Center for Global Development

MCC MONITOR ANALYSIS

Focus on Country Ownership: MCC's Model in Practice (brief)

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The Millennium Challenge Corporation (MCC), an independent US foreign assistance agency, was established with broad bipartisan support in January 2004. MCC has a single objective —*reducing poverty through economic growth*—which allows it to pursue development objectives in a targeted way. There are three key pillars that underpin MCC's model: that policies matter, results matter, and country ownership matters.

This brief reviews the MCC's focus on country ownership. A longer discussion can be found in the full paper, "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 program effectiveness and sustainability. In broad terms, the idea of country ownership embraced by the international community is that donors' engagement with developing countries should reflect the understanding that partner governments, in consultation with key local stakeholders, should lead the development and implementation of their own national strategies and that foreign aid should serve to strengthen recipients' capacity to exercise this role. [1] MCC's approach to country ownership generally reflects this premise.

Built-in flexibility allows MCC to pursue country-led solutions more easily and consistently than other US development agencies. Unlike the majority of US foreign assistance, MCC funds are not subject to Congressional earmarks or directives that often obligate USAID to spend money in specific activities, sectors, or countries. In addition, MCC has predictable, five-year funding for each of its country programs. MCC sets aside the total amount of funding for a country program at compact signing, enabling countries to tackle longer-term investments that could be too risky if future funding was not assured and depended on annual appropriations.

Country ownership shapes MCC's approach to country engagement in four key areas: project identification, compact implementation, policy conditionality, and accountability.

Project Identification: Countries Identify Projects for Investment Consistent with MCC Guidance

Once a country is selected as eligible for an MCC compact, the agency asks the country government to identify its growth-oriented priorities for funding. While partner countries lead this proposal process, their options are constrained. MCC's model directs the agency to fund projects that increase local incomes in a cost-effective manner, and the agency's internal policies require safeguards such as environmental and social protections. Unfortunately, MCC's early compact development processes were unstructured and lacked guidance, leading to proposals that were not appropriately focused on growth, causing frustration for both MCC and its partner countries.

On the basis of the agency's early experiences with compact development, in which the process often lacked structure, MCC introduced a more guided process for compact development to clarify expectations while preserving the country's leadership role. Among the tools MCC adopted to help countries implement its guidelines, one of the most important was the Constraints Analysis (CA), which uses economic analysis to help countries focus their proposals on addressing the binding constraints to growth. Other streamlining tools include the Social and Gender Assessment (SGA), which requires the integration of social and gender considerations, and the Investment Opportunity Assessment (IOA), which requires countries to consider appropriate private-sector engagement. These filters were designed to help countries identify the most viable projects from their broader wish lists.

These tools have benefited the process in another way, too, by depoliticizing proposal development within partner countries. They also give MCC a solid basis to push back on proposed projects that are not the right fit for the agency's mission to promote economic growth. While MCC still may approve projects that do not demonstrate sufficient likelihood of achieving cost-effective results (e.g., Indonesia's $300 million Green Prosperity Project, approved in 2011 despite lack of detail about the content and cost-effectiveness of the specific activities to be undertaken), the agency can and has pushed back on projects proposed by countries that do not meet the economic criteria for inclusion (e.g., Liberia was interested in certain road segments, but the traffic count was too low for benefits to justify the costs, so MCC asked the country to consider alternatives).

Another area of compact development that benefited from refined guidance is the requirement that partner governments consult with local stakeholders. MCC's guidance on consultations has evolved to focus less on *who* should be consulted (e.g., women's groups, the rural poor) and more on what information should be sought (e.g., flaws in previous efforts to address certain challenges, potential remedies suitable to the local context) and conveyed (e.g., what stakeholders should expect of a compact, why decisions were taken). The consultative process expected by MCC has evolved from one-off consultations to iterative engagement with key stakeholders. MCC also moved toward using preexisting consultation channels where available, though this has revealed great variation in the extent to which local nongovernmental stakeholders have had experience engaging with the national government in policy discussions. In many cases, requirements for stakeholder involvement go beyond countries' standard practices, even in countries with established channels for citizen engagement. Because of this, MCC has diverted more of its own resources (additional staff, funding for consultants) into helping countries meet stakeholder outreach requirements.

