



Presents:

## The Millennium Challenge Account: From Start-up to Grown-up?

[Transcript prepared from a tape recording]

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Next Speaker: Good morning. Welcome to the Center for Global Development and the Institute for International Economics. I'm Steve Radelet. I'm a Senior Fellow here at the Center and we're delighted to have such a nice crowd here this morning for what I think will be a very interesting and informative event. We brought together a diverse set of people to discuss and talk about the challenges and future of the Millennium Challenge Corporation. As most of you know, the MCC, at least in my view, is one of the most important changes in US foreign assistance policy in several decades. It's still new. It's still not quite proven in terms of where it's going to go, but there's no question that it is a big change in US approach and fundamentally different, I think in some ways, from what we have done in the past. The MCC is at a critical point. It's now in the shifting stage from a start up to grown up. It's got a couple of years under its belt, so it's put most of its structures in place. It's got eight compacts signed now with eligible countries and another six signed with threshold countries, and several more in the pipeline. And so now we're shifting from that phase of beginning to sign the compacts and get them approved to actually implementing programs, and that raises, obviously, a new and different set of challenges to which the corporation is just beginning to grapple with. The MCC is different in fundamental ways, in how it chooses the countries that are eligible, in how it gives those countries much more power and influence in setting priorities and designing programs, in the volume of money that it delivers and hopefully, not yet proven, in holding countries accountable for actually achieving clear results, and that's one of the challenges I think lying in the future. There's been some early achievements and some early struggles, which I think most of us here know about. What we want to do today is really look forward, I think, and see what are the real challenges going forward. Not the public buzz about what may or may not be the challenges, but the real challenges in terms of what are the priorities, what's realistic, what's not realistic and how, over the long term, this can be an institution that does make a fundamental difference in the countries with which we are working. I think that's really the challenge and to get away from some of the short-term kind of buzz and really thinking about the long term.

So I think the questions that we want to wrestle with today, is how does the organization go from start up to grown up? What have been the key achievements that really do lay the foundation for the future? What are the key challenges going forward in some sort of priority order? What are the key things that need to be faced first? And what about the results? The MCC is all about results. What kind of results can we expect in the next 6 months, 12 months, 2 years, realistically? We can't obviously change the world in the next 6 months, but we hope to see some progress moving forward. So what kind of benchmarks and progress can we see for the corporation?

To do that, we've got two phases to our program. First, we're delighted to have Ambassador Danilovich with us today to open things up and to provide some opening remarks. He'll speak for 15 minutes or so, and then stay for some questions. He can't stay for the whole thing. We're actually delighted that he's been here, because he's been out actually ill for most of the last couple of weeks. He's on the mend, but we're fortunate that he's been able to carve out the time to be with us this morning, but we can't be too greedy. He has stacks of paperwork about that high after being gone for two weeks or so. So he will open us up and take some questions and answers and then we'll invite up a

panel of five people where we'll have a discussion format and kick around some of the key issues before we then turn to question and answers from the audience. So let me now turn to Ambassador Danilovich. He took over as CEO on November 7 of last year, so he's been in for not quite six months, pretty soon six months. Sometimes I'm sure it seems like six years or more. But so he's just now really gaining familiarity with what's going on and what the challenges are going forward. Before that, of course, he was ambassador, US Ambassador to Brazil and before that, US Ambassador to Costa Rica, and he's had a long, distinguished career both in public service and in the private sector where he was in the shipping business for a long time and in international investments and various other things. So he has a wide diversity of experiences that he brings as the CEO. So we're delighted to have Ambassador Danilovich with us, and take it away.

Next Speaker: Thank you very much Steve for that nice introduction. I'm very happy to be here today. Steve and I have been talking about doing such an event for a long time, and I'm delighted that, thanks to Steve's efforts and others at the CGD that we're able to get together to share some thoughts on where the MCC is at this point in time and to also provide a backdrop to the panel discussion that'll take place later. I'd like to thank Ambassador Zongo for participating today and also Roger Bate of the American Enterprise Institute, Mark Lippert from Senator Obama's office, Janet Ballantyne, who's also here with us, and also our own Vice President for Operations of the MCC, John Hewko, all of whom will be participating in the panel.

I don't know if all of you are aware of this, but Steve Radlett is not shy when it comes to asking difficult questions. Steve, Nancy and Sheila, and others at CGD have, over time, expressed challenging questions about the MCC's mission and operations. And I must truthfully tell you that I'm grateful to them and their colleagues at the CGD for their constructive observations and perspectives. Informed and timely input from the outside is always important to us to help us refine our work and to help us get things right within the organization and your engagement is something that is always very helpful. We also appreciate your engagement with the MCC as your reports are being prepared, and before they are released, so they're as accurate and constructive as possible, to our mission and expedite any actions that we might need to take. I'm grateful to the CGD because they care about the MCC. They care deeply about its success and so do I and so do all of us at the Millennium Challenge Corporation. So I look at this as a cooperative process, as a synergy, and something which all participants are in to see the best possible results.

Today I'd like to respond to two specific questions that Steve and others have posed that I think are critical to understanding the role and the mission of the MCC. These two questions are, "How is the MCC innovative?" and secondly, "How does the MCC build capacity in our partner countries?" To a certain extent, these questions are inter-related and so I'll be answering them together. MCC has sought to draw upon the lessons learned from over half a century of development assistance, which led us to three primary innovations for the MCC model. First, the use of objective indicators to base funding on demonstrated policy performance. Secondly, an approach that's based on country ownership and responsibility for program effectiveness. And thirdly, the upfront measurement of results and benchmarks for progress. I've often spoken about the MCC

selection process, which focuses on the adoption and on the continued adherence to policies that lay the groundwork for poverty reduction and growth. The policies that we measure using 16 political economic social and political indicators. Even at this early stage, we are able to talk about what is being called the MCC effect on policy performance, where countries initiate reforms on their own so that they can improve their own scores on our indicators and better their chances of being selected into our program. We are seeing many countries take practical and concrete steps to improve their governance, invest in their people and open up their economies so that they might be counted within the MCC family, as well as striving to maintain their eligibility. Countries can and do respond to clear and actionable incentives if the political will is there. A study released earlier this month by two Harvard economists concludes that MCC's selection criteria are in fact accelerating policy reform. This is a very desirable impact and a good example of what I'm talking about when I refer to the MCC effect. This aspect of the MCC's approach, the use of quantitative, transparent third party indicators, is innovative. It helps to depoliticize the process and to highlight and motivate the adoption and adherence to policies and reforms that we believe are essential to the reduction of poverty and long-term economic growth.

Let's explore how country ownership and our focus on results have worked in practice. These two principles, country ownership and focus on results, are critical innovations that MCC brings to development assistance. Their effectiveness will be determined by the degree to which we are building capacity in our partner countries in the form of learning by doing, to design and implement their own programs with a focus on consultation and results and lasting impact, not just inputs. The capacity development is not just an increase in skill level, but a step change in the ability of those with skills to put them to effective use. Simply put, we have changed the way our partner countries think about their own development and we are changing the way development is being done. Implementing this approach may be complex, and it may take time. Our partner countries have been expected to take on a level of responsibility, have not been expected to take on this level of responsibility before. But it's absolutely essential if they are to shoulder their partnership responsibilities. We have seen in fact that their willingness to take on the job usually transforms into their capability to do it. We believe in the ability of the people in these countries to change their own societies, with the MCC as a supporting partner, offering tools and advice. The MCC approach is a partnership, not paternalism. It looks for outcomes, not inputs, and it transforms how countries commit themselves and organize themselves for the sustainable reduction of poverty through economic growth. The MCC approach is building in-country capacity in several ways – through program design, through the consultative process, through focus on results and through implementation.

Let me say a few words about how this has worked in practice. First, as you know, the MCC looks to countries themselves to formulate their program priorities. MCC's requirements are unique in that each country must not only identify barriers to growth, but each also must identify beneficiaries by income group, by region and gender and based on our explicit guidance, and look carefully at investment priorities and, in the context of other donors' investments, and also their own development strategy. When I

visited Benin in January, for example, people told me that this had been the very first time that they had ever had such direct input on development investments. When referring to the MCC program, they called it “their program”, not someone else’s, and not a program imposed upon them by the US government or any other donor. Our partners in Cape Verde say that they have never before had such a shoulder to shoulder partnership of co-equals with another donor. They are proud of the compact they have developed and feel a deep responsibility for its practical results and its ultimate success. Second, insisting that countries be responsible for their own development also means that leaders and policy makers must reach out and include local government, civil society, the private sector, potential beneficiary groups and others in a broadly based, consultative process to formulate priorities and to play a vital role in compact conception, development and subsequent implementation. In many countries, this consultative process has led to an unprecedented degree of involvement from people and groups that have never been asked to be part of the solution, but who bring enormous values and insights into the process. This new approach is creating a common ground and is proving the value of inclusion, and this improves the prospects for successful long-term implementation in each of our compact countries. For example, our MCC counterparts in Georgia conducted a consultative process which enabled people nationwide to voice their opinions. Using the radio, television and internet and town hall meetings, they received over 500 concrete and varied suggestions about the program’s substance and of implementation. These suggestions contributed to a final coherent program that reaches ethnic minorities previously isolated from decisions made in Tbilisi. The MCC process has helped to bridge groups and lingering differences and build a common sense of purpose. In Nicaragua, the inclusive compact development process created an unprecedented bridge between previously noncooperating groups. A divided Nicaraguan parliament overwhelmingly ratified the MCC compact earlier this month and, for the first time ever, and prior to ratification, the parliament unanimously agreed to provide resources to maintain road investments, roads which MCC will fund to cut transportation costs and link small farmers and entrepreneurs to new markets. The compact development process itself was so innovative, in fact, that our resident country director and the country’s own MCA coordinator, were given awards by local development councils in appreciation for the unprecedented level of inclusion in the country’s development efforts. Third, MCC insists that each compact lay out specific program objectives and how they will be measured to show real results for real people. As a new program offering the promise of substantial grants to selected partners, MCC asks that expected effects and results are quantified up front while a program is being designed. Every MCC project, for example, has publicly available monitoring and evaluation plan with agreed upon results indicators. Identifying targets and objectives at the outset will further contribute to good decision making about program priorities when they are being developed. Partner MCA teams in Benin, in Georgia, in Armenia and many of our other MCC countries, are actively engaged with us here at the MCC in Washington, as well as external evaluators, to make sure the program design allows for sound assessments of the impact on beneficiaries. In some cases, meeting targets in the economic growth and poverty reduction assessments are necessary to trigger continued disbursements throughout the program.

