El Salvador Field Report
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This report provides a snapshot-in-time of El Salvador's Millennium Challenge Account (MCA) program in the early phases of implementation, during a year in which the Millennium Challenge Corporation (MCC) is under pressure to increase and accelerate disbursements, demonstrate tangible impacts, and substantiate the country-driven model as a viable alternative to traditional U.S. government foreign assistance. El Salvador, deemed eligible in FY 2006, is one of four lower-middle-income countries (LMICs) with a signed compact.[2] The $461 million compact was signed on November 29, 2006, and targets the Northern Zone of the country. The compact entered into force on September 2007, which marked the beginning of the 5-year implementation period for the accountable entity Fondo del Milenio (Fomilenio). By September of 2012, El Salvador must complete the human development, productive development, and connectivity program components outlined in the agreement.[3]

El Salvador stands out as a case in which country ownership and the will to succeed are unusually high. Political and social pressure to succeed and attention to the lessons learned from countries that preceded it offer great promise for more efficient implementation. By deliberately sequencing the prerequisite steps toward entry-into-force (EIF) and by completing agreements to allow existing ministries to execute component activities, El Salvador could implement its MCC program more efficiently than other MCC compact countries have. These strategies, combined with robust civil society advocacy and a desire to achieve tangible results in time for the upcoming election cycles may make El Salvador a model pre-EIF performer.

This report focuses on three major challenges and potential opportunities for effective implementation: country ownership, procurement, and management of expectations. The report aims to highlight the successes and challenges of a strengthened country-focused model of development as well as to inspire proactive solutions to difficult issues facing the MCC.

After passing the MCC qualification indicators each year since 2006, El Salvador failed the indicator test for FY 2008. This failure complicates implementation since the government is now required to submit a policy improvement plan (PIP, formerly known as a remediation plan) to address the shortcomings. The indicator test failure adds more pressure for El Salvador to get project activities up and running quickly to meet obligations and demonstrate that the policy environment is not declining.

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[1] Amy Crone is a research and policy analyst at the Center for Global Development. This report is based on interviews conducted in El Salvador in March 2008.
[2] Two of the four—Cape Verde and Morocco—were lower-income countries (LICs) at the time of compact signing and subsequently graduated to LMIC status.
[3] The entire compact is available online: http://mcc.gov/countries/elsalvador/compact-112906-elsalvador.pdf.

IMPLEMENTATION CHALLENGES AND POTENTIAL OPPORTUNITIES

Country Ownership: Oversight, Capacity Building, and Easing Restrictions

As one of the four pillars of the MCA model, country ownership is crucial for institutional longevity and program sustainability. The ability of the MCC to empower its country counterparts through technical assistance and maintain accountability and flexibility within compact guidelines is a delicate balancing act. In El Salvador, despite robust country ownership in the compact development period, mounting pressure to speed disbursements and the rapid ramp-up of implementation have led to tension regarding the right balance of oversight and capacity building. This is also related to the ongoing discussions within the MCC regarding risk tolerance, particularly in countries with a higher level of governmental capacity such as El Salvador.

Findings:

Unusually high country ownership could leverage results and commitment to reform beyond the compact. Nonpartisan support, ownership, accountability, and responsibility exist for the compact at all socio-political levels. Country ownership beyond the government in El Salvador is evident and palpable. All the Salvadoran stakeholders interviewed touted the country's ownership of the program and consider it a national priority. Despite the program's status as one the key initiatives of President Saca, it has fostered multi-party collaboration in the Northern Zone and was approved unanimously in the National Assembly. As Mayor Miguel Angel Rivera of Ciudad Barrios explained, for the first time mayors from Arena, FMLN, and PCN (the major political parties) are meeting and working together to take advantage of the opportunities offered through MCC investments in their respective regions. The MCC presence is not only encouraging stakeholders to share information on how best to organize and help constituents bid on MCA projects but also fostering a sense of shared commitment to raise additional funds for projects that will build upon their infrastructure and human development components.

