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P R O C E E D I N G S

MR. LOWERY: We're going to get started. Probably a few people will filter in, but I want to get going. I think it's being webcast, and probably the most appropriate thing is to get going.

First of all, welcome to this presentation by the MCC on what's primarily about the FY05 process in terms of the criteria and methodology that the board will be using for selecting FY05 countries. As you all know, we went through this in the spring, and we wanted to gather again with a public group to go through this process for you to understand what we're trying to do, answer any questions you have, receive any criticisms, what have you.

In the spring, we thought that the process went pretty well. It helped us refine what we were doing, and we have said all along what we're putting down in terms of criteria is not going to be perfect and it's not set in stone, and we want to look at it from year to year and try to make changes. We want to obviously keep broad continuity, but we will make changes.

So that is the main purpose of our discussion today, but in addition, because obviously we can only do these public meetings every now and then--and I think this is our fourth of fifth--we wanted to talk to you a little bit and give you an update on some of what's going on in terms of the operations and also just kind of give you a

little bit of a reflection on what's going on out in the field in terms of the 16 countries that were selected by the board on May 6th.

So, without further ado, let me introduce who is going to be talking to you all today. Paul Applegarth is the CEO. He will be providing a general update and also talk about the criteria and methodology for FY05. John Hewko is the Vice President for Country Relations, and he'll give you a good update on how we're starting to see the process gel in terms of the 16 countries. And Maureen Harrington is a senior adviser at the MCC and has actually been probably to more of the MCC countries than anyone else on the staff, and is going to talk to you a little bit about what she has been able to see out in the field on her visits. Always interesting to introduce your boss, so I will, without further ado, say Paul Applegarth, and thank you very much again for coming.

[Applause.]

MR. APPELGARTH: Good morning. Speaking of introductions, since Clay didn't introduce himself, that was Clay Lowery--is Clay Lowery, who is the Vice President for Market Sector and Assessments.

Just a brief update on overall how we're doing, and first I'd like to introduce the new senior staff, if they're here, that have joined us since the last public outreach meeting. Fran McNaught has joined us as Vice

President for Public Affairs, primarily focused on legislation, press, or overall outreach.

Is Ellen Moran here? Ellen Moran is Managing Director for Infrastructure, focusing on power, roads, telecom, water.

And Margaret Kudlow (ph), is Margaret here? Margaret is Managing Director for Environmental and Social Assessments, and other things, right?

Actually, I just hadn't noticed this, but I know a lot of people here are worried about gender equity, so I do want to emphasize that we are looking for a few good men as well.

Since I've last seen you, I have also been spending time visiting countries and since late July have been to Senegal, Cape Verde, Ghana, Honduras, and Nicaragua. In addition, John Hewko will be talking about more specifically our country dialogues, what's happening.

On the staffing side, we are now over 50 in terms of people permanently on staff, and including detailees and people working with under personal service contracts, in the mid-60s. So we are--perhaps surprising even to us, we are right on the staffing plan that we put in place almost a year ago, and continuing to add a couple good people as we find them every week or so.

As Clay mentioned, the primary focus of today and my remarks is sort of the '05 process in addition to

bringing you up-to-date on what's been happening. Most of you know we published a list of the countries that will be candidate countries that will be evaluated as part of the competition for FY05 at the end of July. Eighty-three countries are on the initial list; 13 of those are disqualified from competition, even though they're included in the ranking pool, because under the Foreign Assistance Act it is not legal to provide U.S. assistance to those governments, and this includes, for a variety of reasons, for example, Myanmar, other countries like that.

We've also published the criteria and methodology, proposed criteria and methodology for this year's evaluation. Handouts are available of the press release in the back for those of you who haven't already seen it. As many of you know, we proposed two minor changes in this round. We did not want to make major changes because we literally just went through the process in March and April and May, and coming right on the heels of that, we didn't feel it was appropriate to have big changes. The two changes are to reduce our inflation rate test from 20 percent to 15 percent, with a possibility--and we're looking at whether it makes sense to reduce it further for next year. It's clear from the academic research that inflation rates above 20 have an impact on long-term economic growth. It is less clear that 15 is an appropriate cut-off point versus 10. We may leave it where it is.

The other and perhaps more important change was to modify one of "Investing in People" criteria. We've changed the criteria which was focused on primary school completion rates to focus on girls' primary school completion rates. Since it was first identified as a criteria a couple years ago, there's a lot better data than was available then on girls' primary school completion rates, so we can use it as an indicator. In addition, the linkage between that as an indicator and long-term economic growth has been further strengthened through some research, perhaps even by some people in this room, showing the linkage to growth. And this is part of our continuing process of constantly trying to upgrade the criteria, tie them more explicitly to policy-linked initiatives, and tie them more explicitly to poverty reduction and growth.

Looking forward, we are examining additional areas for potential changes next year. The first is in the area of management of natural resources or the environment, where one of our new board members, Christie Todd Whitman, has agreed to head up a working group for us to really focus on trying to identify what a potential indicator might be that we could use that really does meet our test for using indicators, which includes transparency, prepared on an arm's-length basis, analytically rigorous, linked to policy, and linked to growth, and broad coverage, because we really

need indicators that rank at least most of the countries that we're evaluating, if not all of them.

In addition to what Christie is doing, we are looking more at the whole area of entrepreneurial activity, how to better measure that. We have got a pretty good indicator, one we like a lot, which is days from start of business, but we may be able to supplement it with some others, and we're really trying to evaluate which of those might make some sense to introduce.

