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The Path Forward

The MCA has the potential to bring about the biggest transformation in US foreign assistance policy in several decades. The program's design challenges conventional aid programs in several ways and promises—if carefully implemented—better outcomes for both recipient countries and the American people. First, its focus on growth and poverty reduction will help reduce the tensions arising from multiple foreign policy goals, which have weakened current programs. In particular, the transparent country qualification process will help curtail (albeit not eliminate) the temptation to divert MCA funds to solving immediate diplomatic and security problems. Second, targeting a select group of low-income countries with a commitment to good policies should increase the return on investments made with MCA funds. Third, the emphasis on local participation in program design and implementation is a groundbreaking change in US assistance programs, and should help establish appropriate priorities, increase country ownership, and enhance the prospects for better results. Fourth, the new corporation could reduce the administrative costs of delivering aid, making a greater portion of funds available to recipients on the ground. If the MCA succeeds, it could change other US aid programs by providing a model for increasing recipient-government ownership, reducing bureaucratic costs, and strengthening the focus on results. In the same way, the MCA's best practices could positively influence other donors—both bilateral and multilateral—in the way they design and implement foreign assistance programs. It could also enhance the ability of recipient countries to better manage their external aid in terms of establishing priorities, monitoring ongoing programs, and demanding results.

These positive outcomes are far from assured, however. There is no guarantee that the MCA will succeed. The establishment of an independent corporation could further fragment foreign assistance, create confusion, and undermine existing agencies, especially USAID. The MCA selection process could become politicized, with MCA funds being diverted to strategic partners that are held to weaker standards than other countries. The administration's zeal to make the new corporation as lean as possible could result in it being understaffed, undermining its ability to accept proposals from a variety of entities, to properly evaluate those proposals, and to effectively monitor and evaluate programs to the extent necessary to ensure strong results. The United States may find that qualifying countries do not have the capacity to absorb such large amounts of new funding, even if the delivery mechanisms are streamlined. Over time, earmarks and other directives could begin to burden the new corporation in the same ways they currently encumber USAID. Growing budget pressures driven by widening deficits threaten to keep annual MCA funding well below the \$5 billion promised by President Bush, or to fund it at the expense of existing important foreign assistance programs.

Key Recommendations

Several steps will be critical to make the program a success, as discussed in detail throughout the book. Here I distill from that analysis a consolidated list of the most important issues.

The country selection process must be implemented fairly and openly and strengthened over time. Using the administration's proposed methodology, approximately 12 countries would qualify for the MCA in the first year, with perhaps 18 qualifying during the first three years. Several other countries are close to qualifying and should be added. Many of these countries are reasonable candidates for the MCA, while others are questionable.

The proposed selection methodology is a good start but must be improved and refined over time. A small number of new indicators should be added, especially in health, education, and the business environment, to better capture recipient-country policies and institutions. Some of the weaker indicators (such as the trade policy index and public spending on health and education) should be replaced over time with better indicators. Similarly, the most subjective indicators should be replaced with more objective ones when possible. But these new indicators will not appear on their own: the new corporation must work with recipients, other donors, and research institutions to improve the quality and availability of data that could be used in potential indicators.

The selection process raises many issues about the choice of indicators, quality of data, weighing the indicators, choosing the hurdles, and deter-

mining income categories, which cannot be solved through legislation but are too important to be left up to the staff of the new corporation. To address these issues on a regular basis, the administration and Congress should establish an independent panel, comprising outside academic and technical experts, to review the selection process on an annual basis and offer recommendations for improvement.

A significant drawback of the proposed methodology is that it severely limits the number of countries that can qualify over time, even if country performance improves significantly. At the root of the problem is the use of the median score as the standard for passing each hurdle. Although this sounds like a mundane statistical issue, it has profound impact on the selection process. Using median scores raises two concerns.

- First, medians change over time, so recipient countries will be aiming at moving targets. For example, countries that strive to achieve a particular immunization rate to qualify may be disappointed to find that even though they raised their immunization rate, the median increased over time, and they again failed to qualify.
- Second, using the median limits the number of countries that can qualify. Statistically speaking, if the current system is used, it is highly unlikely that more than 20 to 25 countries could qualify for the MCA in a given year, even if there were a widespread improvement in the 16 indicators. The reason is straightforward: as countries that just miss qualifying work harder to improve their scores, the median score will rise, so some of the original qualifiers will drop off the list.

