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

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Abstract

For over ten years, the international development community, including the US government, has committed to incorporating greater country ownership into the design and delivery of foreign assistance. Ownership is considered critical for achieving and sustaining program results, building local capacity to help countries transition from aid, and strengthening the citizen-state compact by shifting accountability for results to the partner government. This paper explores how two key US foreign assistance agencies—USAID and MCC—conceptualize country ownership and implement the principle in practice with respect to setting priorities, designing and implementing programs, and involving partner country resources. The paper finds strong commitment to ownership by both MCC and USAID. It also identifies several challenges with implementing the principle, including balancing country priorities with other agency needs and weighing tradeoffs between ownership and programmatic/fiducia y risk. The paper makes recommendations that fall into six categories for how USAID, MCC, and Congress can help the US government build momentum around its efforts to promote ownership: 1) The executive branch should, in cooperation with Congress, work to remove or reduce legal and policy constraints to the pursuit of country ownership; 2) the agencies should solidify an agency-level understanding of country ownership and promote a framework for approaching risk; 3) both USAID and MCC should build off existing practices to more comprehensively focus on country ownership; 4) both agencies should clearly incorporate considerations of program quality, results, and value for money into ownership goals; 5) the agencies should devote more human resources to effective and sustainable country ownership; and 6) USAID and MCC should create a public space for shared learning around ownership practices.

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Introduction

For over ten years, the international development community, including the US government, has committed to incorporating greater country ownership into the design and delivery of foreign assistance. A renewed emphasis on country ownership provided the foundation for the Millennium Challenge Corporation's (MCC) specific model of development and pushed the US Agency for International Development (USAID) to launch bold initiatives that brought local stakeholders into strategy development and to double program funding for local partners. Donors, partner country governments, members of civil society, and the private sector in donor and partner countries have all called for an increased emphasis on ownership. Over the last decade, ownership has formally taken root as a core pillar of aid effectiveness. Embraced in a series of international forums and prominently featured throughout the Sustainable Development Goals, ownership is expected to play a key role in guiding development practice over the next 15 years. Despite the global spotlight on ownership, the concept itself remains poorly understood, implementation is uneven, and there is a slim evidence base linking country ownership approaches to improved results.

Like other providers of development cooperation, the United States is unequivocally committed to implementing the principle of ownership in its foreign assistance. How this commitment translates into practice is less clear. This study provides an in-depth analysis of the implementation of ownership approaches in US development policy.

Taking an agency-level approach, this analysis looks at the stated policy and practice around country ownership for USAID and MCC, specifically regarding ownership of priorities, ownership of implementation, and ownership of resources. Both agencies have individually committed themselves to pursuing country ownership, and now is the time to reflect on the progress made in pursuing ownership, to identify constraints to applying it, to recognize where ownership approaches might be best pursued, and to build on successful practices.

This study provides an analysis of how USAID and MCC conceptualize ownership at an institutional level and how they apply these concepts in practice. The authors draw on a systematic examination of agency policies, strategies, and sector-level guidance, in addition to US government-wide policies and directives on ownership and development cooperation. To augment this information, the authors conducted over 150 individual interviews with US government officials in Washington, DC, and in the field, as well as partner country government officials, local civil society stakeholders, and members of the private sector from three case study countries: Liberia, El Salvador, and Kosovo. In addition, the authors conducted a new global survey with all active USAID mission directors and MCC resident country directors about country ownership.

On the whole, the research points to a strong commitment to ownership from both USAID and MCC. In practice, the agencies apply this commitment in different ways and contexts. USAID's Washington, DC, headquarters has made a strong institutional push for the agency's work to focus on sustainable local ownership throughout the program cycle. The

agency takes into account ownership of priorities in the Country Development Cooperation Strategy process and increasingly as part of project design. The "Local Solutions" initiative, which encourages direct funding of local partners, is one of the chief ways USAID emphasizes ownership of implementation. And it has increasingly encouraged ownership of resources through its growing portfolio of domestic resource mobilization activities. The lack of an agency-wide consensus around how to interpret and prioritize the principle of ownership has yielded somewhat uneven approaches to its implementation across missions. However, for some missions, dedicated leadership around ownership has led to innovative ownership approaches, such as paying for results in some of the most challenging country contexts. In addition, newly revised guidance advances the agency's emphasis on country ownership, encouraging better integration of USAID programming into the local context.

For MCC, country ownership has been a core tenet of the agency's model from the outset. Ownership of priorities is reflected in the way partner country governments, in consultation with local stakeholders, identify investment priorities. Regarding ownership of implementation, partner countries manage program implementation with support from MCC. MCC's ownership of resources largely centers around co-financing mechanisms with some additional programmatic support for increasing domestic resources bases. The future ownership path for MCC will involve continued thinking about how to achieve the best balance between ensuring ownership, the need to achieve timely results, and accountability for proper use of funds.

To varying degrees, both agencies face specific challenges in pursuing ownership, including balancing country priorities with agency requirements; weighing tradeoffs between programmatic, reputational, and fiduciary risk and ownership; and maintaining institutional buy-in for the long-term use of ownership approaches. Both agencies are also wrestling with how to consider the value of ownership approaches in terms of results; they are attempting to understand whether and under what circumstances improved ownership approaches increase development impact.

This paper does not evaluate the impact of ownership approaches compared with other modalities for designing and delivering foreign assistance. The analysis incorporates lessons from three country case studies and expert opinions from US government officials, but it does not encompass lessons derived from the global implementation of ownership, which are undoubtedly far more numerous than those cited here.

This report does aim at continuing a dialogue around US policy based on evidence and lessons learned regarding the value of country ownership and how the principle can be put into better practice in the future. To that end, the analysis presented here supports several specific recommendations that fall into six main categories. First, the executive branch should, in cooperation with Congress, work to remove or reduce legal and policy constraints to the pursuit of country ownership. Second, USAID should disseminate its agency-level conception of country ownership and provide a rubric for thinking about risk management. Third, both USAID and MCC should build off existing practices to more comprehensively focus on country ownership. Fourth, both agencies should clearly incorporate considerations

of program quality, results, and value for money into ownership goals. Fifth, the agencies should devote more human resources to effective and sustainable country ownership. Finally, USAID and MCC should create a public space for shared learning around ownership practices.

The remaining sections of this paper present background information, discuss the results of the agency-level analysis, and offer a series of recommendations.

The Theory of Country Ownership

The concept of country ownership has existed since the late 1980s, but the understanding that it is a necessary condition for effective foreign aid has grown significantly over the last decade. Calls from both donor and partner countries to emphasize local leadership in developing, implementing, and sustaining development efforts have begun to shift the foreign assistance model from one dominated by donor-led programs to a partnership characterized by mutual accountability. It makes intuitive sense that development program results would more likely be effective and sustainable if they were obtained through an approach that values and utilizes a partner country's priorities, systems, and resources.

Defining Country Ownership

"Country ownership" is a complex and multifaceted concept with a wide range of interpretations. Viewpoints around key aspects of ownership do not necessarily contradict one another, but various actors within the development enterprise tend to emphasize some angles over others.

Conceptions of Country Ownership

One conception of country ownership emphasizes the relationship between the donor and the partner country government.[1] Sometimes called "external ownership," in this relationship, the donor pursues country ownership by strengthening the leadership role played by the partner government regarding the prioritization, financing, and implementation of a development strategy. Approaches taken by donors in pursuit of this goal include attempting to align their strategy with government priorities, building local capacity to implement and monitor development activities, reinforcing local procurement and financial management systems by channeling funds through them, co-financing country-led projects, and supporting efforts by partner governments to mobilize domestic resources for development.

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[1] Cramer 2002; Cramer, Stein, and Weeks 2006; OECD Development Centre 2008; Global Partnership for Effective Development Cooperation 2014. Cramer, Stein, and Weeks (2006) refers to the internal/external divide as national versus government ownership. OECD Development Centre (2008) references democratic (internal) ownership versus country leadership (external). Global Partnership for Effective Development Cooperation (2014) references democratic (internal) and country (external) ownership.

Another conception of country ownership emphasizes the role of partner governments to strengthen the state-citizen social contract.[2] This view, sometimes called "internal ownership" or "democratic ownership," emphasizes the fact that the country encompasses actors beyond the national government, including local and provincial governments, the private sector, and civil society. National governments must engage these various actors in the prioritization, implementation, and monitoring of the national development strategy.[3]

A more complete understanding of country ownership is one of mutual responsibility: donors must respect and strengthen the leadership role of partner country governments and engage local actors outside of the national government. National governments must ensure citizen engagement.[4] How donors choose to implement their end of the bargain, of course, depends on the particular context of each partner country. The extent to which donors are more likely to give partner countries substantial responsibilities rather than focusing efforts on capacity building so that they can take on the responsibilities in the future depends on the existing skill sets and institutional quality. For instance, where the social contract between the partner government and its citizens is weak, donors may find that emphasizing direct relationships with civil society or private sector systems is more effective.[5]

Pillars of Ownership

Donors can take a number of approaches to promote country ownership. For the purposes of this research, these efforts are categorized into three main pillars: ownership of priorities, ownership of implementation, and ownership of resources.[6]

- **Ownership of priorities** refers to the willingness and ability of donors to align their efforts with the priorities of partner countries. The donor must pursue a strategy and design programs that support country priorities at the sector *and* project level. Because aid programming is often accompanied by discussions around policy reform, ownership of priorities also means ensuring ownership of the accompanying policy or institutional changes required as part of the investment program. Donors can foster ownership by making sure that the investment itself is a country priority and by letting countries determine the path of reform. Partner countries are responsible for clearly articulating a development strategy that not only reflects the priorities of the government but also those of citizens, civil society, and the private sector.

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[2] Cramer 2002; Cramer, Stein, and Weeks 2006; OECD Development Centre 2008; Global Partnership for Effective Development Cooperation 2014.

[3] Cramer 2002; Cramer, Stein, and Weeks 2006; OECD Development Centre 2008; Global Partnership for Effective Development Cooperation 2014.

[4] This is essentially the definition of country ownership put forth in a series of international agreements on aid effectiveness, starting with the 2005 Paris Declaration on Aid Effectiveness.

[5] Cramer 2002; Booth 2011.

[6] This matches the categorization laid out in MFAN (2014).

- **Ownership of implementation** describes the degree to which donors involve local entities in the design, implementation, monitoring, and evaluation of development activities. Local implementation requires that relevant human and institutional capacities exist in a given system.[7] If entities exist in a partner country with the ability to co-create and implement development activities, an ownership approach would encourage their involvement. Ownership of implementation also includes a focus on data and metrics relevant to local policymakers and stakeholders.

- **Ownership of resources** refers to the degree to which a partner country contributes its own financing to a development objective that is receiving donor support. By providing co-financing, in-kind assistance, or pooled funds, a partner country sends a strong signal of commitment to the development objective. Donor efforts to assist countries mobilize their own resources for development also foster ownership by supporting local attempts to increasingly self-finance development efforts.

Why Is Country Ownership Important?

The evidence base around the effects of country ownership remains slim, but theory and anecdotal evidence support several arguments used to advocate for its importance.[8] The following are potential outcomes from utilization of ownership approaches:

- *Program success.* Aid programs are more likely to succeed if they reflect country priorities and if country stakeholders have a stake in their successful implementation. Some studies have found a correlation between the use of specific ownership approaches and program success.[9]
- *Program sustainability.* Similarly, ensuring that aid programs reflect country priorities and involve local stakeholders in their design and implementation is thought to enhance the likelihood that results will be sustained over time. Countries that "own" particular interventions are more likely to undertake the difficult but necessary steps to ensure their effective implementation and lasting results.[10]
- *Capacity building.* Donor practices that support and enhance rather than replace local skills, systems, and institutions help develop a country's capability to implement its own development strategies and emerge from a reliance on aid.[11]

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[7] Pritchett, Woolcock, and Andrews 2010.

[8] As Knack (2013) notes, "advocacy for reform of donor practices is based on theory, intuition and scattered anecdotal evidence" (pp. 316–317) rather than solid empirical underpinnings.

[9] Much of the literature that explores this correlation uses a limited definition of ownership focused on political buy-in of donor programs by elected officials in the partner country. World Bank 1999; Khan and Sharma 2001; Johnson and Wasty 1993.

[10] Mandaville 2009; Lucas 2011; Global Health Initiative 2012; Executive Office of the President 2010; USAID 2014c.

[11] Glennie et al. 2012; OECD DAC 2011; Global Health Initiative 2012.

- *Accountability.* Increased ownership shifts the accountability relationship from donor-partner government to citizen-partner government, strengthening the state-citizen compact through internal ownership.[12]
- *Multiplier effects.* Country ownership may increase the multiplier effect of aid dollars. When aid money is channeled through local entities, not only does it fund the intended services, but it also creates local jobs, increases local incomes, and develops local markets.[13]

Building an International Consensus around Country Ownership

Over the last two decades, country ownership has emerged as a core principle in the global dialogue around how foreign aid can contribute effectively to sustainable poverty reduction and economic growth. Although there is now broad acceptance of country ownership as a key principle of aid effectiveness, less of a consensus exists around how to implement its principles and what the benefits of doing so might be.[14]

Early discourse around country ownership in development first arose out of the World Bank and International Monetary Fund (IMF) in the context of conditionality, a practice in which donors condition their assistance on actions—often policy, institutional, or regulatory reforms—that the recipient country is expected to take. The World Bank and IMF both found compelling evidence that suggests a greater efficacy of lending when a partner country exhibits ownership of the accompanying prescribed reforms.[15] At the time, World Bank and IMF officials framed this interpretation of ownership in terms of agency theory, postulating that partner country "agents" are more effective in completing a project for the donor "principal" if the objectives of both actors are closely aligned—that is, if the partner country is also committed to the donor-supported program and reform agenda.[16] The idea was that programs contingent on government action to succeed would fundamentally rely on the government's intention to pursue such actions.

More recently, the principal-agent view of conditionality has given way to one of partnership, where reforms are jointly determined within a framework of mutual accountability. If donors are less prescriptive and more flexible and partner countries are given a lead role in the design and implementation of conditions, then the reforms will more likely help support the government's own reform efforts.[17]

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[12] Glennie et al. 2013; MFAN 2014; OECD DAC 2011.
[13] Bontjer, Holt, and Angle 2009.
[14] Leo 2013.
[15] Khan and Sharma 2001; Johnson and Wasty 1993; World Bank 1999.
[16] Khan and Sharma 2001; Cramer 2002.
[17] Branson and Hanna 2000; Silarky et al. 2005; Khan and Sharma 2001.

