MILLENNIUM CHALLENGE CORPORATION

PRINCIPLES *into* PRACTICE

Country Ownership

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MILLENNIUM CHALLENGE CORPORATION

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PRINCIPLES *into* PRACTICE

MCC was founded with a focused mandate to reduce poverty through economic growth. MCC's model is based on a set of core principles essential for development to take place and for development assistance to be effective—good governance, country ownership, focus on results, and transparency.

The MCC Principles into Practice *series offers a frank look at what it takes to make these principles operational. The experiences captured in this series will inform MCC's ongoing efforts to refine and strengthen its own model. In implementation of the U.S. Global Development Policy, which emphasizes many of the principles at the core of MCC's model, MCC hopes this series will allow others to benefit from and build on MCC's lessons.*

"Country Ownership" is the second policy paper in the Principles into Practice *series. The series is available at www.mcc.gov/principlesintopractice.*

In Principle: MCC's Approach to "Country Ownership"

Development investments are more effective and sustainable when they reflect countries' own priorities and strengthen governments' accountability to their citizens. This is the starting point for MCC's approach to country ownership. To MCC, however, country ownership is more than this. Country ownership is embodied in partnership. MCC's partner countries exercise ownership when, in close consultation with citizens, governments take the lead in setting priorities for MCC investments, implementing MCC-funded programs, and being accountable to domestic stakeholders for both making decisions and achieving results. This ownership is implemented in partnership with MCC: It takes place within the framework of MCC's focused mandate; must be consistent with MCC's standards for accountability, transparency and impact; and draws on MCC's support and guidance.

In Practice: MCC's Approach to "Country Ownership"

Country ownership is not a new concept. It is a core tenet of the aid effectiveness agenda promoted through the Paris Declaration and the Accra Agenda for Action. It has been incorporated into donor policy and programming globally for years, and is a centerpiece of the Obama administration's Global Development Policy.

MCC was founded at a time when the country ownership principle was emerging as central to the global dialogue on aid effectiveness. MCC's founders explicitly built into its model authorities and approaches to enhance strong and mutually accountable partnerships with compact countries. These include:

- **Selectivity.** MCC partners with poor countries that have a proven track record in good governance and policies that support economic growth and effective use of development assistance. With this as a starting point, MCC can pursue a fairly aggressive approach to country ownership, giving partner countries significant responsibility in prioritizing investments, implementing programs, and being accountable for results.
- **Focused mandate.** MCC's mandate is clear: to support poverty reduction through economic growth. This puts clear parameters around the country ownership principle. MCC's partners have significant influence in setting priorities for MCC investments, provided that proposed projects are consistent with MCC standards for cost-effective investments that raise incomes for beneficiaries.
- **Flexibility.** MCC is not subject to sector earmarks or directives. This means that MCC has the freedom to work in sectors that matter most for countries' growth and poverty reduction, and to support investments that are priorities for partner country

governments, citizens, civil society, and the private sector, and promise the best returns in terms of increased incomes for beneficiaries.

★ **Five-year funding.** MCC has the authority to commit five years of funding up front. This is important for country ownership because it makes funding predictable. At the outset, MCC partner countries know how much funding is committed, for what purposes, and over a five-year period, so governments can better plan their own development strategies and budgets. Five-year funding also enables MCC to support partner countries' priorities for long-term growth investments, and gives local politicians the time and political courage necessary to implement tough policy reforms that support impact and sustainability.

★ **Transparency.** For partner country governments and citizens to really "own" development investments, they need information about what donors are doing. For all compact programs, MCC publishes economic analyses that inform investment decisions, five-year budgets, expected results, data on ongoing program progress, and findings of independent impact evaluations as programs complete. MCC expects transparency from its partners as well, and each publishes information on implementation progress and procurement opportunities. This transparency empowers citizens to hold governments and donors accountable for how development resources are used and what results they achieve.

With this framework as a starting point, MCC enters into five-year bilateral grant agreements, called compacts, with eligible country governments. MCC puts the principle of country ownership into practice in three basic ways.

1. **Setting priorities.** Once eligible for MCC compact assistance, partner countries take the lead in setting priorities for MCC investments. MCC expects these priorities to be informed by economic analyses of countries' key constraints to economic growth, and meaningful engagement with citizens, civil society, the private sector, and other donors. MCC and partner countries work together to design investments that meet country priorities, are cost-effective, and have strong potential to increase incomes. MCC did not set out to focus its investments in any particular sectors, and MCC's portfolio is diverse (see Box 2). However MCC's experience has been that when partner countries have the opportunity to set priorities for reducing poverty and promoting growth, they have focused largely on infrastructure and agriculture (see Box 3).

2. **Implementing programs.** MCC has very small field missions, and looks to partner country governments to establish accountable entities to lead implementation. These entities, known as Millennium Challenge Accounts (MCAs), are managed and largely staffed by country nationals and often work directly with existing government ministries. Two MCC staff members are based in-country (a Resident Country Director and a Deputy). A technical team based at MCC Headquarters in Washington provides support and oversight during compact implementation.

3. **Being accountable.** Each MCA reports to its own board of directors (or similar governing entities) that includes government officials and representatives of the local

civil society and private sector. MCA boards are accountable to national governments and their citizens for implementation of MCC-funded programs, transparent decision-making, and achieving results.

In the seven years in which MCC has operated under this model, the agency has learned a great deal about what it takes to put the principle of country ownership into practice. This paper identifies six of those lessons, provides in-depth examples, and discusses the practical implications for MCC's compact investment portfolio.

Six Lessons: What MCC has learned putting its "Country Ownership" principle into practice

Lesson 1:
Country ownership is a partnership based on mutual accountability that benefits from structure and clear expectations.

Ownership does not mean that countries have free rein; it means that countries enter into a partnership with MCC in which country priorities are considered within the context of MCC's investment and accountability standards. MCC has learned that ownership is more meaningful when it is structured with clear expectations, rather than open-ended.

Country ownership is a partnership based on mutual accountability...

Ownership does not mean that countries have free rein; it means that countries enter into a mutually accountable partnership with MCC. MCC partner countries exercise ownership within the framework of MCC's mandate of economic growth and poverty reduction.

During the compact development process, MCC investments are selected based on countries' own priorities, but they must also meet MCC's standards for expected economic returns and technical specifications. MCC makes this clear from the beginning, and enforces these standards. For example, some projects proposed by partner countries are not accepted. MCC has turned down country proposals with insufficient promise of high returns for growth and poverty reduction, and has paused

Box 1.
Six Lessons on Country Ownership

1. **Country ownership is a partnership** based on mutual accountability that benefits from structure and clear expectations.
2. **Country ownership is a balancing act** between MCC principles and operational approaches.
3. **Country ownership goes beyond national governments,** both in setting investment priorities in compact development and in implementing compact programs.
4. **Country ownership includes capacity building,** but not everything has to be about capacity building.
5. **Country ownership includes using elements of country systems where feasible,** but doesn't mean that countries have to do everything.
6. **Country ownership pays off,** both for results and for leveraging policy reform.

project implementation out of concerns related to compliance with MCC standards for environmental protection, social impact, or health and safety.

