



**MILLENNIUM  
CHALLENGE  
CORPORATION**  
REDUCING POVERTY THROUGH GROWTH

# Transcript

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## Millennium Challenge Corporation Hosts a Public Outreach Meeting

### Speakers

Matt Mclean,  
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Millennium Challenge Corporation

Ambassador John Danilovich,  
CEO,  
Millennium Challenge Corporation

Sherri Kraham,  
Managing Director, Development Policy,  
Millennium Challenge Corporation

Darius Mans,  
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### Remarks

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MCLEAN: Good afternoon, everyone. Welcome to headquarters for the  
Millennium Challenge Corporation.

It's cold and wet outside, and we're glad you're inside. Hopefully, it's a little warmer in here. And I think we need to put a fireplace in here for days like this.

We appreciate your ongoing interest in the Millennium Challenge Corporation and for coming out today to this outreach event. We often hold these events following a board meeting. We had one yesterday.

My name is Matt McLean. I'm the vice president for Congressional and public affairs here at MCC.

Let me outline how we will proceed with today's event.

First, Ambassador John Danilovich will provide a briefing on our progress over the last few months and an overview of the results of yesterday's board meeting. We've had quite a bit of activity over the last number of months. But he'll be looking forward to sharing with you.

You can't hear me? I can hear me.

(LAUGHTER)

Thank you.

After his remarks, he'll be able to -- he will take a few questions. And look for Jessica with the microphone. If you can, when asking questions, if you can say your name and the organization that you're with.

After Ambassador Danilovich's remarks, we'll convene a panel of two MCC officers that will be able to go into greater detail regarding the selection process, and also implementation.

As always, there will be time for questions for our panelists, as well.

I also remind folks that this is being taped, and so, if you miss something, you can log onto our Web site and catch the proceedings there afterwards.

I'd like to introduce Ambassador John Danilovich. He served as the U.S. ambassador to both Costa Rica and also to Brazil, and has served as our CEO here at the Millennium Challenge Corporation since November of 2005.

Ambassador Danilovich?

DANILOVICH: Thank you very much, Matt, for the introduction, and thank all of you for coming to MCC headquarters today to attend our public outreach presentation.

I'm very grateful for your interest in the Millennium Challenge Corporation and for the work that we're doing around the world to reduce poverty through sustainable economic growth, and in aiding our partner countries around the world who are practicing sound policies, taking

lead in their own development, and also delivering measurable results with the aid that they receive.

I'd like to update you on MCC's progress since our last public outreach meeting in September, and also on the decisions of our board of directors meeting held yesterday.

We've been very busy in five main areas since our September meeting.

When I came on board two years ago, MCC was under tremendous pressure to develop a portfolio of quality compacts. That has now been accomplished. Today, we have 16 approved compacts in countries around the world, totaling \$5.5 billion.

With that body of work in place, it is not time to turn to the business of implementing these compacts. So we open this fiscal year by launching a major organizational restructuring to shift MCC's focus to compact implementation. We have adopted key reforms to transition from compact development to compact implementation.

This has meant reorganizing our first class professional team to utilize their expertise and experience, to focus on program implementation. It means moving more responsibility and authority to resident country directors in the field in all of our partner countries, to give them the responsibility to make decisions that will improve the speed and quality of compact implementation.

It means combining and restructuring two existing departments -- operations and accountability -- to form two new departments, one focused on compact development and the other focused on compact implementation.

Darius Mans is our newest vice president, heading up the Department of Compact Implementation. And John Hewko is serving as our vice president for our Department of Compact Development.

Chuck Sethness is now serving as our senior investment counselor, to advise on maintaining the integrity, consistency of standards and technical quality of our investments.

Matt McLean, who has been serving as my chief of staff, now heads up our Department of Congressional and Public Affairs. And Matt Bohn, presently our resident country director in Nicaragua, will shortly be coming up to Washington to serve as my chief of staff.

MCC's future depends on compact implementation, and we are realigning our priorities, functions and staff to meet that future, and better achieve our mission, without compromising our ongoing commitment to accountability, to our gender policy, to effective monitoring and evaluation, and to social and environmental assessments.

We now, for the first time, have a full nine-member board. In late October, the Senate confirmed former U.S. Senate majority leader, Bill Frist, and reconfirmed Catholic Relief Services president, Ken Hackett, to serve on our MCC's board.

Both gentlemen attended yesterday's board meeting, and bring valuable expertise and knowledge to the board. I greatly appreciate their service.

We have added to the MCC family of compacts and thresholds.

In terms of compacts, our compact with Mongolia was signed in November at the White House by President Bush and President Enkhbayar of Mongolia, for \$285 million. This was MCC's 15th compact, and the first to be signed at the White House.

The compact will reduce poverty through economic growth by investing in the capacity of Mongolia's rail system, including the ability of Mongolians to register and obtain clear title to their land; improving core technical skills, skills of Mongolian workers; and extending the productive years of the Mongolian work force by reducing non-communicable diseases and injuries.

We anticipate signing our 16th compact with Tanzania early in the new year.

In terms of threshold programs, we signed a Threshold Program with Sao Tome and Principe in early November. This nearly \$9 million program will increase revenue collection through improved tax and customs administration, and reduce the days and cost to start a business.

And our board approved a \$35 million Threshold Program with Peru. This program will bolster immunization and fight corruption.

We unveiled a major research paper on MCC's role in deepening democracy. MCC deepens democracy by creating incentives for policy reforms and by engaging democratic actors and processes already in place in partner countries worldwide.

These themes are explained in detail in MCC's democracy policy paper, which is posted on our Web site, and which I invite you to read, if you have not already done so.

