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Implementing Ownership at USAID and MCC: A US Agency-Level Perspective

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Summary

For over ten years, the international development community, including the US government, has committed to incorporating greater country ownership into the design and delivery of foreign assistance. In addition to the international donor community, partner governments, civil society, and the private sector have repeatedly endorsed ownership as a core pillar of aid effectiveness. Ownership is considered critical for achieving and sustaining program results, building local capacity to help countries transition from aid, and strengthening the citizen-state compact by shifting accountability for results to the partner government. Despite widespread agreement on its importance, however, donors have inconsistently implemented ownership approaches. This is in part due to a limited operational understanding of the concept and because the evidence linking ownership to sustained results is slim.

This brief considers how the United States Agency for International Development (USAID) and the Millennium Challenge Corporation (MCC) conceptualize ownership and apply the concept in practice. We focus on three pillars: ownership of priorities (the willingness and ability of donors to align their efforts with country priorities); ownership of implementation (the degree to which donors involve local partners in the design, implementation, monitoring, and evaluation of programs); and ownership of resources (the degree to which a partner country contributes its own finances to the objectives receiving donor support).

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To read the full report, including citations and references, visit our website at cgdev.org/ownership-at-USAID-and-MCC.

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Summary *(continued)*

Findings:

- USAID and MCC are solidly committed to ownership, with each applying its commitment in different ways and contexts.
- There has been a strong institutional push for ownership from USAID headquarters, which has developed new tools and approaches to increase ownership, but systematic implementation across missions is nascent.
- MCC, whose model includes country ownership as a core tenet, has a fairly comprehensive approach, with partner countries setting investment priorities and managing program implementation.
- USAID and MCC each face specific challenges to pursuing ownership, including balancing country priorities with agency requirements; weighing tradeoffs between programmatic, reputational, and fiduciary risk and ownership; and maintaining institutional buy-in for the long-term use of ownership approaches.
- Both USAID and MCC are attempting to understand whether and under what circumstances improved ownership approaches increase development impact.

How Does USAID Implement Ownership?

For over 55 years, USAID has worked to reduce poverty and promote peaceful, resilient societies around the world. In 2010, to further strengthen its aid efforts, the agency instituted a renewed focus on country ownership with the launch of USAID Forward, a series of reforms designed to revitalize the agency's practices and improve development outcomes. As part of USAID Forward, the agency emphasized the sustainability of its programs by seeking to align them with local priorities, engage with local partners, and mobilize non-aid resources. In late 2016, USAID made a significant step toward achieving an agency-wide understanding of ownership and its implementation with revised operational guidance to USAID missions. The updated Automated Directives System (ADS) offers a renewed focus on ownership, identifies approaches to implement the principle, and showcases how it should be considered throughout the program cycle. What will matter is how the new guidance is implemented in practice and how often the recommended approaches to strengthen ownership are employed.

Ownership of Priorities

Since 2010, the primary tool for establishing a country's mission-level priorities has been the Country Development Cooperation Strategy (CDCS). The adoption of the CDCS process emerged partly out of a recognition that medium-term planning of missions needed to more formally analyze and identify the needs of partner countries and to assess opportunities to collaborate with local actors. USAID emphasizes the importance of aligning strategies with the existing national development plans of partner countries. Because national plans are typically informed by extensive consultations with a wide range of local stakeholders, by reflecting the identified priorities, USAID can theoretically ensure that their strategy captures a variety of local perspectives without unnecessarily duplicating earlier comprehensive consultations.

Country alignment is a stated priority of the CDCS, but the strategy must also support US foreign policy priorities and incorporate various USAID policies and strategies, presidential initiatives, and USAID Forward reforms. Furthermore, congressional spending directives dictate, sometimes to a great degree, where missions must focus their efforts. As a result, demands from Washington,

DC, can end up competing with (and sometimes overriding) partner country preferences, forcing the missions—which are ultimately responsible for reconciling multiple views—to weigh country priorities against US interests or requirements. However, centrally driven priorities established by USAID or Congress are not necessarily always at odds with the priorities of partner countries.

