MILLENNIUM CHALLENGE CORP. CEO PAUL APPLEGARTH

REMARKS AND
TAKEN QUESTIONS FROM AUDIENCE

CENTER FOR EUROPEAN POLICY STUDIES,

BRUSSELS, BELGIUM

Date: January 26, 2005

Moderator: Good afternoon ladies and gentlemen. Sorry for the slight delay but Paul has been involved in different meetings this morning and is rushing in fact from one meeting to another, I think rushing off afterwards also to Davos if I understood it correctly.

It's a pleasure for us to have Paul Applegarth here today and even if we do not cover development issues that often, let's say, when we were asked, we were interested to host a meeting with Paul Applegarth, and in fact speaking about the Millennium Challenge Corporation. It was just after Christmas, and of course everybody knew what happened over Christmas. There was a big discussion going on in many European countries and all over the world I would say about development and development aid and emergency assistance, et cetera. So that's why I thought it would be certainly as a policy institute interesting to have a debate on models of giving aid to developing countries and also to listen, let's say, to this new model I would say which the United States has inaugurated with its Millennium Challenge Corporation on which Paul will be speaking in a moment.

I think Paul has a very interesting background. I will briefly just mention some things. He's got a career as well in government. He was government, and World Bank and then private sector. The interesting thing about his private sector experience is that he's been working in the financial sector essentially with emerging market debt, so he knows about the financial situation in many of the developing countries. It was in fact his task, let's say, within for example, I mean he was a partner in an asset management firm that was dealing with emerging markets that essentially. He's also worked at American Express, Lehman Brothers, and then before he's even been an Army officer in Vietnam. He studied at Yale University and Harvard Law School, earned an MBA from Harvard Business School, so I think Paul has an excellent background to deal with this job and to speak to us today. He'll speak for about 20-25 minutes, after which we will have time for questions and debate and which I would already encourage you to think about what you would, how you would react hearing about this new model.

Paul, I give you the floor. Thank you very much.

Paul Applegarth: Thank you. The remarkable thing is I'm only 30 years old despite having done all that. [Laughter].

I'm actually going to change a little bit. I had some prepared remarks but I think given the nature of this audience it's far better that I speak somewhat about Millennium Challenge, somewhat about how it fits into what the United States is doing, what generally the world development systems, and then I'll throw it open to questions and you can talk about things you want to talk about.

MCC is a year old this week. We have been a startup, but we come out of a couple of things which will be important to this audience. First is the Monterey Conference in March 2002 which there was an international consensus that was built on the lessons of development. I think people have been, and governments and institutions have been in the formal development business for somewhere between 40 and 50 years, shortly after World War II, in fact 50 years more now. Over that time a number of things have worked pretty well, some things haven't worked very well. I think part of the lead-up to Monterey was to begin to identify the things that were lessons learned.

One of the lessons learned was that countries themselves have to take responsibility for their own development. Foreign aid is not going to develop a country. Millennium Challenge isn't going to develop a country. It is the country, if you track and look at the performance of countries, those that have good track records over the last 40-50 years, those that don't. One of the key differences is the leadership of those countries taking a stand and saying this is our focus. We own this process, how we're going to do the necessary things to make it happen.

The second lesson is that policies matter. That countries have a choice whether they're going to, and the countries that have really grown are those, and reduced poverty, are those that have put policies in place that promote property reduction, promote growth.

So the core international deal at Monterey was to say that those developing countries that were going to take greater responsibility, who would take responsibility for their own growth and development and put the right policies in place. They would get additional assistance from the developed countries to help them in their efforts.

Essentially Millennium Challenge is the delivery by the United States on its promise at Monterey. And we are set up to identify those countries that are making the right efforts to promote poverty reduction and promote growth, and concentrate resources on those countries. So we identify the better performers and those are the countries who will use the money well, have demonstrated the commitment to try to do something about this, to improve the lot of their populations, to the people there. People were living in abject poverty. And to really give them a chance to escape the cycle of dependency they'd been in and to get on a path to sustainable growth.

So we actually, we have a methodology and approach where we do rank countries, and they essentially compete against each other. They compete for assistance from Millennium Challenge. They compete in terms of the policies that they put in place. We rank them. You can go on our web site and see a sheet for each of the poorest countries in the world where they're ranked against each other on their performance in promoting civil liberties and freedom of the press and control of corruption, on their investments in human capital and health and education, in promoting economic freedom, good macroeconomic policies, whether it's inflation rates or fiscal policy but also micro policy, the regulatory burden they put on entrepreneurs. How many days it takes to start a business.

