

MILLENNIUM CHALLENGE CORPORATION HOLDS FORUM ON THE MILLENNIUM  
CHALLENGE CORPORATION-MADAGASCAR COMPACT: A PARTNERSHIP  
FOR POVERTY REDUCTION THROUGH GROWTH

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EINHORN:

Good morning. I'm Jessica Einhorn. I'm the dean of SAIS. And I'm delighted that we have such a wonderful crowd for this auspicious event.

SAIS is honored to host President Ravalomanana, president of Madagascar, and Paul Applegarth, the CEO of the Millennium Challenge Corporation. As together, they celebrate the award of MCC's first grant to reduce poverty by supporting sustainable economic growth.

We have a full program today with an introduction to the MCC and its grant-making process, followed by keynote remarks by the president, and then a panel discussion moderated by our own esteemed professor and director of African studies at SAIS, Dr. Gilbert Khadiagala.

Let me begin with the great personal pleasure of introducing Paul Applegarth who took on the task of creating the MCC and has brought it to this important milestone with the signing of its first grant. Paul and I first met

decades ago when I was a junior officer in the World Bank and he was a brilliant financial analyst in the financial policy division.

His passion for development extends back to his service as an Army officer in Vietnam where he worked to establish schools and train medics after completing his undergraduate studies at Yale. When he returned from service, he returned to university, earning both a law degree and an MBA at Harvard with honors.

Paul's career straddles public and private sectors, using his leadership and great analytic skills to make contributions to international development every step of the way. Prior to assuming this position, Paul Applegarth was a managing director of Emerging Markets Partnership, founded by SAIS's good friends, Don Roth, president, who is on our advisory council, and Moeen Qureshi, chairman of the board of the EMC, former president of Pakistan, who has been such a good friend to our South Asia studies program.

Paul left EMC to accept an appointment at the State Department. And I well remember hearing Colin Powell speak with such pride at a dinner at State when he recruited Paul Applegarth to begin the task of establishing the MCC. Secretary Powell gave the keynote address at our 60th anniversary celebration last October, and he again spoke with pride of the work being done in the U.S. government by Paul and his colleagues to promote poverty alleviation with the best of government partners around the world.

International development is a challenge of our age and one that our SAIS students in large numbers choose as their profession. For SAIS, and for me personally, it's a great pleasure to welcome these eminent guests today and celebrate the launch of a meaningful new approach to our bilateral development assistance.

Paul?

(APPLAUSE)

APPLEGARTH: Thank you, Jessica. That was quite unexpected and quite glowing. I could listen to you all day.

(LAUGHTER)

It's really an honor to be here this morning at Johns Hopkins School for Advanced International Studies. One thing Jessica didn't mention is my father's actually a graduate from Johns Hopkins a few years before -- obviously, many years ago. But I've always held some great affection for this school. It was the Baltimore campus, but nonetheless, he still goes back to reunions and he gives his -- I forget how many now -- 65th or something close he just went back to.

And I can think of no better place to discuss the details of MCC's first Compact that here at SAIS. It was, of course, SAIS's founder, Paul Nitze, who once said, "One of the most dangerous forms of human error is forgetting what one is trying to achieve." I can assure you that no one at MCC has forgotten. Of course, we haven't had a whole lot of time to forget. We were just established 15 months ago.

But our mission is poverty reduction. And we're happy to tell you how MCC, together with the Republic of Madagascar, plan to accomplish poverty

reduction through this new partnership for long-term sustainable growth, which officially began yesterday when we signed the Compact together.

Yesterday was an historic day for us, for Madagascar, and for the United States. We were honored then as we are today to have his Excellency, President Ravalomanana, here in Washington with us to participate in the signing and to have the new chair of our board, Secretary Rice, officiate the signing ceremony.

You will hear more details about the Compact program from the transaction team later today. But just to briefly summarize, it's a grant for about \$110 million to be provided to Madagascar. The program is designed to raise incomes in rural areas, where 80 percent of Madagascar's poor reside, some living on average on an income of about 41 cents a day.

The program outlined three projects that will work together to increase incomes and create opportunities for rural Malagasy by unleashing domestic investment.

It is a testament to the commitment of the government of Madagascar. They realize the reducing poverty and creating economic growth is a national priority. And they had a vision. They consulted with their people. And they put a great team in place to make this vision happen.

This Compact is the first for MCC. And we anticipate that many new Compacts will be completed this year. If all goes according to plan, we expect to be distributing to our board a recommendation to approve our next Compact by the end of the month.

Land titling, financial sector reform, agricultural investment opportunities--we have a lot of confidence in this development program. It will create ways for the rural poor to generate income by giving them the opportunity to obtain title to their land, improve their access to credit, and get assistance in identifying market opportunities and production management and marketing techniques.

We at MCC -- and I personally have been very impressed by what we've seen and heard around your country, Mr. President. You have a group of talented people to draw upon, such as Minister Radavidson and Emma Ralijon, who we're honored to have with us here today.

And the program your country has designed contains some concrete steps that will bring Madagascar closer to achieving long-term economic growth, growth that will create jobs, that will sustain communities, and will bring Madagascar into the community of stable, democratic and prosperous nations. Perhaps most importantly, you did this yourselves. We helped, but fundamentally, you did this yourselves.

It's said often that what is unique about the Millennium Challenge is that it's about reducing poverty, not simply alleviating it, and reducing it through economic growth.

There are many important bilateral and multilateral assistance programs that are designed to mitigate the consequences of natural disasters and disease, and address the critical needs of people who are suffering in extreme poverty. But to meet the long-term needs of a country, you'll have to help to end the cycle of poverty and dependency that amplifies the tragic consequences of natural disasters, disease and hunger.

