



**MILLENNIUM
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REDUCING POVERTY THROUGH GROWTH

Transcript

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Millennium Challenge Corporation hosts a public outreach meeting on MCC in Latin America

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Hewko: Good morning.

As we work to fulfill our mission to reduce poverty through sustainable economic growth, we're happy to host this event on MCC's work in the Americas.

As you may know, currently we have three compacts and two threshold programs in the region, including the threshold program with Guyana, which was signed this past August.

We selected the topic for today's discussion, "MCC in Latin America: Managing Programs in Politically Changing Environments," because we are, in fact, witnessing a shift in political administrations in some Latin American countries.

Some of these shifts might appear to be at odds with some U.S. government positions. However, MCC has always been about policies and not about politics.

It's important to make this clear distinction because it's the policies, and not the politics of the government, which matter to MCC, and we continue to work within those countries who are committed to reducing poverty and who demonstrate a strong dedication to good governance, to fighting corruption, to promoting democracy, to investing in their people and to opening up markets for business and trade.

Let me tell you a bit about how we hope to organize our event this morning.

First, we will hear from MCC's chief executive officer, Ambassador John Danilovich, who will brief you on our programs and progress in our partner countries in Latin America.

Unfortunately, Ambassador Danilovich will have to leave shortly after his remarks to attend a meeting on Capitol Hill.

Following the ambassador's remarks, we're very happy that His Excellency Roberto Flores Bermudez, ambassador of Honduras to the United States, will join us to discuss the MCC Honduras compact.

And then Mr. Peter Hakim, president of the Inter-American Dialogue, will share his thoughts.

We will then convene a panel to discuss in greater detail the effects of political transitions in our compact countries in Latin America, followed by some time for questions and answers.

So with that overview, I invite Ambassador Danilovich to the podium.

Mr. Ambassador?

DANILOVICH: Thank you very much, John.

Ambassador Flores, Peter Hakim, all of you, thank you very much for coming this morning. We wanted to host this event to showcase the tremendous work the Millennium Challenge partner countries are undertaking to convert the promise of prosperity into reality for the people of their countries in the Americas and also to acknowledge the importance of Hispanic Heritage Month.

Let there be no doubt, the Millennium Challenge Corporation firmly supports growth and development in the Americas to transform the lives of the poor and to reduce poverty and sustain economic growth.

Our commitment to the Americas is already visible in the three signed compacts that have entered into force in Central America -- in Nicaragua, Honduras and El Salvador. It's also evident in the two threshold programs that we have in the Americas in Paraguay and in Guyana.

In El Salvador, our compact will improve the lives of 850,000 Salvadorans living in the country's poverty-stricken northern regions by making investments in transportation infrastructure, agricultural production and rural business development, education and community-based projects.

Our new Fondo del Milenio, FOMILENIO, has been established in El Salvador and the program begins implementation this month.

In Honduras, our compact will increase the incomes of thousands of small farmers as they diversify to produce higher value exportable crops. It's about supporting improvements in secondary roads and highways that will enable the farmers to reach national, regional and international markets.

So far, some 800 farmers have been trained in production techniques and small business skills for profitable commercialization of horticultural products.

In Nicaragua, our compact will improve the quality of life for small farmers and entrepreneurs in the departments of Leon and Chinandega in the north of Nicaragua by reducing transportation costs, improving access to markets, strengthening property rights and increasing private investment in the region.

To date, approximately 1,000 bean, cassava and sesame producers have received technical assistance and other support through MCC to help them improve and market their products, increasing the prices they receive for them in the process.

On one of my early trips to Nicaragua, I inaugurated a milk collection facility for an association of poor dairy farmers to help them improve product quality and to promote rural business development in processing activities.

Our commitment to the Americas is also evident in our threshold programs. Our threshold programs target poor indicator performance in the hope of improving those indicators and pushing those countries over the threshold to eventual compact eligibility.

Guyana's threshold program, signed in August, seeks to improve fiscal management of public revenues and decrease the number of days and costs to start a business.

Paraguay's threshold program seeks to reduce corruption and is also building a more transparent and attractive business environment.

As a result, the cost to start a business in Paraguay has been reduced from \$750 to \$250 and the time involved to do so has been cut in half from almost 70 to 36 days.

In total, over the past 2.5 years, the Millennium Challenge Corporation has made investment commitments of almost \$1 billion in the Americas through both compacts and threshold programs. Yet, this dollar figure alone, as significant as it is, does not capture fully the impact of our programs in the Americas.

We are seeing how the MCC model is working as Congress intended it to do when it established us a U.S. government agency in January of 2004. It was a model focused on one mission -- to reduce poverty through economic growth.

It is a model that provides grants, not loans, to countries that practice good governance, reject corruption, invest in their people and provide economic freedom. It is a model grounded in partnership with countries willing to undertake the often difficult work of policy reforms, willing to build their capacity to lead their own sustainable development, and willing to deliver results where they matter most -- in the lives of the poor.

MCC investments in the Americas and, for that matter, in all of our partner countries, create a culture of competitiveness and independence that allows assistance over time to be replaced with the self-sustaining economic growth led by private enterprise and with an expansion of trade with other countries.

And we are seeing how partner countries are leveraging investments to make such a transition possible, particularly in Central America. We see it in the policies partner countries are adopting to overcome barriers to development.

Good policies and good governance are essential for business development, for creating a culture of transparency and the rule of law that builds confidence in public institutions.

As countries come into their own development, they are thinking critically about what policies need to be sustained for poverty reduction and economic growth beyond the period of MCC's investment.

For example, El Salvador dramatically reduced the time and cost required to start a new business. New businesses create new jobs.

Nicaragua passed critical road maintenance funding legislation to ensure the long-term sustainability of the road network.

We see it in how partner countries in the Americas are building the physical and commercial infrastructure to convert aid into trade. Consider the powerful regional effects that emerged when we look at El Salvador, Honduras and Nicaragua not only as partners with the MCC, but also as partners in trade through CAFTA-DR.

MCC compacts among these neighbors are accelerating the pace of market-led growth in each country, while building their capacity to expand trade both regionally and internationally.

In addition to efforts in all three countries to expand production of exportable crops, MCC funding is helping to construct and improve transportation links between El Salvador and Honduras and between Honduras and Nicaragua.

These linked routes will allow goods to access the isthmus from the Atlantic to the Pacific and will help farmers move their products to markets in the region and in the United States.

And we see it in how partner countries in the Americas are creating conditions to empower private enterprise, which is the engine driving growth and poverty reduction.

Being part of the MCC family gives countries a “Good Housekeeping” seal of approval which sends a powerful signal to private investors that conditions are being established to create a good business environment and that MCC countries are improving swiftly.

One recent example of this is in Nicaragua, where MCC helped attract over \$9 million in new investments that will create almost 1,200 new jobs in the country’s northwestern region.

The State Department’s assistant secretary for the western hemisphere, Tom Shannon, describes the Americas as “on the cutting edge of transformational political and economic change.” MCC drives this transformation and we need to continue to encourage it and support it.

There will, of course, be challenges along the way. Development takes time, especially in politically changing environments, as our panel will discuss later this morning.

Let me underscore, though, that as John Hewko also mentioned this morning, MCC’s focus has been and will remain on good, sound policies, not on politics, of the region.