In support of developing more accurate measurement of MCC and other development programs, the MCC is funding national household data collection in Benin and Madagascar so that MCC, local agencies, NGOs and other donors are looking at common data and can better analyze poverty reduction initiatives. Other donors have told us that these carefully crafted performance based disbursement plans are of great interest to them. They have also told us that encouraging our partners to look in detail at the analysis and investments or other donors when developing compact proposals, is unprecedented. Finally, countries that complete a compact with MCC build capacity by determining for themselves how they will implement and monitor the programs that they design with MCC help. In this area, the MCC has invested a great deal of effort to try and approach every country as unique with its own strengths and weaknesses, to build on those strengths and to overcome those weaknesses where necessary. In countries where strong implementation institutions exist, they are being incorporated. Where such strategies and institutions don't exist, we help the countries get professionals in place, working for them, not for the MCC. When countries make a proposal to use MCC funding to build their implementation capacity as a development goal in itself, we applaud that because we welcome and believe that a small increase in the efficiency of management development resources can have a tremendous impact on people's lives as services are delivered more efficiently and cost effectively. An example of such a case is in Cape Verde, where MCC funding will help the country establish a completely electronic procurement system, resulting in one of the most efficient and transparent procurement systems in the world. Many of our partner countries are using their own MCA organizations, MCA Georgia, Gomez Millennium Development Authority, for example, to work across the bureaucratic and ministerial stovepipes, public/private divides and different donor relationships that face all developing countries. Certainly these efforts will make MCC support more effective, and we also think that these efforts will ultimately ensure that aid provided to these countries is demonstrably better used.

In short, we believe that by helping our partner countries to build the capacity to reach out for the best ideas and approaches, to set goals, to test assumptions, to assess performance, to course correct, to create a broad base of support for needed change, to maintain the information needed to learn from doing, and ultimately to take pride and ownership in solving real problems for real people on a long-term basis. None of this is easy. Reducing poverty is not easy. Creating economic growth is not easy. Improving through change is not easy. But none of us are doing what we're doing because it's easy. We believe that our innovative model at the MCC will work and will succeed. We aim to do so so that these projects and the reduction of poverty will endure.

What I have described has taken place even before large sums of money have been disbursed. And perhaps our most challenging and yet most rewarding innovation will be letting our partner countries take the lead on implementation when that time comes. There too we will stand with them, and I believe there will soon be examples of what this deeper partnership may mean, for lasting development results.

I hope that my remarks this morning have been informative. I hope they give us something to work with when we go into our panel discussions, and I hope that the

innovative approach and the capacity building efforts that we have undertaken with the MCC have been somewhat clarified. Our MCC Vice President for Operations, John Hewko, will tell you more about the changes we have made at the MCC to achieve our goal to be faster, bolder and more transformative. So I thank you for this opportunity. Steve and our friends at the Center for Global Development, it's a pleasure to be here today and I look forward to answering any questions you may have. Thank you.

Next Speaker: The ambassador will be willing to take a few questions. If you want to line up at the microphone, we've got time for, I think, just three that we'll have time to take. So first three up, I see two, I see three. So you three are the winners. The fastest to leap up.

Next Speaker: My name is Ernie H. Preeg. I'm here today as, in my capacity as chairman of the Haiti Democracy Project. I'm a former American Ambassador to Haiti. As you know, they've just been very highly successful in democratic elections with an inauguration in two weeks. I understand our delegation will be chaired by Secretary Rice, Governor Jed Bush likely. And our soundings with people close to President Preval visited a couple of weeks ago, his themes were political reconciliation, job creating private investment. So my question is, in this new, much more positive context, what might be the first steps, by MCC, toward a consultative process that could lead toward, I guess, would be a threshold agreement, and maybe even that message could be conveyed on May 14 when Secretary Rice is down there.

Next Speaker: Ernie, thank you for being here today and thank you for your question. It's a very timely question, of course, and I wish you very well in all the efforts you're making in Haiti. It's a very troubled situation and I'm sure you'll be successful at the end of it all. It's not going to be an easy process. I'm aware that the Secretary is going to be going down to Haiti on the 14<sup>th</sup> and there's nothing that I would more than to see us engage within the western hemisphere in a number of countries. At this point in time, it would be undoubtedly premature for us to engage with Haiti, given the general situation of political, economic and social turmoil still very evident there, despite the fact that they have held elections and that, for the time being, the situation does seem certainly a lot calmer than it was previously. But we are more than open to discussing with countries, if they pass the criteria, if they are eligible, if they pass the indicator screen, to engage with them and it would certainly be part of our efforts with our transformational philosophy to work with countries such as Haiti to try and bring them into a stable political and economic and social framework. Thank you Ernie.

Next Speaker: Good morning, Mr. Ambassador. My name is Del Fichner. I'm something of a veteran of development set. Your mention of innovation and results on the ground is great. I have some trepidation about the movement of MCC into education and health. The map is littered with all kinds of experiences and bilaterals, multilaterals, and NGOs but with innovation and looking for results on the ground, perhaps you could try voucher systems, where the poor people could actually express their desires about what kind of education, elementary, vocational, healthcare. You could use vouchers to aggregate into developing village community water supplies, water supply points,

electrical generator kits. All those things could be used perhaps through vouchers, so I was just wondering if you have any experience in that area.

Next Speaker: Good. This kind of meshing of programs together, whether it be a water program or an education program or a school program is ideal. We encourage education programs. Education is one of our indicators. We have, in fact, a threshold program with Burkina Faso. It's a \$14 million program, which is dedicated to women, young girls, elementary school education and completion rates. That program is in the process of rolling out now. We have a number of countries who have expressed interest in education programs and we encourage that. Generally speaking, countries have not come to us with education programs because they look to other donors for that specific area. I've had a number of meetings here in Washington with basic education, with other people expressing our absolute desire, should we be presented with good educational programs from countries to pursue them, and you can also imagine on Capitol Hill, from a number of congressmen, from Nita Lowy in particular, who's very interested in education, and I support her interest in education – education is certainly something we'll very much look into, as well as combining it with the type of tie-in programs that you have mentioned.

Next Speaker: And vouchers?

Next Speaker: And vouchers also. These are, you know, when these countries go through the consultative process to come up with these things, and I've encouraged education groups by the way in the United States, to be part of the consultative process in the country so that they can bring up points like vouchers and other matters, so that they're all incorporated.

Next Speaker: Hi, I'm Karen Whittaker with National Wildlife Federation.

Next Speaker: Yes Karen.

Next Speaker: And I appreciate the comments you made about indicators and the importance of those and the policy effect that they're having. And you mentioned that there's 16 indicators. The authorizing language also includes language requiring an environmental indicator. Well there isn't a permanent one – I know that there's a temporary one – but it's not treated the same as the 16. It's not on the sheet. So my question is, when you talk about how the indicator process has changed how countries think about development and how they implement development, how has the lack of an environmental indicator affected those changes and the sustainability of projects?

Next Speaker: Karen, thanks for the question. We are moving in that direction we're moving the right way in that direction. It has been an arduous process. It hasn't been easy. We've taken, gleaned from numerous sources, very disparate sources, sometimes very disagreeing sources. You being a specialist in this field, I think understand how conflicting the views are in the environmental area – in trying to come up with what perhaps will eventually be an indicator that we can include in one of our 16 or 15 or 17 or



whatever we eventually come out with. In the meantime, we are very much taking into account environment impact in the countries in which we are working. And I mean that very seriously. Where we do come across a situation where there is a degradation of either forest or water or land or quality of human life or wildlife infractions, things of that nature, we include this in part of our process in a formal way. It's really not informal, although we don't have a formal indicator at this point in time. I hope we will have that by the end of the year. It's certainly my intention to have that. Executives in the corporation, as I mentioned, have had a number of meetings and we have preliminary guidelines and we're working towards implementation of natural resources, environmental guidelines, and we will get there. I fear, frankly, to be very honest with you, that when we get there, it won't satisfy everybody. It's not because it's not going to be stringent or it's not going to be comprehensive, but particularly in the field of the environment, there's so many different views as to what the right thing to do is. But we will have something which we believe is right and which we believe is implementable from our side, and in the countries in which we're working.

Next Speaker: Thank you.

Next Speaker: Great. Thank you.

Next Speaker: Thank you very much Ambassador. Hope you take care of yourself and that you're feeling better soon.

Next Speaker: Okay, thank you very much for getting us off to a great start. I'd like to invite the other panelists to come up. Please sit up front and we'll move to Phase II of our program. All right. Well I am delighted to move to this part of the program. We've got, I think, a good diverse and interesting set of panelists here who bring different kinds of viewpoints from different situations and perspectives on the MCC. Immediately to my left is John Hewko, who's the Vice President of Operations at the MCC. He's got responsibility for a broad range of issues on proposal development, on due diligence, on compact negotiation, and a whole wide range of things actually. Prior to joining the MCC, John was with Baker and McKenzie for many years, specializing in international law. He spent some time in Moscow and Kiev, in Buenos Aires and several other places. So he has lots of experience on the ground prior to his joining the MCC. So John is immediately to my left. To his left is Roger Bate from the American Enterprise Institute, who has done lots of research on foreign aid, USAID, the World Bank, on the MCC and other aid organizations. And we are delighted that Roger is with us today. He's part of a working group at the CGD that's been looking at health indicators in the MCC and how those indicators might be revised because Roger brings some specialized experience in working with health issues in Africa, and particularly in South Africa. To Roger's left is Janet Ballantyne, who's now with Aft Associates. Before that, she had a long distinguished career at USAID where, in her last position, she was counselor and acting Deputy Administrator, but she was also Country Director for USAID in Russia and in Nicaragua, and Deputy Director in Morocco and Nepal, among many other positions. So Janet has lots of experience in implementing foreign aid projects on the ground and has wrestled with many of these delicate issues of implementation and building capacity and

some of the things that Ambassador Danilovich was speaking about. To Janet's left is Mark Lippert, who's the foreign policy advisor to Senator Barack Obama and he also serves as an Intelligence Officer in the United States Naval Reserve. Mark's got a long career up on Capitol Hill. He's worked as a staff member on the Senate Appropriations Committee, the Foreign Op Subcommittee. He's work with Senator Patrick Leahy, Senator Tom Daschle, Senator Feinstein and several other people up on the hill. So he brings a great perspective of how this looks up on the hill. And finally, last, but certainly not least, we have Ambassador Tertius Zongo from Burkina Faso, who's been Ambassador now for just about four years actually, just a little over four years actually, so he's experienced in that realm, but before that, he was Minister of Economy and Finance in Burkina for four years, and had positions in charge of the budget and in charge of donor cooperation, both bilateral and multilateral cooperation. So he's seen this from the other side. He has worked with the World Bank, the African Development Bank and before that, he was actually a Professor of Accounting and Business at the University of Ouagadougou. So he brings a very different and very useful perspective from that of the recipient countries. So we're delighted to have this diversity of experiences. And what we want to do is just have a discussion on some of the key issues and make this more of a discussion format before we open it up again to questions and answers. So let me start actually with Ambassador Zongo. We heard Ambassador Danilovich talk about how the MCC is different and how it's being innovative and how it's a little bit different in some of the ways it's been implementing and starting and choosing programs so far. From your perspective, does this look any different? What's different about it? What's not so different about it as you see it?

Next Speaker: No, thank you very much Steve. I think yes, it's different, but I want to say that I have also seen something like this. The first important difference is, let's say, the process. You know the process is different with other bilateral donors, but we all know that the consultative process didn't begin with the MCC. It began with the PRSPs, the Poverty Reduction Strategy Papers. So the consultative process is not new by itself. But with a bilateral donor, it is the first time we have this kind of process. But I think what is very interesting is to see how this process will build a local capacity. The main point will be the local capacity. Because you know, it's very interesting to have a homegrown program, but we know the danger of a homegrown program is this program can become a problem, because we need to understand up front that participation is more than consultation. Where the consultation begins, where it ends. I think that is the key problem. In the designing of the program, there is no problem. We know that everybody is involved. That's very important.

