MCC Monitor

MCC @ 10

Focus on Country Ownership: MCC's Model in Practice

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Summary

One of the key pillars of MCC's model is that country ownership matters for results. In broad terms, the idea of country ownership is that donors' engagement with developing countries should reflect the understanding that partner country governments, in consultation with key stakeholders, should lead the development and implementation of their own national strategies and that foreign aid should largely serve to strengthen recipients' capacity to exercise this role. This concept was a key element of the international aid effectiveness agenda emerging at the time of MCC's founding and remains a priority throughout the foreign assistance community. Although the concept of country ownership has been recognized by some within the international development community since the late 1980s, it was formally embraced as an element of best practice by the donor community in the Paris Declaration (2005), again in the Accra Agenda for Action (2008), and then again in the High Level Forum on Aid Effectiveness in Busan (2011).

Country ownership is a significant factor shaping four main elements of MCC's approach to country engagement:

- Project identification
- Compact implementation
- Policy conditionality
- Accountability

This paper looks at how MCC incorporates country ownership into each of these elements, how MCC's approach to country ownership has evolved over time, and the circumstances in which MCC has had to balance country ownership with other operational mandates (e.g., the need for expedient implementation and the need to manage fiduciary risk) and other key pillars of its model (especially the focus on results). It explores how MCC remains different from other US foreign aid thinking and practice around country ownership and offers recommendations for how MCC should strengthen its approach in this area in the future.

The MCC Monitor provides rigorous policy analysis and research on the operations and effectiveness of the Millennium Challenge Corporation. It is part of CGD's Rethinking US Development Policy Initiative that tracks efforts to reform aid programs and improve aid effectiveness.

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Center for Global Development

MCC at 10 Series

The Millennium Challenge Corporation (MCC) is now 10 years old. It was established with bipartisan support as an independent US government agency in January 2004. Though MCC has always been a relatively small agency (accounting for less than 5 percent of the US government's foreign aid spending), it was, from the outset, created to deliver aid differently, with both mission and method reflecting generally accepted fundamental principles of aid effectiveness.[1]

MCC's sole objective is to reduce poverty through economic growth, with three key pillars framing how it pursues that goal:

1. ***Policies matter:*** MCC partners only with countries that demonstrate commitment to good governance, on the premise that aid should reinforce and reward countries with policies that are conducive to growth-promoting private-sector activity and investment.
2. ***Results matter:*** MCC seeks to increase the effectiveness of aid by identifying cost-effective projects, tracking their progress, and measuring their impact.
3. ***Country ownership matters:*** MCC works in partnership with eligible countries to develop and implement aid programs, on the premise that investments are more likely to be effective and sustained if they reflect the country's own priorities and strengthen the partner country government's accountability to its citizens.

Taking stock of MCC's first 10 years, and with a view toward the future, this series of MCC Monitor Analyses addresses three main questions for each of the three pillars of MCC's model:

- To what extent has MCC's model governed its operations in practice?
- How should MCC strengthen and expand its model and operations over the next 10 years?
- With other US government development agencies adopting many of the aid-effectiveness principles that underpin MCC's model, how is MCC still different from other providers of US foreign assistance?

[1] According to US Overseas Loans and Grants (http://gbk.eads.usaidallnet.gov/data/fast-facts.html), MCC was responsible for just under 5 percent of US economic assistance disbursements in FY2012. In comparison, the United States Agency for International Development (USAID) was responsible for 35 percent and the State Department 38 percent. The George W. Bush administration's original vision of MCC was that it would have an annual budget of $5 billion rather than the approximately $1 billion it has received each year. Even if it had reached the higher level, its budget still would have been only around half the size of both USAID's and the State Department's annual foreign assistance obligations each year.

Focus on Country Ownership: MCC's Model in Practice

Introduction

One of the key pillars of MCC's model is that country ownership matters for results. In broad terms, the idea of country ownership is that donors' engagement with developing countries should reflect the understanding that partner country governments, in consultation with key stakeholders, should lead the development and implementation of their own national strategies and that foreign aid should largely serve to strengthen recipients' capacity to exercise this role.[2] This concept was a key element of the international aid effectiveness agenda emerging at the time of MCC's founding and remains a priority throughout the foreign assistance community. Although the concept of country ownership has been recognized by some within the international development community since the late 1980s, it was formally embraced as an element of best practice by the donor community in the Paris Declaration (2005), again in the Accra Agenda for Action (2008), and then again in the High Level Forum on Aid Effectiveness in Busan (2011).[3]

Based on the emergence of country ownership as an aid effectiveness best practice, MCC adopted country ownership as one of its key guiding principles, even before the first of the international declarations was made public. President Bush, in his announcement of the Millennium Challenge Account at the UN Conference on Financing for Development in 2002, called for "a new compact for development defined by greater accountability for rich and poor nations, alike." As Bush administration officials were putting together the plan for how to operationalize the Millennium Challenge Account, Steve Radelet (2003), in a book examining the prospects of the new aid mechanism, described the administration's proposed process for designing compacts as "a radical departure from [the current] system, in which the government and nongovernment groups in qualifying countries take the lead in setting priorities and developing and defending their own ideas for using aid. This new approach promises greater ownership of aid-funded activities, much wider participation by civil society and other groups in recipient countries, and a stronger commitment to achieving specified results."[4]

Country ownership is a significant factor shaping four main elements of MCC's approach to country engagement:

- Project identification
- Compact implementation[5]
- Policy conditionality
- Accountability

This paper looks at how MCC incorporates country ownership into each of these elements, how MCC's approach to country ownership has evolved over time, and the circumstances in which MCC has had to balance country ownership with other operational mandates (e.g., the need for

[2] This definition is drawn from discussion of country ownership in the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008).
[3] World Bank (1988) found that "progress in implementation has been stronger where governments have 'owned' the program and hence were committed to carrying it through."
[4] Radelet (2003), 77.
[5] A compact is MCC's hallmark investment, a five-year program in which MCC provides grant financing for projects targeted at reducing poverty through economic growth.

expedient implementation and the need to manage fiduciary risk) and other key pillars of its model (especially the focus on results). It explores how MCC remains different from other US foreign aid thinking and practice around country ownership and offers recommendations for how MCC should strengthen its approach in this area in the future.

In summary, during its next decade, MCC should reinforce its commitment to country ownership and continue to seek the right balance between ownership and results by doing the following:

1. Approving only investments that both demonstrate adequate country ownership and meet MCC's minimum 10 percent economic rate of return (ERR) standard, both at initial project selection and during project rescoping; (Country ownership should not be a justification for investing in, or continuing, low-return projects. Instead, investments should be consistent with both MCC's commitment to country ownership and its focus on achieving cost-effective results);
2. Continuing (and possibly increasing) technical support for stakeholder engagement where capacity is lower;
3. Experimenting with Cash on Delivery Aid (COD Aid) as a mechanism providing greater country ownership over implementation by giving partner country governments flexibility to experiment to find the best ways, within their own local contexts, to achieve agreed-on outcomes;
4. Continuing experimenting with providing additional support for sector reforms required as policy conditions and documenting the extent to which this approach is successful;
5. Improving accountability to in-country stakeholders by improving transparency around both progress during implementation and estimates of results from evaluations by
    a. posting evaluation plans before implementation begins and publishing, in a timely manner, all evaluation reports, including those of midterm evaluations and other assessments that inform midcompact decisions to scale up (or not) particular projects;
    b. increasing resources dedicated to disseminating results-related information, as the current website is difficult to navigate and results information is often incomplete or out of date; and
    c. reporting publicly on a quarterly basis any partner-country progress on the policy commitments that were made as part of each compact;
6. Expanding local participation in evaluation to include local nongovernment stakeholders who have an interest in the process' learning and evaluation objectives.

Defining Country Ownership: An Emphasis on Mutual Responsibility

MCC's approach to country ownership incorporates two parts of the concept—one that emphasizes the lead role of the partner country government and one that emphasizes the solicitation of citizens' views that are often not adequately reflected in public policies. While this approach is largely consistent with the ideas associated with country ownership in the international aid effectiveness literature, its dual nature has sometimes led to complications in MCC's efforts to satisfy both during the program development process, especially in MCC's early years.

In foreign assistance, much of the discussion of country ownership revolves around how donors develop their strategies, how they identify the activities they support through financial and technical support, and/or what the partner country is expected to contribute toward the achievement of the program's goals. The term "country ownership" means different things to different people, however. It is a complex and multifaceted concept, and different actors within the development sphere sometimes emphasize certain angles over others. However, common across varied conceptualizations of country ownership is the notion that it is an important, even critical, element for program success.

Perhaps one of the earliest efforts to operationalize the concept of country ownership can be found in a World Bank discussion paper from 1994.[6] Within the World Bank at that time, "country ownership" referred to the idea that local leaders understood and embraced the need for certain policy and institutional reforms, many of which had been suggested by donors. The research found a strong relationship between the degree to which a country government "owned" the reform package (i.e., accepted the policy and institutional changes as necessary for or conducive to development and intended to implement them) and the successful completion of the adjustment-lending program. This conceptualization of country ownership remains an important strand in any discussion of aid effectiveness and has a commonsense appeal to it. Specifically, programs that rely on government actions for success fundamentally depend on the leaders' intentions to pursue those actions.

Another often-emphasized facet of country ownership is the idea that the development strategy that donors will support should come from the country itself. This was the core idea behind the World Bank's 1999 development of the Poverty Reduction Strategy Paper process, an element of the Bank's country partnership that remains important today, in which country governments develop their own reform agendas (with an eye toward setting a basis for planning World Bank assistance).

Another component of country-led strategy development involves the participation of actors other than the government, such as civil society groups and other elements of the broader public. This conceptualization often exists in tandem with a focus on political and government leaders in that these leaders are often specifically asked to engage citizens as part of strategy development. This view of country ownership has a commonsense appeal: clearly development programs are unlikely to succeed as planned if they do not have the broad support of those people whom they are intended to help (and may be undone, perhaps rightly, if the beneficiaries' interests are not sufficiently addressed).

When MCC was created, there was strong bipartisan support for its focus on country ownership: the notions that the partner country government should lead and also that citizens should be engaged. This conceptualization of country ownership is unsurprisingly similar to the description that would emerge in the Paris Declaration on Aid Effectiveness (Organisation for Economic Co-operation and Development 2005) and that the subsequent international consensus statements of Accra and Busan would reiterate in later years. The emphasis in these statements is also one of mutual responsibility: donors must respect country governments, and governments must engage citizens. In practice, MCC's rhetoric about, and operational approach to, country ownership has

[6] Johnson and Wasty (1994).

included both of these views. There is a potential tension with these two aspects, however, that has sometimes complicated compact development. Essentially, all MCC partner countries were selected on the basis of having relatively good and generally democratic governance practices, including mechanisms for prioritizing spending and resolving policy disputes. While such mechanisms are imperfect everywhere, their existence is an important element in being selected as a partner country. Nonetheless, MCC requires that its partner countries engage in public conversations specifically about the prioritization of investments that MCC compact money would fund, a stipulation that could be seen as somewhat at odds with a respectful bilateral engagement led by the country government.

