MCC Monitor

MCC @ 10

Focus on Results: MCC's Model in Practice

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January 2015

Summary

When MCC was founded, there was widespread skepticism about the effectiveness of foreign assistance. Many observers, both external and internal to development institutions, agreed that too much aid was being spent on poor projects in service of poorly defined objectives with correspondingly little understanding of what these funds were achieving. As a result, between 2002 and 2004, when MCC was being created, there was bipartisan support for the new agency to focus on achieving measurable results.

In practice, the broad idea of measurable results fairly quickly became operationalized by MCC as raising local incomes. The MCC model sought to enhance the impact of foreign assistance projects by focusing on this single, measurable objective—poverty reduction through economic growth. While this goal could be achieved through many kinds of activities, MCC committed early on to funding only those that would achieve this objective in a cost-effective way. That is, investments should be expected to raise local incomes by more than the total cost of the program.

Overall, MCC's approach to results is designed to increase the effectiveness, transparency, and accountability of how foreign assistance is delivered, such that more programs would succeed. Equally important, for those programs that fall short of expectations, better understanding and documentation of why they deviated from expected results would help improve future investments.

This paper looks at how well MCC has actually deployed each of its main approaches to results. Based on our review, we have concluded that MCC's Framework for Results is an important feature that should be preserved and is worthy of emulation by others. Indeed, during its second decade and beyond, MCC should strengthen its adherence to the results-focused policies and practices that make it such a distinctive donor.

The MCC Monitor provides rigorous policy analysis and research on the operations and effectiveness of the Millennium Challenge Corporation. It is part of CGD's Rethinking US Development Policy Initiative that tracks efforts to reform aid programs and improve aid effectiveness.

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Center for Global Development

MCC at 10 Series

The Millennium Challenge Corporation (MCC) is now 10 years old. It was established with bipartisan support as an independent US government agency in January 2004. Though MCC has always been a relatively small agency (accounting for less than 5 percent of the US government's foreign aid spending), it was, from the outset, created to deliver aid differently, with both mission and method reflecting generally accepted fundamental principles of aid effectiveness.[1]

MCC's sole objective is to reduce poverty through economic growth, with three key pillars framing how it pursues that goal:

1. ***Policies matter:*** MCC partners only with countries that demonstrate commitment to good governance, on the premise that aid should reinforce and reward countries with policies that are conducive to growth-promoting private-sector activity and investment.
2. ***Results matter:*** MCC seeks to increase the effectiveness of aid by identifying cost-effective projects, tracking their progress, and measuring their impact.
3. ***Country ownership matters:*** MCC works in partnership with eligible countries to develop and implement aid programs, on the premise that investments are more likely to be effective and sustained if they reflect the country's own priorities and strengthen the partner country government's accountability to its citizens.

Taking stock of MCC's first 10 years, and with a view toward the future, this series of MCC Monitor Analyses addresses three main questions for each of the three pillars of MCC's model:

- To what extent has MCC's model governed its operations in practice?
- How should MCC strengthen and expand its model and operations over the next 10 years?
- With other US government development agencies adopting many of the aid-effectiveness principles that underpin MCC's model, how is MCC still different from other providers of US foreign assistance?

[1] According to US Overseas Loans and Grants (http://gbk.eads.usaidallnet.gov/data/fast-facts.html), MCC was responsible for just under 5 percent of US economic assistance disbursements in FY2012. In comparison, the United States Agency for International Development (USAID) was responsible for 35 percent and the State Department 38 percent. The George W. Bush administration's original vision of MCC was that it would have an annual budget of $5 billion rather than the approximately $1 billion it has received each year. Even if it had reached the higher level, its budget still would have been only around half the size of both USAID's and the State Department's annual foreign assistance obligations each year.

Focus on Results: MCC's Model in Practice

Recommendations

One of the key pillars of MCC's model is its focus on results—approving only projects predicted to achieve cost-effective results, tracking results as they come in, and measuring final, attributable results. MCC has been at the forefront of institutionalizing these practices during its first 10 years. It its next decade, MCC should build on this leadership by

1. extending its innovative work with country growth diagnostics by
    - protecting the role of economic evidence in the final report;
    - broadening participation to welcome other development partners; and
    - systematically publishing final reports and detailing its relevance to the substantive focus of the country program;
2. enforcing its commitment to investments that demonstrate adequate returns both at the stage of initial project approval and during midcourse implementation adjustments by
    - committing not to fund money-losing investments (i.e., those whose benefits are expected by MCC to be less than project costs—so far, MCC has invested close to $1 billion in such activities);
    - limiting funds devoted to "experiments"—those activities whose returns are unknown—and ensuring that they are always accompanied by rigorous impact evaluations that promote learning (MCC needs space to experiment and innovate, but the scale of such activities should remain modest to protect the quality of the institution's portfolio); and
    - providing public information about expected impact following any decision to reprogram funds during implementation (many MCC compacts experience a rescoping process during which funds are shifted among activities and, in some cases, to new activities, but such decisions are rarely public and at times have been inconsistent with MCC's commitment to results);
3. improving its system for reporting both progress during implementation and estimates of results from independent external evaluations by
    - posting evaluation plans before implementation begins and publishing all evaluation reports in a timely manner, including those of midterm evaluations and other assessments that inform midcompact decisions to scale up (or not) particular projects;
    - providing a portfolio-wide evaluation strategy that describes the rationale underlying MCC's decisions regarding which sectors and activities are covered by the most rigorous impact evaluations;
    - increasing resources dedicated to disseminating results-related information since the website is difficult to navigate and results information is often incomplete or out of date;
    - demonstrating how MCC is applying lessons learned from rigorous impact evaluations conducted by MCC and others to current programming; and
    - reporting on partner country progress on the policy conditions agreed to in each compact.

Introduction

When MCC was founded, there was widespread skepticism about the effectiveness of foreign assistance. Many observers, both external and internal to development institutions, agreed that too much aid was being spent on poor projects in service of poorly defined objectives with correspondingly little understanding of what these funds were achieving. As a result, between 2002 and 2004, when MCC was being created, there was bipartisan support for the new agency to focus on achieving measurable results.[2]

In practice, the broad idea of measurable results fairly quickly became operationalized by MCC as raising local incomes. The MCC model sought to enhance the impact of foreign assistance projects by focusing on this single, measurable objective—poverty reduction through economic growth. While this goal could be achieved through many kinds of activities, MCC committed early on to funding only those that would achieve this objective in a cost-effective way. That is, investments should be expected to raise local incomes by more than the total cost of the program.

Overall, MCC's approach to results is designed to increase the effectiveness, transparency, and accountability of how foreign assistance is delivered, such that more programs would succeed. Equally important, for those programs that fall short of expectations, better understanding and documentation of why they deviated from expected results would help improve future investments.
MCC's approach to results has three phases:

1. Preinvestment analyses, including (a) constraints to growth analysis to help focus the investment package in the sectors that most constrain the private investment that will drive poverty-reducing economic growth and (b) economic rate of return (ERR) (or cost-benefit) analyses that estimate the expected increase in local income for almost every proposed investment, are intended to help MCC partner countries focus their proposals on investments that will generate the expected results (i.e., raising local incomes in measurable ways) and enable MCC to structure its engagement with partners from the outset around explicit expectations of results.
2. Monitoring of progress against preinvestment implementation plans during the lifespan of the compact determines the extent to which project implementation is proceeding compared to expectations and achieving desired direct results.
3. Postimplementation evaluation seeks, as a key priority, to determine whether MCC investments caused increases in income for local beneficiaries that would not have occurred without the compact and whether these attributable increases in income exceeded the value of resources expended on them.[3]

These phases are codified in MCC's Framework for Results, developed during MCC's first several years of operation. The framework is one of the agency's distinctive features, and it remains the gold standard among development institutions. As this paper will explore, however, MCC's practices have sometimes been inconsistent with this framework, suggesting that there are indeed opportunities for MCC to improve implementation and administration of its model in the future.

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[2] The focus on results was one of several aid-effectiveness principles incorporated into Millennium Challenge Corporation's (MCC's) model, principles that are generally accepted worldwide today. The Paris Declaration, adopted by the Organisation for Economic Co-operation and Development in 2005, lays out five fundamental principles for making aid more effective. MCC, created at roughly the same time these were being debated, in many ways reflects these principles better than most other bi- and multilateral donor agencies. Other attempts to codify best practice principles usually identify similar processes that are seen as leading to better aid outcomes.
[3] Wiebe (2008).

Some of the elements of MCC's Framework for Results can be found in the original authorizing legislation, but many components, as well as the operational detail, were developed early on by MCC staff and then further strengthened over time. The elements of the Framework for Results included in the legislation include the following:

1. That MCC's purpose was "to provide such assistance in a manner that promotes economic growth and the elimination of extreme poverty and strengthens good governance, economic freedom, and investments in people."[4] As a starting point, the reference to both economic growth and poverty as mutual objectives was important in its suggestion that growth alone was not sufficient but that economic gains must be demonstrably shared by the poor in partner countries. Thus, the language in MCC's authorizing legislation laid out the challenge to identify investments could be justified as both promoting growth and reducing poverty.
2. The basis for focusing on cost-effective interventions to achieve the objective. Inefficiently invested grants (i.e., those generating fewer benefits than costs) by definition could not be consistent with the congressional mandate to facilitate economic growth.
3. A focus on defining specific objectives and responsibilities up front. The legislation says that each compact should contain "the specific objectives that the country and the United States expect to achieve during the term of the Compact" and "the responsibilities of the country and the United States in the achievement of such objectives."
4. The importance of a robust monitoring and evaluation (M&E) framework. Again, the legislation requires that compacts include "regular benchmarks to measure, where appropriate, progress toward achieving such objectives" and "an identification of the intended beneficiaries, disaggregated by income level, gender, and age, to the maximum extent practicable."

At some level, these requirements were neither fundamentally new nor profoundly innovative. Many donor programs include some or all of these elements, but they at most demonstrate that the foreign assistance agency and its implementing partners fulfilled their commitments to a particular aid project or program. By themselves, these elements reflect an accounting approach to results, generating information about tasks done but staying silent about both the cost and the value of those tasks.

The innovative qualities of MCC's Framework for Results emanated from the MCC staff tasked with putting congressional language and intent into action. Three important innovations took the rudimentary accounting approach written into the legislation and created a comprehensive results-focused approach that would impose economic logic and quantitative rigor on every program, from inception to completion, across the institution's entire portfolio in a manner only occasionally seen in the practices of other foreign assistance agencies:

- Using growth diagnostics to ensure proposed projects address a country's main constraints to growth
- Using cost-benefit analysis (CBA) to identify cost-effective, growth-focused projects
- Linking the project parameters in the cost-benefit models to project targets for robust, high-quality project monitoring

[4] In general, MCC operationalizes this requirement by selecting for grant funding, ex ante, countries with "good governance, economic freedom, and investments in people" (see *MCC at 10* paper on policy performance for more detail about how MCC's country selection system works and the theory behind how this system promotes these legislated goals). The agency's assistance "promotes economic growth and the elimination of extreme poverty" by making this—measured as an increase in local incomes—the overriding objective of all its funded programming.

While MCC's implementation of its Framework for Results has made it more comprehensively results oriented than most other donors, in practice, the requirements it implies have sometimes created practical challenges, particularly when they conflicted with other institutional values and/or desires, such as promoting country ownership (when a country strongly prefers investments that do not meet MCC requirements) and fully expending the annual appropriation from Congress.[5] Even as MCC moved ahead as an institution with its innovative and distinctive Framework for Results, actual practice has at times deviated from strict adherence, as other factors led MCC management to make decisions inconsistent with its commitment to results: deciding to fund investments that are not projected to achieve cost-effective results or continuing investments found not to be working.

This paper looks at how well MCC has actually deployed each of its main approaches to results. Based on our review, we have concluded that MCC's Framework for Results is an important feature that should be preserved and is worthy of emulation by others. Indeed, during its second decade and beyond, MCC should strengthen its adherence to the results-focused policies and practices that make it such a distinctive donor.[6]

Preinvestment Analysis: Constraints Analysis (CA)

Background

MCC selects a small set of relatively well-governed countries with which to develop and implement a compact, a five-year program in which MCC provides grant financing for projects targeted at reducing poverty through economic growth. Eligible countries are expected to lead the development of their compacts with explicit guidance and support from MCC staff. As part of this process, countries are responsible for submitting to MCC a proposal for funding.[7] One of the first tasks that new partner countries undertake, as required by MCC guidance, is an analysis of economic data, using a process MCC calls the constraints analysis, to identify the most pressing factors that limit private investment and economic growth.[8] The CA systematically considers the financial sector, the policy environment, the provision of

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[5] Like all US agencies, MCC is under pressure to spend its annual budget to demonstrate the need for an equally large (or larger) appropriation the next year. In such a context, rejecting country proposals that do not meet MCC's investment standards might lead to a smaller country program and unobligated balances at the end of the year.

[6] This paper does not address the issue of whether MCC programs have broader systemic or macro-economic effects beyond the narrower scope of the specific investments constituting those programs. Such effects could come through various channels, including "the MCC effect," a term that usually refers to the idea that both potential and current partner governments engage in non-program-related reforms to maintain their standing with MCC. A second channel would be through program-related reforms undertaken by MCC partner governments as part of the investment program that have broader effects. For example, a set of road investments that requires the country to reform its Department of Public Works and establish a sound maintenance program using local resources (or funds from other donors) could conceivably have effects on all roads, not just those in the MCC program. This paper does not address these potential effects for several reasons. First, MCC programs, which were intended to be large relative to country budgets, have not actually been large relative to existing private capital flows and the total of resources from other donors, especially when the five-year compact amount is considered in annualized terms. Programs of this size are unlikely to have any discernible effect on investment and growth at the macro level. Moreover, where countries undertake broader reforms, even as a condition of the MCC program, it would be questionable practice to attribute broader gains to actions by MCC. Instead, this paper will work on the assumption that where investment programs themselves are successful in a narrow sense, they may have broader effects as well, which would make them even better. But we resist the practice of looking for unattributable and unmeasurable impacts to validate projects that are not cost effective on the narrower basis.

[7] From the outset, MCC operated under the expectation that country partners would develop proposals independent of MCC staff support. However, in response to early experiences in which often-lengthy processes yielded proposals not up to MCC's standards, MCC modified its approach, providing staff support during the development process and welcoming input from other development partners as long as the country counterparts remained in charge of the process.

[8] MCC's constraints analysis (CA) follows the growth diagnostic approach developed by Hausmann, Rodrik, and Velasco (2005). MCC adapted this framework, replacing the objective of identifying the single most binding constraint with the less strict

transportation services and other public goods, and other foundational sectors with the aim of determining which problem among many needs to be addressed first to achieve faster and more robust economic growth. The results of the CA, then, are intended to help focus the compact development process on the investments and reforms that are most demonstrably supportive of MCC's mandate to reduce poverty through economic growth.

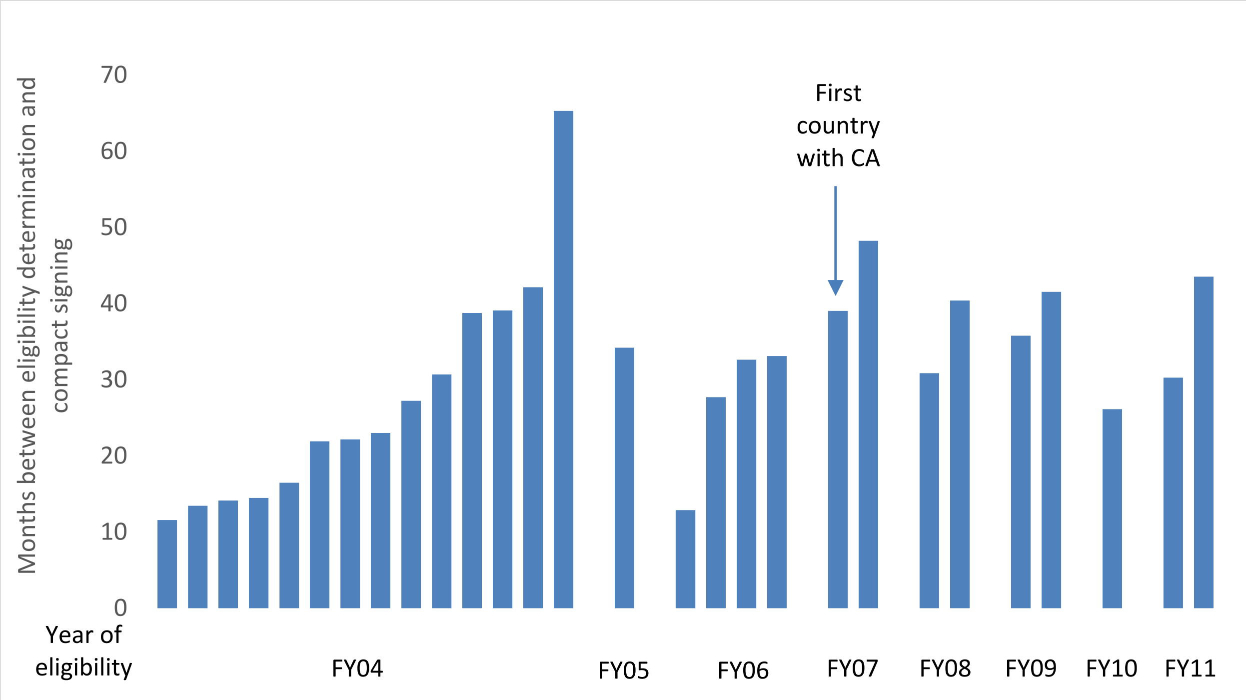
MCC formally adopted the CA as part of the compact development process in late 2006.[9] At that time, MCC management was concerned about the quality of the initial proposals submitted by new partner countries. They often were composed of elements that were not consistent with MCC's expectations of generating sufficient measurable returns in the form of increased incomes that would be broadly shared across the population. In some cases, the proposals bore little obvious connection to a transformational growth strategy and often included elements with low returns. These poorly focused initial proposals led to lengthy negotiations and redesign efforts as MCC tried to balance country priorities (as articulated in the first draft of the proposal) with its institutional mandate to invest in programs that would raise local incomes in a cost-effective manner. Ultimately, the compact development process too often produced compacts that did not really appear to focus on raising local incomes and accelerating economic growth.

