

# **MILLENNIUM CHALLENGE CORPORATION**

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November 9, 2006

## **REMARKS**

### **Millennium Challenge Corporation Holds a Public Outreach Meeting**

November 9, 2006  
Millennium Challenge Corporation  
Washington, D.C.

## **SPEAKERS:**

**Frances McNaught**  
Vice President for Congressional and Public Affairs  
Millennium Challenge Corporation

**Rodney Bent**  
Deputy CEO  
Millennium Challenge Corporation

**Maureen Harrington**  
Vice President for Policy and International Relations  
Millennium Challenge Corporation

**John Hewko**  
Vice President of Operations  
Millennium Challenge Corporation

**Kyeh Kim**  
Country Program Director for Mali  
Millennium Challenge Corporation

MCNAUGHT: Now that I think we have most of us assembled, good morning. My name is Fran McNaught. I'm vice president for congressional and public affairs. And that makes it my pleasant duty to welcome you to MCC headquarters and to this public outreach meeting.

Let me mention right upfront, you're on camera. The meeting is being Web-cast live. And it will also be available on our Web site later in case you want to relive this moment.

(LAUGHTER)

I'll use this opportunity also for a commercial and remind you that next week we expect to sign our compact with Mali, and we'll be holding a meeting on the Hill, an outreach meeting on the Hill, next Tuesday that will include the president of Mali. And I would hope to see a number of you there to hear about the Malian view of the MCC process and their compact.

But today we're going to brief you on our progress since our last public outreach meeting in September. We now have 11 approved compacts with our partner countries, and I think we now have 11 approved threshold programs, totaling about \$3.25 billion. We're moving quickly to accomplish our mission of reducing poverty through economic growth.

Ambassador Danilovich is on travel today, but he asked me to convey his personal regards to you and his appreciation of your continued interest in the work of MCC.

In his absence, our deputy CEO, Rodney Bent, will provide an overview of yesterday's MCC board meeting and a general update on our progress. He'll take questions. If you do have a question, please look for Gaby with the roving mike.

After Rodney's presentation, two of our vice presidents will discuss in greater detail our compact and threshold programs and the selection process that culminated yesterday when the MCC board announced their new country selections.

John Hewko, vice president of operations, returned from El Salvador last night to join us today. And Maureen Harrington, vice president for policy and international relations, headed up the rigorous country selection process which led up to yesterday's actions.

With that overview on how we plan to proceed, it's my pleasure to now invite MCC's deputy CEO to the podium.

BENT: Fran, thank you very much.

From the size of the turnout, we must be serving free coffee.

(LAUGHTER)

First, let me thank you for coming. It's a privilege to be up here, a privilege to welcome you to the MCC.

I think that the interest in the MCC is not just in terms of the public but in terms of other governments and what we're doing as well. In fact, I think over the last couple of weeks we've talked with representatives from Italy, from France, from U.K. and other places. So I'm assuming the domestic American interest is supplemented by the foreign interest as well.

Let me start off by saying the MCC has been and will be continuously active. We have signed nine compacts. Fran mentioned we have two more in the offing that we hope to complete in the near future -- Mali next week.

The Mali compact is \$461 million. By coincidence, the El Salvador compact will also be \$461 million. But very different kinds of compacts and activities.

The threshold program -- Maureen is vice president for it -- is now going great-guns. We've got 11 approved threshold programs. We hope to have three signings before the end of the year with Moldova, Ukraine and Indonesia.

Ambassador Danilovich went to Amman a couple of weeks ago to sign a \$25 million threshold program with Jordan. A very interesting program, in terms of promoting civil liberties, municipal elections and a number of other things, all of them very positive.

On the internal front, on our operations, we are continuously looking for ways to improve what we do and how we do it. I will be the first to say that we are not the perfect organization, although we are more mature than we were two and a half years ago.

We are, at this point, more or less fully staffed. We have about 275 people onboard. I guess, in the parlance of the military, we're ready, willing and able. I think we're quite capable of doing considerably more than what we've done now.

With that, I would also put in a plug for our congressional funding. Obviously things are a little bit up in the air with the '07 budget process, but we are certainly hopeful that we'll get \$2 billion. We will need \$2 billion. We are moving through our resources at a great clip, doing any number of good things.

The board meeting, which is what I'm sure you're all interested in, announced three more compact candidate countries: Jordan, Moldova, Ukraine. Very interesting countries for different reasons.

Moldova is, as I'm sure you all know, the poorest country in Europe.

Jordan will be an interesting study, in part because it's, I think, got a number of challenges but, on the other hand, it has a team of very serious, committed reformers and a number of opportunities there.

Ukraine: big, complex. And that means that our negotiations are likely to be big and complex, if I can be that simple.

The threshold programs: Niger, Rwanda and Peru.

I have to say that when you spend a fair amount of time looking at 20 and 30 countries, they begin to blur together in terms of where they stand on the indicators and who's doing what and what the issues are.

Let me take a few seconds and talk about policy performance.

In a couple of cases, we've seen countries that -- as you know, we've got criteria that we hope are always evolving, always getting more stringent. In some cases, countries don't meet all of the criteria for selection, even though we are in the negotiation part or in the implementation part.

This, obviously, concerns us, because we want MCA countries, MCC countries, to be sterling examples. So we clearly will be working with these countries to see what we can do to make sure that we have together a productive plan to help them reach the potential that we know they're capable of in meeting our indicators.

The selection process, I want to emphasize three points.

One is that there is a huge and self-evident MCA effect; that what we see are countries trying to do more things, better things to become selected.

I could extol to you any number of the virtues -- or any number of the anecdotes about finance ministers, planning ministers, prime ministers, presidents who come to us and say, "We want to be able to meet your criteria.

Tell us what we need to do." Even countries that begin by acknowledging that they are far, far away from being good candidate countries.

So we do have this positive impact. And we have it without, frankly, spending a dime. So there is fair value for the taxpayer in that.

The second part of it is that I think that our criteria, our indicators, are evolving. We get better data. We get more information. We present to the board a huge amount of supplementary information in order for it to be candid and blunt; we don't make that available to the public.