For example, **Nicaragua** was one of the first countries selected as eligible for an MCC compact. During compact development in 2005, the Government of Nicaragua proposed a project for renewable energy investments and rural electrification. In its standard due diligence of such proposals, MCC considers whether a country's policy environment is conducive to effective and sustainable investments. While Nicaragua had recently made important strides in terms of incentives for renewable energy and new laws against theft of electricity, the policy environment around independent regulation, tariff rates, and restructuring of the electricity sector was quite uncertain within the five-year compact time frame. This raised significant concerns about the potential returns and sustainability of the proposed projects. MCC determined that Nicaragua's proposals for road infrastructure, agriculture and rural development, and property rights were more economically promising, and ultimately pursued those projects under the compact.

In the development of the **Philippines** Compact, signed in September 2010, the Government of the Philippines initially proposed 15 projects spanning agricultural productivity, infrastructure, human development and governance. Each project was reviewed with an eye toward potential returns and risks, including by peer reviewers external to MCC. A number of project proposals, such as a watershed management project and a conditional cash transfer project, were set aside due to concerns of low rates of return, environmental challenges, or limited institutional capacity for implementation. Instead, MCC and the Government of the Philippines decided to focus on supporting reforms and investments to modernize the Bureau of Internal Revenue, expanding a community-driven development project, and rehabilitating a secondary national road—all projects projected to have more sustainable and effective outcomes.

Country ownership based on partnership and mutual accountability continues from compact development through compact implementation. In some cases, issues emerge that require significant changes to project implementation approaches, or even project termination. For example, in the case of **Mongolia**, over half of the $285 million MCC compact was originally dedicated to a rail project, the success of which depended largely on the Government of Mongolia reaching a set of milestones designed to ensure that the rail company (jointly owned by the Governments of Mongolia and Russia) complied with international standards for financial management.

At the time of compact signing, MCC and the Government of Mongolia knew that this approach involved a degree of risk; MCC clearly stated that it would not proceed with project funding if these milestones were not met. MCC and the Government of Mongolia took the risk because potential returns were significant: The rail system is central to Mongolia's economy, and the MCC compact could create the political space and leverage necessary for important reforms. However, when the first milestone, an independent accounting audit of the rail company, proved politically challenging, the Government of Mongolia informed MCC that it would not be able to proceed with the rail project and asked that the funds be reallocated to new projects. MCC could have revoked the $188 million project funding at that point, but in the spirit of partnership, MCC worked with the Government of Mongolia to identify a set of alternative investments that met both the country's priorities for economic growth and poverty reduction and MCC's investment standards.

Social and environmental impact concerns are also a factor in implementation decisions. During implementation of the roads project funded under the **Cape Verde** Compact, MCC discovered that the firm contracted for road construction had breached MCC's resettlement policy by starting construction prior to providing appropriate compensation to affected local residents. Without proper remediation, the situation could have affected people living near the road, increased erosion, created serious drainage problems, and increased the likelihood of rockslides (posing risks to passing traffic). MCC, MCA-Cape Verde and the contractor agreed to pause construction and implement a remediation plan before construction resumed.[1]

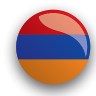
The MCC compact with the Government of **Tanzania** includes several energy-related projects. One project, a $38 million investment in a small hydropower plant on the Malagarasi River in northwestern Tanzania, also experienced environmental impact challenges. Further environmental impact analysis conducted after compact signing revealed that construction could impact survival of several aquatic species endemic and unique to the project site. This posed a challenge much more complicated than simply balancing country ownership with MCC standards. It required MCC and the Government of Tanzania to weigh the risks of biodiversity loss against social and economic development needs in poor communities. MCC and the Government of Tanzania recognized the complexity of the question and decided to draw on independent expertise, and MCC funded an external rapid biodiversity assessment to gather more information.

To ensure open and informed decision-making, MCC worked with the Government of Tanzania to establish an independent advisory panel. The panel was comprised of international and local environmental scientists charged with providing internationally-recognized expert advice. Biodiversity assessment findings and advisory panel recommendations ultimately revealed that an immediate solution was not feasible given the time constraints of the five-year compact term. In light of these results, MCC canceled the construction of the hydropower plant. MCC and the Government of Tanzania then collaborated to identify a number of alternative projects. A feasibility study is now underway for a hydropower plant in a less environmentally sensitive area that could generate more power than the originally-planned activity.

In some cases, country ownership includes countries adopting and adapting MCC accountability approaches as their own. For example, in **Honduras**, MCC's approach to

1 See "MCC and Fiduciary Responsibility" Achieving Value and Accountability for U.S. Taxpayers" at *http://www.mcc.gov/documents/press/successstory-050509-results-capeverde.pdf*

resettlement of affected parties in infrastructure projects contributed to the compact's road rehabilitation project being completed on time, on par with best practices in social safeguards, and with significant support from local communities.[2] Based on this experience, the Government of Honduras is considering following a similar approach in a separate Inter-American Development Bank-funded urban transit project. The government is touting the MCC-like approach in national media as a selling point for the project.



In **Armenia**, the MCC compact includes investment in rehabilitation and new construction of irrigation infrastructure for agribusiness development. When dangerous asbestos was found in old water pumping stations planned for rehabilitation, MCC's environmental guidelines required mitigation measures unprecedented in Armenia. The Government of Armenia's Ministry of Nature Protection worked with MCC and MCA-Armenia to approve guidelines for proper handling of construction waste containing hazardous materials. These guidelines now serve as a basis for promoting safe handling practices across the government to protect workers and the environment from potentially harmful hazardous materials, and are expected to be formalized through national legislation in the near future.

These experiences are telling of the successes and challenges of MCC's partnership-based approach to country ownership: willingness to take calculated risks on high-return investments that require partner governments to undertake significant policy or institutional reforms; willingness to say "no" to investments if key measures for accountability, impact and sustainability are not in place; and commitment to work with partner countries to overcome implementation challenges and find creative solutions that meet both country priorities and MCC's investment standards.

…and partnerships benefit from structure and clear expectations.

In its early days, MCC's effort to adhere to the notion of country ownership meant it offered less guidance for country proposals. At times, this led to a frustrating and unstructured compact development process. MCC learned that clear expectations in compact development do not have to threaten country ownership; instead, clear expectations can enhance country ownership by better equipping countries to prepare proposals and focus stakeholder consultations. Over time, MCC has developed clear guidance for compact development, transparent standards against which MCC assesses and approves investment proposals, and operational tools to focus compact proposals.[3] This defined process helps manage expectations and saves time and effort for both MCC and partner countries.

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2 For more on this story, see MCC Success Story, "MCC Policy Reforms Show Why Resettlement Matters."

3 MCC compact development guidance is available on MCC's public website here: *http://www.mcc.gov/pages/countrytools/tools/compact-development*

In the earliest compacts, MCC and partner countries did not have clear and transparent methods in place to set priorities among varied needs. In response, MCC formalized the constraints analysis to help systematically and transparently identify key barriers to growth and discipline the process for setting priorities for MCC investment. Likewise, recognizing that partner countries were spending a year or more to develop detailed, technical proposals that might not yield sufficient returns in economic growth and poverty reduction, MCC applied a new tool early in the compact development process: the concept paper. Informed by the constraints analysis, and developed over a relatively short time frame (usually a few months), concept papers provide the initial overview of a proposed investment. They outline the fundamental investment rationale and address key questions about implementation, scope, timelines and potential partnerships. They undergo peer review within MCC and with external development partners and donors. Concept papers form the basis for an open dialogue with partner governments about which investments warrant further development and which do not.