Throughout the 1990s, the recognition of the importance of country ownership expanded beyond a focus on conditionality. Development experts and organizations increasingly saw ownership as pivotal to successful poverty reduction and development, and the multilateral donors increasingly attempted to incorporate a more broadly defined concept of ownership into their policy and operations.[18] In 1999, the World Bank introduced the Comprehensive Development Framework, which emphasized "the need to have the country (government at all levels, parliament, civil society, the private sector and other domestic stakeholders) firmly in the driver's seat."[19] The Poverty Reduction Strategy Paper (PRSP) process was included in this framework; it was intended to enhance coordination between the donor and the partner country government regarding the formation of a development and reform agenda. The PRSP process represented a major shift in World Bank development practices, but the process has been criticized for failing to apply effective ownership approaches. Reasons include an excessive focus on national government buy-in and an insufficient inclusion of perspectives from civil society, the private sector, and other groups,[20] which often resulted in "ownership" of a Washington, DC-driven poverty reduction agenda that in some cases contributed to scant progress around the necessary reforms for PRSP implementation.[21]

Drawing from the early experiences of multilateral donors, a series of international agreements on aid effectiveness recognized—in an increasingly comprehensive way—the importance of *country ownership*. The concept first appeared in the 2003 Rome Declaration on Harmonization, although the emphasis was limited to the importance of aligning development assistance by donors with country priorities. A real turning point was the subsequent 2005 forum in Paris regarding how donor and partner countries define and interpret country ownership.[22] The Paris Declaration on Aid Effectiveness encouraged mutual responsibility, emphasizing the leadership role of partner countries in developing and implementing their own national development strategies and calling on donors to strengthen the capacity of countries to do so. The Paris declaration further urged donors to strengthen and use partner country institutions and systems—including procurement and financial management systems—through all stages of development, implementation, and evaluation.[23]

The 2008 Accra Agenda for Action reiterated and expanded the concept of ownership to more heavily emphasize the role of non-state actors and stakeholders outside a central government's executive branch. The agenda effectively combined the principles of alignment and ownership under the umbrella of country ownership. Under this definition, partner countries committed to work more closely with all local entities, while donors committed to "support demand driven efforts to increase the capacity of all development actors."[24]

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[18] Stiglitz 2002; OECD DAC 1996; UN General Assembly 1997.

[19] Wagle et al. 2002.

[20] Rahman 2012; Malaluan and Guttal 2003; Booth 2005; Dijkstra 2011; World Bank 2004.

[21] OECD DAC 2003.

[22] Ibid.

[23] OECD DAC 2005.

[24] Ibid.

Finally, in the face of scant documented progress toward many of the agreed-on objectives in Paris and Accra, the 2011 Busan Partnership renewed the principles established in the earlier agreements, with a particular emphasis on the democratic ownership of development policies by partner countries. The importance of country ownership also appeared in reiterated calls to strengthen and use country systems, in appeals to align donor results with country results frameworks, and in an acknowledgement that development partnerships must strengthen domestic sources of development funding.[25]

The Paris, Accra, and Busan agreements were intended to push donors and partner countries to evaluate their efforts to promote aid effectiveness, including country ownership. Participants agreed to a set of indicators to track progress, but official, sustained, and comprehensive
efforts are nascent, making it difficult to judge how well these commitments have been implemented in practice.[26]

US Government Commitments to Country Ownership

The United States government, which endorsed the international commitments to country ownership made in Paris, Accra, and Busan, has taken increasing steps to integrate country ownership into its development approach.

The US commitment to ownership has taken a number of forms. One of the earliest and most concrete demonstrations of the importance of ownership was the establishment of the Millennium Challenge Corporation in 2004. The George W. Bush administration designed MCC to deliver foreign aid differently, with guiding principles based on an emergent international consensus on best practices for aid effectiveness, including the principle of country ownership.

For many years, however, there was no comprehensive definition of "country ownership" or guidance on how it should be implemented in the context of US development policy. In 2009, even MCC, whose model affirms the importance of country ownership, stated: "…there is no current consensus on an explicit definition of the principle [of ownership] or guidelines for concrete action."[27]

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[25] OECD DAC 2011.

[26] The Paris Declaration monitoring surveys and evaluation measured donor commitments to Paris principles. The Busan global monitoring framework reflects greater mutual accountability by also measuring developing countries' commitments to aid effectiveness. See Killen 2011; Global Partnership for Effective Development Cooperation 2011. The Organization for Economic Cooperation and Development (OECD) conducted a two-phase evaluation of the Paris Declaration that is complete. It included 22 country-level evaluations, 18 donor/agency studies, and 7 topical studies. The evaluation was limited by a lack of comprehensive data and self-selection of participating countries. See OECD 2012. As of 2014, the Global Partnership for Effective Development Cooperation has released two Global Monitoring Reports (in 2014 and 2016), which include indicators measuring donor and partner country efforts around country ownership.

[27] Mandaville 2009.

The first concrete attempt at addressing this gap came in 2010 with the Presidential Policy Directive on Global Development (PPD-6), the first US government strategy document to articulate a government-wide approach to US development policy.[28] Substantially drawing on MCC's stated principles and experience, the PPD-6 outlines more specific expectations of how and under what circumstances US agencies should approach country ownership. It specifically states that when partner countries demonstrate good governance and accountability, US foreign assistance agencies should:

1) "Respond directly to country priorities, making new investments in line with established national strategies and country development plans based on broad consultation; and
2) Empower responsible governments to drive development and sustain outcomes by working through national institutions rather than around them."[29]

The PPD-6 provided a solid foundation for the incorporation of country ownership principles, which then began to appear across US foreign assistance policy documents. The two Quadrennial Diplomacy and Development Reviews (QDDR) conducted in 2010 and 2015, which highlight strategic priorities and key reforms for the Department of State and USAID, both advance a model of development that emphasizes local ownership through coordination with national governments and other stakeholders. The 2010 QDDR specifically encourages the Department of State and USAID to ensure that partner countries—referring to partner governments as well as the citizens who would benefit from aid—"take the lead in designing and implementing clearly defined development strategies and managing their own development processes."[30] The Department of State-USAID Strategic Plan for fiscal years 2014–2017 placed some restrictions around this suggestion, noting that successful ownership depends on the political will of the partner government and the capacity of public and private institutions.[31]

The PPD-6 also served as part of the impetus for the Barack Obama administration to develop several individual interagency initiatives with a strong focus on country ownership. For instance, Partnership for Growth, launched in 2011, is a partnership between the United States and select countries to support economic growth. It emphasizes joint analysis of constraints to growth, joint action plans for implementation, and mutual accountability for results. The Global Health Initiative, launched in 2009, embraced the idea of pursuing country ownership across four dimensions: political leadership and stewardship; institutional and community ownership; capabilities; and mutual accountability, including regarding financing. Feed the Future, which started in 2010, emphasizes the alignment of strategies and lets partner governments take the lead in terms of developing country investment plans. Of these, only Feed the Future has remained a significant feature of US development policy, and

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[28] Executive Office of the President 2010.

[29] Ibid.

[30] US Department of State 2010.

[31] US Department of State 2014.

while partner countries are highly involved in strategy development, local actors are much less involved in implementation.[32]

Ultimately, despite intermittent efforts to acknowledge, emphasize, and implement the principle of country ownership, the US government has not adopted a definitive interagency guiding framework for pursuing it. The task of interpreting how, where, and under what circumstances the US government should seek to promote country ownership has instead fallen to individual agencies or initiatives.

The following sections explore how two key US development agencies, USAID and MCC, express country ownership principles at the policy level and how they implement these principles in practice.

Ownership at USAID: Theory and Practice

USAID instituted a renewed focus on country ownership in 2010 with the launch of USAID Forward, a series of reforms designed to revitalize the agency's practices and improve development outcomes. As part of the effort, the agency emphasized the sustainability of its programs by seeking to align them with local priorities, engage with local partners, and mobilize non-aid resources.[33] USAID has made great strides toward institutionalizing its approach to ownership, including through revisions to its operating policy and metrics to capture local implementation.[34] However, implementation of country ownership approaches has been somewhat fragmented, largely due to the absence of agency-wide guidance on the application of the concept, inconsistent prioritization by mission leadership, and different applications across countries and programmatic sectors.[35]

In September 2016, USAID made a significant step toward rectifying an agency-wide understanding of ownership and its implementation through revised operational guidance to USAID missions. The revised version of the Automated Directives System (ADS) offers a renewed focus on ownership, identifies approaches, and showcases how ownership should be considered within the program cycle.[36] These changes advance the agency's approach to country ownership by urging a more comprehensive shift toward locally owned sustainable development. The test will come in how the new guidance is implemented in practice and how often and meaningfully the recommended approaches to strengthen country ownership are employed. Because this remains to be seen, much of the analysis presented in the paper examines the agency's practices under the old guidance but acknowledges where the new guidance suggests a promising shift.

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[32] GHI is now defunct. See Glassman 2012. Partnership for Growth is only implemented in four partner countries—Philippines, El Salvador, Ghana, and Tanzania—with no plans for expansion, and its lasting contribution to achieving development outcomes is unclear. See Elliott and Dunning 2016.

[33] USAID n.d.

[34] USAID 2016b.

[35] Dunning and Leo 2015.

[36] Refer to ADS chapters 200 (USAID 2016a) and 201 (USAID 2016b). Chapter 201 (p. 144) specifically defines how USAID considers local ownership.

Ownership of Priorities

Setting Country-Level Strategies

Alignment with partner country priorities. Since 2010, the primary tool for establishing a country's mission-level priorities has been the Country Development Cooperation Strategy (CDCS). The adoption of the CDCS process emerged partly out of a recognition that the medium-term planning of missions needed to more formally analyze and identify the needs of partner countries and assess opportunities for collaboration with local actors.

When developing a CDCS, USAID staff are required to collaborate with a wide range of stakeholders, including local actors across all branches and levels of government, civil society, the private sector, and marginalized groups.[37] In practice, however, limited time and resources can hamper consultations. Furthermore, because the degree and character of consultations are expected to vary by context, guidance remains fairly high level, leaving each mission to interpret what amount of country involvement is sufficient and what the results of the involvement should be.

USAID emphasizes the importance of aligning a CDCS with the partner country's existing national development plans. Because national plans are typically informed by extensive consultations with a wide range of local stakeholders, by reflecting the identified priorities, USAID can theoretically ensure that their strategy captures a variety of local perspectives without unnecessarily duplicating earlier comprehensive consultations. This allows the mission to instead focus on more targeted engagements. Agency guidance notes that existing strategy documents should inform the context, challenges, and opportunities presented in the CDCS but is not specific about how these strategies should inform the selection and development of USAID's objectives.[38]

The revised ADS is more specific about how missions should consider local priorities in developing their strategies. It more explicitly acknowledges that USAID operates within a "local system" and that progress toward the identified objectives will depend upon the contributions of a web of actors in a partner country, including local public and private sector stakeholders, as well as other donors. Missions are now encouraged to think through and document in the CDCS the role of these other actors in achieving strategy objectives and how USAID support can help strengthen the interconnected systems of local and other actors.[39] As the next set of CDCSs become available, it will be important to take stock of how missions are interpreting these new provisions (which remain open to a range of contextual interpretations) and how they change the character of local involvement.

For the most part, missions do align CDCS priority areas with existing national strategies. The 2014 Reform Efforts Survey, conducted by the College of William and Mary in partnership with the University of Chicago, asked thousands of high and mid-level

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[37] USAID 2013b.
[38] USAID 2013b.
[39] USAID 2016b.

government officials and donor staff in low- and lower-middle-income countries about the practices of individual donors with respect to country ownership and capacity building. Although sample sizes were small, 80 percent of respondents who had either worked with USAID (as a government official) or directly for it (as staff) said that the agency "almost always" (44 percent) or "frequently" (36 percent) aligned with the country's national development strategy. On the other hand, fully one fifth of respondents said that USAID "rarely" aligned with the strategy. Respondents perceive USAID to be somewhat less aligned with national strategies than both non-US government bilateral donors and multilateral donors on average—over 90 percent of both categories of respondents said they "almost always" or "frequently" ensure alignment.[40] Alignment with a national strategy is relatively easy because strategies often cover a number of sectors at a relatively high level. Ensuring that projects within those sectors align with country priorities, however, can be more difficult. In some countries, such as Liberia, local counterparts do not always clearly articulate which projects in a given sector are priorities. USAID does not have the resources to solicit and assess local priorities at the subsector level and then systematically integrate them into the CDCS. Revised ADS guidance tries to address this limitation by more strongly encouraging local involvement throughout project design and implementation.

Alignment with agency priorities. Even though country alignment is a stated priority of the CDCS, the strategy must also support US foreign policy priorities and incorporate various USAID policies and strategies, presidential initiatives, and USAID Forward reforms.[41] Furthermore, congressional earmarks and spending directives dictate, sometimes to a great degree, where missions must focus their efforts. As a result, demands from Washington, DC, can end up competing with partner country preferences, forcing missions—which are ultimately responsible for reconciling multiple views—to weigh country priorities against US interests or requirements.[42] For missions facing such tradeoffs, guidance suggests that agency priorities generally take precedence, saying that the CDCS must reflect agency policies and strategies and should incorporate priorities and input from key local stakeholders, as well as other US agencies and other donors.[43] While this appears to be a subtle difference, it does suggest an order of operations: first align with agency priorities, then consult with stakeholders about their priorities.

Exceptions are permitted. The Policy Directive on Agency-wide Policy and Strategy Implementation states that partial or non-alignment with agency-wide policies or strategies may be permitted for "programs with overriding aid effectiveness impact (such as critical partner country priorities, use of partner country systems…)," although apparently this is a

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[40] Rose et al. 2016.

[41] USAID 2013b.

[42] The role of USAID staff in reconciling divergent viewpoints is illustrated by language in ADS 201 such as: "[development objectives] should be based on the strategic priorities defined by the Mission" and "Missions must prioritize results among [development objectives] and within [development objectives]." The Mozambique CDCS illustrates the USAID mission's leadership in developing the strategy when it states: "Information was deliberated at CDCS offsites, staff retreats, and DO team discussions. In short, the team selected optimal paths and discarded others based on evidence and limitations, and arrived at the strategy and program portfolio presented herein." USAID Mozambique 2015.