MCC's approach, however, can be seen as reflecting the Paris Declaration's view that donors should help country governments by "strengthen[ing] their capacity to exercise" the leadership role that donors, in turn, are supposed to respect. MCC's balancing of these two views essentially reflects an underlying theory that development investments will be more effective when they support countries' own priorities (as put forth by the partner country government) and strengthen governments' accountability to their citizens (by requiring governments to consult citizens on the elaboration of strategic priorities, engage them in the development of investment plans, and keep them informed of progress and, as we shall explore in more detail later, by giving governments the lead role in implementation).[7]

The foundations of MCC's approach to country ownership are codified in the legislation. The following provisions outline congressional expectations that (1) MCC will work in support of a country's national development strategy, which should reflect the input and contributions of citizens and nongovernmental groups, and (2) the investment areas chosen by the partner government for compact funding will also reflect such nongovernmental consultation:

> *The Compact should take into account the national development strategy of the eligible country. … The term "national development strategy" means any strategy to achieve market-driven economic growth and eliminate extreme poverty that has been developed by the government of the country in consultation with a wide variety of civic participation, including nongovernmental organizations, private and voluntary organizations, academia, women's and student organizations, local trade and labor unions, and the business community.*

and

> *In entering into a Compact, the United States shall seek to ensure that the government of an eligible country—*
> *(1) takes into account the local-level perspectives of the rural and urban poor, including women, in the eligible country; and*
> *(2) consults with private and voluntary organizations, the business community, and other donors in the eligible country.*[8]

[7] This is the general framing MCC claims in its *Principles into Practice* paper on country ownership (Lucas 2011).
[8] Millennium Challenge Act of 2003. Pub. L. 108–199, Div. D.

MCC's Built-in Flexibilities

A number of built-in flexibilities allow MCC to pursue country-led solutions more easily than other US government foreign assistance agencies. Two of the most important of these are a lack of congressional earmarks on use of funds and the ability to obligate up front all funds for a multiyear country program.

MCC has exceptional flexibility to pursue country-led solutions. In fact, one important argument that was made around the idea of making MCC a separate agency (instead of housing its operations within United States Agency for International Development [USAID] or the State Department) was that its operational design required greater flexibility than current institutions offered. Radelet (2003) argued that one of the most important reasons for establishing MCC as an independent agency was "that it could avoid the political pressures, bureaucratic procedures, and multiple congressional mandates that weaken current aid programs."[9] Shortly after the announcement of the MCA (the initials refer to the compact's funding stream, the Millennium Challenge Account), Carol Lancaster (2002) wrote that because the new fund was to have greater recipient input into program design and more flexibility, there was a strong case for a new institution to manage the account.

Indeed, unlike the majority of US development assistance, MCC funds are not subject to congressional earmarks or directives that obligate the agency to spend money in specific ways, sectors, or countries. The vast majority of USAID's funds are earmarked or otherwise dedicated to particular initiatives, making it harder for the agency to respond as directly, at the level of strategic prioritization, to country-identified priorities.[10]

In addition, MCC has predictable, five-year funding for each of its country programs, unlike USAID, whose country funds are subject to change each year in response to annual appropriations. MCC receives its annual appropriation without any prior commitments for specific spending patterns and has the flexibility to apportion funds by country based on the quality of the proposals it receives. Then, once MCC signs a compact with a country, the entire value of that compact is set aside to carry out agreed-on activities during the five-year period. This up-front specification of life-of-program funding enables countries to propose long-term investments that require multiple years to finish, investments that would carry too much risk to all actors involved if the availability of funds in future years were uncertain and dependent on the annual congressional appropriations process.

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[9] Radelet (2003), 109.

[10] In the 2010 Foreign Operations appropriations bill, Congress earmarked two-thirds of development funds by sector (Veillette 2011).

MCC's Evolving Approach to Project Selection: Clarifying Expectations, Guiding Processes

MCC's early compact development processes were unstructured and lacked guidance, leading to proposals unfocused on growth and frustrations for both MCC and the partner country. MCC has, during its first 10 years, made great strides in clarifying its requirements (e.g., focus on growth) and providing tools and resources to help countries meet those requirements, all while preserving the leadership role of the partner country in program development. While MCC partner countries undoubtedly lead the project-identification process, US government strategic priorities are not entirely absent from the conversation.

Once a country is selected as eligible for an MCC compact, MCC asks the government to identify its priorities for funding in a proposal. While partner countries clearly lead this process, their options are not unconstrained. MCC's own model (which directs the agency to fund only projects that demonstrate they will increase local incomes cost-effectively) as well as the agency's internal safeguard policies (which have certain requirements for things like environmental and social protection) place important parameters around the range of possible projects in a country.

In MCC's early days, the proposal development process was largely unstructured and not well guided, which proved frustrating for partner countries (Lucas 2007a) as well as for MCC. It often led to a prolonged back-and-forth period, with countries sometimes repeatedly submitting proposals and then pulling them, based on changing priorities within the partner country or based on feedback from MCC regarding the suitability of the projects.[11]

Indeed, there have periodically been points in compact development processes in which countries' priorities for investment did not fully align with MCC's other requirements. One particular type of tension that has arisen has occurred when countries "owned" projects that were intended to serve objectives other than MCC's objective of poverty reduction through growth. Certainly, the track record of past compacts suggests that MCC partner country governments are also interested in programs that will be impactful in reducing poverty and stimulating growth (indeed, governments are likely eager to claim these successes); however, their priorities are often more complex than just aiming for results. For example, a government may want to provide benefits for certain populations, like isolated or neglected communities, or areas that may be of particularly politically strategic importance. In addition, in the process of proposal development, countries can build up domestic support for a particular proposed project before it is analyzed for its likelihood of achieving cost-effective results; when the analysis shows weak returns on investment, it may be hard to dissuade a highly invested constituency. These situations have created tensions at times, both between MCC and its partner countries and within MCC when staff had different senses of priority between the agency's two valued qualities of "strongly desired by a country" and "likely to yield benefits in excess of costs" for those projects not characterized by both.

[11] The World Bank had a somewhat parallel experience with its Poverty Reduction Strategy Paper process. Countries were charged with leading the process, but donors ended up reentering the policy formulation discussion as many country-proposed programs included in the Poverty Reduction Strategy Paper did not meet donor standards.

At times, MCC has, at least partially in the name of country ownership, approved projects that had strong local support, even if they did not meet MCC's criteria for expected results. For instance, with the Lesotho compact, by the time the final cost-benefit analysis of a proposed water project was calculated, a lot of time and effort had been invested in developing it, creating advocates for the activity both in Lesotho and within MCC. Even though the benefit-to-cost ratio was projected to be low, MCC approved the project for selection. Other examples include the Burkina Faso compact, which included a package of road investments, all of which were projected to have very low or even negative ERRs. This meant the cost of the project would exceed the value of the results. Another example is the Namibia compact, which included $6.4 million for an Indigenous Natural Products Project to provide technical assistance to very poor women whose subsistence depended on collecting natural forest products.[12] The Namibia project's costs were roughly twice as high as the returns, suggesting that the program was at best a social safety net activity rather than an investment in economic growth. Clearly, the government of Namibia's desire to provide welfare support to poor women and the government of Burkina Faso's desire to improve transportation connections to poor areas appear to be reasonable policy objectives, but even country ownership advocates rarely suggest that MCC (or any other donor) is obliged to support specific activities, no matter how much they cost or how few benefits they generate.

It is unlikely that country ownership was the exclusive rationale for approving projects unlikely to achieve results. Indeed, as discussed in *MCC at 10: Focus on Results,* other incentives external to the partner country, such as MCC's internal need to deliver programs of a certain size within a certain time frame and to avoid large unobligated balances, may have played a role. In addition, Schutte (2009) interviewed a number of individuals involved in project selection for the Burkina Faso compact and frequently heard the view from people other than the economists working on the program that the low ERR was due to a lack of available data and that not all the road's benefits could be quantified. Indeed, within MCC, some staff argued that country priorities combined with the uncertainty around the actual economic merits provided a basis for approving a package of roads costing roughly $200 million. This argument reflects the difficulty of establishing a technical standard for foreign aid. In this particular case, a standard economic model used for road investments in other countries was used, and the data were actually better in Burkina Faso than in other countries. However, it can be easier for people committed to the program to accept analytical results when they confirm a proposed investment; it is harder when the independent analysis indicates that they should not. Though country ownership was not the only reason MCC approved projects unlikely to achieve cost-effective results and therefore inconsistent with that pillar of the agency's model, it provided a rationale that was consistent with another component of the model.

Based on its early experience with country proposals with little connection to growth goals—and the extended negotiation and redesign efforts that had to take place as a result—MCC made a number of changes to the compact development process to try to clarify expectations from the outset and mitigate frustration and possible tensions. MCC has maintained its country-driven approach but more explicitly framed this approach as a partnership. It has more clearly

[12] An economic rate of return (ERR) is a cost-benefit analysis that estimates the expected increase in local income for almost every proposed investment and compares it to the cost of the investment. Since 2007, MCC has had a 10 percent minimum threshold for project- or activity-level ERRs.

delineated the parameters that circumscribe country ownership through better, earlier, and clearer communication of its expectations to partner countries (e.g., explaining that MCC is looking for proposals for cost-effective projects focused on poverty reduction and growth) as well as the likely structure and extent of MCC's involvement in the partnership (e.g., establishing from the beginning that MCC will help guide proposals to meet the aforementioned criteria when necessary). To do this, MCC has developed guidance on compact development as well as key tools and processes to help countries implement those guidelines.

The constraints analysis (CA), formally adopted in 2006, is particularly prominent among these tools. The CA is essentially an analysis of economic data to identify the most pressing factors that limit private investment and economic growth, and it is one of the first tasks that new partner countries must undertake. The CA's main benefit has been to help focus the compact development process from the outset on the investments and reforms that are most demonstrably supportive of MCC's mandate to reduce poverty through economic growth.[13]

Other important tools, which follow the CA and also help countries narrow their proposals before submission to MCC, include the Social and Gender Assessment, which requires the government to integrate social and gender considerations into compact development, and the Investment Opportunity Assessment, which requires the government to consider, for market segments that are key drivers of growth, opportunities to bring in or otherwise leverage the expertise and/or resources of the private sector. There may be relatively few project ideas from the wish lists of the in-country stakeholders that make it through these three filters, but those that do emerge are more likely to be viable.

In effect, these tools have helped depoliticize the process of proposal development, making it easier for countries to manage the expectations of their various internal stakeholders. In fact, the government of Lesotho, on eligibility for a second compact, asked MCC to actively spread the message in-country about the role these analyses play in framing a country's proposal. The hope was that proactively setting expectations of all the likely players with a stake in a future MCC compact could help avoid infighting within the government and/or with the opposition.

