

MILLENNIUM CHALLENGE CORPORATION HOLDS A PUBLIC OUTREACH MEETING TO  
DISCUSS THE ACTIONS FROM THE SEPTEMBER 12TH MCC BOARD MEETING

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MCNAUGHT: I'm Fran McNaught, vice president of congressional and public affairs here at MCC. So that gives me the pleasure of welcoming you to our headquarters here today and I also get to thank you for your continuing support of our mission: reducing poverty through economic growth.

This morning our first presentation will be by Ambassador John Danilovich. He'll provide an update on our activities since our last public meeting, which I think was in June. And he'll give a report on the MCC board meeting, which took place yesterday.

After his presentation, he will take questions. Then we'll have briefings on the Jordan Threshold Program, which was approved by the board yesterday, and on the selection criteria approved by the board last week. We'll use those criteria in selecting the '07 MCC eligible countries. You may wish to hold any questions on the selection indicators, or on the Jordan Program until after that presentation.

But now I am pleased to turn the podium over to Ambassador Danilovich.

DANILOVICH: Thank you very much, Fran, and I want to thank all of you for being here this morning and for your interest in the MCC.

I'd like to review some of the progress that we've made in the last few months. I feel we've made very good progress in fulfilling the president's and the secretary's vision to transform countries willing to take ownership of their own development through a process of what we like to call aid with accountability.

Since the last public outreach meeting in June, we've signed a compact with Ghana on the 1st of August for \$547 million. It was our ninth compact and our largest compact to date.

The Ghanaians are very proud of their achievement and we're moving rapidly toward implementation with that country. We anticipate our first disbursement to be in November.

We look forward also to signing compacts with El Salvador and Mali in the very near future. The compact with El Salvador will be our first compact with a lower, middle-income country.

We signed in June -- Vice President Chuck Sethness went out to the Philippines and signed our official program for \$21 million to fight corruption in the Philippines. And I'm very happy to tell you that the government of the Philippines, their President Arroyo, matched those funds with the similar amount for her government, dedicating their own resources to their fight against corruption. This is a tremendous signal, which the government of the Philippines sent, not only in support of our program, but in support of their commitment to fight corruption.

The board yesterday, in its September meeting, chaired by Secretary Rice, approved the selection criteria to measure natural resources management and land rights and access. Use of these criteria will be advisory for FY '07.

There will be supplemental information for the countries concerned, but we will very seriously engage with them immediately and aggressively to make sure the countries are aware of what is actually involved in our natural resources management indicators and in the land tenure -- land rights and access matters so that they're able to address matters and necessary reforms prior to FY '08, when these two new indicators will go into effect.

Maureen Harrington, our new vice president for policy and international relations, will provide more information on these new indicators during the panel discussion.

There's a bill pending in the House of Representatives that has two very important provisions that are critical for the MCC for us to sustain our momentum in the coming months and years. First, the legislation would allow the MCC board to award a second compact to a country to run concurrently with an existing compact. Current legislation, at this time, allows only one compact to run at a time.

Secondly, the bill allows the MCC board to waive the five-year limit on certain projects that may require a more sustained effort. We feel that both of these items, the concurrent compact as well as the time extension, are very important for the future of this organization. And we intend to conduct a very concerted effort on Capitol Hill to make sure that these matters are addressed by Congress and the reauthorization of legislation.

Externally, with regards to foreign travel, I'll be going to Central America on Sunday and meeting with a few countries that we -- two that we already have compacts with, Nicaragua and Honduras, and as I mentioned previously, I will also be visiting El Salvador where we have a compact, hopefully, that will be signed -- approved by the board and signed before the end of the year.

Internally within the organization, we are continuing to employ additional staff and are now almost completed with that effort that's been going on for the last several months. We have approximately 275 employees here in Washington now and that provides us with a very strong and robust and first class, first rate, professional personnel to deal with the heavy workload that we have, not only with our compact programs, but also with our threshold programs.

We've also been wrapping up various data management and internal controls so that we can track and assess our internal budgets, time management, as well as corporate and individual performance.

As I've mentioned, the MCC board met yesterday for its quarterly meeting in September. And at that meeting we approved the threshold program for Jordan. The Jordan program is a two-year program, as all of our threshold programs are.

