Nicaragua Field Report
MCA Monitor
Center for Global Development

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March 2007[1]

The news from Nicaragua is good. The Millennium Challenge Account (MCA) is living up to a number of its key principles—encouraging policy reform, maintaining political independence, promoting innovation and application of best practices, and fostering ongoing consultation. Beyond these broad principles, and despite having only nine months of compact implementation under its belt, the Nicaragua story yields a number of practical, operational lessons.

There are three headline stories in Nicaragua. First is a story of "the MCA effect"—the program's impetus for policy reform even before a single compact dollar was spent. Second is the MCA Nicaragua's (and the Millennium Challenge Corporation's (MCC's)) ability to maintain its independence, and indeed thrive programmatically, through a period of political uncertainty and transition. Third is a story of the MCA Nicaragua as a source of innovation and as a leader on applying best practices. Interestingly, all of these stories share a common subtext—effective consultation and coordination with civil society, local authorities, and central government officials.

The headline stories in Nicaragua are about the strong principles and mission of the MCA program. But at the end of the day, a mission is only as strong as the nuts and bolts of implementation, upon which the Nicaragua case offers a number of practical, operational lessons.

A SNAPSHOT OF MCA NICARAGUA

Nicaragua was among the first round of countries deemed eligible for the MCA in 2004. The country signed a five-year, $175 million compact with the MCC in July of 2005 and the compact "entered into force" (EIF) in May 2006. The MCA Nicaragua (MCAN)[2] is housed in an independent foundation established by the Government of Nicaragua and approved by the National Assembly. The MCAN compact draws on the economic growth and job creation focus of Nicaragua's National Development Plan, as well as on priorities of department-level development plans for the MCAN target area. Nicaragua's initial MCA proposal included four

[1] This report is based on interviews conducted in Nicaragua in February, 2007.
[2] The MCA program is known in Nicaragua by its Spanish name—*La Cuenta Reto del Milenio*, or CRM. In the interest of consistency with other MCA Monitor field reports, this report refers to the MCA Nicaragua as MCAN.

sectors: property regularization, road construction, rural business development, and energy. Through the due diligence process, the MCC determined that the regulatory environment and overall structure of the energy sector were not strong enough to justify investment in energy at the time and thus the final compact covers the three remaining sectors.

The MCAN compact covers two former breadbasket "departments" (like provinces or states) in the northwest of the country, León and Chinandega, and has the following program activities:

- **Property regularization** ($26.5 million): This project aims to strengthen property rights and land use management by conducting cadastral mapping, strengthening capacity in government land administration institutions, formalizing land tenure documents, and legally demarcating the boundaries of four protected areas.
- **Rural business development** ($33.7 million): This project offers technical and financial assistance to small and medium producers to transition to higher-value products and make profitable links to markets, works to attract significant investment to the region, and improves water supply for farming and forestry. This component will also promote sustainable agriculture and forestry practices by prioritizing watershed interventions and offering grants to improve water supply for irrigation.
- **Transportation project** ($93.8 million): This project will improve both primary and secondary roads to help link producers to markets and offer technical assistance to the national Ministry of Transportation and Infrastructure (MTI) and the national fund for road maintenance (FOMAV by its initials in Spanish).

(For much more information on the Nicaragua compact, see the Nicaragua page on the MCC's website: http://www.mcc.gov/countries/nicaragua/index.php.)

Let's take a look at the current status of each of these components:

Property regularization project: The MCAN is working with the World Bank's existing property project, *Proyecto de Ordenamiento de la Propiedad* (PRODEP), a project unit in the Ministry of Finance that coordinates all relevant ministries and government offices in the process of property regularization across Nicaragua, to strengthen institutional capacity, develop a systematic and digital property titling process, and clean approximately 43,000 land parcels in León. The MCAN is also supporting land tenure offices in León in developing technical teams to manage the increased work load of issuing new titles. The MCAN is in the process of contracting a firm to conduct a "cadastral sweep" in León, while the World Bank is supporting the same in Chinandega. (This sweep entails a topographical survey to measure property lines, ascertain the legal history of each plot, and create a basis for future titling.) The MCAN has overseen the formalization of the first 26 new land titles (of the approximate 43,000 total to be administered in León throughout the life of the compact).