MCC also introduced a concept paper step to its compact development process. This provided MCC an earlier opportunity for dialogue with the partner country about which concepts merit further development based on MCC's parameters for results (as well as its social and environmental safeguard regulations, etc.) and which do not. All of these structures created space for regular MCC engagement with country counterparts on program selection and design and helped countries to craft proposals that meet country priorities while satisfying MCC's mission to raise local incomes in a cost-effective manner.[14]

MCC's guidelines, tools, and clear points of engagement have largely worked to narrow country proposals and give MCC a solid basis to push back on ideas—when they arise—that are not the right fit for the agency's mission to promote economic growth. While MCC still sometimes

[13] MCC's constraints analysis follows the growth diagnostic approach developed by Hausmann, Rodrik, and Velasco (2005). See the *MCC at 10: Focus on Results* paper for more information about MCC's introduction and use of the constraints analysis.
[14] MCC clearly recognizes this and highlights it as a key lesson learned from its experience putting its country ownership principle into practice.

demonstrates its willingness to approve projects that the agency knows will not achieve cost-effective results or projects for which projections of cost-effective results are unknown, MCC has also pushed back many times on projects proposed by countries that do not meet MCC's other criteria for inclusion.[15] For instance, the government of Liberia, whose compact is currently in development, was keen to have certain roads included in the compact. However, when the economic analysis showed that traffic counts were simply too low for the projected benefits to justify the costs, MCC had a solid and mutually understood basis to encourage its partner to refocus its efforts.

Including Stakeholders: From Basic Consultation to Meaningful Engagement

Because MCC's conceptualization of country ownership considers government engagement with citizens a key element, the agency requires partner country governments to undertake consultations as part of the compact development process. MCC sees consultations adding value to the program by allowing local context and know-how to be taken into account to accomplish a number of valuable objectives: building on past lessons learned, identifying complementary activities, increasing support for the program by the community of beneficiaries, improving chances of sustainability, and managing the expectations of various stakeholders.

In MCC's early days, when the agency had little guidance on how to achieve its expectations for consultation in an efficient yet meaningful way, this requirement often complicated program development. Indeed, an unstructured approach to early consultations was one of the factors that led to proposals that lacked strategic vision and were often unfocused on growth.

In Mongolia, for example, the proposal-development process worked exactly as intended but yielded such a poor product that MCC needed to request that the government of Mongolia develop a new proposal. Mongolia was among the first countries selected for compact eligibility in 2004, and Americans working in the US embassy, including USAID staff, were told not to interfere with the development of the Mongolian MCC proposal, as it was to emanate from Mongolians themselves. Experts working in Mongolia for years on energy policy under a USAID contract, for example, were told that they could not in any way suggest potential reforms and investments. As the program development process stagnated, the government of Mongolia approached The Asia Foundation (TAF), an international nongovernmental organization (NGO) with an office in the capital, Ulaan Bataar, to help organize and facilitate town hall meetings across the country.[16] In pursuit of public input untainted by the views of government (both local and foreign), TAF orchestrated a massive information-gathering process regarding development priorities. TAF and its local NGO partners held public forums in towns and cities around the country in an effort to elicit ideas from local citizens. Responses were recorded, and frequencies were reported to MCA-Mongolia, the local government entity that had been set up to lead the compact-development process.[17] While the information was noted by these politically appointed

[15] Indonesia's $300 million Green Prosperity Project, approved despite lack of detail about the content and cost-effectiveness of the specific activities to be undertaken, is one large and relatively recent example of MCC's approving projects for which projections of cost-effectiveness are unknown.

[16] The Asia Foundation has connections to the US government, including an annual appropriation from Congress, but it is regarded as a neutral player in many countries that has close relationships with local nongovernmental organizations and so some credibility on facilitating conversations with nonstate actors and the general public.

[17] "MCA" is the typical designation given to the in-country implementation unit, usually a newly formed government unit, responsible for developing and implementing the MCC compact (e.g., MCA-Mongolia, MCA-Tanzania). The initials refer to the

leaders, it was never clear how they used the information, nor was it clear exactly how local discussions could identify national priorities or prioritize across regional and local priorities. As this example illustrates, MCC's early approach to consultation led to unfocused input and, in some cases, unrealistic expectations on the part of the consulted groups about what the compact would do.

As a result, MCC's guidance on public consultations has evolved based on both lessons learned from consultations conducted for the earliest set of compacts and changes made to other compact-development processes, like the addition of the CA, described above.[18] The CA, in particular, provided a starting focal point for consultations regarding what an MCC compact might do, moving the process usefully away from a solicitation of more open-ended input.

In addition, MCC's approach, outlined in MCC's Guidelines for Consultation, shifted from a focus on who should be consulted (e.g., women's groups, the rural poor) to what kind of information should be sought (e.g., flaws in previous efforts to address certain challenges, potential remedies suitable to the local context) and what information should be conveyed (e.g., what stakeholders should expect of a compact, why decisions were taken). Gone is the early reluctance, which was present in the Mongolia example above, to include viewpoints of other US development officials, other donors, and other experts in the view that these would confound the notion of country ownership. Consultations during compact development now specifically include these groups.[19]

The updated approach also favors use of preexisting consultation channels, with the guidance explicitly stating, "Where possible, consultation should make use of existing domestic institutions and processes as possible, and avoid one-off efforts to gather information from citizens or civic groups through forums that cannot be re-convened later."[20] Early examples of MCC's using preexisting consultation structures include Tanzania and El Salvador, both of which were developing their first compacts in 2006. In both countries, MCC acknowledged that the respective governments had recently completed substantial participatory consultative processes around the creation of a national development strategy and decided to use the results of and build onto these prior processes rather than insisting on a new, exclusively compact-focused process.[21]

A preference for using existing structures, however, has revealed great variation in the extent to which local civil society, private-sector, and subnational government stakeholder groups have had experience engaging with the national government in policy discussions. Consultations for the first Morocco compact (in development in 2005 and 2006), for example, was relatively basic, consisting mainly of large public meetings, bringing people together to tell them about the compact. While this was more consultative than many citizen engagement processes around aid

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compact's funding stream, the Millennium Challenge Account. Some MCAs have other official names (e.g., FOMILENIO in El Salvador), but for consistency MCC and others often refer to them as MCAs.

[18] This evolution in MCC's consultation policy is explained in the agency's *Principles into Practice* paper on country ownership (Lucas 2011).

[19] In addition, MCC is increasingly reaching out to US-based diasporas of the countries in which it invests.

[20] This language is from chapter 6 of the March 2013 version of MCC's Compact Development Guidance: http://www.mcc.gov/pages/docs/doc/compact-development-guidance-chapter-6.

[21] Lucas (2006b), Crone (2008).

programs in that country, MCC recognized that it did not reach the level of participatory dialogue that is preferred and expected.

Indeed, MCC often finds that its requirements for stakeholder involvement go far beyond what countries are used to, even in countries with some level of established channels for citizen engagement. In some cases, there are few people in-country with relevant experience in stakeholder engagement available to staff the MCC process. And MCC's requirements for consultation have become more rigorous over the years with a shift in focus from one-off consultations to continuing, iterative engagement with key stakeholders at various points in compact development and continuing throughout implementation. Because of this, MCC has begun putting more of its own resources (staff resources, funding for consultants) into helping countries meet stakeholder outreach requirements, though the amount of resources available for these efforts still sometimes limits what can be done. Nevertheless, such assistance helped train MCC's government partners in Sierra Leone, a country with neither strong nor deep experience leading this kind of process, in stakeholder engagement. MCC has evidently been satisfied with the quality of the engagement plan developed as a result and with the implementation of the early phases of the plan, in particular, the process of consulting stakeholders on draft outcomes of the CA.

MCC is not the only one that has learned from past consultative processes and adapted practices accordingly. Now that the agency is entering into second compacts with a subset of countries that have completed their first programs, partner countries are also able to capitalize on their prior experiences with consultation and conduct them more effectively. For instance, based on the prior compact partnership, the government of Georgia understood how to conduct public consultations around the second compact proposal in a more nuanced and effective way, in particular with the Georgian business community. In turn, Georgian businesses were highly aware of MCC, making for a much more meaningful dialogue.

The Influence of US Priorities in a Country-owned Process

While MCC partner countries undoubtedly lead the project identification process, within MCC's parameters of growth promotion and various project safeguards, other US government strategic priorities are not entirely absent from the conversation. For instance, MCC is expected to be a big player, in terms of project finance, in the broader US government Power Africa initiative, an effort launched in 2013 that seeks to double the number of people with access to power in Sub-Saharan Africa. Of the six countries initially identified as Power Africa countries, one, Ghana, was well into the development of an MCC compact focused on the power sector. Two others, Liberia and Tanzania, had just been selected to begin developing an MCC compact (a second compact, in the case of Tanzania) when Power Africa was announced. For both, the CA identified power as one of the binding constraints to growth, and so the countries may have chosen to focus their compacts in this area regardless. However, there is a sense that the US government's slight bias toward power in countries designated for concentrated US government support in this sector likely had some influence in the partner countries' decision to focus the MCC compact in this area over other potential areas identified in the CA.

There are other ways that US political interests and concerns have found their way into compact development. For instance, for the Indonesia compact, MCC engaged in extensive communications with Congress about the share of funds that would be devoted to an activity focused on greenhouse gas emissions. US-based NGOs also weighed in, encouraging MCC to include funds for projects aimed at climate change. The American constituency for this program may have helped it reach approval despite the fact that such programs targeting global public goods (i.e., investments producing benefits for the global community) may not produce enough local benefits to justify the investment on the basis of growth and poverty for the partner country.[22]

Recommendations

Based on these experiences and lessons during the past decade, MCC should consider two key recommendations going forward. MCC should do the following:

1. **Refuse to accept country ownership as a justification for investing in low-return projects.** While few observers now disagree that country ownership is essential for a successful development program, using this as a rationale to pursue low-return projects is fundamentally inconsistent with MCC's institutional focus on results. This is not to say that a focus on results is more important than country ownership. Prospective projects must both be "owned" by the country and be high return for MCC to invest in them. These combined criteria can filter out a lot of potential projects. However, if too few projects meet these dual criteria (as well as other social, environmental, etc. criteria) for a given country, MCC should simply accept a smaller compact.

2. **Continue and consider increasing technical support for stakeholder engagement where capacity is lower.** MCC does provide resources in the form of its own staff technical specialists or hired consultants to help countries comply with stakeholder engagement requirements. However, resource constraints in this area sometimes limit the degree of assistance provided. Since MCC acknowledges that countries vary widely in their experience with and capacity to conduct stakeholder engagement in a meaningful way, continuing support—and potentially increasing resources devoted to this task—could promote greater consistency across countries in the quality of consultations undertaken.