Increasing flexibility with appropriate accountability could spur implementation. The MCC is taking steps to make requirements less restrictive and more flexible. For example, the MCC has reduced some of the approval and translation requirements for project decisions, and El Salvador is taking advantage of a new MCC policy that allows some procurement to be conducted in native languages, a policy change which has reduced some procurement processing times by 3–4 weeks. [4] This in turn, along with implementing entity agreements in place prior to EIF, should allow contracts to be signed and disbursed more quickly than has been the case in other countries. In the six months since EIF, over $5 million has been obligated in contracts and almost $4 million has been disbursed.[5] It will still be an enormous task to reach the target of $42.8 million disbursed in the first year of implementation—a challenge that El Salvador shares with other compact countries, as all are expected to more than double the amounts previously disbursed by the end of FY 2008[6]. The achievement of such ambitious targets may prove crucial for institutional support by the next U.S. administration, particularly in light of recent congressional machinations to reduce funding. [7]

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[4] See MCC's newly released Procurement Guidelines here: http://www.mcc.gov/procurement/mca-programguidelines.php.
[5] As of June 30, 2008 these numbers are: 45.9 million disbursed and $53.2 million in compact commitments. See MCC's quarterly status reports for the latest figures: http://mcc.gov/countries/.
[6] For more information, see estimates provided (on page 8) by Ambassador John J. Danilovich in his testimony before Congress, http://www.mcc.gov/documents/testimony-022608-houseappropssubcmte.pdf.
[7] See CGD's analysis of recent events (http://blogs.cgdev.org/mca-monitor/).

Building institutional capacity could be the real "MCC effect." The MCC is enabling Fomilenio to compel ministries to fulfill their respective mandates, thus strengthening and capitalizing on existing governmental capacity. The MCC is also helping to strengthen existing ministerial capacity. One example of this in El Salvador is building the capacity for environmental assessment. Although laws exist that govern the evaluation and protection of natural resources and the environment, they are not always enforced. The Ministerio de Medio Ambiente y Recursos Naturales (MARN) has struggled to do so with scarce human and financial resources and with legal title to less than 10 percent of the 118 natural protected areas in existence. One of the compact requirements is the completion of a strategic environmental assessment for the Northern Zone as a precedent for the disbursement of funds.[8] The World Bank provided grant funding to the Government of El Salvador (GOES), enabling MARN to complete this study to meet the MCC requirement which resulted in a Strategic Environmental Assessment. The coordinator of the environmental component of Fomilenio said the compact provided the impetus to prioritize this crucial area.

This is an important sector for El Salvador, as it is one of the most deforested nations in Central America and has seen significant loss of biodiversity due to the civil war and poor management of conservation areas. El Salvador has only 3 percent of its land area protected for conservation, well below the Central America and Caribbean average of 6 percent.[9] This could be an opportunity for increased income through eco-tourism for which the MCC compact is helping to lay the groundwork through pre-design studies and feasibility assessments. These efforts also feed into other donor programs such as the World Bank project for Protected Areas Consolidation and Administration.[10]
As El Salvador wades through implementation procedures and works to get projects underway, there are a few areas in which further progress can be made to smooth the shift to project management.

***Recommendations**:*

Use and strengthen the existing institutions, policies, and procedures of the government of El Salvador. Building the capacity of the Salvadoran government to, for example, conduct a strategic environmental assessment—noteworthy in a country that previously neglected its natural resource base—demonstrates leadership and will increase the long-term sustainability of national growth and poverty reduction. The Ministry of Public Works and Transportation (MOP) is similarly gaining substantive experience in managing a suite of infrastructure projects that are larger in monetary value and scale than any previous single program. Historically MOP has implemented construction and rehabilitation of less than 150 kilometers of roads per project; the connectivity project is 290 kilometers for the northern highway and 240 kilometers for the connecting road networks. At the conclusion of the compact, MOP will have developed a cadre of experienced project managers who can implement large scale domestic transportation projects critical to sustained economic growth and poverty reduction. This practical knowledge and institutional growth can be used should GOES desire to continue improving connectivity to foster future economic growth through large transportation projects. The MCC should maximize its efforts to utilize and strengthen GOES institutions to ensure long-term sustainability.

Continue to innovate through streamlined, accountable, country-specific procedures. The experimentation of a sliding-scale type of oversight system (in which countries are subject to fewer review processes and formal approvals as they prove their capacity for implementation and management strength) is well suited to El Salvador given its relatively strong fiduciary systems and the fact that some

[8] El Salvador Compact, Annex I-16.
[9] WRI Earth Trends, http://earthtrends.wri.org/pdf_library/country_profiles/bio_cou_222.pdf.
[10] World Bank Protected Areas Consolidation and Administration Project (PACAP), http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/LACEXT/ELSALVADOREXTN/0,,contentMDK:21495843~pagePK:141137~piPK:141127~theSitePK:295244,00.html.

decentralization of decisions and lessening of requirements has already begun.[11] The reduction of translation requirements and devolution of some decisions to the field are positive steps in the direction of rationalizing oversight and management. However, the current approval process has the potential to delay implementation.[12] In a typical case, a document must be sent to Washington sector leads (who also work on several other countries and have competing priorities) for clearance, then back to the resident country team for approval, then to the legal counsel in Washington for sign-off, before it is finalized via formal letters to Fomilenio from MCC's legal staff. This sometimes lengthy chain of approvals is formalized in an MCC approvals matrix which is the same for all compact countries.

