

REMARKS TO
THE CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES (CSIS),
THE FRIEDRICH NAUMANN FOUNDATION AND
The Embassy of the Federal Republic of Germany

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Thank you, Patrick. It is a pleasure to participate with the Naumann Foundation, the Embassy of Germany and CSIS. Particularly now, opportunities for Transatlantic Cooperation are important to take advantage of in every day life.

As I look around the room, I see many familiar faces.

As I have said several times previously, MCC is built on the **lessons** of the past. It is not as well recognized that it was also built on the **efforts** of the past, including those of many in this room.

I was reminded again of this last night at the NDI Dinner. Not only were two of our big congressional supporters honored – Senators Lugar and Biden – but also international leaders – veterans of the Edsa revolution, the Rose revolution, Polish solidarity, and other veterans of democratization movements reaching back over two decades.

Seven countries were honored. Two -- Poland and Chile -- could not compete for MCA eligibility because they exceed our per capita income ceiling. However, it was noteworthy that the other five – Georgia, Senegal, East Timor, Philippines, and Yemen – are all either MCA eligible or MCA threshold countries. I don't think this was intentional but I don't think it was coincidental either. I suspect if you were to look at where NDI, IRI and others have been investing in good governance, democracy and the rule of law 10 to 15 years ago, you would see a correlation between these efforts and countries being selected by MCC. These are the kind of past efforts that I am talking about.

As I travel to the eligible countries, I tell our potential partners that being invited to apply for the Millennium Challenge Account is an honor, an opportunity and a responsibility.

It is an **honor** for the 17 eligible countries to be selected.

It is an **opportunity**. MCC funding is probably unprecedented in its size, flexibility of use and lack of procurement ties. It is an opportunity for our eligible countries to use these funds for the poverty reduction and growth opportunities that they, themselves, identify.

And it is a **responsibility** to use this money wisely and to serve the greater good of their societies every step of the way. It is a resource that they should not squander.

Since this is a sophisticated and informed audience, I do not want to take time today introducing you to what the MCA is. You know that already. Rather, let me take this opportunity to update you on where we are in the process, on observations and lessons learned, and on the challenges we face, and then open the floor to questions.

Where We Are

Next month it will be one year since Congress authorized the establishment of the Millennium Challenge Corporation. In May, the Board of Directors selected the first 16 eligible countries. Three weeks later we were on the road to visit our potential partners. In September, we selected the first threshold countries. And last month, the Board met and selected the countries eligible for FY 2005 and six new threshold countries.

To date, 15 of the 16 eligible countries selected for FY 2004 have submitted a either draft proposal or a concept paper. Everyone knows that selection doesn't mean automatic entitlement to funding. It's up to each of the countries to develop sound strategies and a quality proposal which will be evaluated in terms of its impact on poverty reduction and growth.

In cooperation with USAID, we are working with the 13 threshold countries to help these countries that were a few steps away from eligibility for MCA funding to design programs to improve their performance against the indicators.

We are conducting due diligence on several of the compact proposals. We are asking... What is the link to growth? Who are the beneficiaries? How would you measure? How do you rank your priorities? How does this relate to what other donors are doing?

Of the MCA eligible countries, we have notified Congress on our intention to negotiate compacts with four – Honduras, Madagascar, Georgia & Nicaragua.

Personally, I had hoped we would be able to sign a compact by the end of this year, but realistically, that is unlikely to happen.

However, according my experience in the private sector, it takes at least four to five months from the time a proposal is received until an investment is made. In these proposals, there are typically well-defined business plans that include detailed implementation schedules and clear objectives. In comparison with the private sector, I am told that the World Bank takes on average 18 months to make a lending decision.

We received our first proposal in mid August and I believe we will be much closer to meeting a private sector timetable than an IFI's. But that will not be easy, and in some ways, a comparison with a private sector timetable is a tough one for us and for our potential partner countries.

Typically, in the private sector when an investment proposal is received, the parties have been through the process before, the objectives are known (e.g., financial return or credit worthiness) and the management organization and implementation plan are known. We have none of these. Both our countries and MCC are going through this for the first time. We and our potential partner countries must identify our objectives and how we are going to measure results. Management organizations and detailed implementation plans remain to be developed.

The MCC proposal preparation process itself is an innovative approach for our partners. Embedded in the core MCC principles are not only the recognition of countries and their leaders who are creating a pro development policy environment, but also country ownership, the consultative process, a focus on outcomes and community responsibility.

