



**MILLENNIUM
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REDUCING POVERTY THROUGH GROWTH

Transcript

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Millennium Challenge Corporation Hosts a Public Outreach Meeting

Speakers

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Transcript

Good afternoon, everyone. My name is Matt McLean. I'm the vice president for congressional and public affairs here at the Millennium Challenge Corporation. We want to welcome you very warmly to our home, to the MCC headquarters. And we know you're busy folks; we know your days are full, and so we appreciate your taking some time and joining us here today to talk about our board meeting that we had yesterday.

Let me outline how we'll go this afternoon. First, we will hear remarks from our CEO, Ambassador John Danilovich. And after his remarks, he will be able to take a couple of questions. And then after which, we will convene a small panel. I'm wearing two hats. I'll be emceeding and also part of the panel with Maureen Harrington, our vice president for policy and international relations, and also Darius Mans, our vice president for compact implementation.

I should just add one word before I turn the time over to Ambassador Danilovich. It's a real cornerstone of MCC that we really try to be as transparent as we possibly can. And two unique things I think that stand out for me about how we do business is that I'm not quite sure I know of other government agencies that, after they have a

high-level internal meeting, that they have such a public forum to talk about the direction -- some of the things that they're doing -- and we want to continue that. And we appreciate your coming and talking with us.

Also something unique about the MCC is the composition of our board, in that we have five government board members and four private-sector board members. And I will tell you that the private-sector board members are a real contribution to the discussion and the texture and the details of the operations of MCC. Just so you know who they are is Senator Bill Frist, Mr. Alan Patricof, Mr. Lorne Craner and Mr. Ken Hackett. And we're very grateful to have them on our board.

But without further delay, let me introduce our CEO, Ambassador John Danilovich. Before joining MCC in November of 2005, he was the U.S. ambassador to Brazil and also before that, the U.S. ambassador to Costa Rica, and before that, a long-time businessman.

So it is my great pleasure to introduce Ambassador Danilovich.

[APPLAUSE]

DANILOVICH: Thank you very much. I'm delighted to see such a great turnout today. I want to thank you for your ongoing interest in the Millennium Challenge Corporation. We've just had our fourth birthday in January, and we are proceeding strongly forward to the end of this administration and into the next, and I'll be talking to you about that a little bit later. I, of course, welcome you to the MCC headquarters.

I want to concentrate on three main issues today, including one key decision made by the board of directors yesterday. The three points I'd like to discuss with you today are the Philippines, our relations with Congress and the success and challenges of compact implementation on the ground. Let me say a few words about each of these.

First, the Philippines. At our December board meeting, we decided to take a longer period of time to review the Philippines' eligibility for a compact, and we in fact did that in the ensuing months after December. And we concluded that process at our meeting yesterday, and the Philippines was selected as a compact-eligible country. The Philippines passed the indicators for the last three years and, in fact, are one of the better performing countries in the lower-income category. And our selection of the Philippines as a compact-eligible country acknowledges that good performance on their part.

The Philippines is also presently participating in a threshold program with the MCC. As you know, the threshold program is a preliminary program that leads up to a full compact, hopefully, eventually, as it has in this case led up to compact eligibility. The process, however, continues. Compact eligibility entitles a country, in the first case, to be eligible to present a proposal to the MCC and, pending the due diligence and working together in the partnership to produce a good proposal based on a consultative process, the MCC and a specific country enters into a partnership of a full compact.

It is certainly our hope that we will do that with the Philippines. There is no guarantee that that will happen. There is now a process that begins, and it is that process that the Philippines is eligible for. I had the pleasure of speaking with our ambassador there this morning, Ambassador Kenney, and I hope to speak to President Arroyo in the coming days to congratulate the president, as I did with Ambassador Kenney, on their selection of compact eligibility, and we hope that we can proceed smoothly through that process with them.

Also at yesterday's board meeting, the board discussed the conduct of the recent election and the post-election situation in Armenia. We share the concerns of the international community about recent developments in Yerevan and call on all sides to avoid further violence and to act fully within the law. As we continue to closely monitor the situation, I have sent a letter to President Kocharian, officially warning him that the government's actions could have a negative impact on Armenia's continued eligibility for MCC funding. MCC will continue to review operational aspects of our compact with Armenia in light of these events.

Secondly, our relationship with Congress. As I mentioned, the MCC turned four this year. We were created, as many of you know, by an act of Congress in January of 2004. We celebrated our birthday. We thought it would be appropriate to do so on Capitol Hill. And many of the critical people for us on Capitol Hill were present on that occasion, in particular Congresswoman Nita Lowey was there, Congressman Joe Knollenberg, Senator Norm Coleman, a number of MCC board members, Alan Patricof, Ken Hackett, USAID administrator Henrietta Fore, ambassadors from our MCC partner countries, as well as our friends from the development community participated in this standing-room-only event. It was a perfect opportunity to highlight MCC's accomplishments -- accomplishments made possible through Congress' bipartisan support of our efforts over the previous four years.

In February, I testified before the House Appropriation Subcommittee on Foreign Operations. President Bush's budget request for the Millennium Challenge Corporation for F.Y. '09 is \$2.225 billion, which builds upon a momentum underway and allows us to fulfill our mandate to reduce poverty through sustainable economic growth in countries committed to good government policies. The hearing was, as it should be, rigorous and probing and allowed us to talk with one of our most important stakeholders, the U.S. Congress, about our progress to date and about our plans for the future.