We rank them on these policies not because they're such good ideas or things we might believe in, but because they are empirically linked to poverty reduction and growth. Our core mission is to reduce poverty in some of the poorest countries of the world. You’re going to hear a lot about Millennium Challenge, about the amount of flows, about promoting growth, about a broad-based track to development, but let's not lose the fact that our job is to reduce poverty, and under our legislation we only can do it in the poorest countries of the world. We have an income ceiling among countries that we're focused. Again, it comes back to the point we want to target the poorest countries, target those that are doing well and demonstrating a commitment to poverty reduction and to growth, and then put a lot of resources behind those efforts. To reward those governments that are doing a good job, to help them in their efforts. To incentivize governments that aren't doing such a good job to make some of the tough decisions that are required, and we're talking about some tough decisions. Some of these countries, corruption is endemic, and yet we're seeing countries take tough steps to tackle corruption.

Some of the places the court system is screwed up, again, influenced by corruption. We're seeing efforts to clean up the court system. We're seeing efforts to take the regulatory burden off of business, to reduce the number of days it takes to start a business. A variety of things. Some are easy decisions, some are hard, but those countries that are willing to take the tough steps earn the right to talk to Millennium and present a proposal to Millennium Challenge.

What they get by being selected, and in May we ran a competition of 75 countries. We picked 16. They get not a check, but they get an opportunity to tell us what are their priorities for poverty reduction, economic growth.

This goes back to the core concept of country ownership. Historically the traditional donor model has been for a donor to go to a country and say you need this and we're going to do this for you.

There are two elements. There's them saying you need this and we're going to do it for you. We change the language and the substance. A country that's eligible for Millennium Challenge gets to come to us and say we need this, and this is how we are going to do it, and will you help us?

It sounds like words, but the dynamic is very different in terms of ownership, in terms of responsibility and in terms of them developing their priorities. And that I think is the key. Carol was talking about differences in approaches to models. Again, this is a key difference about what's done historically and it's again a reflection of development.

You're going to hear a lot about MCC being new and innovative, but I want to give credit to a number of thought leaders here in Europe and elsewhere who have really blazed the way in thinking about development being much broader based than traditional models and in many ways experimenting in ways that have been quite constructive.

You're doing it actually in the EU with the enlargement approach. There you're trying to take, you're setting up rules and policies and procedures partly in the interest of harmonization but also linked to policy as the way to promote poverty reduction and growth. We're applying similar concepts, probably less prescriptive in terms of particular targets, but certainly not, but in the core concept of the point is that governments take responsibility for the development of their economies and promoting the benefits and welfare of their people.

Millennium Challenge will be the largest increase in development assistance, of foreign assistance, from the United States since the Marshal Plan. So this is a serious effort. The sponsorship of this comes right out of the White House. President Bush is personally very much a sponsor of this. He, Condoleezza Rice and Colin Powell were the three people that are given credit for conceiving this, and I've seen nobody challenge that. And they did it, and it gives you a sense of the kind of support that this has from the United States.

It comes out of a much broader reassessment of the United States role in the world that happened actually at the beginning of the Bush administration, in 2001. There's been historically a document in the United States called the National Security Strategy. It's published. Historically that has been built on two key themes -- defense and diplomacy.

At the beginning of this administration there was a recognition that, there was a D missing and that was development. So the third D was added to the United States security strategy. Now that's important because it said not only is the United States involved in development and emerging markets, because it's a good thing to do, because we're warm hearted people, this is a projection of values; but because it is in the national security interest of the United States to develop the poorest countries in the world. That puts a whole different perspective on what the United States is trying to do here.

So you see that's sort of a second theme coming out of here. The first is Monterey which is helping countries to help themselves because this is a good thing to be doing. A projection of United States values.

The second is the national security strategy. The third is something you heard echoes of when the President was re-inaugurated last week. The promotion of liberty and the promotion of freedom, the promotion of democracy around the world. Our criteria include a basket of indicators around civil liberties -- freedom of the press, freed of speech. They are there partly because they reflect U.S. and Western values. They are also there because those are identified with poverty reduction and growth. But giving and empowering people to participate in their own societies, to participate and seize opportunities to create jobs, build a business, invest in farmland, begin a cooking business or sewing business, creating those opportunities. That's what really drives development at the core level, at the micro level. That is key to some of the things that we're trying to do.

You see it more broadly in terms of Monterey, in terms of the national security strategy, in the overall effort to promote freedom and liberty across the board now in U.S. international policy. You don't see it in the headlines, it hasn't gotten enough attention, but I'm going to tell you some things you probably didn't know.

In 2001 the United States said it was going to increase traditional development systems for the United States by 50 percent by 2006. That's a lot of money. It made that target in 2003. That's before the HIV/AIDS program which is $15 billion over five years. And that's before Millennium Challenge which as it comes on stream this year and next year will be the largest international aid program increase since the Marshall Plan. So you're seeing it in the aid framework.

You're seeing it in trade, where the United States has basically said aid will not drive development. You have to create access to markets for emerging market products and services. So you've seen, led by Bob Zoellic, U.S. Trade Representative, a number of bilateral trade agreements with emerging market countries to increase their access to developing, to the U.S. market. You see it in the Central American Free Trade Agreement which is a number of Central American countries having an opportunity to participate in an NAFTA-type arrangement with the U.S.. And you see it in what happened last year, the extension of the African Growth and Opportunity Act which gives preferred access to Sub-Saharan African countries to the U.S. market. This was done at a time in the middle of an election year in the United States where there was absolutely no political advantage to the administration to be doing this, but it reflects the commitment to trade as an engine of growth for the developing markets.