MCC partner countries continue to move forward on our programs and are showing tangible results. We are seeing progress on the ground in farmers gaining access to new markets, in transportation costs being reduced, in new private sector investments.

We see our partner countries leveraging MCC’s investments to further reform their policies, expand their trade and encourage new private sector investment.

We are proud of our work in the Americas, but the pride rightfully belongs to the peoples and governments and partner countries who continue to shoulder the work of their own development. We recognize the progress the Americas have made in fighting poverty and stimulating growth and partnership with the Millennium Challenge Corporation and I appreciate your support and interest in these ongoing efforts.

It’s now my pleasure to yield the podium to His Excellency Roberto Flores Bermudez, Ambassador of Honduras to the United States. This is his second tour as ambassador in Washington.

As a career diplomat, Ambassador Flores has dedicated 30 years to representing Honduras abroad. He served as Honduras’ permanent representative to the United Nations and as his country’s ambassador to the United Kingdom and to Germany.

Ambassador Flores Bermudez also served as his country's minister of foreign affairs. He's a good friend of the Americas and a good friend of the MCC and it's a pleasure to welcome him here today.

Please join me in welcoming Ambassador Flores Bermudez.

(APPLAUSE)

BERMUDEZ: Thank you very much for that very kind introduction, Ambassador Danilovich, Mr. Hewko, Mr. Hakim, friends.

I want to thank the MCC for this invitation that allows me the opportunity to share with you the Honduran compact and my country's experience during its recent political transition.

Let me say at the outset that the MCA is an extraordinary measure of cooperation. The availability of \$250 million for strategic investment in my country is a unique opportunity. It is clear that Honduras finds itself in a privileged position because of having a series of unique tools at hand.

In addition to the MCC, we have the HIPC, the CAFTA-DR, the secure container initiative, and the secure freight initiative. These tools are the building blocks of our partnership with the United States.

Now, within this positive environment, our governmental transition took place barely a couple of months after the compact's entry into force on September 29, 2005. The Honduran presidential elections were held two months later in November 2005 and President Zelaya was sworn in on January 2006. Then the MCA Honduran director was sworn in on March of 2006.

So between the initial approval of the compact for Honduras, nine months have passed between the approval and the setting up of the Honduran office.

Now, with this timeline in mind, I will approach three main issues concerning political transition of the MCA implementation in my country.

The first one deals with national consensus-building and the MCA objectives in the country. This consensus-building is essential for implementation across broad national political spectrums.

The second is about change in the political environment itself, the way the change takes place, the sense of opportunity of the new government and how it engages with the resources at hand.

And the third issue concerns the practical consequences of the shift in the political environment. This part has to do with conviction of objectives and capacity of implementation.

On the first one, the national negotiating process, the consensus-building, the MCA makes available a substantial amount of financial resources that are not normally within our country's own budget capabilities, more usually accessible through the international financial institutions.

They are extraordinary resources from the United States government as a contribution for development, democracy and good governance, just in the way that Ambassador Danilovich expressed earlier.

Honduras decided to employ these resources for two main objectives -- the development of key infrastructure and acceleration of agricultural diversification based on capacity-building and technological improvement.

Both objectives have a national scope. They benefit the country as a whole and stimulate and generate productivity. They promote improved access to markets and they enhance competitiveness. They also make the best use of our strategic location in Central America to become a crossroads of commerce and this involves neighbor countries like El Salvador, Nicaragua and Guatemala, to share the benefits of this highly efficient infrastructure.

It is, therefore, a program that goes beyond the national scope and it has a regional characteristic, as well.

The objectives are also long term, because they place the country through its infrastructure development, in the preparation of its people in a favorable condition to continuously improve on itself.

The objectives are of a national scope, with a regional purpose and a long-term view, the importance of their continuation, no matter what changes come about in the political field in the country, are obvious. Therefore, consensus-building is essential and that's done by mutual dialogue with all sectors of the country.

In the case of Honduras, the basic consensus was already in place. Consultation and the prioritization and selection of the Honduran-MCC compact were based on a poverty reduction strategy, defined and accepted since 2001, promoted by previous governments in wide consultation with civil society.

Basing the MCA projects on the poverty reduction strategy resulted in the resurrection of common values that bond the society together. It contributes to our national identity and encourages the nation to work and prepare together better.

While consensus-building has been effective. The political position is not a hindrance to reach the objectives or to use these resources for the purpose for which they were approved.

But there are other elements to take into account concerning a transition. Honduras had a political transition in the early months, as I said, after the compact was signed. The objective, the programs and the projects were clear and they were accepted.

The “who” and the “how” required additional consultation and coordination. There was no deviation from the common values and the responsibility for the definition of the objectives of the MCA programs. That was a shared responsibility.

The outgoing government and the incoming undertook a dialogue by which there would be a relay of information to the new responsables for the administration of the compact. This is particularly important when the opposition party wins the elections. That was our case.

President Zelaya committed from the very beginning, even before taking office. He also reiterated his political will to implement the MCA on his visits to the United States, June 2006, July 2007. And once the new government was in place, the (inaudible) implementation was under its own responsibility.

Now, the practical consequences of the implementation, they depend on two factors. On one hand, the proper institutional framework to make things work and, on the other, viable programs to be executed.

One can have the most noble objective in mind, but it could be an impractical one. So I will explain what I’m referring to.

Institutional framework, in our case, began late. The MCA’s five-year period began to run and the setting up of the office took a several month chunk out of it. When it was finally ready, implementation also required a coordination mechanism by which all players for implementation would be in synch with these objectives, and this took time, as well.

The administration of those resources does present a challenge in the case where the compact is approved at the end of one government and the initial implementation corresponds to a new government.

There are bound to be delays in spite of consensus-building and joint decision-making.

Additional conditions may make implementation difficult and I refer to the programs and the projects themselves, which sometimes need to go further into the studies.

An example is the road network in Honduras. This is considered to be the most critical strategic factor for our development. It is a road that will link our flagship port in the Caribbean Sea with the Salvadorian point in the Pacific Ocean. It’s really a regional project.

Now, the road’s design needed more exhaustive studies, making implementation today a little bit complicated; in addition, disbursements, this condition, for the relocation of families that are on the road’s path. So the project becomes all of a sudden a very complex situation and a very difficult challenge that we finally are overcoming.

So transition has its particularities. Besides institutional buildup and coordinating efforts, most of the time, there is new knowledge about how capable is the new team coming in, how experienced is it, how much knowledge there is on the program's implementation and how much time it will take for them to feel comfortable taking decisions and moving the MCA forward.

Plus, the complexity of the projects are in themselves a challenge.

The partnership with the in-country MCC team is significant and is supportive and has been supportive during the transition.

So having said all of this, let me make a couple of concluding remarks. Honduras was the first compact ever that the MCC negotiated in Latin America, the second in the world, and both the MCC and us, we were learning by doing.

MCC was created in 2004. So we were part of this experiment and part of the beginning of a learning curve. For practical reasons, the challenge is higher in the transition, if the transition takes place barely after the compact's negotiation and approval.

One of the solutions is for the incoming government to learn as much as possible about the programs, become familiar with the issues at hand and benefit from the supporting team of the MCC both in Washington and in country. Continuously dialogue nationally and awareness raising about the transcendental objectives of the compact and its long-term goals is also vital.