Next Speaker: And you see that as part of building the capacity.

Next Speaker: That is a part of building capacity. But the capacity is also on the institutional level. Do we have the institutional capacity? It's very important to have the civil society involved, to have the private sector involved. But once the program is designed, do the countries have the institutional capacity to implement the program? So I think it is a good step, but a lot needs to be done and I know that the MCC is aware of what needs to be done.

Next Speaker: Right. Good. Janet, from your perspective, from your many years at AID seeing this on the ground, how does this look different or not? What do you see as the big differences here?

Next Speaker: I think as we've all followed the very interesting process of setting up the MCC, the criteria, the selections, the thresholds, the compacts, that there's a little bit of déjà vu. When I was first hired by AID, that's what I did, was I traveled around and wrote project papers. My first overseas assignment, I said okay, you wrote it, you implement it. And here, this is the hard part. I mean I'm sure as you've been developing the compact and doing the negotiations, you thought it was hard, and I'm sure it has been. It ain't nothing compared to when you have to get the shovels out on the road and get the roads built and going into using the type of capacity the ambassador mentioned –

Next Speaker: Déjà vu in terms of how the programs are developed or –

Next Speaker: How it's gone up to now. The moving from the planning phase into the implementation phase. I mean I think all of the development agencies, the bilaterals and the IFIs have gone through that. The interesting part and the hard part, and I think what is going to be the innovative part we all hope, will be how we can move into this implementation phase with very, very difficult goals. I was looking at the Nicaragua compact, which is the country I know fairly well, and you know, the road building and the land titling, 16 years ago when I went to Nicaragua, that was what we decided we were going to do. And in the 16 years, they haven't gotten very far. Now, under the compact, you've got a far less amount of time and equally difficult political situation right now.

Next Speaker: To get farther in less time.

Next Speaker: Yeah.

Next Speaker: Just on that particular issue, without getting too much into Nicaragua, but why the delays for 16 years?

Next Speaker: Land titling is particularly interesting. This has been one of the key elements in U.S. foreign policy, because of land confiscations.

Next Speaker: Mm-hm.

Next Speaker: One of the problems has been that there are more Nicaraguans who are become American citizens every week, than properties that are returned to American citizens. So it's kind of a generational issue.

Next Speaker: Right.

Next Speaker: But the, and the Ambassador's comments on building to capacity of implementation, is also just critical. The Ministries of Transport, the indigenous groups that build roads, the people that use roads, the people who determine road fees and road maintenance, this is going to be something very, very new.

Next Speaker: That's going to –

Next Speaker: And I think that the consultative process that you set up is a very important first step. But we're all going to be watching with our fingers crossed.

Next Speaker: Right.

Next Speaker: That somehow, this will be a new model that will somehow make the, you know, the 60 years of development experience which we all kind of –

Next Speaker: Different.

Next Speaker: Raise our eyebrows at, show that we really can do something.

Next Speaker: Good. Mark, from your view, what do you see that's, up from the Hill, where you've worked a lot on particularly US bilateral programs? What do you see that's promising in the start here that's different?

Next Speaker: Well I think, you know, from the Hill, it's always tough to have one person speak for the Hill, you know. \*\*\*\*

Next Speaker: Mark is speaking for Mark.

Next Speaker: That's right. I mean I think, you know, the Hill has been fairly agnostic on the MCC, I think, in a word. On the one hand, I think people up there are willing to give the MCC a chance. I think there's widespread recognition that, you know, it is time to look at different options with respect to foreign assistance in sort of this new era, and I think that's on the positive side. On the negative side, I think, you know, with respect to funding, you know, the issue is opportunity cost, in that, you know, we have tight budgets that we deal with. The foreign assistance apparatus is generally under-funded across the board, with a few exceptions, and so every dollar you're putting into the MCC, you're taking away from something else. So you know, the choice that the Appropriations Committee has had to make, and I saw Mark Corrado out in the audience and I know he was in the room on some of these negotiations, that the choice that the committee's been faced with is, do we go with sort of existing programs that can move money in a fairly effective way or do we, you know, invest a lot of money with respect to the MCC up front? I think answer has kind of been to split the difference that, you know, I think by absolute standards, the MCC has a lot of money. They've been appropriated, a lot of money has been appropriated. By relative standards, if you look relative to the request, relative to some other programs, it's not doing as well as it should when it comes time to appropriations time. So I think the jury is still out and I think, moving forward, I think

Congress is going to look at a couple of questions, you know, when trying to figure out, you know, what to do with the MCC. One is sort of, what are we getting out of this program? Are, you know, a lot of small countries have gotten compacts and there are some who are saying, well, you know, there's a false choice here between, you know, small countries with an overly mechanical, you know, long term process and short term politically driven assistance to big countries. Some argue, well there's a happy medium, and maybe we should be looking at bigger countries or at least a criteria that allows you to make substantial investments into countries that have a little more of a regional impact. So I think that's one. And the other one is that, you know, how does the MCC, how is it ultimately going to fit in with our foreign assistance apparatus, which I think on the Hill, people tend to view it as becoming increasingly diffuse and confusing. I know that there's activity already underway to try to at least consolidate or overhaul this structure, but I think that's a bigger question that the Hill, I think, is grappling with as well.

Next Speaker: You're talking about the larger foreign assistance set up actually and I think we'll come back to that. I want to come back to that later. Roger, something on this first question.

Next Speaker: Well firstly, thank you very much for inviting me to be here today. I've been pretty impressed by the way that the MCC has been constructed, at least in terms of its inception and it's attempt to measure and I think that, for me, that's the biggest difference between the MCC and other aid agencies, that have put measurement criteria of measurement out front and center. Of course that's dangerous because we might actually find out that aid doesn't support growth, and then those of working, if you like, in the aid business, may have lower budgets in future. But I think it's absolutely essential that happens because there's been a considerable amount of aid fatigue over the last 10 or 15 years, and there's actually been a resurgence in aid now, and I think it's important that we actually see how that aid performs. So I'm very positive on that front. I think there are lots of pitfalls, a lot of them based around measurement criteria and problems there, which we may go into later on. And I also think that there is something of an issue – we just heard it from, about Congress, whether or not Mark speaks for the whole Congress. I think there's no doubt that in the early stages of the MCC, there was pressure applied both from donor nations who didn't want to jump through the hoops that MCC were putting out, and also from Congress to spend money. And I think that one of the, looking forward, one of the issues that MCC will have to deal with, is not spending money when countries that have been given to, are failing. So I think that that is a key issue.

Next Speaker: Mm-hm. Mm-hm. This issue of speed?

Next Speaker: Mm-hm.

Next Speaker: Bum rap? Legitimate concern?

Next Speaker: From my, very much on the outside point of view, I think the criticism was unfair because setting up the criteria, both on the ground for the countries and also in terms of measurement, what was to be measured, as someone sitting the CGD working

group on health indicators, I've learned more about health indicators in the last few months than I thought I knew I probably ever wanted to know. I realize how difficult that is. So I think the criticism is \*\*\*\* unfair, but I'm sure other people have other opinions and we maybe we can bat that around too.

Next Speaker: Right, right. I think I would know where you would answer that question, but the other three – bum rap? Just on the speed issue quickly. Bum rap or legitimate concern? There's been a lot of talk about this thing.

Next Speaker: Me?

Next Speaker: Yes please.

Next Speaker: No, I think we must be very cautious when we're dealing with government issues. The first problem is you know, you need to update a country when it's ready and willing to develop. And when MCCs, when it goes in a country in order to design the compact, I don't think the MCC is the only person who needs to be blamed, is based on the country's capacity. The first problem, does the country have the capacity? We have to deal with that. We know that by selecting the countries upon their capacity to implement programs doesn't mean that the country has the needed capacity to design the compact as wanted by the MCC. It's very different, because if we see our things are going on, most of the dollars today are financing just investment projects. It is isolate projects we're financing. But MCC is willing to finance a program, a transformative program. I think that the first problem is to say are we going towards something which is sustainability in the country? And if you want something with sustainability, maybe you need time to design it. That is, on the country's side. The second thing is also, on the MCC side, and only the US, the US is not a country who has a very long history of aid development. What USAID is doing is very different from what MCC is doing. So the country itself, I want to say, if we want to go on the development area, US is absent in the policy dialogue in the developing countries, go to the US ambassadors in our countries do they have economists do that, do they participate in the dialogue on the country development policy? They don't. So I think that the country itself if we want to be frank, has a kind of weakness. And I think what MCC did is very important. And I think maybe as Ambassador Danilovich said, MCC for me is at a crossroads. They are at a crossroads. And today, they need our support or our constructive criticism. Because it is very easy to criticize, to say things are going very slow, but what do you want in the US? Do you want to make a difference or do you want to make the aid business as usual? Do you want just to see some project financed in the countries, or do you want to be transformative? So I don't want to give a blank check to the MCC. I would come on these issues because I know that –

Next Speaker: Marks wants to do that.

Next Speaker: A lot needs to be really fixed also in the MCC. But I think if you go to the \*\*\*\* issues, they are in the average of what is going to be done.

Next Speaker: So this is going to take a little time in the country and for the MCC itself to get organized. I think a big, in my view, in this debate about speed, there's two parts to it. One is the two years that it took to get the corporation started.

Next Speaker: Yeah.

Next Speaker: Which is out of anyone's control, but I think that put the organization behind the eight ball to start with. And then the history in the two years since it's been up to, since it's been started, I think are quite different things, but the two get blended together quite a bit. Do you have a quick comment on the speed, Mark? Go ahead.

Next Speaker: Real quick. I think two categories on speed. One, people who never liked the MCC will use the speed argument to detract from it. Two, I do think there's a more fair argument to be made about opportunity cost, which I underscored earlier, that when you're coming time to appropriate money, you do have to sort of balance a number of different things, and one is that if the MCC still is sort of setting up and moving along and dealing with criteria, do you give them the whole \$3 billion, \$2.5 billion, \$1.2 billion that they asked for over time, by putting it into another program because you're already, you're dealing with a zero sum gain.

Next Speaker: All right, good. Janet, on this issue.

Next Speaker: I think it's a question of balance. I think if there are clearly a lot of things that need to be done before you move into an implementation phase, but there are extremes to that. In previous incarnations, at probably not the highlight of my career, I was the head of the Aid Indicator Task Force. Indicator people are different than most people, but literally it, the first time I did this, I have to tell you, was in 1988, and they still haven't decided on the indicators. There are lots of indicators.

Next Speaker: Slower than the road in Nicaragua.

Next Speaker: Slower than the road. But I think, you know, that it's important that you're able to come to closure on some of these things and you know, I think the pace up to now probably has been a bum rap, but it could easily turn into reality if the indicator people get their way.