The consultation and proposal development process inevitably takes time, but we believe it is time well spent. We encourage our countries to take the time to get it right.

Observations & Lessons Learned

Now, let me give you some of my overall observations of lessons learned and what continues to excite me about the MCA process. There are many heartwarming aspects of this job.

We said from the outset that we were not going to just throw money out the door. We remain committed to making sure the American taxpayer investment is spent wisely.

We require the eligible countries to involve a broad spectrum of their civil societies and private sectors in setting development priorities. We are encouraged by the lively on-going dialogues taking place in our eligible countries. This is the first time some of these countries have held a national dialogue on development issues.

The consultative process is producing a wide variety of development priorities tailor made to each country's needs. We're seeing innovative approaches.

As for the sectors, we're seeing integrated rural infrastructure and agriculture. We are also seeing countries that want to overhaul their financial sectors and are even tackling such institutions as land titling. Some countries are focusing on exports and upgrading their norms and standards to enable them to access world markets.

We are finding that the process of identifying eligible countries is an incentive for progress. One country passed four pieces of anti-corruption legislation and began enforcement. The stated reason? The hope to qualify for MCA funding.

We're seeing young professionals who are integrally involved in the process. Many have been out of the country and have returned with a new perspective. They see a new era unfolding for the development of their country. They can see the potential of this development process and the future it holds for alleviating poverty through economic growth. We believe that offering them the opportunity to work on the MCA helps build the sustainable infrastructure for development that is one of our objectives.

As countries move towards MCC compact negotiations, the act of refining and finalizing their proposals has had a dramatic impact. One government official said that the intangibles his country has gained-learning how to incorporate diverse viewpoints, prioritize a long list of development needs, and focus on results rather than inputs-are worth as much as any potential financial assistance.

This reaffirms one of MCC's core principles: a country will lift itself from poverty only when it takes responsibility for its own path to development.

Once a country has identified its priorities for poverty reduction and growth, we want solid implementation plans - not just good ideas.

I, for one, am asking the tough questions. I want the proposals to be solid. I ask, "Once the compacts are signed, are you going to do the day after the compact is signed? And the day after that?" If our questions are not satisfied with their answers, we ask them to go back and to think some more.

For the success of MCA and our partner countries, they will need to have fiduciary responsibilities in place. Every aspect of this process must be transparent.

As for the lessons learned inside of MCC, we realize, we are a startup.

We are now 10 months old. As we approach our first anniversary, we remain dedicated to the belief that we will back only viable plans for development, and that we will take the time necessary to ensure that the compacts we sign will lead to poverty reduction and economic growth.

I said at the beginning of these remarks that for our 30 countries, MCC is an honor, an opportunity and a responsibility. Those of us fortunate enough to be at MCC view ourselves in the same way. Working at MCC is an honor, an opportunity- to make a difference —, and a responsibility.

To succeed, we need your help.

We have been holding Public Outreach meetings every 4-6 weeks since our beginning. But we want to hear from you. For us to be effective, we need to know what you're thinking. And, we want to know how we are doing. Are these meetings useful? Do you think we should be doing them more often? Less often?

Future Challenges

Foreign aid alone cannot develop a country. We have learned from the last half century of our development experience that:

- Corruption, bad policies and weak governance will make aid ineffective.
- Successful assistance requires a strong partnership between donor and recipient.
- And programs work best when they are accountable for their performance and results.
- We believe country ownership is an essential component to building responsibility and accountability.
- We will continue to look for ways to coordinate and leverage our assistance with other donors.

- We will need to increase awareness about the positive developments that are taking place within our partner countries.

The Millennium Challenge Account brings the best of America to our relationship with the developing world. Americans are generous people. However, they want to know that their money is being spent wisely. Americans believe that government should be responsible for preserving civil and economic freedoms.

Particularly now, now that the election is behind us and the focus is getting back together, MCC can help internationally. After the most recent country selection, MCC has potential relationships with 30 countries - some of the poorest in the world, but with good leadership - totaling 400 million people.

By focusing our efforts on those countries that rule justly, invest in their people and promote economic freedom, we have the ability to help the world one country at a time. This will be good for those countries, for the impoverished people living in them, and for the United States.

Thank you for your support – what you have provided in the past, what you are currently providing, and what you will provide in the future.

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