Poverty is an urgent life-or-death issue for billions of people around the world and we are helping countries move faster in reducing poverty. More importantly, we are helping those countries build their own capacity to meet their needs of the people. And it's important, because to do so, we cannot forsake the advice of your esteemed founder, Paul Nitze, and forget what we are trying to achieve.

The MCC is not about throwing money at a problem, and we do not provide merely a palliative for people who live in abject poverty. Our goal is to help countries make long-lasting changes to reduce poverty.

The way to reduce poverty is through sustainable economic growth, and we measure success by our partner countries reducing poverty with projects that they can maintain. Growth occurs fastest in countries like Madagascar that adopt and adhere to good policies. This is one of the core lessons of development. Countries must take ownership of their own path to development by putting good policies in place that will promote poverty reduction and growth.

For those of you who are unfamiliar with the MCC process, countries compete for our assistance. There is no entitlement. We run a competition every year. We compare the policies of the poorest countries of the world. Countries that are actively fighting corruption, that are providing an environment for a free and open exchange of ideas, that are creating a just and equitable legal system, that are investing in health and education, and promoting economic freedom are putting themselves on the fastest track to poverty reduction.

The countries that win this competition -- and a total of 17 have been chosen so far -- those countries ranked highest among their peers, according to objective third-party measurements. Those countries selected are invited to submit a proposal to us for Millennium Challenge Account assistance.

After our board selects eligible countries, we ask the countries to reach out to a broad spectrum of their own society, including NGOs, academia, the private sector and parliamentarians.

And from this consultative process, we ask them to identify their barriers to growth and put together a well-prioritized proposal that includes a detailed implementation plan for development, a plan that includes defined results, measures for determining success of the program, so that three to four or five years from now we can look back and know whether or not the program succeeded, and we can know if it did and why.

What is the country trying to achieve—not just inputs, not what is the money being spent for, but what are we going to get for it? And will that ensure its financial accountability for what we regard as an investment, an investment of U.S. taxpayer funds.

After carefully reviewing all proposals, MCC decides whether or not to sign Compacts with eligible countries. Countries are required to give us the best proposals of those submitted. The Compact commits our partner country to meeting the development objectives that they themselves have set, and we help them by providing assistance for three- to five-year program to help them do this.

Madagascar excelled in negotiating this process. And part of the reason is due to the vision and leadership of this president.

President Marc Ravalomanana is a self-made man. He was educated in a missionary school in Madagascar, completed his secondary education in Sweden. In his early 20s, he started what I used to call a small business, but now in the development community, it's called a micro-enterprise. His micro-enterprise was to sell yogurt off the back of his bicycle, helped by his wife, Lalao.

Less than two years later, he secured a loan from the World Bank to purchase his first factory and quickly built up a successful company. From 1998 until 2002, the president served as mayor of the capital, Tana, where he had a reputation for getting things done.

Since coming to office, President Ravalomanana has moved forward with his program to increase employment. He has brought his entrepreneurial skills to benefit his country. He has been the guiding force behind the implementation of sweeping political and economic reforms, including increasing Madagascar's transparency and actively fighting corruption.

And his program has been so successful that, of all countries, Madagascar has had the greatest increase in economic freedom in the past year, according to the Wall Street Journal-Heritage Foundation's 2005 Index of Economic Freedom. The president has also tripled the number of Madagascar's protected environmental sites to halt an alarming decline in its unique environment.

President Ravalomanana has proven himself willing to take the positive and sometimes difficult steps toward reducing poverty in his country. And I will say that, from personal experience, he brings a unique style and unique energy to running the country.

It's a great honor to introduce to each of you, his Excellency, President Marc Ravalomanana.

(APPLAUSE)

RAVALOMANANA: Dean Einhorn, distinguished guests, ladies and gentlemen, good morning.

Thank you for inviting me to tell you something about the development of my country. I will not give you an academic lecture. I am a farmer's son. I have been an entrepreneur for most of my life. I have been the mayor of Antananarivo, and now I am a president of my country.

In all these positions, action was needed. So I am a man of action. I want to see results instead of reports. So I will start with some very concrete proposals for the international community.

First, we need a Marshall Plan for Africa. I proposed this idea after last UN general assembly. Prime Minister Tony Blair made the same proposal last January. A Marshall Plan as was developed for Europe after World War II, had great success, and can work for Africa.

Second, industrialized nations should increase financial aid to 1 percent of their GDP. For your information, most of them give less than 0.3 percent, not enough.

Third, markets of industrialized nations have to be open for products of the developing countries without any restrictions. You cannot expect that we open our markets to your cars and computers if we cannot sell our natural products to you at a fair price.

Finally, we need complete access to all information available. Students in Madagascar should be able on screen to follow a Harvard lecture on food technology. They should have access via Internet to the Washington state library. If not, the gap between those who know, and those who don't know will become wider and wider.

These, ladies and gentlemen, are my propositions— what others should do, what you could do to help us. But I am not a man to sit and wait. I want to tell you something about what we do and what we have to do. I will tackle five issues.

First, good governance. Good governance is the key to everything: political stability, democracy, rule of law, efficient judiciary, state accountability, transparency, elimination of corruption and good public service delivery. If you are failing in these fields, all of your achievement will soon be ruined.

We are on our way. Fighting corruption is now a key issue in Madagascar. And many of other ideas mentioned above, we have made progress. But we are still way behind in accountability in public administration.

Knowledge is lacking. Communication is lacking. People will say, "We don't have the spirit of leadership to take a lead for change, to take responsibility." People are often afraid. They don't have self-confidence. Here we need your support.

This concerns the public as well as the private sector. We need a change in mentality. We need a change in behavior. We need a change in ambitions.

