

# MCC Town Hall Meeting

## Speakers:

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COOPER: Welcome. It's a pleasure to see you.

This is our quarterly public meeting in which we reach out to our stakeholders and to NGOs and others to talk about what happened at our quarterly board meeting. It also provides us an opportunity to talk about the state of MCC and where we are as an agency.

And so we think that these public meetings are really important so that we can report out what happened at the board meeting and talk about where we are at MCC, but also have a conversation with you and get your input and interact with you with regard to how we're doing and where we are—where we are at MCC.

So, we're excited about the board meeting that happened yesterday afternoon, actually at 3:00. We wanted to talk to you as soon we could. So, here we are this morning.

Let me just talk a little bit about how we're going to proceed. We're going to hear from our CEO, Daniel Yohannes, who is going to talk a little bit about the board's decisions and what happened yesterday at the board meeting. He'll talk a little bit about status of MCC and some of the things that we've been working on the last couple of months. And then Daniel will take a question or two.

And then we're going to proceed to a panel conversation, a panel discussion to talk about the board's discussions in a little bit more detail.

We'll have a group, including Patrick Fine, vice president for compact—Department of Compact Operations, is going to talk about basically the portfolio and where we are from an investment standpoint, give an overview of MCC's investments. We're going to have a conversation about Cape Verde and the Cape Verde compact. And we're going to talk about selection and what countries were selected.

So, that's the agenda for this morning. And with that, we'd like to just go straight to Mr. Yohannes for his remarks.

YOHANNES: Good morning and welcome on this beautiful Friday morning. And first I'd like to especially welcome ambassador from Benin, Ambassador Oguin, who's sitting down here, and ambassador from Cape Verde, Ambassador

Fatima Veiga. And we do have an ambassador from Lesotho, Ambassador Salvatane.

Welcome.

And we also—I'd like also to welcome diplomats from Benin, Honduras, Lesotho, Sierra Leon, United Kingdom, Burkina Faso and Spain.

Welcome all.

Before I could provide you with what was decided at the board meeting yesterday, also like to give you a brief update about events that have taken place at MCC in the last three months.

Number one, I had the honor and the pleasure of being in Benin for the close-out ceremony for the first compact. And I want to tell you how impressed I was. The compact was done on time and the \$324 million investment was concentrated in three areas.

The number one was in the expansion of the Port of Cotonou, which was done extremely well, and the justice system and also in land rights.

About a year ago, two years ago there were a lot of critics that did not believe that this compact was going to be done on time because of the magnitude of the port expansion. The fact of the matter is, they got it done. Not only did they get it done, but also they have done many of the policy reforms as required to make sure our investments are sustainable.

So, I want to say thank you to President Yayi. I want to thank Ambassador Oguin who's here today. And I came home very pleased and also knowing that as a taxpayer that my taxes and American taxpayers' funds were used efficiently, properly, producing the right results. So, again, thank you very much for an outstanding job.

Also went to Mali next door. The Mali compact is expected to be concluded sometime in September of next year. Like Benin, Mali is doing an outstanding job. Our \$434 million is concentrated in two areas. One is in the expansion of the airport at Bamako, and two, in Alatona region in the north to make the country food secure.

And the airport size, once it's completed—as you know Mali is a land-locked country, so—but once the airport project is completed it's going to be able to accommodate much bigger planes, like 747 jumbo planes. And we're also building a new terminal, which is going to be one of the largest terminal in West Africa. So, Mali, being a land-locked country, it's going to help that country to facilitate in trade and investment- related activities extremely well.

I was extremely pleased when I went to the northern part of Mali. I saw many villagers. These were people that were concentrated in 33 different villages previously. With this new program they're now concentrated in seven villages. They all have schools for the first time.

I met with the little children. They were about sixth graders. I thought they were different grades, first and second, third grade. And I find out afterwards they're all first grade. This is their first time attending school.

I saw the clinics that were provided for the first time. I saw the shopping malls that are provided for those people for the first time. Also for the first time those people are farmers. They were previously herdsmen without owning any land. Now they each own five hectares of land, earning a better income for themselves and for their families.

This is also the first time where land is distributed to individual farmers in the country. This is a role model, and this encourages the government to provide others to own land. As you know, if you do not own land it's extremely difficult to create a lot of prosperity. So, this kind of thing encourages.

I also spent a lot of time with the business men and women in that country. And we encouraged them to make investments in addition to what's provided by the—welcome—by the individuals who want to make sure that big farmers also are taking opportunities that exist in the north.

So, I came home from Mali also extremely pleased. And I know the compact is expected to be concluded in September of next year, but again I am confident that it's going to be done and it's going to have the benefits it was intended to.

I also joined secretary of state, you know, state, Madam Clinton, in Indonesia to sign the \$600 million compact between MCC and Indonesia.

The \$600 million compact is concentrated in three areas. The first area is green prosperity. This will support low carbon economic development by expanding renewable energy and improving the management of natural resources. Again, these are three projects all identified by the Indonesians themselves to combat poverty.

The second portion of the \$600 million compact is concentrated on nutrition. The third one is on procurement modernization project, which will achieve significant savings in government procurements by reducing corruption and waste.

We're told that anywhere from \$5 billion to \$15 billion per year is spent on corruption and waste. So, this will save the government significant amount of money. And this is a very important compact, which will help the country reduce poverty.

So, I was very happy to be part of the secretary's team. And of course we are working today in all the preparatory work to make sure that the compact enters into force sometimes next year. And Patrick Fine, our vice president for compact operation, will be speaking about it very shortly.