But in addition to what you see on the Web site, there is a ton of other information: what other donors provide the poverty rates in the country, what the capacity of the country is likely to be to implement our programs. So there is considerably more information than what you get, what you see, even though what you see is considerably more than, in my experience, what we show for other programs -- other assistance programs.

Third, this is an evolutionary process. We're going to be adding new indicators -- the natural resource management indicators. We look at our indicators all the time. We're always interested in ways to improve it.

I noticed that people who looked at the MCC have any number of great ideas about what we should do better. I will say that we look at all of them seriously, whether it's hard hurdles on political rights or excluding certain countries for whatever reason or including countries for whatever reason. We take it all seriously.

Let me stop there and take your questions. I know I've gone Gatling-gun speed, so forgive me.

QUESTION: Good morning. I noticed that now there are a couple of threshold-eligible countries whose threshold programs have recently been approved or are in the process of being approved but who are now compact-eligible. How does that affect the threshold programs' implementation?

BENT: Good question.

The threshold program generally has been a program that we wanted to see results in two years. Obviously part of the MCA incentive effect is that countries work really hard. So, Ukraine, for example, now passes.

What we certainly expect is that we will take the performance on the threshold program into account as we negotiate the compact and talk about what areas they're working on. So we certainly expect the countries to finish the threshold programs, to do it in compliance with the things that were negotiated as part of the threshold program.

And, frankly, in a lot of cases, I think that the threshold program is designed to enhance the capacity and the capability of the country, and that will pay good dividends when we get to the compact implementation as well.

Other questions?

QUESTION: I noticed you mentioned that Jordan is an interesting study. And I'm sure you're aware there's been some criticism about that selection...

BENT: Right.

QUESTION: ... based on the country being a big recipient of U.S. aid and also capable of attracting capital flows. And I was wondering why the board thought that was so significant to pick that, as opposed to some other country.

BENT: Sure, sure.

Let me just, for those of you who don't follow all of the issues, I think the questions on Jordan were, one, that it's a substantial recipient of U.S. assistance; two, that it's a monarchy; three, that, I think, it could attract substantial private capital flows from other donors.

I think the reasons that we picked Jordan: One, they meet all the criteria cleanly. Two, this was not motivated in any way by strategic foreign policy considerations.

I think that, you know, the State Department is going through its '08 budget process now. The '07 budget process is a little bit in flux, so I don't know what levels are likely to finally come out for Jordan. And, frankly, that was irrelevant to what we were looking at.

When Ambassador Danilovich when to Jordan a couple of weeks ago, he came back profoundly impressed with the desire of the government to try and do transformational things.

It's pretty clear that Jordan faces challenges of a political nature -- I mean, just the region of the world they're in. But that, I think, makes it even more important that we have a transformative compact. And we're, frankly, hopeful that we can do it.

QUESTION: Good morning. You mentioned that some of the European bilaterals have approached the MCC. Could you elaborate a little bit on what their interests are?

BENT: I think there is a huge amount of interest in how we use the indicators, where we get them from, why do we use third-party transparent indicators, what does this mean, what are the pitfalls, what are the advantages of doing it.

There's a lot of interest in what I'd say are the results: What do we hope to get? A lot of interest in the country partnership: How do we do the consultative process? What is the relationship with what we're doing in the poverty reduction strategy papers that the countries come up with? How do you work? How do you use NGOs? How do you use the private sector?

I think the whole foreign aid area is kind of a bubble with new ideas. And it's interesting in terms of, you know, what works and how do you get it to work, what's pragmatic, and how do you come up with indicators that are going to allow you, in some way, to move away from statistical models that, frankly, haven't worked over the last 50 or 60 years and donor models of "Well, we'll give it to you, but you need to have the following kinds of strings attached to it."

Anyway, it's a great time.

QUESTION: I was looking at the list of your threshold countries, Rodney, and I was wondering, when you -- your criteria seems to be very transparent and very focused on the data. But I'm wondering how you weight the validity of the data that you're going to get for a country like Niger and Rwanda, I would suggest, versus Peru.

I can see, of course, your compact countries, they should have better data. But I just wondered how you balance that out and what you do when you look at a place, particularly like Niger.

BENT: Well, I think one of the challenges with the threshold program is it's been described as a tutorial, it's been described as an incubator. Clearly, the one goal of the threshold program is to help countries meet the indicators, to move from red to green in areas that I think are susceptible to improvement within a relatively short, two-, three-year time frame.

I think the other challenge that we face -- and this is the major dilemma for development -- is that the scarcest constraint, frankly, is probably not capital or dollars; it's host country capacity. And so, the question is how we can use the threshold program to build up that capacity.

Now, I don't want to suggest that a \$300 million by itself is going to, in all of our compact countries, when they get there, are going to do it. So, clearly, what we're looking at: What are NGOs doing? What are foundations doing? What is the private sector doing? What are other donors doing? How can we use and build upon what USAID and other donors do?

So, you know, that's the challenge for us. And that involves, frankly, making judgments and taking some risk. I would be the first to say that, frankly, if a couple of our threshold programs don't work, it nonetheless will still be worthwhile trying them because we're going to learn what countries are capable of doing. And that's going to pay for us a dividend when we negotiate compacts.

QUESTION: This is a significant amount of money for a compact, and I know it was a significant amount of effort for a small country.

I'm just wondering, as you look forward in the Pacific, where there are a lot of small island states, kind of how you imagine yourself working there with a lot of small countries who are low-income countries.

BENT: Sure. I mentioned the constraint of host country capacity. We also have a constraint on ourselves. We're 275 people. I think that what we have done for small countries -- Cape Verde, Vanuatu -- is, frankly, extraordinary, and that's in recognition of their good performance.

A subsidiary question is, what's transformative? You know, if you work only in the very best performers and that turns out to be only countries of a million people or less, what does that really say about countries of 10, 20, 30, 40 million dollars?

And so, I think we have a certain obligation, both in terms of our capacity to manage these programs and in terms of their being a transformative example for other bigger countries. It's easy enough to say, "Oh, well, they're different, they're unique, they're teeny, they're small, they're remote. And that has no relevance to us."

Our goal is to show countries that you really can do it, and even some of the toughest, biggest, most complex countries can, in fact, use MCA funds successfully to move forward.