Final strategies are required to demonstrate some degree of alignment with partner country priorities, but in practice, available funding may limit the extent to which USAID actually supports those priorities. One of the purposes of the CDCS is to define resource priorities, but CDCS-identified priorities can be established regardless of the funding envelope available for their financing. Therefore, even if a pillar of the CDCS is well aligned with a country priority, it does not necessarily follow that USAID will provide substantial funding to pursue the mutually agreed-on objectives.

USAID's adoption of the CDCS process was accompanied by a shift in the way the agency thinks about project design. One of the most significant changes was giving USAID staff a greater leadership role in project design, reversing the pattern of a heavy reliance on contractors. Part of the rationale behind this shift was that it would encourage direct collaboration between USAID and local partners throughout the program cycle, including during project design. Project design teams, which are recommended to include local actors, now have to specify a plan for engaging local actors throughout project design and implementation. At a minimum, mission staff are required to consider what kind of local ownership and participation is necessary to sustain a project's success after its completion.

Ownership of Implementation

Since the late 1990s, when budget cuts and reduced political support for USAID resulted in substantial reductions in agency staff levels, USAID has relied heavily on US-based firms and organizations to implement its development programs. This has started to change. In 2010, as part of USAID Forward, the agency launched the "Local Solutions" initiative. The idea behind it was that an increase in local implementation of mission funding would increase ownership, capacity, cost-savings, and sustainability of results. USAID has nearly doubled the proportion of mission program funds going to local implementers, reaching 19 percent in fiscal year 2015.

The process of choosing an implementing mechanism—both the type of partner and the financing mechanism—begins at the project design phase. At the concept stage, USAID is required to consider and to document its discussion regarding the possibility of providing a government-to-government (G2G) award or of working through a local organization. To facilitate this effort, missions are encouraged to conduct mapping exercises of potential local partners and to identify organizations with the appropriate capacities.

Government-to-Government Partnerships

USAID has engaged in direct partnerships with partner governments since the agency's inception. However, Local Solutions offers an opportunity to renew the emphasis on G2G partnerships that incorporate elements of capacity building and that focus on the sustainability of results.

Missions engaging in G2G must develop a fiduciary risk mitigation plan describing how they plan to mitigate risk throughout implementation "such that no acceptable level of risk/fraud is assumed." The guidance recommends that weaknesses be addressed through accountability strengthening, capacity development, and technical assistance. Because USAID is legally required to address all risks, the mission can be put into a position of imposing external measures that undermine, alter, or override a partner government's public financial management or procurement systems. However, because USAID does not specify what an acceptable level of risk might be, mission staff charged with establishing mitigation measures assume a high level of personal accountability.

Partnering with Nongovernmental Organizations

USAID's Local Solutions calls for a broad and diversified partnership base; it specifically encourages the agency to partner with local civil society and business entities. One tradeoff that must be considered when USAID directly partners with a new local organization is the additional time, resources, and capacity required of USAID staff. The extensive requirements for risk assessment can

create disincentives for staff to award funds to new implementing entities. This is especially true for missions with scarce staff numbers and limited resources available for operating expenses.

USAID has developed and deployed tools for the agency and its local partners to measure baseline organizational capacity and the extent to which it improves over the course of the partnership—one of the stated objectives of direct local partnerships. These tools are mainly focused on basic operational issues, such as the extent to which everyone has and adheres to a job description and whether accountability and fiduciary measures are in place. Critically, some of the tools further assess whether the strengthened organization is more effective in achieving the results of interest.

USAID's efforts around local implementation have brought to light a number of questions that still lack a satisfactory answer, including whether and under what circumstances local partners offer improved value for money and what impact capacity building and systems strengthening interventions have on development outcomes. These questions must be systematically thought through as USAID seeks to broaden its approach to ownership of implementation, using evidence from the myriad local partnerships recently pursued by the agency.

