

# MCC Holds a Post-Board Public Outreach Meeting

## Speakers

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# Transcript

COOPER: Good morning. My name is Chuck Cooper, and I am the vice president for congressional and public affairs at the Millennium Challenge Corporation. Thank you so much for coming. We really appreciate it.

I have now been at the MCC for about two and a half months. And before coming to the MCC, I worked at the Senate Democratic Policy Committee for Senate Majority Leader Harry Reid and Senator Dorgan, who's the chairman of the Policy Committee.

And at the Policy Committee, we worked on providing legislative and policy and communications support for Senate Democrats. And while I was still on the Hill, I often heard about the MCC, and I heard about what a wonderful, dedicated, highly skilled staff the MCC had, and I would encounter them from time to time. I'd also hear about the innovative model. I'd hear about the really inspirational mission that the MCC has.

And now that it has been two and a half months, I can report to you today that it's all true. Everything I heard about the MCC, I think, is true. And it's -- I've been so impressed that every day the MCC is doing really important work to reduce poverty and to improve the lives of poor people around the world. So I have been really, really impressed with the work that MCC does.

I also wanted to say what a privilege and honor it is to work for Daniel Yohannes, who has such a clear and such a dynamic vision for the future of the agency. And I'm really privileged and honored to be part of a team that's going to be implementing that vision.

Yesterday, we had our quarterly board meeting. And today, we are going to -- we have convened this meeting to continue an MCC tradition, which is to reach out to our stakeholders, to engage with our stakeholders, and have a good conversation about the MCC, and to give you information about what happened at the board meeting.

And this is part of our commitment to transparency. It's also part of our commitment to engage with all of our stakeholders. It's really an important part of the MCC, to engage with all of you, and you're a valued part of the MCC team, so thank you so much for being here.

Just wanted to say a little bit about the agenda today. There's really two main components. The first is we will be hearing from our CEO, Mr. Yohannes. He will be providing a summary of what happened at yesterday's board meeting. He'll also be talking about key developments at the MCC since our last meeting three months ago, give you a little preview of what to expect in the future.

And then the second part of our discussion will be a panel discussion in which we will be talking about the status of our compact programs, our threshold programs, and we'll also have an opportunity to talk about results

that were produced in Madagascar as a result of our compact in Madagascar, despite the fact that it had to be terminated early in May of 2009.

So with that, I would like to introduce our CEO, Mr. Daniel Yohannes. Please welcome him.

YOHANNES: Thank you, Chuck.

Good morning. And welcome. It's nice to see you. I want to share with you this morning with the highlights for our board meeting yesterday, but also I want to provide you with an update about some of our activities in the last 90 days.

First, I'm very pleased to tell you that we are complete assembling the senior management team. It's been on my mind for the last six months. Of course, having come from the private sector, I'm somewhat impatient, so I thought I was going to get it done within 60 days, 30 days, but a lot of my friends tell me that this is really fast, and I should be happy instead of fast.

(LAUGHTER)

So with that, I'd like to introduce our teams that have arrived in the last 90 days. First, I'd like to introduce Melvin Williams, who's our vice president and general counsel.

Melvin, please stand up and wave.

Melvin comes from Citigroup.

(APPLAUSE)

Victoria Wassmer is our new vice president for administration and finance.

(APPLAUSE)

Victoria comes from FAA.

And Steve Kaufmann, our chief of staff...

(APPLAUSE)

Steve comes from international law firm of Morrison and Foerster.

And Andrew Mayock, where are you, Andrew? He must in a meeting, but Andrew is deputy vice president for compact implementation. He comes from the Treasury Department, where he served as executive secretary for Secretary Geithner.

These new leaders join Cassandra Butts. Cassandra? You've seen Cassandra. She came with me in December.

(APPLAUSE)

Our senior adviser.

Sheila Herrling, vice president for policy and international relations. Sheila, are you here? If not, she'll be here later on.

Patrick Fine, who you met last time, vice president for compact implementation.

And Chuck Cooper, vice president for congressional and public affairs. I could tell you that, since Chuck has been here, I have seen at least 20 to 25 congressional members. Because of his expertise and his connection with Congress, we're able to see people that we've not seen in the past. So (inaudible) a lot of the money, but nevertheless, so far, he's been extremely great, and we're very happy to have him, because, after all, this town is about connections, who you know, so -- because of his associations in the Senate, he's been extremely helpful.

So thank you, Chuck.

In addition, I'd also like to introduce Frances. Frances Reid, where are you? She must be in a meeting. I think they have a meeting. So Frances is currently deputy vice president for compact implementation, and she will take a new role in the office of the CEO as a senior portfolio and risk manager, responsible for risk management across the portfolio, development of private-sector strategy, innovation, quality assurance, and many other projects.

So we are very delighted to assemble a very seasoned senior management team that could help us to take this agency to the future in our fight against global poverty.

In addition, we also made a decision to combine compact implementation department with compact development. We made that decision primarily to allow us for greater efficiency, flexibility, and also to help us position MCC to meet the needs, the demands of our partners in the future. It'll also help us put a lot of focus on results.

At the next week's senior management retreat, we will talk about consolidation and any other issues that would impact MCC the next couple years, particularly related to where we need to be in the next five years in our strategy meetings.