The benefit of better-defined structure and expectations is evident in comparing the experiences of MCC's very first partner country, Madagascar, to one of MCC's most recent, Malawi. When MCC and the Government of **Madagascar** started their partnership in 2004, MCC did not yet have written guidance for compact development, and had few formal parameters around the principle of "country ownership." The Wall Street Journal, at the time, described the resulting compact development process: "Government officials came up with a wish list of traditional development projects: a new hospital, more school spending, aid to rice farmers."[4]

When **Malawi** began compact development in 2008, MCC had formal compact development guidance for constraints analysis and concept papers.[5] The Malawi constraints analysis identified three binding constraints to growth. The Government of Malawi's compact development core team then used the results of this analysis to engage in a series of national consultations that included representatives from local and national government, private sector firms, civil society organizations, universities, and local communities in each of Malawi's main regions. Consultations enabled all sectors in Malawi not only to agree on and verify identified binding constraints to growth, but also, more importantly, to systematically unpack the root causes of those constraints and identify each stakeholder's role in contributing to eventual solutions. This process resulted in a $350 million compact investment focused on the energy sector that includes key infrastructure investments and institutional, regulatory and environmental projects designed to ensure impact and sustainability of MCC funds.

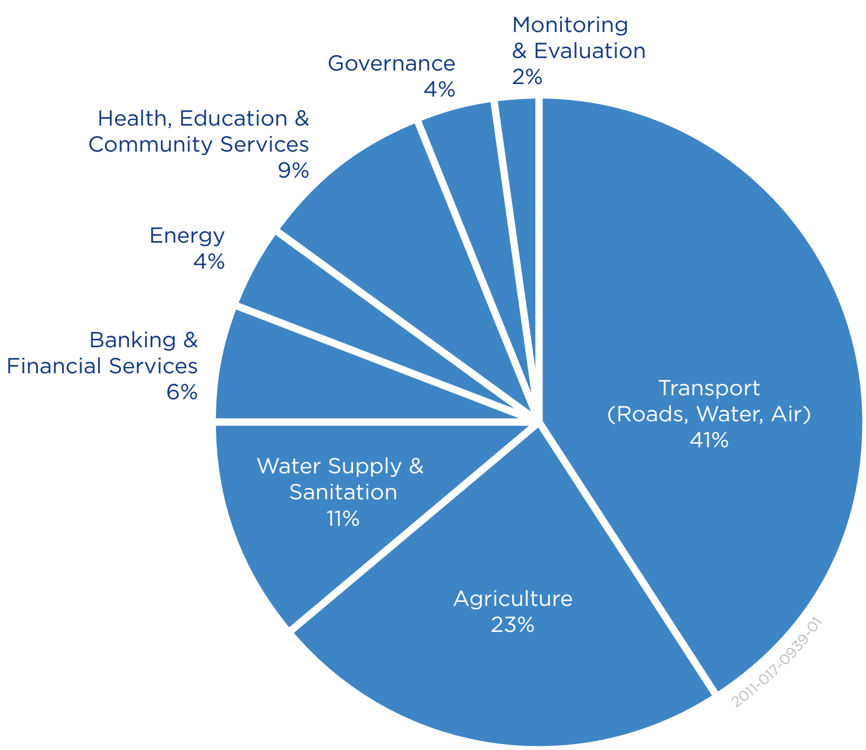
4 "New Bush Strategy Faces Test in Madagascar." Michael Phillips, Wall Street Journal, April 18, 2005.

5 On July 26, 2011, MCC placed an operational hold on the Malawi Compact due to concerns about Government of Malawi actions relating to MCC standards for good governance and political freedom. All examples of Malawi Compact development cited in this paper pre-date the operational hold. At the time of this paper's publication, the operational hold remains in place.

Box 2.
MCC Commitments by Sector.

MCC's investment portfolio reflects areas that countries deem essential for economic growth and poverty reduction. This chart reflects MCC compact commitments across the 22 countries that have, or have had, MCC compacts, between 2005 and March 2011.

MCC Commitments by Sector, 2005 to March 2011



Countries that have or have had MCC Compacts from 2005 to March 2011 are: Armenia, Benin, Burkina Faso, Cape Verde, El Salvador, Georgia, Ghana, Honduras, Jordan, Lesotho, Madagascar, Mali, Moldova, Mongolia, Morocco, Mozambique, Namibia, Philippines, Senegal, Tanzania, and Vanuatu. MCC's compact with Malawi was signed in April 2011. Its power sector investments are not reflected here.

Box 3. **Why Countries Prioritize Infrastructure for Poverty Reduction**

Why do MCC partner countries prioritize infrastructure investments? These country governments, civil societies, private sectors and local communities recognize that better infrastructure is essential for economic growth and for connecting the poor to sources of growth. The right infrastructure investments can bring the benefits of growth to people living in rural and isolated areas, which will allow them to take full advantage of economic opportunities and social services, and will reduce poverty.

For example, improving transportation infrastructure is critical to the poor. Workers in isolated rural areas tend to earn less and have fewer opportunities, in part because poor or costly transportation hinders their ability to get their products to market. Improvements in rural roads help lower transportation costs for farmers and provide better access to non-farm employment. Improved transportation infrastructure also increases access to healthcare and education services for the poor, not only increasing the chances that they will benefit from these services, but reducing access costs and time .

Reliable electricity makes it easier for the poor to start businesses, especially those that take advantage of productivity-increasing machinery and information and communication technologies. With improvements in energy infrastructure, the poor no longer waste a significant portion of their most valuable asset, labor, searching for fuel. Reliable energy supply also makes it easier for schools and clinics to function properly, and allows families to shift away from fuel sources such as firewood and carbon that require significant time to collect, often at the expense of children's schooling, and are harmful to health.

Investments in water and sanitation infrastructure can dramatically reduce incidences of water-borne diseases, improving health outcomes, increasing the ability of workers to participate in income-generating activities, and increasing opportunity for children to attend school.*

* An extensive body of research into past experiences demonstrates the strong links between infrastructure and poverty reduction. For a good overview, see "Current Debates in Infrastructure Policy," World Bank Policy Research Working Paper 4410, November 2007.

Lesson 2:
Country ownership is a balancing act between MCC principles and operational approaches.

MCC is constantly challenged to balance country ownership alongside its other core principles. MCC's results principle, for example, may require MCC to say "no" to proposals even if they are country priorities. Among MCC partner countries, capacity and experience in managing ambitious development investments range widely. As a result, MCC and each partner country must work together to develop a tailored balance between ownership, accountability, support and oversight.

Country ownership is a balancing act among MCC principles...

One of the biggest lessons MCC has learned about country ownership is that it is just one part—though a critical one—of MCC's overall focus. MCC is constantly challenged to balance country ownership alongside MCC's other core principles and priorities. For example, while an ownership principle might suggest supporting an investment proposal because it is important to local communities and politicians, a results principle might require MCC to say "no" to the proposal if it does not have sufficient potential to cost-effectively raise incomes among beneficiaries.