You're seeing it in debt forgiveness where the U.S. and the U.K. are leaders in the whole effort to take the burden of debt service off emerging [inaudible], to allow them to put their resources, instead of servicing debt, put it back into the country to invest in capital within the countries, and where the U.S. is making the effort now to convert traditional assistance from loans to grants so that you're not recreating the problem of debt service burden in the future that you'll just spend years trying to work your way out of. And you're seeing it in other areas like remittances and the focus on remittances where the U.S. took a big major effort going into the last G8 and it will be supported by other members of the G8 and you're seeing it again. You will see it in this round of the G8.

The largest flow from developed countries to developing countries of remittances. Earnings of foreign workers in the markets going back to their home countries. I'm told it's roughly $93 billion last year. That flow. Simply taking -- I'm making this number up a little bit. Say that 20 percent of that -- Those flows are very inefficient right now because this is outside the traditional markets. These people don't want bank accounts and so on and so forth so they go through wire transfers, informal mechanisms. There are a lot of transaction costs associated around that. Say if it's 20 percent, that's $18 billion a year.

If you cut that in half, that's almost $10 billion a year that is simply coming out of the remittance flow, that increases flows directly into the hands of some of the poorest people in emerging markets. There is a serious effort to reduce the transaction costs of those remittances.

So what I think you're seeing is a broad-based strategy within the U.S. to focus on development through a variety of modalities to say that simple, direct foreign assistance flows government to government is not the only key, but it's much more sophisticated, much more broad based, to use the full modalities in trade, in debt relief, in remittances, in promotion of foreign FDI, promotion of financial sector development in emerging markets where we begin to facilitate the freeing up of trapped resources in those countries, and then again in traditional assistance. It's in that context that Millennium Challenge comes.

With that, let me do throw it open to questions and talk a lot more specifically about what we're doing, where we are and so on. But do understand this is a very significant effort across the board by the United States to increase the engagement in emerging markets, to promote development, and to do so in a way which I personally believe is quite consistent with the U.S. traditional role in the world.

With that, let's throw it open to questions.

Moderator: Thank you, Mr. Applegarth for this introduction to what MCC stands for. I think it's a rather strange concept for many Europeans.

If you want to raise a question please identify yourself and try to be brief and try to raise your question rather than a comment.

Q: [inaudible] from the European Commission [inaudible].

I would be interested in how the performance is assessed for these [inaudible], and what are [inaudible]. How do you arrive at overall judgment [inaudible]?

A: First of all, if you really want to become a Millennium Challenge junkie you can go on our web site, because we try to make all of this very transparent. We also try to take the politics out of it.

Look, there's a lot of legitimate purposes for foreign assistance. One is disaster relief and tsunami relief, humanitarian assistance like food aid, like disease aid, vaccines, HIV/AIDS relief. There's some rewarding your friends. There are political things of cooperation. Then there's long term growth and development assistance. That's our piece of it.

And we want to make it clear that that's what our focus is, and so we don't do the rankings ourselves. We use rankings, and they're all on a piece of paper just like this. There are three basic baskets. You can't see this in the back, but the first one is around the rule, questions of good governance which includes freedom of the press, political rights, freedom of speech. Most importantly, anti-corruption. All the indicators are equal except one. You have to pass one of our two correction indicators. We use a World Bank indicator and a Transparency International Indicator.

Passing in our case means you have to be above the median in the competitor group of countries. We've taken the excuse of being poor out of the equation. All of our countries are poor, and the performance on some of these indicators would be linked to income. Germany and France and others are going to do much better, but they're not in the competition. The countries are competing against themselves.

We use rankings. We're constantly trying to upgrade them. But the first ones in the rule of, the question of good governance. The second group is investing in human capital. Are they investing in health and education or are they investing in armaments and Swiss bank accounts? A third group is around economic freedom. If they have a decent fiscal policy, if they manage inflation rates, are they reducing the number of days it takes to start a business, do they have a good regulatory environment? Do they have a credit rating, a sovereign credit rating?

Those are the kind of measures we're using. We're looking to upgrade them. We did our first round of selection in May of 2004. We did a second one now that we've existed on a more regular cycle in November 2004. We changed two of the criteria to, I think the changes are illustrative. The first was a change in the inflation rate test part of it because the first one wasn't meaningful. We wanted to make it more meaningful. The second one was in the education area. We had been tracking graduation rates, primary school graduation rates generally in the country and we switched to focus on girls primary school graduation rates. Not because it was a good idea or something we might sponsor socially, although it is. But we did it because we found a stronger empirical link between girls' graduation rates from grade school and long term economic growth and poverty reduction. That's what we're trying to promote.

