

MILLENNIUM CHALLENGE CORPORATION

5th Public Outreach Meeting

State Department, Dean Acheson Auditorium

November 10th 2004

Frances McNaught: My name is Fran McNaught, and I'm vice-president of domestic relations for the MCC. Today we're here to talk about the recent MCC board meeting and the selection of our '05 eligible countries. The board also chose a number of new threshold countries.

After remarks by our speakers, we'll take questions from the audience. Please identify yourself if you have a question. Our meeting is being webcast on our website, mcc.gov.

And now it's my pleasure to introduce the CEO of the Millennium Challenge Corporation, Paul Applegarth.

MR. APPLGARTH: It may be your pleasure.

MS. McNaught: It's my pleasure.

[Applause.]

MR. APPLGARTH: Thank you. If we were ever redundant, it's to introduce our chairman, the Secretary of State, and I do so now. Thank you very much, Secretary Powell.

SECRETARY POWELL: Thank you, Paul, for that long and glowing introduction of the secretary.

[Laughter.]

SECRETARY POWELL: We're here to talk about the Millennium Challenge Corporation. I have many duties and responsibilities as Secretary of State. And I wasn't sure how I was going to like the one that was given to me not too long ago when the President asked me to be chairman of a new corporation, an interesting kind of a corporation, one that's somewhat unique in government circles. And I cannot tell you how much it has turned out to be a source of great satisfaction to me and the pleasure with which I have noted the progress that we have made with the creation of the Millennium Challenge Corporation.

I'm proud of this organization and this initiative because this initiative reflects the best of American ideals and it reflects American pragmatism. Millennium Challenge Corporation's objectives are noble, reducing poverty in some of the poorest countries in the world. And MCC's means are practical. Working with countries that have already put in place policies that support growth and make assistance effective. The MCC forges true partnerships, putting opportunity and responsibility for development where they belong with the people and the government's of the developing countries.

Many in this audience were instrumental in establishing the Millennium Challenge Act. I appreciate your efforts and the strong bipartisan support the MCC has

enjoyed. Your sustained support will be important to the Millennium Challenge Corporation as it tries through the Millennium Challenge account to reach its full potential. Your continued efforts are essential. And those continued efforts will help to ensure that the MCC has enough resources to provide a real incentive for even more countries to do the right thing, to move in the right direction, and to adopt those policies that are necessary to ensure that we have growth and democratic development in the nations who are participating in the program.

In the short nine months since the founding of the Millennium Challenge Corporation, Paul Applegarth doing a brilliant job and with a terrific staff, have addressed the dual challenges of setting up a new organization and beginning to accomplish the Millennium Challenge account's mission. Starting with seven employees that were essentially over there on detail, the organization has now grown to about 70. Paul and his team have established a selection process for determining which countries are eligible to compete for MCC funding. They have consulted with the 16 countries the board designated in May as being eligible countries. And they are now assessing concepts that have come in from 14 of the 16 countries.

Paul and his team have also established a threshold program to assist those countries that are willing to take steps to improve their policies so that they too

might qualify for funding in the future. Now Paul and his team are really getting down to business. Consulting with Congress to start compact negotiations with four Millennium Challenge account countries. The MCC has also established the admirable practice of transparency, something reflected by this fifth MCC public meeting.

Let me give you a read out of how the board went about selecting FY 2005 MCA eligible countries when we met this past Monday. As we did in May, the board based its decision on the criteria established by the Millennium Challenge Account Act. In doing so, we relied in good part on the indicators the MCC uses to measure performance on the criteria for eligibility. And we take into consideration other information related to a country's performance under the criteria. For the most part we selected the same countries that we did in May, but we had a few new countries to look at as well.

And I want to assure you that when the board met, it wasn't just some proforma meeting. Paul gives us a list and we bless the list. Every single country, either one of the eligible countries or one of the threshold countries was the subject of considerable discussion on the part of individuals on the board of directors who knew about these countries and had a different perspective on each of these countries. So this is no proforma operation. These are serious board members who come together with the information

garnered by the corporation staff and with our own staffs at the State Department or AID or Treasury or elsewhere in government and our public members of the board. And we really do take this with the utmost seriousness. And the discussion and the debates are fascinating to listen to.

The countries we selected as a result of this intense and very personal as well as objective process are Armenia, Benin, Bolivia, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Morocco, Mozambique, Nicaragua, Senegal, Sri Lanka, and Vanuatu. These countries demonstrated that through their policies and practices that they rule justly, they invest in their people, and they encourage economic reform.

Let me congratulate all of the countries that have shown through their embrace the good policies that they deserve the recognition of becoming a Millennium Challenge account country. We look forward to working with all of you here today and with the countries that you will hear about in the course of these proceedings.

I want to thank all of you here today for your interest in and support of the Millennium Challenge Corporation and the account that corporation administers. The hopes and aspirations of people across the globe are the same. They all want a better life for their children. They all want health care. They all want homes. They all want education for their children. They all want a decent job

that brings not just income into a home, but brings dignity into a home with that income. The Millennium Challenge Account Corporation was set up to help people achieve those dreams, but to insist that they do it in a way that we believe is the proper way, the right way, the successful way, democracy as the rule of law, the end of corruption, market economic policies, investing in people, the most valuable resource any country, any society has.

