

**Evaluation of the Implementation of the  
Paris Declaration:  
United States Government  
Millennium Challenge Corporation (MCC)  
Case Study**

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## ACRONYMS

AAA	Accra Agenda for Action
CGD	Center for Global Development
DAC	Development Assistance Committee
DOL	Department of Labor
DOS	Department of State
FA	Foreign Assistance
GAO	Government Accounting Office
GPRA	Government Performance and Results Act of 1993
HHS	Health and Human Services
ILAB	Bureau of International Labor Affairs
ILO	International Labour Organization
IP	Implementing Partner
KI	Key Informant
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MfR	Managing for Results
NGO	Nongovernmental Organization
OCFT	Office of Child Labor, Forced Labor and Human Trafficking
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OIR	Office of International Relations
OMB	Office of Management and Budget
PD	Paris Declaration on Aid Effectiveness
PIU	Project Implementation Units
RFA	Request for Application
SI	Social Impact
TREAS	Department of Treasury
UN	United Nations
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
USG	United States Government

## EXECUTIVE SUMMARY

On March 2, 2005, ministers of developing and developed countries and heads of multilateral and bilateral development institutions, meeting in Paris, issued a resolution to reform the ways they deliver and manage international aid. They established five principles to guide aid participants:

- **Ownership:** Developing countries set their own strategies for poverty reduction, to improve their institutions, and to tackle corruption
- **Alignment:** Donor countries align behind these objectives and use local systems
- **Harmonization:** Donor countries coordinate, simplify procedures and share information to avoid duplication
- **Results:** Developing countries and donors shift focus to development results and results get measured
- **Mutual Accountability:** Donors and partners are accountable for development

The United States is one of more than 150 nations and donor organizations to endorse the resolution, known as the Paris Declaration on Aid Effectiveness. An independent international group is sponsoring a simultaneous, multinational review of the implementation of the Paris Declaration. This report reviews implementation by the Millennium Challenge Corporation (MCC) as part of the larger review of implementation by the U.S. Government as a whole.

The Millennium Challenge Corporation, created in 2004 as a new approach to development assistance, largely aligns with the principles of the Paris Declaration. Indeed, some of the major features of the MCC's approach anticipated several Paris Declaration principles. The MCC, on the whole, represents good or best practices in development assistance; these standards, however, comply with PD principles only so far as the PD and the policies or practices of the MCC are in alignment. For example, the principle of country ownership can be problematic for the MCC, and in cases where adherence to the PD could pose a risk—either to the financial obligations and responsibilities imposed upon the Corporation by its congressional mandates, or to the timely completion and success of a project—MCC policy, not PD principles, has prevailed.

MCC's efforts to respond to the Paris Declaration principles, and more broadly to incorporate best practices in aid delivery, have made explicit some of the ambiguities, uncertainties, and confusing aspects of the Paris Declaration. While the MCC has benefited from unique legislative provisions, its experience has also brought to light several legislative mandate limitations that have hindered its ability to implement PD principles.<sup>1</sup> In the five years since the first program ("Compact" in MCC terminology), the MCC has approved \$7.9 billion in assistance for forty-one countries. It has received appropriated funding of \$9.5 billion. As of September 2010, twenty of these countries had received or been approved for compacts or five-year programs of

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<sup>1</sup> As explained in greater detail in the main text, advantageous provisions include being able to commit funds for the life of a program, rather than annually, international bidding without tying to source, and the flexibility entailed by virtue of being a government corporation. Limitations include congressional demands for strict accounting for funds and the five-year maximum limit for all programs or MCC compacts.

assistance for a partner-proposed development investment. These compacts total \$7.4 billion, or an average of \$370 million per compact.<sup>2</sup> As many of the MCC recipients are countries with relatively small populations, a compact and its funding is likely to have greater importance to such countries. The remaining \$500 million in committed funds has been provided to twenty-one countries for “threshold” activities, aimed, in principle, at building capacity for strengthened institutions and thus, the potential for future access to an MCC Compact. Threshold programs usually last two to three years. USAID has administered all but one of these programs.

From its creation, the MCC has emphasized a commitment to working only with countries whose government actions demonstrate commitment to three principles:

- Economic freedom
- Ruling justly
- Investment in their people

Rather than rely upon its own judgments about the extent to which potential recipients complied with these three principles, the MCC chose to use ratings produced by a variety of independent organizations to evaluate each candidate’s performance. Seventeen indicators were selected to rate each potential recipient of MCC assistance, recalculated each year. The ratings for each potential MCC partner are posted on the MCC website—an example of MCC’s commitment to transparency.

The MCC was initially limited to working with World Bank-designated “low-income countries,” but subsequently was allowed to provide up to twenty-five percent of its funding to “lower-middle-income countries.” The MCC limits itself to developing countries with comparatively better records of development policy performance within these three principles. Put differently, the MCC works with low-income countries whose performance on promoting economic freedom, ruling justly and investing in their people is “less weak.”

### **Summary Findings**

Overall, the MCC is well aligned with several Paris Declaration principles, (with some notable exceptions, discussed in the next section).

- 1) ***Country Ownership.*** The MCC requires each eligible country government to develop its own proposal for the MCC compact. To assure that the proposed program has widespread, national support that extends beyond government, the MCC requires broad national consultations. The MCC does not automatically approve any submission by an eligible country. Rather, the MCC and the country typically go through an iterative process, including a constraints analysis and a concept paper prepared by the country. Once a concrete proposal is ready, it is subjected to an economic rate of return (ERR) analysis. If the proposal fails to promise economic benefits to the country that would

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<sup>2</sup> Moldova became the twentieth compact country, with a commitment of \$262 million, which entered into force in September 2010. A Compact for the Philippines was approved by the MCC Board in September, with a commitment of \$434 million, but it had not yet entered into force nor had a new Compact signed for Jordan. The Philippines Compact is included in the statistics presented in this report.



justify the MCC investment, the country must re-think the proposal.<sup>3</sup> When Compacts are agreed with a partner country, they are usually implemented by a legislatively established partner country entity (a Millennium Challenge Account entity, aka ‘MCA’), with a majority of its board of directors being partner-country government officials. The legal language in the agreement between the MCC and the partner country is largely pre-determined by MCC headquarters in Washington, D.C. and many MCA actions require prior approval by MCC headquarters staff. Although officially established, the extent to which countries view MCAs as institutions integrated with their governments varies, and is in some cases a subject of debate.

There is strong country ownership in the *design* of the Compact—again, assuming it meets the MCC’s requirements for economic rate of return and other requirements—but more limited country ownership of the *implementation* process.

- 2) **Alignment.** Although the Compact does require approval by the MCC, the manner in which compacts—proposals by the partner government—are developed assures substantial alignment between compact and country strategies. Implemented by a partner-government institution, with oversight by a board comprised of partner-government ministers and representatives from local civil society and private sector, the compact’s coordination with government should therefore be strong.<sup>4</sup>

Each compact is a fully funded, five-year program, so predictability of assistance levels over the medium term is achieved, except where the MCC judges the partner country to have violated its commitments under the compact. While the MCA is usually independent of line ministries, a large share of its activities take place through “implementing entity agreements” with line ministries. This often includes training and other capacity-building activities in the line ministries connected to implementation of the MCC compact.

In principle, the Millennium Challenge Threshold Program is designed to strengthen capacity in areas that might make the country compact-eligible in the future. However, the draft results of a recently completed review of the entire program indicate the program has not been successful in sufficiently strengthening capacity to improve criteria indicators and thus, make a country eligible for a compact. The MCC board has scrutinized this review, but results had not been posted at the time of this evaluation, nor have the results of evaluations of individual country threshold programs.<sup>5</sup>

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<sup>3</sup> As will be noted later, insistence on an ERR does have the effect of biasing the MCC portfolio in the direction of projects that directly raise incomes of poor people, most of them involving improvements in infrastructure or more productive agricultural practices.

<sup>4</sup> However, the author does have anecdotal evidence, described in a footnote in the *Limitations* section in the main body of the report, that not all senior government officials believe the MCC Compact is consistent with the rest of the government’s investment program.

<sup>5</sup> Impact evaluations of the Threshold Programs for Malawi and Zambia have been completed and were posted on MCC’s website in December 2010 at <http://www.mcc.gov/pages/program/type/threshold-program>.

Unlike most U.S. foreign assistance, MCC procurement is not tied to American companies; this allows for competitive international procurement, with the potential for lower costs to the partner government.

- 3) **Harmonization.** Although the MCC initially took a very self-contained approach to development of its compacts, it has gradually become more involved in harmonization with other donors. In recent years, the MCC has worked much more frequently with other donors—sometimes in parallel or joint activities, as in the Jordan compact, and sometimes with another donor, providing follow-on funding for a project. Within the U.S. Government, harmonization, in principle, takes place through the MCC’s board of directors, chaired by the Secretary of State and whose membership includes the heads of USAID and Treasury, and the U.S. trade representative, as well as at the country level between the MCC office and USAID. In at least three countries (Honduras, Nicaragua and Ghana), the MCC scaled up an agricultural-productivity approach developed by USAID.
- 4) **Managing for Results.** Managing for results is one of the MCC’s greatest strengths within the donor community. As noted above, MCC requires that all projects be subjected to an *ex ante* economic rate of return calculation. The MCC has used advanced techniques like randomized surveys in some cases. All compacts have built-in monitoring and evaluation plans, and a final evaluation of the compact upon its conclusion is required, again sometimes including randomized surveys.
- 5) **Mutual Accountability.** MCC senior management meets periodically with government officials of compact countries to discuss progress and address issues relating to the compact. The MCC’s website demonstrates a high degree of transparency, publishing quarterly progress updates on each compact that include information on commitments and disbursements.

### Issues with the MCC approach

While the MCC is well aligned with much of the Paris Declaration, there are four notable issues:

- 1) The largest issue, arguably, is with the establishment of an MCA in partner countries. The MCA utilizes some aspects of the heavily criticized project implementation units (PIUs) used by the World Bank and other donors to establish organizations that are, in effect, separated from line ministries, paying better salaries and providing better infrastructure (vehicles, computers) for the staff. The MCC argues, with some justification, that an MCA is not a PIU. Instead, it is a unit of the recipient country, created by its legislature, controlled by a board of directors whose majority is composed of officials of the recipient country, and potentially sustainable beyond any individual compact. In two countries (Morocco and Namibia), the MCA is embedded in another government institution. In principle, an MCA could even manage programs from other donor organizations: this has occurred in Honduras, where the MCA is managing follow-on investment to the compact by the Central American Bank for Economic Integration, and discussions are underway in Ghana for a second follow-on program. Inasmuch as many early compacts are ending, the fate of the MCAs will be an interesting topic: will most fade away, like a PIU, or not?

- 2) The tendency of the legal lexicon of MCC Compacts towards “cookie-cutter” language requiring many operational decisions to be ratified by MCC Washington staff makes implementation of compacts slower and much more dependent on Washington approvals than would seem consistent with PD principles. Still, the MCC has become more flexible over time, with the legal agreements becoming shorter and less dependent on approvals from Washington. The first compact, with Madagascar, had twenty-five pages of legal agreement text, with an additional seventeen pages of further legal material in the compact’s Annex 1. The two most recent compacts, with Jordan and the Philippines, are fifteen and sixteen pages, respectively. Other changes include acceptance of the use of Spanish in procurement documents for Spanish-speaking countries, in line with World Bank procedures.

