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Designing MCA Programs

Once countries qualify for the MCA, how should aid-funded activities be designed to ensure they are as effective as possible in supporting growth and poverty reduction in recipient countries? Currently most US assistance programs are designed through a top-down approach in which the donor agency (usually USAID) determines the priorities for funding and designs specific projects and programs. The MCA proposes a radical departure from this system, in which the government and nongovernment groups in qualifying countries take the lead in setting priorities and developing and defending their own ideas for using aid. This new approach promises greater ownership of aid-funded activities, much wider participation by civil society and other groups in recipient countries, and a stronger commitment to achieving specified results. It goes hand in hand with the greater selectivity of the MCA, since more responsibility and flexibility can and should be given to countries that have demonstrated a clear commitment to economic growth and poverty reduction. This chapter examines the proposal process in detail, including the design of proposals, the content of the administration's proposed "contracts" with recipients, the proposal assessment and review process, and the relationship of the proposals to broader development goals and strategies.

Program Design: The Current Approach

Currently US foreign assistance is delivered mainly through a "country programming" approach in which USAID is responsible for assessing the overall economic and social situation in the recipient country, developing

an overall country strategy, designing and implementing specific interventions, and evaluating the outcomes (Lancaster 2000). This top-down approach became popular with donors around the world in the 1960s and 1970s. In effect, there has been a great reluctance to give recipient governments much voice or responsibility in determining how US assistance funds are spent. Congress reinforced this approach by enacting legislation that directed how and where funds should be spent, with a significant portion of aid “earmarked” for specific purposes or “tied” to be spent in the United States.

There are advantages and disadvantages in the current approach. One advantage is that it allows the US government to maintain maximum control in establishing priorities, determining how funds are spent, and tracking expenditures. There is a strong rationale for a top-down approach: US foreign assistance is taxpayer money, and Congress has both the right and the obligation to spend it carefully. This system can help reduce graft and ensure that funds are spent in areas that the United States believes are important. It also allows the donor to establish what (hopefully) is a coherent aid program in which the various pieces fit into a strategic whole, at least from the donor’s perspective. It also makes it easier to connect US funds to very specific outcomes, allowing the United States to “plant a flag” on activities that it funds, which in turn may help garner more support for aid (at least in the short run).

The country-program approach has many shortcomings, particularly in the context of the MCA:

- First, since the US government (rather than the host government) has the lead in design, there is often a corresponding lack of host-country ownership in and commitment to specific interventions. Of course, in designing projects and programs, USAID staff members work with host governments (to varying degrees in different settings), but in the end USAID plays the lead role, with projects reflecting US priorities and interests. Ultimately, this weaker host-government commitment to projects reduces the chances of success.
- Second, and related, US-designed projects and programs often are only partially coordinated with a recipient government’s overall development strategy. Perhaps this is a good thing in a country with an incompetent government and no development strategy or a destructive one (e.g., Zimbabwe), but it makes little sense for MCA countries.
- Third, country programming requires a significant commitment of US staff, adding to the costs and bureaucracy associated with foreign aid.
- Fourth, a US-led process undermines the recipient government’s capacity to build and design effective development projects. There is no

way that governments can build that capacity when donors take on these roles themselves.

- Fifth, with the United States designing all the projects, there is very little opportunity to introduce new, innovative ideas from outside sources, so projects tend to look similar and evolve only slowly across countries and over time.

This approach (or parts of it) might make sense in countries with weak governments that show little commitment to development. However, it makes little sense for countries eligible for the MCA. The MCA provides the opportunity for the US government to improve the way it delivers aid by using different approaches in countries with different circumstances, strengths, and weaknesses.

A New Approach

Since the MCA focuses on a small set of countries with a demonstrated commitment to good development policy, the US government can design projects and programs differently than in countries with weaker governments. A new approach would help achieve better development outcomes in the MCA countries. Specifically, as proposed earlier by Radelet (2002b), Birdsall et al. (2002), and others, the MCA program should shift much of the responsibility for designing projects and programs to government officials, agencies, and organizations within the recipient countries. For the selected MCA countries, there is less need for the US government to design a program, and more scope for the recipient to take on this task as part of its broader development strategy. Governments (national, provincial, district, municipal), private agencies (NGOs, private voluntary organizations, research organizations, private schools or hospitals, etc.), or public-private partnerships could receive funding. Proposals for funding should compete against each other, with the best ones actually receiving funds. In effect, this would shift project design from the country-program model to the foundation model (as used by most foundations) in which recipients write proposals for various activities and the best ideas are funded (Lancaster 2000). In this approach, country eligibility for the MCA would not necessarily guarantee that the country receives funds. Broad eligibility must be coupled with good ideas and a well-thought-out strategy for effective implementation.

