CENTER FOR GLOBAL DEVELOPMENT

Present

MCA Monitor: What's Next for the Millennium Challenge Account?

Tuesday, May 3, 2005

1:00 p.m. - 3:00 p.m.

Root Conference Room
Carnegie Endowment for International Peace
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[TRANSCRIPT PREPARED FROM A TAPE RECORDING.]

NANCY BIRDSALL: We are about to begin. We are beginning. I'm **Nancy Birdsall**, the President of the Center for Global Development, and I'm really pleased to see this crowd. It's not only a high quantity crowd; I can see by looking around that it's a high quality crowd. And I think that's a tribute to our speaker and our panelists, as well as to the importance that the Millennium Challenge Corporation has in the armamentarium of tools to deal with the developing challenge. I'd like to welcome you all and it's good to see so many familiar faces for our GCD events.

This program, on the MCA, is part of our larger work program on Aid Effectiveness, and it is the first launch of a specific approach we want to take to Aid Effectiveness – in this case called the MCA Monitor Program. The purpose of the MCA Monitor Program is to track progress on the MCA, look at the policy and other milestones of that program as it goes along, help Capital Hill and the NGO Community. Those of you who are here and are interested in this Program, to have the timely and credible analysis that will contribute to all of us helping to ensure that the MCA is not only successful, but is successful in part because it's accountable to the commitments its made. It is also the purpose of the MCA Monitor Program to draw lessons as the Millennium Challenge Account Program proceeds, on what makes aid effective, including the extent to which the delivery mechanisms used by donors work, what parts of those mechanisms are working well, and what needs to be looked at again more carefully. All of the issues that you're familiar with, ownership, accountability, transparency, monitoring and evaluation, and so on.

We have a new website that we're launching called mcamonitor. Information about the site is on the table outside. I hope many of you will want to go to it now or in the future. There's some good stuff there already, under, for example, the Congressional Testimony, or the Congress section, you can find the recent testimony of our Senior Fellow, **Steve Radelet**. You can find summaries of hearings over the last couple of years done by **Sarah Lucas** and other staff. Under the Donor section, you can find lots of information about how the MCA links in with the larger donor architecture.

We're of course very pleased to have today, for the launch of this program, MCA Monitor, **Paul Applegarth** himself. His presence, along with many of his colleagues, is a wonderful sign, really, of the willingness of the Millennium Challenge Corporation and all of its senior staff, all the staff, to engage in the kind of constructive discussion that today represents, and that I hope, and I'm sure, this MCA Monitor Program will represent in the future. I'm hoping that in his remarks, Paul will consider two key questions. I think he knows about these questions. I think one of them he may have even planted himself.

The two questions are, what are the key lessons that the Corporation, the MCC, has learned in its first 15 months of operations, and how will you build on these lessons going forward? Let me interject before the second question here, to note that **Paul Applegarth** became the head of the MCC just a year ago, right? In May – even a little less – not quite a year ago in May of 2004. So, when we read about how the MCA was announced in March of 2002, and it's already been three years, you have to take into account that the leadership arrived just a year ago, not three years ago. The second question is, how would you like to see the MCA's success measured, and what would you like to see from CGD's MCA Monitor? It's my pleasure now to go ahead and introduce Paul himself. As I said, he was appointed to be the Chief Executive and the first Chief

Executive Officer of the MCC in May of 2004; he was at that time the Managing Director of Emerging Markets Partnership, which is an equity and debt fund. He was Chief Operating Officer of the Emerging Africa Infrastructure Fund. He worked before that at American Express, Lehman Brothers, at the World Bank. He's a graduate of Yale University, Harvard Law School and the Harvard Business School. He was a Whitehouse Fellow. He's served in Vietnam. He's bringing a long career, thinking about development issues, to leadership at the Millennium Challenge Corporation. Paul, we're very pleased to have you. It's now your turn, to answer our questions.

PAUL APPLEGARTH: Thank you Nancy. And I didn't realize those were questions before; I thought we were talking about what I was going to talk about, but … so, maybe I planted them or not, but yes, I hope to talk about this and the challenges we still face, and how MCA Monitor can really be helpful to us, and we do welcome it, and I'll come back to that. That really goes to the core theme today, which is MCC is trying to do some new things, and we need your help to do it well. Before I do that though, I want to thank the GCD for its ongoing support, advice, and even its constructive criticism. We do feel it has strengthened us. And I especially want to thank Sarah, **Sarah Lucas**, for her commitment to see MCC be a success, and we wish you, Sarah, the best for your future endeavors as you head off ****.

Today I am not going to provide a general background on MCC or a history. This audience is already, I assume, quite well informed, and I'm also going to be very candid about the progress we made, the initial assumptions we made at the beginning that have been confirmed, some lessons we've learned, the challenges we've faced, and I think in some cases overcome, and those that we are still dealing with and those we anticipate. Of course, we really are going to rely on all of you to bring to our attention some of the challenges that we haven't anticipated. Then in light of the new Monitor establishment, we want to give you an insight on how we see your evaluation of MCC can be most effective and helpful to us. I wanted to say – we really do welcome the scrutiny, and Nancy mentioned that in her opening remarks. We take it as a sign of the importance of what we are trying to do. We believe it will strengthen us – as if we have an active dialogue and get the benefits of your insight, feedback, as well as we explain to you in what we're doing, you can be of assistance to us in helping to explain it to some people who don't follow us as closely.

First, with regard to the assumptions confirmed and the lessons learned from challenges, obviously the first thing is what we're asking countries to do is not easy. But many of them are proving their commitment to it, and this is exactly what we hoped we would find. They can do it. That's an assumption out there – it was an assumption, but we believe it is now confirmed. They can do it. You've seen it with the Madagascar contact. Countries can take ownership, put in place a good consultative process; put in place a good program that we believe has strong potential to lead to poverty reduction and to economic growth. But we've also learned it is those countries that make the commitment of dedicated time, dedicated staff and their own resources of program development are seeing faster and better results.

A sustained high level of political commitment is absolutely critical to the staff being able to manage the process. It was interesting – I was speaking to **Louise Cord** before this, and she said one of the findings of her work is that top level political commitment is essential to making the

programs work. We are finding exactly the same thing, and that's what we are sharing with our partner countries. One of our challenges is that we are spending a great deal of time giving technical guidance and striving to find the right balance between providing guidance and preserving country ownership. We've come to the conclusion that some financial assistance earlier in the process would be helpful in speeding it up and improving the quality of programs. We have internally improved parameters for the use of pre-contact funding, which under our legislation is called 609G funding, for when money can best be used to support activities in advance of contact to accelerate its preparation, or in its implementation after signing, to accelerate its implementation after signing.

We're already moving forward with this funding in several countries, including Madagascar, Nicaragua, and Georgia. We think we've defined parameters for assistance that will provide countries with resources they required, while preserving country ownership and their stake in the process, their evidence of their own country commitment. One of the main challenges eligible countries are facing is implementing the consultative process. This is a critically important element as you know of proposal development, as it is the foundation of a country's development of strategy, at least as we see it. With the help of some of you, and some other NGO partners, we recently published guidance on the consultative process, including examples of how it is being done in some countries, which we hope will encourage other countries to engage more fully with their own population and allow them to benefit from the experience of other countries in improving their own process.

One encouraging example of country ownership we've seen is when an eligible country team leader got the names of his counterparts in other countries, and contacted them to see how they are doing with the consultative process. A second was in the, during the recent World Bank IMF meeting, where we had a couple workshops; one was for the finance ministers and senior representatives of all countries, a basic introduction to MCA, and the Madagascar Compact, but one was very limited by invitation to just the senior ministers from our eligible countries, and it was really a very practical workshop, lessons learned, what to do, what not to do, things that work in some countries and not in other countries. What we did was introduce it and step back, and let the participants talk to each other, and it was absolutely fascinating. We were seeing country ownership of nitty, gritty stuff, okay. Where did you get the people on your side to do it? How did you pay them? Where'd you get the money? And what were your important priorities? How do you run the consultative process? And this was the finance ministers of x country talking to the team leader from another country, talking to the foreign minister of another country, talking to the economic advisor of another country, and this was true learning going on.

And if you believe part of our mission is building that in-country, sustainable capacity to do it yourself, this was a benchmark. It really was, I think by anybody who was there, a significant and important statement, that the countries that we're working with are taking this process seriously and can learn from each other. I encourage you to take a look at the consultative process guidance. It's now on the web, and give us your comments. And anything we put out there is always, for the moment, if you like; we're constantly trying to improve and update, **** see it elsewhere. We put stuff out there; we welcome feedback; we take feedback into account. Something I'm very proud of is MCC's team. We're up to over 120 people now, probably becoming a monster, and I believe we're showing the government can pull together top talent

from the government, the private sector, the academic and NGO communities. Our ability to attract people from a diversity of backgrounds is another assumption confirmed. I think it's because our mission's right. People are there because they believe in it. It's very difficult with the enormous task ahead of us, but one of our ongoing challenges is to continue to focus on building a culture, a work environment and a compensation system which continues to attract and retain this talent. A related challenge, as **Steve Radelet** pointed out last week on the Hill, is that our target to have a staff of only 200 people would make us probably the leanest development organization – certainly one of the leanest.

We are on our hiring plan – target for our hiring plan, and hope to be at full strength by the end of the calendar year. We do agree that running this organization with 200 people would be a challenge; we are not yet ready to concede that it is sub optimal. The guidance we were given at beginning, we are doing our best to implement against that plan. The jury is still out, but we are going to try to make it work. However, our effort to avoid creation of a huge bureaucracy has been a very good decision. We're contracting with others who can do non-mission critical activities, as well as or better than we can, or as well as we can. If they can do it as well as we can or better, and it's not critical to our mission, we arrange for them to do it, while our staff focus on the primary mission of poverty reduction. We invite you to continue to watch us as we grow. Third, because we're doing something new, the necessity to continually educate people is surprisingly difficult, and more surprising, the need to educate people has not lessened over time. Getting basic information out there is time consuming and challenging.

Many people are asked to speak about the MCC, but some don't even understand our basic principles of what we are doing. Frankly, the amount of misinformation that is out there is just, continues to surprise us and the amount of time we're trying to, we spend trying to deal with it is also surprising to us. I think that's been a lesson learned. In this regard, in particular, you can help us. We ask all of you who regularly engage publicly about the MCC, to speak knowledgeably in response, please call us if you want to check a fact. We'll help you. We certainly encourage the scrutiny, and expect you to speak honestly about what you are seeing and what you believe. We will help, and of course we will listen. If you think there's a problem, we encourage you to tell us first. We have been pleased with the level of support that we've gotten from the development NGOs and think thanks, and ask all of you here today to keep it up. You've been very helpful to us. The constructive feedback we get from you is invaluable, and this is not hyperbole, and our door will remain open to all of your suggestions. We actually get concerned when your messages of support are lost, and particularly when your constructive criticism is taken by those who are quick to focus on the negative and try to use it to cut our appropriation. We've seen some examples where people have made very constructive comments to us; it's taken out of context, and the next thing we see is it's up on the Hill being reported by some question by some congressional staff.