So I'm very pleased to be associated with the Millennium Challenge Corporation. And I thank you for your interest in and your support of our efforts. Thank you very much.

[Applause.]

MR. APPLGARTH: Thank you, Mr. Chairman.

As Fran may have mentioned, our intention is for me to give you a few updating remarks since our last public meeting. Then Andrew Natsios will talk about the status of the threshold program. And then we'll throw it open to questions and answers.

First let me tell you what we've been up to since our last public meeting, which I believe was in the Indian Treaty Room in late September or early October. As I told you then, the first country proposal reached MCC in late, in August. And at this point 14 of the 16 FY '04 eligible countries have given us either proposals or concept papers or draft discussion papers. We're seeing in those proposals

quite a range of elements. Rural development is featured in many of them, including an integrated program targeted toward infrastructure, agricultural extension, rural roads, irrigation, water, and farmer training, land reform and tenure, financial sector reform, private sector development, reform in lending, energy sector reform, education, and other ideas.

While all of the proposals need work, we're pleased with what we've seen so far. As you know MCC's board selected the first group of 16 countries in May. And we did not receive the first proposal until three months later in August. Proposals continue to come in, and we received the fourteenth only a couple of weeks ago. But the countries have used their time well to consult broadly, to think outside the box, and essentially to take our advice to take the time to get it right.

The unprecedented flexibility and scale of MCC is a scarce resource that should not be squandered. We continue, we're continuing to work with the countries, all the countries to clarify and focus their priorities, develop implementation plans, and identify measures results and intermediate benchmarks of performance to ensure we're on track. As the Secretary mentioned, four sufficiently advanced that we have notified Congress of our intent to undertake full due diligence and to begin to negotiate with those four countries, which are Honduras, Madagascar,

Nicaragua, and Georgia. We'll be conducting significant due diligence on these proposals to be comfortable that the proposals are viable and would be a good investment of U.S. taxpayer dollars, a good investment in poverty reduction.

We have used the expertise and are using the expertise and due diligence not only MCC resources, but expertise from the Treasury, USAID, State Department, Department of Agriculture, and the Army Corps of Engineers. In addition we have, we're in discussions with one of the European bilateral aid agencies who has particular expertise in one of the country's sectors in which we have been asked to consider that they will actually put members of their team onto our due diligence team and work with us, with the idea of working with us in structuring and funding the compact. As I've mentioned several times, donor coordination is very important to us. This is a real life example of how it works.

Hopefully these efforts on due diligence and negotiation will lead to compacts. Although there can be no assurances on this point.

Before discussing Monday's board meeting, I want to update you on a couple of other operational matters. First, while MCC has not yet entered a compact, it's already having an effect. Sometimes it's directly tied to our role as being an incentive for policy reform. I mentioned a couple of other occasions, different steps governments have

taken. One recently has introduced a series of anti corruption measures specifically tied in, and introduced into their legislature on the prospect for the purposes of including--improving their prospects under Millennium Challenge. Secondly, not so much as a direct incentive, but as a result of peer pressure. One of our recently named countries, the President is taking great pleasure in being named, and he prints out not only his country's ratings but all of his neighbors. And he uses the opportunity when he sees them to say, maybe you didn't respect us enough in the past, but we qualified and you didn't. And we expect that will be an incentive we hadn't fully contemplated before, but it perhaps could have an interesting effect.

We've also moved forward on the operational side. As the Secretary mentioned, we have I think about 66 people on staff. We've recently, as of yesterday, actually concluded to lease our new headquarters building. We're coming into the District. We'll be at 15th and Eye Street at the building called, it's a building under renovation currently. It's really a premier location, has significant historical history, and combines quality construction with a first class of new amenities and services. And I will say our leasing team has negotiated quite excellent terms. They compare very favorably both in terms of the absolute cost and in terms of a value for money basis to other leases recently negotiated in the market. This was a very

competitive situation. We competed both the brokerage and the buildings. And I think we're quite pleased--and we tracked it very closely with what else was happening in the market. And we're quite pleased with the outcome.

We've also moved forward on the system side to, brought in a new chief technology officer with 30 years experience in the private sector who is moving forward to wrap up a [inaudible] we concluded to really make our systems really cutting edge in terms of our ability to support our operations. We need them. You know, we push, constantly push the envelop in technology because we're asking technology to work in a lot of places where the electricity is non available or unreliable, where you don't have ban width, where you don't have other things. And we're constantly looking for ways to improve it in a variety of other areas.

Let me turn now to the board meeting. As the Secretary mentioned, we, of course, this was to, the run, the 2005 competition. It's on the heels of the 2004 as a result of the legislative calendar establishing MCC, going forward. This would be our normal schedule for naming countries the first quarter of each new fiscal year. And to remind you who the board of directors, members of the board of directors are, it includes Secretary Powell, of course, Secretary Snow of the Treasury Department, Andrew Natsios, head of the AID, U.S. Trade Representative Robert Zoellick,

and two civilian members, the head of Catholic Relief Services, Ken Hackett, and former EPA Administrator Christine Todd Whitman, plus myself.

Eighty-two countries were evaluated this year. Of two of the countries as part of '04, [inaudible] and Albania were not on the list because they've moved above the income threshold for eligibility. As you know, we are focused on the very poorest countries of the world. And as the Secretary mentioned, the 15 countries that were eligible on the list from last year and were reconfirmed. And Morocco was the new country named in terms of eligibility. These countries were explicitly selected based on their country's policy performance, their demonstrated commitment to just and democratic governance, to economic freedom, and investing in the health and education of their people.