QUESTION: Is there a change in, sort of, MCC's thinking in announcing countries directly as eligible? Because the three announced as eligible were through threshold programs, whereas I think you have, in the past, announced countries directly as eligible. So, for example, I was expecting to see Egypt or another country that satisfies the criteria as eligible.

BENT: No, I mean, I don't think there's really been a change that way. Maybe it's a testament to the success of our threshold program that just the power of the good example before we've really begun serious implementation has led countries to move forward.

Or, alternatively -- and this is, frankly, where I'm coming from -- we ought to take more risk in the threshold program and look at countries that are a couple of steps away. And, you know, that's what we're clearly doing in a country like Rwanda that doesn't fill not just one or two but multiple criteria, multiple indicators.

QUESTION: Thank you for having us all here.

I just wanted to ask if you would be willing to mention one or two of the countries that you believe to be most advanced, in terms of their implementation efforts. You know, what has progressed quickly, and what factors would you attribute that success to?

BENT: Sure. That's a great question.

I think there's been sort of a dual learning curve, if I can put it that way. Take a country like Madagascar, one of our early compacts. And I think that we learned a lot, and they learned a lot.

And one of the things that we learned is that larger compacts make more sense, that they have more ability to be transformative. I think what they've learned is that spending a lot of time early on in thinking about implementation, on the work plans, putting together a good team, is supremely important.

For us, we want to help countries do that. So last year, last February, we had what we call MCC University, in which we brought together a lot of the MCA teams from the individual countries that could talk among themselves about what the issues are. I, frankly, think that this is going to be probably an annual process.

We're thinking about other ways that we can do more. Clearly, as we get to issues of implementation, impact evaluation, measurements, contracting, procurement, fiscal accountability -- this are going to be ongoing issues. And we need to do what we can to help make these countries more robust.

I neglected one thing. I meant to also point out that, as we go through our own internal thinking, I talked about internal operations, but we are -- gender policy -- there are a number of other areas where, I think over the next couple of months, we're going to unveil our thinking about these things. Because I think this also helps the countries understand what we're trying to see in what they do.

We're also trying to, to be blunt, to establish some red lines about what we'd like to see, so that we clearly inform countries what our expectations are so that we don't get partway down the path and then have to say, "Oh, and by the way, on the environment, on gender, here are the other things that we're worried about."

QUESTION: Yes, I was just wondering -- you mentioned earlier that you're very hopeful to get at least \$2 billion, out of -- you know, it was a \$3 billion request. So if you did get that, what level of compact assistance would you be able to maintain, I mean, given the number of countries you already have?

BENT: Sure. There's no formula that we use. I mean, in some cases -- we have a weekly meeting of what we call our investment committee, in which we ask questions of the teams that have put together these compacts. And one of the stock questions is, what's transformative about it?

That's going to depend on each country. Therefore, some of the early compacts were smaller -- \$110 million, \$125 million, \$175 million. The two compacts that are coming up are, you know, double or triple that amount.

I think what we'll do is, in looking at the \$2 billion -- and we certainly hope it's \$2 billion. We certainly hope the president's '08 budget request is a pretty robust number. That, the country context, what's transformative, what other donors are doing -- these are all things that come into play when we look at the compact sizes -- or potential compact sizes.

Great. Thank you very much.

(APPLAUSE)

MCNAUGHT: OK. Thank you, Rodney.

We'll ask our panelists to come to the table.

And I'm also going to have to ask someone to help me do a little furniture moving, because it occurs to me that folks on this side of the room can't see the panelists.

Thank you.

So, Maureen and Rodney -- Maureen and John, excuse me -- John got off the plane from El Salvador late last night, not me.

Maureen will report further and be more specific, perhaps, about the selection process and will highlight the threshold agreements, our newest ones that we'll be signing shortly.

John will discuss the two compacts our board recently approved, with Mali and El Salvador. He might also have some further information on -- you might ask him which countries are most advanced.

Once again, afterwards, Gaby will have a mike, and they will take questions.

HARRINGTON: Thank you, Fran.

And good morning, everyone. Thank you for being here. I'd like to start by talking a little bit about the country selection process for 2007.

As Rodney mentioned, yesterday the MCC board met for its annual selection meeting and selected new countries eligible to apply for compact and threshold assistance. And they reselected the currently eligible countries, as well.

This annual selection process gives us an opportunity not only to evaluate countries' performance but also our own performance in terms of creating incentives for reform.

So I will start by reflecting on some of what we've seen, and then I'll move on to the new countries.

One of MCC's main objectives is to create incentives for countries to adopt good policies that create a foundation for poverty reduction and economic growth. We are beginning to see countries do the hard work of reform to enhance their chances of becoming an MCA compact-eligible or threshold country by making improvements in governance, fighting corruption, ramping up investments in health and education, and adopting micro- and macro-economic reform. We call this the MCA incentive effect.

MCC and most of the indicator institutions whose data we are using and our scorecard have been visited throughout the year by countries interested in discussing their performance, in most cases to learn about ways that they can improve their prospects for MCA eligibility and other ways to provide better data for the indicator institutions.

We have witnessed remarkable improvements in data availability and quality, due, in part, to increased pressure that MCA candidate countries are placing on the third-party indicator institutions. For example, both Freedom House and The Heritage Foundation have rescaled their data to provide greater differentiation among the countries.

The World Bank Institute, which we rely on for five of our indicators, including the governance and corruption indicators, has decided to release its data every year and has made its subcomponent data publicly available, which will be an invaluable tool to MCA countries that are better trying to understand their performance on our indicators.

We have also seen a number of countries establish inter-ministerial committees and presidential commissions that are meant to devise, implement and track reform strategies on the MCA criteria.

We have also seen countries cite MCC as the stimulus for its reforms. For example, according to the International Finance Corporation, 24 MCC candidate countries have cited MCA as the primary motivation for their business start-up reforms that they've put in place.

These reforms yield tangible benefits. The government of El Salvador, which was inspired by MCC to reduce the number of days it takes to start a business from 115 to 26 days, has seen a 500 percent increase in business registration and a sharp spike in customer satisfaction from 32 percent to 87 percent. The IFC has found that these reforms can add between a quarter and half a percentage point to growth rates in an average developing country.