In this context, MCC management decided to add the requirement of a CA, knowing this additional step would likely extend the period between selection for compact eligibility and the country's proposal submission. The expectation was that while the proposal development process might take longer as a result of the upfront analytical work, MCC would receive better proposals as a result and consequently need less time between the receipt of the initial proposal and its ultimate board approval of the final compact. In fact, the addition of the CA did not end up extending the compact development process (Figure 1).

expectation of identifying two or three priority constraints. The analysis does not dictate specific investments and reforms but is intended to guide the program development process toward potential means of relaxing the identified constraints.

[9] The requirement was imposed only for newly selected countries. Moldova was the first country to conduct a CA. Ten countries were allowed to complete their development process between 2006 and 2010 without a CA, including a number of countries that had only recently begun their due diligence work.

Figure 1. The addition of the constraints analysis (CA) likely added little additional time, on average, to the compact development process.



Note: FY = fiscal year.

MCC's CAs in Practice

CAs are almost always useful for focusing compact development on growth-focused projects. However, the scarcity of economists formally trained in this practice and the risk of political manipulation of results by the partner country has presented some challenges.

MCC's approach to the CA has evolved over time. Early on, largely reflecting MCC's emphasis on country ownership, the responsibility for conducting CAs rested almost exclusively with local economists in the eligible country, with almost no technical support provided by MCC staff. These first CAs took longer than expected and always eventually required dialogue with MCC staff about the data used, the analysis performed, and the conclusions drawn. Over time, MCC found it more constructive to support the process along the way by identifying, and sometimes funding, consultants to work within local teams. MCC also became more comfortable with the idea that a CA could be a collaborative process between MCC and the eligible country without fundamentally undermining the country's ownership of the resulting product and conclusions.

The CA, both the process and the results, has almost always usefully shaped the bilateral engagement around what MCC expects to fund (e.g., investments in a small number of sectors that will contribute to economic growth and raise local incomes) and what it will not (e.g., activities that are unfocused on growth but that satisfy political needs of individual ministries in the eligible country). Arguably, this objective could be accomplished without a CA, but the new procedural requirement made all stakeholders engage in a discussion about growth in ways that had not happened before. It also raised the profile of the role of economic analysis early on in the compact development process, which possibly helped increase understanding of and buy-in to the economic analyses that occur later in the process.

Of course, not all CAs have been of equal quality. Two variables have largely determined the quality of the CA findings.[10] The first is the availability of economists with skills to conduct the analysis. The growth diagnostic method has gained some prominence since the idea was conceived a decade ago, but it is still largely unknown to all but a small (yet growing) number of trained economists, very few of whom live in MCC partner countries. While growth diagnostics utilize fairly standard methods of economic analysis, in practice the process is not straightforward for those not trained specifically in the analytical method. In addition, growth diagnostic courses are taught at only a small number of mostly American universities.

However, because MCC now has more than seven years of experience formally conducting CAs, its own capacity to oversee, support, and collaborate on this type of analysis in partner countries has grown. This strengthened internal capacity has contributed to the improved quality of CAs over time. The capacity of economists in eligible countries to conduct CAs, however, has not evolved in the same way, particularly since—with the exception of countries selected as eligible for second compacts—most newly eligible countries are undertaking this kind of analysis for the first time.

The second factor that largely determines the quality of CAs has been, in some cases, how eligible country governments respond to politically challenging findings. By construction, the CA identifies the most serious problems facing private investors, and the results usually identify a number of important government failures.[11] Although some potential constraints to growth (e.g., inadequate infrastructure investment) may be less controversial than others (e.g., education, healthcare, labor policy), in many cases, governments may find it difficult to publicly acknowledge the most binding constraints to economic growth. Indeed, even the lack of infrastructure investment can be traced in part to policy and institutional failures (both examples of government failures), and solving these directly can require politically controversial measures, such as increasing user fees or tariffs.

The results may also be politically challenging when the analytical findings are not supportive of specific projects desired by partner country governments. Often partner governments view MCC grant finance as an opportunity to fund important development projects that they cannot or would not finance using loans or general revenue. Sometimes these pet projects may have narrow political objectives similar to pork barrel spending in other countries, but they may also reflect broader national objectives, such as connecting or opening regions that remain on the country's periphery. In such cases, the political priority to use MCC grant funds may be very high but may be entirely unrelated to the most pressing problems that limit investment and growth in the country as a whole.[12]

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[10] In addition to the two challenges described in detail here, data access and time pressures have been important challenges in virtually every context.

[11] Government failures here are defined as government interventions (or omissions) in the economy that result in lower welfare levels than would otherwise be the case. Market failures can also be found in many developing countries and receive a lot of attention from development economists, but they rarely rise to the level of binding constraint at the macroeconomic level in the absence of some underlying government failure. Nonetheless, the CA method employed by MCC includes a search for evidence that market failures constitute a key impediment to private investment.

[12] Of course, pet projects need not be contrary to MCC's mission to reduce poverty through economic growth, but MCC has had complicated engagements with countries that enter into the relationship with a strong preference for investments before any analysis has been done. This happened, for instance, with Indonesia and Bolivia, both of which approached the compact development process with strong preferences for specific highways. Georgia entered into discussions about a second compact with a clearly identified priority for a brand new university; the CA found that education was indeed among the primary binding constraints, but the CA suggested that larger problems existed at the primary and secondary levels.

Whatever the constraint identified, it can be unusual for public documents to be explicit about politically sensitive government failures, particularly if solving these requires action by the government itself (e.g., a policy change) rather than a significant amount of donor assistance. This is particularly true if the sitting government has been in place for some time and feels more ownership of existing policies. Consequently, in some countries, the CA's language has been intentionally watered down or altered to placate local sensitivities, though this has not always been the case.

Countries' CA teams have had varying levels of autonomy from their governments, and moreover, the teams have had different levels of the analytical capabilities that allow an objective view of the issues. In some early cases, little political attention was focused on the exercise, and teams could operate autonomously. Thus, in Moldova, the first country to do a CA, analysts were able to identify public corruption, a clearly contentious issue, as a binding constraint to economic growth. In another recent example, the sitting postrevolutionary government of Tunisia left teams free to identify and describe sensitive issues without any political interference. Of course, it would have been impossible prior to the revolution for CA teams to identify, as they did, the lack of adequate checks and balances on executive power as a binding constraint to growth. Clearly, some countries also have a longer tradition of tolerating dissent and a stronger culture of valuing independent analysis and self-criticism.

The key challenge to producing an objective and empirically rigorous CA lies in managing the political sensitivity of the findings. The clearest examples of political reactions occurred with the four Partnership for Growth (PFG) countries: Ghana, El Salvador, the Philippines, and Tanzania.[13] These PFG-related analyses were led by MCC economists in collaboration with the United States Agency for International Development (USAID), the Department of State, and several other executive branch agencies and with close collaboration with partner country counterparts. For these PFG country governments, however, the CA findings entailed higher stakes than those that related to most MCC compacts, since the results were expected to have implications not just for MCC investments but for broader American bilateral relationships.

In three of the four countries (Ghana excepted), country officials requested that language and conclusions be modified to better conform to their development strategies and to eliminate or deemphasize discussion of controversial policy issues. The CA for Tanzania, for example, identified specific regulatory and policy barriers within the business-enabling environment as a serious problem limiting investment, despite claims by the government that actions had been taken to remedy the policy and institutional problems. Although the final version of the CA retained some discussion of these issues, it omitted paragraphs and data that were deemed objectionable. The CA process provides opportunity for comment and input by a range of interested parties, and this process often constructively leads to changes in language and, less often, conclusions based on differing interpretations of data. But in these cases, the changes were not made through a dialogue based on empirical analysis but rather reflected political sensitivities of local government officials.[14]

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[13] Partnership for Growth is an effort by the US government to focus its bilateral engagement with a small number of countries around development, consistent with the President's Policy Directive on Development issued in 2010. The Partnership for Growth is a "whole of government" effort led by the White House through an Interagency Policy Coordinating Committee that aims to work closely with partner countries on their most pressing problems constraining private investment and poverty-reducing economic growth. Partner countries commit to important reforms and investments, and the US government in turn directs its assistance, using a variety of aid and nonaid tools, in support of their strategies.

[14] In the Philippines, country counterparts never really embraced the analytical process focused on economic growth as the primary policy objective, and this underlying disagreement can be seen in the language of the report and its conclusions. In El Salvador, the analytical process bogged down, not over language or the primary focus on growth but over the interpretation of evidence and identification of priorities; the final report avoided, rather than resolved, the conflict by citing low productivity as

This tension between economic evidence and local political priorities is a natural tension for nearly all development agencies. At the same time, it is not always present and often can be managed. Indeed, varied experience shows that it is important to set the stage carefully by taking preparatory steps to ensure that (1) the respective government and its representatives on CA teams are provided clear editorial control and high-level political support should they identify sensitive issues, (2) team members begin the process with open minds and are willing to move beyond prior beliefs or opinions that are not supported by factual evidence and to search the space of potential constraints thoroughly for evidence, (3) the US government teams are given the backing they need within their own political contexts to confront controversial themes, and (4) a mechanism is provided to resolve differences, such as the attachment of dissenting opinions, collection of secondary (less binding) issues, or disclaimers in the event of disagreement.

Recommendations

Based on these experiences and lessons during the past decade, MCC should consider four key recommendations going forward:[15]

(1) **Protect the role of evidence in the final CA report.** If the CA is to fulfill its intended function of establishing an evidence-based framework for the development of the country compact, MCC should discourage countries from suppressing data, even when the results appear unfavorable to the partner country government or do not fully conform to the country's national strategy. The document needs to be a mutually acceptable statement of priorities, but neither the language nor the presentation of data needs to be exposed to a consensus standard. Instead, country governments and MCC should have the opportunity to provide an official response as an addendum, taking issue with specific points in the final report, but not rejecting the core findings. Such an approach would allow partner governments and MCC the opportunity to accept the technical report without being seen as accepting and endorsing every single statement in the report. When MCC finds significant disagreement over the findings of the CA, this should be viewed, as originally intended, as an early warning signal that the specific country may not be prepared or positioned to engage in a bilateral program focused on accelerating economic growth and instituting politically difficult reforms.

(2) **Devote more technical resources up front for the initial analytical work.** MCC has proudly embraced the rhetoric of being the first mover on growth diagnostics as a method for identifying development priorities. Yet it still struggles to find qualified economists, both in-house and through external contracts, who can do this work efficiently and reliably. MCC has also understandably balked at applying too many US-based resources to the task for fear of dominating an analytical process that was designed to respect country ownership. If MCC remains serious about the role of CAs, it should increase the number of staff with formal growth diagnostics training. Because of the

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one of the two constraints. While all of the analysts understood that the CA should answer the question, What is causing the low productivity? the two teams could not agree on the answer to that question, and it appeared that some possible answers were politically unacceptable to the El Salvador team. In Ghana, the main tensions arose not between the two country teams but rather within the US team. The initial analysis did not point to rural infrastructure as a primary bottleneck to national economic growth, but some on the American team felt that this weakness needed to be a constraint, consistent with the priorities already identified within the United States Agency for International Development (USAID).

[15] MCC officials recently reported that the institution has taken a number of steps to address these challenges, including the recruitment of an additional staff economist with specific responsibility for the CA process and the formal decision to post all CAs on the MCC website. These actions are clearly steps in the right direction for improving both the quality and the transparency of the CA process, but it is still too early to tell the extent to which these decisions will overcome existing obstacles to objective analysis and timely transparency.

intermittent nature of the task, establishing a standing team solely devoted to CAs is impractical, but adding several positions that require relevant training and experience would significantly enhance MCC's ability to respond on CAs when needed. These staff could also become a central hub for training partner country economists early in the compact development process, which would help to mitigate concerns about directly imbedding a disproportionate number of US-based consultants.

(3) **Include economists from other donors in the conduct of CAs.**[16] By expanding participation in this manner, MCC and its partner governments would raise the profile of the CA and reduce the likelihood of multiple and often contradictory analyses being conducted at the same time.[17] Broader participation would enable the sharing of data and analyses across actors and help donors coordinate their own programs in a manner that is better aligned with the partner country's economic growth strategy that is informed by the CA. Moreover, broadening the pool of technical participants in country could substantially reduce the time needed to collect and analyze the data that are part of the CA process, thereby possibly expediting the analysis. While broadening participation has the potential to undermine the effort to focus the analysis on impediments to growth, MCC can insist that the analysis follow the technical guidelines for conducting a CA.[18]

(4) **Publish on the MCC website completed CAs for countries developing compacts.** While CAs are posted for countries with signed compacts, MCC should also post the CAs, as soon as they are complete, for countries in the process of developing compacts. Doing so would allow MCC to be more accountable to American and partner country stakeholders for how well the developing compact targets binding constraints to growth.

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[16] The CA process already encourages partner governments to include well-trained economists from academia and nongovernmental organizations to ensure that the findings (and the government response) are not driven by political considerations.

[17] National development strategies and poverty reduction strategy papers often are characterized by a broad menu of worthwhile activities but lack a strategic focus. The CA would not eliminate these but might help inform their development and help identify priorities. Similarly, bilateral aid agencies could use the CA either to better align their programs or to explain the rationale for targeting other development concerns.

[18] A common criticism of the growth diagnostic method is that it focuses on the impediments to private investment, which is seen as the primary driver of economic growth. Already alternative methods have been developed that seek to shift the focus of the analysis to other challenges, such as productive employment. Such methods, including inclusive growth diagnostics, have gained some currency in other development agencies, but most MCC economists, both past and current, have largely agreed that these adaptations weaken the technical quality of the analysis and are contrary to the essence of the growth diagnostic method, whose value lies in the clarity and narrowness of its definition.

Preinvestment Analysis: CBA and ERR

Background: Why CBA?

MCC was created at a time of great skepticism around the usefulness of foreign assistance as commonly practiced. Much of the aid-effectiveness agenda emerged from the sense that, too often, donors were prepared to finance activities and investments that were not worth the money spent. A donor might accurately describe having spent $100 million in foreign assistance in a country, but local residents might just as accurately claim that the value they received was far less than that. Because donors usually do not provide an economic justification with supporting analysis, it is difficult for anyone to positively demonstrate which activities are worth their cost (and which are not). In 2002, the Bush administration was eager to make a substantial increase in the amount of foreign aid directed at global poverty but was wary of funneling the new funds through existing institutions, which were seen as overly encumbered by legislative restrictions and bureaucratic structures and policies.

In this context, MCC was designed to be different, and the administration found fairly strong bipartisan support for a new aid agency built on new principles. MCC built into its program processes the expectation that projects would not be funded in the absence of compelling evidence suggesting programs would successfully generate benefits to local households that exceeded the costs of implementing them. In the absence of CBAs, development agencies are able to support projects with no formal or explicit comparison of the anticipated benefits of the program to the amount of money spent achieving those gains. In the context of scarce resources combined with many competing needs and opportunities, selecting projects in such an informal way, uninformed by credible objective evidence, is a key factor that has contributed to a widely held perception that a lot of aid projects are not working. When a foreign aid critic makes a statement reflecting that point of view, they rarely mean that the programs are not helping anybody—almost all aid programs can find anecdotal evidence that describes the intervention as a success—but rather they mean that the gains are too small to justify the expenditure.

Cost-Benefit Analysis Matters: The Bridge to Nowhere

An example unconnected with MCC and outside the realm of foreign assistance that illustrates the importance of cost-benefit analysis for public investments is the famous "Bridge to Nowhere" that was designed to connect the town of Ketchikan, Alaska (population 8,900), to a nearby island that houses the town's airport and a population of 50 people. Ketchikan residents would undoubtedly have benefited from the new bridge, but most economists—and most noneconomists, for that matter—would have little trouble demonstrating that the benefits to those residents would not be large enough to justify the cost of nearly $400 million in federal funds. It is not that the bridge would have generated no benefits. It is simply that the benefits would not have been enough given the cost (as further evidence of its poor rationale, residents of Alaska or Ketchikan would never have spent their own funds on this bridge).