Next Speaker: All right, good. Okay. Lots of good comments about progress so far, but I think everyone has said now, the real acid test is implementation. So John, take us through, how does this work? You've signed a compact, it's been approved by the board, there's, you know, \$300 million there for Benin or whatever the amounts are for the other countries – then what happens? Where does the money go? Who actually builds the road or the ports or whatever – who actually implements these programs? And then who does the all important first of all monitoring, which is somewhat separate from the next step, which is then evaluation. Tell us just how, just in a typical arrangement, which we don't have one yet, but how this broadly will work going forward.

Next Speaker: Perhaps before I turn to that, if I could just comment on the very helpful comments and thoughts by the remainder of the panel. I mean we are the Millennium Challenge Corporation and challenges are our middle name.

Next Speaker: That's a good line. I like that.

Next Speaker: And I often feel like my job is to sort of knock off one challenge after another, and so our first challenge really was, I think it was the 17<sup>th</sup> or 18<sup>th</sup> person to join in May 2004, and we had 16 countries and 17 people to deal with. So our first challenge was, how do you build an institution from scratch, literally from scratch? And our senior staff meetings, or in fact our entire staff meetings are not much different than this panel right now, sitting around a group with chairs. How do you both build an institution at the same time as delivering the product? We were asked to deliver a product while we were building – I think we've now crossed that bridge, addressed that challenge. We're now very close to being very fully staffed up and we've gone a long way in terms of refining and developing a lot of our procedures. The second challenge was how do we get these compacts done? And I think we've crossed that bridge as well. We now have eight compacts completed, \$1.5 or \$1.6 billion obligated, and I think we've gone a long way in terms of moving that process forward. The third challenge was how do we engage with new countries going forward, and incorporate the lessons learned? And Ambassador Zongo was kind enough to join me on our introductory visit to Burkina Faso to Ouagadougou, and if you compare where we are today when we start with newly eligible countries, to where we were two years ago, it truly is night and day. I mean we now have a very complete developed guidance package that really basically walks the countries A through Z, what it is that's going to be expected of them. We are urging countries to incorporate the key lessons learned, one being high political involvement, two putting together a core team and a good point of contact from day one, three, putting up some seed money for that core team, etc. etc. And that guide is on the web for everybody to see. So I think we're now much, much better off in terms of giving guidance to the new countries. So that's challenge three that I think that we've knocked off fairly successfully.

Next Speaker: So you think that's, just on that particular point, that that's in much better shape, because that was, not surprisingly, an early concern two years ago, countries saying well we heard one thing and then a few months later we heard something else, and the guidelines seem to change a little bit. Which is, you know, a new organization, that's not completely – you want to evolve as you learn new lessons. But you are confident now that that's in much better shape?

Next Speaker: I'm very confident. Maybe Ambassador Zongo can comment from the country perspective, but what, our initial reactions or what we've seen from the countries that we visited, the six new 06 countries, we haven't gone to Zambia yet – is night and day. In El Salvador, I met with President Saca, had three hours with him. By the time the meeting was over, he'd allocated \$1.7 million to his core team. Burkina has allocated \$1 million toward their core team, has eight full-time people now working exclusively on MCC matters, so I would be shocked if in Burkina and Salvador, Tanzania and any other



new countries, that we do not move the process much faster than we did before. And you're right, we were changing, learning, making mistakes, learning from our mistakes, hearing from you about what were doing, and I think we've taken the criticism to heart and moved forward. Now challenges remaining, I think my fellow panelists have got it dead right. Our next big challenge is implementation. How are we going to implement large complex programs with four to five MCC people on the ground full time? We also have the challenge of cutting off countries if they don't, first of all, continue performing well on their indicators. What will we do if that were to happen? And finally –

Next Speaker: Just, you said four to five people, MCC people on the ground – is that kind of the model now?

Next Speaker: The model is, I'll get to that in a second, Steve. And then third immediate challenge is what do we do when countries are actually not performing under the terms of the compact? And you're halfway down a program and all of a sudden, the country is not meeting the agreed upon criteria that we have with them? So those are the three immediate challenges. How are we going to actually implement with a very lean, thin staff? Are we going to cut countries off who aren't performing in the midstream? And are we willing to cut eligible countries if they wind up slipping on the indicators? Now how are we actually going to implement going forward and what's the model? The idea here is that the countries are responsible for implementation. This gets to Ambassador Zongo's comment on capacity. We appreciate that the countries in some cases have limited capacity, and we work very closely with the countries, both in the proposal development phase and in the due diligence phase and then in the implementation phase, to give them the back up and the support that they need. And again, in the beginning, we weren't as good as we should have been. We're much, much better now. How will implementation work in practice? There are really three buckets of activities that have to be carried out by somebody under our model of country-led implementation. One is somebody in country, some entity organization office, has to be responsible for delivering the product. And that could be either the prime minister's office, it can be a committee that they've set up, or it can be a separate entity that they've set up to be responsible for implementing the proposal, the compact. In most countries, what we've settled on is an entity, MCA Honduras, or MCA Nicaragua, made up of a board, and here I think is where we get fairly innovative and it's very interesting – a board, majority government membership, the minority civil society and private sector. So if you have a seven-person board, it's 4 and 3. The government has a majority, but all seven members have an equal vote. All seven members are privy to all the information. All the meetings are public. The minutes are public and the decisions are public. And this is very interesting because we've already seen a number of countries where they thought it was going to be business like usual, back behind the scenes deals and all of that, and we've gone to them and said no, you have to meaningfully engage with your board members. There's no behind the scenes deals here, and they have to be apprised of what's going on and everything has to be in the open. That entity in turn or that, whoever is carrying out that activity, is responsible for implementing the compact, signing the implementing agreements with the contractors, vendors, providers of the various services. The second box that needs to be filled is the fiscal agent box. Who's going to manage the money and account for the

money and make sure the money is properly spent? We would love, to the maximum extent possible, to use existing government structures. And in certain countries, we found that the Ministry of Finance was capable of successfully managing the funding. Where they are not, we and the country will agree upon an outside fiscal agent to manage that function through an open international free tender. Again, this is grant money, it's untied. The third box that needs to be filled is the procurement box, because that's where all the monkey business happens with the flow of funds. And here again, we look at the country's procurement capacity, their procurement legislation, their procurement capacity and if we feel they're up to it, we use their systems. If not, we go out jointly with the country and find an outside procurement agent to handle the procurement. MCC's role will be very limited. We'll have four to five people on the ground tops. Our resident country director will sit on that board as an observer. We will have no objection rights over certain key decisions that that implementing entity takes. Funds will flow quarterly from MCC into a bank account, either at a commercial bank or with the Central Bank. The fiscal agent, in turn, will authorize the disbursements out to vendors. So again, this is an experiment, as budget support is an experiment. Time will tell whether it will work, whether we can pull this off with the limited staff we're going to have on the ground, and with admittedly the limited capacity issues that the countries have.

Next Speaker: And who is the fiscal agent and how do they authorize these quarterly disbursements? Based on what?

Next Speaker: Well the fiscal agent is, again, if it's the Ministry of Finance, that is a fiscal agent. If, in Madagascar, it's GTZ. The Germans and other countries, it may be another private entity. They have clear instructions that disbursements over a certain amount need to be authorized by the following signatures. The following decisions need to have been taken. When they see that that's actually happened, they will then authorize the redisbursement out of the account to the vendor.

Next Speaker: So they are separate from this entity with the board.

Next Speaker: That's right. They are separate, independent and are really the check on proper use of the funds. Proper disbursement of the -

Next Speaker: From a fiduciary standpoint or from a policy, not a policy, but do they take the actual steps in beginning to build the port or beginning to build the road on actual substantive output or is it just fiduciary?

Next Speaker: No, this is a fiduciary, as is procurement. The implementing entity will have, that board will then hire staff. That staff will then be responsible for the actual implementation or oversight over the implementation for complicated projects. That implementing entity will go out and hire a third party project manager for that, who will be responsible for overseeing the construction of the port or construction of the road. In addition, you know, we've got two or three layers of auditing functions. That implementing entity will retain an outside auditor that we agree with, to come in and

carry out normal audits. Our IG also comes in and carries out an audit function on the operations.

Next Speaker: Financial audit.

Next Speaker: Financial audits of the –

Next Speaker: What about substantive progress, you know, for the port in Benin? Presumably there's a schedule that says by six months, a year, 18 months, there's you know, certain things on the substantive side that need to be done. Who monitors that and checks off the box that says, yep we're on track or we're not on track?

Next Speaker: Well we have, in each compact, there are detailed disbursement schedules in place and performance benchmarks that need to be met, both in terms of the growth impact, the effect on beneficiaries and progress on an actual construction and getting the job done. Again, this is country-led. The country is responsible to make sure that the port is built as it should be built, so we will work together with the country to put in place appropriate oversight and monitoring mechanisms to make sure that the asphalt is laid as it's supposed to be laid. In addition, we, our monitoring evaluation teams will carry out a very active role in being in a country and making sure that the various M and E benchmarks, impact benchmarks that we're trying to achieve, are being achieved.

Next Speaker: Okay, one last question on this – who builds the road? And how does this entity with the board decide who's going to actually build the road?

Next Speaker: Well the entity, we already know the, in the compact we've identified the projects. The entity would go out and through the procurement agent, hold an open international tender. All comers can come. There's no buy America requirement. Presumably a construction company would be awarded the construction contract. If it's a complex project, a project manager would be brought on board to oversee various aspects of it, and the construction company in turn would have its various subcontractors carry out the work. Staff of the MCA entity would be responsible for overseeing the day to day progress on that road. In some countries, they may have an excellent Roads Department, a Ministry of Transport, and they would be the ones that would be overseeing this construction. In other countries, they may need to bring in a third party private sector project management entity to do the work.

Next Speaker: Good. Okay, I think that's a great, very useful overview, kind of where this goes next, which I'm not sure that many people actually heard some of the details there. There's a lot to chew on for the rest of you, and we can't obviously tackle all of those issues, but I'm curious – Janet, let's start with you – with your experience in implementing projects on the ground from the AID point of view, what strikes you as good or maybe troublesome or some of the main challenges in what John has just laid out for us?

Next Speaker: Well I think what is going to be very difficult with a five-person in-country staff is how are you going to deal with, how are you going to anticipate how you are going to deal with, areas of corruption? It's going to happen. It's the nature of the beast and despite the good offices of the governments that have been trying to combat it for \*\*\*\*, it's going to happen. An aid program that has an equivalent amount of money would probably have more than five people just on the audit staff, only looking at the vouchers –

Next Speaker: Just on the audit staff?

Next Speaker: Just on the audit staff. Are you going to – I'm still not sure where the firewall is now with AID, which does have an in-country staff. There was a very strict firewall put up in the beginning and I believe this has been relaxed. In the case of Burkina Faso, will you be working with the aid mission, taking advantage of their audit capacity, or would this be working with the audit capacity existing within the government?

Next Speaker: I'm not sure there is an aid mission in Burkina, but in general, I think the idea –

Next Speaker: No, you're right. No.

Next Speaker: I think the idea is that our IG is the AID IG.

Next Speaker: Okay.