As a result, the use of the median as a hurdle undermines the goal of expanding the MCA over time. The administration already uses an absolute score for one indicator (a 20 percent inflation rate). It should immediately shift to absolute scores (equal to the median score in the first year) for other indicators where possible, including all four “investing in people” indicators, the budget deficit, and the number of days to start a business. It should work toward modifying the remaining indicators to use absolute scores.

A related problem with the median is that for several indicators (especially the civil liberties, political rights, and trade indicators), the range of scores is very narrow and many countries are bunched together at the median. In the administration’s methodology, scores equal to the median do not count as passing a hurdle. As a result, these countries are penalized because the indicators are measured with such a narrow range. The selection process should count median scores as sufficient to pass the hurdle.

The proposal to eliminate all countries with corruption scores below the median regardless of their performance on other indicators should be modified. Although the intention to provide funds only to countries actively controlling corruption is laudable, the data underlying this indica-

tor (as with almost *any* indicator) are not reliable enough to be the sole basis for immediately disqualifying half the countries eligible to compete for the MCA. As alternatives, the administration could eliminate the worst corruption offenders either where the data indicate that there is a 75 percent or greater chance that the true level of corruption is below the median, or where the corruption score is in the lowest quartile. Countries meeting this standard would remain eligible and could qualify if they passed sufficient hurdles in other areas.

The administration's proposal that the board of directors of the new corporation be allowed to modify the list of qualifying countries under limited circumstances is appropriate. However, care must be taken that over time this administration (and future administrations) does not abuse this discretion and use MCA funds to reward strategic and diplomatic partners.

The administration's proposal to include countries with per capita incomes between \$1,435 and \$2,975 in the third year of the program should be dropped. The MCA should focus on the poorest countries. The countries added in the third year have less acute development needs and more options for private financing. Moreover, including this group of countries risks politicizing the MCA, since it contains several countries of great strategic importance to the United States. As an alternative, the MCA-eligible countries could be split into two groups: countries with per capita incomes of \$875 or less (equal to IDA's operational cut-off) and countries with per capita incomes between \$900 and \$1,435. In this system, the 87 poorest countries would be eligible for the MCA, with 68 in the first group and 19 in the second. This formulation would keep the MCA focused on the poorest countries.

The program design process must balance openness and inclusiveness in the recipient country, on the one hand, with efficiency and lower administrative costs on the other, and much of the responsibility for program design must be shifted to potential recipients. An extensive participatory process should be put in place in the qualifying countries to ensure widespread input into the design of MCA-funded programs. This approach is intended to encourage innovation and creativity in, and true ownership of, the development programs being implemented on the ground. To meet this goal, the corporation should accept proposals from a variety of institutions in qualifying countries, including national and subnational governments, NGOs, and some private-sector entities. Forcing all such proposals to go through a single in-country clearance process and be wrapped into one contract, as the administration seems to favor, will give the recipient government too much power over the process at the expense of independent subnational governments (which may represent a different political party) and NGOs. Opening the proposal process more widely will add

to the administrative burden of the new corporation but will result in original, higher-quality programs, stronger results, and a more effective MCA.

A key ingredient in designing high-quality MCA activities is the proposal review process. All proposals should be carefully and thoroughly vetted by US government staff with appropriate country and substantive expertise, especially by staff on the ground with in-depth knowledge of the recipient country. However, US government staff alone will not be sufficient. To ensure unbiased and high-quality technical input, the review process should include local and international nongovernmental experts. In addition, the MCC should post on the World Wide Web all proposals it accepts for funding to ensure full disclosure and transparency in the review process.

The MCA should not try to do everything. Ideally, the program should focus on a core set of activities that meet four criteria. The activities should be (1) demonstrable contributors to economic growth and poverty reduction, (2) consistent with achieving the Millennium Development Goals and with each country's poverty reduction and development strategies, (3) services that the private sector is likely to underprovide, and (4) those in which aid can actually make a difference. The most promising areas for MCA funding include health, education, agriculture, environment, and certain limited private-sector activities (e.g., microfinance and possibly small- and medium-sized enterprise funds).

Shifting toward greater country ownership and involvement in the design process inevitably will create new responsibilities for recipients. There simply is no way to increase country ownership without increasing the administrative burden on recipients. Thus, an important challenge for the MCA will be to avoid overwhelming potential recipients with the application and implementation process. The new corporation's staff should work with recipient governments and other donors to minimize the burden of the proposal process and reporting requirements on the recipient countries. Particularly important will be to avoid requiring recipients to produce multiple project audits, environmental impact reports, procurement assessments, and other requirements that differ from those of other donors. The effectiveness of the MCA will be undermined if it simply becomes one more set of hoops for recipients with limited administrative capacity to jump through. The corporation should offer small amounts of funding to recipients to allow them to hire local and international technical assistance to help prepare proposals. The new corporation's staff must work closely with recipients and other donors to harmonize reporting processes and other administrative requirements on the recipients. Achieving high standards for the MCA need not require multiple standards for recipients and should not lead to more bureaucracy.