And then in the area of trade policy, we're using a very broad measure of trade policy right now. There may be some things that are more closely linked to growth, including trade policy regarding services, and there are a couple of other things we're looking at. Again, this is just in the interest to let you know what we're thinking about, and we may or may not be making further adjustments when we start the '06 competition.

With that, I would like to turn it over to John Hewko to talk about where we are in the proposal process, what we're seeing from countries, with the idea that after John speaks and Maureen speaks, we'll come back up and we'll do Q&A.

Thank you.

MR. HEWKO: Thank you very much, Paul.

I'd like to take the opportunity really to give you a short summary of where we stand with respect to the 16

FY04 eligible MCC countries, and I'd like to divide my presentation into three parts: first, just to give you a brief outline as to what we have been doing over the past three months with respect to the 16 countries; then give you an idea of where we are today; and then, finally, close with some thoughts about where we'll be heading in the next three to six months with respect to our 16 FY04 countries.

With respect to the last past few months, as you know, on May 6th we announced the 16 FY04 eligible countries. During the months of May and June, we sent teams out to each of the 16 countries to explain to the countries the MCC principles, how we're going to be working with the countries, and to make sure that all 16 countries are on the same page, that they all have the same information, and they're all sort of starting from the same base as we move forward to work with them.

The initial reactions after those visits were extremely positive. The MCC principles of country ownership, poverty reduction, and sustainable growth, accountability, transparency, were extremely well received, and the countries are very, very enthusiastic about this new and innovative way that we're proposing in terms of providing foreign assistance.

So really, it's really been since July, early July, that our 16 countries have been in a position to both fully understand the MCC principles and how we're going to

operate, and it's really been since July that they've been in a position to continue or to start or in some cases to complete the consultative process. And it's really been since July that they've had the opportunity to really start focusing on their proposals, understanding clearly the rules of the game, what's going to be expected of them and what's going to be expected of us.

Now, the fact that the MCC approach is new means that both the countries and we will be learning from each other. For them, the consultative process is a new concept. For some of the countries, it's taking a while to get their hands around that. For others, the fact that they need to now step back and develop their own priorities through a consultative process is a challenge. So the fact that this is new means that the process will be iterative and that it will take some time.

Having said that, however, I must say that within the three months we have accomplished a great deal, made some tremendous strides on the operational front. Since our initial visits, we've established clear lines of communication with all 16 countries. In many of the countries, we've had more than one, one or more follow-up visits. Our website now has links to all of the country websites, at least those countries that have set up their own websites. We've posted all the

in-country points of contact so that if someone in Senegal, for example, wishes to contact the Senegalese MCC point of contact, they can get on our website, get the information, and, again, to the extent that the country has set up its own website, there's a link through our website to the countries.

As I said, the MCC process is iterative. We've urged the countries to come to us early with their thoughts. They don't have to. And many countries have chosen to provide us with initial ideas and concept papers, and others have come to us with what they're calling their final proposal.

So where are we today? I'm pleased to say we've received either concept papers or proposals from more than half of our eligible countries, and more than half of these proposals or concept papers are coming from Africa.

What are some of the trends that we're starting to see with respect to the concept papers or proposals that we're receiving from our countries? First, sort of at a macro level, many of the proposals are quite complex. They're covering a number of different sectors, a number of different areas. We're seeing that the consultative process takes time. We're seeing that the process of prioritizing is going to take time. And we're seeing that the countries are taking a very serious attempt to do it the right way, to make sure that they're complying with the MCC principles, to

make sure that they're really coming up with proposals, programs that are going to lead to poverty reduction and sustainable economic growth.

Now, as I said, the proposals are in many cases reflecting a broad array of sectors: health, education, agriculture, infrastructure, pure technical assistance, some innovative investment fund ideas to unleash the private sector, and many others. So we really are seeing in almost all cases proposals that cover a wide array of areas and sectors.

Having said that, if there is one common theme, I would say that--and, again, it's a very general common theme and certainly would not apply to all the proposals, but it does apply to many. If there's one common theme that countries seem to be focusing, that is the rural poor. And, again, that's not surprising given that in many of these countries they have large impoverished rural populations. And, again, these programs that address the rural poor are really attempting to address a wide variety of issues that affect the rural poor.

Now, where are we headed within the next three to six months with our 16 eligible countries? We're now in the process of evaluating the proposals or concept papers that we've received from the countries. Again, this is an iterative process. We're maintaining a continuous dialogue with them, giving them continuous feedback. With some of

the countries whose proposals are more advanced, we're now in the process of establishing due diligence teams, teams of experts who will be traveling to these countries to conduct significant due diligence on the proposals. We'll be looking at the consultative process. Did it work? Was there one? Was it broadly based? Did they consult with civil society? Did they consult with the private sector?

We'll be looking at the impact on poverty reduction and sustainable economic growth. Will what they're proposing really result in poverty reduction and economic growth, and to what extent?

We'll be looking at the impact on intended beneficiaries: rural poor, women, children, persons with disabilities. We'll be looking at the environmental impact of proposals and different aspects of the programs. Will the proposals be capable of delivering measurable results? And, of course, will they be transparent, accountable, lead to long-term policy reforms?

So with respect to the documentation that we've received from the countries, those that are ready to go forward, we will now embark, as I said, on an extensive due diligence review with respect to those countries.

Now, once with respect to a given country we're comfortable with the proposal or parts of it that seem to make sense in light of the criteria I just outlined, we would then consult with Congress, and thereafter embark on a

negotiation with the country to negotiate the specific terms of the compact or the agreement that we'll be signing with the country.