Africans should not be shy and pessimistic. We should be proud and self-confident, ready to shape our future, taking destiny in our own hands. It is up to us to lead accomplish to prosperity. Africa should stand up to meet that challenge. Good government is not only having the right laws and institutions and procedures. Good government also means to have the right people, well-educated and willing to serve their fellow citizens.

Second, development of a technical, social and cultural infrastructure. It is clear that without roads, schools, drinking water, and health centers, you don't go very far. Farmers don't have access to markets. Fifty thousand Malagasy children die every year because of polluted water, and the illiteracy rate is still above 40 percent.

We are on our way to construct 15,000 kilometer of roads in five years; 3,000 kilometers of roads are already finished. Many other programs started successfully: supplying water, building schools, hiring teachers, creating health centers.

But quite often here is a lack of control, if the money spent is really getting down to the people. And I am very concerned that we don't have the means to assure maintenance and functional [inaudible] we need your support.

Third, economic recovery. Opening the country economically was one of my main ambitions. We started by cutting taxes and customs duties, allowing for an investor to buy land, and generally reducing bureaucratic hurdles and red tape.

Initial results are very encouraging. Our economy grew by 6 to 8 percent during the last two years. But not everybody likes these reforms. The national industries and commerce have to face increasing competition. However, without these reforms, we cannot attract international investment.

Investors have many choices and options. All countries are today doing their best to attract investment. We are competing with countries in Asia, Eastern Europe and Latin America. Many of them are more advanced than us, and have good track records in attracting investment.

But Africa can compete. We must offer investors the right incentives to come to Africa, make profits, and at the same time, to contribute to Africa's development and to fight against poverty.

Fourth, our vision— Madagascar, Naturally. Maybe countries don't have a clear vision of what they should be like in ten or fifteen years. But I want to tell you. If you don't know where you want to go, you will not find the way. This is why we developed a clear vision on the future.

It is named Madagascar, Naturally, in French, Madagascar Naturellement.

(LAUGHTER)

It's based on wealth of our nature. Looking at our potential, we are a rich country. One of the world's most important biodiversity, wide rural areas, a great variety of natural products, minerals and gemstones, fisheries and beautiful beaches. And all people are willing to work hard.

Based on these assets, it is our vision to preserve our natural resources, but at the same time build on them to strengthen the rural areas, increase agricultural production, create new industries and commerce relative to our natural products, produce added value and create economic growth from bottom-up.

Finally, country ownership. For many years, international donors have taken initiative to design development programs. The World Bank, the European Union, the IMF, USAID, the French, the Germans and many others come up with an idea, developed a program, and our ministries will cooperate. This caused two big problems.

First, who make decisions? Who is running the country? And second, how can you coordinate 180 different donors' programs, create synergies and avoid overlap? You can't come up with the answer yourselves. So we decided to create national programs developed by the ministries in which the activities of our donors are integrated.

We want to make decisions ourselves. It is our country, and we have to take on leadership and responsibilities.

Ladies and gentlemen, if you take a look at the last two issues our vision and country ownership you will realize why the MCA is so important for us. Here we have a new approach which helps us to implement our vision. We have opportunities to design and implement our own programs.

In this first phase, we will, in five pilot regions, register the land of farmers so they become real owners and have security when they invest. We will create a financial system and farmers and small and medium enterprises have vastly improved access to credit. And we will find out what needs to be done to create added value in those regions to make the most of our natural products.

We hope that future phases will follow in order to establish specific infrastructure, educate people and create clusters of competence all over Madagascar.

You see, there are many, many issues to tackle. Believe me, there is not a more difficult task on Earth than implementing a fast and sustainable development program in one of the poorest countries on this planet.

Again, as I started out, I am a man of action. People in Madagascar are ready to move to improve our lives, our future and that of our children. We have a clear vision and a clear roadmap, and we know how to implement it. But we need your help. We need increasing support.

With your help, a new Africa can become a dynamic and competitive continent where public and private sectors, national and international entities, work in partnership to achieve growth and eradicate poverty. Madagascar will lead the way to make this vision become a reality.

I thank you for your attention.

(APPLAUSE)

APPLEGARTH: I believe the transaction team will now come up and talk about what Madagascar has put together and what we're helping with them.

KHADIAGALA: My name is Gilbert Khadiagala, the acting director of the African studies program.

I wish to welcome you to the second phase of our program where we are going to have two presentations by the people that I'll introduce. And then subsequently we'll have a question-and-answer period where the four panelists are going to participate.

For the sake of time, what I'll do is to introduce all the speakers, especially the two speakers who are going to speak for only five minutes. And then I'll introduce the rest of the two. And then I'll invite the minister to come and make a presentation.

The first speaker will be Minister Benjamin Radavidson, who is the minister of economic planning. He's been minister since June 2002. He's got a business degree from Madagascar and an M.A. from Columbia School of International and Public Affairs. He also has private-sector experience in management in Madagascar.

He'll be followed by John Hewko, who is the vice president for country relations at MCC. Before joining the MCC, he was with the law firm of Baker and McKenzie specializing in corporate international issues. He has got a master's of literature from St. Antony's College in Oxford and a law degree from Harvard.

The other panelists are Dr. Emma Ralijon who is the financial adviser to the president and coordinator of the MCA Madagascar since last year. She has a



business degree from Madagascar and France and a Ph.D. from the Graduate School of Southern Illinois University at Carbondale. She's also taught management and accounting classes in Madagascar.

And the final panelist is Michael Grossman who is the senior director at the Francophone office at MCC. He spent ten years with Citibank in Francophone Africa. And he graduated with a finance degree from MIT.

What I'll do at this point is to invite Minister Radavidson to give a brief presentation on how the Compact came about. And then he'll be followed by John Hewko to talk about the American side of the process.