Rural business development project: The MCAN is working with small and medium agricultural producers to help them improve quality standards, connect with stable buyers, and increase the price of their products. These activities are taking place under the roughly 250 business plans that the MCAN has developed with producers' groups or individuals to date (thousands more are expected over the life of the compact). Through its partnership with ProNicaragua, a Government of Nicaragua (GON) agency dedicated to attracting investment to

Nicaragua, the MCAN held the first annual investment summit focused on the Northwest region that resulted in a $6 million investment commitment by a Honduran apparel production plant that will create 1,500 jobs this year (with an anticipated 80 percent going to women). The MCAN has bids out for two land management plans for protected areas (out of four planned in the compact) and is working on a third. The MCAN is also on track to plant one million trees (fruit trees, fuel wood and precious woods) this year.

Transportation project: The MCAN is in the process of selecting firms to conduct the feasibility studies, environmental impact assessments and designs for 14 primary and secondary roads totaling 364 km. The studies will take nine months to conduct and will serve as the basis for selecting which of the secondary roads to build/upgrade. (The primary roads are already chosen due to their higher rates of return.) Selected road projects must have an internal rate of return of 8 percent and 20-years' viability. The whole package of roads is not to exceed the $93 million dedicated to this component, and construction will be prioritized based on a ranking derived from a participatory process with local authorities and producers and criteria in the compact. (Though, if the studies reveal that all proposed projects meet the performance criteria but exceed the project total, the MCAN may try and seek supplemental compact funds from the MCC, though it is not clear if they can.) Construction is expected to begin in 2008.

Cross-cutting principles: The MCAN approach incorporates three cross-cutting principles: gender focus, environmental conservation, and strategic communications. The MCAN has hired a gender specialist who developed a gender strategy. Since interviews were conducted for this report, the strategy has been formally approved by MCC and launched. The MCAN team has a full-time person dedicated to social and environmental issues as well as one for the forestry and protected area projects. Finally, the MCAN takes strategic communications very seriously and has a full-time communications expert who disseminates information about the MCAN's approach and programs via printed media, radio programs, and monthly newsletters. She also encourages regular outreach by the MCAN General Director and other senior staff.

Disbursement: The MCAN has received four disbursements from the MCC which will total $7.4 million by the end of the fourth quarter (against a first year target of $20 million). The MCAN has started bids worth $25 million and is on track to have a total of $30 million in the pipeline by the end of the fourth quarter of 2007. Disbursements of these newly committed funds will be spread over the life of the compact and made on a quarterly basis. They do not necessarily indicate an imminent ramp-up of expenditure.

THREE HEADLINE STORIES

There are three headline stories in Nicaragua. First is a story of "the MCA effect" of instigating major policy reform before a single compact dollar was spent in Nicaragua. The second story is of political independence – the MCAN and MCC's ability to maintain independence, and in fact make big strides in implementation, through a period of political uncertainty and transition. Third is a story about innovation. The MCAN is proving to be a source of innovation and a leader on applying best practices in Nicaragua. These three headlines share a common subtext of ongoing consultation and coordination with a wide range of stakeholders.

The MCA Effect – Incentives for Policy Reform

The greatest achievement of the MCAN to date occurred before the compact even entered into force. As a pre-condition for compact funds to start flowing, Nicaragua had to pass legislation to secure funds for the Road Maintenance Fund (or FOMAV by its initials in Spanish) to cover maintenance costs of all Nicaraguan roads (not just those funded by the MCC). Other donors had been encouraging this reform for some time, but lacked political will and faced stiff resistance from the National Assembly whose members saw the creation of a new tax as politically unpalatable (FOMAV draws funds from a gas tax). In the words of one government official, the passage of the law was "unthinkable" before the arrival of the MCC. With the additional incentive of the $175 million of MCC funds, the National Assembly finally passed the bill.

Not only did the MCC offer the carrot of new funds, the GON MCAN team (prior to establishment of the foundation) and Nicaragua-based MCC officials built a constituency for the reform. They engaged in strategic and genuine consultation with local government officials and department-level development councils to help them understand the importance of investing in road maintenance. This was no easy task. In the words of one government official, "Politicians like to inaugurate new public works, but maintenance is not tangible in the eyes of the public," so there is little incentive to invest in it. This means that roads deteriorate quickly making travel arduous, isolating communities from vital social services, and threatening economic activity dependent on the roads. The GON MCAN and Nicaragua-based MCC team helped local authorities see the importance of maintained roads for the sustainability of rural business development activities and that investment in regular maintenance promotes cost-savings over time. They made the FOMAV more appealing to local authorities by advocating for a dedicated portion for municipalities. It also broke with donor tradition and committed to funding secondary roads rather than just international thoroughfares, and invited the authorities to weigh in on which roads the MCAN would fund. These local officials, in turn, lobbied the National Assembly. With political pressure from the departments, as well as political cover from the donors' demands, the National Assembly passed the FOMAV funding legislation in December 2005 with a unanimous vote despite a mounting energy crisis in the country.