So as you can see, this is a complex process. It's a complex process for us, and it's a complex process for the countries. It's a new process for them. The consultative process takes time. The prioritization takes time. They want to do it right. We want to do it right. We want to make sure we're good stewards of U.S. taxpayers' money, and I think we've now put in place a process which will ensure that both the goals of MCC are adhered to and yet it's a process that hopefully will be efficient and will be able to move forward at a relatively fast pace so that we can deliver much needed funds to these countries. But, again, it will be a complex process that to do it right will take some time.

And, finally, the fact that we are commencing due diligence on a given country does not mean that that country will receive funding. Again, we will fund on the basis of quality, quality proposals. Will they lead to poverty reduction and sustainable economic growth? And that those countries that are not some of the first that we're doing due diligence on does not mean that their proposals have been shunted to the side. To the contrary, we are taking proposals as and when countries give them to us, evaluating each one on the merits, and then moving forward with all or

a portion of each proposal to the extent that it makes sense to do so.

So, again, that's where we are now. That's where we were, where we are today, and where we hope to be in the next three to six months. Thank you very much.

MS. HARRINGTON: Good morning. What I'd like to speak to you about today is just to share a little bit of information from the field and what we're seeing from our partners about some of the results that MCC is having, even before we've signed any compacts with the countries that we're working with. And I'd like to just give you or share a couple of examples of how our MCC partners are taking the MCC principles of emphasis on good policy, on country ownership and broad consultation, and incorporating that into their work with MCC.

First of all, in terms of the emphasis on good policy, since the announcement of the potential MCC indicators in February of 2003, the median number of days to start a business has dropped from 61 to 47 in MCC candidate countries. And now while we can't claim credit for all of that change, we do like to think that by having that indicator as an MCC selection criteria that we're having some influence on focusing attention on the policy reform that's needed to reduce the number of days to start a business.

In terms of country ownership, there are lots of good examples from the field that we've seen over the last couple months, but I'd like to just share a couple.

First, we just returned, Paul and I and a number of folks from the MCC team just returned from a trip to Nicaragua and Honduras. And in Nicaragua, we saw some great examples of the power of country ownership and the consultative process.

The first stop on our trip in Nicaragua was to meet with a number of development councils that had been set up by the government as part of their overall development planning process, separate from MCC, but that's been used to develop the priorities for MCC as well. This was our first day in country. It was a national holiday. It was Independence Day in Nicaragua. And as a result, we weren't expecting a lot of people to want to spend their day with us talking about development priorities. But we were very pleasantly surprised. There were over 100 people there who came to talk to Paul and the MCC team about what their hopes were for the program and what their development priorities were and how important it was to them to have the chance to actually tell us what they think they need versus donors coming to them and saying, you know, sharing what we think their development priorities ought to be.

We were just really struck by the level of commitment and support for that concept that we're seeing

out in the field, and that was really represented just by the number of folks that were prepared to spend their holiday with us talking about those things.

Also, I think another observation from that particular meeting was that we were in a room full of folks that just a couple of years ago were actually at war that were actually sitting down and talking about their development priorities and trying to come to a consensus with us about what the MCC funds should be used for if a program was indeed developed for Nicaragua. So it was a really nice example of how the whole concept of country ownership and broad consultation is working on the ground.

In Honduras, we spent some time with a lot of the local farmers in Honduras because agriculture makes up a large proportion of the economy in Honduras. And we were trying to get a better understanding of the challenges that were facing farmers in terms of running a successful business. And, again, these farmers knew the solution to their problems. They didn't need a bunch of folks from the United States to come and tell them what needed to be done. They just needed an opportunity to be able to express those priorities and to have them heard by the government and by MCC in terms of developing their proposal.

Essentially, the folks were telling us that what they need is a more effective irrigation system, better crop rotation, and to move away from commodity products. Again,

it was a good opportunity for us to see how organized the folks in Honduras had been and folks coming together to really take advantage of this opportunity to be involved in a consultative process and to own their development priorities with MCC.

And I guess the other anecdote that I'd like to share with you is a little bit more general, but we've also had the opportunity to meet with a number of heads of state and political leaders from countries that weren't selected for MCC eligibility. And there, again, I think you're seeing the incentive effect of the good governance criteria in the selection process because we've had the opportunity to sit down with a number of these heads of state and talk about in very specific terms why they didn't qualify for MCC assistance and how they can improve on the criteria and what needs to be done by their countries to actually solve the corruption problem or fix one of the other problems that's preventing them from accessing the MCC program. And, again, that incentive effect is having a real strong impact on the countries that are close to qualifying but aren't quite there yet. And so that's also been very encouraging.

So that just gives you a sense for a couple of examples of how we're seeing MCC having some impact, and I'd be happy when we have more time or off-line to share more personal anecdotes from our trips and our travels.

Thank you.

MR. APPELGARTH: Thank you, John, thank you, Maureen.

Let's throw it open for questions, please. We have a mike here. Perhaps we can use the aisle. We could probably hear you in the room, but this is being webcast, and to support that we'll need you at the mike. So we'll start with you, ma'am.

PARTICIPANT: Thank you very much. I'm Diane Oldbaum (ph) from the International Center for Research on Women. You've spoken of due diligence, and I was wondering if you could tell me what specific steps you are taking to ensure the full and meaningful participation of civil society and women in particular, not just on the proposal development process, which is very important, but also in the project design and implementation stages.

Thank you.

MR. APPELGARTH: Well, due diligence runs across our whole proposal evaluation process. As we discussed, one element of that is indeed the quality of the consultative process, and that's done through a variety of ways.