Country Ownership and Compact Implementation

Background

Once a program has been approved, MCC requires that its partner countries take the lead role in compact implementation. The partner government establishes an accountable entity (often using many of the same people involved in the program development process) that will manage all aspects of the compact including coordinating with government ministries, maintaining project time lines, running procurement processes, managing contracts with entities implementing the compact's work (e.g., construction firms), conducting environmental and social assessments,

[22] At this point, this project in the Indonesia compact is not sufficiently detailed to determine whether the specific activities would either raise local incomes or reduce greenhouse gas emissions enough to justify the investments.

conducting monitoring and evaluation tasks, and reporting on finances and compact progress to MCC.

Partner countries have some flexibility in how the accountable entity is set up: in some countries these units are quite independent from the government and work through foundations or other structures; in others they are more integrated with one of the ministries. In all cases, the work of the accountable entity is overseen by a local board of directors whose members—often high-level government officials, representatives from the private sector, and civil society leaders—are appointed by the partner country government. MCC provides oversight over each step of the compact implementation process, the intensity of which varies according to each country's implementation capacity and phase of compact implementation. However, in all cases, the in-country footprint of MCC officials is small—typically just two staff members per compact, much less than in most other US government agency presences relative to the amount of money invested.[23]

Countries vary in terms of how much direct responsibility they take on for certain implementation functions, most notably accountability processes. Though MCC initially generally required that countries outsource the compact's financial and procurement management functions to international firms, early on MCC adopted an option to use country systems for these functions where the country desires this arrangement and the systems are strong enough to fulfill that role. To date, most compacts still hire external parties to act as fiscal and procurement agents, but a few compacts have used local systems for these functions.[24] External fiscal and procurement agents not only provide additional safeguards and ensure compliance with MCC processes where local systems are not well set up to do so but also help move implementation along more expediently considering the sheer number of contracts often involved in an MCC compact (e.g., the first Ghana compact had 855 contracts).

The Benefits of Country-led Implementation

One of the presumed benefits of country-led implementation is that increased country ownership of the process and results of the investment hopefully translates into greater prospects for sustained maintenance (for physical investments), continued application of new practices, or ongoing/follow-up programming, where relevant. Country ownership of implementation also puts the government in the key role of convener. In contrast to a standard USAID model in which it is a US agency that brings its various private and nongovernmental implementing partners together to ensure coordination, identify synergies, and so forth, in an MCC compact, the government plays this role.

[23] For example, in Mozambique, more than 20 USAID foreign service officers and American personal services contractors in a USAID staff role managed the $700 million-plus portfolio in the five years from 2009 to 2013 (from the Foreign Assistance Dashboard [www.foreignassistance.gov], Foreign Assistance Disbursements by Fiscal Year). In comparison, just two MCC staff members were resident in country to manage the $507 million compact between 2008 and 2013. A team of technical experts and other staff in Washington also provide dedicated support and oversight to the compact remotely and through periodic field visits.
[24] For example, partner government agencies in Morocco, Tanzania, and Jordan fulfilled procurement functions for the compact (independent firms served as procurement oversight advisors in Morocco and Tanzania). In Honduras, Namibia, and Cape Verde, a government ministry served as the compact's fiscal agent. For more detail on many of these examples see Lucas (2011).

As an ancillary benefit, locally led implementation also may help build and demonstrate the capacity of the partner country to implement large-scale development projects and make decisions about managing tradeoffs when circumstances requiring them arise (e.g., when costs go up, making the originally planned implementation plan unfeasible within the current budget). Though building government capacity for project management and implementation is not the main goal of the compact—poverty reduction through economic growth is—this can be considered a positive secondary effect. For example, one local mayor in Honduras called the MCC process "a school on how to manage funds and run a program. The [in-country implementation unit] administered [the compact] well, executed it well, and achieved the best results." In fact, the unit created to implement the compact in Honduras demonstrated such project management proficiency that once the compact ended other donors called on it to implement other projects (Dunning 2011). MCC implementation units have also persisted postcompact in Lesotho, Tanzania, Morocco, Burkina Faso, and Ghana. In Lesotho, the Millennium Development Agency (the local name for the implementation unit) is providing training to other ministries on project financial management. In all these countries, the government has continued to fund these entities, often recognizing that what the government was able to implement through these bodies is worth preserving.

Ownership Does Not Mean Doing Everything

MCC requires that partner countries take the lead in compact implementation, with MCC staff maintaining an oversight role. Over time, MCC has realized that country ownership does not mean having a country do everything and that providing clear and appropriate guidelines makes it easier for countries to fulfill their designated role.

Over time, MCC has revised its approach to country ownership in implementation, recognizing that the simple assumption that all country partners were ready to meet MCC's expectations from the outset was naïve. One of the key lessons that MCC has learned and acknowledged is that country ownership does not necessarily mean leaving to country partners the responsibility to do everything on their own.[25] For instance, in some cases, MCC and the partner country agreed that the accountable entity would contract out the management of complex projects, often big infrastructure projects. In these cases, the country is still driving compact implementation (it manages the contract of the hired project management firm) but in a way that better suits its capacity to do so.

In addition, MCC has taken a number of steps, like standardizing procurements, that has made it much easier for the local accountable entities to comply with MCC regulations. The earliest compacts had few standard procedures to draw on as entities began implementation, leading to a situation like the one described in a Center for Global Development report from the field from Nicaragua.

> *In the name of country ownership, each country is expected to devise its own administrative procedures and tools. This includes operations manuals, financial plans, standard bidding documents, standard requests for proposal (RFPs), technical*

[25] For more information from MCC's perspective, again see Lucas (2011).

> *specifications for investments, etc. Members of the MCAN team argued that even under the best conditions, and with strong capacity, developing this set of documents can take six months. Many MCA countries end up with very similar documents and procedures and thus are, in a sense, each spending at least six months reinventing the wheel.*[26]

As was the case with compact development, MCC found that providing clear and appropriate guidelines as well as standard templates, where possible, makes it easier for countries to act with agency within those parameters.

Balancing Country Ownership with Financial and Time Line Risk Management

MCC must balance its commitment to country ownership with its need to provide robust oversight and prove accountable use of funds and its need to ensure timely compact completion and achievement of targeted results. Because many countries have not been fully prepared to lead all aspects of implementation from the outset, MCC views country ownership as a process and provides external support and capacity building in early phases of the compact.

While MCC's model gives country partners the lead role in compact implementation, MCC has to balance this approach with its need to prove accountable use of funds and ensure expedient implementation in accordance with each compact's strict five-year time limit. This time limit, prescribed in MCC's legislation, is a useful feature intended to boost the effectiveness and efficiency of MCC's investments. It provides incentive for timely implementation by the partner country, creates a clear exit from each compact investment, and forces reassessment of whether to continue engagement with a country in a subsequent compact. However, it can be particularly challenging for a country, often taking on the management of a large foreign assistance program for the first time, to complete such a large, often complex program within a fixed, relatively short time frame.

Based on seven field visits to MCC countries between 2005 and 2007, Lucas (2007a) found that grappling with the tradeoffs between expediency and ownership was an important common theme in MCC's early days, saying, "as pressure to accelerate disbursement and program activities continues, the MCC may be tempted to circumvent any government systems that slow its progress. The tradeoff between building national capacity and getting quick, tangible results is tough to manage."

Years later, MCC itself continued to discuss the challenges in striking the right balance between these two elements of its model and operations:

> *In the name of sustainability, capacity building and ownership, MCC would often prefer to allow more time for learning and for country counterparts to take the lead in solving implementation challenges. MCC, however, is accountable to Congress and U.S. taxpayers for achieving compact results within a five-year time frame. This accountability creates the incentive, and even the expectation, that MCC will engage very proactively to keep investments on track to meet their goals. While the time frame is*

[26] Lucas (2007b), 10..

> *critical to accountability, and to achieving the results that partner countries themselves have prioritized, it can pose important challenges to capacity building.*[27]

In reality, MCC thinks of country ownership in implementation as a process along a continuum over time rather than an absolute standard. Some countries start out with far more direct implementation responsibility, depending on available capacity and expertise in-country. Other countries need more support from MCC staff and/or hired consultants in completing certain steps or processes. In MCC's early years, developing country capacity to implement took up much of the first year of compact implementation, leading to what Lucas (2006a) called in a report on Madagascar, MCC's first compact, "the invisible year."[28] Essentially, the accountable entity devoted far more of its time in this first year to setting up systems rather than implementing programs.[29] MCC now tries to front-load much of its capacity-building support so that shortly after implementation begins, the local team is able to fully take on its implementation roles. In fact, MCC has extended the time between compact signing and "entry into force," the point at which implementation officially begins and the five-year clock starts ticking, largely to have more time for systems setup and staff development. While compacts signed in 2005, 2006, and 2007 had an average of only six months between singing and entry into force, those signed in 2008 or later had, on average, more than a year. However, some activities—and associated capacity-building and system-strengthening efforts—cannot take place until after implementation starts, so it is still often not until midway through the compact that the well-oiled machine is really in place. Continued efforts by MCC to incorporate lessons learned into revised guidance for setting up an accountable entity will expedite countries' readiness to take on more implementation responsibility. However, country-led implementation will almost certainly continue to look a little bit different not only on a country-by-country basis but also at different time periods in the compact's lifespan.

One factor that can constrain both the pace of implementation and ownership of implementation is a low-risk approach to oversight and financial accountability. In MCC's early days, in particular, the agency's requirements for approvals demonstrated little appetite for financial risk, though this likely contributed to increased time line pressures. For example, Lucas (2007a) found that each of often multiple steps involved in procurement, hiring, and even translation had to be approved at MCC headquarters. Sometimes lengthy waits for each approval led to protracted procedures. For instance, for a period of time at the start of the El Salvador compact, the accountable entity sometimes had to wait more than a month for confirmation that procurement requirements had been met before disbursement could proceed (Crone 2008).

Since its early years, however, while MCC has maintained crucial risk-mitigation and accountability processes, it has also taken steps to increase efficiency, like streamlining some approvals and allowing some documents to remain in the local language instead of requiring English translation. In fact, Crone (2008) noted that in El Salvador the change in policy to allow some procurement to be conducted in Spanish reduced processing times by three to four weeks. MCC also now tailors a country's touch points on procurements based on the country's revealed

[27] Lucas (2011), 15.
[28] Lucas (2006a), 1.
[29] Madagascar's compact, originally planned to be four years in length, was extended to five years due to the need for more time to complete compact objectives. The need for this extension was perhaps due partly to the time taken from implementation to set up systems.

capacity to conduct them according to standard. As such, the approval process of a country tends to evolve over the course of the compact.

As the first several cohorts of compacts reached their midpoints, MCC discovered that many of them were behind schedule in terms of spending and implementation time lines. This recognition led to two changes within MCC that had implications for its engagement with country partners and their ownership of the process.