It dedicates \$25 million to a program designed to focus on public participation and the political, electoral process to increase government transparency and accountability and also to modernize the Jordanian custom services. We also expect to sign threshold programs with Indonesia and Moldova before the end of the year.

I wanted to provide you with this somewhat brief but, I hope, comprehensive overview of where we've been in the last several months since we last met together in June and also to bring you up to date on what transpired in our board meeting yesterday.

We will have another board meeting, a critical board meeting, on November 8th, which is a selection board meeting. And we are already beginning to organize ourselves internally for that event in the first part of November.

I'd be very happy to answer any questions which you have on comments I have made or things which I haven't said that may be of interest to you. So I welcome any questions you may have.

Any questions? Jordan, Indonesia, Mali, El Salvador? Natural Resources?

No? Thank you very much. Thank you.

QUESTION: (OFF-MIKE)

DANILOVICH: Oh, good. Yes?

QUESTION: I'm Brian Murphy, formally with the State Department, now retired. Thank you, Mr. Ambassador. Can you speak a little bit about your relations with Congress now? USAID was in a constant struggle. I'm told MCC has faced warmer reception. But can you give us your thoughts?

DANILOVICH: Sure, thank you. Thank you very much.

I think the MCC has a very good relationship with Congress, both the House and the Senate, at this time. When I joined the organization in November, almost a year ago, it was clear to me that we needed to make a tremendous effort with Congress to, in a way, re-establish our credentials and to get us on the right path.

As you know, Congress is critical for our appropriation, and we have had very strong support from outstanding members of Congress. Congressman Jim Kolbe

of Arizona has been a stalwart supporter of the MCC and, in fact, was largely responsible for the legislation which created this organization two-and-a-half years ago. And we have often relied upon his support with (inaudible) and other members of the House of Representatives.

Myself and colleagues, Fran McNaught and others, of the organization have made a concerted effort to meet with members of Congress. I think we've met almost over 75 members, both in the House and the Senate, not only to keep them abreast of what the MCC is doing, but in many cases to tell them in more detail, in greater detail, exactly what this organization is all about.

Everybody understands the concept of aid with accountability. Everybody loved the concept. What they were disenchanted with was the way the organization had started out. And not to fault the organization because start ups are always difficult in the beginning, but it was important to make members of Congress aware that we were moving along the right path, that we were moving aggressively to fulfill their mandate, which was to have serious, substantial coherent compacts with the developing world, and to get their support for our onward progress.

We'd like to think we've done that. We needed to get in front of the appropriations current for this year, although that hasn't been decided yet. And as everybody in Washington knows, it's a very convoluted process. But we have reason to believe that we will receive a substantial appropriation that may in fact be larger than anything we've ever received in the past.

And in this difficult budget environment, that's a great accolade to the tremendous work that the people at the MCC have done to put this organization on the right path. So in a nutshell, I think our relationship with Congress is solid and substantial and positive.

QUESTION: Can you speak to the coordination efforts with USAID? I note that they're hiring positions that are called MCC coordinators and so just update on that.

DANILOVICH: Great. Thank you. My children would kill me for saying this, but I buy Land O'Lakes products simply because of the logo.

(LAUGHTER)

Our relationship with USAID is very good and, specifically, with Ambassador Randy Tobias, and has been since the outset. As you know, they are responsible for our threshold program, and those are working very well in the countries that we have threshold programs. We anticipate having 11 programs by the end of this year.

Initially, I think, and perhaps understandably as with any new entity, there was some consternation as to what the MCC was and what it would be doing and how it would, in fact, relate and interact and engage with USAID. In fact, I think we've gotten well over that hurdle, and the engagement, not only here in Washington, but also, almost more importantly, in the field, is very cooperative and very substantial and works on a very good basis.

I think we have a very good dialogue. We have a very good working relationship with them in the field. And here in Washington, we have very good engagement, frequent conversations, both here and there. So I would say that our relationship with USAID is very positive.

With regards to the onward -- sort of a knock-on from your question -- with regards to how that relationship will evolve over time, I think we should know, certainly in the coming months, the immediate coming months, when Mr. Tobias -- when Ambassador Tobias presents his proposals to the secretary of state and we go forward with how they envisage the whole overall package of development assistance, specifically with regards to the State Department and USAID, but also indirectly affecting MCC, how that will evolve will become more apparent.

