Lessons from Seven Countries:
Reflections on the Millennium Challenge Account

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The Millennium Challenge Corporation (MCC) is charting new territory in the world of U.S. development assistance. It differs from traditional US aid in a number of important ways—selecting countries based on objective criteria, fostering country ownership of program design, working closely with and through partner governments, funding major infrastructure, tackling reforms in tough sectors like land tenure and finance, and creating incentives for policy reform even before money is spent. The MCC is an experiment for the U.S. in improving the effectiveness of aid in a small set of poor but well-governed countries. As with all good experiments, it is useful to gather lessons along the way. In the spirit of learning and contributing to the MCC's success, this note offers a series of lessons and observations from the MCC's first years of operations.

These observations are based on visits to seven Millennium Challenge Account (MCA) countries conducted between July 2005 and March 2007 on behalf of the Center for Global Development's MCA Monitor Program. These visits caught glimpses of different aspects of the MCA experience: compact proposal development (Mozambique, Ghana, and Tanzania); compact implementation (Honduras, Madagascar and Nicaragua); and the Threshold Program (Tanzania and Malawi). Lessons and observations from these countries fall in to four categories:

Successes of the MCC approach
- Changing national mindsets about development
- Making bold and integrated investments
- Raising the bar on transparency
- Learning and applying lessons

Key challenges going forward
- Define and demonstrate results
- Strike the right balance on risk management
- Refine the notion of country ownership
- Cultivate a constituency in Washington

Big-picture lessons on aid-effectiveness
- Meaningful public participation takes time, expertise, and resources
- Donor coordination is essential though specific approaches can vary
- Flexibility in program management structures is good, but parameters must be clear

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- Unsexy issues can make or break a program

Specific operational recommendations
- Do not rush entry into force of compacts
- Allow for concurrent and longer-term compacts
- Make more of the MCC/USAID relationship

Each country's full case story is available on CGD's MCA Monitor website.[2]

Successes of the MCC Approach

It is too early to measure the outcomes of MCA compacts in partner countries because programs are just beginning to ramp up. This creates the temptation for MCC observers to judge the MCC's progress solely on its disbursement levels. This focus on expenditures is unfortunately narrow and does not capture significant, if intangible, early achievements of the MCA such as:

1. The MCC is changing national mindsets about development. In many of the poorest countries in the world, the most visible aid programs have come to be associated with handouts. (This is not the case for broad budget support programs that are less recognizable by the public and beneficiaries.) But rather than handing out seeds, tractors and school books, the MCC is designed to facilitate income increases through access to credit, clarification of land rights, reliable access to roads, training in improved agricultural techniques, reformed national policies, etc. MCC is seen as a facilitator not a provider. This is very new for people accustomed to handouts, so expectations about the MCC have been hard to manage in partner countries. But as MCC partnerships take hold, countries are gaining confidence in their potential to manage their own development. This is true for government officials who must step up to the plate on setting priorities, planning programs, and in some cases, managing budgets and promoting policy change. It is also true for beneficiaries, especially those of MCC-supported agricultural development programs. Many farmers are eager to raise their incomes through increased productivity and improved links to markets, rather than seeking hand-outs. This aspect of the MCC approach is very much in line with Americans' philosophies about how the U.S. should help poor countries—it is better to teach a man to fish . . .

2. The MCC is bold and integrated in its investments. Few donors offer grants for major infrastructure, and few tackle tough reforms in thorny areas like land tenure and the financial sector. The MCC does. This boldness is paired with a focus on integrated programs that target interrelated constraints (for example, low agricultural productivity, weak land rights, poor access to credit, and isolation due to poor infrastructure). MCC compacts often pair a mix of central-level policy reform with community-level interventions. While there is a strong potential for these strategic combinations to spur economic growth and reduce poverty, MCC has not done a particularly good job of making the case for its approach. As a result, the MCC is facing resistance to these types of investments from the U.S. Congress and Washington-based non-governmental organizations (NGOs). In many cases, MCA programs are designed explicitly to connect small producers and poor communities to sources of growth by focusing on job creation, farm-to-market linkages, access to credit and essential skills training. But the word is not out.