As a specific example of this issue, MCC employs its own standards, embedded in each compact, for environmental assessments. The PD calls for promoting a harmonized approach, or at least a jointly agreed approach. In one country, the MCC and the leadership of a partner country disagreed on the importance of a species-endangerment issue. The leadership believed that the benefits of electricity production to the country far outweighed the potential cost of endangerment. However, the project would not have met the partner country’s environmental standards. MCC principles prevailed over leadership, though not country ownership of the project. Other activities aimed at energy production were inserted to replace it. The Paris Declaration is silent when it comes to irreconcilable differences such as these. The MCC guidelines on such issues appear to be consistent with those used by other donors, and endorsed by the Organization for Economic Cooperation and Development (OECD).

- 3) The third area of contention is the MCC’s refusal, in nearly all cases, to let funding flow through the line ministry budgetary processes, or to use normal government procurement systems. MCC’s experimentation in these areas has revealed complications to both of these processes, discussed at length in the full report.
- 4) Finally, while the MCC endorses in principle the concept of multi-year, assured funding, it has suspended compacts, or parts of compacts (projects), in four of the twenty recipient countries through September 2010 because of its perception that the country was failing to live up to its commitments under the compact. The potential for such suspensions is explicit in the agreement between the MCC and the partner country. Dubious or stolen elections were the catalyst for most of these suspensions. It should be noted that such suspensions are a standard feature of most donor programs when faced with such issues.

In general, the MCC approach to this issue is more direct than that of the Paris Declaration. While the PD and the Accra Agenda implicitly recognize a difference between “government” and “country” when they call for consultation with civil society, and they raise issues of accountable and responsible governments when discussing the Managing for Results and Mutual Accountability principles, they do not directly address cases of gross government misconduct, such as election fraud or election theft.

Three issues relate to MCC’s legislative mandate:

- 1) The first, and probably most important, is the legislatively-driven need to assure that funds allocated for MCC projects, like those of other congressionally-appropriated funds, are not misused. This need leads to caution on the part of MCC staff in using host country procurement systems or in simplifying systems for disbursement of funds. In this respect,

MCC responsibilities do not differ from those of other USG agencies managing foreign assistance funds.

- 2) The MCC has avoided providing general budget support, even in partner countries with good track records for using budgetary resources in support of the three MCC objectives. This appears to be at odds with the Country Ownership principle of the Paris Declaration, but is in keeping with strong congressional opposition to the use of appropriated funds for budget support.
- 3) While the MCC is working on up-front training, the five-year limit on MCC Compacts has been an obstacle to providing assistance to capacity building in partner countries. The five-year limit for individual Compacts grew out of legislative frustration with USAID projects, often aimed at “capacity building,” that went on for long periods without apparent results—thus, the MCC mandate to show positive results within narrower limits. Still, the MCC approach provides greater assurance of stable funding than USAID’s dependence on annual appropriations.

**Matters for consideration:**

- 1) The MCC should increase its efforts to integrate Compacts more fully into the ordinary business of the governments it is assisting through greater use of country systems. The relevance of MCC Compacts to country investment programs and their integration should be the subject of a separate study.
- 2) Finding ways to move toward greater use of country systems and reduce reliance on what is, essentially, a single-purpose organization created to implement a Compact would be desirable. One possibility could be increased use of “program” Compacts, where funds flow through the partner country budget in response to the achievement of agreed outcome results. This will require coming to terms with present MCC concerns regarding slowness, capacity and corruption.
- 3) Some aspects of the MCC approach are problematic, most notably its standard approach to the legal language of the actual agreement. The country develops the proposal, but the partner country’s only two options are to either comply with MCC procedures or not get a Compact. Nevertheless, the MCC has gradually become less rigid in this regard, with compact agreements that have become much shorter and less demanding of Washington approvals.
- 4) The MCC has completed a review of the Threshold Program, which was to be released in November 2010. In light of the questions that surround this program—in particular, its effectiveness in strengthening country capacity to meet eligibility criteria for an MCC Compact—it will be important to consider changes in the program as recommended by the review.
- 5) The PD can be read as conflating “country” with “government in power,” although its call for consultation with civil society can be read as a modification of that conflation. Stakeholders in the PD principles should consider amendments making it clear that a government demonstrated to be unrepresentative of the country should not expect to receive assured levels of aid.

## 1.0 INTRODUCTION TO STUDY

Over 150 countries, donors and international organizations signed the Paris Declaration on Aid Effectiveness (PD) in 2005, in an effort to improve the quality and effectiveness of development assistance. The Declaration was further elaborated on at the Accra workshop in 2008. This study focuses on the PD principles, including the Accra Agenda for Action (AAA) of 2008.

The PD is built around five principles: ownership, alignment, harmonization, managing for results, and mutual accountability. This evaluation is part of an independent international evaluation of the PD to examine its implementation and explore its impacts. Beginning in 2007 and ending in 2010, over thirty developing

partner countries, and almost twenty donor countries and international organizations, will participate in case study evaluations. The case study results will be incorporated into a Synthesis Report to be presented to the Fourth High Level Forum on Aid Effectiveness in December 2011 in Busan, Korea.

The U.S. government (USG) is participating in this effort by conducting an independent evaluation of its commitment to and efforts towards implementing the PD. To better reflect the reality of USG Foreign Assistance (FA), SI has prepared separate case studies for each of the four main agencies involved in providing U.S. foreign assistance: United States Agency for International Development (USAID), Department of State (DOS), Health and Human Services (HHS), and Millennium Challenge Corporation (MCC), and three smaller case studies on the Department of Labor (DOL), Department of Treasury (TREAS), and the U.S. Department of Agricultural (USDA). To enable comparative analysis, all case studies have used the same conceptual framework. A synthesis report draws on the data and information generated by the case studies.

### 1.1 The Assessment Approach and Methodology

The USG study, along with all the donor studies, assesses four broad areas:

- 1) Leadership and staff commitment to the PD principles;
- 2) The agency's (or agencies') capacity to implement the Paris Declaration and the steps that it has undertaken to enhance its capacity and the relevant capacity of partner countries;
- 3) Incentives and disincentives for implementing the PD principles; and
- 4) Coherence, political framework and coordination.

#### Paris Declaration Principles\*

Ownership - Developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption.

Alignment - Donor countries align behind these objectives and use local systems.

Harmonization - Donor countries coordinate, simplify procedures and share information to avoid duplication.

Results - Developing countries and donors shift focus to development results and results get measured.

Mutual Accountability - Donors and partners are accountable for development results.

\*[www.oecd.org](http://www.oecd.org)

The Paris Declaration is directed at the effectiveness of development aid, and specifically Official Development Assistance (ODA),<sup>6</sup> as the endorsers of the PD are governments and official agencies. This may include humanitarian and emergency assistance, and other aid in fragile situations.<sup>7</sup> The international evaluation team’s guidance provided to the Evaluation Team stated that this should also include “vertical funds” that combine resources from several types of donors (bilateral, multilateral, private, corporations, etc.).

The guidance continued, “[a]t the same time, the Paris Declaration and AAA are also explicitly and repeatedly concerned with ‘other development resources’ and their inter-relations with the aid flows most targeted by the Declaration. . . . The Evaluation design aims to place aid in its proper context. For this reason, the substantial domestic and external resources available for development other than ODA will be given major attention in the contextual analysis. Beyond their contextual importance, moreover, the Evaluation approach recognizes that other providers of development aid and finance are concerned with ensuring and improving the effectiveness of their own contributions. Even if they have not been so directly targeted by the Declaration, they have nevertheless been participating or taking account of global reform initiatives.”

The SI Evaluation Team’s substantive approach to assessing these areas started with the question: “To what extent are U.S. foreign assistance policies and practices consistent with the five principles of the Paris Declaration?” rather than limiting our research to those policies and practices specifically labeled, “Paris Declaration.” The team used a mixed-methods approach, including literature and documentation review, semi-structured interviews and focus group interviews of senior and other selected agency headquarters staff. The SI Evaluation Team designed a Key Informant (KI) interview guide that included content and rating scales for the interviewers and interviewees to provide ratings and rankings on important topics/questions. This helped to ensure consistency in data gathering and allowed for greater comparability across agencies. Twenty-five of the fifty-five PD commitments apply to donors; the Team determined that eleven (at least one under each of the five principles) of them were key commitments that should be analyzed for the USG evaluation, as they are relevant and operational in the USG context. A commitment guide was created and used in interviews as a probe for interviewees less familiar with the Paris Declaration. It allowed the evaluators to find out what practices or processes are consistent with a PD principle, but not necessarily labeled as such.<sup>8</sup> The Team also met with representatives from MCC and the Office of the Director of Foreign Assistance (FA) and the USG Reference Group, consisting of representatives from each case study agency, to

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<sup>6</sup> ODA as defined by the OECD/DAC: “Grants or Loans to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; (c) at concessional financial terms [if a loan, having a Grant Element (q.v.) of at least 25 per cent]. In addition to financial flows, Technical Co-operation (q.v.) is included in aid. Grants, Loans and credits for military purposes are excluded. For the treatment of the forgiveness of Loans originally extended for military purposes, see Notes on Definitions and Measurement below. Transfer payments to private individuals (e.g. pensions, reparations or insurance payouts) are in general not counted.”

<sup>7</sup> The general principles of the Paris Declaration are expected to apply in “challenging and complex situations.” to these forms of aid, with some special requirements for adaptation. (See PD para. 7) In the main, however, humanitarian assistance is excluded from coverage under the Paris Declaration and AAA.

<sup>8</sup> Both the interview guide and commitment guide can be found in Annex 1

discuss and confirm the evaluation process and design. With a few exceptions, the case study evaluations do not include interviews with field staff. However, field perspectives will be assessed in the team’s synthesis report, through survey and field interview data.

Each case study team worked with their agency representative to identify key informants from program, policy, and functional offices, in addition to senior leadership. The final list of key informants was subject to participant availability and willingness to participate. All interviews are confidential.

Successful implementation of the Paris Declaration principles is not the responsibility, nor even within the reach, of any single government agency. Rather, it relies upon the combined efforts and actions of the agency being reviewed, as well as the host countries it intends to help, other U.S. government donor agencies, other donor countries, and non-government organizations. The purpose and nature of the assistance provided can also have an effect. This report will provide insights into the achievements, challenges, and varying incentives and disincentives to implementing the PD Principles, and present relevant considerations or implications to the MCC.

## **1.2 Sources of Information<sup>9</sup>**

The SI Evaluation Team (“the Team”) first reviewed the extensive documentation, available on the MCC website that deals with MCC policies and concepts relevant to the PD and provides up-to-date information on the progress of each of its compacts. The second step was to conduct a set of structured interviews at the MCC, starting with operational-level staff, then moving upwards in the hierarchy to office directors, and then to vice presidents. Neither the CEO nor members of the MCC board of directors were interviewed.

The key informant (KI) interviews were an important input into the study. KIs were queried concerning the level of consistency between the written documentation and the actual programs and policies of the institution.

A more systematic set of studies of the implementation of MCC compacts comes from the Center for Global Development (CGD), a Washington-based NGO (Nongovernmental Organization). The CGD performed country-level reviews of ten MCC compacts, all published on their webpage ([www.cgdev.org](http://www.cgdev.org)). The largest study<sup>10</sup> covered seven compacts. The MCC was deemed successful in four areas:

- 1) Changing mindsets on development;
- 2) Bold and integrated investments;
- 3) Raising the bar on transparency; and
- 4) Learning and applying lessons.