We continue to carry MCC's messages to audiences throughout the world. I had the privilege of attending the Community of Democracies fourth ministerial in Bamako, Mali, to discuss democracy and its link to economic growth and development. The vast majority of MCC countries were also participants in that Community of Democracies conference.

I then traveled on to Mozambique and Lesotho, two countries with which we signed compacts in July, and saw first hand how they are ramping up to begin the implementation of their compacts.

Meanwhile, MCC sent a delegation to the U.S.-Africa Business Summit in South Africa. MCC has nine compacts in Africa, and another seven Threshold Programs throughout the continent.

MCC's new private sector initiatives team is exploring ways to integrate private sector activities into MCC compacts, leverage MCC compacts with the private sector and stimulate follow-on investments in MCC countries.

We continue with our engagement with Congress, and are still awaiting word on our appropriations. MCC has gathered considerable momentum in recent months with a very full list of compacts now signed and results now starting to come in.

We are urging Congress to fund MCC at the House-approved level of \$1.8 billion, which will allow us to fund our current pipeline of countries taking on the hard work of making reforms and developing compacts.

We have had a very exciting and busy fall season, capped by our board's decisions yesterday on the selection of new compact-eligible and threshold-eligible countries. I am pleased to announce that Malawi is now eligible to submit a compact proposal, and Mauritania is now eligible for our Threshold Program.

Let me say a few words about some other countries that were considered, but not selected, as eligible for funding.

First, Colombia. MCC acknowledges Colombia's significant reform efforts to promote stability and the environment conducive to economic progress. We encourage them to continue forward with these efforts. However, because of budgetary limitations, the board decided not to select any new countries in the lower middle income category at this time.

Second, Liberia. MCC recognizes the impressive results of President Johnson-Sirleaf's government. We look to USAID to continue its engagement with Liberia to support that country's great strides to become eligible to participate in the MCC program.

When our panel convenes, Sherri Kraham will go into more detail on the countries selected and considered, but I wish to highlight three points about our selection process.

First, MCC's selection process will continue to be based on the rigorous evaluation of a country's performance on our eligibility indicators, including a commitment to democratic governance. Providing aid to an objective indicator base selection process that measures sound policy performance remains MCC's defining hallmark.

This applies not only to newly-selected countries, but also to our current compact countries, which must maintain and improve performance. Maintaining good policy performance supports our reorganization efforts to fully and successfully implement our current compacts and achieve sustainable results among the countries with which we are now working.

Similarly, we are better defining the factors we take into account to determine which countries are eligible for MCC's Threshold Program, including: the number of policy indicators or areas that must be improved; the range of policy reform or actions necessary to address those indicators; and the country's overall commitment to reform.

Second, MCC's selection process has become more competitive. Our selection process is a competition, and this year's selection process has reached a heightened and increased level of competition, based on higher standards for eligibility.

This is due to a number of factors: the addition of two new indicators that measure natural resources management and land rights and access; rising medians on several indicators; and significant improvements in data quality.

Third, MCC holds our compact partners accountable for maintaining and improving performance. Should a compact country not meet the eligibility criteria, MCC evaluates its policy performance to determine whether there has been any significant policy reversal. We distinguish between countries that have a significant policy reversal, or a pattern of actions inconsistent with MCC's eligibility criteria, and those countries that do not meet the criteria due to technical reasons or slight changes in performance.

If a country does not meet the criteria, but is generally maintaining performance, we are willing to allow our current partner countries some time to address these indicator issues.

However, we believe that there should be consequences for failing performance and significant policy reversals, and remain willing to suspend a country for a significant policy reversal.

Again, Sherri will go into more details about this, about the MCC selection process, when the panel convenes.

With this overview, I'll stop here, and we'll be happy to take your questions before turning the podium back to Matt McLean to introduce the panel.

Again, I want to thank you for your time this morning, and I'd be delighted to hear anything you have to say -- comments, observations, your perspectives, any questions you may have.

Thank you.

Any questions?

Everybody happy with what we're doing here at the MCC? I hope so.

We've come a long way in four years. It's been a huge achievement to establish this corpus of work, to now have our 16 -- almost 16 -- compacts signed. As I mentioned, Tanzania, first thing in the new year, will be our 16th compact.

We're now focusing very, very diligently on our compact implementation procedures here within the organization. I mentioned Darius Mans is the head of the new compact implementation area. John Hewko is head of our compact development. Darius Teter is the deputy vice president there.

We really feel we're in a good position as we go into 2008, sort of into the home stretch of this administration.

It shouldn't be forgot that the MCC was first spoken about in 2006 -- excuse me, 2002 -- in Monterey, and this will be now coming up in 2008, the sixth anniversary of that first discussion. We were created by an act of Congress into a U.S. government agency in 2004. And in that space of four years, it's come a long way. It's a viable organization. It's strong.

We have our budget challenges, as I've mentioned. But I have every reason to believe that, having established this very strong body of work, and really what I think is an outstanding reputation, I think here in Washington and internationally, that we're well positioned to go into the next administration, whichever party may head that in the executive branch or in the Congress.

I'm very happy to continue our cooperation with USAID and Undersecretary Fore -- or our Guest Director General Fore is the title she was sworn in today officially, and we're all very happy about that -- with our leadership at USAID and her role also in the State Department.

As you know, they implement our Threshold Programs in our 17 countries worldwide. And we have a very good cooperation with them, and look forward to increasing and expanding our direct (ph) cooperation with USAID, as we go through 2008, particularly with regards to coordinating our funding efforts.

It's been a pleasure to speak to you today, and I hope somebody will have a question. Do you have a question?  
Yes.

QUESTION: You mentioned working with Congress on trying to get the House level of \$1.8 billion for appropriations next year.

Can you talk a little bit about what the repercussions might be, or what might happen, if that funding level does not come through?