Welcome, Minister.

RADAVIDSON: Thank you, professor.

Good morning, everybody.

I have five minutes?

KHADIAGALA: Five minutes.

RADAVIDSON: OK.

What is the Compact program signed with MCA and Madagascar? And how was it developed?

First of all, I'd like to point out the overall objective of the program. The objective is to increase investment in rural areas, which is the key to advance the goal of economic growth and poverty reduction in Madagascar. And in this way, the process, the consultative process, was taking place for designing this MCA program.

In doing so, the government organized and introductory national workshop consisting of more than 350 participants, including the presence of our president, Marc Ravalomanana. This national workshop was a good start for designing this program.

And in this workshop, we described the MCA and discussed obstacles to economic growth and poverty reduction in Madagascar. The feedback from these national consultation workshop served as the basis for the government's first draft proposal. The government subsequently organized six regional consultative workshops during which participants offered their insight of obstacles to economic growth and poverty reduction.

The government also ran radio and TV broadcasts on the MCA, at times soliciting on air input and also published newspaper advertisements that announced meetings and called for submission of proposal ideas.

Following this consultation period, the government provided first-draft of the proposal in order to solicit ongoing feedback on the proposal, the government posted the proposal on the ministry of finance Web site.

The proposal was then submitted to MCC in the form of concept paper. Following MCC review of the proposal, and after discussions and negotiations between MCC and Madagascar, mutually acceptable components of the proposal were

identified. The program is fully consistent with and directly supports priority areas identified by the government in the PRSP.

What are the components of this program? There are three components.

The program focuses primarily on improving the environment for private-sector investment through legal and policy reforms, first of these, the land tenure project. The government identified the lack of clear land ownership rights as the primary barrier to increased rural investment and agriculture.

Similarly, the consultative process consistently identified land and security and inefficient government land services as high-priority areas for reform. Presently, there is widespread distrust of the formal property registration system. And this was talked about by the president earlier.

Also, a severe backlog exists of requests for title that cannot persist due to a lack of resources and cumbersome registration processes. There are an increasing number of disputes constraining rural investment and land use improvement, and hindering the expansion of collateral-based lending.

As long as land remains an informal and insecure asset, it's more likely to be utilized for subsistence needs than for new generating activities. And a rural credit and land market development will be limited.

Therefore, the land tenure project is designed to increase land titling and land security in the zones and improve the efficiency of land service administration. These, in turn, will contribute to better land use, increase rural enterprise investments and a better environment for collateral-based lending.

Second, the finance project. Through the consultative process, the government determined that the mobilizing of domestic savings and the reduction of the cost of credit are priority conditions for sustained economic growth and poverty reduction in Madagascar.

In order to accomplish these goals, it's necessary to increase efficiency and reduce risk in the country's financial system, to improve the real and perceived credit-worthiness of potential borrowers so that financial institutions can increase lending. And finally, to introduce better competition among banks and other financial institutions.

The finance project is designed to strengthen different areas of the financial system. Most of the finance project activities are aimed at assisting in the improvement of key foundations of modern financial systems. That is a soundly good environment, an efficient payment and settlement system, a professional ministry of finance, and a central bank with various monetary policy implementation tools at the state's disposal.

The third project is about agricultural business investment. The key element in this component is to assist farmers in transitioning from subsistence farming to market agriculture so that rural economy can be extended to industrial economy, agribusiness, pharmaceuticals, cosmetics, textile, mining products processing and to services industries, like tourism, agriculture, credit and so on.

Low agricultural productivity and non-competitive agribusiness value chain resulting in high rural poverty, very frequently identified during the consultative process as a priority issue that must be addressed.

At present, low levels of agricultural investment and profitability for Madagascar's agricultural economy results from insecure land rights, limited availability of credit and agribusiness, deteriorating transport and irrigation infrastructure and low use by farmers of inputs such as fertilizers, machinery and pesticides.

In addition, there is a limited understanding among agribusiness producers in general of market opportunities and associated requirements. Therefore, the agricultural business investment project is consistent with and reinforces government's effort to stimulate the rural market economy by developing new opportunities for market-based income growth.

The agricultural business investment project will be implemented through a network of agriculture business centers that will work with a broad set of partners and stakeholders to provide information regarding agribusiness, technology, finance and management, the lack of which constrained growth of agribusiness sector.

I can develop this subject, but time is now over. So thank you for listening to me.

(APPLAUSE)

KHADIAGALA: John?

HEWKO: Thank you, professor.

Before commenting on MCC's Compact development process and how we assess proposals, I'd like, on behalf of the transaction team, to congratulate Madagascar, to congratulate you, Mr. Minister, to congratulate Emma, for really a terrific job. It's been a joy to work with the Malagasies and their team.

I think this is development cooperation at its finest. I think all of us can be proud of this Compact. It really represents Madagascar's ideas, and it represents largely the effort of the Malagasies. So again, congratulations to the country and to the team from the MCC transaction team.

I'd like to take a few minutes to walk you through the Compact development and Compact assessment process at MCC. In other words, how does a country's proposal become a Compact?

Before doing so, it may be helpful to step back a bit and summarize quickly the five general principles that form the general lens through which all the proposals are evaluated. I think the many of these principles have already been referred in the president's comments and in Paul Applegarth's remarks.

First, MCC is focused on the single mandate of poverty reduction. And we do this through the vehicle of sustainable economic growth. In other words, we are but one arrow in the quiver of tools that are being applied to reduce poverty. And we very much view ourselves as complementing and supplementing the anti-poverty efforts being undertaken by others.

Thus, the first lens that we look through when we review a proposal from a country is whether it will lead to poverty reduction through sustainable economic growth, through the vehicle of sustainable economic growth that impacts the poor.

