

# MCC Quarterly Town Hall Meeting

## Speakers:

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YOHANNES: Good morning and welcome. Great to see all of you. I am Daniel Yohannes. I'm the CEO of the Millennium Challenge Corporation.

First, let me welcome the addition of the newest senior management member, Paul Weinberger, who's sitting here. Paul, stand up.

Paul comes to us from Peace Corps, and he's a great guy, so get to know him. Work with him. Paul, great to have you.

And in a few minutes, Chief of Staff Steve Kaufmann will be moderating today's discussion. Now, I will talk about what was decided and discussed at the board's meeting last week, but before I do that, let me give you some of the key developments since we met last December.

In January, I had the great honor of leading the official USG delegation to the inauguration of President John Mahama of Ghana. I was humbled to represent President Obama and witness firsthand the peaceful transition of power.

Of course, I was in Ghana last year to celebrate the completion of the first compact and will look forward to working with President Mahama's administration for the development of the second compact.

Also had the opportunity to meet President Mahama, and I was really excited about his commitment to have an inclusive economic growth and self-sufficiency plan. Definitely we support and admire his vision.

Also in February, we saw the release of a very interesting paper by Brad Parks and Zach Rice from the College of William and Mary on the "MCC effect" and how influential it really is.

I've talked about the "MCC effect" for a long time. My colleagues have talked about the "MCC effect" for a long time. You know, as they travel around the world or at meetings here in Washington and New York. I hear from leaders, prime ministers, presidents, finance ministers, and so forth. It is a hallmark to want to be a part of the Millennium Challenge Corporation family.

I think if you look in terms of the three countries that were selected in December, Sierra Leone, Niger, and Liberia, they have worked with us over the last four or five years making significant reforms to their democratic and economic governance.

And we always have known that it is very special to have an "MCC effect." Of course, the paper that was recently released confirms what we've been talking about. After they held surveys with about 640 individuals, leaders, civil society leaders, government leaders, and so forth, I think they discovered that the "MCC effect" using our scorecard is more effective, more powerful than any other measurements that exist outside.

So we are very pleased with the outcome and again, this really confirms what we've been talking about for the last eight or nine years. I know Alicia Mandaville's going to talk about it in detail when it's been discussed in a few minutes.

Also, since our last board meeting, we have new faces. We have a new chair of the board, Secretary Kerry, who replaced Senator Clinton, and we have a new board member from the private sector, Mort Halperin.

Mort comes to us from Open Society Institutes, where he is the senior advisor. Mort has been a great friend of the Millennium Challenge Corporation for the last nine years and we look forward to gaining a lot of knowledge from his expertise, so we are very delighted to have Mort on our board.

Lorne Craner is the president of the International Republican Institute, and he also rejoined the board; last week was his first board meeting for his second term.

And those two private sector board members join Ambassador Mark Green, president of the Initiative for Global Development.

We now need to fill the additional board seat that should come from the private sector. We really have a great composition of the MCC board. The chair is always the Secretary of State. The vice chair is the Secretary of Treasury. The US Trade Rep and the USAID Administrator are also on the board, in addition to myself.

And also, I want to say thank you to Alan Patricof, who served us for two terms. Alan's last meeting was last December and we've benefited a lot from his expertise and support.

Now let me briefly talk about what was discussed at the board meeting.

First we provided the board with information about the various projects within our partner countries and I know that when the panel begins, Stephen Gaull is going to talk about our water and sanitation projects in our partner countries, and the fact that March 22 is International Water Day. So this fits in real well to the celebration.

The board also approved our updated suspension and termination policy. The policy does not take anything away. In fact, the policies that have been in existence for the last eight years continues accept it isn't corporate many of the good practices and principles that have been used by the board and senior management and the new updated policies going to be posted on our website, so for those who want to see it, you might want to go and see MCC.gov.

And lastly, the board approved a Threshold Program for Honduras for \$50.6 million to help that country and its public financial management system, to help that country become more efficient and more transparent.

So we didn't have a lot of controversial discussions. It was a very good meeting; very short meeting. And with that, I know Tom Kelly's going to talk about it in detail.

So I'll stop here and take questions from you if you have any questions.

Great, well, no questions. Have a great discussion. Thank you very much. Thank you.

KAUFMANN: Thank you, Daniel.