The news today is pretty bad on the appropriations front. And what adjustment that you might make, might have to make, if that does not come through.

DANILOVICH: Thank you.

I saw David this morning at Secretary Fore's swearing-in, and we discussed this very matter, in fact.

The House appropriators appropriated \$1.8 billion for us. The Senate appropriation was 1.2 -- extremely disappointing. We have three definite countries in 2008. By coincidence, they happen to be African countries -- Tanzania, which I've mentioned, and Namibia and Burkina Faso.

The Tanzania compact is finished, for all intents and purposes. And we look forward to that signing very early on in the first part of 2008, with Namibia coming probably sometime in the spring. We're still working on a number of points on that. It's not completely finalized yet, but close to it.

And also, Burkina, which is also near completion, and we hope for a signing perhaps in the early summer.

At a figure less than 1.8, we anticipate that these three compacts will absorb close to a 1.8 figure, the House figure. It's highly unlikely we're going to get 1.8 as a figure.

We've heard a number of figures, and we all hear, you know, news bulletins every one hour about what's happening or not happening, or the bills being rewritten, and we've done this, and one thing or another.

If the figure is 1.6, the compact with Burkina will undoubtedly have to be trimmed. If it's less than 1.6, it will have to be trimmed more.

This is a very disappointing thing for a country that's made -- all of our countries have made gigantic efforts to become eligible for MCC compacts. As you know, these countries often have very shallow (ph) capacity in dealing with these things. They've undertaken regulatory reforms and legislative reforms, constitutional amendments to address the indicators that the MCC has.

And having jumped through all those hoops and gone through all those barriers -- even cultural changes have taken place in countries because of the MCC incentivization for reform -- having done all of that and presented a good compact, and had that approved by the MCC -- or almost approved by the MCC -- and then have it said, sorry, we don't have enough money from Congress to give you the full amount of money that you need for your compact proposal; we're going to have to take out this segment of education, or this segment of health care, or this particular agricultural program, or whatever it may be, to reduce the size -- is not only a bad message to communicate to that specific country, but through all of our other countries that are struggling to become MCC-eligible countries.

We have no other choice but to address it in that fashion. It's not a comfortable or a pleasant message to communicate. I feel, to a certain extent, that, on behalf of all of our organization, who has worked so hard to work on these compacts to get them to the final stages, you almost feel to a certain extent that you've been acting in bad faith.

Nevertheless, we'll have to wait and see what happens. It's not over yet with regards to Congress, and we'll just have to see what the appropriation is.

Yes.

YOUNG: Ambassador Danilovich, Frank Young with ABT Associates. And



I want to follow this question.

Related to Burkina, wouldn't there not be an option to simply fund Burkina in phases?

And number two, with the selection of Malawi for FY '08, given the fact that those three countries will absorb all the funding, are you basically saying to Malawi, don't bother until FY '09?

DANILOVICH: No. That's not the situation.

We don't have an option of funding compacts in phases. It doesn't work that way. The way our procedures is, when a compact is signed, the money for that compact is committed, which means guaranteed. And in fact, during this budget crisis, we've had calls from many of our countries who already have signed compacts, who don't understand the nuances of the American appropriations budget process, I've (inaudible) to look at myself sometimes.

And they've asked, "Well, what -- is our money in jeopardy?" And it's been very reassuring to be able to say to them, your money was guaranteed on the day we signed it. Your \$350 million, your \$475 million, your \$541 million, your \$461 million, for each specific country

is yours.

It's not there to take and use for this one or that one, or a little bit for this and a little for that. And by the way, we hope we'll have enough for you when your compact finally begins implementation.

The money's guaranteed up front.

So, with regards to Burkina, whatever final figure we are able to award to Burkina will be that money committed to them for the five-year life of their specific project.

The Malawi money will come out of the FY '09 budget, undoubtedly. I mean, being eligible means they have to submit a proposal that often takes between nine and 18 months by the time they're finally able to submit a proposal. We don't have one from them yet, obviously. They were just selected as eligible. Now they'll submit their proposal sometime, maybe by the end of '08 financial year, or maybe into '09. And their money will come from the next budget.

Any other questions?

MARY ANN RING, GENERAL ELECTRIC: Ambassador, hello.

DANILOVICH: Yes.

RING: I'm Mary Ann Ring with General Electric.

DANILOVICH: Yes, Mary Ann.

RING: And regarding the countries that achieve the passing score on the indicators, or a borderline score, but were not selected this round, could you or your staff please share whatever insights you can...

DANILOVICH: Sure...

RING: ... and whether or not it's funding related, given what Congress is appropriating, or whether there are other specific reasons?

Thank you.

DANILOVICH: Sherri Kraham, our magnificent expert on the subject, will discuss that fully at the panel.

However, the board takes into a number of factors in choosing and selecting countries for eligibility, whether it be for compact or for threshold. It isn't an absolute -- well, here's the report card, and this is how you've done. And therefore, you automatically are eligible.

We look at a number of factors. Some of them are budgetary and financial. Some of them are our interpretation, our judgment. That's what a board of directors does. They take in material they receive -- not just the report card, but other material, other information, other assessments -- and say, well, at the end of the day, this is where we think we can go in the indefinite future.

And, of course, we are at the end of an administration. And it's a (inaudible) time being in Washington at the end of an administration, where we see a certain conduct and behavior, which is fairly typical at the end of an administration, with the Congress and one thing or another.

So, there are -- it's now a period where we can really consolidate the MCC and look at where we've been, the countries that we have chosen, the countries that we have agreements with and that we're now implementing, focus on getting them implemented well. And we now have realistic -- not optimistic, but realistic -- projects, for example, that with the countries that are already in implementation, that we will have significant increases in disbursements in 2008.

