



CENTER FOR GLOBAL DEVELOPMENT

Presents

***A Conversation with Ambassador John Danilovich:
Transition and the MCC***

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Steve Radelet: Good morning. I want to welcome everyone. It's great to see such a big turnout this morning. We have a little competition up in the Senate Foreign Relations Committee room. But I understand it's empty, because everybody wanted to be here for this event. We are — my name's Steve Radelet. I'm a Senior Fellow here at the Center for Global Development. We are truly delighted to have with us this morning Ambassador John Danilovich, the CEO of the Millennium Challenge account of the Millennium Challenge Corporation, as he prepares to complete his tenure at the helm of the MCC. He's been in office now for about three years and it has been a remarkable three years.

He's been in charge of what is one of the most innovative development programs anywhere in the world. And he's had both the challenge and the opportunity to try to shape that going forward. He took the helm at a time of great challenge. After the first year of the organization, where it had made some initial progress, but needed to change course in some important ways. And he was able to do that over the last three years and make lots of progress. It's not an easy job. It requires a lot of patience. It requires a lot of vision to see on an unknown terrain. To think through things that have not been thought through by other organizations. To take risks in terms of what country ownership means. To take risks in terms of what transparency and openness means. As he has found, that's a risky proposition to actually be transparent. Which means being willing to be open for criticism in ways that other agencies and organizations have not done.

And it means thinking with some vision as to what the mission of the MCC is. Poverty reduction through sustained economic growth. And what that means in practice and how to achieve that objective without trying to be all things for all people. We have had the pleasure at CGD to watch carefully through our MCC monitor program, and see some of the changes over the last few years. And as you all know we're big supporters of the program. I think it has done quite a lot in the last few years. I think it still has some steps to take in the coming years to achieve its full potential, but it is very much on its way.

So, now let's get to what you're really here for. To hear from the man himself. It's my great pleasure to introduce to you Ambassador John Danilovich. John.

John Danilovich: Thank you very much Steve. I'm very grateful for the opportunity to be here with you today. I'm especially happy to be here with my friend Steve Radelet. I think Steve was the first person I telephoned, when I knew I was going to be assuming the leadership of the Millennium Challenge Corporation. I was in Brazil at the time and we've had many conversations since then — since 2005. And it's fitting and full closure in a way that my last event is with the Center for Global Development here in Washington. So, in a sense we really have come full circle.

You and your colleagues — Steve, at the Center for Global Development, particularly Sheila Herrling and Nancy Birdsall, have been terrific partners providing the MCC with candid assessments and advice that we have found enormously constructive and at times irritating. But in any case, I think you know that if the comments were from CGD we took them seriously.

With the beginning of a new administration, Washington is abuzz with talk of challenges and changes. And there is general assessment that an overhaul of U.S. foreign development assistance, U.S. foreign aid is necessary. In fact, criticism about development practices internationally is widespread. And many countries are reassessing their approaches and their results that their way of opinion results often in reference to the Millennium Challenge Corporation. However, it's worth remembering that the development work **** large has yielded some amazing achievements. Smallpox has been eradicated, Polio nearly so. A green revolution on agriculture has put food on more tables than ever before.

In the last 15 years alone, some 30 million children all over the world have been enrolled in primary school. More than a billion and a half people now have access to better drinking water. And on average people are living 20 years longer across the developing world. To borrow a current expression, “There is change we need and there is change we can believe in. Progress is possible.”

In a week, I will complete my tenure at MCC and return to the private sector. As the head of the United States newest development agency, during some of its most formative years, I have a unique perspective on what it takes to put into practice some of the most meaningful lessons we have learned in development.

MCC began as a great concept for helping developing countries to reduce poverty through sustainable economic growth. But we aren't a concept anymore, we're way beyond that. We're an acknowledged reality.

Starting from scratch in 2004, we have to date committed \$6.7 billion to 18 compact countries and 19 threshold programs and in 35 partner countries around the world. We've had an incredible trajectory. And when I say we, I mean my professional, talented, creative and disciplined colleagues at the MCC, with whom I've had the good fortune to work over the past several years. Some of who have been there since the very beginning in 2004 and many others who now comprise our almost 300 person staff. It is they who deserve full credit for the success of this organization.