So we don't have social agendas. Our agenda is poverty reduction and we want to encourage countries to adopt policies that will promote poverty reduction and promote growth. Part of our credibility with them is that they know that that's what we're trying to measure.

Now we want to measure results. We want to measure things, policies so they can change it. Because simply measuring something they have no control over doesn't do any good. We're not impacting performance. We're trying to provide assistance, but much more what we're trying to do is to incentivize policy change and the creation within these countries of the right policy environments. That is what's going to drive development. Far more growth and far more poverty reduction is going to come with the right policy environment than $100 million from Millennium Challenge. So if we succeed in doing that, that's what we're trying to do.

So in our indicators we're looking for a link to policy, we're looking for an empirical link to poverty reduction and growth. We wanted a third party drive so people know our decisions are not being driven by politics. We wanted to be transparent. You can go in our web site, see who's doing the ranking and the methodology. We wanted to be analytically rigorous, which I think will probably ring well with this audience in particular. And also we find at the end of the day we wanted to cover a large group of our countries. If it's the world's perfect indicator but we only have the ranking for three countries it doesn't do us much good.

So those are what we're doing. You’re going to see continual efforts to improve our indicators, again, against those standards. We have a Board of Directors who take the criteria, use these as the basis of the decisions and then look, since the indicators necessarily are lagged or delayed in some cases. At the margin we'll make a judgment about whether they're fully accurate.

I think who's on that Board is also reflective of the importance of this to the United States. The Chairman of the Board is the Secretary of State. The Vice Chairman of the Board is Secretary of the Treasury, John Snow. Also on the Board is the U.S. Trade Representative, the head of the U.S. Agency for International Development. Currently Andrew [Natzios] is on the Board, I am on the Board. We will have four public members. Right now we have two, Christy Todd Whitman who is the former head of the Environmental Protection Agency in the United States; and Kenneth Hackett who heads Catholic Relief Services which is a global NGO working in our country. The fact is that you have of those seven people, three Cabinet officers and a former Cabinet officer, they are the ones sitting there making the decisions, shows you the attention and the importance that this has in the United States right now.

Q: My name's Wes Tier and I'm associated with the European [inaudible].

My question has to do with Millennium Challenge [inaudible] and the degree of overlap and cooperation with other development organizations such as USAID, the World Bank, [inaudible] organizations [inaudible]. The overlap [inaudible].

A: Donor coordination is very important to us. We ask in their proposals -- the countries present us a proposal. We ask them to explain how what they are asking us to do fits in with what other donors are doing, first and foremost. We don't want to replace another donor. We don't want to get in the way of it. In fact we have incredible flexibility. If a country came to us and said there's this great German program here but it's not getting enough funding, can you put money into it? As long as we saw that it led to poverty reduction, led to growth, that priority had been developed through a consultative process and the country was continuing in a positive format, we could put money into the German program. That's pretty strong evidence of donor cooperation.

We are doing due diligence. We have a bilateral donor doing due diligence on one of those proposals with us now because they have particular expertise in a sector. And they may put money into the compact with us.

We've had great support from both the UNDP and the World Bank and the IMF in our efforts. Our country teams before they go out have met with the respective teams from both the World Bank and IMF to talk about the situation in those countries. Once we're on the ground we meet quite frequently with other donor representatives, both bilateral and multilateral.

When I meet with them, my first message is don't use the excuse of the United States coming in to pull back on your own programs. I think that's important, because for us truly to be the reward and incentive we have to be additional to the programs. If we simply end up substituting for other programs we've lost the magic of the real incentive, the push for policy reform. So we want other donors to be there. We want their efforts to be complementary to us. So you'll see it in a variety of ways, but I can assure you it is important.

I think the relationship with AID is perhaps the most satisfying at this point. There were a lot of concerns when Millennium Challenge was set up that somehow it was a vote of no confidence in AID, or other things. In practice it's worked out exactly the opposite. We've got an excellent relationship. We've had a number of good people come over. Andrew [Natzios] sits on the Board. But more importantly, just on a day to day level, both at the senior management level and at the working level we have a very strong relationship, and it's encapsulated in something we call the threshold program which are not countries that qualify but where they're close, and we've said that those countries if they're close and want to come in with us with a proposals target on how they can improve performance in the indicators, we will give them, we'll help them in that area, and AID is actually the lead in the implementation of that. That reflects, I think, the close cooperation we have with them.

Q: John Aldy with the German Marshall Fund. Thank you for the brief summary.

I'd like you to evaluate the performance of your first year, how much [inaudible], grants and other activities. I'm also, I'd like [inaudible] with regard to something for policy coordination. I wrote down when you talked about [inaudible], debt forgiveness. And in particular, can you speak to the U.S. position on what's oftentimes referred to as the Singapore issues in the WTO negotiations? In essence, a reflection of [inaudible]'s effort to ask for regulatory reform and good governance in the context of [inaudible], and why the U.S. was not comfortable with that [inaudible]. I know that's Ambassador Zoellic's bailiwick, but [inaudible].