Part of that is maybe due to reorganization efforts within the organization. But what it's really due to, in fact, is that agriculture and infrastructure programs, you take of in year two, three and four, and that's where we are in the implementation, chronological, natural chronological implementation of these programs.

In the venture capital world there's the J curve. I mean, you start out and the money goes down, and then, bang, it goes up. But we're not straight up, but we're, in 2008, going to be going very strongly in the disbursement area.

But there are a number of number of interpretive factors and subjective factors that go into our selection process.

Yes.

I'm interested in knowing a little bit more about the second phase for those threshold countries and what those governments have to do (inaudible) to guarantee that second phase.

DANILOVICH: Right.

QUESTION: If you could just give us a little...

DANILOVICH: I think this is really a very interesting step that the MCC has taken. I think the initial step of the Threshold Program was something that was sort of a very innovative and creative idea with countries that didn't pass the selection criteria, but were close to doing so.

And when we started the Threshold Program, we moved very aggressively in choosing countries that were close, but sometimes not too close, to becoming compact countries. And the idea was to focus on specific areas of indicator performance, where they were weak in that performance, and where we thought that the weakness was such that it could be ameliorated by a program.

Those programs are roughly around \$20 million. Some are more. Some are a bit less. But roughly they're around \$20 or \$25 million. We like to think they're two-year programs, and they focus on getting the indicators above the median during that period of time, so that they will be green (ph) and become compact eligible.

And this program has worked well. In fact, I've just come from a threshold implementation review of where we are with our countries that are in that program.

We recently created this special number two program, where even those that were already in the Threshold Program didn't quite make it, it wasn't quite good enough yet to be a compact country. But we had every reason to believe that the reforms and the policy initiatives which they had undertaken were beginning to move them really in the right direction.

It may not have evidenced itself in the latest set of indicators that we have -- and our indicators aren't perfect -- but we believe that reform efforts that have been made will eventually -- didn't work in the first phase of the Threshold Program, but it's sort of a recommitment to their efforts, another nudge, you're doing the right thing. We want to encourage that. We think that these reforms are going to work. And the next time around, hopefully, that will lead to compact eligibility.

Yes.

QUESTION: The indicator system is working quite well. There are groups, like Open Society, that are asking or urging that democracy be a hard indicator, like corruption is. Well, there's three indicators that come under that.

What's your thinking at this point in terms of making it hard?

DANILOVICH: We really welcome the involvement of Open Society in our discussions, and everybody's involvement in association with our indicators.

As I've mentioned, we created this grid, this report card, with the support of (inaudible) at large -- the NGO community, the Congress, et cetera -- as being something which we could use as a guideline for assessing countries. We have changed that from time to time.

I mentioned we have introduced recently the land -- natural resources management and the land rights, as well, which has changed our category somewhat, our investing in people and our economic freedom categories. We had combined what was initially two separate categories of days to start a business and cost to start a business into one category.

So, over time, these indicators have also changed a little bit. And they will change in the future.

But we find it very useful to have an indicator report card as a guideline for how countries perform.

With regards to the democracy indicator, so to speak -- I discussed democracy in my remarks this morning -- we strongly believe that democracy is necessary for development, for the reduction of poverty. It's an absolute must. It's, in a sense, a part of good government and good governance. It's part of the package. They go hand-in-hand.

Whether or not they end up being, as you referred to, as a hard indicator, as corruption is, remains to be seen. We're reviewing that. We're considering it. We're in discussions with Mort about this at Open Society. We saw each other just last week. And we're reviewing this.

And in fact, we'll probably be taking a very serious look at now a page four, come January, our indicators, and to try and come up with an assessment and a review, which gives us the way forward with regards to how we use them. You know how we use them now.

We are -- we experience a certain degree of discomfort every end of summer assessment period selection board meeting, with regards to how we interpret the indicators. We will always have indicators. We must have indicators. That's the whole thing of what this program is all about. Not just an aid program, but with an aid program with a (inaudible) to accountability on performance.

Democracy is an essential ingredient to that. It always will be. But come the new year, we're probably going to take a more serious look as to where we go with the indicators as we go forward.

QUESTION: I wanted to return to the topic of this phase two for the threshold countries.

Could you talk a bit more about what the process looks like, or defining the activities and the funding and contracting for these phase two projects?

DANILOVICH: Yes. The projects in our Threshold Programs, in general, revolve around corruption. It can be corruption in the health ministry or in various parts of the government -- in customs, in tax collection, in judicial reform.

But generally speaking, that's where we find the theme of corruption adjusting (ph) in countries that might eventually become compact-eligible.

What I'd like -- because it's a somewhat detailed question, I'd like Sherri to delve into that deeper down when the panel convenes, if that's all right. Thank you.

Thank you very much, and happy holidays. Thank you.

(APPLAUSE)

MCLEAN: Thank you, Ambassador Danilovich, for your remarks and for taking questions.

We'd like to move now to our panel presentation, if we can have our panelists take their places.

We will hear from two MCC officers, first from Sherri Kraham, our managing director for development policy. Sherri is in charge of managing and overseeing the annual process of evaluating our countries, policy, performance and the selection of countries for eligibility for assistance.

She'll talk about this year's selection process, particularly as it relates to yesterday's board meeting.

Secondly, I'd like to introduce Darius Mans, who is our new vice president in charge of the Department of Implementation. As Ambassador Danilovich had mentioned, we now have 16 countries approved -- the 16th being Tanzania, which we hope to sign very soon -- with a portfolio worth \$5.5 billion.

We hope in the coming months that that will be soon 18 countries worth about \$6.5 billion.

So, it's in your hands, Darius. No pressure. So, that's good.