I was pleased to note the positive and encouraging reaction of certain committee members. For example, Michigan Congressman Joe Knollenberg, for one, said, and I quote, "Accountability has been missing in our foreign assistance programs over the years, and the MCC fills that gap. I believe the MCC is the future of U.S. foreign assistance, and I call on Congress to fully fund the MCC budget request of \$2.225 billion for fiscal year 2009." Moreover, we will be seeking authorization legislation this year, and we look forward to working with Congress in that matter.

Thirdly and finally, implementation. As we continue to develop new compacts, MCC has heightened our focus on compact implementation so that we can do all that we possibly can to assist our partner countries to effec-

tively and efficiently deliver results in the lives of the poor. To facilitate that implementation, we are giving MCC resident country directors more authority to make smart, commonsense decisions on the ground, providing the best possible support to our partners countries as they implement their compacts, accelerating disbursements as more and more projects move from design to implementation, and maintaining progressive oversight of MCC-funded activities on the ground.

Our approach is working, and we continue to see results materialize on the ground in our partner countries around the world. This is the true test of our model and the truest manifestation of the difference we are beginning to make in the lives of the poor. There is nothing more gratifying to me than to be in the field to observe implementation progress underway. I saw it in Nicaragua and El Salvador, which I visited in January.

In Nicaragua, thousands of farmers and rural entrepreneurs are benefiting from technical assistance and business development services made possible through MCC funding. I met with President Ortega to discuss the ongoing progress on MCC's \$175 million compact. Despite political differences, we agreed that we share the same goal of fighting a common enemy: poverty.

President Ortega and I presented land titles to over 700 Nicaraguan families and launched the beginning of a transportation project that will rehabilitate a key segment of the Pan-American Highway connecting Nicaragua and Honduras. It was a landmark event where thousands crowded the Chinandega plaza to hear President Ortega publicly thank the United States government and the American people for their support through MCC, proclaiming at the end of his speech, "Viva los Estados Unidos." Who would ever have guessed it? But, it was said, and fortunately the Fox cameras were there to record it.

I'm not gloating over this, and I don't want my comments to be in any way misinterpreted. We're very proud of our program in Nicaragua; it's had an already significant impact on Leon and Chinandega, the two provinces in the north. President Ortega perhaps was moved to make the comment that he did make simply because an hour before we had toured an agricultural fair where the recipients of our aid had already been able to show him the results of increased market access, increased profitability and increased productivity in their work, and it was a nice thing to behold. And it maybe isn't a tectonic change in our relationship, but it certainly is a positive change, and it opens a window and keeps it open, hopefully, for building a relationship with the United States after our complicated history with Nicaragua.

And in El Salvador, where we have a \$461 million compact beginning, President Saca and I presented the first of thousands of scholarships to students attending vocational training funded by MCC's compact. I also received a copy of El Salvador's first-ever strategic environmental assessment. MCC takes issues pertaining to the environment very seriously, and El Salvador's assessment reflects our shared commitment to and responsibility for protecting the environment as we move toward sustainable development and economic growth in that country.

In February, I visited Morocco to monitor progress on our \$698 million compact partnership with the kingdom. We reviewed the plans for increased agricultural productivity among farmers growing olives, dates, figs and almonds, and we also visited fishing villages where MCC funding is transforming small-scale fisheries by modernizing the means of catching, storing and marketing fish. I also reviewed plans to enhance artisan activities in the Fez Medina, where MCC funds are assisting artists and potters to move from traditional wood-burning and polluting kilns to more environmentally friendly gas ones.

So in all now, MCC has a portfolio of 16 compacts with countries in Africa, Central America, Eurasia and the Pacific, totaling \$5.5 billion. We have signed 15 threshold programs around the world and are preparing later this month for three more threshold signings: one with the Kyrgyz Republic to fight corruption and improve the rule of law, one with Niger to promote growth education, fight corruption and improve the business environment and one with Peru to increase immunization rates and fight corruption. Peru will be our third threshold country in the Western Hemisphere. Paraguay and Guyana are our first two, and we have, as you are probably aware, three compact countries in the Western Hemisphere in Central America: Nicaragua, Honduras and El Salvador.

Implementation, however, is not without its challenges. As the details of the implementation requirements become clearer in each of our compacts, we continue to refine the scope of our work to maximize the impact of our investment. Darius Mans, our vice president for compact implementation, will speak more about how we are reestimating some of the projects in our compacts when the panel convenes.

Let me underscore that we continue to carefully manage the external economic pressures that come from being in full-fledged implementation that are impacting these projects, pressures such as dollar depreciation, increasing energy and transport costs, increasing construction costs, which we are facing worldwide, as are all development agencies and all development banks. We are not alone in this challenge, but we are facing this with, we believe, robust solutions.

We will adjust to changes that occur during the implementation of infrastructure projects as feasibility and designs are completed. Making these adjustments as we go forward is part of the normal cost of doing business, and we will continue in each of our compacts to various degrees throughout the life of the project. We are working with partner countries to address these challenges, and possible options include revising the project's scope in a careful manner that maintains its focus and spirit, increasing the amount of partner-country contribution and cost sharing by bringing in other donors into a given project. And we're also working on developing detailed best practices to refine our ability to anticipate these kinds of uncertainties in future compacts.

Africa remains the largest recipient of MCC grants, and we have committed more than \$3.8 billion in nine countries in Africa over the past four years. Last month, President Bush visited Tanzania and signed MCC's compact in that country with President Kikwete in Dar es Salaam on February 17th. Our \$698 million compact with Tanzania is our 16th, and I would like to conclude my remarks this afternoon with the words of President Kikwete of Tanzania.