Navigating Political Change – Independence and Transparency

The MCAN compact entered into force in a risky and uncertain time in Nicaragua – less than six months before a highly-contested presidential election. This was cause for concern both in Nicaragua and in the U.S. In Nicaragua, there was potential for the MCAN to be manipulated for political gains by the incumbent (for example, by inappropriately accelerating road construction to claim the accomplishment) or to stagnate in the period of political transition. In the U.S., politicians and government officials might have been tempted to use the MCAN as political leverage to sway the elections. After all, the leading opposition candidate was Sandinista leader Daniel Ortega. Indeed, Nicaragua's mainstream media circulated theories that the U.S. would cut off all aid (and even flows of remittances) if Ortega won the election.

The good news is that rather than succumbing to these political risks, the MCAN and the MCC stayed independent and strong. In fact, the MCAN navigated significant political risks at home and in the U.S. without missing a beat. How did it manage this? There are a number of reasons.

- **The MCAN compact was ratified in the National Assembly.** This gave it the legal backing necessary to survive a political transition.
- **The MCAN is administered by an independent foundation.** Unlike ministries staffed with political appointees, the MCAN has a transparent, competitive hiring process and formal employment contracts. This protected the MCAN from staff turn-over and changing political priorities, and gave it an advantage over donor-funded programs that are similarly subjected to these changes because they operate through ministries. That said, there is an important caveat to this independent approach, covered below.
- **The MCAN board of directors includes members of the central government.** This gives the new administration a legitimate, formal way to influence the program and less need to manipulate it for political reasons. The board members representing local authorities and civil society representatives did not change, giving the board credibility and "a retaining wall" during the transition.
- **The MCAN relied on broad consultation.** Local authorities and civil society in León and Chinandega helped develop the program parameters, so local-level political support was unwavering.
- **The MCAN is transparent.** According to many people interviewed for this report, the transparent nature of the MCAN approach means that the "rules of the game are clear" and left little room for political manipulation.
- **MCAN foundation was already established and operating.** By the time the government transition occurred, MCAN was already up and running with key program activities and procurements underway.
- **And most importantly, the MCC stuck to its principles**. MCC CEO John Danilovich made a special trip to Nicaragua to make it clear that the MCAN was not at play in the elections. He was quoted in local media as saying the survival of the MCAN depended not on political personalities, but on meeting objective benchmarks and indicators.

These are still early days for the new administration in Nicaragua so it is too early to say that the MCAN has completely survived the political transition. New ministry officials are just getting up to speed on the panorama of aid programs in the country, and are likely to want to make some changes based on their priorities. But the MCAN is well positioned, for all the reasons named above, to hold its ground going forward.

An important caveat to MCAN's independent approach is that it reflects the MCC's practice of establishing separate program implementation units outside of existing government structures. The kind of accountability and protection these units afford is one of the reasons why the MCC and many other donors use them to implement their programs. However, while these structures offer protection and can increase program efficiency, they are also criticized for weakening government capacity by wooing away talented officials with high salaries, for complicating the government's burden of managing a lot of different donors, and for circumventing and thereby weakening country mechanisms for financial management, budgeting, priority setting, procurement and results measurement.

In the Nicaragua case, no one complained of these factors too loudly, but they are definitely sore points in other countries covered by the MCA Monitor. Thus the MCAN's independent approach should not be replicated without fully considering the potential drawbacks. The MCC is sensitive to these concerns, and in Nicaragua the MCC argues that, despite the creation of a parallel structure, it does build the capacity of the central government in a number of ways. For example, the compact includes funds for institutional support of both PRODEP and MTI, and the government representatives on the board get concrete experience in program oversight and budget management.