MCC builds CBA into compact development at the proposal stage. Following the successful completion of a CA, a partner country develops a proposal for MCC that includes a number of investment and reform components aimed at addressing the binding constraints to growth identified by the CA.[19] Countries must then undertake a CBA for each of the proposed projects and major and separable subcomponents of large projects. The analysis compares all project costs (including those contributed by partner governments, those contributed by other donors, and even user fees paid by beneficiaries) with expected increases in local incomes. Then, it calculates the ERR, or the interest rate at which the net benefits would equal zero.[20] MCC requires that estimated ERRs be greater than a minimum "hurdle" rate (currently 10 percent) for the project to be considered economically justified.[21] That is, when the ERR is at or greater than 10 percent, the benefits generated over the lifetime of the project (often 20 years or longer) are expected to exceed the project's total costs over the same time horizon. In this context, projects with ERRs less than 10 percent are understood as generating fewer benefits than costs and, as a result, cannot be considered consistent with contributing to economic growth.[22]

MCC's formal use of CBA to determine whether proposed projects will raise local incomes by more than the value of invested resources created a fundamentally different context for project selection and design and sets MCC apart from other donor organizations.[23] Advocates of specific program elements could not simply argue that they thought proposed activities were worthwhile; they were required to demonstrate, mathematically and transparently, that the benefits were expected to be larger than the costs. For example, another development agency might accept a proposal to spend $5 million to train 5,000 local farmers in new cultivation techniques and measure success by counting whether those 5,000 farmers were trained. MCC added a critical element saying that such a proposal would be acceptable only if there were a reasonable expectation that, as a result of the training, the participating farmers could be expected to adopt new practices that would raise their incomes by $5 million or more (in discounted terms) over the program's lifetime. That is, the returns, in the form of increased income for beneficiaries, usually earned over 10 or 20 years, would be expected to outweigh the costs incurred mostly during the 5-year MCC investment period.[24]

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[19] Early drafts of the CA are shared and discussed with MCC staff, and the CA is not considered final until MCC formally accepts the final report. This process was developed as a means of ensuring that major differences between MCC and its partners in the analysis and interpretation of the data would be reconciled before program development could begin.

[20] Throughout this report, the terms "cost-benefit analysis" (CBA) and "economic rate of return" (ERR) analysis are both used to describe MCC's preinvestment analysis of the economic merits of proposed investments. The former term, "CBA," describes the general practice of comparing all costs and all benefits over time. The latter term, "ERR," is a summary statistic that describes the results of the analysis. Other possible summary statistics include net present value and benefit/cost ratio. If the data are treated the same way, then all three summary statistics yield the same finding. If the ERR exceeds the predetermined minimum discount rate (suggesting a good investment), then the net present value would be positive and the benefit/cost ratio would be greater than 1 (using that same discount rate).

[21] The minimum ERR requirement has evolved over time. MCC's original economic guidance document of 2004 set country-specific minimum ERR thresholds as the average GDP growth rate over the most recent three years. This led to some very low floors that were nonsensical for an ERR threshold, for example, 1.4 percent for El Salvador, 4.8 percent for Cape Verde, and 2.7 percent for Nicaragua. In early 2006, MCC adopted a practice of establishing country-specific hurdle rates that were defined as two times the average growth rate in GDP over the most recent three years of data. This formulation was amended in 2007 to include a minimum rate of 10 percent (applicable for slow-growing countries) and a maximum of 15 percent (to protect fast-moving countries). More recently, the policy governing rescoping decisions—situations where program spending needed to change from the original design—established 10 percent as a hurdle rate to be applied in all countries, and this became the basis for all investment decisions as well.

[22] Most societies do choose to spend money on social safety net programs, many of which would have ERRs less than 10 percent, but such programs are generally seen as distinct from the growth strategy.

[23] The World Bank's guidelines also require a formal CBA for every project, but in practice such analysis is done for less than half of all projects. A 2010 report from the World Bank's Independent Evaluation Group documented how the practice of CBA has waned within the bank (World Bank 2010). As discussed in a later section, USAID also used CBA in the past, saw its use decline, and is now clearly committed to increasing its use.

[24] An important element of any CBA is the practice of discounting, which reduces (i.e., discounts) the value of both costs and benefits that are realized in the future. Like an interest rate on savings at any commercial bank, which promises to pay more in

MCC's ERR Practice

The practice of MCC's ERR analysis has evolved and in many ways improved over time. Despite persistent challenges (e.g., often poor data quality), decision making based on imperfect analysis (with awareness of its limitations) is almost always better than decision making based on no analysis or based on factors unrelated to projected results.

Between 2004 and 2006, MCC developed compacts with 20 countries but had only two economists on staff. As a result, the practice of CBA in MCC's first two years relied heavily on country partners' developing the initial CBA models with MCC economists and their consultants' reviewing and revising those models (and constructing their own models, as necessary). Early on, MCC produced guidelines on the practice of CBA, but these guidelines were very general. In addition, the guidelines acknowledged that a number of constraints limited consistency across models. These constraints, in MCC's early years, included the following:

(1) *Data Availability and Quality:* When constructing CBA models, the best approach often depends on the data available.[25] Especially in the first few years, during which every CBA model was different from previous models, even for similar activities, MCC's practice might appear highly inconsistent, despite the fact that at least some of the differences could be explained by the availability of data.[26]
(2) *Economic Analysts:* In the absence of clearly established models and approaches, early CBA practices at MCC reflected to some extent the analysts and their different backgrounds and interests. In the spirit of country ownership, MCC encouraged countries to develop their own models to estimate projected returns to their proposed investments.[27] MCC economists then reviewed the models and worked with their country counterparts to revise them as necessary. In some cases,

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the future, discounting reflects the idea that people value something more today than in the future. A project with a 0 percent discount rate would suggest that a project that cost $100 million today would be acceptable as long as it generated at least $100 million in benefits at any time in the future (i.e., an investment that paid $100 million tomorrow is the same as one that pays the same amount 10 years, or 100 years, in the future). Clearly no investor of public funds would find it acceptable to bury $100 million and promise to dig it up for use 10 or 20 or 100 years from now. The process of discounting enables analysts to compare projects that incur costs and generate benefits at different points of time in equivalent time-neutral units. The use of a 10 percent discount rate (equivalent for decision purposes to MCC's calculation of ERRs and using a 10 percent minimum rate) essentially imposes the demand that every $100 incurred as an expense in any year must generate at least $110 in benefits the following year (or $121 in 2 years). The use of a 10 percent discount rate is higher than commonly used in advanced economies but is fairly standard practice for public investments by donors in developing countries.

[25] For example, estimating the increase in farmer incomes that are expected from a new irrigation system might be based on data on farm incomes from an existing irrigation scheme, which can be used to build farm models. Where such data do not exist, another approach might be to look at land prices, which in some circumstances might provide an estimate of the higher value of improved land when compared to unirrigated farmland. Both approaches are acceptable, and using the farm income model in one country and the land price model in the second country may actually reflect correct and consistent practice given different data environments.

[26] Modeling road benefits presents another example. In countries where good data exist on traffic response to improved roads, parameters from past construction and rehabilitation efforts can be used. Where such data do not exist, relationships between macroeconomic growth and traffic on main arteries (or rural roads) might be estimated and used instead. As a result, two estimates of traffic response rates could use very different parameters for similar roads, and each might be easily defensible as the best parameter estimate available in that context and thus consistent with best practice standards.

[27] MCC actually expected that countries would include their own CBA results in the project development process. This was written into country documents and clearly formed the official expectation. To this day, however, all compact proposals have included some elements that had no formal CBA by the partner country, and some of them included no formal CBA whatsoever with the initial proposal. Given that MCC never rejected a proposal (or a project) on the basis of the initial documentation not having a CBA, it is clear that such language has never constituted a requirement in practice.

MCC hired consultants to develop CBA models for the partner country, and MCC economists reviewed and revised these as well. In other cases, models were developed from the outset by MCC economists themselves.

While each of these three approaches included final oversight and sign-off by MCC economists, the first two rarely (if ever) replicated the type of model built in-house from the outset. In many cases, locally produced models projected higher returns for desired investments compared to the results from MCC's review that almost always lowered the estimated returns (sometimes to a point where the investment lacked economic justification). MCC sometimes chose to pursue these lower-return investments, however, in the name of country ownership (the locally done analysis suggested they were good enough) or perhaps to expedite the conclusion of compact development to conform to MCC's internal schedule. In the end, the models used to inform investment decisions included some that were constructed solely in-house and others that, while reviewed and possibly revised by MCC economists, were inherently the property of local analysts and international consultants.[28]

In 2008, an audit by the US Government Accountability Office (GAO) found inconsistencies in the application of ERR analysis, many of them reflecting the institutional and context-specific constraints described above.[29] For example, some investments in El Salvador were found to have sufficient returns on investment, but only when a 25-year time horizon was used. This approach had been developed by El Salvadoran economists and is not wrong, per se, but the sensitivity of the positive findings of the analysis to the use of a longer time horizon presumably should have been noted and was not. Other inconsistencies found by GAO were not material to the investment decision (i.e., the rate of return was acceptable under any plausible parameters) and reflected reasonable differences in approach given data availability. Nonetheless, GAO raised concerns with what appeared to be a process driven to a significant extent by case-by-case methodological choices.

MCC's response to GAO clarified a number of points. First, MCC would use a 20-year time horizon as a default setting but reserved the right to use other time frames when the design of the project justified it. Similarly, MCC committed to using standardized approaches to proposed investments but reserved the right to use different methods when data or project design justified such inconsistencies. MCC recognized the need to enhance consistency of practice but also continued to explain that it needed to focus on the most reasonable models available, based on the specific contexts. To increase accountability, MCC also adopted an internal peer review approach and began systematically publishing ERRs online so the public could view (and alter) the parameters and assumptions MCC used in making its calculations. Opening such a key aspect of its investment decision-making process to public scrutiny was an unprecedentedly transparent step for a US government agency.

Despite these important process improvements, data quality has remained a significant issue. Developing countries tend to be data-scarce environments, forcing MCC to rely on outdated data, sometimes of questionable quality, or imperfect proxies in its models. Weak assumptions, however, do not make ERRs wrong, as long as the data limitations are known and understood. Decision making based on imperfect

[28] MCC's initial guidelines on the practice of CBA recognized the challenges: "Whether MCC itself, its partner countries, or the two together working in a collaborative effort, will calculate ERRs will vary case by case, but in any case MCC will have to be satisfied with the quality of the analysis. Differences in data availability, reliability and quality and gaps, across countries and between components, will have to be lived with after we have made reasonable efforts to improve what we can get. … The degree of elaboration of the model for any component will similarly have to be what judgment says is 'good enough.'"
[29] US Government Accountability Office ([GAO] 2008).

analysis (with awareness of its limitations) is almost always better than decision making based on no analysis or based on something unrelated to expected results (like congressional earmarks).[30] Of course, when the data quality is so bad that no sensible information can be drawn from the analysis, MCC's model would suggest that large programs should not be approved given the absence of any compelling expectation of cost-effective impact.

MCC's Use of ERRs for Project Selection

MCC has largely chosen investments based on their ex ante demonstrated potential to achieve cost-effective results. Several notable exceptions to this, however, suggest that MCC has at times acted inconsistently with its mandate to promote poverty reduction through growth.

Are high ERRs necessary or sufficient for MCC to select a project for investment? While MCC's use of some minimum ERR hurdle rates dates back to its founding, all of MCC's documents included the proviso that MCC reserved the discretion to fund projects regardless of the ultimate findings of the CBA. Clearly, funding a below-minimum-return project would be inconsistent with MCC's institutional mandate to focus on growth. However, MCC might choose not to approve a project with a high ERR since the rate of return was never considered the sole determinant of the quality of the program (i.e., it is not sufficient). MCC also considers noneconomic factors, including the following:

- Level of local support for the project (MCC might decide not to fund a proposed investment that generated strong opposition from local groups)
- Level of conformity with other MCC policies (e.g., social and environmental safeguards)
- Incidence of the benefits generated by the project (MCC would be unlikely to approve projects that generated large increases in local incomes that benefitted only the wealthiest households or entirely excluded the poorest)[31]

In addition, sometimes proposed projects simply do not lend themselves well to ERR analysis. This is particularly true for two kinds of proposals:

- Policy-reform activities, wherein the primary actions are taken by partner country ministries (The contribution of expert technical assistance in facilitating the reform is extremely difficult to attribute and measure, and changes in aggregate outcomes are difficult to attribute to single reforms.)
- More innovative proposals that, by definition, have not been tested in other contexts so do not have a well-developed evidence base for how and in what quantity benefits are produced[32]

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[30] Programs developed to respond to earmarks need not be ineffective. If agencies responding to an earmarked funding area are able to impose the discipline of a CBA, investments and project interventions can generate adequate impact. But when agencies are required to program in a manner responsive to earmarks, they may be compelled to spend money against that issue even when no good intervention has been identified, and an agency's inability to reorient based on impact almost always leads to ineffective spending practices.

[31] See MCC's Economic Rates of Return webpage: http://www.mcc.gov/pages/activities/activity/economic-rates-of-return.

[32] Of course, this loophole is easy to exploit. Innovative projects still require a formal logical model that relates known costs to expected outputs, outcomes, and impacts, and these must plausibly exceed costs. However, the "innovative" label can be applied to activities that have no such economic logic but do have strong institutional or political support.

In such cases, MCC has been willing to approve funding for projects for which it is not possible to calculate an ERR. Presumably, though, these exceptions would be both small in scale and infrequent, and the innovative projects would be accompanied by rigorous evaluations to help inform future funding decisions. When MCC approves large investments despite the absence of rigorous evidence of impact ex ante, such decisions appear inconsistent with its institutional mandate to use its resources effectively.

So how consistently has MCC based its investment decisions on ERR analysis? According to available information, for the vast majority of its portfolio (more than 90 percent of compact funds), MCC has invested in projects that were expected to deliver benefits in excess of their costs. This record reflects the commitment of MCC managers to approach their institutional task seriously and needs to be recognized as a tremendous accomplishment that no other donor can claim. In many cases, the expected rates of return are very high, reflecting the fact that the investments address policy and institutional barriers that, if remedied, will open significant new opportunities, often well beyond the narrow scope of the specific activity. Of course, such high return projects usually have a significant risk that underlying reforms will not be possible (thereby compromising the expected return).[33] Outside observers are keenly interested in seeing the results of MCC's impact evaluations exactly because they will provide independent confirmation as to whether the reforms were undertaken with the anticipated large-scale returns.

The record of MCC's investment decision-making process also includes around $800 million to $900 million worth of major investments (around 9 percent of the agency's total compact portfolio) that did not demonstrate cost-effectiveness at the time they were approved for funding.[34] Important to note, these are not projects that looked good at the time of the investment decision based on available information and reasonable assumptions that then failed to reach targets due to unforeseen circumstances. Instead, these projects were approved by MCC's management and board of directors despite the fact that the institution's own economic analysis characterized the proposed activities as unknown or not worth their costs.

MCC deserves credit for its many sound and rigorous investment decisions during its first 10 years. It also deserves to be judged on the frequency with which it has made exceptions to the clearly established principles that have set it apart from other donor agencies. These inconsistencies have taken two main forms: (1) approving projects whose costs exceed their benefits and (2) deciding to fund projects in the absence of a CBA.

[33] In some cases, the inability to deliver necessary reforms was identified before money was spent. Large-scale investments in Mongolia's rail system promised high returns based on the presumption that systemic reforms would take place. In Mongolia, a large share of the compact needed to be reprogrammed when it was determined that the reforms could not take place.

[34] These estimates were derived by compiling all the ERR calculations MCC has posted on its website plus references to original ERR values included in online monitoring and evaluation (M&E) reports. However, it is not clear whether all completed ERRs are posted online and/or referenced in M&E reports. The fact that M&E reports sometimes refer to ERRs that are not posted suggests that the public set of information is incomplete. It is therefore possible that nonpublic ERRs exist for some projects or activities, in which case the estimate of the value of nondemonstrably cost-effective projects could be either higher or lower than cited here. The range of $800 million to $900 million is provided because three of the compacts that include projects with low ERRs (Cape Verde, Nicaragua, and El Salvador) were under development before the current minimum 10 percent ERR threshold was put into place. Therefore, relatively low ERR projects in these three compacts, which total $104 million, were fully consistent with MCC's requirements at the time, though MCC perhaps should have realized the country-specific minimums (based on recent GDP growth rates) that were in place for these countries at the time (1.4 percent for El Salvador, 4.8 percent for Cape Verde, and 2.7 percent for Nicaragua) were too low to meaningfully indicate cost-effectiveness.

Projects Whose Costs Exceed Their Benefits (Projects with Low ERRs)

MCC has approved projects in which ERRs were below the minimum threshold set by its own internal policy guidance far more often than one might expect. Indeed, many of MCC's compacts include elements that cost millions of dollars—sometimes tens or hundreds of millions of dollars—that were expected to generate negative net benefits. Based on the publicly available information (see the appendix for a summary table), six compacts have included projects, activities, and/or subactivities, worth a total of more than $300 million, with ERRs below the required minimum threshold current at the time of compact development.[35] These activities are spread across compacts with Burkina Faso, Lesotho, Mali, Mozambique, Namibia, and Senegal. Another three compacts, Cape Verde, El Salvador, and Nicaragua, have projects or activities totaling more than $100 million whose ERRs met MCC's minimum standards at the time but would now be considered too low to be cost-effective.[36]

It is worth exploring a few of the cases with the lowest ERRs and the probable reasons behind their inclusion.