[2] Reports from the Field (http://www.cgdev.org/section/initiatives/_active/mcamonitor/fieldreports)

The MCC should do more to extend and share these good news stories by explicitly formalizing and publicizing the mechanisms it uses to ensure that growth-enhancing investments in big infrastructure and policy reform translate into higher incomes and better social outcomes for the poor in every compact.[3]

3. The MCC is raising the bar on transparency. The MCC's transparency starts at the selection process, when countries are chosen based on performance relative to their peers on publicly-available, objective criteria. But the transparency goes deeper than this. The MCC's emphasis on public participation in compact proposal development and program implementation means that information about MCA country programs is often available through local radio, TV and written media. The MCC manages a well-designed and accessible website that makes public a lot of information about country programs, and it requires partner countries to do the same. In a number of countries, the MCC fosters government planning processes that raise country standards for publicly sharing information and setting priorities. For example, in Honduras the MCA program is promoting unprecedented cooperation among national and municipal officials in a transparent process for selection of rural roads for rehabilitation. It is also working with the government to make more transparent and better-planned use of road maintenance funds. With regards to transparency, the MCC is among the leaders in the aid business.[4] To retain this position, the MCC must be diligent in adhering to its transparency standards. Areas to watch are the MCC Board's use of discretion in country selection,[5] and the MCC's rigor in holding MCA country programs accountable for meaningful consultation and making program documents publicly available.

4. The MCC is learning and applying lessons. The MCC got off to a relatively rough start. Once it was authorized in February 2003, it shot off the starting line without looking at who else was in the race. This single-minded focus was a mistake. In first-round countries (those eligible in 2004), the MCC sidelined the U.S. Agency for International Development (USAID) thereby missing opportunities to learn from the Agency's experience. It ran roughshod over donor coordination mechanisms and frustrated partner governments by offering inadequate guidance in the proposal development process. Much of this has changed. A comparison between the early compact development process in Mozambique and Ghana (first-round countries) and Tanzania (a third-round country) shows that the MCC is learning and applying early lessons. It is now offering better guidance in compact development[6], setting clearer expectations for partner country responsibilities, reaching out to USAID more effectively (though not perfectly), better managing coordination with other donors, and pursing innovative approaches to monitoring and evaluation based on best practices.

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[3] To read more about linking economic growth and poverty reduction, see Lucas and Timmer, "Connecting the Poor to Economic Growth: Eight Key Questions." Center for Global Development, April 2005. (http://www.cgdev.org/content/publications/detail/2791/)
[4] The Global Fund for AIDS, TB and Malaria also deserves high praise in this regard.
[5] For more on this, read CGD's analysis of MCC country selection (http://www.cgdev.org/section/initiatives/_active/mcamonitor/country_selection)
[6] Compact development guidelines can be found on the MCC's website (http://www.mcc.gov/countries/tools/index.php)

Key Challenges Going Forward

The MCC is emerging from its start-up phase and becoming a fully operational aid agency. The next two years are crucial for the MCC to prove its model. To do so it must:

1. Define and demonstrate results. The single most important challenge for the MCC is to show results. The truth is that the MCC has results to show but it needs to do a better job of communicating them. To date, the MCC has been judged mostly on *inputs*—that is, disbursements—and has been under a lot of pressure to pick-up the pace. The MCC will never escape political pressure to speed up disbursements, but this focus is crowding out attention to MCC's early *outputs*, many of which have been achieved without spending much money. In this context, it is important to remember that the MCC does not operate like USAID or the President's Emergency Plan for AIDS Relief (PEPFAR) by channeling money through U.S. NGOs to get immediate results on the ground. In many countries the first year of MCA programs is spent investing in country capacity to strengthen planning, financial management, reporting, and monitoring. It is also spent supporting policy reforms that will complement MCA investments and working to foster civil society participation and build evaluation functions. These measures are crucial to program sustainability and vital for increasing the countries' long-term capacity to manage their own development, but they are largely hidden to MCC observers in the U.S. MCC should explicitly measure these accomplishments, and the U.S. Congress should value them as achievements. Ultimately the MCC will be judged on its ability to meet compact targets of economic growth and poverty reduction; this is the year that MCC must start demonstrating tangible *impacts*, such as increases in income, more credit for small borrowers, and higher land productivity.