The MCAN Approach—Innovation and Best Practices

The MCAN is widely seen as changing the national mindset about aid. As one respondent described it, the image of the MCAN is of a hand going from taking a hand-out to offering a hand shake. It is perceived as going beyond the "what" of traditional aid programs that offer inputs to the "know how and know who" of increasing incomes. People attribute this to the fact that the MCAN is focused on helping producers find the tools they need to increase their incomes—technical assistance to improve products, linking to markets and stable buyers, securing higher prices, and creating jobs. But the MCAN is admittedly not the only program using this approach. Others are using a value chain approach to link producers to markets as well. Even the MCAN General Director emphasized "It is not the MCAN against the world! We do not own the truth on this." So what makes the MCAN so notable in this field of aid programs?

On one hand, the answer is innovation. Respondents cited these aspects of the MCAN's approach as innovative in Nicaragua:

- **The MCAN works with the "poor with potential."** The northwest was once the engine of growth in Nicaragua with good soil, abundant water, connections to major markets, good basic services, and strong civil society participation. But the region has been in decline for decades due to over-exploitation of the land, environmental contamination and changing national ideologies about development. Thus, while pockets of León and Chinandega are quite poor, the region has enormous potential for production that will not only increase incomes of those in the region, but be a driver of nation-wide growth. This concept of working with the "poor with potential" is also evident in Madagascar and Honduras—that is, targeting regions or beneficiaries that are poised and willing to adopt new technologies, connect to markets, and contribute to a transformation of the national or regional economies. This does not mean working with the richest, because in all of these countries the MCA programs reach a mix of incomes; it means a focus on regions and people that exhibit both the *need* and the *potential* for transformation.
- **The MCAN is comprehensive.** While many aid programs focus on linking producers to markets, few combine this with investments in roads, and none combine it with a focus on regularizing land tenure and securing property rights.
- **The MCAN's scale sets it apart.** Of other programs working with a value-chain approach to link small producers to markets in León and Chinandega, the MCAN is by far the largest.
- **The MCAN is focused.** It has limited itself to a manageable and focused geographic area while other donors and programs tend to pursue a national scope in Nicaragua.

- **The MCAN sees beneficiaries as business partners.** The MCAN works as a co-financier, working with communities, banks, and other sources to fully fund projects. The MCAN also helps groups learn skills for financial management, and, in the words of one non-governmental organization (NGO) representative, is helping communities gain "economic literacy."

On the other hand, some aspects of the MCAN approach simply reflect best practices. This is evidence of the MCC's increasing interest in learning from past and current approaches in development assistance. For example the MCAN:

- **Has explicit strategies for communications, gender equity, and environmental conservation.** The MCAN is apparently the only development program in Nicaragua to mainstream a gender approach into its program. On its environmental emphasis, several respondents described the MCAN in terms of "producing to conserve and conserving to produce." The communications strategy goes beyond the standard focus on the media to include lots of personal outreach with stakeholders.
- **Emphasizes monitoring and evaluation.** The MCAN has built program activities in conjunction with a strong and ongoing outcome-oriented monitoring and evaluation (M&E) plan that has clear benchmarks. With quarterly and annual measurements of indicators, the plan provides a basis for course-correction during the life of the compact.
- **Promotes consultation.** The MCAN has built on the formal mechanisms for citizen participation in Nicaragua and has implemented recommendations that emerged from the consultative process. For example, the creation of a gender strategy, a focus on protected areas and watershed management, and the target products for rural business development are all recommendations that emerged from the consultative process.
- **Is transparent.** By way of public meetings, a strong communications strategy and lots of documents available on the website, the MCAN has made a point of making information about its approach and projects available to the public.

There is one area in which a number of respondents argued the MCC is not being innovative or applying best practices—it is not explicitly taking a regional (i.e., Central America) perspective in its programs in Nicaragua, Honduras and El Salvador. The MCC is currently defined as a bilateral program with no clear structure for supporting multi-country initiatives. But this should not stop it from applying a regional lens to its investments in Central America, particularly due to similarities in the programs and intra-regional market connections. On a micro level, one respondent argued that if the MCC supports environmental management of watersheds in northwestern Nicaragua, it should also look at the upstream treatment of the Honduran rivers that feed these watersheds. And if the MCC works to promote production of agricultural goods in El Salvador, it should be sure to understand if Salvadorans once bought these products from Nicaraguan producers that the MCC is also trying to support. On a larger scale, there is limited focus on ensuring that the MCC investments in these three countries complement each other in terms of capturing opportunities and addressing risks associated with the Central American Free Trade Agreement, other than some complementarily in transportation infrastructure investments. A regional perspective is not appropriate in all cases. For example, in southern Africa, compact countries Namibia, Mozambique and Madagascar are too distant and too different to make sense as an MCA region. But the MCC has a unique opportunity in Central America since Nicaragua, Honduras and El Salvador are close neighbors and are already working toward greater economic coordination and integration.