You can help us to continue to reinforce your comments and put them in the context of which you are delivering them. Also difficult is getting external observers to buy in to the new model. Change is difficult for most people, and that makes our task that much harder to convince people to manage through a new approach. Many are still in the same mode of throwing money at the problems of the developing world. We want to empower countries to address their underlying problems and help them make long-lasting change. We're talking about more than a quick fix.

You are talking about more than a quick fix, and that simply is not going to be done in some of the traditional models. As I testified on the Hill last week, our mission differs from many others assistance efforts, all of which are laudable. In disaster relief, in many humanitarian assistance programs, the diagnosis – the problem is relatively straightforward to determine. Execution is not always that easy, but the diagnosis is easy, that is to rescue people in danger, and feed and house them.

MCC's task is fundamentally different. The problems are more intractable, and solutions less obvious. Identifying the reasons for grinding poverty, finding answers that will relieve the poverty, requires serious consideration and thoughtful effort. Having the countries develop and own their own proposals, getting citizen buy-in is very valuable. It is hard for some to digest. It's also difficult to convince people that we are but one of a number of U.S. development strategies. They see us as the panacea of all problems, to be a solution to everything. We're not. Our mission is focused on poverty reduction, long-term success of poverty reduction. There are other problems that address a country's immediate needs. Of course we want to be signing compacts sooner; the test is how to do it without compromising what MCC's about, and this is a core challenge that we face today.

I do lie awake at night, wondering at times if we struck the right balance between doing it quickly and doing it correctly. I've traveled over almost all of our eligible countries and seen first-hand the poverty people live with. It's not the first time I've been to many of them, but nonetheless. With countries that have a maximum GDP per capita below $1,450.00, and there are some are far below that. Many of the people subsist on less than a dollar a day, and I'm not telling you something you don't already know. Like most of you, I've wrestled for decades with the problems of seemingly intractable poverty. It's a life and death situation for many, we know that. But I am determined to change the way development assistance is given, to make a permanent difference in these people's lives. And not to go for a quick fix solution, report to Congress that we signed a lot of compacts and spent a lot of money, and I think that mission is shared with the MCC. Having said that caveat, also the efforts of the MCC and the staff, and our partner countries, are paying off.

As you know, we just signed our first compact and our pipeline was robust. Those of you who were on the Hill last week had seen the pipeline chart; here it is again. Still can't read it, but that's all right. The point is this: - all you have to do is look at the green lines, all right. The first line is Madagascar; what you see behind that – Madagascar is not a standalone event. The countries, particularly those that are taken, put the teams in place and taken the effort seriously and have the leadership, are moving forward. We've already notified Congress, as you know, of our intention to negotiate compacts with Honduras, Georgia and Nicaragua and Cape Verde. We hope to sign compacts with all of them this summer, and there are other countries in various stages of compact development, many of which will be finalized over the remainder of this calendar year.

Honduras is next. It has a proposal for $208 Million and it will be considered by the Board on May 20. Through the years, the United States and others have devoted considerable funding to alleviating the effects of global poverty. Regrettably, it really has been far too little poverty reduction in relation to dollars spent. That's what MCC is about. MCC offers a new

development assistance approach that requires measurable results for aid investment. We have learned that simply giving large sums of money away without a determined focus of poverty reduction, country ownership and quantifiable targets is not the most productive means of providing assistance, and more and equally important, you wear out the good will of the people, taxpayers, that want to give the money. You have to show results. This is one way that we think the Center for Global Development's new MCA Monitor can play an important role in the MCC – helping us to educate people about what MCC is trying to achieve, measuring us against the old model on how quickly we can spend money is not how we think we should be measured. We certainly focus on it ourselves, but we need to focus people on results, on poverty reduction.

And we like to make some suggestions on how we think progress might be evaluated. There are fundamental questions **** in which we want your monitoring and advice on. Does MCC's approach lead to better results? Have we established an effective model for development, that allows countries to take the lead in their own development? Are we fundamentally moving in the right direction? How can we improve? Are we creating an incentive – secondly, are we creating an incentive for policy reform in developing countries? As you know, what it is really about is the policy reform because that's what drives poverty reduction. Our money is an incentive and reward, that helps the reformers. But fundamentally we are an incentive for good poverty reduction. We believe the answer is already a solid yes, we are creating an incentive for policy reform. We are seeing progress and we focus on tracking these results and we'll share what we learn. We see a great deal of attention to these indicators by governments, both those that are already eligible, by those on the threshold and those who would like to be on the threshold. The number of times that we sit down with senior ministers of government and go through the country rating sheets, indicator by indicator, how it is done, who does it, what they are trying to measure, and having a focused discussion about policy reform, is heartwarming. And it's surprising that we do it frequently.

We're seeing that we are providing a tool for reformers both inside and outside governments to push for changes, and finally we are seeing actual improvement by countries of the scores. For example, and one of the easiest ones to measure *** influence, as you know, we have already seen dramatic improvements in MCA candidate countries' performance on the **** starter business indicator, which the publishers of the index are now saying is due in no small measure attributable to the assistance of the Millennium Challenge Account. We've never taken credit for it; they're saying it's attributable to us. According to World Bank officials, because of MCA's extended effect, Paraguay, a threshold country, adopted significant policy reforms in 2004 to both improve their score on **** starter business and catalyze an increase in registration to approximately 6,000 or 20 percent more firms than usual. Secondly, we're seeing that ownership leads to better design programs and greater participation and buy-in. We'd like you to confirm that.

Many countries are seeing themselves up to the test, and are building capacity through the experience. Countries can take – are taking greater responsibility for their own growth, and are coming up with strategies to address poverty reduction. Countries are consulting with their citizens to a greater degree than ever before. Certainly what they're doing is not perfect, but they are doing it with greater transparency, taking risks, strengthening capacity and learning along the way. The programs we are supporting seem to be resulting in more locally owned programs.

Some of the governments are even inviting civil society members to participate as voting members of boards and overseeing implementation. That's a lot more than a consultative process. You actually put members of NGOs, the business community and academics on a supervisory board with votes. That is participation. We're seeing it in some of the countries. Okay. Third question. Is there value added in the MCC process. I – and do you see evidence of it?

Somebody came up to me at an NGO event last week and said he had actually read the original Madagascar proposal and web site and attracted and compared it with the final result. I wasn't sure what else he was doing with his time but he'd said he'd done this. But he said he was very impressed with how it had improved during the course of the process, and he gave credit to MCC. Okay, I would prefer to give the credit to the Madagascar. But the point is do you share the conclusion. Does monitor share the conclusion? Ten of our 16 proposals are now on the web. We currently encourage countries to put them out there. Ten of 16 are, and they are including all the first five. Okay. Do you agree that as you track, is there progress, is there improvement from what you've started with when they first came out with their ideas to where we end up? And are there lessons to be learned in what you're seeing? We welcome that feedback. Fourth, look at MCC's organization itself and whether we doing this efficiently. Help us to develop measures of efficiency. Two hundred people is a small number. But they do certainly work hard, and we hope work smart.

We believe by all traditional measures such as overhead cost, staff, expenses for money under management, program size, we are proving a lean model can work. However we need better and more transparent measures. If you have ideas we'd welcome them. Finally, do – does our process of building in a final result or check the measures and benchmarks for success along the way lead to better results. We think it will. It's a longer-term question of course and too soon to judge results but you can start thinking about it. Even now you can ask if countries design programs to impact the poor. Okay, our mission. Will it have an impact on both women and men? Are we focused and the countries focused where the most poorest and most vulnerable are?

We certainly think Madagascar is, we think the other ones will be along certainly are. But let's keep an eye on it. You can keep an eye on it. As you see more compacts – have we set up the right indicators for measuring success? Some of the things are fairly easy to measure when you're focused on outcome. Some of the stuff we're trying to do and the countries are trying to do, they're not obvious measures of success. And we're trying to design things that are included in the **** production to growth but let's – we, you know, we welcome suggestions from the measures, how to capture, we begin. We've taken ideas from others quite **** and we'll give them credit. But we – we listen and we take the credit. Ah, take the – the measures. We do think we and the countries we're partnering with have made great strides in identifying programs which will lead to poverty reduction, lead to growth, and most importantly will impact the poor. Whether it's increasing agricultural productivity, increasing access to the poor markets, improving rural infrastructure, we think it's very clear that the programs we're supporting will address the underlying issues hindering the progress of the board. But we look forward to answering these questions with you.

We welcome your direct feedback. I'll say it again. You know, we really do want to hear from you. I believe that we've been open and responsive to this feedback that we've received today. Nancy was very gracious in her opening comments by saying that. As part of what I believe strongly and I think the people at MCC believe strongly. But it's essential to MCC's mandate that we continue to learn and to grow. It's absolutely critical to MCC's success in rebuilding confidence in long-term focused foreign aid. Okay. We look forward to continued support and the scrutiny of the MCC and the progress of the MCC. With that, thank you very much and I look forward to your questions.

NANCY BIRDSALL: Well thank you very much Paul. Paul agreed to answer questions. Ah, we only have a few minutes because and really only five minutes at most.

PAUL APPLEGARTH: I was going to say because I have to –

NANCY BIRDSALL: Because he does need – he can take 10 minutes.

NANCY BIRDSALL: So maybe what I'll do is take two or three questions and then give him his choice of how and whether to respond. Please – and please introduce yourself as you –

Next Speaker: ****

NANCY BIRDSALL: The microphone.

JIM MICHAEL: Hi thank you. I'm **Jim Michael** with PPK Consulting. Ah, I find Mr. Applegarth your description of what you're trying to do very stimulating, very encouraging. Ah, I was wondering if the recent declaration coming out of the Paris High Level Forum on aid effectiveness in March of this year, is something that is relevant to the way in which Millennium Challenge Corporation is seeking to assure its effectiveness. There is a work program with a number of developing countries and industrialized countries, multi-lateral agencies participating and I wonder, are you part of that? Are you learning from it? Are you providing learning to the process of the work program following up on the prior **** –

Next Speaker: ****

JIM MICHAEL: and will monitor – look at those criteria and –

NANCY BIRDSALL: Yeah, we'll – we'll be looking at the coordination question, yes, for sure. I saw some other hands up here in the front. Um, thanks.