I have found prudent to be somewhat reserved in the debate on foreign assistance reform. But today as I'm leaving the MCC and leaving town, and in fact leaving the country. I lived in London for 25 years, before I was in Costa Rica and Brazil and at the MCC. So, in fact, when I leave the country I'll be going to London.

I'd like to provide you with some candid observations about MCC's purpose. How our experience could strengthen the broader U.S. foreign assistance portfolio. And what it means for the future of foreign aid reform. MCC was created as a unique model with a specific purpose. While objective selection criteria, country ownership and results focused on economic growth and poverty reduction don't implicitly make MCC better, they do make us distinctive. And in a context of aid reform there is a great value in acknowledging and making use of that fact. Although a small agency, MCC's presence in the U.S. assistance portfolio has amplified our country's role as an engaged and compassionate global leader. A leader that cares about long-term economic development around the world — a world with less poverty — more sustained growth — more active participants in the global economy and greater international and national security.

So, with a benefit of a clear purpose and a fresh start, MCC put into practice some of the most difficult lessons of aid effectiveness in the past five years. We have learned enough to identify real practices that could further strengthen and broaden the U.S. assistance portfolio. First, country performance must remain at the heart of how MCC selects countries. By using objective policy

performance indicators to identify country partners. And then delivering assistance to promote economic growth and poverty reduction. MCC gives credence to the assertion that when it comes to economic development, it is policies that matter and not politics.

Second, country ownership is something that should be more widely adopted across development programs. Even with intense pressure to disperse money more rapidly, we cannot push aside our country partners for their own development, and push them aside for taking responsibility for their own development. When a country leaves the program proposal process, they determine what they need. These proposals are not only more likely to be for higher impact investments, but they are often deeply integrated into the country's efforts to meet millennium development goals and to improve trade capacity.

Furthermore, when an elected government takes a visible public role in economic development, their citizens are much more likely to hold them accountable. So, if progress on the millennium development goals increase trade capacity and accountable democracies are to be valued, then reform of development assistance should place greater emphasis on country's owning and leading their own development.

Finally, transparent results monitoring must be adopted more broadly, if the American taxpayer is to get a return on their investment. I've seen few organizations, public or private, combine rigorous results monitoring and aggressive transparency in the way that the MCC does. MCC not only publishes its agreements and quarterly reports, but it also has pushed the envelope on transparency, by posting economic rate of return data and monitoring evaluation plans for ongoing projects.

The risk of such transparency, of course, is that it provides plenty of opportunity for critics to play "gotcha!" And they do. MCC has been criticized for technical imperfections in analysis that no one else even makes public. I believe, however, that this will make MCC even more effective over time. Being realistic about mistakes always does, but this also depends on whether continued openness is respected, rewarded and emulated or punished by outside stakeholders.

In practicing these principles, MCC has made a substantial contribution to the development community. However, two facts are inescapable. One, our ability to achieve these things is rooted in some of the very basic operational flexibility that must continue with the MCC. Ownership requires an absence of earmarks. Long-term investment requires the full five year funding at the time a compact is signed. And the focus on results requires open market efficiency through competitive procurements.

Two, there are trade offs. Some of the principles we are most proud of are in direct tension with the traditional measures that Congress and other colleagues rely on. Country ownership and capacity development versus the speed of disbursements. Results monitoring versus the expectation of 100 percent success rate. Our choice has been to embrace risk, but to do so carefully. Asking country partners to take charge of their own development both strategically and tactically. We work from the perspective that enabling local transparent and results oriented implementation, is far more effective to sustainable development than just dispersing dollars. Anyone can spend money. Few seldom do so effectively.

Although there will be inevitably compacts that fall short of our joint expectations, those that are successful will have the kind of deep domestic roots needed to be truly transformational. This is what we all want, meaningful success whenever it is possible and honesty whenever it is not. So, what does this mean for the future of U.S. foreign assistance? Full consolidation is not the answer. Yes, there is a need for greater coherence and coordination with foreign assistance. But a complete consolidation of the U.S. existing tools would blunt some of the sharpest instruments, by unnecessarily choosing single primary objectives from our divergent national interests.