The Subtext—Broad and Ongoing Consultation

Of the countries covered by MCA Monitor Field Reports, Nicaragua stands out as the only one that has gotten civil society consultation mostly right. Effective consultation and public participation are an important part of each of Nicaragua's three headline stories. MCAN outreach to local authorities clinched support for the passage of FOMAV funding; programmatic buy-in by civil society and local authorities, and their presence on the board of directors, helped steady the MCAN in a politically stormy period; and recommendations from local producers and civil society members gave the MCAN some of its most interesting features. But the subtext of consultation goes even deeper and offers insights into how the MCC could strengthen its overall approach to public participation.

One of the key take-aways from the Nicaragua story is that the MCC's consultation principle can yield enormous returns when a country already has formal, credible structures for consultation and a strong legacy of public participation. But as other MCA Monitor field reports reveal (http://www.cgdev.org/section/initiatives/_active/mcamonitor/fieldreports), the MCC's intention of consultation is not enough in countries where civil society is weaker. The Nicaragua case offers good insight into what can happen when civil society is organized, capable, and funded.

Nicaraguan civil society is organized.[3] The MCAN relied heavily on the department and municipal-level development councils (the formal coalition of NGOs, businesses and local government) that were created by the citizen participation law of 2004. Thankfully, these entities are strong and effective in León and Chinandega. One group of NGO leaders described them as an "open, inclusive, official and legally constituted space" in which they "have power."

Nicaraguan civil society is capable. The MCAN benefited from a social and political legacy that has created a tenacious civil society in some parts of Nicaragua. The brightest example is the group of women who came together to form the Western Women's Council to influence the MCAN process. Of their own volition, and on their own dime, these women gathered from across the western region of Nicaragua to map female producers in León and Chinandega, firmly establishing themselves as key partners in the program. They also made a series of demands of the MCAN, two of which—a gender strategy and a gender specialist—are a part of the MCAN approach. The focus on gender equity in the projects has already yielded results—a concerted effort to identify female producers as beneficiaries, training of all MCAN staff on gender sensitivity, and equal participation by men and women in a recent producers' training trip to Honduras.

Nicaraguan civil society is funded (somewhat). But the funding has not come from the MCC. The early phases of MCAN consultation benefited from the United Nations Development Programme (UNDP) support to strengthen the development councils. A later participatory diagnostic was funded by the United Kingdom's Department for International Development

[3] By "Nicaraguan civil society," the author is referring only to civil society in León and Chinandega which have engaged with the MCAN. She did not have exposure to nation-wide civil society groups.

(DFID). This $40,000 effort was designed principally to support programmatic planning (i.e., to help the MCAN identify sectors and places for investment and to see where technical assistance was most needed). But its highly participatory approach and its methodology of helping the public "read" their territory gave communities the information and practice necessary to continue engaging with (and supporting) the MCAN in a substantive way. Finally, the United Nations Development Fund for Women (UNIFEM) has made a small grant to the Western Women's Council to support the women in capturing their MCAN engagement in a systematic way so they might refine and reuse the strategy.

How the MCC can get more out of its consultation principle? The MCC should assess the degree to which civil society is organized, capable and funded in each compact country. It is also crucial to assess the degree to which official structures or coalitions upon which the MCC/MCAs rely are truly representative. MCC could then help ease shortfalls through strategic partnerships and its own resources. To avoid conflicts of interest, the MCC has apparently taken a decision not to use 609g or compact funds to support the consultative process. It is understandable for the MCC to be concerned that members of civil society might feel pressured by governments to give the "right" answers if the MCC is funding the consultation process. But such conflicts can be avoided by creative cost-sharing with other donors and with communities themselves. The MCC could support structures (like development councils or NGO umbrella organizations) rather than specific groups, and could do a lot more to coordinate with the United States Agency for International Development (USAID) to leverage its Democracy and Governance funds that support NGO capacity building in some countries. The Nicaragua experience yields the following recommendation: ***If the MCC is serious about partner countries meeting its high expectations for consultation, the MCC should formally assess the degree to which civil society is organized, capable, representative, and funded in each compact country, and mobilize resources to fill gaps in these areas.***

OPERATIONAL ISSUES AND RECOMMENDATIONS

In addition to the three headline stories about broad MCC principles in Nicaragua, the MCAN offers insight into a number of practical, operational issues associated with the ramping up and implementation of an MCA program.

