

MCC Quarterly Town Hall Meeting

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YOHANNES: Happy holidays. So, welcome to Millennium Challenge Corporation. I'm Daniel Yohannes. I am the CEO of the Millennium Challenge Corporation. I really appreciate your ongoing interests in MCC's work. I also want to thank you for your support. It's nice to see old friends. And we have new friends who are here for the first time, so welcome.

And also I wanted to recognize a few of ambassadors from our partner countries. We have Ambassador Oguin from Benin. Let's give him a big hand.

(APPLAUSE)

Welcome, Ambassador.

Ambassador Sidikou from Niger, welcome.

(APPLAUSE)

And Ambassador Stevens of Sierra Leone.

(APPLAUSE)

And all the members of the diplomatic community, I'm glad you're here, and welcome.

In a few minutes we're going to have a panel which is going to be moderated by the Vice President for Congressional and Public Affairs, Chuck Copper. And before I turn the podium to Chuck, I wanted to take the opportunity to talk about a few of the highlights from the last three months since we met here last September. And also to tell you what was decided by the board yesterday.

So, first, in early October I traveled to the Philippines. And in the Philippines we have a \$434 million compact, and I went to see the progress of our projects. And our investments are concentrated in three buckets. The first one is in infrastructure, primarily concentrated in Samar province. It's one of the first regions in the Philippines.

The second project is primarily concentrated was about 160 municipalities with over 3,700 projects primarily in schools and roads and clinics and what have you. And out of the 3,500 projects we have already completed about 700 projects. I was really impressed. These are all projects that are designed and implemented by the communities.

And the third one is primarily concentrated with the Department of Finance, particularly with the Customs and Internal Revenue, where they are reforming the policies primarily to cut down on corruption and increase revenues. So, they're all doing extremely well.

I had the opportunity to meet President Aquino and his ministers. I was extremely impressed with his commitment and leadership in terms of providing us with a lot of support for the program. And I also met with the business community and civil society and we have an excellent MCA team on the ground and it was extremely impressive. So, I was really pleased with the progress of our compact.

And then after I came from the Philippines, MCC marked a milestone in our history with the release this fall of our first five independent impact evaluations. In fact, I invite all of you to visit our website, MCC.gov, to read the full discussion about what these evaluations mean and reveal. But let me say just three things about them.

First, these impact evaluations are an important part of MCC's evidence based approach, the development and our commitment to transparency, accountability and learning.

Second, the approach allows us to apply lessons learned in our future design and implementation of our programs. Not only do they tell us in terms of what have been accomplished, but they provide us with a lesson so that we can do a better job in future programs.

Third, our approach allows us to share our learning with other government entities and with entire development communities so that they can benefit from our experience.

I'm extremely pleased and humbled by the reaction of so many respected (inaudible) and professionals in development for how MCC is approaching impact evaluations. The recent report that came out from the Congressional Research Service best captures what we have heard. That report says since its establishment in 2004 MCC has been regarded by many as a leader in aid evaluation. Many development experts praise MCC's transparency about both successes and shortcomings of its programs, and apparent commitment to continuous improvement.

According to at least one development professional, the first set of evaluations is a game changer that has set a new standard for development agencies. Moving forward, we're committed to challenging ourselves in this critical area so we can remain that game changer. In fact, MCC's leadership in development was recognized by Secretary of State Hillary Rodham Clinton during her visit to MCC right after Thanksgiving.

For some of you that may not know, Secretary Clinton is the chair of our board. She is the champion of development. She's been an incredible supporter of MCC. So, it was a real honor to have her here at the Millennium Challenge Corporation.

During her visit here, the secretary said MCC's model showcases some of our best thinking about how to do development for twenty-first century and has helped to set the stage for the administration's approach for development; because at a time when we must look for the way to maximize the impact of every dollar that was spent on development, we often turn to MCC for information and inspiration. So, we are committed to being that beacon of information and inspiration.

Now, let me turn to yesterday's board meeting. In the past our December board meeting focuses primarily on selection of new countries for compact eligibility and Threshold Programs. This will prove that the MCC effect is still alive and well. For the first time in four years the board has selected new countries for compact eligibility.

The board selected Sierra Leone, Liberia and Niger eligible for a compact. Three of these countries have been working real hard in the last three years reforming their policies, working with us, creating a beneficiary for their own constituencies. And they've done it in a meaningful, measurable way to be eligible for programs. So, we're very thrilled to have them a part of the Millennium Corporation family.

And the board also selected Morocco and Tanzania as eligible for second compacts. Those countries have been working with us for the last four years. In fact, both Morocco and Tanzania will be concluding their first compacts sometime in September of 2013; doing a fantastic job and also doing a great job in a lot of our policy indicators.

And Alicia Mandaville—where are you Alicia—who's been working real hard for the last three months, she will take us through about the countries we talked about today, primarily Sierra Leone, Liberia and Niger. And also the board selected Guatemala eligible for our Threshold Program, and Tom Kelly will go into more details about that.