In addition, kind of give you a little bit of my activities, last April, I testified in front of the House Appropriations Subcommittee in support of the president's request for \$1.28 billion for fiscal year 2011. I understand these are very, very tough times for budgets, but we continue to push our case with members of Congress, the Senate, to remind them that our prosperity and security at home is really tied to the global security and prosperity, so we have

a lot of work nevertheless. We are pushing our case using Chuck's connections and many other's connections that we very much engage and will continue to visit the Hill in coming months.

We're also working with Congress to push for critical (inaudible) reforms to have concurrent compact, and to be able to have longer compact, and also to pick (ph) the graduation issue, when countries are graduating from low-income countries to LMIC so they're not penalized, given our current funding structures.

I also had the opportunity to visit El Salvador and Tanzania in the last 90 days. In El Salvador, we have a \$468 million compact program. I was extremely pleased with the progress that has taken place in El Salvador. I was able to see the progress that have been made.

You know, I participated on a dedication project or ceremony with President Funes in El Salvador in the northern area. We completed building 20 schools. And I could tell you that, looking at the kids' eyes and many of the facilities that I've seen there, that we are providing the tools for those kids so that they could go to colleges, they could earn better livings. And all of our projects are primarily the northern area, which is a region that has been neglected for the last 50 years, and we're bringing about economic prosperity to the region.

I also participated on a groundbreaking ceremony in El Salvador to dedicate a road that will link the north to the south. This particular project has been on the dreams, on the work for the last 50 years. So we are making the dreams of El Salvadorians possible, and this will generate tremendous economic activities in the north.

I also participated on a groundbreaking ceremony to build a new community college in the northern area. I also spent significant time speaking to mayors (ph), at least the 25 mayors (ph) -- the mayors (ph) that have been involved with our program for the last five years.

And I spoke to a lot of beneficiaries, people that benefited a lot from our training, these are small-business owners, that increased their income as a result of our training programs. Overall, I believe El Salvador is doing extremely well. We're very happy with the progress that have been made. And we look forward to the full completion of the program in the next two years.

I also went to Tanzania. Tanzania, we have about \$698 million compact program. They have done a lot of the preparatory work in the last 18 months, and a lot of the work that's going to be implemented in the next six months. We are concentrating there in energy, water supply, and construction of roads.

So I have participated on a groundbreaking ceremony in Tanga, which is the northern part of Tanzania, with President Kikwete. And that was going to be able to link Tanzania with Horahora (ph), which is on the Tanzanian (ph) border, and ultimately to Mombasa, which is one of the most efficient ports in East Africa.

So a lot of projects in place. And we are confident that will be completed on time and on budget.

I even had a little opportunity to take a tour of the spice farm in Zanzibar. As you know, Zanzibar is known for spice farm, and we had a very just dedicated young man who took us around and gave us an education, the purpose of those spices, in addition to edible products, and how you could use those spices to cure a lot of the illnesses, from stomachaches to headaches. So it was educational for me. And I look forward to go back again.

Also, we had an opportunity to host the Liberian president on May 26th on Capitol Hill for a breakfast event, along with Senator Jack Reed and Congressman Jesse Jackson, Jr. As you know, Liberia, we approved a threshold program for the country, and we heard about some of the activities that are taking place from the president of the country.

Also, the board approved a threshold program for not only for Liberia, also for Timor-Leste, in the last 60 days. And we anticipate that we'll have a signing ceremony in both countries in next 60 days, either July or August.

Now, I want to kind of bring you current about what was discussed at yesterday's board meeting. The board had a very fruitful discussion. First board member discussed the proposed compact with the Philippines. The board reiterated its desire for a commitment by the new administration to the compact objectives and to the fight against corruption.

Second, the board reviewed compacts both in development and those in implementation, including compact with Georgia and Honduras, that will close out over the next 12 months.

Patrick Fine will go into detail very shortly when we convene the panel. In addition (inaudible) will also talk about our closeout experience in Madagascar.

Third, the board discussed the future of the threshold program. The board is looking at refinement to MCC's threshold program. I believe Jim Greene will go into more detail on the panel on the plans to develop and design the program over the next three months.

In addition, I guess I talk (ph) about the threshold program, and it was approved, was (ph) Liberia and Timor-Leste.

I guess those were some of the highlights. And I presume that you guys are going to talk about it in detail. I'll stop here to answer any questions you may have.

Yes, sir?

QUESTION: (OFF-MIKE) Bruno Cornelio with USAID.

YOHANNES: Yes, Bruno, how are you?

QUESTION: (OFF-MIKE) technical issue (OFF-MIKE)

YOHANNES: Yes.

QUESTION: (OFF-MIKE) lower income to middle income is a major issue. And is there any preliminary thoughts on where your future would go? Are there some constraints with the middle-income categories? Or how will that be addressed in the future?

YOHANNES: Well, definitely that's why we're seeking to get approval today. You know, we can only spend 75 percent (ph) of our investment dollars with low-income countries. And 25 percent (ph) is spent for the LMIC. And if, in fact, the country graduates to LMIC category, even though we work with them for some time, they get impacted.

Of course, we get some relief on Philippines and Indonesia. But nevertheless, we want the program to be permanent so they're not penalized immediately, so that at least we have two to three years in the future before they penalize. So we're working with them very closely, and we hope that we're going to be able to get that legislation passed in the future.

QUESTION: (OFF-MIKE) for Timor-Leste (OFF-MIKE) middle income in the next 18 months based on their oil revenue, and so it's an issue at hand.