Thank you all for being here today. I hope there will be a few more questions afterward then there were for Daniel, and the panel will try to work hard to leave things unclear so that you can ask your questions.

First, I'd like to introduce to my left, your right, Tom Kelly, who's our managing director for policy improvement at MCC. Tom manages the group responsible for promoting policy reform through MCC's Threshold Program.

Next I'd like to introduce Stephen Gaull who is a director in MCC's Department of Compact Operations. Stephen is in our finance, investment and trade group. He is responsible for originating and implementing private sector development projects and public private partnership investment opportunities, particularly as they relate to the water sector.

Stephen also leads MCC's involvement with the U.S. water partnership, and he'll be speaking about that in a few minutes.

And then, at my far right, your left is Alicia Phillips Mandaville. Alicia is the managing director for development policy and she's responsible for managing MCC's annual country selection process and the agency's aid effectiveness policies.

So we have a lot to get started with. So I will just turn to Tom.

So Tom, let's talk about the Threshold Program for Honduras. This is the first Threshold Program that MCC has brought to the board since we made the changes to the program about a year and a half ago. So tell us what's different.

KELLY: Okay, so MCC has a fairly rich history of programming in the Threshold Program. After the first five years, we had about 21 different countries in which we had implemented Threshold Programs, and that accounted for programming up to almost \$500 million.

And a distinctive part of that first set of programs and the first generation Threshold Programs was that most of those, almost all of those, were implemented in the field through USAID.

After this first period in 2010, MCC's management decided to do a big review of the Threshold Program to see how things had gone so far. This was part of the learning agenda coming in for the second—the second team leading MCC.

And that review found that the Threshold Program provided a lot of leverage for MCC and for the government for policy reform, and one of its bottom line recommendations was that MCC and the Threshold Programs have a sharper focus on policy reforms that were associated with faster economic growth.

So in practice, one of the things that you'll see that is different about this new second generation of special programs of which Honduras is the first one, is that they will not begin with a focus on identify to get programmatic area where a country has a weak score on our scorecard.

That was how things were done in the first generation. Rather, in the second generation of programs, they'll begin with the constraints analysis, which is an analysis of the binding constraints to faster growth.

And once the MCC and our counterparts identify what the binding constraints to growth are, that is the area of focus in which the programming is done. In this case, as Mr. Yohannes mentioned, in Honduras it will be public financial management and public private partnerships.

Those programming areas are a reflection of the constraints that was identified in the constraints analysis. One other distinction you'll see is that the programs will not always be necessarily implemented through USAID.

What we will do is depending on the countries the circumstances identify how the programs will be implemented. So in some cases, it may be USAID.

In some cases, as in the case of Honduras, it will be partly implemented by the U.S. Department of Treasury's Office of Technical Assistance and partly through an accountable entity.

KAUFMANN: So the compact—so Honduras previously had a compact program. When we're thinking about Thresholds, we're thinking of something that's usually before the compact program looking at ways to improve policies so the countries become compact eligible. How does Honduras sit in that sense they had a compact before?

KELLY: It is somewhat unusual for the first country, but one thing to keep in mind is that Honduras's first compact which finished in 2010 was during a period in which the country underwent a lot of changes.

There was a period of a fairly pronounced political instability in 2009, and it's also the case that since Honduras finished its compact, it has graduated to a higher level of income.

MCC has two levels of income in which we evaluate our partner countries; low income countries and the lower middle income countries.

Honduras has now graduated to the lower middle income country group, and in the group its scores are not as high, because all scoring is relative and it's more competitive in that group. So Honduras's scores also don't look as good.

The current government in Honduras—since this period of political instability—we have a democratically elected government that has focused on getting democratic governance back on its feet.

But before Honduras makes it back to a compact there needs to be some improvement in the areas of efficiency and transparency, and that's precisely what this Threshold Program is designed to do.

It's designed to improve efficiency and transparency in the areas of public financial management and public private partnerships.

KAUFMANN: Could you just elaborate a little bit about how the Honduras program is going to be set up and what it's looking to accomplish?

KELLY: Okay. I mentioned to broad areas; public financial management and public private partnerships. Each of these driver from the constraints analysis which began our work with the government of Honduras. So jointly, MCC and the government of Honduras undertook a constraints analysis which identified to binding constraints to faster growth.