2. Strike the right balance on risk management. The MCC is inconsistent in its approach to risk. It has taken a high-risk approach with regard to timelines, but a low risk approach to program implementation. When it comes to compact timelines, MCC has been driven by pressure to quickly sign compacts, enter into force and obligate funds. The MCC has accelerated these steps even when program design and structures have not been fully established. This has squeezed implementation since precious compact time has been consumed by setting up core operating systems. Meanwhile it has taken a low-risk approach to program implementation, with excessive accountability measures. For example, the MCC is pursuing meticulous oversight of country programs. Every step of procurement, hiring, program design, and even translation of standard operating documents must be approved by Washington. This has caused delays, undermined ownership among MCA country programs, and reduced the authority of country-based MCC officials. It has also led country-based MCC staff and MCA country officials to argue that the MCC is losing sight of the forest for the trees—focusing too much on small operational steps and not on big-picture program goals or a broader debate about the acceptable level of risk in its investments. The MCC should certainly take steps to avoid misuse of funds, but it must strike a better balance between managing risk with efficiency and country ownership. The MCC is starting to grapple with this issue. It is working, for example, to streamline its approvals process so that it no longer requires approval from numerous Washington-based MCC staff at each of seven stages of the procurement process. Striking the right balance on risk management will have to involve trading in some of this multi-tiered oversight for a bigger-picture view of tolerable (and even desirable, from the perspective of innovation) program risks,

making an institutional decision to shift more responsibility to the field, and ensuring the field has the resources necessary to manage this responsibility.

3. Refine the notion of country ownership. The MCC model is based on the premise that countries are ready, willing and able to take ownership of the planning, implementation and monitoring of development strategies. But capacity levels in the poorest countries often do not match good intentions. It took the MCC a year to learn that “country ownership” during compact development must be paired with clear guidance and a hands-on partnership. The same is true for the implementation phase. For example, at first the MCC insisted that countries develop and “own” a set of standard operating documents (procurement guidelines, standard bidding documents, terms of reference, contract templates, etc.), resulting in many lost months as each country reinvented the wheel on operational procedures. The MCC is now learning that a standard set of operating documents dramatically improves efficiency without undermining ownership. However, many important country ownership questions remain. The MCC must continue to explore its proper role in pushing countries to adhere to MCC principles like meaningful civil society consultation and donor coordination. A number of countries continue to fall short in this area. MCC must also develop responses to country capacity constraints in the context of massive compacts with just two field-level staff in each country and fewer than 300 staff in Washington. And of course the MCC’s process to clarify country ownership at the operational level will have to go hand-in-hand with striking the right balance on risk management.

4. Cultivate a constituency in Washington. The MCC started life with strong support in Congress and among Washington-based NGOs. This support has been waning for a number of reasons: the MCC has been slow to spend money (leaving Congress asking why it needs more); the MCC has been funding a lot of big infrastructure and policy reform (less popular with U.S. NGOs than health and education programs); competition for development assistance dollars is getting more intense; and the MCC has lost its greatest advocate on the Hill, Congressman Jim Kolbe who retired as chairman of the House foreign operations subcommittee last year. A high-stakes challenge for the MCC is to (re)cultivate a constituency in Washington that understands and supports its model, defends its budget requests, and serves as an ally in a transition to a new administration in 2009. One key part of this challenge is that both Congress and NGOs see MCC funding displacing other core development accounts managed through USAID, but the story is not so simple. The current aid reform process and debates about the international affairs budget create a complicated context in which to understand the effects of the MCC.[7] Such complexity makes it even more important that the MCC take steps to win more support for its approach. The MCC can do several things. As discussed, it must streamline implementation to ramp up program activities and disbursements more quickly and set clearer expectations about first year results. Second, it could do a much better job of communicating its approach to linking the poor to growth-oriented investments. This includes a more explicit and consistent approach to poverty impact assessment in the compact design phase. Finally, it should let the voices of its greatest advocates—MCA country teams, NGOs and beneficiaries—be heard more loudly in Washington. In contrast to their U.S. counterparts, the vast majority of local and international