It's interesting we see this commitment to good governance and other things in a variety of ways. Of the 16 countries that we named in May, three have had transitions to new governments in the last, since that time, to governments that were not necessarily the same party that was in power when they were selected. And we still continue to see commitment to MCC principles, commitment to free elections certainly, and incumbents leaving power peacefully in a way that we think demonstrates their ongoing commitment to what MCC is all about.

I've seen firsthand in my recent trips robust campaigning in two of our other countries, Ghana and Mozambique, where I can assure you that the campaigning is loud. It is very open and quite, quite something. And it is quite energizing to see actually.

In terms of the proposals themselves, we are moving forward. Ultimately the responsibility for the proposal is the responsibility of the MCA eligible countries. This is part of country ownership. This is part of them setting the priorities. Our effort is to help build soft infrastructure to help them develop the proposal. But ultimately the timing and the outcome is dependent on them. But we are giving help, and as I mentioned, pleased with the progress in many cases both on the development of the proposals themselves and on the policy side.

On the threshold program, the board selected a total of 12 countries on Monday, 6 carry overs or repeats from '04. And then the new countries of Burkina Faso, Guyana, Malawi, Paraguay, the Philippines, and Zambia. They join East Timore, Kenya, Sao Tome and Principe, Tanzania, Uganda, Yemen, and Albania in the threshold proposal. We acknowledge that being named as a threshold country is not the recognition or the access to really resources in full scale as being named as an eligible country. There's still work to do, but the countries are close. It will take some time to do some of the policy reforms we're talking about.

These are not quick fixes when you talk about corruption or rule of law or other things. We don't anticipate a lot of them will qualify for the next selection, or so on. But the point is they've made the commitment and are moving forward--and we expect them to be moving forward on policy reform. And we look forward to working with them on the policy reforms that will first improve their chances for MCA eligibility but most importantly really improve their prospects for poverty reduction and growth. Because the policies that we're trying to incent are linked directly to poverty reduction and growth. And that's what we're all about. On that, let me turn it over to my colleague and friend, Andrew Natsios, who will update us on the status of the threshold proposal.

MR. NATSIOS: Thank you, Paul.

The threshold program is a critical component of the MCA. It helps countries improve their performance on the MCA indicators through policy reform and governance improvements. Leadership for such reforms, however, must come from within the countries. Threshold assistance is intended to help countries make reforms. But the political commitment and the political will and the leadership has to come from the countries themselves. Success will depend on what the countries do, not on the MCC USAID assistance. The amount of the assistance through the threshold per country will be relatively small. It will be through technical

assistance. We've already had conversations with 5 of the 7 countries that were initially chosen in the first round for 2004 that was amassed a couple of months ago.

The board has selected a relatively large number of countries for threshold candidacy because it wants to give as many countries as possible opportunities to improve their performance. In many cases the current indicator gaps are large and in difficult areas such as corruption. Of the 13 countries chosen, some have serious corruption governance problems, some have serious shortcomings in fiscal policy. In such cases we should not have unrealistic expectations about rapid qualifications for the MCC. That will depend on the objective criteria of the MCC indicators. A more realistic mid-term objective is improvements in policy and governance areas where countries are scoring low. These improvements will take time as all development does.

The threshold program is not a guarantee, is not a guarantee of eligibility for the MCA itself. However, if countries do not reach MCA eligibility, improvements in policy and governance conditions will strengthen their development prospects, including private investment.

I want to add that there is a difference between making progress in terms of the indicators and actually implementing the changes. And I think countries are beginning to realize that this is simply not a cosmetic undertaking. There are AID missions in almost all of these

countries. There is an embassy. Paul has his people out. The World Bank is there. UN agencies are there. There are a lot of other donors as well that have observations about what's really happening. And so we know what's going on. If a country passes reforms through the parliament in the corruption area and then implements none of them, then we know that's happening and we'll understand that the political will is not there to actually make substantial changes.

I might add that in my observation in 15 years of work in the developing world, the hardest areas to make changes in are in the governance area, because they involve political power in very poor countries. And political power, unfortunately in many developing countries, is attached to economic wealth. And when you have those two things in combination, it's very difficult to dislodge vested interest and change dysfunctional patterns. But when they do change you can see the transformation of a society. And we've seen that in a number of developing countries that take off after they make this decision to make these changes. So this is about political will.

We look forward to working with the countries that have been selected for the threshold candidacy. Our missions are working on this now and our staff here in Washington is doing that as well. Thank you.

MR. APPELGARTH: Thank you, Andrew.

Before going to questions, I do want to thank you and, of course, Secretary Powell for your remarks, and also to the staff here at the State Department as well as the MCC for helping set up the auditorium today and for their work today.

And then in closing I want to note that the Millennium Challenge now has a relationship with 30 countries. In the post U.S. election environment, there's been a lot of focus on coming together, on healing the divisions of the past, both domestically and internationally. We, and I think Secretary Powell, Dr. Rice, the President, himself, see the Millennium Challenge as an important part of this effort in re-emphasizing the positive role the U.S. has played and is playing in the world and working together explicitly in partnership to improve their--to improve the situation in a number of the poorest countries in the world and the global situation more generally.

