

Remarks to USAID Mission Directors' Conference
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It's a pleasure to be here today. Looking out on this full room makes me feel fortunate. Each of you represents a country USAID is working in. I thought I had my hands full with 17 eligible and 13 threshold MCC countries. I can only imagine what Andrew goes through everyday.

As is evident from looking out at all of you, AID has a far greater presence globally than the MCC will ever have. You also have extensive in-country experience and a high level of expertise about the countries in which you work. Those are great assets, and they have not gone unrecognized at the MCC. Indeed, I believe sincerely that we could not have done our job in this first start-up year without you.

Missions in MCA countries have provided logistical support, given us insight into country proposals, and fielded any number of questions about us. USAID has also played an important role in readying countries for MCA eligibility. Through your own assistance programs, you have helped lay the groundwork so that countries could adopt and implement the policies that qualify them for our assistance. This work now continues in your formal role working with us on the Threshold Program.

This morning I want to bring you up to date on where our work stands and the progress we have made to date. I'd also like to discuss in more depth our in-country operations.

First, I want to make clear that we are all in this together. We share a common goal: to reduce poverty and promote sustainable economic growth and development. There is also a significant difference: MCC has a limited, targeted mission, with just one mandate. Our mission is poverty reduction, while your portfolio, in addition to poverty reduction, is much larger, including also disaster relief and humanitarian assistance.

USAID and MCC are both important components of an overall U.S. development strategy that includes trade, aid, debt relief, remittances, and other elements. We at MCC believe we should complement each other. And we at MCC want to preserve and expand USAID funding. The monetary incentive for countries to qualify for the MCA works because our assistance is additional to existing assistance, and cutbacks to USAID's programs reduce that incentive. You also do many things that we do not, and cannot, do that are essential to our common fight against poverty.

Progress to Date

It has been a little more than a year since the MCC Board selected our first MCA eligible countries. We now have 17 eligible countries – 9 in Africa, 5 in Asia and Eurasia, and 3 in Latin America. We have received proposals from all 16 of the countries selected in FY2004. Morocco, which was selected in November, is still working on its proposal.

This fall, presumably in November, the Board will again select countries from an expanded list of candidates including lower-middle income countries with per capita incomes of up to nearly \$3000. This will expand

the pool of countries from which we draw candidate countries from 82 to around 120.

To ensure that low-income countries are not disadvantaged, they will continue to compete in a separate category from the lower middle-income countries. The lower middle-income countries will be eligible to receive no more than one-quarter of MCA funds. MCC incentives, however, should extend to these countries.

The Threshold Program is up and running with 13 eligible countries, 7 in Africa, 3 in Europe and Asia, 2 in Latin America and 1 in the Middle East. We have proposals in from all 13 and have approved moving to Threshold Country Plan development in eight countries so far.

We have received a total of a little under \$2.5 billion and the President has requested \$3 billion for FY2006.

We told Congress last fall of our intent to enter negotiations on an MCA Compact with four countries: Madagascar, Honduras, Nicaragua and Georgia. We did the same for Cape Verde on March 18.

And, the big news is that our Board approved our first Compact with Madagascar on March 14. We had the first Compact signing on April 18 in Washington.

We will be taking the Honduras Compact to the Board this Friday. We hope the Board will consider Cape Verde and Nicaragua next month. Others are in the pipeline for later in the summer and fall.

MCC Operations

As a new organization, we have spent a good deal of time figuring out how best to implement our mandate. We expect some adjustments as procedures are tested in the real world, but let me give you the two minute version of how MCC works.

How we will operate may be best described by looking at our first Compact -- Madagascar.

The MCC Board selected Madagascar on May 6 last year. An MCC team visited in late May to explain the MCA and how it worked. Madagascar named a team that enjoyed support at the highest levels to develop their proposal for MCA. The President himself was involved. In August, Madagascar's team organized national and regional workshops as part of its consultative process to solicit ideas for their MCA proposal, and determined how a program designed for MCA would fit into the country's national strategy for development and with assistance from other donors.

Madagascar submitted its proposal on October 4. The MCC transaction team concluded that Madagascar had put forward a potentially viable proposal and prepared an Opportunity Memorandum, which the MCC internal Investment Committee approved shortly thereafter, authorizing resources for due diligence.

In the due diligence process, teams from our country operational units – Country Programs, Markets and Sectoral Assessments and Monitoring and Evaluation – assessed the proposed program's feasibility, potential economic and poverty reduction benefit, the quality of consultation, donor

coordination, how results will be measured, and fiduciary risk. They also worked with the Malagasy on how the MCA program would be implemented.

The due diligence process reflects our two core tests—will the proposed program lead to poverty reduction? And was it developed through a consultative process? Guidance on proposal development and the consultative process can be found on our website, and we will update it regularly to reflect lessons learned.