After the signing of the compact, President Kikwete turned to President Bush to thank him for being such a good friend of Africa and for creating such a legacy of hope, including, in President Kikwete's words, "the legacy of assisting African nations and peoples to build capacity for their own growth and development. And today, with the signing of the MCA compact, you are making it possible for the people of Tanzania to chart a brighter future underpinned by growth, opportunity and democracy."

That is the power of MCC compacts in Africa and around the world, and we are committed to strengthening that impact to create a more peaceful, prosperous and secure global community for all of us. With this overview, I'll stop here. I'd be very happy to take any questions which you may have before turning the podium back to Matt to introduce our panel. Thank you all very much. Any questions?

[APPLAUSE]

Thank you. Any questions on our board decisions yesterday or our implementation process? How are you?

QUESTION: It's been two years since the ambassador of that embassy launched the program in Armenia, and (inaudible) can't comment on the current status and following the presidential elections, there have been some polls to freeze or to suspend on the future participation in that program. Your comments, please.

DANILOVICH: We have a full compact, for those of you that are not aware of this, a compact agreement with Armenia for \$235 million. And on a number of occasions, it has been my pleasure to meet with Armenian government officials, both here in Washington and in Yerevan. I have met with President Kocharian on two previous occasions and spoke with him on the telephone in January with regards to our MCC aspirations that elections be held in a correct manner in Armenia. We have been very concerned since the elections, as have many of us in the development world as well as governments throughout the world, at events that have transpired since that time and the state of emergency.

It is incumbent upon a country that participates in our MCC programs to maintain a good government. As you know, we have 17 indicators, and initial acceptance in the MCC programs is predicated on good performance on those good government principles, those principles of good governance and those principles of democracy. In the ruling justly category, we have three specific indicators -- political rights, civil liberties and voice and accountability -- which specifically are referred to as democracy indicators. A country's continued participation in our program depends on their good performance on these indicators.

We are concerned, because of events which have transpired in Armenia, that Armenia's performance on the indicators will diminish. I made these aspirations -- our desires on our part for good elections to be held in Armenia -- very clear to President Kocharian when I spoke with him. Yesterday, as I've mentioned, the board took the decision to issue a warning letter to Armenia, calling for a return to normalcy, for a lifting of the state of emergency. That letter has been delivered to President Kocharian.

We are reviewing and watching events there very closely. We very much hope that there will be a return to a normal state of affairs in the immediate future, as I know all of you do, and all of us in the international community hope that that will be the case. A warning letter -- just to be clear on how the MCC functions -- is a preliminary step that hopefully will not have to be acted upon that could lead us up to exercising our right to either suspend or terminate a country's participation in our program. We have not, to date, either suspended or terminated a compact country. It is not a prospect which we look forward to in any way.

But we are a program which is different and demanding in development assistance for the U.S. government. The U.S. government has many outstanding programs in development assistance. We'd like to think that we're one of those programs, but we are a program with a different mandate, not simply to reduce poverty to sustain growth but to do that in countries which have good government policies. That's the admission ticket; that's the ticket for remaining part of the program, and that is the ticket for what we hope will eventually be a consecutive program in many of our countries.

So, with those remarks, I think you have a clear understanding of our present relationship with Armenia and what we hope will be our relationship with all of our compact countries over time. Thank you.

QUESTION: Perhaps this is a question that would be better addressed to the panel, but are there any other compact countries, besides Armenia, about which there are current concerns, that perhaps warning letters have been sent or are under consideration?

DANILOVICH: I will allow the panel to discuss it in greater depth, but let me say, just as an introductory comment to a longer discussion you can have with the panel, we are always in regular dialogue with our partner countries at all stages, whether it's a threshold program or a compact eligibility or eventual compact status, and we work through not only the compact development stages but also the compact implementation stages.

We look at this strongly as a partnership. We want these countries to succeed. We want our relationship with them to succeed. There are many components to that success: the creation of the selection, the creation of the program, the due diligence, the actual implementation, the adherence and continued compliance to the indicators.

There are some countries whose performance since selection, since signing, since implementation have diminished on indicator performance. In those countries, we've entered into a policy improvement plan, and almost all of the countries that have showed a reduction in performance below the median have a plan that we are working with to find the correct remedial action to get their indicators back above the median performance. This is a positive effort with countries; it's an engaged effort.

Some of these performance changes are due to increased data, new data, redefined data. It's hard for some of the indicators to perform in a predictable way over a 365-day cycle. All of this is taken into account in the relationship with the country, but I'll allow the panel to explore it further. But where there are these problems where

there has not been a serious policy reversal, which is a different situation than a warning, we are in discussions with countries trying to improve their performance.

Yes? We need to get two microphones in this room.

[LAUGHTER]

QUESTION: My question is on the implementation side of the host countries with your program and the preparation for the locals to make sure that they are understanding these projects and they'll be able to fully participate in the advantage in terms of technology and productivity.

DANILOVICH: We at the MCC through our embassies and through our ambassadors, once a country is eligible to be considered for an MCC compact, embark upon a very extensive education program, not only in the capitals but more importantly in those areas of the country which, hopefully, based on a consultative process taking place in that country, will produce eventually the proposal for that particular country. We have met with varying degrees of success, mostly good success.