The first of those was crime and security. The second was the efficiency and transparency of government and we can say government effectiveness for short.

Now it's—in thinking about that, one might reasonably say well many countries have a problem with government effectiveness. It's not something that would be unique to Honduras, but what we found throughout the course of the constraints analysis, and also in consultations with civil society and the private sector that followed, was that across many different sectors; energy, roads, education, et cetera; one of the things that our interlocutors identified was weaknesses in providing basic public goods in those areas.

So this is how this translates; this notion that across different sectors there's a weakness in the provision of basic public goods that is a constraint to faster growth, which is the government effectiveness or efficiency and transparency of government.

From there what we did is identify areas that were particularly important and in which the government of Honduras had ideas for policy reforms and that we—or institutional reforms that we could support with technical assistance.

And we went from government effectiveness to these two programmatic areas of public financial management and public private partnerships.

Within each of these areas, will have a series of different interventions. And I'll just summarize them and if people would like to hear more about them we can talk about that in the question-and-answer session.

Within public financial management, what will be looking at our four primary areas to address two weaknesses. One of the weaknesses is open budgeting and planning; basically execution of budget.

The second weakness is in efficiency and transparency of procurement. So we have budgeting and then procurement.

To address these, we'll have four programmatic areas. The first will be to provide technical assistance directly to budgeting. The second providing technical assistance to procurement to improve best practices, and institutionalize these.

The third will be to provide assistance for audit to—to the supreme auditory tribunal, and then the final area will be to provide assistance for civil society oversight. And this will be a grant facility that will allow civil society organizations to apply for grants to help bolster the demand side of transparency.

Quickly, within public private partnerships, the government of Honduras is focused—given its tight fiscal space—it's focused on trying to use more public private partnerships to provide public goods in areas where there is a need for capital intensive public goods.

They have passed a law. They have set up an entity to promote public private partnerships and they have already established a pipeline of potential deals and in fact, have already carried out a couple of deals in this area of public private partnerships.

This assistance would be to help bring best practices and to institutionalize best practices both within the development of these public private partnerships as well as in the implementation of them. So the deals are developed, have to be implemented, and then the government has responsibility for oversight to make sure that the concessionaires are actually meeting the terms of service.

So these—this assistance would help with both of those as well as potentially providing assistance directly to some projects to help institutionalize the best practices and to foster some learning by doing.

KAUFMANN: Thanks, Tom.

So just as a reminder for folks who have questions, more specific questions for Tom, we'll have an open question-and-answer session after we go through the panel.

And I'm next going to turn to Steve Gaull.

And Stephen, could you just start by telling us a little bit about MCC's water portfolio and what it involves?

GAULL: Certainly. We have a portfolio of more than \$2.1 billion in water. That includes \$1.1 billion in water, sanitation and hygiene, or WASH. We also have \$920 million in improved water productivity and irrigation as well as \$120 million in integrated water resource management.

Roughly 70 percent of that portfolio is in Africa and we've seen a large uptick recently in the size of the portfolio in part—mostly because three out of the last four compacts have featured water quite heavily. That includes Jordan, the second Cape Verde compact, and Zambia.

In terms of procurement opportunities, probably Zambia is going to be the most interesting to all of you out there with focus on the civil works and water supply, sanitation, and drainage as well as technical assistance for institutional sorts of things.

We have a small innovation grant facility in the Zambia compact. That grant facility will provide grants on a competitive basis for thematic investments in water, sanitation, and hygiene as well as entrepreneurship and income generating activities and water supply, sanitation, and drainage.

I'd like to mention also that this Thursday at noon, MCC is hosting a webinar on how we look at monitoring and evaluation and WASH. You can register, just go on to the MCC website. You'll see there's a link to the webinar and how to register for that.

KAUFMANN: Great. Thanks, Steve.

So is Daniel mentioned, Friday is World Water Day. The theme for this year's World Water Day is international cooperation. Tell us a little bit about how MCC is cooperating on global water challenges beyond just the fact that we have compacts.

GAULL: Sure. Cooperation is really an important part of MCC's approach to programs design and implementation, and our efforts to work with the private sector group—public private partnerships, or PPPs.