And we appreciate your coming, and we look forward to your remarks.

And we'll start out with Sherri, and then with Darius.

KRAHAM: Good afternoon, everyone. I will cover the issues that Ambassador Danilovich introduced regarding the selection process in a little bit more detail. And I want to thank you for your continued interest in the MCC selection process.

We are so pleased that the board decided to select Malawi as our new compact-eligible country for this year, and I'll tell you a little bit about what factored into that decision. Malawi meets our eligibility criteria for the first time for this fiscal year, FY '08, scoring above the median in 13 of the 17 policy indicators that we use, including the corruption indicator.

The government of Malawi has demonstrated a strong commitment to reform, and it's well into its implementation of its Threshold Program, focused on fighting corruption and improving fiscal policy. With the help of the Threshold Program, its anticorruption bureau has launched several investigations into high profile persons in both the ruling party and the opposition.

Significant steps have been taken to improve the effectiveness and the efficiency of the judiciary. We've worked to enhance -- or they, I should say -- they have worked to enhance oversight functions within the government, and build enforcement and deterrence functions throughout their government.

There are significant opportunities for investments to reduce poverty through economic growth, and with roughly seven million people, over half the population living on less than \$2 a day.

I want to take the opportunity to describe some of the considerations that led to the board's decision this year. As the ambassador alluded to, we can't select every country that meets our criteria. As you know, we can't afford to do that.

For example, as the ambassador described, the board recognized countries that met the criteria, but we were unable to include, for example, Colombia. And the ambassador talked about their strong performance. Colombia is an example of a country that satisfies the criteria. It was ranked among the best countries, best performing countries in the lower middle income country category, the LMIC category. And the government is a committed reformer and has taken significant efforts over the past few years to improve the investment climate and governance.

However, because of its status as LMIC country, the board refrained from selecting it, and any other LMIC countries this year, in both the compact-eligible category, as well as the threshold country category, because our legislation limits funding for compacts in LMIC countries to 25 percent of our budget. That equates to approximately one compact that we can fund for an LMIC country per year.

So, we already have three countries working to develop their LMIC compacts in competition with one another for the limited funding that we have.

Additionally, as in previous years, performance on the democracy indicators was seriously considered. And no, it's not a hard hurdle, but it's something that the board heavily weighs, and has continued to do that.

So is the consistency of performance. It's not just about whether the country meets the criteria this year, but will it continue that strong performance? And is the country trending in the right direction over time?

As the ambassador described, in addition to selecting new compact-eligible countries, the board uses this annual opportunity to review how our other countries are doing, how our current compact-eligible partners are doing. The board re-selected 22 countries that had been selected in previous years, 12 of which did not meet the criteria for fiscal year '08.

And our standards for compact countries is that they must maintain and improve performance to maintain their status with MCC. And so, what we do is, we closely evaluate each country every year, even if they fall short of the eligibility criteria, to evaluate whether or not they have demonstrated, as the ambassador described a significant policy reversal or decline, or have engaged in actions inconsistent with the criteria.

It's possible that a country could be maintaining and improving performance on our criteria, but not meet the criteria for a year, due to a number of factors. And the ambassador described them. I'll just go into a little bit more detail.

In terms of country graduation, when a country is in the low income category and at the top of the low income category, and graduates to the lower middle income category, because of an increase in its income, it's facing a much higher and stricter standard with much tougher medians than they previously competed against. So, that has an impact on several countries.

New indicators -- as the ambassador described, we added two new indicators, one in the investing in people category, one in the economic freedom category. And this had the impact of significantly strengthening our selection criteria, and also fulfilling a congressional mandate.

We also had to change our methodology for the investing in people category. The result of this change made it very difficult to meet the criteria for some of our continuing compact partners.

Data improvements and revisions -- the silver lining is that, since we've used these indicators, the data has improved significantly in all of the indicators in terms of country coverage and data quality.

But what happens when the country's, when the institutions revise their indicators is, we could actually have a better picture of country performance, which may actually be lower than what we thought in previous years. So, it gives the countries an opportunity to have a better understanding of how they perform relative to other countries, and to work to meet the new standards.



Margins of error -- I won't get into the technical details. But we do see changes within the margin of error, and it's really difficult for us to determine whether or not that represents an actual improvement or a decline. And so, we look more closely at countries when their changes are within the margin of error, and that margin of error cuts across the median.

And of course, we can't ignore the reality, the nature of reform in these countries, which is -- it's complex, and it doesn't always move forward. And sometimes we do see slight declines in performance. But we don't think that represents, necessarily, in most cases, a significant policy reversal. So, this is something that we monitor on an ongoing basis, so we can hold our countries accountable for maintaining and improving performance.

To that end, the countries that we re-selected this year, even though they don't meet the criteria, can continue to implement their contracts and continue with contract development, so long as they continue to work towards meeting the criteria, since they met and continue to maintain the performance that the initial eligibility was based on.

And we're working with all of these countries along with others and the U.S. government, working very collaboratively with USAID and other agencies, to help support an ongoing dialogue about reform and programmatically, as USAID supports many of these reform efforts already in our partner countries.

This year, the board chose not to re-select Cape Verde as eligible for FY '08 compact funding. Cape Verde was a country that had that graduation a few years ago. And so, until it meets the new criteria, Cape Verde can continue to implement its compact, but the board made a decision that it needs to work to meet the criteria in the new category.

MCC, as the ambassador said, is willing to warn, suspend or terminate eligibility, if we do see that significant policy reversal or decline. And we have exercised these options before. Previously, we have suspended the Gambia. We've suspended Yemen, although Yemen was subsequently reinstated. The Gambia was not selected this year.

And the board also did not select Sri Lanka for this year, although it met the criteria, because the conflict there has escalated to a degree that is inconsistent with our criteria, and makes it difficult to work there.

