

# **MILLENIUM CHALLENGE CORPORATION**

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July 12, 2007

## **REMARKS**

**Millennium Challenge Corporation Hosts a Public Outreach Meeting to Discuss the Millennium Challenge Corporation and Mozambique**

**July 12, 2007**

**Millennium Challenge Corporation  
Washington, D.C.**

## **SPEAKERS**

**Michael Van Dusen  
Deputy Director  
Woodrow Wilson International Center for Scholars**

**Howard Wolpe  
Former White House Special Envoy to Africa**

**Stephen Gaull  
Country Director  
Millennium Challenge Corporation**

**Emilio Muchanga  
Mozambique Country Team Leader  
Millennium Challenge Account**

**Ambassador John J. Danilovich  
Chief Executive Officer  
Millennium Challenge Corporation**

**Aiuba Cuereneia  
Minister of Planning and Development  
Mozambique**

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VAN DUSEN: Good morning. My name is Mike Van Dusen. I'm deputy director of the Woodrow Wilson International Center for Scholars, and a hearty welcome to all of you.

We appreciate your being here today. This is a marvelous occasion for us and our Africa program at the center, and we're very happy to collaborate with the government of Mozambique and with the Millennium Challenge Corporation on this important occasion.

And we're very happy that the president is arriving later today. We're sorry he's not here this morning, but we thank our two ministers for being with us from the Mozambique government.

This is a public-private institution. We receive something around 35 percent of what it needs to keep the Woodrow Wilson Center going from the federal government. We raise roughly 65 percent of what is needed.

I want you to know that we have 22 programs at the center, but we have enormous respect for the Africa program and the very strong leadership it has with Dr. Howard Wolpe, Congressman Howard Wolpe, Chairman Howard Wolpe -- you take your pick.

And I want to turn the program over to him, but I want to thank you all for being here.

This strong show of support says something about U.S.-Mozambican relations, and we look forward to continuing collaboration in the months and years to come. Thank you for being here.

And, Howard and Stephen, the program is yours.

WOLPE: OK.

VAN DUSEN: Thanks.

WOLPE: Thank you. Thank you very much, Mike.

And let me join in sending my own welcome to all of you, and particularly to the members of the Mozambican delegation who are with us today.

I was just indicating to them in advance that I had the great privilege over the last several years, both when I was serving as President Clinton's special envoy to Africa's Great Lakes region, working on the Burundi and Congo wars -- to work with President Chissano on the Congolese conflict over several years and then to work with President Guebuza on the Burundi process, because he was a member of the Arusha group that was trying to provide assistance.

And I think, as I recall, the first major African leader we -- I had come to the center and after I was privileged to take over the leadership of the Africa program -- was President Chissano.

So this is an extension of that kind of historic relationship with the Mozambican government. And today's event, of course, is, in a sense, a testimony to some very significant progress that has been made in Mozambique.

I have long regarded the Millennium Challenge Corporation as really one of the more important innovations in America's approach to development policy in many, many years.

It's an effort to do two things. One is to identify the countries that are really making significant reforms both in governance and economically, and to try to provide additional resources to try to take advantage of the reforms that are in place.

But it's also an opportunity -- the program is structured in such a way as to give much greater flexibility to the recipient governments in the use of the funds that are allocated, so that on the one hand, there's important conditionality, in a sense, in terms of reaching a threshold for support.

Once that threshold is reached, then governments have much greater flexibility in the actual implementation of the funds, and I think that's two very important kinds of innovations.

Today, to discuss the major new compact that has been developed and is about to be signed between the government of Mozambique and the Millennium Challenge Corporation, we have two panelists this morning, and we'll be joined subsequently by other individuals.

But at the beginning of our program, I want to introduce Stephen Gaull, who is country director for the Millennium Challenge Corporation. He is responsible for overseeing the MCC's investment operations in Lesotho in Africa.

He also led the MCC team that closed previously a \$110 million compact with Cape Verde. His responsibilities at the MCC include leading multifunctional teams on complex transactions and managing relationships with the high-level counterparts within these governments.

He's been involved in finance and development since 1988, covering Latin America, Africa and Asia.

And then following Mr. Gaull, we will hear from Emilio Muchanga, who is the MCA Mozambique country team leader.

He has 25 years of experience in civil engineering works related to water supply, drainage, sanitation and roads, and has worked on projects and programs for the Mozambican administration agencies -- international agencies, the NGOs and the private sector.

He established and managed a newly created sanitation department within the Mozambican national directorate of water. He has long experience within the government in advancing these kinds of development initiatives.

It's, again, a great privilege to have all of our delegation members with us today, and I'm delighted to call upon Stephen Gaull.

GAULL: Thank you, Ambassador Wolpe, for the kind words of introduction.

Good morning to all of you. Since emerging in 1992 from three decades of almost constant conflict and war, Mozambique has experienced one of the fastest growth rates in Africa, averaging 8 percent per year over the last decade.