The combination of a high political will, together with a highly efficient technical team, allow to take the best opportunity of the extraordinary resources that have been made available to us.

I want to reiterate once again the thanks of my government for the MCC availability of such extraordinary financial resources for our country.

Thank you very much and we look forward to continuing to working with you. Thank you.

(APPLAUSE)

HEWKO: Thank you very much, Ambassador Flores, for your very thoughtful and insightful comments.

Now, let me introduce someone who I believe may be very familiar to you.

Peter Hakim is president of the Inter-American Dialogue, a Washington-based center for policy analysis on western hemisphere affairs.

Peter was vice president of the Inter-American Foundation and has worked for the Ford Foundation in both New York and Latin America. He has served on boards and advisory committees for the World Bank, the

Council on Competitiveness, the Inter-American Development Bank, Foreign Affairs en Espanol, Partners for Democratic Change, and Human Rights Watch.

Please join me welcoming Peter Hakim to the podium.

(APPLAUSE)

HAKIM: Thank you very, very much. It's a great honor to be here. I want to thank John Danilovich and John Hewko for this invitation.

I still don't know quite why I was invited, but the introduction that Ambassador Danilovich said, share my thoughts, didn't really give me much of a clue either.

Let me say it's really an honor to share the podium with Ambassador Flores, who I've known and considered a friend for many years.

I remember one of the first times we met back in 1990, ambassador, at that time, from Honduras, as well, and we were talking about something and it got to the question of trade.

At that time, it was very popular, if you recall, to talk about trade, not aid for Latin America and (inaudible) said, "Well, they've gotten half right up to now," which meant the "not aid" part was working and the trade hadn't yet kicked in.

Well, actually, with Honduras, though, we're seeing nothing new, though, because it's trade plus aid. There is the CAFTA free trade agreement with Honduras, now supplemented by the MCC pact, which indeed is designed, in practical terms, to increase capacity to take advantage of the trade agreements.

In some ways, that's a really positive signal that it really does have to be trade plus aid if you're going to get the maximum out of either or both.

Let me just say I think the Millennium Challenge Corporation, I wasn't asked to talk about it, but I do think it really is a -- one looks at it with a degree of great admiration and great hope. They're still at the beginning. We're watching it evolve, watching the choices being made and watching the accomplishment begin to arrive.

In a sense, it's a real test of the countries themselves that receive these awards. They really do have to perform and they know they have to perform and, in fact, they have already performed in order to get the agreement.

At the same time, I think it's a real test for the United States, as well. Can the United States -- and it hasn't had a good record on this -- really manage and sustain a program to assist a small number of reasonably

well managed or fairly well managed countries that are poor and vulnerable and sustain that over time and really do it on the basis of merit and objective criteria and not on the basis of politics?

I think whether the U.S. passes that test, we'll probably have to wait for another couple of administrations to really see. There are things that start off very promising in an administration and this has, which is great, but it is really a test whether our aid can really be pro-development, pro-poor, rather than pro-X or Y political point of view.

Let me just say a few words on my view on Latin America now and I'm going to be brief. I've probably used up more time than I should in congratulating the MCC, but I'm going to discount that time.

I'm normally what might be called sort of a glass half empty kind of guy. I generally see the negative in most things. But let me say that basically I'm now on very much the optimistic side with regard to Latin America, for a variety of reasons, which I'm going to go through.

Let me also say I don't quite share the view of Tom Shannon, who has cited that Latin America is somehow at the cutting edge of growth and social development or whatever he said it was the cutting edge of.

But I do think that Latin America's doing quite well, thank you, and I think it does have among its most promising features that I've seen since I've been looking at Latin America, and that's longer than any of you want to know.

Let me say that just part of it, and, again, I'm going to have to be brief, has to do with real economic surge over the past four or five years. This is now into the fifth year of economic expansion. It's grown more, Latin America, in the past five years than it grew in the previous 20 years and the fact is that the growth is both wide and deep.

Last year, every single country in Latin America had positive growth. That hadn't happened for many moons. And secondly, we're beginning to see real declines in poverty and some, although still modest, but encouraging declines in inequality in some countries.

And the fact is I don't think anything else will happen without sustained growth in the region. One can argue growth is enough. How much growth in all? But you do need growth and I think a lot of the problems and challenges that the region faces has to do with 20 years of slow or no growth in most countries.

Now, that growth is also accompanied by some really unusually competent economic management. We have low inflation in country after country, exports are up, trade surpluses are up, debt is down in country after country, reserves are up.

I think the most interesting and symbolic for me was -- this was during the period of global economic financial turmoil with the sub-prime mortgage crisis and what have you that just at a time when Latin America

would seem most vulnerable is just when Brazil's creditworthiness gets raised to just short of the prime credit limit, and that's really, really remarkable.

But Brazil, which has been always so vulnerable to crisis, suddenly, the markets don't think it's vulnerable anymore and, like I say, that's symbolic and I could talk about that in a variety of other countries, as well.

There are still lots of clouds over the region and the growth rates are still not as (inaudible) as they could be. Infrastructure is in terrible condition, which may make further growth more difficult. Education systems are in a real dismal state, although someone said they've improved from being a disaster to being simply mediocre now.

There's problems with energy supply in many countries and then a whole series of economic reforms that really await getting done that are very crucial to future success, future to dealing with problems.

Still, the growth itself and the poverty alleviation it's brought with it gives sort of new resources, new political flexibility and greater confidence to keep going. In other words, that's why I'm optimistic about the future. I think that the pace we're now on is giving traction for continued pace.

And it's not just economics, but democracy is, I think, surprisingly robust in Latin America. I counted, in the past three years, 14 presidential elections, two constitutional assembly elections, and all of them, not virtually all, all of them were viewed as free and fair by international observers and mostly by their own population.

In fact, there was only one country which had a contested election, Mexico. Elections were competitive. The turnouts were high. This was real democracy at work.

The fears of some kind of leftwing trend that would undermine good economic policy or threaten democracy just got wildly overblown, I think. Certainly, leftwing parties, leftwing leaders may have won more than their fair share of elections, but very few nations changed their political or economic course.

Democracy is under threat in a few countries. We could easily point to Venezuela. I think that democracy is not only under threat, it's really been essentially suppressed to a very large degree.

That's not the case in most other countries, frankly. It's very few countries have that degree. There are some concerns, but I think that democracy, again, thank you very much, is doing very well in Latin America.

There are three big concerns and I'm going to just have to mention them, I think. One is the social challenges. Despite the improvements over the past three or four or five years in poverty and inequality, there's still an enormous way to go.

I won't go into the numbers. Most people in here have the numbers better than I do.

The improvements have been good. The problems are very grave. And let me say the one thing that -- the aspect of it that I think is most problematic, and maybe the MCC will be addressing this, is the dismal quality of public services throughout Latin America in a whole range of areas.

And remember, public services are what poor people, even middle income people depend on. When I say public services, I mean things like nitty-gritty as transportation systems, buses, trains, condition of the roads. I mean sort of energy supply so that people have energy when it's cold out, they have electricity during the whole day. Health services is an obvious. Education, I mentioned education before.