YOHANNES: Yes, Timor-Leste has been -- it's a threshold program. It's not a compact. And we've been working with them for some time, so it has been in the pipeline for the last couple years, so it has been subject to that requirement. These are primarily for compact countries, sir (ph).

Any other questions?

Good. I guess with that then, Chuck, I'll leave it to you and -- to introduce the other panelists. Thank you very much. Appreciate it. OK. Thank you.

COOPER: All right. All right.

(APPLAUSE)

Thank you, Daniel. I know that you've got other meetings that you need to attend, so we wanted to move to the second part of our meeting today, and which is the panel discussion. And I'd like to welcome our panelists to come up and be seated. And as you do that, I will introduce you.

I first would like to introduce Patrick Fine, who is our vice president for compact development and implementation. Patrick has come to us after decades of experience at USAID and AED more recently. And we are very -- we're very happy that he has joined us. He is going to be talking about the status of compact development and implementation.

Our second speaker will be Jim Greene. Jim joined the MCC about four months ago. And Jim is a deputy vice president in our policy and international relations department. And he is also managing the threshold program, and Jim will be talking and providing an overview of the threshold program. Jim comes to the MCC after serving then-Senator Joseph Biden for about 17 or 18 years, a lot of experience on the Hill.

And finally, we are going to be hearing from Glenn Lines, who was the MCC resident country director in Madagascar. And Glenn joined us after serving in the Peace Corps and doing a lot of development work in Madagascar before ultimately heading up our efforts in Madagascar. And Glenn will be talking about the results that we achieved prior to termination of that compact last year.

So I will leave it to Patrick.

FINE: Thank you. And good morning, everybody.

Let me just briefly go over what we discussed in yesterday's board meeting. I did a review of compact implementation progress over the last quarter. We have 19 countries that -- where we are implementing programs right now.

This was a -- I described it as a smooth quarter. We were constantly dealing with a variety of challenges across our portfolio, so that's the nature of the management that we do. But overall, looking at the quarter, it was a period that was very productive, where the programs were -- were moving forward across -- across all the countries where we're working.

Looking at major issues that we're confronting now, one of the principal ones is closeout. For the first time in the organization's history, it's reaching the point where some of its programs are reaching their natural life. And over the next 12 months, there are five countries whose programs will close. And then later on next year, there are a couple of others. So we have seven programs that will be reaching their five-year term in the next 16 to 17 months.

So that poses a challenge for us, since we -- it's the first time that we'll be closing out programs, and it raises a number of issues about how we bring these ships into port. And we have this week been working with the MCC resident country directors and their counterparts from the partner governments to work out closeout issues. So we're having a working session here in Washington this week.

We took advantage of the presence of two of our resident country directors to do presentations to the board on two countries, on Georgia and on Honduras. Honduras will be the first country to close out. It's -- it will complete its term on September 29th this year. And Georgia will complete its term at the end of April next year.

So these are two countries where it's possible to really see the fruit or the value of the investments that MCC and its partner countries have made. And we presented to the -- to the board of directors.

I was in Honduras last week and saw firsthand what has been accomplished there. And I was -- I was deeply impressed and pleased by what I saw. That compact has two components. One is a road component that has three pieces to it. One is widening, expanding, and modernizing the main highway that connects Honduras to other Central American countries, so it's a main thoroughfare through Central America, and very important in terms of regional trade and transport.

And the other two pieces of that transport component are rural feeder roads, which are dirt roads in productive areas where horticultural, high-value production is taking place, and in paved secondary roads also in high-productive areas to link producers to markets.

The second part of that compact works with farmers, and the idea is to help farmers who are using traditional practices, essentially growing maize and beans, to transition into small commercial farms producing high-value crops.

And it was really inspiring, what I saw. The program has worked with 7,000 -- or is working with 7,400 farmers. And those farmers on average were producing, as I said, maize and beans and earning about \$350 to \$400 per hectare off their crops.

They -- as a result of a program that they're participating in which has introduced new high-value crops, which has worked with them on new techniques, and specifically using irrigation, including drip irrigation. And Honduras is a very mountainous country with a lot of water, so they have water as a resource. And in most cases, it's gravity-fed, so it's accessible water. So it's been -- it lends itself to using more modern techniques.

So introducing more modern growing techniques, introducing high-value crops, or expanding the use of high-value crops, and then linking those producers to markets, what we've seen is that, of the 7,400 farmers who participate in the program, 6,000 of them are now earning at least \$2,000 per hectare. So that's from \$400 to \$2,000.

And for those -- and that was our target. That was our -- our metric for this program, was that farmers participating in the program should at least be earning \$2,000 per -- per hectare. Of the 6,000 who have met that target, the average earnings were \$4,000 per hectare, and there are some that have taken their operations to really very sophisticated level who are earning \$10,000 to \$14,000 per hectare.

So that is -- when you visit -- I traveled all over the country. And when you visit the communities where these farmers are located -- and it's across the country. It's not really clustered in any one particular area -- because of Honduras' mountainous geography, it has lots of little micro climates and valleys where this is -- where this is doable, as I said, mostly using gravity-fed.

In some cases, the program has introduced renewable technologies like water wheels to pump -- to pump the water. So there's some -- there's some technological innovation that's going on there, as well.