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<sup>9</sup> The case study was developed based on considerable knowledge of the operations and approach used by the MCC. The author of this study had previously co-authored two previous analyses of the MCC’s effectiveness and potential for the Brookings Institution (Rieffel and Fox, 2005 and 2008).

<sup>10</sup> Lucas, Sarah, 2007. “Lessons from Seven Countries: Reflections on the Millennium Challenge Account,” Center for Global Development, Washington, DC.

Three challenges were identified for the MCC by this CGD study. They are all relevant to this report:

- 1) Defining and demonstrating results;
- 2) Finding the right balance on risk management; and
- 3) Refining country ownership.

Specific findings from the other three CGD studies are mentioned below.

### **1.3 Limitations Specific to this Case Study**

Implementation of the MCC compacts takes place primarily in the partner countries, through the parastatal MCAs created for the compacts. The present case study would have benefitted from interviews with the leadership of these entities, as well as with the members of their boards of directors. This surely would have provided a deeper level of understanding of the interpretations given to the PD principles. Anecdotally, interviews by the author with officials from ministries of finance in several countries where discussion of the MCC compact was incidental indicated very strong and varied views of the MCA. The CGD studies probably provide a useful independent assessment of the effectiveness of implementation of MCC Compacts. Each of the 10 case studies is based on a one- to two-week visit to the country where the MCC compact was being implemented. Clearly, an important question in the compliance of these compacts with the Paris Declaration is whether the MCAs are true government institutions, or more like the project implementation units favored by donors, but rejected by the spirit of the Paris Declaration.<sup>11</sup>

## **2.0 THE MILLENIUM CHALLENGE CORPORATION**

### **2.1 Legislative Origins and Directives**

The MCC was created in January 2004 as a government corporation intended to promote aid that is more effective. A nine-member board of directors, comprised of five *ex officio* government officials and four non-governmental directors manages the corporation. Its creation reflected the view at the time that the MCC would be a means for “smarter aid,” free from the bureaucratic obstacles, legislative barnacles, and country or sector earmarks that are a feature of much of the rest of U.S. foreign assistance. The MCC benefits from three features U.S. foreign assistance typically lacks. First, it was exempted from the “Buy America” provisions of other aid programs. This permitted international competitive bidding for procurement, with the likely effect of

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<sup>11</sup> The author does have anecdotal evidence that finance ministry officials in one country were particularly vociferous regarding the MCC compact’s lack of integration with the rest of the government’s investment program. The finance minister’s position as chairman of the MCA, in their opinion, wielded insufficient control over the independence of the MCC compact. Senior officials within the finance ministry admitted that the ministry of agriculture’s expenditures were in violation of the finance ministry’s guidelines, but the finance ministry had little power to stop such violations. Clearly, more investigation of these kinds of issues is warranted. Where ministries of finance cannot control the expenditures of individual ministries of the government, how could they claim to provide adequate oversight of donor funding to such ministries?



reducing the costs of procurements and speeding delivery. Second, it had “no year” money, meaning that it could commit to five-year programs with partner countries without having to commit funding in the fiscal year of congressional appropriation, and without fear that future shortfalls in congressional appropriations would dry up funding before project completion. Third, the MCC was established as a government corporation, allowing it greater freedom to hire and fire employees and to avoid other procedural complexities that limited the flexibility of line government agencies.

## 2.2 Summary of the Agency’s Assistance Programs

The MCC very closely aligns with Paris Declaration principles. Indeed, some of the major features of the MCC’s approach to development assistance anticipated key features of the Paris Declaration. Much of the ferment that led to the Paris Declaration was also a motivating factor in the creation of the MCC: donor programs too often driven by donor ideas, not country needs, too much aid flowing to the wrong places for the wrong reasons, and too little effort spent on building capacity in the recipient country.

Since its creation, the MCC has become a major provider of U.S. foreign assistance. As shown in Table 1, it has received legislative funding of \$9.5 billion during the first seven years of its existence and has committed \$7.9 billion. These numbers fall far short of the MCC’s original concept that called for a ramp up to annual appropriations of \$5 billion within three years of its creation. There are myriad reasons for the shortfalls in appropriations, most notably overall U.S. budget constraints and poor leadership of the MCC in the early years following its creation.<sup>12</sup>

**Table 1: MCC Funding (\$ Millions)**

Year	Congressional Appropriation
FY2004	1,000
FY2005	1,500
FY2006	1,770
FY2007	1,750
FY2008	1,482
FY2009	875
FY2010	1,105
<b>Total</b>	<b>9,482</b>

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<sup>12</sup> As discussed in Rieffel and Fox, 2005.

Funding has been awarded to countries judged by the MCC to be good performers on the three principles at the center of its selection criteria:

- Economic freedom
- Ruling justly
- Investment in their people

The MCC chose to use the ratings produced by a variety of independent organizations to evaluate each candidate’s performance. Sources include the World Bank, Freedom House, the International Monetary Fund, the World Economic Forum and a half-dozen other organizations producing country comparative indicators based on objective assessments. The MCC selected seventeen indicators as the primary basis for its country selection; the indicators, and the source of information on each, are shown in Table 2. Each potential recipient country's rating on each of the indicators, recalculated every year, is published on the MCC website. Only countries that perform well (“above the median”) in half of the indicators in each of the three areas, as well as on the corruption control indicator, are considered for assistance. In addition to the direct benefits of MCC projects, the designers of the MCC hoped that this would create competition among countries for higher ratings, leading to increases in the median and higher standards to qualify for assistance.

The MCC limits itself to countries with good records of development policy performance. Since all low-income countries have relatively weak institutions, it might be better to say that the MCC works with the “less weak” countries.

**Table 2**  
**MCC Performance Indicators and Sources**

<u>Indicator</u>	<u>Category</u>	<u>Source</u>
Civil Liberties	Ruling Justly	Freedom House
Political Rights	Ruling Justly	Freedom House
Voice and Accountability	Ruling Justly	World Bank Institute
Government Effectiveness	Ruling Justly	World Bank Institute
Rule of Law	Ruling Justly	World Bank Institute
Control of Corruption	Ruling Justly	World Bank Institute
Immunization Rates	Investing in People	World Health Organization
Public Expenditure on Health	Investing in People	World Health Organization
Girls’ Primary Completion Rate	Investing in People	UNESCO
Public Expenditure on Primary Education	Investing in People	UNESCO and national sources
Natural Resource Management	Investing in People	IFAD / IFC
Business Start Up	Investing in People	IFC
Inflation	Economic Freedom	IMF WEO
Trade Policy	Economic Freedom	Heritage Foundation
Regulatory Quality	Economic Freedom	World Bank Institute
Fiscal Policy	Economic Freedom	National sources, cross-checked
Land Rights and Access	Economic Freedom	CIESIN/Yale

In actuality, the MCC rating system is somewhat more complicated. Up to twenty-five percent of MCC funding can be provided to countries defined as “lower-middle-income,” as defined by the World Bank, while at least seventy-five percent must go to “low-income” countries. Fast-growing, low-income countries may find themselves categorized as lower-middle-income countries and held to a higher standard because they score above the median for that set of countries. While they may have been above the median as a low-income country, they find themselves in more competitive conditions against lower-middle income countries vying for a smaller pool of funds. MCC was granted a temporary fix to ease this transition for countries selected in FY 2009. MCC is seeking a broader legislative amendment that would ease this transition for countries selected in subsequent fiscal years.

As noted above, only countries that perform well (“above the median”) on half of the indicators in each of the three areas are to be considered for assistance. A stagnant country could lose ground if other countries were improving their ratings or, as noted above, if the country graduated from low-income country status. In effect, the MCC institutionalized the use of objective indicators developed by a variety of other organizations, making them important to government officials in poor countries.

One academic study (Johnson and Zajonic, 2006) identified an “MCC effect,” a tendency for governments in potentially MCC-eligible countries to work to improve their performance on the seventeen indicators used by the MCC. All of these indicators had been in use for years before the MCC was created, but the MCC ratings gave them a visibility and relevance previously absent. Thus, even in countries that did not receive an MCC compact, the existence of the MCC rating system seems, according to the above-mentioned study, to have improved some countries’ performance on the three dimensions.

Each country with a signed Compact establishes a government entity responsible for implementing the projects within the Compact and for overseeing its Millennium Challenge Account (MCA). These organizations are called MCA Entities. In overseeing its MCA and implementing the compact projects, the Entity:

- Serves as the central point of contact for the MCC, other donors, contractors, consultants and the country's citizens;
- Establishes financial and reporting systems and manages procurements;
- Drafts and executes, with the MCC's assistance, work plans for Compact programs; and
- Creates a website for posting project status, news and procurements.

Commitments of \$7.9 billion through September 2010 had been made to forty-one developing countries. Twenty of these countries have received compacts (five-year programs of assistance) totaling \$7.4 billion, or an average of \$370 million per compact. This figure gets the attention of policymakers in most developing countries. As most MCC recipients are countries with relatively small populations, MCC compacts are likely to be viewed with relatively greater importance. Table 3 below lists the twenty recipients of MCC compacts through September 2010, along with population estimates for each.

**Table 3: MCC Compact Recipients 1994-September 2010**

	Compact Amount (\$ million)	Population (million)	Compact Amount Per Capita (Dollars)
<b>Madagascar*</b>	100	19	6
<b>Honduras*</b>	215	8	27
<b>Cape Verde</b>	110	0.5	220
<b>Nicaragua*</b>	175	6	29
<b>Georgia</b>	395	5	79
<b>Vanuatu</b>	66	0.2	330
<b>Benin</b>	307	9	34
<b>Armenia*</b>	236	3	79
<b>Ghana</b>	547	24	23
<b>Mali</b>	461	13	35
<b>El Salvador</b>	461	7	66
<b>Mozambique</b>	507	22	23
<b>Lesotho</b>	363	2	182
<b>Morocco</b>	698	32	22
<b>Mongolia</b>	285	3	95
<b>Tanzania</b>	698	44	16
<b>Namibia</b>	305	2	153
<b>Burkina Faso</b>	481	16	30
<b>Senegal</b>	540	12	45
<b>Philippines</b>	434	92	5
<b>Total</b>	<b>7,394</b>	<b>319.7</b>	<b>23</b>

\*Four of the twenty compacts have been suspended, wholly or partly, by MCC for such reasons as election irregularities and coup d'états: Armenia, Honduras, Madagascar and Nicaragua. (Partial suspensions, terminations or holds in the cases of Armenia, Honduras and Nicaragua.)