MCC's commitment to broad-based country ownership means that a wide range of stakeholders, including politicians, government officials, local beneficiaries, civil society networks and private sector partners, are part of decision-making for and implementation of MCC investments. Many stakeholders shape compact plans, and have high expectations for results. It can be difficult to manage these expectations when compact projects have to be scaled back or even eliminated, which can occur for a number of reasons. This aspect of ownership complicates MCC's commitment to "results" in terms of always supporting the most cost-effective investments. In many cases these principles are not at odds because MCC country partners also want to achieve results, and indeed to claim credit for the results obtained through MCC investments. In some cases, however, partners' priorities are more complex than just achieving the best possible return on a development investment.

In many compacts, there have been either planned or unexpected junctures at which MCC and partner countries must revisit investment decisions after compacts are signed. For example, in **Honduras** and **Nicaragua**, road projects included explicit criteria for selecting target roads for investment from a "candidate pool" of possible roads. In both countries, criteria included requirements that selected road segments be local priorities and have economic rates of return above set "hurdle rates." Criteria were very transparent from the outset (included in the public compact agreements) and the process worked well. In both Honduras and Nicaragua, MCC funds were directed to roads that projected good economic returns in terms of income gains for beneficiaries and reflected local communities' priorities.

A similar approach had a more complicated result in **Tanzania**. The Tanzania Compact also identified explicit criteria for selecting roads for funding, including that they be assessed according to an economic rate of return methodology acceptable to MCC. Once the technical studies and economic analysis were complete, MCC concluded that only four of the five proposed roads had rates of return that passed MCC's "hurdle rate." MCC did not, however, make the final investment decision based solely on the economic rates of return. In the end, MCC also took into account several important non-economic factors, including the political sensitivities of the region in which the road network was located (connecting politically diverse communities) and the timing of the investment decision (just prior to important elections). There were concerns, among both U.S. and Tanzanian government officials, that a decision to not fund the road might be incorrectly perceived as a politically-motivated endorsement of one side over the other.

In many compact countries, major infrastructure projects have faced higher than expected costs or longer than expected preparation periods. Given fixed compact budgets and timelines, this has meant that MCC and partner countries are faced with difficult decisions about re-scoping projects and re-allocating funds across compact projects. In these circumstances, the balance between country ownership and other MCC principles can get especially complicated. In most cases of project re-scoping, MCC and partner countries have identified solutions that are amenable to country counterparts, and that, despite increased costs and reduced scope, still promise good returns in terms of income gains for beneficiaries. This was the case for roads project re-scopings in **Armenia**, **Ghana**, **Honduras**, and **Vanuatu**, as well as for the port rehabilitation project in **Cape Verde**, the Alatona irrigation project in **Mali**, and the water and sanitation project in **Mozambique**. In several of these cases, partner governments came forth with funding commitments to make up for budget shortfalls.

Some cases are more difficult, such as the originally-planned $18 million water supply activity under the **Tanzania** Compact. Despite significant buy-in to the project by the Government of Tanzania and the donor community, built up over several years, MCC decided to cancel the project based in part on detailed project design and economic analysis during compact implementation that suggested the investment would yield far lower returns than expected. In **Mali**, MCC cancelled a planned industrial park investment when costs grew significantly higher than expected and necessary institutional reforms seemed unlikely to materialize. In **Mozambique**, however, MCC continues to support a series of road investments that have higher costs and lower returns than originally expected, in part because government and local communities' buy-in and expectations are sufficiently high. These examples illustrate the variety of factors that must be weighed as MCC and its partner countries work to strike the right balance between country ownership and MCC's other core principles.

...and in operational approaches.

In other cases, balancing applies to tradeoffs in operational approaches. MCC has high expectations for partner countries—to design, manage and be accountable for results of big, complex investments with fixed timelines and budgets. Among MCC partner countries there is a wide range in capacity and experience in managing such ambitious programs. As a result, MCC and each partner country must develop a different balance between ownership, accountability, support and oversight.

MCC's oversight role varies across countries. In some cases, after start-up support, MCC steps back so country counterparts can really lead in managing the many facets of program implementation. These include procurement actions, financial reporting, environmental and social impact assessment and mitigation, sector policy reforms, and management of implementation challenges, all within a fixed five-year timeline. In other countries, MCC has had to stay engaged with much more technical support than expected, and even pressure, to ensure that projects stay on track.

MCC has found that it must calibrate its engagement based on compact maturity and country conditions. While heavy engagement is essential for keeping some programs on track, it can slow others down; too many overlapping controls intended to manage risk can grind implementation to a halt. MCC executes quarterly portfolio reviews as one method of responsibly managing tradeoffs between ownership and oversight. Quarterly reviews focus on identifying and addressing implementation risks, where MCC support is needed, or where intense oversight is inhibiting efficient implementation or creative MCA solutions to implementation challenges.

MCC has much more to learn in striking the right balance between ownership and oversight, and incentives are not always clear. For example, in the name of sustainability, capacity building and ownership, MCC would often prefer to allow more time for learning and for country counterparts to take the lead in solving implementation challenges. MCC, however, is accountable to Congress and U.S. taxpayers for achieving compact results within a five-year time frame. This accountability creates the incentive, and even the expectation, that MCC will engage very proactively to keep investments on track to meet their goals. While the time frame is critical to accountability, and to achieving the results that partner countries themselves have prioritized, it can pose important challenges to capacity building.

Lesson 3:
Country ownership goes beyond national governments, both in setting investment priorities during compact development and in implementing compact programs.

Ownership extends beyond national governments to include local citizens, civil society, the private sector, local elected officials, and program beneficiaries. Over time, MCC and partner countries have learned to better structure meaningful engagement with these parties in both compact development and implementation—but MCC still has room to grow to make the most of consultation.

Country ownership goes beyond national governments…

Ownership extends beyond national governments to include local citizens, civil society, private sector, local elected officials, and program beneficiaries. Consultation with these parties has been a hallmark of MCC's model since its creation. MCC has learned, however, that "consultation" is too limited a term. Meaningful, strategic, targeted, and ongoing engagement with stakeholder groups is essential for setting investment priorities, designing programs with beneficiaries' needs in mind, leveraging additional resources for increased impact, monitoring program implementation, and keeping MCC and partner governments accountable for results.

…both in setting investment priorities during compact development…

MCC's tools for guiding this engagement during compact development have evolved over time, based largely on lessons learned in early compacts and feedback from Washington-based civil society groups. For example, in its first official guidance for partner countries on the consultative process, MCC focused heavily on the types of groups with which partner countries should engage. While consultation experiences varied considerably across countries, this approach tended to lead to big town hall-style meetings that invited a wide range of ideas and raised unrealistic expectations about what compacts might include. With this experience, MCC revised its guidance on the consultative process to focus less on *who* to engage with and more on *what kind of information* is useful to inform compact development. As per its revised guidelines, the consultative process should emphasize making "as much use of existing domestic institutions and processes as possible, and avoiding one-off efforts to gather information from citizens or civic groups through forums that cannot be re-convened later."[6]

Introduction of the constraints analysis also helps focus consultations by providing a starting point for discussion—the most binding constraints to growth in a country. For example, in **Zambia**, which is currently engaged in the compact development process, the government decided to conduct consultations using an existing national system of sector advisory groups (SAGs). SAGs include representatives from civil society, the private sector, and partner donors, and had been originally established to assist in developing and monitoring implementation of Zambia's Poverty Reduction Strategy Paper and the fifth National Development Plan, both of which pre-dated MCC engagement. The Government of Zambia's compact development core team held consultative sessions with 16 SAGs considered relevant to the compact, all of which reviewed the constraints analysis and were invited to submit project ideas for the MCC compact. In total, a technical review committee received and reviewed 37 three-page project proposals.