Recommendations

1. MCC should continue countries' leadership role in proposing projects for investment, but it should only approve country preferences if they also are projected to address binding constraints to growth in a cost-effective way.
2. MCC should continue to provide technical support for stakeholder engagement in countries where past experience of engaging non-state actors has been limited or ineffective.

Compact Implementation: MCC Helps Countries Take the Lead

Once a program has been approved, MCC requires that its partner countries take the lead role in compact implementation with MCC staff providing technical support and oversight. The partner government establishes an accountable entity that manages all aspects of the compact.

One theory behind using country-led implementation is that it increases the prospects that the investment will be sustained. It also makes the government, as the implementer, more accountable to its citizen beneficiaries. In addition, locally led implementation may also help build and demonstrate the capacity of the partner country to implement large-scale development projects. Many countries have maintained their accountable entities in some form after the end of the compact to continue to benefit from their expertise in project management and other areas.

MCC has had to balance country-led implementation with its need to verify the accountable use of funds and ensure expedient compact implementation. Many countries have been unprepared to lead all aspects of implementation from the outset, so the agency has approached country ownership as a process in which countries take on greater leadership as the compact progresses. For instance, the approvals process often evolves over the course of the compact, depending on the queue of procurements and the country's demonstrated capacity. While MCC has retained crucial risk mitigation and accountability measures, the agency has taken steps to increase efficiency, streamlining certain approvals and removing English translation requirements for some documents.

As the first cohorts of compacts approached their midpoints, MCC discovered that many of them were behind schedule. This recognition led to two changes within MCC that had implications for country-led implementation.

First, MCC restructured its own organization to shift staff resources from developing compacts to supporting program implementation to help partner countries accelerate the rate of disbursements and complete programs on schedule. MCC remained committed to country ownership in implementation, but recognized that the reality on the ground varied across countries, requiring that MCC tailor its approach, as well.

Second, MCC management realized that a number of programs were not just behind schedule, but needed "rescoping" mainly because of higher-than-expected costs and implementation delays. Country partners led the process, and MCC helped them think through various options for proceeding.

Rescoping also presented a juncture at which MCC had to balance country ownership with its focus on results. In some cases, particularly in its early years, MCC sometimes approved countries' choices to move ahead with investments that were known to be no longer worth their cost. Deference to "country ownership" was probably not the only factor contributing to these decisions, however. Internal pressures to complete as much as possible (even if the estimated returns in the new cost environment suggested the investment was no longer cost effective) likely also played a role.

More recently, MCC has been exploring the use of innovative performance-based financing structures, including Cash on Delivery Aid (COD Aid). COD Aid is an approach in which a donor pays a partner country for progress delivering measurable and verifiable pre-agreed outcomes. These schemes enhance country ownership over implementation by giving a partner government the flexibility and discretion to experiment and identify the best ways, within its own local context, to achieve the agreed upon outcomes.

Recommendations

1. MCC should pursue rescoping decisions balancing country preferences *and* the updated projections of expected results; to increase accountability, MCC should publicly document and explain rescoping decisions in a timely manner.
2. MCC should pilot Cash on Delivery Aid.