MCC greatly benefits from the fact that we were specifically created to pursue economic growth and poverty reduction period. We have a clear and strategic goal and the operational flexibility to pursue it efficiently. That sets us apart from much of the rest of the **** architecture and is an important factor in the reform process. Other aid agencies have grappled with generations of operational directives that were motivated by good, but often contradictory intentions. With that in mind, the reform process must acknowledge that there are many different objectives for foreign assistance. The United States supports stronger democracies, relief

for humanitarian crises, greater national security and global economic development.

But these are fundamentally different objectives and require fundamentally different legal authorities, staff expertise and delivery mechanisms. While humanitarian and security concerns react to immediate needs, sustainable development requires long-term focus. Therefore, a rationalization of the U.S. foreign assistance portfolio should put development at the center and focus more clearly on the long-term.

If we preserve MCC's use of objective good government policy criteria for selection purposes, if we maintain its focus on country ownership and poverty reduction through growth — and if we take steps to strengthen this operational flexibility and increase funding, MCC could be the United States' strongest, most reliable vehicle for supporting long-term development. This would mean increasing MCC funding authorizing and to conclude concurrent longer and regional compacts. And taking actions that protect upfront funding from other demands. To remain credible and to retain our incentive policy reform affect, MCC would also have to continue to tell some countries, “No.” Which means the U.S. would need to retain other mechanisms to revive development assistance, when a country does not meet MCC's criteria.

Placing MCC at the center of the U.S. development assistance portfolio, would ensure that the largest blocks of flexible development funding are allocated to countries that have demonstrated a commitment to fundamental good government principles, that make development sustainable and effective. More practically, it could also allow our existing public/private board to extend a strategic coordination function to other foreign assistance programs.

MCC's board structure enables us to fit effectively within a coherent foreign assistance framework. The presence of government members ensures strategic coordination with the goals of other U.S. government agencies, without undermining the development focus of our work. We further benefit from the diverse and relevant experience of our private sector members that bring an independent perspective to the board.

Over the past three years, I have visited compact countries, threshold countries and countries aspiring to become eligible for MCC assistance. I have met with Presidents and Ministers — sat with villagers on dusty roadsides and inspected irrigation works and agricultural projects. In Washington, I've reviewed countless project proposals, argued over economic rates of returns — insisted on world class environmental and gender standards for our work. I met with countless members of Congress.

I can attest to you that the MCC is working and has fundamentally changed the way that poor countries tackle their own development challenges. Land titles are being distributed to the poor.

New roads opened in previously unserved rural areas — rehabilitated gas pipelines — delivering heat to homes and businesses — agricultural projects — increasing farmer's incomes and children being inoculated against deadly diseases. Or sitting down in new primary schools for the first time. This is just a glimpse of the work on the ground that will multiply significantly in the months and years ahead. And more importantly, this is the work being achieved by our partner countries themselves in an efficient and transparent manner. The great concept is now a great reality. And I am honored to hand over a vibrant, robust organization to the new team.

We have put into practice some of the hardest lessons of development; that paternalism doesn't work — that good policies, country ownership and results are key to sustainable development — that poverty reduction is best achieved through economic growth and that it is worth risking transparent results monitoring for the benefit of people around the world. It is in our best interest to preserve those lessons within our foreign assistance portfolio, or perhaps even expand them into how the rest of the U.S. foreign assistance is delivered.

Good timing. I'd like to thank all of you for your time and attention today and for listening to what I've had to say. And I'd like to express my and my colleagues' gratitude to you for your support of the Millennium Challenge Corporation. For it is you too who have been a constructive part of this effort. And as we enter a new administration and a new phase of MCC's evolution, I would like to ask for your continued support for this innovative and outstanding model of U.S. American development assistance.

Thank you very much and Steve, I look forward to our conversation in the course of the morning. Thank you very much.