As the table clearly indicates, the countries chosen for compacts have happened to be small countries, with eleven of the twenty with populations below ten million. The twenty compacts reached countries with a total population of 320 million people, roughly equal to the population of Indonesia and representing about six percent of the total population of developing countries—far below the populations of the biggest developing countries, China and India. By late 2010, another development had made this characterization more doubtful. The MCC reports that compact development is underway with Indonesia. Indonesia's population, 230 million, would itself add over 70% to the population reached in the MCC's first twenty compacts.<sup>13</sup>

The shortfall in funding from the original concept may have been a major factor contributing to this “small country emphasis”; there may also be some wisdom in the approach. Notwithstanding

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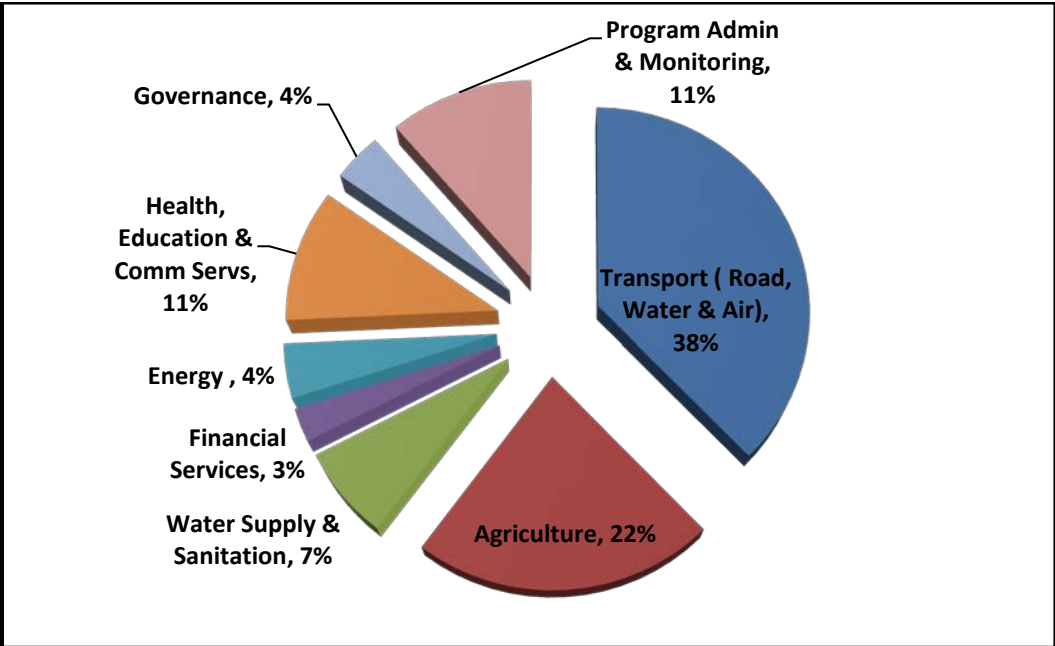
<sup>13</sup> As of September, the Philippines Compact had been approved by the MCC Board but had not yet entered into force. If the Philippines is not counted among the countries in Table 3, the relatively small average population of MCC Compact countries is even more striking. With a total Compact amount of USD 6,690 million and a total population of 228 million, the Compact amount per capita would be USD 31 and the total population would be about equivalent to that of Indonesia.

their relatively small populations, examples of success, such as Botswana and Mauritius in Africa, and Chile in South America, have led other countries to emulate their policies. For example, in the case of the Four Asian Tigers (Hong Kong, Singapore, South Korea, and Taiwan), only South Korea's population was above twenty million during the period of accelerated economic growth, but conventional wisdom among economists holds that these four cases motivated both India and China to emulate many of their policies.

The MCC's emphasis on ERRs is surely a leading factor influencing MCC and partner countries' relative focus on infrastructure and agriculture. The medium-term potential, at least *ex ante*, for projects in these areas to raise incomes is much higher than for activities with more remote economic benefits, like basic education and public health (the MCC, however, has made some investments in both of these latter areas, concluding that their payoffs, though slow, are large). Funding for democracy has been a feature of many threshold programs, mostly in the area of corruption prevention. MCC compacts have addressed issues of governance through a number of programs for land tenure reform, financial sector reform, and improvements in government procurement.

Chart 1 below summarizes the MCC investments by sector, while Table 4 offers more detail, including the number of compacts that include funding for specific sectors. As is evident from the table, most compacts embrace activities in several sectors. Two listed sectors, program administration and monitoring and evaluation, are a feature of every compact. These two latter components typically require 12% of the funding of a compact.

**Chart 1, MCC Commitments by Sector**



**Table 4: MCC Funding by Sector and Country Recipient**

OECD Category	Percent	Amount (\$ Million)	Countries
<b>AGRICULTURE</b>	22%	1,602	Armenia, Burkina Faso, Cape Verde, Georgia, Ghana, Honduras, Morocco, Moldova, Mali, Mozambique, Namibia, Nicaragua, Senegal
<b>BANKING &amp; FINANCIAL SERVICES</b>	2%	121	Benin, Cape Verde, Ghana, Morocco, Madagascar, Mali
<b>BUSINESS &amp; OTHER SERVICES</b>	4%	263	Georgia, Morocco, Madagascar, El Salvador
<b>EDUCATION</b>	3%	249	Burkina Faso, Mongolia, Namibia, El Salvador
<b>ENERGY</b>	4%	303	Georgia, Mongolia, El Salvador, Tanzania
<b>FINANCE and ENTERPRISE DEVELOPMENT</b>	1%	67	Namibia
<b>GOVERNMENT &amp; CIVIL SOCIETY</b>	4%	279	Benin, Burkina Faso, Ghana, Lesotho, Madagascar, Mongolia, Mozambique, Namibia, Philippines
<b>HEALTH</b>	2%	161	Lesotho, Mongolia
<b>INDUSTRY</b>	0%	3	Mali
<b>MONITORING &amp; EVALUATION</b>	2%	127	All Compacts
<b>PROGRAM ADMINISTRATION</b>	10%	683	All Compacts
<b>SOCIAL INFRASTRUCTURE &amp; SERVICES</b>	1%	77	Ghana, Mali, Philippines
<b>TRANSPORT ( ROAD, WATER &amp; AIR)</b>	38%	2,702	Armenia, Benin, Burkina Faso, Cape Verde, Georgia, Ghana, Honduras, Moldova, Mali, Mongolia, Mozambique, Nicaragua, Philippines, Senegal, El Salvador, Tanzania, Vanuatu
<b>WATER SUPPLY &amp; SANITATION</b>	7%	515	Georgia, Lesotho, Mozambique, El Salvador, Philippines
<b>Total</b>	<b>100%</b>	<b>7,152</b>	

Beyond its funding of compacts, the MCC has provided \$500 million to twenty-one countries for “threshold” activities—an average of \$24 million per country—aimed at improving performance in areas of weaknesses among the three principles or compact eligibility criteria and thus, the potential for future access to an MCC compact.<sup>14</sup> USAID has managed most of these threshold programs.

### 3.0 FINDINGS

#### 3.1 Leadership and Commitment

##### 3.1.1 Agency Awareness of the Five PD Principles and Their Implications

###### *Leadership’s awareness*

The assessment team interviewed three MCC vice presidents. All were well versed in PD principles and demonstrated good understanding of the challenges of implementing them. Of all U.S. government agencies, the MCC is perhaps the one most aligned with the Paris Declaration, with much of its alignment representing an anticipation of those principles that were “in the air” during the period of its creation.

###### *Mid-level or program level staff awareness*

Based on interviews with mid-level and program staff, there is good awareness of PD principles among these professionals. In addition, the MCC has issued a number of working papers and policy documents that reinforce this awareness. In general, the MCC professional staff interviewed for the assessment demonstrated a nuanced understanding of the PD principles and the issues that they raised for both donors and partner countries.

All eleven interviewees, from senior management to mid-level staff, were well versed in PD principles. While some coaching may have occurred to ensure familiarity with the principles prior to the evaluation team’s meetings with the staff, the sophistication of their responses to probing questions suggested that most had wrestled with these issues earlier. The MCC reports on this topic, discussed below, provide additional, specific evidence on this point.

Table 5: AWARENESS OF PD PRINCIPLES				
Knowledge of PD Principles	Highly Aware	Modestly Aware	Limited Awareness	None
11 Key Informants	11	0	0	0

Further evidence of awareness of and alignment with PD principles comes from a series of papers addressing PD issues. In this regard, the MCC has distributed both issues briefs and

<sup>14</sup> See assessment of the threshold program in the section on Agency incentives and disincentives, below.

longer working papers on four topics, discussed immediately below. Each of the titles in boldface is the title of an MCC working paper or policy document. In each case, comments drawn mostly from MCC staff are offered regarding the consistency of MCC's practices with the principles enumerated in the written reports.

### **“MCC and Country Ownership”**

This MCC working paper provides a comprehensive elaboration of the country ownership principle: “Country ownership of an MCC compact occurs when a country’s national government controls the prioritization process during Compact development, is responsible for implementation, and is accountable to its domestic stakeholders for both decision making and results.” The paper also makes direct reference to the Paris Declaration and offers nuanced understanding of the issues involved.

Comment: MCC staff members have argued that country ownership is harder than it seems at first glance. After initial difficulties because of “Christmas tree” proposals, MCC staff concluded that undefined country ownership would not produce viable investments, due to the politics inherent in assembling consensus through something for everyone. ERR analysis has enabled them to press partner country officials for evidence that their proposed activities would actually increase incomes in the country, particularly for poorer citizens.

With these limitations understood, the country can submit a proposal to the MCC for a Compact that meets the ERR requirements. It will then need to accommodate the MCC’s penchant for a “cookie-cutter” approach in the legal language of the agreement. This term refers only to the legal aspects of the agreement, not to the specific programs to be undertaken; these aspects of the agreements vary little from country to country, while the content of the activities being supported varies widely. MCC compacts’ standing is usually equivalent to a treaty between the MCC and the partner country, so their obligations are backed by the force of law.

These compacts typically require approval from MCC Washington for a wide variety of actions by the MCA. In one case, a snail in Tanzania was deemed by MCC to be endangered by a dam slated for construction under an MCC compact. Senior Tanzanian officials considered the snail’s possible demise negligible collateral damage for an activity that would provide large numbers of Tanzanians with electric power. However, the Tanzanian National Environmental Council would also have rejected the project. The snail prevailed, as the MCC and the country’s environmental council, rather than the senior leadership of the government of Tanzania, held control of the implementation process. Nevertheless, the Tanzanian government and the MCC were able to agree on an alternate set of investments to address the country’s energy problem.

This example illustrates the conflict over country ownership that can arise between the policies of any donor country, or the agreed policies of the donor community, and those of a partner developing country<sup>15</sup>.

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<sup>15</sup> This is yet another case where the meaning of “country” is ambiguous. While the national government leadership wanted the project to proceed, despite the environmental issue, MCC reports that the Tanzanian National



These questions aside, the CGD studies of implementation, as well as the more anecdotal observations by this author, confirm a very strong sense of country ownership in MCC compacts. The compacts reviewed in the CGD studies generally were widely known within each respective country, from small farmers, to taxi drivers, to local officials. Publicity around the country consultations relating to development of a possible compact seems to have been an important feature of this awareness. Several of the CGD studies (notably, Burkina Faso and El Salvador) highlight the ownership by ordinary members of the society in “country ownership.”

### **“MCC and the Paris Declaration: Managing for Results”**

This paper outlines the MCC approach to managing for results, making note of the *ex ante* projection of results to be obtained from the compact, describes the monitoring and evaluation plan developed for each project, and emphasizes the MCC commitment to rigorous *ex post* evaluation. At the same time, MCC staff expressed concerns that partner countries were less willing to dedicate MCC compact resources to such rigorous evaluations, preferring the less expensive approaches characteristic of donor projects.

Comment: The MCC has a strong track record in managing for results with transparency. This includes *ex ante* projections of the impacts of projects, with serious, testable *ex post* evaluations, sometimes with randomized comparisons.