We are partnering in Zambia with USAID, which is advising on improved approaches to tariff adjustment approvals, as well as in Mozambique where we are partnering with the World Bank Water Services and



Institutional Support Project to help stand up a new agency that will be responsible for water supply in large towns and small cities and sanitation on a national scale.

MCC also cooperates on PPPs which can take the form of platforms for collaboration as well as for commercial transactions.

Late last year, MCC joined the U.S. Water Partnership, which would be an example of a platform for collaboration. The U.S. Water Partnership brings to bear the best of U.S. expertise and resources and involves U.S. government agencies, the private sector, NGOs, academia, and water coalitions with the idea of marshaling all of that expertise to work on global water problems.

MCC is playing a leadership role in the partnership startup phase and we are hoping to use the partnership as a way to reach out to and access a wider variety of potential investors to invest in and around our \$2.1 billion portfolio to leverage those compact investments.

In terms of PPP transactions, MCC partners with other donors like the Public Private Infrastructure Advisory Facility, which is a multi-donor trust fund house at the World Bank, as well as the International Finance Corporation.

We are trying to use those donors to improve the enabling framework for PPPs. And both of those donors, in fact, were involved in helping us design the Honduras Threshold Program that Tom was mentioning.

From our perspective, PPPs can offer a lot of benefits. It brings together the expertise and efficiencies of the private sector and service delivery, and by using market-based approaches, governments can transfer a variety of risks including design, financing, construction, operations, and maintenance to the private sector in return for payments that are contingent upon the private sectors meeting certain standards for service quality and indeed, if there be penalties for failure to meet those service standards.

PPPs can also be a financing instrument as we've seen through the Jordan Wastewater Expansion project, which was delivered on a bill to operate transfer or BOT basis.

In that case, MCC's grant of \$93 million was instrumental in being able to mobilize a further \$110 million of private debt and equity from the capital markets.

KAUFMANN: So, Stephen, I want to switch gears a little bit from PPPs. Recently, there's been much talk in development about the nexus among water, energy, and food and how those all overlap. Can you tell us a little bit about what MCC is doing to develop partnerships or collaborations in those three areas and how they overlap?

GAULL: Well, we certainly see the nexus between water, energy, and food. It takes water to produce food and energy, and it takes energy to move water that's used to produce food.

Our portfolio reflects that nexus. It includes a combination of investments in efficiencies and food productivity, water use for agriculture, domestic, and industrial consumption as well as power generation, transmission, and distribution.

An example of that nexus is the Jordan wastewater treatment plant expansion project, which is allowing Jordan to use high quality treated wastewater as a resource. Jordan is one of the most water poor countries in the world, so farmers in the Jordan Valley are now using this treated wastewater as an input to their irrigation practices, and the wastewater treatment plant itself is capable of producing nearly 9 megawatts of power.

Our RCD likes to say that we are creating a new River Jordan. So it's quite exciting.

Another example would be the Malawi environmental services project that we are trying to put together. The compact in Malawi is power based but the—almost the entire power system in Malawi relies on hydropower from one river, the Shire River, and the Shire River has huge problem with siltation and aquatic weed infestation that's coming up the turbines and causing high costs and power outages to investors.

So were hoping to reach out to potential investors as well as using the water partnership to reach out to members to see if they'd be interested in helping to capitalize a payment for environmental services trust.

In that case, the trust would award grants to NGOs to help communities upstream to work on better conservation agriculture, land use practices with the idea that hopefully it would reduce the environmental pressures and the siltation and weed infestation in the Shire River.

KAUFMANN: Stephen, why don't we turn to Alicia.

And Alicia, let's follow up on some of the cues that Mr. Yohannes provided for us. First of all, why don't you give us a little explanation of what the "MCC effect" is, or what we claim it is.

MANDAVILLE: I see you all heard earlier today the CEO mention that we were excited to see some new research on the "MCC effect," which prompts a number of people to start with, "well what is the 'MCC effect?'" And why do you all keep putting finger quotes around it every time you bring it up?

I think actually—I've worked here for a while, and we've kind of done that for a while. In large part because it actually means something specific. People sometimes use the phrase "MCC effect" to mean anything that's a side effect of work that MCC has done.

And I think that's not any improper use, but usually when MCC talks about an "MCC effect," we tend to mean positive side effects of MCC's practice of using a transparent scorecard with clear policy guidelines on it for selecting countries for eligibility.