For example, the government of an MCA-eligible country could write a proposal to fund a significant portion of its education program. To write a good proposal, the government would first have to develop a strong education strategy—something most developing countries lack. It would need to carefully consider budgets, costs, trade-offs, and the steps neces-

sary to achieve success. The proposal would have to be based on broad consultations with citizens' groups, NGOs, and other parties, especially those that represent the poor. Proposals would be expected to spell out the actions that the recipient would take and the benchmarks by which success would be measured, pushing recipients to establish concrete goals over a specific timeline. The proposals would also spell out the contributions that the recipient would make to the project, including financing, personnel, and materials. To ensure strong commitment to the proposed activities, recipients should be expected to provide a significant share of the funding, with the MCA or other donors providing additional funds.

The administration's initial proposal for designing MCA activities, as contained in the draft legislation submitted by the president to Congress on February 4, 2003, is broadly consistent with this approach.¹ It calls for a contract between the MCC and the recipient country (presumably the government) that would propose the activities to be undertaken, the time frames involved, and specific goals and benchmarks, both in terms of substance and in terms of strengthening institutions and administration. It squarely places the responsibility with the recipient country for designing the program, establishing priorities, and setting benchmarks and goals. In conjunction with the increased flexibility given to the recipient, it envisions holding the recipients accountable for achieving the specified benchmarks and results. Yet there are some important weaknesses in the administration's proposal, as discussed below.

The Content of the Contract/Proposal

The administration strongly emphasizes what it sees as creating a genuine partnership with recipient countries as part of "a new contract for development." It envisions the recipient country as being responsible for ensuring wide involvement of the private sector and civil society in developing the contract, coordinating with other donors, publicizing the terms of the contract, holding accountable the different parties responsible for implementing parts of the program, and monitoring progress toward specified goals. It sees the US government as being responsible for providing technical assistance as needed, disbursing the funds as quickly and efficiently as possible, and monitoring progress toward benchmarks and goals. Both the recipient and the donor would be responsible for monitoring and evaluation, a topic that I return to in the next chapter.

The choice of the term "contract" is telling. Senior administration officials debated whether to refer to the agreement as a contract or compact. They ultimately decided that "compact" was fuzzy, with too much flavor

1. See the full draft legislation and corresponding background documents at the Center for Global Development Web site, www.cgdev.org.

of a gentleman's agreement in which there might be wiggle room and unclear expectations. "Contract" implies a much more serious agreement, with clear expectations on both sides and definable outcomes. This terminology is consistent with the approach that focuses on results and emphasizes monitoring and evaluating outcomes. The risk, of course, is that the contract may be too tight for either side, since the development process is difficult to predict. For example, the administration may find itself in a bind if a country that adheres to the letter of the contract abrogates the spirit of the broader MCA approach.

To illustrate, imagine a country that completely fulfills its contractual obligations but at the same time brutally cracks down on an opposition party, shuts down a feisty newspaper, or buys a fleet of new limousines for the president's family. The administration may want to reduce MCA funding, a step that could undermine the contractual nature of the agreement. Or consider a situation in which a country tries very hard to achieve the benchmarks but does not make them through no fault of its own, perhaps because they were poorly specified or because of a drought or a delay in another donor's financing. The administration may want to continue funding even though benchmarks were missed. In other words, the administration may wish at times that it had more wiggle room than a contract provides. Some of these issues can be handled through contingency clauses written into the contracts, but, as donors have found for years, it is difficult to predict all the possible contingencies that might influence fulfillment of the contract. There will always be tension between specifying clear, serious benchmarks and adjusting to the complexities of the situation on the ground. It is probably true that donors have erred on the side of too much discretion in the past. It remains to be seen whether the contract is an appropriate adjustment in this balance or a push too far in the opposite direction.