Going beyond, into the justice system, going into the police system. Public services in Latin America and this, of course, reflects a problem of governance generally. So while democracy may be doing well, there is this sustained problem of governance in Latin America, and it goes beyond the public services, which I think is related to poverty and inequality, but also that you have countries that face fundamental problems that are just very difficult for them to address.

Mexico sort of depends very heavily on its energy resources, on its oil and it can't make decisions in order to protect that resource. Right now, its oil is running out and they can't make the decisions that would allow them to sustain the oil resources beyond 10-15 years from now.

Brazil. Brazil spends huge amounts of money on maintaining its government. They need tax reform, pension reform. They cannot move those forward. That's a problem.

The third problem, which involves the United States, has to do with the great (inaudible) now in inter-American relations. I recall the Inter-American Dialogue once wrote a report called "Convergence of Community" back in 1993, and that era is gone now.

And the question is, can we get it back? I think Latin America has become increasingly alienated from the United States, even some of our close allies. I think part of the problem, of course, is the war in Iraq and associated events.

It's also by a certain unilateralism in international affairs generally, a disrespect for international institutions and global rules, and, also, a lot of bad policy choices with respect to Latin America.

Now, when I say the divisions in the hemisphere, it's not just the United States. There are divisions within the region, as well. Just let me give two.

Latin America is the only region of the world last year that couldn't select its representative to the United Nations Security Council by consensus. Every other region in the world selected one candidate and they endorsed them.

Latin America had two candidates and 120 votes before both candidates dropped out and they selected a third. And, again, it was done by election, not by consensus.

Secondly, energy. Energy is a perfect resource, a perfect item around which to develop enormous regional coordination. Some countries have a lot of this stuff, some countries have very little. They're sitting on one another's borders. They have open trade and yet every country in South America is looking to become energy independent because of lack of trust of their neighbors, disputes and all. That has to be overcome.

Now, let me just say I think that the U.S. can do more to sort of help this process or beginning to. There's been a divergence since the Dialogue wrote its report like this. Now, one has to begin to bend those back toward some convergence.

It's not going to happen immediately. In the free trade area, the Americas, I think, has lost credibility. But the fact, we can begin to bring back the idea of greater economic cooperation.

And we have two very important decisions coming up very soon. Costa Ricans are going to be voting on a free trade agreement with the United States. It's about 50/50 now. If they vote no, this would be the first country that's rejected an agreement that they negotiated with the United States.

At the same time, the United States has to ratify three orphan agreements with Peru, Colombia and Panama. Peru looks pretty likely. I will say nothing certain.

Colombia is almost certain not to be approved this year, some chance of being approved next year. Again, this would be the first trade agreement the U.S. has signed with a country that it will end up perhaps not ratifying and that would be a terrible mistake in terms of rebuilding some sense of community, some sense of hemispheric agenda.

Migration. I think the U.S. has really shot itself in the foot with the inability to deal with its migration issue. I think that the way it's been debated is maybe particularly the problem and it's really remarkable that I've read lots of op-eds on this, I've listened to lots of Congressmen talk about this, and there's no mention of the fact that this is going -- that what we do about migration is going to effect very deeply our relations with Mexico, Central America and the rest of Latin America.

The fact that Mexico may be able, if we had some measure of cooperative initiative, could be helpful in addressing the problem, but we deal with migration almost as the way we deal with cold winds from Canada. There's sort of a certain inability. We have to take care of it. It's our problem and it doesn't affect our relationship with Canada and we don't blame Canada for it.

But the fact is that migration is an issue that ought to be dealt with more cooperatively.

I think we can do more. I think we can do better and we're going to have a chance to do better and the next president comes into office in January of 2009 and three months after, four months, there will be another Summit of the Americas and it will be a time over the next year, and I'm hoping that this administration, which I think it has begun to rethink its Latin American program, begins to set the bases for really sort of using that summit as a way to again -- I don't think we're going to get the convergence we once had, but at least begin to get the lines, the moving in the right direction, so they're not diverging anymore. They're not parallel and going by each other, but they're coming together at some future point.

Thank you very much.

(APPLAUSE)

HEWKO: Thank you very much, Peter, for that very interesting and insightful presentation.

I'd like to now ask our panelists to come to the table, please. As they make their way to the front, I'd like to say a few words of introduction about each of them.

Matt Bohn is the MCC resident country director for Nicaragua. He was one of the first directors deployed by MCC to establish, manage and supervise MCC's in-country presence, including all matters relating to staffing, budgeting, program management, procurements, reporting, monitoring and evaluation.

Matt joined MCC early in the startup phase to manage Latin American country relationships and participated in defining MCC's due diligence and development models. And I'd personally again like to thank Matt for all his work, especially in those early days, where he really was one of the key architects and one of the folks at MCC who really had a very significant contribution to developing our early processes and procedures.

So thank you very much, Matt, for your work in those early days.

He also led the transaction team to assess, negotiate and close the compact with Nicaragua during one of that country's most difficult political periods.

Stacy Rhodes is the managing director for Latin America. He's responsible for MCC's strategic and operational approaches in Latin America, managing MCC country directors and other staff and overseeing the development and implementation of MCC compacts in the region.

Prior to MCC, Stacy served as director of Save the Children's HIV/AIDS program. He directed and supervised the provision of technical and management support to field offices in Africa and Asia, to plan, manage and implement programs for HIV/AIDS prevention, care and support for children and youth.

Stacy served as a U.S. foreign service officer with USAID, working in Haiti, Morocco, Nepal, Guatemala and South Africa during his tenure. So Stacy brings really a wealth of experience to MCC.

And, finally, Kenny Miller. Kenny is the MCC deputy resident country director for El Salvador. Prior to joining MCC, Kenny served as country manager at the U.S. Trade and Development Agency, where he was responsible for the assessment, design and administration of activities in Mexico and Central America.

In addition, he worked for the U.S. Trade Representative, negotiating DR-CAFTA and the U.S.-Panama free trade agreement, and has lived and worked in Latin America for several years.

So we look forward to hearing from each our panelists. Perhaps, Matt, we could start with you.

BOHN: Good morning. Thank you, John, for that introduction. John has been a big supporter of Latin America and we appreciate his leadership in helping us move these countries forward.

In Nicaragua's case, we have a \$175 million program. It's focused on two regions of the country, Leon and Chinandega, for those of you who know Nicaragua. It's focused on building roads, claiming land titles and, also, rural business development.

The compact program implementation actually begun in June of 2006. So we are in month 16. And I'd like to recognize and commend the Nicaraguans who have really embraced this challenge and done an excellent job.

For those interested, to date, the program is completely up and running, in the first year. They were able to set up a foundation to do implementation. We are currently in the process of approving a disbursement request which will take us through December and will total approved disbursements of approximately \$15 million.

And perhaps more impressively, the MCA Nicaragua has actually been able to sign approximately \$30 million in contracts and really has done this during a very, very intense political transition.

I'd like to focus on four points today, and then leave the time at the end of the rest of my colleagues for questions, as it relates to managing programs in difficult or changing political environments.

The first point is citizen participation and consultation. In Nicaragua's case, they really set out to do a grassroots decentralized effort to gain buy-in and ownership as it related to the development of the compact program.

This included engaging local development councils, which had the responsibility for working with local governments, civil society and the private sector to actually develop what they thought were their priorities, which ended up turning into the compact agreement.

