmatic collaboration with a number of civil society groups such as CARE International and WWF. While this is no substitute for consultation with the broader public, formalized collaboration at the program level is one good way to ensure meaningful civil society engagement during program implementation. One NGO leader described his organization's planned coordination with the MCAM as a way to help the MCAM make direct links to community groups and local beneficiaries. A second described the collaboration as a good way to influence MCAM policy and practice. In addition, the MCAM has signed MOUs with multilateral donors and with a number of firms that will represent the "market" for the small producers' products. As of August, most of these MOUs had not gone beyond the conceptual stage, but they do signal the MCAM's interest in active collaboration with civil society in a tangible, practical way at the regional and community level.

Systems for ongoing consultation: The MCAM's approach to fostering ongoing communication and outreach with civil society still needs improvement and clarification. The primary mechanism for ongoing consultation is the MCAM Advisory Council (AC). The AC is composed of 12 members representing the NGO community, the private sector and regional governments. The mission of the AC is to represent the priorities of its constituents to the MCAM, and it describes itself as a "guardian angel" to the MCAM (rather than a "watchdog" – a decidedly non-Malagasy concept).

Three issues threatened to weaken the AC's capacity to serve as an effective liaison between the MCAM and civil society. First is disagreement around the selection of AC representatives. While nominations and elections took place in November 2005, there remains a fair bit of confusion about the process. Many NGO and private sector representatives do not know who their representatives are (and indeed the names of the AC members were not listed on the MCAM website). Second, even those who can identify their representatives lament the lack of clear mechanisms for communication with them. In fact, no civil society representatives interviewed for this report had heard anything from the AC members since their election in November 2005.[6]

Finally, the AC lacks clarity about its relationship to the MCAM in terms of authority and responsibility. Even a year in, AC members were not entirely sure who they are accountable to, the degree to which the MCAM is obligated to accept the AC's recommendations, and the mechanisms by which the AC is to take its concerns to the MCAM. While five AC members sit on the SC, at the time of interviews for this report, these members had not yet had the opportunity to propose agenda items for the SC meetings. This means that even if AC members were effectively communicating with their constituencies, the current system does not guarantee that civil society concerns reach or inform the MCAM.

Risks and Opportunities in Consultation

Some of the risks of clumsy consultation with civil society are pretty clear—the AC's potential failure to represent civil society's priorities to the MCAM; missed opportunities to improve the MCAM programs based on beneficiaries' comments; and little correction of inflated expectations about the program. But there are even risks in areas where the MCAM has done pretty well so far. For example, the new mechanism for selecting target zones, while creative and encouraging, raises concerns. It was an enormously complex and time-consuming process. MCAM leaders expressed frustration that they "don't know what is enough and what is not enough." While they acknowledged that pre-compact consultation was not thorough enough, they fear that "the pendulum may be swinging the other way." This highlights the need for the MCC to give partner countries clearer guidance and support in managing consultation, particularly in countries like Madagascar that have so little experience in this realm.

The MCC (and thereby MCAM's) focus on civil society involvement, however imperfect at this point, does create enormous opportunities. Civil society involvement in planning

[6] Three of the 12 AC members were elected in December 2006 to represent the three new target regions.

aid programs is rather undeveloped in Madagascar. Even the concept of a civil society advisory council is very new. The MCC and MCAM are therefore in a great position to help the country establish the culture and capacity for civil society to be in engaged in development programs, and to exercise accountability over government and donor-funded programs.

Unfortunately one of the greatest opportunities in this area has already been missed—coordination with USAID civil society capacity-building programs. While the MCC sets high standards for ongoing engagement with civil society, it has not specifically funded activities that increase civil society's capacity to engage with the MCAM. Senior MCAM and MCC officials in Madagascar actually argued that it shouldn't because MCC resources fund government-led programs there, and it would be inappropriate for the government (through MCAM) to directly fund civil society. But recognizing this potential conflict of interest should not stop the MCC from finding creative ways, for example through 609g funds and strategic partnerships, to support civil society capacity building initiatives in partner countries. One useful partnership in Madagascar could have been MCC coordination with the USAID-funded Misonga program designed to strengthen capacity among Malagasy NGOs. But the program was recently cut, along with all other USAID democracy and governance funds in the country. And with it has disappeared a big opportunity to leverage existing USG-funded programs to enhance the MCAM's success and to meet the MCC's stated standards on civil society participation in development programs.