LEX RIAFELD: Ah, I'm **Lex Riafeld** from – working at the Brookings Institution. Ah, I have a question about the so-called eligible entities, ah, which are defined in the legislation as including not only national governments but sub-national governments and NGOs and even private companies. Um, it's not clear to me how these – I mean what I've seen in the Madagascar compact is a government – the government agreement and I don't – I don't see the – the relationship with these other eligible entities, and maybe that's because I haven't sort of

looked deeply enough into the Madagascar compact but – so the question is do you anticipate having compacts for example, between the MCC and some of these other eligible entities?

NANCY BIRDSALL: Jennifer.

JENNIFER WINDSOR: **Jennifer Windsor**, Freedom House. Um, just a question on what to do when indicators change, ah, including what – for countries that actually already deemed participating countries, and I – I raise in particular the issue of Armenia, where we're seeing a backsliding in political rights, media freedoms and a number of other issues. Um, as I've said before my concern is I'm not sure what – that there's a unified U.S. government mechanism to dialogue with these countries that are either wanting to get into the MCA or are in the MCA and maybe moving backwards. Ah, I haven't really gotten a straight answer from either the State Department, AID, or MCC as to who's responsible for being at the forefront of the dialogue with those countries to make sure we leverage the influence we have for political change and frankly we started sending warning signals if countries are moving in the wrong direction.

NANCY BIRDSALL: I'm going to ask two quick questions to add to that – his choice for what to answer. One is – is there an objective within countries for the percent of all aid that the MCC aid should represent. And the second is whether there's thought to establishing – this falls a little bit from Jennifer's question – establishing absolute standards for eligibility so that over the next five and more years, we could assess the extent to which those absolute standards created the incentives for more and more countries to pass the bar and become eligible.

PAUL APPLEGARTH: Okay, **** I can't remember any more than that – anybody knows my handwriting knows even I can't read it at some point. Um –

NANCY BIRDSALL: We know your staff marked them all down and we can bring them up with them afterwards.

PAUL APPLEGARTH: No that's alright. Um, aid effectiveness. Yes, that dialogue in Paris is important to us. Ah, we did have people there. Can't find the question – where – anyway. Um, we did have people there. Um, the language's the same, I think the focus is the same. Um, perhaps we **** really acting and implementing, we are moving forward, we're not just talking about it and they're not either **** but we're moving – we are clearly trying to do some things that everybody recognizes lessons learned from development. Not everybody has gotten as focused as MCC is and is able to come out of sort of inertia or whatever so we actively want to take advantage of the learning that's already taken place there and we suspect they'll be a lot of learning coming from our successes and the things we don't do very well.

So it is important. We were there and we do see it as important – ah, important to us and in fact Marty sitting right in front of you was one of our folks that was there. Um, I think on the questions about eligibility there's some confusion. Okay. Under our legislation, the countries – we select eligible countries and compacts are – must be with eligible countries. It's different than saying to whom is the assistance going to be provided. Okay. So you will always see the compact is with a country. First we are fundamentally trying to influence policy changes. Who makes policy changes? Governments and countries. Those are the people that are trying to

influence also in terms of the effectiveness of the compact by creating an environment they – governments at the margin are the ones who can make the difference and create the environment. In addition the consultative process is fundamentally a political process. We want it to be a national political process. That is done best, ah, under the aegis and sponsorship of the government. It's very different than saying who ends up with the money. Okay, and we certainly make no assumption that the government will be doing the implementation in every one of our compacts.

And we sit down as part of the objective setting and the detailed planning to work out with the government what's the best way to get this implemented. And you're going to see different models in different countries. Including even in the case of the base line data collections going on in Madagascar right now. Ah, it is being done on behalf of the national statistical agency, but I understand they're using actually independent – they brought in some independent people to assist them in data collection. All Malagasies but not necessarily employees of the government. Same thing is starting to happen in Nicaragua. Ah, and you're going to see country by country the recipients of the assistance as part of the plan who's going to – it's going to be spelled out in the compact how it's going to work. The tender – if it's being done by tender. Frequently it will be. That'll be there. There's those who have seen the Malagasy compact or the Madagascar compact on the web, it's going to be – all the others are going to be out there. You can see, but I think it's that difference.

Eligibility under the legislation is limited to countries. Recipients of assistance is not limited to countries. Um, the question on indicator change. I take it doesn't mean a change in the indicators. You're really talking about performance, which is one issue for us, and trying to be consistent when we change an indicator so it doesn't rapidly change who's eligible or not isn't something we have to think about. But you're talking about when performance slips under the indicators, right. The state department is overall responsible for the United States' foreign policy and overall relationship of the country. Within the MCC world, we do look at obviously policy slippage. We're concerned about it. It goes against what we're trying to achieve and we have fortunately not yet had a case where a country didn't qualify. Again, we probably will at some point and so it is a little speculative. Undoubtedly we will look and see the degree of slippage and if an existing compact is in place whether it's going to affect the performance of that existing compact, if we can still achieve the objectives and the slippage is for technical reasons – everybody knows the indicators aren't perfect for something like that – I think that is something the board will take into account – if it reflects a major change and shift in commitment, we may see a different outcome. It is speculative at this point. It is certainly something that we equally concerned about.

We want to incentivize policy reforms. We want to keep countries on that path and we want good compacts to work and if those tests fail, then we will obviously have to do something. Objectives, um, percentage of all aid, not necessarily Nancy but, um, we want to be important to a country because we think that's the key to the incentive process. We talk about being transforming and we talk to countries. We say think outside the traditional box. Don't reach back on the shelf and get four or five unfunded aid proposals that folks did, their consultants did for you to give to donors and they didn't, you didn't get any bites. Step back, think about generally what your real obstacles to power reduction here, or to growth here, given that we

aren't focused on particular sectors. We don't have any preconceptions as to what is the right sector, wrong sector, we listen to countries talk about it. Think about what really could be transforming here and think about if you're a political leader what you want your legacy to be because that kind of a dialogue with the leadership is when it resonates with them and you do get the buy-in. When you, but to do that we have to be important. We haven't set a target.

GAO, the General Government Accountability Office, has said we should be in the top three donors in a country. Not a bad standard. If you do that, right now with our existing appropriations, we can only fund compacts with 4 to 13 countries. Okay. So, split the difference. Nine countries with our existing funding. We have 17 eligible countries right now. We've got 13 threshold programs so talking about what we, how transforming we can be with our existing funding is hard. We can't be transforming with all eligible countries even all those that come up with a good proposal. We'd like to get there. That's what the funding step-up's about. That why the $3 billion is needed this year. We need the resources, you know, because you've heard the congressional testimony and you know that we received proposals of $4.8 billion from the existing countries, the 16 countries.

Through the due diligence process, cutting out things that don't lead to poverty reduction, things that didn't lead to a consultative process, things that simply don't work very well, are not ready. We've cut that $4.8 billion to $3 billion. Good. Okay. But that doesn't include Madagascar which is also eligible and will come in probably with a fairly salable proposal the next couple months. We estimate that even for our existing countries we need, we are a billion dollars short to fund the existing good proposals at least which have already passed an initial bedding **** next year.

Some of that $3 billion has got to fund those. In addition we would expect to have new lower income countries, new threshold countries and for the first time in this coming year we have lower middle income countries eligible competing in their own bracket but they're gonna be there. So any time anybody asks about scale, the point is to achieve MCC's vision, we ought to be in the top three donors of a country. We ought to have a transforming effect on it. To do that, to be the incentive for policy reform, we need to meet those standards but we need the resources to do it. Absolute standards. At some point, yeah. We actually have one now. As you know, the inflation standard. Okay. Most of them are not. We use the median and Steve and I always have an opportunity to talk about this because he doesn't agree. We use the median, why, because it floats and we expect the dynamics of competition to drive it up. It didn't this year but that was a technical thing because of a bunch of countries that don't perform very well came into **** but we expect over time it will rise up.

We want that rising bar. Now, if you could say, you know, if we got a country doing 98 percent or 99 percent immunization rate, yeah, that could become an absolute standard. That's an acceptable standard. Right now they're 72. If we set an acceptable standard at an immunization right now at an acceptable standard of 98 percent, nobody's gonna pass the indicator and it doesn't do us any good. So, we want the floating. We use the medians now because we think the dynamics of the competition are going to drive it up and also it's a bar that we want to be rising and because we want countries to know that if they perform they can achieve it. Most of

our partner countries are not going to achieve a 98 or 99 percent or an acceptable immunization rate in the short term, so why try to measure it. Okay? I went through my five. How we doing?

NANCY BIRDSALL: It's up to you.

PAUL APPLEGARTH: I've got time for two more questions or one long one or two –

NANCY BIRDSALL: Oh, I guess I'm told that you don't have time for more questions.

PAUL APPLEGARTH: Even better. **** or even worse. Well, it's been fun.

NANCY BIRDSALL: An artful use of the passive voice.

NANCY BIRDSALL: Thank you very much, Paul, for your frank answers and your time. Give him a, a. Now we now turn quickly to the second portion of our program and to introduce that portion, I have the pleasure of introducing my colleague, **Sarah Lucas**, but before I let her come up, I wanted to say a few words about her and I brought my Kleenex. Paul gave you a hint that Sarah may not be staying indefinitely at the Center for Global Development which, like the parent of any fine daughter, I would wish to have her stay here at home forever. Indeed, I feel like a parent at a daughter's graduation ceremony. You figure out finally, if you didn't know before, that she's a lot smarter and knows a whole bunch of things you didn't, you don't know about yourself and second, you realize that for the graduate it is the commencement.

It's not the end. It's the beginning of a new stage in life and you have to let her go even though there's a lot of separation anxiety because she's built up this fantastic architecture the beginnings of which you're seeing today. But she'll tell you how she's also managed to ensure that the house will be filled with great furniture information for all of you. Sarah joined the Center for Global Development in the fall of 2001 when we were a fledgling organization and she gets a tremendous amount of the credit for what we've been able to accomplish. Before joining CGD, she spent three years in Mexico working for non-governmental community development organizations and those of you who know her know how much that has influenced her approach to development.

Before that, it's not on her bio, I noticed, but I think it's great, she was one of the earliest members of the very fine program called Teach for America so she was listening to many voices including young, fresh ones early in her career. So, I turn it over to our MCA monitor architect, Sarah.

SARAH LUCAS: Thank you, Nancy, so much. Let me just start by saying that those of you that are standing in the back, we have now vacated a whole row of seats up here, if you want to skirt around the outside and come back up here, you're more than welcome. Well, thank you so much for coming today. It is a delight to look out and see so many of you in the crowd, particularly on such short notice. We know you just got the invitation about a week ago, so thanks for coming.