In addition, there was a lot of work reaching out to other groups, such as women's groups, who have played a very important role in the development of the compact program.

As it relates to citizen participant, consultation and buy-in, another key thing Nicaragua did is they actually achieved compact ratification. So while this program was decentralized to a region, we all felt jointly that it was important that the compact be ratified or embraced as a matter of legislation so that it would have lasting effect.

Point two I'd like to talk about is implementation timing. This is a key point. The ambassador from Honduras alluded to this. In the case of Nicaragua, we had the opportunity to actually work for approximately six to seven months prior to the governments changing.

This is very, very important. It allowed the foundation itself to get established. Competitive hiring was undertaken, so there were actually no political appointments, which is another critical aspect. Each of the positions for which people were named were actually competed. In fact, the general director position was actually competed. There were 92 candidates and one person won that and, as you can imagine, has the credibility and mandate to lead through a transition.

In addition, it's critical, any change in government, regardless of political ideology, there is a change in people, a change in staff. So one of the lessons learned is that by getting out of the gate in the six to seven months before there was a transition in government, the Nicaraguans were able to set up key procedures, to get key activities underway, and to ensure that the compact was moving before a lot of the counterparts in the government actually changed.

For those of you familiar with Latin America, when governments change, they change all the way down to the drivers and everybody else. So that's a very, very common thing.

Number three, program governance. As you know, we are big believers in countries owning the implementation. Accountable entities were set up that oversee the implementation. These accountable entities, we ask them to have some kind of a governing board.

In the case of Nicaragua, it was extremely helpful to have a mixed board. There are four government representatives who are secretary or minister level and then there are three voting members which are outside the central government, one mayor seat and two civil society seats.

So through the participation of civil society, central government and local government, this ensured, as we went through the transition, that this was not a program of a particular president, a particular political party or a particular person, and that was a great, great lesson.

Lastly, I'd like to briefly mention this important point about focusing on policy and not politics and I'd like to take it one step further and talk about indicators and not political parties.

As we all know, Latin America has gone through and, in particular, in Nicaragua's case, a transition in political ideology from one side of the spectrum to the another side of the spectrum.

Throughout that, the program was being set up. On top of that, a very contested and competitive election was being run. So I'm often asked, "How was it that MCC was able to maintain its political neutrality?"

First of all, as an institution, these programs are really not focused on individuals. They are for the people of the countries, of our partner countries. In Nicaragua's case, the program was about reducing poverty through growth in a particular region and transforming that region so that it becomes an engine of economic growth.

During elections, there is always a tendency perhaps to view these types of programs as tools and as an institution, we very, very strongly ensured that that did not happen. So our message was clear. Countries are rewarded for good performance in the areas of governance, investment in health and education, and economic freedom.

So regardless of who is in office, we hold a government or a country accountable to those particular indicators.

Now, that gives us the unique opportunity to maintain our partisan political neutrality and this was absolutely critical in our case. The presidential election occurred and there was a shift in administration and the program had very little negative operational impact.

And perhaps to summarize why, number one, again, back to my four points, citizen participation. This program was owned. The particular region where we were working is a region that happens to have a lot of mayors from the current president's political party who were very supportive, very focused on maintaining indicator performance.

Two, timing worked out extremely well. Through program governance, the current administration, four voting members happened to be very close and part of the cabinet of the current president.

We have a very strong working relationship, speak to them on a weekly basis and they have expressed their commitment to ensuring that this program stays depoliticized and stays focused on benefiting the Nicaraguans.

Lastly, political neutrality. As we move forward, clearly, one of the greatest challenges is we do have differences, from a government standpoint. There have been statements made, they will continue to be made. However, we rest easy knowing that our indicators and our focus is on helping the Nicaraguan people and making sure that the countries adhere to those indicators, regardless of what's said publicly.

And ultimately, at the end of the day, what's important is what happens on the ground in the lives of the people, that there are results, and we are seeing that in Nicaragua after 16 months. They've worked with approximately 4,500 beneficiaries, directly or indirectly, have attracted investment, and are in the phase of reconstruction activities for the roads and, actually, construction will begin next year.

So with that, I will accede the podium to my colleague, Stacy Rhodes. I'm happy to answer questions after.

Thank you.

(APPLAUSE)

RHODES: Thank you, Matt. Thank you, John. And thank you, Ambassador Flores, for being here today. I really appreciate your presence and your excellent presentation, and you've made my job much easier by discussing much about the Honduras program and the transition there before I had to get up here.

My role today is more limited than usual. I'm representing the Honduras perspective on this issue today. Unfortunately, John Wingle, our resident country director in Honduras, couldn't be here, which is too bad, because he has, like Matt, lived through the political changes and transitions in Honduras and would be far better equipped, frankly, than myself to talk about this.

AS you did hear from Ambassador Flores, the compact in Honduras is a significant one, one of the earliest, the second one signed by the MCC and first one in the region, for \$215 million. It focuses heavily on the improvement of transport infrastructure, primary, secondary and farmer market roads, and on the improvement of agricultural production primarily by helping small farmers shift from low value to higher value horticultural crops for either domestic, regional or international markets.

So what I'd just like to do is take a few minutes and do a little comparing and contrasting with the experience in Nicaragua. There were quite a few similarities. There was, as in Nicaragua, a significant effort to consult with civil society in Honduras.

I would say that it's perhaps the case that it was not either as broad or as deep as possible in Nicaragua and as I've thought about why that is, some of you may have read the CGD's field report on the two countries, where this process is examined quite closely.

One of the reasons I think for that was the fact that, for example, in Nicaragua, you had a very intensive process focused on two of nine departments in the country, which made it possible to involve deeply not only the town councils for most of the municipalities, 23 municipalities, but the mayors themselves from Leon and Chinandega.

In Honduras, the program is not so limited. It, in fact, has activities involving all but two of the 16 provinces of Honduras. And so the consultative process was a bit more dispersed and less specifically focused on those people who knew they would be beneficiaries of the program.

Indeed, many in Honduras, many of the beneficiaries are defined only as we go forward on implementation through the process of selecting the location of rural roads, of program farmers to be trained under the farmer training program, et cetera.

I think that was one reason, though I think it probably is fair to say that the MCC and MCA could have done more at the outset on a deeper and broader consultative process with civil society and there is still an effort to improve that as we go forward.

Similarly to Nicaragua, there was in Honduras a very strong bipartisan effort to obtain a full ratification, the legalization of the MCC programs, and I think this is key to addressing the issue of the day, the transition period for all of our countries.

We had on Honduras, as in Nicaragua, a very significant effort to educate, vet, discuss, hear the concerns of all of those parties represented in the national legislature and the compacts were subjected to the ratification process of the national assembly and the approval of the law establishing the accountable entity, the MCA, also was subjected to that, as it was in El Salvador.

This has been critical to, I think, assuring a smoother and more effective transition in times of political change.

Matt mentioned this, I think rightly. One other significant difference between Honduras and Nicaragua was the fact that the timing was quite distinct. The time elapsed between signing of the compact and the national elections or the entry of a new administration from the opposition party.