Any other questions?

Thank you very much. Thank you.

(APPLAUSE)

MCNAUGHT: Looks like we're letting you off easy today. Thank you, sir.

Now, I would like to introduce Maria Longi, who is director of threshold programs, who will talk about the Jordan program. Then Maureen Harrington, who is vice president for policy and international relations, will discuss the selection criteria for the '07 countries. After they finish their presentations, we will take questions for either of them.

LONGI: Thank you.

As Ambassador Danilovich said, yesterday the MCC board approved the \$25 million threshold program for Jordan. This program addresses indicators that Jordan did not pass last year, including political rights, voice and accountability, as well as trade policy. And they are going to address these through a municipal governance and a customs reform program.

The selection of Jordan last November came at a very opportune time, right as Jordan was starting to implement some very ambitious reforms. These reforms -- the Jordanians saw the threshold program as a way to accelerate implementation of reforms that they had already been planning on. The legislative reforms relate to democracy and economic liberalization.

They address municipal elections, press freedoms, cost to start a business, including newspapers, as well as reduction in tariffs. These initiatives, when implemented, can have a very positive impact on the MCC indicators. An extraordinary session of Jordan's parliament is evaluating several of these laws right now.

The first component of Jordan's program is designed to improve public participation in local governance and enhance local government capacity and accountability. Local government reform has been ongoing in Jordan over the past several years with the help of the World Bank, USAID and other donors. And the threshold program will build on those reforms.

The threshold program will support these significantly in the areas of public participation and local governance and in accountability of the local government entities. The activities will include increasing participation in elections, including that of women -- voters and candidates; training women candidates and voters; increasing capacity of local governments to interact and collaborate with non-governmental actors, as well as the private sector; and

providing a special incentive fund to support local government priorities and management of resources.

The next component deals with customs modernization and it's designed to improve the efficiency and effectiveness of this important trade policy mechanism. This program will streamline and modernize the customs processes through interagency policies and procedures -- will involve training to modernize their capabilities and as well as upgrade hardware and software systems to meet international standards.

The government of Jordan has publicly expressed its commitment toward political and economic reforms through its bold reform initiatives. We believe the threshold program supports the government of Jordan's effort at democratic and economic reform that will contribute to increased performance on the MCC indicators.

We want to congratulate the Jordanians for submitting such a wonderful proposal and its commitment to making these reforms. Thanks.

HARRINGTON: Well, thank you everyone for being here. Just, before I begin, I'm always surprised and just so pleased that so many of you would take this time to come and be with us and to be following our efforts so closely, I think, it really means a lot to the team to have the support of the community here in Washington for what we're doing.

But what I wanted to talk to you about in a little bit more detail was the new indicators that we're going to be using this year. As many of you already know, MCC's authorizing legislation asks us to identify natural resource management indicator as part of our selection criteria.

We have conducted extensive research and consultations for more than two years and engaged a broad range of stakeholders in a highly participatory process to identify such an indicator. We've consulted with environmental groups, think tanks, research institutions and academics, and held two public conferences on the topic.

We also cataloged and evaluated over 120 potential natural resource indicators and posted that on our Web site for public comment and feedback. The feedback we received from experts and interested parties has helped us to shape this process, as well as the indicators that we've selected. And we want to thank many of you for your participation in this process.

For this coming year, fiscal year 2007, we introduced the two new indicators, a natural resource management index and the land rights and access indicators, as supplemental information for the board to use in the selection process. We intend to fully incorporate them into our indicator framework for the next year's selection cycle, in fiscal year 2008.

The rationale for this gradual integration is that we think it's important to give countries a year's notice of the new measures and an opportunity to review their performance and to make improvements before the indicators become binding. MCC strives for transparency in working with our country partners and in the selection process and we believe this notice will create the strongest incentives for reform and to keep the countries engaged in the reform process.

If the board approves the formal adoption of these indicators, we would repost our countries' scorecards, including the new indicators as part of the

scorecard. I'd like to tell you a little bit about these indicators and why we think they're so important. In addition to addressing two different aspects of natural resource management, they have the added benefit of also addressing other policy mandates, including gender equity, investments into public health in women and children, as well as an additional measure of property rights.