Attempts to streamline this process have occurred in the past but not on a country-by-country basis. The adjustment of the matrix for a given compact, in coordination with improved communication between Washington and field staff, could minimize project implementation delays. Success in this area is important to justify the MCC model—whereby increased country ownership leads to diminishing levels of MCC supervision as implementation progresses. If practices remain closer to traditional U.S. government assistance programs, with overburdened oversight and reporting requirements, more people will likely be needed in field offices to keep implementation apace, which goes against the "small footprint" oversight model of the MCC. The "small footprint" model was designed to support two fundamental principles of the MCC: the notion that MCC countries were selected because they were better governed (hence, were less risky countries in which to invest) and the longer-term focus on measuring outcomes and impact instead of expenditures. This tension regarding risk tolerance and country ownership can also be seen in the realm of procurement (see below).

Promote non-governmental and indirect capacity building as part of "MCC effect." Country capacity is being fostered in areas other than San Salvador and with non-governmental actors and institutions.[13] In Ciudad Barrios of the Northern Zone, the local government design of new public spaces such as market areas, sports fields, youth centers, and fairgrounds has begun and signals a new optimism and energy to attract investment with the help of MCC funding. The "good housekeeping"[14] seal of approval provided by the MCC has also influenced talks with large U.S. corporations considering investment in the Northern Zone. Throughout the targeted areas, the disparate political party markers and flags -- red, white, and blue (Arena), red and white (FMLN), and blue and white (PCN) -- are prominent and the increased connectivity between these factions provided by the Northern Longitudinal road is tangible, symbolic, and promising all at once. Such new kinds of political linkages are evidence of indirect capacity building likely not envisioned at the start of the MCC process, which focuses on central government functionality. This grassroots empowerment and local capacity building transcends the history of conflict, fosters innovative ways of attracting investment, and attracts new sources of funding -- like in Cuidad Barrios for fairgrounds and an upgraded market space – which all complement the MCC compact and provide evidence of the multiplier effects of the investment of U.S. taxpayers' dollars in the Northern Zone of El Salvador. Salvadoran and U.S. companies are exploring investments in solar cells near Ciudad Dolores, where the mayor is excited that the Northern Longitudinal Road construction has enabled him to begin negotiations with alternative energy entrepreneurs for the first time. This

[11] As of 2006, El Salvador was the only country in Central America with an investment grade rating. For more on its recent reforms, see the following IMF report: http://www.imf.org/external/pubs/ft/scr/2006/cr06410.pdf.
[12] Since the writing of this report, the MCC has implemented an "oversight model," which includes a reduction of formal MCC approvals for accountable entities that have proven strong management capacity. Additional details on this model and the method by which the MCC evaluates management capacity is not publicly available. It remains to be seen if the current attempt to implement more streamlined processes will reduce delays in implementation.
[13] See the recent "Success Story" from the MCC: http://www.mcc.gov/documents/successstory-072108-makingheadway-elsalvador.pdf.
[14] For more information on the MCC Effect see:
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=896293 (on governance)
http://www.mca.gov/documents/mcc-workingpaper-corruption.pdf (on corruption)

empowerment at the local level is not being publicized at present – although stories of benefits are provided via newsletter as tangible successes,[15] evidence of community growth can also be shared to illustrate the effects of MCC's influence which may not be traditionally seen as successes.

Procurement: The Unglamorous Issue that Can Make or Break Aid Programs

The tension between MCC oversight and country ownership is also evident in the area of procurement, which is both the foundation of effective and timely implementation and the area most prone to corruption in foreign assistance projects. Getting the balance right between managing effective implementation and managing risk of diverted funds is tricky.[16] On the one hand, efficient and transparent completion of contracts and acquisitions under credible national or international procurement is the key to timely disbursements. MCC needs contracts to release funding and often there are conditions precedent for disbursements in the compact related to procurement. On the other hand, donor agencies like the MCC must ensure that the procurement standards they use are credible and that their oversight processes are sufficient to guard against the potential for corruption or diversion. The question in El Salvador, and perhaps in several other MCC-eligible countries, is whether the national procurement laws and oversight processes are credible enough to rely on so as not to add unnecessary transaction costs to implementation and perhaps even strengthen the systems under MCC guidance.