But it isn't just drawing attention for the doing-business indicators. Freedom House, which produces the political rights and civil liberties indicators, has said that they have seen increased attention to their "Freedom in the World" survey by countries as a result of the decision to use these ratings in the selection process.

Our embassies and also USAID missions are reporting a significant dialogue is taking place about reform, focused on the MCA criteria. And we're also very excited about the prospects to stimulate this dialogue and to see the results of increased country performance on the MCC criteria.

Now I'd like to talk a little bit about the board's selection meeting.

In terms of the reselection, every year we evaluate our current compact and threshold countries. Most countries selected in previous rounds were reselected in 2007. Six of the countries did not meet the criteria, but they were reselected.

Under our policy on suspension and termination, MCC can suspend or terminate a country if we see a substantial policy deterioration or a pattern of actions inconsistent with the criteria. The board has previously suspended The Gambia under this policy, and they were not reselected this year.

We took a hard look at each of the countries, and we determined that there were not any significant policy erosion or slippage in the eligible countries this year.

It's important to note that, while we hope and expect that all MCA partners will trend upwards on their policies over time, there will be ups and downs on the reform path, and it might not always be a straight line.

Additionally, the nature of MCC's evaluation, using third-party indicators to evaluate country policy performance, is complex. For example, a change in data sources or improvements in the data quality has led several of our countries not to meet the criteria for this year.

While we did not find a cause for warning or suspension of any of our current eligible countries, we do see ongoing progress and sustained commitment by compact countries to address their policy weaknesses as very critical to their ongoing partnership with the Millennium Challenge Corporation.

We believe it's integral to MCC's approach to constructively engage with our partners on reform efforts, even after they have achieved compacts, if we are going to deliver on the promise of poverty reduction through economic growth. We believe these countries are committed to meeting the criteria, and we will support them in their efforts to remediate performance.

MCC will be providing guidance to its partner countries that have seen some changes in their scores to help them understand the policy areas where they're falling short for this year. And we plan on working with them very closely on potential corrective measures that need to be taken throughout the course of the year.

Moving on, the MCC board selected three new compact-eligible countries, as Rodney mentioned: Moldova, Ukraine and Jordan.

We already have partnerships to promote policy reform with these countries through the threshold program, which I think you mentioned in your question, and we are delighted to offer them the opportunity to develop a compact proposal to focus on reducing poverty.

While all three countries meet the MCA criteria for full compact eligibility, continued policy reform is also integral to this new partnership through compact eligibility.

Successful implementation of the threshold program and its corresponding reform commitment will be critical. The governments will be required to demonstrate successful implementation of the threshold program, including achievement of the reforms and implementation benchmarks that had been agreed to in the threshold program. And this will be necessary for a compact to move forward.

Let me offer a few observations about each of these countries.

Moldova: Moldova is the poorest country in Europe, with more than half the population living on less than \$2 per day. And there is a significant opportunity for poverty reduction through economic growth through the MCC partnership.

Over the last few years, Moldova has undertaken significant policy reform. It now passes 15 of the 16 MCC criteria, as well as both of the two new natural resource management indicators.

Last year, Moldova was chosen for the threshold program. It immediately proposed an ambitious anti-corruption program and has continued the reforms in this area, and it now passes our corruption indicator.

In working with the MCC to develop the program over the last year, Moldova has developed a strong commitment to the MCC principles. Since our last public outreach session, the board approved a \$24.7 million grant under the threshold program for Moldova to accelerate its efforts to curb corruption.

The government of Moldova initiated a national anti-corruption strategy in December of 2004. To implement this strategy, Moldova has focused its effort on enactment of numerous laws, including amendments to the criminal code and new laws on political party financing, conflict of interest, public procurement, and a code of ethics for public servants.

MCC threshold funding will address areas where corruption persists, including the judiciary, the health-care system, and the tax, customs, and police agencies. MCC funds will also provide training and technical assistance to nongovernmental organizations to monitor government anti-corruption reform efforts and to establish a public-private working group to issue recommendations to increase the role of mass media in monitoring anti-corruption reform efforts. In January of this year, an alliance of NGOs was formed to bring greater public attention to the issue of corruption.

Again, we're looking forward to starting the implementation of the threshold program and to our new partnership, working with the government of Moldova on developing a compact. And we believe that MCC compact funds can be truly transformational in Moldova.

Ukraine was the next country that was selected. Ukraine passes the selection criteria this year. They made significant improvements on all of the indicators in the ruling-justly category, and they now pass the corruption indicator for the first time. Ukraine also passes one of the new, supplementary natural resource management indicators.

They were selected as a threshold country in '06, and the board approved its anti-corruption-focused threshold program in June of this year. We expect the implementation efforts of the program will soon begin. And this will also bolster Ukraine's anti-corruption efforts.

Ukraine's rate of reform is impressive among the low-income countries. It's the single most aggressive reformer on the ruling-justly indicators and has the fourth-highest rate of reform on the MCA selection criteria overall.

And, again, we believe their continued commitment to reform will enable an MCA compact to have a transformational impact there as well.

In Jordan, they pass all of the selection criteria, including corruption, and they have demonstrated a commitment to the MCC principles through its homegrown reform efforts, which will be supported throughout the threshold program, which was, as Rodney mentioned, signed in October in Amman.

We are enthusiastic about the democracy and democratic reforms Jordan has made in its threshold program, and we look forward to their successful implementation as Jordan works toward their compact proposal.

MCA also believes that a compact with Jordan could have a strong, positive impact, as structural reforms over the last decade have liberalized the private investment regime, opened the trade environment, and established modern regulation and institutions for private-sector development and privatization.

Our new compact-eligible partners have been informed of their selection, and we will continue to work with them on the threshold programs. And my colleague, John Hewko, will be working with them as they begin engagements on the compact development process.

We will be sending high-level delegations to meet with these governments, and we will be providing them with an updated country information package to support them in the compact development process.

And this information will be available on our Web site, for any of you that are interested in seeing that, shortly.

Moving quickly to the threshold program, the board also decided to bring on three new threshold countries and invite them to propose a program of reform for MCC assistance.