So: The incentive effect of being transparent and public about which policies matter for MCC eligibility.

KAUFMANN: Okay. I understand that, kind of in theory. Tell us a little bit practically what that means and what evidence is there that it really exists?

MANDAVILLE: So we think about evidence about an "MCC effect" in a couple of different ways. First of all, there is the kind of— anecdotal evidence, or examples that we can gather on our own—that we, MCC, gather on our own. Things like countries coming in to ask for specific information about—"I see that I don't score above the median for days and cost to start a business. What can you tell me about that so that I can improve my score?"

Even that first step of coming in asking for more information, following up with the IFC to understand what exactly are you counting as you do this assessment.

Then—then in some countries we actually see them taking steps to address that. So, learning from the IFC that right now it takes 58 days to start a business, because in the middle there's this 12 day window of waiting while you wait for the Bureau of X to fill in the following paperwork.

Seeing them actually then take a step to reduce that time to make it a one-stop shop for business registration or to even just identify what are ways to streamline the business registration process.

So there's anecdotes that we can think of on our own. And some of the most tangible ones we actually talked about in our last town hall meeting at the point in time where we selected Sierra Leone, Liberia and Niger, each



of whom had for years actually taken a substantial number of steps to address very specific indicators on the scorecard.

But I think the second piece is—and this is the research that we saw come out over this past month—is survey data.

So over the last month, at the College of William and Mary, researchers there conducted a survey of 640 development professionals, government—on both the U.S. side as well as government officials in countries that could be considered for MCC assistance—as well as civil society folks in a number of places.

And the result of this shows that not only did people report back that they felt like MCC scorecards have had a direct impact on reform processes in their countries, by helping either point to specific reforms or identify specific areas in which reforms would have a dramatic impact, but they could—people could list tangible examples for 67 different countries.

And that was exciting for us because at the point of the scorecard, we haven't actually selected a country yet. That's not a partnership that's ongoing. It's the initial conversation around whether or not a country might become eligible.

So to see actual, tangible policy incentives and tangible steps on pursuing reform even at the point of the scorecard before there's an MCC partnership in place. That was pretty exciting for us.

KAUFMANN: So even before MCC, folks had talked about loan conditionality a lot; help us understand what you mean by the “MCC effect” that's different from, say, the World Bank effect or the IMF effect.

MANDAVILLE: This is a—this is a great question because I think we actually get this a lot. People hear us talk about us talk about an incentive effect or an “MCC effect” and they say, ‘Oh, well you mean conditionality.’

That's—there's actually a pretty substantial difference between what we see the function of our scorecards as incentivizing countries to take policy reforms, to improve policy performance in general in key areas.

There is a difference between that and traditional conditionality, which there's plenty of research on, across the nineties and early 2000s, about the effectiveness of a conditionality approach which is often more tied to very specific reforms in specific sectors in order to maintain a flow of assistance that's already been established.

So MCC's scorecards don't play that second role. They don't identify—our scorecards—we don't ever go to a country in the middle of a compact to say, ‘If you can't change your days and costs to start a business by five days, the rest of the compact goes away.’ It doesn't work like that.

So it really is a—what's the qualification point. Our scorecards are used as a qualification, not as kind of a record keeper as we go.

We do of course monitor broad commitment to a good governance and economic management. We expect our partners to uphold those policies and uphold their commitment to the principles on the scorecard, but it's still very different from kind of a more traditional conditionality.

KAUFMANN: And MCC still does the loan conditionality in the sector area as well?

MANDAVILLE: Yes—sorry—I should say, as part of compact investments, country partners certainly agree to certain types of policy reforms that are jointly identified between the country and MCC.

I think, you know, Stephen highlighted some of the sectors at that we are working in. MCC making a major capital investment in water is often accompanied by the country agreeing to look at the way water is regulated, look at the tariff structure, those kinds of things, but that's different from the scorecard.

KAUFMANN: And—and Tom properly pointed out to me that in fact, we're not talking about loans with MCC, but just grants.

Tell us what does MCC do to encourage the "MCC effect?"

MANDAVILLE: So, as I think my colleague Andria is fond of saying, we have an open door policy. She is often on the other side of the door here so that's I think why she's fond of saying it, but I think the starting point is that we are happy and willing to meet with any country government that is interested in learning more about how it performs on the scorecard, why it performs that way, what can we tell them based on our own publicly available research, but to whom can we point them that would be able to give them more information about performance.