- *Roads in Burkina Faso:* The Burkina Faso compact included $194 million for roads. Of the seven road segments funded, all were worth much less than the money spent on them. None had an ERR above the minimum hurdle rate of 10 percent. The highest ERR was only 2.7 percent, and four segments, including some of the highest-cost ones, had negative ERRs—as low as –3.3 percent.[37] In other words, MCC spent $200 million to deliver benefits originally valued at approximately $100 million (later lowered to $50 million).

  Why did MCC agree to fund these roads? Several factors were likely at play. First, the government of Burkina Faso requested the investments. Second, some MCC staff had various reasons to support the investment, including the following: (1) larger projects are often viewed as better, professionally, for program staff; (2) management believed that MCC needed to deliver a big program to be influential enough in Burkina Faso to push the government on related policy and administrative conditions; and (3) there was likely a desire to spend enough of MCC's balances to demonstrate the agency's need for full funding to the US Congress the following year. All of these potential explanatory factors are common dynamics in other development agencies as well but are

[35] In some cases, MCC officials have argued that the overall funds are invested appropriately as long as subactivities with low ERRs were combined with other high-return subactivities to generate a weighted average ERR greater than the minimum threshold for the overall activity, then. This logic is convoluted, however, and allows for aggregations that disguise investment decisions or will not achieve results but that are politically expedient either for partner countries or for MCC. Indeed, many large projects with strong returns have included small subactivities that add costs but do not add to the benefits of the projects, suggesting that the total spent on low-returns activities (and subactivities) is almost certainly significantly higher than reported here. The recently approved second compact with Ghana provides an excellent example. The $498 million program includes a $10 million component that, according to MCC, "will test the most cost effective approaches to address the key constraints that micro, small and medium enterprises in markets and economic enclaves face in obtaining safe and legal access to electricity." The language sounds like a rigorous experiment in line with MCC's learning function, but the language in the compact suggests that this element is focused on distributional considerations quite apart from the overall program returns.

[36] These decisions were consistent with MCC guidelines at the time, but it is now clear that these created some odd decision rules and some poor decisions as a result. MCC's earliest guidelines established the minimum ERR at twice the country's average growth rate during the previous year. This led to very low hurdle rates in the handful of countries that had recently had a year or more of low growth. Though economic theory suggests that one could find opportunities for high returns to public investment in places that had recently had little growth or investment, the low hurdles in some countries enabled MCC to fund low-return projects (i.e., those with the least effect on growth)—and likely dissuaded the agency from trying to identify higher return projects—in places that most needed capital to be used efficiently.

[37] See MCC's webpage about the Burkina Faso Compact's ERRs: http://www.mcc.gov/pages/countries/err/burkina-faso-compact.

somewhat more problematic in the MCC context because of their inconsistency with the agency's results-first model. Furthermore, because MCC is so much more transparent about its investment rationale than most other donors, it is easier for external observers to identify and critique such decisions.

- *Rural Water in Lesotho:* While delivering reliable clean water to rural households sounds like a reasonable objective, was the $30 million spent on this project a good investment? The ERR was originally estimated between 0 percent and 6 percent and eventually was determined to be 0.7 percent.[38] It turned out most households already had access to clean water through community sources not far from their homes, so MCC's investment would yield only minimal additional benefits in terms of health improvements and time savings.

  MCC agreed to fund this investment due to factors that were similar to those described in the Burkina Faso example. By the time the final ERR was calculated, a lot of time and effort had been invested in developing the project, creating advocates for the activity both in Lesotho and within MCC. Moreover, deciding not to fund the project would have lowered the overall program size and left MCC with more unobligated balances at the end of the year.[39]

- *Indigenous Natural Products in Namibia:* This $6.5 million project was funded despite an estimated ERR of 2.9 percent.[40] While supporting extremely low-income, vulnerable women is a reasonable welfare objective (like providing clean water in rural areas), the particular project was essentially a very expensive social safety net program designed to transfer small amounts of funds to very poor women. There actually may have been better ways to help these same targeted beneficiaries. Indeed, both conditional and unconditional cash transfer programs have been shown to deliver significantly greater benefits to easily targeted low-income households at a lower administrative cost.

[38] MCC's webpage on the Lesotho Compact's Economic Rates of Return. http://www.mcc.gov/pages/countries/err/lesotho-compact

[39] This experience reveals a key challenge for MCC as it tries to base program decisions on economic analysis. Usually the final results of the analysis are known only late in the program development process, by which time strong advocates for the proposed investment have already emerged both within MCC and within the partner country. Often, early models with preliminary parameters provide insights as to whether the project is likely to be cost-effective. In the case of Lesotho, MCC was aware during the due diligence process that the proposed water project might have very low returns. However, MCC finds it difficult to reject country proposals on the basis of preliminary expectations, especially since the shape of the program—which affects the calculus of both costs and benefits, and therefore the ERR—change during due diligence. While continuing due diligence on a questionable investment may be reasonable as long as MCC retains the option of rejecting the project if and when final economic analysis indicates the proposed activity will not have a sufficiently high ERR, in practice MCC has found this very difficult to do. Professionals working on the design of the proposed activity, both within MCC and within the counterpart government agencies, develop personal and professional interests to see the activity funded. MCC managers, too, have incentives to fund the activity, as the alternatives include a smaller compact or a delay. Country leaders, too, often want as big a compact as possible since MCC funds are grant money, not a loan. Over time, MCC has gotten better about halting due diligence on activities that are clearly going to demonstrate low returns, but retaining the political space to reject projects late in the process when the final economic analysis produces the unexpected result of low returns remains a challenge.

[40] MCC's webpage on the Namibia Compact's Economic Rates of Return. http://www.mcc.gov/pages/countries/err/namibia-compact. MCC officials have recently suggested that revised ERRs completed after conclusion of this project suggest a much higher ERR as a result of prices for these products being much higher than originally expected. These ERR models are not yet publicly available, but while this favorable fluctuation of prices is good news, still does not justify the investment decision at the time. For every project that turns out to be more profitable than expected due to unanticipated price movements upward, there are other examples of returns being lower than expected due to unanticipated price movements *downward*.

Projects with No ERRs

MCC has also, at times, decided to fund projects for which no CBA was done, often because the program elements were not yet very clear. In some ways, investment decisions that are uninformed by CBAs are better than investment decisions to proceed with projects despite negative or near-zero ERRs, like those described above. But selecting many or large projects in the absence of clear CBAs, especially if no evaluations are planned or completed to learn from the projects, is not consistent with MCC's distinctive model. Moreover, it is more difficult for MCC to manage and monitor those investments whose performance metrics were never made explicit as part of the cost-benefit calculus.

According to the information on MCC's website, five projects totaling nearly $500 million in three compacts (Madagascar, Burkina Faso, and Indonesia) had no ERRs, either at the project level or for any of the individual activities that make up that project, when they were approved for inclusion in the compact:[41]

- *Madagascar:* This was MCC's first compact, and it included a $13.7 million component (originally planned to be $17.7 million) aimed at delivering technical and business services to rural enterprises. Very late in the compact development process, MCC staff and Malagasy team members agreed that a component focused on farmers would be an appropriate program component, but the political pressure to move ahead toward signing MCC's very first compact did not provide sufficient time to develop an explicit program design and calculate the relevant ERR. Consequently, MCC proposed and the government of Madagascar accepted that the component would include a rigorous impact evaluation to ensure that, whatever the eventual impact of the program, it would generate valuable evidence regarding the cost-effectiveness of working with rural farmers and small businesses in rural Madagascar. Such a study would help inform future MCC investments in the sector, it was argued, making the project itself an appropriate risk. An implementation success would be the best outcome, but even a well-documented failure would provide valuable program design information.

  Ultimately, the project contractor (along with the government of Madagascar) was unwilling to implement the project within the context of a rigorous evaluation. Moreover, the decision to proceed without the evaluation lost any informational value that the experimental project was expected to have. An experiment to demonstrate the potential cost-effective impact on farmer incomes could have been justified. In hindsight, when MCC lost the evaluation that was intended to demonstrate impact, the agency probably should have closed the activity and either reallocated funds to programs with demonstrable impact or simply deobligated the funds.

- *Burkina Faso:* The compact not only included almost $200 million for a roads project with a low ERR (as noted above); it also included almost $29 million for an expansion of the education investments started under Burkina Faso's earlier threshold program. MCC staff never conducted an ERR analysis for this investment since MCC's CEO had already personally approved the project during a meeting with the Burkinabe head of state.

  In addition, no ERR is available for a $60 million rural land governance project. According to MCC's M&E plan written before implementation began, an ERR "cannot be estimated at this stage due to lack

[41] In addition, there is no ERR available for Mali's $94 million industrial park project. However, this project was subsequently eliminated as part of rescoping. It is likely that MCC did complete an ERR for this project but has chosen not to post it (nor reference it in an updated M&E report) since the project was canceled early on.

of quantitative evidence." Nonetheless, MCC decided to proceed with the project but test for evidence of impact roughly halfway through the compact. For an agency whose approach is typically "evidence first," allocating such a large sum to a project without evidence of cost-effectiveness appears inconsistent with its own aid effectiveness principles.[42]

- *Indonesia:* The $600 million compact contained a number of large investments without estimated ERRs when it entered into force. Most notably, the $332 million Green Prosperity Project, which accounts for more than half of the total compact funds, consists of four activities, none of which has explicit estimates of returns to compare to costs. In other words, MCC set aside hundreds of millions of dollars and enacted an expensive program administration without any clear sense of whether there would be any investments worth funding.

  For example, for a renewable energy component of the Green Prosperity Project, the specific energy-generation projects are not yet identified and will supposedly be screened individually by MCC's economists to determine whether they meet MCC's investment standard. This approach could be problematic for a number of reasons. First, it may be unrealistic for MCC's limited number of economics staff resources to be able to analyze well, and in the necessary time frame, the sheer number of potential investments that may arise, given the large size of the budget. Second, it is unclear what MCC will do with excess resources if the project does not identify enough good investments. Will the institutional imperative to spend rather than deobligate prevail? Third, once implementation begins, it is very unlikely that information about the projects will be readily available before decisions are made, rendering any public review of MCC decisions and actions too late to matter. Last, this approach puts MCC staff in a potentially very difficult position. There could be significant political pressure to move forward even in light of unattractive ERRs for specific projects, for both local and global reasons (such as US commitments to fight climate change).

  For a component focused on reducing land-based greenhouse gas emissions, although illustrative examples of potential projects were provided of how the related project funds might be spent, there were no specific activities to achieve the stated objectives. MCC committed more than $100 million to this component of the Green Prosperity Project and has already spent significant funds preparing for implementation. Again, it is unclear what MCC would do with the funds if sufficiently good (i.e., high-return) projects are not identified and, if there are not other plans for the funds, whether the agency would deobligate rather than spend resources on money-losing activities.

  In addition to the Green Prosperity Project, the Indonesia compact also included roughly $50 million for a procurement modernization project focused on reducing waste and corruption by training Indonesian government officials and strengthening institutional processes. However, while MCC had credible information suggesting that corruption and poor practices in the Indonesian government procurement process lead to large losses, the implicit logic linking the activities within this project to projected reductions in waste and corruption was supported by no clear and compelling evidence of success by similar programs elsewhere.[43] That is, there was little evidence to suggest that the kinds of activities

[42] A midterm evaluation (completed but not yet available) suggested the project was having some success (though not in the way originally envisioned). MCC decided to scale up based on this initial evidence with a much less expensive strategy.
[43] A common thread within the aid-effectiveness critique is that donors have spent large sums on governance programs that produce new structures and processes and newly trained professionals but have little ultimate effect on governance practices.

proposed for this project would lead to actual behavioral changes needed from procurement officials to generate the needed level of savings to justify an expenditure of $50 million.

Why did MCC commit such a large sum to a project with an unknown return? Some staff argued that a bigger program had a better chance of succeeding because it would get the necessary attention of important decision makers. However, this assertion essentially prevented MCC and the government of Indonesia from considering a lower-scale, lower-cost experimental approach that would include a robust strategy for measuring impact and generate important information that the Indonesian government could use to develop a better strategy in the future. Given the absolute magnitude of these Indonesian compact exceptions, the internal and external decision dynamics that led to such a package of investments should be explored further with the objective of learning lessons for future MCC compact deliberations.

- *Morocco:* More than two years into implementation, the Moroccan government backed out of one of the $698 million compact's more than 30 subactivities, deciding not to refurbish one of the five Fez medina sites slated for rehabilitation. This decision left MCC with the burden of excess funds ($21.7 million) to be either reprogrammed or deobligated.[44] Rather than shifting the funds to a well-functioning and scalable activity already under way, MCC decided to reallocate the money to a brand new activity that provided large grants to a small number of cooperatives to help them invest in olive oil–refining enterprises. Not only did such a project design go against broadly shared best practices for private-sector support activities (economists argued that such investments would compete with private firms already in this market), but it was approved despite the absence of credible evidence that the use of funds would generate significant new gains in local incomes. There has been no subsequent public description of the projected impact.

MCC's Use of ERRs to Inform Midcourse Compact Changes

In an excellent example of institutional learning, MCC expanded its use of ERRs to inform how to proceed when midcourse implementation changes become necessary. However, MCC is not transparent about rescoping decisions, and as a result, the agency is able to make midcourse decisions about programs that continue and even expand program funds devoted to activities that generate economic losses without facing external accountability for these decisions.

Early on ERRs were just a tool to guide initial investment decisions. There were no plans to revise them after the initial selection of compact projects. In fact, there was some concern internally that repeated economic analysis would lead to unpredictable institutional implementation patterns. Some MCC management worried that economists might approve a project with an initial projection of acceptable levels of economic return, only to object and prevent implementation on discovering new information that would lead to revised projections of now unacceptable returns.[45] As a result, MCC initially limited its economic analysis to the compact development phase.

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[44] This figure comes from the M&E plan. Other MCC documents use other dollar amounts, but all are in excess of $20 million.
[45] This may have been the best outcome given the circumstances. Consider the hypothetical example of a $200 million project that earned approval supported by economic analysis that found the investment would generate $250 million in benefits for local citizens. One day after approval, but still long before any funds have been spent, new information about higher prices or lower returns reveal that the $200 million project is actually worth only half the cost. Should the project proceed in any event just because a decision was made to spend the funds in this manner one day ago? What if the new information comes one year later but still before any money is spent? What if $50 million has been spent before the new information is discovered, but even so,

As the institution matured, however, the portfolio of work evolved as well. Between 2004 and 2008, the vast majority of MCC work focused on compact development, as the institution had very few programs actually under implementation. By 2008, the number of new countries selected for compact development began to decline, and the number of country programs being implemented became larger than the number of programs in the development stage. Moreover, MCC managers recognized that they needed updated economic analysis during implementation to guide midcourse program decisions. Early expectations that well-designed programs could be implemented on schedule and on budget turned out to be overly optimistic. Indeed, as the first set of compacts reached the midway point in their implementation, MCC found that almost every one underwent a substantial restructuring (MCC calls this "rescoping"). Due to things like implementation delays, higher than expected costs (often due to international price fluctuations), and early evidence of program failure, MCC found itself needing to shift money between activities.

In some cases, MCC management and staff were willing to use evidence of expected economic impact to guide those decisions. For example, if a $100 million facility expected to rehabilitate 200 miles of existing rural roads determines that costs are twice as high as expected, most staff within MCC and many country counterparts would be willing to rely on evidence of impact to decide which 100 miles of rural roads would be rehabilitated and which would need to wait for other funding. This was precisely what happened with the Armenia compact whose roads component had to be rescoped due to escalating costs. The lower-return road segments were canceled, and funds were diverted to the better segments.

However, the practice of using economic analysis to guide rescoping decisions was uneven at best. A similar opportunity in Mozambique was missed. During the rescoping process, MCC managers accepted the government's preferences to continue putting more money into roads that were known to have unacceptably low returns. The government argued that commitments to these localities had been made and had to be honored. In doing so, MCC failed to live up to its commitment to US taxpayers to use resources for adequate results and missed the opportunity to use the same resources to benefit other poor Mozambican communities more.

As the rescoping process became more common, it became clear that new ERR analysis was systematically needed to answer the following types of questions:

- Should an activity experiencing cost overruns be continued, even at its higher cost? In other words, is the ERR still greater than 10 percent, even with the higher costs?
- If so, where should the money come from? Because MCC's total compact budget is set upfront, the institution does not have the ability to provide additional funds to cover unanticipated costs. Which other existing activities had funds that could be shifted to cover the additional costs? MCC needed updated economic analysis to help identify which activities had the lowest returns and which would be least disrupted by downsizing.
- If the activity experiencing cost overruns should be discontinued or downsized, are there other activities that could absorb the released funds? Again, MCC needed updated economic analysis to determine which activities had the highest returns and could most easily be scaled up without significantly lowering overall impact.

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spending $150 million more generates only $100 million in benefits? A decision to reverse an earlier decision can certainly cause some professional and/or political difficulties, but a decision not to reverse an earlier decision wastes US taxpayer funds and produces ineffective foreign assistance.