To sustain this growth, however, it's necessary to unlock the economic potential of the lagging northern provinces, which are home to roughly 10 million people.

Most of the growth so far has been caused by the southern part of the country, which has been the engine of growth so far.

Moreover, given Mozambique's rapid urbanization, its next stage of economic recovery cannot succeed without well functioning public services in its cities, particularly such things as water and sanitation.

In this context, the Mozambique-MCC compact of \$507 million is going to invest in key areas such as infrastructure, improved land tenure and agriculture.

It includes water, sanitation and drainage in six cities; water supply in two towns and 600 rural villages; rehabilitating 491 kilometers of Route 1, which forms the backbone of the country's transportation network.

It includes also initiatives to improve the efficient and secure access to land through mutually reinforcing activities involving people, institutions and policies.

And the last component involves some emergency measures to prevent the collapse of the coconut industry and spur new growth opportunities in agriculture.

MCC will invest in crucially needed investments in physical assets, technical assistance and capacity building, while the government will complement those efforts through policy and institutional reforms.

The program was derived from the country's poverty reduction strategy and identified through a consultative process that was timely, meaningful and participatory.

The program was also facilitated by a \$13 million grant from MCC to assist with compact development and project preparation.

This enabled the government to move from good but insufficiently detailed ideas in a July 2005 concept paper to a full proposal in only 18 months.

Throughout, the government has shown a strong commitment to the program, and this ongoing commitment will be very important to maintaining the pace of the reforms that we have agreed upon.

Importantly, the compact builds off of successful program of the government and other donors. And indeed, close donor coordination was key to a successful outcome.

I think I'd like to acknowledge the input that we received from my colleagues in Mozambique in the roads sector, the water sector, municipal development and private sector working groups. Their input made our work certainly a lot easier.

I'd also like to recognize in particular the input of the United Nations Development Program and the World Bank in providing support to Mr. Muchanga and his team.

That support, particularly from UNDP, was really important to the process and, I think, showed a strong partnership between different donors being able to coordinate through a strong outcome.

The compact itself addresses several important constraints to growth, some of which include an inadequate stock of infrastructure, an uncondusive investment climate, limited human capacity and poor health and, finally, low levels of productivity affecting agriculture.

The program will help Mozambique achieve progress on meeting its Millennium Development goals for water and sanitation and under-5 child mortality. At the same time, the compact supports U.S. policy and public diplomacy objectives.

It constitutes a substantial deliverable under the Paul Simon Water for the Poor Act, which makes access to safe water and sanitation for developing countries a specific policy objective of the U.S. foreign assistance programs.

In addition, the compact will make the United States the largest bilateral donor to Mozambique, and it will make MCC the largest donor in water, sanitation and land.

The compact is structured to ensure that MCC's standards of transparency, accountability and fiduciary responsibility are met. This includes funding for program management and oversight, financial management, procurement administration and, finally, monitoring and evaluation.

The governance structure includes what we call an accountable entity comprised of a board with representation from civil society and the government, competitively

recruited staff in offices in both Maputo, the capital, and Napula, the economic hub of the northern region.

To support program execution, there will be competitively hired fiscal and procurement agents.

Implementing entities will be government ministries. And included in the overall budget is \$40 million for capacity building and technical assistance to strengthen local institutions.

In terms of results, the compact will reach five million people by 2015, one year after the compact ends. It will lift 270,000 people out of poverty by 2015 and 440,000 people by 2025.

Overall, we estimate that the compact will generate economic returns on the order of 20 percent per year.

In conclusion, I'd like to say that the compact is extremely transformational. The government commitment is strong.

And the overall robust economic returns, I think, make this an excellent investment for MCC and for the U.S. taxpayers, generating dividends through poverty reduction.

Thank you very much.

WOLPE: Thank you very much, Stephen.

And I'd like to now turn to the minister.

MUCHANGA: Thank you.

WOLPE: Excuse me. I elevated your position.

(LAUGHTER)

Sorry about that.

(UNKNOWN): Future minister.

WOLPE: The country director, yes.

(LAUGHTER)

MUCHANGA: Your Excellency and distinguished guests, it is personally a pleasure in being given this opportunity to address to you in this event for sharing what we have learned during the BMC and Mozambique program development process.

The Millennium Challenge Corporation and Mozambique partnership was established in 2004 when the country became eligible for MCA initiative, and an investment program was submitted for MCC (inaudible) in September 2004.

This partnership is based on very clear principles consolidated during the program development. The country ownership is a driving force. It's a very key element that we used during the program development.

And the MCC facilitating process (inaudible) as a mechanism for achieving our purpose.

In this regard, the government (inaudible) the entire process in which the government institutions, civil society and the private sector work jointly to define (inaudible) and projects, the investment priority and the selection of beneficiaries.

The consultative process was effective because civil society and the private sector and (inaudible) assumed their role in which the civil society organization were represented by (inaudible) observatory -- we call it the G20 -- and the private sector by confederation of economic association, CTA, including their representatives at the central, regional and local levels.