Next Speaker: So we're already very, very closely working with AID and the IG in that capacity. I think the relationship, just on a side note, the relationship with AID has actually been extremely good to date. I wouldn't say there was a firewall. What there was, was in the early days, let's let the countries themselves try to work through the consultative process and figure out for themselves what their priorities are, because there was a natural tendency on the part, in some AID missions, to oh my, they've been chosen – let's get the guys from Washington in here to help them draft a proposal, and we really wanted to make sure that the countries got a first crack at doing this themselves, because there is a value in kind of learning and figuring out on your own what it is that needs to happen. Going forward, we've had excellent relations with AID. I mean, they are really our eyes and ears on the ground as we go forward. Before we sign a compact, we rely on them heavily to give us both context and background and thoughts on what the countries are coming up with. Working, going forward, our resident country directors will have, they will be at the same level as the mission directors from AID, both reporting to the ambassador, both the members of the senior country team, and clearly, we will be working on a day-to-day basis to make sure that what we're doing complements with what they're doing. Information exchange, assistance that they may be able to provide us, both in auditing, oversight, procurements, etc.

Next Speaker: Mark, Janet raised the issue of corruption in particular. I'm curious, from the Hill – she's right, it's going to happen. It happens everywhere. There's no, I had heard vague reports of corruption in Washington DC recently, but happens everywhere. So we can't take this, you know, we're going to absolutely insist if there's, you know, any report of corruption, we're out of there, but at the same time, there's oversight issues that, particularly from where you sit and where you sat before, are particularly key. How do you think about that, and what's the right balance on, from the congressional point of view, of oversight versus, you know, the reality on the ground?

Next Speaker: It's interesting because, I mean it's an issue that's, it's you know, not widely followed, I think, with respect to the Hill. I mean I think people sort of pound the table a little bit about corruption, but actually following it day to day is a whole other task, I think, left to really a handful of members and staff on both sides of the aisle, on both sides of the Capitol. I think that it will be interesting because we're sort of in a new era in that, you know, the MCC programs are a lot like budget support was. They're sort of a budget support plus. And we got out of budget support, you know, a while ago, in a big way. And you know, one of the things that, when corruption issues are raised now by members and staff, is that, you know, we can generally point to the fact that in most countries, not one dime or very little of the money goes to the central government. And so you can always sort of say the, you know, it's limited in scope, it's only one part of the program and you know, while doing due diligence on that particular corruption allegation, you can not, inadvertently end up in a situation where you have the baby thrown out with the bath water. Here, I think it's a more interesting situation. I think the jury's very much still out, you know, because the whole program sort of hinges on this budget support model, so I think it's sort of, it's going to be by and large to be determined, you know, do we see it in one case? How bad is it? Is it in one country? Is it in multiple countries? I think that will be the true test. Is it systemic to the whole MCC endeavor or is it an isolated incident, I think will be the first questions that members ask.

Next Speaker: Good. Ambassador, John laid out the vision for implementation. You said right from the beginning that that's the challenge, the real challenge is how this gets implemented going forward. What's your reaction to how he has laid out what the process would be going forward?

Next Speaker: No, I think that there are a lot of improvements underway and we need to see on the ground how things will be implemented. But I think the main issue will be, does the MCC really want to put the emphasis on the fiduciary responsibility? Because if they want to be very close to the financial management in order to know that each dollar is spent effectively, it will be a problem because, as he said, if you look at the MCC, it's not really a budget support, but it's not far from a budget support. And we all know that in a budget support system, if you want the system to be effective, you need really to \*\*\*\* on the country's financial system. Because, as I said, the problems in our countries is not really a problem of money. It is, but I don't think that the main problem is not the problem of money. Money is not always the answer. What we need in our countries is really to have the overhauled budget system, be managed in the way that we

know that all dollars spent of the money goes to the beneficiaries \*\*\*\*. That all dollars spent, there will be an account or name. People will be accountable for what they're doing, but we need to put this kind of system in place. So I think that the big challenge of the MCC is first to add a better knowledge of the country's financial system, and to try to use this system to put money in the system, to put technical assistance in the system in order to upgrade the system. If we want to have the country's system in one way and have the MCC system in another way, I don't think, that is not useful. What we want is to build the country's system in order, in five years or maybe in ten years, when the MCC will be leaving the country, the country will be able by itself to manage all of its expenditure system and be sure that the money is spent in the best way.

Next Speaker: Right. Not just building the road. It's building the capacity.

Next Speaker: It's not just building the road. No, no, the road is important, but I think what is more important is to improve the country's system in order for the country to be able to manage its overall budget in a very good way. So I think that we need really to put the emphasis on it. So what John says, I can see that they are trying to see how is the local financial system, but it's not enough. Once you make the assessment of the system, what do you want? What do you think is the best system? What is the gap between the country's system and what seems to be the best one? What should be done? What is the bridge?

Next Speaker: And that's a main point that Ambassador Danilovich made about the importance of capacity building. I want to come back to that specific issue, but want to turn to Roger and his reaction to the implementation issues that John has laid out, and I know you have a particular focus on the monitoring and evaluation, and I also want to ask about that specifically. But your reaction to the vision for how these things will be implemented going forward.

Next Speaker: Two things in particular. I think external auditing and evaluation will be extremely important. But I come back to the point I initially made, and I think it hinges, I think on a lot of the points that have just been made, which is that yes, corruption is inevitable. And one of the keys that I, the key things that I think makes MCC more credible in my eyes, is the potential of a credible threat to remove funding payments in the future, if performance is, if corruption or performance is just unattained. And I think the biggest problem there is not so much in MCC. I'm not as much an expert as some of the others here, especially Janet, on the implementation on the ground, but is, what has been already talked about, with the MCC effect, this supposedly transformative effect on countries, and I've certainly seen that on the ground in some of the countries I've been in – whether it's the attempt to try and push towards those targets and the criteria that are being established but of course, the big problem here is if the threat is credible to cut countries off – there are numerous countries out there which can go to other sources of aid. The largesse of the aid community when confronted with repeated failure in numerous aid projects in numerous countries, Kenya with the same agricultural reforms being promoted five times – and that's just one example of many. I think that unless there is a realistic attempt to get other agencies to be credible with the threat of actual

removal of funding, it's going to be very difficult for MCC to follow through. And I'll give you an example. We're not just talking about European aid agencies or the UN, I mean the United States, in various different parts of its guise, will be supporting over the next year or already are supporting and have supported for years, decades – organizations in countries which are miles away from MCC criteria, because of an instance of desperate need and humanitarian assistance is entirely understandable. But also because of strategic interests, Angola, Guinea-Bissau are getting a lot of aid at the moment, which are not exactly MCC criteria countries, in Africa, and then the entirety of the Middle East. There are numerous countries there which would not but, because of oil and because of security reasons, which are probably legitimate foreign policy concerns of the United States government, but because of those criteria, you've got people in those countries. And I have met one or two of them, who say well screw it. I'm not going to worry and jump through the MCC hoops because other donor agencies will continue to lend me money, regardless of what I do. So I think it is absolutely vital that you don't need more than five people on the ground, as long as you have one or two good external reviewers and your threat is credible. But even if it is, I still see massive problems for MCC ahead because of the other aid agencies.

Next Speaker: We've got two big questions. I want to wrestle with the one on capacity building and monitoring evaluation, give everybody a chance to comment on those and then turn it over for questions and answers from the audience, but we got lots of things to wrestle with. The Ambassador raised, both ambassadors, Ambassador Danilovich and Ambassador Zongo, raised this issue about building capacity. And maybe to put the question a little focused, in building the system that you described, a new entity with a board and, depending on the country's circumstances, a place where the money can flow – is this a parallel system that achieves the goal of fiduciary oversight but might actually undermine capacity building by drawing good people away from the Ministry of Finance into this new entity? Or is it something that somehow can build the capacity over the long run? Is it building or is it detracting because we all know of cases where the donors in their desire to introduce good, strong fiduciary oversight, have set up parallel systems which have not only not built capacity, but have actually weakened capacity over time. So John, your reaction to that, and then comments from the others on this issue of building capacity.

Next Speaker: I think the ambassador raised an excellent point on capacity, and the beauty of MCC is that, because our money is untied, and because it's no-year money and because it's not earmarked, there's tremendous flexibility of how it's used, we encourage and try to work with the countries to come to us with mechanisms and implementation mechanisms that get us to where we want to get to, but also include capacity building and training. I mean our goal is not to create a parallel system which disappears after we go away, but to create a system that, after we leave, does enhance capacity, does enhance the ability of the country to carry on after we've left. But at the end of the day, there is a finite wall that we can't go beyond, and that is we do have a fiduciary responsibility to the taxpayers and to Congress to make sure that the money is spent well. So we will do whatever it takes to (1) maximize country involvement, maximize the use of country mechanisms, maximize capacity building while at the same time, try to minimize as

much as possible the fiduciary risk. The corruption issue is a very interesting one, and I think it's one that I think Roger's absolutely correct. I think we do have a number of checks here, and I'm going to move it off topic here, but I think it's important to mention because it does get into the capacity issue. We choose country, our pass/fail indicator is corruption. So by definition, within the peer group of the low income countries, low and middle income countries, we are getting countries that are performing above their peers on corruption. So that is, we're already working with the best group that we can within that country group, in terms of corruption. Second, and this is very important, we will cut them off if they start slipping on corruption and on the indicators, and all you need to do is have two or three missteps with our funding, and we'll cut the countries off. And I don't think, or I hope they wouldn't want to risk a golden opportunity for some free money, to do some transformative activities, and have that be tainted by corruption allegations. But that is our challenge, and I think the challenge to all of us is to say how much risk are we willing to take? That's really, for me, the key question for innovation and moving forward. How much risk are we, as a country, as a Congress, as taxpayers, willing to take with our money? Because a lot of the innovative stuff that we could be doing that we're not necessarily doing is based on an inability to take more risk. But yes, Ambassador, you're absolutely right. I think Burkina now has an excellent opportunity because the ball's in their court, to think through an implementation mechanism that addresses our fiduciary concerns, but also maximizes their capacity.

Speaker: \*\*\*\* will. I'm going to put you on the line here a little bit with AID. Set up – you know, went from budget support as we heard earlier –

Next Speaker: Right.

Next Speaker: – to moving totally outside for a large – to a large degree for these very reasons. For oversight reasons. Do you think that that system, with AID as one example, does in fact undermine and weaken government capacity in the long run as opposed to build it, in terms of the procurement financial management capacity?

Next Speaker: I think it – I think it could have that tendency. I'm not sure over the long run that that would be the defining reason for the failure of the system.

Next Speaker: Mm-hmm, mm-hmm, mm-hmm.

Next Speaker: I just would like to comment on one of John's comments that, you know, no reasonable government or society is going to turn down free money. I don't think you can never underestimate the ability of those who abuse systems for personal gain. That no reasonable person – but these are sometimes not reasonable people and I – but I think that it's, you know, again –

Next Speaker: Important qualifier.



Next Speaker: – having spent more time than I would ever like to remember, dealing with these systems and how you get the people who would do good to have the same arms that the people who would do wrong.

Next Speaker: You know, one of the things that's – you know, again, with this structure and some of the countries of these boards with civil society, private sector representation on the board and we really are looking to the private sector and civil society to be our eyes and ears on the ground and to multiply their presence –

Next Speaker: Yeah.