Second lens, does the country's proposal reflect national priorities as established through a consultative process that includes the private sector, civil society and the government? In other words, it's the country's to choose what they would like us to fund. It's the country's priorities that we're funding. It's the country's choices.

And we'll soon be posting on the Web further guidance on the consultative process that we have. It's based on the lessons learned, now having worked with 16 of our 17 MCC countries and moving their proposals forward.

Third lens, does the proposal reflect the country's and the government's commitment to policy reform? In other words, we very much believe that it's not sufficient simply to fund proposals and fund projects if the overlying and the related policy reforms are not put into place.

So again, when we look at a proposal, we say, "Are there policy reforms embedded in this proposal?" Because ultimately, we are about incentivizing policy reform and want to use our funding as a means to encourage countries to undertake very often difficult but necessary policy reforms.

Fourth lens, accountability and transparency. Will the funding that we're requested to give be spent as intended? And does the proposal contemplate mechanisms that are clear and transparent?

Fifth and final lens, measurable results. What are the measurable results that we're going to receive from our funding? Not simply how many roads are we going to build, but how much are we going to decrease transportation costs? It's not simply how many schools are we going to build, but how are we going to bring down illiteracy over the period of a Compact?

So what we're asking countries to do is to come to us with a proposal that we can measure, that we, at the end of the five-year period, can step back and say, "This is concretely what we've accomplished with U.S. taxpayer dollars." Now, when we talk to the countries, we indicate to them that MCC eligibility does not guarantee automatic entitlement to MCC funding and that allocation and funding will be driven by the quality of each country's proposal.

So these are the five general lenses through which we evaluate eligible country proposals. Now, a few quick words about the mechanics, the mechanical process that MCC uses to evaluate proposals and turn them into Compacts with money flowing to the country.

And here we evaluate the proposals in four phases, and the minister's alluded to several of them: first, proposal development; second phase, due diligence; the third phase, Compact negotiation and signing; and the fourth step, implementation.

And again, here we hope very soon to be able to post on the Web site further information that fleshes out our assessment process, again, based on the lessons that we've learned in working with our partner countries over the past year.

First, proposal development. A country is chosen. We enter into a dialogue with them. We explain to the country the rules of the game, how we're going to operate. But largely, this process is in -- the ball is in the country's court. It's up to the country to run its consultative process. It's up to the country to determine its priorities for poverty reduction through sustainable economic growth.

And here we urge our countries to come to us early rather than later, come to us with a concept paper so we can start to dialogue early. I think Madagascar did that, and it was very helpful to start talking to the country earlier rather than later.

At some point during this dialogue, we at MCC step back and say, "OK, there is now on the table a proposal, a set of priorities that we believe merit further investigation and further understanding from our part." So we enter into the second phase, which is due diligence.

And in the due diligence phase, what we do is send out technical teams to the country to evaluate the proposal. The teams will look at the consultative process. They'll look at the proposal's impact on poverty reduction, its impact on growth, its impact on the intended beneficiaries, the rural poor, women, children, persons with disabilities. It'll look at the environmental impact of the proposal.

Is the proposal capable of delivering measurable results? Does it lead to long-term policy reform? Is it transparent and accountable? And how does the proposed program relate to what other donors are doing?

After we've completed our due diligence and worked with the country to refine the proposal, we would then notify Congress and move into the third stage, the third phase, which is Compact negotiation and signing. We would sit down with the country and actually negotiate the terms of the Compact, the document which we've signed with the country. We go to our board for approval once that document has been agreed upon between us and the country, and we would have signing, which is where Madagascar is now.

And then, the fourth and final phase is implementation. After the Compact is signed, very often, or at times, additional steps will be needed before the money gets flowing. The money starts flowing, the projects kick in, we begin our monitoring evaluation, and we'll begin making sure that the country is actually achieving what it is that we'd like them to achieve.

So this, in short, is how MCC evaluates its Compacts in general terms. Michael and Emma will be more than happy during the Q&A to give you specifics as to how this process worked for Madagascar. Many lessons learned as we've worked with our countries, and we would, again, be happy to answer those during the question and answer.

Thank you.

(APPLAUSE)

KHADIAGALA: Thank you for staying within the time limits.

We have about 30 minutes for question and answers. Please introduce yourself, make your question very short and direct your question to the

panelist. Mike and Emma will chip in on the technical side and the two presenters will stay where they were from the outset.

Please, could you identify yourself and make your questions short?

The gentleman right here.

QUESTION: Lex Riafeld (ph), from the Brookings Institution. I have a question for the minister (inaudible) hello, can you hear me?

(LAUGHTER)

QUESTION: I know very little about Madagascar. But I do understand that there is an issue of population size. And I didn't hear the president or Mr. Applegarth say anything about population growth or family planning. And I was just -- I would be interested in knowing how you see this dimension of poverty reduction in Madagascar and whether it's sort of conceivable that some of -- that under a Compact with the U.S., with the MCC, monies could be available to support family planning activities, for example?

And so I guess this is partly for the MCC questions, but let me sort of add on another one, which is that -- my impression was also that it's not possible to negotiate a second Compact now with Madagascar, that you have a Compact that goes for four years and so you're stuck with this, so there's way of adding on. Or maybe I'm wrong. Maybe it's possible to extend or expand this Compact?

Thank you.

RADAVIDSON: Thank you.

What about the population size? We are now 17 million in Madagascar, but 13 million of them are living in a rural area and are very poor. That's why the MCA Compact, the first phase of the Compact, is to improve the living standard of these 13 million.

What about population planning? There's a program within the U.N. system about it for Madagascar. And there's also a big program within the World Bank through the ministry of health to tackle this problem of this issue of growing population more fast than the economic growth.