So, it was an exciting meeting and we have a lot of countries that were selected, and we'll talk about them today. But for me it was really great, especially great, especially when I called the president of Liberia. I told her this is the best phone call I ever made because I know, and you know, what happened in that country. So, the progress we made is just phenomenal. So, we're all happy to have them be again a part of the Millennium Corporation family in developing their compacts.

So, I'll stop here before we go to the panel discussion. And I'll try to respond to one or two or three questions. So, OK, I'll start here. Yes, sir?

QUESTION: Thank you very much. My name is (Inaudible) and I belong to United States of Africa 2017 Project Task Force. We always support what you're doing; it's great. Let me ask you, do you have as part of your eligibility criteria—do you have any requirement that the country should have Freedom of Information Act effective or in place before they can qualify?

YOHANNES: I think it's one of the criteria we look at. It's not the only one. But again, I think we will talk about in detail the country's must pass at least 10 different indicators out of 20 including contract corruption, and at least in one of civil liberties in that area. But that's not the only thing, but it's one of the indicators we look at.

All right. Yes, ma'am?

QUESTION: Sarah Jane Staats with the Center for Global Development...

YOHANNES: Nice to see you, Sarah.

QUESTION: Nice to see you as well. Those of us that have been coming to these meetings for a couple of years have gotten a little bit used to hearing about maybe one new country, two new countries picked, tops, per year. There are five this year. I'm wondering if you can explain some of the thinking behind that, especially in perhaps a tricky budget environment the next year or two.

YOHANNES: That's a good question. I think a couple things. One, these are all countries that have been extremely well. I think very important to recognize them for the year that they have done a great job. And again, I think they didn't begin to work—they've been working on this for the last I don't know, three or four or five years, because it doesn't take only one year to make major policy reforms. It's not easy. It's very difficult. If it was easy I think we could have had a lot of countries be a part of this Millennium Challenge Corporation.

Having said that, I think we also are very cognizant that we are working in a very constrained budget environment. What does that mean? For what that means is you know we had to be very selective on the project we finance. Not every country's going to be able to develop a compact within two years.

Some countries it's going to take them three years, all right, we've seen it. And for those countries that have completed then you know they're going to be rewarded with the proposals they've submitted. And also given where we are today we're going to try to leverage our budget with partnering with other USG organizations as well as with nonprofits and many others.

So, we're going to have to be very creative and we're going to have to be extremely selective in terms of projects that are funded. And for those countries, again, that have completed their development within two years we'll fund them. And for those that are not able to, they're going to have to wait in line with other countries in the future.

Thank you, Sarah.

Yes, Mr. Ambassador?

QUESTION: Thank you. So, mine is not a question. Actually it's a short comment. You see me smiling and beaming, not because my country [Niger] has been selected. But at the same time I just—it's dawning on me that it means a lot of work. And actually that's one of my persons also told me yesterday.

So, I really hope that the people that call ourselves ambassadors here can help coordinate relations with other countries, and also more on board and learn our lessons about the whole process. Because the process somehow is kind of daunting, but we (inaudible) like to be pushed around because we know it's for our own good. So, please, don't hesitate. Thank you so much.

(LAUGHTER)

YOHANNES: Thank you. Thank you, sir. Appreciate it, Mr. Ambassador. OK. We'll push you as partners, OK? How about that?

Any other questions? Thank you very much. Happy holidays. So beautiful to be with you again.

I'll give it to Chuck. Thank you all.

(APPLAUSE)

COOPER: Good afternoon. As Daniel said, I'm Chuck Cooper and I am the Vice President for Congressional and Public Affairs at MCC. Thank you for coming to our quarterly town hall meeting. We do this town hall meeting every quarter. And the purpose of it is to report out what happened at the board meeting. But it's really—it's a larger purpose than that.

It's about us being able to have a conversation with our stakeholders and us also shedding some sunlight and being transparent with regard to the processes we have. And our focus today is on selection because that's what the board meeting focused on yesterday. But we also are open to a broader conversation about how MCC operates, what our thinking is, what our strategy is, how we go about doing what we do.

So, when—we'll have a brief panel conversation. But after that what we'd like to do is open it up to you to ask questions of us. And as important as it is for us to be able to answer those questions for you, it's important for us to get your input and to hear what your questions are, what your concerns are and maybe what your suggestions are for how MCC can continue to improve.

Because one thing that we have seen over the last three, four or five months is through our impact evaluation process is that MCC really is a learning organization and we take that very seriously. And so we want to make sure that we're open about things that are working well and not working well. But getting your input and really having a conversation about how do we get better and how do we continue to improve?

So, today I'm joined for a panel discussion with Alicia Mandaville, who is a managing director in our Policy Shop. And Alicia really is the person who does selection. She focuses on the selection process and she—she's had an interesting three or four months. And she has a strong team that works on this. And we're also joined, and we'll talk to Alicia about the selection process and what the board decided. And as importantly, what processes we went through to get there.

And then we're going to have a conversation with Tom Kelly. And Tom is also a managing director. And his focus is on the Threshold Program. And so we had a new Threshold Program selected—a new threshold country selected yesterday. And so we want to—we think it's a good opportunity to talk about what happened at the meeting yesterday, but also take a step back and look at the new Threshold Program that we launched in 2011, take stock of that. Talk a little bit about what's different about the new program and what our experience has been with it so far.