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[7] Bazzi, Herrling and Patrick, “Billions for War, Pennies for the Poor: Moving the President’s FY2008 Budget from Hard Power to Smart Power.” Center for Global Development, March 2007. (http://www.cgdev.org/content/publications/detail/13232)

NGO representatives interviewed for the MCA Monitor field reports praised MCC investments. Many argued that their governments are drowning in money for health and education; what they really need is help creating jobs and raising incomes through investment, reliable infrastructure, access to credit and land titles, more investment-friendly laws and regulations, and private sector development. Beneficiaries like the fact that the MCC is focused, not on hand-outs but on income generation, job creation, ownership, and opportunity. These voices are simply not heard in Washington. They would do a lot to help build a D.C. constituency of support.

Big-Picture Lessons on Aid Effectiveness

There is a common notion that aid is more effective when paired with public participation in development planning, coordination among donors, and program design tailored to country circumstance. The MCC is trying to do each of these things. What does the MCA experience in seven countries tell us about these issues?

1. Meaningful public participation takes time, expertise and resources. The MCC has set a high standard for public participation, encouraging countries to engage civil society in the planning, implementing and monitoring of MCA programs. But for the most part, the MCC has left it up to partner countries to figure out what meaningful participation is. Many governments do not have the experience or the will to foster a thorough, on-going consultative process, and the results across MCA countries have indeed been mixed. In countries where public participation is already strong and formalized (as in Nicaragua), the MCC's emphasis on consultation creates a great opportunity for public engagement. But in countries where civil society is weaker (like Madagascar), MCC standards for consultation can be as new and challenging as those for measuring economic rates of return or establishing fiduciary accountability. The MCC could proactively dedicate expertise and resources toward getting consultation right as it does in the more technical areas, and allow the time for this to happen. It could work with country teams to assess the degree to which civil society is organized, capable, representative, and funded in each compact country, and mobilize resources to fill gaps in these areas. The MCC could also work directly with MCA country boards of directors, helping them to define their roles and responsibilities in terms of fostering on-going civil society engagement. It should also clarify its own policy about funding outreach activities and at the very least pursue strategic partnerships to leverage funds to support consultation. Finally, the MCC could do a much better job of leveraging partnerships, especially with USAID, to strengthen civil society's capacity to participate in program planning and implementation. The MCA experience to date makes clear that fostering civil society consultation in development programs is not easy, and country will and capacity cannot be taken for granted. Meaningful participation takes time, expertise and resources that the MCC has not consistently provided.

2. Donor coordination is essential; the specific approaches can vary. Donor coordination has many faces. On the financing side, some donors pool funding and deliver it through general budget support or sector-wide approaches (SWAps) to achieve common objectives. On the planning side, donors often convene at the central level to coordinate approaches for government relations, set priorities for national development, create incentives for policy reform and simply share information about their programs. Donor coordination takes place through lots of meetings, memoranda of understanding (MOUs), conferences, harmonization strategies, and action plans.