And lastly, I was a part of Secretary Clinton's delegation, with my friend Raj Shah, to attend the fourth high-level forum on aid effectiveness in Busan, South Korea. Busan was an important step forward for development

community. We came together around the importance of development effectiveness, not just aid effectiveness. We embraced civil society, the private sector, and emerging donors like China, India and Brazil.

We promoted U.S. leadership on key development issues by signing the International Aid Transparency Initiative, by contributing to the results agenda and by engaging fragile states.

I am particularly proud of the role MCC played around ownership, transparency and results. Busan discussed these core elements, which has been in the heart of MCC for the last eight years. These are principles that have been practiced by MCC for the last eight years, and we've been able to provide lessons learned not only here for the administration, also for the wider global partners.

Having said that, much work remains ahead of us to make good on the promises of Busan, and MCC will continue to play an active role in shaping the post-Busan development agenda, particularly on results.

Now, let me give you the results of yesterday's board discussion.

First, the board approved a \$66.2 million compact for Cape Verde. I've been to Cape Verde now twice, and Cape Verde did an outstanding job in getting the first compact completed.

They also have made many policy reforms to complement our investment, to make sure that our investments are sustainable for long time. And while they were implementing the first compact they also went to the next step, which means they were promoted to LMIC country because they've done so well. And they competed with other LMIC countries and they did extremely well in all of the policy areas that matter to us the most.

So we are happy about what have been accomplished in Cape Verde and we are looking forward for this compact. I know Alicia is going to talk about it in detail.

I am excited because this involved not only the public sector; this also brings the private sector to this game. And I look forward to go to Cape Verde next February, if all goes well, to sign the second compact.

So, congratulations, Ambassador Veiga.

And I said Alicia. I've been working with Alicia, been a long week this week. So, I'll say Ariane. Ariane will talk about it. OK.

And also the board selected Benin and El Salvador eligible for the—for a second compact. Like I said, I was in Benin, so I told you how well they've done.

El Salvador, I was there also last year. And they have done an outstanding job not only in getting the first compact implemented, but also in getting all the policy reform stuff required by us. It is an outstanding work they've done.

El Salvador's also a partner in the new Partnership for Growth Initiative. We have four partners. El Salvador is one of them. So, I had a good conversation with President Funes yesterday and we're looking forward to engage El Salvador in a second compact as well.

And the board also selected Nepal and Honduras for the threshold program. Alicia will talk about it. I just want to make sure that you all understand that the board still put a lot of emphasis on the three (ph) buckets, which is on ruling (ph) justly, investing in people, and encouraging economic freedom when you consider those countries both for a second compact, as well as for the threshold program.

Now, let me close by saying it has been a good year for MCC. For the last 18 months we've had seven countries that have completed their compact. And in these seven countries we had invested about \$1.4 billion in dollars.

And we've seen strong programs that have been completed. Many of those countries invested their dollars on infrastructure and agriculture, key sector for economic growth. And also those countries also have continued to make major policy reforms that are creating an enabling environment for businesses to do extremely well in their countries.

So, we are extremely pleased not only what has been accomplished, but also about the future of these partner countries, because sometimes in the short term, hopefully the next five, 10 years, they will no longer be needing our funds. They should be able to attract private sector investment to replace our aid dollars.

And also in 2012 we're expecting three countries who have completed their compacts: Ghana, Mali and El Salvador. And looking ahead in 2012 and beyond, we'll continue to put a lot of emphasis to make sure our investments are yielding accountable and sustainable results.

We've continued to build strong partnerships with various agencies within the U.S. government, with the private sector, with civil society, with other NGOs to make sure that we're creating the next set of emerging markets, to help not only their constituencies, but also to create opportunities for American companies as they consider to make investments, which was a win-win for us here at home, for businesses, which would create jobs here at home, also for our partner countries that are interested in attracting businesses from our country here.

And lastly, we'll continue to work with our partner countries to make sure that we put them on a path to help themselves, to replace our aid dollars with investment from the private sector, so they no longer will be needed our help, but to help themselves and also to prosper from investments like, like I said, from getting it from the private sector. So, we continue those paths.

So, we're excited for next year. And it has not been easy, from every front. We've been fighting the budget side as well. But nevertheless we are comfortable. We have good partners. We have the best people. And we have one of the best models in the world. So, we'll continue to work as partners to make sure they are on the path towards prosperity.

So, thank you. I'll stop here. I'll take one or two questions.

QUESTION: Yes. I'm Dr. Sam Hancock of Emerald-Planet and Emerald-Planet Television Productions.

Looking at Latin America and the four countries identified here, as they move forward, what types of balance is coming through the MCC for both the environment and economic development in these projects that they're developing?

YOHANNES: Thank you very much. Whether Latin America or Africa or Asia, every single project takes into consideration to make sure that it takes—consider the environment and other social responsibilities.

So, environment plays a big role. But like any other project, most of the projects are identified by partner countries after they do a very thorough analysis to the constrained economic growth. But environment in every single project plays a major role.

All right. Thank you.

Take one more.

AMBASSADOR VEIGA, CAPE VERDE: Thank you. Mine is not a question, but a word of thanks to the Board for the approval of this second compact and also to show commitment of Cape Verde to continue to showing results.

At the same time I also would like to say that we are very proud of the partnership that we have with MCC. We always have worked as a team, not only as a team at home, but also a team with MCC. So—we look forward to the signing of the compact and start implementing it.

I also would like to congratulate our—my colleagues here, those who have been chosen to be eligible for a second compact and those also were eligible for the threshold program. Thank you so much.