So, I'd like to start off with Alicia and ask her—you know we talk about selection, and it's important the board focused on selection. But really you know what selection is about if you take a step back is selectivity and the importance of selectivity to the MCC model. It's really critical.

So, could you—Alicia, could you talk about that? Sort of what informs the selection process? Why do we go through this elaborate selection process? And why is selectivity so important to MCC?

MANDAVILLE: Yes, certainly. And I think every time I get introduced that way, as the person who does selection, the next person says people must really like you. I say a very small percent of people really like me and then a lot of other people really don't.

So, I think selectivity, and if you've been following MCC for a while you'll have heard us say many, many times over this is one of the core fundamental values of MCC's model, one of the things we were built to test was that if you are selective with your foreign assistance, if you make a decision about putting foreign assistance in countries that have demonstrated a commitment to the kinds of policies that facilitate economic growth then can you get better results?

And so in order to test that you really—you do have to be selective. Something that's worked well for us it's really identified great partners. We've been able to do tremendous things with those investments. So, but it really underpins the model.

I think the piece that we all hoped in the beginning, that we see much more now, and I think particularly we see today is that it also creates some incentives. If people know MCC is going to be selective in where it invests, then the incentive to perform well on the scorecard, to take policy reform sometimes very difficult ones to improve that performance that the real thing. So, I think selectivity underpins both of those.

COOPER: So, selectivity is critical. How do we operationalize that at MCC? What's the process, talking about transparency and bringing—you know we think of selection as being about the scorecard, and it definitely is. But it's about more than that. Can you walk us through what you and your team do with regard to selection to get ready for the board meeting?

MANDAVILLE: Yes, certainly. I think everyone looks at the scorecard and thinks that's kind of it, but it's not. It's often the beginning point.

So, the scorecard is the fundamental core of MCC's selection process and it covers—those of you who've seen it before will have heard this as well, but covers three core policy areas, good governance or ruling justly; things including democratic rights, control of corruption, administrative capacity, government effectiveness; but also investing in people, social investments in health, education, natural resource management. And then finally economic policy, including macroeconomic policies and conditions, micro reforms, the regulatory environment, the business climate, those kinds of things.

So, by law we're asked to look at all of those. And we do that with a scorecard. It's got 20 different indicators. One of them somebody asked about Freedom of Information; there is a Freedom of Information indicator. That's one of the criteria that we look at.

There's a pretty clear method that the board uses to determine has the country met the standard for MCC to think seriously about making an investment here. That's passing 10 of the 20 indicators, including at least one of the democratic rights indicators and the control of corruption hurdle.

But that's our start point. And that takes the universe of countries we can think seriously about from kind of every country in the income bracket down to usually a pretty small pool. This was a great year because we had a slightly larger pool that we could look at, and I think we felt really excited to be able to do that second layer of research on.

What can we say about the kinds of policy reforms that this country has undertaken in an effort to improve performance? What can we say about the kinds of policy trends and trajectory over time? Are there underlying economic reform, other issues that we need to make sure we brief our board on because the second thing our board's directed to look at is where is the best opportunity for MCC to make an impact on poverty reduction through economic growth. And we take that second piece really seriously. It's less obvious than the scorecard, but I think it's also a fundamental part of our model.

COOPER: That takes us to our board meeting yesterday. What was—what did the board decide? Daniel referred to it, but what countries were selected and just give us an overview of what the board decided.

MANDAVILLE: Yes, certainly. So, a good—a number of good decisions yesterday from the board. So, for a new compact the board invited Morocco and Tanzania to propose second compacts with MCC. So, they are newly selected as eligible for second compacts.

The board invited Niger, Sierra Leone and Liberia to invite—or to begin the compact development process for first compact. They're new partners for the first time in a while. It's also very exciting—it was an exciting board meeting to be a part of.

We also selected new Threshold Program, Guatemala. I'll leave time to talk a little bit about the way the Threshold Program works and how that plays out. But I'll just note that Guatemala is extraordinarily close to meeting the scorecard criteria. They are the median country on the control of corruption hurdle, and that was the difference between meeting the scorecard this year and not. And so it was a good decision.

We're excited to be able to select them for our Threshold Program. It's I think less new news, but I think also the case that the board at the meeting reselects all the countries that are already working on compact development. So, for example, Benin was re-selected to continue compact development along with El Salvador, Georgia and Ghana. They also re-selected in a similar process for a continued Threshold Program development Honduras and Nepal. So, it was a lengthy meeting.

COOPER: You had mentioned earlier, we talked about selectivity and we talked about how MCC can play an incentive—can incentivize policy performance. Can you talk a little bit more about the development community talks about the MCC effect? Talk about what that is and whether in the countries that we've selected in this round whether you're seeing that in practice.

MANDAVILLE: And I want to pick up on something that the CEO said, which is that the MCC effect isn't a single year thing. The kinds of policies our scorecard measures aren't the kinds of things that change fundamentally in a single year. They're the kind of thing—governance, rule of law, control of corruption, health investments.