The committee shortlisted seven project ideas representing five priority sectors: primary and vocational education, hydropower, roads, tourism, and water and sanitation. In part as a result of these consultations, the Zambia Compact currently under development focuses on several SAG-identified priority sectors. The proposed Greater Kafue National Park and Community Economic Development Project would offer a comprehensive approach to generating tourism-related income by investing in infrastructure, park and wildlife management, marketing, and community development programs designed to increase incomes and reduce pressure on natural resources. The proposed Lusaka Water Supply, Sanitation and Drainage Project may, depending on further feasibility work, include expansion and rehabilitation of a critical water supply, sewer and drainage networks, provision of sanitation facilities, and community-based health and hygiene education activities.

...and in implementing compact programs,...

During compact implementation, ongoing engagement with non-government actors and local authorities can play an important role in ensuring project quality and accountability. MCC asks partner country governments to establish structures that facilitate ongoing engagement, including MCA boards of directors that include government, civil society and private sector representatives; and, in some countries, stakeholder committees to advise on specific program implementation issues. Experiences have been quite mixed across MCC's portfolio. In some cases, countries' existing structures may better serve the interests of the compact than an MCC-mandated entity .

For example, under the compact agreement with **El Salvador**, MCC required creation of an advisory council to the MCA board of directors, and mandated the nature of its

6 MCC "Guidelines for the Consultative Process," *http://www.mcc.gov/documents/guidance/guidance-2010001005001-consultativeprocess.pdf*

composition and its roles and responsibilities. MCC's intention was to ensure that local leaders and civil society members of the Northern Zone region, where the compact investments are focused, would have a formal voice in compact implementation. In practice, this group, created exclusively for the purposes of the compact, has gained much less traction than a non-mandated mayors' committee formed to provide input in the earliest stages of compact development. The mayors' committee includes 22 of the 94 mayors in the Northern Zone serving when compact development began, with representation from a variety of El Salvador's political parties.

The local ownership reflected by this committee's engagement helped ensure that the MCC compact received unanimous support from El Salvador's Congress upon ratification. The mayors' committee has remained engaged during compact implementation, including through identification of households that are suitable beneficiaries for the compact's rural electricity and education programs, providing 20 percent of municipal matches for water and sanitation maintenance and road construction, and helping cover the costs of resettlement associated with MCC's investments.

In **Namibia**, a combination of new and existing consultative structures has proven to be a successful approach for managing broad governmental and non-governmental engagement in compact implementation. From the outset, the Government of Namibia wanted to use its existing National Planning Commission's Board of Commissioners as the MCA board of directors. It soon became clear, however, that the Board of Commissioners, with its many unrelated responsibilities, had insufficient linkage to the compact to provide meaningful oversight and guidance. MCC and the Government of Namibia subsequently agreed to the formation of a new 10-member board, four members of which are from civil society and the private sector. These four non-governmental members chair each of the Board's four subcommittees (one for each of the three compact projects, and one for procurement and finance).

In contrast, with respect to implementation of specific projects within the Namibia compact program, MCC and MCA-Namibia have relied on existing sector-specific groups to ensure stakeholder input. For each of the three compact project areas—tourism, agriculture and education—MCA-Namibia identified existing stakeholder committees composed of representatives from local NGOs and private sector, government officials, and donors. These groups disseminate information about compact implementation through their established networks, provide input for program implementation, identify initiatives that can complement MCC program investments, and identify suitable partners for project implementation.

For example, the Namibia Compact's agriculture project focuses on improving the economic performance of the livestock sector in the northern area of the country. One of the project activities involves establishing a market efficiency fund to alleviate challenges present in the current supply chain. The livestock stakeholder committee was instrumental in identifying viable marketing strategies based on input from field visits, and in liaising with traditional authorities about land use decisions in target areas. This is just one example of how local stakeholder committees are helping improve the impact and sustainability of MCC investments in Namibia.

…but MCC still has room to grow to make the most of consultation.

MCC's broad-based ownership approach creates an open door for a variety of stakeholders to engage throughout the compact partnership. In countries that have strong, well-organized local governments, civil societies, and private sectors with experience in policy engagement, the strength of these institutions allows for substantive influence on compact design and implementation. MCC has seen, however, that opening the door to consultation is not always enough. Each country's civil society, private sector, and citizenry have different levels of experience and resources for engaging in development planning and policy, and MCC guidance must be adaptable.

While MCC is aware of these differences and of what national standards exist for consultation, and holds government partners accountable for meaningful engagement, MCC does not have the capacity or intent to address capacity gaps where they exist. In some countries strategic partners have helped fill these gaps, as in Nicaragua, where the United Nations Development Program and the UK's Department for International Development provided funding for early compact consultations. MCC has not, however, made as concerted an effort to seek out consultation partnerships as it has to seek partnerships in other aspects of compact development. Nor does MCC have staff dedicated to providing technical support to partner countries in this area, in strong contrast to, for example, the technical support provided for economic analysis or gender integration in compact programs.

MCC's commitment to non-governmental consultation, combined with its commitment to transparency, creates significant opportunities for civil society to serve monitoring and accountability functions for MCC and MCAs. Perhaps not surprisingly, this is most notable in the United States, through mechanisms like the nonprofit Center for Global Development's online *MCA Monitor* publication.[7] In the country of Georgia, the national chapter of the Open Society Institute monitored benchmarks and results throughout compact implementation. In general, however, the degree to which civil society plays a monitoring function in most partner countries is limited.

The extent to which local government representatives monitor program implementation is also difficult to assess. In many MCC countries, national legislatures have ratified MCC compact agreements. In these instances, legislatures have the opportunity to debate how their MCC compact fits with national development strategies; arguably, this debate generates more interest in and knowledge of the program to support active monitoring. MCC has not, to date, tracked the degree to which legislatures play a continued

7 *http://www.cgdev.org/section/initiatives/_active/mcamonitor*

role in monitoring compact implementation. These areas illustrate opportunities for MCC, with appropriate staffing, strategic partnerships, and greater consistency in practice, to take a greater lead in consultation and engagement of a variety of stakeholders in partner countries.

Lesson 4:
Country ownership includes capacity building, but not everything has to be about capacity building.

MCC partner countries are responsible for implementing MCC-funded programs. The MCAs that they establish for this purpose often partner with existing government ministries. This provides MCA and ministry staff opportunities for capacity building, and many MCC projects have capacity-building components built in. However, the ultimate, measurable goal of MCC projects is to increase incomes for beneficiaries, so not every activity needs to focus on capacity building.

Country ownership includes capacity building…

Under the MCC ownership model, country counterparts are responsible for implementing MCC-funded programs. Partner governments establish MCAs to manage implementation for most compact projects, and MCAs establish close partnerships with existing government ministries. While the role of these ministries varies significantly across countries, these partnerships can give existing government entities an important role in program implementation and opportunities for capacity building.