But where we haven't met with, let's call it, sufficient success with engagement and education of people as to what they should be responding to with regards to the MCC, we have encouraged countries to make sure that they have a consultative process which deals with all segments of society -- with civil society, with the poor, with women -- and it's broadly based so that we can have a proposal which reflects the needs of the poor, not necessarily the government needs or specific minister's requirements or whatever but those that reflect the needs of the people that are eventually going to be the beneficiaries of our program.

I have seen and in countries we have a fairly extensive media -- both radio and television and printed -- outreach to get our information out about the MCC, what the MCC programs are, what the Millennium Challenge Corporation has the ability to do in a country. And we are finding that countries are -- in country and also here in Washington -- taking very aggressive steps to become MCC eligible, to educate themselves on the indicators, to educate themselves as to what are the possible types of programs that the MCC can fund and are contacting us at early stages when their, let's say, perhaps prospects for being compact eligible are a bit distant but wanting to find out, educate themselves, coming to us for advice on how they can do it to become part of the process, as well as becoming more engaged in the process once it actually begins once there is compact eligibility. Thank you.

KRAUSE: Robert Krause with the QED Group. Do you have any progress to report on Ukraine yet?

DANILOVICH: Yes, I'm just trying to look over and see if some of my colleagues are here that might want to give a more detailed report, but I don't see specifically -- the answer is that they are eligible, and we are engaged, and we are hoping that the domestic situation in the Ukraine will stabilize to the extent that they can be more

fully engaged with coming to us with a proposal. So the answer is we don't have a proposal yet; we do hope that they will be able to, in due course, present us with a proposal.

Any further questions? Yes, yes?

YOUNG: OK, Frank Young, Abt Associates, could you tell us a little more about the agreement recently signed with DFID and what it means in terms of collaboration between headquarters as well as collaboration in the field?

DANILOVICH: Thank you for asking that question. I mentioned that I was in Morocco. After Morocco, I went to London and, with the minister for development in the U.K., the MCC and DFID, signed an agreement of cooperation and coordination with them for efforts to be at this stage, at least primarily, on a cooperative basis with regards to diagnostics and feasibility studies in five African countries.

And this is a very, we feel, a significant step on both of our parts and a significant representation of efforts being made in the donor community in general to focus their efforts in a combined and coordinated way to achieve greater impact and effect.

We are actively engaged with the private sector. We're engaged with a number of other national institutions. We're engaged with a number of philanthropic institutions on a very aggressive way to find ways to combine our efforts, to focus our efforts, to achieve greater impact. I'd like to have Maureen Harrington, who is going to be at the center of the panel, who is our director for policy and international relations, who with her team was very instrumental in achieving that agreement with DFID, explore that with you further.

But, we consider our agreement with DFID to be a milestone in terms of our cooperation with national governments, and specifically Minister Douglas Alexander and his team were very forthcoming over, I suppose, over a six-month period in working towards this agreement. We started in the fall of last year to have meetings with DFID in the U.K. and also here in Washington, and they were followed up by a number of successive meetings in the new year, 2008, with the eventual signing last month. Thank you.

Thank you very much. Thank you.

[Applause]

MCLEAN: We would like to go ahead now and convene our panel this morning, and Darius can join me up here. What we'd like to do is start off -- if Maureen, if you can share a few words. Maureen is our vice president for policy and international relations. She's responsible for managing the annual eligibility and threshold country selection process; executing the threshold program; monitoring the trends in development, policy and practice; and promoting effective donor coordination. Maureen will talk about the board's decision to select the Philippines as a compact-eligible country.

Then if we can hear a few words from Darius Mans, our vice president for compact implementation. He is responsible for managing the implementation of our compacts. We now have 16 compacts valued at \$5.5 billion, so no pressure on Darius at all. Nevertheless, he will focus on the challenges of implementation and some of the widespread economic pressures that are affecting certain parts of our compacts.

I will join the panel and have a few words on some legislative issues. Then it will open up for some questions. Thank you.

HARRINGTON: Thank you, we'll try again. That sounds like it's working.

Well, good afternoon, and I'd just like to echo Ambassador Danilovich's remarks in thanking you all for coming. It just never fails to amaze me all the interest and support we feel from our colleagues in the development community, so thank you for being here.

I was going to talk just a little bit about the decision that the board made yesterday to select the Philippines as eligible for a compact. At our annual selection meeting last December, the board deferred a decision on compact eligibility. As you know, we select countries once a year, and it's normally at the end of the year. And they asked us for some additional information, which we provided. And we are pleased to announce that the board decided to select the Philippines as eligible for a compact. And so now the Philippines joins Malawi as one of the newest members of the MCC family, in terms of being compact eligible.

Those were the two new countries that were selected for F.Y. 2008 compact eligibility. And I'd like to talk just a little bit about how the board makes a decision about choosing a country to be eligible for a compact. First of all, we look at their country scores on indicators that MCC uses in the selection process. And the Philippines scored very well on our criteria. They have met the criteria for the last three of four years that we've been monitoring progress, and in fact they are one of the top performers passing -- in the low-

income category -- passing 14 of the 17 indicators that we use for the selection process. So that's the first thing that the board looks at is how does the country perform on the selection criteria.

The next thing we looked at is the Philippines is a threshold partner, and so the board looks at how is our relationship going. Has the government delivered on the commitments made under the threshold program? And we are very pleased with our partnership with the Philippines on the threshold program. They have met or exceeded the program targets, most of the program targets.

And some of the highlights include -- we're working with the ombudsman's office, which many of you know is the key official in the Philippines that's responsible for investigating and prosecuting corrupt activities. And there have been significant gains in prosecution rates in the ombudsman's office, moving from 19 percent in 2006 to 55 percent in 2007.