### **“Aid Effectiveness: Putting Results at the Forefront”**

This document provides a well-conceived, economic analysis of how to think about the development impact of alternative investments, how to monitor and assess implementation, and how to perform post-implementation evaluation.

Comment: Managing for results has sometimes been a source of dispute between the MCC and the partner country. In interviews, MCC staff mentioned one specific case where the approach sought by the MCC—a randomized survey of adapters and a control group for agricultural technical assistance—was rejected by the MCA as too costly. Instead, only a survey of acceptors was undertaken. As standard practice, however, the MCC finances randomized studies from its core budget in order to avoid conflict with the MCA.

### **“Guidelines for the Use of Country Systems in the Implementation of MCC Compacts”**

This document, issued in March 2010, provides guidance for “assessing the feasibility and appropriateness of using host country systems or elements thereof to implement MCC Compacts in the areas of public financial management, environmental and social assessment, and monitoring and evaluation.” This document sets guidelines for use of country systems based on specific assessments of capacity in each area. This document also addresses the question of the MCA’s role, stating that “the MCA entity is not considered a parallel project implementation unit (PIU) under the Paris Declaration, but rather an integrated PIU. This is because, while the salaries of MCA entity staff are typically higher than those of their civil service counterparts, the units themselves are accountable to the partner-country government, rather than to MCC, and

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Environmental Management Council would not have approved (absent strong political pressure) the project in any event.

have professional staff whose terms of reference and appointments are decided by government.” MCC compacts typically require approval from MCC Washington for a wide variety of actions by the MCA.

These guidelines also outline MCC policy on the use of country systems for expenditures and procurement. The document states that “the use of country systems for elements of Compact implementation can deepen country ownership. However, MCC recognizes that the desirable goal of country ownership achieved through the use of country systems should not be pursued at the expense of program results or fiscal responsibility and accountability.” In pursuit of this, the MCC reviews the country systems prior to instituting a Compact, and has an outside firm make a special assessment of the proposed entity’s automated accounting system. The partner country submits a proposal indicating the entity it wishes to use, and the MCC accepts or rejects it based on the assessment.

Comment: For the most part, the MCC has chosen to establish separate financial management systems, overseen by a fiscal agent, rather than use government budgetary systems directly. According to MCC staff, several experiments in use of government budgetary processes have led to significant delays in execution of program activities. These cases show a fairly sharp tradeoff between government ownership and alignment, on the one hand, and results on the other.

In procurement, the MCC uses international competitive bidding, similar to that required by the World Bank, for its programs. The bids are evaluated by the MCA, or by a procurement agent responsible to the MCA.

In sum, all four of these reports engage the issues seriously and demonstrate both an awareness of PD principles and an understanding of the challenges that implementation of PD principles imply.

A related paper by MCC staff members (Yishay and Wiebe, 2009) illustrates the MCC’s willingness to be judged by external standards. The paper assesses MCC’s aid practices, using a standard laid down by Easterly and Pfutze (2008). Although Easterly and Pfutze cannot be considered the final word on aid effectiveness, the Easterly/Pfutze study concludes that the MCC stands up well on various dimensions of aid effectiveness (untied aid, no food aid, low technical assistance component, low overhead, high transparency), and judges the MCC, despite some issues relating to its newness, among the most effective of donor agencies, by Easterly and Pfutze standards. Another paper by Birdsall and Karas scores six USG agencies that provide assistance, in four dimensions: maximizing efficiency, fostering institutions, reducing burden, and transparency and learning. MCC ranks substantially higher in these dimensions than the five other agencies.<sup>16</sup>

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<sup>16</sup> Birdsall, Nancy and Homi Karas. “Quality of Official Development Assistance Assessment,” Global Economy and Development, Brookings Institution, and Center for Global Development, Washington, D.C., October 5, 2010, p.54. The other agencies were DOD, HHS, DOS, USAID and USDA. The four dimensions are composed of thirty indicators. Without going into an examination of the validity of the the Birdsall-Karas ratings, they are nonetheless worth noting. The HHS case study did give high ratings to its compliance with PD-like principles, as well.

### **3.1.2 Leadership's Commitment to PD**

As demonstrated above, MCC leadership has shown awareness and understanding of PD principles. To say that the MCC leadership is committed to all the PD principles as such, however, would be an overstatement. They are strongly committed to the principles of aid effectiveness, as they understand them. In their view, this means making investments in the near term that will yield substantial benefits for years to come. This, along with the five-year limitation on compacts, may cause them to look for short-cuts through ordinary bureaucratic procedures in partner countries. There is a case to be made for this approach. A highway or a port that is fully operational in five years is superior to one completed in eight or ten years. The longer the interval between inception and completion, the greater the danger that the investment will not fit the country's needs upon completion.

For the most part, senior MCC management views are aligned with PD principles, but overall, their commitment is to the effective delivery of development results as they deem fit.

#### *Concerns, reservations, or doubts*

The strongest concerns about PD principles voiced by MCC staff relate to the use of host-country systems for budgetary flows. They consider the improvements needed to streamline financial flows while maintaining adequate oversight, usually, to be far beyond the MCC's capacity to achieve during the implementation of a single Compact. Still, MCC staff report that they have increased their efforts in recent years to strengthen the capacity of partner country financial accountability and management. They also report that they are using some elements of country financial management systems in seven compacts, though without offering specific cases in the comments.

A second area of concern, related to environmental standards, is discussed above. Again, differing interpretations of the PD's use of the word "country" becomes an issue. If "country" constitutes only the national political leadership, there was a conflict. If the country also includes other government institutions with legal obligations to protect the environment, then one obtains a different answer. The Paris Declaration is agnostic on such matters.

## **3.2 Strategy and Capacity to Implement**

### **3.2.1 Current Strategy Documents and Policies Congruent with PD**

The MCC has issued policy statements or working papers addressing three of the PD principles: country ownership, use of country systems as a major part of alignment, and managing for results. As indicated above, all show strong commitment to PD principles.

### **3.2.2 Operating Procedures**

Correspondence between the MCC approach, reflected in its policies, and the PD principles is close, but there are operational and tactical issues. Some issues could be addressed to bring MCC practice into closer alignment with PD principles and others, given the current legislative framework, could not. These are discussed in more detail elsewhere in the paper, and include:

- A standard approach by MCC in crafting legal structure of the actual agreement signed between the country and the MCC.
- MCC veto power over MCA decisions, again differing little from many other donors;

### **3.2.3 MCC Staff Capacity**

Senior staff inside MCC, former staff and outside observers all rate MCC staff as highly qualified. The total MCC staff numbers fewer than 300. This provides the advantages of a lean organization—but on the other hand, at least one observer perceives the staff as stretched too thin to carry out its responsibilities.

## **3.3 Agency Incentives and Disincentives**

### **3.3.1 Incentives**

#### *Allocation of resources for capacity building in host nations*

The Threshold Program, intended to prepare partner countries for later compact eligibility, is one major MCC capacity-building tool. Because these programs typically are administered by USAID, they are not closely linked to other MCC activities, and, as discussed earlier, their influence on later compact eligibility may be tenuous. Moreover, the issues typically addressed in these programs (rule of law, bureaucratic procedures, et al.) are not usually susceptible to major improvement within the typical threshold program’s two- to three-year time frame. In effect, long-term problems are being addressed by short-term measures. Even worse, the incomplete institutional structure of most low-income countries may well mean that the reforms instituted by one government might be swept aside by the next one.

Rieffel and Fox (2008), suggest that the Threshold Program often has been a “grab-bag” of activities unlikely to affect a country’s future access to compacts. In part, this is in the nature of objective indicators, which lag behind actual performance. Most are aimed at improving a country’s performance on one or more of the three MCC principles. Nevertheless, in some cases, they suggest, countries chosen for such programs may have been selected for foreign policy reasons.<sup>17</sup>

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<sup>17</sup> Rieffel, Lex and James W. Fox. “The Millennium Challenge Account: Moving Toward Smarter Aid,” Global Economy and Development Center Working Paper, Brookings Institution, 2005.

While outsiders can only speculate about such cases, observers have suggested a number of countries, including Paraguay and its second threshold program, Rwanda, and Timor-Leste.

#### *Capacity building through the Compact process*

As previously noted, MCC seeks to consult with and involve country stakeholders, particularly in the design phase of the compact process. It is also giving more attention to up-front training. The following excerpt from a paper by a major U.S.-based international NGO, Save the Children, perceives a capacity-building impact in the MCC approach.

#### *Recognition given to staff for elements of PD implementation*

Because the MCC does not view compliance with the Paris Declaration as a separate management goal, no effort is made to recognize staff for their commitment to it. Staff is recognized for effectiveness in producing results. In the MCC context, this primarily means implementing projects that visibly raise incomes of poor people in poor countries.

#### *Use of host country organizations to manage assistance*

As discussed above, MCC policy is to use a partner country institution, the MCA, to manage assistance, within the limits established by the Compact.

### **3.3.2 Disincentives**

For the MCC, the biggest disincentive to compliance with features of the Paris Declaration lies in the area of country ownership, especially in countries afflicted with significant corruption. By exercising greater control over the use of MCC funds, the MCC is able to diminish many forms of corruption at least within the compact programs it funds. The cost of this, of course, is lack of support for use of country systems.

### **3.3.3 Constraints to Agency Capacity to Implement PD**

#### *Mandate Issues*

There are three main issues with respect to the MCC's mandate. The first, and probably most important, is the legislatively-driven need to assure that funds allocated for MCC projects, like those of other congressionally-appropriated funds, are not misused. This accountability on the

#### **Institutionalizing a role for civil society in accountability<sup>1</sup>**

The Millennium Challenge Corporation (MCC) sees local and civil society as domestic actors for ownership and accountability. It does not think of NGOs primarily as service providers; rather it institutionalizes an advocacy and accountability role. The MCC's model includes:

- Engaging local civil society in Compact consultation, making use of national knowledge and establishing early ownership of programs.
- Including representatives of civil society in the country-based MCC Board of Directors [MCA].
- Establishing stakeholders' committees to oversee the implementation of MCC projects composed of civic and private sector actors, as well as government officials.
- Promoting informal mechanisms for civil society engagement such as making information about the MCC's activities freely available and easily accessible.

part of MCC staff results in a culture adverse to risking the use of host-country procurement systems or simplifying systems for disbursement of funds. In this respect, MCC responsibilities do not differ from those of other USG agencies managing foreign assistance funds.

Second, there is a legislatively-driven need to tie MCC funding to concrete activities, a factor in the organization's heavy emphasis on income-raising activities, particularly infrastructure and agriculture. As a result, the MCC has avoided providing general budget support; even for partner countries with a good track record using budgetary resources in support of the three MCC objectives (Congress has strongly opposed general budget support). While this seems at odds with the principle of country ownership, the MCC has strongly argued that concrete improvements in incomes, particularly for poor people, are essential for approval of a compact. Any government proposing the use of MCC funds for general budget support would face a daunting challenge in addressing this issue.

Third, while MCC is giving more attention to capacity building, some have argued that the five-year limit on MCC compacts has been an obstacle to capacity building in partner countries. This view comes from the idea that the need for completing the compact within the five-year timeframe would lead to MCC-led shortcuts—use of its own systems to prevent delays—in processes that limited capacity-building. (The five-year limit for individual Compacts grew out of legislative frustration at USAID projects, often aimed at curbing capacity building that went on for long periods without apparent results. Thus, the MCC was mandated to show results within narrower limits.) There may be some merit to this complaint. At the same time, much capacity-building in line ministries has been built into MCC compacts. In recent years, the typical MCC compact has included a number of agreements with line ministries to implement activities under the compact that are relevant to that ministry's span of operations.