Because the need for such widespread rescoping was unexpected, MCC lacked rules and guidelines for how to go about it. In the earliest processes, the major responsibility for the decisions lay with program staff and management, subject to approval by the CEO. These decisions were not always informed by new economic analysis, and even when new ERRs were calculated, they did not necessarily govern the result.[46] In the context of rescoping, MCC's program staff often appeared to view MCC's objective as primarily completing implementation. For example, MCC's management comments included as an addendum to a July 2012 report from the Office of the Inspector General stated, "Given MCC's strict five year implementation timeline and fixed funding levels for compact agreements, cost overruns resulting from changes in market conditions will inevitably lead to project modifications. In such situations, ensuring that scarce taxpayer resources are directed to activities with the greatest potential for impact is also a demonstration of good management."[47] Of course, investments with the "greatest potential for impact" might still not generate enough returns to justify the investment. That said, MCC noted (and the Office of the Inspector General confirmed) a number of cases in which lower-than-anticipated results (e.g., rates of return that fell below the minimum threshold when revised) caused project termination as part of rescoping, but not always. As the report notes, in several of the earlier rescopings, MCC did not recalculate rates of return to understand how program changes would affect results. This suggests that, especially for MCC's early compacts, if costs had gone up substantially, MCC often sought to proceed as quickly and to do as much as possible at the new cost levels without information about whether investments were still sensible at the new cost (or in some cases in spite of information indicating they were not).

As the first compacts concluded, MCC's new CEO and his leadership team found themselves with the challenge of explaining results that were less than originally projected, and a review of the rescoping process identified the need for broader institutional participation that included senior managers from other departments whose imperative was not solely implementation. The "Policy on the Approval of Modifications to MCC Compact Programs," dated February 15, 2012, for the first time created an official framework for rescoping decisions (it is not publicly available).

Under the new policy, compact staff can proceed with implementation as planned if rescoping decisions are small or if money is being moved to high-return projects. However, if rescoping requires that additional funds be allocated to money-losing projects (those with low ERRs) or to projects whose economic impacts have not yet been calculated (those with no estimated ERRs), then the recommendation for rescoping must be reviewed by MCC's Investment and Management Committee, the agency's internal governing structure made up of vice president–level officials from across the agency.

This new policy represents a significant improvement over the previous practice because it requires that ERR analysis be conducted for proposed changes to a compact, and it brings to bear the potentially different

[46] Where CBA models were revised (or new ones developed to better reflect the project in implementation), MCC economists usually treated costs already incurred as sunk. In other words, the ERRs were calculated to determine whether the expenditure of additional funds would be cost-effective. Often, these new ERR estimates were required before substantial costs had been incurred. For example, the implementation of major infrastructure projects often faced delays that pushed the start date back by one year or more, at which point costs had gone up. In such cases, the projects did not have substantial sunk costs. Similarly, many retail projects dealing directly with beneficiaries (such as farmer training programs) did not entail large upfront costs compared to the ongoing cost of engaging additional cohorts of program participants. Of course, higher costs do not necessarily lower ERRs to less than the minimum threshold, especially when initial expectations of returns are very high, and the new cost environment can affect the benefit stream as well. But MCC's fixed budget might still limit the scope of such an intervention, even when the returns remain adequate. Two road segments might remain good investments even after costs have doubled, for example, but because MCC cannot add funds to the compact, MCC might need to eliminate one of the two roads (or look for another donor or local government funds to cover the higher cost).

[47] USAID (2012), 13.

viewpoints of various agency leaders about the right balance between the importance of completing implementation as close to what was planned as possible and adhering to MCC's commitment to generate cost-effective results.

However, the agencywide group has often taken decisions to continue implementation, even when revised economic analysis suggests that the project or activity will not be effective at generating results. There are a couple of likely reasons behind this:

(1) MCC has concerns that the bilateral relationship would suffer if MCC canceled projects midway. From the recipients' perspective, a money-losing project still delivers some benefits (just at a value less than the cost), and a canceled project would withhold the benefits the country stood to gain.[48] MCC, an agency whose compact agreements typically require substantial government contributions in the form of policy and regulatory changes and sometimes cofinancing, may have been reluctant to make a choice that would be viewed unfavorably by the partner country government at the potential risk of receiving less cooperation on the policy side. In addition, MCC, as a US government agency, is a tool of US diplomacy, and there may have been broader political and strategic pressures for the agency not to pull funds from a particular country.

(2) To date, there has been little cost for MCC to implement a project that does not generate measurable results. Few ex post evaluations have been completed and released. In addition, the GAO's reviews of MCC compacts to date have largely focused on process rather than impact.[49] Furthermore, few observers in the public domain have directed attention at suboptimal investments. One of the reasons for this is almost certainly because the information is not always easy to find. MCC is a US government leader in transparency in many ways (not least of which because it publishes the initial ERR analysis of most large compact investments) and rightly is regularly praised for this practice. Unfortunately, MCC publicizes very little information pertaining to rescoping in a systematic or timely manner, including the revised ERRs that were brought to bear on decisions to halt or scale up a project.

In addition to rescoping, MCC may also currently update and revise ERRs at several points during the lifespan of a compact. For example, MCC has also adopted the practice of updating ERR models at the end of compacts. This analysis does not replace independent impact evaluations, but it does serve as an estimate of MCC's expected impact given the pattern of implementation.

Recommendations

Based on these experiences and lessons during the past decade, MCC should consider three key recommendations going forward:

[48] Recall that a bad project might spend $200 million and produce only $50 million in local benefits, essentially "burning" $150 million in value. However, from their perspective, local governments and local beneficiaries stand to gain $50 million if the project is completed and stand to lose out on the benefits if MCC decides such a project is a waste of resources and returns the funds to the MCC budget or to Congress.

[49] When reviewing MCC's decision to complete one-third of the port in Cape Verde, the GAO repeatedly focused on whether changes in the M&E targets had been completed according to MCC rules. The GAO never asked whether the value of the port construction still justified the expenses associated with that small part of the construction (US GAO 2011).

(1) **Reinforce its commitment to investments with adequate economic returns.** MCC should avoid funding bad projects that waste resources (i.e., are not cost-effective). It should avoid rushing to approve projects without completed economic analysis, and it should stop investments in progress if evidence suggests money is being poorly spent.

(2) **Use small time-bound experiments to inform future investments.** Where MCC is unable to construct credible ERR models, the institution should be willing to use some part of the compact to conduct rigorous experiments to generate information that will inform future public strategies. For example, instead of spending $50 million on the Procurement Modernization Project in Indonesia that had no formal impact projections, MCC would have been wiser to allocate one-tenth of that amount to try to figure out how best to improve the procurement system. MCC should establish a policy that sets either a maximum amount (e.g., $10 million) or a small percentage of the total compact budget that can be allocated to innovative or experimental activities with no ERRs. Such a policy would prevent MCC from using unproven experiments to enhance compact budgets to a desired size and force MCC to wait until it has a high-quality program before entering into a compact rather than approving a low-quality program according to deadlines set for other purposes.

(3) **Publish rescoping decisions in a systematic and timely way, and publish the data that informed the decision, such as revised ERRs.** This should also include the summarized outcomes of the agency's internal management committee. Rescoping decisions often can provide important insights into challenges MCC is facing during implementation and the steps it is taking to address them. Since midcourse decisions can fundamentally alter the quality of the program, stakeholders both inside and outside of government need access to this information to perform appropriate oversight.

Beyond MCC management, the US Congress and other MCC stakeholders should do the following:

(1) **Engage MCC about the rates of return of compact investments.** At project selection and throughout the life of the compact, Congress and other external stakeholders should inquire about projects' economic value. When MCC selects, scales up, or continues implementing a project with a known low ERR (or when it selects or scales up a project with no ERR), external stakeholders should require MCC to explain the rationale for the decision, keeping in mind that one of MCC's key distinctive features is its focus on results.

M&E during Implementation

Background

Ongoing project monitoring is a critical element of MCC's results framework and often gets less attention than it deserves. Monitoring may appear routine and uneventful but can provide almost real-time data to MCC managers about implementation progress and give early insights as to whether expected near-term results are occurring. At its most basic level, project monitoring involves tracking performance toward quantitative indicator and benchmark targets. This practice is relatively common among donor organizations, including other US aid agencies. However, MCC's approach is different from most others in that many of its performance targets are specifically related to expected results generated by the CBA. The CBA modeling process first requires that program planners have a plausible theory of change linking the activities and investments to new behaviors that will produce higher incomes. This logical framework, then, becomes the basis for establishing performance benchmarks that are consistent with the CBA model. For example, many farmer-training programs funded by donors track the extent to which participants adopt new practices and the extent of land under improved practices. In turn, they report when collected data demonstrate that the related targets have been met or when they have not. Many institutions claim success when these benchmarks are met. MCC also tracks these kinds of indicators, but their quantities are linked to the project's or activity's economic models. This enables MCC to assess when performance shortfalls—including higher costs, lower take-up, or less land—undermine the economic rationale for further program spending.

While MCC is far ahead of other donors in terms of transparency and tying targets to expected results, it bears mention that its experience with project monitoring is not without relatively standard challenges. A GAO report looking at MCC roads projects, for example, found data quality challenges, inconsistent measurement methodologies, calculation errors, and weak baseline estimates.[50]

MCC's Practice of M&E during Implementation

MCC takes the relatively standard practice of project monitoring and makes it far more transparent than do other donors, though with some limitations. Compared to other operational components, MCC's is less thorough in its transparency related to publishing results of midterm external evaluations, tracking tables of M&E information during implementation, and the completion of the required compact policy conditions.

Monitoring

MCC establishes monitoring indicators before compact implementation begins. These come from the data used in the economic analysis and from decisions about key milestones necessary for managing the projects. The respective country's implementing entity publishes these indicators, along with targets, in an M&E plan available on MCC's website. Then, on a quarterly basis during compact implementation, MCC publishes a Table of Key Performance Indicators for each compact. For a subset of key indicators, this table includes the baseline value, the current value, the end-of-compact target, and the percentage toward goal accomplished. MCC deserves credit for this exceptionally transparent practice, and USAID should be encouraged to adopt something similar. The published data, however, present several important limitations.

First, the Table of Key Performance Indicators presents only the current target with no information about whether the target was revised (MCC sometimes makes downward revisions to account for slower-than-expected implementation). This type of information is relevant to an outsider trying to gauge progress. While it can be found in the original M&E plan, using it requires a multistep triangulation process of comparing progress with current and/or original targets. This is a relatively minor issue, and addressing it should be a straightforward exercise for MCC staff.

Second, after early commitments to keep the public informed, MCC's practice of posting information on its website has slowed, and the range of available data has narrowed. This evolution has made public accountability increasingly difficult. For most large activities, MCC should be able to describe program indicators and targets in such a way that the connection to the activity's ERR is sufficiently clear. Interested

[50] US GAO (2012).

external observers should be able to tell what the project is trying to accomplish and where it is as of the past quarter. MCC's current level of reporting makes this virtually impossible. ERR models are out of date or nonexistent; early M&E plans are usually incomplete, and revised plans are hard to find or unavailable; and quarterly reports are often several quarters out of date. MCC is aware of these gaps but has not yet made these data and their key linkages available in a public, transparent way. External audiences have mostly praised MCC for how much further ahead it is than other donors with respect to using and publishing ERRs and publicly documenting targets and other monitoring data. Nonetheless, stakeholders should push MCC to make the data and the program linkages clear. Transparency about results remains an essential attribute differentiating MCC from others; MCC's value as a unique and independent development assistance agency hinges in part on its ability to proactively measure and message the cost-effectiveness of its programs.

Midterm Evaluations

As noted previously, MCC occasionally conducts midterm evaluations to take stock of how a project is performing and to determine whether adjustments or cancellation may be warranted. This type of study is often planned for projects that MCC wants to pilot to determine whether they should be brought to scale. However, M&E plans contain inconsistent commitments to publish midterm evaluations, and even where publication is promised, follow-through has been incomplete at times. For instance, Burkina Faso's M&E plan describes a two-phase process with an evaluation to determine whether a pilot project would be worth scaling up. The related report was completed, and implementation proceeded, but the evaluation report was never published. While the decision to scale up may have been fully justified, this lack of transparency compromises MCC's accountability to outside stakeholders, who cannot determine whether the decision was based on expected program impact or a reflection of a perceived institutional need to disburse money. Moreover, reports from involved MCC staff suggest that early results were not consistent with the original expectations. If this is true, then MCC should be more transparent, not less, about its rationale for continuing a program.

Conditions Precedent (CP)

Another notable gap in MCC's M&E process during compact implementation is the lack of transparent reporting on CPs. In simple terms, CPs are policy changes or other actions that the partner country government agrees to take as part of the compact.[51] The quarterly disbursement of compact fund tranches is often tied to the successful completion of CPs. For example, a land reform project aimed at regularizing the legal status of landholdings might require changes in laws, regulations, or operating practices of government agencies before MCC begins building new government offices and training officials.

In many ways, requiring CPs is a form of protection for MCC, ensuring that large amounts of money are not invested unless the partner undertakes material changes. Many CPs are politically difficult reforms, and getting timely compliance with the agreed-on conditions has often been challenging.[52] In fact, MCC is

[51] Conditions precedents (CPs) are the elements of a compact program that the country partners are responsible for doing as part of the bilateral partnership. CPs are often written into and formally agreed to as part of the compact as requirements for incremental disbursements, but they can appear at other stages of the bilateral engagement, including during compact development. In general, the projected impacts of compact projects and activities and their cost-effectiveness are highly contingent on the partner country's fulfilling these obligations.
[52] Not all CPs are policy reforms. Some relate to the completion of certain steps (often contracted out) in the design and feasibility stage (e.g., the completion of an environmental impact assessment is a CP for proceeding with road construction).

moving to front-load more conditions (i.e., before the compact enters into force) to avoid the implementation delays that have sometimes befallen compacts in countries slow to complete a required condition. While MCC is one of few donors to publish information about required conditions as part of its submission to the International Aid Transparency Initiative and it is known to track progress on these conditions internally, the agency does not transparently report on progress of the policy and institutional reforms that are expected by both sides to play a critical role in determining the compact's success.

There is a debate about whether MCC should publicly report compliance with CPs. MCC announcements about progress (or the lack of progress) potentially could be seen as unnecessarily embarrassing or even provocative to the partner government. Moreover, MCC funds are not expected to drive policy and institutional change. Therefore, MCC arguably should not be forced to report on the progress of implementing entities in partner countries.

However, these arguments fail to recognize that a CP is part of a formal bilateral agreement between MCC and the partner country government. Moreover, there is a long track record of such practices for other institutions. For example, the International Monetary Fund regularly tracks and publicly reports on quantitative and policy reform target performance under its staff-monitored programs. For MCC, therefore, outside observers should know if the programs are being implemented in accordance with the agreed-on plans. Even though the responsibility to act rests squarely with the partner government, MCC needs to make clear that both partners have the responsibility to report progress to their stakeholders. Ideally, MCC could find creative ways to incentivize self-reporting by partner country governments and simply link to this information on its own public website. As with other data, however, MCC will need to be able to ensure the timeliness and validate the accuracy of the self-reported data.

Recommendations

Based on these experiences and lessons during the past decade, MCC should consider three key recommendations going forward:

(1) **Publish decisions around project scale up in a systematic and timely way, and publish data that informed the decision, such as midterm evaluation results.** As mentioned above with respect to rescoping, increased transparency can help stakeholders exercise oversight over MCC's decisions to scale up (or not) particular projects. This process requires that MCC publish upfront the plans to use midterm evaluations when they are part of the original compact and establish a time line for conducting the evaluation and sharing the results.

(2) **Increase resources dedicated to disseminating M&E information.** MCC is a global leader in results transparency, but it needs to go even further than its current practices. Its website remains difficult to navigate, and results information is often incomplete or out of date.[53] Fortunately, MCC has plans to release a new, revamped website, probably in 2015, which will likely address at least some of these existing limitations. In addition, midterm evaluation reports, pilot project evaluations, final evaluations, and other evaluation reports should follow a publicly disclosed schedule and be published in a timely manner. MCC should look for new ways, including possibly contracting out some of these reporting functions, to maintain its commitment to publish results, distill key lessons learned, and demonstrate how it is applying these lessons.

[53] For example, quarterly reports available online are sometimes almost three quarters out of date. Moreover, these scaled-down reports provide progress information but do not allow the reader to discern if the performance is on track or behind schedule.

(3) **Audit compliance with past CPs and regularly publish progress on current/future ones.** MCC should undertake an audit of CPs in past compacts. This should include reviewing when they were set, whether they were accomplished, and whether MCC's decisions to proceed with an investment at certain junctures were justified based on CP completion. Going forward, MCC should work with partner countries to ensure that progress on respective CPs is publicly reported on an annual basis. In addition, MCC needs to be willing to withhold disbursements and even terminate activities when partners fail to meet requirements that are central to delivering project outcomes. Given the importance of such actions, MCC also should publish such actions in a timely manner.

Postimplementation Evaluation

Background

Consistent with its overarching goal to reduce poverty through economic growth, MCC seeks to assess whether each of its projects has actually increased local incomes by more than the total cost of the activity. MCC's evaluation policy allows for a range of evaluation methods but acknowledges that the use of experimental and quasi-experimental methods—generally called "impact evaluations"—represent the most rigorous estimate of increase in beneficiary incomes that can be attributed to the MCC investment. Almost 85 percent of all investments are covered by an independent evaluation, and roughly half of these are the more rigorous impact evaluations. MCC correctly acknowledges that evaluations are important for both accountability and learning purposes.