[43] USAID 2016c.

rare occurrence in practice. In fact, 16 out of 18 mission directors responded that the administration and/or congressional directives played a role in their mission's CDCS formulation or programmatic priorities.[44] One mission director said that Washington, DC-driven priorities are unilateral interventions that prevent a mission from entering into a dialogue with the partner country with a "clean slate."[45] Mission staff have expressed frustration over the fact that the CDCS is still driven by funding priorities set in Washington, DC, rather than by local "evidence and consultation."[46]

Of course, centrally driven priorities established by USAID and Congress are not necessarily at odds with partner country priorities. Indeed, Washington often establishes initiatives to respond to identified needs. For instance, Power Africa's focus on energy generation and supply in select African countries reflects significant local demand. Firm surveys often reflect local business dissatisfaction with the state of electricity in their countries.[47] In all six Power Africa countries eligible for MCC funding, the constraints-to-growth analysis conducted by the partner country government (in partnership with MCC) revealed energy as a binding constraint to growth. In interviews with the Liberian government, business, and civil society stakeholders, the view that energy generation and access is a top priority was almost universally reflected.[48]

Officials in the government of Liberia understood that Washington largely dictates the mission's agenda, but they report valuing the ongoing dialogue around the portfolio and budgetary allocation. Liberian government officials specifically mentioned that USAID's annual budget review is helpful for informing their decisions about how to best manage their own resources.[49] Other partner country counterparts said that it is useful to have a tangible strategic document to reference when dialoguing with other donors and USAID.

Even when a CDCS is aligned with a partner country's priorities, it may not remain so for the five-year duration of the strategy. Shifts in country context that refocus the government's attention to other areas can render certain CDCS priorities less relevant. Thus, some missions engage in mid-term reviews to ensure that their CDCSs are adequately responsive to the current landscape. In the case of the Ebola outbreak in Liberia, for example, the mission had to shift its operations to react to immediate needs at the expense of longer-term development objectives. USAID/Kosovo conducted a mid-term review of its CDCS to ensure that its programming was adequately responsive to changes in Kosovo's economy as a result of the country's democratic and economic processes.

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[44] Survey conducted by the Center for Global Development, 2016.

[45] Survey conducted by the Center for Global Development.

[46] Franco et al. 2013.

[47] According to the World Bank's Enterprise Surveys, in more than half of the 14 focus countries of Power Africa, more than one third of surveyed firms cited electricity as a major constraint. Similarly, all but three of the focus countries rank in the bottom quartile of the 140 covered countries of the World Economic Forum's Global Competitiveness Report based on firm responses to a question about the quality of electricity (World Economic Forum 2015).

[48] Interviews with authors.

[49] Interviews with authors.

Funding Country Priorities

While final strategies are required to demonstrate some degree of alignment with partner country priorities, available funding may limit the extent to which USAID supports them in practice. While one of the purposes of the CDCS is to define resource priorities, they can be established irrespective of the funding envelope available to finance them.[50] This means that even if a pillar of the CDCS is well aligned with a country priority, it does not necessarily follow that USAID will provide sufficient funding to pursue the mutually agreed-on objectives. For example, the CDCS for Nepal identifies "a better skilled, literate population" as one of its targeted results, yet USAID has spent just over $2 million for basic education programming over the last two years.[51]

While regional and pillar bureaus at USAID and the Department of State do consider the requests for funding the CDCS prioritizes, the ultimate funding package to any mission depends on earmarks, directives, administration priorities, and other considerations.[52] Flexible funds, which are not tied to a specific sector, constitute less than one quarter of available USAID funding.[53] In fact, one mission director, whose mission's budget was almost 100 percent earmarked, characterized the CDCS as "largely a waste of time."

The revised ADS includes a provision that permits missions to include an optimal budget scenario in its CDCS not bound by levels set by directives or initiatives.[54] In some cases, this will allow missions to highlight where country priorities may be underemphasized under likely funding scenarios. However, it is unclear whether or to what extent the submission of an alternative optimal budget would result in the shifting of funds to reflect those priorities.

Incorporating Country Priorities in Project Identification and Design

USAID's adoption of the CDCS process was accompanied by a shift in the way the agency thinks about project design. One significant change was giving USAID staff a greater leadership role in project design, reversing the pattern of heavily relying on contractors for this function. One goal of the shift was to encourage increased direct collaboration between USAID and local partners throughout the project cycle, including during project design. In the past, projects were not necessarily designed in the absence of local collaboration—international organizations contracted to design projects often included contributions from local stakeholders—but USAID was often removed from these efforts. In contrast, USAID staff must now serve as the principal liaison with local stakeholders.[55] To this end, USAID guidance recommends that the partner government and civil society inform or actively

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[50] CDCS guidance states that development objectives (DO) "should be based on the strategic priorities defined by the Mission, not solely on the size of the supporting assistance programs. For example, democratic governance could be a critical issue and therefore a DO, though the resources available for programming in this area may be relatively limited." USAID 2013b (p. 5).

[51] USAID Nepal 2014.

[52] USAID 2016c.

[53] Tarnoff 2015; Runde and Savoy 2012.

[54] USAID 2016b.

[55] USAID 2011a.

participate in the design process. Previous guidance highlighted the possibility of including partner government officials in project design and/or on review teams and of conducting joint constraints analyses or problem diagnostics.[56] Current guidance emphasizes the need for local participation in creating the theory of change and the importance of creating a strategy for meaningful, ongoing engagement with key local actors throughout project design and implementation.[57] Because most collaborative steps are urged rather than specifically required, however, the level of local input and participation in project design can vary widely.[58] Opportunities for co-design may continue to vary, depending on leadership, time, and the personnel available for a given project.

Under the old guidance, at a minimum, mission staff were required to consider what kind of local ownership and participation is necessary to sustain the success of a project after its completion. In particular, because Local Solutions encourages missions to devote an increased proportion of their funding to local entities, missions must consider at the design phase whether or not local actors could serve as implementing agents. Guidance has also called for the documentation of evidence of local demand, although it is unclear what demonstration of demand would be sufficient.[59]

Although USAID encourages the involvement of local stakeholders in project design, the process still begins and ends with USAID staff. The mission prepares the initial concept and nominates participants in the process. Only mission staff participate in the review, finalization, and clearance of the interim and final products.[60]

Ownership of Implementation

Since the late 1990s, when budget cuts and reduced political support for the agency resulted in substantial reductions to staff levels, USAID has typically relied heavily on US-based firms and organizations to implement its development programs. This has started to change. In 2010, as part of USAID Forward, the agency launched the "Local Solutions" initiative. The original goal of the initiative was to channel at least 30 percent of mission program funding to local organizations by the end of fiscal year 2015, up from just below 10 percent in fiscal year 2010. The idea was that increased local implementation of mission funding would increase ownership, capacity, cost savings, and sustainability of results.[61]

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[56] USAID 2016c.

[57] USAID 2016b.

[58] The only specified members of project design teams are USAID staff. Local specialists or institutions can contribute required analyses, but they can also be done by USAID staff or other contracted specialists. Partner government co-financing should be included in the financial plan and budget *if* the partner government is contributing.

[59] USAID 2016c.

[60] Mission staff do, of course, include foreign service nationals (FSNs) who are citizens of the partner country and often well connected with government or other leaders, building in some degree of local input through USAID's own human resources. However, this is not the same as local ownership for a number or reasons, not least of which is the potential for USAID's organizational incentives to influence how staff persons make decisions.

[61] GAO 2015.

In practice, USAID has nearly doubled the proportion of funds going to local implementers, but at 19 percent, the percentage remains short of the fiscal year 2015 goal. Of course, Local Solutions is not the only way USAID encourages ownership of implementation, but since it is a large, prominent new initiative, it is the main focus of this section's analysis.

Figure 1. USAID Funding to Local Entities by Type, Fiscal Years 2012–2015
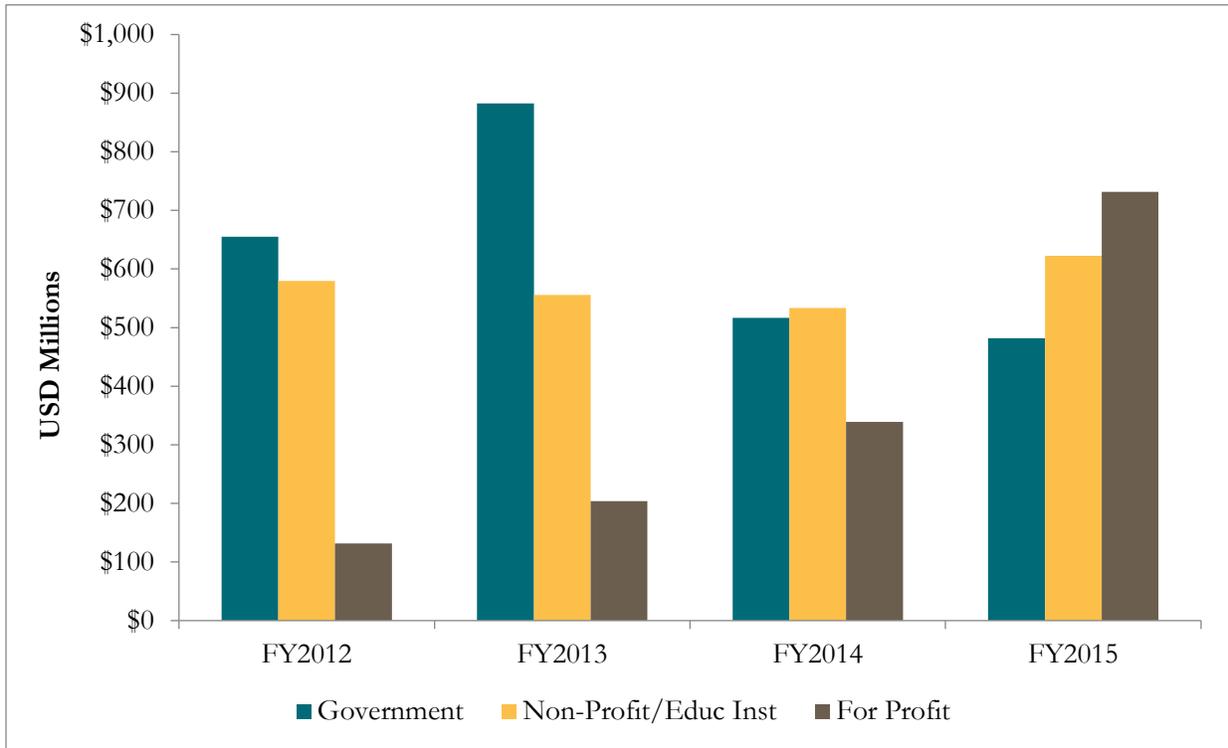
Source: Authors' calculations using USAID Forward's Strengthen Local Capacity datasets. https://www.usaid.gov/usaidforward.

Mechanisms to Increase Ownership of Implementation

The process of choosing an implementing mechanism—that is, the type of partner and financing mechanism, such as contract, grant, or cooperative agreement—begins at the project design phase. At the concept stage, USAID is required to consider and document its discussion around the possibility of a having a government-to-government award or working through a local organization.

The previous ADS guided USAID staff to consider a number of factors when deciding whether to pursue one implementation mechanism or another, including anticipated project results; the intended extent of the project's sustainability; the knowledge and experience of USAID staff in implementing similar activities; the potential for using partner country

systems, including private sector and civil society organizations; and the results of risk assessments.[62]

Missions are encouraged to conduct a mapping exercise of potential local partners and identify organizations with the capacity to implement the program. Missions in Kosovo and El Salvador, both relatively small missions, each had a staff member dedicated to advancing Local Solutions as well as other USAID Forward objectives in the partner country. These individuals developed a deep knowledge of the landscape of local partners and cultivated relationships with these partners. Mission staff in these two countries acknowledged that the process of mapping and building trusted relationships with local organizations made it easier for them to make the strategic choice to directly partner with a local entity.[63]

Government-to-Government (G2G) Partnerships

USAID has engaged in direct partnerships with governments since the agency's inception. But Local Solutions offers a chance to have a renewed emphasis on government-to-government (G2G) partnerships that incorporate elements of capacity building and focus on the sustainability of results. In the design phase of any G2G project, agency guidance strongly recommends that the participation of the partner government be solicited and that the planning process support the partner government's systems of project design and approval.

Before entering into a G2G agreement, USAID conducts an in-depth assessment of partner government institutions, known as the Public Financial Management and Risk Assessment Framework (PFMRAF).[64] The first stage of this process analyzes the public financial management, governance, and accountability environment of a partner country; this is required for any project design that includes partner government implementation. The second stage of the PFMRAF process is to analyze fiduciary risk for a specific institution within a partner government that would be responsible for implementation or management of USAID funds. The multiple stages of a PFMRAF are resource-intensive for a mission, requiring a significant amount of personnel, time, and funding.

Missions engaging in G2G must develop a fiduciary risk response plan describing how they plan to mitigate risk throughout implementation "such that no acceptable level of risk/fraud is assumed." The guidance recommends that missions address the weaknesses by strengthening accountability, developing capacity, and providing technical assistance.[65] However, because USAID does not qualify what an "acceptable" level of risk is, mission staff charged with establishing mitigation measures assume high levels of personal accountability.[66]

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[62] USAID 2016c.

[63] Interviews with authors.

[64] USAID does not publish the names of the countries and institutions that have completed Stage 1 and/or Stage 2 of the PFMRAF.

[65] USAID 2014a.

[66] Interviews with authors.

One method of mitigating risk is to transfer the potential risk to the partner. In Liberia, for example, USAID's approach to institutional strengthening for health sector service delivery transfers the fiduciary risk to the government of Liberia. The key is a Fixed Amount Reimbursement Agreement (FARA), a financing mechanism that enables the use of country systems in project implementation for procurement and financial management. Previously, USAID channeled its health funds through a US-based, nongovernmental implementing partner, and FARA allowed USAID funding to flow directly through Liberia's ministry of finance to the ministry of health, placing the fiduciary risk on the government of Liberia, which must prefinance all activities. USAID reimburses the ministry of health (via the ministry of finance) as it reaches agreed-on deliverables and milestones.

The FARA increases the Liberian government's ownership by giving the ministry of health more control over implementation. Implementers answer to the health ministry rather than to USAID regarding achieving milestones mutually agreed on by the health ministry and USAID. However, the FARA discourages ownership of resources by requiring that the finance ministry channel USAID's reimbursements only to the health ministry. This is problematic because the upfront funds provided by the finance ministry are drawn from a national account. Potential tradeoffs around ownership often require a complex understanding of how different types of risk, implementation modalities, and funding streams combine to produce a given result.