### *Congressional Directives and other Requirements*

Two congressional directives are of considerable importance to the implementation of MCC compacts:

- **Accountability.** The pressure for the MCC to be able to account for all funds expended leads to conservative financial and procurement management that sometimes obstructs development effectiveness. Natsios (2010) has written eloquently on this topic.<sup>18</sup>
- **The need to implement expeditiously.** The congressionally imposed, five-year limit on compacts arose from an understandable frustration on the part of lawmakers about aid projects that seemed to endure for years without achieving results. Still, a fixed deadline does not allow for contingencies (and contingencies that delay progress are endemic in both developed and developing countries). A change in government delays implementation of the Compact. An environmental assessment uncovers a problem that requires mitigation before an infrastructure project can proceed. Issues

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<sup>18</sup> Natsios, Andrew, 2010. "The Clash of the Counter-Bureaucracy and Development," Center for Global Development Essay, Washington, DC.

with a government's ability to use eminent domain stops a new highway for months or years. These, just a few of myriad other contingencies, will usually cause projects in poor countries to take longer than expected. Using partner-country systems may lead to further delays.

### **3.4 Coherence**

#### **3.4.1 Political Framework**

The MCC is overseen by a board of directors, chaired by the U.S. Secretary of State, which includes four other senior government officials, constituting a majority of the nine-member board. In practice, political control of the board by the USG appears to have been modest. Private-sector members (interviewed for the Rieffel/Fox study in 2008) claimed to have had substantial influence in preventing short-term political concerns from influencing decisions about which countries should receive compacts. Outside observers tend to point to Georgia, one of the nineteen Compacts, as perhaps benefiting more from short-term foreign policy considerations than from objective indicators. As noted above, the MCC's threshold program is viewed by some as more susceptible to short-term political concerns. Countries sometimes cited in this regard are Timor-Leste, Paraguay and its second threshold program, Rwanda, and the Kyrgyz Republic.

#### *Supportive factors*

The strongest supportive factor for MCC effectiveness is the presence of the seventeen objective indicators of country performance. Given the MCC's website transparency with regards to each country's performance on this range of indicators, it is difficult to stray far from heavy reliance on the objective indicators. The exceptions are discussed below.

#### *Complicating factors*

Factors complicating the use of objective indicators relate to lag time. Some objective indicators (e.g., the inflation rate) are available with little delay, but others may lag behind by two or three years (Rieffel and Fox, 2008). Thus, objective indicators that make a country eligible for MCC Compacts may actually reflect the efforts of a previous government, while the new government might cause objective indicators to deteriorate sharply over the next several years. Clearly, the MCC board needs to look beyond the reported numbers. Nevertheless, the capacity to override the objective numbers—something needed for contemporaneous judgments—also allows a degree of subjectivity that may permit short-term foreign policy considerations to override development considerations.

A second, and sometimes more consequential complicating factor, is election irregularities or coups d'états. The Paris Declaration tends to conflate "country" with "government." It is silent on what donors should do when these two concepts do not mesh. The MCC has suspended all or part of its programs in four cases: Armenia, Honduras, Madagascar and Nicaragua. Three cases related to electoral irregularities or outright power grabs perpetuated by the government in power. The fourth case (Honduras), more politically charged, may have been influenced by broader foreign policy considerations. The president was removed from office pursuant to a Supreme

Court decision upon his violation of the constitution, an action supported by the country's legislature and even the leadership of the president's party.

### **3.4.2 Coordination and Consistency**

#### *Within the Agency*

As a very small organization (fewer than 300 staff), and new enough that bureaucratic empires have not yet emerged, the MCC has few of the coordination and consistency problems that often plague larger, older donor organizations.

#### *With other USG Agencies*

The relationship between MCC and USAID was initially contentious, but coordination has become more collegial in recent times. While, in principle, an MCC compact was not to affect funding for USAID activities in any country, this has been more difficult to maintain in practice. Though USAID maintains that its programs should not be affected, the OMB has reportedly made explicit trade-offs between MCC and USAID programs.

#### *With other bilateral and multilateral organizations in the field*

The MCC field staff typically includes only two MCC staff members: an MCC representative and a deputy. Two or three other staff members from the partner country constitute the MCC's field staff. The MCC staff is usually housed in the American embassy, providing for strong coordination with other USG programs in the country. American embassies are perceived by many local counterparts to be cocoons, with much stronger contact with Washington than with the local community. Their often remote location from city centers and the security procedures required for visitors represent an obstacle to close interaction with other donors, as well as with partner country officials. This likely detracts from the perception of country ownership. Nevertheless, the MCA is away from the embassy, with a staff typically of thirty to forty people, and aims for integration into the activities of the partner country government.

Contacts with other bilateral and multilateral organizations may be made, either by the MCC representative or by the staff of the MCA. In the latter case, there is sometimes confusion as to whether MCA staff members are donors or partner-country officials. In actuality, they are both. Contact with other donor organizations has become more institutionalized in recent years.

#### *Partnership with host countries in performance management and evaluation.*

The MCC has a strong record with regard to both performance management and evaluation. Clear, concrete goals are established at the outset of the MCC Compact, with progress consistently tracked using the same indicators. The partner country institution (MCA) for this work typically receives technical assistance in the various aspects of monitoring and evaluation. But the MCC itself is responsible for the final evaluation.



## **4.0 AGENCY ANALYSIS AND CONCLUSIONS**

### **4.1 Overall Conclusion**

The MCC has taken the Paris Declaration seriously, and has sought to implement it, albeit to the extent that the principals are consistent with the MCC's understanding of good development practice.

#### **4.1.1 Assessing Leadership and Commitment**

Since its creation, the MCC's approach, largely, has been aligned with the principles of the Paris Declaration. After some early false starts, the organization came to understand the complexities of the issues involved. MCC leadership is fully committed to delivering effective development assistance.

#### **4.1.2 Assessing Strategy and Capacities**

The MCC has capable staff that possesses a nuanced understanding of the issues facing the organization and the complexities involved in assisting countries.

#### **4.1.3 Assessing Incentives and Disincentives**

For the most part, MCC incentives favor most of the Paris Declaration principles, although those deemed likely to slow implementation of Compacts (especially use of country systems for expenditures and procurement) are strongly resisted by MCC staff, in response to their (USG determined) fiduciary oversight. This is a double-edged sword. What does not happen today may lead to further delays in actions tomorrow. To believe that a delay of a year or two in completion of a project does not matter is also to believe that raising incomes this year or next does not matter. The pace of change can have huge influence in a country. MCC staff may therefore push for completion of projects within the agreed time period, even though that may involve using MCA authority to short-cut normal government procedures, diminishing the principle of country ownership.

#### **4.1.4 Assessing Coherence**

There are no serious issues regarding coherence of the MCC approach to development. The organization is understood by its staff to have a clear mandate to deliver smart aid to well-governed countries. Though U.S. foreign policy may have caused modest deviations from this mission, the MCC should be judged as complying with its mission, in the main.

Coherence between MCC and USAID-funded programs has improved since the early years of MCC, but OMB views the two entities as competing for the same resources.

## 5.0 AGENCY IMPLICATIONS

### 5.1 Leadership and Commitment

There is little that should be expected of MCC leadership beyond continuing to seek to understand and implement best practice in assistance policy.

### 5.2 Strategy and Capacities

The MCC has clearly been providing smarter aid, in the sense of avoiding support for countries where funds are likely to be misused or spent ineffectively. Nevertheless, even though the PD is silent about country selectivity, it can be interpreted as suggesting that selectivity by donors toward partner countries is to be avoided in the name of country ownership. Such a view is inconsistent with the concept of effective aid, where donor funds can be expected to promote development, rather than benefit a favored few. It is also inconsistent with the PD principles of managing for results and mutual accountability.

### 5.3 Incentives and Disincentives

The MCC aligns well for the most part with PD principles.

### 5.4 Coherence

As noted above, there are no major issues of coherence for MCC among other USG agencies providing foreign assistance. One caveat is OMB’s view that MCC and USAID are competing for the same resources.

### 5.5 Overall Rating

Table 6 identifies the agency’s overall rating, as assessed by the case study evaluation team. The team used a 1–5 scale, with “5” being the highest, to rate the agency on each PD principle. The rating considers how the principle is practiced by the agency and its staff, any agency policies or procedures related to the principle and overall commitment to the principle by agency leadership and staff.

	<b>Ownership</b>	<b>Alignment</b>	<b>Harmonization</b>	<b>Mutual Accountability</b>	<b>Managing for Results</b>
<b>MCC</b>	4	3	3	5	5

## 6.0 MATTERS FOR CONSIDERATION

These findings and conclusions, including the ratings, suggest the following matters for consideration:

- 1) The MCC should increase its efforts to integrate compacts more fully into the ordinary business of the governments it assists. The relevance of MCC compacts to country investment programs and their integration should be the subject of a separate study.
- 2) Finding ways to move toward greater use of country systems and reduce reliance on what is, essentially, a single-purpose organization created to implement a compact would be desirable. One possibility could be increased use of program compacts, where funds flow through the partner country budget in response to the achievement of agreed outcome results. This will require coming to terms with present MCC concerns regarding slowness, competence and corruption.
- 3) Some aspects of the MCC approach are more problematic, most notably its standard approach in the structuring of the legal obligations in the actual agreement. The country develops the proposal, but the partner country's only two options are to either comply with MCC procedures or not get a Compact. Nevertheless, the MCC has gradually become less rigid in this regard, with compact agreements that have become much shorter and less demanding of Washington approvals.
- 4) The MCC has completed a review of the Threshold Program, which was to be released in November 2010. In light of the questions that surround this program—in particular, its effectiveness in strengthening country capacity to meet eligibility criteria for an MCC Compact—it will be important to consider changes in the program as recommended by the review.
- 5) The PD can be read as conflating “country” with “government in power,” although its call for consultation with civil society can be read as a modification of that conflation. Stakeholders in the PD principles should consider amendments making it clear that a government demonstrated to be unrepresentative of the country should not expect to receive assured levels of aid.

# ANNEXES

## **ANNEX 1 INTERVIEW AND COMMITMENT GUIDES**

### **Introduction**

The Paris Declaration (PD) on Aid Effectiveness 2005 has become a major milestone in development assistance. Designed to improve the quality and effectiveness of development assistance, it is built around five principles – ownership, alignment, harmonization, managing for results, and mutual accountability. These principles are meant to guide interactions, relationships, and partnerships between development agencies and partnering countries. In addition to monitoring the progress of the implementation of the PD, OECD/DAC has launched a major evaluation of the PD to examine its implementation and explore its impacts.

The USG has joined this international effort and is committed to conducting an independent review of its commitment to and efforts towards implementing the PD. Since the USG review is a part of a larger study, its primary focus is consistent with those of other reviews conducted by participating donor countries. Consequently, the USG review will primarily focus on: commitment to PD principles, capacity to implement, and incentives.

The USG has contracted our firm, Social Impact, to carry out this project. To better reflect the reality of USG foreign assistance, we will prepare separate case studies for each of the participating organizations: USAID, DOS, HHS, MCC, DOL, Treasury and USDA. All case studies will use the same conceptual framework, approach and variables to enable comparative analysis. A synthesis report will then be written using data and information generated by case studies.