A: I think the position that the United States and Singapore, and I now defer to my fellow Board member Mr. Zoellic who obviously knows the answer and I don't, but that's all right. I think, let's talk more generally.

First, in terms of results for the first year. I think almost any observer who's looked at what MCC has done this first year is quite, [inaudible] progress is remarkable given where we're coming from.

Colin Powell of the United Nations back in October said that he couldn't believe, he kept pinching himself in one of the first Board meetings. I'm not sure what he really meant, but that's what he said. It's hard to mention Colin Powell pinching himself, but anyway.

This was officially announced in the State of the Union address in January 2003 by the President. He said 14 months after that he was sitting in a Board meeting of a functioning organization making real decisions that affected things. He said that is unheard of in the context of the United States government in terms of getting something up and actually functioning or going. In fact in most other governments or other institutions that would not, he also felt that was the test. And literally, we were a startup. The first day there was nothing. The team that was there moved into rented space. You can't be nominated -- my job, you have to be nominated by the President and confirmed by the United States Senate, but one of the rules is you can't be nominated to a job that doesn't exist. Until the institution was created January 23rd, I couldn't be nominated. By the time you go through the nomination process, I wasn't officially confirmed until May. But the reality is, that track record of where we've come with a small team of people to where we are now, with two rounds of country selections, threshold programs in place being implemented through AID, basic rules, guidelines, all that in place, and now in the stage of final negotiations on the first four compacts is a track record.

And in terms of accomplishments the first year, I think it's important, there have been a number of substantive ones besides the establishment of the organization which is simply primarily internal stuff. First and most importantly, we're seeing the policy changes happen that we're set up to encourage. You can look and see in certain countries where the governments have said we want to improve our ability to qualify for Millennium Challenge. We want this legislation, in a couple of cases, anti-corruption legislation, passed to improve our chances of qualifying for MC. These are not cosmetic changes. These are substantive changes in hard areas these countries are doing. Even Bangladesh, which ranks at the very bottom of Transparency International's corruption rankings, the senior minister there a couple of weeks ago said we were not selected for Millennium Challenge because of our performance on corruption. We lost out on $300 million. I don't know where he got the number. But anyway they've now established an anti-corruption commission, we'll see how serious it is, to begin to tackle the issues. Across the board we're seeing countries move in the area of civil liberties, move opening up the political process, move in the areas of investing in education and health in response to the carrot of having Millennium Challenge eligibility out there. That is our first and most important accomplishment.

The second is in the area of a consultative process. We haven't talked about that, but really in asking -- We give a country the right to tell us what its priorities are for growth and poverty reduction. We want the consultative process. We're not saying to countries how to do it, that's not our model. We don't ever tell a country what they have to do or how to do it. The standard is out there. It's up to them to decide how they're going to meet it. If they're failing corruption, it's up to them to figure out -- They know what they need to do far better than we're ever going to know. If they're failing education expenditures, that's more obvious. The point is, they can do it and they know how to do it better than we do. So we'll never tell them how to do it. In the consultation area, same thing. And we're seeing very different, interesting models, each culturally specific, but where we're opening up the political dialogue in the countries and we have senior government leaders saying, you know, even if we didn't get a dime for Millennium Challenge, the impact on the way our political process works from having this dialogue, having town meetings around the country, what should be our growth priorities here in Georgia or in Mongolia or in Mali or in Ghana? That process itself, whether it's town meetings or having joint MCC councils within a country that includes members of the government, includes the private sector, includes NGOs seeing together what the national priorities are. Or, as we've had in one country where the MCC council, which was mostly government people, had televised on nationwide television meetings between NGOs and the government and then followed on by meetings between the private sector and the government. Discussing what their poverty reduction growth priorities ought to be. It's changing the nature of this political dialogue in these countries. Those changes are happening now. That is key.

So those are pretty significant results. We expect to be closing or signing our first compact within the next two months. Then you're going to see in addition fairly significant amounts of ODA flowing under these compacts. A compact is an agreement with the country on a three to five year program which we fully fund up front. One of the lessons of development is you cannot plan, you cannot do a good job if you're subject to uncertainty on timings and amount. Countries signing an agreement with us knows the money is there as long as they perform. They also know, because we've agreed with them as part of the compact process, what are the outcomes that you want and what are the results that you want? Not how you're going to spend the money. Not are you going to buy textbooks, are you going to build a road? But what are you really going to see in terms of improvement in graduation rates, for example, or increases in agricultural productivity or commercial trafficking, or some measure where you show that the investment of the money is having an impact. Those agreements, those results are in place, the benchmarks for performance are in place so you can track performance, and you also have a detailed implementation plan in place so you know who's going to do it and when they're going to do it by. Some of that is pretty common sense thinking, but unfortunately some of it is fairly groundbreaking in the world of development assistance where there's been a lot more focus on is this a good purpose for the money and how we're going to spend it, not what are we going to get for it.