I'd like to turn to the Threshold Program, and there were a lot of questions about the Threshold Program. We are very pleased to have selected Mauritania as eligible to participate for this year.

As you know, this program is to support the reform efforts. And the ambassador described the factors that we took into account this year and seeing how close a country is to threshold eligibility.



So, taking that into account, Mauritania is a reformer, and we felt, the board felt, that we can support and accelerate reform efforts there. They had a free and open presidential election this past year, launching their transition into democracy.

Since taking office, the newly elected government has demonstrated a commitment to a collaborative reform dialogue with development partners. The government passed and began to implement important antislavery legislation.

And we see that the performance on the democracy indicators is steadily improving upward. They've made significant investment climate reforms that are underway. And Mauritania, in order to meet the criteria, would need to focus on the investing in people category to satisfy the criteria in future years.

They're relatively close to meeting two of the indicators, the expenditure indicators and the government has committed to address those areas on its own, with its own resources. And so, we can focus on a Threshold Program to help them in those areas, and the investing in people category.

In addition to selecting Mauritania, the board recognized the ambitious efforts, as Ambassador Danilovich said, of President Johnson-Sirleaf. And we're watching them closely.

Because, as you know, we can't select every country that is reforming to participate. And so, I'd like to acknowledge that my team and I spent the past year working with and watching other countries that are working to qualify.

And I'd particularly like to note the work of a few countries that are working so hard to track their performance on the MCC indicators. And they've incorporated this approach into a broad, widespread government reform effort. And that's the Dominican Republic and Guatemala. And we look forward to continuing to work closely with them and to see that strong reform effort continue.

In addition to selecting new threshold countries, or at least one new threshold country, the stage two Threshold Program was initiated, which is really to reinforce the strong reform efforts of our countries. We're going to invite Albania, Paraguay and Zambia, whose programs are currently expiring in 2008. These countries are not compact-eligible, but we evaluated whether they're still on the right track and whether there was something that we could do to continue to support their reform efforts.

The program will operate similar to the existing threshold programs, which is, we work with the governments in these countries to identify what are the factors that are driving performance under the indicators. So we dig deep in the indicators and look at what are the factors that they can address in a two-year program to meet the criteria. And we've also done this with some of our other partners, like Guatemala and Dominican Republic.

What we would do is, we'd re-engage them, work with them to evaluate performance, whether it's existing performance in the corruption indicator. It may be that we turn to the new indicators that we recently incorporated, and expand the program to other areas. And so, we'll have to see, as those conversations begin in the new year how those programs will proceed.

So in closing, I'd like to say we look forward to working with many of our country partners -- I see them in the room -- for those that are working to qualify for the program and to talking to all of you about the ongoing reform efforts.

So, thank you.

MANS: Thank you very much.

My name is Darius Mans. I'm the vice president for compact implementation. I'm very happy to be here with you today. I started November 1st. I'd like to share with you the work program that we have in our new Department of Compact Implementation.

But first, to make sure everybody is aware that, even though a number of our compacts are in early days of implementation, there are a lot of very good stories to tell about what is already happening on the ground with support from MCC.

Whether that's at the program level, or if you look at capacity-building efforts that are underway, if you look at the demonstrated efforts that countries are making on ownership, or work with donors and our collaboration with non-governmental organizations, there are lots of good stories out there to tell. And if you'll bear with me, let me share just a couple of them with you.

On the program side, as many of you know, in Honduras we've had over 800 program farmers, who are receiving technical assistance for crop production and for product commercialization, out of a number of farmers that we plan to train by the end of the program, over 8,000. Many of those are already developing strong relationships with the external market, opportunities for exports; 325 program farmers have already developed business plans following the participation in a number of workshops that we've funded in Honduras.

In Armenia -- I was there just a couple of weeks ago with the prime minister, launching the first phase of a roads program. We launched the civil works on the first component of the overall rural roads rehabilitation project. On completion of that program, the project will ensure that rural communities have road access to markets, services and the main trunk network in Armenia.

On the policy side, in Vanuatu, the national budget now -- and this is a very good step forward for them -- contains a substantial increase in funding for road maintenance. As you may know, the Vanuatu program is very much focused on rehabilitation of roads across a number of islands in the country. The road maintenance

funding not only has increased, but they are engaging communities, to be sure that they will be involved in the maintenance contracting and some of the small civil works that are being carried out.

In Georgia, where I was very recently, we have completed the first phase emergency repairs on a pipeline that helped to substantially reduce losses in the gas network in Georgia. It's also had the effect of raising environmental standards that the Georgia Gas Company is using for all of its works, not just those that are funded with MCC money.

It's also helped to turn around the finances of that company. For the first time, they are now generating profits, so they are in a position to use their own resources to expand the Georgia gas network.

Capacity-building is another area where already we have seen, I think, some very good examples on the ground. Whether that's, again, to take the case of Georgia, working very closely with the Department of Statistics to build their capacity, to do the kind of impact evaluation that we think will be very important to learn the lessons from experience during implementation, use that as the basis for not just evaluating our own programs, but building on that experience for the way the Georgians use their own resources during their investment planning process.

We've seen in the case of Ghana where, in Ghana, the president has decided to use the experience and the capacity that's been built during preparation of the compact there, and apply those experiences and lessons to the way that they do infrastructure planning nationwide.

You look at the -- one thing which I frankly find inspiring is the way that countries have really taken ownership of a lot of this activity, because, after all, implementation is the responsibility of the countries. Our role in MCC and my Department of Compact

Implementation is to provide technical support where they need it for implementation, of course, to carry out the very important role of oversight, to be sure that our accountability standards are being respected, and that the U.S. taxpayer dollars are achieving what we all would like to see on the ground in these projects.