In the project evaluation piece, the focus of that due diligence is on will this proposal lead to poverty reduction and long-term growth, and that's ultimately the question that we try to answer. We're very serious about the word "will," so that means we look a lot at the details of implementation. How does the government propose this is

going to be done? Who's going to manage it? Or if we're going to do a tendering process for program management or elements of it, how would that work? How does it fit in with what other donors are going to do? We're trying very hard to make sure the other donors stay in and committed, and we've seen some very good examples where other donors have as part of the proposal process endorsed the idea that how what the government is proposing fits in with what they're trying to do.

We focus on how we're going to--what are the results, the outcomes that are going to be achieved by the proposal, how it's going to be measured. And so that's the true thrust of due diligence.

On your specific question, clearly part of that is we do want to look both, because it's legislatively mandated and more generally, at the question of things that are first in the legislation but also we'd be doing it anyway, which is impact on women and girls, impact on natural resource environment, and some other things. And that's what a lot of Margaret Kudlow's portfolio will be. And so it will be built into that due diligence process.

In some cases, it includes having to gather the baseline data because we want to track improvements. But one of our--this focus on outcomes is perhaps not built in as much to all other assistance programs as you might have expected or might like. And so we find ourselves really

having to learn off in some cases incidences of success in other programs, in some cases trying to break new ground. But because this is new in some cases, the baseline data which allows you to measure performance and outcome improvements isn't there.

So one of the first things we will have to do in some cases is to build that baseline data so we can track our improvement.

Yes, ma'am?

PARTICIPANT: Yes, Edith Houston with USAID. Two quick questions. One is: Do you have an announcement on the threshold countries or when will that be made? And, secondly, you mentioned that not all countries will receive funding. What happens to those countries? Do they become threshold countries? What will be their status?

MR. APPELGARTH: On the threshold countries, you know, our country director--one of our country directors for Africa's wife was several days late delivering, our head of HR, currently his wife is several days late. I feel like it's caught on to MCC re the threshold country. I expect an announcement any day now, but we're not quite ready to give birth to the threshold program, but close. I think we--you learn things as you go, okay? And one of the things, because we have learned, we really wanted the threshold program to follow MCA principles so that it wasn't simply a question of looking at the long list of countries that were

on the list this year and just picking a few for threshold. We really wanted to be grounded in--at least in looking at our initial list, a principle that all of us could say were linked to the criteria, linked to the rules, and met the legislative standard, which is to be close to qualifying. And it turns out that, you know, it took a year and a half to develop the fundamental MCA criteria. It's taking us a little longer than I thought to actually get that rule finally agreed and understood.

But we're very close on that, very close on which countries it will be, and I would hope in the next few days that we'll be in a position to announce something. We're not today.

In terms of the countries that don't receive funding, first, we encourage them as part of the ongoing consultation process to really improve the quality of the proposals. That's part of our interaction with them. Those that don't and aren't selected will have ultimately failed because we are not convinced their proposals do lead to poverty reduction and growth or because the consultative process was so flawed that we really think it gets in the way of what we're trying to achieve. And in that case, of course, they'll be eligible to compete for another year--or in another year. They would not revert to threshold because threshold is really intended to be directed to those countries where--that haven't qualified as eligible, that

don't have the policy environment in place, but we can provide some assistance.

So, you know, we're really a different model in terms of countries having to compete, to be eligible for assistance as part of our process of identifying good partners. We're trying to find the best partners in the world to make sure that the assistance we provide is used well. And we're placing a lot of weight on our partner governments to identify their priorities, to hold the consultative process, and to really take ownership and leadership in getting this done.

So that's the whole point of, if you like, the policy-based competition. We're also obviously as part of that trying to have the impact on policy, which is what we're really about, but the second stage is making sure that we've got good proposals so that we as fiduciaries for American taxpayers, and really the governments, our partner governments who ultimately because of our presence have access to a rare resource, that they are using that resource well, that we're using American tax dollars well. We want to be able to say to folks here that, yes, this is a good investment of American tax dollars; we're going to get good poverty reduction and growth. And if the proposals don't meet that, then they don't meet it. And, you know, we'll try again next year.

Yes, sir?

PARTICIPANT: Good morning. My name is Randolph Lentz (ph) with Wilbur Smith Associates. We are worldwide players in the infrastructure sector. I'm curious--

MR. APPELGARTH: Yes, I know your firm from Asia in several spots.

PARTICIPANT: I'm curious about what happens after the due diligence process and after agreements are negotiated with particular countries. What is the vision of the corporation vis-a-vis implementation of these programs that are negotiated? And could you elaborate on what you envisage the tendering process to be like?

MR. APPELGARTH: Our vision is that we will reach an agreement with our partner government on how the implementation will work. We would expect that there will be in many cases tenders into the local market for which it will be open to anybody. It won't be only to local firms. It will include other donors, international firms, NGOs, local private sector, if not for the management of the entire program, for pieces. It could be--obviously some of this is going to involve construction. There will be construction contracts. There will be monitoring and evaluation contracts.

So we see that as a key part of what we're trying to do. It's going to be custom-fit country by country, depending a lot on the circumstances of the country, and what our partner government proposes. We're not writing

checks to the governments. That's not--we're also making no assumption the government is doing the implementation. So it will be designed with all that in mind.

As I think I mentioned last time, part of our objective is to develop soft infrastructure in these countries to be better able to manage these kind of efforts. And so the extent we can develop a professional class, an entrepreneurial class to build on good training, actually a lot of folks have in these countries, to do the analytical work, the economic analysis, the legal work or the financial work or the monitoring and evaluation work, that's a plus.

PARTICIPANT: Best-case scenario, when would the Corporation expect these agreements to be negotiated at the earliest, and then after that, the tendering process to take place? Again, best-case scenario.