These are not things that you—somebody does—a country undertakes overnight and magically sees the results the next day. They're long slogs. And in the case of the country that we selected this year we've been hearing from, talking with and understanding more about the policy reforms in Sierra Leone and Niger and Liberia for really the last several years.

I've met both the ambassadors here but also their predecessors to hear about what are the steps that country is taking to really directly address some of the things we measure. And so it really—this year I think is the year that you can most explicitly see.

People want to talk about MCC effect in a numerical term, well how many indicators move from this point to that point and how many points did it go and what's the percent change? That's actually not what's interesting. What's interesting is that there is a fundamentally—the international community recognizes in Liberia their participation and international transparency initiatives. Their scores on controlled corruption are fundamentally higher than they were before.

In Sierra Leone the access to internal health care and free access to children under five, that's a real change. That's a significant difference for a number of people's lives. That shows up in the scorecard. In Niger some of the changes they've undertaken around restoring the—restoring a democratically elected governance. That was the first country to demonstrate that with the right political will you can come back from the MCC from a suspension.

All of these are real fundamental policy changes, and they're the kinds of things MCC means to incentivize. So, I think this year's selection was really an exciting way to see what does that look like, even just how does that play out?

KELLY: If I can add something just from the perspective of the Threshold Program. I don't know if this is an MCC effect as such, but one of the things I saw in the Threshold Program work we did with Niger that I thought

was very interesting and motivating in this same vein was the sort of approach the government of Niger took to some work we did with them in the education sector.

We wanted to do a fairly sophisticated impact evaluation on our intervention in the education sector. And this is something that's not that easy to do, to do one of these rigorous impact evaluations because you have to establish a control group. And then you have to have another group in which you're actually providing the whatever intervention it is that you can afford to provide. And in a lot of context that can be tricky to do.

But what was interesting to us is the enthusiasm the government of Niger had for this approach. Not because of our intervention or because MCC was there, but because they were interested in the broader issue of how to do evidence-based policy making. So, taking advantage of a donor being present to get information on how they could roll out a broader policy, it was actually very impressive. And being on the other side of the table from the government of Niger, I have to say it makes me really sort of optimistic and also sort of proud that they were selected for a compact as well.

COOPER: I wanted to talk for a minute about this concept of a diverse portfolio. And I think what we saw in the countries that were selected yesterday and also the existing portfolio, you really do have countries that are at different stages of development. Is that by design? And sort of what's MCC's thinking about that?

MANDAVILLE: This is something we talk actually quite a bit about, both at the board and the run up to decision making. And I think when you look across all five of the countries that were invited to begin developing proposals for new compacts, whether that's first or second. You really do get the feel that this is a diverse—this year's selection decision has a diverse set of countries geographically in different locations, but also at—their private sectors are at different places in terms of size and scope and dynamism.

The needs of the population are very different. The sizes of the populations are very different. Human development indicator outcomes are quite different among the five countries. And then we talked quite a lot about the idea that MCC is geared toward providing an investment in an area identified by the country. We have a really diverse staff with a lot of diverse different technical backgrounds. And our ability to be responsive to the ask is something that's important to us.

Thinking about how do we think about the countries we're selecting as our investment portfolio, you want some diversification in that portfolio. You want the countries that a certain type of private sector is interested in, this set of countries. They know that sector. They're familiar there. You want to be able to draw their attention to maybe a country that they haven't thought about working in before and then maybe vice versa.

So, we really did actually think quite a bit about that. I actually think it ties back to a question that was asked earlier about how do we think about five countries in a space of fiscal constraint, which is that I think we're fairly honest about the fact that we recognize that countries have very different needs. They propose very different things.

The timeline it takes them to develop those proposals is really quite different on the country-to-country basis. If we think about selecting a diverse set of countries then our ability to kind of work with them, the budget constraints that we have also grows because we'll—we know we will be making different kinds of investments on different scales and on different timelines. And that really helps MCC manage inside the resources that it has.

COOPER: Getting back to the question about the current budget environment and the fact that we all know we have a so-called fiscal cliff that's looming. And MCC like every other federal agency is you know having to respond to this budget constraint and trying to advocate on the Hill for budget resources. And it is the finite amount of money in a finite envelope that we have. And yet we have five countries that have been selected.

So, the question was asked is there—what's MCC's thinking? I know that there has been conversation about competition among countries. Can you talk a little bit about that?

MANDAVILLE: And I think if people have questions our compact development folks would be best equipped to talk about that side of the process. But you know it's not a secret that it's a constrained fiscal environment. Everybody is aware of that, and our partners are aware of that as well.

And I think from MCC's perspective there's the recognition and understanding that countries realize that they are, even after being selected, in competition with each other for the timing and the access to the resources that MCC's given. And I think we're pretty up front about that too.

So, in many ways this is—selecting a set of five this year creates a space for competition after selection. And so kind of coming back to that same selectivity point maybe that you started with. MCC is selective about countries, but we're also pretty selective about the types of investments that we fund. And so the combination of our willingness to be selective and rank and order the investments that countries propose I think generates a kind of competitiveness after selection that can be really healthy too.

KELLY: And I think there's also this sense that we want to try to incentivize compact development moving along in a timely way, and making sure that the countries we're selecting as eligible are maintaining good policy performance after the initial selection.