On the recipient's side, the contract would propose activities to be undertaken; specify the goals, benchmarks, and timetables for progress; guarantee that an open and inclusive process was used to establish the program details; and clarify the roles of those carrying out the program. It would, in many ways, be similar to proposals that are written to foundations for funding, or business plans that a bank evaluates before approving a loan. It would specify the MCA funding required to carry out the activity, the amount of funding supplied by the recipient, and possible contributions from other donors. As a general rule, the MCA should not fund 100 percent of a proposed activity and should expect that recipients fund a significant portion. However, it is probably unwise to require a specific amount to be funded locally, as the appropriate amount will vary.

On the administration's side, the contract would specify the amount of funding to be delivered, and to whom, when, and how it should be delivered. It would provide for technical assistance as necessary to strengthen data collection, improve public-sector management and finan-

cial accountability, and other activities. It would also clarify the administration's role in monitoring and evaluation.

Regardless of the terminology, it is important that two types of goals be specified in each contract, as suggested in Radelet (2002b):

- First, substantive goals would focus on the core sectoral elements of the program (i.e., health, education, etc.). These goals might include, for example, increasing the immunization rate, improving access to essential medicines, raising test scores, or increasing the number of trained teachers.
- Second, administrative and institutional goals would focus on the quality and timeliness of financial oversight systems, legal frameworks, administrative systems, implementation capacity, hiring and training of key personnel, delivery systems, and related capacities.

Both kinds of goals should be tied to specific intermediate benchmarks with clear time frames during the life of the contract. Although it is tempting to say that these goals simply would replicate the conditions contained in IMF and World Bank programs, the important difference is that the recipient countries would propose them rather than the donor (although these benchmarks nevertheless would be subject to negotiation, as discussed below).

Contract lengths should vary depending on the circumstances in each country. In most cases, contracts would be on the order of three to four years. As discussed further in chapter 8, contracts would remain in force as long as the recipient met specified benchmarks, even if it slipped marginally from qualification status mid-contract. However, the contract could be nullified in the case of a substantial slide in governance or stability (e.g., Côte d'Ivoire or Zimbabwe) or a major negative event such as a coup d'état. The administration has proposed that contracts contain incentive clauses to stimulate better performance. Presumably, these clauses would be designed to reward countries that pass benchmarks early or by a wide margin with additional funding designed for specific purposes. This is an important innovation that does not exist in most donor agencies and is consistent with the idea of rewarding results.

The contracts should clearly specify the recipient's plans for implementing the proposed activities. To carry out the activities, recipients should be able to use a mix of their own staff, local or international consultants, or local or international subcontractors, as they deem appropriate to reach the established benchmarks. Consultants or subcontractors, to the extent they are used for either design or implementation, would work directly with the grant recipient rather than the donor to carry out specified activities. International consulting firms, therefore, would be eligible to carry out the same kinds of activities in which they are now involved

but would be working with the grant recipients rather than the donor. However, instead of competing against each other in response to USAID's requests for proposals, these firms would compete to provide their services to the in-country organization that writes the proposal. Thus, recipients would have to believe that international consultants are worth the higher fees they charge relative to local expertise. Consultants and recipients would work out their own contractual agreements and payment mechanisms. Many consulting firms will complain that this will make their job much more difficult, which undoubtedly is true. But the US government must move toward putting the responsibility for managing development programs where it belongs—with the recipient. In the end, decisions on how to make the best use of funds should be left to the grant recipient, who should be held accountable for achieving results.

Contract Assessment and Review

The quality of the original proposals and the ensuing contracts are critical to the success of MCA-funded activities. They must be clear, coherent, focused, and achievable. As such, proposals must be vetted by a strong but streamlined review process. The challenge is to ensure high-quality proposals through in-depth technical review without making the process overly bureaucratic. To do so, the administration should avoid creating a large bureaucratic process with layers of reviews. At the same time, it would be very difficult (and ultimately ineffective) to establish one review panel with expertise to vet every contract. Staff with expertise on Mozambique should not be vetting proposals from Bolivia, and health experts should not be reviewing microfinance proposals.