MCC's Evaluation Policy in Design and Practice

Evaluation at MCC, both in policy and in practice, reflects a number of best practices. Though the vast majority of MCC's operational portfolio will have an associated ex post evaluation, only a modest number of evaluations have been completed and released to date. So far, MCC has largely received commendation for its frank and open discussion of lessons learned. However, MCC is now at a point where it needs to be clearer about its findings and needs to release important evaluation reports in a timelier manner.

MCC's evaluation policy includes a number of best practices, including (1) covering almost all important activities within every country program, (2) planning evaluations from the outset of a project and incorporating the evaluation into project design, (3) using the most rigorous methods feasible and appropriate but recognizing the superior precision and credibility of impact evaluation methods, (4) ensuring evaluations are conducted by independent evaluators, (5) subjecting evaluation reports to peer review, and (6) publishing all evaluation reports, including datasets. None of these dimensions of MCC's evaluation strategy sound revolutionary, and indeed many other donor agencies describe their policies and practices in similar terms. In reality, however, not a single other development institution comes even close to matching MCC on these core practices.

Comprehensiveness

From MCC's earliest days, officials within MCC talked about their expectation that every project would be evaluated. At the outset, there was no institutional commitment to using external evaluators in every case, and indeed many within the institution saw the commitment to transparency around results being largely expressed through the publication of progress against indicators capped by an internal review of performance and impact. Although some within MCC were eager to use rigorous impact evaluations where possible, some outside observers mistakenly expected that MCC was committed to using impact evaluation methods (i.e., experimental or quasi-experimental designs) on every activity. This, however, would not be methodologically feasible in all cases, nor would it represent the best use of MCC's resources. Instead, in each compact, MCC identified activities that needed impact evaluations, prioritizing large activities (whose evaluations were practically necessary to satisfy accountability concerns) and less certain activities (whose evaluations represented high learning potential).

MCC's evaluation strategy has evolved since its early years to become more strategic. In particular, when MCC's first compact (with Madagascar) came to an abrupt close in 2009, MCC managers realized that there were no external evaluations planned for any part of the program.[54] While many within MCC expected that an internal review of program performance would be done, the unexpected termination of the program left MCC with no external evaluations and no guidelines for an internal review that would meet any objective standards of credibility or rigor. Since there was a large looming pipeline of country programs nearing their planned completion dates, MCC realized it was necessary to review each compact's evaluation strategy. In many cases, there were evaluation plans in place for some of the activities not already covered by ongoing impact evaluations, but the review prompted a renewed emphasis on MCC's evaluation strategy: the most important activities (by size and/or learning) would have impact evaluations, but virtually everything else would be covered by a performance evaluation conducted by an independent firm or individual.[55] These performance evaluations would still seek to answer the question of attributable impact in terms of local incomes but would provide a lower standard of proof of impact.

According to MCC officials, currently 84 percent of the total value of the program portfolio during the institution's first 10 years has been or is currently under evaluation, and most of the rest will be; only 2 percent of the program portfolio will not be evaluated according to current plans. Of these, evaluations covering 42 percent of the portfolio have used or will use methods that include a control group, or counterfactual, to enhance the rigor with which MCC can make claims of impact and attribution.[56]

Upfront Planning

Evaluation experts understand that impact evaluations need to be planned well before any program implementation begins. This advanced planning makes it possible to incorporate evaluation needs into the

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[54] The Madagascar compact was terminated one year before its scheduled 2010 completion date due to a military coup. Almost $86 million had been spent by that time, roughly 78 percent of the total $110 million program budget. MCC expected that the Agriculture Business Investment Project would have an impact evaluation, but implementation delays and implementer concerns led MCC management to cancel the planned evaluation. Thus, when the compact was terminated, none of the three main activities had any planned evaluations in place. While MCC's M&E team tried to design performance evaluations after the fact, it now appears that MCC has decided not to conduct any evaluations of these activities that were terminated prior to completion.

[55] This terminology was worked out after consultations with USAID, which was developing its own evaluation policy at roughly the same time. Consequently, MCC and USAID both reserve the term "impact evaluation" for studies using experimental and quasi-experimental methods. The term "performance evaluation," while used by both agencies, is less well defined. MCC does not consider "process evaluations," which try to determine how well activities were implemented, to be an acceptable form of "performance evaluations," which within MCC must make some effort to measure and attribute program impact. Instead, MCC expects that the questions raised in process evaluations would be an integral part of any performance or impact evaluation.

[56] All of the figures in this paragraph refer to the share of the value of the program portfolio. From an accountability perspective, ensuring rigorous evaluations of a larger share of the value of programs is most important. Arguably, from a learning perspective, having a larger number of rigorous evaluations generates a larger new information set. In this context, a review of MCC's evaluation portfolio currently has 36 percent of all activities covered by impact evaluations, 51 percent of activities covered by performance evaluations, and 13 percent still to be determined.

implementation plan and allows baseline data collection in both program and control areas. These logistical requirements make incorporating impact evaluations into program portfolios extremely difficult for most development institutions (and other US government agencies) that operate on an annual budget cycle. In addition, upfront planning has helped raise the profile and usefulness of performance evaluations, which make up about half of the evaluation portfolio. While the emphasis on impact evaluations and the recognition by some within M&E that performance evaluations would be less rigorous and not as able to demonstrate impact led to some institutional neglect of performance evaluations early on, MCC's shift toward requiring complete evaluation plans for the entire compact before implementation begins has helped refocus attention on ensuring performance evaluations are well thought through.

MCC's program model unintentionally created almost unique opportunities for evaluation in a number of ways. First, because MCC was working on a new results framework—and was giving grants rather than loans—the institution was able to insist that funds be set aside for M&E and specifically for impact evaluations. The discussions of evaluation strategies regularly take place as part of the program design process, and the central role of evaluations is considered by most staff on both sides as an integral part of the proposed investments. Second, the implementation time line usually provides an opportunity to hire independent evaluators and collect baseline data before any program activities are started.[57] Although the companies and organizations contracted to implement the compact's activities are often uneasy with the visibility of the independent evaluation frameworks (which they view as passing judgment, at least in part, on their performance), the rules governing the evaluation and its incorporation into the implementation plan can be worked out before disbursements are made to begin program operations.

In summary, MCC's strategy of planning independent evaluations for almost every activity before implementation begins is a striking feature and is truly unique among development agencies.

Rigor

Ten years ago, the debate about the proper role of rigorous quantitative research in international development was just beginning.[58] This flurry of activity around rigorous research methods took place at the same time that MCC was being formed and clearly influenced MCC's operations. In the past 10 years, the importance of using rigorous methods to measure impact has been increasingly recognized and has clearly become an established part of the international development world. However, it is important to recognize that impact evaluation remains exceedingly rare in practice. The World Bank proudly attests to the fact that every one of its projects is evaluated, but virtually none of these evaluations are impact evaluations; instead, the Bank relies on a system of self-evaluations by the person within the Bank who is responsible for the activity, and these are then validated by the Bank's Independent Evaluation Group. USAID and other

[57] Putting impact evaluations in place was fairly difficult in MCC's first five to six years, as MCC and its country partners often rushed to begin compact operations. MCC learned that an early start date before partners were ready had serious implications for completing activities within five years. As a result, MCC extended the length of time between compact signing and formally starting the compact (MCC calls this official start "entering into force"), and this readiness period also created improved opportunities for planning impact evaluations.

[58] In the early 2000s, a number of important events happened that raised the visibility of impact evaluation methods in international development. The Massachusetts Institute of Technology's Poverty Action Lab (now known as the Jameel Poverty Action Lab, or J-PAL) and Innovations for Poverty Action were established as organizations aimed at bridging the gap between academic research and development policy. Miguel and Kremer (2004) completed highly regarded research begun in the 1990s with the publication of a seminal paper on the benefits from deworming young children on school participation, a powerful result made possible by the randomized phase-in of treatment. The impact of Progresa, a conditional cash transfer program in Mexico, was also being recognized as a result of the rigorous methods used to evaluate its performance. And in 2004, the Center for Global Development convened a working group to study the lack of good impact evaluations.

bilateral aid agencies rarely use impact evaluations to assess the impact of their programs. As a result, the vast majority of evaluations conducted by bilateral and multilateral aid agencies are unable to measure the impact of their programs, to value those impacts, and to compare them to costs.[59] In contrast, MCC's evaluation strategy is premised on the superiority of impact evaluation methods but is constrained at times by cost and feasibility that necessitate lesser methods. Thus, MCC can be seen as a champion of rigorous methods, even though it acknowledges it cannot use these methods all the time.

More recently, MCC has communicated its intention to design better impact evaluations, which is clearly a good thing, and to less frequently use impact evaluations, which is not.[60] MCC officials describe this as an effort to focus more on learning and less on accountability, but a shift toward greater use of performance evaluations that are much weaker in terms of the precision and credibility of the findings will really accomplish neither. Indeed, a rebalancing of the evaluation portfolio toward more performance evaluations would be a step back from MCC's role as a leader in using rigorous evaluation methods for both learning and accountability. In a limited number of cases, MCC may correctly choose to use less-expensive performance evaluations, even knowing that the ability to precisely measure impact and attribute it to the MCC program will be compromised, but increasing this practice is probably a move in the wrong direction. No external audiences are questioning why MCC conducts so many impact evaluations; instead, more emphasis should be placed on those large activities that do not have rigorous impact evaluations now. Small activities whose impacts are already well established may not need the commitment of significant evaluation resources, but every large project, activity, and subactivity should be expected to include a rigorous evaluation, and MCC should provide explicit and public explanation for when this default standard is not met for such large budget items.[61]

Independence

The notion that evaluation work needs to be insulated from internal institutional pressures is broadly accepted in the international development community, but institutions can struggle to put this into practice by safeguarding the objectivity of the evaluation process. Indeed, almost any evaluation framework will have touchpoints where senior managers have some ability to influence the way evaluation findings are described and disseminated. MCC's model, however, includes a number of efforts to safeguard the integrity of the evaluations process. This independence can be seen at a number of levels, and at each level, MCC's practice can be seen as both standard setting (i.e., better than most others) and beset by challenges that limit full independence (i.e., similar to those faced by others):

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[59] While many development institutions in fact conduct impact evaluations, with the World Bank probably conducting the greatest number of studies using these rigorous methods, most of this work can be categorized as research funded as part of a learning objective rather than accountability efforts designed to measure the actual impact of large-scale funded activities. This description is not meant to differentiate rigorous research for learning or to downplay the important evaluations that are conducted as accountability (and learning) exercises. In terms of the latter, World Bank evaluations of the effectiveness of conditional cash transfers and their unconditional adaptations not only were shaped by policy design around the world but also contributed to the growing recognition of the importance of rigorous methods. But these well-publicized examples of rigorous evaluation remain the exception rather than the rule within the World Bank and elsewhere and stand in vivid contrast to MCC's impact evaluation plans that cover more than 40 percent of the agency's operations.

[60] In Sturdy, Aquino, and Molyneaux (2014), the authors correctly note that accountability and learning are not necessarily competing objectives, but they go on to suggest that impact evaluations will target more the parameters comprising the theory of change and less the ultimate objective of the program, raising local incomes. Such evaluations clearly will weaken MCC's ability to demonstrate whether its programs have achieved cost-effective impact.

[61] Even when MCC scales up successful pilot activities, rigorous evaluations are essential for demonstrating that impact remains cost-effective at scale.

- *Agenda setting:* The M&E team within MCC has had broad discretionary authority to identify which activities pose the greatest need for evaluation based on both need for accountability and opportunity for learning. In practice, this authority has at times conflicted with sector teams and operational managers who found that rigorous evaluations created challenges in implementation or threatened to reveal poor performance. As a result, the eventual strategy rarely reflects M&E's initial preferences but still reflects a robust framework for most country programs.
- *Internal Review and Comment:* MCC's contracts with external evaluators provide authors with final editorial control and nonexclusive publication rights of the work product. MCC expressly retains the right to review drafts and provide comments, and this process provides an opportunity for MCC to seek clarification and to suggest alternative formulations of analysis and interpretations of data. For the most part, this collaborative engagement is not a threat to the integrity of the evaluation, as members of MCC's M&E team usually see their primary commitment to the evaluation process rather than to the success or failure of any specific activity. Of course, the internal review process also provides MCC managers a chance to review draft documents and question evaluators on their findings, and this process has the potential to erode an evaluator's independence. While there are no known incidents of MCC officials' demanding changes in evaluation findings, requests for changes in language that soften the tone of evaluation findings can affect the way evaluation results are understood by external observers.

External Peer Review

Although MCC's original evaluation policy did not foresee the need for external readers, MCC included this provision in its evaluation contracts starting in 2012. The practice is relatively inexpensive but highly valuable. The external peer reviewer fulfills an important quality control function that might be done by MCC evaluation experts but that, being done by them, might threaten the integrity of the evaluation. The external reader also plays an important role in insulating the evaluators from institutional pressures. In a very real sense, MCC's use of external peer reviewers serves to reinforce the independence of the evaluation process. Finally, the peer reviewer helps publicize the results of the MCC evaluation, serving to further the dissemination of the specific findings and draw broader attention to MCC's use of rigorous methods.

Public Dissemination

MCC has made a commitment to posting all of its evaluations and associated relevant documents online, and in principle it should be easy to find these reports either by searching country programs and related documents or by clicking directly through the online space devoted to results. The organizational layout of the current website works fairly well, and a full list of planned, ongoing, and completed evaluations organized by country can be found relatively easily.[62] If an external observer knows what to look for and where to find it, this page provides a good starting point.

In practice, however, MCC's public discussion leaves much unsaid, so there is still room for significant improvement. Existing weaknesses in the public dissemination of evaluation plans and results include the following:

[62] http://www.mcc.gov/pages/results/evaluations.

1. *Timely Dissemination:* MCC claims to be committed to releasing documents in a timely fashion, but to date, only 7 impact evaluations have been completed and published, the first 5 covering investments aimed at raising agricultural productivity and farm incomes, with more recent postings (with little publicity) of an evaluation of a water program in Mozambique and of roads investments in Honduras. An additional 10 performance evaluations have also been posted, but with little public discussion. There are many other reports that are in process but are long overdue, including the additional evaluations of roads projects and an evaluation of the first phase of the land reform program in Burkina Faso. Such long delays devalue the usefulness of the results both for accountability and for learning. The two primary contributors to delays are (1) the institution's perceived need to write "lessons learned" with every evaluation and (2) the challenge of prioritizing resources across the many evaluations in process. While MCC's commitment to learning from evaluations is laudable, learning often requires the results from multiple evaluations and in any event should not obstruct the timely and public posting of new evaluation results.

2. *Complete Listing of Plans:* MCC acknowledges that there are gaps in its current evaluation plans (i.e., there are activities that are not covered by an evaluation). These should also be identified in the list of evaluations to enable outside observers to know what is not being evaluated. For example, the long list of evaluations should note that no evaluations were conducted for the Madagascar compact, as well as any specific activities within compacts that were deemed unevaluable, along with a justification. The list should also include the Indonesia compact, which is currently absent, though the compact entered into force in April 2013. The only information about an evaluation plan for this $600 million compact is in the country's M&E plan from August 2013, which includes the following incomplete table on page 28:[63]

Evaluation Name	Evaluation Type	Evaluator	Primary/ Secondary Methodology	Design Report Date	Baseline Data Collection Date	Final Report Date
Community-Based Health & Nutrition to Reduce Stunting	Impact	TBD	RCT	TBD	TBD	2018
Procurement Modernization	TBD	TBD	TBD	TBD	TBD	TBD
Green Prosperity	TBD	Social Impact	TBD	TBD	TBD	TBD

Omitting this information creates a misleading impression of the extent to which MCC's portfolio is covered by evaluations since an evaluation strategy must be judged not only by what is evaluated but also by what is not evaluated. After all, an institution can avoid evaluations on bad projects or halt evaluations when the institution believes that evaluations are likely to document failure (this may have been the case for Madagascar, where the impact evaluation was canceled following extensive delays in implementation that undoubtedly weakened the cost-effectiveness of that activity, a result that would have been publicly documented had the impact evaluation proceeded

[63] http://www.mcc.gov/documents/data/ME_Plan_-_IDN_-_V1_-_Aug13.pdf.

according to the compact's provisions).[64] MCC does not yet have a real history of avoiding evaluations, but the agency can add significant and important clarity if it documents its decisions not to evaluate.

3. *Clarity in Findings:* MCC has a somewhat mixed record in terms of reporting and publicizing the findings of its evaluations. The first experience came in the context of several performance evaluations of MCC threshold programs. These evaluations were quite critical of both MCC and the implementing agency, USAID, for failing to establish appropriate performance benchmarks and hold contractors accountable for measuring and reporting attributable results.[65] In this case, MCC had already decided to redesign its threshold program because of these and other issues, so the critical evaluation results were consistent with its internal institutional plans. Indeed, it can be argued that the threshold program evaluations achieved their goal of helping the agency learn from its experiences and change course as a result. On the other hand, in terms of accountability, there has been less discussion highlighting the extent to which the substantial threshold program funds accomplished negligible results.

   In terms of compact evaluations, MCC has posted only seven final evaluations (five of which were released in 2012). At the time of the release of the first five, the agency rightly received considerable praise for making these evaluations public and openly acknowledging that the measured results were mixed, at best.