YOHANNES: Thank you, Ambassador Veiga. Thank you very much. Appreciate it. Great job again.

All right? Thank you very much.

Chuck, I'll turn it to you, sir. Thank you.

(APPLAUSE)

COOPER: Thank you, Daniel.

What we want to do is convene the panel. So, I'll call up Patrick Fine, who's vice president, Department of Compact Operations; and Alicia Mandaville, who's a director in our Department of Policy and Evaluation, and focuses on selection; and Arian Gauchat, who's a director in the Department of Compact Operations and leads the Cape Verde team.

Wanted to start off by asking a couple of questions of each of the panelists, and then we wanted to open it up so that we could have it be a conversation as much as possible. And I wanted to direct my first question to Patrick.

Patrick, MCC now has \$8.8 billion in compact investments over the last eight years. And I was interested, what's your assessment of the performance of the portfolio? Can you just give us an overview?

FINE: That \$8.8 billion is in 16 currently active compacts and seven compacts that have closed. One compact was canceled. That was with Madagascar because of a coup that took place there.

So, when I look at the portfolio, both of countries that have completed their compacts and those countries where we're still implementing compacts, I'm very satisfied with the overall level of performance.

What I see on the countries where the compacts are being implemented and where they have been implemented is these are programs or races to the finish. They have a five-year firm fixed deadline.

So, once we start it is a—we used to say it's a marathon. But if it's a marathon, it's a marathon at a sprinter's pace. And it is really impressive the degree to which our partner countries step up to the plate, the degree to which our partner countries understand and fulfill their commitments to carry out these programs.

But they're tough. It's hard. But there's intense pressure because of the nature of the programs. They're large, complex programs that often includes large infrastructure where there are many factors that are not easily controllable and because of the time lines for implementing them.

So, my overall impression is, one, there's been tremendous commitment and delivery on the part of our partner countries. Two, in those countries where the compacts have completed, there's a lot to show, a tremendous

amount to show for the investment that the U.S. has made and for the investment that this partnership has brought about.

So, in the countries that I've visited where the investments are complete or almost complete—Ghana would be a case where it's almost complete, it completes in February—it really is impressive what there is to show for the investment. And the big challenge will be to ensure that those investments continue to remain productive and yield a high return in the future.

COOPER: MCC has been developing and implementing compacts now for eight years. And I know that one of the hallmarks of the MCC is to really drill down on lessons learned.

Can you talk a little bit about what MCC has learned over the last eight years that you're now applying in the development and implementation of compacts?

FINE: Yeah. Well, a lot. And I'm sure my colleagues here would have a lot of individual specific lessons that relate to specific aspects of our work, whether it's in property rights or infrastructure, development or environmental protection and safeguarding.

But a couple of things is, one, just from an implementation point of view, and from a compact development point of view, we've learned that at the start we have to move faster. There's been a tendency—we sign the compact and it's—so much has gone into getting to that point. And people are relieved. And they kind of let their—you kind of relax a little.

And what we've learned is that there is no period in implementing these programs where you can relax. And one of the things that we will be doing going forward is putting very concerted attention into the first year of implementation so we don't lose time, because what we saw happening in the first generation of compacts is we didn't move fast enough, the countries didn't move fast enough during the first year, and then that put tremendous pressure on years four and five. So, we need to learn from that.

Another important lesson learned has to do with the importance of policy and the integration of policy throughout the program. That's going to be what creates the sustainable basis for the investments.

And we've been very pleased with what we've seen in the compacts where countries identify what are the policy or regulatory or procedural changes or reforms that are necessary in order to ensure the long-term productivity of the investment that's being made, and then to make those changes.

And as a result, we've seen things like road maintenance funds in countries where we finance highways doubling. We've seen very profound changes in the way of ports are managed in countries where we've—where we've financed ports. We've seen unbelievable changes in land tenure and property rights in 11 countries. Over half of our compacts have property rights programs.

And it's really striking the level of progress that countries have made that have been tackling these issues in the context of the investments that we've made. I think it's one of the great sort of under—unknown or lesser known successes of MCC, is in property rights and land tenure and something that we're going to try to share over the next year.

COOPER: Patrick, you and your team spend a lot of time managing risks. And looking forward to 2012, I'm interested to know what's your assessment of what are some of the challenges that you think that the MCC is going to be facing with regard to compact development and implementation for the next year?

FINE: Well, risk management is another lesson learned. We've put a lot of effort this year into improving the way we identify and mitigate risks and improving our own oversight models and the tools we use. That's another big lesson, which has to do with risk management.

And as I said, these are big, complex programs. So, they're filled with risk. Every one of these compacts is challenging and, you know, scary. You get into it because of the kinds of risks that we're managing.

In terms of looking ahead, some of the challenges that I see, one is startup. I mentioned that. We need to get off the mark quickly. The new countries, Cape Verde with its new compact, the countries where we'll be developing new compacts like Benin, El Salvador, or the countries where we're currently working to develop contracts like—compacts, like Zambia and Ghana and Georgia, one of the challenges is going to be to make the most of the time; to not lose time, especially in the first year.

Second is post-compact completion. In countries where we've completed a compact—you know, this is, in a way, is a new thing for us. We worked for, of our eight years, the first seven essentially were to develop and implement compacts. And it's only in the last year really, the first compact completed its five-year term was Honduras, and that was in October of last year, of 2010.

So, it's only in the last year that we've had compacts close. So, we've had seven of them complete.