In first round countries, the MCC tended to steer clear of all of these mechanisms, much to the dismay and frustration of other donors. But the MCC is learning that coordination with other donors is not only expected operating practice, but can increase effectiveness of program investments. The MCC remains lukewarm about attending countless central-level meetings, but it is pursuing practical coordination with other donors much more than it did in its first year. For example, in Tanzania, MCC staff met regularly with other sector-specific donors in the early compact development phase and is considering supporting the SWAp for the water sector. In Madagascar, the MCA country team works closely to coordinate program interventions with other donors and local officials at the provincial level. In Honduras the MCC country director has been credited with spearheading concrete, project-level coordination with other donors supporting major road investments and increased access to credit. The MCC's approach is very practical, tangible, and project-based. Some donors, especially in the donor-heavy countries of Africa, argue that the MCC should be more involved in central harmonization efforts. At a bare minimum, the MCC should openly share program information and do nothing to jeopardize donors' coordinated approach to government relations (which was not the case in the early Ghana and Mozambique experiences, for example). But the MCC does seem to be improving its program level coordination with other donors. As it gets more comfortable with this level of coordination and sees its rewards, the MCC should pursue additional strategies including some sectoral and general budget support in particularly well-governed countries.[8]

3. Flexibility in program management structures is good, but parameters could be clearer. One of the key debates in aid effectiveness is about the degree to which donors rely on or circumvent existing country mechanisms. In the name of building national capacity to manage its own development, some donors (such as the U.K.'s DFID and the World Bank) channel funding directly through government ministries and give them discretion over how resources are used (in very close coordination with donors and national development plans). In the name of efficiency and safeguarding resources against misuse, other donors (including U.S. programs through USAID and PEPFAR) directly fund program implementers, thereby bypassing the bureaucratic delays and vagaries of weak government entities. The MCC falls somewhere in the middle. As part of its country ownership principle, the MCC has a lot of flexibility to let countries design program approaches and structures. This has led to a lot of variety in the MCA country programs. Some are very independent, working through foundations or program management units separate from the government, with procurement and fiscal management contracted out to private firms. Others are more integrated with governments, relying on ministries to manage parts of programs, or directly funding existing government strategies for reform or investment. Some program management units implement programs and work directly with beneficiaries, while others contract out almost all program work. This flexibility is a good thing, assuming it is intentionally planned and based on measurable criteria. So far the MCC has not made public its rationale for supporting one approach over another in countries beyond reliance on the ownership principle. Because the MCC selects countries based on good governance and sound policy, it could do even more to support ongoing institutional strengthening and capacity building. But 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

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[8] For more discussion on the MCC and budget support, see Herrling and Radelet, "Should the MCC Provide Financing Through Recipient Country's Budgets? An Issues and Options Paper." Center for Global Development, August 2006. (http://www.cgdev.org/doc/MCA/MCCrecipientbudgs.pdf).

between building national capacity and getting quick, tangible results is tough to manage. The appropriate balance varies from country-to-country, which is why the MCC's flexibility is so important. The MCC should have the freedom to adopt the approach most appropriate for each country, but it should be clearer about the rationale for that selection, based on a frank assessment of country capacity and fiduciary risk levels. Increased clarity and transparency in choosing management structures will help buffer the MCC against pressure to adopt structures designed primarily to speed implementation.

4. Unsexy issues can make or break a program. In debates about aid effectiveness, one thing is seldom discussed: No matter how grand the mission or how enlightened the approach, it is the unsexy issues like procurement, monitoring and evaluation (M&E), human resource constraints, and operational nuts and bolts that make or break an aid program. The MCC has a grand mission—fostering economic growth and poverty reduction through country-led strategies. But as it has moved from mission-driven start-up to full-fledged agency, it is realizing that getting the operational nuts and bolts right is harder than predicted. For example, partner country capacity constraints are testing its ownership principle. Heavy-handed oversight is contributing to program delays. Designing a set of standard operating procedures has dragged down the first program year in many countries. And M&E strategies are focused on hitting benchmarks but doing little to capture and communicate the intangible achievements crucial to maintaining public support. The MCC arguably has a year and half to prove its model and show results so that it survives the 2009 administration change with its model intact. Doing so will require an acute focus on getting these operational nuts and bolts right so they become a solid foundation for (rather than an obstacle to) meeting the MCC's noble mission.