While the compact stipulates the establishment of both procurement and fiscal agents, countries can rely on ministries or other entities to fulfill these requirements. In El Salvador, Fomilenio´s Finance Director acts as Fiscal Agent, while procurement agent services are contracted out to an international firm. The latter undertakes all procurement based on MCC Program Procurement Guidelines, a requirement imposed by MCC in spite of the Salvadoran government's original proposal to allow ministries to conduct procurement themselves via the Institutional Acquisitions Units in each ministry, and in accordance with National Procurement Law (LACAP is the Spanish acronym). This legislation, signed in January 2006 (almost a year prior to the signing of the MCC compact), was part of an effort to strengthen the governmental procurement and contracting systems to meet international standards. Despite the training designed by the Technical Secretariat of the President that was conducted in all government ministries to ensure the correct application of the new law and systems for increasing transparency and efficiency, the MCC has required its own set of procurement guidelines beyond LACAP. While this decision was taken as a result of a due diligence review by the MCC, there is no published evidence of why this aspect of the El Salvador proposal was not accepted or why the measures implemented in accordance with LACAP were found to be insufficient. It remains unclear as to whether MCC is advising the government of El Salvador on measures that would address LACAP's deficiencies discovered during the due diligence review as well as bring them closer to meeting MCC's institutional standards. The MCC has procurement guidelines that are applied to all compact countries regardless of a country's established procedures in order to maintain a high level of fiduciary oversight. This is not unreasonable given demands on other U.S. foreign aid programs by Congress. However, the question is: should the MCC should push the innovative potential it was given at its creation to implement a differentiated procurement system that allows greater flexibility to countries with strong fiduciary systems while reducing, though obviously not ceding, MCC oversight requirements? The set of MCC-specific procedures adds an additional layer of administration, reporting, and training which has caused delays and is perceived as unnecessary by some Fomilenio officials in light of the nationally-implemented LACAP legislation.

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[15] See MCC's website for more Success Stories from other countries: http://www.mcc.gov/press/successstories/index.php

[16] This issue was also highlighted by the MCA Monitor previously in "Lessons from Lessons from Seven Countries: Reflections on the Millennium Challenge Account" (http://www.cgdev.org/content/publications/detail/13710)

Findings:

Working around, not with, existing local procurement procedures undermines country ownership. The stipulation that MCC procurement guidelines and not LACAP will govern the compact means MCC specific approval and reporting requirements must be used, which add a layer of complexity to the national procurement process. The Technical Secretary to the President is the chair of the Fomilenio Board of directors, and thus seems ideally suited to ensure that both LACAP and MCC procurement procedures are effectively implemented. The rationale for the selection of an international firm rather than the Ministry Institutional Acquisition Units for procurement was not clearly communicated to Fomilenio as staff expressed frustration that LACAP was insufficient for the MCC. Increased transparency and communication regarding the shortcomings of the national procurement practices could lead to improvement of LACAP as well as increased procurement knowledge, ownership and accountability.[17] This could in turn mitigate the lack of local capacity building, which is a result of using an international agent. This outsourcing may reflect both the limited availability of fluent Spanish speaking procurement resources as well as the staffing cap at the MCC but seems like a natural area to be addressed in light of MCC's premium on country ownership. Rather than undermine the institutional framework in place by explicitly stating that LACAP will not govern compact procurements, there should be a better way to capture what MCC feels is acceptable in terms of procurement practices.

More technical support from the MCC could spur implementation. Precisely at the time when El Salvador rapidly expanded the number of procurements in the pipeline for implementation, the provision of procurement expertise from MCC headquarters to the field plateaued. While sector areas of the compact such as agriculture and monitoring and evaluation added personnel to the MCC implementation teams, the one procurement director assigned to the team serves on multiple compact implementation teams. This is the case throughout the MCC due to a staffing cap that makes it an institutional challenge to allocate sufficient procurement training and assistance. Since the time of the visit for this report, the MCC has begun to address this resource need through plans to provide increased training to Regional Country Directors (RCDs) during the pre-EIF stage of a compact, and by outsourcing procurement consulting services. This trend should continue so as to avoid the situation which Fomilenio faced in March— waiting (for sometimes more than a month) for confirmation that procurement requirements had been met before disbursement could proceed.