   However, the agency seems to have avoided much criticism related to the findings of these five evaluations—that the results were not as expected. According to MCC's description of program impact, "none of the five evaluations were able to detect changes in household income." However, MCC's model requires that its investments demonstrate the ability to raise local incomes by as much as the total cost of the program. In such a context, a program that cost $180 million and produced only $150 million of benefits would not meet the agency's standard. The logic of this is clear—a direct cash transfer from MCC to poor households equal to the value of the investment would almost certainly be better for the beneficiaries than investing that sum into a project that yielded gains of a lesser value. However, in these five cases, MCC's activities not only did not demonstrate evidence that they generated more benefits than costs, but they failed to demonstrate any additional income to beneficiary households.[66]

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[64] The website devoted to MCC's Madagascar program does include a page on M&E (http://www.mcc.gov/pages/countries/evaluation/madagascar-compact) that includes this: "MCC did not fund an impact evaluation of the Madagascar Program but is now planning for an independent program evaluation. This evaluation will use the most rigorous methodology possible to assess whether the Projects have achieved or are on track to achieve their objectives, taking into consideration the fact that most components have not been fully implemented due to early termination. This evaluation will not assess what would have happened in the absence of the MCC investments since no counterfactual exists but will provide a measure of key outcomes and lessons learned." Whether MCC remains committed to this plan or not—these evaluations now seem unlikely given that more than five years have passed since the program's early termination—MCC has an obligation to include this information on its evaluation page. Even in the absence of any formal evaluation, MCC's website still includes a number of "success stories" that are inconsistent with its own understanding of cost-effective results.

[65] See the evaluation of MCC's Threshold Program in Indonesia for one example: http://data.mcc.gov/evaluations/index.php/catalog/73.

[66] In some cases, the research design (as finally implemented) did not generate statistically significant results. The Armenia example is particularly interesting. ERRs based on parameter point estimates from the impact evaluation would have been very high, well above the 10 percent hurdle rate. But these parameter estimates also had large standard errors that would have included zero impact in any reasonable confidence interval. The evaluator's contract included reporting ERRs based on the parameter estimates, but given that other information provided strong evidence that the training had not changed farmer behaviors, the evaluators were uncomfortable reporting implausibly high ERRs, and MCC agreed to omit them from the final report.

Why have the findings that $183 million invested in five countries generated no discernible impact on household incomes elicited so little criticism from stakeholders? Part of the answer, as MCC explains in its discussion of the five evaluations, is that in some cases (Honduras, in particular) the failure to detect impact may have been the result of a poorly executed evaluation that limited the ability to detect changes with any statistical significance. Certain decisions made by a variety of actors to change the implementation strategy weakened the power of the evaluation. As a result, MCC has stated that future evaluation protocols will be better protected to avoid a similar undesirable outcome.[67]

Another part of the reason MCC has avoided public scrutiny into its weak results probably lies in MCC's messaging of the results, which was largely positive. While MCC did not say anything untrue about the results of the evaluations, the messaging did gloss over the core findings that indicated negligible results. This approach shifted focus away from the findings and toward the process, which was mixed, but from which MCC identified opportunities for improvement. In addition, some of the messaging attempted to soften the impact of the "no discernible impact" findings in a couple of key ways:

- *Suggesting Limited Scope:* MCC correctly notes that the first five impact evaluations reflect less than 13 percent of the total budgets of the respective compacts and 2 percent of MCC's global compact portfolio; however, this still adds up to a substantial financial investment whose sum ($183.5 million) is mentioned nowhere in the "Issues Brief" covering the five studies.[68]
- *Suggesting Mixed Results:* While MCC's "Issues Brief" does report that the evaluations found no impact on local household incomes, this lead information is buried amid caveats and mentions of other successes, like progress toward output and outcome targets (e.g., the targeted number of farmers were trained). These are not unimportant metrics, but they do not address the issue of impact.[69] MCC also highlights alternative successes, but in a way that is out of context: "Three evaluations detect increases in farm income: El Salvador dairy (doubled farm income), Ghana northern region (increased crop income) and Nicaragua (15–30 percent increase in farm income)." The problem is that farm income is not the same as household income, and using the former to suggest household welfare levels have improved could be misleading—households could see an increase in one part of their

[67] The "Issues Brief" states, "MCC is working to create incentives for both implementers and evaluators to coordinate closely during program planning and implementation, including through clear contract language and requirements."

[68] While we cannot extrapolate the findings of these five evaluations to the rest of the investment programs in these five countries (totaling $1.5 billion) or even to other agriculture programs designed and implemented before these findings were known to MCC, the consistent underperformance of this set of activities should raise concerns about the impact of other activities that met implementation targets. Indeed, the results from the first five evaluations should place greater pressure on MCC to disseminate additional evaluations as they become available to enable external observers to develop a better understanding of the quality of the portfolio that is not based solely on the results of the first five. Indeed, with the subsequent release of an evaluation of water investments in Mozambique that again was unable to detect significant increases in local incomes, the default expectation is shifting away from cost-effective impact. With the release of the first evaluation of roads (in Honduras) generating evidence of impact on local incomes, MCC has demonstrated that these evaluations can be calibrated to measure income changes and needs to make sure that future evaluations are able to do so.

[69] Had this bullet followed the statement of impact, MCC would have done a better job of clearly identifying the question at hand: How could we do all of this without accomplishing any discernible changes in household incomes? Instead, because it comes first, the bullet appears to suggest a level of important accomplishment in its own right, a claim that is fundamentally inconsistent with MCC's results framework. While MCC developed the awkward "continuum of results" phrase to describe evidence of impact that could be used before impact evaluation results were known, these prior markers of progress cannot be used as proxies for impact once the impact evaluation results are known.

incomes by shifting both capital and labor to the area supported by the MCC program, even while experiencing reductions in other areas now receiving less effort and investment.[70] Indeed, MCC's decision to use household income as the ultimate measure of impact was a sophisticated way to avoid the ambiguity of some of these other measures. In addition, the indicators of success MCC highlights suggest some clear handpicking to present a more favorable rather than a more complete, more accurate picture of a program.[71]

While the institution deserves much credit for making public the results of its impact evaluations, it needs to communicate those findings in a more balanced manner. The current system of institutional pronouncements without specific attributed authorship has the effect of shielding responsible officials from accountability for reports that are incomplete and/or misleading. MCC has a series of senior technical managers with direct involvement in the evaluation process; ultimately one of these officials needs to be responsible for ensuring the accuracy and reliability of MCC's description of evaluation findings. While an official with such responsibility might still be subject to error or influence, the value of direct attribution creates a line of professional accountability that is currently missing from MCC's public interpretation of findings.

Recommendations

Based on these experiences and lessons during the past decade, MCC should consider four recommendations going forward:

(1) **Post its country evaluation plans before implementation begins.** Such plans document which activities have rigorous impact evaluations and what questions will be asked in those evaluations. The plans would also document the methods and expectations of nonrigorous performance assessments and justify why these activities did not warrant the more expensive impact evaluations.

(2) **Provide an institutional evaluation strategy that covers the entire portfolio.** Since rigorous impact evaluations are more expensive than other M&E approaches, MCC reasonably expects to use them for only a fraction of its activities. But the decision about how much to spend on impact evaluations and the determination of which countries, sectors, and activities require rigorous impact evaluations needs to reflect a strategic vision rather than an amalgamation of country-by-country windows of opportunity. Consistent with MCC's leadership in this area, MCC should proactively communicate its strategy and then report on its performance.

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[70] For example, while the activity in Nicaragua indeed increased farm income, the final report explicitly says, "The estimated average increase in per-capita consumption (a measure of economic well-being of farm households) is only about 5%, and is not statistically significant."

[71] For example, with the El Salvador evaluation, while the evaluators found that dairy farmers doubled their farm incomes, they also found that household income for those in the dairy value chain did not statistically significantly increase. Moreover, there was no significant impact on either productive or household income in the other two large sectors: horticulture and handicrafts. Even though these sectors combined represented more than two-thirds of the program budget (dairy, at $14 million, was only 31 percent of the budget), MCC did not include this important context in its description of the results. For the Ghana results, by reporting that crop income went up in the northern region, MCC again handpicked the parameter that would best suggest success, leaving out information that would enable readers to come to a more accurate, more complete perception of the program. The "Issues Brief" does not note that there was no significant change in a second region and a significant decline in crop income in the southern region. And again, for the reasons mentioned above, looking at changes in crop income draws attention away from the more important point that no significant changes were seen in household income.

(3) **Clearly assign responsibility for public statements about the results of impact evaluations to a specific MCC official.** The current institutional structure includes a director of impact evaluations and a managing director of monitoring and evaluation, either of whom could be given final responsibility for official MCC statements. The vice president of the Department of Policy and Evaluation who manages these functions would need to serve as a form of insulation protecting the technical manager charged with this responsibility.

(4) **Demonstrate how it is applying lessons learned from evaluations to current program design.** If evaluations are to serve their purpose as a learning tool, users must internalize and apply the lessons that emerge from the findings. MCC is putting substantial resources into ex post evaluations. As more of these are finalized and published, stakeholders will be looking to see how MCC is learning from these studies and improving its programming as well as its evaluation practices.

How Is MCC's Focus on Results Different from Other US Foreign Assistance?

MCC is certainly not the only US government development agency interested in results. In fact, during the past 10 years, USAID and other agencies have adopted some of MCC's approaches to predict, track, and measure results. In many ways, however, MCC remains at the forefront of US government thinking on development results most notably because it is still the only agency to systematically—and largely transparently—apply the entire range of these results tools to its entire portfolio of country compacts, from program development to ex post evaluation.

CA

When MCC adopted the CA as part of its Framework for Results, it was the only donor to embrace the use of growth diagnostics as part of its normal operations. This practice is now much more common, with the World Bank, the United Kingdom's Department for International Development, and Australia's Department of Foreign Affairs and Trade, among others, conducting or funding such exercises. Still, no other agency requires a growth diagnostic as part of a strategic prioritization process.

The CA is also increasingly being used by other US government agencies. For example, USAID is seeking to renew its emphasis on rigorous economic analysis and has increased its use of growth diagnostics to inform country strategy development. Not all country strategies benefit from growth diagnostics, however. According to public information accessed in October 2014, USAID had completed five growth diagnostics and had an additional seven under way, while 44 Country Development Cooperation Strategies (CDCS) have been approved in recent years.[72] These numbers have likely subsequently risen, but the coverage rate likely remains modest. More important, the growth diagnostic approach remains optional for mission strategies, and it is the responsibility of a small technical office in Washington, that is, according to the

[72] See the USAID webpage, Office of Economic Policy: http://www.usaid.gov/who-we-are/organization/bureaus/bureau-economic-growth-education-and-environment/office-economic. The growth diagnostics listed as completed are for the Democratic Republic of the Congo, the Dominican Republic, Kosovo, Timor-Leste, Moldova, and Tunisia (which was done jointly with MCC in preparation for a possible threshold program with Tunisia). See the USAID webpage, Country Strategies: http://www.usaid.gov/results-and-data/planning/country-strategies-cdcs (accessed October 13, 2014).

USAID website, "continuing to mainstream and refine the application of growth diagnostic analysis," to try to encourage its expansion to USAID missions and regional bureaus worldwide.[73] The use of economic analysis to establish priorities within USAID will probably be seen in a minority of country programs for years to come.

As discussed above in the section on MCC's use of CAs, PFG—a "whole of government" initiative working in four countries—also relies on a CA as the strategic framework to guide coordination across US government agencies and between the United States and the partner country governments. All PFG countries are also MCC compact countries (the PFG country selection process started with MCC indicators and then added several criteria, both to identify the best of the best possible partner countries and to guarantee that any whole of government partner would include MCC), so the PFG CAs have all been led by MCC from the US government side.

Why is the use of CAs not embraced more broadly by other donor agencies? One reason for this is that many donors struggle with their own multiple objectives and (often) ambivalence about growth. This is certainly evident in USAID's country strategies. In many, growth is often stated as one of many equally weighted priorities, along with governance, health, education, and so forth, as separate, equal-level objectives (though resource allocation among objectives is not equal).[74] USAID is also structurally constrained in how it can use CAs to set priorities since the vast majority of its funds are subject to earmarks, making the agency less nimble in its ability to redirect resources to tackle identified constraints.[75] A striking example of this is found in USAID's CDCS for Mozambique, which specifically says, "Currently, USAID/Mozambique's portfolio is 100% earmarked by Presidential Initiatives and other requirements. The Mission has no funds to use at its own discretion, and the vast majority of its programming falls under strategies that were approved prior to this CDCS. As such, Presidential Initiatives and USAID global strategies greatly influenced the strategic choices made in this CDCS."[76]

CBA

MCC's use of CBA to demonstrate ex ante that proposed investments are a good use of US taxpayer funds—measured by how much additional income was generated for local beneficiaries—has distinguished it from most other donors. At MCC, almost all investments have had CBA done before the projects were approved. Other donors also use CBA, but the practice covers far less of their portfolios.[77] The World Bank's use of CBA to inform investment decisions declined from around 75 percent in the early 1970s to less than 30 percent by 2001.[78] Within USAID, CBA was more common in the 1970s and 1980s but declined during the 1990s. During the past five years, USAID has made substantial investments in adding and training economic staff, but the practice of CBA still covers a much smaller share of its portfolio than of MCC's portfolio. At this point, it has mainly been applied to a subset of Feed the Future projects. Nonetheless, the Office of Economic Policy plans to expand CBAs to other sectors, including water, power,

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[73] See the USAID webpage, Office of Economic Policy: http://www.usaid.gov/who-we-are/organization/bureaus/bureau-economic-growth-education-and-environment/office-economic.
[74] For instance, USAID/Nepal Country Development Cooperation Strategy FY2014–FY2018 lists three main objectives: strengthened democracy, improved human capital, and reduced poverty through economic growth. USAID/Mozambique's Country Development Cooperation Strategy FY2014–FY2018 lists as equal priorities growth, education, health, and democracy.
[75] In the 2010 Foreign Operations appropriations bill, Congress earmarked two-thirds of development funds by sector (Veillette 2011).
[76] USAID/Mozambique (2014), 10.
[77] European bilateral donors rarely use CBA to guide their program decisions.
[78] World Bank (2010).

and roads. However, in contrast to MCC, USAID does not, to date, publish its CBA models, nor does it apparently link its CBA to performance targets.

Project Monitoring

Most US government agencies now perform some type of project monitoring, but MCC appears to be a leader in this practice. Certainly MCC is not immune to problems like poor data quality and weak targeting that afflict other aid agencies' monitoring efforts. However, MCC remains ahead of the curve in terms of transparency—it is so far the only agency to systematically publish relatively comprehensive results at project levels and on a quarterly basis. It is also a leader in terms of linking monitoring targets to CBA-generated expected results. As part of the PFG process, all US government agencies active in partner countries were asked to develop a simple performance plan linking expenditures to outputs, outcomes, and possible impacts. Some progress was made in developing an M&E plan in El Salvador, but reluctance to comply with the request for explicit performance targets exposed the systemic weakness found in many current activities and the unwillingness of many to invest time and effort to establish such a performance framework.

Evaluation

MCC is also not the first or only US government foreign assistance agency to conduct evaluations. USAID and even the State Department have both issued evaluation policies for larger projects. In fact, USAID's 2011 policy has been widely commended and incorporates a number of best practices, not dissimilar to the requirements outlined in MCC's policy. However, as illustrated in Figure 2, what stands out when comparing the evaluation policies and practices is that MCC's process is more institutionalized, the process has a greater emphasis on rigorous methods, and the results are better managed.

Figure 2. A comparison of evaluation policy and practice at MCC and USAID.

	MCC	USAID
Coverage	Evaluations are planned for the vast majority of MCC's portfolio (approximately 84 percent of the portfolio to date is or was covered by an evaluation, while an additional 14 percent is still being considered. According to MCC sources, only 2 percent has been identified for no evaluation).	The evaluation policy requires that all projects with a dollar value greater than the mean for a particular mission department (e.g., health office, education office) be subject to some kind of evaluation.
Rigor	Roughly half of MCC's planned evaluations are more rigorous impact evaluations, and these cover about half of MCC's total investments.	The evaluation policy encourages the use of rigorous methods but does not specify what portion should be impact evaluations and in fact acknowledges that the majority of evaluations will be less rigorous performance evaluations.
Quality	MCC requires independent, external peer review by an evaluation professional. MCC also publishes the peer reviewers' comments.	USAID requires internal peer review, which means that mission staff should read through the evaluation scope of work and draft reports. Mission staff reviewers, however, may not necessarily have expertise in evaluation methods. USAID has some internal guidelines that determine whether an evaluation is high quality or not, and occasionally it states how many such evaluations it has received. But it is not easy to determine from USAID's database of evaluations (and other documents), the Development Experience Clearinghouse, which of these fall into the high-quality category.
Transparency	MCC posts all final evaluation reports on its website, along with accompanying evaluation datasets, as soon as they are properly anonymized and so forth (only a subset of evaluation datasets are currently available, but there are plans to post more in the near future). MCC has so far publicized the results of its completed evaluations, including frank discussion about lessons learned when results were not fully positive.	The evaluation policy requires that all final reports be published online. Evaluation datasets are supposed to be stored in a central database, but the agency is still working on how to fulfill this requirement. Plans to eventually publish the evaluation datasets are unknown. USAID does not systematically publicize the results of its evaluations except for highlighting select successes.

Note: MCC = Millennium Challenge Corporation; USAID = United States Agency for International Development.