Ownership of Resources

Domestic resources often dwarf foreign assistance in countries where USAID works. The agency has long sought to encourage financial contributions by partner countries to its development programs. Over the last decade in particular, USAID has ramped up its efforts to increase the potential streams of financing available to achieve development outcomes. Using foreign assistance to catalyze the mobilization of domestic resources, USAID has offered technical assistance to increase domestic resources and has promoted partnerships with the local private sector. A partner government or local business that chooses to contribute its own resources to a particular development program sends a strong signal of support for the program's objectives and provides the organization more direct involvement in its implementation.

There are no legal or policy requirements for any partner entity to contribute its own resources to USAID activities, but missions can include a cost-sharing requirement in individual agreements on a case-by-case basis. In a number of countries, even in the absence of a cost-sharing requirement, USAID has been able to leverage resources from local government, civil society, and private sector partners.

Similarly, domestic resource mobilization (DRM) has received much more attention—and funding—in recent years. USAID is committed to significantly increasing its efforts around DRM with ongoing technical assistance and new efforts to pilot DRM activities in partner countries. As of 2016, USAID was conducting DRM programming in 14 countries. To date, the agency has carefully selected countries with a high local demand for DRM activities. The agency credits its selection criteria as among the key factors for the high success levels they have witnessed. Case studies by USAID regarding its DRM assistance show significant returns on relatively small investments. Beyond formal DRM efforts, which are largely partnerships with national governments, USAID has begun to seek ways to incorporate the local private sector into its development activities. Although USAID missions have partnered with local businesses for many years, efforts to map and target local private sector actors are still nascent.

How Does MCC Implement Ownership?

Founded in 2004, the Millennium Challenge Corporation was designed to deliver aid differently. Its model reflects the key principles of aid effectiveness that were starting to emerge at the time of the agency's founding, including the importance of country ownership.

Ownership of Priorities

Under the MCC model, partner country governments, in consultation with a wide range of stakeholders, take the lead in setting the priorities for MCC investments. MCC has built-in flexibilities that allow it to pursue country-led solutions more easily than other US government foreign assistance agencies. Most importantly, MCC funding is free from congressional directives on use of funds. In addition, all funds for a multiyear country program can be obligated up front, allowing

countries to propose large-scale, long-term projects that would be too risky if they had to depend on annual appropriations.

MCC's approach to country ownership of priorities has evolved with the recognition that the hands-off approach of the agency's early days—in the spirit of letting countries lead—often led to frustration among all parties when the submitted proposals did not meet MCC's investment criteria. The agency now characterizes program development as a partnership, and it provides clearer guidance about its investment requirements from the outset, including a focus on growth; cost efficiency; and compliance with social, gender, and environmental standards. MCC has instituted the use of analytical tools to help countries meet these requirements.

The integrated constraints-to-growth analysis is the central diagnostic tool. It narrows the sectors in which MCC might invest by identifying binding constraints to growth. Country teams play a key or even lead role in conducting these analyses, but MCC technical involvement can be extensive, especially where there is less capacity for or experience with this kind of assessment. Based on the results of the constraints analysis, partner countries work with MCC to prioritize sectors for investment. While partner countries are firmly in the driver's seat of this process, the interests of the US government are not entirely absent from the conversation. For example, the US government's focus on energy investments in countries designated for concentrated US government support through the Power Africa initiative probably had some influence in the decision of certain partner countries to pursue this sector over others identified in the constraints analysis.

Once focal sectors are determined, countries propose projects to tackle identified constraints to growth. MCC works with a partner country on a cost-benefit analysis for each proposed project to determine which ones are likely to be cost efficient. MCC performs most of the work for this step, and its feedback on how to adjust proposals to meet the agency's investment criteria can be substantial. In all cases, MCC issues final approval.