Partnering with Nongovernmental Organizations

USAID's Local Solutions initiative calls for a broad and diversified partnership base; it specifically encourages the agency to partner with local civil society and business entities. Missions can explore these partnerships in two ways, depending on the amount of potential funding. For relatively small projects (under $5 million), a mission can advantage local organizations by restricting competition for certain awards if it thinks that having a local implementer for a particular project would provide substantial benefits and if it is aware of multiple qualified local organizations.[67] Guidance "encourages" staff to pursue this option "when doing so will result in cost savings, develop local capacity, or enable USAID to initiate an activity in appreciably less time than if competition were not limited, and local organizations have the technical capacity and accountability systems adequate to perform the resulting contract successfully."[68] Unfortunately, the emphasis on cost savings is silent on the question of efficiency or value for money.

When considering a direct partnership with a local organization, USAID must first conduct a pre-award survey to determine eligibility. The Non-US Organization Pre-Award Survey (NUPAS) is required for all first-time awardees to determine the likelihood that the organization will comply with USAID's Standard Provisions. It is a tool for selecting non-US implementing partners with the financial and managerial capacity to manage USAID funds and fulfill the terms of a given award. The survey helps establish a baseline for risk, and the

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[67] See H.R.2772—Department of State, Foreign Operations, and Related Programs Appropriations Act of 2016, sec. Division K, passed by the 114th Congress (2015-2016). https://www.congress.gov/bill/114th-congress/house-bill/2772.

[68] USAID 2014b.

information from the exercise feeds into a mission's risk mitigation and implementation management strategy.[69]

One tradeoff that USAID must consider when choosing to directly partner with a new local organization is the additional time, resources, and capacity that is often required from USAID staff.[70] The NUPAS requirement, like the PFMRAF, can create a disincentive for staff to transition awards to non-US implementing entities, especially if the mission has a small staff and limited resources to cover operating expenses.

After receiving a USAID award, local non- and for-profit organizations can choose to conduct the Organizational Capacity Assessment (OCA), a voluntary self-assessment of internal human resource, financial, and accountability systems that organizations can use to identify areas that need additional strengthening.[71] It is a post-award process led by the organization, not by USAID. Missions can administer the Organizational Performance Index (OPI) with local partner organizations. In use only since 2015, the index measures an organization's ability to achieve project outcomes.[72] These tools offer a way for USAID and their local partners to measure baseline organizational capacity and the extent to which it improves over the course of the partnership—one of the stated objectives of direct local partnerships. The tools focus mainly on basic operational issues—such as the extent to which everyone has and adheres to a job description and whether accountability and fiduciary measures are in place. Critically, some of the tools further assess whether the strengthened organization is more effective in achieving the results of interest, an important consideration since a variety of institutional forms can yield comparable levels of performance, and the importation of so-called "best practices" may not always translate into results.[73]

Subawards

USAID often indirectly funds local organizations through the subcontracting process. Typically, USAID gives an award to a prime contractor—usually US-based; the contractor then engages subcontractors, including local organizations, for some or much of the work. In this relationship, local organizations can take on project implementation without having to specialize in the extensive organizational machinery needed to fulfill USAID's elaborate contracting, accounting, and reporting requirements. Unfortunately, information about the use of subcontractors, including local ones, is incomplete. The 2006 Federal Funding Accountability and Transparency Act (FFATA) requires prime contractors to report their subcontractors to the FFATA Subaward Reporting System (FSRS) for awards over $25,000; this information should eventually feed into USAspending.gov. For the most part, however, USAID has not yet pushed this requirement with its prime contractors, and it has made allowances for opting out. This makes it difficult to track the extent of USAID funds going indirectly to local organizations.

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[69] USAID 2012.

[70] Interviews with authors.

[71] USAID 2013c.

[72] Pact 2015.

[73] Pritchett, Woolcock, and Andrews 2010.

With USAID's increased focus on local partnerships for sustainability and capacity building, the agency now provides specific guidance around how subawards to local organizations can be structured for capacity development. Missions can structure these awards in a way that encourages a transition of responsibility so that, eventually, a subawardee can become a direct partner. Missions are increasingly utilizing this procurement mechanism to identify and augment the number of local implementers.

Managing Risk around Local Solutions and Ownership

Heightened risk is associated with the push to increase direct partnerships with new local entities. Much emphasis has been focused on managing fiduciary risk when working with local implementers, hence the emphasis on PFMRAFs and NUPASs to assess the financial and auditing health of local institutions. Missions are also keenly aware of the potential risks regarding USAID's reputation and program results. Local Solutions efforts have therefore come with increased oversight responsibilities for USAID staff.

There is no current framework for missions to think through risk in a systematic way. This has resulted in a wide range of appetite for risk among mission leadership and personnel. Regional legal offices, financial management offices, and program officers approach Local Solutions with different perspectives on how to reconcile risk management and local ownership. Regional legal offices independently interpret ADS guidance on local implementation; and individuals adopt varying levels of tolerance around reputational, programmatic, and fiduciary risks. Financial management offices have a very narrow and specific perspective regarding risk: they determine the appetite for a given mission around fiduciary risk. Public financial management officers evaluate potential implementing partners based on the project's fiduciary risk. Program officers tend to be more focused on the question of how choosing local implementers could help build the capacity of organizations and achieve programmatic results.

The different weights given by various positions on the risks and rewards of local implementation suggest that leadership by the mission director around local implementation is critical. In the absence of an agency-wide framework for thinking through risk, it falls to the mission director to institute the justification for reasonable risk taking by highlighting Local Solutions as a priority, explaining its objectives of building local capacity and increasing the sustainability of results, and communicating a mission-wide strategic approach. Absent such a justification, the traditional development assistance model of "zero" risk tolerance can easily become the default business model. Missions that have been the most successful in navigating staff relationships experience more integration between offices as well as a holistic understanding of—and calculated appetite for—risk. Missions that ensure that representatives from financial management offices and regional legal offices are at the table from the beginning of the project design process experience a greater consensus about how their roles can contribute to shared objectives around ownership.[74]

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[74] Interviews with authors.

Tracking the Results of Local Solutions

The Local Solutions initiative is a deliberate effort by USAID to encourage greater progress on country ownership across the agency. However, there has been no concerted effort to measure its results. To date, the agency has largely focused on tracking the input side of Local Solutions (the percentage of a mission's program funds directed to local implementers) rather than the extent to which these efforts are achieving greater development outcomes.[75]

The target. The agency-wide target to channel at least 30 percent of mission program funding to local organizations by the end of fiscal year 2015 was an ambitious goal with sweeping ramifications, both positive and negative. Despite the caveat that the 30 percent target was to be achieved as a global average (it would not apply evenly to all missions), some missions took this target as individually applicable.[76] For some missions, the push to in effect triple local partnerships in five years led to rushed decision-making, overwhelmed mission staff, and/or money being funneled to partners that lacked the absorptive capacity to effectively manage it.[77]

Still, the tangible target, however ambitious, did provide a useful incentive for missions to undertake new local systems analyses and form new partnerships. Interviews with mission staff in Liberia, El Salvador, and Kosovo revealed that the target pushed the missions to increase their involvement in direct local partnerships.

Cost and value for money. As Local Solutions efforts have evolved, the explicit focus on cost-effectiveness has waned; even though it remains a key consideration, it is less frequently presented as a core rationale for a local partnership. The relationship between the cost of Local Solutions programming and its benefits, however, remains mainly theoretical rather than explicitly analyzed.

Prior notions of cost-effectiveness were centered around the prospect of significantly lowered overhead of local partners. However, overheard alone is not a particularly meaningful metric—nor is high overhead inherently bad—because it says nothing about value for money. Contractors with low overhead do not necessarily deliver a better value if they deliver inferior results. Furthermore, the assumption of cost savings did not consider the other side of the equation when working with local partners: the increased need for USAID staff time and resources to execute the partnership.

One key argument used to emphasize Local Solutions' value for money relates to the sustainability of results. The underlying hypothesis is that, because program results are thought to be more sustainable when implemented by a local partner, Local Solutions

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[75] "USAID's principal Local Solutions indicator does not fully reflect activities the agency carries out to achieve the initiative's goals of strengthening partner-country capacity, enhancing and promoting country ownership, and increasing program sustainability. Moreover, USAID does not have a means for determining the extent to which missions are carrying out evaluations that can provide evidence about the long-term effectiveness of the initiative" (GAO 2014, 11).

[76] Interviews with authors and survey conducted by the Center for Global Development.

[77] Interviews with authors.

programming provides a greater value for money because, theoretically, the results are longer lasting. However, this is rarely tested analytically with data to back up intuition. Even though USAID staff are urged to consider anticipated project results in decisions about which implementing mechanism to use, there is little evidence that decisions are being driven by cost considerations tied to explicit program performance metrics. Without this analysis, evidence for the cost efficiency of local partnerships remains scarce.

Capacity building and system strengthening. USAID missions around the world have reported anecdotal evidence of several positive results (sometimes unintended) of local implementation.[78] Examples include USAID's use of a municipal procurement system in Kosovo that, according to municipal officials, resulted in improved system quality; the adoption of USAID environmental regulations by the same municipal government;[79] additional resources leveraged by a local implementer from the local private sector in El Salvador; greater adaptability and improvement of development activities based on local feedback in Liberia; and immense cost savings relative to implementation by international organizations in Liberia, Kosovo, and El Salvador. Missions collect and report these assessments on an ad hoc basis, but no consistent effort at the mission or headquarters level exists to assess whether and under what circumstances local awards yield different types of expected benefits.

Despite anecdotal successes, USAID has learned that using country systems or local implementers does not necessarily result in increased capacity. Indeed, the 2014 Reform Efforts Survey revealed relatively low satisfaction rates among host government officials regarding USAID's approach to using country systems, particularly compared with other donors, although small sample sizes suggest the need for cautious interpretation. While partner country officials rank the use of country systems as a highly useful practice for donors overall (with a score of 3.69 on a scale of 1–5 with 5 being best), they rank the usefulness of USAID's use of country systems somewhat lower (3.16). In fact, they considered it the least useful of the USAID's practices among those evaluated by the survey,[80] possibly reflecting either the quality of USAID's efforts or a certain level of general ambivalence about the United States pursuing these approaches.

In addition, the survey found that funding professional training is one of the most common modalities of capacity building employed by all donors, but especially USAID. However, host country partners rank the usefulness of donor-funded professional training (by both USAID and donors as a whole) as mediocre,[81] possibly reflecting a lack of correspondence between individual capacity and results when organizational capacity is low.

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[78] See https://www.usaid.gov/usaidforward/usaid-forward-2014-archive from the fiscal year 2014 "Strengthen Local Capacity" data sheet for USAID Forward.

[79] The mayor of the municipality agreed to adopt new environmental regulations to meet USAID's requirements to receive an award to build a new preschool. Although the adoption of the new regulations required a significant investment of time and resources by the municipality, once the mayor recognized that the regulations would improve the quality of the preschool, he decided to apply the same environmental standards to all future public infrastructure projects.

[80] Rose et al. 2016. It is important to note that the survey data reflect perceptions of experience with USAID between 2004 and 2013; perceptions of current efforts are not included.

[81] Ibid.

All of this suggests the need for USAID to evaluate or assess the outcomes of its attempts to use country systems and to build capacity. Measuring donor investments in local ownership can be challenging, however.[82] USAID encourages the rigorous evaluation of activities that build local capacity or that are implemented through local partnerships, but it also explicitly acknowledges difficulties with attribution, noting that it can be quite difficult to determine whether or not observed improvements are the result of USAID interventions.[83]

Ownership of Monitoring and Evaluation

Elements of the monitoring and evaluation process must be determined as part of the CDCS process, and plans for it are prepared as part of the project design process. The main monitoring roles—developing indicators, arranging for data collection, reviewing and analyzing performance results, and assessing data quality—are fulfilled by mission program or technical staff, and the only required coordination is with other US government agencies to ensure consistency with interagency data needs for US initiative reporting.[84] Agency guidance does, however, mention that seeking participation with, for example, other US agencies, implementing partners, and local stakeholders, including beneficiaries, is a key principle behind effective performance monitoring, as is aligning the performance monitoring needs with the partner country government and other donors or partners.

Missions are encouraged to seek participation in a number of ways, including by jointly defining performance indicators. There is some room for this in practice, but much of what is tracked is centrally determined. The agency is required to report annual data for a set of standard foreign assistance indicators, and initiatives like PEPFAR and Feed the Future have their own sets of required indicators. Some indicators come from national sources. For example, clinical data collected for PEPFAR come from the reporting of government-run medical outlets, and macroeconomic and fiscal data come from national sources. The collection of such data can, as USAID guidance suggests, be integrated with existing processes. Other data, however, are specific to USAID's reporting requirements.

Missions are encouraged to interpret and widely share information about performance monitoring, including with local stakeholders. Many do, particularly with government interlocutors.[85] Furthermore, transparency around performance data makes it possible for any interested party, including a wide variety of local stakeholders who are not necessarily targeted by the mission for results dissemination, to access information about the program's progress. Aside from a few exceptions, however, USAID does not release data on

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[82] For instance, the Organisation for Economic Co-operation and Development and the United Nations Development Programme acknowledge that it is difficult to draw firm conclusions about the relationship between the quality of financial management systems and donors' use. OECD and UNDP 2014.

[83] USAID 2013c.

[84] USAID 2008.

[85] For instance, in Mozambique, USAID (and other involved agencies) presented the data submitted for PEPFAR's semiannual reporting requirements to the ministry of health. Staff geared the presentation to the interests of the ministry by taking a provincial-level perspective and focusing mostly on the clinical data collected from the ministry's own sources.

performance monitoring in a way that is particularly useful for local stakeholders. Many indicators are only reported as global aggregates, such as in the annual performance report; others are only available at the country level, with no disaggregation by project or even subnational unit, such as the annual reports for Dollars to Results and the Presidential Malaria Initiative.[86] This kind of country-level (or higher) aggregation may respond to some US-based demands for accountability but tends to be less useful to local stakeholders. Furthermore, data are often reported without reference to targets and are rarely reported in a timely manner.[87]

USAID's policy explicitly emphasizes the importance of local participation in defining and carrying out evaluations of USAID activities.[88] While not required, agency guidance recommends consulting with stakeholders to identify and prioritize evaluation questions to ensure that the information produced by the evaluation is useful to them. Ideally, mission staff should prioritize the most relevant questions that will inform specific upcoming decisions by USAID leadership, the partner country government, or other stakeholders. The agency's evaluation policy specifically states that "consultation with in-country partners and beneficiaries is essential" to ensure relevance.

For an evaluation to be credibly independent, it must be conducted by a third party unrelated to USAID or the organization that implemented the project. Missions are encouraged to include evaluation specialists from partner countries in project teams, but the guidance acknowledges the scarcity of such technical expertise in many countries where USAID operates by noting that this may not always be possible. Some missions, like the one in Kosovo, are actively building the capacity of local evaluators so that more actors are able to take on this role, but all missions have not yet prioritized resources for these efforts.