The first country is Niger. Despite a very low capital income, Niger now passes all three categories and is just shy of passing the corruption indicator. This is stunning performance for a country with limited resources. Niger's performance over the past three years demonstrates a clear commitment to a positive policy environment. They have improved on their indicator performance in every category since 2003.

There is great potential for poverty reduction and economic growth in the long run in Niger. Ten million people live on less than \$2 per day. And Niger

has extremely low basic literacy and education statistics. And it faces the twin challenges of demographic pressures and chronic food insecurities.

We look forward to working with Niger in areas such as corruption and grow its primary education, where we can support Niger's reform efforts and help them to become competitive for compact eligibility.

Rwanda was also selected as a threshold country. They have demonstrated a clear commitment to significant economic reform, and they now pass all but one of the economic freedom indicators. Further, recent reforms in Rwanda's legal framework included significant reforms of the business environment. They passed the investing-in-people category, the corruption indicators, and the natural resource management indicators.

We believe that by including Rwanda in the threshold program for this year that we're providing Rwanda an opportunity to address the governance and democracy areas which are keeping it from performing well in the ruling-justly category. We are looking forward to working with the Rwandans on these complex but critical issues. Because of the nature of these indicators, this could be a longer-term program in Rwanda.

And finally, and lastly, Peru. Peru has been selected as a threshold country, and we believe this provides an opportunity for them to cement and accelerate their ongoing reform efforts. Peru's economy is one of the most open and dynamic in Latin America, showing strong reforms and consequent growth over the past several years.

Over the last 15 years, Peru has lowered trade barriers, eliminated restrictions on capital flows, opened to foreign investment. It has a strong record of rapid economic reform and steady political reform. And we believe that these reforms demonstrate the kind of commitment that will help make an MCC investment there successful.

So, I'm sure that's more information than you possibly wanted about the board's decision, but there you have it. So thank you very much.

Oh, there's one other thing. I forgot to mention our \$55 million agreement with Indonesia. And just quickly, our board of directors recently decided to approve a program for Indonesia to help them improve their performance on both immunizations and their efforts to fight official corruption.

The program is designed to immunize at least 80 percent of children under the age of 1 for diphtheria, tetanus and other diseases, and to immunize 90 percent of children for measles.

The program will also fund an anti-corruption program to reduce public corruption. And we really believe that both of these efforts will help the Indonesians to perform better on the criteria and hopefully to be selected for eligibility in the future.

Thank you very much.

John?

HEWKO: Thank you, Maureen.

And thank you all for coming to this event.

What I'd like to do is just briefly summarize the Mali and the Salvador compacts for you, and then really open the floor up for questions.

The Mali compact: The Mali compact was approved on October 26th by our board of directors. We will be signing the compact next Monday, November 13th, and then the following day, on November 14th, there will be a public outreach event on the Mali compact attended by President Taure of Mali. So those of you that are interested in more a in-depth analysis and understanding of the Mali compact, I would encourage you to attend the outreach event on the 14th.

Mali, for us and for me personally, is a big success story. It's one of our poorer countries, and I must say, the country stepped up to the plate and delivered. It's a country that we very much believe is investing in its people, is ruling justly, and is promoting economic freedom.

And I'd really like to salute the MCC team, headed by Kyeh Kim, who's our country director, for a fabulous job in moving the Mali process forward. They really did an excellent job.

So congratulations, Kyeh.

And Kyeh will be available after the session. In the event someone has very specific questions that I'm not able to answer or that Maureen is not able to answer, Kay will be happy to stay around and answer those questions.

The Mali compact is for \$461 million, and it has three key components.

The first is the expansion of 1,600 hectares of irrigated agricultural land in the Office du Niger, in the Alaton region. That component will involve the Nneno Gomakoa (ph) Road, irrigation planning and infrastructure, land allocation, resettlement, social infrastructure and social services, agricultural services and financial services. And the total amount allocated to this component is \$234 million.

The second component is the upgrading of the Bamako airport for \$89.6 million. And here we will be financing both air-side infrastructure, land-side infrastructure, and institutional strengthening.

And then finally, there will be the development of a 100-hectare industrial park located near the airport. Again, we'll be financing primary and secondary infrastructure resettlements and institutional reform. And the total value of this third component is \$94.3 million.

Now, the Mali compact was designed to address some of the key constraints to growth that Mali faces. The primary constraint really is that the country is very dependent on low-value agricultural products, such as staple crops, livestock, and fishing.

And it's also very vulnerable to erratic weather patterns. Right now a substantial part of the agriculture is rain-fed subsistence farming. And through this compact, we hope to increase significantly the amount of arable land, irrigated land in Mali and do it in a way that is sustainable and not as dependent on the erratic weather patterns.

There's also a very small and constrained industrial base in Mali, and we hope, through the industrial park, to be able to address that problem.

And finally, the country is land-locked and isolated. Today, it principally relies on Conakry, Guinea, and Abidjan in Cote D'Ivoire as its principal outlets to the rest of the world. And given the political situation in both of those countries, that has significantly constrained Mali's ability to reach out and trade and deal with the rest of the world.

So, the compact aims to reduce poverty through economic growth through, I would say, three things.

First, to increase production productivity of agriculture in small- and medium-sized enterprises. The idea here is to provide food security to Mali, so that, through investment in the Alatona region in the Office du Niger, we are able to stabilize the country's basic food production and then allow farmers in other parts of the country closer to Bamako to start moving to high-value horticultural products, which can then be exported through the -- processed through the industrial zone, the industrial park, and then exported out through the revamped Bamako airport.

The compact also aims to expand, obviously, Mali's trade with the rest of the world through the airport investment. And then, finally, to capitalize on the country's two great assets, and that is the airport itself and the Niger Delta and the Niger River, which does provide a fairly constant source of water year-round.

The consultative process: We're very, very pleased with the quality and the scope and breadth of the consultative process in Mali. It was based on what we felt was a very, very well-done PRSP process. And we took the PRSP, worked with the Malians to determine what priority, which priorities out of the PRSP they wanted to focus on with MCC.

Additional consultations were held, and it was really through the consultation process that the land-tenuring component in the Alatona region project was included, particularly the concept that women need to be given a priority ability to obtain titles in that area. That is something that directly came out of the consultative process.