The Malagasy developed a program designed to increase incomes in rural areas (where the vast majority of the poor in Madagascar live—their average income is 41 cents a day) by helping to secure formal property rights to land, by improving a weak banking system to encourage lending to rural enterprises, and by training farmers and entrepreneurs in production, management, and marketing techniques.

Currently, many farmers are afraid to invest without secure title to their land. There is a 100-year long backlog to register land titles. It takes 45 days on average for a check to clear. The Madagascar program addresses these constraints to growth and poverty reduction, and proposes to do so in a coherent way. I would note that one component of their program, support for Agricultural Business Centers, is modeled on a program that USAID piloted.

On December 16, the MCC Investment Committee approved the Investment Memorandum which authorized the negotiation of a Compact with

Madagascar. The Compact is our obligating document; it consists of a rather standard general text and annexes that describe the MCA program goal, each component project, a multi-year financial plan and a description of the Monitoring and Evaluation plan.

The Investment Committee recommended the Compact to the MCC Board in February. The MCC Board of Directors approved the Compact on March 14 and we had our signing ceremony in Washington on April 18. I would note that, adding in administratively and legislatively required minimums for Board and Hill consideration of about two months, the signing occurred only six months from the time of the first proposal receipt. This is a remarkable time period for programs as complex as MCC Compacts are, and is a real tribute to the Malagasy.

In Madagascar, as in most MCA countries once a Compact is signed, we will have one/at most two staff that will be members of the Embassy country team. The MCC representative will oversee implementation and fiduciary controls. Implementation will rest with the Malagasy. MCC has a flexible governance and financial management model. A diagram in your handout lays out our general governance and financial structure and provides examples of who might play the various roles.

MCC and USAID

That's how we work. I'd like to take a couple of minutes to discuss how MCC and USAID work together, whether in eligible countries, threshold countries or non-selected Candidate Countries.

In **Threshold countries**, USAID plays the lead role in administering the program. MCC Board selects Threshold Countries, approves threshold programs, and provides funding. USAID works directly with the countries.

The Threshold program generally follows MCA philosophy, for example, countries make a proposal in an area where they are falling short on MCA indicators. Missions will work directly with partner countries with approved proposals in developing detailed implementation plans.

We will be asking the MCC Board to increase Threshold funding from \$40 million to \$185 million this Friday. MCC provides 7% overhead to USAID to administer the program to defray your costs.

The MCA can also be a tool for our Embassies and Missions in **candidate countries** that have not qualified for the MCA or the Threshold program. Indicators are transparent—they are posted on the MCA website and are being updated now. We want to be used as an incentive. Some of your projects may be able to help them improve on the criteria. You will want to avoid, of course, the misinterpretation that success in any particular project will ensure MCA selection.

In **eligible countries**, USAID plays a supportive role.

In the pre-Compact period, MCC does not have staff on the ground and deals directly with the MCA team established in the partner country, with the partner Ambassador in Washington, and with our Ambassador in each

country. In some cases, our Ambassador has designated USAID as our main point of contact and/or to coordinate logistical support. In all cases, our transaction teams will be relying on your knowledge and experience as they assess proposals and get to better understand the country.

Countries may seek clarification of what the MCC wants, may ask for guidance in how to go about a consultative process or pick a program, or may want help in developing their proposal. What do you do? Call us.

“Country ownership” is central to MCA program. One of the reasons for MCC existence was to gain un-earmarked funds so we could respond to country priorities. We realize capacity is weak in some countries but letting them decide is MCC’s way of increasing country ownership and building capacity.

I realize this may be difficult when officials ask for your opinion directly, or when your Ambassador is pressing for early progress, but please tell them that MCC wants their proposal and you don’t want to influence it.

Again, if you are approached regarding these or other areas, please talk with us before taking action.

Once a Compact is signed and an MCC representative is on the ground this should be simpler.

Conclusion

Cooperation between USAID and MCC is critical to both of our success.

We are working hard in Washington. Administrator Natsios and I see each other at Secretary Rice's morning staff meetings and have a standing monthly meeting dedicated to MCC-USAID coordination. And, of course, Andrew is a fellow MCC Board member.

MCC holds frequent country briefings for relevant working level AID officers and regularly gives broader briefings to your formal liaisons. And, of course, we work closely with USAID in its administration of the MCC Threshold Program.

In MCA countries, MCC teams are in direct, almost constant contact with Missions and receive excellent and critical support from you. We appreciate the helping hand you have given us.

We hope soon to be able to reciprocate with lessons of our own – lessons of success although I'm sure there will be a few others along the way – from which we can all benefit. We have considerable flexibility from Congress. We hope to demonstrate that this can work and help free you from earmarks. We also hope that our efforts when added to yours will make a real difference in reducing poverty and increasing sustainable economic growth in some of the poorest countries in the world.