So with that, let's throw it open to questions. We have roaming mikes today. It will be an experiment for us, rather than line up. So if you raise your hand, I'll recognize you and then the mike will hopefully reach you.

Down here?

If you, as we've done in the past, if you could identify yourself and your organization.

QUESTION: Hi. Good morning. Is this on? My name is Sara Mitchelson [ph.] with the Center for Global Development. I want to commend the MCC board for making a selection of both MCA eligible countries and threshold countries at the same time. I think that's the right choice.

I want to ask also, as is the board's right to exercise discretion in its selection of the countries [inaudible] expect to hear from you an explanation of [inaudible]. Three were selected for the threshold program and 7 [inaudible] selected. So I'm wondering when we're going to hear an explanation, a country-by-country explanation of why that occurred. And if it leads to a rationale around countries, particularly those threshold [inaudible] countries being substantially below median, how you reconcile that with the fact that several of the MCA's selected countries themselves are substantially below the median in one, two, three, or four [inaudible]? Thank you.

MR. APPELGARTH: On the first one, we agree with you that it is better to have the--to the extent we can have the eligible countries and the threshold countries selected at the same time. As you know in May, the threshold country program hadn't even been approved by the board. So it was not possible to do that. And we really thought we needed to have a program in place, have a full understanding with our partners and AID on how we're going to work before we name

the threshold countries this time. So the timing, the gap was longer than any of us viewed to be desirable last time. But we were this time, did-- [inaudible] to do them at the same time. It depends a lot, frankly, on how much time we have, how much we have to do at the board whether we can do them at the same meeting. We would like to have the meetings relatively close together if they can't happen at the same time.

In terms of the country selections, we under our authorizing legislation provide or are asked to provide Congress an explanation of the countries that are selected. And we will do so. That notice should go up, I think, on Friday. At this point we lose a day because of tomorrow. In terms of the countries that are not selected, it varies. And we do not publish explanations. I can assure you, you know, the board focuses on the criteria. Recognizes that the criteria in some cases are somewhat dated. So it looks at recent events. It has access to classified information. It also has supplemental information we provide not only in terms of more recent information, but in the areas where there are not good indicators, such as the management of natural resources, and some of the other items that are important to what we're trying to achieve. And that, it really goes country-to-country quite specific.

In terms of substantially below, one of the key elements is if a country is below, is the country or the

government making significant steps to remedy the situation. We've got several countries that are substantially below and the countries are not making any efforts to improve the situation. And the board is asked in the legislation and would want to use its discretion to consider whether those countries qualify for MCC eligibility and essentially take funding away from countries and efforts that do qualify and that are taking the right steps to create the policy environment that we want.

Andy, do you want to supplement?

MR. NATSIOS: Just a couple of other things. We have to look at the ability of the government to implement things. One country, without mentioning the name, it's in the middle of a civil war, doesn't control two thirds of the country. While the indicators look pretty good, I don't know how they'd carry out the program because they're in the middle of a massive political crisis that's growing more severe.

Many of these countries, I've been traveling an awful lot in the last few months for our own mission sake, but as I go there I can see the reality on the ground. And there has to be a connection between the indicators and the reality. If the government is destabilizing or there is a civil war going on or a massive crisis that would make it very difficult for them to implement a program, then we really have to factor that into decisions of this kind.

MR. APPELGARTH: Over here. Kristen, I think, and then John, you're next.

MS. O'CONNELL: Hi. My name is Maura O'Connell. I am in the Women's Edge Coalition. First I want to congratulate the MCC on entering into compact negotiations. I know that's a huge step for you as an organization and that your staff has worked very hard to get to that point. Given that one of the best practices in development is to ensure that gender is taken into account, and that means the different rules, rights, responsibilities and barriers of men and women in society. And we know that without this analysis that development is less effective and it is unlikely that both men and women will be tapped for economic growth and will benefit from poverty reduction efforts.

My question is, from a management perspective, what systems and capacities are you building within the MCC to ensure that you can evaluate if countries have taken genders into account in their compacts and if they have the capacity take gender into account in the implementation? Thank you.

MR. APPELGARTH: We look at this in two ways. And first, of course, is in the criteria themselves, the indicators. And as you know, and actually with the--I'm sure you didn't set this up. But I know with the help of Women's Edge, we actually were able to improve one of our indicators to focus on female primary completion rates

rather than general completion rates because we found a stronger empirical link to poverty reduction and growth and better information that extended across the country. So we had a meaningful ranking.

And again I go back, as I said before, when we look at indicators, we don't simply look for trying to measure good ideas. We need something that is explicitly linked to policy. Governments can change some things so they can improve performance under indicators. And policy that is linked to poverty reduction and growth. But in the case of gender, we have been able to improve it. And we're looking at some other.

In the compacts themselves it's a key part of our due diligence. It becomes a part of it. We look at the potential impacts on women and children as well as the environment and social areas, and a variety of other things that are actually set out either in our legislation that we would do anyway. And that's a key element in both of our monitoring and evaluation and measurables. In many of the cases the data isn't very good. If we're going to measure improvement, you've got to know what you're improving from. And I would readily expect as we finalize compacts to see a piece of them early on in terms of base line data collection so that we have a better measure of what we're trying to do. You're welcome to chime in.