The second part of your question, maybe you can...

RALIJON: Or maybe, Emma. Or maybe I'm just going to add what the population in Madagascar, the average age is 17 years old. So it's really for our youth, for the poverty reduction. All those youth are ready to work, and that our program aim toward them, so...

GROSSMAN: For the last two parts, the approach and the focus was really driven by the Malagasy view of what was required to have broad-based, pro-poor economic growth. Family planning, obviously, is -- well, maybe not obvious to everybody, but to a number of people, it's had a role in the constellation of donor activities, just not within the activities that they solicited MCA funding for.

I think you heard the president where he said he wanted to shape donor activities through their priorities. And I think each donor has a role to play in their specific following the government policy objectives.

To your last point, we have one Compact at a time with a country. And I don't know if I would characterize it as being stuck with it, more as being extremely excited about the opportunity to implement it. As long as the overall goal of the program, increasing rural incomes via increasing rural investment and increasing land productivity in rural areas -- as long as those overall goals stay the same, we have the ability to move monies from one project activity to another.

We also have the ability to amend the Compact at some point after we start it. It might be to extend it. It might be to change the amount. We're dimensioning that process.

We are new. This is the first Compact, so talking about amending it already -- we're thinking about how that could be done, but we don't foresee that happening, at least in the short term.

KHADIAGALA: The lady at the back?

QUESTION: Thank you. I'm Michele Kellerman with National Public Radio. I'm trying to get a better sense of what makes this aid program different than other U.S. aid. And one question is, the World Bank tried land titlement before in Madagascar, and what makes this program any different than that attempt?

And secondly, what kind of strings come attached to this? Typically, U.S. aid has to go to U.S. contractors and come back to our economy in some way or another. Is that different this time around?

HEWKO: Let me perhaps give you a general response as to how we're different from other donors. And then perhaps Michael and Emma can get into the specifics of how this particular program is different.

MCC, as I mentioned, has a single focus mandate of reducing poverty through the vehicle of economic growth. There are four other things I'd like to highlight, in terms of what makes us different.

Second, the method by which we choose our countries. We reward good performance. We evaluate our countries based on 16 indicators, third-party indicators. And so the method by which we choose our countries is different from what many other donors are doing. So we work with those countries that, within their peer group, have shown themselves to be good performers on our 16 indicators.

Third difference is country ownership. It's the countries that choose their priorities, not us. We don't go and tell them, "You must do a, b, and c." It's really for the country, through its consultative process, to come up with its priorities. And if we feel they meet our criteria, we will then fund those priorities.

Fourth, measurable results. We will measure what the countries are doing, and hold them accountable, and hold ourselves accountable. Because we want to make sure that we are good stewards of taxpayer dollars, are investing our money in those countries where we're going to see some tangible return for our investment.

And finally, we give only grants. And many of the other donors focus largely on -- certainly, the World Bank -- focus largely on loans. So I would say those are sort of the five broad differences that differentiate us from, perhaps, what others are doing.

But again, we very much view ourselves as supplementing what others are doing, not supplanting. As I mentioned earlier, one of the requirements that we have from countries when they submit their proposals is that they have to demonstrate to us that what they're doing does fit in with what the other donors are trying to achieve.

And perhaps Mike or Emma, you can comment on the specifics of the Malagasy proposal.

RALIJON: Maybe just about land tenure activities that the World Bank had before. This time, we really have a national program on land tenure. So every stakeholder is in there, and the private sector, the public sector, and we have our own land tenure program, and where the MCA program is integrated. So this time, we really believe that we will get approval with the land tenure issue.

GROSSMAN: I think that the principal difference from my appreciation from the project was that it's addressing the causes of rural poverty in an integrated manner as the Malagasy understand it.

I think a lot of donor projects attack one specific element. The World Bank project in land tenure reform, or at least service delivery of land tenure services, was a very specific and small project targeted at a very specific and small goal.

A lot of projects -- I think you see in donor projects -- are driven by donor expertise, driven by specific sectoral expertise and interest, while this was developed by the Malagasy people through the government and attacks the root causes of poverty in a very broad and integrated manner.

I think, to answer the question about strings, there's one string attached to this, and that is a huge one. And that's that the money produces measurable results. It doesn't have to go to U.S. contractors. It doesn't have to buy policy reform.

But there are very specific measurable results that we're going to monitor with the Malagasy on a quarterly basis, and we are going to disperse quarterly. And hopefully it'll never happen, but if the results don't meet our expectations, we will sit down together and look at how we can re-look at the project.

So that's the only string, as far as I know.

KHADIAGALA: Dr. Philips (ph)?

QUESTION: Thank you.

My question is for the minister and (OFF-MIKE) seems to work sometimes and not other times, but we'll go ahead.

We estimate that one-fifth of the rural population of Madagascar earns part of its income from the gemstone sector. And I hope that you're considering



-- and we're working with the gemstone sector. I hope that you're considering that also as part of Madagascar Naturally, as the gemstones are a natural product. And in fact, if they're not treated -- if they're maintained in their natural status, they have higher value than the treated stones.

I want to know whether that is also included in your vision of what can be done to alleviate rural poverty.

Thank you.

RALIJON: Maybe I will answer.

Yes, definitely, gemstones is included. We are talking a rural economy, so it's not only agriculture. It's what the majority of the rural people is doing, but they're over area.

So we will start with the agriculture strengthening, but at the same time, we will see the added value of what should be done with those protections, what markets, what transformation. And with that through there the gemstones. That's among our riches.

And then there is tourism, tourism in rural area. It's not agriculture, but that's among our projects.

KHADIAGALA: That gentleman there. Yes.

QUESTION: Good morning. I'm Ian Fitzsimmons with the Institute of International Education.