But the -- the impact on the communities is very visible. These farmers have used their -- every farmer I talked to, when I said, "So, you know, how are you using the income you're -- you're earning?" Everyone had bought land. So that clearly was one of the first things they were doing; they were expanding the -- the size of the fields that they could put under production. They were investing in -- in that land, in -- in upgrading the land, in terms of putting in the irrigation infrastructure.

It has -- it has had a significant effect on employment, because now these small farmers are employing people to -- to work on their farms. And I'm trying to right now figure out what the number of increased employment is.

And you could see improvements in -- in the homes in the communities. You could -- they were buying vehicles -- vehicles was the next thing that people were buying, either motorcycles or small pickups to -- to transport their -- their produce.

But it was -- it was very visible, very tangible improvements as a result of the program. And at scale, when we discussed this in the board, one of the points that a board member made was the importance of taking successes like this -- and there's no way to describe this other than a success -- and taking it to scale.

Now, in Honduras, one of the things I was interested in is, how many farmers are there in Honduras? And I was told there's 300,000 to 400,000 small farmers. But the -- the universe of small farmers who could do this kind of horticultural production was estimated at about 15,000 to 20,000, because of access to land, being on land where there's -- where there's water, being at a level where they could make use of technical assistance, and so forth, being in areas where there's access to markets.

So if we're reaching 7,500 or 7,400 of those farmers now, which is about 50 percent of the -- of the estimated potential universe, which is by my reckoning an at-scale intervention, I asked, well, what would be the next step, if you wanted to do more in agriculture? And the answer I got was to begin working with maize and bean farmers to move them from traditional practices to more modern practices, which could see a big increase in their overall productivity, but not at the same -- in terms of income, not the same kind of income gains that we've seen from this horticultural program.

So that was an inspiring program. I've worked in developing countries for more than 30 years and have visited lots of farms and lots of projects. And I came away from this one feeling really proud of what -- what our program has done, but what the U.S. has done, that this was -- this was really a meaningful contribution to development in the communities where it's operating and in the country as a whole, because I said it really is an example of a program at scale.

So it was a terrific program to see. The roads were also impressive, and they play a part in that, because they provide some of linkages, so people can get produce to market. And it was, all in all, I think something that as Americans we can feel really, really good about.

So let me stop there. Is that -- let me stop there, so I don't hog all the time. Thanks very much.

COOPER: Would you like to take some questions?

FINE: Sure, I'd be happy to.

COOPER: Any questions for Patrick? Or each of the panelists can answer questions as we go. And if you do, could you make sure that you state your name and your organization and speak into the microphone? Thank you.

QUESTION: Thank you. Paul Miller, Catholic Relief Services. Feed the Future, whole-of-government approach, we've been hearing a lot about that. Here's an agriculture program, as you say, that has gone to scale. How is MCC involved with -- with the Feed the Future, global hunger, and food security?

FINE: Yes, we're definitely -- we're definitely on it. In the case of Honduras, while I was there, I met with Bill Brands, who's the USAID mission director, to talk about how we -- to talk about two things, one, the technology that we were using and some of the practices that -- that we were using in our program had originally been sort of pioneered or developed by USAID, because USAID has been there for a long time.

Bill told me -- this isn't the MCC talking -- Bill told me that -- that the program that -- that we have implemented over the last five years has taken that to a new level and that they're going to build on that. So, you know, you kind of step up.

We used -- built on the basis of what USAID was doing, they're now going to build on the basis of what we've been doing, so you see this -- this step of increased capacity, institutional capacity in the country, and technological capacity, in terms of knowing what these different production packages look like, how to sequence them, what the components of them are, and so forth.

So there's that. There's also a broader institutional commitment between USAID and MCC to work on Feed the Future. Last week, Mr. Yohannes and Dr. Shah had a specific conversation about this, talking about how they can mobilize our joint resources so that we get real collaboration and not just rhetoric.

I've met with Ambassador Garvelink, who is the deputy coordinator for the -- for the initiative at USAID. We've talked about what we can do, and right now, we're preparing joint admonition (ph) or joint -- joint instructions to -- to our respective mission directors in countries where MCC and Feed the Future are operating. There are nine countries that are in the Feed the Future 20 that are MCC countries.

And we're also looking ahead to program development, because our programs are -- are already going. So there are some that are agriculturally focused, and you can see real opportunities where they are in their current life cycle to create collaboration.

When I was in Senegal, I talked with Kevin Mullally, the mission director there. We had some very, you know, specific, constructive conversations about what might happen.

But then looking to the future, as we work with countries to design new compacts, that definitely will be a consideration.

QUESTION: Thank you. Mary Sereno (ph) with Northrop Grumman. You described in fascinating detail the accomplishments in Honduras. You said the other country that was about to close was Georgia.

FINE: Right.

QUESTION: And I wonder if you might describe briefly...

FINE: I can. I can. But I haven't visited Georgia, so I -- I don't have that firsthand experience with it. And I'm -- I wish our resident country director was here, because he could talk about the passion that he feels for what's been accomplished there.

That program also has two -- well, it has a number of components, but one is road construction. It's rehabilitation of a major road that links the capital with production areas and also links to both Armenia and Turkey, so it opens up some regional trade routes.

And the -- the other major part of that is enterprise development, and that's through an investment fund that's been set up. It's quite a successful fund. It was capitalized with \$30 million. It has so far invested \$37 million, so it's gotten returns that it's reinvested. And at the time that the compact closes next April, we are estimating that it's going to have \$33 million to \$34 million in its fund for reinvestment.