The developed program envisioned an intervention (inaudible) for programs (inaudible). The selection of this region took into consideration, among others, the high potential for economic growth, the size of population in that region, and the existence of the (inaudible) to build a sound program.

The Mozambique proposal to MCC contains a program to promote business investment and employment. This program will contribute to reducing poverty and spur growth by lowering the cost and the risk of doing business in Mozambique, while improving the competitiveness of the private sector.

Recommended investment in the initial September 2004 proposal were in four priority areas -- policy reform to improve the trade and business environment, business development assistance to increase trade and the competitiveness of firms, infrastructure improvements to facilitate the trade, reduce transaction costs and better connect companies and (inaudible) with (inaudible) suppliers and the buyers.

And finally (inaudible) the (inaudible) health and the sanitation initiative to improve the quality of life in northern Mozambique, where poverty is most acute.

This program was revised in June 2005, focusing investment for (inaudible) maintaining the essential proposed program (inaudible) water and sanitation and support

to the business development have been selected as the main component for the revised proposal.

(inaudible) feasibility study for further program development and the refinement was conducted in 2006, and an investment program of about \$506.9 million has concluded with (inaudible) 2007, covering the following projects: Water supply and sanitation in eight urban centers; rehabilitation of 491 kilometer of (inaudible) roads; establishment of (inaudible) land (inaudible); farm income support project.

The participatory process adopted during the program development will continue during implementation phase (inaudible) stakeholder in the (inaudible) Mozambique accountable entity is the mechanism that we will be adopting to ensure their continued involvement.

It is worthwhile to stress in this presentation that for the (inaudible) of the program (inaudible) and the progress achieved so far, of all the support from MCC has been providing, the most relevant to be mentioned are the three compact (inaudible) for program development and the continued assistance from MCC (inaudible) the country (inaudible) team.

Additional to the government (inaudible) and MCC support, a complementary contribution for the program was provided from other donors.

We have to stress the contribution from the World Bank and the UNDP which came in a very critical stage of the program (inaudible) implementation to help us proceed with constraint.

This is a brief overview of the Mozambique program development process (inaudible) that I wanted to share with you.

I appreciate your consideration.

WOLPE: OK. Thank you very much.

We want to open this up to questions from the audience. In a few moments, we'll be receiving Ambassador Danilovich and Minister Cuereneia.

But before their arrival, let's open this up for questions. And if I may, let me just begin the discussion.

I mean, clearly, the conditions for approval of engagement with the MCC are pretty extensive. They cover the waterfront from human rights concerns and governance issues generally, issues of corruption and transparency. There's a whole range of variables.

And Mozambique has done very well and has made itself eligible, and I'm just interested in some Mozambican reflections about lessons that come through Mozambican experience that might be -- apply to other countries, might have been some of the keys that have allowed Mozambique to move forward with the degree of success that it has achieved so far.

MUCHANGA: (inaudible) will be using the (inaudible) the question of the -- once or (inaudible) every time (inaudible)

WOLPE: I'm sorry.

(UNKNOWN): (OFF-MIKE) all questions to be taken at one time or they'll be taken individually.

WOLPE: Oh. Well, I was going to offer this one individually, and then I thought we would package the questions, and we can do that -- is that what you mean, take three questions at once for...

MUCHANGA: Exactly.

WOLPE: OK, sure. Well, would you like to have other questions first?

MUCHANGA: Maybe while we are waiting for the (inaudible) to address their question, we can share with you the facets of Mozambique on (inaudible) of improvements in their macroeconomic environment and the (inaudible) justice where it's mostly the MCC indicators focus on.

The first instrument we have is the country is in peace, so the environment is very favorable for economic (inaudible).

And also, we can find within the policy reform that the government has in (inaudible) a certain consistency on looking for the very high instruments of management. We can give a few example of that.

There is a good environment on justice. There are reforms taking place. Those reforms are aiming to enable the private sector get their services much faster. They enable the private sector to get their licenses much faster.

And those mechanisms reduce transaction cost, which for private sector are a very important element. I would say it's for the business in general.

So I will highlight that the reforms that Mozambique has been rolling in are the key of (inaudible) of what (inaudible) have about Mozambique.

(UNKNOWN): OK. Thank you.

(UNKNOWN): Thanks (inaudible) Congressman.

GAULL: Fifteen years ago, Mozambique was at war and had a centrally planned economy.

In 15 short years, it's remarkable how the country has transformed -- peaceful elections and complete economic reorientation, in only 15 years. I think that's remarkable.

And that's one of the things that gave MCC the confidence to move forward with Mozambique knowing that it's a strong bilateral partner. And we see in the various areas that we're investing in very important reforms that are occurring already, you know, before we got involved.

In land, for example, some important reforms were made in December, in urban land. Our investments will help accelerate that process.

In the roads sector, you see the road agency being reorganized and restructured with more money going into maintenance, both routine maintenance and periodic maintenance.