A sampling of MCA partnerships include: In **Benin**, the Ministry of Finance's regulatory unit for the microfinance sector, the National Geographic Institute, and the Chamber of Commerce and Industry; in **Burkina Faso** the Ministries of Finance, Agriculture and Infrastructure; in **El Salvador**, the Ministry of Public Works and Transportation and the Multisectoral Investment Bank; in **Lesotho**, the Ministry of Gender and Youth, and the Water and Sewage Authority; in **Mongolia**, the Ministries of Health, of Education and of Transportation, Construction and Urban Development; and in **Namibia**, the Ministries of Education, and of Water, Agriculture and Forestry.

In some cases, explicit capacity-building and institutional strengthening efforts are built into project design. For example, the MCC compact with **Georgia** included a $36 million investment to secure and diversify Georgia's domestic gas supply for household and commercial use. In addition to rehabilitating the gas pipeline, the project also strengthened the Georgian Oil and Gas Corporation (GOGC), which emerged from the compact a stronger entity, capable of managing the pipeline sustainably and to improve standards. Through a deliberate phased approach of technical support, MCA-Georgia and GOGC worked together with international partners, including from the private sector, to increase capacity for project management; engineering oversight; environmental, health and safety standards; land acquisition requirements; public outreach; and procurement. International support was eventually phased out, and GOGC alone managed the last phases of project implementation. The expertise gained from working in accordance with international standards of project management and environmental protection set a higher bar for engineering achievement in Georgia and strengthened local capacity to ensure the investment's sustainability.[8]

As part of the **Ghana** Compact's Rural Development Project, MCC is supporting a procurement capacity activity. Residents of rural areas of Ghana have spotty and poor access to basic community services such as potable water, community sanitation, schools at all levels and domestic electricity. In the past, the government delivered community services, such as schools and water and sanitation facilities, with primary direction from the central government and little input from local governments or beneficiaries. In the last few years, however, the government committed to a strategy of decentralization to empower local governments and beneficiaries in the hopes of more efficient delivery of community services.

A major obstacle to successful implementation of this strategy is a lack of adequately trained specialists in local governments. For instance, lack of capacity at the local level to conduct public procurement results in leakage, misuse, and suboptimal use of public resources. The compact's procurement capacity activity, therefore, is designed to strengthen the capacity of the various procurement entities within the Government of Ghana to procure necessary goods, works and services with greater economy, efficiency and effectiveness. The procurement capacity activity was undertaken under an implementing entity agreement with the Public Procurement Authority; under the agreement, the authority will continue the activity after the compact term ends.

In **Lesotho**, the MCC compact includes activities specifically designed to increase citizens and local authorities' capacity to implement new national legislation aimed at improving economic rights for women. Prior to compact signature, MCC joined a chorus of other donors and groups pressing for change; the prospect of MCC compact funding prompted the Government of Lesotho to pass landmark legislation giving women the legal right to own property and the right to enter into binding contracts for the first time. MCC and its Lesotho counterparts then designed a compact activity explicitly to build on this new legal framework. The Gender Equality Project trains and educates both women and men about the new law. This training strives to ensure equal access to economic resources and to expand opportunities for meaningful participation in the economy by all segments of Lesotho's society, including training key institutions

8 For more on this story, please see MCC Success Story, "Building Energy Security through Sustainable Investments in Georgia."

and sensitizing relevant authorities and stakeholders to develop knowledge, awareness, and practices that support gender equality in economic rights.

In the course of project implementation, an exciting new opportunity for capacity building has emerged in **Tanzania**. Two American companies, Symbion Power and Pike Electric, competed for and won a significant portion of the Tanzania Compact's $206 million energy project. In partnership, these two companies will install approximately 3,000 kilometers of power lines in six regions, providing electricity to over 330 communities previously without power. As Symbion and Pike finalize preparations for construction, they are using their own corporate social responsibility funds to implement a unique training plan for construction workers. Symbion and Pike identified and sent three senior Tanzanian workers to Northwest Lineman College in Meridian, Idaho, where the workers learned about electrical systems, accident prevention, and construction methods during a 60-day "train the trainer" program. Subsequently, Symbion and Pike established a training facility in Morogoro, Tanzania, where these newly trained Tanzanian workers—together with Symbion and Pike instructors—will train and work with more than 200 Tanzanian construction crew members on the MCC-funded transmission and distribution activity.[9]

...but not everything has to be about capacity building.

Capacity building is seen as an important part of country ownership, but is rarely defined clearly. In an effort to help bolster MCA management capacity, MCC established educational training sessions for partner countries to learn more about procurement, financial management, project management, quarterly reporting, and adhering to environmental guidelines. This generally basic training designed to facilitate program implementation is specific to MCC and its implementation guidelines. While this training strengthens skills for key individuals, many of whom will likely continue to support development efforts in their countries, it is not explicit capacity building designed to strengthen national institutions for sustained management of broader development priorities.

The ultimate, measurable goal of MCC projects is to increase incomes for beneficiaries—for example, in building a road to help farmers move their goods to market and thereby increase their incomes. This is very different from a project that has the ultimate, measurable goal of strengthening the long-term capacity of the ministry of transport to plan, fund, manage and maintain the nation's road network. This difference is acceptable; not every project has to be a capacity building project. The key is to be clear about objectives, and to measure progress against those objectives.

9 Excerpt from MCC blog, "Two U.S. Companies leverage Best Practices to Ensure Capacity and Sustainability in Tanzania."

Lesson 5:
Country ownership includes using elements of country systems where feasible, but country ownership doesn't mean country partners have to do everything.

MCC's current policy is to use elements of country systems to the "maximum extent possible," though always based on assessment of capacity to comply with MCC's accountability standards. This guidance has yielded a diversity of approaches across countries, with some relying on external agents and others relying on existing government ministries for procurement and financial management functions. MCC has learned a lot about what partner countries should not have to do in the name of country ownership, particularly with regards to creating basic operational tools for implementation.

Country ownership includes using elements of country systems, where feasible…

Many in the development community consider use of country systems an important part of country ownership, especially with regards to key management functions like procurement and financial management. MCC has learned a lot about balancing this aspect of country ownership with U.S. standards for accountability. In its early days, MCC generally required MCAs to hire external firms to serve as procurement and fiscal agents. This was motivated by a desire to ensure accountability for use of MCC funds and compliance with MCC's procurement and financial management standards. It was quickly evident, however, that external agents do not necessarily ensure success. Some MCAs had to discontinue contracts with external procurement or fiscal agents due to poor performance. External agents come at a significant cost that is only justified if their performance is strong and the capacities do not exist elsewhere. There is no one-size-fits-all approach that works across countries, and therefore MCC learned to take a more flexible approach based on country conditions. The current compact portfolio reflects a diversity of arrangements, including some use of country institutions to perform these functions.

MCC's current policy is to use elements of country systems for procurement, financial management and monitoring and evaluation to the "maximum extent possible." This is in addition to MCC's standard practice that partner country MCAs, rather than MCC, are responsible for implementing MCC-funded investments. This reliance on partner countries for implementation, combined with the intent to use country systems for accountability functions where possible, has helped make MCC a leader among U.S. agencies in exercising country ownership in development.