To ensure that the best proposals are funded, the review process will require country specialists and substantive experts from both inside and outside the US government. Following Radelet (2002b), the administration's proposal calls for contracts to be reviewed by both a sector team (with expertise in the substantive area of the proposal) and a country team (with expertise in the recipient country). Review teams will differ across contracts and may even differ in assessing different components of the contract. For example, a Ghanaian education proposal would be reviewed by a team of Ghana experts (who would judge the proposal against other proposals from Ghana) and education specialists (who would judge it against other education proposals). A Ghanaian health proposal would be reviewed by a slightly different group involving the same Ghana experts, this time working with health specialists. These review teams would accept some proposals, send others back for revisions and clarifications, and reject others.

Much of the expertise needed to assess contracts can be drawn from the staff of the new corporation, either as outside hires or on detail from de-

partments within the US government, including the Departments of State and Treasury, USAID, the Departments of Education, Agriculture, Health and Human Services (HHS), and other appropriate agencies, as discussed in chapter 6. Some staff from outside the MCC may participate in this process, especially US government staff on the ground in each recipient country (e.g., embassy or USAID staff).

In addition, every review team should include outside experts both on the substance and on the country, including both Americans and experts from the recipient country. The quality of the contracts and the specific proposals embedded in them will be markedly enhanced by including independent, technically skilled experts from outside the US government on the review teams. It will also make the proposal review process more transparent. The US government insisted on this structure during the establishment of the Global Fund to Fight AIDS, Tuberculosis, and Malaria (GFATM), and it should follow through with this idea for the MCC. It is important that outside experts be employed on every proposal, without exception.

Finally, the MCC should post on the World Wide Web all proposals that are approved for funding. This step would ensure full transparency and disclosure and could help inform public debate about the proposal process.

The MCA and Broader Development Goals and Strategies

To be effective, the contracts and proposed activities must be related to broader development goals and strategies. Without strong linkages to larger strategies, the MCA risks of funding some strong individual activities that are less effective than they could be because they are not coordinated with other activities. The most important strategies and goals are the Poverty Reduction Strategy Papers (PRSPs) now required for debt relief from the international community, as part of IMF and World Bank programs and the United Nations' Millennium Development Goals (MDGs). MCA activities, PRSPs, and the MDGs should be interrelated, but they are not substitutes for each other. They can be thought of as three levels of a pyramid, each with differing levels of specificity and time frames:²

- At the top of the pyramid are the MDGs, which are a set of eight specific quantitative long-term targets set by the international community for low-income countries to achieve by 2015 (Bradford 2002a and 2002b).³ These goals have widespread international support, includ-

2. See Brainard et al. (2003), chapter 2, for more discussion of the MDGs and PRSPs in the MCA.

3. For details, see www.un.org/millenniumgoals/.

ing by the United States, at least formally.⁴ President Bush made specific reference to the MDGs in his speech proposing the MCA. However, although the MDGs are important long-term goals, at the end of the day they are only goals, and therefore are not a substitute for a development strategy or a specific project or program proposal. Recipient countries should be encouraged to make references to the MDGs as long-term goals where appropriate in their MCA proposals.

- At the next level of detail are the PRSPs, which are designed to be broad strategies for economic development and poverty reduction, covering many different sectors. They are more operational and more immediate in their time frame than the MDGs. Few PRSPs actually mention the MDGs, but in most countries fulfilling the PRSPs would be consistent with moving toward the MDGs. PRSPs vary widely in quality, coverage, and depth. Currently only a handful of countries have completed full PRSPs, while many more are working with “interim” PRSPs. Some are honest reflections of government strategies, with input from a range of civil society groups, while others are largely written by consultants or donors and involve much less government commitment. Even the best PRSPs, however, are not detailed enough to serve as blueprints for funding activities through the MCA.
- MCA proposals should be consistent with the PRSPs, and in some sense should flow from them. However, they should provide much more detail on specific interventions, benchmarks for progress, and plans for monitoring and evaluation.

Other types of strategies could be added. For example, many countries would do well to develop sector-specific strategies for health or education. These would be far more detailed than the PRSPs, but not yet as specific as the MCA proposals. MCA activities could cover part (perhaps a significant part) of a sector strategy, with other donors or the recipient country financing other parts of the strategy.

Who Should Be Allowed to Submit Proposals?