Those are things that are very important to give an investor comfort, that the investor's investment in fixed assets is going to remain and be institutionally and financially sustainable.

And we're seeing the same thing in the water sector. For the last 10 years, with the close participation of the World Bank, the government of Mozambique has implemented what they call a delegated management scheme so that the water services in the major cities are all operated by private sector operators, leading to greater operational efficiencies.

This means, of course, that tariffs go up, which is obviously politically complicated to do, but tariff increases to help cover -- you know, provide full cost recovery, meaning that the assets are more likely to be sustainable over the long term.

All of those sorts of things are sort of the preconditions for an investor to come in and put down \$500 million.

So to the American taxpayer, you know, we have to be your stewards and make sure that those investments are going to be good ones, technically, economically, financially, environmentally, socially, and finally be institutionally sustainable.

WOLPE: Thanks.

Let's open it up to anyone in the audience who would like to raise a question. If you'll just please identify yourself and your affiliation.

QUESTION: Good morning. Charles Uphouse (ph), Bread for the World Institute.

Could you give a brief description of the consultative process that you went through in Mozambique involving civil society, how they were engaged and what kind of a contribution they've made to the whole process?

WOLPE: Thank you. Let's take a couple more questions and take them together and then ask the panel -- our panelists to respond.

Question right here.

QUESTION: Hi. I'm Kieran McAnin (ph) with the European Commission, and I had sort of a two-part question. One is the MCC has come under some flack for not disbursing funds as quickly as they had wanted to.

So my first question is are you doing anything to change this with the signing of the Mozambique compact.

And secondly, what happens to the funding after the five years is done if it's not completely disbursed by the MCC?

WOLPE: Thank you.

One additional question? OK, let's just take those two.

MUCHANGA: Thank you (inaudible). Mozambique was lucky because civil society was already organized. They are already associated in a group. We have two major groups of -- where civil society is associated.

We have the G20, which you recall (inaudible) observatory group. And we have another one (inaudible) which is mostly (inaudible) the NGOs. So to bring them on board was very easy, because we have already good (inaudible) on that.

And the private sector also -- we have the economic confederation associations, which is (inaudible) to show that what we are talking is not just (inaudible).

We have with us the chairman of the economic -- the confederation associations, and we have also the secretary of poverty observatory group.

But in saying that, what is important is the government easily approached the civil society and the private sector and brought them together to discuss how we will draw a program, a sound program, for the country.

The first approach we look for the entire country where we start from, and the discussion took us focusing -- to be focusing more on the northern part of Mozambique.

And there was certain reasons that we used to concentrate our effort in the northern part of Mozambique. One is the northern part is -- at that time was the poorest region in the country.

We had potential natural resources and the other facilities that with the investment in infrastructure, for example, can facilitate a (inaudible) of that region.

And these mechanism -- as I said, we started since 2004 and we have been adjusting the proposal jointly with the civil society and the private sector.

So government was, in fact, (inaudible) of the process, that all the stakeholder were part of it, and we were lucky because we still together today.

(UNKNOWN): Thank you.

WOLPE: And on the MCC question?

GAULL: Yes. Actually, I just want to make another comment on Mr. Muchanga's -- one of the things that was very exciting for MCC was to watch this active participation by civil society in the development of the proposal.

And I'd like to recognize somebody who's not here, unfortunately, Zozay Negral (ph), who led the G20, who passed away, unfortunately, in July 2005, who was a major leader of civil society in organizing up the NGOs. It was a major loss to Mozambique, and somebody who I think MCC has come to respect very much.

And I'm glad to see that the Mozambican delegation includes Mr. Palponika (ph), who followed on from Mr. Negral (ph) in his footsteps.

The second question -- it's a very good one from the E.U. in terms of pace of disbursements. Before coming to MCC, I was a project developer for the private sector. I developed infrastructure projects. I have been a banker and I worked in private equity.

And one of the things I learned from those is the project development cycle and the importance of investing into a good environment. You don't want to just rush money out the door. That's actually rather counterproductive.

And so while we were working on the MCC program, we needed to make sure that the investments could be executed within five years, because our statute allows us only to invest for a five-year period.

And so when you're dealing with infrastructure projects, given the project development cycle of preliminary design, detailed design, environmental review,

execution of civil works and then bringing the project on stream, trying to do that in five years is extraordinarily difficult.

It's difficult to do in this country. It's going to be harder to do in Mozambique. So we had to structure around that central challenge.

And so basically, all of our work was trying to figure out how do we ensure that this can be done technically, environmentally, economically, institutionally and financially soundly, and make sure it can be done within a five-year period.

And so we worked very closely with Mr. Muchanga, and his team and my colleagues Kosa (ph) and Beverly and Leia Claudia (ph), who are in the audience, spent lot of time putting together a Gantt chart with the assistance of Mr. Muchanga to ensure as part of our due diligence that we could accomplish the whole thing within five years.