The MCC is introducing new management efficiencies to facilitate implementation. Two new MCC technologies may help ease the need for hands-on procurement and disbursement oversight: the roll out of the Common Payments System[18] (CPS) was completed in June 2008 and the first phase of the Business Intelligence and Data Storage System (BIDS) will likely be rolled out in late 2008 or early 2009. The former is a MCC system that uses the U.S. Treasury department's payment system that enables direct payment to vendors based on fiscal agent approval of invoices and provides a means for real-time disbursement tracking. The latter is an automated reporting system where accountable entities will be able to directly submit reports, streamlining collection of reports and consolidating information in one central MCC system for ease of reference as well as documentation of administrative requirement completion. It remains to be seen if these tools will enable the small footprint model to function well and maintain flexibility in response to the needs of accountable entities like Fomilenio.

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[17] According to MCC, additional procurement training for Fomilenio staff is also being planned and undertaken this fiscal year by MCC staff and contractors.

[18] See MCC's website for more information on the Common Payments System: http://www.mcc.gov/documents/factsheet-102408-cpsforbidders.pdf

Unrealistic disbursement targets set up program for unnecessary criticism. It is not clear how the disbursement targets for FY 2008 are to be met based on historical trends.[19] As of the latest Country Status Report in June, compact countries disbursed on average 32 percent of their disbursement targets for Year 1. El Salvador has disbursed approximately 13 percent in the nine months since entry-into-force of the compact.[20] The finalization of sizeable construction contracts may lead to a large swell in flowing funds, however, it is hard to envision given the shortage of procurement resources assigned to El Salvador and new procurement guidelines just beginning to take effect. Beyond public statements by Ambassador Danilovich of disbursement targets by the end of FY 2008[21] and publication of updated procurement guidelines, there has been little additional information provided by the agency as to the details of how these targets will be met other than through infrastructure project contract finalization.

Recommendations:

Recalibrate the balance between appropriate risk and oversight. As part of a sliding scale system, as LACAP training and enforcement is institutionalized and MCC procurement guidelines met, the MCC should work with Fomilenio and implementing agencies to identify areas of overlap with an eye to reducing MCC requirements. This will require evaluation and coordination by legal counsel and procurement experts to identify requirements that the MCC stipulates which may be encompassed in LACAP and are therefore duplicative. Alternatively, if this analysis was included as part of due diligence, it should be provided in a more transparent manner to interested parties including Fomilenio. This review or release of the decision rationale and illustrative examples could identify the areas of enforcement that need to be strengthened in order to implement LACAP effectively *and* meet MCC guidelines. As such, the findings could be the basis for identification of and training to alleviate weaknesses found in implementation of LACAP procurement and contractual regulations. The MCC could thereby help foster strengthening of GOES institutions to carry out legislative and regulatory reforms while simultaneously conforming to institutional procurement guidelines. The current system of using international firms as procurement agents may undermine country capacity as well as long-term project viability due to dependency on MCC oversight.

Beef up MCC procurement expertise to the field. This can be accomplished either through continued decentralization of procurement decisions to San Salvador, or by adding expert resources to the MCC office in-country or on the country implementation team from Washington. The former would ensure that procurements are efficiently addressed and eliminate multiple rounds of approvals between San Salvador and Washington. The latter would be a means to build country capacity while maintaining closer oversight. The recently implemented training and additional budgetary resources allocated to El Salvador by the MCC to bolster procurement should be continued and perhaps considered as a model for other MCC countries. As with the balance required in country ownership, the MCC must decide whether its risk tolerance strategy follows traditional projectized aid programming[22] with decision making centralized in Washington or if it should enhance its field presence (or, at a minimum, its country implementation team from Washington) with a full-time procurement specialist to build country capacity while also

[19] According to MCC staff, all MCC countries are performing a comprehensive review of previous projection estimates for publication in the first quarter of FY 2009.

[20] As of January 2008, the MCC had removed estimated disbursements from its quarterly reports, making it impossible to track actual disbursements against original targets. While this change may reduce the emphasis on disbursements as a key metric, it obscures the picture of progress in a given country. Perhaps the revision of projections to be released in the first quarter of FY 2009 will be illustrative.