We need to—one of our challenges is to look at our relationship with those countries going forward because we have an ongoing interest that the investments we made remain productive, that the policy reforms that countries committed to and undertook remain to be in force, and that we see a return on that investment in terms of economic growth and poverty reduction.

So, one of the things we'll be looking at is, what does that post-compact completion relationship look like?

And then critical to that is the results and reporting results and seeing the results. As I said, in the countries I visited it is really impressive what the U.S. investment has produced. But being able to explain that, describe that, document it in a rigorous manner what impact these investments are having is a big challenge in the coming year, especially in the coming year because of the number of compacts that have completed.

And then the last thing I'd mention is—that I see is a real challenge in the coming year—is the competitiveness that we're going to be seeing over the next year. We have a number of countries that are going to be developing second compacts. We have a number of countries that are developing compacts in general, five, six countries will be developing compacts from now.

And it's going to be essential that countries that are developing compacts do so with a great deal of focus and effectiveness because in the coming year I see a much more competitive environment for MCC resources. I see many countries that will be qualified, more countries than we'll have resources in our budget. And so it's going to become a more competitive environment.

And that is really going to place, I think—well, what it means is that the countries that are selected now and that have the opportunity now to work on developing a compact really need to move that process quickly and to do it in a very effective manner.

COOPER: Thanks, Patrick.

I wanted to talk a little bit in a little bit more detail about the Cape Verde compact. And specifically, Ariana, I'm interested in your thoughts about the fact that the Cape Verde compact is important for MCC because it will be

our first second compact. And I'm interested from your perspective, how has the development of this compact been different as a second compact?

GAUCHAT: Sure. Well, I think first, you know, MCC has set out a higher bar for the content of second contacts. So, we maintain MCC's core objective of poverty reduction and growth, but really look for opportunities to further leverage MCC money by catalyzing private sector investment and other donor investment.

So, we know, as Patrick mentioned, resources will be tighter. So, we're really looking for opportunities to get the maximum benefit for our funding.

We ask more of our partner countries. As Patrick mentioned, our partner countries and first contacts have been incredibly engaged. But we ask countries to step up their commitment both in terms of the compact development process, where the countries are asked to fully fund the operational expenses of the development process, to really take the leadership in completing constraints analysis and really content leadership in terms of developing their full concepts and moving them forward.

Patrick mentioned the, I think, increased pressure on the time line, that MCC will be looking for the countries to be leading that process.

And then in terms of the compacts themselves, so in terms of lower middle income countries, we require a minimum 15 percent contribution from the countries themselves.

And then in terms of MCC's corporate priority on integrating policy reform, we do look at policy constraints in all of our compacts. But in second compacts we're looking at fully integrating policy and institutional reform from the beginning of the design process.

COOPER: I think we're interested in hearing a little bit more about the compact and how it's been developed because I think it's a really interesting compact. And particularly interested in hearing about what's new and innovative about the Cape Verde second compact?

GAUCHAT: Sure. Well, briefly, just to recap the process, Cape Verde was deemed eligible for a second compact back in December of 2009. And first up in the process was to conduct a constraints analysis.

So, one of the lessons learned for MCC in our first set of compacts is we didn't have a coordinated guidance in terms of that first step in how to identify priorities. So, even with the second compact, countries are asked to conduct a constraints analysis to identify key constraints to growth.

In the case of Cape Verde, it was a country that had graduated from lower income to lower middle income country status. So, I think it was a useful tool for Cape Verde as it looked for how to prioritize both MCC resources as well as their own government resources moving forward.

So, that was a challenging process, to go from a number of constraints identified in the constraints analysis, there were eight different possible sectors to work in, and to narrow down to two sectors for full design and due diligence.

And I will say that the Cape Verdeans were very enthusiastic about trying to work in many sectors. They saw the first compact as a successful model. And MCC had to ask to really to focus our programs because we wanted to make sure that we really were fully addressing the constraints that were identified.

So, we focused on water and sanitation and land management as the two key priority sectors.

The papers that were submitted focused largely on sort of hard assets—infrastructure investments, computers, equipment on the land side. And so we undertook a process to really identify what were the real constraints within those sectors, basically a problem diagnostic within those sectors.

And what we identified in the case of the water and sanitation sector—and this was really through an extensive consultation process in country—was that the real core problem was in terms of national policy reform. There was not a clear government entity accountable for sector performance. And the utility structures were basically very bankrupt and inefficient municipally owned utilities.

And so we set up a program structure that really focuses on addressing those core areas of policy reform at the national level and institutional reform at the utility level.

The third piece of the water and sanitation program focuses on infrastructure investments, but does so in a way that really incentivizes the policy reform. And so we have an infrastructure grant facility which is tied to performance on the national policy milestones and is—the funds are awarded on a competitive basis to utilities that meet specific objectives.

So, I think what's different and innovative is that we really have tied those policy milestones into the design itself and we've really targeted resources in that way.

And the land management project, which is the second project, is I think innovative in the fact that it focuses on key constraint, again in Cape Verde, and also leverages the country's strengths.

Cape Verde is a sort of globally known example of e-governance. And it's an area in which Cape Verde has been giving technical assistance to other countries across Africa. And so this program really leverages Cape Verde's strength in that kind of management information system, but applying that to the very complex land sector.

COOPER: Thanks, Ariane.

Alicia, MCC adopted new selection criteria earlier this year. And I'm interested to hear your observation and the team's observation about how that new criteria—how it was to apply that new criteria in the selection round.

MANDAVILLE: So, as you may have noticed, we used two scorecards this year. We used the scorecard you will have become familiar with over past years. But because we made the change in September to adopt a new scorecard, published those as well and presented them both to the board.