And we feel confident that it's possible to do that. But without that work, it would be a disservice to you, the U.S. taxpayer, to invest as much money as we're investing and a greater disservice to try and rush it out the door.

When you're doing a project there's something called the S-curve. In the first year, as you're, you know, ramping things up, you're probably doing still detailed design - a lot of engineering studies that are going on that are vital to the project but, compared to the civil works, don't cost that much.

So in fact, I think it's quite natural that you would see a slow -- but then, you know, in the third year or fourth year the quick ramping up.

WOLPE: I would add just a footnote. So much of the criticism has come from Congress about the disbursement rate, which is more a commentary on congressional time frames.

One of the things I discovered when I was in Congress and chairing the Africa subcommittee for a decade is Congress always wants immediate response, immediate feedback, immediate results.

And the notion of five-year time frames for anything is -- it's very hard for members of Congress, who live a two-year cycle to get reelected, to fully comprehend. And that's a major problem for all development assistance programming.

(UNKNOWN): Thank you.

GAULL: Thank you, (inaudible) Wolpe. I was afraid to go there and I didn't want to say...

(LAUGHTER)

... I didn't want to say that getting money out the door is important to the politicians. It's not important to the investor.

What's important to the investor is that the investment makes sense and goes according to schedule.

WOLPE: I realize that. I was offering a different perspective.

Please. We need a microphone here, please.

QUESTION: Thank you. Jean Filamon (ph). I am working with (inaudible). We have a five-year time frame to complete the project.

And as I understand, there has been joint work, good effort between the MCC on the one hand and the Mozambican government through MCA on the other hand.

But how are you going to make sure that down the line, along the procurement process, when the one hand complies with the rules set by Congress, rules that American taxpayer wants to feel comfortable with -- on the other hand, you do not end up being the ones doing the project, implementing the project, or that's to say that the MCA Mozambique or the Mozambican institutions also have their hands on the project? Thank you.

WOLPE: Thank you.

Another question that has come in from the overflow room is how will this MCC compact affect the telecommunication sector, including projected resources and funding with respect to telecommunications.

Any other last question in the audience?

I see that our guests have arrived.

OK, let's take one more question back there, and then we'll make this the last round of questions.

COPSON: Thank you. Ray Copson. I teach courses on African politics and edit the CSIS Online Africa Policy Forum.

Now, when Congress authorized the MCC, as I recall, it intended that aid through the MCC be additional to existing U.S. systems programs, and I wondered if you could comment on the trend in assistance to Mozambique through USAID.

And second, has there been any cooperation with the USAID in setting up this program?

WOLPE: OK. Thank you.

Who wants to go first?

GAULL: Yes, OK. I'll start with the last one.

Yes, there's been very close cooperation with USAID. As a matter of fact, when we open our office shortly in Mozambique, we will be co-locating in the USAID building.

No, we're very fortunate to have close cooperation with our colleagues from USAID.

As to the additionality question, I'm not sure I'm the best person to answer that one, so maybe I'll punt that one over to Ambassador Danilovich when he comes on the stage.

(LAUGHTER)

In terms of the telecom sector, I'm not really sure. I never thought about that one. I know that that's very good for the private sector to operate, and good returns on telecoms for the private sector.

But certainly, I think the investments in roads and in land tenure will help foster investment, and then investment in turn will probably increase demand for telecom services. That would be probably the best way to answer it.

WOLPE: No, but there's no direct...

GAULL: No, I wouldn't say that there's a direct link. I read the other day that Mozambique plans to have fiber optic links to all of its provincial capitals in the next little bit.

WOLPE: OK. And then the other question that related to...

(UNKNOWN): (inaudible) question.

WOLPE: (inaudible) question (inaudible) control of the process.

GAULL: I would say it's an excellent question. In fact, that's very much at the heart of our work, is to ensure fiduciary responsibility and transparency.

We will have external procurement and fiscal agents to ensure that U.S. taxpayer money is well spent.

We work very closely with Mr. Muchanga and his team and the various implementing entities -- I see, in fact, some of the representatives from the implementing entities here -- to make sure that they understood the MCC procurement guidelines, which are basically modeled on World Bank guidelines, except it doesn't allow for nationality preferences.

But you know, our colleagues and our partners in Mozambique understand the guidelines, the need for transparency. All of the procurements will be posted on the MCA Mozambique Web site. You can get there, in fact, on a link to the MCC.gov Web site.

So people will know what are the procurements that are coming down the pike for the next six months. All of the minutes of the governance meetings of MCA Mozambique accountable entity will be posted on the Web site.

So our primary operating philosophy is that of transparency. And I think that's one of the gratifying -- one of the many gratifying things that has been, you know, for me to work with the Mozambicans, is to watch them embrace this and, you know, show the flexibility to adapt their operating standards to the MCC philosophy and transparency and accountability.

WOLPE: OK.

I'm delighted that we're now joined by Ambassador Danilovich and by Minister Cuereneia.

We will call first upon Ambassador Danilovich, who began his duties as chief executive officer for the Millennium Challenge Corporation in November of 2005.