First, MCC undertook a significant internal restructuring. The original institutional architecture had reflected the priorities of an organization whose primary responsibility was to develop new country programs that met its own high quality standards. By late 2007, MCC leadership recognized that its priorities had shifted. Even though a small number of new compacts would be developed each year, the existing pipeline in implementation was much larger and needed much more institutional attention than had been expected. As a result, MCC announced on October 1, 2007, a fundamental reorganization that created two new departments, the largest being the Department of Compact Implementation designed explicitly to provide enhanced support to countries with ongoing programs. Following this reorganization, MCC threw substantial institutional resources into support of program implementation with the objective of helping partner countries accelerate the rate of disbursements and complete programs on schedule. MCC knew that this new pattern of engagement was not entirely consistent with its original expectations of country ownership during the implementation process but determined that without this more pragmatic approach, too many programs would end up with significant funds unspent and results falling far short of their targets. From an institutional perspective, the potential deobligation of funds appropriated in earlier years would undoubtedly have elicited questions from Congress about MCC's future annual budget needs.

Second, MCC management realized that a substantial number of programs not just were behind schedule but rather needed to be restructured (a process MCC calls "rescoping") due mainly to higher-than-expected costs and implementation delays.[30] Another implementation juncture that has often entailed a specific balancing of completion risk and country ownership has been compact rescoping. Rescoping required significant revisions of financial and program plans without a corresponding adjustment to the compacts' five-year time limit, heightening completion risk. In general, rescoping exercises were led by the country counterpart. To help speed the process along, MCC helped the country think through the program rescoping options.

[30] A July 2012 report from the Office of the Inspector General (OIG) found "MCC significantly modified project activities under 9 of its 23 compacts." The OIG defined a significant modification as "a cumulative change in project costs of at least $10 million or a 25 percent change in the estimated economic rate of return or the estimated number of beneficiaries." The full report is available online: https://oig.usaid.gov/sites/default/files/audit-reports/m-000-12-006-s_0.pdf.

Balancing Country Ownership with Results Midimplementation

Rescoping decisions were typically made hand in hand with country partners. In later years, MCC more systematically provided information about revised economic analysis to inform these decisions. However, in some cases, particularly in early years when rescoping decisions were not governed by an official policy and inconsistently informed by revised ERRs, MCC sometimes approved countries' choices to move ahead with investments that were known to be no longer worth their cost. Supporting country preferences (and therefore country ownership) was likely just one of the reasons MCC approved these types of decisions, but in doing so, the agency elevated this facet of its model over its focus on results, when it would have been more in line with the institution's imperative to make only investments that were both acceptable to the partner country and likely to achieve cost-effective results.

At times, country-owned decisions about how to proceed in rescoping conflicted with another pillar of MCC's model, its focus on results. Rescoping decisions between 2008 and 2011 were not governed by any official policy and were not always informed by revised economic analysis that could tell MCC and the partner country whether the project was likely to remain a cost-effective way to deliver results even with the new cost parameters and where money could most effectively be redirected if not. Even when these revised analyses were done, the results did not dictate the decision that would be taken. In some cases, decisions to continue activities that had lower or unknown economic returns in the new cost environment reflected, at least in part, countries' wishes that they be continued.[31] For instance, the Mozambique compact included several roads that were, from the very beginning, projected to yield little benefit for the cost of implementing them. When a need for rescoping arose, a revised analysis revealed that higher costs would yield even lower-than-expected returns. However, MCC decided to continue investments in several road segments, "in part because government and local communities' buy-in and expectations are sufficiently high".[32] Clearly, had MCC decided, based on the new information that the approved investments could no longer be justified, the government of Mozambique and MCC would have had to explain the decision to the local communities, and these communities would not have been happy.

Indeed, from the country's perspective, there can be strong incentive to want to continue a project for which substantial domestic support had been created, even if the benefits are expected to be lower than the investment cost. A money-losing project still delivers some benefits (just at a value less than the cost), and a canceled project would withhold those benefits the country stood to gain.[33]

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[31] *MCC at 10: Focus on Results* discusses rescoping in much more detail.

[32] Lucas (2011), 15. The original ERRs for the two road components in question were less than the 10 percent minimum threshold from the beginning (6.7 percent and 7.1 percent), already reflecting benefits well below costs. The revised ERRs showed that the losses in value would be substantially greater. Indeed, the new ERRs (–0.2 percent and 0.7 percent) reflect a loss of roughly half the original investment value.

[33] Recall that a "bad project" might spend $200 million and produce only $50 million in local benefits, essentially "burning" $150 million in value. Local governments and local beneficiaries, however, stand to gain $50 million if the project is completed and stand to lose out on the benefits if MCC decides such a project is a waste of resources and returns the funds to the MCC budget or to Congress.

Of course, deference to country ownership was not the only factor that led MCC to decide at times that it would proceed with projects determined midcourse to be of low value. Internal pressures to do as much as possible under the new circumstances toward achieving established targets (regardless of whether revised returns justified continued investment) also played a role.[34]

Future Innovations to Increase Country Ownership in Implementation (and Deliver Results)

MCC has expressed interest in exploring certain payment-for-performance schemes, like COD Aid, in which the agency would pay for agreed-on outcomes. Though it has not yet adopted this approach in any of its compacts, the flexibilities that characterize such a structure could help increase country ownership in implementation.

Right as MCC was approaching its 10th birthday it began exploring how it might use innovative performance-based financing structures, including COD Aid. COD Aid is an approach in which a donor pays a partner country for progress delivering measurable and verifiable pre-agreed outcomes.[35] These schemes enhance country ownership of implementation by giving a partner country government the flexibility and discretion to experiment to find the best ways, within its own local context, to achieve the agreed-on outcomes.[36]

Birdsall and Savedoff (2010) explain how COD Aid can change the relationship between donor and recipient in a way highly compatible with a focus on promoting country ownership:

> *We are arguing that it is worth trying because it creates a better relationship between funders and recipients. It would focus attention on the jointly desired outcome, on getting precise and reliable information about that outcome, and on directing funds in proportion to progress. Any variability in payments would result not from political and bureaucratic processes in the funding institutions, but from factors related to achieving progress that are more in the purview of the developing country. COD Aid would change the structure of information reporting and payment triggers for both funders and*

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[34] MCC's management comments included as an addendum to the OIG report referenced in note 30 stated, "Given MCC's strict five year implementation timeline and fixed funding levels for compact agreements, cost overruns resulting from changes in market conditions will inevitably lead to project modifications. In such situations, ensuring that scarce taxpayer resources are directed to activities with the greatest potential for impact is also a demonstration of good management" (p. 13). Of course, investments with the "greatest potential for impact" might still not generate enough returns to justify the investment. That said, MCC noted (and OIG confirmed) a number of cases in which lower-than-anticipated results (e.g., rates of return that fell below the minimum threshold when revised) caused project termination as part of rescoping, but not always. In fact, as the report notes, in several of the earlier rescopings, MCC did not recalculate rates of return to understand how program changes would affect results. This suggests that, especially for MCC's early compacts, if costs had gone up substantially, MCC often sought to proceed as quickly and to do as much as possible at the new cost levels either without information about whether investments were still sensible at the new cost or in some cases in spite of information indicating they were not. MCC adopted a policy in 2012 that provides a framework for rescoping decisions, including formal guidance for determining how to shift money when projects have low or no rates of return. See *MCC at 10: Focus on Results* for more information about MCC's rescoping practices and policy.

[35] MCC referenced its efforts to explore Cash on Delivery Aid and other pay-for-performance mechanisms in its "FY2013 Annual Performance Report," an appendix to its *FY2015 Congressional Budget Justification*, as well as in the body of the *FY2015 Congressional Budget Justification* itself.

[36] For example, a donor could agree to pay a partner country government a fixed sum of money for each child above a baseline figure who completes primary school and takes a test (Birdsall and Savedoff 2010).

recipients. Ultimately, it would invite the kind of institution building at the state level that is key to sustainable service delivery and to development itself.[37]

COD Aid also has a built-in accountability mechanism, as funds are not disbursed if the targets identified through cost-benefit analysis are not achieved.[38] The delivery of outcomes is considered signal enough that funds were well spent. In fact, Kenny and Savedoff (2013) find that results-based approaches can be "less prone to failure costs and limit the capacity of dishonest agents to divert funds unless those agents first improve efficiency and outputs."[39]

While MCC continues to explore different pay-for-performance options, it has not yet adopted a COD Aid approach in any of its compact programs.

Recommendations

Based on these experiences and lessons during the past decade, MCC should consider two key recommendations going forward. MCC should do the following:

1. **Publicly document and explain rescoping decisions in a timely manner, with particular attention paid to those that do not meet its minimum standard for results.** As donors go, MCC is very transparent, but there is a substantial gap in its transparency around rescoping decisions. Decisions to select or modify compact projects should be based on a combination of the degree to which the host country "owns" the possible alternatives and the projection, at any time during implementation, of the expected results. MCC should publish rescoping decisions in a systematic and timely way and make the data that informed the decision—like revised ERRs—publicly available. If revised ERRs show that the project is no longer expected to be cost-effective, MCC should clearly explain its justification for proceeding, if that is the decision taken. There may be grounds for continuing investments that are no longer seen as cost-effective, but these should not include political expediency for the partner government (which can always choose to complete investments using other funds) or for MCC. MCC should be prepared to deobligate any funds that cannot be spent cost-effectively from ongoing compacts and should, in fact, be praised for more prudential management of its budget rather than be criticized for being unable to spend its annual congressional appropriation.

2. **Experiment with COD Aid.** MCC has expressed interest in piloting pay-for-performance approaches, including COD Aid. Since a COD Aid approach requires a certain level of government capacity to prioritize, plan, cost, and implement programs with little assistance from the donor, it may be practical to pursue in limited circumstances. Nevertheless, MCC and its country partners should push forward its proposals to pay for performance in specific and concrete ways that ensure the resulting COD Aid schemes (1) pay for outcomes rather than outputs or policy changes and (2)

[37] Birdsall and Savedoff (2010), vii.
[38] MCC managers would still need to bind themselves to enforcing such decisions by refusing to provide funds unless approved minimum performance is achieved, so any movement by MCC in this direction needs to be accompanied by policies that limit senior managers' discretion. If MCC were to retain the same kind of discretion that exists in current policies and guidelines regarding the funding of low-return projects, there is little reason to believe that Cash on Delivery Aid would lead to improved program performance.
[39] Kenny and Savedoff (2013), np [abstract].

take a hands-off approach to fiduciary oversight, recognizing that the delivery of outcomes is, in and of itself, a strong indication of funds well spent. In addition, since an important element of COD Aid is the prior commitment not to disburse funds if specific outcomes are not met, consistent with MCC's commitment to results (rather than merely focusing on disbursement targets), MCC should explicitly flag COD Aid funding as not reprogrammable for the duration of the compact.