And that's one of our closeout issues, is how do we -- how do we manage the funds that remain in that investment fund? And it's -- it has invested in small businesses, but businesses that -- or one example is a hazelnut processing factory that employs 80 employees. So they're not micro-businesses. They're small.

And another investment was in a fishing fleet. And for the first time in 15 years, I think Jim said, Georgia has Georgian flags and their own fishing fleet. In the past, I guess, couple decades, they have leased out their rights to their neighbors. This is the first time that -- in a long time that Georgia has got its own ships on the water doing its own production with -- with associated processing plants.

So -- so the -- our assessment of the overall compact is that the investments have had a real positive impact. There are -- there are many other examples. I'm sorry, I just don't know all of them, because I haven't visited them there myself.

QUESTION: Hi, Laurie Timmelman (ph), rural development specialist. I wondered if you could speak briefly to the consolidation (ph) of technologies that you used for the (inaudible) and how much is public funded, how much are the farmers self-funding?

FINE: OK. The way it works in this -- there are different packages, technology packages, but in general, the deal is that the program pays for the -- the pipes and the -- like the construction of reservoirs. As I said, it's mostly gravity fed.

In a couple of cases, they're using some really -- really sort of modern water wheels, and I thought back to when I was trying to do irrigation 30 years ago, and I looked at these water wheels, and I was so envious, because we were -- we were stumbling along with stuff that was much less sophisticated.

But the -- the -- like the water wheels where they're using those and then where they're doing gravity-fed, the reservoirs and the piping to a community is -- is financed by the program. And then once it gets to the community, it's the responsibility of the farmers to pay for the cost of taking the -- the water into their fields.

So all the -- where they're doing drip, all the tape they pay for themselves. Where they're doing -- in some cases, they're using not tape, but a small tube. That is all paid for by the farmers themselves. And they also pay for all their own inputs, you know, fertilizer and stuff.

There's -- there was a fascinating -- we did a grant to the agricultural university in Honduras. It's a regional university, quite well known. And they were working with biological pest control and had -- had some fascinating and very promising trials going on for biological pest control.

So one of the things I like about this particular compact is it's an integrated package. You can really see how the transport links to the markets, links to the producers, and then there are some ancillary pieces, like the technology, with the water wheels, directly relevant to increasing people's incomes, and the grants to the university for biological pest control, another grant on coffee, developing new varieties of coffee.

Sorry.

QUESTION: My name is David Baxter (ph). I'm with Jacobs (ph). My experience in African development generally is that, once the development agency leaves, everything falls apart after a number of years. What strategies is MCC implementing, transitional strategies, to project and to protect your investments, once these compacts close out?

FINE: Good question. For one, that's been the -- that's the subject of the working session that we've been doing this week. As I say, we're coming -- we're encountering closeout issues for the first time in the organization's history. It's a young organization, so that's hot topic around here.

Two, sustainability is built in -- I think to a greater extent than in many programs you see, sustainability is built in to the design of the program. So there was a lot of upfront thought given to sort of the macro sustainability issues.

So, for example, where we've built roads, the programs include attention to how those roads are being maintained. They include agreements with the government about either establishing road maintenance funds or -- or changing the management of their road maintenance funds and certain -- you know, changing the revenue sources for road maintenance funds. And there we have seen some real gains.

In -- in Honduras, for example, where that was a feature of the overall agreement that led to us making the investment, the funding and the road maintenance funds, fondo vial (ph), has -- has doubled in the last three years.

In Nicaragua, it went from \$3 million to \$30 million, I think -- I think that's the -- I'm not -- I know \$30 million is what it went to. I think it was at \$3 million when we started our discussions with -- with the government.

And in that sense -- and then Tanzania is another example, an African example where that's been a subject of the agreement. The government has improved its overall management of the road maintenance fund. And in Tanzania, for example, the roads are really better maintained. I mean, I used to travel on those roads 20 years ago, and there's a huge difference just in the maintenance.

Now, that's not all -- to be fair, that's not all MCC. There are lots of donors who've been working on these sustainability issues. So it would be maybe unfair to try to take full credit for that, but we certainly have, in the countries where we're doing that work, we've played a role in it, and we've made a contribution to it, because we've had a very sustained dialogue with the government.

So there's -- you know, in part, it's addressing issues upfront, but there are big -- there are big issues around sustainability or -- or guarding of the investments, ensuring that investments are going to continue to pay off at the backend. And to be completely frank with you, we're looking at that right now, and we're working out, how do we -- when our compact ends and we'll close our MCC office, and in some cases, most cases, maybe, the government will close its counterpart office -- what -- what agreements do we need to have in place with the government to ensure that the investments continue to be productive?

And one of the things that I've told my colleagues is, just because our compact is ending doesn't mean the relationship between the U.S. government and that country is ending, that that relationship goes on. It doesn't mean that MCC here ceases to have an interest or equities in -- you know, in the -- in the programs that have been financed. We certainly will. It's not like, you know, we just close the door and never talk to them again.

And, in fact, as part of our regular process, we'll be doing an evaluation, impact evaluation, for years to come in the countries. So it's -- you know, we're not just walking away from a country when a compact ends.

I talk too much.