The Compact is funded at \$110 million. In order to spend that kind of money over a four-year period well and thoughtfully, you need to move it out pretty quickly to the private -- or portions of it quickly to the private sector for services, for goods. The fact sheet (inaudible) refers to a newly drafted Madagascar procurement law which suggests that you have sort of a new and untested system.

How does your team envision rising (inaudible) in place, they envision handling that challenge?

GROSSMAN: There's a couple points.

Directly on procurement, the law is new. The law was adopted by parliament last year. However, it was developed over time with the expertise from international institutions, particularly the World Bank. So while it's untested in Madagascar, the principles and operational policies behind it hopefully have been vetted across numerous countries.

How is it going to be implemented? The implementation of the project in general also is very consistent with one of the other goals expressed by the Malagasy in their PRSP, which is the development of public-private partnerships to achieve public sector policy aims.

And the structure that the Malagasy have envisioned for the organization that is going to implement the project, called MCA Madagascar, will be a mix of public sector board members, particularly, the secretaire general of the ministry of agriculture, the ministry of finance, and ministry of commerce, as well as the president's chief of staff, and then representatives and

beneficiaries will act as a board. And then private sector management will actually implement the program.

Procurement and financial management will be done by the third party. MCC sent some people and, working with the Malagasy central bank and the Malagasy treasury, cited that it would be more efficient if there was a third party that managed the finances. The Malagasy held in an open competition a tender. And GTZ, which is a non-profit German government-owned corporation won the tender, and the GTZ will be administering procurement and administering financial management for this program.

So the laws and systems, the laws and standards, will be Malagasy. But the systems will be administered by GTZ.

KHADIAGALA: All right. This gentleman here.

QUESTION: (OFF-MIKE) My name is Ethan Marron (ph). I'm a student at Roger Williams University.

I was wondering about the literacy issue. Several of the speakers have mentioned the illiteracy rate in Madagascar. And I was just thinking that this is a very basic human capital issue. If you can read, that opens up whole new sectors for micro-enterprise, for agriculture. You can read books, newspapers, and so on.

So I was wondering, what role, if any, the MCA Compact is going to be playing in literacy education programs? If you could speak to that point, that would be great. Thanks.

RALIJON: The illiteracy rate is 47 percent. The program of Madagascar -- it's maybe, I'll stress again, this is program that is Madagascar's program. So we have other programs, apart from MCA Compact.

We have the education for all programs with the World Bank. And MCA Compact can't do everything. MCA's about, you know, different parts of what the Malagasy people are doing, what the government is doing. So we are not neglecting our people in that area. We have education for all, and we're still working with the World Bank on that issue.

Thank you.

KHADIAGALA: My former student, but I forgotten your name. I'm sorry.

(LAUGHTER)

QUESTION: Hello, my name is Brandt Silvers (ph), and yes, I'm a former student of Dr. Khadiagala's.

I got a job after SAIS. There is a life. I work at USAID. And I would like to address -- first off, say thank you very much for holding this panel. I appreciate it -- and address my question to both the minister and to MCC, specifically on how you all dealt with political pressure.

While I know that MCC is a new organ, we still all live in Washington, D.C., and deal with a lot of political pressure on all levels, certainly at USAID, and I'm sure also at MCC, although there is the process to try and depoliticize it through the indicator process.

So on the minister's side, I'd like you to possibly address, if you can, your political pressure internally in Madagascar to deliver a Compact before anyone else, the race to be the first.

And on MCC, the political pressure that you all are facing on delivering, getting money out the door. I know that it's budget hearing time up on the Hill, and there's another request coming up. I know there's political pressure on saying that not much money has gotten out the door yet for MCC. And I know this is a great step in the right direction, but if you could address how that process is continuing.

Thanks.

RADAVIDSON: Thank you.

About the political pressure and to many in Madagascar. As you know, and we're told, that our president is a man of action. So when we have been chosen to be eligible in the MCA process, the president make pressure on us and we worked hard to go through this process.

But another aspect is a good political pressure for the other donors, knowing that we are eligible for this MCA and able to sign the Compact with the MCC. All the other donors showed they're willing to go through a new program with Madagascar. So this is the other side of this pressure.

And maybe the pressure is also on them to move forward with Madagascar, knowing that we are moving forward with the U.S.

The MCC side?

HEWKO: Well, in terms of choosing Madagascar as an eligible country, that was very easy. Madagascar did extremely well in the indicators and is really the sort of country we love to work with and have enjoyed working with.

In terms of your question on getting money out the door and the pressures, yes, we are facing pressure from ourselves because want to get the money out to the countries as quickly as we can so that we can start reducing poverty. And we're also under pressure from other organizations, NGOs, the Hill, for good reasons, that they also want to get the money out the door so that we can start reducing poverty.

If you look at Madagascar, I think that we have done an incredible job -- or the Malagasies have done an incredible job in getting this Compact signed. They came to us in October with their sort of more-or-less fleshed-out concept paper. And it took us five months on a \$110 million transaction to get to board approval, which I think is a very quick pace, given the complexity of the proposal and the amount of money involved.

But yes, we at MCC are doing everything we can to move the process forward as quickly as possible. We started with 17 people in May. We're now up to 120. So as we begin ramping up, as we begin finalizing our staffing plans, and as, frankly, we learn as we go along, we will move the process forward much more quickly.

But I can assure that we within MCC are doing everything possible to move these Compacts forward as quickly as possible, and to Madagascar is clearly an example of that.

KHADIAGALA: This gentleman right here?

QUESTION: Thank you, ladies and gentlemen.

My name is Martin Hunan (ph). I'm with Source Control International (ph). I think Mr. Michael Grossman must have seen my working office so far.