The first index is called the natural resource management index. And it was developed at Columbia University's Center for International Earth Science Information Network and the Yale Center for Environmental Law and Policy and includes four different indicators. The first is access to improved water, access to improved sanitation, child mortality among one to four year olds, and eco-region protection.

Access to clean water and reliable sanitation are both MDG indicators and there's a strong international consensus that they're appropriate environmental targets for developing countries. Every year, roughly 1.7 million people die because of unsafe water and sanitation and poor people disproportionately bear this burden. These deaths are preventable if governments are committed to reform and committed to using their limited resources wisely.

Child mortality, unlike infant mortality (inaudible). The underlying causes of child mortality, among one to four year olds, are predominantly environmental. Roughly 80 percent of all the deaths in the one-to-four age group are attributable to three factors: indoor air pollution, unsafe water, and unreliable sanitation.

The final indicator is a measure of eco-region protection that relies on UNEP (ph) and World Wildlife Fund data. It measures whether countries are protecting at least 10 percent of all of their biomes, which is a major ecological region like a desert, a rainforest, or a savanna.

This indicator is designed to measure the comprehensiveness of a government's commitment to habitat preservation and biodiversity protection. Eco-region protection is important for sustainable economic growth because it provides surrounding areas with clean water, fresh air, healthy soils, livable climate and wild foods.

The second index we will use is called the land rights, an access indicator. It combines the International Fund for Agricultural Development's access to land indicator with the International Finance Corporation's time and cost of property registration. Secure land tenure (ph) is critically important for sustainable natural resource management because those who lack clear ownership or use rights to their land are less likely to make long-term investments and land productivity and more likely to make short-term decisions with negative environmental impacts, such as deforestation.

Secure land tenure (ph) also plays a large role in the economic growth process by giving people long-term incentives to invest and to save their income, bringing individuals out of the informal sector where they can access essential public services, providing collateral against which loans can be acquired, increasing third-party contract enforcement and improving social stability and local governance.

So that's a brief -- well, not so brief...

(LAUGHTER)

... description of the indicators. But we're hopeful that adoption of these indicators will stimulate significant reforms. And while these issues are not easy to fix, there are steps that governments can take to improve their performance and committed governments can make progress on these indicators.

Finally, a quick word on placement of these indicators. We are considering the inclusion of both of these indicators in the investing and people category and we welcome your views on this matter. To us, investing in people is about investing in the assets required for sustainable livelihood.

The first measure indicates whether governments are investing their resources in ways that will enable poor people, particularly women and children, to live healthy and productive lives. Also, investing in property rights is an investment in the people who live there and measures whether governments are committed to investing in a crucial asset and a social safety net that poor people can rely on to improve their well being.

Finally, we are pleased that the process has resulted in these two new indicators and we look forward to engaging with MCC candidate countries in a dialogue about reforms in these areas. We'll also continue our consultative process on these issues over the coming months and we look forward to hearing from you.

And I would also like to, just quickly before I finish, acknowledge the hard work of the MCC team that has been working with all of you to develop these indicators: Sherri Kraham, Brad Parks and also Margaret Kuhlow -- I'm not sure if she's here. But thanks to all of you for your help and support in helping us design these indicators.

Thank you.

(APPLAUSE)

MCNAUGHT: OK. We'll take questions for Sherri or for Maria. And let me just mention also that part of our legislative mandate is that we submit to the Federal Register a report 60 days -- outlining our selection criteria. We have to submit that report, publish it in the Federal Register and take public comments.

So, obviously, we would appreciate very much your formal public comments and that can be easily accomplished by going to our Web site. There's a link to the report and with one click, you can actually put your comments -- send them to us for consideration.

With that, questions? I think I saw one.

QUESTION: Maureen, it's Tony Carroll with Manchester Trade. I'm in the land measure.

As you know, AGOA (ph) has a more dynamic set of criteria than the notion of AGOA (ph) -- that as long as you're making progress on the eight criteria then, you know, you'll be considered to be -- remain eligible or become being eligible. I'm a little worried about what I perceive as maybe a static aspect to the land measure.

I've worked in two-year thresholds, or even recipient countries, on land reform, including Ghana, which is still mired in a web of traditional land



ownership, which is being unraveled over time, and also in Jordan, which suffers from some traditional issues of land ownership, which predate the creation of the modern Jordanian state, as well as technical issues pertaining to land registry and the inability of being able to update land registry offices at the local level and the coordinative mechanisms at the national level.