The other aspect of our program works with the revenue-generating aspects of the Ministry of Finance. And there we're seeing that the Revenue Integrity Protection Service -- excuse me -- has doubled its caseload, so making progress in terms of how many cases they're investigating. And 18 tax and custom officials have been suspended under the program; 28 brokers -- customs brokers -- have also been suspended. And then we're also seeing progress in the government's efforts to investigate and prosecute tax evaders, which is another element to the program.

And while we're speaking about the threshold program, I'd also like to acknowledge the work of USAID; many of our colleagues are here. But they are the lead in implementing the threshold program and have played a very important role in the work that's happening in our partnership with the government in the Philippines.

Third, when the board's looking at eligibility for a compact, they look at what is the opportunity that's there for MCC to work in partnership with the government to reduce poverty. And in the case of the Philippines, we see that there's a good opportunity for us there to make a difference. There's a great need of need in the Philippines. Over half of the country's citizens of approximately 83 million people are living on less than \$2 a day.

But we're also seeing good opportunities for growth in the Philippines. There has been an improved economic management in recent years, which has been acknowledged by both the World Bank and the IMF, with the government bringing down their fiscal deficit from over 4 percent in 2003 to approximately 1.5 percent in 2007, which is a significant effort. We're also seeing private investments increasing and responding to those policies.

And we also believe that there's a high capacity in the Philippines to be a good partner for the MCC in reducing poverty with a strong administrative capacity and an active and organized civil society, and we're looking forward to working very closely with the government in the Philippines to reduce poverty. So that's just a little bit about what the board looks at, and we'd be happy to take your questions after Darius and Matt have a chance to make their remarks.

MANs: Thank you, good afternoon everybody. Again, I'm Darius Mans. I'm the vice president for compact implementation. There's a lot of good news from our compact countries, countries that are well into implementation of the program.

As you may know, we now have 16 compacts for a total of \$5.5 billion under implementation. Eight of the 16 countries are now into their second or third year of implementation and are already starting to achieve tangible results. In those countries, the compact programs are working to link farmers to markets and increase their incomes that we're already beginning to see; providing credit to underserved sectors of the economy; as the ambassador mentioned earlier, formalizing land rights; and we're also beginning construction on a number of major infrastructure projects.

Three of the 16 compacts are just in their first year of implementation, and we expect five more will enter into force this year. In those countries, they are putting in the foundations for effective implementation. They're put-

ting in the key systems of accountability. They're pursuing project and specific policy reforms that are essential for success of the programs that will be funded under the compact. And they're starting major procurements. They're conducting a lot of detailed designs, environmental studies and social impact mitigation measures where that's needed.

But now as part of the ongoing review of progress on compact implementation, we are facing some challenges, which the ambassador alluded to. We, like everybody else who's financing infrastructure, developing infrastructure projects around the world, including local and state governments in this country, are being faced with a storm of much higher costs than anyone expected, higher costs that have blindsided everyone in this business.

We're seeing unprecedented increases in the cost of construction due to a number of factors. One is a global boom in construction, historic highs for the oil price and major devaluation of the U.S. dollar. And as the ambassador mentioned earlier, other factors that have influenced project reestimates are the availability of more detailed information coming out of full feasibility studies and full designs and changes in the scope of projects, which are normal during the process of ongoing consultation with stakeholders and changing conditions in the country.

When you look at the challenges we are facing on higher than estimated costs, we have a couple of options that we're working through with each country and finding very practical solutions where we're finding higher than expected costs. One of those is simply to go back and look at the technical specifications and see if there is a way to revise them so that they are consistent with country conditions and with the available resources that we have and ensure that there will be value for money in the funding that's provided and that we achieve the broad objectives set out in the compact.

A second way of addressing this is seeking parallel financing from the governments themselves or from other donors. We're also looking to repackage projects into subprojects that are scalable and to get procurements going in segments to be sure that, with the resources that we have, we can achieve real results quickly. And in a few cases, we are looking at the option of reallocating funds within the compact itself, from one project to another or from one phase to another.

We're applying these in every case. And in every case where we are already seeing much higher than expected costs, we have come up with very practical solutions, working very closely with all of the partner countries. But going forward, there are some important lessons that we're learning from this, which we are already incorporating in the way that we're developing new compacts and the way we're approaching this for all of the compacts that are under implementation, one of which is making sure that we are actively monitoring this and very early on identifying where this is likely to be a problem, given continuing global uncertainty around prices and around the dollar so that we can find solutions very quickly and develop responses that will be effective in ensuring that the compact objectives are being met.

We are also, as we look ahead to new compacts, making sure that we have conservative estimates going forward on the contingencies that we build into the costs and budgets for the compacts and making sure that we have a consistent approach in applying conservative estimates on input costs going forward for large infrastructure projects. And then finally making sure that lots of the preparation work gets done very early on -- have very early project preparation, working closely with the compact countries to conduct all the feasibility studies that are required to get designs done as quickly as possible and to ensure that the required environmental and social assessments are done early in the compact development process and to set compact budgets accordingly.

That just gives you an overview of some of the challenges that we're facing on implementation but also some of the good news that's already taking place with our countries that are well into compact implementation. Thank you.

MCLEAN: Thank you, I just want to say just a couple of words regarding possible legislation for MCC. The notion of legislation that would make some adjustments to the MCC founding legislation has been kicking around for a few years actually. In fact, before I came to MCC, about three years ago I was on the Hill and helped draft a proposed legislation. Of course, nothing has passed at this point, but the notion that a few adjustments to the founding legislation for the Millennium Challenge Corporation, again, has been kicking around for a little bit but in fits and starts.