And prior to joining the MCC, the ambassador had a very distinguished career for more than 30 years in both the public and the private sectors serving as ambassador, among other things, to the Federative Republic of Brazil, from June 2004 through the end of 2005, and as ambassador to the Republic of Costa Rica in an earlier period.

And with that introduction, we're delighted to call him to the podium.

DANILOVICH: Thank you very much, Ambassador Wolpe, for that introduction.

Thank you all very much for being here this morning.

Minister Cuereneia, Minister and Ambassador Panganay (ph), distinguished members of the delegation from Mozambique, friends of Mozambique, today marks an exciting new chapter in the history of Mozambique.

On June 27th, just a few short weeks ago, the board of directors of the Millennium Challenge Corporation approved a \$507 million compact with Mozambique to fight poverty through economic growth in the country's northern provinces, where poverty is most severe.

Tomorrow we will meet at the State Department to officially sign that compact.

This morning, through the generosity of the Woodrow Wilson International Center for Scholars, we have had an excellent venue to discuss why and how the compact is a significant milestone in Mozambique's development.

As we gather to talk about the MCC-Mozambique compact, our sixth in Africa and our twelfth overall, it is fitting that we should do so in the Woodrow Wilson Center, whose African program plays such a significant role in shaping strategic thinking on African issues and on shaping U.S. policy toward Africa.

With the signing of the compact between the MCC and Mozambique tomorrow, the United States becomes the single largest bilateral donor in Mozambique.

Equally as significant as the amount of assistance which the MCC delivers is how we deliver it and how we will change the lives of the men, women and children in that country.

MCC's program in Mozambique is expected to reach a total of five million Mozambicans and will have a direct, sustained and transformative impact on their lives by reducing poverty and generating prosperity.

As the panel discussed, the compact not only will considerably strengthen Mozambique's economy but also will enhance the quality of life through improved health and access to services. It will create jobs, increase productivity and improve the investment climate of the northern provinces.

With robust input from their civil society, the people of Mozambique themselves have prioritized and created their own plan for growth.

The Mozambique-MCC compact is built upon the understanding that Mozambicans are the owners of their own development and that they know best the barriers to poverty reduction and economic growth that must be tackled to ensure prosperity.

Economic growth brings with it the promise of expanding opportunities. As the implementation of the Mozambique-MCC compact now begins, it will be the political will and commitment of the Mozambican government and people that will deliver on that promise.

Mozambique is an outstanding example of how our MCC model and how our MCC incentive effect are working, working in Mozambique, working in Africa, and working throughout the world.

The MCC compact with Mozambique is yet another demonstration of how we are fulfilling the mandate given to us by the U.S. Congress when they created us in 2004. And only with Congress' continued support with sufficient funding will MCC be able to continue to fulfill that mission.

MCC is a bilateral American program. Our grants are rewards for countries that are doing the right things for the right reasons.

MCC rewards good government, good governance, countries that invest in their people and provide economic freedom, all of this being the foundation upon which we can build programs for the reduction of poverty and sustained economic growth and which provide stability and security.

MCC is aid with accountability, accountability not only on our part, but also on the part of our recipient country. On our part, it is about taking our fiduciary responsibility to the American taxpayer seriously and awarding grants only to countries with sound political, economic and social policies.

On the part of our partner country, it's about embracing the hard work of consulting with their people, identifying their own priorities for development, making reforms, implementing their programs and delivering tangible results.

Mozambique's development is guided by this culture of accountability and responsibility, and MCC is proud to partner with Mozambique and with Mozambicans to sustain growth and improve the lives of the poor.

A key leader in this process is Mozambique's minister of planning and development, Aiuba Cuereneia. Minister Cuereneia has served as the minister of planning and development since 2005. Prior to that, he was deputy minister of state administration and national director of public administration.

He has coordinated various national and international projects in capacity building, human resources management and training and public administration.

It's my pleasure now to yield the platform to lead the podium -- to yield the podium to Minister Cuereneia for his thoughts on the compact between Mozambique and the Millennium Challenge Corporation.

Mr. Minister?

(APPLAUSE)

CUERENEIA: The Excellency Ambassador Danilovich, the Excellency Minister Felicia Zacharias (ph), the Excellence Ambassador Howard Wolpe, with your permission, I will speak in Portuguese.

TRANSLATOR: Ladies and gentlemen, allow me (inaudible) to extend a warm welcome to you all (inaudible). It gives me a great (inaudible) on behalf of government of Mozambique to attend a panel on MCC-Mozambique -- the partnership.

It also give me a great honor to meet the Mozambique friends in this room, Mozambique friends who are concerned in learning what is the progress in this country, and the Mozambique friend who are willing to support the government on its effort toward the development of the country.

The selection of this topic shows the interest by the U.S. government toward the developing countries, particularly to Mozambique.

We'd like to see this opportunity to thank you for your interest in the bilateral relations which are moving from strength to strength in the different fields.