So really, I think, reform in a rapid period of time -- land ownership -- may not necessarily be, you know, lot (ph) reasonable. And I think -- what I think we -- one of the things that I would sort of point to is the notion that this is -- that dynamic relationship. That this is something that's going to be involved and they're moving forward, but I'm a little worried that if we rely on the static measure of an index generated by others, that we won't be able to capture what I think might otherwise be worthwhile efforts at reform.

HARRINGTON: Well, a couple of things. I think we do recognize that a lot of our indicators you can't change overnight. Political commitment is involved and some of these problems will take some time to fix.

But I do think that part of the indicators may be a little bit more actionable than others. The IFC -- we're using two of their indicators as part of this index, both the time and cost to register property, and those things might be a little bit easier to fix than sort of unraveling some of the traditional laws and rules and customs around land, which, as we all know, are very difficult to change.

And I think that's also partially why we're giving countries a year to understand the data, to get a sense for the issues that we care about, before we actually apply these criteria to the selection process. So we're giving countries a head start.

And also, I think, another avenue that maybe MCC can make available to countries is through our threshold program, if countries are selected and they don't pass these criteria, we can help through the funding that we can make available. So, I think we do recognize it's a tricky issue for countries to change, but we can help countries that are willing to start taking steps toward increasing their property rights and land rights.

QUESTION: I'm Chip Michael (ph). I'm a consultant in development cooperation.

First of all, I just wanted to congratulate MCC. I think that this is a tremendous thing to introduce these issues that are important for natural resources and the environment and are also very fundamental to social development in the countries with which you will be working. And these will be important incentives for countries to pay attention to these issues.

I had a technical question about both indicators because both rely on multiple components and I wonder how you're going to compute scores. Will there be equal weight given to the costs of land registration, the time of land registration and the IFAD indicator as well? Or, you know, will there -- and the other one too. You have water, you have sanitation, you have forest cover and protected areas.

Will each of those get an equal weight? Because I think it is an important point that some of these are more robust and likely to change and others are more likely to be static. And if you treat them all the same, it

might be less of an incentive for countries than if you have something that they can change in a reasonable timeframe as something to aspire to.

Thank you.

HARRINGTON: OK. I will take a stab at answering that and then I'm going call on Sherri and Brad to help me out here. But with the land rights and access index, we are -- 50 percent of the index will be made up of the IFAD indicator and then the other 25 percent for the one IFC index and 25 percent for the other.

But maybe Brad and Sherri can jump in just a little bit to further address the question.

KRAHAM: And I think -- we, in making that determination, we did try to balance the actionable indicators with the longer-term rights indicators and that was the exact aggregation. In terms of the other indicator, the natural resource management index, that was developed completely by CIESIN and Yale and they will be giving equal weight to all four of the components.

And I think that you should look forward to more information being available on their Web site. These are experts that have come up with the environmental sustainability index and the environmental protection index. So, they have quite a long history with aggregating data and making indicators and measuring performance in this area.

MCNAUGHT: Question over there.

QUESTION: Wilma Ellis (ph), GE. Question on process. How far along a threshold program does a country have to be before it can be considered for eligibility? Is the full two years? Or do you have other metrics that you look at?

LONGI: We don't have a hard and fast rule to that question. I think really what happens is when it comes time to making a selection, the board takes into consideration how well the threshold program is going. Has the country made progress on reforms? Is there commitment to reform? Does it make sense to make a country eligible at this stage given where they are in their development process?

So, really, that's a discussion that takes place at the board level. And there isn't a hard and fast rule.

MCNAUGHT: We have one over here.

QUESTION: My name is John Corlis (ph). I'm from Metcalf and Eddie (ph).

With regard to the indicators on natural resources that you mentioned, the water and sanitation -- a lot of countries are using the actual MCA grant to build the infrastructure necessary for that. You're now moving that up into the eligibility. So does that mean that your expectation is that they may get funding under USAID or something through the threshold process to actually construct infrastructure to improve their ratings?

HARRINGTON: No. I think really what we're trying to measure is a country's commitment to reform and to development. And I think one issue that's important for us to keep in mind is that we are measuring countries among their

peers. So we're not measuring the extent to which countries are providing water and sanitation compared to the United States or France or England.