I want to start by framing our discussion a little bit. I think we are at a very important moment of transition for the Millennium Challenge Account for a couple of reasons. First, it's moving from a start-up to becoming a really established player in the development and assistance world. Second, the first compact has been signed, negotiated and signed, with Madagascar which is one of the very poorest countries in the pool of candidates for the MCA so it's a big accomplishment. Third, we have just come through the first period of real congressional scrutiny for the MCA. In the past couple of weeks we have had hearings from the House Foreign Operations Subcommittee, the Senate Foreign Relations Committee and the House International Relations Committee and in those hearings we began to see some wavering support for the MCA, both in terms of the request for the funding for 2006, which is $3 billion, and also for the overall vision of the program.

And so to give you a flavor of these concerns, I want to read you an excerpt from Chairman Hyde, he chairs the House International Relations Committee, and in his opening statement which was very supportive of the MCA, he said the following: "The same observers who once received this initiative with such optimism now feel under-whelmed by the cautious pace and the modest scope of the MCA. From the outside we see a program struggling to get off the ground and funding levels for compacts now emerging that lack the boldness necessary to break the cycle of poverty in countries prepared to take that step. Let me be clear," he said, "The Millennium Challenge Account is the most important development idea in a generation and it must become the global model for helping the transformation of needy societies into communities of opportunity. The incremental approach and lack of urgency in the implementation of this initiative belies the original vision.

I am concerned that it could create an eventual backslide that will make MCA just another development program." So, like Chairman Hyde, CGD believes in the importance of MCA and we want it to distinguish itself from other aid-delivery mechanisms. We want to see the MCC succeed not only because we like innovation in the aid business but also we believe it's the right thing to do to support poverty reduction, economic growth abroad. And then, finally, there's a lot riding on the success of the MCA. If the MCA is not able to live up to its vision and the expectations that have been set for itself, there will be reverberations across U.S. development assistance. So, it's with all of this in mind that we frame our discussion today. So, I'd like to start out by asking about, well, first I'd like to start out by introducing who's here. We have a fantastic group of people to enter into the discussion today.

I'll introduce them from my far right, your left, across. Starting with **David Beckmann**. David, as you all know, is the president of Bread for the World and he's been leading Bread for the World since 1991 but has many years of development experience both in the World Bank and spent quite a few years on the ground in Bangladesh. **Louise Cord** is the task team leader of the Pro-Poor Growth Program. This is a collaboration of the World Bank, DFID, and the French and German aid development agencies and she's the lead economist in the poverty reduction group in the PREM network at the World Bank. You have full bios for each of these people in your laps, I hope, so I'm just gonna race through. **Mary Locke** has 12 years of experience on Capitol Hill most, and currently she is a senior professional staff member at the Senate Foreign Relations Committee which is chaired by Richard Lugar. **Clay Lowery**, we're very pleased to have him with us. He is the vice-president for markets and sector assessments at the Millennium

Challenge Corporation. Clay has been involved in the MCC since it was just a breath on the lips of President Bush. He, at the National Security Council and Treasury Department, really got the thing going and was a part of the inter-agency task force to bring the MCC to life. So, he's got a great long-term perspective as long as the life of it is. Colisto Medavo is special advisor to the president of the World Bank.

He has an experience with a large part of the developing world having served both as the vice president for the Africa region and country director for East Asia both within the World Bank. And then finally, of course, is **Steve Radelet**. He is a senior fellow with us at the Center for Global Development. He's been our lead on aid effectiveness and on MCA work and before CGD he served as, this sounds so loud, sorry, he served as deputy assistant secretary for the Treasury Department for Africa, the Middle East and Asia and has had extended periods of time working in Indonesia, the Gambia and Western Samoa. So, you see we have quite a great variety of views here today. So, now, I would like to kick off the conversation starting with David and Bread for the World, as many of you know, has been one of the largest advocates for the MCA. David, your grass roots organization mobilized more than 200,000 letters to Congress on the part of Bread members around the country and in fact not only for the support of the concept of the MCA but to guarantee appropriations for it, Bread's members submitted letters to the editor in newspapers around the country including Duluth, Cincinnati and Dayton. We really owe it to Bread for the World for taking the MCA concept out to the American people. So, I'm curious, David, about your initial impressions of the first 15 months of the MCA and what you think the MCA needs to do to maintain that strong base of support from Bread.

Next Speaker: For Bread for the World we support the MCA because we think it will help to reduce poverty. That's our bottom line. We're excited about some of the things that have happened around the MCA. First, it's been the vehicle for a bipartisan substantial increase in poverty focused development assistance. We want to keep that increase happening and one way to do that is just to get the money that President Bush has promised for the MCA. We also think that the design of the MCA is a good design. We don't think that it's as radically different from the past as some of things that Paul was saying but we think it's a very, it's a well-designed program with some helpful innovative features and we think, I think the implementation in the first year has been all right.

This is a new institution so there is some teething problems but I think the implementation's been pretty good. I thought country selection was really good. I would have thought one of the 16 countries was a mistake but if on 16 decisions my wife and I never agree on the same things 16 times so if you know if we did 15 out of 16 we'd be doing all right. Where we're most concerned about the MCA is that we think based on public testimony and private conversations we think that Paul and the senior staff of the MCA sometimes give too little emphasis to its poverty reduction objective. That was not the case in what Paul said today but sometimes we hear that sure it's about poverty reduction but the way to reduce poverty is to promote economic growth and that's the fastest way to get poverty reduction. We also sometimes hear, well, education and health, no, well we're not about that.

We're about economic growth. As if basic education and health were not relevant to economic growth. So, we think it's confusing, you know, if you push the, if you push it, then repeatedly

Paul and other MCA staff say, oh, no, no, we agree, we understand. But we're concerned because it's been a year now and we keep hearing in a way waffling on a very fundamental point. We think that you can have economic growth among the poor so that's why we're really excited about the rural development part of the Madagascar compact because it's economic growth that's also poverty reduction. And we think the social sectors can be economic growth among the poor so when I read it the Wall Street Journal that Malagasy proposed an education and health compact and that the MCC staff said, no, we don't want to do that, that worries me.

Bread for the World still supports, we support full funding for the MCA. We're lobbying for the President's request for poverty focused development assistance including the money that he's asked for for the MCA. But from the beginning, the President's been clear that the money for the MCA and PEPFAR should be in addition to ongoing programs of development assistance. So, we are not willing to support cuts in development assistance at AID or cuts in IDA in order to now fund the MCA and we feel increasingly vigorous about that because after a year we still think the MCA management is not consistent and clear about their focus on poverty reduction and their strategy of poverty reduction and that's for us what it's all about.

SARAH LUCAS: Thanks.

SARAH LUCAS: Mary, I would like to ask you a similar question. In terms of Congressional sentiment after the hearings both on the SFRC side but also on the House side, Congressional sentiment and what you would, from your perspective on the Hill, what you'd like to see the MCA achieve in the next 6 to 12 months to ensure bipartisan support from Capitol Hill.

MARY LOCKE: Um, you asked me originally to talk a little bit about evolutional support for the MCC so I thought I would try to put it in some kind of context. I think you can divide some of the disagreements into two very rough categories. One is philosophical skepticism of the organization and one is just basic fiscal reality. And I think that on the philosophical skepticism it's a hurdle that can be overcome with good management by the MCC. I think the fiscal reality situation is very, very difficult and is going to be much harder to overcome.

I thought I'd talk a little bit about the first hurdle. Where does this philosophical skepticism come from? Well it actually started the day that President Bush announced this program in Monterey and unfortunately it divides to some extent between Democrats and Republicans. Now, why is that true? First of all, it's a Republican President's proposal so that's natural. Um, but what I think it stems from is the long argument we had in the 90s when Senator Helms was reorganizing the Foreign Affairs agencies and one of his ideas was to move USAID into the State Department and during that long and somewhat bitter debate, it reinforced a number of people who felt very, very strongly that USAID was important as an independent agency and that it really needed to be kept and they went into a defensive posture protecting the agency.

I think that has continued to some extent and you'll see some evidence in it in the way that my committee has addressed the MCC. When we first started authorizing it, we were setting it up, the President asked for an independent corporation. We wanted it, we being Senator Lugar, wanted it to have oversight from the State Department but not be part of the State Department. Ranking member Senator Biden saw it much differently and wanted it to be part of USAID.

Why have a separate organization from USAID? That was resolved. He came along with us. The authorizing legislation went through pretty much the way the President wanted it. It's an independent agency. It has a different mission. In many ways, on our side, on the Republican side, it gave USAID a mission, much clearer mission, fragile states, humanitarian emergencies and ongoing development programs, more traditional development programs. But I think that has to some extent colored the way people look at the MCC.

Now what happened on the Republican side? From Monterey until just recently the Republicans thought this is the best thing this side of the Mississippi river. Chairman Hyde called Senator Lugar and said, "I have people in favor of this new concept who have never, never supported foreign aid before." And why? Because it did focus on growth, also elimination of poverty, but there was a focus on economic growth. There was a focus on good government, anti-corruption, you know the list, donor ownership, free market. So on the Republican side of the aisle, you got a very strong support. Actually the split showed up again, this just six weeks ago when we were authorizing our bill. There was a concern, Senator Sarbanes, we had authorized the full $3 billion. Senator Sarbanes felt that the funding was being pulled out of USAID in order to fund the MCC. So he put forward an amendment which took $500 million from the Millennium Challenge and put it back into the traditional programs.

It was defeated along a party line, again, very unfortunate. The bill, the entire bill, passed the committee by a vote of 18 to 0 so it did not undermine Democratic support for the bill but I think you may continue to see some of this. I think it will be allayed with Millennium Challenge success. Even when it is allayed, you are going to see criticism and some of it will be due to the philosophical, you know, approach to foreign assistance. Um, people will say, um, you're going to hear that it's the threshold program isn't getting enough money. Basically the threshold program is a pass-through to USAID and it is not being funded at the full amount that the committee or the authorizing legislation sought. So, you'll get that. You'll get compacts are focusing too much on supporting the private sector, not enough on supporting, on boosting the public sector. Fair criticism. You obviously need both for economic growth. People need to be educated but when they get out of school they have to have jobs.

SARAH LUCAS: Mary, let me ask you to take like one minute.

MARY LOCKE: One more minute. Um, the second issue, I'll go straight to it, is money. It's very, very difficult. The MCC is where you land when you need cuts. The best news is that we authorized it at $3 billion. The bad news is that when the supplemental and the budget resolution came before the Hill, they took serious cuts from the 150 account and the Millennium Challenge is directly tied to the overall 150 account because that is where people will land when they're looking for a place to observe cuts. It's the reality but it's a new program, it got one of the biggest boosts. It's not an emergency. It's long term. It's not a tsunami. It's not Afghanistan. It's not Iraq and so when you need to take $2 billion and you have to find it, that's where it lands.

SARAH LUCAS: Thanks. So, this is interesting. We have heard from Mary that the MCA got a lot of support from new people interested in development assistance because of the focus on economic growth and we have heard from David Beckman that the support from the advocacy

community is contingent on the strong focus on poverty reduction. So, Louise, I'm counting on you.