USAID's policy asserts that evaluation reports should be widely distributed to "all partners and stakeholders." A 2016 report on evaluation utilization, however, found that the dissemination of evaluation results to country partners was more the exception than the rule. Fewer than half (43 percent) of mission survey respondents reported sharing the final report with country partners, and only around one third held a briefing or other dissemination event. According to the report, one staff member claimed to be too busy with other obligations to follow through on the dissemination to country partners. Another individual reported that if an evaluation informed a handoff of program activities to the government, then sharing its results was a high priority, but the dissemination of other ex-post evaluations without the same ministry involvement was less important. Staff who reported sharing results with country partners were more likely to believe that the project or activity became more effective or sustainable when evaluation results were utilized or that the strategies or policies of the partner government reflected learning from the evaluation.[89]

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[86] PEPFAR dashboards report results at the subnational level but do not disaggregate by responsible agency (USAID and the Centers for Disease Control and Prevention).

[87] For instance, as of August 2016, Dollars to Results had data only through 2014.

[88] USAID 2011b.

[89] Hageboeck et al. 2016.

Ownership of Resources

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

Cost-Sharing

There are no legal or policy requirements that a partner country must contribute its own resources to USAID agreements, but missions can include a cost-sharing requirement for individual nongovernmental grants on a case-by-case basis. USAID specifies that cost-sharing can be used to further objectives, such as building the capacity of an organization to mobilize its own resources, which increases the likelihood that an activity will be financially sustainable after USAID assistance ends; supporting an activity proposed by a partner rather than USAID; and increasing a partner's financial accountability for the program's success.[90]

Even in the absence of a cost-sharing requirement, USAID has leveraged resources from local government, civil society, and private sector partners in a number of countries.[91] For instance, in Kosovo, USAID entered into a small G2G agreement with the municipality of Gjilan as part of the Advancing Kosovo Together project, which supports interethnic cooperation through community development activities. USAID staff credit the effectiveness of the agreement with its small size and its support of locally identified priorities, as evidenced by the municipality's willingness to put its own resources toward the project's objectives. USAID funding went toward building a preschool, a priority that emerged from a community-based selection process. USAID gave the municipality $200,000, but the mayor wanted to build a preschool worth $400,000 and put up the remaining funds. USAID viewed this 50/50 cost-sharing as a demonstration of the municipality's commitment to maintain the preschool after the one-time USAID award.

Domestic Resource Mobilization

In the last couple of years, domestic resource mobilization (DRM) has received much more attention—and funding. As part of the 2015 Addis Tax Initiative launched at the Financing for Development conference, over 30 countries and organizations, including the United States, committed to doubling resources for DRM activities by 2020.[92] USAID has

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[90] USAID 2013a, 50–51.

[91] The extent to which this happens is unclear, however, because while there is anecdotal evidence of this at the country level, systematic information about the amount of local resources that go into USAID projects is not consistently available to the public.

[92] UN 2015.

committed to significantly increasing its efforts around domestic resource mobilization through ongoing technical assistance and new efforts to pilot DRM activities in partner countries.[93]

As of 2016, USAID had DRM programming in fourteen countries.[94] So far, the agency has been careful to select countries with high local demand for DRM activities, and it credits this selection criterion, among other factors, for the high level of success they have seen.[95] USAID's case studies on its DRM assistance show significant returns on the agency's relatively small investments.[96]

Even though USAID has supported DRM efforts for many years, the work has not been informed by an agency-wide strategy or specific operational guidance. The budget for domestic resource mobilization has also remained relatively small. Competing earmarks and the lack of a particular constituency interested in pressing for additional DRM spending have served as barriers to increasing resources for domestic resource mobilization within USAID's budget.[97] According to USAID officials, however, the agency is seeking new ways of funding domestic resource mobilization, including drawing resources out of existing portfolios in order to pilot DRM efforts in a few countries.

Local Private Sector

USAID has begun to seek ways to incorporate the local private sector into its development activities beyond formal DRM efforts, which are usually partnerships with national governments. Missions have partnered with local businesses for many years, but efforts to map and target local private sector actors are still nascent. USAID released its first assessment of the agency's work around local private sector partnerships in 2015 to evaluate the status of engagement.[98] The assessment acknowledges the wide range in levels of local private sector engagement. Indeed, USAID's work to solicit investments from the local private sector has been uneven and wavering, partly due to the higher risks associated with forming partnerships with local firms that require a more extensive due diligence process. Furthermore, the success of local firms depends on a relatively stable economic and regulatory environment that is consistently favorable to private sector activity. In fact, a USAID assessment of private sector engagement noted that partnerships are more likely to be successful in countries with stronger institutional capacity and more business-friendly regulatory environments.

Certain mission-level characteristics are also associated with increased levels of local private sector partnerships. Some missions, like the one in El Salvador, have a staff member dedicated to cultivating global development alliances—USAID's version of public-private partnerships. These individuals map out a network of local private sector stakeholders with a

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[93] Rogers 2016.

[94] Postel 2016; USAID Office of Economic Policy n.d.

[95] Postel 2016.

[96] Dunning and Leo 2015.

[97] Savoy 2014.

[98] Brady, Johnson, and Zakaras 2015.

shared interest in USAID's development objectives. Dedicated staff helped the mission in El Salvador cultivate a global development alliance implemented by local partners, the largest in the agency's global portfolio.

Ownership at MCC: Theory and Practice

Founded in 2004, the Millennium Challenge Corporation was designed to deliver aid differently. Its singular mission—reducing poverty through economic growth—allows it to pursue development objectives in a highly targeted way. Its model, which governs how it pursues its mission, reflects the key principles of aid effectiveness that were emerging at the time of the agency's founding, including the importance of country ownership.

Ownership of Priorities

MCC's founders paid particular attention to ensuring that partner countries, including governmental and nongovernmental stakeholders, would take the lead in setting priorities for investment. Stipulations regarding how this would take place are included in the agency's authorizing legislation.[99] Importantly, MCC was given built-in flexibilities that enable it to pursue country-led solutions more easily than other US government agencies. Most significantly, MCC is free from congressional directives regarding the use of funds; it is also able to obligate full funding for its multiyear "compact" programs up front,[100] enabling countries to propose large-scale, longer-term projects that would be too risky if continued funding were dependent on annual congressional appropriations.

MCC's emphasis on ensuring that its investments reflect national priorities shows up clearly in the results from the 2014 Reform Efforts Survey. Fully 100 percent of respondents who worked with MCC as a government counterpart or for MCC as staff said the agency's efforts "almost always" (69 percent) or "frequently" (31 percent) align with national strategies.[101]

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[99] The Millennium Challenge Act of 2003 reads, "The Compact should take into account the national development strategy of the eligible country. … The term 'national development strategy' means any strategy to achieve market-driven economic growth and eliminate extreme poverty that has been developed by the government of the country in consultation with a wide variety of civic participation, including nongovernmental organizations, private and voluntary organizations, academia, women's and student organizations, local trade and labor unions, and the business community." It further states, "In entering into a Compact, the United States shall seek to ensure that the government of an eligible country—(1) takes into account the local-level perspectives of the rural and urban poor, including women, in the eligible country; and (2) consults with private and voluntary organizations, the business community, and other donors in the eligible country." See H.R. 1966—Millennium Challenge Act of 2003 passed by the 108th Congress (2003–2004). https://www.congress.gov/bill/108th-congress/house-bill/1966.

[100] An MCC "compact" is a five-year grant program focused on reducing poverty through economic growth. The average compact size is around $350 million over five years.

[101] Rose et al. 2016.

Clarifying Expectations to Integrate Ownership and Results

The ways in which MCC has applied the principle of country ownership to priority setting has changed over its 13-year lifespan. In the agency's early days, the compact development process was unstructured and lacked guidance, in the spirit of letting countries lead. This often resulted in proposals that were not adequately prioritized or appropriately focused on growth, causing frustration for both MCC and its partner countries.[102] Because of this, MCC's approach to country ownership of priorities evolved to recognize that guidelines are important for facilitating the leadership role countries are expected to take.[103] MCC has taken steps to clarify its requirements, particularly that programs should focus on poverty reduction and economic growth, generate an acceptable rate of return (that is, generate benefits in excess of cost), and comply with gender requirements and social and environmental safeguards. Nearly 200 pages of instituted guidance and a number of tools help countries meet the requirements.[104] The integrated constraints-to-growth analysis tool is central; it helps a country identify binding constraints to growth, bringing in considerations of social and gender integration and opportunities for private sector engagement.[105] The analysis involves substantial consultations with civil society, the private sector, and local governments. The cost-benefit analysis is another key tool used by MCC to inform project selection; it identifies projects that are likely to return benefits in excess of the costs to achieve them. These tools and processes are intended to help a country select interventions that also meet MCC's criteria from a broader lists of priorities.[106]

Some analytical tools are country-led or jointly conducted. Partner countries play a leadership role in the integrated constraints-to-growth analysis, while MCC works with the country team to provide advice and assistance. Earlier guidance specified that countries lead with MCC support, but MCC currently characterizes the relationship as a partnership because its involvement can be somewhat substantial, especially in countries lacking experience conducting growth diagnostics.[107] MCC staff acknowledge that there is a tradeoff in lower-capacity countries between local ownership of the process and quality and/or time line. MCC's institutional push to expedite compact development has affected the degree of country leadership in the constraints analysis process.[108] MCC staff suggest that without higher levels of intervention from MCC, most countries would take longer than the four or five months that the agency would like the process to take.

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[102] Rose and Wiebe 2015a; Lucas 2011.

[103] Lucas 2011.

[104] MCC's online "Compact Development Guidance" (from 2013) outlines the agency's compact investment criteria and provides additional details regarding the implementation of the suite of analytical tools required to focus country proposals on them. MCC has been revising parts of its guidance, but the updated version is not currently available online.

[105] There used to be three separate analyses: the constraints analysis, the social and gender analysis, and the investment opportunity assessment, but they have been streamlined into one.

[106] MCC also introduced the steps of a concept note and a concept paper, allowing an early opportunity for the agency to weigh in on proposed projects and identify any unlikely to meet MCC's requirements for approval.

[107] Economists trained in growth diagnostic methods are not always available in partner countries.

[108] MCC's "Congressional Budget Justifications" for fiscal years 2016 and 2017 listed an accelerated pace of compact development as an institutional priority.

Based on the results of the constraints analysis, countries work with MCC to prioritize sectors for investment. While partner countries lead this process, US government priorities are not entirely absent from the conversation. For instance, MCC faced high-level pressure from members of Congress and US environmental groups to ensure that the Indonesia compact included substantial funding for activities aimed at preventing deforestation.[109] In addition, the US government's focus on power investments in countries designated for concentrated US government support through the Power Africa initiative seems to have had some sway in certain partner countries' decisions to pursue this sector over others identified in the constraints analysis.[110]

The decision to focus on power is typically a shared one. In Liberia, for example, the government initially expressed an interest in power, but it later shifted its focus to include roads. When the road investment proved untenable because of a low estimated rate of return, the conversation turned again to power, helped along by a confluence of events, especially changes in budget priorities in the wake of the Ebola crisis, which left the government without the available funds to cover its commitments to the multidonor-funded Mount Coffee Hydropower Project. The government proposed to MCC that the agency could essentially take over the government's stake. MCC, which had been thinking about the hydropower project as a possibility for investment, readily agreed. The project met the agency's investment criteria and Liberia's status as a Power Africa country undoubtedly made it an even more attractive option.

Once a compact's sectoral focus is identified, a partner country proposes investments to help address the identified constraints. MCC works with the partner country on a cost-benefit analysis for each proposed project to determine which ones would likely be cost efficient. MCC has more control over this analysis and the related economic rate of return (ERR) calculations that enable the agency and the partner country to determine which of the proposed projects are likely to generate benefits in excess of their costs.[111] Partner country teams can provide their own ERR calculations for proposed projects, but MCC claims the right to perform the final analysis. In practice, this means that MCC economists often do the bulk of the cost-benefit analysis work and ERR calculations. Only rarely does MCC accept full calculations from partner country economists.[112] In all cases, MCC is the final arbiter, reserving the right to "withhold approval for a proposal or parts of a proposal based on

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[109] Rose and Wiebe 2016.

[110] Rose and Wiebe 2015a. One resident country director noted that Power Africa contributed to the compact's reorientation from agribusiness, roads, and power to an exclusive focus on power; MCC's general shift in orientation toward single-sector compacts likely played a role as well. The resident country director said that although the country team did not spearhead the decision to reorient the program in this way, the government ended up embracing the focus on energy (Survey of resident country directors conducted by the Center for Global Development in 2016).

[111] Economic rate of return (ERR) is the interest rate at which the project's net benefits would equal zero. MCC requires that the estimated ERR be greater than the minimum "hurdle" rate (currently 10 percent) for the project to be considered economically justified.

[112] For example, for El Salvador's second compact, economists in the Salvadoran government submitted a well-documented cost-benefit analysis for the roads component, which MCC was able to accept for the baseline ERR.

factors that come to light as part of the cost-benefit analysis process, including evidence of technical infeasibility, low economic returns (i.e., low net returns), weak supporting assumptions, low poverty reduction impact, or the lack of clear measurable benchmarks."[113]

Based on the results of the cost-benefit analysis, MCC often provides (sometimes substantial) feedback to country teams on how to adjust their proposals to meet MCC's investment criteria.[114] For example, when El Salvador's proposed coastal road project for the second compact initially showed a low ERR, MCC sent the government of El Salvador a list of 26 suggested changes to consider for reducing costs and increasing social protections. The government of El Salvador agreed to the changes, which allowed the compact to pursue the road investment project while meeting MCC criteria. MCC does not force changes, however. In fact, MCC economists offered the government of Liberia lower-cost road alternatives that would meet the agency's ERR criteria, but in that case, the government was not interested in the required design modifications and ultimately did not pursue the project.

Stakeholder Engagement

MCC requires countries to undertake consultations with a variety of local stakeholders to ensure broad-based local support for and input into the compact development process.[115] The consultative process is led by the country team, which engages with communities, civil society organizations, private companies, and government stakeholders at the national and subnational level. The aim is to provide input to inform the integrated constraints analysis, to discuss the findings, and to seek input on how to address issues. The agency's early guidance on consultations focused on *who* should be consulted, requiring country teams to speak to certain groups of stakeholders, but it evolved into having a greater focus on *how* country teams conduct consultations, including what information they should seek (such as local ideas for solutions to identified problems) and what information they should convey (such as why certain decisions related to the compact were made).