MR. APPLGARTH: Well, I'll answer at least the first part of it. We got our first proposals in mid-August. I think the first one arrived August 10th, the second one arrived August the 11th, and we've had, as John mentioned, a flurry since then.

Realistically, under almost any standard, if we can get a couple compacts in place by the end of the year so that we have it done, I think we'll have done very well. In my experience in the private sector, by the time you get a proposal, the first form, to actually see something done,

it's an industrial proposition or something, you have conferences going to work. This is not a one- or a two-month process, particularly when it's the first time through and particularly when you have to negotiate a government-to-government agreement as part of it.

So our target would be, though, to get at least a couple marks on the board by the end of the year and to begin the implementation process early next year on the initial ones.

PARTICIPANT: Thank you very much.

PARTICIPANT: Hi, Mario Yurel (ph) from Claremont Graduate University and the American Enterprise Institute. Could you elaborate a little bit on the MCC plans to support collaborative research on the issue of the indicators that are being used to select the countries that are eligible. I know that there are some researchers in my institution and other schools, like the Kennedy School of Government and some other universities, very interested on the question of what is good governance. So could you talk a little bit about it?

MR. APPELGARTH: Sure. I didn't hear which university you're associated with.

PARTICIPANT: Sorry?

MR. APPELGARTH: What university did you say--

PARTICIPANT: Claremont Graduate University.

MR. APPELGARTH: Claremont, sure. Okay, fine. Well, first, our consultative process more generally is to put out a list of the draft criteria and methodology and invite comments. We got a flurry of comments in March, the first round, that were helpful to us, and we've used--both at the time and subsequently have taken that into account in even the modifications we made this year.

To date, we've received very few comments on this round, so the 30-day comment period doesn't expire until the end of next week. But I would encourage you, those who do have comments, to send them to us because we do take them seriously, and, in fact, we try to respond. And that would be our first effort.

In some of the specific items I mentioned earlier, we will be focusing effort over the next several months, the next nine months, probably, on those specific indicators. In the case of the natural resource indicator, that will clearly be an informal group put together headed by Christie Todd Whitman to focus on this, and I think the other cases we'll do something similar. But we're really going to look at what's the best mechanism in each case.

PARTICIPANT: Thank you.

PARTICIPANT: I'm Kristen Brady from AED and co-chair of the NGO MCA Working Group.

MR. APPELGARTH: I'm sorry. What was your organization?

PARTICIPANT: Academy for Educational Development, AED. The NGO community has applauded the MCA's focus on transparency in civil society consultation. At this stage in the process, many countries have submitted proposals or concept papers. Only a few of those countries have made those proposals public, and we understand that the MCC will only make those public once a compact has been negotiated with those countries.

Can you talk about how in the spirit of transparency civil society groups can learn what their countries have submitted and what role they can play as the countries move from taking a proposal and refining it into a compact?

MR. APPELGARTH: Sure. We've encouraged countries to identify points of contact in their country for--to receive input internationally and domestically. In many cases, there are MCC Councils in the countries, and to the extent that they have and we can put them on our website, we do for providing comment.

The best place to provide input into compact content is in the country, and those of you who have international affiliates in the country, we encourage you to participate. And that goes for private sector firms elsewhere, because we're really looking to get that kind of local input.

I think we really are encouraged by what we're seeing on the consultative process, but that's first and foremost the place to do it.

PARTICIPANT: And would you encourage countries to make their proposals public to members of those local groups and those domestic organizations that want to learn more about what actually has been submitted?

MR. APPLGARTH: In general, I think there's an overall effort to have transparency in the process. I think some of the countries are still in the stage of sort of testing ideas out. They'd like to refine it more. But certainly our sense was in both--in the most recent trip, in both Honduras and Nicaragua, there was broad-based understanding of what the government--the dialogue with us was about. And certainly in the group that Maureen talked about, which was sort of Western Nicaragua, they certainly had an idea, and we had a couple government officials with us, and people were standing up and saying, "Yeah, but you ought to be including this and this and this." So there is knowledge in a lot of the local populations. This is not being done behind closed doors.

PARTICIPANT: Thank you.

PARTICIPANT: Hello. My name is Sara Bushey (ph). I'm with the National Wildlife Federation. I just want to thank you first of all for having us here today, and I have two

multi-faceted questions for you.

MR. APPLEGARTH: Two multi-faceted questions.

PARTICIPANT: First of all--

MR. APPLEGARTH: So six questions, all right.

PARTICIPANT: Yes, you might want to get a pen.

First of all, I was curious if Ms. Whitman has already met with an environmental working group, and if not, how nongovernmental organizations can sign up to be a part of it. And on that, what is the anticipated timeline for achieving the environmental--or finding an environmental indicator in the working group or whatever manner mechanism?

Secondly, regarding the environmental assessments, I'm really delighted to hear that the due diligence teams will be assessing impact on the environment of the proposed projects in the country proposals. And on that, I'm curious if

country--will countries that do not pass an environmental assessment or have a potential to harm or be hazardous to the environment, if they'll be disqualified from receiving Corporation funds? And if so, what will be the process for such a disqualification? And will there be incentives for building environmental capacity?

MR. APPLEGARTH: What was the last part of that?

PARTICIPANT: And will there be incentives for them to build environmental capacity to meet the indicator?

MR. APPELGARTH: In terms of the process, in terms of the working group literally getting started, we would look over the next several months to really solicit opinions and get the mechanism in place. We haven't been--I should say we have not been ignoring the issue over the last several months either. There's been a lot of dialogue informally with environmental experts and others to try to begin moving the process forward. But with Christie coming in, it will help us really put some leadership and focus behind it.