GREENE (?): Thanks, Chuck. Yesterday, we brought to the board a new concept for designing and selecting programs for our threshold program. As a lot of you know, for the last year, we've been conducting every view of the threshold program, looking at its strengths and weaknesses. We think we've got a new concept that preserves the strengths of the program and addresses some of the issues that we've discovered in our experience with the program.

After we have presented this new concept to the board, we have a lot of work ahead of us on designing this, making it operational. We have benefited from a lot of outreach to stakeholders in the discussion about the review, and we will continue to look for the participation of our stakeholders as we work on the design phase.

In brief, the purpose of the program will still be to help countries become compact-eligible. The purpose of the threshold program is to assist the country to become an eligible country for compacts, and that will remain the purpose of the threshold program. That's our legislative mandate.

It will still be a policy reform and institution-building program, and its focus will be helping countries to become eligible by improving their policy performance in our three broad growth categories: ruling justly, investing in people, and economic freedom. Those things will not change.

The program will be different in a couple of important ways. First, individual threshold programs will no longer focus on trying to move individual indicator scores. As you may know, the current threshold program looks at indicator scores, the things that keep a country from becoming eligible, and focuses interventions on the weak (ph) indicator scores. We found that this is simply not feasible, based on the amount of time and the amount of resources we can bring to a threshold program and the way the scores are maintained.

Those scores are very good for comparing a country's relative performance on a broad range of governance issues to their peers, but not good for measuring a two- or three-year intervention in terms of policy performance. We have found that that's a major problem with the design of the current program. While it has an intuitive appeal to try to move the indicators, we found that's simply not feasible.

These programs can deliver very tangible results, but still not assist the country to become an eligible country, so we're moving away from the indicator-based focus in terms of design.

Secondly, we'll not use the indicator scores as a diagnostic tool. We're going to use the indicators -- we're going to use a different diagnostic tool. What we're going to do is look at constraints to economic growth. This removes -- this moves the program back closer to the core competence of MCC.

Our mandate is to reduce poverty through economic growth. When we design compacts, we look at constraints to economic growth and design programs around those constraints. The new threshold program will use a similar

diagnostic with a similar approach. This will bring the threshold program back into closer alignment with the compacts.

A question earlier about the sustainability of programs. One of the things we found about the -- the threshold programs designed around indicators was that they tended to focus, firstly, on diffuse programs, but secondly on programs that didn't have a lot of relevance to compacts. So when the compacts came in, if they did follow on a threshold program, they were not directly related to what happened in the threshold program. And one of the concerns that we have is sustainability of these efforts.

Using the growth diagnostic, identifying constraints to growth will identify the same sorts of issues, the same sorts of interventions that will be likely to be part of a compact. Therefore, there's much more sustainability from the threshold program to the compact.

In practice, there are a lot of details to work out. Generally, the program would work something like this. We would engage with a country chosen for a threshold program. We would perform a growth diagnostic. We would look at the opportunities to promote economic growth, opportunities to reduce poverty. Where might they be?

A constraint to growth in a country, for example, like Malawi, the power sector was identified as a major constraint. But associated with the power sector issues is regulatory, pricing questions, how to get those right. Being able to engage with a country early on in a threshold program on a key constraint to growth, we can design a program around those policy areas. That's what we would choose to institute (ph) as the intervention in a threshold program. That would have much more relevance to a compact later on.

When we finish the threshold program, a successful program would have removed at least part of that impediment to growth by addressing regulatory pricing questions in the power sector and make it possible for a compact coming in or for another donor to come into the power sector and have much more impact.

How does this help a country to become compact-eligible, which is the legislative mandate? This is a program to assist countries to become eligible.

First of all, important to remember: Eligibility is a board determination. The board selects countries for compacts to the greatest extent possible based on indicator scores, but not exclusively. And in the history of MCC, we've gone through a number of countries for whom the indicator scores were relatively clear, their capacity, their commitment to reform is relatively clear, and choosing them for compacts wasn't a difficult choice.

Those days largely behind us, we're moving into a set of countries about whom questions will remain. We've moved into compacts with countries about whom we wish we'd known a little bit more before we got involved with them. This threshold program will help inform the board's choices by giving us practical experience in exactly the

kind of work that will be necessary to make compacts more effective, so we think it's going to make our compact selection more -- more effective and make the compacts more effective themselves.

Finally, a couple of questions that have been raised as we've engaged with our stakeholders and want to get those out on the table right away. What about our role with USAID? USAID has been our primary implementer in the threshold program. That will remain the same. We envision that we will always need to have the -- the skills of USAID, their in-country experience, their implementation experience.

This is a very successful program in integrating the relative core competences of USAID, along with the disciplines and the incentives that come with MCC money.

Second, people have wondered about the -- the role of anti-corruption programs in the threshold program going forward. Those of you who are familiar with it know that fully two-thirds of the funds that have flowed through the threshold program have been directed towards broadly D&G anti-corruption programs.

Because we are no longer focusing on indicator scores, the question has arisen, will we still address those questions? Because we're removing (ph) impediments to growth, we expect that that will still be a possible use for these funds, probably not as -- as popular use for these funds, because we will no longer be trying to move the indicator scores. And as you know, the anti-corruption and the corruption indicator score is a hard hurdle for countries to pass.

Because we're no longer using indicator scores as the diagnostic tool for selecting and designing programs, the responsibility for indicators goes back to the country, back to -- closer to our original model. It's no longer MCC's job to try to raise those indicator scores. It remains the country's (inaudible) the country's responsibility to move those indicator scores.