[21] See Ambassador Danilovich's testimony before the U.S. House Appropriations Subcommittee on State and Foreign Operations: http://www.mcc.gov/documents/testimony-022608-houseappropssubcmte.pdf, February 26, 2008, p.8.

[22] See also: "Should the MCC Provide Financing Through Recipient Country's Budgets? An Issues and Options Paper"(http://www.cgdev.org/doc/MCA/MCCrecipientbudgs.pdf)

protecting MCC oversight interests. The latter, however, would require reconsideration of the staffing cap. The 300 person staffing cap was intended as an organizational constraint to foster increased country ownership; however now with operational experience gained, this constraint may indeed be too stringent.

Increase transparency around implementation schedules and targets for both procurement and disbursement. The inclusion of contract commitments and the compact implementation timeline to the Country Status Reports[23] this year provides welcome information that helps clarify the percentage of the compact that is scheduled to be disbursed. Contract commitments can also be viewed (as the MCA Monitor has previously noted[24]) as a rough proxy for local ownership, as commitments signal that the accountable entity has met the MCC's rigorous procurement requirements and successfully concluded contract negotiations for any given project. This trend toward increased transparency regarding the pipeline and schedule help to demonstrate implementation progress, but could also provide additional instructive information such as procurement and related disbursement targets or estimated contract commitments schedule.

While the MCC may be hesitant to publish estimates due to past criticism of overly ambitious targets, currently it is difficult to gauge progress with information that is mostly retrospective. The contract commitments in the status reports are a step in this direction but inclusion of projected schedules would help clarify the picture of on-the-ground progress. And while it is the responsibility of accountable entities to manage the procurement process, the MCC could foster greater transparency by serving as a central clearinghouse to provide this information to its many constituents. Currently this information is publicly available on accountable entity websites, which vary in quality and accessibility; the housing of a consolidated chart or other comparison tool (including schedule estimations) on the MCC website would help to better calibrate expectations in Washington.

Managing Expectations

The management of expectations has been one of the foremost challenges facing the MCC as a new foreign assistance model. As in many of the previous MCA Monitor Reports from the Field,[25] this is also an issue in El Salvador. While consultation with stakeholders to manage in-country expectations is the onus of the accountable entity the MCC retains the responsibility to provide training. It is a particularly uphill climb for countries such as El Salvador where government relations with its people have been strained due to war and mistrust. There are some indications that the MCC is aiding Fomilenio with developing a communications and outreach program to achieve participatory, timely and meaningful participation along with management of stakeholder expectations. However, this remains a formative area to watch as part of effective implementation.

Findings:

Closing the feedback loop in the consultation process is important for stakeholders. El Salvador has been an exemplary model for broad consultations due to the work of the National Commission for Development (CND is the Spanish acronym). This diverse commission was formed to design a national strategy for development and, prior to Compact Development, undertook 57 workshops and met with 14 regional assemblies to cull the opinions of a variety of stakeholders. These suggestions and discussions were recorded and fed into the decision making process to focus the MCC programming on the Northern

[23] See http://mcc.gov/countries/ for the most recent reports available.
[24] See Sarah Rose blog "An Alternative Way to Look at Progress on Compact Implementation (If Only We Could…): http://blogs.cgdev.org/mca-monitor/archives/2007/10/an_alternative.php.
[25] See "Lessons from Seven Countries: Reflections on the Millennium Challenge Account" (http://www.cgdev.org/content/publications/detail/13710)

Zone. However, at the end of the process, information about what had been included in the compact and what had not was not communicated to those who participated. This disconnect was partly due to the change in leadership at the accountable entity. Both those in CND and Fomilenio expressed frustration that recalibrating expectations has been difficult to accomplish—with potential beneficiaries still requesting information or workshops on project components that were considered but not included in the compact. In March, the information on the website about participation related to compact development consultations rather than what steps are being taken during implementation to include participation; this delay in posting information related to current consultations impedes clear and timely communication on implementation. The report on consultation released in June is a step in the right direction toward engaging stakeholders throughout implementation and beginning a dialogue as to the most effective means to close the feedback loop.