In full disclosure, we may not have an indicator next round. Obviously, that would be good. But it's going to still have to be something that's credible, that's arm's length, that has good coverage, and the other things I was talking about. But that's clearly our objective over time to get something that strengthens the linkage between what we are doing and begins to get a measure that's broadly applicable that governments can act on in the management of natural resources area. So that's the process. The timeline will be when it's right.

On the second piece, the process for--if there's a component or the proposal leads to sustainable--you know, significant long-term environmental damage, the process is simply we say no. You know, we could work around it. I mean, obviously environmental assessment is what we're

about, but we're not going to go forward with something that has a long-term significant impairment of the environment.

PARTICIPANT: Even without an environmental indicator?

MR. APPELGARTH: What's that?

PARTICIPANT: Even without an environmental indicator? For example, in the next round--

MR. APPELGARTH: There's two different processes here. One is the competition process--all right?--where we're really trying to influence policy. And we're talking about environmental indicators in that context. Government--they can act on, build into their broad-based legislative framework, their broad-based policy framework. But even with a country that has a good policy or has been selected to be eligible, there's still been--separately, they present to us their program proposal, their compact proposal. And in the absence of--we don't need an environmental policy indicator to make an assessment of what--how that proposal will impact the environment. And so we will do that in the context of the individual proposal. So the proposal evaluation is delinked from the indicator question.

PARTICIPANT: Thank you very much. I appreciate it.

PARTICIPANT: My name is Adam Graham Silverman. I'm with Congressional Quarterly, and I had two questions.

First of all, from the countries you've heard from, what's the range of aid that they're asking for? Is it \$50 million? Is it \$100 million? And given the amount of money you have in the bank, how many compacts do you think you're going to be able to sign with the '04 countries?

And, secondly, among the countries that the board used its discretion and flexibility to select, the countries that were a little bit more of a risk, how have those countries responded? Have they proved to be worthwhile risks as selection for the compacts?

MR. APPLGARTH: Quite different questions. It is clear the countries are asking--I mean, they have set priorities within the proposals, but I think they certainly have not felt limited in terms of the amount they would ask for. And I'm going to come back to that because the funding here is important in terms of our priorities, but let me answer the second part first, which is, as you know, the board really did use discretion to pick--add three countries to this first group of 16. Thirteen quite clearly, if you will, qualify, or potentially are eligible under the criteria, and the three are Bolivia, Mozambique, and Georgia.

In the case of Bolivia, they were right on the median of the indicators. In the case of--and the board

felt that there was sufficient good things happening to make a difference.

In the case of Mozambique, I think the biggest issue there was around corruption. In Transparency International indicator, they're passing corruption. That was more recent data. So even there you would say that's partly within the context of board discretion.

In the case of Georgia, I think there was an explicit recognition that there really were lags in the data. The data was measuring the old government, and there would have been a new government in place four or five months--only four or five months. And so but the data simply didn't reflect that at all. But if you looked at the demonstrated performance of that government, of President Saakashvili and Prime Minister Zhvania and the others, that they really were demonstrating the kind of leadership in a very tough and hard-nosed way to implement the kind of policies that we're talking about, and they were trying to do it. And this was a real explicit statement by the board. This is the kind of leadership and policy change we're trying to recognize.

Part of this, there was also recognition of simply selecting them as eligible in May, did not imply writing a check, okay? But it would give them a chance to put together a proposal, develop a consultative process, and we would have several more months to evaluate how things were

going before we got into finally signing a compact. We're certainly not there yet. You know, having been to Georgia in the meantime, having seen what's happening, right now--I think the board at the time said, you know, this is an explicit bet. At the same time we don't have to pay the bet. Right now that looks very good. I mean, they are doing--continuing to push, to drive in a very difficult environment to do--there's serious commitment to implementing the kind of things that we're trying to encourage. And so as a policy bet, that use of board discretion, if anything, is an example of exactly how board discretion ought to be used. And if it continues in this direction, it will be the biggest vote for board discretion example you can see.

On the funding side, I'm glad you brought it up because I should have mentioned it earlier. As you know, the President asked for \$2.5 billion for FY05 because--we got a 25-percent increase in terms of what came through the House, but it was from slightly under a billion to a billion and a quarter. It's still only half what the President asked for. On a relative basis, it's an increase and above what other--the total increase in the foreign operations bill on average.

The Senate number looks like it's going to be a little bit less coming before we go into conference, but this is a serious--this is a serious initiative by the

President. There is a lot of bipartisan support from the Hill on this. And the story's not over. You may have seen even in the middle of the Senate appropriations process last week, Scott McClelland, who's the White House press secretary who has a daily press briefing, one day last week he had two items before he took questions, and one of those two items was how important it was to fund MCA.

The President from the campaign trail sent in a note, a paragraph talking about how important this was to him. The State Department separately issued a statement saying to highlight MCA and the consideration that needed to be given to MCA funding.

So there is weight happening behind the administration to put here. I know that several people in this room have been working actively as well to make sure the Congress understands the importance of this. We're doing all we can to educate Congress on the issues, particularly the issue of what we call the reverse multiplier effect. Because we are doing three- to five-year programs, and because we're fully funding them up front, cuts now flow through for five years. This isn't a one-year blip. This cuts materially into our ability to work with the number of countries we can work with and the size of the programs and affects the policy incentive we're all about.