MR. NATSIOS: Let me just add one thing. And that's sort of just a simple rule, development rule. It's a rule in management and public policy. It's people pay attention to things that can be measured. If you can't measure it, then it's hard for the system, the international system, to pay attention to it. And I think it's important that the MCA is focusing on some things that relate to gender, like rates of girl completion of primary school. That's a critical factor in the improvement of women's status in developing countries or in any country.

The second thing I would say is that too much focus has been placed, I think, internationally on what you do with the money as opposed to what the policies are of the country, what their decisions are, and what the governance system is. We think, the President thinks and I think Secretary Powell thinks that the money should follow the good governance and the right policies as opposed to taking a more gap oriented view, which is the traditional view. Which is you determine how much gap there is between what you want and what you have and then you try to fund that gap. That ignores the political will of the country involved.

There are some developing countries where the status of one is much greater than neighboring countries that is just as poor. You can see it in all their indicators, what the child mortality rates are, what the

maternal mortality rates are, what the level of literacy is among women, what the income levels are of families in the poorer areas, what the distribution of income is. You can look at those things and those are because of decisions that were made by people in the country, not by donors. And so when you reward countries that make the right policy decisions, you, in fact, are making a profound statement that will influence the future for women and for other groups in society for that matter.

MR. APPLGARTH: I think we're down here. Kristen, we're working you out. We'll try to get somebody over here to give Cassandra some work.

MS. BUSHING: Hello. My name is Sara Bushing [ph.]. I'm with the National Wildlife Federation, International Affairs. And thank you all, first of all, for being here, as well as Secretary Powell. And I have a multi-faceted question again. First of all, I was just wondering in earlier comments you had mentioned how the chosen countries were chosen upon the indicators. As there is not an environmental indicator, we've been told there's going to be a working group. But we still haven't heard any word of when that's going to be formed and how do we get more information about being involved.

And secondly in later comments there's been mention of due diligence teams and how environmental management of natural resources has been monitored or is

part of the analysis. But I'm just wondering to what ends that is going to be as an indicator? Thank you.

MR. APPLGARTH: In terms of the work on the indicator, as many of you know, we have set up an effort. I'm not quite sure what form it will take, whether it's a task force, or a working group, or an informal consultations with experts in the field. But Chrissy Todd Whitman, who is head of the Environmental Protection Agency, has agreed to lead that effort. I expect you'll see more activity around it that now that we're through this country's election process and this round. We've been putting it together, but we are not yet finally deciding what the next steps are going to be.

I want to differentiate also between the indicator, which is an overall measure of country policy, and would be important for evaluating whether a country should be MCA eligible or threshold and our evaluation at the compact level. We don't need a global rigorous indicator tied to policy to assess the environmental and social impacts at the compact level. And that process is going on. I don't know if Margaret Kuhlrow is here today. She's in the back. I think at the last meeting I had suggested we might have her speak at one of these. I had hoped to do it at this one, but that was not--we weren't sure that we'd have as much to talk about this time or the presence of Andrew of Secretary Powell. So next time I

still hope she can get up and talk about her efforts as to what we're trying to do at the compact level. But we really are trying to put in place, as the proposals are refined and we know actually what the thrust is going to be, a measurement of the environmental and social impacts to ensure that they're achieving the kind of things that we want to achieve.

MR. APLLEGARTH: Over here.

MS. FIFER: I'm Sara Fifer [ph.], a recent graduate of American University's MBA and International Development Program. Again, thank you for your commitment to transparency demonstrated through events like this. I attended your hearing at the Senate Committee on Foreign Relations last month and noticed your frustration in the, or the challenge that is posed between the gap in funding that has been promised by President Bush and has actually been allocated. And I wonder if you could speak a little to that and what efforts are being made to bridge that gap to ensure that the goals that you have set out are going to be met?

MR. APPKEGARTH: I'm not sure it was frustration or, remember challenge is our middle name. This is one of our challenges.

The President asked for two and-a-half billion dollars this year. The House cut it in half to a billion and a quarter, and the Senate a little bit less. All right. In a tough budget year, we still got increases. And I think

that does reflect that we do have broad base support on the Hill and bipartisan support. It's technical, but something called the 150 account, which is where all the foreign programs are housed or funded was cut by over \$2 billion on the President's request. We took our hit as part of that reduction.

But the story is not over. This is a priority for the Administration, for the President himself. It has been identified as such on the Hill. Whether we'll have the issue resolved in the lame duck session, which I think is next week, or not or we'll have to wait till the spring is not clear to me. But there is going to be a serious effort to get the number up for this year on track to the \$5 billion a year starting of in '06.

This is important. There are a lot of countries that are making quite serious steps in response to the MCC incentives. And remember, this is all part of the deal from Monterey, where the developed world said to the developing world if you all take responsibility for your own growth and development, take the leadership, put good policies in place and promote good governance, promote economic freedom, investing in human capital, we will provide additional assistance to you to do that. All right. The MCC is the United States delivering on that promise and I think has surprised many people in delivering by the speed, size, and scope of it.

But we, nonetheless, we have partner governments who are taking steps and hard steps to live up to their side of the bargain. And it's important to get as much of the funding as we can. Reductions in the funding reduce both the number of countries we can work with and the size of the compacts we can work with. And we want to make sure that we're able to do what we're set up to do. And so we will continue to push for it. We have the support within the Administration. We have the support of the full board of directors, some of whom's own budgets were exposed to do this. And we're seeing it in a variety of other means. I know most of you didn't see it, the President while he was out in the middle of the campaign trail, sent a note back to one of the leading committee members in the Senate talking about Millennium Challenge and the importance of funding it. All right. This was not--he had a few other things to think about at the time. And yet Millennium Challenge was on his mind.