DAVID BECKMANN: **** just to be clear. For me, it's not a choice –

SARAH LUCAS: Of either or. Exactly. Exactly. And that's, and too often it has been posed in these high profile discussions around the MCA as an either or so this is why we have Louise. Louise, I'm hoping that you can give us a little insight into the nature of the relationship between poverty reduction, economic growth, and some recommendations for the MCA going forward as they receive proposals from countries that are designed to reduce poverty and promote economic growth. How should they be judging these compacts in terms of meeting those aims?

LOUISE CORD: Well, thank you. Let me just say that what I'm going to share with you is the result of 14 country case studies that we looked at in the 1990s examining how the poverty, growth and inequality trends were affected by policies and initial conditions in these 14 countries which were a representative sample of low and middle income countries. But I think we can generalize more broadly and build on the literature that's been available looking more at cross-country trends on the relationship between these three variables. And what we find simply is that it's really not a trade-off as both of you are saying and that there is no poverty reduction without economic growth and that if you're looking for poverty reduction, that's where you have to start. On average, it can range from between .8 to 1.2 to an even higher percent rate of poverty reduction for a 1 percent increase in growth.

But what we also found among our 14 countries in the 1990s was that not, the poor did not have the same opportunities in the countries we looked at to benefit from economic growth as the non-poor and that in fact inequality in this set of countries, and I really want to confirm that it was this particular set of countries that we thought was representative inequality was actually positively associated with growth which meant that in the high growth countries, we saw rising inequality and in the low growth countries, we saw falling inequality. And let me say this runs counter to what we know from the broader literature and we are still looking to see if this fits in the global pattern of developing countries but there's a lot of interesting insight you can gain from this set from looking at how the poor interact to economic growth as a result of what happened.

And we first want to say that a lot of it had to do with the pattern and the composition of growth that we saw in the 1990s in terms of how the poor could benefit from it. The countries that we were studying experienced high non-agricultural growth. Growth was mainly in services and in manufacturing and the poor are mainly in the rural sector and in agriculture. That was the first thing. When it came to accessing employment in the non-agricultural sector, no surprise there was a rising skill premium because this employment often required higher levels of skills than previously and there were some, it was expanding mainly in the informal sector as formal sector employment for a variety of reasons in different countries was contracting. It was also a question of who had access to infrastructure. We found that a lot of the countries where there was, in particular in Asia, where the people were in the poor areas able to expand and take advantage of non-agricultural growth they were in rural areas, and they were able to link up through market access to high growth in urban areas.

It wasn't non-farm as we traditionally have seen it linked to low productivity activities or even agriculture. It was in Vietnam, small enterprises in rural areas surrounding the south or in the north. Around Hanoi, they were able to supply inputs into cities and into the rapid growing export sector. But at the same time, agriculture clearly made a difference and even with thin agriculture, there was rising, unequal access I should say, to the benefits of agricultural growth reflecting again access to market opportunities, the type of incentive framework that was in place particularly with respect to subsidies and who was continuing to benefit from these subsidies, land access and the productivity, whether or not the productivity of basic crops grown by small holders was increasing or stagnating as we saw in the case of the African countries. We could go on. I don't want to give, I don't want to cover a lot of ground here.

There's a lot more richness that we could say about the factors that affected the ability of certain households in certain countries to take advantage of growth, but I think our main conclusion that we come away with from this is that it required both agricultural growth and non-agricultural growth because if you had agricultural growth as we had say in Burkina Faso there was a little bit of agricultural growth caught in the basic food crops but the formal sector had collapsed, the non-agricultural sector was really low productivity, so nobody was buying the crops so if you don't have demand for non-agricultural growth and you don't have access to export markets, then having good agriculture gets you nowhere.

But it's the same thing with non-agricultural growth. If you're expanding into services, they told me not to brush my hand across the mike, after expanding into non-agricultural services and you have and most of your population is in rural areas and they don't have rising incomes then that will give you very little access to markets but particularly if you're an African country or a poor or low income country elsewhere with little export, or fewer, export opportunities so that was our, one of our main conclusions which isn't rocket science, and also when you look at the countries where the poor were well connected to growth, those were also no surprise, the countries where high growth was occurring so that having the poor connected to growth is also in and of itself raising the level of growth and I think that's just a brief overview of the first part of the question but I did want to turn a bit to the second part of the question that I was asked which was what would I suggest that the Millennium Challenge Account fund and I looked over a few of the papers before coming here and there seems to be a debate whether or not to fund middle income countries or low income countries and I want to say I would heartily, if it was up to me and this is my own personal opinion, fund the middle income countries because you can have remote areas in middle income countries that very much resemble low income countries and where you've seen a lot of the increase in equality, at least in East Asia, it's in the middle income countries, so I think there's a fundamental need to enhance the ability of poor households and workers in those countries to connect to the growth process but you would do somewhat different things in these countries than what you would do in your typical low income country.

And that's what I'll try to highlight as I briefly go through this list and you can cut me off if necessary. Well, first I just want to reiterate the point that what matters everywhere and in every country which is I think something you've already taken on board is the political commitment and the quality of the macro environment so I don't want to spend a lot of time on that but whichever country you are in, we found that those were critical pre-conditions. In the case of

low income countries, what we found were the need of infrastructure packages. Again, these ideas are not new but the need to put together electricity and roads to combine with electricity. For instance, in the case of Ghana, there was a great electricity network but no roads and people weren't hooking up to the electricity network.

In Uganda they had put a lot of emphasis on roads but rural electricity in the 90, actually **** the rates actually declined in that country. So the need for packaging and for packaging is an area similar to what Vietnam did in the 1990s which were areas with a large number of poor people, high agro-climatic potential in rural areas and low service access for the moment because the idea is to create dense growth poles in rural areas that can help households do both agriculture and non-agricultural activities. In the case of the middle income countries, it's time more to move out into areas that are more remote with higher rates of poverty but not necessarily higher concentrations of poor people and also to focus on education, particularly through conditional cash transfers just because you're focusing on growth and affecting long-term market and incomes, I would urge you not to forget the important role that conditional cash transfers can play in enhancing the asset levels of low income households to connect to the growth process and as a tool to encourage households to educate their children in remote areas where service delivery and economic growth is limited, then you're gonna have to see out migration over time.

I would also encourage as a criteria the beneficiary involvement in service delivery and service design. You spend a lot of time it seems talking about the consultative approach and here I would say we've learned from our poverty reduction strategies that consultations get you so far and they're often a checklist that needs to be done because it's required. It's also part of what we encourage countries to do in poverty reduction strategies but the real objective of the consultations and the participation is to increase government accountability, ownership and transparency and that that has to go beyond consultations and how the money will be used and spent and what will be done and into real beneficiary involvement in both the design, the delivery and also the monitoring and evaluation and the quality of public expenditure management systems to actually track expenditures and particularly to the extent possible at a decentralized level but –

SARAH LUCAS: Louise, can I just ask you to wrap up quickly. You touched on education but you heard a lot of interest in the health and education pieces. We heard this on the Hill as well. Can you talk for 30 seconds about –

LOUISE CORD: Sure.

SARAH LUCAS: The role of health and education in poverty reduction economic growth?

LOUISE CORD: There, I mean it was, I think it's a very much almost a no-brainer. There has to be a package of both infrastructure and in particular education. I have to say that health came out much more as important in terms of vulnerability and falling into poverty was the health expenses that poor people had to pay or people near the poverty line that would have to pay that could push them below it. It wasn't as fundamental in a short-term aspect in linking people to growth. I don't want to say it wasn't important but education was obviously no education, no

access to jobs, no ability, more limited ability to shift even into non-farm and out of agriculture and limited ability to intensify agriculture and one final quick point is I would also urge the Challenge Account to collaborate with countries doing poverty reduction strategies. The basic principles are the same that you're proposing and it could be a way to piggy back and to accelerate the process.

SARAH LUCAS: Thank you. I want to give Steve a chance to weigh in here because there's a few things that have been said that I know you have spent a lot of time thinking about. One is –

STEVE RADELET: I will just be very quick. Just on this poverty reduction growth thing. It drives me absolutely crazy that we're still having this discussion ten years on. Everyone on this panel understands it but the quality of the public debate and debate on the Hill in this is just completely wrong headed and has been for several years and I'm afraid that the HIPIC debt program added to this. You cannot separate poverty reduction from economic growth in developing countries. You just can't and the ingredients that are necessary for one are necessary for the other. In slightly different dimensions. What we know from research and from experience I think what I tell my students and others, there's really three components to both rapid economic growth and poverty reduction.

One is investments in health and education. There's no question about it. Second is to have a robust private sector and the third is good governance. Now, in different countries the emphasis on each of these and the particular ingredients necessary are different but for people to say, well, we're not about economic growth, we're about poverty reduction is just crazy or people who say, well, we're about economic growth but we're not about health and education is equally nuts. Now, should the MCC fund all of those things? No. It shouldn't. It can't. Countries need a program, a strategy which is what the poverty reduction strategy papers are all about, that interlink these different dimensions and different donors and the government themselves and NGOs are gonna fund different components of that. I would like to see the MCC coming in and filling gaps and figuring out where things are necessary on the margin. In some countries that's going to be helping the private sector, building infrastructure.

In others, it's gonna be building clinics and attacking malaria because in a lot of countries in Africa that's the biggest constraint to long-term growth. So, we got to get away from this one or the other and think about what the biggest need is in a package where the MCC can help fill gaps in the recipient country.

SARAH LUCAS: Well, now that that has been decided, let's move on to Clay. Clay, there's a lot on the table here. I would love to give you the chance to respond from the MCC's perspective.

CLAY LOWERY: Thanks very much. Paul, who's my boss, so I make sure I don't contradict anything he says, he told you that he wakes up at night, he's not sure about the speed versus quality issue. The difference is I wake up in a cold sweat every night about everything.

STEVE RADELET: I thought you never went to sleep.

CLAY LOWERY: I guess the best thing for me to do is you've heard kind of what Paul's saying and how we're looking at things so I want to try to answer some of the points that have been made here. David has suggested that, strongly suggested that we are putting way too little emphasis on poverty reduction and that we are purposefully, explicitly telling countries to get rid of health and education programs. That is unfortunately for David factually wrong. We are not doing that and I've been hearing about it, I've worked on this program for three years, since it started, it is just not correct and I'm sorry that David, who I respect a lot and I respect his organization a lot, is hearing that because it's just wrong.

Let me address the Wall Street Journal article because it was me that was quoted and actually it wasn't a quote from – Michael Phillips who wrote the article did not quote me in an interview – it was actually a quote that he received from the Malagasy. We thought about writing a letter back to the editor on that one specific point because it says, actually you've got to go about three quarters down the article and it says we, the Bush administration rejected a health and education program. We didn't write the letter to the editor because if you're in public policy you actually if you see an article that is like 51 percent favorable you are actually kind of happy and I felt like Michael's article was about a 75 percent or 85 percent positive so, but, the issue was that the Malagasy presented five different things.