We are spending time now to really make sure-- educate people on the Hill about this, both at the member

level and the staff level, and this is important that you all understand it, too, because there was an independent study by GAO, an arm of Congress, that said even at the full funding request, the billion we had approved for '04 and the President's request for '05, which would have been a total of \$3.5 billion for the two years, MCA could probably do, at best, compacts with 8 to 13 countries and still have--be a leader in terms of the top three or so donors in a country. So that was really material from an incentive and the policy side. And if--with the funding cuts we clearly cannot meet that standard anymore, and it's the case of having to be very clear that people understand that, that this is important to what MCA is about, it's important about the expression of U.S. values abroad, of our commitment to have an international presence which is good and positive, focused on poverty reduction, focused on long-term growth, where we are getting very good marks internationally. And this really does need full and serious consideration of funding with an effort to try to get it closer to the President's requested amount.

PARTICIPANT: Just a follow-up. Do you have a goal for the number of compacts from the '04 money?

MR. APPELGARTH: I'm sorry? A goal for the number of compacts?

PARTICIPANT: Yes, from the '04 money.

MR. APPELGARTH: Well, because of the coincidence of the timing, because of the delayed legislation this year, the '04 and '05 selection process are right on top of each other, essentially. Many--we fully expect that many of the countries will be the same. To that extent, some funding, the money will be fungible. There are a couple countries that are qualified in '04 to be eligible that are not on the '05 list because they moved above the per capita income test. That was partly exchange rate movements and other things. So we'd fund those out of '04, use the balance of the money for '04 and '05, as well as new countries coming in in the '05 list.

So there's clearly--we're spending a lot of time on this. We want to make sure that we're consistent with what we're trying to do in terms of policy incentives, focusing--make sure that the proposals themselves meet the test of poverty reduction and long-term growth and meet the test of the consultative process. At the same time we do need the resources to make it happen.

PARTICIPANT: My name is Nathan Glusenkamp. I'm with Bread for the World. And I have a question regarding funding for the threshold country program.

It's my understanding that for the '04 money, the MCC is authorized to spend up to 10 percent of your total allocation on the threshold program. That's correct? Which would be \$100 million?

MR. APPELGARTH: Right.

PARTICIPANT: Now, it's also my understanding that you're anticipating spending about 4 percent, \$40 million. How was that number arrived at, particularly since there aren't--there isn't yet a list of countries that are--will be on the--members of the threshold program?

MR. APPELGARTH: You're correct, the legislation authorized--and this is the authorization piece--us to spend up to 10 percent of the money for the threshold program. That's just been extended now to '05 as well, which was not part of the initial legislation, which, speaking personally, I endorse, fully endorse.

At the time of the board meeting in July--July board meeting or May? May. May board meeting--we asked the board to endorse the concept of the threshold program, because simply because Congress authorizes you to do something doesn't mean that you do it. And we felt it was important to have a board endorsement before we, more particularly AID, who was working with us to implement this, got pregnant, got too far out in terms of putting the program together. So we got that endorsement. At the time we used the number of reserving 40, okay? And I can't tell you how much we're going to spend. And this is a reserve of 40. We could spend more. There's no question. If we get good threshold proposals that total more than 40 and they

compete well against what we're seeing for compact proposals, then we'll spend more. We may spend less. But the time of the discussion in the board meeting, the major purpose of that vote was to get endorsement of the concept of going forward.

At the time we knew that every dollar we put into the threshold program was a dollar coming out of compacts. And we were essentially having to ask the board to reserve money for something that was not well defined in terms of criteria, in terms of how it was going to work, et cetera, because it was still just in very early days of conceptualization, to reserve that money and have it not available to compacts.

Now, as we go forward, we can increase the money or we may not use all of it.

PARTICIPANT: Thank you. I look forward to the announcement of the countries.

MR. APPELGARTH: Not as much as I do.

[Laughter.]

PARTICIPANT: Hi, I'm Sara Lucas from the Center for Global Development. I want to thank you for making public your rationale for including, bringing in three countries--Bolivia, Georgia--those that were not necessary eligible by the objective application of the criteria.

Unless I'm mistaken, I haven't seen a public rationale for the exclusion of several countries that through the application of the objective criteria would have made it, but indeed were not deemed qualifiers, particularly thinking of Vietnam, Bhutan, and Mauritania. These three countries were the only three countries in the pool that missed the indicators, all of the indicators related to democracy.

I'm wondering whether democracy is an implicit hard hurdle and if you might make it explicit. And should we expect the same kind of selection around democracy in the 2005 selection process? Thanks.

MR. APPLGARTH: Is it a hard hurdle explicitly? No. Actually, there were a couple other countries--I mean, Tonga fully qualified, was not picked for what's happening, has been happening there, and a couple others, I think. But if you look, under our methodology we do look at not only do countries pass the baskets, pass half the indicators above the median in each of our three core baskets of economic freedom, good governance, and investing in people, but we also look at where they are substantially below on the indicators. And if they are substantially below and we don't see the governments taking positive steps to change the performance under the indicators, improve those rankings, then they're not going to get selected. And I think those--if you look at those three countries, look at

where they stand on our indicators and look at what the governments are doing, it would be--it would strain credibility to argue that they are taking positive, active steps to improve their rankings in the areas that they're falling short.

PARTICIPANT: Hi, my name is Felicity Amos. I'm from Freedom House, and I thank you for this opportunity. I have two distinct questions. The first is about the threshold countries. Actually, I was really pleased to hear that Ms. Harrington was talking about meeting with various heads of state. As one of the organizations that provides data for the indicators, we get a lot of requests from the various countries asking how they can improve. And it's hard in our position since we're not MCA or MCC to advise. And so I was wondering specifically do you have any plans in your office here to make it slightly easier for countries that either are on the threshold program that's released soon or don't even make that to have it be more transparent for them? Because unless you're on the eligible countries, you can't even see how well you've done scoring-wise. And so in terms of the incentive structure, which I believe is very powerful, do you have any plans for kind of increasing that?