Just publishing the scorecards, which we do every year for every country in the income brackets that we're allowed to legally think about, is kind of a first piece of that, but I think the willingness to follow through on—if a countries interested, we are certainly ready to facilitate contact with the indicator institutions, with the folks who works on those kinds of issues, as well as explain it directly.

And that's direct, face-to-face through the embassy, through folks that they point us to in the country of question that through points of contact. So that's—but our main focus is when there's genuine interest in making reform, we are genuinely willing to meet them with as much information as we can.

KAUFMANN: Thank you.

Okay. Why don't we open it up for questions from the audience and—we are recording this so were going to ask folks to ask the questions into a microphone. We'll be coming around with that. So we have two right in the middle here, please.

QUESTION: Thank you. My name is Sara Lopez and I'm from the Peace Corps. My question is about the constraints analysis that one of you discussed earlier. I was wondering if you've seen other U.S. government agencies adopt to the constraints analysis approach when deciding how to make their investments.

KELLY: I think you put it nicely; the constraints analysis approach. What we're trying to do is a use an analytical tool to bring rigor to an evidence-based decision making process. And we've adopted this constraint analysis has a particular methodological approach that focuses our analytical work.

We have seen other agencies within the United States Government use it. USAID has a growing practice of reusing constraints analysis and also within the United States Government, more broadly with other different agencies that are interested in foreign assistance programming, they look at the constraints analysis coming out of MCC and coming out of USAID as a sort of a very important tool to help identify priorities in a certain systematic way.

KAUFMANN: I'd just add that we're also seeing it being used in a lot of collaborations among agencies as going forward. I mean, most notably in the Partnership for Growth context of that, the constraint analysis has been a centerpiece there.

QUESTION: My name is David Baxter. I am with the Institute for Public Private Partnerships. Can you tell me what programs MCC is implementing to build the capacity of the organizations that you are collaborating with to be able to implement P3s?

KAUFMANN: So I'm going to let Tom address that first, and then Stephen, I'll let you follow-up if you could.

KELLY: So this is precisely what part of the Honduras Threshold Program is designed to do. Part of the Honduras Threshold Program is designed to help build of the core capacity of Coalianza (ph), which is the name of the entity that promotes public private partnerships in Honduras.

The idea would be to help build core capacity, and then as I mentioned as well, potentially provide specialized expertise to particular projects. And then Stephen may have some comments on our broader portfolio.

GAULL: Yeah, that's a very good question. In addition to the Honduras program, we worked with PPIAF, Public-Private Infrastructure Advisory Facility in IFC to work on program design for the second El Salvador compact, which will have a PPP component to it.

In Jordan, where we have funded the As-Samra wastewater treatment plant expansion project, we are providing funding for what we call an authority (ph) engineer which will be in charge of supervising the government—assisting the government in supervision of the private sector construction of the plant. And there we hope to have a lot of a transfer of knowledge through that process. It's a three-year construction builds, so that's important.

MCC is also a donor to—to the Public-Private Infrastructure Advisory Facility, and via that mechanism, we see a lot of capacity building going into MCC countries.

Just recently, we're very pleased to see activity to strengthen the Government of Jordan's overall capability across sectors to develop, supervise, and implement PPPs.

QUESTION: I'm Sarah Jane Staats, I manage the Millennium Challenge Account Monitor at the Center for Global Development. I'm wondering about Brad Parks' research on the "MCC effect." One of the biggest findings was that the opportunity to qualify for a first compact was related to the largest incentive effect.

As the MCC gets a little bit older, maybe has a growing pipeline of second compacts, I'm wondering how the agency is thinking about that. And related to that, the issues around having at least a flat if not a shrinking budget, and maybe somebody can speak to the effect of sequestration on the MCC as well.

MANDAVILLE: I'll leave the second part of the question to Steve. I'll take the research part.

No, I think that's a—so for folks who haven't looked into it, actually dug into the details of the research, it is actually quite detailed so if you're interested, I encourage you to. There is a short write up that CGD has published, as well as 130-page full-on the research document that William and Mary published, which you can get to via [mcc.gov](http://mcc.gov).