We understand that on the Hill and in other places there may be renewed interest in adjusting some of the legislation, and I want to just outline a little bit for you some thoughts that we have here. We would welcome a discussion regarding legislation that would remove some constraints to our model and improve our effectiveness out in the field to reduce poverty through economic growth.

There's a few provisions that are being talked about. The reason I can't go in too much detail, in terms of this is where our position is, is we're still seeking advice from folks in the interagency process and on the Hill. But just to give you the flavor of the conversation, one provision would be the notion of concurrent compacts.

Currently, the law does not allow us to have more than one compact at any one time. A provision that would allow us to have more than one compact at a time with a particular country would, we feel, motivate further policy reforms in those countries that are currently trying to implement their compact because they would be incentivized for another one.

It would also allow us to move more quickly, when countries are developing their compacts, on those projects that are less complex than some of the larger infrastructure projects that just have long lead times. Because we only have one compact at any one time, the curtain only goes up once, and so everything has to be lined up as much as possible when we sign the compact. So this would allow us to be a little bit more flexible in the different projects within our little portfolio within our compact.

There are some other benefits as well about circling back and focusing our resources on our best performers, those who have the greatest chance to really make progress to reduce poverty through economic growth. Another provision would be longer compacts. Currently, the law does not allow us to have a compact for longer than five years.

We're still in the early stages in many of our compacts, but as we scope out and plan out through the life of the compact -- I think we're OK so far, but there may be some projects, because of the sophistication and complexity, that we may want to go more than five years or need to go more than five years. Also, when countries are proposing programs, perhaps there are some things that are a little bit larger and are a little bit more complex that we don't want to say no to if they're really good ideas because of the five-year window. So that's another provision.

Another provision that folks are talking about is an ability to leverage our investments in MCC countries that are neighboring each other. In certain places around the world, we have little clusters of MCC family countries. For example, in Central America we have El Salvador, Nicaragua and Honduras, who are terrific partners, and so there may be opportunities where we can leverage our investments across the border to maximize or get a maximum benefit across our countries.

There are a few other technical fixes. For example, as I mentioned in the opening, we really value our private-sector board members, and they have certain terms, and their terms are time limited -- and a provision that would allow them to keep their seats until either they're renewed -- their term is renewed -- or their replacement is selected and seated would be very helpful. We really value our private-sector board members, and we don't want a situation where their term runs out and we're short a few. We really value their contribution.

Just one other particular technical fix that is considered is currently we have a limitation on our 25 percent of our funding for LMIC. Right now it's written so it's 25 percent of our monies that we will provide to compacts. Well, we don't know exactly what we're going to sign for compacts ahead of time. So it will allow us, like the threshold, which is a 10 percent limit on the whole appropriation amount, just to simplify some of the math there.

There are some other provisions, but really that's the flavor. Again, it's very preliminary. We want to seek the advice of Congress, and we're seeking the advice of other agencies in the U.S. government. And that's kind of where it is. But, I think it's one of those (inaudible) and beyond that, we don't have any firm policy yet, but we hope to engage the Congress and maybe get something this year. We'll see.

But we'll open it up for questions now. And if you'll use the mike if you have them, because we are videotaping.

[CROSSTALK]

[Laughter]

QUESTION: I hesitated, having already asked a question of the ambassador. This is for Mr. Mans. It would be follow up to what I asked the ambassador. He mentioned the performance improvement plans. Can you tell us which countries for which such plans already exist or are being considered? And specifically can you tell us how Mongolia's performing?

MANS: Actually, Maureen Harrington would be the best person to respond to it.

HARRINGTON: Although I'd be happy to let you give it a try.

[Laughter]

There are 12 countries that are currently participating in the policy improvement process. It's hard to see you. And I think -- and those countries are Cape Verde, Armenia, El Salvador, Madagascar, Mozambique, Namibia, Honduras, Benin, Mali, East Timor, Ukraine and I'm missing one, to be honest. I don't know if anyone in the team knows which one I missed, but we can certainly get a list.

But the whole idea is that at the board meeting we -- the team conducted analysis to determine if there had been a significant policy reversal, and because if there is a significant policy reversal, that's something that the MCC would take very seriously and could potentially invoke the suspension and termination policy. For the countries that are no longer meeting the criteria this year that are compact eligible, we found explainable reasons for those declines in performance that were either related to countries changing income categories -- so as a country moves from the low-income category to the lower-

middle income category, the test becomes harder. We didn't want to punish countries for their good growth; that's what we're hoping happens in all the countries that we're working with.

There are other instances where we added new indicators where we're looking at the other natural resource management indicators in a land, like an access indicator this year, and so we didn't want to punish countries for us changing the test again. And then there were other technical issues related to new information or new data sources. And then we did see slight declines in some countries, but we did not feel that it was a significant policy reversal that would warrant the suspension and termination policy being kicked in.

In terms of Mongolia, let me quickly look at their scorecard. They are one of our top performers. If you could just give me a minute, and I know this is an incredibly useless tool for a group of this size, but MCC has a scorecard for each of our partner countries, where we rank countries in the extent to which they rule justly, invest in people and create an environment for growth. And Mongolia scores above their peers in 16 of the 17 indicators, so they really are one of our top performers. The one indicator where they score below their peers is in primary education expenditure rates.

Are there other questions? Jennifer?