Next Speaker: And similarly we have this ongoing consultation that is part of our implementation process and to the extent that people are being told that there's supposed to be wells drilled in your villages and that's not happening, we're going to hear about that and so we're hoping to marshal an army, if we get lucky, of civil society and private sector players in these societies to work with us and to be able to leverage what we're doing and be our eyes and ears on the ground.

Next Speaker: Roger, your view on this in terms of these parallel systems and building institutional capacity and what impact that might have.

Next Speaker: I think as far as possible the countries that I know anything about that have been successful have used the technical assistance and advice from Western aid agencies in mixed fashion – sometimes they use it well, sometimes they haven't used it particularly well. But that it's absolutely vital that it's homegrown and that's part of why I think that I would hope that MCC doesn't get very large in terms of staffing because I think there is a tendency to rely very much on Johnny Foreigner to come in and sort the aid agency policies out and how much money we're going to get in this year. And in fact that was one of the things I was a little concerned – somewhat concerned about. No doubt warranted that your staff on the ground have been receiving local awards in some of these countries. But there is a danger sometimes to be – almost become co-opted within the systems of the countries and want to continue to give aid even when the countries themselves are not fulfilling criteria. So my position on that is it has to be locally driven.

Next Speaker: Mm-hmm.

Next Speaker: I mean it has to be endogenous or it's not going to sustain. I think that's the lesson of the last 50 or 60 years of aid and without, and hopefully, that MCC can fit into that and provide the budgetary support, whether it's just going through into government or whether it's going to other entities such as I think you mentioned GTZ.

Next Speaker: Right.

Next Speaker: – as an entity that's overseen in Tanzania?

Next Speaker: No, no.

Next Speaker: Madagascar.

Next Speaker: Madagascar. I think that kind of approach, assuming that things are already \*\*\*\* as I'm sure they will be – then I think is a good –

Next Speaker: Mm-hmm. Mark, your view on this? A lot of this concern, of course, from fiduciary rightly does from Congress. Is that – did some of these systems go too far and set up the parallel systems? What do you think?

Next Speaker: I think just two points here quickly. John's comments, I think, on risk were very on target. I think that there is a willingness to take a bit of a risk here. I think what some in Congress are questioning is sort of what's the payoff in that you now have a lot of – a lot of compacts underway with I think very small countries that some look – that others look to as either difficult to emulate or exceptions or having very little regional impact. So I think that's one question that, you know, needs to be sorted out and perhaps I think going forward maybe the MCC wants to think about building in a different criteria that allows for some more of sort of a payoff type of indicator. That's just one issue my boss, Senator Obama, has raised.

Next Speaker: Mm-hmm.

Next Speaker: I think the second point just that I would make is sort on the discussion about how this fits with what AID is doing on the ground, and, you know, I think are you going to have parallel systems, how does that work? You know, it seems to me like the MCC is, you know, focused on sort of a narrow finite set of issues in each country while AID's sort of the broader humanitarian development package. The question will be is what's the impact of the MCC compacts on these other AID programs and, you know, what we've seen so far is very mixed data. You know, in the six countries where there are AID missions and MCC compacts you have seen a reduction in, you know, economic growth assistance packages. Maybe rightly so, but you know, that – this was supposed to be new money and nothing has really been articulated at least to the Congress as to the direction there. The other point too is the Benin example where you have you know, a decrease in their basic education program in Benin where there was no warning in the '06 budget materials and in '07 you have a sharp decrease down to \$400,000.00. So I think, you know, is that just because basic ed money is flowing out of Africa into more strategic countries generally or is this a function of the MCC or maybe a little bit of both but nothing has been articulated on these points and I think there's a little bit of concern on the Hill about a couple of these issues.

Next Speaker: Good, thank you. Ambassador, you opened this issue. Any last thoughts on that issue of capacity building?

Next Speaker: The same issue?

Next Speaker: On the capacity building. Any last thoughts reacting to that part?

Next Speaker: No. I think, um – another problem on the capacity building issue will be, you know, the focus on the result. If you want to put the focus on results –

Next Speaker: Yup.

Next Speaker: – it needs a local capacity –

Next Speaker: To do that.

Next Speaker: – to do that. Because what is important when you put the focus on the results is not only the the quantative indicators.

Next Speaker: Yup.

Next Speaker: You need to go beyond the quantative indicators to have qualitative indicators.

Next Speaker: Yup.

Next Speaker: And qualitative indicators will show you if the users, if the beneficiaries – if they are satisfied with the service provided.

Next Speaker: Right.

Next Speaker: I don't think that the important issue is to build a school. It's good to build a school. But after that, what is happening in the school? Are the students well taught and very satisfied? What are the feelings of the parents toward the school? Are the school teachers \*\*\*\*\*? You know, you have a lot of questions coming behind the quantative indicators. And I want really to – you know, this focus on result can make the government more accountable.

Next Speaker: Mm-hmm.

Next Speaker: But in order to, uh – to have the government accountable, you need to have first quantative indicators. In order to go inside – to go very deep and see if there is an impact on the beneficiaries. The second thing you need to publish the results.

Next Speaker: Yup.

Next Speaker: If you don't publish the results, how the people can be aware? How can you have public debates on the results? So it is not just call for a simple capacity building but you need to have debtors. How are you going to deal with those debtors? You need to have the country to have the debtors. You need to deal with the budget system.

Next Speaker: Right.

Next Speaker: If \$10,000.00 needs to go for a specific issue, how are you going to be sure that the money really goes there?

Next Speaker: Right.

Next Speaker: So I think what is important is to have the focus on the result. I agree with that but it call for capacity building also.

Next Speaker: Great.

Next Speaker: But not only to see how many schools you have built, how many men – money you have spent. No, that's not enough. We need to go beyond.

Next Speaker: To go beyond that. That's great. I want to get reactions to the others on that. Just turning back to this parallel systems issue and budget support which has been kicked around. One little proposal on my part, if I can interject, which I've talked to Ambassador Danilovich and to John about, would be for the MCC and other agencies to actually use Standard & Poors or other ratings agencies to actually rate the quality of procurement systems, fiduciary systems, accounting, auditing public reporting systems and when countries achieve a certain minimum standard then some of the money can actually go as budget support when they achieve a higher standard. More of the money would go as budget support and provide internal incentives for the countries that if, in fact, they do score better on procurement and auditing standards that over time they will, these parallel systems will begin to disappear and they can use their own systems and that's not going to happen overnight but it could happen in the next five year compact with some of these countries that if we create the incentives for them over that time to build, to actually build that kind of systems that we want. Last, the Ambassador raised the issue and Roger had raised it before and I wanted to start with him, on this monitoring and evaluation and measurable results and then we'll turn it over for questions. If you have questions, you can begin to line up at the microphones. We've got a few minutes for that. But Roger, please start with where the Ambassador left off on that.

Next Speaker: The Ambassador rightly says I don't think we should be measuring success by the number of schools that are being – or hospitals or clinics that are being build. But I think some of the point of having measurement of indicators is to see the impact of those clinics used properly. I mean there are numerous projects that I've looked at where criteria of proximity to clinics, for example, is used as a measurement of success. With – regardless of whether the clinic was ever staffed properly with doctors and nurses, had running water or electricity and anything else.

Next Speaker: Right.

Next Speaker: At its most absurd you can have that kind of measurement. So I think the broadest indicators are the most important in terms of the area that I know about – of

health. But having said that, they're very hard to look at a final output such as reduction in tuberculosis or malaria and link it to something the MCC's done because you've got numerous other confounders within that.

Next Speaker: Mm-hmm.

Next Speaker: But I think we have to be focusing on as general as possible health indicators which indicate that the government is moving in the right direction.

Next Speaker: Right.

Next Speaker: And that's why one, we need to have good external auditing and give the countries time, but at the same time –

Next Speaker: Focusing.

Next Speaker: – where they are failing –

Next Speaker: External focusing.

Next Speaker: Yes. External, but where they are failing they need to be cut off.

Next Speaker: Mm-hmm. Yep, so it's a combination of having the external independent body that can monitor these and then having the willpower to actually cut them off when the time – when the time comes. Mark, your view from the Hill on what do you expect to see in this results-based kind of approach?

Next Speaker: Well I think Roger's comments were very on target. I think the one other thing that may be built on that – I think what also is missing is you tend to see a lot of indicators with respect to each agency and how each agency's program is doing and this and that and the other. And something that maybe would tie together the progress over the whole country. That, you know, you may have international narcotics money, you may have PEPFAR money, from the State Department you may have AID money, you may have MCC money, you may have export-import bank money coming in. In all different sorts of areas and sectors and I think, you know, rather than having a fragmented sort of piecemeal reporting, I think I would like to see a little more of a holistic type of reporting that shows how all of our foreign aid apparatuses coming together are working.

Next Speaker: Right. Are working together. Janet, your view on this, having tried to think about how to measure results on AID projects for such a long time?

Next Speaker: Well I think that the real importance – and I think John touched on this – is having a very independent evaluation system. A lot of people have stakes in making sure that things are going right and in making sure that reporting reflects the rosier side of what's going on.

Next Speaker: Mm-hmm.

Next Speaker: I have seen in one overseas mission where I was with AID project officers holding up evaluator's tickets and saying you're not getting a plane until you change this evaluation. I used to tell people, you know, I – an evaluation should tell me let's say five things that went right and five things that went wrong. And believe me, I already know the five things that went right because everybody tells you that. It's the five things that went wrong that's going to allow you to build on a system.

Next Speaker: Mm-hmm.

Next Speaker: So make sure they have their own tickets, and no matter how well a project is going or a compact is going, find out what's going wrong because that's where you get –

Next Speaker: That's where the problems are. So we've got issues around an independent – a source to monitor this, the Ambassador mentioned the importance of transparency so that everybody knows what's going on, and accountability. These things have to have some teeth. Last word from John and then we'll turn to Q and A.

Next Speaker: I couldn't agree more with those comments. We all – we are ultimately about outcomes, not outputs. It's not how many kilometers of pavement were slapped on or how many schools were built. It's what is it that we're getting for those investments? How many – how are we decreasing illiteracy? How much are we increasing rural incomes along that road, etc. So this – really, at the end of the day that is – if one wants to encapsulate what is MCC all about, it's about those outcomes to measure those outcomes and if we find that we're not getting those outcomes, to cut off the assistance, learn our lesson and to move on. And to achieve those outcomes largely relying on the country's capacity to do that. To help the country build that capacity and where they don't have the capacity to intervene as appropriately with assistance and technical assistance and oversight to make sure that we reach that, that happy medium. But outcomes is really – after challenge, outcomes is our second middle name.

Next Speaker: Mm-hmm. Great. Okay, let's turn – we've got eight people here in line. We'll hold the line at this point because I think that's going to be plenty. We'll go front to back. If you can state your name, please, and your affiliation and please make the question as direct and as brief as possible. I know Mark has to leave in a few minutes, I think, and some of the others might. So if you can be direct and brief that would be great.

Next Speaker: Thank you. My name is Paulette Lee. I'm a communications specialist in development communications and in addition to hearing that Congress needs more information or better articulated information I think was the way it was expressed, I'm wondering what do you think the American public needs to know about the MCC. What does it need to know – what should the message be, what is it you want them to do about it. Do they know enough about the MCC versus the Millennium Development goals,

which conventional wisdom has it that the least developing countries are not going to meet many of those criteria. So my question is based on the information the American people should have. Thank you.