The new corporation must be established with a solid foundation, including strong board membership, adequate staffing, appropriate coordination with other agencies, and fewer legislative mandates than existing

programs. Creating a government corporation for the MCA is a reasonable strategy, given the relatively unique nature of the MCA and the restrictions and bureaucracy that impinge upon USAID's operations. However, doing so entails significant risks, especially that it could lead to more confusion and inconsistency in foreign aid policy and weaken USAID. To ensure that the new corporation operates effectively, it needs the right board of directors. The three key administration representatives should be the secretary of state, the secretary of the treasury, and the administrator of USAID. The administration's proposal to include the director of the Office of Management and Budget should be dropped. In addition, two non-governmental representatives should be on the board to provide the organization with independent ideas, fresh perspectives, and expertise not found in the government.

The proposal to use staff on detail from other agencies is sensible, so long as the home agency is not expected to pay the salaries. Staff on detail from other agencies should complement a core staff of longer-term employees, which will provide continuity and institutional memory for the new organization.

The administration has proposed staffing the new corporation with 100 people. Although the objective of keeping the corporation lean is laudable, this number is too small and risks undermining the quality of MCA programs. Certain services can be contracted out to private firms or other US government agencies, but relying too much on other agencies or outside consultants would undermine the corporation's effectiveness. A staff of at least 250, including a strong presence on the ground in each recipient country to be the "eyes and ears" of the program, will be essential to maintaining high-quality proposals, financial accountability, rigorous monitoring and evaluation standards, and strong results. The corporation's staff members will need to establish mechanisms to closely coordinate their work with other US agencies working on development issues, especially in USAID and the Departments of State and Treasury. Representation on the board by these three agencies is critical, as is the proposal to partially staff the corporation with employees on detail from these agencies.

Existing foreign assistance programs are enmeshed in an elaborate web of legislative mandates and directives that weaken their performance. To be effective, the MCA must be freed from many of these restrictions. There should be no earmarking or tied aid in the MCA, as these policies seriously undermine program flexibility and effectiveness. MCA funds, once appropriated, should be available until expended and not lost if unused by the end of the fiscal year. Pressures to "use it or lose it" undermine the quality of programs and the ability to focus programs squarely on achieving results.

A rigorous monitoring and evaluation system will be central to the MCA's success. A results-based approach for foreign aid cannot succeed without a solid process of monitoring and evaluating existing programs. A

strong monitoring and evaluation system will ensure that programs meet specified goals; indicate when adjustments are necessary to keep activities on track; inform decisions to either increase, reduce, or eliminate funding; avoid problems with absorptive capacity; and shape the design of new activities. Both internal (by the grantee) and external (by a contractor or a US agency such as the General Accounting Office) monitoring and evaluation processes are required and should be built into each proposal from the outset. In order to strengthen the basis for determining the impacts of MCA-funded projects, a small number of evaluations should be carried out rigorously using control and treatment groups. In addition, the monitoring and evaluation process should include regular assessments of the corporation itself and its effectiveness and efficiency in delivering aid. Monitoring and evaluation programs must go beyond the standard approach of fiduciary oversight and actually focus on achieving development results. This approach is often underemphasized in foreign assistance programs, and the administration has so far paid it little attention for the MCA. Moreover, the MCA itself should be regularly evaluated by an independent body. If the MCA does not establish a stronger monitoring and evaluation system than in existing programs, it is doomed to fail to achieve strong development results.

Be patient. Development takes time, even under the best of circumstances. There should be no temptation to “graduate” recipient countries from MCA assistance prematurely or even to threaten this step, out of a hope that a few years of MCA assistance will be enough to put low-income countries on the path of sustainable development. To do so could be very counterproductive. Ghana is an instructive example. If Ghana does everything right under the MCA and achieves 7 percent per capita annual growth, it will take it 21 years to reach per capita income of \$1,435, the upper income level for the first group of MCA countries. Instead of trying to graduate countries too early, the administration should plan to follow successful programs with new programs for progressively smaller amounts of funding, as long as recipients continue to meet the overall qualifying standards and use MCA funding well.