Communications and outreach strategy needs strengthening. Fomilenios's communications and outreach strategy is disjointed, and lacks clear guidance on where and how to access accurate program information. For example, during the field visit, a pilot for the productive development program was scheduled to be launched in the town of Perquín in the Northern Zone. Having already been announced to a group of business, NGO, and other representatives in Washington DC, the launch in El Salvador was to be an informative forum through which local investors and beneficiaries could learn of the bidding requirements, the limited scope of the pilot projects, and the process for informing future bidding prospects. But the launch was rescheduled and relocated at the last minute to a room in the Presidential Palace compound in San Salvador. The venue change was communicated only by word-of-mouth. In addition to excluding potential attendees from the Northern Zone who could not travel to the capital on such short notice, the information provided on the pilot program was confusing and misleading. Questions from the few press representatives in the room revealed a lack of understanding of the experimental nature, scale, and scope of the pilot. Fomilenio's lack of transparency and responsive communications tools—the physical address of the office location is not public, the website is unwieldy, and the communications team did not respond to email inquiries about Fomilenio's information strategy—will need to be significantly enhanced in order to serve the program well in the long run.

Across the board, it is apparent that managing the tensions between good, broad consultation and efficient, effective implementation will be critical to the success of the compact. Good development and sound implementation will require sustained attention (not just at compact design) to the former and external pressure on the latter.

Recommendations:

Fomilenio must make concerted efforts to address all constituencies. The successful experience of incorporating participation into the compact development process led to high expectations of continued rigorous consultation throughout compact implementation. After the compact was signed, however, Fomilenio's focus was on meeting the fiscal and regulatory requirements leading up to entry-into-force. After EIF, the focus shifted to establishing contracts and getting procurement underway. There have been few consultations and the establishment of the Advisory Council, an independent oversight body whose role is to monitor civic participation, was delayed by several months. The work plan of this body was submitted in August 2007 and has not been prioritized by the Advisory Council. While this can be partly explained by the push for EIF and quick ramp-up in implementation, the delay caused frustration. Fomilenio must debunk the perception that participation is not a priority and close the feedback loop—from poor beneficiaries to the members of the diaspora community. This can be accomplished in large part by providing easily accessible information on program activities and participatory forums. Coordination with the CND, which has already invested extensive time and resources in the consultative process, should continue with an eye to putting in place a framework for participatory development throughout the life of the compact.

A more robust and cohesive communications strategy is essential. A robust and cohesive communications strategy is the cornerstone of information provision. At a minimum, Fomilenio should improve its communications strategy to better convey where the consultative process will be vital and strategic, and where it will play less of a role. The degree of consultation will be largely dictated by the stage and requirements of a given project: for example, after the road design is complete and the cadastral and environmental evaluations are underway, there is little role for civic input into such scientific and technical reviews. While it may be a challenge to provide this educative information to the beneficiaries in the Northern Zone due to lack of technology and distance from the capital, Fomilenio should communicate the compact activities to potential partners so as to avoid incidents like the anemic launch of the productive development pilot program. Any consideration of opening an office in the Northern Zone should include the benefits of local communications and outreach aspects. A comprehensive and clearly articulated information strategy will minimize inquiries and empower stakeholders to take advantage of information through established channels, such as through an improved Fomilenio website which is less cumbersome and more user-friendly to better access information. Publication of illustrative pamphlets, organizational structure with contact information, and office accessibility would also further transparency, accountability and dialogue. Ultimately a more robust communications and outreach strategy will ease the burden on the Fomilenio communications staff as well as build upon the expertise of the CND for participatory consultations.

A transparent and comprehensive consultative process should be implemented. The participation aspect of the consultative process will be vital for successful implementation which meets the needs of beneficiaries as intended in program design. Northern Zone mayors meet regularly, and usually require extensive travel to another municipality; this could be supplemented by additional outreach such as local radio programming. The work plan for the Advisory Council should be approved as soon as possible so that the already-designed consultative process for implementation can proceed. Fomilenio could adopt more of an open-door or open-information policy to foster public participation where appropriate. These could all be encompassed in comprehensive consultative process which, per the MCC's policies, should be implemented as the compact progresses since the provision of participation in the compact is not limited to proposal development. As transparency is an important focus of the MCC, an institutionalized means for consultations and participation could address both of these requirements. While the MCC has championed the use of the consultative processes in compact development, it has yet to meet its own standards for consultation during the implementation phase. A redoubled effort to implement participatory processes after EIF should also link to efforts at MCC headquarters, where the recent publication of economic rates of return and promises to publish counterpart beneficiary analysis is an unprecedented step for a U.S. foreign assistance agency.[26] In light of potential compact restructuring and as portfolio reviews lead to implementation changes (such as revised disbursement projections), the MCC must strive to fulfill its own policies with regards to participation. Consultative processes need to be incorporated as such revisions factor into project planning alterations and affect beneficiaries in countries such as El Salvador.