We are giving grant money, but we are applying an investment model. This is investment of U.S. taxpayer dollars. What are we going to get for it in terms of growth return? Not a financial return. What are we going to get in terms of poverty reduction? We also encourage our country partners to consider it as their resource. It is a very unusual resource. First, it's a lot of money. Second, it is very flexible in its use. We don't target sectors, they get to pick. Very few restrictions on what they can do in terms of sector. It's not tied to U.S. procurement. Not tied to purchasing U.S. equipment. Very unusual in the world of a lot of bilateral assistance. So it's a real resource that they shouldn't squander either.

Our partner countries are getting this and understanding it and they're spending a lot of time now making sure that the plans work.

People ask us what's the deadline for submitting a proposal. We don't have a deadline, and that's a conscious decision. Our message is take the time to get it right. Congress has given us great flexibility. Typically in the United States, end of the fiscal year, if you haven't spent your money it goes away so there's a great rush in September to get all the money out the door. Not our model. It doesn't go away. And it doesn't go away for our partner countries. They have the opportunity to tell us and to think through what they're going to do. We're seeing some very creative proposals from the countries. They're thinking outside the box, they're not reaching. We had a couple of countries who reached off the shelf behind them, had a [inaudible] study, something that had been funded by another donor, gave it to us, we said that really is not what we have in mind. Go back and think about it some more, what you really need, and talk about it within the country, and we're seeing some amazingly creative ideas.

A lot of it around integrated role development, which you should understand. These countries recognize first that that's where the majority of their poverty is and what's really going to help them grow longer term is in agricultural production and elsewhere. That's where the jobs are going to be and it's the rural income areas is where it's going to be. But in fact I think the choice of priority is important to country ownership. Also the fact that it's an integrated proposal. These countries know that you can't do a piece of it and have it work. You need an integrated proposal including drip irrigation, including farmer education and agricultural extension, including micro-credit, including building of feeder roads going to secondary roads, going into major roads to get it to a port for export. Including meeting the quality testing and training and going through the whole integrated production process so that they can meet EU norms and standards. These countries are targeted the EU, they see what's coming here in 2006. They've adopted a competitiveness model and they want to meet. So they are putting in place the whole production process to be competitive and meet your standards. They're doing it and they're thinking it through, but they're doing it in an integrated way and they believe, as the United States believes, that access to markets and trade is key to their growth and they're going to try to compete and do it the right way. Some of it will be import substitution, but a lot of it's going to be here, but they're doing it in an integrated way.

Q: Thank you very much, [inaudible].

The questions I had are actually a follow up to [inaudible]. I'd be interested to have a little bit more on what actually is in the compact, how to [inaudible]. And [inaudible] the program is funded up front [inaudible].

A: Compact content versus the substance, and we're seeing a variety of ideas and proposals come from countries. Very few come in in fully developed form, in fact we encourage an early dialogue, and some of them quite frankly have a bit of a buffet table approach. Nobody's been through this process before. The traditional model is very different. They're used to donors coming in and saying we want to do this or that. So the idea they really have a choice is unusual.

Secondly, as a result of the fact that we're encouraging a political process within the country, inevitably what we're getting reflects a political process. Some of it is there because as it does lead to poverty reduction and growth; some of it is there because a strong constituency in the country was pushing for it. Well, as part of our dialogue the latter stuff falls out because we're rigorous in applying the standard, it has to lead to poverty reduction and it has to lead to growth.

So the sectors will be very different. You'll see a statement of what are the desired outcomes and how are we going to evaluate success in three to five years. And it's going to be specific to the investment or proposal.

Our long term objective obviously is promote economic growth, but simply to try to measure it in terms of increases in per capita income or GDP or something else, first it's too long-term, too remote, and too many exogenous factors can affect it. It's not a good measure of performance. We want something where the country can feel responsible and accountable for performance and we want to be able to have a set of measures along the way that we can track it on an ongoing basis, and that they can track it so if things are getting off track, we can fix it, and they can fix it. So you'll see those. And you'll see, certainly it exists, I don't know if it will be in the formal compact or not, you'll see fairly detailed implementation plans. Who's going to do it and what.

I should say, and when I say you'll see it, you will see it. We're going to publish the compacts on the internet. They are there. Again, it comes back to the concept of transparency. It also though, we think, will help on the accountability. No question to put money into emerging market, there's always a concern about money going in the wrong places. We have a lot of checks and balances on that in working with the countries. We think the fact that the countries feel responsible itself will be helpful. But having it out there where the potential beneficiaries can see what the program is supposed to be doing, so they will know whether or not it's having the impact it's supposed to be, or they can raise the flag if it's not happening we think is one of those checks and balances.

You will see, in terms of overall modalities, we seen the government as our partner. In fact we view this as a partnership and we're the minority partner. That's also fairly radical in terms of thinking between donor and emerging country, whether they really are the majority, the lead partner. It's important for the government to be there -- It really has to -- What we're asking for is a political process. It has to coordinate that. In addition at the margin, only governments can do certain things to make things work. So we need the support of the government.