MCAs are encouraged to use existing domestic institutions and consultative processes where possible.[116] However, there is significant variation in the experience that local civil society, the private sector, and subnational government stakeholder groups have engaging in policy discussions with the national government. Even in countries that have well-established channels for citizen engagement, MCC often finds that its requirements for stakeholder involvement tend to go beyond the standard practices of countries. Because of this, MCC

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[113] Millennium Challenge Corporation, "Chapter 5: Guidelines for Economic and Beneficiary Analysis," Compact Development Guidance (2013). MCC staff have remarked that it is MCC that "owns" the ERR calculations because the minimum threshold for rate of return is MCC's investment criteria, not the partner country's criteria.

[114] Because MCC feedback and suggestions can be extensive, one resident country director (RCD) remarked that while country ownership plays a big role in achieving MCC objectives during implementation, it can sometimes feel more limited during parts of the design phase (Survey conducted by the Center for Global Development).

[115] MCC 2013 (Overview of the Compact Development Process).

[117] Rose and Wiebe 2015a.

diverted more of its own resources (such as additional staff or funding for consultants) into helping countries meet stakeholder outreach requirements. For example, in Sierra Leone, a country with neither strong nor deep experience leading this kind of process, MCC provided resources to train government partners in stakeholder engagement and has been satisfied with the quality of the resulting engagement plan and the process of consulting stakeholders on draft outcomes of the constraints analysis.[117]

MCC's consultative process has also evolved from a series of one-off conversations to regular communication with stakeholders throughout the life of the program. One way that many compact countries approach this is through the establishment of a stakeholder committee for input and feedback throughout implementation. In some countries, such as El Salvador, these committees are active. In others, they meet infrequently or not at all. One resident country director remarked that the stakeholder committee in his or her country was not very effective because it lacked both resources and authority in implementation.[118] Part of the inconsistency
in stakeholder committee involvement stems from having both little guidance on how to make these structures functional and few resources to support them, although apparently MCC is working on this.

In El Salvador, consultations were instrumental in refocusing one of the first compact's proposed programs to be more aligned with the interests of the beneficiaries. The government originally proposed reforesting the Northern Zone by paying farmers to plant trees; payments would be made a significant period of time after the time of planting. Consultations revealed that there would be few incentives for poor farmers to participate, and that what the farmers really wanted was training on high-value agriculture. The government responded to this feedback by changing the focus of the program to training, crop insurance, and loan guarantees.

On the other hand, there were some initial limitations to the Salvadoran consultative process that threatened local buy-in. Because the first compact focused on regional development in the Northern Zone, a number of Salvadorans expected that the second compact would also take a regional approach, likely targeting the Coastal Zone. The National Development Strategy's emphasis on regional development reinforced this belief. Consultations around the second compact, however, did not effectively convey that there had been a shift away from the regional angle. Citizens conveyed their frustration, and the MCC and Salvadoran core team, realizing the high expectations Salvadorans had for coastal development, agreed to invest in infrastructure development along the coast.[119]

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[117] Rose and Wiebe 2015a.

[118] Survey conducted by the Center for Global Development.

[119] Based on interviews with FOMILENIO staff and Salvadorans involved in the development of El Salvador's National Development Strategy.

Policy Conditions

All MCC compacts include policy conditions that the partner government agrees to complete as part of the partnership. Often, the need for reform emerges from an analysis of the root causes of the constraints to growth revealed in the constraints analysis. In many cases, conditions are policy or institutional reforms that governments were already discussing with other donors. In other cases, a partner government identifies the need for reform. Still other conditions are specific to MCC's requirements, put in place to ensure compliance with things like the agency's standards for environmental and social safeguards.

According to MCC field staff, giving countries the lead in defining MCC investments is instrumental to getting them to focus on alleviating the accompanying policy or regulatory obstacles.[120] One resident country director noted that country ownership of the program was critical to getting the budgetary and legislative (resettlement law) changes that were necessary to support implementation.[121]

There is no systematic information about the completion of compact conditions by partner countries, but MCC often highlights anecdotes that suggest countries do undertake important reforms as a part of their MCC partnerships. Conditions can be particularly useful in supporting country counterparts to push through reforms more quickly in the face of competing domestic interests.[122] In Lesotho, for example, Basotho counterparts identified the need for a change to the legal status of married women, who essentially had minority status under the law. MCC's inclusion of this condition provided the leverage that helped empower supporters of the reform in Lesotho to push through the changes, resulting in the passage of the Legal Capacity of Married Persons Act in 2006.

In Liberia, MCC set the passage of a revised energy law as a condition for signing. MCC, along with several other donors, including USAID, presented the changes it wanted to see based on best practices from other energy investments, and MCC briefed the legislature on the proposed changes. USAID had already done extensive work in drafting the text of the legislation with Liberian government officials before MCC arrived in the country.[123] The government of Liberia accepted the proposed package, and it passed into law. In this case, MCC's conditioning the signing of the compact on the passage of the law was helpful in expediting the process. Other donors involved in the energy sector had been engaged in an ongoing dialogue about the necessary changes, but they had continued to simultaneously make investments, reducing the incentive for action. Thus, in this instance, the incentive of MCC's compact helped the government push through priority legislation that had been previously politically mired.

In some cases, countries struggle to fulfill the conditions. There are many possible reasons for compliance delays, but low levels of ownership can play a role. While MCC's tight time

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[120] Survey conducted by the Center for Global Development.
[121] Survey conducted by the Center for Global Development.
[122] Drazen 2002.
[123] Interviews with authors during country case study visit to Liberia, January 2016.

line for compact implementation can help expedite reforms, it can also compromise them if time pressures result in short-circuiting the necessary domestic political processes that build buy-in. In some cases, partner governments agree to adopt reforms or standards in principle, but their will to actually implement them is low, such as in Mozambique, where the compact contained a condition for the government to undertake reforms of the processes for transferring and acquiring land rights. This is a deeply political issue in Mozambique, so the government was slow to move on this condition and was ultimately unwilling to undertake the necessary reforms. What the government eventually passed, after much delay, focused only on narrower policy issues.[124]

Some countries meet the conditions during the compact but then later back off on their continued implementation, which signals weaker ownership of the investment. The government of Honduras met the condition to increase funding levels for road maintenance, but subsequent allocations for maintaining the roads were below necessary estimated levels.[125]

MCC often seeks to avoid the tensions that emerge out of incomplete ownership by having a country contribute to the content of the condition. In Liberia, reforms and adjustments to the Liberia Electricity Corporation were required so it could supply increased levels of electricity generation and distribution. The government of Liberia agreed to a third-party evaluation to identify alternative management structures for the corporation. MCC then conditioned the compact on the government making its own decisions about reforming the corporation based on the findings of the report.

Ownership of Implementation

Once a compact is signed, the partner country takes the lead role in implementing it. The partner government establishes an accountable entity called a Millennium Challenge Account (MCA) to manage all aspects of the compact, including coordination with government ministries, maintenance of project time lines, procurement, management of contracts with implementers (such as construction firms), completion of environmental and social assessments, monitoring and evaluation tasks, and progress reports to MCC on finances and compact results.[126] The government can establish the MCA within an existing government institution or, more commonly, as a separate entity.[127]

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[124] Rose and Wiebe 2015a. The fact that the condition was ambiguously worded allowed the government of Mozambique more flexibility in how it interpreted the requirement.

[125] GAO 2011.

[126] In Liberia, there is an exception to this structure. A portion of the compact is managed by a Millennium Challenge Account, but the bulk of compact funding is run through a preexisting, multidonor financed project implementation unit. However, the spirit of country ownership is preserved because the unit's staffing and governance are largely Liberian. In addition, although the MCA board of directors does not oversee the work of the project implementation unit, there is a substantial intersection of key players: the MCA board includes the minister of energy and the minister of finance, who also serve on the board of the Liberia Electricity Corporation.

[127] MCAs have taken various forms. In Vanuatu, it was a unit within the ministry of finance; in Nicaragua, it was established as a foundation; and in Ghana, it was set up as a new government authority.

A local board of directors oversees the MCA. The partner country government appoints board members, who often include high-level government officials, particularly from ministries relevant to the compact; representatives from the private sector; and civil society leaders. Almost all surveyed resident country directors highlighted the MCA and its board of directors as the most useful mechanisms for applying country ownership principles in a partner country.[128] Virtually every activity in compact implementation requires a decision on the part of a local decision-maker, which increases ownership of—and support for—the activity.

In some cases, local involvement in implementation extended beyond the MCA and board of directors. In El Salvador, the MCA received additional formal input from a committee of mayors and diaspora groups in four US cities. The engagement of Salvadorans gave the MCC compact significant visibility compared with other US government programs as well as regular press coverage.

MCC's role in executing the compact involves providing oversight, guidance, and technical assistance to verify the accountable use of funds and help ensure expeditious implementation. MCC's in-country footprint is small—typically just two staff persons per compact—but Washington, DC-based staff are deeply involved in every program and regularly travel to partner countries.

The extent of MCC's oversight is tailored to specific country contexts, depending on the level of experience and capacity of the implementing actors.[129] The number of required formal approvals can change over the course of compact implementation. Countries that are unprepared to lead all aspects of implementation at the outset can take on increasing leadership responsibilities as the flow of procurements slows and as the MCA demonstrates its ability to operate in line with MCC's standards and requirements.[130] MCC offers a number of tools to help a country fulfill its leadership role. Learning from early compacts in which the MCA spent the first year or more of implementation devising its own administrative procedures, MCC created standardized templates for operation manuals, financial plans, and bidding documents, among other items, making it easier for the MCAs to comply with MCC regulations.[131] In addition, MCC tries to front-load capacity building of the MCA prior to implementation so it is better prepared to assume its responsibilities once the compact is underway. Even so, MCA staff note that trying to implement a compact under a strict five-year time line while simultaneously building a brand-new organization is challenging. Toolkits are helpful but do not address issues related to organizational culture that can influence the speed of implementation.

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[128] Some staff mentioned that boards can sometimes be a hindrance to efficient implementation, especially in high-capacity countries, because when they want to, they can "drag their feet." Indeed, a number of resident country directors identified increased time-intensiveness and delays as the biggest challenge to a country ownership approach.

[129] Mandaville 2009; Rose and Wiebe 2015a. In addition, MCC staff have acknowledged that there is a range of leadership and project management capacity among MCAs and, where it is weak, MCC is more in control.

[130] Interviews with authors.

[131] Lucas 2007.

The pressure on MCC compacts to achieve time-bound results sometimes leads to an increased decision-making and problem-solving role for MCC. Resident country directors responding to the Center for Global Development's survey reflect this in the ranking of a list of challenges to the application of a country ownership approach. Most (8 out of 10) ranked the statement "a country ownership approach can be more time-intensive and delay project design, implementation, or results" as one of their top two challenges. MCC recognizes:

> 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.[132]

A resident country director echoed this sentiment, saying that risk aversion and MCC's need to be accountable to management for compact performance sometimes leads Washington, DC-based teams to give directives to MCA teams rather than build their capacity. Another noted that the MCA cannot make any significant decisions without MCC's sign-off. This creates resentment in some cases, especially when MCC's insistence on granting its approval contributes to delays.[133] On the other hand, MCC's role in decision-making is sometimes welcomed. Certain board members overseeing the work of El Salvador's MCA found MCC's involvement helpful, particularly when a politically sensitive decision polarized domestic stakeholders.[134]

Use of Internal Procurement and Financial Management Functions

MCC allows countries the option of using an existing government entity to fulfill procurement and/or financial management functions.[135] This does not strictly constitute "using country systems" as advocated by various international agreements on aid effectiveness, which would entail using a country's own procedures for reporting, auditing, and other functions. Instead, MCC offers the option of country institutions running

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[132] Lucas 2011.

[133] Survey conducted by the Center for Global Development.

[134] Interviews with authors.

[135] Typically, donors do not "use country systems" for procurement in the pure sense of the term, which would imply using the country's procurement processes, procedures, and reporting. Instead, using "country procurement systems" usually refers to donors using country institutions to run procurement based on their own systems and requirements. Normally, any donor using country systems is running procurements through country institutions using the donor's systems. Currently, with the exception of funds provided as budget support, no donors use partner countries' entire procurement systems for large investments. The World Bank can do so for investments below a certain threshold.

procurements or conducting financial management functions based on MCC's rules and guidelines. Selected institutions include existing ministries, such as the Government Tender Department in Jordan. Sometimes, the MCA assumes these functions, such as in El Salvador. In the first El Salvador compact, the MCA took over the responsibilities of the procurement agent halfway through the compact. According to one MCA staff member, the move resulted in nearly $1.5 million savings over the compact period.[136]

Despite the potential cost savings, internal procurement and fiscal agents are used infrequently. Most MCAs hire commercial fiscal and procurement agents, partly because many countries do not meet MCC's minimum standards. (MCC conducts due diligence on the proposed institutions to determine whether they meet the agency's criteria to conduct procurements and financial management processes.) In addition, partner countries often perceive certain advantages coming from outsourcing financial management and procurement functions. An external procurement agent, for example, can help reduce political pressure to spend money in certain ways, and it can protect the government from rumors of corruption. Given the sheer number of contracts in an MCC compact, it can help expedite implementation and avoid overwhelming a ministry's own capacity.[137] Similarly, countries often find value in having an external fiscal agent responsible for and answerable to audits.

Although an emphasis on using of "country systems" has been part of international aid effectiveness agreements for years, MCC's experience suggests that ownership can also occur when a country is given a choice about the best way to implement its program, even if that choice is not to use its own institutions. Indeed, countries using commercial procurement agents still exercise substantial ownership over the procurement process by developing the substance of the investment and by writing the terms of reference.

Nevertheless, MCC is taking steps to increase the procurement responsibility undertaken by partner countries. Because the most intense procurement period is at the beginning of the compact, some countries are taking on the responsibilities of the procurement agent once this initial contracting surge is over.

MCC expressed an interest in focusing more attention on the use of internal procurement processes in countries with a second compact. However, because there is typically a gap between the closure of the first compact and the beginning of the second, many staff persons with expertise in MCC procurement standards involved in the first compact move on to other employment opportunities, which presents a challenge. There is also the question of country interest. Tanzania was interested in using more of its own systems in its (suspended) second compact, but Georgia, a country with the capacity to take on these roles, was not.

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[136] Based on interview with authors.

[137] The first Ghana compact by itself included 855 separate procurements.