As the MCA unfolds, it will be extremely important to keep expectations realistic. Some MCA programs will show weak results, even if they are carefully planned and skillfully implemented. No aid program—no matter how big, well targeted, and efficient—can transform poor countries overnight, and probably not even over decades.

Beyond the MCA

To achieve US foreign policy goals of ensuring a more open, equitable, and prosperous global economic system and fighting terrorism, the ad-

ministration and Congress must look beyond the MCA. Although the MCA is a promising program, it is only one part of a comprehensive foreign assistance program. The administration and Congress must develop clear strategies for countries that do not qualify for the MCA, from near-miss countries to failed states. Different approaches are required for different circumstances, with varying design procedures, delivery mechanisms, objectives, and monitoring and evaluation processes. For example, in countries that just miss qualifying for the MCA, allowing recipients to write limited proposals focused on the specific areas where they fall short of qualification could strengthen traditional aid programs. In countries with weaker governments, donor funding should continue to concentrate on specific projects, but with streamlined contracting and procurement procedures to make projects more cost effective. Where governments are weak (or part of the problem), aid should be channeled through NGOs and other service providers in the recipient country. In some circumstances, no aid should be provided at all. Of course the risks will be greater and the results weaker in these countries.

In effect, the MCA should be seen as just one of several tools available to address US goals in low-income countries. Developing strategies beyond the MCA will require a thorough rethinking of the objectives and strategies for USAID. To be more effective, USAID should focus its activities narrowly and set clear priorities. It also should transfer its political-based programs to the State Department. Many of the legislative mandates that undermine the agency should be reviewed and simplified. The right way to make these changes would be to finally rewrite the 1961 Foreign Assistance Act. While this would be a difficult and time-consuming process, it is much needed and long overdue, and central to making US foreign assistance programs more effective. This rethinking is especially important given the Bush administration's approach of establishing new aid initiatives that operate independently of existing programs, an approach that could fragment US foreign assistance and make it less effective. The current bipartisan support for foreign aid provides an unusual opportunity to take on this task.

Foreign aid alone, however, will not be enough to create meaningful economic opportunities and fight poverty in low-income countries. By far the most important actions are the policies introduced by governments in low-income countries and their commitment to improving the welfare of the poor within their own country. However, other US policies also have a strong influence, especially US trade policies. Further opening US markets to low-income countries would be far more effective in supporting sustained economic growth and development than the MCA can ever be. If the US government is serious about leading the world toward greater openness and prosperity, it must reduce its farm subsidies and lower trade barriers on agricultural and labor-intensive manufactured products.

Other areas that need improvement include debt relief, health, and climate change.

Finally, the MCA and other critical foreign assistance programs must be fully funded and will require strong leadership. The administration boldly announced that the MCA and the HIV/AIDS initiative would provide substantial new financing for fighting global poverty, and that these funds would not come from existing programs. It must now fulfill those promises. Whereas the administration claimed that it would make the MCA a very high priority following the president's original announcement, to date it has paid inadequate attention to working with Congress, shaping the program, and designing the new corporation. The pace of progress on the MCA has been slow compared with other programs such as the Global Fund to Fight AIDS, Tuberculosis, and Malaria and President Kennedy's founding of USAID in 1961. Stronger leadership will be necessary to get the program started on time with a solid foundation. Growing budget deficits will create pressures to provide smaller amounts of funding for the MCA, to delay the full implementation of the program over more than three years, and to reduce funding for existing programs. The administration's leadership on these issues and its willingness to follow through on its own commitments will be sorely tested in upcoming budget battles. Underfunding these commitments would diminish the chances for their success, weaken the opportunity for the United States to regain global leadership on foreign assistance issues, and reduce the extent to which it can achieve its broader foreign policy goals.

The United States has given up much of its global leadership role on foreign assistance in recent years. The MCA provides an opportunity for it to reassert this leadership, both because of the program's size and its (potentially) innovative delivery mechanisms. If the MCA is fully funded, implemented efficiently, responsive to needs on the ground, and focused on realistic results, it could dramatically improve foreign aid programs both in the United States and in other donor countries. To complement the MCA, the United States must formulate new strategies for making its existing foreign assistance programs more effective, which will require a clear vision for and strong leadership in USAID. The MCA initiative, as currently conceived, is a good start, but the administration and Congress must work together to develop all the components necessary for an effective foreign assistance strategy to combat poverty and further US strategic interests around the world.