You'll see it coming out of White House press statements as a lead off at some of the press conferences. You saw the President mention it on Thursday in his first press conference after the election. Millennium Challenge is right there as part of the two elements I think he mentioned on the international agenda. This is important. It's important, not only to the Administration, it's important to Americans. It's important to the developing

world. And we are going to continue to keep the focus on the Hill on that. We know many of you are working hard on that. And very much appreciate the efforts. We appreciate the feedback we get from some of you on what needs to be done. You recognize it. We're trying through our own activities by the pace with which we're operating with the professionals with which we're operating to build confidence in what is still a start up operation so that moneys can be well used that were fiduciary. So we're trying to do it in a variety of ways besides message on the Hill. But it is important and we're going to keep the focus.

Fran, next time let's get not such comfortable chairs. We had many more questions when we were over in the GSA auditorium folding chairs.

Back in the back?

QUESTION: Elizabeth [inaudible] International Committee. Thank you very much for this opportunity. A quick question with regards to kind of following up on the last question on reductions, Congressional reductions in terms of MCC funding and the 150 account. Given the reductions, do you see an area where there would be a coordination perhaps between congressional foreign aid and the MCC assistance programs to try to make sure that, you know, countries kind of get fair shares of the pie type of thing? No one country gets more than their, I don't know,

fair share, if you want to call it? But essentially a coordination between the two accounts?

MR. APPLGARTH: Well, there are a number of sources of foreign assistance from the government, from the U.S. Government. Andrew has many more of them than we do. For example, we're one, we're focused on one thing, poverty reduction and growth. His portfolio is a lot more complex because it includes all the humanitarian aid programs, disaster relief, as well as some focus on development. Other parts of the State Department, the ESF funds, economic stabilization funds, the HIV AIDS program, and so on. I think our key is to reward the countries explicitly that are making the steps, the hard steps for policy reduction.

In that regard there is no such thing as a fair share. I want to amend your remarks. This is a two-stage competition. You have to be selected as an eligible country. And then your proposal and all the elements of your proposal have to stand up to the proposals coming from other countries. And we're not going to, even if we have the money, we're not going to fund something that we don't believe leads to poverty reduction and growth first and foremost. And we at the end of the day are going to look at the best proposals where we're going to get the highest growth return on this investment of U.S. taxpayer funds. So it's not simply taking \$3.5 billion, \$2.5 billion and dividing by 16 or 17. That's not the way it works. It

[inaudible] to the quality of the proposals. Within that we obviously will have to manage in some ways if the funding is significantly reduced. We have some opportunities to, if countries continue to qualify, to take some funding out of a future year. We can do some phasing of compacts. We have been talking about three to five year proposals or compact proposals. We're looking to shorten some of that to the extent we have to. At the end of the day there's only so much of that you can do. If we have good quality proposals, and we are getting several of them, we need to be able to fund them, to deliver on the promise what we're trying to do.

MR. APPLGARTH : Yes, ma'am? First chair in the front row.

MS. STORK: Elise Stork [ph.] with IBM. Can you describe the due diligence process, please, given the number of U.S. Government agencies that are represented at post. Will due diligence be primarily the role of MCC staff or will you involve the other U.S. Government agencies and use this as an opportunity for more interagency coordination as well?

MR. APPLGARTH: MCC has ultimate fiduciary responsibility for what we're doing. And MCC has the responsibility to take the lead on the due diligence. At the same time by design we want to be small. As somebody said the other day, we've almost gone up ten times in size

[inaudible]. It's the world's worst fear of outside the Beltway of sprawling government bureaucracy. We've got 70 people already. We will cap at around 200.

But in that, with that discipline comes another discipline which is that anything that isn't essential to our mission we try to subcontract out. And some of you have heard me before talking about how we're out subcontracting out HR security clearances, all the IT, our personnel back office, our accounting, all that's outsourced. So it's directed out. In addition, we know that we will never have all the expertise or the best expertise in the world on all the compact elements. And so we will use, look to find the best sources readily available to us for that. Some of that will be in the U.S. Government. As I mentioned, we've brought in both the Corps of Engineers and the Department of Agriculture in addition to some of the more obvious board agencies at AID and Treasury and State to help us. Other, bilaterals, private sector experts and others. And we will bring in the people we need to do the job and to be comfortable the job is being done right. And that's the core philosophy.

Yes, down here? Where's the mike, Cassie?

QUESTION: Thank you. [Inaudible], I am with Johns Hopkins School of Advanced International Studies. And I'm wondering, this relates to Elisa's question which has to do with donor coordination but more in country and getting

to the issue of reducing administrative burdens on the part of those countries that benefit from MCC and other assistance. And I wonder if you'd talk with us a little bit more about the coordination with the World Bank ... and some of the large bilaterals in terms of reducing the administrative burden on the beneficiary countries. Thank you.