Country Ownership and Conditionality

Background

Despite substantial criticism about aid conditionality and how donors apply and enforce it as a practice, almost all development agencies understand that successful implementation of collaborative programs requires some levels of policy contributions or other performance by the country partner (Selbervik 1999; Kanbur 2000; Burnside and Dollar 2000; Mosley, Hudson, and Verschoor 2004). In MCC's case, the impact of its investments is often highly contingent on the partner country's fulfilling certain obligations that it agrees to as part of the compact. Indeed, often the opportunities for high-return investments are created only when the partner government undertakes important institutional and policy reforms. For example, building a new port may not make economic sense, no matter how decrepit the existing port is, unless the government reforms policies related to port management and revises the laws governing customs practices. In short, while MCC's selection system—in which only countries that demonstrate relatively good governance in policy areas linked to poverty reduction and economic growth are selected for a compact—means the agency works with countries that have policy environments broadly favorable to growth (e.g., macroeconomic stability, relatively lower corruption), getting sector-specific administrative and regulatory issues right is fundamental for attracting growth-promoting private investment.

The relationship between conditionality and ownership is somewhat complex, and there has been a long running tension between the two. One view is that a donor conditioning its assistance on policy reforms that it deems important runs counter to the concept of country ownership. On the other hand is the view that conditions can—if negotiated with countries with a favorable policy environment that are committed to a development strategy, if donors are less prescriptive and more flexible, and if partner countries are given a lead role in the conditions' design and implementation—help support the government's own reform efforts, as part of a mutually accountable partnership (International Monetary Fund 2012; Branson and Hanna 2000; Koeberle et al. 2005). A commonly held opinion is that unless the country owns the proposed reform, the condition often will be ineffective in effecting policy change. However, if there is full and complete ownership of the need for reform, there is often no need for a donor to condition its aid on the change; the country would do it on its own accord. Conditions may be a particularly strong tool in a situation of partial ownership, supporting reformers to push ahead in the face of resistance from domestic vested interests (Drazen 2002).

MCC's Use of Conditions Precedent (CPs) in Practice

All MCC compacts include policy conditions related to the sectors in which the compact will invest that the partner country government agrees to complete as part of the partnership. While there is no systematic information available about countries' completion of these conditions, limited evidence suggests that partner governments have undertaken important and difficult reforms as part of their MCC partnerships. However, in some cases, local struggles to comply with compact conditions sometimes put program completion at risk. There are many possible elements that contribute to these delays, but some important factors relate to country ownership. The responsibility for implementing some conditions challenges some partner countries, and partner governments occasionally have insufficient ownership of (i.e., commitment to) certain policy conditions.

Despite the importance of partner contributions to program success, MCC did not speak openly very often in its first 10 years about its use of "conditionality," possibly because of the negative association many people have with the term.[40] While MCC sees these upfront commitments as evidence of a willing and engaged partner, they are not entirely different from the conditionality imposed by some other donors. All MCC compacts include CPs, the elements of the program that the country partners are responsible for doing as their part of the bilateral partnership. CPs are often written into and formally agreed to as part of the compact as requirements for incremental disbursements, but they can appear at other stages of the bilateral engagement, including during compact development.

There are many examples of countries' undertaking difficult and important reforms or actions to meet MCC CPs. In these cases, the partner governments sufficiently owned the need for certain reforms to promote growth and had increased incentive in the form of an MCC compact to carry them out. Some illustrative examples of successful conditions include the following:

- ***Nicaragua:*** The Nicaraguan National Assembly, which had for some time resisted pressure from other donors to establish a new gas tax to secure funds for a Road Maintenance Fund, finally, with the incentive of the $175 million compact that would not enter into force until the new tax came into effect, passed the bill (Lucas 2007b).
- ***Lesotho:*** The government of Lesotho passed landmark legislation expanding the legal rights of women, including allowing them to own property and apply for loans, a necessary change for MCC's private-sector development project to have its expected impact.
- ***Mozambique:*** The government of Mozambique established a new agency within the Ministry of Public Works to manage water and sanitation assets in small- and medium-sized municipalities, markets that were previously underserved. This condition of MCC funding was also a condition of the World Bank's work in-country, so the two donors partnered to help ensure the government's success. The MCC compact provided capital

[40] Very recently, MCC has started to become much more open and straightforward about its use of policy conditionality. The second compact signed with Ghana in August 2014 makes policy and regulatory reform less of an accessory to the projects MCC is funding than what MCC is funding. In addition, the Ghana compact openly conditions a substantial portion of available funds on the country's completion of three predetermined policy reforms in the energy sector.

assets for the new unit, and since then it has run as a functional agency, independent of continued MCC support.

- ***Tanzania:*** The Tanzania compact encouraged the passage of a new Electricity Act (prior legislation was 75 years old) that provides for more private-sector participation in the energy sector.

While MCC compacts have doubtlessly encouraged many important, successful reforms, not all CPs have been equally successful. Early compacts included a lot of CPs, and local struggles to comply often contributed to delays that put program completion at risk.[41] There are several possible reasons for this, some of which relate to the notion of country ownership:

- ***Lack of ownership of the reforms:*** In some cases, partner country governments may agree to reforms as part of a compact but have lower political will to actually implement them. For example, the Mozambique compact contained an ambiguously worded condition for the government to undertake regulatory and administrative reforms to improve the efficiency, transparency, and security of the processes for transferring and acquiring land rights. However, because land tenure is such a deeply politically charged issue in Mozambique, the government was slow to move on this condition and ultimately unwilling to tackle the major issues needed for substantive reform. What the government eventually passed, after much delay, focused only on narrower policy issues (an outcome made possible by MCC's lack of clarity in the design of the CP). Furthermore, the length of time it took to complete even this less ambitious set of reforms created completion risk in the land project, prompting a strategic review of whether to continue the investment or modify its scope.
- ***Project management challenges:*** Some CPs necessitate the work of contractors (e.g., an environmental impact assessment is a CP for proceeding with road construction), and delay in CP compliance can be due to delay on the part of these contractors. In many ways, this reflects the fact that in many countries, local staff (the MCAs) are undertaking unprecedented levels of implementation responsibility (an important aspect of MCC's approach to country ownership) and managing the type of large contracts more frequently managed by the donors funding them. Delays in CP compliance in some cases are symptoms of the MCAs' challenges with project management (and MCC's challenges with effective oversight of how MCAs manage their float time).[42]
- ***Technically difficult reforms:*** In some cases, delays in compliance with CPs occur because the reforms required are technically difficult. For example, a condition around road maintenance included in the Burkina Faso compact required having people with the ability to use the Highway Development Management Model, a set of specific tools for the analysis of road management. In practice, the government of Burkina Faso had substantial challenges finding working-level staff who had these skills. In some cases, MCC provided funding and technical assistance as part of the compact to help countries

[41] Because MCC does not release very much information about the extent to which conditions precedent (CPs) are being met, the authors are unable to document the track record, but experience and unofficial staff reports suggest that CPs have not been met and disbursements have—sometimes but not always—been held up, consistent with MCC policy.
[42] Difficulty getting contractors to perform on time and on budget is a widespread challenge in the management of almost all projects that employ them. However, while this is not a challenge unique to MCAs' compact projects, these in-country accountable entities charged with implementation often have less experience dealing with contractors on large projects.

tackle difficult reforms, but for many CPs, countries were not provided specific resources to help get them done well and on time.[43]

- ***Differences in standards:*** Compacts often include CPs related to social and environmental safeguards, but in a number of cases, countries' own laws and standards around social and environmental protections were not as stringent as MCC's. As a result, governments have been initially reluctant to comply, or have had difficulty complying with, these higher standards. A somewhat common example of this has come up around MCC's resettlement conditions (requirements that stakeholders directly affected by the physical expansion of infrastructure be compensated for the loss of property resulting from the construction). Governments may be reluctant to provide higher levels of compensation per MCC's requirements since it would set a precedent for their future resettlement practices. Not only that, rules and procedures around resettlement are often legislated, so legal changes are sometimes necessary for the country to be able to comply with MCC's requirements. This can take a long time and contribute to delays. This was the case in Honduras, for example. A new law had to be passed—a process that took quite some time—for the country to conduct resettlement in accordance with MCC's standards.

To try to mitigate completion risk caused by delayed CP completion, MCC is front-loading more CPs to the beginning of the compact, even before the program enters into force (the point at which the five-year implementation clock starts ticking). For instance, while MCC's previous compacts would include something like utility reform as a midcompact CP, these conditions are pushed to the beginning of the program. In both Malawi and Zambia, whose compacts focus on power and water, respectively, substantial financial strengthening of the utility was required before bidding documents went out.

What is fundamental to keep in mind about CPs is that, in the absence of local performance on agreed-on conditions, at some point continuing implementation may reflect "throwing good money after bad." If the success of a series of investments depends on changes in policy and/or institutional practices, then continuing to build out the investment in the absence of necessary reforms may not be consistent with expected results. Local contributions are imperative for compact success, and though MCC staff recognize this, where partner countries are slow or reluctant to comply with agreed-on conditions, MCC, like many other donors, may sometimes struggle to maintain its commitment to results in the face of bureaucratic incentives and political pressure to keep spending. However, because MCC does not publish a comprehensive list of CPs per compact and highlights CP achievements only on an anecdotal basis, it is very hard for external stakeholders to have a broader sense of how MCC's application and enforcement of conditionality affects its ability to deliver high-quality, cost-effective, impactful programs.[44]

[43] For instance, as an example of MCC's providing support for countries to undertake agreed-on policy reforms, a number of compacts (Benin, Burkina Faso, Ghana, Lesotho, Madagascar, Mongolia, Mozambique, Namibia, Nicaragua, and Senegal) included funded activities to support land reform policy.

[44] MCC's congressional budget justifications, for instance, often highlight several policy reforms that have been completed. While these theoretically could be cross-checked against the list of CPs outlined in each compact, it is not possible to tell if reforms not discussed in the congressional budget justification are omitted because they were not completed or because MCC simply chose not to highlight them in this particular report.

Recommendations

Based on these experiences and lessons during the past decade, MCC should consider two key recommendations going forward. MCC should do the following:

1. **Audit compliance with past CPs and regularly publish progress on current/future ones.**[45] MCC should undertake an audit of CPs in past compacts, reviewing when they were set, whether they were accomplished, and whether, at certain junctures, MCC's decisions to proceed with an investment were justified based on CP completion. MCC should assess the extent to which different levels of ownership, or initial commitment to, each of the CPs affected their rate of completion. Going forward, MCC should work with partner countries to ensure that progress on the CPs outlined in the compact are publicly reported at least annually. In addition, consistent with MCC's commitment to results, when partners fail to meet requirements, MCC needs to be willing to withhold disbursements and even terminate activities.

2. **Experiment with providing some additional support for sector reforms required as conditions.** Partner country governments often need more than incentive to undertake major sector reforms. Some can be technically difficult and need budget and support. MCC could provide some degree of support for some aspects of reforms, with key attention to the sequencing of demonstrated progress toward reform and financial support. MCC appears to be experimenting with providing more support through the compact for important policy conditions, and the agency should track and publicly document the extent to which this approach is successful.