So are there any questions? I'd be happy to take them.

Yes?

QUESTION: David Baxter (ph) again. Zambia last week lost major funding for health programs because of corruption, and they couldn't guarantee that they could prove how the funding would be adequately spent. Has this had any impact on the way MCC's looking at the Zambia program?

COOPER: Yes, I think Darius can take it.

TETER: Hi, I'm Darius Teter. I'm the acting vice president for compact development.

We've -- Zambia was first declared eligible by our board about a year and a half ago. I traveled to Zambia last year to meet with President Banda and Vice President Kunda, and we conveyed our concerns about corruption issues in general around donor-funded projects.

The -- the sector that you mentioned is marked by budget support-type programming from the donors, which we at MCC haven't done yet. In terms of Zambia's overall score on the control of corruption on MCC's indicator system, they are still above the median and perform quite well, in fact, one of the better performing countries on our indicators in the LIC pool.

Having said that, we have another year to go in developing a compact with them. We're looking at tourism, education, and possibly water supply and sanitation projects. In all of our projects, we look very carefully at the governance of the sector, at the governance record of the implementing entities, and, of course, our compacts are very carefully designed with detailed arrangements for the governance of our funds.

So we are -- we are, of course, aware of the situation. We're looking at it very closely. Our transaction team leader, Kay Kim (ph), is in Lusaka right now. And we will just have to see how it goes.

Thank you.

QUESTION: Good morning. Bruno Cornelio with USAID. Decoupling the threshold from the indicators for a compact, the compact is the goal. How does the risk between having a threshold and qualifying for a compact now change?

GREENE (?): What we think is, experience with a threshold program has been that there is no linear path to a threshold to a compact. This is partly a question of the way we've selected countries for threshold and then selected countries coming out of threshold for compacts. So selection has been a big part of that question, independent of the design.

We will want to focus, as well, on the selection question, choosing countries that are much closer to compact eligibility for the threshold intervention, so that there's a little bit of -- a better link between the threshold program and compact eligibility.

One thing we have found is that the -- because the current program focused on trying to move indicators and that was not a feasible task, even though the interventions themselves may have done some good in the countries, they didn't assist towards compact eligibility in any predictable manner, we hope this program -- because it focuses on the kinds of interventions that are going to be necessary in a compact and the selection of the countries will be closer to compact before we engage with them, that there will be a better connection.

LINES: I think we need to dim the lights here (OFF-MIKE) have a little bit of a PowerPoint presentation here (OFF-MIKE) first of all, welcome, and thank you, ladies and gentlemen, for the opportunity to highlight some of the interim results achieved under the Madagascar compact.

To do this, what I'd like to do is provide you with a real example of what life was like for an average Malagasy farmer before the compact and then how that changed with the compact implementation.

I met Justine Rashuamanaherina (ph), pictured here on the slide, at the beginning of compact implementation while we were engaged in our initial compact outreach activities. At this time, she was the head of a household with four children, of which only two could attend school on a regular basis, and she supported that household on a salary of about -- or income of about \$123 a year.

She'd inherited the land her family lived off of from her parents. This inheritance occurred with a single verbal agreement among family members. Unfortunately, because of this, the little land that she had was subject to land grabs by her neighbors as they tried to expand their own landholdings and provide for their families.

She had no access to credit, nor any means of providing collateral. And finally, the seeds and tools and techniques that she used to produce crops on her fields were outdated. It was essentially the same as those that were used by her grandparents.

In 2005, the Malagasy government, aware of the plight of Justine (ph) and others like her, entered into a partnership with MCC to clearly define the issues at hand and develop fundamental integrated improvements, foundation stones, if you will, that needed to be laid to create an environment where the rural population of Madagascar would have an opportunity to improve their lives.

Aspects of this compact that made it different from other assistance and key to achievement of results were country ownership, accountability, the willingness to tackle difficult projects in challenging environments, partnership and an integrated approach.

Activities under the land tenure project, the first stone in the foundation, brought about a fundamental change in the governance of land rights and the realization that a decentralized, modern, service-oriented, land service agency is important to economic growth.

Land tenure reform was passed, deteriorating land documents restored, and modern land offices were created at the regional and commune levels. Preliminary data show an eightfold increase in demand for land services in compact implementation areas.

So how did Justine's (ph) life change because of this project? A modern local land office was constructed close to her village, so she applied for and received land certificates for her land. With the certificates, she can now for the

first time in her life legally transfer land to her children, not worry about her land being poached by her neighbors, put up collateral for a loan, and with confidence rent or sell her land.

The second foundation stone, the finance project, brought about a fundamental transformation of the banking and business sectors in Madagascar. The interbank check clearing time was drastically reduced. Banking services became more available to rural households, and savings and credit increased in the areas of compact implementation. Anecdotal evidence points to a threefold increase in the use of a formal banking system as compared to pre-compact conditions.

So how did this project impact Justine (ph)? With her newly acquired land certificates in hand, she applied for and received a small loan of about \$500 from the local new -- the new local bank branch that the project built. And after careful consideration, she decided to invest in her future by building a rental house on some of her land and by purchasing improved seed and small agricultural tools with the remainder of the loan.

Able to build on good work accomplished by USAID, the agricultural and business investment project, the final foundation stone, improved the way technical management services were made available to rural businesses and farmers in regions where the compact was implemented.