Local Procurement

MCC conducts open international bidding, which means no preference is given to companies or organizations from any particular country. Local firms can, of course, compete on the basis of price and ability to execute the contract. MCC and the MCAs have outreach events in partner countries encouraging local firms to participate in MCC-funded procurements. In practice, however, most large compact contracts are given to international firms, largely because few partner country firms have expertise in large infrastructure projects and the like. Increasing local procurement is not a core MCC objective. The agency's emphasis on country ownership of procurement is more about localizing decisions about what to buy.

Monitoring and Evaluation

MCC does not offer specific guidance on how to incorporate ownership into monitoring and evaluation, but the agency looks for ways to incorporate country ownership principles throughout the process. MCC staff note that the most important way to incorporate country ownership is to make sure both parties are clear about the intended program results. As such, the monitoring and evaluation plan, which includes indicators, targets, and research priorities, is authored by the MCA and approved by MCC.

In practice, the level of buy-in to intended results is mixed. For example, countries often have limited ownership of the indicators used to monitor progress because many must be defined according to MCC's common indicator standards. Targets are also often largely influenced by MCC because they emerge from a cost-benefit analysis that is frequently developed with substantial agency input.

Despite these limitations, the process of monitoring is decidedly country-led. The MCAs do all the data collection and report back to MCC. Where possible, MCC tries to rely on data collected by the national statistical organization, but the extent to which they are able to do so depends on the capacity of the organization's staff and the data they collect. For El Salvador's second compact, for example, MCC is able to use national data for some indicators of interest and is using the General Directorate for Statistics and Census for many of its evaluation surveys. As part of this partnership, MCC, in coordination with other donors, helped train data collectors and worked with the agency to improve its electronic data collection processes.

In terms of evaluation, it is typically MCC, not the MCA, which hires and manages contracts with independent evaluators. However, MCC requires that the evaluators engage with local stakeholders—the MCA, the relevant government ministries, and other local stakeholders with an interest in the results—at every stage of the process. MCC staff say that the most important criteria for there to be country ownership over the evaluation process are partner country interest in what the evaluation results will reveal and support for the methodology and data collection process. When these two conditions are not well cemented, there can be

tension between country ownership and MCC's commitment to evaluation. MCC staff noted that while in-country stakeholders are often theoretically receptive to the idea of evaluation, disinterest or even opposition sometimes emerges for a variety of reasons, including:

- *Different needs.* MCC uses evaluations for accountability and learning. MCC staff note that while partner countries can be interested in some of the learning potential of an evaluation, local stakeholders often have less interest in the kinds of accountability questions that are important to MCC.

- *Time tradeoffs.* Staff noted that evaluation is the first thing partner countries want to cut or change when they learn how it might slow implementation.[138]

- *Opposition to evaluation methods.* Partner governments sometimes express discomfort with the methods necessary to conduct a rigorous evaluation. Impact evaluations require a credible estimate of what would have happened without the program. In many cases, the best way to do this is to identify a group of potential beneficiaries that is larger than the program can serve, meaning that some (ideally randomly selected) will receive program benefits and others will not, at least at first. This can generate opposition from governments uncomfortable with intentionally withholding program benefits from certain groups and/or that, for political reasons, want more say in terms of which groups of people the program will benefit. On the other hand, some countries value the random assignment of beneficiaries because it provides a display of government fairness.[139]

- *Low ownership of implementation.* Ideally, MCC wants a country team to feel ownership of their successes and failures, although this is difficult in practice because an MCA team disbands at the end of a compact, well before most evaluation results are available. It is therefore important that there be interest in the evaluation by the government outside the MCA. Government ministries that feel a low level of ownership over a project's implementation—perhaps because it took place during a previous administration—may not care as much about the evaluation results.

- *Timing of results.* If the results of an evaluation are not available in time to influence an upcoming national decision, country partners may not be very interested in them when they are released. For example, MCC finds that the Salvadoran ministry of education has little interest in an impact evaluation of a pilot education project that is scheduled to be rolled out at the national level before the evaluation results would be available. Additionally, there may be a transition of government by the time the results are released, rendering previous accountability and feedback mechanisms obsolete.

Given these potential sources of opposition, MCC's commitment to evaluation must balance its internal learning and accountability agenda with the willingness of local partners to accept proposed research questions and protocols. In some cases, this means overriding local

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[138] Partner country governments pushed back on planned impact evaluations of education projects in Georgia's and El Salvador's second compacts.

[139] Rose and Wiebe 2015a.

preferences; in others, it means building local demand for learning around a common set of questions and indicators.

In El Salvador, MCC found that local interest in evaluation results was higher when the project implementer was a local organization rather than an international firm. MCC often found it helpful to engage government actors around the learning potential of evaluations by broadening the interest and ownership of evaluations beyond the MCA. For example, toward the end of the first El Salvador compact, MCC started working with a technical unit in the office of the presidency to become a post-compact point of contact. The unit was interested in learning about evaluations, both related to the compact program and as a practice more broadly; many unit members participated in monitoring and evaluation training at the end of the first compact. In addition, MCC held an "Evidence Summit" where participants discussed how learning from the first compact and from other organizations' evaluations could be applied to inform policy making related to the sectors included in the second compact.

Transparency

MCC includes transparency and accountability as a core part of its commitment to country ownership. The agency acknowledges that transparency "promotes effective development by helping recipient governments manage their aid flows and by empowering citizens to hold governments accountable for the use of foreign assistance."[140]

MCC is far ahead of other US foreign assistance agencies—and most other donors globally—regarding the extent to which it makes its aid transparent.[141] MCC publishes compact agreements; practices open, transparent procurements; publishes quarterly reports, including key indicators' performance toward targets; posts closeout economic rates of return; and releases independent evaluations along with the data behind them.

Despite its superior transparency record, some gaps exist that limit the ability of partner country stakeholders to fulfill monitoring and accountability roles. Specifically, MCC does not provide a clear description of the link between program indicator targets and projected benefits from the cost-benefit analysis, nor does it publicly discuss or provide its justification for decisions regarding the rescoping of projects at mid-implementation, including the relevant data, in a timely way.[142] The publishing of results is often delayed. The agency has been slow to publish evaluation results, and quarterly reports detailing progress toward targets are sometimes several quarters out of date.[143]

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[140] MCC 2015.

[141] Publish What You Fund's annual Aid Transparency Index—which measures the extent to which donors are fulfilling their commitments to publish aid data to the International Aid Transparency Initiative (IATI) standard—consistently ranks MCC top among US agencies, and in recent years, among the top three donors worldwide.

[142] Rose and Wiebe 2015a. MCC has begun including in its compact closeout reports discussions about rescoping, but that is too late for interested external stakeholders to weigh in on the process.

[143] Rose and Wiebe 2015b. As of July 2016, most of the quarterly status reports for open compacts were two or more quarters old (most reflected the fourth quarter of 2015; some were as old as the third quarter of 2015).

Ownership of Resources

MCC works with partner countries to mobilize domestic resources for development in three ways: through co-financing requirements (either at the compact or project level), by conditioning aid on longer-term resource commitments, and through programmatic support for domestic resource mobilization.

MCC legally requires co-financing by lower-middle-income country governments in support of compact objectives. MCC's legislation states that compacts with lower-middle-income countries must include a contribution from the country "relative to its national budget, taking into account the prevailing economic conditions, toward meeting the objectives of the compact. Any such contribution should be in addition to government spending allocated for such purposes in the country's budget."[144] Contributions by counterpart governments are not publicly documented in a uniform manner, and a minimum amount is not specified, but the information available shows lower-middle-income country co-financing ranging from 11 percent (Morocco's first compact) to 71 percent (El Salvador's first compact).[145]

A country entering into a second compact is expected to contribute its own budgetary resources toward achieving the compact's objectives, but this is a matter of MCC policy, not a legal requirement. Low-income countries are expected to contribute at least 7.5 percent of the total MCC contribution; the minimum for lower-middle-income countries is 15 percent. One country, El Salvador, exceeded the minimum contribution by planning to spend $88 million on compact objectives in its second compact, representing over 30 percent of the value of MCC's investment. As table 1 shows, when a minimum amount was not specified, a country tended to provide a larger contribution.

Co-financing requirements can also exist at the project level. For instance, the Indonesia compact's Green Prosperity Facility awards grants to applicants for community-based, renewable energy; sustainable natural resource management; and forest- and land-use projects. The grant partner (private sector or local government) must provide at least $1 million of its own funds per project and MCC funds will match it at a 1:1 basis or less.[146] Morocco's second compact will include a similar facility-based project.

In addition to co-financing requirements, MCC often builds conditions into a compact that require partner governments to plan for or better manage the resources necessary to sustain MCC (and other) investments. For example, the Nicaragua compact was conditioned on the passage of a bill to establish a new gas tax to secure funds for a road maintenance fund. Compacts in Senegal, Mozambique, and Liberia included conditions for an action plan to improve road maintenance programs, including funding for planning and management. MCC has increasingly sought to actively build ownership and sustainability of its large infrastructure projects into the compact design and implementation.

Similarly, most open compacts' tables of key performance indicators had not been updated in five months and reflected the fourth quarter of 2015.

[144] Millennium Challenge Act of 2003 2004, sec. Division D.

[145] For Morocco, the figure includes government financing for activities during implementation and after compact closure.

[146] MCA Indonesia n.d.

Table 1. Partner Country Co-financing as a Percent of MCC Contribution

Compact	Co-financing % of compact total
Lower-Middle-Income Country First Compacts Percent, no minimum requirement	
El Salvador	71
Indonesia	n/a
Jordan	27
Morocco	11
Namibia	54
Lower-Middle-Income Country Second Compacts Percent, minimum requirement: 15%	
Cape Verde	15
El Salvador	32
Georgia	15
Morocco	15
Low-Income Country Second Compacts Percent, minimum requirement: 7.5%	
Benin	7.5
Ghana	7.5

Source: Compact agreements for the listed countries can be found at www.mcc.gov.

MCC contributes a small portion of program funds across a number of countries to support the efforts of partner governments to increase their domestic resource base. In some cases, projects are specifically geared toward domestic resource mobilization. The objective of the Philippines compact's revenue administration reform program, for example, is to increase tax revenues through the implementation of an electronic tax information system and to support initiatives to detect and deter corruption within revenue agencies.

In most cases, however, support for improved domestic resource mobilization is a small component of a larger project. For example, the Burkina Faso compact's integrated water resource management activity, part of a larger agriculture development project, included

support to the government to develop water resource management plans that improved proper levying of water use fees, among other things. The Namibia compact's education project supported the creation of a levy system to finance vocational training.

Recommendations to Improve Implementation of Country Ownership

Through USAID and MCC, the United States has made steady—if uneven—progress toward implementing ownership approaches around the world. The value proposition of incorporating an ownership approach into development activities has been largely accepted in US development policy; questions about how best to implement the principle remain.

Whether through ownership of priorities, implementation, or resources, employing an ownership approach has no single pathway or modality. It falls to agency headquarters to work hand-in-hand with country offices to marry context-specific approaches to the principles of country ownership. Recognizing that multiple US actors have a role to play in furthering the implementation of country ownership, the following recommendations offer practical ideas for improving the ways US development agencies institutionalize and enact their commitment to country ownership.

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

> *The administration should:*
>
> - **Work with Congress to prevent burdensome spending directives.** USAID country missions often find they have little autonomy over their budgets, partly due to congressional spending directives, which results in limited flexibility to fund country-identified priorities.
>
> - **Reduce presidential initiatives and executive branch requests for specific priorities.** A proliferation of initiatives has contributed to the reflection of Washington, DC-based priorities in country strategies and programming.
>
> *Congress should:*
>
> - **Allow "effectiveness pilots"** in a small number of countries whereby directives and executive-imposed initiatives would be reduced or eliminated. The pilots would give USAID the necessary flexibility to respond to local priorities and increase the potential for more sustainable results.
>
> *USAID should:*
>
> - **Adhere to more effective aid delivery practices in exchange for flexible spending**. Because spending directives are a type of oversight, increasing flexible spending in pilot countries would need to be accompanied by an alternative form of accountability, preferably accountability for results through commitments to use evidence-based priority setting; public outcome and impact measures; default local

ownership in project design, implementation, and resourcing; and transition planning.

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

Both agencies should:

- **Clarify accepted levels of risk tolerance as they relate to the increased use of ownership approaches,** including having a realistic appetite for risk related to a potential outcome, not input. Risk mitigation strategies should be context specific, responding to the projected results from and size of a given project.

USAID should:

- **Socialize the agency-wide conception of country ownership established in its new operational guidance and the approaches used to promote it.** Prior to the 2016 ADS revisions, references to policies and practices that fit within the rubric of country ownership were inconsistently scattered throughout multiple policy and operational documents. Now that USAID has issued a definition of local ownership, it is easier for leadership in Washington and in the field to emphasize it and encourage greater accountability for its implementation. Because guidance is only as good as its implementation, however, USAID should ensure clear communication to missions around expectations for its implementation.

MCC should:

- **Finalize and make public updated guidance that reflects current partnership expectations and explains new diagnostic and analytical tools.** The compact development guidance available online is from May 2013 and does not reflect changes the agency recently made to combine separate diagnostic tools into a single integrated effort. MCC has also adjusted the way it couches its expectations for country and MCC roles in several compact development steps.

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

USAID should:

- **Increase local stakeholder involvement in program design in accordance with new guidance.** USAID Forward shifted much of the responsibility for program design from contractors to USAID staff. Although guidance suggests the involvement of local stakeholders, the US government still largely designs the projects to be implemented. A more comprehensive approach to country ownership would include creating systematic channels through which local actors identify priorities for implementation and giving local stakeholders a real role in proposing

projects and designing requests for proposals. New guidance promises positive movement in this direction by requiring a plan for meaningful and consistent engagement with local actors throughout project design and implementation, but the value of this shift will come only if it is seriously implemented.

- **Look for efficient opportunities to disaggregate large, complex projects into smaller activities.** Prime implementing partners of USAID contracts often use local subcontractors to implement a portion of the agreement or contract. These local firms typically cannot compete for the large project, but they may be well qualified to conduct components of it. Disaggregating large projects into smaller activities—only if it is programmatically and cost efficient to do so—could allow local firms to bid directly on work.

MCC should:

- **Encourage the use of internal procurement and fiscal agents in appropriate circumstances.** In some cases, MCC partner countries have fulfilled their compact's fiscal and/or procurement functions. The choice of using internal procurement and fiscal agents is typically presented during compact development, but MCC could encourage this option more, particularly with countries implementing a second compact. Internal procurement and fiscal functions will not be the right choice in all cases, however. Some countries will not meet MCC's standards. Other countries may decide that using a commercial agent presents clear advantages, like shielding the government from political pressure to spend money in particular ways and protecting it against corruption allegations.