And in addition, the social infrastructure component in the Mali compact -- the schools and the clinics that we will be financing -- were a direct outcome of the consultative process. The consultative process was really based on the PRSP and refined through a smaller consultative process that we asked the country to undertake.

What are the impacts that we're hoping to achieve with this compact? First, 40,000 poor farmers and laborers will be able to now cultivate crops in the irrigation zone in the Office du Niger. As I mentioned, farmers throughout the country, especially those that are closer to Bamako, will now be able to switch out of staple crops and move to high-value horticultural crops that will be exported and raise the incomes of those farmers.

Over 100,000 school-aged children and family members will now have access to basic education, health services, and markets. And small- and medium-sized businesses, we hope, will now flourish and will create over 50,000 formal jobs. The industrial park, we hope, will be able to locate 200 businesses and create just alone 7,000 new jobs.

So, again, we're very, very excited about the Mali compact. We do think it will have a transformational impact on one of the world's poorest countries by increasing its participation in the global economy, by providing food security in basic grains and crops, which will then allow other farmers to move to high-value horticultural products, and really be a catalyst for change by putting in place the infrastructure which we hope will unleash the private sector through the creation of secure property rights, effective management of their key infrastructure -- the industrial park, the airport - and, finally, to improve the business climate in the country.

And, again, Kyeh Kim is available afterwards, in the event there are very detailed question on the Mali compact.

With respect to El Salvador, I had the pleasure of being in San Salvador yesterday for what was a very, very impressive celebration of the board decision, yesterday's board decision, to approve the El Salvador compact for \$461 million. It's the first compact that we've approved with a low-middle-income country, and I was extremely pleased with the level of enthusiasm that this compact generated in El Salvador. I had a very long and productive meeting with the president, President Saca.

And I must say that El Salvador really should be congratulated, as I would say a model country. El Salvador was chosen as MCC-eligible last November. We did our introductory visit in December. The president immediately committed significant resources, immediately committed an extremely professional, talented core team to work with us. The proposal that we received from El Salvador was extremely, extremely well-done. And we were able, in the span of nine months, which is a record for MCC and probably a record for any donor agency, to both do the due diligence on the proposal, refine it, and go to the board for formal approval.

I think El Salvador has been a real success in terms of country commitment, country enthusiasm, the transformative nature of the compact, and the speed with which we were able to move.

And Vince Ruddy, our country director for El Salvador, is here. And he, as Kyeh, will be more than happy to stay afterwards and answer more detailed questions on El Salvador.

As I said, the compact is a \$461 million program broken up into three key components. It focuses largely, almost exclusively, on the northern zone, which is the part of the country where the vast majority of the poor live. And it's the country from which a lot of the immigration to the United States is coming. That's where the poorest members of that society live. And that is also the source of most of the emigration that is leaving El Salvador.

So the idea was to focus on the poorest part of the country and then, in many ways, to capitalize on the Salvadoran diaspora here in the United States, because many of them are from the northern region, and to get them more fully engaged in that part of the country.

The proposal has three key components.

The first is human development for \$95 million. That's going to focus on education, public services, and community infrastructure in the northern zone. We intend to have, hope to have, 27,000 beneficiaries for education and

training; 90,000 beneficiaries that are now going to receive potable water -- that's going to increase the coverage from 75 to 85 percent in the northern region; 50,000 beneficiaries for new sanitation systems; and 235,000 beneficiaries for rural electrification. There's currently a 72 percent coverage rate in the northern zone. We hope to increase that to almost 100 percent, to 97 percent. And finally, 130,000 beneficiaries for community infrastructure, such as tertiary roads, improved drainage, and small bridges.

The second component is a productive development component for \$87.5 million. This is really designed to provide business support and financial services to small- and medium-sized enterprises and to farmers. And here we project about 55,000 beneficiaries.

And finally, the connectivity piece for \$138 million, which includes the northern longitudinal road, which will span the entire northern zone and will really link that northern zone to Honduras and Guatemala and Nicaragua. And here, we hope that 600,000 Salvadorans will benefit from decreased transportation costs. And really, to have both the northern highway, plus the secondary and tertiary roads that we'll be financing, to feed into that will really serve as a huge catalyst for that northern zone area, again, where most of the poor live in El Salvador.

The compact also has, I think, significant regional benefits. It meshes very nicely with the compacts we have in Honduras and Nicaragua. And I think the three put together really do add significantly to the ability of those three countries to integrate, contributes significantly to regional integration, and will also assist and enable the countries to take better advantage of CAFTA, of CAFTA-DR and the trade opportunities that that agreement affords them.

The consultative process: We've built on the Plan de Nacion, the national planning process that began eight years ago. More than 2,200 Salvadorans participated, and a more widely expanded MCC consultation process was built on that national plan. Over 50 consultative meetings were held throughout the country.

In addition, El Salvador did -- I think it was a first for an MCC country -- they held significant consultations with the Salvadoran community in the United States in Los Angeles, Washington, and in New York, if I'm not mistaken. So this was really the first attempt by one of our countries to also draw their communities outside the country into the consultative process.

And, again, we are very, very pleased with the consultative process in El Salvador and really feel that it is a model that other countries may want to -- some of our new countries may want to take a look at.

Finally, on implementation: We will have a seven-person board, called Fo Millennio, in Salvador acting as the main implementing entity for government members and in three outside members -- two NGOs, one of which will be an environmental NGO, and a private-sector participant.

We hope to have signing in the near future. The compact will then need to be ratified by the Salvadoran legislative assembly. We hope to start initial disbursements, preparatory disbursements, in early 2007, although the bulk of the disbursements for the construction and the larger works will not start until mid to end of 2007.

I think I'll leave it there and open the floor up to questions.

QUESTION: Sorry my English is not as great as yours. I'm talking to Maureen. And I understood -- six countries were suspended; but after, I only saw mentioned Gambia. Maybe I didn't hear well. Sorry about that. Thank you.

HARRINGTON: That's OK. No, we did not suspend any countries this year. We have one country that was selected in previous years, The Gambia, that has been suspended. There were six countries that were previously eligible where we saw decreases in policy performance. But those countries were not suspended. They were reselected to remain eligible for MCC.