Country Ownership and Accountability

Background

MCC considers accountability to be a core part of its approach to country ownership. The theory is that transparency of process and progress toward results enables partner country governments to fulfill their responsibility to their own citizens and empowers local nongovernmental actors to better fulfill their role as independent advocates for good governance practices. There are two key ways in which MCC's processes facilitate these local roles:

1. ***Predictable, five-year funding:*** Because MCC's compact investments are established up front and are not subject to changes based on annual congressional appropriations, partner country governments can conduct medium-term planning of their own resources since they know exactly what MCC is planning to spend and in what sectors during this time.
2. ***Transparency:*** MCC commits to publishing the projects that are being funded, the expected results, how project implementation is progressing, and whether projects achieved their goals. The theory is that providing this information freely enables citizens and civil society organizations in the partner country to hold their own government to

[45] This recommendation is also included in the *MCC at 10* paper focused on results.

account for how and where compact funds are spent, how implementation is going, and whether projected results were achieved.[46]

MCC's Record on Transparency for Accountability

MCC is leaps and bounds ahead of other US government foreign assistance agencies and most other donors worldwide in terms of transparency. One of the reasons for MCC's commitment to such unprecedented levels of transparency is to allow citizens and civil society organizations in partner countries to hold their government to account for successful implementation of the MCC compact. Important gaps in MCC's reporting, however, limit the ability of these stakeholders to fulfill this role.

While the kinds of relatively well-governed developing countries with which MCC works generally have some form of public oversight for the expenditure of domestic revenues, international development assistance to these same countries often flows through channels that lack the same level of transparency and public oversight. In response, MCC commendably committed early on to high levels of transparency to allow stakeholders in the partner country (e.g., branches of the government, citizens, civil society organizations) to hold both MCC and partner country government accountable for successful implementation.

MCC is considered a leader in transparency among donors globally.[47] It publishes far more data on its projects than almost any other donor. However, it also touts its commitment to transparency more than most other donors (indeed, MCC now often lists transparency among the core pillars of its model), so its actual performance on this valued principle matters for the agency's credibility. While it is important not to downplay MCC's leadership in transparency, it is also fair and relevant to note the important gaps in its reporting that prevent stakeholders both in the United States and in partner countries from holding their governments (including MCC) accountable for successful investment of these grant funds.[48] These include the following:

- **Links to economic analysis:** For most large activities, MCC should describe program indicators and targets and their connection to the relevant ERR models, such that an interested observer can tell what the project is trying to accomplish and where progress stands as of the past quarter. MCC's current level of reporting makes this virtually impossible.
- **Economic justification for rescoping:** MCC publishes the initial ERR analysis of most large compact investments; few, if any, other donors are so systematically transparent

[46] Country ownership is not the only reason for MCC's commitment to accountability through transparency. MCC has an obligation to be transparent to its own US-based stakeholders (e.g., Congress, independent think tanks) that have a reasonable expectation to monitor institutional performance and hold the government agency accountable for its own governance practices. In addition, the agency seeks to contribute value to the broader donor community by publishing lessons learned from evaluations of its projects.

[47] For the past two years, MCC has ranked among the top three donors globally in Publish What You Fund's Aid Transparency Index.

[48] The fact that MCC provides grant finance can create perverse incentives. Beneficiaries may be pleased to get anything and so cannot always be counted on to understand and agree with MCC's emphasis on cost-effectiveness. The fact that partner countries do not have to pay for the program can lead them to request investments in exactly those programs whose economic justification is not strong enough to fund through local revenues and loans. Thus, the accountability function requires a lot of actors' having access to lot of information in a timely fashion.

about their rationale for selecting investments. However, as mentioned above and in more detail in *MCC at 10: Focus on Results*, MCC publicizes very little information pertaining to compact rescoping in a systematic or timely manner, including the revised ERRs that were brought to bear in decisions to halt or scale up projects.

- **Progress toward original targets:** MCC publishes quarterly updates, "Key Performance Indicators," for each compact showing progress toward targets for a handful of relevant indicators. Unfortunately, it is impossible to tell from this document if targets have been revised to account for slower-than-expected implementation (and some have), a key piece of information for an outsider trying to gauge progress.[49]
- **Results of midterm evaluations:** MCC occasionally conducts midterm evaluations to take stock of how a project is doing and determine whether adjustments or cancellation is warranted. This type of study is often planned for projects that MCC wants to pilot, or test, to determine whether they should be brought to scale. However, monitoring and evaluation plans contain inconsistent commitments to publish midterm evaluations, and even where publication is indicated, follow through is incomplete.[50] This lack of transparency compromises MCC's accountability to outside stakeholders because it is not possible to determine whether the decision to redesign and/or scale up implementation is consistent with MCC's understanding of program impact or with the more traditional imperative to simply disburse program funds.

Evaluation for Learning and Accountability

MCC touts, and is lauded for, its strong commitment to rigorous evaluation of the majority of its portfolio. While partner country governments have generally accepted MCC's evaluation agenda in principle, including the need for a robust monitoring system during implementation, in practice some country partners have been reluctant to incorporate evaluation protocols into implementation designs. When this happens, MCC needs to stand by its evaluation strategy, which from the outset was designed to reflect MCC's commitment to country ownership in the form of accountability to in-country nongovernmental stakeholders and its commitment to learning and accountability.

From its inception, MCC has highlighted the importance of rigorous evaluations both to learn what works and why and to impose a level of accountability for MCC and its partner countries over the use of the funds. In other words, as a condition of receiving MCC grant assistance, MCC expects that partners will willingly embrace the role of monitoring and evaluation to transparently demonstrate to stakeholders just how much was achieved. MCC and partner countries' commitment to evaluate projects for results is seen in its reservation of 2 to 4 percent of the compact budget, which would otherwise be available for project investments, for

[49] Information about target revision is contained in the compact-specific monitoring and evaluation plans that are also posted on MCC's website, but tracking performance against both current and revised targets (not to mention understanding the reason for the target revision) requires a complex triangulation between the "Key Performance Indicators" report and the monitoring and evaluation plan.

[50] For instance, Burkina Faso's monitoring and evaluation plan describes a two-phase process with an evaluation to determine whether a pilot project would be worth scaling up; the report was completed, and implementation went ahead, but no report on the evaluation of the pilot is available. This lack of transparency compromises MCC's accountability to outside stakeholders because it is not possible to determine whether the decision to redesign and scale up implementation was consistent with MCC's understanding of program impact.

monitoring and evaluation activities. MCC additionally allocated significant resources for rigorous ex post impact evaluations to be managed from Washington. This entire evaluation framework was designed to reflect a willingness of both sides (MCC and the partner country) to learn about the efficient and effective use of public resources (both foreign aid and local funds) for development and to accept and publicly acknowledge independent judgment of the value of the programs.

While the public pronouncements of this shared commitment have been frequent and clear, the actual experience has been mixed. The tension between MCC's objectives in evaluation and country ownership is manifested in two distinct ways.

First, MCC and country preferences can diverge on the composition of the evaluation strategy—more specifically, which activities should be covered by rigorous impact evaluations and which aspects of the program can vary across beneficiaries. Clearly, MCC's experience with its partners has varied considerably across countries, but in almost every case, the willingness of counterpart governments to accept a rigorous impact evaluation on specific activities has generated objections among some local partners. In this context, the portfolio of MCC impact evaluations needs to be seen as balancing its internal learning and accountability agenda with the willingness of local partners to accept the proposed research protocols. There are a number of concerns that are regularly expressed (these views are sometimes shared by MCC staff involved in the program design process as well):

- *The identification of which projects should be evaluated for learning and accountability:* Monitoring and evaluation officials within MCC are charged with developing an evaluation strategy that makes sense given both the composition of the country program and the existing organization-wide evaluation portfolio. Such a strategy reflecting MCC's institutional priorities can be at odds with country preferences. MCC might feel that a program holds great potential for learning and, because of its size, requires a rigorous impact evaluation, but if the country counterparts have already decided to scale up the activity regardless of the evaluation's findings, they may be unreceptive to the inclusion of a large data-intensive evaluation strategy.[51]
- *The identification of a control population that will be intentionally excluded from the program:* Impact evaluations require a credible estimate of what would have happened without the program, and in many cases, the best way to do this is to identify a group of potential beneficiaries that is larger than the program can serve. In this way, excluding potential beneficiaries from the program, which is necessary for the evaluation, is a result of budgetary or time limitations. Nonetheless, the identification

[51] MCC experienced this difference of views with respect to Cape Verde's land registry program in its second compact. Similarly, MCC is implementing an irrigation and farmer training program in Moldova in cooperation with USAID and the government of Moldova, and throughout the process it has encountered objections to the impact evaluation design that addresses questions of considerable important to MCC staff but apparently is of less interest to others engaged in the implementation of the activity.

of a group of people who might be served but intentionally is not can generate opposition in-country to the evaluation design.[52]

- *The random assignment of potential beneficiaries to the program:* To ensure that the households or firms participating in the program are the same as those in the control population, many evaluations use random processes to select which of the potential beneficiaries are included (treatment population) and which are excluded (control population). Some local partners have found this design element to be unacceptable, thinking it might undermine efficiency or appear unfair (in some countries, beneficiaries have instead found the public random assignment process to be an exceptionally fair display of government discretion).
- *The variation of treatments across beneficiaries:* To maximize learning potential, impact evaluations often seek to implement the same program in different ways. This approach also helps avoid a single conclusion (i.e., the program worked or the program didn't work) and provide a more nuanced and more informative description of the types of program implementation that worked better than others.[53] While many MCC-funded activities provided excellent opportunities to learn more by varying treatments, local partners sometimes would not accept such designs, often arguing that the optimal designs were already well established.

In many cases, these issues emerged during the compact development phase, leaving no paper trail of discussions between country partners and MCC staff charged with developing the evaluation strategy. But to some extent such concerns were found in almost every country and undoubtedly had a profound effect on both the set of activities that were identified for impact evaluations and the final evaluation designs.

Second, during implementation, in some cases, partner countries and the firms implementing the compact activities have been unwilling to follow impact evaluation protocols.[54] In other cases, implementing partners pursued beneficiaries within the control population, thereby undermining the statistical power of the impact evaluation. Such actions were often done with the approval of staff within the accountable entity, and MCC did not protect the mechanisms for accountability

[52] MCC monitoring and evaluation staff and their independent evaluators clearly understand that there are ethical implications to specific research designs. Virtually every activity will include some households and firms and exclude others; the research design imposes a systematic framework on this process.

[53] In the Philippines, for example, MCC is funding a large-scale implementation of a community-driven development activity known locally as Kalahi-CIDSS. This program provides standard budgetary transfers to selected communities that include predetermined amounts for local training activities and for local infrastructure investments. From a learning perspective, the evaluation might have varied the proportion of the total budgetary transfer, perhaps reducing the proportion devoted to training in some communities and increasing it in others. During the program design period, there was no clear developmental basis in theory or evidence establishing the optimal proportion of funds devoted to each, and the MCC evaluation might have measured this, but counterparts in the relevant ministry of the government of the Philippines would not approve such a research design.