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

Both agencies and Congress should:

- **Expand the use of results-based financing.** The US government should adopt a more hands-off approach to institution building and development. Instead of prescribing interventions, more US foreign assistance should encourage innovation and adaptation in pursuit of results. With results-based financing mechanisms, the US government pays for achieved outcomes but gives the partner country the flexibility and discretion to experiment and identify the best ways to achieve them within the local context. The newly revised ADS encourages the design of more flexible programs, promotes learning, and minimizes obstacles to program modifications, all of which are promising for greater uptake of results-oriented programming by USAID. MCC also recently incorporated results-based financing mechanisms into some of its recent programming. Both agencies should be encouraged to continue to experiment with these innovative approaches and to document learning from them.

USAID should:

- **Incorporate explicit measures of program results and value for money into Local Solutions.** The objectives of Local Solutions are valuable, but too much emphasis on the nationality of the contractor or implementer at the expense of a focus on program quality can risk weak results and compromise the reputation of Local Solutions itself. USAID should incorporate explicit program performance metrics and take steps to include cost-effectiveness and cost-efficiency analyses in more of its local procurement decisions. In some cases, less costly local providers may deliver better (or equivalent) results than international providers; in other cases, more expensive implementers may deliver greater value.

MCC should:

- **Continue to balance its emphasis on country ownership with its focus on results.** MCC should continue having countries in a leadership role for proposing investment projects, but it should only approve country preferences if they are projected to address binding constraints to growth in a cost-effective way. MCC has a good track record in this area, but continued emphasis on the importance of the agency's results framework is important to minimize the selection of large investments that do not meet the agency's criteria for cost-efficient growth promotion.[147] Similarly, MCC should pursue mid-course reprogramming decisions by balancing country preferences with updated projections of expected results.

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

USAID should:

- **Have a mission-level focus on identifying and nurturing potential local partners and systems.** How this will look will vary by mission. In the three country case studies undertaken as a part of this research, missions with dedicated Local Solutions and/or USAID Forward staff had great results in incorporating ownership approaches. In these missions, the dedicated position allowed for the identification and cultivation of local systems to further development programs in a given country. However, the case study countries are not representative of all USAID missions, and this approach may not be as useful in other contexts. With or without dedicated Local Solutions staff, it is important for mission directors to cultivate a whole-of-mission orientation toward local ownership so that all program-oriented staff seek to identify the local systems and actors relevant for achieving the mission's objectives.

- **Ensure ample personnel and resources to realize ownership approaches across programs.** As a requirement for G2G awards above a certain amount, missions should track how much PFMRAFs cost

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[147] Rose and Wiebe 2015b.

(monetarily) and how much time they take to conduct. When considering a G2G award, it is necessary to calculate what these costs are relative to a mission's operating expense and staff budgets. Without adequate financial and human resources, mission staff will not be incentivized to seek new opportunities for G2G awards.

- **Impart ownership objectives to mission staff across offices and functions.** Because Local Solutions departs from a business-as-usual approach, it brings with it additional risks that mission staff must weigh. When mission directors highlight Local Solutions as a priority, explain its objectives, and ensure that financial and legal teams are at the project design table from the start, there is greater consensus around risk appetite to achieve a set of results within the shared objective of increasing ownership.

MCC should:

- **Ensure that its Department of Policy and Evaluation has a country ownership focal point.** Three guiding principles underlie MCC's core model: aid should reward and build on good governance; focusing on measuring results is important; and country ownership is key to effective and sustainable programs. The agency's policy department has units devoted to the first two of these; country ownership, however, has no single home. Instead, responsibility for country ownership is diffused among different groups within the operations department. A policy-level country ownership focal point would have a comprehensive understanding of—and be able to draw linkages between—the agency's various practices in order to promote ownership. It could also work with operational staff to build internal knowledge management around the agency's various approaches to country ownership and use lessons to help refine guidance and policy.

- **Continue to provide technical support on a case-by-case basis to improve stakeholder engagement in partner countries.** Countries vary widely in their experience with and capacity to conduct stakeholder engagement and set up effective structures for regular feedback (such as a stakeholders committee). MCC offers its own staff specialists—and sometimes hired consultants—to help countries with the process. Refining guidance on how to make stakeholder engagement structures effective and continuing and potentially increasing resources devoted to improving the quality of stakeholder engagement could promote greater consistency of the quality of consultations undertaken across countries.

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

USAID should:

- **Create metrics to define and measure the outcomes and impact of ownership.** The agency currently tracks inputs into realizing ownership of implementation, but it should go further and develop metrics to quantify

the impact of ownership approaches on development results and sustainability. Key parts of this agenda could include evaluating the capacity-building objective of Local Solutions and increasing the number of ex-post evaluations.

- **Develop process indicators to capture ownership approaches in project design.** Agency guidance encourages important but hard-to-measure efforts to consider local systems and involve local stakeholders in project design. A series of process indicators could help enumerate the types of steps missions could undertake to achieve these objectives, recognizing that specific approaches will vary by mission and context.

- **Improve access to evaluations of capacity-building programming.** It is nearly impossible to find evaluations of the Local Solutions-related capacity building efforts on the agency's online evaluation portal—the Development Experience Clearinghouse. USAID should make Local Solutions evaluations a searchable criterion.

- **Enforce compliance with the requirement to report subawardees.** The Federal Funding Accountability and Transparency Act (FFATA) requires that prime contractors for USAID (awards over $25,000) report their subcontractors to the FFATA Subaward Reporting System (FSRS). Compliance has been far from complete, however, suggesting USAID must take additional steps to ensure reporting by primes. Since subcontractors are often local entities, having this documentation complete could enable a more thorough understanding of how involved local partners are with implementation outside the scope of Local Solutions.

MCC should:

- **Document and publish lessons learned from experiences using partner country procurement and fiscal agents.** This reporting could help stakeholders understand how MCC and its partner countries decide to use in-country entities to run MCC-funded procurement and fiscal actions, explain where the agency has experienced pitfalls and challenges, and provide insights into how to make such arrangements more effective.[148]

- **Audit compliance with past conditions and regularly publish progress on current conditions.** MCC should assess and systematically report on the completion of conditions included in the compact. It should link this assessment with an examination of the level of ownership of the condition, including whether local actors contributed to the content of the condition and where, if relevant, sources of opposition to completion existed.

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[148] MCC could produce such a report as part of its *Principles Into Practice* series and/or report on country-specific experiences as part of compact closeout reporting.

Appendix 1. References to Ownership in USAID Policy Documents, Guides, and Strategies

The table below illustrates the wide variety of references to country ownership in various USAID policy and operational documentation.

Policy	References to Agency-wide and/or International Principles of Ownership	Priorities	Imple-mentation	Resources	M&E
Biodiversity Policy	USAID Forward; USAID Policy Framework (2011–2015); Paris Declaration	X	X	X	X
Climate Change and Development: Clean Resilient Growth Strategy	USAID Forward	X			X
Policy on Cooperation with the Department of Defense		X			
Counter Trafficking in Persons Policy	USAID Forward		X		
Strategy on Democracy, Human Rights and Governance	USAID Forward; PPD-6; QDDR; USAID Policy Framework (2011–2015)	X	X	X	X
Education: Opportunity Through Learning Strategy	USAID Forward; Paris Declaration; Accra Agenda	X	X		X

Appendix 1. References to Ownership in USAID Policy Documents, Guides, and Strategies

Ending Child Marriage and Meeting the Needs of Married Children: The USAID Vision for Action		X		X	
Vision for Ending Extreme Poverty	USAID Local Systems; USAID Policy Framework (2011–2015)	X	X	X	
Evaluation: Learning from Experience Policy	Foreign Assistance Act; National Security Strategy; QDDR; Paris Declaration; Busan Partnership	X	X		X
Gender Equality and Female Empowerment Policy	USAID Forward; USAID Policy Framework (2011–2015)	X	X		
Health Systems Strengthening Vision		X	X	X	X
LGBT Vision for Action: Promoting and Supporting the Inclusion of LGBT Individuals	USAID Policy Framework (2011–2015)		X		
Local Systems: A Framework for Supporting Sustained Development	USAID Policy Framework (2011–2015); PPD-6; Paris Declaration; Accra Agenda; Busan Partnership; USAID Forward	X	X	X	X
Multi-Sectoral Nutrition Strategy 2014–2025		X	X	X	X
Ending Preventable Maternal Mortality: USAID Maternal Health Vision for Action		X	X	X	X

Appendix 1. References to Ownership in USAID Policy Documents, Guides, and Strategies

Guidance for Programming in Closed Spaces					
Scientific Integrity Policy	USAID Forward; Foreign Assistance Act	X	X		
Scientific Research Policy	USAID Forward	X	X		X
Building Resilience to Recurrent Crisis Policy and Program Guidance	Busan Partnership	X		X	X
Sustainable Service Delivery in an Increasingly Urbanized World Policy	USAID Policy Framework (2011–2015); QDDR; PPD-6; USAID Forward	X	X	X	X
The Development Response to Violence Extremism and Insurgency: Putting Principles Into Practice Policy	QDDR; USAID Forward	X	X		X
Water and Development Strategy 2013–2018	USAID Forward; USAID Policy Framework (2011-2015); PPD-6; QDDR			X	
Youth in Development: Realizing the Demographic Opportunity Policy	USAID Forward; PPD-6; QDDR; USAID Policy Framework (2011–2015)	X	X		

Appendix 2. A Note on Methodology

This appendix details the methodology behind *Implementing Ownership at USAID and MCC: A US Agency-Level Perspective*. Where possible, the authors also noted methodological choices in the body of the report.

Document Review

To understand and capture how USAID and MCC conceptualize and implement country ownership, the authors undertook an extensive document review of both agencies and the wider US government. The authors only reviewed documents that were publicly available between September 2015–September 2016.

For USAID, the authors analyzed all publicly available agency-wide strategies, vision statements, and policy guidance. The authors also reviewed all available Country Development Cooperation Strategies during the research time period. The authors undertook an extensive review of the Automated Directives System (ADS) with a particular emphasis on Chapters 200 and 201. USAID revised and updated these ADS Chapters in September 2016. The report focuses on previous ADS chapters that guided ownership implementation in recent years but also takes care to reference where new ADS guidance has sought to expand and further use of ownership approaches. For the three country case studies—Liberia, El Salvador, and Kosovo—the authors further analyzed numerous country-specific documents, including sector strategies, project reviews, and country-level assessments.

For MCC, the authors similarly analyzed all publicly available agency-wide strategies and policy guidance. Ownership-specific policy guidance from the MCC featured heavily in MCC analysis. The authors further analyzed case country-specific documents, including diagnostic assessments, evaluations, and country-specific briefs.

Finally, the authors analyzed a number of key US government development policy documents, as noted in the report's reference list.

Survey on US Agency Approaches to Country Ownership

The authors disseminated a survey on country ownership practices to all current USAID Mission Directors and all current and former MCC Resident Country Directors from February–March 2016. The survey was sent to 68 USAID mission directors, of which 18 responded in full; and to 32 current or former RCDs, of which 10 responded in full. The total survey response rate was 28 percent.

The survey asked the following questions of USAID mission directors:

1. How do you define country ownership?
2. What role does country ownership play in achieving USAID's objectives at your mission?
3. Has USAID headquarters communicated its principles on country ownership and how they should be applied at the mission level?
4. What are the greatest challenges to applying a country ownership approach in your mission?
5. Were country ownership principles embedded in the process of formulating your mission's Country Development Cooperation Strategy (CDCS)?
6. Did your mission solicit local stakeholder input in formulating the CDCS?
7. Which local stakeholders were involved and in what way?
8. Does your mission's CDCS reflect the priorities of local stakeholders?
9. Did administration and congressional directives play a role in your mission's CDCS formulation or programmatic priorities? If so, how?
10. Were country ownership principles embedded in the implementation of your mission's CDCS?
11. Does your mission prioritize working directly with local partners for project implementation?
12. Does your mission use local country systems for fiscal and procurement functions?
13. Is there evidence of greater capacity in local partners as a result of their management and/or implementation of your mission's projects?
14. Does your mission use local country performance monitoring systems?
15. Does your mission mobilize additional domestic resources to achieve mission objectives?
16. Does the commitment of additional domestic resources to USAID's objectives impact your mission's project planning and priorities? If so, how?
17. Do country ownership efforts help USAID achieve its development objectives in your mission?
18. Is there a strategy for your mission to assist the partner country/region to increase its own revenues? Is this a valuable use of USAID resources?
19. What tools, mechanisms, or processes are most useful in applying country ownership in your mission?

The survey asked the following questions of USAID mission directors:

1. How do you define country ownership?
2. What role does country ownership play in achieving the MCC's objectives in your country?
3. Has MCC headquarters communicated its principles on country ownership, and how they should be applied through the compact?
4. What are the greatest challenges to applying a country ownership approach in the compact?
5. Were country ownership principles embedded in the compact development process?
6. Did MCC solicit local stakeholder input in formulating the compact?
7. Which local stakeholders were involved and in what way?

8. Does the compact reflect the priorities of local stakeholders?
9. Did administration and/or congressional directives play a role in compact formulation? If so, how?
10. Were country ownership principles embedded in the implementation of the compact?
11. Does the compact use local country institutions for fiscal functions?
12. Does the compact use local partners for procurement functions?
13. Is there evidence of greater capacity in local partners as a result of their management and/or implementation of MCC compact projects?
14. Does the compact use local country performance monitoring systems?
15. Does the MCC mobilize additional domestic resources to achieve the compact's objectives?
16. Do any of the compact's projects have the objective of increasing the country's own revenues? Is this a valuable use of MCC resources?
17. Does the commitment of additional domestic resources to MCC's objectives impact compact project planning and priorities? If so, how?
18. Do country ownership efforts help MCC achieve its development objectives in your country?
19. What tools, mechanisms, or processes are most useful in applying country ownership in your country?

Country Case Selection

To gain a better sense of how country ownership approaches are implemented in practice, the authors undertook three country case studies. The authors confined themselves to countries with both a USAID mission and an MCC compact (either in the development or implementation stage). The authors then selected three countries—Liberia, El Salvador, and Kosovo—that spanned a range of income and need levels and governance capacity.[149] To measure these elements, the authors used data from the Human Development Index of the United Nations Development Programme (UNDP) and the Worldwide Governance Indicators' Government Effectiveness indicator of the World Bank.

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[149] Subsequent to the visit, Kosovo's eligibility for an MCC compact was shifted to eligibility for MCC's smaller threshold program.

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