The short answer is it made for twice as much work. And you can ask my colleagues as well. They'll vouch for that.

The longer and more interesting answer is it did really provide a way of looking at countries' policy performance that really I think made very transparent some of the kinds of questions that we answer to the board anyway.

So, it—the visuals were a bit different I think. And everybody can look at the two scorecards side by side. And when there's a difference in how a country performs, it passes one, it may not pass the other, I think you get a really good feel for the kinds of questions the board normally asks us anyway.

So, a country that passes the new scorecard but doesn't pass the old because it doesn't perform well in investing in people, say.

This is the kind of question the board would have always have asked about: Why is this country not performing well in this category? What do we need to know about specifics of these health and education policies or natural resource management policies? And so those are the kinds of questions that we answered this year as well.

So, in some ways the process on our side of the process was not that different. But I think that by having both of the scorecards publicly available it really helped add another layer of transparency in terms of people understanding the kinds of questions that the board asks.

COOPER: As vice president of congressional and public affairs, I spend a fair amount of time on the Hill. And one of the questions that I get is, why second compacts? And so I'm interested to hear your perspective on that.

We have Cape Verde being selected, their compact being approved—second compact being approved. We have Benin and El Salvador being selected, both of which are second compact countries. Could you talk about that? Why second compacts?

MANDAVILLE: Yes. This is—so I don't spend that much time on the Hill, but this is a question that we get a lot, too, in conversations with other stakeholders and countries actually.

And I think the key piece to keep in mind is that when we go to the board asking about which countries should be eligible for a compact in a year, we're not asking should we have first compacts or second compacts. That's not the question that MCC is asking.

We're asking the board, given the range of countries that we are allowed to consider, given what we know about their performance on the scorecards and what we know about their policy performance through other research, which of these countries is the best place for MCC to make an investment at this point in time? Where can we get the best poverty reduction and economic growth for the investment that we might make?

And so, for countries that have never implemented a compact before, we look a lot at the policy performance. We do a lot of digging, not just on what the scorecard tells us, but what else do we know about, if there's data on the scorecard, that maybe there's new information available or there are policy areas that we care a lot about that may not show up very clearly on the scorecard.

But we also look at what other colleagues and other international assistance agencies, what their view is on ability to work with a country, how they implement programs.

For countries where we have worked with them already on a compact we do a lot of soul searching on how that partnership went. We look very specifically at three different things. And for those of you who pore through our websites and read our legal reports, there's a report that actually outlines this. The selection criteria methodology report actually talks about both the policy side and implementation.

And for countries that have implemented a compact or are in the midst of implementing a compact, we look at how the partnership has gone. And that's both political will to undertake difficult reforms or take difficult steps, and also capacity, technical capacity to manage the projects and programs.

We look at progress towards results. So, we have a strong monitoring and evaluation system in place at MCC in all of our compacts. We look at the extent to which countries have met benchmarks that we expect them to have met at the point in time that they're at in the compact.

And then we look at some of the policies and regulations that we have about how to implement. So, we have a strong gender policy. We have environmental guidelines. We have procurement guidelines. We look at how well our country partners have upheld and worked inside of those policies and regulations and the spirit of those policies.

So, it's a fairly rigorous look at how countries have implemented a compact. And then we bring that to the board in—in equality (ph). So, we don't say we want second compacts or we want first compacts. We say this is what we know about the places we could invest. We're asking you to make a decision about the right place to do that.

COOPER: Thanks. At the board meeting yesterday one board member had expressed some reservations about the means performance on the indicators. And the same board member had expressed some concern about, given the current budget environment, whether Cape Verde is the right investment for MCC right now. Can you talk about both of those concerns?

MANDAVILLE: Yeah, sure. I mean, I think this shows us really why MCC has a board, which is it keeps us accountable. So, you know, these are tough questions, and these are the kinds of questions that we need a board to ask us so that we can dig into the answers, make sure that we think we're answering them correctly.

We're an agency that works on an evidence-based decision-making process. And so, you know, nobody likes hard questions, but at the same time I think they're what allow us to maintain that evidence-based decision process.

So, yes, that's the case. And I think, as I mentioned, you know, looking at two scorecards side-by-side really does give an opportunity to talk about how a country performs, both on the old scorecard system and the new. They're about 85 percent the same. But that 15 percent difference—is that (inaudible)—yeah, 15 percent difference, that gives us space to have a good conversation about policy performance.

So, we did talk about the fact that on the new scorecard Benin does meet the criteria. They pass, as required, at least half of the indicators. They need to control corruption hurdle. They have very strong performance on the democratic rights hurdle. Very notably they pass all six of the ruling justly indicators, and that's extremely strong performance in governance. And so we talked quite a bit about that.

On the Cape Verde side, I think Ariane can talk best about the value of the investment. And that's something that I think really is a very persuasive piece of the answer to that. When the budget is tight everyone asks lots of questions about every investment. And so, is this the right investment? Is this the right time for this investment?

From the eligibility and policy performance side, Cape Verde has very clear strong policy performance, recognized as a leader in economic reform, on democratic governance and smooth transitions between governments. It's a really clear, obvious, this is a strong—this country has an obviously strong commitment to good governance and policy performance. And so from that side of the equation it's a very logical place for MCC to invest.

FINE: Can I just add that, with respect to Benin, one of the things that we will engage with the government of Benin on is their performance on the economic freedom indicators because those are the indicators that where there are problems, where the business environment does not score very high there.