The—one of the things that it flags is that there is a difference in the way the scorecard incentivizes countries that have never been selected as eligible for a compact and the way that it may or may not incentivize countries that have had implemented a compact and are interested in potentially being selected for a second compact.

And a lot of that is actually consistent—of the findings with what we have found ourselves—in that for a country to pass the scorecard, they have to perform better than the majority of their peers across a full battery of policy indicators.

So good governance, social investments, health, education, natural resource management, and economic policy, both macro and micro. Once a country has accomplished that, the likelihood of that rolling back substantially tends to diminish. The level of solid good governance that is sticky.

So when countries have achieved it and they get into the scorecard—they get into the MCC compact partnership pool for the first time, they tend to maintain that level of performance across general good governance, general economic management.

The likelihood of these specific indicators that on the scorecard incentivizing them to take very specific policy reforms, we should expect that to diminish somewhat because they've already taken a lot of those policy reforms.

So, in those cases we do stay in very close—you know, we're very clear with country partners that in order to be considered for a second compact, we expect you to not only maintain your commitment to those policies and to continue to improve them, but also to have demonstrated that you are a good compact implementation partner.

And so a lot of the conversation—we now have two points of conversation to have with the possible new country partner. What is your level of commitment, that we can look at on the scorecard, to policies that we can see on our own research? But also, what was that first partnership like in the moments where the compact implementation is difficult because there is a policy reform in the pair structure in the water arena? How did the government handle that? And did they take the difficult decision? And we talk a lot more about those things as well.

So I think we were in some ways—pleased is the wrong word, but—it was good to see that finding in the survey because it in some way validated what we have seen in practice, that once the country has taken that set of steps, they don't need to take them a second time.

But it also then validated in some ways the rest of the survey because to us—that if you're finding things consistent with our examples internally, that felt like a really good research piece.

KELLY: I also just wanted to add something from my perspective now working with Honduras, which is a country that graduated to a higher income level and now faces tougher competition. And it's actually been pretty striking in the extent to which the Government of Honduras, at least our direct interlocutors, are highly motivated by this now to try and make improvements.

And we've seen it in other countries as well. We've seen Cape Verde graduated, Georgia graduated, and these are countries which went to some efforts to improve their performance.

We have the ambassador of Cape Verde here? I don't know if we have her—no? But she's very articulate about the way in which her country has made improvements and used that graduation as a sort of motivator, and that there are other countries as well, that once they face graduation have really focused their attention.

KAUFMANN: I'll address the sequestration one. MCC, like other agencies, has had a 5 percent reduction as the result of sequestration. That really hits us in two separate but related ways.

One is the program budget. It will cause a reduction to our compact program dollars and that will necessarily mean smaller compacts. And as cuts continue over time, it could also affect timing of compacts, but right now, I think it means somewhat smaller compacts.

The other side of it is it hits our operating and due diligence funding, which necessarily means that we are not able to devote the same resources to oversight and compact development that we would like to. And I think that we are trying to manage that the best way we can to minimize the effect, but those are the—to date, the effect it's had on us.

Another hand right there—and as well, so, please.

QUESTION: Sandra here with the Smart Cities Counsel. I'm curious regarding Honduras—the crime and security piece that you mentioned, Tom, and specifically, more about conflict resolution. Could you talk more about how that is affecting growth and what you're doing there?

KELLY: This—and this is a very good question. It's a very important one. One of the things that that's a very clear from working in Honduras is that crime and security is something that's not talked about just in a broad sort of social sense or a governance sense, but rather something that's talked about as an economic phenomenon.

It is costly to firms to have the kind of crime and security environment that exists in Honduras and it's something that investors have to think about as well.

We think it is very much one of the two binding constraints to faster growth and we think that some of the work that other USG agencies are doing in that area is the right thing to be doing.

One of the things that's important for us to think about though, as MCC goes in, is the extent to which we fit within a broader United States Government foreign assistance framework.

And so USAID and other United States Government agencies are working quite a bit in the security sector. MCC has our primary focus and forte within stimulating economic growth. If—it would be—it would be different for us to think about this if there wasn't as much USG assistance on crime and security as there is right now.

But I—this isn't a direct answer to your question, but I do want to maintain the focus on where our focus is which is on the government effectiveness.