MR. APPLGARTH: As I mentioned in my opening remarks, donor coordination is very important to us. And we're getting a lot of support from other donors. I think I mentioned at the last meeting both Jim Wolfensohn and the World Bank and Mark Malloch Brown at UNDP have been helpful, Mark, in a particular, on a variety of things but also in arranging events at their institutions, both the UN and the World Bank at the really senior management levels. And that extends to both the New York and Washington based agencies to MCC staff here.

When we're in country, we always want to make sure that we're talking to donors. I see the donor representatives in every country I visit. The first part of that message is, don't use the excuse of MCC coming in to cut your own funding. All right. We're suppose to be additional. You can't be additional if we're--we can't be an incentive, a real incentive, we're not additional. In addition the countries need funding and they need good programs. All right. That's the first element of it.

We try to, in a variety of ways, coordinate with them. Some of you have heard me say before that if there is a good program done by another donor country, but it's small, the government of the country says it's a great program, doesn't have enough money, would you put money into it? We can put money into it if it survives our evaluation. Absolutely. At the same time we're quite happy to have other donors come in, as I mentioned the European Bilateral, work with us with due diligence and potentially help us fund a compact. There's a variety of ways to do that.

In terms of particularly the question of burden, to the extent that it is another program that has our, achieves our focus on outcomes and measures results, we don't need to reinvent the wheel. We can use those measures. PRSP, Poverty Reduction Strategy Process, to the extent it's a good one, we'd like to use that. At the same time, we think we can help support the PRSP process. At the same time the PRSP process can learn from us. I'm convinced of that now. I wasn't sure of that six months ago. I absolutely believe what we're seeing in terms of the breadth of consultation, the depth of consultation in these countries, there are lessons to be learned by all the donors. Our countries are taking this process quite seriously in terms of consultation and in terms of [inaudible] we outreach not only to the sort of socially NGOs, many of them who have participated in the PRSP

process, but to civil society, to academia, to the private sector, parliamentarians and others, most of whom tell me they have not participated in the PRSP process, even in the better PRSP countries. Okay.

So this can be a two-way coordination and a two-way effort. I think the thing that we will assure you is we see this as an active discussion with the idea of bettering the whole process for everybody and ultimately achieving the results of poverty reduction and growth.

Andrew, do you want to add something?

MR. NATSIOS: I want to add a comment on this. I know my colleagues who are development ministers and who head international organizations and agencies talk about this a lot. It is really not a problem with our aid program in the United States. We require almost no paperwork, except I think of the 80 countries AID is in, there are 5 of them that we require the governments to make some, have accountability for how they spend the money. Because we go through the government in those countries. In most cases while we work with the ministries, we've learned over years that it's not wise to actually put the money through the ministries to do certain things.

I think the presumption in some of those institutions is the MCA is going to follow the European model or the UN model or the World Bank model. I think that's an incorrect assumption. There are all sorts of

other private mechanisms for spending money which Paul and his staff are considering that we've used over the years that require no, that make no administrative burden on developing countries.

What our friend is speaking about is in some countries the ministries spend all their time writing reports for donors as to how the money is spent, I mean literally, and they're overburdened by it and overwhelmed by it. And there are thousands of these reports. I don't really think that's as much a developing country problem as it is a donor problem. And I don't necessarily think it's a coordination issue. It can be. I mean, we need to coordinate certainly on policy issues. But some of it's just the nature of their system. They tend to be more stultified in the way they approached development. And there are other models for doing that. And the American model has been less onerous in terms of paperwork than some of the other models.

MR. APPELGARTH: Again, ultimately, we want to agree our partner countries what are the results they want to achieve and the best ways of measuring it. So they will, in many ways, define much of the reporting. In addition, we'll obviously build into the compacts monitoring, evaluation as part of the compact. And then we will have some mechanism for monitoring the monitors. But the reality is that our, as Andrew has mentioned and I think I want to

reinforce, our model and approach is quite different than what happens in some other places.

MR. APPLGARTH: Did I see another question back here or did we get it already?

How are we doing? Over here?

Here first and then, yes, you're next.

MR. WILLETT: Dick Willett [ph.], Graham Thornton [ph.]. Who are the four countries, once again, that we're close to on a compact?

MR. APPLGARTH: Well, we've authorized formal due diligence which means the full resources and the beginning of compact negotiations. That doesn't mean signing is eminent, all right, or that there will ever be a signing. At least it's a step in the right direction. The four are Honduras, Nicaragua, Madagascar, and Georgia.

Over here? This one.

MR. TIPSON: Thanks. Fred Tipson [ph.], with Microsoft. Given the rightful emphasis you're placing on having good information and managing it well on transparency and financial accountability on participation, and so forth, can you give us some sense of your approach and what you're conveying to the countries in developing their projects as to how to build in information systems and accountabilities and measurement systems that make the MCC particularly focused on those objectives?

MR. APPLGARTH: Rather than getting into all of the techniques here, I don't know if Chuck Sethness is here, he really heads our monitoring and evaluation effort. I think he'd be useful for you to talk to off line or afterwards. This is the core of what we're about. Besides incentive for good policies, ultimately in terms of the money we're investing, we want to focus on results and outcomes. You can only do that if you have good measurements of data, if you have good ongoing ways to track it and measure it. Chuck is putting together a whole team to really focus on that and look at a variety of ways to do that. It's just core to what we're about.

Yes, sir? And then back there?