The good news is that MCAM seems interested in clarifying mechanisms for communication with civil society and using past experiences as opportunities for learning. AC members themselves gave a convincing description of their evolving plans to foster ongoing consultation, and of the MCAM's willingness to provide funds for their activities. The MCC resident country director is aware of gaps in the MCAM's capacity to develop strategies for ongoing civil society consultation. He explained that, partly because of these gaps, he has recruited a deputy country director with years of experience in NGO outreach and capacity building at USAID (from the Misonga program, in fact). These are encouraging signs, and all eyes should be on MCAM to watch for formal establishment of transparent and effective mechanisms to foster ongoing civil society participation in MCAM programming over the next several months. If MCAM gets is right, it will be a great opportunity for Malagasy civil society to develop new capacities, and for the MCC to demonstrate its role and responsibility in helping partner countries manage consultation.

3. Innovation in the MCAM/MCC approach

The MCC considers innovation a key part of its approach and a key ingredient to its success. Although MCAM is just ramping up its program activities, there are four aspects of the MCC and MCAM's approach that, if sustained, will make it innovative among other donors and aid programs in Madagascar. These are: a focus on sustainable *transformation* of the country's capacity to generate growth and improve the livelihoods of the poor; the *courage* to take on the tough reforms like land tenure and the financial system; *ownership* of the program by Malagasy leaders and MCAM staff; and finally serving as a *catalyst for coordination* among various stakeholders.

An important caveat here is the affects of the "invisible year." Unfortunately, the MCAM's potential as a source of transformation and innovation could be jeopardized by the fact that precious compact time was devoted to putting essential systems in place. The MCAM would be better positioned to meet its potential for innovation if the "invisible year" activities had occurred prior to "entry into force" of the compact.

Components of MCAM/MCC Innovation

Transformation: Many respondents argued that the MCC/MCAM is the only donor/program with a comprehensive enough approach to transform the Malagasy economy. In this case, the focus is on transformation of the rural economy from subsistence to market-oriented production. With many other donors working to increase agricultural productivity or link producers to markets, what about the MCAM gives it more potential for transformation than others? Part of the answer is in the comprehensiveness of the approach. For example:

- MCAM is investing in both the national and regional levels. Land tenure and financial sector reforms at the national level are designed to create opportunities for transformation at the regional and community level.
- MCAM has designed a coordinated program to address three interrelated barriers to poverty reduction in rural areas—land insecurity, little access to credit, and poor agricultural practices.
- MCAM targets all steps in the value chain—from increasing production capacity and quality standards of small producers, to securing the markets for their products.

Several respondents argued that the MCC/MCAM have increased their chances for jump-starting real transformation in Madagascar by selecting regions that have the most potential to benefit from their approach. This does not necessarily mean the richest regions, because the MCAM target zones represent a mix of the average incomes across the country; it means a focus on regions that exhibit both the *need* and the *potential* of the regions to experience this transformation.

So far, MCAM's beneficiaries seem to be optimistic about the potential for lasting impacts in the MCAM's approach. In the village of Betampona, the first to benefit from the MCAM's agricultural activities, farmers spoke plainly about the MCAM representing a shift away from subsidies to sustainable practices. The farmers view the MCAM as their partner in learning to engage more effectively with firms, and how to negotiate more favorable contracts and better comply with them—all skills that should stick beyond the life of the compact. While it is still very early days in terms of MCAM program implementation and impact, it is clear that the MCAM sees itself, and is seen by others, as a force for sustainable transformation.

Courage: When asked how the MCAM/MCC are different and innovative, or why expectations of the program are so high, many respondents cited the boldness and courage of the MCC/MCAM to take on the tough reforms in land tenure and the financial system.

The MCC is the biggest source of external funding for Madagascar's land tenure reform efforts. While other donors also support the establishment of community-level land tenure offices (guichet foncier), no donor comes close to the MCAM's $37 million commitment to national reforms (for example the U.N.'s International Fund for Agriculture Development has committed $5 million over the same period). According to one leading multilateral donor representative, over the years "other donors have made limited investments in land reform in the past because they have been pessimistic about the possibility of success." And their pessimism has been a self-fulfilling prophecy because the piecemeal interventions have never provided the foundation or momentum for fundamental, lasting reform. Government officials argued that MCC's major commitment to Madagascar's land reform effort has provided a much-needed base, has attracted other donors to the program, and has increased donor confidence in its potential success.