COOPER: So, we wanted to move on to get to your questions as soon as possible. But before we do we wanted to have a brief conversation about the Threshold Program.

In 2011 MCC launched a new Threshold Program. And so over the course of the last year or so the threshold team has had the opportunity to start the process of implementing this new program. So, we wanted to have a conversation about that with Tom.

Can you, Tom, give us a sense of what's different? I mean, you've been at this for a year. How do the new Threshold Programs look different than maybe what we had done previously?

KELLY: OK. First because we don't have any programs in implementation yet, any Threshold Programs that are actually implementing their activities, you get to what's most useful I take a step back and talk about what has changed and how we're going to get to programs that will look different in these second generation programs.

So, about two years ago MCC did a review of our first generational Threshold Programs. And at that point we had done about 20, 22 programs. And we'd been implementing them for five years. So, we felt like it was time to stop and take a look back.

And that was an internal review that was pretty exhaustive. And at the end of this review and at the end of our conversation with management and the board about this review the conclusion, the sort of bottom line was that there'd been a lot of success in the Threshold Program and that it was a very important tool for the United States, the United States government to provide leverage on policy reform with partners. But the—frankly, we could get more out of it.

We could get a bigger impact and get more leverage out of it. And there were two sorts of core recommendations that came out of this process, this review and then the subsequent conversations with management and the board.

The first was that MCC going forward in the Threshold Program should have a stronger dialogue, stronger direct dialogue between MCC and our partner country governments, so, to strengthen the dialogue about policy

reform. And the second key change that came out of this process was the idea that we should sharpen our policy reforms to get the biggest impact, narrow in and sharpen the policy reform interventions to the ones that were going to get the largest impact.

So, those were the two things we want to get out of the bigger programs. And that meant some changes in process and some changes in the way ultimately that we'll implement these programs.

Some important changes in process that are related to strengthening this dialogue between MCC and our partners: first of all, MCC is much more involved in the design of the programs now. Previously USAID did most of the design in conjunction or in partnership with our partner country governments. And MCC had a relatively light touch.

USAID did quite a good job in design, but MCC wants to bring that design back in house now and work much more directly with our partner country governments. USAID and the State Department in some cases are still involved helping us with the design, but we're much more in the lead right now.

And the second part of that changing process on how we design these is a lot more of the onus has gone on in our partner country governments. We're making a lot more demands of them to put forward their own teams of economists and their own teams of specialists, and to make more commitments as we go through the design of these.

So, this is something that is actually a bigger challenge for our partner countries than it was in the past. In the past it was much easier for them to allow the implementation and the design to happen. So, that's sort of on the design side.

A second major change that's very important to us, sharpening the focus, is that we're changing the way that we identify the priority for programming. In the past under the first generation of the Threshold Program the priorities for the interventions were coming directly of MCC's country scorecard.

So, for example, if a country didn't score particularly well on control of corruption, the country would typically wind up working on a control of corruption program. What's different now is that MCC is using a—what we call a constraints to growth diagnostic or a growth diagnostic sometimes called a constraints analysis to identify what the binding constraints to growth are.

What are the most important things that are prohibiting a country from growing faster? And we're going to focus in on those things in order to make our programmatic interventions because those are the things that will have the biggest impact.

It's not that in the first generation of the program, if you take the example I gave, which somebody was focusing on control of corruption. It's not that that wasn't important. That was important and that did get impacts.

But what we want to do is use this rigorous analytical process of a constraints analysis to identify what will have the biggest impact to sharpen that relationship, strengthen the relationship between our relatively limited aid dollars, because the Threshold Programs are pretty small, and the economic impact we'll get from that.

So, that's the major difference we'll have between the first and second generation Threshold Programs. But let me just say something quickly about what won't change.

The programs will still be a recognition that a country is headed in the right direction and that it's close. Alicia emphasized that in the context of Guatemala they're close and they have the possibility of getting a compact. So,

these Threshold Programs will also still be a challenge to the country and an opportunity to our partner country to potentially move onto a compact.

So, it will be both a recognition and a challenge, and that's what we have now for Guatemala. Guatemala was selected through a new Threshold Program. It's an important recognition of where Guatemala is headed, but also a challenge to them to see if they can take advantage of this and move towards a compact.

And another thing that hasn't changed is the original purpose of the Threshold Program is to help countries become compact eligible. That was in our original statute that created the MCC. That hasn't changed. That's still the purpose of the program.

COOPER: I think it's a good time, Tom, to just take stock about the Threshold Program portfolio and just give us a sense of the active programs and how they're doing and what you see as far as the status of those programs.

KELLY: OK. I'll be brief. There are four programs in the portfolio right now. There were four programs in the portfolio on Tuesday. And there are four portfolios—countries in the portfolio today.

However, one of the countries that was in the portfolio on Tuesday, Niger, has moved now to compact. And we have one new country based on yesterday's board decision, Guatemala, which has moved into the portfolio. So, let me start with the other three and then I'll work up to Guatemala.

Honduras is the program we have in the Threshold Program that is the farthest along. Honduras is the country in which we've already completed the constraints analysis and in which we're now at the stage where we're working with the government of Honduras to identify the areas in which we're like to have programmatic interventions.