The same thing really happened in both countries, but there was almost a year of difference between the two, as the timing of the entry into force, for example, in Honduras was in September of 2005, the actual elections were two months later in November of 2005 and many, if not most of the people with whom we had negotiated and discussed and worked on the government side in Honduras left government service for the reasons Matt mentioned, also, in January of 2006.

So there was indeed a significant delay. I think as the result of the shorter time and period in Honduras than we had in Nicaragua, I think this has affected our ability to move the program forward, to some extent. I think that now essentially has been overcome for all the reasons the ambassador pointed out, as the new members of government that came into office have become much more familiar, oriented to the program and we spend a great deal of time working with them and bringing them up to speed.

So you do see an increasing level of buy-in and commitment by the government of Honduras, as well as a full understanding of where the program is going.

But that was a critical difference and one I think that made a significant difference to our implementation.

I'd like to emphasize one other thing. In Honduras, we do have a similar governing structure to the board in Nicaragua. It's not identical, but there is a board of nine members overall. Five of those members of the board are representatives of government of Honduras agencies and four are from civil society.

Not all of those members are voting and the voting and the observing members rotate through each year. So I think that, like the process of ratification, has been critical to effective MCC implementation and transition through an election period.

Finally, I would just mention one other point that Matt stressed, which is the criticality that the general director, the leader of the accountable entity, the MCA, be someone that has the full confidence, support of the government administration under which they're working and the ability to obtain problem-solving decisions and actions by that government.

I think that that was a greater issue for us in Honduras, frankly, than it was in Nicaragua. Part of that related also to the longer period of timing. Indeed, when the new government came in in Honduras, the general director at that time had only been there -- I don't even know if it was two months by then, which is quite distinct, and no other staff had yet been employed and the simple implementation process was just beginning.

And I think Matt correctly pointed out the fact that there had been a broad competitive contracting process that the entire staff of the MCC-MCA entity had been in place and operating under established procedures, the board was very accustomed to those procedures, made it possible for that transition to be somewhat smoother in Nicaragua than it was in Honduras.

The general director was changed in Honduras to someone who has been, frankly, a candidate by the prior government, as well as the incoming government, and we have now, I think, come a long way with a very fine general director, Martin Ochoa, in Honduras, and moving the process forward.

So I think I would just again stress, as Matt did, these four areas where the MCC has tried to focus its efforts, citizen participation program, governance, the political neutrality, the concept that we really do try to implement, of looking at policies, looking at what a government does rather than who specifically is running it, and the timing issue, all is critical to this.

One thing we've certainly learned is that it can be risky to sign your compact and enter into force in the final year of a governing administration, but I think we're really well on the way now to Honduras, to a very successful implementation, a little bit behind, but moving forward quickly.

Thank you.

(APPLAUSE)

MILLER: Good morning. Nice to see everyone here. Thank you, John, Mr. Ambassador, Matt and Stacy.

As John said, I'm the deputy resident director in El Salvador. El Salvador is a unique case and we've taken a lot of time to try to learn from the experiences, the good and the bad, in some cases, the ugly, not very often, from Honduras and Nicaragua.

I started off actually working with Matt doing a lot of the host country ownership issues, a lot of the consultative issues in Nicaragua.

We tried to take those elements that worked well and adapt them to El Salvador.

Briefly, El Salvador is the very first lower-middle income country in which MCC has signed an agreement. It's a \$461 million agreement, certainly large, given the additional capacity that the country has to manage a program like this.

For the moment, I could talk for hours on the El Salvador program and I welcome your questions and comments later, but I want to be able to focus not necessarily on the technical capacity and the luxury we have a bit in El Salvador, but more focus on some of the big picture issues of ownership, consultation, outreach, how to manage key stakeholders, how to get buy-in, especially as we look toward the upcoming season.

Just last week, the FMLN announced their candidacy, their president and vice presidential candidates, and we are indeed entering into a political season in El Salvador. Things will become more difficult.

And as everyone knows, a bit ticket item is very attractive, like magnets to agendas and political issues. So we're going to take a lot of additional care in making sure that El Salvador is able to push forward looking at good implementation, while also being very focused on the fact that this -- if we're going to judge countries based on indicators that are national, then make sure this is truly a plan, a program coordination.

In the case of El Salvador, there's a very unique background. There's an institution called the Comision Nacional de Desarrollo, the National Development Commission. It's a commission that was created in the late '90s as a move towards -- after the peace accords, they achieved political peace and then they tried to look at, "OK, how do we then move towards economic, socioeconomic peace?"

The National Development Commission then started in 1998, creating what they call the Plan de Nacion. This plan was looking at El Salvador as a region, five specific regions, and how can we pull an investment, how can we work with the people, how can we identify the parties of the regions and then create programs that are going to help them dig themselves out of more difficult situations.

Based upon this plan, which a lot of other countries don't necessarily have, we were able to put together a program that was very much based on those findings. The National Development Commission provides the ideas, provided all the input. They did a lot of consultative work.

When we arrived in country, we said, "This is wonderful, but you need to do a very specific MCC consultation." And consultations are not easy. I remember when John came down, our very first visit to El Salvador, we told him, "Look, this is wonderful. They've got all this documentation, it's beautiful, but do one very specific MCC given our requirements," and making sure that this specific program has the ownership of the entire country.

It's very important in terms of ownership as it provides insight in depoliticizing a program. Politicians like to grab onto specific issues and play games with it and it makes our jobs of effectively implementing and getting money out the door and getting the actual benefits to the people much more difficult.

Based on this broad historical consultative process, we were able to get a lot of buy-in. We were able to bring in a lot of key stakeholders in the case of El Salvador. Everyone, from the very beginning, we had this ratified by the assembly and it was ratified unanimously.

There were some folks in the current administration that were interested in just going through and getting the simple majority votes they needed. We made it very clear, "Look, this is important. This is for the country. Let's work to get everyone's support." So we had unanimous approval in the assembly.

We also spent a lot of time working with mayors in the affected region, the beneficiaries in the 94 municipalities in the northern zone. Those mayors have then since created a separate commission that works with us. I meet with them every month. We talk about program updates, where are things going, how can they become better involved, how can they better inform their people.

In addition, with the assembly members, we've gotten meetings, all parties included, on a monthly basis to talk about where we're at, where we're going, what are our challenges, what specific issues are important for them as it faces their job and passing laws.

We also do a lot of work with local citizens, business groups, women's associations and such. The greater expectations you put in the people and them understanding that this is not a political agenda, that we are interested in good policy, we're interested in helping these people achieve their goals of economic growth, they have a lot of pressure they can put on their leaders and their, I guess, influential parties.

Another group that we work quite effectively with is the press. In the case of El Salvador, we've got a very good, open, transparent press. We spent a lot of time working with them, as elements of transparency are very important. People can further understand we're in this not for political motivations, we're in this for policies and we want to see good governance advancing these programs.

Another point that I think is important to make. If we can find a way to transition people's mentality or their understanding of us, move it away from business as usual to, OK, let's do something different, let's find those areas that are challenging and let's do it a different way, where there's transparency, for example, with roads.

One of the areas that MCC is going to find a lot of challenges in is the area of resettlement. It's a very complex situation, taking land from people, and, a lot of times, political tensions get involved. Finding ways in which we can be extremely transparent on who is going to be paid, how it's going to be paid, how we calculate the cost of land per square meter, if they have access to water, et cetera, et cetera, and be very clear.