Of course, there are pockets within USAID that are known to be doing rigorous evaluations quite well, such as Development Innovation Ventures (DIV). DIV funds a selected set of experimental projects proposed by outside entities. The goal is to identify successful innovative practices to scale up. While an important and potentially impactful organization, DIV remains an insignificant portion of USAID's overall portfolio. Moreover, it raises the question of why USAID supports systematic, rigorous impact evaluation through DIV yet funds many types of activities that are far removed from these notions of aid effectiveness.

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Appendix: All Published Economic Rates of Return for Millennium Challenge Corporation Compact Investments

	Budget	Original ERR (%)		ERR Time Horizon (years)
Madagascar	$110	31		10
Agriculture Business Investment	$18			
Create and Operate Five Agricultural Business Centers	$11			
Create National Coordinating Center	$0			
Identify Investment Opportunities	$6			
Build Management Capacity in the Zones	$0			
Financial Sector Reform	$36	31		10
Promote Legal and Regulatory Reform	$1	(jointly analyzed with Land Tenure)		
Reform Sovereign Debt Management and Issuance	$1			
Strengthen the National Savings Bank	$2			
Provide New Instruments for Agribusiness Credit	$8			
Modernize National Interbank Payments System	$21			
Improve Credit Skills Training, Increase Credit Information and Analysis	$2			
Land Tenure	$38	31		10
Support the Development of the Malagasy National Land Policy Framework	$1	(jointly analyzed with Financial Sector)		
Improve the Ability of the National Land Service Administration to Provide Land Services	$20			
Decentralization of Land Services	$8			
Land Tenure Regularization in the Zones	$8			
Information Gathering, Analysis and Dissemination	$1			
Honduras	$215			
Rural Development	$72	21.1		15
Farmer Training and Development	$27	36	*	
Farmer Access to Credit	$14			
Farm to Market Roads	$22	12	*	
Agricultural Public Goods Grant Facility	$8	15	*	
Transportation	$126	24.1		20
Highway CA-5	$96	21	*	
Secondary Roads	$21	40	*	
Vehicle Weight Control	$5	25	*	
Cape Verde	$110			
Watershed Management and Agricultural Support	$11	9.7		20
Water Management	$7			
Agribusiness Development	$4			
Credit	$0			

Infrastructure	$79	13	20
Port	$54	22.7	20
Roads and Bridges	$25	20	20
Road 1		*18*	*20*
Road 2		*21*	*20*
Road 4		*18*	*20*
Bridge 11		*22*	*20*
Bridge 12		*22*	*20*
Private Sector Development	$7		
Partnership to Mobilize Investment	$5		
Financial Sector Reform	$2	*10.8*	*20*
Nicaragua	$175		
Property Regularization	$27	29	10
Institutional Capacity Building	$5		
Cadastral Mapping	$3		
Land Tenure Regularization	$10		
Database Installation	$0		
Protected Area Demarcation	$1		
Analysis and Communications	$4		
Transportation	$93	13.2	21
N-I Road	$32	23.3	21
Secondary Roads	$60	8	21
Technical Assistance	$1		
Rural Business Development	$34	18	10
Rural Business Development Services	$9	24	10
Technical and Financial Assistance	$9		10
Grants to Improve Water Supply for Farming and Forestry Production	$13	8	10
Georgia	$395		
Regional Infrastructure Rehabilitation	$212		
Samtskhe-Javakheti Road Rehabilitation	$102	20.4	24
Energy Rehabilitation	$50	11.7	10
Regional Infrastructure Development	$60	11.6	19
Enterprise Development	$48		
Georgia Regional Development Fund	$33	26.3	15
Agribusiness Development	$15	11.9	10
Benin	$307		
Access to Land	$36	19.6	15
Policy	$1		
Registration	$23		
Services and Information	$10		
Information, Education and Communication Campaign	$1		
Support Strategy	$1		
Access to Financial Services	$20	15.3	15

		Capacity Building	$13			
		Financial Enabling Environment	$7			
	Access to Justice		$34	22.8		21
		Arbitration Center	$1			
		Business Registration	$2			
		Courts	$32			
	Access to Markets		$170	17.3		25
		Studies	$8			
		Port Institutional	$11			
		Port Security and Landslide Improvements	$74			
		Waterside Improvements	$76			
Vanuatu			$66			
	Transportation Infrastructure		$54			
		Efate Island Ring Road		15	*	20
		Santo Island East Coast Road		29	*	20
		Santo Island South Coast Road				
		Malekula Island Road				
		Malekula Island Airstrip				
		Pentecost Island Wharf and Road				
		Tanna Island Road				
		Epi Island Wharf				
		Ambae Island Creek Crossings				
		Malo Island Roads				
		Warehouses				
Armenia			$236			
	Rural Road Rehabilitation		$67	25.9		30
		Infrastructure Improvements	$65			
		Technical Audit of Performance Based Maintenance Contracts	$0			
		Road Maintenance Strategic Plan	$0			
	Irrigated Agriculture		$146	25	*	
		Infrastructure	$113	27.5		20
		Water-to-Market	$33	15.5		20
Ghana			$547			
	Agriculture		$241			
		Commercial Training	$66			
		Irrigation Development	$28	22		20
		Land Tenure Facilitation	$11			
		Credit	$58			
		Post-Harvest	$20	42		20
		Feeder Roads	$58	18		20
	Transportation		$143			
		Upgrades to Sections of N1 Highway	$101	36		25
		Improvements of Trunk Roads	$36	17		24

Improvements of Lake Volta Ferry Services	$5		
Rural Services	$101		
Procurement Capacity	$2		
Community Services	$75		
Electrification		*20.1*	*20*
Education		*12.1*	*35*
Water/Sanitation		*20.5*	*20*
Financial Services	$24		
Mali	$461		
Bamako-Sénou Airport Improvement	$90	13.4	20
Airside Infrastructure	$30		
Landside Infrastructure	$59		
Institutional Strengthening	$1		
Alatona Irrigation	$235	15.3	25
Niono-Goma Coura Road	$35	9	*
Irrigation Planning and Infrastructure	$150		
Land Allocation	$4		
Resettlement, Social Infra. & Social Services	$21		
Agricultural Services	$15		
Financial Services	$9		
Industrial Park	$94		
Primary and Secondary Infrastructure	$90		
Resettlement	$2		
Institutional Strengthening	$3		
El Salvador	$461		
Human Development	$95	16	*
Education and Training	$28		
Non-Formal Skills Development	*$5*	*36*	*25*
Formal Technical Education	*$20*	*6.5*	*20*
Community Development	$67		
Water/Sanitation	*$26*	*14*	*25*
Electrification	*$36*	*24*	*25*
Community Infrastructure	*$11*	*10.4*	*25*
Productive Development	$87		
Production and Business Services	$57	12.6	25
Investment Support	$21		
Financial Services	$10		
Connectivity	$234	23.9	25
Northern Transnational Highway	$140		
Connecting Road Network	$94		
Mozambique	$507		
Water Supply & Sanitation	$204	22	23
Technical Assistance and Capacity Building to Water Supply and Sanitation	$21		

Rehabilitation/Expansion of Water Supply Systems in Urban Areas	$91			
Nacala Urban Water Supply		*22.8*	*	
Nampula Urban Water Supply		*35.7*	*	
Mocuba Urban Water Supply		*41.4*	*	
Rehabilitation/Expansion of Six Municipal Sanitation and Drainage Systems	$82			
Nampula Storm Water Drainage		*17.9*	*	
Quelimane Storm Water Drainage		*10.2*	*	
Construction/Reconstruction of Wells and Bore Holes	$9			
Roads	$176	10.3		23
Technical Assistance	$3			
Rehabilitation Costs	$173			
Nampula - Rio Ligonha		*7.1*	*	
Namialo - Rio Lurio		*6.7*	*	
Rio Lurio – Meteoro				
Nicoadala – Chimuara				
Land Tenure Services	$39	13		23
Support for National Policy Monitoring	$10			
Land Administration Capacity Building	$13			
Site Specific Secure Land Access	$15			
Farmer Income Support	$17	25.1		20
Rehabilitation of Endemic Areas	$3			
Control of Epidemic Disease	$7			
Research and Development Support	$2			
Improvement of Productivity	$4			
Business Development Support	$1			
Lesotho	$363			
Water Sector	$164			
Urban and Peri-Urban Water Infrastructure	$37	22		20
Rural Water Supply and Sanitation Infrastructure	$30	0.7		20
Metolong Dam Bulk Water Conveyance System	$72	24		20
Metolong Dam Program Management Unit	$14			
WASA Project Implementation Unit	$5			
Wetlands Restoration and Conservation	$5			
Health Sector	$122	12		20
Health Care Centers Infrastructure	$73			
Anti-Retroviral Therapy Clinic Infrastructure	$5			
Central Lab Infrastructure	$3			
Blood Transfusion Center	$3			
National Health Training College Dormitory Infrastructure	$7			
Health System Interventions	$15			
Medical Waste Management	$4			
Health Project Implementation Unit	$13			

Private Sector Development	$36	16.4	20
Credit Bureau and National Identity Card	$10	15	20
Civil Legal Reform	$3	13	20
Land Administration Reform	$21	18.2	20
Payment and Settlement Systems	$2		
Promotion of Gender Equality in Economic Rights	$1		
Morocco	$698		
Fruit Tree Productivity	$301		
Rain-fed Olive, Almond and Fig Tree Intensification and Expansion	$170	14.6	25
Rehabilitation		*26.7*	*30*
Expansion		*19.3*	*25*
Olive Tree Irrigation and Intensification	$58	17.3	25
Date Tree Irrigation and Intensification	$47	18.7	25
Fruit Tree Sector Services	$26		
Small-Scale Fisheries	$116		
Development of Port Facilities	$83	84	20
Development of Fish Landing Sites		28.6	20
Development of Wholesale Fish Markets	$30	43	20
Support to Mobile Fish Vendors	$3	32	10
Artisan and Fez Medina	$112	21.2	15
Literacy and Vocational Education	$33		
Artisan Production	$5		
Fez Medina	$64		
Artisan Promotion	$11		
Financial Services	$46	18	10
Access to Funds for Microfinance	$26		
New Financial Product Development	$6		
Improvement of Operating Efficiency and Transparency	$14		
Enterprise Support	$34	13.5	10
Training (Agency for the Promotion of Small/Medium Enterprises)	$14		
Training (Office for Professional Training and Work Promotion)	$11		
Training (National Initiative for Human Development)	$9		
Mongolia	$285		
Rail	$188	32	20
Rail Sector Technical Assistance	$20		
LeaseCo Establishment	$2		
LeaseCo Operation	$162		
Property Rights	$23		
Land Registration System	$13	38	20
Privatization of Ger Area Land Plots	$3		
Peri-Urban Land Leasing	$6	27	20
Vocational Education	$26	20	20
Technical and Vocational Education and Training National Framework	$1		

		Industry-Led Skills Standards System		$8		
		Competency-Based Training System		$14		
		Career Guidance System		$1		
	Health			$17	21	20
		Non-Communicable Diseases and Injuries (NCDI) Capacity Building		$7		
		NCDI Prevention		$5		
		NCDI Early Detection		$2		
		NCDI Management		$2		
Tanzania				$698		
	Transport			$373		
		Mainland Trunk Roads			17.4	20
		Zanzibar Rural Roads			11.6	20
		Road Maintenance				
		Mafia Island Airport			17.5	20
	Energy			$206		
		Zanzibar Interconnector			20.9	25
		Malagarasi Hydropower & Kigoma Distribution			20.4	20
		Distribution Systems Rehabilitation and Extension			33.4	20
	Water			$66	23.1	20
		Lower Ruvu Plant Expansion				
		Non-Revenue Water				
		Morogoro Water				
Burkina Faso				$481		
	Rural Land Governance			$60		
		Legal and Procedural Change and Communication		$2		
		Institutional Development and Capacity Building		$38		
		Site-Specific Land Tenure Interventions		$20		
	Agriculture Development Project			$142		
		Water Management and Irrigation		$91		
			Lery Dam		*13.8*	*27*
			Di Irrigated Agriculture		*4.2*	*25*
		Diversified Agriculture		$37		
		Access to Rural Finance		$14		
	Roads			$194		
		Development of Primary Roads		$142		
			Perkoa – Didyr		*-0.8*	*20*
			Nouna – Bomborokuy		*-3.3*	*20*
			Koudougou – Sabou		*0.1*	*20*
			Koudougou – Perkoa		*-1.6*	*20*
			Dedougou – Nouna		*2.7*	*20*
			Bomborokuy - Mali border		*-2.5*	*20*
			Banfora – Sindou		*1*	*20*
		Development of Rural Roads		$18		

Capacity Building and Technical Assistance for Road Maintenance	$3		
Incentive Matching Fund for Periodic Road Maintenance	$31		
BRIGHT 2 Schools Project	$29		
Namibia	$305		
Education	$145		
Improving the Quality of General Education	$77	13.7	20
Vocational and Skills Training	$29	22.2	20
Improving Access to and Management of Textbooks	$15	114	10
Regional Study and Resource Centers	$21	44	20
Access to Tertiary Education Finance	$2	21.1	20
Cross-Project Support	$1		
Tourism	$67		
Improving Management and Infrastructure in Etosha National Park	$41	11	20
Marketing Namibia in Tourism	$8	17.8	6
Ecotourism Development for Communal Conservancies	$18	6.9	20
Agriculture	$47		
Land Access and Management	$21	8.7	20
Livestock	$19		
Indigenous Natural Products	$7	2.9	20
Senegal	$540		
Irrigation and Water Resources Management	$170		
Infrastructure			
Podor Irrigation	*$5*	*7*	*20*
Delta Irrigation	*$139*	*15.9*	*20*
Land Tenure Security			
Social Safeguard Measures			
Roads Rehabilitation	$324		
National Road #2		10.9	20
National Road #6		11.3	20
Moldova	$262		
Transition to High Value Agriculture	$102		
Rehabilitation of Centralized Irrigation Systems	$74	14.3	20
Irrigation Sector Reform			
Access to Agricultural Finance	$14	11.5	20
Growing High Value Agricultural Sales			
Road Rehabilitation	$133		
M2 Sarateni - Drochia Junction		21	*
M2 Drochia Junction - Otaci Studies			
Philippines	$434		
Revenue Administration Reform	$54	40.3	20
Bureau of Internal Revenue (BIR) Revenue Administration Reform	$50		
Revenue Integrity Protection Services	$4		

	KALAHI-CIDSS[79]		$120	12.6		20
		Capacity Building and Implementing Support	$11			
		Grants for Community Projects	$96			
		Project Management	$14			
	Secondary National Roads Development Program		$214	13.7		25
		Samar Road	$200			
		Environmental and Social Mitigation	$14			
Jordan			$275			
	Water Network		$103	19.4		20
		Insfrastructure				
		Water Smart Homes				
	Wastewater Network		$58	13.5		20
	As-Samra Expansion		$93	14	*	20
Malawi			$351			
	Power Sector Revitalization		$309	48.1		25
		Infrastructure Development	$283			
		Power Sector Reform	$26			
Indonesia			$600			
	Green Prosperity		$333			
		Participatory Land Use Planning	$25			
		Technical Assistance and Oversight	$50			
		Green Prosperity Facility	$243			
		Green Knowledge	$15			
	Community-Based Nutrition		$132	12	*	
		Community Projects	$82			
		Supply-Side	$36			
		Communications, Project Management, and Evaluations	$14			
	Procurement Modernization		$50			
		Procurement Professionalization	$46			
		Policy and Procedure	$4			
Cape Verde II			$66			
	Water, Sanitation and Hygiene		$41			
		National Institutional and Regulatory Reform		15	*	
		Utility Reform				
		Infrastructure Grant Facility		11	*	
	Land Management for Investment		$17	22	*	
		Foundations				
		Rights and Boundaries				
Zambia			$355			
	Lusaka Water Supply, Sanitation, and Drainage		$311	13.7		20
		Infrastructure				

[79] KALAHI-CIDSS is an acronym for Kapit bisig Laban sa Kahirapan ("Linking Arms Against Poverty")-Comprehensive Integrated Delivery of Social Services

	Institutional Strengthening	
Georgia II		$140
	Improving General Education Quality	$77
	Improved Learning Environment Infrastructure	$54
	Training Educators for Excellence	$14
	Education Assessment Support	$6
	Science, Technology, Engineering, and Math Higher Education	$30
	Industry-led Skills and Workforce Development	$16
	Competitive Program Improvement Grants	$12
	Strengthening Sector Policy and Provider Practice	$4

Note: ERR = economic rate of return. Black lines represent compacts, dark gray lines represent the compact's projects, light gray lines represent the project's activities, and white lines with italicized text represent an activity's subactivities. Red text highlights an ERR value less than the 10 percent minimum hurdle. Projects, activities, and budget information come from the original compact agreements (except Vanuatu, for which the compact summary was used since the compact was not available). Most but not all compacts include budget detail down to the activity level. All ERRs are original ERRs (except Vanuatu's, for which only revised ERRs were available). All ERRs come from posted ERR spreadsheets except those marked with asterisks, which come from M&E reports. Because this table summarizes only published ERRs (either in spreadsheet form or in M&E reports), it is possible that MCC and its partner countries completed ERRs for other projects and activities but did not publish them or reference them in M&E reports. Projects/activities will not sum to compact total because program administration and M&E costs are not included in this table. Activities may not sum to project total due to rounding.