I've been a student of Madagascar. I've been there. I have gone around the country, and my company has done some investment in that country, in terms of economic development for rural reapplication.

But the question I want to address here is directly to MCC. The experience in Africa is the one that we all have to take at hand and see how we can improve on it. And the first problem we have is the lack of continuity.

The key word to what you are doing is sustainable economic development for communities. And the tendency in Africa is always that when governments change there's no more sustainability. You start building a bridge. A new government comes. Instead of continuing the bridge, it wants to build a new bridge. So that's a problem.

So in the light of what MCC is doing, as is the U.S. government, do you have any mechanism in place to make sure what you are doing is sustainable for a very, very long time?

HEWKO: Maybe I can answer generally, and then Michael and Emma can fill you in on how the sustainability will work in Madagascar.

Sustainability is a very, very important pillar of our operations. One of the buttresses of that sustainability is, we believe, the consultative process and country ownership. If the proposal we receive from the country is a result of a consultative process that was broad-based and truly represents national priorities for poverty reduction through growth, then we very much believe that that increases the chances of success when governments change.

We're very, very clear. We view these as not governments' proposals but the countries' proposals.

Second, within the implementation mechanisms -- perhaps Michael and Emma can give you a little more detail on Madagascar -- we have tried to create, in the case of Madagascar, a mechanism that we very much hope will survive governments and will be sustainable over the four-year term of the Compact.

GROSSMAN: There's a couple different issues when it comes to sustainability. There's financial sustainability. What happens when our funding runs out, and will this project and the efforts that we've initially jump-started continue to operate over time?

And then there's, I guess, "Sustainability" with a capital S. And I think that's more to what you're referring.

If you look at the second case, I think a lot of the activities that the Malagasy have designed focus on changing the incentives for people, changing the

incentives in the way they interact with their banks, changing the incentives for the banks and the way they interact with customers, changing people's incentives on how they treat, and maintain, and take care of their land over time, changing their incentives in how they look at production technologies, production techniques, and market availability.

So by changing the incentives, there's an assumption that people are going to act in a certain way to pursue their own self-interest. That assumption is what it is; it's a risk. If that assumption is wrong, then I don't think there's going to be any sustainability, because people aren't going to act that everyone seems to think they're going to.

If, however, it's right -- and I think that, as John pointed out, the consultative process and this in-depth discussion between the government of Madagascar and certain constituents led to an understanding of how people are going to act, by asking people what they wanted, by asking people what's stopping them from investing in rural areas -- I think these elements, I think, validate the assumptions that I make and therefore should lead to long-term sustainability of these projects.

And we can talk details forever on the financial sustainability, but I don't think that's really going to be that interesting.

KHADIAGALA: I think we have time for two questions.

I think what we'll do is just take the final questions, the lady at the back, and then this gentleman here. And then we'll give you time to ask your questions, and then we'll give the panelists the final word.

QUESTION: Thank you.

My name is Brenda Bradbury (ph). I'm from Cornell University. And I just had a question about the monitoring and evaluation function.

It's my understanding that the recipient country's really going to be responsible for the monitoring and evaluation. And I was just wondering how that can be balanced with the requirements through the GPRA, you know, the reporting requirements to Congress.

And then, I guess, related, I know money has been given to INSTAT, and I was just wondering what other procedures have been or will be made to increase the monitoring and evaluation capacity of Madagascar.

Thank you.

KHADIAGALA: And the gentleman here?

QUESTION: My name is Francois Degeneu (ph). I work for the firm Tathals and Associates (ph) here in Washington. And we're currently working with the Malagasy anti-corruption council on conducting corruption surveys. I'm also a former USAID democracy officer in Madagascar from 1997 to 2001.

I know there's talk about replacing the six provinces by 22 regions. And my question is, is there a role for the government levels lower than the national in implementing the Compact?

KHADIAGALA: If we could give the panelists the final word (inaudible)

GROSSMAN: I think Emma is going to answer your question first, and then we'll address the monitoring evaluation question.

RALIJON: We have the 22 regions, but we still have the six provinces. We have the five pilot regions. And the key players in those zones are going to be the chief of the regions where we are going to implement the program.

GROSSMAN: In terms of monitoring and evaluation, yes, MCA Madagascar is going to be the responsible party for doing the monitoring and evaluation and providing us with the information. We are going to be actively involved in working with them to do this through a couple mechanisms.

We've budgeted in our support to the part of the Compact is an external data-quality team to help make sure that the data we collect and the systems used for data collection are robust enough to meet the congressional and other reporting requirements we have.

Currently, we are working MCC through USAID. And with the assistance of the U.S. Census Bureau is working with INSTAT, the National Statistical Institute of Madagascar right now to collect baseline data so we can measure our progress going forward.

There is a dearth of national statistical data available in Madagascar today. So in order to understand what the impact this program is going to have over time, which is really the fundamental, basic belief of MCC is that we need to understand the impact over time, we need to collect that data today. And we expect that that data collection will be done sometime in the third quarter of this year so they can really get started with program activities.

RADAVIDSON: Yes, a final remark.

In my country, the size of population is not an issue. The poverty is not really an issue. The issue is how to bring these 17 million people to be an actor in the development of their own life. And the MCA Compact will bring us to this way.

How to make these people an actor, an actor for developing their own life, for developing a value-added in their local area? And how to make them, these 17 million people, a domestic market that will bring a growth in our economy?

And I think that this is the final objective of our program. And the MCA will bring us in this way.

Thank you very much.

(APPLAUSE)

KHADIAGALA: Please join me in thanking the panelists and congratulating Madagascar for their Compact, MCC for the work it's doing, and for you for coming this morning.

And thank you very much.

(APPLAUSE)

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