The ABC service provision model, which decentralized service provision and brought the private sector into the equation, strengthened value chains, increased farmers' access to improved market and technical information, and ultimately helped increase yields. Farmer-reported data show at least a doubling and in some cases even a quadrupling of yield for selected crops.

So how did this final foundation stone change Justine's (ph) life? Well, by using the information she received from her local ABC and the improved seed and tools she purchased with money from the loans she secured with her land certificates, she was able to double the yield and significantly improve the quality of the potatoes she was producing on her land.

With these improvements, she was also able to establish a multi-year purchase contract with a buyer from Mauritius. With increased profits and rent she earned on the house that she built, she was able to pay for all of her children to go to school and purchase a pair of oxen to plow the fields and transport her products to market.

It's interesting to note that, in all of these projects, that they are important because of the fundamental changes they presented to the country and also because of their sustainability.

After the coup and subsequent compact termination, many of the legal, procedural and institutional reforms accomplished under the compact are continuing today and in some cases even being expanded.

Finally, it was challenging being the first compact to start and the first compact to be terminated early. This slide shows some of the challenges we faced and solutions that we adopted to deal with them. As you can see, many of

the solutions centered around capacity-building and mentoring the MCA Madagascar accountable entity and the MCA board.

Ultimately, the Madagascar compact was a learning experience for MCC and its stakeholders. Many lessons learned have since been applied to compact development and implementation, and it is of particular interest to note that many of the MCA Madagascar senior managers are now working to improve implementation in other MCC compact countries.

Before of the early termination, we know that we won't reach all of our projected targets. However, interim results indicate the compact's activities fundamentally improved the land tenure and banking sectors, as well as produced a workable model for large-scale agricultural extension.

What this will actually mean 10, 15, or 20 years down the road is difficult to say, given the current political crisis in Madagascar. MCC is currently financing an independent, post-compact impact evaluation, which will, near the end of this year, provide a better understanding of the long-term impact of our investments in Madagascar.

Thank you for your attention.

COOPER: Questions for Glenn?

QUESTION: Thank you (inaudible) BBC (inaudible) finance and development. Do you think there will be a possibility that the MCC would (inaudible) its project in Madagascar after the elections, maybe at the end of the year, presidential elections?

LINES: It's probably a better question for upper management, but I would say that it's -- it would be difficult at this point. I think the country has digressed greatly since the coup that occurred, and it's going to take a long time before they can bring their indicators up to the level that's necessary for them to be eligible for another compact.

QUESTION: (OFF-MIKE)

COOPER: (OFF-MIKE) do you want to take that?

(UNKNOWN): (OFF-MIKE) I work on the policy team. We manage the selection process, but also include suspension termination proceedings. And the threshold program in Niger actually is suspended. There's not an operational threshold program at this point.

We have a policy on suspension and termination. It lays out a set of steps that we follow. It's posted publicly on our Web site if anyone's interested in looking at it. It includes a great deal of investigation on our part into what is going on underneath the indicators that might be driving them one direction or another and a process by which we

move that information from staff investigation through to our senior management and then on to the board for an ultimate decision.

So the decision to suspend or terminate a country or to reinstate one after they've been suspended actually falls to the board.

QUESTION: Thank you (OFF-MIKE) ambassador. Talking about Madagascar, and maybe not the case of Madagascar, I'm concerned with what is going to happen with the people, especially that woman who really saw -- she saw her life much better. What is going to happen to her and to the users of the -- of the bank, the improvement? Are you not afraid that all the steps ahead are going to fall?

And, again, we have heard about your relationship with USAID. Are those programs being (inaudible) are they going to be taken care by USAID? We have a special case (ph)?

LINES: Thank you for the question. I mean, to answer that, I think it goes back to what Patrick said. I mean, the project was initially designed to be sustainable. Sustainability was taken in account from the very beginning, as the program was designed.

Of the three projects, all three of the projects are continuing to this day, even though there is no longer any financial support from MCC. We were four years into a five-year compact, and we had a -- we disbursed about 78 percent -- I think it's about 78 percent of the money that we had for the compact.

So we were well along the way. And this was not a normal transition from a regular compact that was coming to an end to another one. This was a very rapid, very abrupt transition.

And it was difficult, but we were able to help transition all those activities into sustainable entities within the country. The bank's still there. The bank is still operating. All the stuff that we worked with on the bank, and the financial sector stuff is still going on. The land tenure project, the management unit at MCA, the implementing entity, is now -- they formed an NGO, and they're continuing all the sort of services that were being provided to the farmers now privately on their own through private contracts and things like that, and also contracts with the transitional government.

The agriculture work that we were doing, all the ABCs were transferred to local NGOs or farmer cooperatives who are continuing to provide those services.

That was the -- that was the vision of what was going to happen after five years. We had to rush it and get it done in four years, but it is going forward. And so the farmers, like Justine (ph), she still is -- she still has available to her the services that were coming under the compact.

COOPER: Any other questions? Before we conclude, I wanted to introduce our new managing director for public affairs, Nassarie Carou (ph), who's a key part of our team, and she'll be working with many of you, Nassarie (ph).

Also...

(APPLAUSE)

Also wanted to mention that a transcript of this meeting will be posted on our Web site at [www.mcc.gov](http://www.mcc.gov), so please look for that. And I just wanted to thank all of you for coming. We appreciate it. Thank you.

(APPLAUSE)

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