Steve Radelet: Thank you very much. What we'd like to do is just have a bit of a conversation here for the next 15 or 20 minutes, and then open it up to you folks for some questions and answers. But let me just start actually by asking how many people are here that actually work for the MCC? Can you stand up? If you work for the MCC — that's why our attendance is so good. Stand up for the MCC. And how many of you have been there from the beginning? Anybody from the beginning? — Sherri Kraham. Anybody else? And Maureen. We've got three or four that are here from the beginning...Let's give a round of applause for the folks that are ****.

Steve Radelet: John you've talked a lot about the progress that's been made over the last few years, and some of the challenges on transparency and accountability and ownership, during the five years — and the three years that you've been there. If you were going to be there for another three years, instead of going ****, is that okay with you if he spends another three years and not going to London? If you were going to be there for another three years, what changes would you like to see made to improve and strengthen the MCC's performance going forward?

John Danilovich: I think the vibrancy of the organization to date has been achieved by the fact that we've always looked at improving the model of the MCC. We're a work in progress, as all great works are. We're in a process of evolution. I came in after the organization had been running for 18 months. And there was a lot that was done in those first 18 months starting from scratch. I think it's — people often lose sight of the fact that it started from scratch, from zero. When Paul Applegarth came in and the original people that are here today, we're now 300 people in the organization.

As we have moved on, we have on a fairly regular basis made necessary changes to the operational, the administration structure of the organization as we needed to. As we built up our critical mass of compacts and moved into a more serious compact development phase and compact implementation phase, we needed to restructure the organization to reflect those weightings — to reflect those disciplines — to reflect the talent of our agronomists

and economists and people within the organization. So, that their talents could be specifically used as the organization progressed.

We're now in a unique situation of having established, created and in the process of developing, as I mentioned, 18 compacts and 19 threshold programs. It remains to be seen with budgetary impact, what will be done in the immediate future. It may well be that with a restrained budget requirement, there will be less of a possibility of having a significant number of new compacts in the immediate future. Which will therefore mean that administratively and internally operationally within the organization, we will again have to look at how we allocate our human resources in terms of development.

I think the core principles of the MCC, with regards to good policies are critical. With regard to country ownership, absolutely critical. With regards to results, absolutely critical. With those three pillars, with those foundations the organization remains on a solid footing. And must be nimble and flexible and adjust accordingly, as we go forward in time and confront new challenges in our countries. To date for example, we have been fortunate in that we have encountered few problems with regards — few, if any — with regards to malfeasance. We've also not suffered the significant setback of a political or catastrophe in any of our countries. So, that is something we will have to respond to and adjust to as we go forward.

But certainly a new administration and a new team that comes in, will with the benefit of the vast majority of people, who are remaining at the MCC — will be able to confront those problems in the same constructive manner that I think we have tried to do in the past.

Steve Radelet: This morning the Senate Foreign Relations Committee is holding confirmation hearings for Senator Clinton for Secretary of State. Last night Senator Kerry's office — Senator Kerry who is the new chair of the Senate Foreign Relations Committee. Last night his office posted the official questions — the official submissions and questions from his office. And Senator Clinton's official answers were submitted and there's one specifically on the MCC. And so, I wanted to just read the question and read Senator Clinton's answer and ask for your observations and response.

The question goes as follows: “The MCC has been one of President Bush's signature development programs. It has been both praised as an encompassing innovative and creative idea, as well as criticized for being too slow to disperse funds once a compact has been signed. Not demonstrating results on the ground quickly enough and being inadequately coordinated with other U.S. foreign assistance programs. What reforms would you advocate to strengthen the MCC?”

And Senator Clinton's answer is: “President-elect Obama supports the MCC and the principle of greater accountability in our foreign assistance programs. It represents a worthy new approach to poverty reduction and combating corruption. However, there are challenges within the MCC. Pace of implementation is certainly one challenge, as is the danger of a lack of coordination with overall U.S. foreign assistance. The Obama administration looks forward to working to build on the promise of the MCC, as we move forward with modernizing U.S. foreign assistance programs.”

John Danilovich: I think the core of the question and the answer is the juxtaposition of President Bush and President-elect Obama. Our continuation, or our survival is something that was not certain a while back and now it is absolutely certain. In the previous three years, I've met with Senator Clinton. Recently our team has been very actively engaged with the Obama-Biden transition team. We've also met with Senator Clinton, soon to be Secretary Clinton, as well as the others in the State Department with regards to the smooth handover of the MCC and the continuation of the MCC into the new administration.