But we make no assumption that the government's going to be the implementer. If it makes sense within in the context of the country, of course. And we are not encouraging the growth of emerging market government bureaucracies.

Part of the key of what we're doing with the implementation plan will be an agreement on how it will be implemented, to the extent perhaps of meaning procurement. To the extent possible we will use domestic procurement procedures in the countries to procure goods and services for these things. So it could be our program manager will be an NGO, local/international. Could be the private sector. Could be the government's the program manager of pieces of it, whether it's the monitoring and evaluation, the accounting, the legal work, the consulting, the engineering. That will be procured. To the extent that we can procure it locally and feel confident that the procedures are transparent and open, and to the extent we can build on work that the World Bank is doing and UNDP is doing and some of the other bilaterals have been doing, and improving country procurements, we'll try to do that.

Part of our -- Our belief is to really have long term sustainable development you have to build what I call the soft infrastructure in these countries. And that is the professional experience and capability to do this themselves. And in all of these countries there are young, well-trained technocrats who have come back because they want to help build their countries, and they're looking for the kind of opportunities to really get involved to do this, to work on programs of this size and effort -- whether it's in the management or the construction or the monitoring or so on. We want to give them those opportunities to do that. That's a key part of our model. We don't expect the government to do that and we don't expect foreign ex-pats that are flown in, spend three weeks, and then leave to do it. We want to build the capacity in the country, and we will take the time and have the patience to work with the country to get that capacity in place. It's a key part of our model.

We believe development is driven throughout the society, not simply by the government. So we want to create the opportunities for the private sector to participate, and private sector broadly defined. I don't care whether it's an NGO or civil society, members of academia, members of parliament, others to participate in this. Again, we're saying we're going to take the time to do it right.

So the old model of throwing money at the problem because it makes you feel good that you're getting something done, is not our model. At the same time, we are very disciplined in trying to get it done in a timely manner and we've got our own performance standards to do that.

That's a long answer to your question, but I hope I gave you the flavor of what we're trying to do.

Q: [inaudible] from the European Parliament [inaudible]. If you consider the UN and [inaudible] achievable or [inaudible]? Do you consider [inaudible] achievable and [inaudible]? And [inaudible], but that is [inaudible] percent of the U.S. GDP. This is miles away from achieving the 0.7 percent that [inaudible] of the [inaudible] conference. Even considering that only the U.S. [inaudible]. Do you consider the 0.7 percent [inaudible] as a target or the [inaudible]?

A: Millennium development goals. The bad news first, and then the good news. We are not requiring countries to make their programs conform to Millennium development goals. That's the bad news. But why? Because that would be us setting the priorities. Up to them to choose their priorities. If they want to have the program conform to Millennium development goals, that's fine. That's up to them. Reality is they will. An awful lot of the programs are going to be quite consistent with countries achieving the MDGs. The MDGs are important, and the U.S. is fully on board, as you know, in all the internationally accepted MDGs and those that have quantitative measures.

Secondly, and most importantly, our mission is poverty reduction and growth, which is the first of the MDGs. You will not achieve the other Millennium development goals without growth. It is the key driver to achieving all of the other MDGs, and that is our mission. So if you say that in some ways our mission is to achieve the MDGs but it's focused first and foremost on the growth element of it, because that's how you achieve it.

In terms of measurements of development assistance, a lot of the discussion about .70, whether it's an aspirational target or a hard target and so on and so forth. First you need to understand that over the last three years traditional ODA in the United States not only has gone up 50 percent in dollar terms, it's gone up 50 percent as a percentage of GDP. It's pretty significant progress against a standard of what in my view a low measure of successful for. But more importantly, you've got to step back and look at different models. Private sector contributions and charity and donations is a key element of how the United States approaches things. You see it in the tsunami relief where both the U.S. and the U.K. right now, I think private sector donations exceed the official commitments from the public sector and the government. I think that will change in the U.S., I think it's going to change. But the point is, some countries have a history of the state provides assistance. That's what ODA measures. ODA as a percent of GDP coming from the government is a state to state measure. It fails to reflect what's happening through private sector donations. That's a whole different model and approach. In addition, it is state aid to governments mostly, it's a centrist driven approach. It's modeled and focused on trade efforts that focus on access to markets. Debt forgiveness does get captured in ODA numbers, I know that. But there is a lot more to foreign assistance than simply transfer of money from a government to another government. ODA is a limited measure because that's what it's measuring and it doesn't pick up the other things. It certainly doesn't pick up everything that's happening in defense in terms of creating an environment for which development, an environment of peace where development can take place. So it's a range of things.

I personally believe the U.S. share of ODA should be, as a percentage of GDP should be going up. You're seeing this administration do that. But to hang your hat only on one number is a disservice to emerging markets because it doesn't reflect what is really needed which is the creation of the policies in the countries. It totally ignores the ownership of a country for their own development. If you take a percentage of ODA, of GDP going to countries that are performing which is the key to the Monterey piece, then I think you're talking about something that's probably far more relevant than an absolute dollar amount or share of ODA. So think about it in the overall context. Realize a simple target, easy to measures is in some ways destructive in terms of overall development.