And since our investments are really about improving the environment for investments so that there can be robust economic growth, that's of great interest to us and will be an important part of our dialogue with the government of Benin. And the government of Benin knows this.

COOPER: Thanks, Patrick.

Alicia, as many of us know, there—it appears that there is an agreement on Capitol Hill on what's being called a megabus appropriations bill. And it looks like there will be votes today in both the House and the Senate. And for several years MCC has been seeking some additional legislative authorities from the Hill.

And based on the text that's going to be voted on in the bill today, there is a new legislative authority in the bill, and that is an adjustment and a change to our candidate pool and the way we—you know, the way we consider the candidates and the way we structure the candidate pool and also a graduation fix with regard to countries that are moving up and down between income levels.

Can you talk a little bit about that? If that bill does—if it is enacted, what changes will that mean for MCC and our partner countries?

MANDAVILLE: I'm enthusiastic about that term megabus; never professionally have been involved in something called mega before.

Right. So, I can answer specific questions if folks have them. This is a fairly technical change. So, I'll give you the 30-second interesting version. And then if you have really detailed questions I'm happy to answer them as well.

Right now the way MCC's candidate pool is defined—and candidate pool is basically the pool of countries that we are legally allowed to consider working with. So countries within the income brackets that are considered by the World Bank low-income or low-middle income, and that's a legal definition that we have to abide by.

Right now the way that's defined, it relies on a line established by the bank, but a line that floats based on global inflation, domestic inflation of the countries in question, the exchange rate with the U.S. dollar, all of those things over a three-year average. And so—and it's not a straightforward adding equation. It's a fairly—it's a complex equation.

So, if you can imagine the line moves around a good bit. Countries, as they have economic growth, move above the line. But sometimes inflation causes them to move above or below the line. Sometimes changes with the dollar exchange rate cause them to move around.

And we found that wasn't a very—it wasn't stable in terms of our ability to compare countries on the scorecards, on the indicators, in terms of how our legislation allows us to fund countries in the low and low-middle income categories. It created a lot of messiness year-on-year. And so the new legislation essentially defines that in a way that's much more stable.

So, instead of using a floating line, it counts from the poorest country to the 75th poorest country, that is the low-income category for us if this legislation passes through. So, it's a much—then low-middle income is countries above it to a line defined by the bank.

So, it's a much more stable candidate pool. For the most part most people will not see a big difference unless you are extremely interested in income categorization and how agencies manage that process.

COOPER: So, we wanted to open up the questions to you now. So, if anyone has any questions, the panel would be happy to entertain those.

QUESTION: Hi. Good morning. Charles (ph) (inaudible) here from the Embassy of Honduras.

I noticed that you mentioned second compact countries and first compact countries, but you didn't mention threshold countries. So, my question is, what does MCC hope to achieve by naming countries such as Honduras in the threshold category? And how does this relate to the availability of a second compact?

MANDAVILLE: So, I'm glad—thank you. I'm glad you asked because you're right, we haven't talked about the threshold program at all.

So, the threshold program, for folks who are familiar with it, has actually been redesigned fairly recently. And the way the program works now is that it is—the program as a whole, the purpose of it is to help countries to become eligible for a compact.

And if you read our legislation it says that right in the legislation. And the idea behind the way the program works now is to undertake with the country that's been designated eligible the same kind of constraints analysis and diagnostic work that we do with compact partners.

So, how do we identify what are the things constraining economic growth in this country? And that's a process that is part of compact development, that has been part of the Cape Verde compact development, that is part of the ongoing, both Zambia for a first compact but also countries that are currently working on second compact.

It's also a process the U.S. government as a whole has used with a number of countries in the Partnership for Growth initiative. And so the idea is that it helps provide a basis to understand what are the right kinds of investments to address economic growth in a country.

So, the threshold program is a financed version of that in some ways. So, the diagnostic work, the economic constraints analysis work is done. And then there are threshold program funds available to undertake some of the programming. Programming focused on the policy reform side.

And one of the—part of the idea behind that from MCC and the board's perspective is that this is the kind of program that really tells the MCC board what do we know about this country's willingness and ability to take on the kinds of difficult policy reforms that are part of a compact. As we build more policy reform into compacts itself, that's a very legitimate, live question. And so it's something the board would want to know more about when making a decision.

So, the countries designated eligible for threshold this board meeting, both Honduras and Nepal, that's exactly the idea behind the program and the way the program would work. Undertake the same type of constraints analysis or diagnostic work that we would do with our compact partners, and then focus on some of the policy sides of that to give the country an opportunity to show how well its commitment to reform and its ability to undertake the kinds of reforms that are part of a compact.

QUESTION: Good morning. My name is Alpha Kanu. I'm the minister of political and public affairs in Sierra Leone. I came in last night so I can be at this meeting today. And thanks for inviting me here.

The special program, as I understand, is the platform, springboard to get to a compact. To get to a compact you need to have passed at least 50 percent of all of the indicators and also passed control of corruption.

When a country gets to a point where it's just at the brink, you offer them a threshold program. This is my fourth year of coming, and I believe that this year, according to your new scorecard, Sierra Leone did well. And we came here hoping that we would make a threshold this year.

A threshold means you help us get over the brink to get into the compact. At what point does the country get into a discussion for a threshold? Thank you.

MANDAVILLE: Thank you. I'm really happy to see you here.

We've actually, as you know, spoken with colleagues at your embassy a number of times in the last several years actually. And in fact, our team talks a lot about how effectively Sierra Leone has regularly come in to talk with MCC about the kinds of achievements it's seen and had in different policy areas. And we actually hold it up as an

example to other countries that are interested in pursuing a threshold program because your embassy has done a very outstanding job at communicating that.