So, that in and of itself is of significant acknowledgement of what the MCC has managed to accomplish in its five years. The fact that it is being handed onto a democratic administration from a republican administration. Of course, there are the points that Senator Clinton points out in her response and that Senator Kerry mentions in his question, with regard to dispersements are ones which have often been asked about the MCC. It gets back to the question of country ownership. Countries need to be responsible and accountable for their own development. We're not going to do this. We're a hand up, not a hand out. Plainly and simply. You can't say that more regularly with greater emphasis. This is a

program that is about foreign aid accountability. Country ownership — countries have to do it for themselves.

This is stunning sometimes in the countries in which we're working. They don't know how to do it for themselves. And they often have a challenge with the capacity to do it for themselves. But this program is founded on the belief that if they do do it for themselves — if they buy into the program and just don't take the money — but if they buy into the program and are responsible for their own development, it will ultimately be successful. That has often resulted in the MCC accountable entities in countries being somewhat slow in meeting objectives and benchmarks. From our side, here in Washington, we are reluctant to disperse money when those objectives or benchmarks have not been reached.

So, it's a matter of incentivizing and encouraging and challenging countries to assume the responsibility for their development. So, that we can in fact fund those developments with MCC grants. It's not working far more satisfactorily than it was in the beginning. An in fact, given the J-curve that usually takes place with regards to infrastructure, bearing in mind that most of our proposals and projects are infrastructure programs. With regards to infrastructure, we will see in 2009 and '10 and '11 as we move out. As countries in our 18 country portfolio move forward in implementation, that there will be a significant increase in the dispersements in 2009 and 2010. That is as it should be.

Could it have been quicker? I would have liked it to have been quicker. I have found it very frustrating that we were not able to move more quickly. But I never wanted to sacrifice — I never wanted to deny a country the assumption of their responsibility for the sake of simply responding to demands to disperse money more quickly. As I mentioned in my comments, anyone can spend money. Our objective at the MCC is to spend it effectively, so that a country can lift itself up out of poverty and have economic reform. And we believe the best way for them to do that is to assume responsibility for their own development.

Other points are well taken in her response. Certainly with regards to dispersements there is a — I believe a very credible answer to that question.

With regards to coordination, I think that is actually something which Senator Clinton — Secretary designate Clinton — as the new chairman of the MCC, will find within her interests as the chairman of the MCC to use her convoking and coordinating abilities within State and also with the other agencies. Bearing in mind the other four government agencies that are on the board of the MCC, State treasury aid and trade all participate in coordination and all have a vested interest in the countries in which we are operating. So, in fact there is a — not insignificant degree of coordination on the board with the U.S. government agencies — U.S. government board member participants on that board. So, I think Secretary designate Clinton will find this to be of use to her with regards to coordination within the other U.S. government agencies.

Steve Radelet: Let me push a little bit more on the pace, the speed issue. Sometimes the criticisms on this have been misplaced. I think first of all, as a startup organization there needed to be new systems put in place to make the MCC model work effectively. And second of all, is you have emphasized country ownership. If we're going to take it seriously, requires patience in building capacity and building systems on the ground. It takes time. As do some of the particular kinds of projects that have been proposed by countries. Infrastructure projects don't happen overnight.

At the same time, I think that there are some legitimate concerns about speed. And I just wonder if there are specific things that the MCC can do, in your mind, that while honoring country ownership can still accelerate the pace. Things that can be done in its procedures and processes that can accelerate the pace. So, honoring country ownership and still maintaining quality.

John Danilovich: Absolutely. We have in fact, tried to address our own frustration with regard to the dispersement question. We have undertaken a number of internal reforms to accelerate that process. Realizing that countries were challenged in this process of assuming, we took on the responsibility internally of engaging far more rapidly with countries than we had originally. Not waiting for them to get their act together, but rather encouraging them to address certain questions upfront and rapidly and constructively and assisting them in doing so. Also many of our ...

Steve Radelet: What kind of questions upfront?