For cases in which partner countries want MCC to consider the use of country systems, MCC assesses those systems according to its *Guidelines for the Use of Country Systems in the Implementation of MCC Compacts*.[10,11] These public guidelines make the agency's approach transparent, so expectations and decision-making criteria are clear. MCC uses these guidelines to assess existing government entities for new compacts, and refers to these standards in assessing, for example, whether it may be beneficial for an MCA to transition away from external agents to bring procurement or fiscal management in-house (to the MCA or another government entity).

MCC's current partners use a mix of approaches for procurement and financial management. In the case of procurement, of the 22 countries that have or have had compacts as of March 2011, 11 use external procurement agents. Seven MCAs have internal procurement functions, four of which have transitioned from external to internal based on proven performance by the MCA, with the result of greatly reduced costs and increased efficiency. In some cases, the procurement function is performed primarily, or in close partnership with, existing government entities. For example, under the **Morocco** Compact, the Ministry of Agriculture, the National Fishing Office and the ministry covering artisan activities all serve procurement functions for the MCC projects on which they partner. In the case of **Tanzania**, the government agencies overseeing roads, power and airports all serve procurement functions for related MCC-funded projects. In both cases, the MCAs retain the services of independent firms to serve as procurement oversight advisors. In **Jordan**, as well, the Government Tenders Directorate performs procurement functions for the compact.

In the case of fiscal management, Honduras was an early example of working directly through an existing government entity, the Ministry of Finance. More recently, for the Jordan Compact, which focuses on the water sector, the Water Authority of Jordan's Finance Department will provide fiscal agent services to the MCA. To ensure compliance with MCC requirements and to aid in successful implementation, MCC has funded technical assistance to build additional capacity of this entity and the entity performing the procurement function for the compact program. MCAs have also formed formal partnerships with national statistical institutes in countries such as Armenia, Cape Verde, Georgia, and Mozambique to align monitoring and evaluation data with data that countries already collect and use nationally.

Even when MCC relies on local personnel and institutions such as existing government ministries or the MCAs to perform these crucial functions, the use of country systems

10 In some cases, partner countries actually prefer external agents, because they buffer MCAs from pressure to use funds in a politically-motivated way, or simply in the name of efficiency. After all, it is fairly standard practice globally, including in the United States, for national and local government entities to outsource some management functions without sacrificing their ownership of overall investment objectives and results.

11 Available on MCC's website here: *http://www.mcc.gov/documents/guidance/guidance-2010001010701-use-of-country-systems.pdf*

is limited because MCC requires compliance with its own procurement guidelines and financial management standards and reporting, rather than national laws.

…but country ownership doesn't mean country partners have to do everything.

How much do country counterparts actually have to *do* to constitute "ownership"? The answer is different in every country. That is why MCC's approach to managing fiscal and procurement agents is flexible to adapt to country conditions. Likewise, MCC has worked with MCAs to identify when complex project management, especially for major infrastructure projects, can or should be contracted out to specialized firms rather than managed solely from within MCAs and existing ministries. While this may appear to be a reduction in ownership, in some cases, it can actually enhance ownership. For example, in **Benin**, the MCA used an outside engineering firm to assist in negotiating the private sector concession for the port project; alone, the MCA did not have the technical credibility to draw hard lines during the negotiation process. Successful MCA management of these specialized firms can improve chances of countries' priority investments being completed on time and with expected impacts, and can provide a model for effective management of future host country investments.

MCC has learned a lot about what countries should *not* have to do in the name of country ownership, especially when it comes to basic operational tools for program implementation. For example, in its 2007 Nicaragua Field Report, the Center for Global Development's *MCA Monitor* noted, "In the name of country ownership, each country is expected to devise its own administrative procedures and tools. This includes operations manuals, financial plans, standard bidding documents, standard requests for proposal (RFPs), technical specifications for investments, etc.… MCAs are, in a sense, each spending at least six months reinventing the wheel."[12] In recognition of this, MCC has since standardized a number of operational tools, such as MCA procurement manuals, and developed public standard bidding documents for all types of procurements.

Lesson 6:
Country ownership pays off for results and for leveraging policy reform.

MCC has seen that focusing on country ownership can enhance results, improve program design, increase impact and sustainability of investments, leverage important policy reforms, and provide opportunities for capacity building.

12 *Nicaragua: Field Report : Center for Global Development : Initiatives: Active: U.S. Assistance: MCA Monitor: Reports from the Field*

Country ownership pays off for results...

MCC's approach to country ownership has been essential for achieving results, especially when it has served as an anchor for MCA programs in times of political transition in partner countries. For example, consistent implementation of MCC's compact in **Honduras**, which reached completion in September 2010, continued successfully throughout three national political transitions—including a controversial interim government—because country ownership extended beyond the central government to local stakeholders. MCC's country counterparts at MCA-Honduras, dedicated Honduran professionals, implemented the program. Honduran civil society and private sector were part of ongoing consultations, and served on the MCA's Board of Directors; together with government officials, they were accountable for program success. Small-town leaders from different parties brought resources, creativity and energy to the table in program implementation in their communities. The Honduran Congress passed laws in the financial sector, road maintenance, and resettlement policy that increase the impact and sustainability of MCC investments. Together, Hondurans owned and anchored the program through the political transitions.

The amount of political transition during the Honduras compact was greater than most. However, in countries such as **Ghana**, **El Salvador** and **Mongolia**, MCC's five-year compacts have stayed the course through elections and other political transitions, again because country ownership goes beyond central governments to include many other actors in the country's development, and because ownership is deeply embedded from program planning through implementation to accountability for results.

Likewise, MCC's broad-based ownership approach creates opportunities for better program design and implementation. For example, in **Malawi**, once access to reliable electricity was identified as the priority constraint that the compact program would address, Malawi's compact development core team used a "problem tree" analysis with stakeholders throughout the country. This participatory analysis identified several factors that the government alone would not likely have focused on, especially governance and regulatory problems contributing to stagnating growth and insufficient and unreliable power, and natural resource management issues.

The participatory and public nature of the analysis, where government, utility managers, customers and even the regulatory body identified institutional and regulatory problems in the sector, gave MCC extra leverage to engage the government in difficult discussions around policy reform. As a result, the compact includes a major $26 million policy reform component. The technical, legal and capacity building support the compact provides for the Government of Malawi, the electric utility, and the regulatory body is expected to bolster the Government of Malawi's reform agenda in the power sector.

...and for leveraging policy reform.

MCC has seen that the dialogue inherent in a country ownership model—about what matters most for countries' growth and poverty reduction, and what investments will bring the greatest returns—creates opportunities to engage countries on tough policy reforms that will increase the impact and sustainability of development investments. "Owning" these policy reforms is often as important as "owning" programs, and can be a lot harder to do. In areas such as land tenure, management of public utilities, financial sector strengthening, and ongoing maintenance of infrastructure investments, MCC partners are taking on tough reforms that have lasting impacts. In some cases, these policy reforms are built into compact design as conditions for or complements to other investments, aimed primarily at enhancing impact and sustainability. In other cases, MCC supports policy reform through explicit, funded compact activities.

MCC's compact with **Tanzania** includes a $205 million investment in the energy sector. The project seeks to increase incomes through new investment and economic activity for businesses and communities, some of which will receive electricity for the first time. In working with Tanzanian counterparts to design this project, MCC determined that infrastructure investments alone would not increase sustainability and efficiency in the power sector. Institutional and policy reform were essential for enhancing reliability and attracting the private sector investments necessary to sustain the sector. For this reason, the compact includes requirements for the Government of Tanzania to pass a new electricity law that will update existing laws (dating from the 1930s) and bolster the sector's independent regulatory body, move toward self-sufficiency through tariff reform, and increase the independence of the Tanzania Electrical Supply Company.