COOKE: Hi, Jennifer Cooke from CSIS. Matt, maybe this is for you. I wonder, in the discussions with Congress, what are the critiques or the skepticisms that really worry you most that will be perhaps the most difficult to answer?

MCLEAN: Well, I think with Congress -- is we've been around for four years and we have -- first task was to get up and running and to get a portfolio of compacts. And over the last few years, we've done that. And I think when I was on the Hill, it was, "Gee, we're appropriating you money, but you don't have any compacts."

Now nobody's asking us if we can develop a compact anymore. We have 16 compacts. They're sophisticated compacts that the countries are designing and the countries are implementing, and they're valued at \$5.5 billion. That's a pretty significant portfolio. That's a very significant portfolio. So nobody's asking that anymore.

What they are asking is, "OK, now we're appropriating money. Where's all the progress? Where's the road? Where's the irrigation system? Where's the" -

- and I think one of the challenges we have is to help educate the model that we have. And I think there's a recent report that came out by Oxfam USA that was actually quite helpful in outlining -- it was a commentary regarding the future of foreign aid or something like that -- but they gave some really nice commentary about long-term development assistance.

And MCC was created not for a year-to-year investment of assistance. It was designed to be a long-term investment of assistance, where we won't swing back and forth year-to-year based on either funding or this or that. And what is the challenge is that they're saying, "Look, we're not going to have tons of visible results in year one." We'll ramp up year two. Three, four and five is where the big money's going to go out, where shovels will be in the ground, heavy infrastructure -- I live out in Manassas, and so we have a lot of roads. Well, they announce the road and you don't see it for five years. Well, things are even more difficult in developing countries, especially when we're trying to get the countries to do the work.

Our job is not to be under pressure to go faster, faster, faster and then shove the country out of the way and -- because I'm under pressure to deliver faster is push them out of the way and do it ourselves. That's not the model. The model is to do everything we can to help the country do it. And sometimes that takes a little time, in addition to the challenges of heavy, complex infrastructure that the countries so desperately need.

And so I think that, as it relates to what is it that the MCC is supposed to be about -- long-term development, not a year-to-year endeavor but long-term engagement that requires a little bit of work and especially a lot of work by the countries so that when we pull up stakes when we're done -- look, we can build a road; we can do that. But it's not important whether we can build the road; it's important whether they can build a road with world-class standards, with environmental impact, with economic rates of return and all these things that are quite sophisticated that these countries are telling us, "Nobody's asked us to do this before." And we're saying, "Well, we're asking, because we're investing."

We want to approach this more like an investor rather than a traditional donor. So I think that model is probably the biggest challenge we have because we know that funding -- because funding's tight. I mean, I've been on the other side. There are difficult decisions to make with how we receive our funding from Congress. These are tough decisions. And I think there has to be a greater value -- and I think this is where I think you can help as well -- a greater value to this long-term commitment to assistance because this is where countries are going to change.

Now we have a huge influence -- (inaudible) and others -- about policy reform, and she can talk more about that. And that is real. And usually that doesn't cost a lot of money; that's through incentives. And that's happening. So I think that that value of long-term is probably our key challenge as we go into this year.

QUESTION: In December during the outreach meeting, you had announced the Stage II threshold program. I was wondering if you could elaborate more on that.

HARRINGTON: At our December board meeting, the board made the decision to make several of our special countries that had programs that were coming close to finishing available for a second round of their threshold program. As you know, most of these programs are two years long, and the way our indicators work, it takes some time for the progress that countries are making on the policy front to affect their scores.

So a decision was made to choose three countries to be eligible for a Stage II threshold program, and it's Paraguay, Zambia and Albania. And so the MCC team put together an analysis of the country's performance on the indicators so that our country partners could understand what different policies they have in place are either affecting their indicators positively or negatively. So that's been prepared.

We've made country visits to Zambia and to Albania. We are holding off on Paraguay. They have elections coming up, and so we're delaying our engagement there on the phase two of the special program just for a couple of months. But our country partners are putting together proposals and the process is moving forward.

KRAUSE: Robert Krause with QED. Two quick questions: Have Saakashvili's problems affected the compact implementation in Georgia at all? And secondly, how's your cash flow? If Moldova were to come forward with their compact proposal in a month, do you have the money to fund it?

DANS: Oh, in Georgia I can tell you that it has not -- in fact, there are a couple parts of the Georgia compact which I would say are absolutely exemplary. I was in Georgia recently and absolutely inspired by what I saw on the Georgia energy project, which focused on emergency repairs on the pipeline. Not only were they repairs done on time on budget, but they have led to, I think, some very important changes in the way that the gas company does business.

It's helped them to become much more profitable. Now they are reinvesting themselves, their own resources, into pipeline rehabilitation, modernization. It's helped them to improve the way that they approach environmental management on gas repairs. So it's actually a very good story.

On the roads program, we have higher than expected costs because of the facts that I mentioned earlier but now have reached agreement with the authorities around how we're going to address that in a very practical way. And so that's moving ahead with the expectation that we'll be breaking ground on several very important roads going to Tbilisi in the next couple of months.

MCLEAN: The lay of the landscape for funding is that by the end of fiscal year 2008, with likely or planned signing for the Burkina Faso and the Namibia compacts, we should have all our money committed that we have appropriated -- Congress has provided to us for '07 and the years before. So by the end of this fiscal year, we will essentially be out of money as it relates to monies (inaudible). For F.Y. '09 and how we're scoping that out, of course we don't have an F.Y. '09 appropriation yet; so Congress' job is to determine how much money we will need.