To inform the individual case studies, we are conducting informational interviews with senior and mid-level leadership at each organization. These interviews will be completely confidential and no names will be referred to in the reports generated. In addition, we would like to emphasize that this review is an attempt to understand the current state of affairs surrounding the USG's implementation of the PD, not to act as a grading system. Your candid responses will allow us to gain insight into the achievements, challenges, and varying incentives and disincentives to implementing the PD principles, and present relevant recommendations to the USG.

**Section A: PDE Key Informant Interview guide (core questions)**

Interviewer: \_\_\_\_\_ Date: \_\_\_\_\_

Respondent: \_\_\_\_\_ Gender:  Male  Female

Office/Title/Rank: \_\_\_\_\_ Length of Service: \_\_\_\_\_

Thank you for meeting with me today. As introduced in the email from X, I would like to ask several questions about the Paris Declaration on Aid Effectiveness of 2005 and how you see [your Department’s/Agency’s/Unit’s] response to it. Please remember that this discussion will remain confidential.

How and when did you first learn about the Paris Declaration principles?

What can you tell me about them?

Scale for interviewer: (based on the answers, circle the most relevant answer below)

Highly aware	Modestly aware	Limited awareness	None
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**Commitment:**

How would you characterize the extent of awareness of the PD principles and their implications by the top leadership of your agency?

Scale for interviewer: (based on the answers, circle the most relevant answer below)

High	Modest	Limited	None
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**Probing Questions:**

- How has top leadership shown commitment to implementation of PD principles?
- If they have reservations about implementing the PD what are the underlying reasons?

[If applicable] How would you characterize the extent of awareness of the PD principles and their implications by the leadership of your agency in field missions or offices?

High	Modest	Limited	None
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Probing Questions:

- How does their understanding compare with that of top leadership at headquarters?
- Why?

How has your agency taken steps to adopt the PD principles and incorporate them into your strategic plans?

Scale for interviewer: Based on answer, rate the KI's awareness level of agency steps

Highly aware	Modestly aware	Limited awareness	None
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To what extent have these attempts been successful?

Scale for interviewer: (based on the answers, circle the most relevant answer below)

High	Modest	Limited	None
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Probing Questions:

- What attempts have been made to translate PD principles into policies, guidelines, and operational directives?
- If successful, cite some examples. If not successful, can you give reasons?
- Are there documents where these are reflected? E.g. guidance or policy documents. If so, can we have copies of them?

**Capacity:**

To what degree do you believe your agency has the guidance and capacity to support implementation of the PD?

If little or none, what are the main things that are weak or missing?

Scale for Interviewer: Based on answer, rate the capacity:

High	Modest	Limited	None
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What steps, if any, are being taken to strengthen capabilities?

How has the PD affected cost-effectiveness of USG delivery of bilateral foreign assistance?

If so, how?

Scale For Interviewer: Based on answer, rate the effect:

High	Modest	Limited	None
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**Incentives:**

Are there any positive incentives provided to staff to implement PD principles?

(Provide examples, if any.) If so, how effective are they?

High	Modest	Limited	None
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Are there perceived disincentives amongst staff (at home and in the field) to implementing PD principles?

If so, how constraining are they?

Scale for Interviewer: Based on answer, rate the level/intensity of disincentives present

High	Modest	Limited	None
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**General:**

How would you rate your agency on implementation of the each of the five PD principles on a scale of 1-5, with 5 the highest?

How would you rank the five PD principles in terms of effectiveness of implementation by your agency?

What would be reasons for the least effectively implemented principles?

How would you rate the USG, beyond your agency, on implementation of each of the PD principles on a scale of 1–5?

For the interviewer: Effectiveness of Implementation: Scale 1–5, with ‘5’ being the highest.

	Ownership	Alignment	Harmonization	Managing for Results	Mutual Accountability
KI's Agency					
USG as a whole					



What recommendations do you have to better facilitate effective implementation of the PD principles by the USG in general and by your agency?

**Section B: Selected questions about aid processes/ elements that lie behind the Paris Declaration**

Thank you for meeting with me today. As introduced in the email from X, I would like to ask several questions about the Paris Declaration on Aid Effectiveness of 2005 and the aid processes that lie behind it in relation to your (Department's/Agency's/Unit). Please remember that this discussion will remain confidential.

[These questions may well vary by country and operating unit within [name of Department/Agency/Unit]

What role, if any, do host countries or other donors play in the process by which [name of Department/Agency/Unit X] formulates its programs in a country?

If needed for illustrative specificity:

To what extent does [Department/Agency/Unit X] coordinate with other donors or with the host country in developing its purposes, strategies, policy dialogues, programs, periodic reviews and the like? What are the mechanisms for doing that?

Is there a common framework of conditions or indicators jointly developed by [Department/Agency/Unit X] and the host country in the areas of programming? Is there any mechanism to ensure that your operating units have been using that common framework? To what extent do they share the common framework?

Is there a common framework of conditions or indicators jointly developed by [Department/Agency/Unit X] with other donors in the areas of programming? Is there any mechanism to ensure that your operating units have been using that common framework? To what extent do they share the common framework?

Turning from planning to implementation to what extent, if any, does [Department/Agency/Unit X] use or rely on the recipient country's project implementation systems? What guidance, if any, is provided regarding use of recipient country systems?

For example, how common is it to use the recipient country's own institutions and systems for:

- Procurement
- Accounting
- Project management
- Project monitoring
- Project assessment

What factors inhibit your greater use of host-country systems?

What about other donors? Does [Department/Agency/Unit] ever work out a division of labor with other donors, for example in carving out areas for your respective programming? If so, to what extent: is it common or rare? To do what extent does [Department/Agency/Unit] join in consortiums of donors? To what extent, in general, does [Department/Agency/Unit X] act as the lead donor in a consortium of donors? To what extent does it follow the lead of some other donor or delegate responsibility to another donor?

To what extent has [Department/Agency/Unit X] collaborated with other donors on joint missions for e.g. analytic work, planning, monitoring, or evaluation? If so, what have been the benefits of such collaboration? What were the constraints and costs? Did the benefits exceed the costs?

Does it make any difference for the effectiveness of cooperation with other donors if the program is "cross-cutting" like gender or fragility or conflict?

To what extent, if any, has [Department/Agency/Unit X] used its funds to augment the capacity of the recipient countries to formulate, manage, monitor or assess the programs it funds? What has been your experience in doing that? In general, has it made any difference in your subsequent reliance on the mechanisms of the host country?

What measures do you use to assess the development outcomes or results of your overall assistance program (or activity) in a given country?

Do you use host country sources of information for this assessment? Why or why not?

How do you use information on the results being achieved by your assistance?

How is the results information you collect used in the implementation of your current programs and in the design of future programs?

Do you meet with representatives of the host country to assess the performance of your assistance program and propose plans for future assistance?

If so, how often do you meet? Who calls the meeting? Who sets the agenda? Who chairs the meeting?

Are you satisfied with these meetings? How could they be improved?

## Section C: Paris Declaration Commitments

Donors commit to: (11 commitments, chosen for emphasis by the evaluation team. We have changed the wording slightly to fit better with the U.S. context)

- **Ownership.** Respect host country leadership and help strengthen their capacity to exercise it. (This is the only PD commitment for donors under "Ownership." It received a lot of emphasis in Accra.)
- **Alignment.** Donors should base their overall support -country aid strategies, policy dialogues and development cooperation programs - on the country's national development strategy and periodic reviews of progress in implementation.
- **Alignment.** Use country systems and procedures to maximum extent possible.
- Avoid creating dedicated structures for day-to-day management and implementation of aid-financed projects and programs. [i.e., Project Implementation Units – “PIUs” - this is]
- Progressively rely on host country systems for procurement when the country has implemented mutually agreed standards and processes.
- **Alignment.** Predictability. Provide reliable indicative commitments of aid over a multi-year framework and disburse aid in a timely and predictable fashion according to agreed schedules.
- **Harmonization.** Work together to reduce the number of separate, duplicative, missions to the field.
- **Harmonization.** Make full use of the respective comparative advantages of donors at sector and country levels by delegating, where appropriate, authority to lead donors for the execution of programs, activities and tasks.
- **Harmonization.** Reform procedures and strengthen incentives, including for recruitment, appraisal, and training, for management and staff to work towards harmonization, alignment and results.
- **Harmonization.** Harmonized activities with respect to cross-cutting issues, including fragile states, gender equality, and environment.
- **Managing for Results.** Countries and donors work together in a participatory approach to strengthen country capacities and the demand for results based management.
- **Mutual Accountability.** Provide timely, transparent and comprehensive information on aid flows so as to enable host country authorities to present comprehensive budget reports to their legislatures and citizens.
- **Mutual Accountability.** Jointly assess through existing ("and increasingly objective") country level mechanisms mutual progress in implementing agreed commitments on aid effectiveness, including the [55] Partnership Commitments.

## ANNEX 2 TERMS OF REFERENCE

### EVALUATION OF IMPLEMENTATION OF PARIS DECLARATION BY USG FOREIGN ASSISTANCE ORGANIZATIONS

#### 1. Background

The Paris Declaration (PD) on Aid Effectiveness was endorsed in 2005 and has become a major milestone in development assistance. Designed to improve the quality and effectiveness of development assistance, it is built around five mutually reinforcing principles which should guide interactions, relationships and partnerships between development agencies and partnering countries:

*\*Ownership:* Developing countries must lead their own development policies and strategies, and manage their own development work on the ground. Donors must support developing countries in building up their capacity to exercise this kind of leadership by strengthening local expertise, institutions and management systems.

*\*Alignment:* Donors must line up their aid firmly behind the priorities outlined in developing countries' national development strategies. Wherever possible, they must use local institutions and procedures for managing aid in order to build sustainable structures.

*\*Harmonization:* Donors must coordinate their development work better amongst themselves to avoid duplication and high transaction costs for poor countries. In the Paris Declaration, they are committed to coordinate better at the country level to ease the strain on recipient governments.

*\*Managing for results:* All parties in the aid relationship must place more focus on the end result of aid, the tangible difference it makes in poor people's lives. They must develop better tools and systems to measure this impact.

*\*Mutual accountability:* Donors and developing countries must be accountable to each other for their use of aid funds, and to their citizens and parliaments for the impact of their aid.

The Paris Declaration provides a practical, action-oriented roadmap with specific targets to be met by 2010. It is a major international agreement on aid relationships which identifies appropriate roles for all major actors, specifies 12 indicators to provide a measurable and evidence-based way to track progress, and sets targets for the indicators to be met by 2010. At the Third High Level Forum (HLF 3) on Aid Effectiveness held in Accra in 2008, both donors and developing countries reaffirmed their commitment to the Paris Declaration and agreed to speed up the process of fulfilling the Declaration's pledges. This agreement was codified in the Accra Agenda for Action, which was endorsed at the HLF 3.

## **2. Purpose of Statement of Work**

In addition to monitoring the progress of the implementation of the Paris Declaration, the Organization for Economic Co-operation and Development, Development Assistance Committee (OECD/DAC) has launched a major evaluation of the Paris Declaration. The overall objective of the evaluation is to assess the relevance and effectiveness of the Paris Declaration and its contribution to aid effectiveness and poverty alleviation. The evaluation is being carried out in two phases.