We talked a lot about some of the improvements that we saw on Sierra Leone's scorecard this year, particularly with the change to the new scorecard. And for folks who have not followed the threshold program as closely or don't—haven't reviewed all of the scorecards side-by-side, the threshold program is, as you described, designed to help countries over the hump into becoming compact eligible.

There's a number of pieces of that, though. The scorecard is one of them. The board's understanding of how much MCC would be able to reduce poverty through economic growth is another part of making a decision about compact eligibility. And the threshold program as it's currently designed is focused more on that second piece and less on the scorecard itself.

So, there's not a hard and fast rule about this is the point at which a country becomes eligible for a threshold. In the same way that there is competition to complete developing a compact, there is extremely heavy competition to become eligible for a compact and there is extremely heavy competition to become eligible for a threshold program.

And so in this year the two countries that were selected as eligible for a threshold, one passed a majority of the indicators on the scorecard and was just shy on control corruption. The other actually passes the scorecard; it fully meets the eligibility requirements. And so there the program is intended to help understand more about the government's focus on policy reforms through an investment.

So, there's not a specific line. The competition is actually fairly intense because there are a number of countries that are very close. I think Sierra Leone has, as I said, we've been very happy to regularly meet with embassy colleagues because the story is so—there has been so much positive change on a number of policy areas. And we look forward to continuing that conversation.

QUESTION: You talk about policy change and reform within the country. Have you noticed that with any of the compacts whether there have been any policy reform in terms of negotiation between countries or neighboring countries as a result of implementing a compact or threshold program?

MANDAVILLE: I can think of one example, but I actually have not looked across the board at this. Other colleagues may have.

I do know that as part of, I believe, the Liberia threshold program, which is—there's a piece of it that has a customs component. I believe there have been some ongoing conversations between Liberia and its neighbors with regards to custom regulation. I don't have a lot of details on that, but I do remember during the development of the threshold program that being a conversation topic.

So, I would suspect that there are others. The port in Benin, for example, is a huge trade capacity point for countries to the north, Mali, Niger, Burkina Faso. And so I would imagine there are knock-on effects from an investment in the port. But I certainly don't have information about the intergovernment negotiations around that.

FINE: I mean, a number of compacts have investments that are intended to facilitate regional trade.

(UNKNOWN): (OFF-MIKE)

FINE: Right. So, for example, in El Salvador there's a transport investment that connects the northern part of the country to its neighbors. In—in Tanzania there's road investments that connect Tanzania to Kenya and to

Zambia I think—yes, to Zambia. And there are the ports in—in Benin, which specifically one of the issues there is to look at the competitiveness of that port vis-a-vis other ports within West Africa.

So, there are specific investments that have as one aspect looking at promoting regional trade, and in that sense looking at the policies that affect regional trade, such as the policies around the borders. The transit of goods across borders does come into play.

QUESTION: I think the reason I was asking that question is to say whether—you say you are moving towards an evidence-based approach to justify the funding, and I think that's a good approach showing the impact that it's having on other nation-states, other than the nation-state in which it's a host state of the funds.

COOPER: Any other questions?

QUESTION: I know we're here to talk about compact agreements and how a country can progress from having compact agreements to threshold agreements and get funding. But I would like to ask a bigger question. And I'd like all of you to comment on it.

The model, the MCC model is great because that's the right kind of development that we want to pursue overseas and open opportunities for American companies. It's rigorous. It's methodical, from what you describe. And it's transparent, but also socially sensitive. At the end it's just economic development.

However, we have seen in the last few years, maybe 10 years or so, that the model has been competing with other models, I would call the Chinese model or the Indian model where economic development—there is no due diligence or transparency. There's land grab. It's not socially right, certain things that are happening in developing countries.

But they are getting the economic benefit from it. Countries are winning businesses.

So, at the end of the day, how is the MCC model going to compete with this break speed, socially disruptive, environmentally irresponsible kind of economic development that certain countries seem to welcome?

FINE: Let me make an initial comment about that.

What the MCC model does is it builds on the lessons from decades of experience trying to promote prosperity and improve standards of living in poor countries. And it—it really is an example of a more effective approach to development assistance. So, it takes those—that development effectiveness, those lessons of development effectiveness and applies them.

My—what we see on one level is that countries that work with us and see how these effective approaches to development, whether it's on environmental issues, whether it's on resettlement issues, whether it's on some policy issues around competition or how to manage procurements, that countries recognize those as actually better ways of doing business.

And so, for example, we see in Tanzania that they've adopted resettlement practices that we—that we required as part of the standards that we—that we enforce. They've adopted them more broadly in their government programs.

So, same thing in Cape Verde where it adopted certain standards that—that we brought in with the implementation of the compact and applied it across—across their government operations.

So, on one level I see governments recognizing that this is a good way to do business, that there are benefits from doing business in a way that's environmentally conscious, that protects the rights of individuals, even if it's more expensive, that in the long term it's beneficial.

Honduras is another example where they—we had a lot of discussions about the resettlement and the costs around resettlement and how to do it. And in the end, when the resettlement was done and the benefits were clear, the government of Honduras said this was a better way to do it, and we're going to do it this way on our own projects in the future.

So, I think that—that there's a demonstration effect that governments recognize that counters and will continue to counter the kind of—what you're describing which is—which is an approach that is not sensitive to some of those people aspects of development.