In Ghana, for example, a couple of months ago, the Ghanaians took the initiative of calling together all of the MCA units in Africa, to come together in Accra, to learn from one another about how best to work with MCC, practical lessons of how to deal with the challenge of implementing compact programs.

I was in Central America two months ago where the Central Americans did the exact same thing. On their initiative, El Salvador, Honduras, Nicaragua convened a conference to share best practices and lessons learned, and also to make recommendations to MCC for how we can do a better job of supporting implementation of their compact programs.

Also, interestingly enough, they took the opportunity to talk among themselves how to collaborate, so that the programs that are taking place at a national level add up to something more on a regional basis, how they can pursue the regional integration agenda.

On donor coordination we've seen a lot of, I think, terrific examples of where MCC has been able to work very effectively with a number of agencies.

Just to give a couple of examples, in Mozambique -- and I see a couple of Mozambiquans here in the room, which I'm very happy to see. We worked very well with a number of donors to take a sector-wide approach in the water sector, where we are working very closely to make sure that, in the four northern provinces of Mozambique we can really make a difference on the ground on rural water and sanitation, to improve both access, quality -- extremely important for improving productivity in the rural economy in Mozambique.

The same is true in the energy sector in Tanzania, where, as you may know, the Tanzania energy sector has been in long-term crisis. We in MCC will be making some important investments of mini-hydro, investments in the transmission and distribution network and secondary networks to improve quality, reliability of electricity, which you may know is the number one constraint to investment and the business climate in Tanzania.

In Armenia, in this road project, we essentially built on the good work that the Lincy Foundation had done in preparing feasibility studies, doing detailed designs for the rural road network. When their funding ran out, we were able to work closely with them to provide funding, so that that program could get off the ground.

We have seen very good engagements in a number of countries with other NGOs. Again, just to give you Armenia example. A high level of NGO engagement at the level of the boards, the oversight authority for the MCA unit there.

To the extent that not only were they heavily engaged during preparation of the compact, but also now are doing a very good job on monitoring and evaluation during implementation of that program. They are doing independent research, looking at what is happening on the ground with a number of MCC-funded projects to give some very useful suggestions about where improvements can be made.

So in short, there are a lot of good stories out there. And as our programs pick up -- and as the ambassador mentioned, during the course of this fiscal year alone we will see a more than doubling of both our commitments and disbursements, and continuing increases on both those accounts -- we will see lots more results, lots more stories.

We will have them. We will do a better job of telling them and getting those messages out there, starting in early 2008, when we want to issue quarterly updates on what is happening with compact implementation in all of the countries.

As the ambassador says, I think one of the big opportunities that we have in supporting compact implementation is really looking at how we work most effectively with the countries themselves who have the primary responsibility for implementation.

With the reorganization, we are streamlining decision-making. As the ambassador said, we are placing more authority out in the field. We're also looking at how we can frankly reduce the cost of doing business with MCC for our countries, so that they spend more time focusing on getting the job done on the ground. We are looking at how we can simplify our monitoring and reporting requirements.

We're also looking to see how we can do a better job of matching our oversight through our reporting, through our approvals process, through our audits, with demonstrated capacity. So, where we see countries have demonstrated the capacity to do the work, let's let them take on greater responsibility and hold them accountable for achieving results.

We're also looking to see where we can streamline our procurement processes and simplify some of our procedures so that, again, we can help countries accelerate implementation, so that they are achieving the goals that are set out in their compact programs.

Just to give you a sense of some of the other priorities for our new Department of Compact Implementation, we are going to be carrying out a review of the entire portfolio, country by country, project by project, to take a look at how we can be sure that the milestones that are set out in the compacts are being achieved on the timetables that we believe are realistic, so that we can decide how best to concentrate our resources for providing technical support, and also oversight, so that countries can achieve what has been -- everyone would like to see -- you, the people in the country, very importantly, as well as MCC -- in achieving the objectives that are set out in the compacts.

Thank you very much.

MCLEAN: Thank you, Sherri. And also, thank you, Darius, for your remarks.

We have time for some questions. We have Jessica with the microphone, who will track you down if you have a question. And we have a few already.

QUESTION: Hi. My name is Douly (ph). I'm sure this question goes to Sherri.

I'm from Uganda. And for that reason, I'm a little bit curious to know why Uganda was not selected.

KRAHAM: Uganda recently started a Threshold Program to focus on corruption, anti-corruption. And we're very excited about that Threshold Program.

And one of the factors I should have mentioned in my earlier remarks is that, we really did take into account in making recommendations to the board to what extent a country had progressed through its Threshold Program, and to give some of the countries that do meet the criteria, but are working on these efforts, a little time for those reforms to consolidate and take hold.

And so, while I can't say what figured into the board's thinking, you know, this was the case in several countries that just started their Threshold Programs.

ANN HOLLINGSWORTH, INTERNATIONAL CRISIS GROUP: Hi. Ann Hollingsworth, International Crisis Group.

Just wanted to ask specifically about Sri Lanka. If you could go into a little more detail on what factors led to the decision, and what that means for the relationship with MCC and Sri Lanka in the future?

KRAHAM: As many people know, Sri Lanka was selected as eligible to participate in the Compact Program in previous years. And we had been engaging them with regard to their development of a compact and initiating due diligence on their proposal.

But as you know, the level of the conflict has increased over the past year. And some time ago, we paused our work there, as we monitored the situation. And not ready -- the board decided that MCC is not ready to engage there, given that the conflict, and the policy track of the government related to the conflict.

And so, in the decision not to select Sri Lanka, that means that MCC cannot engage the government in Sri Lanka -- of Sri Lanka -- in compact development. If they'd like to talk about how to become eligible again in future years, we'd certainly be happy to engage them in that regard.