John Danilovich: Well, for example, there were a number of administrative questions within each country. We also have, as some of you may know, a threshold program and a capacity building program and a 609g program. Off of which is, if you want to call it their preliminary programs with preliminary funding, which assist a country in their capacity building efforts. USAID is also very effective in this. And in our threshold program we not only have — and U.S. implements our threshold programs for us.

Given their expertise and their presence in country and their people in the field, they have also been very helpful to us in our capacity building threshold 609g programs in moving forward. So, this is something that wasn't in place when we started. But we saw it as something which was necessary to do to accelerate the dispersement process. I think it's nevertheless, always important to bear in mind that although the dispersement question is one which certainly needed to be asked and continues to be necessary. It's important to realize that I think the frequency of that question will diminish rapidly in 2009 and 2010, as we see significant dispersements taking place in the near future.

Steve Radelet: Let me ask you about the budget issue, but in a broader framework about the overall conception of the MCC. In its original conception President Bush suggested \$5 billion a year, and established a selection process that is used today that would lead you to expect most years that you would get 20, 25 countries that would meet those standards.

John Danilovich: No.

Steve Radelet: As long as that methodology remains the way it is, you'll get 20 or 25 countries. And putting those two things together suggested that this would lead to quite large compacts that could lead to transformative change. You're now facing smaller budgets. I don't think anyone — I think the \$5 billion is probably safely off the table — safely or unsafely off the table for a while. But you've worked with smaller budgets than that. Your '08 budget was about \$1.5 billion; a little smaller than the previous year, when I think it was \$1.7, \$1.8 billion.

John Danilovich: Yeah.

Steve Radelet: You're under a continuing resolution right now. The Senate had proposed a fairly significant reduction. So, you know probably best case for the next two years or so might be \$1.8, \$2 billion budget, perhaps. I know you've asked for \$3 billion, but smaller than in the original conception. That leads to a bit of a dilemma of a trade off of what we have called with you — and I have called in the past — of putting the MCC between a rock and a hard place of smaller than desired budgets. If the same number of countries, or roughly the same number of countries, which leads to a trade off on either — in the long term, if this continues, either small compacts or having fewer countries being eligible. So, you either got to kind of give on the size and the possibility for transformative change. Or keep that, but do it in fewer countries, if the budget remains the same. And unfortunately even the financial crisis, it's unlikely that you'll ****.

John Danilovich: Yeah.

Steve Radelet: How do you think about that trade off going forward? About the size of the compacts and the number of countries?

John Danilovich: A couple of — I think — very interesting points have been raised Steve. I think the \$5 billion was perhaps one that was never based on any serious forethought as to what the MCC would encounter in its initial years. It's important to remember that the MCC is a very selective program and a very demanding program and a very difficult program. It is not an easy club to join. Our selection criteria, although perhaps reviewed from a western perspective are not particularly onerous, for the countries themselves are difficult. It's a challenge for these countries to meet our selection criteria — our political and economic and social indicators. They struggle to do so. They want to do so, because there is a great amount of pride in joining the MCC.

You all know that there is not only from our own U.S. government, but from international sources, from other sovereign states, a vast array of opportunities for countries with regards to receiving foreign aid. But to become a member of — of the Millennium Challenge account, the Millennium Challenge Corporation is a great credit to a country. It means that they are trying to be a good government — with good governments — with good social and economic policies for the benefit of their people. And that's not an easy process. They're trying to be stronger democracies. They're

trying to build the institutions within their country. They're trying to build the capacities. They're trying to have equal rights for women, education for children, as well as civil rights and political liberties, et cetera, et cetera.

This is not an easy process. We take this as something that's granted in our own societies. It's not in the countries that we work in. So, for our countries to move along that evolutionary path is difficult and it's also a source of pride. But there are few of them — we have 18 compacts now. It is pretty clear to me that this program, at least in its present definition, is never going to have 40 countries within the MCC. At least not in the immediate future, simply because it's difficult for countries to meet the criteria. And it's also difficult for them to meet the implementation of their programs. So, it's a work in progress.