Next Speaker: Good question. Thanks. And we'll take a question from the back as well.

Next Speaker: \*\*\*\* with Chemonics International. My question is when you look at the difference compact – the different countries there seems to be two dialogues going on so far and it's very understandable because of the phase where MCC is. But there's one dialogue in terms of the policy dialogue and what is it that the country needs to qualify to be eligible and to get the money and there is a different one which is a development program with – in the ground with very broad participation and what is it that goes into a particular compact on – whether it's a road or school or whatever that is in the compact. And I believe, and I think John just said it in his last intervention that MCC's about outcome. Not about inputs. And this is where I have the worry in terms of moving into implementation. As you focus on implementing those compact, MCC's only providing less than 1 percent of GDP per year to each one of those countries. If you focus on very successful country like Ireland getting a lot of money from the European Union, they got less – close to 3, 4, 5 percent of GDP in aid and according to the studies, that aid was responsible maybe for pulling 5 to 1 percent of GDP growth in comparison to the 9 percent that they were getting. So much of the growth came from everything else they did. However, the European aid was very important to allow them to do the other stuff.

Next Speaker: Mm-hmm.

Next Speaker: The same thing for MCC. The money the MCC provided – the particular project the MCC's going to finance are going to have very little impact in the overall growth and the overall reduction of poverty per se. However, it does provide the chance, I believe, to really help those countries focus on everything else that needs to be done to accelerate growth. That particular dialogue is not one that ends at the qualifying stage of a country.

Next Speaker: Right.

Next Speaker: And I still don't see a lot from the MCC in how this policy dialogue's going to be carried out on a daily basis. How you engage the MCC board into this policy dialogue and all the people that has been involved in the participation of the compact to have ownership on the policy dialogue as well. And I think that's going to be a different challenge but it's probably even more important challenge than having the particular compact moving forward.

Next Speaker: Great. Thank you. We'll take one more from my old friend and actually boss, Mike Wallace, who when I was an intern graduate student in Katmandu, Nepal – Mike, it was 20 years ago. I can't believe it. Anyway –

Next Speaker: Right. Thank you. Yes, I'm Mike Wallace. I'm an economist working with the QED Group, a local consulting firm. While keeping our eyes on the outcome I think we shouldn't lose sight of the outputs as well. Presumably we want to build capacity on the output side and award contracts to Ouagadougou road building rather than beltway road builders. How are we going to ensure that we keep that in view as well? Thank you.

Next Speaker: Good. Great. Let's take – Roger, you don't have to answer all of those questions but let's go through and get reaction to some of those questions. Roger, you want to start?

Next Speaker: I'll try the first question. I think a little honesty would be good here. I think it would be a bit like advertising Volvos. You know, they're boxy but they're safe wouldn't be a bad way. I think the way I would advertise this would be AID hasn't worked very well in the past. Some of it was our fault, some of it was their fault and we're trying something new. I mean frankly I think – I think the American people deserve to actually understand why MCC has come about. It's because AID has not performed very well in the past. I think a degree of honesty would be very useful.

Next Speaker: Mm-hmm. Great. Janet. I'll finish with you, John.

Next Speaker: Well I guess I'd have to disagree a little bit.

Next Speaker: I thought you might.

Next Speaker: I think that – no, I think that AID has certainly not performed the way people would've like to have had. There was no Marshall Plan. But I think that the successes – if you look at what Agency for International Development in conjunction with other partners have done over the last 40 years I think it's pretty impressive. The American Public – what do they want to know? They really don't want to know very much. You know, they have – they've done surveys where they say how much should the US Government pay for foreign assistance, and people say well they're doing much too much now. It should be no more than 15 percent.

Next Speaker: Right.

Next Speaker: And the – you know, this morning, I mean, I was I was getting dressed, I watched Angelina Jolie live from Namibia talking about the issues of poverty. This is the – more people are going to listen to Angelina Jolie than to Ambassador Danilovich and – you know, for good or for bad.

Next Speaker: As attractive as he is.

Next Speaker: As attractive as he is.

Next Speaker: but did she have her baby yet.



Next Speaker: No, and she wouldn't tell what sex it was.

Next Speaker: That's what most people want to know.

Next Speaker: But I think, you know, that the education of the American public is something very important and I'm not sure how you go about doing it other than trying to get out consistent messages that a) it may not have worked as well as it has to – it should have, but it's important. It's important for the way we live, it's the importance of the way the world security is going to be looking in the next – the next maybe six months.

Next Speaker: Good. Mark, your reaction to any of those questions.

Next Speaker: Just on Question 1, I basically agree with Janet and just feel that we haven't done a good job both in terms of Washington and the existing foreign assistance apparatuses in terms of actually getting the message out about how much we spend, what we're doing, the good people we have employed and you know – and I think that message has changed on the Hill. It used to be it was very difficult to get a foreign assistance bill passed. You know, I remember late 90s, you know, one or two vote cliffhangers on the foreign ops bills but not anymore. But it has not left the beltway, so to speak, and I think that would be a useful thing to do.

Next Speaker: And Mike Wallace's question from – you think from the Hill's perspective. When the contracts go to a road contractor in Ouagadougou or maybe a European firm, how's that going to fly? I'm not going to say a Chinese firm. I wouldn't say that.

Next Speaker: Let's –

Next Speaker: Or a Dubai – no, it's not going to be a Dubai –

Next Speaker: Yeah. It's really, really tough to say. You know, a lot of these things are pretty small and fly under the radar screen for the most part on the one hand. On the other, you know, I mean I make three points. One, below the radar screen. Two, I think, you know, there is an argument to be made among those who actually follow these issues closely on the Hill that, you know, you do gain efficiencies and certain, you know, outputs that you wouldn't have otherwise and I think that there's a very receptive audience.

Next Speaker: Mm-hmm.

Next Speaker: The problem is a little bit on the broader audience that, you know, we have all these buy America provisions and the foreign ops bill for a reason and they're not there because, you know, we don't recognize that local products are good. It's – they're there for political purposes. So I think that political question has yet to be really put to the test but, you know, touch of the feel – touch of the fingers is I think it largely depends on the amount of the contract.

Next Speaker: Mm-hmm, okay. Good. Ambassador, your reaction to –

Next Speaker: No, I really just agree with the last speaker. I think that maybe we need to have mixed indicators.

Next Speaker: Mm-hmm.

Next Speaker: When talking about the results. It's true that MCC is about outcome because we don't – we want to see the impact. But also we need to be very careful and and have an eye on output indicators of sorts. So I agree with him. We need to have mixed indicators.

Next Speaker: Mm-hmm.

Next Speaker: The second thing – I think one of the speakers raised a very important question. Is the question on the policy's dialogue. If you really want to be transformative you need to be present on the policy dialogue.

Next Speaker: Right.

Next Speaker: I'm just trying to see maybe in six months or maybe at the end of the year that IMF mission will be in Ouagadougou. The World Bank mission will be in Ouagadougou. In order to design the country economic policies for the two or the three coming years. All the MCC will be in that room to discuss with his local partners on what will be exactly the priorities or would MCC will be out of this room and the IMF and the World Bank with the local authorities will say what is the priorities and MCC will come after.

Next Speaker: Right.

Next Speaker: I think we need really to think about it because it is for me, it is an issue of credibility.

Next Speaker: Mm-hmm, mm-hmm.

Next Speaker: If you say that your program is set up on the country priorities because it's come from a participatory process.

Next Speaker: You.

Next Speaker: And when the World Bank and the IMF will go to the country and sit with the local government and outline what is the country priorities maybe you want to see that the MCC priority is on that document.

Next Speaker: Mm-hmm.

Next Speaker: John, your reaction to those last questions.

Next Speaker: Well let's start with the – you know, the – what I'd like American people to know about MCC and I always use sort of my – what would I tell my mother who lives in the Midwest. I'm from the Midwest – what would I tell my fellow Midwesterners what MCC's all about and I think we really have a fantastic story to tell here because it plays right into the values – at least I know my community back in Michigan feels first you work hard and you get something for it. That's what MCC's all about. The countries perform well on our indicators and there is a reward. There's an incentive effect. There is a potential to come to us with a transformative proposal and to receive untied grant monies. So you work hard, you get something. So you don't get something for nothing. That plays into the psyche at least of the people that I grew up with. Second, self-reliance. The countries are the ones that are responsible for pulling themselves up by the boot straps, coming up with their proposal and figuring out what they themselves need. Fits right into the issue of, you know, local ownership, I don't want Washington telling me what to do. That's exactly what we're trying to do with these countries. They determine, not we, what it is that they think is important and needs funding. Third, accountability. If you don't perform, there's consequences. My mother used to tell me that from when I was, you know, two years old. People – and this is what we're all about. You don't perform, you don't say what you're – you don't deliver on what you're going to do, we will cut it off because there's perception that money's just going to some sort of black hole and there's nothing to show for it. I think the way in which we operate and the principles in which we operate fit right in to what Middle America – at least the Middle America that I came from, values. And I'd like to find a way that we as a community can articulate that so that people don't view foreign assistance as just checks being written that no one knows what happens with it. But really does fit right into what most people intuitively feel is the right way to approach things.

Next Speaker: Mm-hmm.

Next Speaker: With respect to the policy dialogue, you're absolutely right. You know, there isn't enough aid assistance, whether it comes from us, from anyone else in the world, to really make the difference. All we can use – all we can do is use our money as a catalyst – as an incentive to put in place the right policies. I'm firmly of the belief that at the end of the day it's the policies that are going to matter. It's the good governance that's going to matter. It's the steps that the countries themselves take to root out corruption that's going to make a difference. We're just a small catalyst and a small player in all of this. We're already seeing that without a dime being spent, if each of these countries were to be green rather than red on their MCC indicators I guarantee you're going to see a lot more growth, a lot more poverty reduction and a lot more prosperity. So that's what we're really all about. I'm not so much – obviously the more money the better. But let's not fool ourselves. We could be getting \$10 billion a year from Congress. If the countries don't use this money and themselves don't have an attitude shift and say it's good policies that matter, it's good governance that matter – the fight against corruption that ultimately really matters. It's the rule of law that matters.

It's the attraction of private capital at the end of the day that's going to make a difference we can be in this game as we have been for the last 50 years for another – for another 50 years. And then finally the Ambassador's comment on the IMF, World Bank and all that – obviously we don't participate in the IMF meetings but we're sort of like the Holy Spirit, the Holy Ghost. We're there with our, and we're there because what you do at the IMF and the World Bank blends into our indicators, it blends into your overall policy of performance and to the extent that you're working with them on good governance corruption, good fiscal policy, investing in your people, economic freedom, that positively feeds into what we're trying to achieve, then we are maybe not there physically but certainly there in spirit.