QUESTION: I wondered just what is the latest on negotiations with Kyrgyzstan.

KRAHAM: I believe that we are approaching an agreement with Kyrgyzstan, and that we have a board approved Threshold Program, cutting across several of the governance indicators. It's an anti-corruption. It's judicial reform. I believe it focuses on investigation.

And so, I think we're on the verge of signing that soon, but I couldn't tell you when.

QUESTION: I guess this is a question for Sherri, too.

Anita Anaploczynka (ph) from the embassy of Macedonia. And I just have a quick question concerning European countries, who are -- for example, Macedonia is doing very well in implementing reforms. It is a country that is moving towards the European Union, but is not there yet. And we're probably looking for another five or 10 years until Macedonia becomes a member of E.U.

So, will MCC still be considering countries like that, that are sort of caught in this double bind of trying to implement reforms, moving towards E.U., but still need assistance?

KRAHAM: We looked closely at Macedonia. Macedonia is a country that should be recognized for its tremendous reform effort. And Macedonia is close to meeting the MCC eligibility criteria. It's so close, it's on the median for corruption, and the only indicator it would need to address.

The board took a decision not to select any lower middle income countries this year. And I don't know how our funding situation will improve in future years. Maybe there's an opportunity for Macedonia and other lower middle income countries in future years.

QUESTION: Hi. I'm Rita Rosario (ph). I have a question about Mozambique. What is the next step?

And you also talked about donor coordination and the water sector. What are the programs that have already been successfully implemented that MCC is building upon?

MANS: Yes. In Mozambique, as you know, it's early days yet. We have not yet entered into force. Mozambique is putting in place all of the final implementation arrangements so that we can.

But meanwhile, what we are doing is, in effect, building on a proven series of pilots that have been supported by a number of donors. For example, the World Bank had a community-based world water project that informed the design of the program in Mozambique on water supply, and also on sanitation.

QUESTION: Hello. I'm Andrea (ph) (inaudible). I'm with (inaudible). And I'm just wondering, with the review of each portfolio for each country, what would be the public participation process?

MANS: This is an internal management exercise, so that we know exactly where we need to concentrate our effort. But what we want to do as part of this review is really look hard at the milestones, so that we have the basis for doing a much better job of engaging with the public around what is being achieved on the ground, the real results in each program.

So, it's very much a results-oriented focus, which we want to make, you know, very public, these implementation scorecards, so the public can see how we are doing during the course of implementation, and get engaged in this process of each of the compact countries.

MCLEAN: We have some time, a couple of minutes. Any more questions?

YOUNG: Yes. Frank Young for (inaudible) again.

Senegal and Ukraine remain compact eligible countries. But my sense is, the development of those compacts has been somewhat either delayed or suspended.



Can you talk about how you're engaging with those countries, given the current budget environment?

KRAHAM: MCC, once a country is selected as eligible, MCC provides the guidance and travels frequently, engaging deeply with all of the countries. And so, we haven't -- we certainly haven't suspended our relationship with Senegal or the Ukraine. Is that right? Ukraine?

So, we are -- we are, indeed, working with them.

I think one of the things that is unique about MCC's process is, both the policy performance and the program performance sits in the hands of the government. So, it ultimately depends on their effort and their leadership to move the process forward. If they move forward, we move forward. If they want to engage, we're ready to engage.

So, we certainly haven't put those programs on hold, and we certainly have provided them with every opportunity to reach a compact agreement.

QUESTION: Thank you. Jean Seramount (ph). I would like to learn from you, (inaudible), the compact is supposed to be completed in five years. Aren't you concerned that in certain cases, you might not meet the target, while perhaps in other cases you may say that you have countries that set very good examples.

Thank you.

MANS: Yes. I can tell you, this is one of the issues that we are looking very closely at as part of this review of all the programs, making sure that we have a very clear timetable, with some very clear milestones, including a detailed procurement implementation plan to be absolutely sure that everything can get done within remaining time of the compact.

And so, this process has begun. At this point, frankly, I'm not concerned about that, as long as we all stay very focused on what needs to be achieved, because as you quite rightly point out, the clock is ticking on these programs. We all have to be very focused -- the countries, very importantly, but also looking at what we can do on our side within MCC to support it.

MCLEAN: Thank you. We have time for one more question, if there is one.

QUESTION: Thank you. My name is Van der Bartholemy (ph) from the Netherlands Embassy.

And I'd just like to quote a skeptical view from the president of Ghana, which was quoted in the "New York Times" a couple of days ago.



The president of Ghana, as you probably know, is also the chair of the African Union. And he said that the MCC is becoming a bit like a World Bank or another donor, but uses aid money in a stop-and-go fashion. And that means that the aid is spread so thin, that at the end of the day, the necessary difference is not made.

What would be your response to this skeptical view of the president of Ghana?

MCLEAN: If I remember correctly, the article, in that context, was talking about his view, if a Senate amendment was passed that would allow only half of the money that MCC commits up front. MCC commits all of the money for the compact up front for the full five years. There's currently a Senate amendment that would not allow MCC to do that, but only to commit half the money up front.

And what he was commenting on, if I remember the article correctly, would be, what would be the impact of that amendment on MCC's operations in its compacts?

For the record, we, MCC, do not support that amendment. We value our ability to commit all our money up front. We feel that aid predictability for our countries is very important. And I believe that that was the context of that particular remark from President Kufuor of Ghana.

I think that's it. We appreciate your coming out. I think that we've been well fed today from our speakers, Ambassador Danilovich, Sherri Kraham and Darius Mans. And again, we appreciate your ongoing interest in the Millennium Challenge Corporation.

Thank you.

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