Having said that, I still believe the U.S. percentage should be going up, and I think it will be. I think the objectives are the same and the means to doing it I think vary depending on the history of societies and so on.

Q: [inaudible]. I still have some doubts on the way you select the [inaudible]. Did you wait for [inaudible]? Or did you just pick up the list of less developed countries, less developed nations and you did your assessments for [inaudible]? And that shows [inaudible]. How does it work?

The second one, do you have some method, some balancing the amounts [inaudible] for everyone [inaudible] growth or [inaudible]? So do you have any [inaudible] on a demographic basis or whatever?

A: Two good questions. How does a country get in the competition? They don't apply, they get drafted essentially. Under our legislation we are focused on the poorest countries of the world. Last year it was $1415 per capita income. This year because of inflation rates primarily it was $1455. We go to, we use the World Bank atlas measures of GDP and per capita income. It's not perfect, but it's there, reasonably accepted. If you're below that threshold, you're on the list. Okay? Which from our perspective is fine. Countries at the bottom of the list aren't going to be applying, and yet we wanted out there visible that they're not doing a good job.

You can go on our web site and see some good performing countries, and particularly roughly in the top quartile, but you're going to see a bunch of countries that are not performing well at all. I happen to have Morocco's sheet here which is mostly green, which means they pass, but I can show you Zimbabwe's sheet and it's not green. It's mostly red. People should know that. I think they know it qualitatively. It's probably not going to make an immediate difference in some of the countries, but in other countries we're seeing it become issues where ewe become a tool in the hands of the reformers and saying why didn't we qualify? Okay? And we can't use the excuse that we're poor, because all these other countries are poor. Yet they are making the right decisions for poverty reduction and growth, and why is our sheet all read, Mr. Government, when you have the ability to change it? So we want some countries, this is a little strong, we want some countries to be embarrassed. We want some country leadership to have to deal with the fact that they have basically a red sheet because at the end of the day that's what we're trying to do is encourage countries to take ownership, for taking some of their populations out of abject poverty.

We talk a lot, and groups like this talk a lot about -- we're policy wonks. We talk about it. But we are about helping some really poor people who live in some of the worst conditions of the world. We cannot effect that through foreign aid. It can be best and only effective if the governments themselves are talking responsibility for fixing it. So if some countries get embarrassed because their countries are all red, fine. Because that's what we're trying to encourage. We want policy change. We'd like to do it through an incentive, a carrot, but if embarrassment works, it works.

Allocations. We don't make country allocations. I think that's important. At the end of the day we'll have to do some judgment around per capita equity, but basically we evaluate the proposals in the countries on where is the greatest economic return? Where is the greatest growth return? So if we get a really good proposal from Cape [Verde] which is 500,000 people and a crummy proposal from Mozambique -- which we don't, we got a really good proposal from Mozambique and Mozambique's got 20 million people. Cape Verde got a lot of money and if it's bad enough, Mozambique won't get anything. Countries -- the dynamic here of a competition is an important driver and policy change on the quality of the proposals. Countries know their proposals have to measure up, again, against proposals coming from other poor countries. And you're seeing them put the effort to it. But good leaders respond to challenges like this and that's what we're trying to encourage.

Q: [inaudible]. I wonder what [inaudible]. What is the [inaudible]? I'm not asking [inaudible].

A: I think it's important but it's attacked in a couple of ways. First of all, all our countries are really poor, starting out with the vast majority of the population in these countries really do live on a couple of dollars or less a day, so you start with that and that's where our legislation targets.

Secondly, the consultative process. It's a genuine consultative process, where the priorities are not going to be driven by elites in the capital. We really are very scrupulous in looking at how the consultative process changes and effects. We are seeing changes in initial proposals a as result of the consultative process. The proof will be in the pudding in terms of the quality of proposals. I think the fact that we're seeing such a large number focused on development of the rural poor, focus on agriculture, focus on the competitive [inaudible] economy, says that that process is working.

Moderator: I think we need to stop here. Thank you very much. Thanks for all of you to a very interesting debate. In seeing all the reactions, I think we need more debates here on development assistance and on mechanisms to channel money to where it's needed.

I must say, I also have some questions which I would have liked to raise. Essentially they go back to the issue which I leave to you as a comment, on the chicken and egg situation. In a country which is totally corrupt, you leave them behind and you let them stink, so to say.

A: Well, we do. We're trying to reward good performers. Now that doesn't address the needs of -- There are still a lot of very poor people in these countries. You have to find ways to address those but through other kinds of programs. You don't give money to the corrupt government and expect them to use it well, so you look at things like USAID programs or some other bilateral programs or NGO-run programs that are targeted at populations directly, some of the more traditional models. You cannot ignore these people, but you don't use a model of trying to reward governments who are not putting the policy in place.

Moderator: Thank you very much.