I would never of said this in the previous three years in my hearings with the Senate and the House with regards to appropriations, but there is a certain benefit in receiving less than we have requested. Because it allowed us to learn how to do our job. It allowed us to have a learning process and all of us were learning in this. We have a great team at the MCC, as I've mentioned, but to actually get the direction clear and find out where a true north was was not easy. And we've learned how to do that with the resources that we have been given. I think the compacts that we have to date and increasingly so in the spectrum of the 18 compacts, have increased in quality and in coherence and in their ability to be implemented as we have moved forward.

The size of our compacts have also increased from our initial compact with Madagascar of \$110 million to compacts with Ghana at \$541, with Tanzania and Morocco just below \$700 million. In other countries in the \$300, \$400, \$500 million category. Those amounts of money are transformational in all of the countries in which we are operating. The MCC is a big deal. MCC is listened to. MCC is a top priority for the Presidents and the Prime Ministers in each of the countries we are operating in. We are not just another “aid” agency from another country. We are significantly important, not only because of the amount of money that we have — regardless of the reduced appropriations — but also because of what the MCC means. This Good Housekeeping seal of approval that is acquired by countries.

So, it isn't the quantity of countries, it isn't more and more countries. It's countries that are doing the right thing for their people that have the honor, in a way, of being part of the MCC program that have the discipline of ongoing criteria compliance throughout the period of the program. And the necessity of continuing to comply in order to have another compact at the end of the five year period. And that is something which the new administration will have to deal with now in our evolutionary cycle. Because then are countries now coming on stream, who want a second compact. The new administration will have to determine on what basis they reward those new compacts. And the size of those compacts will be determined by the budgetary appropriations that come out of the new Congress.

Steve Radelet: Let me follow that up and specific for the next year. The current budget \$1.5 billion, current continuing resolution in the Senate mark up, I think was \$250 million, or something like that. Let's say for our experiment that they go forward in this difficult budget environment, and split the difference and give the MCC a budget of \$900 million.

John Danilovich: Yes.

Steve Radelet: You've just named three new countries as eligible for compacts; Colombia, Indonesia and Zambia.

John Danilovich: Yes.

Steve Radelet: You have a \$900 million budget with administrative expense as something for the threshold program. Maybe you can do two compacts. If you did three, you'd have to do smaller. What does that mean? What would the implications be of a \$900 million budget? In terms of compact size, in terms of incentives for other countries to make the indicators. You know the MCC affect? What would be the implications of a \$900 million ...

John Danilovich: I think the message that has gone forth from Washington is two-fold. One, the reality of the budgetary constraints, which are not just national, they're international. So, there's no country whether it's the U.K. or France where we have cooperative agreements with their development agencies. Every single development agency and government or private is affected

by the economic crisis that we find ourselves in. So, all countries acknowledge that the budgets are going to be less. That's a given.

The second message, which is that the MCC is going to continue in the new administration. And when we sort ourselves out and the United States of America will sort itself out. Hopefully in the not too distant future. It's going to be very difficult I think in the coming year 18 — in fact, 24 months I would guess. But when we do sort ourselves out, not only with regards to reform — with regard to development assistance — to a readjustment of priorities and disciplines. But when we decide exactly how we're going to go forward, this will also be a benefit to recipient countries.

With regards to the number of countries that can be done — the ones that you've mentioned within the coming year — I would argue in favor of compacts that are of larger enough size to continue to be transformational. I think that is one thing which does also define the MCC is that our compacts are significantly transformational in the countries that we're operating in. I think to simply give a little bit here and a little bit there would greatly dilute the impact — would greatly dilute the incentive effect of the MCC — the reform effect and the ongoing impact that we have already had in countries that we're operating in.

Steve Radelet: Yeah.

John Danilovich: So, I don't think the fact that — the reality is we're going to have a smaller budget. The reality is that it may well be less than \$1 billion. And so, we'll simply have to adjust ourselves accordingly and I would do so in that fashion. I would make sure that we had compacts of significant size that would continue to be transformational — continue to have the incentivizing good government effect that we have had.

Steve Radelet: Which might lead to some give and take on the actual number of countries that get compacts.

John Danilovich: Yes, yes.