MR. LIGGETT: Thank you. I'm Dan Liggett, I'm a development consultant. And I've got three questions. Based on the quality of the proposals that you've received so far, are you ready to hazard a guess as to how many compacts you'll eventually see out of round one?

The second question is, are these compacts setting priorities broadly by sector or are these compacts down to such a level of detail as rebuilding a specific bridge over a specific river?

And then the third question, I'm a little unclear since you didn't put funding caps on individual countries in round one, what did they win in round two?

MR. APPLGARTH: I'm not ready to hazard a guess on the number of compacts we will sign out of the first group. First of all, we haven't even seen two of the proposals. If I were betting, I would bet we aren't going to do 16. That's probably a reasonably safe bet. But where we are into that, I really don't know. It really depends.

This leads into your second question. All of the proposals I mentioned need work. Some of them are better than others, both in their focus and the quality of initial discussion of implementation. And that's what you'd expect. It's a first time through for everybody, including Millennium Challenge. And with partner countries who are not used to doing this and don't have the skilled development consultants and professionals around that we have here in Washington. And part of our focus is to help them develop, to build that capacity, that soft infrastructure in the countries. So not surprising it is not perfect.

In addition almost all of them, not almost all. All of them have a bit, notwithstanding how much consultation they've done and because of the consultation they've done there's a certain, a little bit of a buffet quality to some of them. Some are more focused than others. All of them have a few things in there that are clearly there for some sort of political reason, either to appease some group or something else, and we feel our evaluation

process will, they'll get screened out. But they're there for that. We really are focused and I think the countries are focused on the things that really do lead to their poverty reduction and to growth. And they're not being done by other donors. Because don't forget, that's the other part of this. If somebody else is doing this, we ask the countries to tell us how what they're asking us to do fits in with what other donors are doing.

So over time they will be quite specific. If it's a big infrastructure project, we want to know what it is. And that would include a bridge. We're seeing a lot of integrated proposals, integrated particularly in rural development proposals. And I think this is a reflection of country ownership. So they're not, they know that simply by fixing one piece of it or investing in one piece of it, you don't cure it. You've got to have a comprehensive program that addresses farmer education to better get it tuned to the new export markets particularly in Europe, where the environmental standards are going up dramatically. Whether you're talking about new forms of drip irrigation, rural roads leading into feeder, feeder roads leading into secondary roads, leading into main roads, into a port, micro credit.

So I think the fact that the countries are on the ground, own it, know the problems, they understand that it's

got to be all part of a comprehensive piece. And so we're seeing a number of proposals incorporated in that.

In terms of your last question, I'm not sure I fully understand it. The reward for the second stage is getting funded. And the amount of the funding will be tied to the quality of the proposal and the impact and the results we get in terms of return, in terms of growth, and in terms of poverty reduction.

Did we get your question?

Over here? Anybody else? We've got time for one more I think. Over here on the left. And that, I think, will have to be the last one.

MR. KNOWLES: Thank you. I'm Larry Knowles [ph.] with the Congressional Research Service. My question has to do with once compacts have been entered into between the MCC and a country, what impact is this going to have or likely to have on USAID programs in these countries? I think now there's USAID missions in 14 of the 17 countries out of the '04 and '05 round. What issues are under consideration? What discussions have taken place? What do you anticipate about possible changes in objectives of USAID programs, resource allocation, or any other matters? Thank you.

MR. NATSIOS: We're working very closely with the MCA staff on coordination issues, on integrating what we're doing and what they're doing at the country level. I don't think that will be an issue. The larger policy question is

what are we doing with our budgets in those countries. And a decision was made early on by the President not to, I offered, I said, do you want me to shut down the AID missions in those countries and cut back our funding, we'll do it. But they said, do not do that. I said, okay, we won't do that.

It is clear, though, that I think it's fair to say that in the countries which have been chosen, there has not been a big growth in the AID funding. There has been a policy decision made to leave the funding--except in areas that are not related to transformational development. If there's an emergency, a famine or a drought or a civil war or HIV AIDS, those are based on entirely separately sorts of decision-making processes.

One of the problems with AID is we have basically five major missions simultaneously. We have a thing called the white paper, and if you want to read it, it's in our website. And, you know, when we make a decision on HIV AIDS, it has nothing to do with the policies of the country or transformational development. It's what the infection rate is and how rapidly it's increasing. Our decisions made on our humanitarian programs is based on the need of the country. Are people at risk of dying? Because those programs are not for transformational development. They're for people, to keep people alive.

The ESF program is there for geo strategic reasons. It's there to carry out the foreign policy interests of the United States. All of these funding sources, though, have policy and program implications. And we will ensure that they are consistent with the money that is being spent through the MCC. But that will be done at the country level. And we've had no issues that haven't been resolved. And we're working in a very collaborative way on that.

MR. APPLGARTH: Certainly, Andrew, it would undercut my message to other donors not to cut back their programs if AID suddenly rolled back.

MR. NATSIOS: Right. If we did that, it wouldn't be a good message.

MR. APPLGARTH: Now, more than that, AID has been of great help to us. I mentioned the World Bank and UNDP and other donors before, but AID has been helpful to us not only in the threshold program, but just more generally. They have a number of very good people in the field, they have given us excellent briefings, introductions elsewhere. And we've gotten very good cooperation So I will thank you publicly for that.

And on that I will thank you all for coming very much. It's good to see many of you again. And we'll see you again soon.