Put that information in each of the municipalities and find ways to be very transparent and do business slightly different than what they might be accustomed to.

All these areas provide greater ownership and I think it's through ownership that we're going to have a greater chance of successful implementation in El Salvador.

To date, things have gone well. We entered into force two weeks ago. By the end of this year, everything should be ramped up. We've got a couple contracts to be signed right now and we're going to be moving from bilaveras (ph) into overas (ph) and to remove the political situation.

So I welcome your questions and comments afterwards, and thank you very much.

(APPLAUSE)

HEWKO: I'd like to thank our panelists for those very helpful comments.

Now we can open the floor for questions not only to the panelists, but to Ambassador Flores, as well. There is a roving microphone. If you could please state your name and your affiliation.

QUESTION: Good morning. My name is Greg Michaels. Thanks for the review, the historical review of how we got to where we are with the individual countries.

I'm interested in asking you to go through the exercise of fast-forwarding to the end of the five years and the first day after the money ends and the compacts are over.

What's going to sustain the success of the MCC at that point and what does the MCC have to do in the in between time to make sure that happens?

Thank you.

BOHN: Thank you. Excellent question. One of the benefits of going through a consultative process and understanding what the root problems are in the country is it gave us an opportunity to ask that same question to them.

How, at the end of five years, can you structure this and think about this so that we're no longer needed, in effect?

Now, in the case of Nicaragua, there are a couple of things. One is on the policy side. For example, before we actually entered in force in Nicaragua, we required that they pass legislation to fund road maintenance. So this was a very, very -- this was during an energy crisis.

It was, as you can imagine, for a politician to start talking about things like gas taxes during an energy crisis is not an easy thing to do. However, everybody saw the need and it wasn't us necessarily conditioning, although we were, but it was more getting out and educating the public about the importance of road maintenance and the facts.

In Nicaragua's case, 75 percent of the road network is unpaved. Those of you who have ridden on the roads and felt the roads will know that this is a major issue and they, in fact, did pass that for the first time and, in the first year, collected \$10 million in road maintenance funding.

So we went from zero to \$10 million in one year and we expect that to climb to approximately \$35 million at the end. So that's a very concrete example.

Two, in the case of Nicaragua, because they chose to focus on a region, this allowed them to look at developing an engine of growth. So the idea is to, through the MCC, create the conditions, help the private sector take their place, make links between the banks and more bankable opportunities among the small and medium producers, in our case, and to really help the private sector step in to tie up the value chain, everything from the input suppliers to the growers to the processors and then to exporting. So looking at it on that.

Lastly, there's a big focus on institutional capacity-building. In the case of Nicaragua, the property component actually, the property titling process is one that includes approximately seven public institutions. So there's a whole line item focused on strengthening institutional capacity.

So while, in our case, the foundation is a national nonprofit organization and does not fit necessarily within the government, we do have specific funds targeted at building institutional capacity.

So those are three examples in Nicaragua's case where we hope, at the end of five years, that we will not have only achieved the compact results, but we'll also have helped them or encouraged them, and they're going to have to do it on their own, put in place the policies, the legislative actions and then building the human capacity to actually continue on with success.

RHODES: I would just add one thing to that. I think the road maintenance issue is a critical one in every country that we work, not just in this region, but in all the regions. So much of our funds are invested in improving transport infrastructure and reducing transport costs, so things can get to and from market services and get in and out of remote areas.

All of the countries emphasize, I think, this. This was a very significant policy reform, actually, a sea change in Nicaragua. Similarly, in Honduras, there's been a requirement, a condition of increased government spending on road maintenance as part of our going forward with the transport program there.

I would add one more change for sustainability. Matt mentioned it in passing, which is really the importance of changing the behavior of farmers, for example, to really increasing market-driven incentives for them.

Once farmers move from basic sustaining livelihood from grains, let's say, to growing horticultural crops for markets in the city or even in the region or even for export to the United States, you have a whole different kind of behavior and thought process, one that leads to new private investment and a continuing effort to produce your crops for funding and increase the income of your family.

So that's critical in Honduras and I think in many of our other countries, as well.

QUESTION: I'm Nora O'Connell with the Women's Edge Coalition. And, first, I just really want to commend you for this discussion. This is exactly the kind of thing that I think our community should be hearing and just really appreciate the openness and everyone's expertise that they're bringing to today's event.

I have two questions. One is about the issue of ownership, which has obviously come across as an important theme and one that our community very much believes in.

Can you talk, particularly on Honduras and Nicaragua, a little bit about the ongoing consultation process and how the ability to engage in ongoing consultation has either helped or undermined the ownership issue and what have been some of the lessons learned about that, since that's also new ground?

And the second is this issue of indicators. You talked a lot about the importance of specific indicators and that ability to hold the country accountable.

The board has made certain exceptions to qualifying countries, I don't think in Latin America, but in other regions, Mozambique, I think, Georgia, didn't actually pass the indicators, but the decisions were made based on confidence in the new leadership and progress being made.

Has there been any discussion sort of across regions about those lessons and if there are political transitions coming up in some of those countries, what might be some of the lessons and strategies for those countries when they get to this point, given that the countries aren't qualifying strictly based on the indicators?

Thank you.

HEWKO: Maybe I can answer the second question first and then have the panel answer the first one.

You're right, Mozambique and Georgia were chosen in the first year, when we first chose our countries, and they did not formally pass the indicators. Since then, no new country has been chosen as eligible who did not pass the indicators.

And I think if you look at Mozambique and Georgia, it was a good bet. Both countries have signed successful compacts. Particularly in Georgia, we're now well into the implementation phase, and we've recently signed with Mozambique for slightly over \$500 million.

We realize that the indicators are not perfect, they're not scientific. The board does have discretion to look beyond the indicators, because you have data life, very often, the indicators aren't perfect. And so the board does, when it chooses new countries, look at the indicators primarily, but also looks at what's actually happening on the ground, because it may very well be that the indicators don't accurately reflect what's actually happening in the country.

But other than that first year, we have not chosen any new countries that have not formally passed on the indicators. And with respect to Mozambique and Georgia, it was a good bet. They both are very high performing countries and we've been able to sign and since then we've seen significant indicator improvement in both of those countries.

Perhaps someone on the panel can address the first question.

BOHN: Sure. Thanks for the question. I should also add there is a remediation process that we have for countries that are already in implementation, because ultimately we want them to be successful in the performance of the indicators.

So when there is slippage, we can actually engage with them in constructive dialogue to help them achieve that.

Back to your first question, which was a great one, ongoing consultation, in the case of Nicaragua, it's accomplished basically in a couple of different ways. One is through the board of directors. Inherently, by being mixed, by having citizen participation on the board, this means that, in our case, we actually allow these development councils to -- we allow them to actually choose who their board representative would be and then each of those representatives actually has an observer on the other side.

So there's a direct link back to those organizations.

Two is MCA Nicaragua has been very effective in their communications strategy and this is very, very important. As you can imagine, meetings tend to happen in certain places. They often tend to be in restaurants and places where perhaps you don't see the beneficiaries.

So in their case, they are publishing actually a weekly and monthly bulletin that they do in hard copy and also electronic format. So really that link of disseminating information I think is really part of consultation.