QUESTION: Good morning. I'm sorry I will not be in the meeting next week on Mali. This question probably is more appropriate then. But how do you plan to implement the engineering, design, and construction of the airport infrastructure and, also, on the industrial park? Will it be handled by U.S. consultants and U.S. contractors, or will the government of Mali be the managers of the projects? Thank you.

HEWKO: In all of our countries, we operate under the philosophy that the country is responsible for implementing the compact. We will have four, maybe five, MCC staff in-country once a compact is signed: a resident director, a deputy, and then two local staff to back them up. So really, the country is responsible for implementing the program.

In the case of Mali, an entity or board in the prime minister's office will be established. It will have 11 members: six government and five NGO government members. It is this board or entity which is responsible for delivering the results of the compact.

This 11-person board will, in turn, hire a staff, a technical staff, to deal with the implementation of the three components of the compact. And then it is the country which will carry out -- in this case, Mali -- which will carry out the procurements to procure the services for reconstruction of the airport, for the irrigation works in Alatona, the works in the industrial park, et cetera.

The procurements will be carried out under international standards. They will be open, they will be transparent, they will be international in scope. There's no "Buy America" requirement in our legislation, so there will be no preference given to U.S. contractors. But they are free to bid on these works, as is any other Malian or international company. We will have an outside procurement agent in place to run these procurements, to ensure that they are open and transparent.

And so, to the extent that you or your company are interested in participating, I would urge you to monitor our Web site. We do have links directly to the Malian Web site, which will have the various announcements coming up as and when procurements become available.

But, again, they're going to be open, transparent, and international. And everyone is encouraged and free to participate in that bidding process.

QUESTION: You mentioned the advanced countries. And my question is, what kind of impact -- what would be the impact of the decisions on active programs, particularly Armenia? And is Armenia (in trouble)?

HEWKO: We've now signed compacts with nine countries. We have two more coming up, Mali and El Salvador. We've begun disbursing in six of our countries: Nicaragua, Honduras, Cape Verde, Madagascar, Georgia, and I believe Vanuatu as well.

We are very close to disbursing in Armenia. We've had a very, very good relationship with Armenia on a technical level. I think they presented a very sound proposal, well-thought-out. They put together a very good team to work with. And I think we're very, very close to making our first disbursement with Armenia.

Clearly, there's issues with Armenia, in terms of performance on the two indicators that were recently raised by Freedom House. We have been very open and frank with Armenia on their need to improve on these two indicators.

I don't know, Maureen, if you'd like to add anything on that.

HARRINGTON: Well, I think John is exactly right. When we see a decrease in performance on any of the MCC indicators, including the ones that Freedom House pointed out in the case of Armenia, that's something we watch very carefully, because it's a competition to become eligible for MCC funds. And we'd like to see countries not only maintain but also to improve their performance on the MCC indicators.

We have been very clear with the government of Armenia that we expect continued performance on the selection criteria. And we will be working with all of the governments where there have been decreases on their policy performance to put in place strategies to help turn that around so that we can, again, see a trend moving in the right direction on performance.

QUESTION: I have two questions.

Could you just go over the six countries that were reselected but that did not pass all of the indicators? I think I know what they are, but I just want to check against it.

And then, for you, a question on -- you mentioned that the new compact with El Salvador would mesh nicely with Honduras and Nicaragua.

HARRINGTON: The six countries where we've seen decreases in performance are Benin, Sri Lanka, Ghana, Madagascar, Senegal, and Cape Verde. And then also, Armenia, we've seen decreases in the political performance, but they are still passing the MCC selection criteria.

And I missed the second half of the question, I'm sorry.

Was that to you, John?

HEWKO: We do have existing compacts in place with Nicaragua and with Honduras. We have a \$175 million compact that we've already started disbursing on in Nicaragua, focusing on the departments of Leon and Chinandega, and, again, focusing there on land-titling, rural infrastructure, roads, again, trying to lift poor farmers in those three departments out of poverty. We also have a \$215 million compact in place that we've already commenced disbursement on in Honduras.

And, as I said, those two compacts, plus the one that we hope to sign with El Salvador, mesh very well together. They promote regional integration and I think will allow all three countries to take much better advantage of the opportunities offered under CAFTA-DR.

QUESTION: Ms. Harrington, you mentioned that, for the Rwanda threshold program, you all were thinking that it might be a longer-term program. I know MCC has been criticized for doing two-year programs, because a lot of people feel that they can't be effective in only two years. So is that the thinking behind maybe doing a longer-term program? Is that something that MCC is considering doing more often? And how long are you talking about?

HARRINGTON: OK. I think that, really, we're looking at countries on a case-by-case basis. In the case of Rwanda, the indicators where there would need to be improved performance in order to become eligible for a compact fall into the democracy category. And those sorts of projects tend to have a longer-term -- they take a little bit longer to see improvements on the indicators.

And so, we've decided, in this particular case, as we're working with the government of Rwanda when they're coming up with their proposal, that, if they feel they need a little bit more time to address the problem, then we would be prepared to make it a longer-term program there.

And I think that we'd be prepared to make that decision on a number of countries, but it really does depend on the nature of the policy problem they're trying to address. For instance, countries that are trying to fix the days or costs to start a business problem, that doesn't necessarily take a lot of time. And so, you wouldn't need a longer-term program there. So it really does depend on the indicator on which they're trying to focus.

QUESTION: I'm wondering if the MCC has any plans or if you have any public reports in place that relate to the implementation side of the compacts, and if you're going to have annual reports, or what's going to be shown, in terms of the results on the implementation side of the compacts, specifically for the countries that are already taking place but also for the new compacts that you've developed.

HEWKO: No, that's a very good question. We are now -- I think MCC has -- Rodney mentioned in his comments some of the lessons learned. I think we've learned at MCC now how to get compacts done, how to engage with countries, the types of guidance and help that the countries need in the early stages to get the proposals finalized, consultative processes carried out, the due diligence carried out, and then get the proposals to board approval and then signing.

We're now in the phase of implementation, which we're just now starting. And that really is our next upcoming challenge, the implementation side of things. Are we going to be able to implement these large compacts, these large, transformative compacts, with a staff of four on the ground, relying on the countries to carry the bulk of the work and to carry out the implementation and run the procurements, et cetera? And time will tell.