The Relationship between Country Ownership and Policy Reform Is Complicated

All MCC compacts include policy conditions that the partner 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 a number of important and difficult reforms as part of their MCC partnership. However, in some cases, countries struggle to achieve compliance with compact conditions, which MCC calls "conditions precedent" (CPs), and this can put program completion at risk. There are many possible factors that contribute to these delays, including some that relate in various ways to country ownership:

- **Lack of "ownership" of the reforms:** In some cases, partner governments may agree to reforms as part of a compact but struggle to harness the political will to implement them.
- **Technically difficult reforms:** In some cases, required reforms are technically difficult, and funding or support for compliance is not always available (though MCC has provided support for reform efforts in some cases).
- **Project management challenges** : Some CPs require the work of contractors, and delay in CP compliance can be partly because of difficulties getting contractors to perform on time and on budget; this is a widespread project management issue, but may be more challenging for partner countries with limited implementation experience.
- **Differences in standards:** In some cases, countries' laws and standards around social and environmental protections are not as stringent as MCCs, and governments have sometimes been initially reluctant to comply or have had difficulty complying with these higher standards.

To mitigate completion risk caused by delayed CP completion, MCC is front-loading more CPs to the beginning of the compact, sometimes even before the program enters into force (the point at which the five-year implementation clock starts ticking).

Since successful completion of CPs can be critical to compact success MCC should do more to share information about their progress. MCC does not publish a comprehensive list of CPs or publicly track progress toward their achievement (some achievements are highlighted on an anecdotal basis), so external stakeholders are unable to follow MCC's application and enforcement of conditionality and how this affects results.

Recommendations

1. MCC should audit compliance with past conditions precedent and regularly publish progress on current/future ones. [2]
2. MCC has started experimenting with providing more financial support—through compact activities—to assist partner governments to fulfill key pieces of important policy conditions. MCC should continue these experiments, and should track and publicly document the extent to which this approach is successful.

MCC Supports Country Ownership by Reinforcing Accountability to Local Stakeholders

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 governments to fulfill their responsibility to their own citizens and empowers local nongovernmental actors to better enact their role as independent advocates for good governance practices. One of the key ways MCC facilitates accountability is through transparency.

MCC is far ahead of other US government foreign assistance agencies and most other donors worldwide in terms of transparency, and it deserves the accolades it gets for these efforts. However, important gaps in MCC's reporting limit the ability of in-country stakeholders to fulfill their monitoring and accountability roles. By providing a clear description of the link between program indicators' targets and the projected benefits from the cost-benefit analysis, decisions to rescope projects mid-implementation and the justification for the new way forward (including the data brought to bear in decision-making), progress toward original targets (which are sometimes revised), and results of midterm evaluations, MCC could go even further in fostering accountability.

In addition, MCC touts, and is lauded for, its strong commitment to rigorous evaluation. While partner 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 design for a variety of reasons. When this happens, MCC should stand by its evaluation strategy, which from the outset was intended to promote accountability.

Recommendations

1. MCC should increase resources to disseminating results-related information so more comprehensive information is available in a more timely way. [3]
2. MCC should publish decisions on rescoping or project scale-up in a systematic and timely way, and make the data that informed the decision—such as revised economic rates of return analyses (ERRs) or results of midterm evaluations—publicly available. [4]
3. MCC should expand local participation in evaluation to include local nongovernment stakeholders who have an interest in the process' learning and accountability objectives.

Additional Resources

In the *MCC at 10* series, Sarah Rose and Franck Wiebe take an in-depth look at three main pillars of MCC's model: the agency's focus on policy performance, results, and country ownership. To what extent has MCC's model governed its operations in practice? How should MCC strengthen and expand its model and operations during the next 10 years? How is MCC different than other modes of US foreign assistance? Find the papers and more briefs like this one at CGDev.org/page/mcc-ten.

[1] This is the concept of country ownership that was put forth in the 2005 Paris Declaration on Aid Effectiveness and reiterated in the international consensus statements resulting from the High Level Fora on Aid Effectiveness in Accra (2008) and Busan (2011).
[2] This recommendation is also included in the MCC at 10 paper, "Focus on Results: MCC's Model in
Practice."
[3] This recommendation is also included in the MCC at 10 paper, "Focus on Results: MCC's Model in Practice." MCC is expected to launch a new website in 2015 which will hopefully address some of the existing information gaps.
[4] This recommendation is also included in the MCC at 10 paper, "Focus on Results: MCC's Model in Practice."