It's really how well among their peers they're performing. So they may be in -- or sort of the bar that they have to pass is perhaps not as high as it would be if you were comparing them to a broader pool. I think when we were doing the analysis of which indicators to choose, we did some regressions on the income bias that might seep in for the very reason that you're measuring.

And I think our team felt that it wasn't as significant as it might seem at first brush -- the potential income bias. I don't know if, Sherri and Brad, you have anything further to add on that.

KRAHAM: The research that Brad conducted in consultation with experts revealed that countries can improve their performance by low or no -- some performance by low or no-cost policy changes, such as switching subsidies from consumption subsidies to one-time user hookup fees to get them -- regular -- home hooked up to the water source.

And so we're not looking at whether countries have laid pipes in the ground. We realize that infrastructure is costly and a long-term effort and we may be willing to fund those in our actual compact. But what we're looking for here is that countries can make policy improvements, smart policy improvements, that will improve access.

And, as Maureen said, it is a relative performance.

MCNAUGHT: We have a question behind...

QUESTION: David McNair (ph). I own Dease and Associates (ph).

About the Jordan Threshold Program, it's a very welcome announcement. It's, obviously, addressing very needed areas. Do you have any information at this stage over the funding IQC (ph) mechanism that may be used or the timing of that? Or will that be something that's just revealed elsewhere later?

LONGI: It will be revealed soon. USAID will be our primary implementing partner and we're working with them now on devising (ph) the scope of work. And then we'll be deciding on which mechanism will be used. So I would say probably in the coming month or so that will all be out there.

MCNAUGHT: Have we exhausted our questions?

OK. If that's...

QUESTION: Thank you. Paula Feeny (ph) from Emerging Markets Group.

and I address this question to Ms. Harrington in your international relations cap -- as we're now, what, two-and-a-half years or so into MCC, what has been the reaction and behavioral reaction of the other donors in terms of the leadership that's coming from the United States and its way of doing business in the developing world, if you will.

And my question, particularly, if you could address your observations regarding European Union and the British DFID aid? Thank you.

HARRINGTON: Well, I think our relationship with donors is something that MCC takes very seriously. I think we recognize that, even though we have a significant amount of money, leveraging that investment is something that we ought to be doing because we can just get a better outcome from it.

And so I can give you a couple of practical examples, especially of working with DFID, that might be -- well, and donors in general, that might be interesting to this audience. For instance, in Cape Verde, (inaudible) decided early on in their proposal that they wanted to resolve from the transportation challenges on the islands. The World Bank had conducted a number of technical and environmental preparatory work on roads and bridges, but they didn't actually have any money to do the work.

And so MCC took the work that the World Bank had done and we kicked the tires and we had the U.S. Army Corps of Engineers go out there just to make sure that the work was satisfactory and met our standards. But then we were able to move very quickly using the World Bank's technical and environmental work and to include that in our compact.

In Ghana, the Ghanaians were very interested in providing education, water and sanitation and electricity in rural areas where we were doing the agricultural work. The World Bank and the French had a program where they were building capacity of the local authorities to manage these kinds of investments, but they didn't have a lot of money to actually build the school or to provide the electricity.

And so we were able to use the mechanisms that those other donors had built and flow our money through it and to further build the capacity of the local authorities to provide these kinds of services. And there are examples like that around the world where we're working with other donors. MCC really believes very strongly that we need to be working with other donors and leveraging each other's investments.

So, there are other areas related to policy where a country may be working with one of our countries on a privatization effort or things like that where we try to support each other's efforts that lead to the greater outcome. The British have been very, very supportive as the European Union. I think we all recognize that maybe we all have different approaches.

Some governments spend a lot more money on budget support. We're doing -- yes, we're focusing on country ownership and measurable results. But we all share the same goals, which is trying to reduce poverty in the countries that we're working in. And so, I think, we're finding very practical ways to support each other's efforts.

MCNAUGHT: At this time, it appears that we have exhausted all questions. So, with that, I want to again thank you very much for coming. Thank you for your support. Please continue to ask us questions, give us advice and make comments. We value that, and we'll take them into account. So, thank you very much for coming.

(APPLAUSE)

END