CONCLUSION

[26] See the MCA Monitor blog on the release of ERRs http://blogs.cgdev.org/mca-monitor/archives/2008/05/mcc_and_errs_tu.php as well as the CGD ERR event http://www.cgdev.org/content/calendar/detail/15807.

Three actions require immediate attention from the MCC, GOES and the U.S. Congress to enhance implementation progress:

- The MCC should streamline procurement processes and continue to enhance resources and expertise as a means to accelerate implementation and increase disbursements.
- Decentralization and sliding scales of oversight, based on an evaluation (and standard-setting) of country systems and capacity, should be adopted to build country capacity and improve implementation.
- Communications and consultations should be incorporated throughout the life of the compact from negotiation to the end of the program
- The U.S. Congress should allow the experimental nature of the MCC to thrive, including a focus on results, not disbursements; consideration of flexible financing (e.g., graduated budget support in countries with strong fiduciary capacity); and expanding the staffing cap to allow for full-time procurement specialists in each MCC compact country (based on lessons learned to date).

In response to recent reports highlighting the slow pace of disbursements in the implementation phase of compacts,[27] the MCC noted that the following changes will be undertaken:

1. Reorganization at headquarters along with detailed portfolio reviews
2. Quarterly reporting with disbursement projections
3. Lengthening the time prior to EIF to ensure that accountable entities are prepared to begin implementation, prior to the start of the 5-year clock
4. Revised disbursement projections

While these are positive movements toward identifying institutional problems, none significantly changes practices in the compact countries; in particular the issue of procurements is not addressed. The estimated large increase in disbursements by the end of FY 2008 is largely dependent on the pace of procurement and the ability of both the MCC and the accountable entity staff to finalize and manage contracts in the field. The MCC will need to prioritize this area in order to grease the wheels of implementation—and continue the steps they have begun to take to increase resources and expertise dedicated in this area. Despite the purposeful delay of EIF in El Salvador per the third point above, the bottlenecks have continued to exist in implementation due to procurement. This oversight function, along with infrastructure project management, will be two key areas affecting the pace of implementation.

Alternatively, or in tandem, the oversight requirements could be calibrated to better reflect the level of country capacity. In El Salvador, in many cases this would mean a reduction in requirements. In some sectors, however, it would not. For example, the implementing entity for the transportation component has never dealt with a project of the scale of the Northern Longitudinal Road. To address such situations, in El Salvador the MCC has opted to use outsourced project managers to guide implementation given the staffing cap constraint. This in turn may limit the level of capacity building within GOES; the increase in training for Fomilenio in tandem with the provision of outsourced expertise may mitigate this issue to some extent. Regardless of the method adopted, however, steps must be taken above and beyond the largely administrative measures advanced to date. And Congress should be open to allowing flexibility on the staffing cap should the MCC be able to demonstrate that efficiency and effectiveness gains could be made—both for them and for the countries—by having a full-time procurement expert on the ground.

[27] See GAO report "Independent Reviews and Consistent Approaches Will Strengthen Projections of Program Impact," http://www.gao.gov/new.items/d08730.pdf.

The MCC should continue two particular trends with regards to country ownership: decentralization and use of a risk management system to achieve effective oversight and compliance balanced with country capacity. The experiments in El Salvador with increasing discretionary approvals for the Regional Country Office to a set monetary limit as well as the liberalized language requirements are welcome innovations and should be good litmus tests. These experiments can help to help flesh out the framework of indicators of country capacity which could underlie decisions to reduce levels of oversight—the sliding scale. If the approvals are aligned appropriately, this would be a win-win situation in which countries are rewarded for increasing project accountability and management capacity, and the burden is reduced on MCC headquarters to shuttle approvals and expertise back and forth.

Lastly, communication and consultation plans must be systematically incorporated into program activities for all compact countries, which will both smooth implementation as well as meet MCC requirements for participation. The case of El Salvador highlights the need to close the feedback loop as well as the importance of putting a consultative process into practice beyond compact signing. Although this is not the main focus of the newly expanded Congressional and Public Affairs team, perhaps the MCC expertise in-house could be utilized by compact countries as well, through MCC University or trainings. A participatory process that includes an information strategy could assuage concerns of stakeholders and foster support of this important assistance initiative.