They actually had PowerPoint presentations. It was an amazing amount of work that they did and those five different things were on health, education, a private sector development project, an agricultural project, and I can't remember the fifth one. And what, all we said to them was make the case. If you make the case that this is what is going to be necessary, that this is what you're consultative process has suggested to you, that this could help reduce poverty, that's when we'll fund it. We never said don't do health or education. It just was factually wrong in the Wall Street Journal article. We thought about doing a letter to the editor. We didn't. I think that what the Malagasy did was amazing. It is to focus on exactly what Louise was talking about. The rural sector. I believe it's, I don't know the numbers, 80 percent of poor people or 80 percent of the population or something like that lives in the rural areas in Madagascar.

That's what they're focusing on. That is poverty reduction. Those people are making less than 50 cents a day. Please don't tell me we are not focusing on poverty reduction. It is ludicrous. Secondly, what **Mary Locke** has said. Mary just gave, Mary is, Mary is, Mary is an overseer. I'm gonna take it easy on her. No, no, Mary actually presented you one of the better introductions you'll here on [dictation ends here.]

Start Second tape

CLAY LOWERY: Paul and Andrew used to meet all the time. I meet with AID folks probably every day, maybe every other day. Our country teams go out and meet with people all the time so we're trying to do our best on that but it's something that we need to do better on. Actually, everything we said I think we agree with and so it's hard for me to criticize anything you said. You did talk about the collaboration on the poverty reduction strategies and actually, we have tried to do that. In Madagascar, it depends on the country, some of you all looked at

this and you said that sometimes poverty reduction strategy is just a list of issues. In Madagascar they did a fantastic job in their poverty reduction strategy. You go ask the private sector, the NGO community, international **** NGOs and donors in Madagascar about the poverty reduction strategy and you will hear very positive things.

Um, in Mozambique you will hear pretty much the same thing though if you ask the private sector, they didn't think they did a very good job there, in Georgia, not so good. And so that's kind of where the poverty reduction strategy really helps us we want to use it as much as possible, where frankly it's not as good, we might say, hey, you guys need to do some more work. And in Georgia's case, they have done some more work. They have gone out and did a lot of things that frankly were probably not common in Georgia about asking people for things. Um, one last, there are two last criticisms I want to address that nobody here has said. Um, one is that

NEXT SPEAKER: [group comments]

CLAY LOWERY: All I am is defensive these days. Um, one is that I have heard something about we don't have enough development experts at MCC. I have, I was counting it up and looking at the Madagascar team. We had four people who had - four people in Madagascar, who had 15 years of development experience. I mean pure development experience. The guy who led the team was a banker. He has lived for the last 15 years in western Africa, chose to live in western Africa as a banker. He could have lived in Wall Street. He didn't, he lived in western Africa.

Development is not just about NGOs and development experts from the US and World Bank. That is part of it, actually, that's the biggest part of it and we're glad to be having those people. I have about nine of them that work for me and they are great and they teach me things every day. But, the private sector folks that we have, they also work in development. It's different. It's building businesses, building wealth creation. I think it's something that is very important and it's lost and should not be lost. And then lastly, the 800 pound guerilla that actually everybody has been good enough not to mention, which is we are moving money too slow and that is the 800 pound guerilla we hear about all the time, and that is a tough issue. I think that we probably deserve some criticism on that and I think one of the lessons we have learned, and **Steve Radelet** was one of the first to point it out, which is try to get some guidance out of these countries as much as possible and we did that and it probably wasn't good enough.

We didn't have enough guidance and consultative processes. We didn't have enough guidance on fiscal accountability issues. Those are now on our web site. We didn't have enough guidance on environmental issues. Those are on our web site for people, all people, including their countries to criticize us on or say, hey, that is not really working. We have tried to do that. I think it is a lesson that we have learned over the last year, and it is a lesson that we did not just learn from frankly, the **Steve Radelet**s and the critics out there, we learned from the countries themselves and so that is how we are trying to learn things but I agree that probably slowed us down a bit. The fact that we did a deal six months after, a fairly substantial deal in Madagascar six months after turning in the proposal to me is amazing. It is not amazing to many other people, but it seems amazing to me.

We are trying to see if we can do a deal with Honduras, roughly eight months after they turn in a proposal. These are very poor countries. We are a small organization. We had to build the factory and turn out the product at the same time. We are trying and thank you for making the defense up here.

SARAH LUCAS: Thank you Clay, but I want to move on. David do you want 15 seconds to respond?

DAVID BECKMANN: Well sure. I am glad to be wrong. I am delighted to be wrong. Last summer Paul Appelgarth made several speeches in which he was quite clear that the MCA would not fund anything in the social sectors because he was all about growth. So, when I rated, I always trust the Wall Street Journal so, but if that is wrong, if in fact, other countries come to the MCA, you are picking countries that are very poor countries where we think they have good governments and where a core idea here is that those governments together with transparent governments with their own people were able to come to the MCA and say, what we want is a court for what we really need is basic education for all girls and I think one of the basic ideas of the MCA is that idea of being very responsive to what local people think is right.

And so if I am wrong on the education and health thing, I am really pleased. And even on the overall point that I make, I want to be wrong. I really want to be wrong and it would be a relatively small matter for the MCA to just get it to articulate much more clearly its vision of how it is going to achieve its mandated goals of economic growth and poverty reduction so that Paul and you and all the staff are on board. The sort of thing that she was saying was exactly what I want to hear and if I am wrong and you show me that I am wrong, that is what we want. We want the MCA to succeed in a big way, all of us want that.

SARAH LUCAS: Thanks. It seems to me that the key here is the transparency of the process. So if we know that Madagascar submitted a proposal including health and education and we see a final compact that does not include that, we just want to know what the process was in between and would ask the MCA to be clear about that. Part of the goal of the MCA monitors is to help all of you insist on that transparency. We have summaries, two page summaries, of the compact proposals that have been made publicly available so you can then scrutinize those against the end result compact that comes out of countries.

DAVID BECKMANN: It is transparency but it is also clarity. When Paul testified before the Foreign Ops Committee they asked him, "Tell us how you reduce poverty" and he could not give a good answer. Give them a good answer and all of your staff should have a good answer. It is not just transparency. In my judgment, it is a lack of clarity.

NEXT SPEAKER: It's some, at least apparent confusion and that is fixable.

STEVE RADELET: Can I ****

SARAH LUCAS: I would love to move on. Um, I am horribly behind schedule. I would love to take us out of the weeds a little bit and to a forward looking perspective on how to make the

MCA as effective as possible and so I would like to ask actually **Callisto Madavo** to weigh in, someone who has spent a lot of time working with recipient countries and with other donors in those countries. You've got a clean slate here. Pretend you get to create a blueprint for a brand new aid mechanism to operate in the developing world. The MCA had a blueprint and is designing one.

I am asking you, what would be the key element in this blueprint if you wanted to be bold, you wanted to be big, you want to be effective, you want to be different, what do we need to see? I am obviously asking you to describe what we need for the MCA but just thinking big and moving forward, what should they be thinking about? He said we are all about policy reform, Mr. Appelgarth said. But what do we need to do to get there?

CALLISTO MADAVO: Well, that's the way I would approach your question or your invitation is the following. It is to say on looking at the MCA and building on Paul's remarks, one of the three or four things that are particularly non-desirable as really advances in the way in which you look at foreign assistance. I am struck by at least four things. The first is the issue of linking assistance to performance. I think there has been a great debate on the issue of how should we allocate assistance among countries. What should be the basis? And I think, you know, the MCA architecture is very clear on three very simple criteria that are being used to determine who gets and creating in fact the competitive and contestable framework for the allocation.

I think this is an important step forward and I might say an area where the multi laterals have been somewhat a little ahead of the bilaterals and the fact that the United States, through the MCA is taking now a step forward in this area is very, very important. I think the second aspect is the issue around results, measuring results. I think this is an area again where for quite some time there has been quite frankly, not confusion necessarily, but unclarity. What were we doing these things for and how will we know if we are being effective or not. And I think this emphasis on result and therefore the related monitoring and evaluation that would need to grow with that in order to create the indicator that you can make a judgment about is important. And I think this idea also that we are not just talking about transportation, for example. We are talking about reducing the costs of transportation and increasing efficiency.

We are not just talking about schools but we are talking about the education that takes place in there so that we can reduce the literacy and enhance skills, for example. So, this I think is an important area. The third was monitoring and evaluation. I think the fourth would be the emphasis on ownership, creating the space so that countries can in fact lead in their own programs. So, you might say to me, I mean, there has been a lot of talk about this for the last decade or so, what is new there? It is one thing to talk about these things, it is quite another to practice them.

And I think what I see in the MCA which is a directive in my view is the fact that there is in fact an effort to practice, to actually create the space and to let the countries lead. Now, what is the challenge? The challenge in my view is the challenge of scaling up. If we are going to be operating at this speed, with these amounts, given the dimension of the problem that we face, can we truly say whether or not the kind of impact within a reasonable period of time to really reduce

poverty and you could link that to the NGDs, you could like that to either kinds of targets that we have as an international community set up. Three aspects to this scaling up. One is to operate in a way which in fact the country level one could foresee the possibility of scaling up. I am very struck by the fact that the Madagascar program is three projects. It is a program of three projects. Now if we are going to project ties to this program, we ran the real danger and the risk of the old way.

You know, shouldn't we be thinking of a variety of instruments, some of which could transfer resources much more quickly. Shouldn't we be thinking about the capacity in the countries in order to be able to use these resources on a timely basis and I think another issue that will need to be faced is that these countries are in a spectrum, very different places. Tanzania is in a very different place to where say Rhomba is. There are 48 countries for example in Africa. If we are only going to be able to deal with the top end of this spectrum, what happens to the middle and the lower end? How is the MCA going to address these other countries? A second dimension to scale up is working donors. It is not going to be good enough if MCA is a great success and in its denial of success in a sea of others who are participating in this challenge by doing the wrong things.

So the issue of harmonization and coordination with other donors is not just an issue of sending people to Paris. It has really got to go beyond that if we are going to have leverage and the impact and finally, on the MCA program itself, I would say the issue of speed, the issue of instruments and indeed the issue of size. Paul was saying, oh you know, we are going to be a lean organization of 200. The capacity to deliver on the part of MCA matters. Are you going to be able to scale up even the American side of the program with just 200 people? What are going to be the methods of doing business to enable to leverage the 200 into the thousands that we need to scale up. So I would say if there was one thing that I would be looking for in designing a new kind of system, is we have to have systems set to operate to scale to make a difference in terms of the challenges that we face.