All MCC programs include jointly developed policy conditions that the partner government agrees to complete. Anecdotal evidence suggests that countries do in fact successfully undertake these important reforms as a part of their MCC partnerships. MCC staff report that country leadership is key to successful reform, both in terms of defining the MCC investment and contributing to the content of the conditions. On the other hand, for many reasons, some countries struggle to complete the reforms or backtrack after the compact concludes. Low levels of ownership may play a role here. For example, the government of Mozambique was slow to move on a politically charged condition around land rights and ultimately was unwilling to tackle the major issues related to it. In Honduras, the government met a condition to increase road maintenance funding levels but later reduced its allocations.

Ownership of Implementation

Partner countries take a lead role in compact implementation through a dedicated unit called the Millennium Challenge Account (MCA). The MCA manages all aspects of the compact, including coordinating with government ministries, running the procurement process, managing contracts with implementers (such as construction firms), completing environmental and social assessments, and reporting to MCC on finances and the progress of the compact. A local board of directors—whose members often include high-level government officials, representatives from the private sector, and civil society leaders—oversees the MCA. Virtually every compact implementation activity involves a local decision-maker.

MCC's role is to provide oversight on the use of funds and to offer guidance and technical assistance to help ensure compliant and expeditious implementation. Even though MCC's in-country footprint is small—typically just two staff persons per compact—Washington, DC-based staff are deeply involved in each program and regularly travel to partner countries. The extent of MCC's support is tailored to the country based on the individual MCA's experience and capacity. The number of required formal approvals can also change over the course of compact implementation as the flow of procurements slows and as the MCAs demonstrate their ability to meet MCC's standards. However, risk aversion and pressure on MCC compacts to achieve time-bound results sometimes

leads to a role for MCC in decision-making and problem-solving that is greater than the agency's rhetoric around country ownership would suggest.

Use of Internal Procurement and Financial Management Functions

MCC gives countries the option of having an existing government entity perform the compact's procurement and/or financial management functions, but most MCAs hire external commercial agents. This is partly because many countries do not meet MCC's minimum standards for fulfilling these functions. In addition, partner countries perceive certain advantages from outsourcing fiscal and procurement functions, including a reduction of political pressure to spend money in specific ways and protection from rumors of corruption. Given the sheer number of contracts in an MCC compact, outsourcing can also expedite implementation and avoid overwhelming an individual ministry's capacity.

Although an emphasis on donors using "country systems" has been part of international aid effectiveness agreements for years, MCC's experience suggests that ownership can also occur when a country is given a choice about the best way to implement a program, even if that choice is to outsource procurement and financial management functions. Regardless of whether these functions are outsourced or handled internally, all MCC partner countries exercise substantial ownership over the procurement process by developing the substance of the investment and by writing the terms of reference. Nevertheless, MCC is taking steps to increase the procurement responsibilities undertaken by partner countries, particularly those engaged in a second compact.

Local Procurement

MCC has open international bidding, which means there is no preference for selecting companies or organizations from any particular country to implement contracts. MCC emphasizes country ownership in procurement not by seeking to buy locally but rather by having decisions about what to buy be made locally.

Monitoring and Evaluation

MCC incorporates ownership principles throughout the monitoring and evaluation process and acknowledges the importance of ensuring that both MCC and the partner country are clear about the program's intended results.

In practice, levels of buy-in to intended results are mixed. Many indicators used to monitor progress are defined by MCC. Often, the agency influences targets as well because they emerge from a cost-benefit analysis typically developed with substantial agency input. Despite these limitations, the process of monitoring is decidedly country-led, with data collected and reported by the MCAs. When possible, MCC also relies on data collected by national statistics organizations.

When conducting project evaluations, typically MCC, not the partner country, manages the contracts with independent evaluators. However, the agency requires that the evaluators engage with local stakeholders throughout the process to obtain buy-in for the process and generate interest in the results. While in-country stakeholders are often receptive to the idea of evaluation, disinterest or even opposition can sometimes emerge for a variety of reasons, including concerns that an evaluation might slow implementation, a lack of ownership of project implementation, and/or suboptimal timing of results to influence decision making.