When it comes to the financial sector, the MCC is the only donor supporting major banking reform. While many donors are interested in microcredit, or supporting the creation of new financial instruments, most shy away from restructuring the formal banking system because it is so hard. But none doubt that it is important. Donors explained that the major banks are resistant to modernization and competition and that hurts the poor. A senior official of the Ministry of Finance argued, "currently banks can make money with 200 or 300 big customers, so why should they take risks on smaller borrowers and investors?" All donor and GOM officials interviewed for this report praised the MCAM/MCC's boldness for taking on these reforms in a serious way. There also seemed to be a strong consensus among NGOs (both local and international) and business leaders that the success of their own programs depended on the success of MCAM's interventions.

These bold initiatives set the MCC/MCAM apart from other donors in Madagascar, and have earned it the reputation for being courageous and innovative. The timing has been good for such boldness; the MCC's head-on approach complements that of the President, and offers crucial resources to support the increasing political will at senior levels of government to take on these tough reforms.

Ownership: The MCC is pursuing "country ownership" of development strategies in three important ways in Madagascar. First, in terms of program design, Madagascar's compact design was very much driven by national priorities, in conjunction with existing national strategies. Second, the fact that all of the MCAM staff is Malagasy is a huge source of pride and motivation, and relative to other donor missions in Madagascar, is an innovation. Third, the MCAM is fostering ownership among beneficiaries because the MCAM is a facilitator rather than a provider. For example, it will help farmers learn to leverage their land to access credit to purchase key inputs and new technologies, rather than just offering the seeds and tractors up front; and it will train microfinance institutions to develop new lending products and to reach out to underserved populations rather than just providing additional financing. In Betampona, farmers seemed to respect the "ownership" principle; in this case MCAM demands something of farmers before offering any benefits (such as preparing their land for cultivation).

There is an important caveat about "ownership" as an MCC innovation. The MCC is not the only donor to promote country ownership of development programs and financing. For example, all donors involved in land tenure reform are supporting the national land tenure program's strategy and have agreed to common M&E indicators. In Madagascar, as in all other countries featured by MCA Monitor, many donors are promoting ownership by providing increasing portions of their aid as budget support. General budget support makes up a quarter of all grant financing in Madagascar, and despite the MCC's commitment to "country ownership," it has not joined the World Bank, the EU, and the French Development Agency (and soon Norway, Switzerland and Germany) in fostering Madagascar's capacity to "own" and manage its development resources by supporting its general budget[7]. But the MCC has distinguished itself in terms of ownership at the staff and beneficiary level. On the program side, it is seen as an anchor for national "owned" programs in land tenure and financial sector reform simply because of how much money it contributes. And, what has turned out to be important is that the MCC and MCAM are vocal about their ownership approach. The "ownership" tagline is definitely a part of everyone's notion of the MCAM, and this lends the MCAM program significant political leverage, and surrounds it with enthusiasm and momentum.

Catalyst for Coordination: The MCAM is catalyzing and contributing to innovative coordination in several aspects of its work. First the MCAM is seeking coordination and collaboration with civil society organizations and firms at the programmatic level. Second, the MCAM is fostering a level of coordination between ministries that is new in Madagascar, both through the formal composition of the Steering Committee and through coordination required in its comprehensive approach on the programmatic level.

In the area of donor coordination, MCC is not so much a pioneer, as it is an enthusiastic partner in new coordination approaches. Donor coordination is less formalized at the central level in Madagascar than in other countries featured in MCA Monitor field reports. While donors nominally sign on to supporting the Madagascar Action Plan designed by the government, there are no formal central donor coordination mechanisms such as Sector-Wide Approaches (SWAps) that foster joint planning and pooled financing at the sectoral level (with the very notable exception of the multi-donor secretariat for environment which predates sectoral coordination in other countries). In the absence of centralized coordination, several regional leaders, together with donors are pioneering program coordination at the regional level. For example, at the invitation of the regional head, a number of donors recently made a joint visit to Menabe, one of the five MCA zones, to get to the nuts and bolts of coordinating programs and financing on the ground. USAID is playing a leading role among donors in this effort, and the MCAM

[7] For more on the MCC and budget support, see Should the MCC Provide Financing Through Recipient Country's Budgets? An Issues and Options Paper by Sheila Herrling and Steve Radelet.

is seen as both an anchor and a catalyst for increased coordination because it has so much money on the table.