There were two constraints identified in the constraints analysis in Honduras. One of them related to security. This is security in the sense of sort of crime and violence and these sorts of things, which is quite a constraint to growth in Honduras.

And the second is government effectiveness, the kind of transparency and efficiency of government. We're going to work in the area of that second constraint.

We will not be working in the area of security. And we're currently talking to the government now about how we'll define a program in those different areas. We're pretty far advanced in that conversation, but I hesitate to say exactly what we'll be doing because we don't have final sign off from our partners yet.

We are hoping, however, to get a program that we can present to our board for our March board meeting. It is possible that it will happen at the June board meeting instead, but I'm very hopeful that it will happen in March. If it happens in June instead of March my boss will be very unhappy.

The second country in the portfolio is Tunisia in terms of how advanced they are. In Tunisia we've also finished the constraints analysis. The constraints to growth that were identified in Tunisia are the kind of institutional structures that undergird protection of property rights, and then also high regulatory and fiscal costs associated with hiring labor in the formal sector.

We're also at the stage in Tunisia in which we're talking to the government about what the areas are in which we will actually have programming. And we are not sure yet how soon we'll be able to move that program to the board.

The third country in the portfolio is Nepal in terms of how advanced it is. Nepal is about midway through its constraints analysis. We began the constraints analysis with Nepal in October.

The team that the government of Nepal has put together is excellent. They have a good team of economists working with us. And we're actually moving along quite rapidly in Nepal. We've got good access to data and good team counterparts, and we hope to have a constraints analysis ready in February.

Guatemala, again, is a new country. Alicia talked a little bit about some of the things that Guatemala has done to actually merit selection. And I think merit is the right word for it.

We agree we deserve this. And we're at very early stages with them. But based on a conversation yesterday between our CEO and the president of Guatemala, they showed extreme enthusiasm for the program. So, we're very hopeful we'll be able to move quickly in Guatemala.

COOPER: Thanks, Tom.

With that we wanted to open up to your questions. Yes?

QUESTION: You know the infrastructure program (inaudible). These programs, especially infrastructure development takes a lot of good engineering planning up front you know. And a lot of these countries really don't have the expertise. And they also don't have the funding sometimes to develop the program properly.

So, you know it seems like MCC's position is that this up front development kind of work is really not funded from the MCC appropriations, right? MCC doesn't fund that. The country has to come up with its own program...

COOPER: MCC does provide funding for due diligence and design work. We call it 609(g) funding and due diligence. So, we—MCC does provide funding for that work at the beginning of the compact process.

QUESTION: Right. But what I'm talking about is pre—like initial program development.

MANDAVILLE: So, maybe it's a little—just to touch briefly on the basic mechanics of what happens once a country gets selected. So, clearly I work on selection. I don't do the part afterwards.

But the basic mechanics—because this is often the first question people have—once a country is selected, essentially they stand up a core team and we stand up a core team. They do—there's an economic analysis that's conducted jointly between economists from both of these teams.

So, the analysis and the findings are owned by the government and by MCC's analysis as well. Once those constraints are identified, that's when there's a deeper set of analysis as to what types of investments could address those kinds of economic constraints to growth.

This is why you see this tremendous diversity in our portfolio in terms of yes, there's a lot of infrastructure, but there's increasingly a lot of other work as well there. There're some agricultural programs. There are some health programs because they're tailored to address what each country's economic analysis shows are the constraints.

From that point forward there are a significant amount of technical support from MCC in terms of engineers and social and gender experts and environmental experts to do some of the initial diligence. And there's a set of resources that area available for feasibility studies as well.

That whole process is intense and can take a period of time, depending on—an extended period of time, depending on what types of projects the country's looking at. But it's not—it's not a completely hands off, you go and write something down and then give it to us.

That's not a—that would not be a particularly productive way to engage. And so there's a fairly rigorous system that's put in place now so that countries have both the support they need, but also the freedom to identify the constraint and identify the right programs to invest in.

QUESTION: Who funds that? Is that funded by the host nation or (inaudible)?

MANDAVILLE: It's joint and it varies how that works out.

COOPER: Any other questions? Sarah Jane?

QUESTION: As you know every year at the Center for Global Development we do sort of a parallel process in trying to predict which countries the MCC will select. We were excited and pleased that most of our predictions panned out, I think with the one exception being Morocco.

In our analysis Morocco seemed to be you know has a year left in a fairly complex program that probably needs a bit of work to finish up and wrap up in a good way. And Morocco seems like maybe it was moving along a trajectory that it might be out of MCC candidacy. Wondering if you can just walk through some of the thinking as to why it was selected again and why now?

MANDAVILLE: I think that you know the fundamental answers to the questions, why selected, why now, Morocco continues to be a stellar performer on the scorecard. Its policy performance continues to stay sound. It actually—to the best—and correct me if I'm speaking out of turn, but from compact operations, it has one of the most complex compacts, possibly the most complex compact in terms of number of moving parts.

There are several hundred work sites. There are—the sectors that it spans are fairly substantial. And the implementation has proceeded and people believe it is on track to complete.