MR. APPELGARTH: I'm sorry. I didn't get the whole question.

PARTICIPANT: In terms of the transparency of countries that don't make eligibility for FY04, FY05, or even don't make the threshold country list, in terms of making the scores and how far are they off on certain hurdles, do you have any plans for making that more transparent so countries can really try and maybe structure reforms around it?

MR. APPLGARTH: Well, if you have additional suggestions on how to do that, fine. Right now every country can go on our website and see how they rank. If they pass, it's green on the indicator. If they fail, it's red. I've used this visual aid before, but, you know, if you fail, you can still go on there and see your rankings. And you can see an all-red page. And also the source of the rankings. We're not doing the rankings. But who's doing it and their methodology is also on the site.

So we are trying to be very transparent about that because that goes to the core of our mission, which is to encourage countries to improve their policies in areas which are linked to long-term poverty reduction and economic growth. And if they don't know how to do it, then we've failed. Okay? So we're really very--this is very important for us, is to make sure they understand that, to the extent we can, and if they don't like the data, they know who to go to to complain to. Go talk to the World Bank or you or Heritage or the others

putting together this, and I'm sure some of you will be getting those calls, if you haven't already, because this is very important.

The other piece is the data improvement, but as Maureen mentioned, until you've sat in the meeting with a head of state who is waving around his or her country's data sheet, talking about the areas that are red and in some cases saying, gee, well, the data's screwed up--okay?--but in other cases, acknowledging that it's wrong or in one case recently, literally this week when I was in New York with a head of state saying--I had to say, "Mr. President, you know, you fail in corruption." And to have him say, "Paul, we really want to qualify for MCA. Tell me what we need to do to improve on corruption." And I can sit there and talk about what other countries have been doing that I know that are passing.

You know, that is the kind of rare opportunity to have a conversation with a policy driver, a leader, about what they need to do. And it doesn't have to be in corruption. It can be in civil liberties. It can be in fiscal policy, whatever. But the point is that's at the end of the day what we're about, and to have that kind of opportunity is rare for anyone in a bilateral basis or multilateral basis. And so that's why the indicators are important. Those of you that are preparing them, I would encourage you to make them as robust as possible because

we're putting weight on them, and the more weight, they're going to be scrutinized. And so we'd like to have them as strong as possible.

PARTICIPANT: Sorry. My other quick question is just about the framework for developing the proposals and the actual implementation. I was wondering how you're going to ensure that the civil society, NGOs are actually pulled in. A lot of these countries have a very nascent civil society, and they may not be used to actually pulling them into a consultative process. So are you giving them some sort of, you know, training on, you know, how to include the private sector, NGOs, that sort of thing, how you're actually--

MR. APPELGARTH: Well, we're making clear it's important to us. We're giving examples where some--when we've been asked about examples, again, where--in some cases, MCC Councils explicitly include members--NGOs and members of the private sector. In other cases, there are subgroups. There have been town meetings. The governments, sometimes we refer them to each other to talk about it.

The other thing we do as part of our due diligence, we ask local citizens, whether it was in the town meeting last week in Puerto Parento or in--whenever we're in country, are you involved, are you consulted? And one of my African visits in mid-August, I had the leader of the opposition, and we actually did a

joint press conference, and I said explicitly to him, "Do you feel that this has been a fair, honest consultative process?" And he said, "Well, my ideas aren't in it, but I will give credit to the opposition, the government, that the process has been fair and open and consultative." And that's the standard we're going to meet.

PARTICIPANT: I'm Elise Stork (ph) with IBM Business Consulting Services, and I know the hour is late, but because you just referenced data and national government sources of data, in contrast to the ruling justly indicators, the economic freedom and investing in people do rely to some extent on national data. And we know that there are serious problems with the reliability and accuracy of that data in social expenditure, education expenditure, and so forth.

I've appreciated hearing you describe and Maureen and others mentioned due diligence. To what extent does the due diligence process and will the ongoing monitoring and evaluation seek to address national data limitations? Because all of this hinges on the reliability of their data.

MR. APPELGARTH: Well, right, there are two data elements, and it comes back again to the distinction I was trying to make earlier. There's the indicators that we use for the country selection process, and there's the compact evaluation process. In the compact evaluation, due diligence process, there is going to be data that will be

less national accounts than it will be project-specific baselines, how do we measure performance and approve, and it's clear you need to do that.

Obviously, it's part of due diligence to also look, though, at transparency within the government, mechanisms to make sure the money leaves from us and gets where it's supposed to go, and we spend a lot of time on that.

If your question is the data on the indicators, and you're right, particularly in the investing in people category, two of our indicators right now do depend on country-reported data. And I think we even flag it in our own writeup that there are inconsistencies. We try to-- there are inconsistencies across countries. There's inconsistencies in data from the same country year to year. So these are not perfect. All our indicators need improvement. These are two that happen to need a lot of improvement, and that's part of the process over the next-- as we look to try to improve measures, and particularly in this area, that's what we're going to be looking at.

The one advantage that those two indicators have is that they are directly linked to policy. Our other indicators in that basket are outcomes-focused. But it's going to take a while before it shows up in immunization rates or particularly in girls' completion rates for a change in education policy. And yet we are trying to

influence governments to change policy, and the best way to do that is something that's directly linked to policy.

PARTICIPANT: Thank you.

MR. APPELGARTH: You pointed out we're over time. I hope this has been helpful. Thank you all very much for coming. Glad you continue to be interested in what we're doing. We certainly are. And we look forward to your help and your support and advice across the board. So thank you very much.

[Applause.]

[Whereupon, at 12:12 p.m., the public hearing adjourned.]