Risks and Opportunities of Innovation

Innovation always comes with both risks and opportunities. The courage that allows the MCC to support bold reform also subjects it to the risks that many donors have chosen to avoid in the past. For example, both the land tenure and financial sector reforms are risky because of vested political interests. In addition, some of the reforms are simply daunting. For example, during a visit to the national land administration offices, an MCAM official said from behind disorderly piles of tattered land maps and titles, “We are trying to save 100 years of documents in four years!” The political and practical difficulty of MCAM’s proposed reforms led several respondents to ask rhetorically, “Is the MCC courageous or is it naïve?”

A major risk to the MCC’s transformational intentions is that the compact period is not long enough to achieve the types of results that MCC and MCAM have targeted. Transformation takes time, and four years may not be long enough for central-level reforms to translate into tangible results at the household, community and regional level—especially since precious time has been devoted to the “invisible year” and public expectations are increasingly hard to manage. It is no accident that donors tend to focus on investments that can be felt and seen quickly, and in the case of the USG, that can be tangible enough to bear the seal of “From the American People.” The MCAM and MCC have a different approach that focuses first on creating an “enabling environment” to make the most of subsequent high-profile, tangible investments. It is less sexy, but potentially much more powerful. Unfortunately the potential of this approach is hindered by the Congress’ prohibition on concurrent compacts. Under the current limitations, countries have a great incentive to either leave out the harder, longer-term reforms, or to cram them into an unruly package that necessitates hundreds of millions of dollars of planning up front. The last three MCA compacts—Ghana, Mali and El Salvador—appear to indicate countries taking the latter approach. Madagascar took a risk by being cautious in its approach. It would be a pity for it to miss out on a concurrent compact and thus serve as a lesson that MCA countries should be audacious rather than measured in their proposals.

The MCC has put a lot of emphasis on its approach being innovative. Innovation for its own sake is, of course, meaningless. The value of innovation is in the MCC and its country programs reaching better and more sustainable results than their predecessors have. There are opportunities for this in the MCC and MCAM’s bold and innovative approach in Madagascar. Most importantly, the MCC/MCAM approach creates the opportunity for Madagascar to transform not only its economy but its approach to development. If the MCAM is successful, the principles of courage and ownership will help Madagascar break away from the real or perceived reliance on subsidy-based aid programs, and really take the reins on promoting its own development.

The MCAM's approach also gives it the potential to leave a legacy long beyond the life of the compact. Due to ownership at the staff level, the MCAM will produce a cohort of Malagasy professionals with capacity to plan and financially manage development strategies. Ownership, combined with funding contingent on reaching reform milestones, lends credibility to the program as it pursues tough reforms in a courageous way. And the MCAM's comprehensive approach that includes coordination between stakeholders and across program components means the MCAM, in the words of the MCC resident country director, "is sitting on a tremendous opportunity to change the face of agriculture" at the regional and community level.

These opportunities help explain the enormous expectations that surround the MCAM. The MCAM and MCC have some catch-up to do both in terms of time spent and misplaced expectations over the course of Madagascar's first invisible year. But with some strategic action on the part of the MCAM, and support from the MCC and US Congress, the MCAM can make the most of these opportunities.

Part IV   Recommendations

The three key aspects of Madagascar's early MCA experience—the challenge of managing expectations, the process of fostering ongoing consultation, and MCAM/MCC innovation, inform a series of recommendations for other MCA countries, the MCC and the U.S. Congress.

Managing Expectations

MCC and partner countries should emphasize appropriate sequencing over expediency. The MCC should offer clear guidance and financing to help countries set and meet pre-compact milestones and thus improve chances of reaching program goals within the compact period. MCA countries should not rush compact signing or "entry into force." By working to get administrative structures, baseline surveys, M&E frameworks, consultation and other foundational pieces in place before the official clock starts ticking, countries are more likely to meet public expectations and program goals. The MCC can shield against political pressure to rush entry into force by offering clear guidance about what needs to be in place before compacts coupled with creative, pre-compact financing mechanisms to meet these milestones. To its credit, the MCC has made strides in this area. For example, to accelerate compact implementation in Ghana, the MCC obligated $10 million in 609(g) resources to get key structures and assessments in place before the compact entered into force (and the implementation clock started ticking). This kind of creative approach should be encouraged and indeed should occur even earlier in process—prior to compact signature.