The Phase 1 evaluation assessed the early implementation of the Paris Declaration. It focused on four central questions: What important trends or events have been emerging during the implementation? What factors and forces are affecting the behavior of recipient and donor countries in relation to implementing their respective commitments? And, is the implementation leading towards the adoption of the PD principles? If not, why not? The Phase I findings of the assessments have been finalized and a synthesis report has been written which provides empirically grounded conclusions and recommendations.<sup>19</sup>

The overall objective of this Phase 2 evaluation is to assess the relevance and effectiveness of the Paris Declaration and its contribution to aid effectiveness and ultimately to development effectiveness, including poverty alleviation. The evaluation is expected to document the results achieved through implementing the Paris Declaration, highlight the barriers and constraints which might limit its effectiveness and impacts, and strengthen “the knowledge base as to the ways in which development partnerships can most effectively and efficiently help maximize development results through aid in different contexts – including varying degrees of ‘fragility’.” Phase 2 evaluation plans to undertake 15 country case studies to examine in depth the effects of the Paris Declaration on aid and development effectiveness. In addition, it also plans to commission five special studies to examine critical issues. The evaluation will then synthesize the findings, conclusions and recommendation of all the studies, reports and documents in a comprehensive report.

As a contribution to the Phase 2 evaluation, the USG has committed to conducting an independent evaluation (“USG Evaluation”) of its headquarters’ commitment to, and efforts towards, implementing the Paris Declaration, consistent with the terms of reference provided for such studies as part of the overall evaluation. The purpose of this SOW is to outline the requirements and deliverables for the design and implementation of the USG Evaluation. The SOW specifies evaluation questions, evaluation design criteria, data collection approaches, estimated level of effort required, time table, evaluation criteria and the deliverables.

## **3. Evaluation Questions**

Since the USG evaluation is a part of a larger evaluation study, its primary focus must be consistent with those of other evaluations conducted or being conducted by participating donor

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<sup>19</sup> Evaluation of the Implementation of the Paris Declaration:  
[http://www.diiis.dk/graphics/Subweb/paris\\_evaluation\\_web/index.htm](http://www.diiis.dk/graphics/Subweb/paris_evaluation_web/index.htm).

countries. It must also take into account the multi-agency management structure of foreign assistance that is used by the USG. By agreement among international participants in the overall PD evaluation, individual donor evaluations are largely undertaken at headquarters and focus on three broad areas; commitment to the PD principles at the different levels of the foreign assistance agency, the agency's capacity to implement the Paris Declaration and the steps that it has undertaken to enhance its capacity, and incentives and disincentives for implementing the PD principles. In view of this focus, the following questions shall be answered by the evaluation:

#### Commitment

1. Are the top leaders of bilateral foreign assistance organizations aware of the five PD principles and their implications for the delivery of foreign assistance? Do they interpret them correctly? What sort of misconceptions, if any, do they seem to harbor?
2. Are the top leaders committed to implementing the Paris Declaration? Do they have any reservations about it? If so, what are these reservations? What are the underlying reasons for their reservations and concerns?
3. Are the managers of foreign assistance programs aware of their leadership's commitment to the five principles and their implications for the programs they manage? Has the implementation of PD affected foreign assistance program's priority setting?
4. How is foreign assistance agencies' commitment affected by the mandates and requirements of the Congress and Office of the budget and management and the demands of the civil society?
5. Has each bilateral foreign assistance organization formulated and implemented a coherent strategy to adopt the PD principles in its policies and programs? If so, what are the major elements of its strategy? If not, what are their reasons for not developing a strategy to internalize and implement the Paris Declaration?

#### Capacity

6. What attempts have been made by these organizations to translate the PD principles into their policies, guidelines and operational directives? To what extent, have such attempts been successful (cite examples)? If they did not make efforts to revise their policies, guidelines and operational directives, what were the main reasons for this omission?
7. Did foreign assistance agencies launch special training programs to prepare their staff for implementing PD principles?
8. Are assistance organizations' mandates, organizational structures, budgetary processes, and capacities suitable to implement the Paris Declaration? What specific mandates, organizational structures, budgetary processes, and operational procedures have facilitated or impeded the adoption and implementation of the PD?
9. Has the Paris Declaration affected USG delivery of bilateral foreign assistance and its interactions with the recipient countries? If so, in what way? What are the examples of such effects? Are there major differences in the commitment and behavior of different USG assistance organizations?

#### Incentives

10. Are their perceived disincentives to implement PD principles both at the headquarters and the field?

11. Do bilateral foreign assistance organizations provide incentives to their headquarters and field staff to implement the PD principles? If so, what are these incentives? Did these incentives produce concrete, positive results (cite examples)? Did they also provide additional training to the staff in the field?

#### General

12. What factors have affected or are likely to affect the implementation or non-implementation of the Paris Declaration by bilateral USG foreign assistance organizations? How can they be categorized?
13. How do partner organizations, civil society organizations and host countries assess USG commitment to and efforts to adopt the PD principles? Do they have concerns about them? Are their perceptions justified and, if so, to what extent?
14. What recommendations can be made to facilitate the effective implementation of the PD principles by USG bilateral foreign assistance agencies and organizations individually and collectively? What general lessons can be drawn from the USG experience for other bilateral and multilateral donor agencies?

#### **4. Multi-Case Study Evaluation Design**

Unlike most bilateral donor agencies, there is no single bureau or office of the USG which administers bilateral foreign assistance programs. Presently there are five organizations that manage the great majority of US bilateral foreign aid – the U.S. Agency for International Development (USAID), Department of State (State), Department of Defense (DOD), Department of Health and Human Services (HHS) and the Millennium Challenge Corporation (MCC). In addition, there are 22 other USG agencies and organizations that manage the remaining bilateral foreign assistance. Although the volume of assistance they administer is relatively small as compared to the above mentioned organizations, it is nonetheless significant. This undoubtedly creates a major challenge to any evaluation of foreign assistance programs.

The problem is compounded by the fact that there are significant differences in the mandates and organizational structures of these entities. For example, the mandate, policies and programs of the MCC are very different from the projects run by the State Department. The HHS works within its sectoral mandate, while USAID programs are highly diversified. Agencies managing smaller proportions of bilateral assistance also have different approaches – use of more headquarters line staff; fewer long-term field activities or presence, for example. Their mandates tend to be predominantly domestic. To capture these differences, the proposed evaluation shall follow a multi-case study method, focusing on both major and minor foreign assistance agencies and organizations.

The evaluation undertaken as part of this SOW shall primarily focus on four of the five major bilateral foreign assistance organizations – USAID, the State Department, HHS and MCC. In addition, up to 3 smaller US bilateral donors organization shall be selected on the basis of mutually agreed criteria between the evaluation COTR and the contractor. The contractor shall prepare separate case studies for each of these organizations. All case studies shall use the same

conceptual framework, approach and variables to enable comparative analysis. A synthesis report shall be written using the data and information generated by case studies.

Each case study focus on the topics identified below; the list is illustrative and not comprehensive. It is important that each case study individually examine each of the five principles (ownership, alignment, harmonization, managing for results and mutual accountability), as there are likely to be variations in their acceptance, internalizations and implementation within an organization.

1. Awareness of the five PD Principles and their Implications
  - Awareness of the five PD principles among leadership in headquarters
  - Awareness of PD Principles by operating units in the field in the case of major agencies and organizations that have a field presence
  - Misconception and misunderstandings about PD principles, if any
2. Political Commitment to the five PD Principles
  - Leadership's commitment to PD principles
  - The rationale for commitment
  - Reservations and doubts
3. Strategy for implementing the Paris Declaration, if any
4. Translation of PD Principles into Policies, Guidelines and Operational Directives
  - Extent of revisions and changes, if any
  - Effectiveness of such efforts
5. Training for facilitating adoption of the PD principles
  - Introduction of new training programs
  - Effectiveness of new training programs
6. Institutional capacity to implement the Paris Declaration
  - This section shall analyze the mandate, organizational structure, transfer of authority to the field, budgetary processes including congressional earmarks, reporting requirements and general procedures to determine the extent to which they facilitate or inhibit the adoption of the PD principles.
7. Assessment of the direct or indirect impacts of PD on the organization/agency's
  - Allocation of resources for capacity building in host nations
  - Use of host country organizations to manage USG assistance programs
  - Coordination with other USG agencies to avoid duplication and waste
  - Coordination with other bilateral and multilateral agencies in the field
  - Partnerships with host countries in performance management and evaluation
8. Findings, Lessons Learned, and Recommendations
  - On the basis of the information, data and findings of the case studies, a synthesis report shall be prepared. This report shall address the topics above and shall include appendices on methodology, interviews and documents.



## 5. Data Collection Methods

The contractor shall use the following data collection methods to generate the needed information, ideas and recommendations:

- i) Content analysis of the mandates, policies, budgetary allocation processes, procedures and selected programs documents of foreign assistance organizations.
- ii) Review of principal reports, analyses, evaluations and other documents on PD implementation issued by participating bilateral and multilateral agencies, NGOs, think tanks and other creditable sources. (Note: There now exist a plethora of information which will be helpful in framing questions, sharpening the focus of case studies and developing suitable recommendations.)
- iii) Interviews with the senior Congressional Staffers, OMB, staff at the selected USG agencies.
- iv) Semi-structured interviews with the senior officials of the foreign assistance organizations for which case studies shall be prepared.
- v) Key informant interviews with partnering organizations, including contractors and non-profit organizations which implement foreign assistance programs and projects
- vi) Telephone interviews with 1-2 host country officials in up to 10 countries based on selection criteria determined jointly by evaluation COTR and the contractor. Such interviews are necessary to understand their perceptions, concerns and assessment of USG's commitment to and efforts towards implementing the Paris Declaration. (Note: at least some of the countries selected shall be those undertaking country-level evaluations in Phase 2)
- vii) Mini-surveys through internet and/or telephone with USG managers of assistance programs and projects in the field. It is suggested that each case study conduct one survey. The number of respondents shall depend upon the size of assistance programs, the number of countries in which they are located and the sectors in which they operate. (Note: at least some of the countries selected shall be those undertaking country-level evaluations in Phase 2)
- viii) Attendance at up to three international meetings in Europe; no other international travel is anticipated.

## 6. Deliverables

The Contractor shall propose dates to deliver the following in accordance with their technical approach and specific evaluation design. Exact dates will be determined upon the approval of a final management plan within one week after award:

1. A management plan
2. A comprehensive outline of the organizational case studies based on preliminary interviews with concerned agencies
3. Draft of organizational case studies
4. Revised case studies
5. Draft of the synthesis report\*
6. Submission of the final synthesis report

7. A policy brief of no more than four pages summarizing the main findings and recommendations of the synthesis report
8. Three briefings or seminars\*\* on the content of the synthesis report, accompanied by a Power Point presentation.
9. Brief monthly progress reports

\* The contractor shall arrange for 2 peer reviewers of the draft. The reviewers must be approved by COTR.

\*\*For planning purposes, the Contractor shall assume that the venue and duration of the briefings and seminars is: (1) Paris at the meeting of bilateral and multilateral donors – duration 3 hours; (2) Meeting of the US bilateral donor agencies in Washington D.C, - duration 3 hours, and; (3) Briefing to the senior officials of the State and USAID in Washington D.C., - duration 1hour.

### **ANNEX 3: BIBLIOGRAPHY**

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