Timing of entry into force

The MCAN signed its compact with the MCC in July 2005 and EIF ocurred ten months later in May 2006. This is the longest period between signing and EIF of any MCA compact country. The delay was caused by the tactical decision to ratify the compact in the National Assembly and to pass the legislation for FOMAV funding before EIF. While MCAN and MCC officials were surely wringing their hands at the time, the delay has paid off. It bought the MCAN time to get key systems in place before the clock started ticking on the compact period, allowing them to ramp up program implementation relatively quickly. This has given it a big advantage over other first-round countries like Madagascar and Honduras that rushed EIF and then spent the first year of real compact time getting systems in place. This experience suggests that ***MCA programs***

should strategically sequence entry into force with the readiness of key systems. This will allow for a much faster ramp-up of program activities once the official clock starts ticking.

Standard operating documents

In the name of country ownership, each country is expected to devise its own administrative procedures and tools. This includes operations manuals, financial plans, standard bidding documents, standard requests for proposal (RFPs), technical specifications for investments, etc. Members of the MCAN team argued that even under the best conditions, and with strong capacity, developing this set of documents can take six months. Many MCA countries end up with very similar documents and procedures and thus are, in a sense, each spending at least six months reinventing the wheel. According to one MCC official, "There is an understanding (at the MCC) that this was a weakness," and there is now an "intense effort" to standardize and streamline implementation processes including the creation of key operations documents. The Nicaragua experience reiterates the importance of something the MCC is already working to improve: ***The MCC should offer a set of standard operating documents and procedures to streamline the transition from compact signing to program implementation. It should allow partner countries to make revisions based on country-specific conditions.***

Cost sharing schemes

The MCC has imposed a rule that the MCAN not put more than 30 percent of the cost of equipment into rural business plans developed by MCAN or proposed by beneficiaries, thereby requiring communities or beneficiaries to cover 70 percent of these costs.[4] While the MCAN team recognizes the importance of managing risk, and is sensitive to MCC principles of not just giving hand-outs, some staff argue that this cap on the MCAN contribution is limiting and should be raised (though not eliminated). Their view is based on two factors. First, the cap limits with whom they work—some communities are just too poor to meet the contribution requirement. Second, it can limit the returns on the investment—it might be that with a higher capital investment, projects could get a higher rate of return and ultimately yield more growth and poverty reduction. The MCAN is taking a wise approach. Rather than fighting the concept, it is doing its homework. As it develops business plans with producers' groups, for example, it is fully documenting the opportunities missed because of this rule. Soon it will have a stack of evidence by which to evaluate the real impacts of this rule, and if the evidence warrants it, the MCAN will try to renegotiate this provision with the MCC. ***In the name of country ownership and program effectiveness, the MCC should be willing to renegotiate strict rules on cost-sharing if the constraints prove to be limiting the reach and return of MCAN investments.***

Over-managing risk

In an effort to manage risk, Washington-based MCC staff retain approval authority over many aspects of country program operations, especially when it comes to expenditures, but also including clearance of hires, procurement documentation, and selection of contractors.

[4] This cap applies only to equipment. The MCAN can cover 90-100 percent of the costs of technical assistance, and covers 100 percent of costs associated with reforestation efforts. For equipment, beneficiaries and communities can cover their 70 percent through contributions in-kind, and can seek support from other donors.

Washington oversight measures, common across all implementing countries covered by the MCA Monitor, are partly due to the MCC, the Inspector General and the U.S. Congress' focus on meticulous management of resources. It is important to avoid misuse of funds, but these strict oversight measures do have significant tradeoffs. First, they will not be sustainable as the MCC oversees a growing number of compacts yet maintains its fixed, small staff size. Second, they are adding to undue program and disbursement delays globally. Third, they reduce authority of field-level MCC officials. Finally, it is not clear that they are helping. Several MCAN officials argued that the MCC in Washington is focusing so much on process and procedural safeguards that it is losing site of big-picture program goals. One MCC official asked rhetorically, "Are we really mitigating risk or just creating bureaucratic hurdles?" The main focus on risk mitigation should be at the larger program-wide level rather than at each operational step. And like venture capital, taking some risks is crucial to finding investments with high returns. A better balance is needed between risk management and pace of progress (which the Congress is also very interested); and between the respective roles of Washington-based and field-based MCC staff in managing risk. ***In the name of country ownership, efficient administration and aid innovation, the MCC should accept—and help Congress understand the value of—the benefits of taking informed risks and creating a culture of learning. It should streamline its approval process accordingly and delegate more risk management to MCC staff in country.***