To us, it's extremely important that this basic provision of public goods is improved. The government spending in Honduras is 20 percent of the economy and the things that we can do to reduce costs in that spending to make it more efficient and to reduce opportunities for corruption are absolutely critical to resolving not only the issues I mentioned earlier, like education, roads, power, et cetera, but also frankly as part of a broader context to improve security as well. Because part of what happens with government spending is paying teacher salaries, part of what happens with government spending is paying police salaries. It's the court.

If the provision of the public good, which is public security, and there is a weakness there that we're trying to address with our lens of thinking about economic growth but which we are hopeful will have an interaction effect with citizen security as well.

QUESTION: Thank you very much. My name is (inaudible). I'm from the embassy of Zambia. My question is for Mr. Gaull. This is with regard to MCC's participation in BOT—the As-Samra facility that you mentioned in Jordan.

I was just wondering what sort of criteria the MCC looks at, you know, in terms of determining where and how it would participate in a BOT, because I've noticed that this is the first time that the MCC is venturing that direction. Thank you.

GAULL: Thank you, that's very good question. You need preconditions at both the country level and the project level. The country has to have a good, stable investment climate that's conducive to investment in the first place and then at the project level, you need a variety of factors. A secure revenue stream; you need to have capacities of, you know, the project itself has to make sense. The economics, the inherent economics of the project need to make sense.



And then you need a good strong counterparties, so a good private investor, a good operator, a good EPC for engineering procurement and construction firm; a credible legal, and regulatory environment—all of those things are necessary to be able to embark on a PPP.

The government itself and the line ministry need to be relatively sophisticated because these are complex transactions. Each and every risk is parceled out and allocated to a specific party. So they're not easy to do.

Management contracts, you know, probably easier to do in terms of PPP arrangements or leases—they are probably easier to do than BOTs.

But that having been said, the success of the Jordan BOT is an important one and the project in fact is winning awards now. It's won an award recently from the Global Water and Energy Exchange for innovation in financing techniques.

QUESTION: Hi. My name is Melissa Barrett. I volunteer with a small NGO that goes to Honduras and works on sustainable agriculture with very small farmers up in the mountains.

And one of the issues that I've found going down there is that a huge amount of the resources, the natural resources of the country are taken up by the very large farming families and I was wondering if you work at all in your public-private sector negotiations or discussions with these large families about trying to help some of the smaller families and try to reduce their use of water and land and a clearing of trees to try to help the environment and the economy in Honduras.

KELLY: I'll speak first to the public private partnership aspect of your question.

So the public private partnership work we're doing is focused primarily on building core capacity of the unit that would be doing—so this is about helping them identify and prioritize and structure concessions and then potentially, potentially, helping them with specialized expertise on specific projects going forward.

So that would not reach directly to the beneficiaries with whom your direct work is. We did have investments in the agricultural sector in our compact in Honduras which ended in 2010. I can't speak specifically to which types of beneficiaries it reached, but it was designed to provide training for small farmers as well as larger farmers to be able to take advantage of different types of crops.

I'd be happy to follow up with more specifics if you'd like.

KAUFMANN: Great. I think there's another...

QUESTION: My name is Laura (inaudible). I work with Ages (ph) International which is a French engineering firm that's working on water and assigning (inaudible) projects among others.

My question is, does MCC have concerns or a part in helping out with the dwindling water of the Dead Sea, considering that part of Jordan is robbing water from it for agriculture.

GAULL: Well, if—the MCC compact first of all is fully budgeted at this point. It's not focused on the Dead Sea. There are three components. There's a non-revenue water production component. There's a component that is building out of the sewer laterals and mains to bring more wastewater to the wastewater treatment plant, which would be the third component of the project. So MCC itself is not working on the Dead Sea.

KAUFMANN: So I would fill in just one point. The central focus of the compact in Jordan is to help the Jordanians deal with their water scarcity issues and manage their resources so that they use less, and that's a big reason why we have extended wastewater collection, and are providing for efficiencies and freshwater deliveries



so that there's less waste—that system has a huge problem with it, just literally, leakage of water. So a big part of that is there.

And then once the wastewater is treated out of the expanded plant, that then goes downstream to agricultural uses in the Jordan Valley. So there are a number of steps that are focused on getting greater efficiency out of water resources that do exist.

Great. Well, thank you all for joining us here today and we look forward to seeing you in June.

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