An important strategic question for the MCA is whether to accept proposals only from governments in recipient countries or also from nongovernment and private-sector groups including domestic and international private voluntary organizations (PVOs), charities, nonprofit organizations,

4. US support for the MDGs has been tepid at best, less out of major substantive disagreement than out of reluctance to be tied too tightly into an international process that the United States cannot control, where the goals are seen by some as rather arbitrary, and for which the United States may be expected to pay a large portion of the costs.

private hospitals, and schools. Several types of organizations could be eligible to write proposals, including:

- the central government;
- subnational governments including provincial, state, local, and municipal governments;
- public-private partnerships, in which government agencies team up with NGOs or PVOs;
- NGOs or PVOs, independent of any government agency; or
- private, for-profit companies.

One basic question is whether the MCC should accept a single broad proposal (encapsulated into one contract), presumably from the recipient's central government, or accept multiple proposals from different entities in qualifying countries. The question is not whether all the money should go through the government or to NGOs and private companies.⁵ Rather, the question is whether subnational governments, NGOs, and private firms should be able to compete for some of the funding, recognizing that the majority of funds would be channeled through the central government. In this chapter I focus on NGOs and subnational governments and discuss private-sector participation in the next chapter.

If all proposed activities went through a single channel and melded into a single contract, presumably the process would resemble the Country Coordinating Mechanisms (CCMs) established by the GFATM. In this system, as with the GFATM, the recipient government would establish a local committee comprising government officials (national and subnational), members of parliament, private-sector representatives, academics, NGO representatives, local communities, and others. This group would review proposals from around the country, accept some and reject others, and combine the best ones into a single proposal to the MCC. The central government would almost always play the central role in this system and chair the committee. But it would differ from the GFATM's mechanism in three ways. First, countries do not have to meet qualifying requirements to apply for funds from the GFATM. Second, each country's CCM can submit more than one proposal to the GFATM—they need not all be rolled into one (e.g., proposals for AIDS are judged separately from those for malaria or tuberculosis). Third, although the GFATM encourages organizations to submit proposals through the CCM, it does not require it.⁶

5. In this context, I define NGOs broadly to include PVOs and other agencies that are not affiliated with the government and that are implementing development activities.

6. See the GFATM's Guidelines for Proposals at www.globalfundatm.org/files/Ppguidelines3d.doc.

There are several arguments in favor of limiting submissions to one proposal heavily controlled by the central government, as the administration has proposed. First, government proposals would better reflect the government's priorities and presumably fit better into national development plans. To the extent that MCA countries are democracies, which will be the case for most but not all the recipient countries, the government is the elected representative of the people and presumably reflects its priorities. Second, providing funds to NGOs might undermine governments by attracting the best talent away from the government. Third, and related, providing funds to NGOs could exacerbate the sometimes acrimonious relationship between the government and NGOs, which at times is fueled by donor funds. Fourth, a single proposal presumably will create a coordination mechanism in the recipient country for all the agencies that will implement part of the program—central government, provincial and municipal governments, NGOs, and private-sector entities. Fifth, at a more practical level, a single contract will allow the US bureaucracy to be smaller since it will only have to review one contract for each country rather than potentially dozens of smaller submissions from various actors within each country.

These arguments have some merit but in the end are not persuasive, and most of the potential problems can be remedied. For example, to ensure that NGO proposals conform to overall development goals, the review process should give more weight to proposals that are consistent with the government's PRSPs or other relevant development strategies. Similarly, since the majority of funds would flow through the government, it is hard to see how the smaller amounts provided to the NGOs would draw significant staff from the government or significantly exacerbate tensions between the government and the NGOs.

The potential for receiving a large number of proposals is a real concern, but an appropriate vetting process can minimize this problem. To do so will require more staff, but the benefit will be more innovative, creative proposals from groups working more closely with intended beneficiaries, with better results for the MCA. In addition, establishing a minimum size requirement would eliminate very small proposals. One possibility would be to encourage larger NGOs to propose umbrella projects in which they would oversee smaller projects undertaken by smaller NGOs (some current USAID funding for NGOs is designed this way). Another would be for the MCA to help establish and fund a local foundation or foundations—the equivalent of a local Ford Foundation—that would fund smaller NGO projects throughout the country.

There are two dangers with the administration's proposal to channel all proposals through a government-controlled process. First, it would seriously undermine the independence of the NGOs from the government. If all proposals must go through the central government, some NGOs will become beholden to the government in order to receive MCA funding.