Next Speaker: Hopefully it's not you speaking in confused tongues, but we'll leave that. We've got five more that – they've been standing for a long time, so let's go through the five and then we'll have our panelists respond to those. Please –

Next Speaker: Hello, my name is David Painter. I'm a senior development finance advisor with TCG International and an ex-USAID. I wanted to pose to people a question about the next stage, beyond the implementation, if you will. I think it's fine – I think it's wonderful that MCC is finally reaching a point now where it's beginning to be on the verge of implementing things. But what happens after implementation? A lot of the kinds of projects that are likely to come up are going to be large, they're going to be infrastructure or they'll involve building lots of good stuff. What is the sustainability of that after the program is over? How does the way in which the compact is constructed, enforced, monitored, evaluated throughout the course of it assure that at the end of the day if you've got a bunch of schools you will also have teachers who are going to get paid –

Next Speaker: Right.

Next Speaker: Yeah.

Next Speaker: – to go and teach.

Next Speaker: costs for teachers or maintenance cost on roads.

Next Speaker: Exactly. Roads –

Next Speaker: Excellent point.

Next Speaker: – water. All of these things require a great deal of expenditure of a very long period of time. What is and how is MCC going to affect that?

Next Speaker: It's an excellent question. In the back, sir.

Next Speaker: I am \*\*\*\* partner of Shafer Global Group. We're agri-industrial group in Louisiana. I can see \*\*\*\* in this room here and, we develop projects. I have a comment

and a question. We've been in Africa some 40 years. I guess there's some value to what I say. I had a \*\*\*\* Hewko on his first trip across from Paris flying down to Bamako, to Mali, where we have a big project and the question came – comments on the speed issue. He says hey \*\*\*\*, he said how long does it take you guys to develop projects. I said it takes many years. I mean the reality of developing projects in complex and difficult environments takes a long time. I think that's something as a developer I wanted to make a case because many people maybe don't have that experience and might not pick up on it. The question, we have also situation in Africa where we often hear of the lack of US investment, other than the oil companies of course and natural resource people. I have not seen and I don't know that it's necessarily part of the mission but it could be an adjunct value to MCC program to try and leverage US private sector involvement also in their projects. I know, I mean Mali's a classic case. We're actually in the same \*\*\*\* where the MCC compact has got 15,000 hectares in the north of the office developing the land. We're doing the 15,000 hectares cane – integrated cane development with a sugar factory in the south. Now –

Next Speaker: You mean in terms of private sector financing or actually implementation?

Next Speaker: Both – well implementation I understand in a project management. I understood that's why I bring it in. But I'm talking about the implementation because even in our financings, about \$250 million that's come in - \$125 is fully commercial equity and DFIs and the other \$125 is \*\*\*\* funds and other concession, long-term kind of money that an MCC could provide. Now I'm not being specific of our project but it's an example of a way you could catalyze US investment into it.

Next Speaker: Right, good. Thank you.

Next Speaker: That's the question.

Next Speaker: Thank you.

Next Speaker: Frank Young, former AID director in Ghana, among other places.

Next Speaker: Right, thank you Steve. And currently with Apt Associates and Janet did not put me up to this. I want to, the discussion has been at a relatively sort of high-impact level. I'd like to sort of bring it down to an operational level and just focus on that procurement box, John, if I could. A lot of the innovation initiative and creativity is already appearing in the way in which MCC approaches procurement and I think that's terrific, it's commendable, it kind of takes some of us in the community who are used to using AID a little off our stride because we're sort of getting accustomed to how you approach it. But I guess my question is as you move through procurement cycles and you try new approaches, policy questions and doctrinal issues arise that I assume you're monitoring, you're looking at, you're trying to assess. I guess my question is a very basic one. Do you have a policy unit in your operations department that looks at procurement issues, looks at procurement policy, that those of us who don't necessarily – aren't beltway road builders but also work in institutional capacity and have been asked by

MCC to participate with you in doing due diligence, can have a dialogue in terms of how we approach providing these procurement services to you as well as to the compact countries. I've not yet been successful in finding such a unit to have that kind of dialogue with.

Next Speaker: Good question. Thanks, Frank. In the back, sir.

Next Speaker: It seems as though the MCC –

Next Speaker: Your name and affiliation.

Next Speaker: Steve Landy, Manchester Trade. I know no one here except five people, showing that –

Next Speaker: Well you know us all now, so –

Next Speaker: – because we're part of the – because mine's a trade question in the institute of advanced economics.

Next Speaker: Okay.

Next Speaker: But seriously, it is clear to me that MCC is going to be the key or is the key infrastructure development assistance program the US Government has. There are three aspects that troubled me – not about MCC but about the overall US outlook. Every country is using AID for negotiations and we're not. It is very clear what the Chinese do. There's an article today in the newspaper, couldn't be clearer. They're going to build roads in Nigeria to service the oil ports in exchange for oil concessions and part ownership of a refinery. Second, WTO is very clear that the Africans know what they want, they have been very clear in the African Union declaration which said we want aid for trade – aid for trade means trade-related infrastructure. Third issue, of course, is I'm very happy we're finally active in French-speaking Africa. I think the point about no aid was taken very seriously by those who know how US AID has not been necessarily as active in French Africa as many of us would have liked to do it. The French are the best negotiators around and so on. And the fourth point was Ernie \*\*\*\* if you have a new aid program and if you're not going to address the most important or the most crucial area for stability in the hemisphere, is there another aid program or does MCA include it – MCC. So my real simple question is you have all these great criteria – health, education. If you don't include in it a negotiating criteria, whether it's for US investment, whether it's for the WTO, whether it's for the French – where will the US Government have money that they will be able to put into this very serious commercial diplomacy that we're involved in?

Next Speaker: Thanks. And last question, yes.

Next Speaker: Yeah, my name is Chris Falcer. I'm the Director for Social and Economic Development with Church World Service in New York. My big question goes back to

one of the first questions here, sustainability. We talk about the country level. How about down actually to the community, the population level that's being affected. We work with grass roots organizations. If the people there aren't promoters of their own development, it's never going to work. What are the provisions for making sure that it filters down to that level?

Next Speaker: Great. Good questions, all. Lots of stuff here. Which we can't, unfortunately, cover all of these issues at once but, if you – each of the panelists wants to take one or two of these to try to start with, we'll start with Mark because I think the – you're out of time. Both of you need to go. Do you want to comment on either of those or on any of those or do you want to – do you need to head off? You need to head off right now. Well, we thank you both for being here. Let's give them a nice round of applause. Thank you Janet, thank you Mark. And we'll leave it to our other three to, uh – to try to address this last set of questions. Ambassador, why don't you – why don't you start and then we'll go to Roger and then John to finish up.

Next Speaker: Yes, maybe the issue of sustainability.

Next Speaker: Yeah.

Next Speaker: I think this is the most important because what we want is to have a road that will last.

Next Speaker: Right.

Next Speaker: That not just road for five years when the MCC will be in the country.

Next Speaker: Right.

Next Speaker: But I think the best way to address the sustainability issue is to use the country system.

Next Speaker: Yup.

Next Speaker: If you want to have a – this is a good response to the parallel system. If you set up a parallel system in order to manage MCC fund, what will happen when the MCC will go –

Next Speaker: Right.

Next Speaker: You won't have any means in the government system to take care of what is being done. So it's call again for capacity building but it calls also for a mutual trust. Because I know at the beginning it won't be very easy for the MCC team to have their – a full trust –

Next Speaker: Right.

Next Speaker: – in the country system. But the challenge is to improve the country system and maybe as Steve said, in three years or five years, to use the country system. If we want to have sustainability let us use the country system.

Next Speaker: Mm-hmm, mm-hmm. Great. Thank you. Roger, last thought.

Next Speaker: I'll just comment on two parts of the questions raised. What happens after an MCC series of grants – hopefully the countries are transitioning and when they're not going to be relying on AID forever. I mean I think part of this is that we're hoping that countries will be weaned off and part of the country criteria in the countries which are being selected are that they are at the stage where they may kick start or whatever the analogy may be into development. The question I probably know more about, though, is the one raised by the gentleman from Manchester Trade, which is the US using other avenues – not just AID in pushing its own policy. I think part of the reorientation of foreign aid is to actually push that. It's actually so that the US Government is probably – in all of its various guises is going to be more coordinated in pushing its foreign policy through various difference guises. The one instance that I'm actually involved with – I'll give you an example. The World Trade Organization, USTR, along with lots of other countries at the moment, are trying to get countries to remove or reduce their tariffs on essential medicines and medical devices because they restrict access to essential medicines around the world and I think that that is kind of backing up the aid efforts of the country in a way that through the trading system. So I think that more efforts like that will probably come from the reorientation of foreign aid, as best I understand that.

Next Speaker: Mm-hmm, good. Thanks Roger. John, last thoughts.

Next Speaker: Yes, Frank, on your procurement – I'll be happy to chat with you afterwards and get – put you in touch with the folks that can give you some ideas there. Beyond implementation sustainability, what – as part of our due diligence – an important part of our due diligence is will this be sustainable. That's a big filter that we use for the various projects that we receive as part of the proposal. If it's not sustainable we're not going to fund it and we've got a lot of examples in roads. For example, in Nicaragua for years was trying to get a road maintenance fund in place and we said fine, we'd be happy to finance some road building but you're going to have to get a road maintenance fund through your national assembly, which they did largely because of the MCC incentive effects. So again, sustainability –

Next Speaker: But you said no road maintenance costs – from MCC funds.

Next Speaker: We're not going to build roads for you unless you can show us that you're going to be able to maintain them after we leave and they, as a result of that, have now adopted a legislation which provides for a road maintenance fund which they never had before. So it'll be earmarked budgetary funds regularly going into the budget to be able to maintain the roads. Similarly for all the other activities – the water project, we have user fees, there's some kind of other mechanism in place to keep the system sustainable.



Sustainability is a big part when we work with the countries, when we flesh out their ideas with them. How are we going to make this thing sustainable and we won't fund something if we have a sense that it's not going to be sustainable because again, we don't want to build something and the minute we leave it starts falling apart. With respect to the speed – the speed issue, I really appreciate your comment because we've been hearing a lot about, you know, the speed and Steve I appreciate your clarification that if you really want to hold our feet to the fire it's really from 2004, not from 2002. That's been a bit of a misperception. But if – you know, we've now done eight compacts of \$101.5 billion with an average staff of about 80. Within average speed of about nine months from when we get actually a fairly good proposal to when we sign the compact. Fast compared to the private sector? Yes. Fast compared to other aid agencies? Very fast. So I think speed is an issue compared to what. And I think the comments here that we're not about shoveling money out the door are absolutely appropriate. We really are not about shoveling money out the door; we're about getting it right to the extent that the development community can help us. If we enforce the idea that this is about getting it right, I think we'll do, uh – we'll make our programs that much more effective. Leveraging private sector resources? Absolutely. And we encourage private sector to get involved in the consultative process to get their ideas imbedded in there, to go to the governments and convince the governments to put in place mechanisms that will allow our funding to bring in private sector – either co-financing or the leverage additional private sector investment going forward. In fact we just held a – what we call MCCU for all of our points of contact from the 23 countries and one of the panel discussions was we brought in a private sector group to explain to these country representatives mechanisms that they may not have been aware of that they can include in their proposals that would incentivize and bring in the private sector in a number of different ways. So maybe I'll just leave it at that.

Next Speaker: That's great. Thank you, John and thank you to Roger, Ambassador Zongo and to all of you, the courageous ones who stayed through the whole thing – we appreciate your patience and your endurance. Thank you very much.