Operational Recommendations

Recognizing that the greatest mission is only as strong as its operational effectiveness, this section offers three specific operational recommendations to strengthen the MCC's capacity to meet its potential for innovation and transformation. These overarching recommendations emerge from observations in every country visited:

1. Do not rush entry into force of the compacts. This is the most resounding message emerging from visits to seven MCA countries. In an effort to show progress, obligate funds, and respond to pressure from the U.S. Congress and partner country governments, the MCC rushed the entry into force (EIF)[9] of many of the early compacts. This was a mistake. Instead of establishing operational procedures, finishing program design, hiring core staff, and building basic structures for decision making and oversight before EIF, country teams have had to use precious compact time to take these steps. As a result, most first-round countries are behind schedule in terms of disbursement and program interventions. The MCC is learning from these experiences. In the recent cases of Ghana and El Salvador, for example, periods between compact signing and EIF have been longer, and the MCC has found creative ways to fund pre-EIF activities. But the MCC will continue to be under pressure from the U.S. Congress to

[9] Entry into force occurs some time after the compact is signed and a series of conditions have been met. Entry in to force marks the official start of compact implementation, the compact time period, and the disbursement of compact funds.

accelerate the obligation and disbursement of funds. It should protect itself from this pressure with a clearer checklist of things that must be in place before the official five-year compact clock starts ticking (which currently occurs at entry into force). This will help buffer the MCC from up-front political pressure to rush EIF and save it the downstream political nightmare of not meeting compact targets within five years.

2. Allow for concurrent and longer-term compacts. The current legislation governing the MCC does not allow it to hold multiple compacts at once with a single country, and it caps compact length at five years. Both of these provisions, which require Congressional action, should be revised. The current prohibition on concurrent compacts creates the incentive for partner countries to make compacts as big (and often complex) as possible. This has led to recent compacts reaching $500 million with several in the pipeline pushing beyond this. Larger compacts face increased risks of not meeting compact goals within the five year limit. It would be more manageable to have staggered, more focused compacts and the flexibility to have some be longer than five years (such as those with social investments that need more time to yield higher rates of return or major infrastructure investments that take longer to complete). This would encourage countries to better sequence interventions and reforms, develop management capacity, and reduce risks associated with enormous compacts. This arrangement could actually increase the resources available to countries over, say, a ten-year period, and would increase the chances of meeting more manageable and focused compact targets.

3. Make more of USAID/MCC relationship. The MCC is not making the most of its relationship with USAID. Thankfully the distance between the two is no longer institutionalized, as in the early days in first-round countries where USAID missions were prohibited (by the MCC) from supporting countries in compact proposal development. But MCC is still not coordinating closely enough with USAID to take advantage of potential complementarity between the programs. For example, in Madagascar where weak civil society is struggling to engage effectively with the MCA program, USAID cut a program for NGO capacity building. In Ghana and Madagascar where MCC compacts build on USAID agribusiness development programs, USAID officials were not involved in the early compact design. In Tanzania, USAID officials were very active in designing the threshold program and were praised for being vital “translators” between the government and the MCC approach. Yet they were not included in the design of the compact proposal. All of these examples illustrate missed opportunities to combine the strengths of U.S. investments abroad. The Tanzania case also illustrates a lack of cohesion between the MCC’s threshold program (implemented by USAID) and the MCC’s compact program. Because the threshold program is designed to help countries reach compact eligibility, it is an introduction to the larger operating framework of the MCC. Keeping the two processes separate misses the opportunity for a country to develop systems under the threshold program (with USAID’s help) from which it will later benefit in the compact design process. A clearer definition of the relationship between the two programs would open opportunities for improvements in both. This must happen in the broader context of clarifying the relationship between USAID and the MCC, in terms of both program planning and budgeting.