Second, the process will enlarge the government bureaucracy on the recipient's end—hardly the intended outcome. The MCA almost certainly will increase the size of the recipient government, no matter how it is managed. Recipient governments will need additional staff to oversee and monitor activities, account for finances, and deal with related activities. Establishing a system in which all funds go through a government-controlled process will lead to a larger public sector than would be the case if some funds were channeled directly to NGOs. It could also create perverse incentives within the recipient government surrounding these large aid flows, which ultimately could destroy the very institutions the funds are meant to support.

On the positive side, opening the proposal process to the NGO community has several advantages. First, many NGOs do high-quality work in low-income countries. By creating a mechanism to provide relatively small amounts of funding directly to such organizations, MCA funds can be more effective than traditional donor funds. Second, delivering funds directly to NGOs would not be a radical new step for the US government, since USAID already does so in many countries. Approximately 38 percent of USAID funds now go through NGOs.⁷ Third, and most importantly, opening the process for competition will foster creativity, innovation, and entrepreneurship, which should lead to higher-quality proposals, better projects, and stronger results. To ensure greater competition, funding amounts should not be strictly earmarked for either the government or NGOs; rather, there should be an open process that considers a wide set of proposals. It would be unfortunate if concern about keeping the MCC staff size as small as possible resulted in less competitive, lower-quality proposals.

Some governments might have difficulty with donor funds going to NGOs or even to subnational governments. For example, the South African ministry of health has objected strenuously to direct funding from the GFATM to KwaZulu Natal province and has threatened to not allow the delivery of funds unless they go through the national ministry of health. The reasons are at least partly political, as the central and provincial governments are controlled by two political parties (the African National Congress and Inkatha, respectively). Opening the process will reduce the central government's direct control and ensure that funds go to agencies that have creative ideas, write the best proposals, and can best use the funds. Governments should be asked to participate in the process by commenting on subnational and NGO proposals, including how the proposed activities might fit into the government's broader development strategy. However, governments should not be given veto power over NGO proposals and should not be empowered to choose which NGOs would be eligible for funding.

7. Remarks of USAID Administrator Andrew Natsios to the Council on Foreign Relations, February 4, 2003. See full transcript at www.cfr.org/publication.php?id=5531.

Giving the responsibility for project and program design to recipient countries undoubtedly will increase the burden on organizations in those countries. There is simply no way to increase country ownership of development strategies and participation in aid delivery without placing greater demands on staff and other resources in the recipient country. There is a clear tension between the desire to give recipient governments more voice in designing aid-financed projects, on the one hand, and the desire to not make more demands on overburdened governments with limited numbers of highly trained staff, on the other. It is true that many MCA countries will initially lack the capacity to develop strong proposals and programs. However, the only way they will develop this capacity is if they are given the responsibility to do so. Over time, requiring recipients to develop their own strategies will lead to more investment in developing these skills and ultimately more effective projects and programs yielding better results.

In the initial years, some recipient countries may require technical assistance (local or international) to develop proposals and design projects. If used appropriately, technical assistance could improve the quality of the proposed activities and help achieve stronger results. One possibility would be to set aside a small amount of funds for proposal development in MCA-eligible countries. Potential recipients initially could submit a very short concept paper. If the proposal looked promising, a small amount of money could be provided to potential recipients to obtain technical assistance and cover proposal development costs. There is a danger, of course, that governments or NGOs will simply hire outside experts to write proposals on their behalf without investing their own time and effort. Proposal development funds should be limited to guard against this possibility. In addition, MCC staff on the ground in each country will have to work closely with potential grantees to ensure that technical assistance is used appropriately.

This approach—in which governments and NGOs in recipient countries are given the responsibility and flexibility to submit proposals for funding—is possible only in the context of two other critical dimensions of the MCA: selectivity of countries and strong monitoring and evaluation systems. It would be foolhardy to give this kind of responsibility to governments of countries that fail to qualify for the MCA (except in perhaps some very limited circumstances). The selection process is the key to open the door for more flexible and innovative aid delivery mechanisms. Only by limiting the MCA to 20 or so of the best-performing low-income countries can the US government move toward providing recipient countries more flexibility. In addition, this system will work only if it is coupled with a strong monitoring and evaluation system that ensures that benchmarks are met during the program, that lessons learned from one activity inform the design of others, and that funds are allocated to programs with the strongest results.