[54] In Madagascar, for example, the original design of a $13.7 million agriculture business project included a rigorous impact evaluation—exactly because there had been insufficient time and data to conduct economic analysis prior to the investment decision. Two years into the compact, when implementation of this activity started in earnest, MCA-Madagascar, MCC staff supporting the project, and project implementers refused to accept a rigorous impact evaluation, and the firm hired to do the evaluation left the country, unable to do its job without support from these parties. At the time, MCC managers knew the project was not going well and knew that a decision to proceed with implementation would be inconsistent with the language of the compact calling for a rigorous evaluation. Moreover, all parties understood that proceeding with implementation in the absence of an independent evaluation would effectively undermine the ability of outside observers to scrutinize the decision to proceed. MCC management decided to proceed with the project, knowing that it was highly unlikely the funds would result in cost-effective impact, but knowing too that there would be no documentation of this failure.

that had been accepted by both sides. In such cases, opportunities for accountability to partner country citizens were lost.[55]

In the context of evaluations, during its first 10 years, MCC has shown that it will occasionally defer to country ownership on the question of what will be evaluated and how the evaluation will be designed, even when the outcomes undermine MCC's agenda for learning and accountability. While the development of evaluation strategies at the country level needs to include local counterparts, MCC must be careful not to allow local preferences and priorities to undermine seriously its ability to fulfill its learning and accountability functions.

Recommendations

Based on these experiences and lessons during the past decade, MCC should consider four key recommendations going forward.[56] MCC should do the following:

1. **Publish rescoping decisions in a systematic and timely way, and make the data that informed the decision—like revised ERRs—publicly available.** Since midcourse decisions can fundamentally alter the quality of the program, this information is deeply relevant to in-country stakeholders. MCC management might also make better decisions if their deliberations were more subject to public scrutiny.

2. **Publish decisions around project scale up in a systematic and timely way, and make the data that informed the decision—like the results of midterm evaluations—publicly available.** Increased transparency can help stakeholders exercise oversight over MCC's decisions to scale up (or not) particular projects. This process requires that MCC publicize upfront the plans to use midterm evaluations when they are part of the original compact and establish a time line for conducting the evaluation and sharing the results.

3. **Increase resources dedicated to disseminating results-related information.** MCC is a US government leader in transparency about results, but it can and should go even further. Its website is difficult to navigate, and results information is often incomplete or out of date.[57] In addition, MCC has not consistently published midterm evaluation reports and evaluations of pilot projects listed in its monitoring and evaluation plans. These documents, as well as the final evaluations, need to be conducted according to a public schedule and made available in a timely manner. While MCC rightfully deserves praise for its ongoing openness, which currently exceeds that of most other global development agencies, the flow of information now exceeds MCC's ability to manage and publicly disclose it in a practical and fully effective manner. This unintentional limitation may actually undermine its distinctiveness. As such, MCC needs to look for new ways, including possibly contracting out some of these reporting functions, to maintain its

[55] The expectation that country governments would share MCC's commitment to transparency and accountability was almost certainly naïve and led to a number of evaluations whose results were compromised by actions in-country and ambivalence within MCC. As a result, it appears that MCC is scaling back its use of rigorous impact evaluations (once the proportion of the portfolio covered by impact evaluations was greater than 50 percent; now the institution is aiming for a portfolio average closer to 40 percent, a figure that reflects a substantially lower amount in new compacts).

[56] The first three recommendations are also included in the *MCC at 10* paper focused on results.

[57] For example, quarterly reports are sometimes almost three quarters out of date. Moreover, the scaled-down quarterly reports provide progress information but do not allow the reader to discern whether the performance is on track or behind schedule.

commitment to publish results, distill key lessons learned, and demonstrate how it is applying these lessons. Fortunately, MCC is close to launching a new website (expected in 2015), which it is hoped will address a number of these current limitations.

4. **Expand local participation in evaluation to include local nongovernment stakeholders that have an interest in the process' learning and accountability objectives.** To better balance country considerations and MCC's needs, MCC should seek to broaden local participation in evaluation design beyond those directly involved in the activity to include groups like local think tanks, NGOs, and academics. These independent local parties might provide more support for MCC's evaluation strategy—and the learning and accountability that it is meant to engender—than may be found within country governments and project-implementing partners.

How Is MCC's Focus on Country Ownership Different from That of Other US Foreign Assistance?

Country ownership guides, to varying degrees, quite a bit of US government foreign assistance. However, MCC's approach to country ownership remains the most comprehensive of US government foreign assistance largely due to the flexibilities that come with predictable multiyear funding and freedom from congressional earmarks.

As a principle, country ownership has been embraced by donors around the world. Within the US government itself, country ownership features prominently as a key component of the Obama administration's Global Development Policy. In fact, most US government development agencies and initiatives have paid heed to the call for increased country ownership, but all have certain limitations:

- **USAID's Country Development Cooperation Strategies** incorporate input from the partner country government and civil society and must be aligned with partner country development priorities. But beyond requiring "regular discussions" and "consultations," there is little that specifies how much country involvement is sufficient, what the goal of country consultations is, and how USAID should weigh input from partner country stakeholders compared to input from the other stakeholders (US government interagency partners, other donors) that USAID is required to consult. Furthermore, since much of USAID's money is earmarked, it is unclear how much of a role in strategy creation a country would truly have.[58] In addition, consultation for the Country Development Cooperation Strategies is largely around broad priority areas and very rarely comes down to the level of specific projects. Furthermore, partner countries do not have a formal opportunity for final approval; this role lies with USAID headquarters.[59]
- **USAID's Local Solutions** is a USAID Forward reform that calls for missions to devote a relatively modest portion of program funds to local government or local

[58] For example, USAID's Country Development Cooperation Strategy (CDCS) for Mozambique says, "Currently, USAID/Mozambique's portfolio is 100 percent earmarked by Presidential Initiatives and other requirements. The Mission has no funds to use at its own discretion, and the vast majority of its programming falls under strategies that were approved prior to this CDCS. As such, Presidential Initiatives and USAID global strategies greatly influenced the strategic choices made in this CDCS."

[59] See USAID Automated Directives System, Chapter 201, "Planning" (September 30, 2013, version): http://www.usaid.gov/sites/default/files/documents/1870/201.pdf.

nongovernmental partners to implement projects. The goals of Local Solutions are principally to strengthen local implementation capacity, increase the sustainability of development efforts, and enhance country ownership. In the case of government-to-government funding, Local Solutions attempts to systematically assess partner country government systems to determine whether they have the capacity to accountably manage US government resources. In this sense, there is some similarity between the Local Solutions approach and MCC's option to use country systems for fiscal and procurement functions, where possible. But Local Solutions itself represents a partial approach to country ownership. Implementing projects through local organizations could potentially build implementation capacity (though the burden is on USAID to show that it has), but systematic channels through which local actors identify priorities for implementation are absent from this reform. Local implementation is a part of country ownership, but it is not the full story.

- **USAID's Local Systems** is the agency's new framework that seeks to define "clear and practical steps toward realizing a vision of development that is locally owned, locally led and locally sustained."[60] At this point, however, it is unclear how the recommended steps and goals will translate into changes in practice at the mission level and new ways of incorporating country ownership into the planning and implementation of USAID's resources.[61]
- **The President's Emergency Plan for AIDS Relief (PEPFAR)** requires "coordination" with the host country government and other in-country stakeholders in the development of its two-year country operational plans. However, it is unclear whether there are systematic and specific requirements for this in practice. PEPFAR also requires that its budgets be made available to the partner country government to help the country's own resource-allocation planning. However, extensive use of amounts to be determined in these budget statements reduces the operational value of this information. For several years, PEPFAR also has been seeking to transition much of its programming from the emergency provision of direct services to promoting sustainable country-led and country-managed programming through support designed to strengthen countries' health systems. This agenda has advanced furthest in the higher-income countries PEPFAR supports, like South Africa, as well as in a few low-income countries, like Rwanda, but the sense is that direct service provision will remain a core part of the PEPFAR mission for longer in countries with national health systems that still need substantial support. Nonetheless, PEPFAR is seeking assistance from MCC to learn how to better incorporate country ownership into its operations. In March 2014, the two aid programs signed a memorandum of understanding for MCC to provide technical assistance to PEPFAR.[62]
- **Feed the Future**'s planning takes country ownership in priority setting to a higher level than much of the US government's other programming. It requires that the partner government take the lead in developing a country investment plan, with which the US government aligns its own strategic planning documents. However, while this gives partner countries substantial ownership over Feed the Future planning, countries' ability

[60] See USAID's April 2014 document, "Local Systems: A Framework for Supporting Sustained Development": http://www.usaid.gov/sites/default/files/documents/1870/LocalSystemsFramework.pdf.
[61] Some of the steps and goals outlined in USAID's "Local Systems: A Framework for Supporting Sustained Development" seem nebulous and superficial. Vague recommendations include the following: "recognize there is always a system," "engage local systems everywhere," and "we mean to take systems—and systems thinking—seriously."
[62] von Zinkernagel and Yohannes (2014).

to prioritize investments is constrained since the projects must focus on agricultural productivity and hunger goals. In addition, implementation of most Feed the Future programs is typically managed by USAID.

- "Country ownership and partnership" is one of the core principles of the **Partnership for Growth,** which includes joint decision making about where to prioritize resources. Outside of MCC, this is perhaps one of the best examples of the US government's putting country ownership into practice. In 2011, the US government selected four countries to participate in Partnership for Growth and began an engagement that was explicitly defined as a partnership with the developing country government in the lead.[63] Following a jointly produced CA, each partner country government developed a strategy to address the binding constraints to growth. The US government then reviewed each strategy to identify how its foreign assistance, diplomacy, trade, investment, and other activities could support country-identified priorities. However, it remains unclear how the Partnership for Growth has functioned in practice, though the US government is undertaking mid-term assessments of the partner countries.

This list shows that country ownership is elevated, to varying degrees, in various ways, for a significant portion of US government development assistance. However, MCC's approach to country ownership is arguably the most comprehensive, being integrated from the planning phase to the implementation phase to the results phase. Perhaps as a result, MCC funds are far more aligned than those of other US government agencies with the priorities of average citizens in partner countries.[64] As a matter of principal, other US agencies may not have a lower commitment to country ownership. Rather, their structural constraints prevent greater action in this area. For example, the vast majority of USAID's funds are earmarked for a particular purpose. In the 2010 Foreign Operations appropriations bill, Congress earmarked two-thirds of development funds by sector.[65] MCC's multiyear funding and lack of earmarks give it far more flexibility to pursue country-led priorities. Therefore, to the extent that the US government continues to place importance on country ownership in its development activities, it is of paramount importance that these two features of MCC's authorization be preserved.

[63] The four Partnership for Growth countries are El Salvador, Ghana, the Philippines, and Tanzania. Performance on MCC's eligibility criteria was one of the factors considered in the selection of Partnership for Growth countries.
[64] Leo (2013).
[65] Veillette (2011).

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