The major goal by the government of Mozambique is reducing poverty through a comprehensive sustainable social and economic development.

So we note with pleasure that the Millennium Challenge Account initiative, jointly with the MDG, which are the Millennium Development Goals, are obtained at the medium, long and short terms which we also have set.

In order to attain the goals for reducing poverty, Mozambique has a strategy which priority are as follows: agriculture and rural development, education and health, development support infrastructure, good governance and the macroeconomic and financial policies.

MCC-Mozambique partnership plays a driving force role in achieving the conducive governance action leading to the well-being of the population in the field of the performance of the program.

The synergy of this partnership strongly encourage us that these program will achieve the designed outcomes.

It's with this perspective that we speak to the contribution by the Millennium Challenge Account program in the operationalization of our strategy for development through the project which are approved and are contained in the financing agreement, compact -- namely, water and sanitation, (inaudible) of the market access roads; establishment of the land registration (inaudible); increase of the yielding of the farm (inaudible).

This project will contribute, among other (inaudible), the reduction of the transaction cost on the road transportation of the goods, access to the market, more availability of drinking water, and as a result the reduction on the rate due to the endemic disease, the increase of the yielding of the coconut farmers and incorporation of the value added, and the extension of the access to land tenure and use.

The (inaudible) that I've just mentioned will supplement the efforts by the government in the reduction of the poverty rate from 54 percent experienced back in 2003 to 45 percent in 2009, and down to the lower level in the expected time frame of the program.

In this (inaudible) I would like to highlight that the success of this program require the involvement by all government stakeholders and the Millennium Challenge Corporation between MCC (inaudible) civil society and other entity in the stage of the process.

To conclude with (inaudible) the opportunity to reiterate the commitment by the government of Mozambique to do its level best for the success of this program.

I say that I would like to (inaudible) this opportunity of this forum to express loudly our appreciation to the support that has been provided by all -- in particular, by the World Bank and the UNDP -- to the MCC-Mozambique team.

And to all of you, I thank you very much. Our appreciation to the MCC U.S. team who has done its level best for this program.

CUERENEIA: Thank you very much for your attention.

(APPLAUSE)

WOLPE: We do have some additional time before the conclusion of the program, and both the minister and Ambassador Danilovich have indicated that they're willing to receive a few additional questions.

So if there are some questions to be directed either to the minister or Ambassador Danilovich -- yes.

We need a microphone there.

QUESTION: Thanks. Mike Tierney (ph) from William & Mary.

Stephen, when you were describing the reasons that the MCC chose Mozambique as a potential partner, you talked a lot about what they had already done, and you basically said, "We're picking a winner."

And then when Ambassador Danilovich was talking, he started talking about the MCC effect, the incentive effect. That made it sound like the idea was the MCC puts these ideas out there and, through interactions with the government of Mozambique, encourages them to make certain changes.

I wonder if you have any evidence from the case of the MCC and Mozambique -- was there any evidence that there was this kind of effect? Obviously, it would have to be anecdotal, but I'd really be interested in hearing sort of stories about, you know, how that might work.

WOLPE: Mozambique or other countries, for that matter.

GAULL: Well, there are a couple of ways to answer that question. First of all, we have 16 indicators on which the various governments compete against their peers, if you will.

And countries become eligible if they perform better than the median on half of the indicators against their peers. Mozambique has done that.

But our compact requires them, the government, to maintain its performance. It's not good enough just to remain stable, because other countries can improve their performance, and the country can therefore suffer relatively.

So there is always an ongoing incentive to participate. The MCC effect I think you see in countries that have not, up until now, qualified as MCC-eligible, and we have seen a lot of evidence of countries doing things to improve on their indicators.

I'm not the best person to actually respond to that. Ambassador Danilovich may know the details better than I. But we have certainly seen that.

DANILOVICH: I think Steve has answered the question very well. There are some anecdotal instances in every country, not in almost every country, but every country that's had to undertake institutional reforms, constitutional reforms, regulatory reforms, in our 16 indicators that Steve referenced, soon to become 18 indicators, including two national resources, environmental, ecological indicators.

So by the end of this year, we will have 18 indicators in total.

And to adhere to those, to become eligible in the first instance for an MCC grant, countries have undergone a number of changes.

Almost in all cases, there have been judicial reforms that have had to take place, access to courts, lower courts, regularization and systematic ordering of court records and historical records, precedential records with regards to the judicial process, land tenure regulatory changes, land ownership.

In Lesotho -- we'll have a signing with Lesotho on July 23rd in the State Department. That particular compact is very interesting because it has a number of health and medical aspects to it.

But in Lesotho, they had to change the law, ownership statutes, which allowed women to become defined as adults and therefore able to own property.

That was a huge not only legal step forward but cultural step forward, a great step forward in terms of gender equality and allowing women to be on an equal footing with regards to land ownership, with regards to being able to -- for them to have not only economic empowerment but also security as land owners and security in old age as women, which is a characteristic which didn't exist previously.