We know that the president has made a request of \$2.225 billion; of that, \$1.88 billion is expected to be dedicated to compacts. We have, I believe, eight countries that are eligible who have not yet signed compacts. So clearly if the average compact size is -- I'm making this up now -- \$400 million -- eight countries vying for that more limited amount of money for compacts -- it means we have more countries than we have money. But it is intended to be a competition for funds, not only to get into the program but also for developing the compacts.

So specifically in terms of Moldova, they're in among those eight. We are very pleased with the progress that Moldova is making, and I think they're making very good progress; so you will see, but I think we're hopeful.

But just in terms of lay of the landscape for funding is that is the scope for F.Y. '09, and we'll see how it plays out. Like I say, this is a decision that Congress has to make and determine if they're going to fully fund the president's request or some other number. We feel that we have a very good pipeline of countries in line for developing compacts, in particular now that we have the Philippines. They have perhaps three months worth of catch-up to go, but we believe that it's a terrific opportunity, and so we -- hopefully that the president's request will be fully funded for F.Y. '09.

HARRINGTON: Any other questions?

MCLEAN: He asks hard questions, so I'm not quite sure we want to move the microphone over there. As long as he's not...

[CROSSTALK]

QUESTION: Actually, that's not true. I'm Larry Nolson (ph), the Hewlett Foundation, and this question is for Matt, though, however. And actually you answered part of my question with your last response on funding. And I don't want to put you on the spot, and you probably wouldn't want to respond about prospects for the '09 appropriation, but the budget debate has not started off exceptionally well for foreign policy programs and must give you some concern.

What I'm wondering, though, is you face this every year, where you've gotten significantly less resources, and you've had to cope with it. I was struck by the comments about how you're making adjustments on compact implementation because of factors you really didn't anticipate or the severity of them on costs and energy prices, et cetera. What lessons have you learned over the past four years about dealing with reduced resources? What are your coping mechanisms? Are you kind of out of some of those things you've used in the past?

And based on your last comment, is there any sense -- now you have eight countries competing, and they recognize that there is limited resources and maybe they've got to step it up and produce a better compact. Will there be a quality -- qualitative -- advantage in having a tighter budget than you have in the past?

MCLEAN: Yes, good, thank you for that question, and I think a few things. One is that in years past -- I think previous three years -- the president had requested \$3 billion, and I think the year before last, just \$1.75 billion was the actual appropriated amount. This year, it's \$2.225 billion, which is still -- I think it's \$680 million above the enacted level from last year.

I think that Congress has looked at this most recent presidential request for \$2.225 billion and looked at it and will continue to look at it pretty carefully. But I think what it does is it really fairly represents the level of work that MCC can do in F.Y. '09. And when you look at the array of countries, particularly in the compact countries but also in the threshold and the other things we're trying to do, I think that we absolutely can justify \$2.225 billion in terms of the amount of work.

Also I should say that one thing that is different going into F.Y. '09 that we didn't have in previous years is, in previous years, Congress was very generous with us, and we always had a carryover of a certain amount of funds. But because we accelerated pace of putting compacts together or supporting our countries to put compacts together -- we now have 16 compacts at \$5.5 billion, as I mentioned -- as it relates to committed funds, we will be out of money at the end of F.Y. '08. So there's not this carryover, this additional -- not additional money but money that we can carryover from one year to the next that we can line up our countries easier. The competition for more limited funds is more significant in F.Y. '09.

And I think the last thing I would say is that part of the education is to reinforce the notion that upfront funding, the predictability of funding, is a major lesson learned, not only from MCC but from the development community at large -- is this ability to have funding that will be predictable, that it's not one year and then maybe we'll

get it the next year, but rather -- especially when we're doing long-term projects over five years, these countries, but more particularly the folks who are going to be doing the implementing, need that predictability of funds.

If we have a five-year infrastructure project and we only have money for half of it, I would imagine that a firm who is tagged to or who wins a bid to construct that will either not bid because of the unpredictability of funds if we have to go to year-to-year, or, if they do win a bid, they're going to jack up the price to cover the uncertainty or cover the risk. So there are a lot of really good reasons for a predictability of funds to make sure that we can continue the practice that we currently have, which gives MCC a great advantage as a donor to engage our countries -- is that when we do sign a compact, we can commit the funding for the full five years of that compact. We can commit that and set it aside and say, "We're good for it; we're a good partner, and we can act in good faith because you know that we're setting aside the full amount of that money."

And so those are the three comments I think I would add in terms of funding. And, you know, this will be a good year. I think we have a good year to make our case.

Last questions? We have a last one.

QUESTION: I'm just wondering how influential MCC has been with domestic business policy reforms. For example, the El Salvadoran finance minister has been able to lower the amount of days it takes to open a new business but not the cost. Thank you.

HARRINGTON: You are really testing my access to the facts. In a number of our threshold countries, we are paying for or providing assistance to countries that are trying to either reduce the number of days or the cost to registering a business. That's one of our indicators. We also use similar data from the World Bank, from the IFC actually, related to the days and cost to register property, which is now part of our land indicator. So in terms of the specifics, I probably need to get back to you.

Do you have -- do you want to comment on that?

STAFF: [OFF-MIKE]

HARRINGTON: Thanks.

MCLEAN: I'm wearing my emcee hat now. I would like to thank everyone for making the time to come and visit with us today. We appreciate your ongoing interest in MCC, and we invite you to visit our Web site at mcc.gov, and also I think this video will be on there as well. So thank you again for coming and visiting us this afternoon.

[Applause]

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