Disbursement schedule

According to the MCC's status report on Nicaragua (http://www.mcc.gov/countries/csr/Nicaragua_CSR.pdf), the disbursement goal for the first year (ending May 2007) is $20 million. The MCAN will fall short of this, but it is not alone in doing so. All compacts are behind their first-year disbursement targets (except Armenia). [5] This is largely due to the MCC and MCA country officials not adequately calculating the time demands and burden of transparently starting from scratch such a large program in difficult operating environments. The MCC and MCA country officials argue that once money for big projects such as roads and other infrastructure start flowing, the catch-up on disbursements will be quick. But in Nicaragua road construction is not going to begin until early 2008, so 2007 is likely to be another year of disbursements falling short of projections. The pace of disbursement remains a key issue for the MCC to watch, assess and communicate. What is keeping it from its disbursement targets? Is it simply that big-ticket items have not yet come on line and that projections were too optimistic, or are there fundamental operational or system-building issues that are making it difficult to move the money? The MCC should not be judged merely on disbursement rates—that would create the wrong incentives. But there is no getting around the fact that the ability to move money is one sign of operational capacity and efficiency, and in this regard the warning signs are emerging. ***To its credit, the MCC is engaged in an internal review of its business model. It should be bold in doing this, and make changes now before facing irreversible constraints on meeting compact goals. The Congress should be open to changes in the MCC model—be they, for example, more staff, a higher risk tolerance associated with a more hands-off approach, or concurrent compacts.***

[5] This is according to the MCC's country status reports of 2006. Some 2007 status reports are being revised to adjust disbursement projections based on compact progress and thus do not reflect disbursement delays vis a vis original targets.

Interim performance benchmarks

Disbursement levels are not the only way to measure early progress of MCA compacts. First, there are a lot of important steps to take before significant resources flow and compact goals are met. The benefits of investing in civil society consultation, institutional strengthening, policy change, and establishing robust operational procedures and evaluation measures are not very tangible or sexy, but they are fundamental to program success. Many of these ideally happen before EIF, but even so, the MCC should find a way to measure them and count (and publish!) them as early successes. Second, there are ways to set interim benchmarks that help bridge between the start-up phase and overall compact goals. In the case of Nicaragua, the MCAN is intentionally focusing on some quick wins such as accelerated administration of land titles and visible hands-on work with small producers. MCAN officials argued that they will soon be able to track increases in productivity and incomes as technical assistance and the formation of cooperatives lead to better quality goods and higher sale prices. In addition, one MCC official argued that the mere prospect of road improvements and official land titles should increase land values. These all count as measurable steps toward program objectives. ***The MCC and country MCA teams should work to better define, capture and communicate the early "intangible" successes, as well as interim program benchmarks and innovative approaches that distinguish it from other aid programs.***

Managing expectations

As covered in earlier MCA Monitor reports, the MCC's emphasis on transparency and consultation has the side effect of creating high expectations. In Nicaragua as elsewhere, EIF is a technicality lost on the general public, and many started expecting results from the MCAN as soon as the compact was signed (or even as early as initial consultations took place). This led people to refer to *La Cuenta del Milenio* (the Millennium Account) as *"El Cuento del Milenio"* (the Millennium Story). MCAN is doing a lot right to manage expectations: implementing a communications strategy; balancing short-term and long-term interventions; quickly ramping up operations post EIF; fostering public and political support; etc. It is also working hard to change public focus on quick but shallow results to high quality implementation with transformational results. But even with these efforts there are feelings that the program is moving too slowly. There are no easy answers, but in conjunction with setting interim benchmarks, the ***MCC and country MCA teams should work to set realistic expectations early on and continue to manage them throughout the first years of the programs. This means making a bigger deal of accomplishments in the pre-EIF phase, being explicit about what will and will not be accomplished in the first year of compact implementation, and setting more realistic estimates of year-one disbursement levels.***