SARAH LUCAS: Thank you so much. I am glad you brought up the issue of scale. Steve, do you want to comment on that for a sec?

STEVE RADELET: Yeah. I think that one of my big concerns at the moment is that the corporation is aiming too low and too small and its aspirations are not as big and as bold and as innovative as it could be. The Madagascar proposal is $27 million a year, now it is the first one and the government was trying to get it done quickly because they wanted to be the first. But the next ones in the pipeline are on the order of $40 million to $50 million a year and if that is where we end up, $50 million a year to say 12 compacts at that size, $600 million a year organization maybe $1 billion a year organization, it's not at all on the scale that we were originally talking about. And now, on the one hand one response to that is well, that is what the country asked for.

Well, I think we need to communicate more clearly with the recipient countries to aim bold, aim high, be innovative, think about different mechanisms. I am worried about having all the money go government to government contracts that Lexan asked for. We have to get out of that box. We have got to be more imaginative. There are lots of people on the ground that can use money effectively and if we think well, we are the government, there are the government, there are lots

of people on the ground that can use money effectively and if we think well, we are the government, they are government and we are stuck in that model, then we are going to be going back to the old times. This is an opportunity to be big and innovative and we have got to be thinking about compacts and communicating to the companies so that they think about things three times as large which is what I am seeing now.

That is going to be tough and it is going to put strains on the organization which is why I think with the 200 people the job just can't be done in any sort of effective way. It is great to be lean and mean and to not waste money but if you are too small you waste money because you do not communicate well with people on the ground. You do not get the guidance out to the people out on the ground as to what you need, you cannot get the monitoring and evaluation done, the plan right now for staffing for monitoring and evaluation is 16 people.

Well, what that is is an admission that we are not going to do a very good job on monitoring and evaluation and make the same mistake that so many other organizations have made to say we are going to be result based but we are not going to develop the resources to it. We are only going to have 16 people doing this. So, I think to be big, to be bold, to make the kind of difference, we cannot aim to be the third, fourth, or fifth largest donor, which is what we are headed for now. We have to aim to be the biggest and to create those kinds of incentives.

If the organization ends up being the third or fourth largest donor in the country, those incentives we have been hearing about just aren't going to happen because countries just are not going to come out and do things different and take the time and make the effort to care that much about indicators to make the policy reforms, to really make the effort to do the participatory approach which takes time and effort if the aspirations are to be a slightly bigger than average donor. So that is one of my concerns.

SARAH LUCAS: Thanks. I want to; there is something wrong with my watch. It says we only have 15 minutes left which I am having a hard time believing. So I am going to now turn it over to the audience and try and get a few questions in before our speakers have to leave. I would like, before I do that to introduce you to a very important member of the audience and as of yesterday, a very important member of the CGD staff.

Mvemba Dizolele will be heading our MCA monitoring program as of right now, or in 15 minutes, and Vemba comes to us with extraordinary combination of experiences, private sector background, public policy, journalism, advocacy, and he will be, his dynism will lead the MCA monitoring going forward as of today. So I would like him to stand and introduce himself and ask the first question and I am hoping his first question will be directed to Mr. Madavo who I know has to sneak out the door in just a sec. So, Vemba, take the mike if you would and roll.

CALLISTO MADAVO: I am really glad to see him.

MVEMBA DIZOLELE: Thank you all for coming. I am excited to join the CGD but most importantly I am actually looking forward to working with you and taking advantage of the knowledge and experience and development and partaking of your excitement by the MCA. Thank you. The question I have is actually two part question. First, directed to ****, using your

experience and development, being an African that is also an expert in the World Bank, could you put yourself in the shoes of recipient countries and tell us what you see as your challenges are when you face the MCA or the MCC and then (2) from a donor's perspective, you eluded to coordination. It is actually one of the biggest obstacles that the MCA will be facing and those countries will be facing. What are your recommendations that you have specifically to address these issues? These questions can also be addressed by the rest of the panel. Thank you.

SARAH LUCAS: Thank you Mvemba.

CALLISTO MADAVO: Let me start with the strength of the countries. Now, you know, what we have got to realize is that the countries have seen a lot of programs begun with a lot of promises and hype which have not delivered. So I think if I was, you know, I am Zimbabwean. If Zimbabwe one day was to become eligible to transform itself and become eligible, I would be saying look, what is it that I am likely to get out of this if I invest in the processes that I have been requested. I would also not be so naive as to assume that the MCA is going to give me all the space and the space to lead and to really put forth my priorities, etc.

I would be a bit more skeptical and I am sure countries are a bit more skeptical about that. You know, because I think they are used to being told, yes you have this space when in fact you don't have as much space. So I would be concerned about the capacity questions. I mean the requirements about putting this program, it is interesting. I look at the Madagascar compact and a lot of staff is being outsourced, if you want to put it that way in some sense. We are creating different structures that are going to handle the implementation. We are therefore bypassing the state. Okay? In a situation in which I believe that one of the fundamentals in Africa today is the importance of rebuilding the state so that the state, a participatory state by all means, a democratic state by all means, so that the state can play the role that it is supposed to play. You know, I am therefore surprised, for example, that there isn't as much of a capacity building in this program.

So, those are some of the concerns that I would have from the perspective of the compacts. I think from the perspective of donors, I am not so concerned that the MCA might not be the biggest program in every country. Although I do not think in fact is that that is going to be possible but I think the MCA has to work smart. It has the leverage, its influence in every situation which means it has worked with other donors in a very different way. In order to influence the 80 percent of the supportive, 30 percent of the support is coming from the U.S. it means the other 70 percent is coming from elsewhere.

So what you want is to get the best result, not just out of your 30 but out of the balance of the 70 and what does that mean? What is that going to take? I think, you know, we need to do better in that area and indeed the donors have not been doing very well historically on their coordination and harmonization which has implications by the way on capacity, which is limited.

SARAH LUCAS: Thank you so much. Okay, now it's your turn. Here's what we are going to do. If you would come to the mike, so make your way out of your seats, come to the mikes and please state your name, your affiliation, and put your question in one sentence with a question mark on the end. I am going to try and squeeze in as many of you as possible. Is there anyone

that is standing there that has a question for David Beckman because I know that he has to leave a few minutes early. Then you go first.

P**ATRICK WILSON:** Patrick Wilson, Big Africa Partnership. This is a fantastic program. Thank you. Thank you very much. My question for David is, and I would like a generic answer to this one, you mentioned that out of the 16 selected countries there was one that was a mistake, please tell me generically, don't name the country, but why do you consider it being a mistake?

DAVID BECKMANN: We thought Georgia was a mistake because we didn't think it met the criteria. We thought it was influenced by U.S. foreign policy concerns. That's

SARAH LUCAS: Is there anything else you want to say before you have to go?

DAVID BECKMANN: No, I really, but I, the MCA is a good think and also we are on the point about scale is really right. You know, we had a chance in our generation to make dramatic progress against hunger, poverty, and disease. We all know that and the success of the MCA is part of that process but we do need, you know, it's a matter of getting the MCA to be very successful and thinking bigger too. I thought that was an excellent point from both Calisto and you Steve.

SARAH LUCAS: Thanks. So what we are going to do is we are going to run through each of you and then I am going to turn to our speakers to do closing remarks and somehow incorporate everything you have got to say. Go ahead.

B**ARBARA DE SALDUANDO:** Barbara DeSalduando from Social and Scientific Systems and I actually have a question both for David Beckman, representing the advocacy community, and for Mary Locke speaking for the congressional point of view, and it has to do with time frames. How much time is there? Does the MCA have in your constituencies to get it right because we can do pretty much anything, we can get from here to there if we have five years, but the amount of incremental progress that can be done when your building capacity for monitoring and evaluation or for changing paradigms to a result orientation in one year, or 1 1/2 years is very reduced, so how can we get a longer time frame to really help the MCC succeed?

SARAH LUCAS: We are going to start a competition. Each person's question has to be shorter than the previous.

ZACH ROTHSCHILD: I am lucky I am No. 2. I am Zach Rothschild, U.S.A.'s Office of Conflict Management and Mitigation. My question is chiefly for Mr. Mallory and the question is, given that conflict often wrecks efforts toward economic growth and poverty alleviation, how is the MCC planning on working together with the USA and others to not only achieve those ends through conflict mitigation means?

SARAH LUCAS: Thanks.

ROB HENDERSON: Hi. My name is Rob Henderson and I am with the Center for the State of the Presidency. I have a question for Mr. Lowery and it has to do with communications. The

issue is if you are really engaged in institution building and social and political economic transformation, for goodness sakes, why are you having trouble communicating that? And could you speak a little bit to the question of who is brought into the compact processes? How are these consultative mechanisms your guidelines and so. You briefly bounced over Madagascar and Nicaragua and some of the others. Just give us a little bit of sense of who the individuals that are actually drawn into it by the governments in charge. Where is it housed in these governments that are attempting to step up and meet this challenge?

SARAH LUCAS: Thanks. Margaret.

M**ARGARET GOODMAN:** Margaret Goodman from World Learning and Sara, we are really going to miss you but that is not my question. Thanks. My question is are the issues that we are speaking to today about size and scale linked in some way to the really tacit change in assumptions along the way from the initial expectation that after the countries were selected there would be a competition of some sort from which a certain number of those countries, and this was never really clearly stated, would be awarded compacts to the situation we have today which is the assumption that all of the countries will be funded in some way once they have gone through the initial selection, or am I wrong on this? My initial assumption was perhaps not an assumption that was more broadly shared.

SARAH LUCAS: Sorry, you get the last word.

M**ARGARET GOODMAN:** Oh, that my initial assumption was perhaps not broadly shared.

SARAH LUCAS: No, sorry, the man behind you gets the last question. Thank you for clarify that part.

EDGAR SU: I know I have - I am former World Bank employee called Senior Officer for 30, or including my consulting, 40 years. I am very grateful for this conference because I learned a lot from this meeting but I would like to make one suggestion. The flyer, and if you can reach the flyer, with some of your projects that you are proud of, and those projects really made a difference. The World Bank already had a long history. Now your history is not yet 1/10 of the World Bank but, I think you should be proud of the work you have been doing. Why don't you highlight more of your achievements? The second suggestion is that a lot of people would like to be volunteers for you if you can highlight your objectives more clearly than the flyer. Thank you very much.

SARAH LUCAS: Yes. I think. Yes, you have gotten choruses of people asking you sing of your successes but what I am going to do is start with David, give each of you a minute to close and incorporate as many of the questions as you can and of those of you that are still here, if you can hang on for eight more minutes then we will let you go. Thanks. David.