The level of commitment in management that's required to sustain that type of investment I think is really significant. And so this is in part also recognition of the fact that the policy performance is maintained. But the partnership in compact implementation, recognizing the complexity of the compact is also significant.

I think we did think a lot about the diversity of the portfolio as well. And Morocco is a different type of potential country to invest in than some of the other countries we've selected this year in terms of the way its private sector is engaged both in country and with international markets. That's important from the perspective of generating growth and poverty reduction. That's something important for us to think about.

I think there's also the recognition that there is a lot of change sweeping the region at present, and recognizing that there are a lot of economic underpinnings to some of the drivers for change. There's a good moment for economic reform and a moment to pay attention to looking at the actual constraints to growth and looking at the opportunities for a forum that MCC feels like it can be a constructive part of.

COOPER: Yes?

QUESTION: You were going to comment on Niger and what's going on with their Threshold Program now that they're a compact-eligible country. Could you explain that?

COOPER: Yes. It's actually a good question. So, the statutory authority that we have to spend money on Threshold Programs goes like this. The Threshold Programs are to help a country become compact eligible, to assist them to become compact eligible.

So, we've been working on developing a Threshold Program with Niger. And we've been working on the constraints analysis and other diagnostic work with them. While we were working on that yesterday, Niger was selected for compact eligibility for a range of reasons that Alicia described.

Once they've been selected for compact eligibility we cannot then initiate a new Threshold Program in Niger simply because of the way the law is written it gives us authority to spend money on the Threshold Program. So, what will happen is all the diagnostic work and preparatory work that we've done that would have gone towards signing a new Threshold Program now will transition over to the teams that will continue this work with the government of Niger, and will contribute toward developing the compact now.

QUESTION: But they're not constrained by using that analysis.

COOPER: Exactly. No, on the contrary, they're not...

QUESTION: (OFF-MIKE).

COOPER: Yes. On the contrary, they're not constrained from using it, but we expect it to contribute to the development of the compact. So, they've got a big head start now in compact development.

QUESTION: To kind of follow-up, I didn't quite hear you correctly on what the second constraint was that you were identifying.

COOPER: So, the growth—the constraints analysis has identified two constraints in Tunisia, the first of which is the institutional underpinnings of protection of property rights. The second is a high fiscal and regulatory costs associated with hiring labor in the formal sector.

QUESTION: All right. Thanks a lot.

COOPER: Yes? Back here?

QUESTION: Just (inaudible) about compact, you use the statement institution of rights, property rights. Can you give details what does that mean to us statement? Secondly, if I were a part of your criteria team I would say to you the freedom of information law is very important, is an enabler for you to determine the magnitude of lack of good government and corruption. So, in the future you better get into that. Thank you.

COOPER: Well, we're in that. We're—we're well down that path. And we can follow up and talk about it. But we're there. It's on the cart.

So, in Tunisia the question about property rights, I don't want to go into a lot of depth about that, but as you know under the previous regime in Tunisia there wasn't always strong protection of property rights.

Pardon me?

QUESTION: (OFF-MIKE).

COOPER: The question was for women. I think I actually meant in general. There was not strong protection of property rights. And one of the things that's going to be critical to Tunisian economy's going to grow faster is

that property rights need to be protected across the board for all kinds of asset holders, for women, for investors, for everyone. And right now the institutional underpinnings exist, but they're not strong.

MANDAVILLE: Actually, if I can just because I—we do have a freedom of information indicator. I actually love it and I never—I don't get very many opportunities to talk a lot about it. So, I will take advantage of this one.

We do have a freedom of information indicator, in part out of this recognition that not only is movement of information a right, an individual civil right, but also it has a tremendous impact on the efficiency and the economy. And so for MCC to think about where we should invest, the movement of information and the freedom with which it moves is pretty significant.

So, we look a press freedom as a base. We look at whether or not a country has a Freedom of Information Act, and we look at whether or not they filter the Internet. And those three things together combine to be a single indicator.

We're actually—have spent some time working with the community—the right to information community on the fact that there are good and bad freedom of information laws. So, just because you have one doesn't mean everything is perfect.

In fact, if you're working with a community as well I really encourage you to work with them to think about how do you calibrate an index the quality of the freedom of information law? Because we actually care about a good one versus a bad one; but right now there's not a good data point that helps us to see that.

So, if that's an interest of yours, I know there's a community of folks who are looking at it. And we're really looking forward to seeing the results of their work.

QUESTION: How about countries where the compact is—there's a couple of countries where the compact is coming to an end in 2013 who has not been renewed. I think about Mozambique and Lesotho for example. What will happen in these countries? And what was the discussion you had regarding that?

MANDAVILLE: So, I should say up front that when MCC's board meets every year to consider possible new selections, just because a country hasn't been selected in a previous year doesn't mean it won't be selected in the future. So, the decisions that we're talking about today truly are the decisions from yesterday's board meeting and they don't necessarily prejudice the decisions in the future.

People talked a lot about the fact that in Lesotho's case, for example, their commitment to reform and—strong, strong performance on the scorecard, and responsiveness to different types of request for policy reform by MCC. Whether that was in the very early days looking at equal rights from—economic rights for men and women or whether that was looking at aspects of their health system as part of the compact implementation, being responsive to trafficking persons, concern just very responsive policy space and people really recognize that and wanted to applaud it.