Transparency

MCC includes transparency and accountability as a core part of its commitment to country ownership, noting that it helps partner governments better manage aid flows and empowers citizens to hold their governments accountable. MCC is a recognized leader in transparency, with a truly superb record. However, gaps and delays in information limit the ability of partner country stakeholders to fulfill their monitoring and accountability roles. MCC could go further in fostering accountability by ensuring published monitoring data is current, by reducing delays in posting evaluation results, and by discussing decisions to rescope projects at mid-implementation in a timely manner rather than after the compact concludes.

Ownership of Resources

MCC works with partner countries to mobilize domestic resources for development in three ways: through co-financing requirements at either the compact or project level (such as requirements that lower-middle-income countries—and all countries with a second compact—contribute their own resources toward compact objectives), by conditioning aid on longer-term resource commitments (such as by requiring the passage of a bill that would increase funding for road maintenance as part of a road infrastructure investment), and through programmatic support for domestic resource mobilization (such as the revenue administration reform project in the Philippines).

Recommendations for improving implementation of country ownership

Recognizing that multiple US actors have a role to play in furthering the implementation of country ownership, the following recommendations offer practical ideas for improving how US development agencies and actors institutionalize and enact their commitment to country ownership.

1. Remove or reduce legal and policy constraints to the pursuit of country ownership.

The administration should:

- Work with Congress to prevent burdensome spending directives.
- Reduce presidential initiatives and executive branch requests for specific priorities.

Congress should:

- Allow "effectiveness pilots" in which directives (as well as executive-imposed initiatives) would be reduced or eliminated in a small number of countries.

USAID should:

- Adhere to more effective aid delivery practices in exchange for flexible spending.

2. Create an agency-level understanding of country ownership and risk appetite.

Both agencies should:

- Clarify accepted levels of risk tolerance as they relate to the increased use of ownership approaches, including having a realistic appetite for risk related to a potential outcome, not input.

USAID should:

- Socialize the agency-wide conception of country ownership established in new operational guidance and the approaches used to promote it.

MCC should:

- Finalize and make public updated guidance that reflects current partnership expectations and explains new diagnostic analytical tools.

3. Build on existing practices to focus on country ownership in a more comprehensive way.

USAID should:

- Increase local stakeholder involvement in program design in accordance with new guidance.
- Look for efficient opportunities to disaggregate large, complex projects into smaller activities.

MCC should:

- Encourage the use of internal procurement and fiscal agents in appropriate circumstances.

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Recommendations *(continued)*

4. Incorporate ownership into goals around program quality, results, and value for money.

Both agencies and Congress should:

- Expand the use of results-based financing.

USAID should:

- Incorporate explicit measures of program results and value for money into Local Solutions.

MCC should:

- Continue to balance its emphasis on country ownership with its focus on results.

5. Devote more human resources to effective and sustainable country ownership.

USAID should:

- Have a mission-level focus on identifying and nurturing potential local partners and systems.
- Ensure ample personnel and resources to realize ownership approaches across programs.
- Impart ownership objectives to mission staff across offices and functions.

MCC should:

- Ensure that its Department of Policy and Evaluation has a country ownership focal point.
- Continue to provide technical support on a case-by-case basis to improve stakeholder engagement in partner countries.

6. Create a public space for shared learning around ownership practices.

USAID should:

- Create metrics to define and measure the outcomes and impact of ownership.
- Develop process indicators to capture ownership approaches in project design.
- Improve access to evaluations on capacity-building programming.
- Enforce compliance with the requirement to report subawardees.

MCC should:

- Document and publish lessons learned from experiences using partner country procurement and fiscal agents.
- Audit compliance with past conditions and regularly publish progress on current conditions.

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