MCA countries should develop, with MCC support, an explicit communications strategy for expectations management and education about its approach. MCC's emphasis on transparency in the planning and implementation process leads to a high level of public awareness about a country's MCA program. If not coupled with clear information about the program approach and expected outcomes, this heightened awareness can lead to unrealistic expectations, public disappointment and loss of political capital. By investing up front in a communications plan, a country can buy itself more time and flexibility to pursue long-term program goals with public support.

MCA countries should balance short-term and long-term interventions to keep momentum alive and expectations satisfied. Long-term, national-level policy and institutional reforms are critical for sustained economic growth, but they are not sexy or particularly visible. Countries should pursue components of the program that deliver immediate, tangible benefits to average citizens while longer-term reforms are taking effect. This is vital for generating and maintaining support for MCA programs, and in some case, winning the hearts and minds of the public in the context of politically tough reforms.

The MCC should insist on a comprehensive M&E framework before a compact begins, but be flexible about revisions during the course of compact implementation. Having a comprehensive M&E framework at the beginning of a compact period is a sign that fundamental steps (like baseline surveys, regional selection, impact assessments, and detailed program planning) have been taken. But even the most seasoned development planners cannot predict the future. Allowing for flexibility to rethink and revise targets during the life of the program encourages country staff to pursue ongoing (rather than just after-the-fact) monitoring and evaluation. MCC flexibility in this area goes hand-in-hand with its emphasis on ownership and capacity building. Finally, revising targets to keep them realistic, while still keeping them ambitious, can be critical for managing expectations about the program.

Fostering Consultation

MCC and MCA countries should bring in expertise on civil society consultation earlier, as is done for technical areas like procurement and sectoral interventions. A lot of countries have struggled with civil society engagement. For many, MCC standards in this area are as new and as challenging as those associated with measuring economic rate of return and establishing fiduciary accountability. If the MCC is going to push countries to meet its standards for consultation, it should be explicit about offering technical assistance in this area. This includes, but is not limited to: analysis of previous consultation efforts as a baseline for devising and assessing MCA-specific consultation; developing creative mechanisms to fund consultative processes that occur before compacts begin; and encouraging countries to include costs for ongoing consultation in compact budgets. Like in other technical areas, the MCC's goal should be to build and improve on existing country capacity in fostering civil society consultation.

MCA countries should seek partnerships that will strengthen civil society's capacity to participate in program planning and implementation, with a special focus on complimentarity with other USG programs. MCC's focus on country ownership often means that MCA programs are in fact government programs. Thus there may be a conflict of interest in having governments use MCA compact resources to directly fund civil society capacity building (as is the case in Madagascar). This should not stop MCA programs from making use of 609g funds to strengthen pre-compact consultation, using compact resources to fund participatory processes, and identifying opportunities, through collaboration with NGOs and the private sector, to strengthen civil society capacity. Most importantly, the MCC and MCA countries should try to capitalize on USAID investments and experience in this area.

Promoting Innovation

MCC and partner countries should continue to talk loudly about country ownership. While MCC has done a lot to promote country ownership, it is the perception of ownership that has really galvanized support and generated cooperation and momentum around Madagascar's compact. By constantly reminding MCAM staff and the general public that the country is in charge, MCC has increased political initiative, staff enthusiasm, and intergovernmental cooperation surrounding the program. The MCC should continue to explore ways to expand its ownership principle, including serious consideration to providing budget support in especially well-performing countries.

The US Congress should support the MCC's willingness and courage to support tough, overarching policy and institutional reforms. Fundamental reforms are sometimes the key to jump-starting economic growth and poverty reduction in MCA countries. Similarly, strong institutions – particularly fiduciary systems – play a key role in bringing sustainable development. Few donors have the guts to support major, tricky reforms or institution building on a large scale. So if these reforms are the initiative of the national government, and supported by local civil society, they should be enthusiastically supported by Congress. The Congress could enhance innovation potential and impact of the MCA if it had a higher risk threshold for supporting and strengthening country systems while insisting upon results, and remembering "transformational development" can occur at the approach level as well as at the outcome level.

MCC and the US Congress should allow, and even encourage, countries to pursue concurrent MCA compacts. In Madagascar, implementation of the first modest compact is helping to clarify where phase-two investments will be most effective. This is a responsible approach in countries with limited capacity or where fundamental reforms are a prerequisite to sustainable growth and poverty reduction, and one that MCC should encourage. Allowing Madagascar, and other countries where appropriate, a concurrent compact would not only improve the chances that programs will be sustainable and transformational, but could help meet public expectations about the MCC's promise of economic growth and poverty reduction.