So in many of our countries there are gender changes that have taken place with regards to legislation and also judicial reforms, constitutional reforms, days to start a business, the World Bank, the IFC, (inaudible) in almost all countries.

The days to start a business have been (inaudible) in most cases from upper double digits down to single digits, which is a big step forward in days to start a business. The cost to start a business has been reduced.

So the MCC effect is not a theoretical aspect. It's a very tangible aspect of what the MCC has caused to happen in all of our MCC-eligible countries.

WOLPE: Thank you.

Other questions?

May I ask a political question? MCC is under challenge now within the Congress in some ways, and just your assessment of the impact if the congressional -- at least if the Senate view were to prevail, which is a substantially reduced allocation of resources to the MCC.

What, in concrete terms, impact would that have on the future of the MCC?

DANILOVICH: I'm grateful to you for asking that question. It certainly is, for us, in any case, internally, almost a question of the day, because it's something we're very much focused on, what our appropriation will be for FY '08 from the U.S. Congress.

The request for our budget for FY '08 has been \$3 billion. That's usually referred to as the president's request for the MCC. The House Appropriations Committee and the House voted \$1.8 billion.

That is a modest increase over where we were previously in our budget, which was \$1.75 billion. So the House appropriated \$1.8 billion. We were happy with that.

\$1.8 billion allows us to move forward not only with the countries that we have for the rest of this year -- Mozambique, Lesotho, Morocco on August 31st -- but for the very strong pipeline we have for the beginning of FY '08 -- Mongolia, Tanzania, Namibia, Burkina Faso -- as you move along and other countries as you move through the '08 calendar and '08 (inaudible) year.

However, as Ambassador Wolpe has mentioned, the Senate appropriation was \$1.2 billion. That is not good for the MCC.

And it is a real impediment for us to be able to acknowledge and award those countries who have made significant efforts to become MCC-eligible, who have entered into with us this negotiating process, the due diligence that we have to go do, the compact formation, which the Mozambicans are very familiar with.

It's not an easy process. It's not easy to be an MCC country. So these countries that have made huge efforts to become MCC-eligible may be in a position where we will have to tell them, "I'm very sorry, we don't have the money for you because Congress has not appropriated that money for us."

However, I don't think that's going to be the case. This is the beginning of a process that we are entering into with Congress that all U.S. government agencies and all U.S. departments -- Department of State, Department of Defense, Department of Agriculture -- are entering into with Congress as the budget negotiation is going forward in Congress.

Now that we have the \$1.8 billion from the House and the \$1.2 billion from the Senate, after the debates which are now going on, which are primarily focused on defense, come September our bill and others will go to conference, and the Senate and the House will sit down and work out (inaudible) probably somewhere between the \$1.8 billion and the \$1.2 billion.

Maybe it could even be as high as \$1.8 billion. Maybe (inaudible) higher. Maybe (inaudible) lower. It's part of a very definite, very distinct process.

From our side of the MCC, we are completely engaged in making our presentation to Congress, to the Senate particularly, but also to the House as well, where we already have the \$1.8 billion, of making it clear why we need this and what will happen if we don't have (inaudible).

I'd also like to mention that when this law was passed creating the MCC in January of 2004, it was a bipartisan bill, and up until November we have had a Republican Congress.

Since that time, the Democratic Congress -- the feedback that I have had with regards to the MCC is that, "Well, this may have been a Bush initiative, but we're going to take ownership of it (inaudible) program (inaudible) many useful development

assistance programs, such as USAID, such as many others, but one of the many useful U.S. development assistance programs which our government has."

And I'm pleased that it's had Democratic (inaudible) a Republican initiative (inaudible) the chairmen of the appropriations committee and the subcommittee on appropriations in the House have been very supportive of the MCC both in subcommittee and on the floor of the House, strongly supports the efforts that are being made by the MCC.

And in fact, she and a number of congressional colleagues will be visiting MCC countries during the month of August. So I'm happy about that.

Where our money will be at the end of the day remains to be seen, but I'm confident that despite the Senate low figure that we received that we will receive enough money from Congress to go forward into FY '08 (inaudible) stronger viable agency (inaudible) be elected in 2008 and whoever (inaudible) that they will have a strong U.S. development assistance agency in the Millennium Challenge Corporation.

WOLPE: Thank you. Thanks very much for that.

Let me invite any last questions.

Well, let me express my -- first of all, my appreciation for the presence today of the Mozambican delegation and of Ambassador Danilovich and his colleagues from the MCC.

I want to congratulate Mozambique on a significant accomplishment. And I certainly hope that all of the goals and aspirations that are embodied within this MCC grant will be realized in the years ahead.

Some very important steps have been made, and I believe that the new compact represents a very important new step forward for Mozambique and a model, I think, for many countries throughout the African continent.

And I also share the ambassador's aspiration that the MCC may survive as well within the congressional arena.

(LAUGHTER)

To all of you for joining in today's program, many thanks.

(APPLAUSE)

END