I think that similar to Morocco the compact in Lesotho has a lot of moving parts and many, many work sites. And there's a year left in implementation. And people talked a lot about the fact that a strong policy performer this year with a decent amount of implementation still to do, giving them the time to finish that implementation and be able to focus on it is often a good way to move as well.

Mozambique, right, yes. So, Mozambique also is a year from completion of compact and I think has some fairly sizable infrastructure pieces in that compact that are still under completion. And so similarly the idea that giving the country some time to really focus in on completing the projects, completing them not just on time but also in a way that is sustainable was really a priority.

QUESTION: Hey, I'm (inaudible). Mine is a little more general question. Given that MCC focuses more on stimulating economic growth for poverty reduction. And global trends are showing that poverty reduction are now more concentrated in middle income countries and fragile states. Is that kind of thinking already impacting how your future compact selection will be?

MANDAVILLE: That's a great question. It's definitely affecting our thinking. We're spending a lot of time trying to think through. There's a lot of great—sorry. I'm going to say this publicly. There's a lot of great research on where are the poorest populations and the fact that they are increasingly concentrated in countries that are categorized by different donors as middle income.

We have some—we are by law required to categorize countries in certain ways when we look at considering whether or not they could be eligible. So, our candidate list is basically defined by law. We don't have—we don't have control over that.

So, we can't change that piece. But I think there's a pretty healthy recognition internally that if we're an agency that is dedicated to expanding economic growth in a way that affects and reduces poverty, how should we be thinking more about how people are moving around the world? Where is poverty most predominantly located? I don't think we have an answer to that yet, but that is something that our team and others as well have started thinking more and more about.

I could flag actually even our beneficiary analysis and I don't—none of our economists—I don't see anyone in the front row. But this is something you'll hear more from MCC about in the future is how do we think about using beneficiary analysis to inform some of our decision making as well.

COOPER: We have a question over here.

QUESTION: I'm Bob Perry from the Corporate Council on Africa, and poverty reduction, I think the private sector has a role to play in that in terms of employment generation. As a result of the reform process that you engage for the partner companies, how have—I know last year you got more actively engaged American companies in the design phase of projects in consultation with host country partners.

How do you measure follow-on investment by private sector as a result of the reforms, both domestic as well as foreign? And do you see that growing over time so that countries having made reform which are difficult politically, that governments can then point to the benefits to their populations? And that from the American side that we generate jobs in those markets as a result of positive reforms there?

MANDAVILLE: So, you may not have the best group of people up here to speak specifically to that just based on our locations in the agency. I do know that—I don't have any data on that. So, this—if we had data—my team loves data. If we had it, we would use it 15 ways to Sunday. So, I think at this point it's primarily anecdotal. But I know that's a question that people are asking.

Once you see a country as part of a compact development or in their run up to compact development seeking eligibility, take difficult reforms. How can we track the impact of that with private sector investment as well? We don't have a dataset. I think that's something in the future we would love to be able to do.

We do have a newly organized team—the acronym is FIT, Finance, Investments and Trade—which I know is looking even more closely at this. Having spent a good piece of this last year, if anyone from that team is here now is a great time to stop me.

Thinking through exactly what you pointed to, how do we engage more directly with companies during the design phases? How do we think about making procurements and other participation in investments more easily accessible in terms of people recognizing where they are and what opportunities exist?

I think the next step is more what you're looking at, which is once it's done and investments more easily accessible in terms of people recognizing where they are and what opportunities exist. I think the next step is more what you're looking at, which is once it's done now what do we see as the results?

COOPER: I'd also add to that. What we're trying to do is work with the private sector earlier in the compact development process. So, we're trying to get the input from the private sector with regard to the investment itself and also potential partnership with the private sector as we design the compact and as we implement it to see if there are partnerships that we would be able to use to leverage our investment. But we're also looking to work with our partner countries at the end of the compact as the compacts close out.

A good example of that is Benin. President Yayi came to New York and we hosted a roundtable in which we had that very conversation. We said you know we've made—we've modernized the port.

There have been important policy reforms that have been made. This is a good place to—Benin is a good place to invest, it's open for investment and it's a good opportunity for you. And I think the Corporate Council of Africa was involved in that as well.

So, what we're trying—and that's just one example. But we're trying it both from the beginning of the process, through the process and at the end be thinking about how can we partner and then how can there be—how can we try to incentivize and promote follow-on investments. And then throughout that process continue to track that and to see what's the benefit and the impact of those investments and of those partnerships.

So, it's something that we're very focused on. And given the fact that our mission is to promote—to reduce poverty through economic growth, we think the private sector is a critical foundational component of that. So, we're constantly looking for ways to make sure that we're reaching out to the private sector, having conversations, partnering with them as we go through the process, as is our—as are our partner countries.

Any other questions?

All right. Well, thank you very much. I'd like to thank Tom and Alicia for joining us.

(APPLAUSE)

And I'd like to thank you for being here too.

(APPLAUSE)

END