MCC was not the first development partner in Tanzania to emphasize reforms in the power sector. Donors such as the World Bank and the Governments of Norway and Sweden have engaged with the Government of Tanzania for years on the importance of these reforms. MCC's investment in the sector served as an important contributing incentive for the government to follow through with sector reform plans. One of the biggest changes for Tanzania in recent years has been the formation and operationalization of an independent regulatory body. The regulatory body is tasked with the difficult job of balancing the interests of the utility and the customers with the government's policy framework. This puts it at the center of complex dynamics, such as managing cost-recovery tariff rates, support for new private investors, and the public's interest in reliable and affordable power. By most accounts, the regulatory body has performed effectively and responsibly in balancing divergent interests. This translates into more reliable services for citizens, business and new entrepreneurs working hard to create jobs and increase incomes.

In the context of many MCC partnerships, countries recognize the importance of land tenure reform for economic growth and poverty reduction, and propose MCC support for tough policy reforms in this area. In **Mali**, land tenure reform is an integral part of the compact's Alatona Irrigation Project and will provide secure property rights to over one thousand farming families. These families will, for the first time, receive formal ownership through registered title documents, allowing them to better respond to market signals, decide which crops to grow, how best to improve productivity, and to whom to sell their products. These reforms not only create poverty-reducing investment opportunities, but create conditions conducive to private investment and long-term sustainable development. Moreover, the project is making a strong push to promote women's land rights through encouraging farm families to have their titles issued jointly to both men and women through extensive public outreach; encouraging women farmers to apply for land, a portion will be earmarked for qualified women; and allocating small plots of "market garden" land to women for growing food for home consumption or sale.

In a show of bold country ownership, countries as diverse as **Benin**, **Burkina Faso**, **Ghana**, **Lesotho**, **Madagascar**, **Mongolia**, **Mozambique**, **Namibia**, **Nicaragua** and **Senegal** have asked MCC to support such politically-sensitive reforms as formalization of land rights and related legal and regulatory reform, institutional strengthening, public outreach and capacity building around new land laws, and conflict resolution measures.

Tackling tough and long-standing policy issues takes time. When policy or institutional reforms are conditions for moving forward with other compact investments, lack of progress on reforms can slow projects and threaten the five-year compact timeline. In many cases, this has meant that MCC has had to work closely with compact partners to build political will and capacity to keep policy reforms on track, and, in some cases, reduce the scope of projects in response to unmet policy commitments.

The **Benin** Compact is an example of where MCC and a partner country were extremely ambitious in pursuing policy reforms, some of which have proven quite challenging during implementation. The Benin Compact includes four projects, all of which include major policy reform components:

- ★ The Access to Markets project focuses on the Port of Cotonou, and seeks to improve the port's performance and security, expand its capacity, and reduce its operating costs, including through a private sector concession and customs reform.
- ★ The Access to Land project pursues legal reforms to help secure both rural and urban land rights.
- ★ The Access to Justice project seeks to strengthen the institutional environment for business and investment in Benin by overhauling the Code of Civil Procedures and improving the ability of the judicial system to resolve claims.
- ★ The Access to Financial Services project seeks to enhance the growth of micro, small and medium-sized enterprises by reducing costs and improving access to financial

services, in part through reforms to the financial sector regulatory environment and strengthening management of microfinance institutions.

All of these reform areas are complex and politically sensitive, and some have faced challenges that contributed to delays or missed program targets. For example, in the Port of Cotonou project, activities to support new management systems for customs administration are on track, but it has proven harder to tackle some of the more entrenched practices that reduce the government's capacity to raise revenues from customs duties. In the land project, thanks to extensive consultation and outreach with community members, local mayors and key ministries, the rural land reform activity will meet its goals for formalizing land holdings. The urban land reform activity within the land project, however, has had to reduce its ambitious goal of formalizing 30,000 land titles to about 8,000, mostly because the institutional reforms were completed too late to reach all planned beneficiaries within the five-year compact timeline. Indeed, for both the land and justice projects, reforms only gained traction once MCC made it clear it would withhold funding for planned investments unless the reforms took place.

The fixed five-year compact time frame means there is very little room for delays associated with policy reforms. This can create risks for program completion, but it may also create leverage that partner countries' internal reformers can use to push through politically challenging changes. MCC has learned a lot about how difficult policy reforms can be, and how much support partner countries may need to achieve them. For this reason, in recent compacts, MCC has elevated its focus on policy and institutional reform and capacities needed to achieve them. This provides a more sustained focus on policy actions, and makes the reform agenda more visible to internal stakeholders and the public. Additionally, institutional monitoring and evaluation plans are being added to these components to improve accountability, support deeper policy dialogue, and increase the likelihood that agreed reforms will be implemented and sustained.

This approach is clear in the **Malawi** Compact, which couples $280 million in energy infrastructure investments with $26 million in institutional, legal and regulatory support. Under this concept, as Malawi's power generation, transmission and distribution is upgraded, so too is the institutional effectiveness of the major implementing institutions: the electricity company, as it more efficiently manages the system and adds more customers; the regulator, as it builds capacity to analyze, set and support tariff rates; and the energy ministry, as it builds an environment for private sector investment necessary to energy capacity growth.

In the **Philippines**, a key constraint to economic growth is a lack of growth-enhancing investments in public goods such as infrastructure and social services, due in part to inadequate revenue collection. The MCC compact supports a $54 million revenue administration reform project to address the need to raise tax revenues and reduce tax evasion and corruption. This project will focus on increasing the efficiency and sustainability of revenue collection, and improving the predictability and impartiality with which revenue laws and regulations are enforced. MCC and MCA-Philippines are developing a dynamic monitoring and evaluation system for monitoring progress and maintaining accountability throughout the compact term.

Country ownership pays off.

After seven years of putting into practice its country ownership principle, MCC has plenty of experience to show that ownership pays off: for results, for leveraging policy reforms crucial for impact and sustainability, and for capacity building. MCC also believes that the focus on ownership helps strengthen another unique aspect of the MCC model—the incentive effect caused by MCC's approach to selecting partner countries based on good policy performance. By publicly setting priorities and committing to program objectives, partner governments that implement MCC-funded programs take on responsibility for achieving results. This creates opportunities for governments to be accountable to their people and demonstrate good governance, and it creates the motivation for governments to maintain good policies that both benefit their people and maintain MCC eligibility.

But MCC also has seen that the notion of "country ownership" is not as simple as it sounds. In fact, MCC enters into complex partnerships with its compact countries; like all partnerships, careful balancing of each others' interests, priorities, and capabilities is necessary to achieve success. MCC is still learning how to strike the right balance with each of its partner countries. After seven years, MCC has a lot more humility about how demanding it is to live up to a commitment to country ownership and true partnership. It is clear, however, that ownership is worth the challenge. MCC will continue to apply its ambitious approach to country ownership, and its lessons learned, to new partnerships. In doing so, MCC will continue to be transparent about its successes and challenges so that it can continue to strengthen its approach, and help others learn from its experiences.

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