DAVID BECKMANN: Just a question that was addressed to me was about breadth of the world's support for the MCA and how much time have they got. On general implementation concerns, I think they are doing pretty well for an organization. There was a year delayed for the president's people to get the proposal to congress. Congress took a year to pass it. That was the

delay. The delays in the implementation, I do not see that as a big problem. So for us, it is clarity about how they are going to use this opportunity to reduce poverty. There we feel that is considerable urgency and then the other urgency we feel is the urgency to scale up that this is a time in history where we know it is feasible to reduce poverty, hunger, and disease. All the countries of the world agreed we ought to do it. President Bush has agreed we ought to do it. The time to do that is now so that is the urgency we feel, not so much that you know push another $100 million out the door next month.

SARAH LUCAS: Thanks, David. Louise.

LOUISE CORD: Just two quick points. First on the scaling up. I will be different than the others and I think not to scale up too quickly, too fast. I mean, what we saw from the 1980s and 1990s is giving money to re-capacity governments, poor policy frameworks, as you know yourselves, is not effective. And so yes, there is an opportunity to scale up but I think this focus of giving out lots of money quickly could be a real mistake for the MCA and I would clearly so much emphasis on that and related to that, I would just pick up on this idea of different instruments and the moving away from projects towards program funding in countries is a way to scale up that could be effective and leave it at that.

SARAH LUCAS: Thanks Louise. Mary.

MARY LOCKE: I think the only question that affected me was timing and how can you get to be more patient but give a lot of money quickly. One of our problems is that we appropriate on a year to year basis. We are not going to appropriate money well into the future and every year the MCC will get looked at, scrutinized very carefully and every year you will have these major budget cuts in the 150 account unless the advocacy groups can look at the 150 account as one budget that they have to support and they have to support it through beginning with the President's request. There was an excellent letter last year signed by 44 senators to the President in I think December 3.

A lot of you were involved in getting that done. It helped. The President's request was great but then you come into the appropriations process, the supplemental lost, even with plus ups the community supported, we lost $400 million in the supplemental, we lost in the budget resolution $500 million on the senate side when it came out of conference, it was $2.3 billion below the President's request. That goes directly to the appropriation subcommittees. We are lucky now we have a new appropriation subcommittee which includes the entire 150 account so it is going to be much easier for advocacy groups to track that money and I would say hold senators and members of congress responsible.

Don't just go for the plus ups, food aid, HIV aid, watch the offsets and when people use the 150 account for an offset, go after them. Make it clear that it is not what their constituents want them to do. They should use offsets from other programs in the federal budget, not foreign affairs, because where it lands is on the MCC and that may be the case for several years from now. I do not know.

SARAH LUCAS: Thanks Mary. Clay.

CLAY LOWERY: Unfortunately Mary is right. What Mary just said is very important and, look we have to prove our success. We haven't done that and that is what we are going to have to do. Now, I want, a lot of these questions obviously are for me and so I want to try my best to answer them. Calisto basically was talking about the scaling up issue. I think you make a very good point. We have to be very careful about this. We have to be very careful about projectizing. We are trying to avoid that but that is going to happen to a certain extent. Partially because of the fact that when countries, it actually goes to what Calisto was saying about you need to be really skeptical about country ownership, really skeptical. I will tell you why that is. It is because most development institutions, for better for worse, they go into the countries, they say this is about country ownership and two weeks later they are telling them what to do and that is because they are under a lot of pressure to speed things up.

We have actually taken it to almost a religion at our place that we are going to allow the countries to screw up and to do well and I think that because of that, unfortunately, sometimes we get at things that David Beckman gets mad at us about which is that sometimes they don't say education or health care, not because they don't believe that it is very important but it is because it is where a lot of the donors are putting their money and so instead they are focusing on, and actually it is interesting that you were saying earlier about the rule for, I think of the 16 countries that have put in proposals to us, I think 14, it might be 15, have put in programs that are about agricultural activity programs, land ownership and infrastructure to get products to market. So, in other words, the lessons learned are not by us. They are lessons learned by the countries but because of that, there is a trade off.

There was a question asked about the conflict countries. To be honest with you, we probably won't be doing much in that area. This actually goes again to a point that Calisto said of what the heck is MCC going to be doing about the other countries. We do have a program called the Threshold Program which is to help those countries that just missed below the criteria, so to speak, to get to the next level. USA I.D. is the development experts of the United States government. It is nothing more than a challenge corporation. It is USAID and USAID works on lots of programs and they will continue to work on conflict areas, they will continue to work on humanitarian areas and natural disaster areas. We will have very little to do with it. When the tsunami hit, you did not see MCCs name over that, the only thing you might have seen is the Sri Lanka is an MCC country and maybe there is something we can do in the immediate and long-term to help Sri Lanka but we were not involved at all in helping them overcome that horrible tsunami. Rob Henderson who used to be my boss, asked where is the consultative process housed. Really, the answer unfortunately I am not going to be able to give you a fantastic one, Rob, is that it is housed, depends on the country. The country of Madagascar, the way they did it was, they had as I said earlier a very good PRSP process.

But what they did beyond that is they actually went out and held meetings and group sessions way outside the capital and at some of them the president of the country actually attended them and led the sessions and tried to receive feedback. And I think that is why we got a rural sector program from them and in a country like Honduras, we have actually gotten some criticism, Honduras did not do a very good job on its consultative process but since then, they have actually probably gone far beyond most other countries. They have put their proposal on their

web, they have actually suggested, gone back out to people and said this is where we accepted what you said and this is where we didn't accept what you said. They tried to base it upon their poverty reduction strategy, which some NGOs actually criticized. Some of it is because of IMF macroeconomic missionality and things like that but that is what the government was doing and we actually think they were able to bring in people from around their country and we have actually expanded from what they originally suggested in different rural areas because of how they ran the process.

Magaret asked, I am going to screw this up, she asked about the assumption after countries were selected. It is actually interesting. There have been various assumptions which suggest to me somebody who actually worked on what we were doing back in 2002 and 2003 that we didn't do a good job with explaining what we were going to do but she had said, well I thought there was going to be a competition and countries were bringing their proposals and there is going to be a competitiveness to address. Some people by the way, thought as soon as you got selected you are getting money. The actual truth is sort of in between. What we have been saying is that there is no guarantees that we are going to fund these countries. We want to see the proposals. Are the proposals related to poverty reduction and economic growth?

Can we measure what we are going to do? Was there a consultative process involved to make those priorities? These are the type of questions we are trying to ask and trying to find out the answers to. Then we get into the much more technical questions about viability, costs, and so forth. But that is how we are trying to judge things so I think it Margaret, who I don't know, but Margaret's point was an interesting one and I think that is partially because I am not sure how we were going to run. The last question came from a gentleman, he was actually holding up I believe a Center for Global Development flyer and saying we need to put in our achievements and figure out our volunteers. Obviously, we are not going to have our achievements in the Center for Global Development although we love it if they would be listed. I think the best thing - I don't even know if we have any flyers.

NEXT SPEAKER: Well that tells you something.

CLAY LOWERY: Yeah really. We are a little more modern than the Center for Global Development. We actually, if you go onto our web site which is www.mcc.gov you will see what we think of our achievements. But beside that you will see how transparent we really are. We have links to all the different countries which don't work.

NEXT SPEAKER: Some of your links, I was trying

CLAY LOWERY: We're not perfect. We have various different guidances up there. We have environmental guidelines that we are asking for comments on. We have the exact way of how we select countries, as open as we possibly can be I think at this point in time. It shows countries below an indicator is red. If it is above it, it is green. It is not very difficult. That is how we are trying to see things.

SARAH LUCAS: We are down to two seconds.

CLAY LOWERY: This is the last question so I am done now.

SARAH LUCAS: Sorry.

CLAY LOWERY: I guess my lesson learned so far is, you know, keep criticizing us. I am serious about that. Please, continue to criticize us. We will continue to learn and I guess that would be my lesson learned. Continue to criticize us and hopefully we will learn and respond in kind. That does not mean that we will always agree with you but at least we can respond to you.

SARAH LUCAS: Thanks and I am sure that the learning and criticizing begins right here. Steve, you have some closing remarks?

STEVE RADELET: Just take one minute to make two very specific suggestions which are mostly related to Margaret's point about the competition. I also fear that we are getting into this never ending process of no time limits of we're not sure of whether countries are in or out. I think that the MCC needs to institute Board meetings at specific dates, two a year, where they vote up or down on proposals that have been submitted. So, for example, countries would be named in October 1 to the beginning of the fiscal year, first Board meeting would be May 1, deadline for proposal submission would be April 1. If they don't get their proposals in on April 1 that is fine, we will have another meeting in September with an August deadline so get your proposals in then.

If the proposals are in good shape in April then the Board can vote up or down and we will get competition deadlines tend to focus attention both of the organization and of the recipient countries and will begin, I think, move the process along. The Global Fund works on this principal as do most foundations, not all, but most foundations work that way. But I think something where you have got definite deadlines for submitting proposals and up or down would help a lot of countries to know where they stand. Right now 11 of the countries don't know where they stand and I hear from several of them that there has just been really silence for many months. Second, in terms of evaluating these proposals, there is no way that the corporation can have all the in-house capacity to appropriately evaluate agriculture, land titling, infrastructure, health, education proposals and they should not have that in-house capacity.

What they should do is have an independent technical review of all these proposals, have a standing body, which can evolve a little bit depending on the program content, of experts from outside the organization to evaluate compact proposals as they come in, they would report not to the corporation but to the Board itself and give them some independent views on the quality of the proposals that they get. Again, a lot of other organizations do this and I think that would help improve the transparency as to how these things are judged but also improve the quality of the proposals and make sure that these things are more effective and better designed. I will leave it at that.

SARAH LUCAS: Thank you so much. Thanks to those of you who have held on to the bitter end. The MCA monitor is now officially launched. I think that we have set a standard today for the kinds of discourse we would like to have the MCA monitor, frank discussion, a lot of voices, concrete proposals.

We hope to do a little bit better on the public participation piece than we did today but I invite you actually, our web site has a block for the MCA that we have some postings on and you are all welcome to submit comments to it. If you want to take a look at the web site it is up on some computers on the back of the room just in the entry area. I want to thank Carnegie for the use of this space. Obviously, I thank my speakers even those that are in absentia for joining us today. I really want to thank the MCC, fundamentally, opening themselves up for criticism and discussion.

This is the nature of our relationship with them and theirs with you and so I want to thank you Clay, and to all of you that are in the audience as well as Mr. Appelgarth. Finally, I really want to thank the CDG communications team who made this work, Sarah Dean who obviously works wonders in making the logistics of an event work and has a lot of vision in that and then finally Tony Kopetchny who is our web guru. When you get a look at the MCA monitor web site, just think of Tony. He has done a spectacular job and I am really quite proud of it. So enjoy it. Give us feedback and have a nice rest of the day.