QUESTION: I understand, and I fully agree with you that this is the right way to go. However, some of the countries can't wait and therefore will go to economic development that will feed their people tomorrow. And that's a shortcut that they're taking. So, what is MCC doing?

As an American paying taxes, I would like to know if we're playing a winning strategy or just not even strategizing to compete with those kinds of investments that are currently happening.

(CROSSTALK)

GAUCHAT: No, I just wanted to provide, I think, the example of Cape Verde. I think countries—I mean, what we're doing is not just enabling private sector investment, but also helping countries better manage their domestic resources.

So, if you take the example of the land project in Cape Verde, we're very aware this is a country with limited supply of land. There's a threat with—you know, everybody knows stories about land grabs, et cetera. How do they help plan for the future?

And I think that there's a real emphasis on sustainability, not just from MCC, but globally the recognition that some of these short-term investments have some real shortcomings.

If we take the kind of process that MCC requires in terms of a really deep analysis that includes a broad consultation with stakeholders, it really does reveal a lot of those experiences.

So, you may find projects cited maybe from government officials or the private sector that are seen as successes. And then you have other stakeholders, civil society, et cetera, that point out some of the weaknesses. And it forces, I think, a very healthy discussion early in the process.

So, in the case of Cape Verde and the water sector we looked at some—some either stranded or underutilized assets. So, some donors who maybe come in and build a waste water treatment plant, but that wasn't connected to any households, you know. So, there might've been a ribbon cutting, but not all the follow-up. And the government was very conscious not to repeat those same kind of efforts.

So, I think while MCC is working with a limited set of partners, that, one, we provide an incentive to do business in that kind of way. And then I think there's also a strong south-to-south (ph) kind of dialogue going on and I see more of that happening. And I think countries who see the benefits of working in that way are also talking to other countries in a dialogue that's, I think, stronger and sort of beyond our immediate scope, but is very powerful.

FINE: You're right. There's a real politique (ph) which takes place and is going to continue to take place and that's a reality. But if you just look at MCC's contribution with respect to promoting good policy performance, it happens at several levels. You know, at the highest level it happens with our indicators where countries really do take steps to improve their scores.

And to improve their scores they have to change behaviors, change the laws, change procedures, really change the way they behave, to behave in a way that promotes prosperity through things like investing in people, through good economic management and through—through democratic governance and respect for human rights.

And it is an amazing—it's very hard to get countries to change behavior. And the fact that this system of indicators creates a positive incentive that we actually see working and that members who are here today can talk about—you know, you, Ambassador Oguin, can talk about what your country has done to change behavior to improve policy performance. You can talk about the same thing from the Sierra Leone...

(CROSSTALK)

(LAUGHTER)

FINE: So, my point is that that's one level that has an effect. But that's at a big sort of macro level. At a more micro level there are specific policy reforms and requirements that we discuss and agree to in the—in the investments that we make. And so that takes place as well.

And then the other thing that I see happening that is not directly related to MCC, but is part of this evolution, is I see these other—these new donors that you're referring to making the same mistakes the old donors made because they're not taking—they're not doing social analysis. They're not taking environment and other—gender and other considerations, civil society into consideration.

And I see them making some of the same mistakes and having some of the same repercussions where they have people demonstrating against them, where there's outcries against them, where there—and I think that there's a learning going on by new donors as they learn, some through hard experience, you know, making the same mistakes that others have made, some by looking at what constitutes effective development and adopting some of those lessons straight away. But I see that happening as well.

COOPER: I think we have time for two more questions.

QUESTION: Have you tried to educate policymakers in some of this—some other, let's take African countries, who are not even remotely considered to be to any of your program, to educate them about the model that you've—your model is working? And educating some of these policymakers would probably help in getting them to reform. I don't know.

MANDAVILLE: I suspect Chuck and his team can tell you that they will try to educate everybody about how the model is working.

I can't speak to the—what we've talked about in terms of the way compacts themselves, what they've produced because I'm not part of that conversation point.

But on the policy and the scorecard side, we actually do. Our team spends a lot of time talking with policymakers from different countries, whether that's through the embassies here in D.C., that's through visiting delegations, or that's video conferences or teleconferences to explain what are the policy areas that MCC looks at, what are

the kinds of things we have seen other countries do to make improvements in those areas, how has MCC seen that, how has the board considered that.

So, that is something we actually spend a good proportion of our time doing.

COOPER: Last question.

QUESTION: Thank you. Calie Rerodo from GOPA consulting firm.

I would like to speak about—a little bit about Malawi's compact. I believe it has been placed on hold since May 2011. Is there any decision by MCC to be taken or, you know, over the next six months? Or is it going to be like maybe Madagascar, terminated? Is there any decision from MCC about that?

MANDAVILLE: There's not a decision at present. The compact is itself on hold, that's correct. The compact was put on hold, on an operational hold in July due to concerns about governance trends, and I think probably most visibly some events in July in Malawi.

This is something we're continuing to watch. In the last few months there have been some encouraging first steps. We are watching to see that those first steps lead to momentum and actual sustained change. We would need to see that to be able to turn—to lift the operational hold.

So this is something that's a live question. We're continuing to watch the situation. We're very hopeful that the right things happen because it is an extremely strong investment and it has the potential to benefit the lives of, I think, millions of Malawians.

And that's something that, you know, it says at the bottom of all of our business cards, reducing poverty through growth. And that's—that's what we all want to do. So, we're continuing to watch that.

COOPER: With that, I'd like to thank our panel. And I'd also like to thank each of you for coming. Thank you.

(APPLAUSE)

END