The question you raise, in terms of what we're going to publish and the reporting and all of that, we're still working through that, because we're just now started in the implementation process. I don't have a clear answer for you on that, other than to say that we will be asking and ensuring that all of our implementation countries maintain a very open and transparent Web site, that the various procurements on the Web site, even to the point of posting contracts on

the Web site, flow of money, so that the private sector and the civil society in these countries can monitor very, very closely exactly what's happening.

We very much hope that, through the boards that we've set up in most of these countries, which have majority government representation but minority -- but equal voting rights, you know, one vote per person, with civil society and private-sector representatives on these boards, that these boards will -- certainly the private-sector and civil society participants of these boards will be able to act as our eyes and ears on the ground and help us make sure that the implementation is being carried out as it should be.

But, yes, we're now working through the process of determining exactly the type of formal reporting that we'll be issuing, whether it's on a biannual or annual basis.

QUESTION: Aerotek is an international consulting firm, and we have worked in Mali. I've been there several times. The airport will generate revenues based upon -- and it will be hard currency -- based upon cargo and landing fees. And it will probably go into a positive cash flow after a short time.

Are there any commitments to use this positive cash flow from the airport, generated with U.S. funding, for future development or future work? Or will that just go into the government with no commitment on it?

I think, you know -- of course I'm asking a question, but I believe that that money should be committed, you know, for other activities and improvements. Because, like, the industrial park, more than likely the industrial park will have a negative cash flow for many years, and it will need assistance from other agencies or from other funding.

So has this been considered in the process? Thank you.

HEWKO: The short answer is, yes, it has. And perhaps Kay Kim can give you more detail on that.

KIM: Let me just respond to that. Thank you.

Actually, we consulted very in-detail with the Aerotek study that was provided for the Bamako-Senou airport. And we had our due diligence provide financial analysis actually on the revenues for Bamako-Senou and found out that there are some significant revenues that are already generated. These revenues will actually increase over time. However, they're not sufficient to actually make the capital improvements that are necessary for the airport.

And so, part of the institutional strengthening component of the airport will ensure private management of the airport and ensure that any types of these revenues are used for operations and maintenance and hopefully have a long-term effect, whereby the actual prices of air tickets are reduced to make air travel more accessible, not only for passengers but for cargo as well.

QUESTION: On the six countries that you mentioned -- Sri Lanka and Senegal -- does that mean that their likelihood of signing a compact has decreased because their status has regressed? I'm trying to understand where they are in terms of their status in line.

HARRINGTON: No, really, we are working full-steam ahead with all of our partner countries. And really, what we're focusing on where we've seen decreases in

policy performance is to work with our partner countries as a partner to help turn around that performance so they can maintain eligibility. So we are expecting our teams and our partner teams to be working very closely to continue the compact-development process.

MCNAUGHT: We'll take two more questions, because I see two more hands.

QUESTION: Is this the right place to ask what's happening with Bolivia these days?

(LAUGHTER)

HEWKO: It is. As you know, there were the elections in Bolivia, where Evo Morales won the election. We did receive from the Rodriguez government, the interim government, a very solid proposal for \$598 million. I had a very lengthy meeting with the Bolivian ambassador last week, where we discussed future steps in moving the Bolivia process forward. He indicated that Bolivia is very keen to move the process forward. The Morales government has recently named a new point of contact, who appears to be very solid and very good.

And so, I anticipate that, relatively quickly, we will begin the process hopefully of re-engaging with Bolivia. We had a hiatus after the election. I think the government was focusing on other issues. But I do believe that they have indicated now a serious intent to re-engage with MCC and, our understanding is, to use the Rodriguez proposal as a basis for the renewed dialogue.

MCNAUGHT: We have two more over in that direction.

QUESTION: You've briefly talked about, now, twice, how the procurement and bidding process works for the compact countries. I was just wondering if you could briefly discuss how that works for the threshold countries, particularly with the immunization component for Indonesia.

HARRINGTON: For the threshold program, typically MCC will be working with USAID as our implementer on the ground. That's not always the case. There are some other countries where we're working with other U.S. government implementers.

In the case of Indonesia, USAID will be managing the procurement process there. So I would encourage you to get in touch with them if you're interested in competing for the work.

MCNAUGHT: OK, our last question.

QUESTION: Thank you. It's very positive that the MCC are putting NGOs and other private-sector people on the boards. When I was in Ghana last month, I met with the NGO representative to the board on Ghana. And one of the things that was clear is, particularly NGOs, they are so overextended already, they don't have any backup. They can go to the board meetings, but being able to have any sort of staff work to help them on that is very difficult for them. And I presume they can't apply for the grants or the programs because they're deciding on them.

Has MCC thought of any way to support the civil-society representatives that are on these boards so they can do more than just attend meetings?

HEWKO: I think where we're at right now is we've just started the implementation process. And so, your comment is extremely helpful because it's

a warning bell that there may be a capacity issue on the part of the NGOs in Ghana. If we start hearing similar sorts of concerns from other countries, then I think we would need to address that issue.

But I think we're in a position now of, let's see how it works. We've just started. Let's see what happens in practice. Let's give it a few months, six months, to work. And if, at that point, we see that the NGO participants or the private-sector participants are not able to function effectively because of these resource constraints, then I think we need to step back and think through with the country how it is that we can increase their engagement.

Because I think we take this very, very seriously, the NGO and private-sector participation, not only in bidding on contracts and implementing and all of that, but really through a policy and through procedures of transparency to have these groups act as our eyes and ears on the ground. I mean, this is the great experiment.

So, again, we would welcome any of our feedback from your colleagues on the ground. If they're finding that the NGOs and the private-sector representatives are really having trouble engaging, we'd like to hear about it, because we want to try to then think through concrete steps that can increase their effectiveness and their participation on these boards.

MCNAUGHT: With that, I want to thank you, once again, for joining us today, and to point out that our Web site, [mcc.gov](http://mcc.gov), has a wealth of information. And I'll ask you to do a little cruising there.

Thank you, and we'll see you next time.

(APPLAUSE)

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