In the case of MCA Nicaragua's gender strategy, they're one of the first to issue a gender strategy and they have a wonderful gender specialist there. I think you probably know Sylvia Torres (ph). She was here for the MCC launch.

But they actually have monthly meetings with the women's groups. So they've organized a formal mechanism to actually go out and meet with them regularly and they're very lively discussions, the good, the bad, and that's been a useful tool.

In terms of challenges, this is one thing we've learned. I would say in Nicaragua's case, we probably over-communicated and we have an issue of expectations, and this is something that I think not only in Nicaragua, but perhaps as an institution, we're dealing with how much -- as you do consultations early on in the development of the compact, there's a certain set of expectations and people sort of hear, "Wow, roads are going to be built" and if you're not familiar with the road building process, as I think Ambassador Flores referred to, you have to do environmental impact assessments, feasibility studies, designs.

So as you start talking about that early on, people kind of assume tomorrow there's going to be a new road and, of course, that doesn't happen.

So I would say that's been the greatest challenge, with all of the consultation, is the raising of expectations.

And then the last challenge, I would say, is finding the balance between involving through consultation in a way that is -- to what level of detail do you involve? Everybody has an opinion and that's what I love about Nicaragua.

Nicaraguans are never shy about sharing their opinions. So the question is finding a way to harness that excitement and desire and channel it in a way that's effective and it doesn't become a lot of (inaudible) through the challenges.

QUESTION: (inaudible), State Department, Foreign Service Institute.

I've also been an admirer and watcher of the Millennium Challenge Corporation for some time and I'm glad you emphasize ownership in particular.

I'm just wondering, I know the World Bank and HIPC also require some new ownership elements, that countries come up with their own ideas and their own processes involving civil society. It sounds like MCC is taking this even a few steps further.

Are other donor agencies that have been multilateral or, say, the Europeans or other donor governments, are they starting to watch what you're doing a little bit more closely? Are they talking with you?

Are you having impact on how they are doing their own operations?

RHODES: Let me mention at least one additional case where we've actually done some affirmative comparison to look at, which is the Global Fund Against AIDS, Tuberculosis and Malaria, which actually has a very significant structural effort to involve communities through their community coordinating mechanisms and to be sure that there's continuing efforts at ownership and input.

We also are deeply involved in the OECD efforts and the Development Assistance Committee there to implement the recommendations of the Paris declaration. Indeed, we have, in our policy shop, a managing director for that purpose, who follows exactly -- there's a process of sort of all of the countries in the development assistance committee assessing the programs of other countries according to the agreed upon principals of the Paris declaration, one of them, country ownership, being one of those.

So there is an ongoing effort to assure that that is part not only of our programs, but that the lessons that we learn and that other donors learn in that process are shared with and spread around the donor community.

I'm not sure if that's a full answer.

HEWKO: Any other questions? We've got time for one more quick one.

QUESTION: Jim Michael. I just wanted to offer a comment and that is that having seen this in El Salvador, but not having heard more specific discussion about it, it seems to be a pattern that the consultation process, the development of this dialogue that encourages local ownership is so multifaceted that you are dealing with general populous, you are dealing with the governance structure at the community level, you are dealing with regional groups, you are dealing with interest groups, whether they be environmentalists, women's groups, NGOs, business groups, and you are dealing at the national level with political institutions and legislatures.

And it seems to me that one of the beauties of this is that these different layers of interest reinforce each other and the fact that the mayors believe in this being based on policies, not politics, influences how the legislators think about it when it comes to ratification.

And the fact that the national assembly has ratified it gives confidence to the people in the community. And this really is, I think, a very smart, basic policy decision that makes this idea of local ownership very real and with it, I guess, the challenge in the implementation process now is one to continue that and, second, work very hard on the capacity developments so that, at the end of the five years, you will have the sustainability of this.

But it really is, I think, a great success story in encouraging such a complex structure of consultation that really does encourage local ownership and I think MCC is very much to be commended for that.

I guess I would disagree with Matt on one point and that is the expectations. My experience is that if you don't have those expectations, the decision-makers can get a little lazy about moving some of these things forward and the demands that that expectation creates really helps to keep the momentum going.

So congratulations to the success that you've had in promoting local initiatives.

Thanks.

HEWKO: Thank you very much, Jim.

Let me just perhaps try to wrap up with some closing thoughts and pull together some threads that we've heard from our panelists, from Ambassador Flores, from Peter Hakim, and from Ambassador Danilovich.

The first is, again, the importance of the consultative process, the fact that by having this broad-based consultative process that includes civil society and private sector, we are, in many ways, ensuring success in the even that governments change.

And since, by definition, MCC is working with democratic countries, democracy means elections and elections mean, very often, change in governments. And I think Nicaragua and Honduras have been two examples of where the consultation process has really ensured a relatively smooth handover when the new government comes into power, and we've seen this in other places, as well.

In Benin, in Africa, we had an election also shortly after a compact was signed and, again, that transition went very smoothly because there was broad buy-in throughout the country in terms of the program components.

The second sort of theme was that aid for trade that Peter Hakim had mentioned. If you look at our programs in Central America, they are very closely geared toward taking advantage of regional integration, of CAFTA, and the benefits that CAFTA and regional integration bring to these three countries.

The roads that we're doing, the export-driven programs that we are financing in the three countries, in the region, really do, I think, fit very well into the whole idea of aid for trade and build on the benefits of regional integration and of CAFTA.

Ambassador Flores talked about the need for sustainable growth, as did Peter Hakim. This is what MCC is all about. It's all about, at the end of the day, working ourselves out of a job, allowing countries -- working with our partner countries to put in place the platforms and the infrastructure that allows them to grow themselves out of poverty.

And, finally, the social challenges. Peter mentioned roads, mentioned energy, mentioned water. Well, these are all aspects and problems that we are trying to resolve in Central America with our compacts and in other countries that we deal with.

And then finally, a more technocratic point is that the implementation, to go to Jim's point on implementation and ensuring successful implementation.

In each of our countries that we work with, not only in Central America, but throughout the world, we have these MCA accountable entities that are established that are responsible for implementing the compact. We're not responsible for it.

Our country directors on the ground are really there to facilitate, to help, to guide, but it's really these accountable entities that are responsible for ensuring the success of these programs.

The politics of MCC is at the board level. Each of these entities have boards, where the government representatives have a majority, but there are members of the board, they are minority, but they are there with one vote. All the board meetings are public. All of the minutes are published on the websites and they have access to the same information, the private sector and civil society representatives on these boards have the same access to information that the government members do.

And so I think through that mechanism, we have ensured broad-based continued participation in the implementation process.

And then at the technocratic level, the staff of these MCA accountable entities, these are all people that have been procured through open international tender. So that when governments change, the technocratic staff continues and the politics really only takes place at the board level and the change takes place at the board, and the change at the board level is only the government change.

The civil society and private sector members continue functioning as they did before.

So, again, thank you all very much for coming this morning. I'd like to again thank Ambassador Flores for joining us. Thank Ambassador Danilovich and our three panelists for their insightful comments.

Thank you all for coming. If you need additional information about the MCC programs in Latin America, you can visit our website at WWW.MCC.GOV and, also, a transcript of today's event will be posted on our Web site in the next few days.

So, again, thank you all very much for coming.

(APPLAUSE)