Steve Radelet: Which would be the way to give on that. Let me switch topics and talk about the broader foreign assistance reform, which you addressed directly in your statements. And I want to push you on the idea that consolidation is not the answer. And

your — the argument that you made in your remarks was that the MCC has a clear focus, which is different from some of the focuses of other development programs. And that there would be a risk in consolidation of losing that focus. That might lead to a logic to say, “Well, maybe we should have several separate organizations. One for humanitarian issues, which is a different focus from health programs. Which might be different from MCC type programs, which might be different from democracy programs.”

And if you take that argument to its logical extreme, it would lead to an array of development organizations each with a well defined purpose, but somewhat separate from each other. I'm not sure frankly that that's a satisfactory answer. So, even though I'm a big fan of the MCC singular purpose, I'm also a big fan of PEPFAR our singular purpose on HIV AIDS. And I still think that they're a scope over the median term. Not this year or in the short-term, but over the median term to build a consolidated strong professional development agency.

Put aside whether it's cabinet or non-cabinet. It could be — have a structure like the MCC with a Board of Directors and the Secretary of State with a Chair, but a strong development agency. Put aside whether it's AID or not. Call it the U.S. Development Investment Agency; something out there five years from now. That could have as one component the MCC much as it is now. With its selection criteria, its compacts and operates very much the way it is. And also in it our humanitarian programs, our PEPFAR programs and other programs — four, five, six divisions that operate as they do now. But with a senior level strong person at the top that can coordinate across all of these things, while they operate somewhat in their own space. But coordinating across these and thinking of the trade offs on resources and personnel and to combine these different things in different countries.

So, I just wanted to push that it's not necessarily clear to me that because the MCC has its dependent purpose that it would be separate. I don't think — I wouldn't argue for folding the MCC and the USAID the way it is now that's not — but into some stronger agency down the road. And I just wanted your reaction to that.

John Danilovich: An enormous amount of thought has to be given to the way forward on this. And an enormous amount of legal work has to be done with regards to the specific authorization that exists for

each of the organizations that you've mentioned, Steve, and the others. Whether it's called consolidation or confederation, or amalgamation or coordination. Whether all of which in various forms needs to be done. It certainly needs to be explored. That particular approach certainly is one of them. The way things are presently set up it can't be done. The "F" process, the coordination process that we have tried to achieve have been certainly worthy, but have not had the structural ability to achieve what was intended.

So, the question needs to be given an enormous amount of thought. Not only in the executive branch, but in the State department and also in Congress with regards to how we move forward on it. It needs to be done. It needs to be given a great amount of consideration. There are many viable and worthy forms of our assistance. The ultimate creation needs to be given a lot of thought.

Steve Radelet: Okay, well that leaves the door open slightly. I'm going to ask one more question.

John Danilovich: Yes.

Steve Radelet: And then I'm we'll turn to the floor, so start thinking of your questions. I think we've got a couple of floor mics that are going to run around. So, we've got one. So, start thinking. My final question is about the U.S. public, the taxpayers.

John Danilovich: Yes.

Steve Radelet: To whom you are ultimately and all of us working on this — are ultimately accountable. Development has always been somewhat of a hard sell. Foreign aid is not exactly something that gets you a lot of votes at the polls, if you're a member of Congress. And it's tough in the context of the current financial crisis. And in some ways the challenge of building a constituency is particularly hard for the MCC. Partly because of its insistence on longer term development. People want short-term results now. Partly because you know economic growth and poverty reduction sure sounds nice, but they're a little less concrete than bed nets for mosquitoes for fighting Malaria, or antiretrovirals for fighting HIV AIDS.

And partly because you know frankly with the lack of tight aid, there are fewer organizations whose own fate is tied directly to the MCC as with contractors with USAID. So, it's a little — this is a hard sell for everybody, but I think particularly for the MCC. But putting aside the MCC, at a more general level, from your point of view what is the best way to make the case to the American people about the importance of engaging in developing countries — with the United States engaging smartly and robustly in developing countries and foreign assistance as a part of that?

John Danilovich: I see the constituency for the Millennium Challenge Corporation actually growing by leaps and bounds. We have made a consistent effort at every level within the organization to reach out, certainly not only here in Washington, but in New York and Indianapolis and in Detroit and in Los Angeles and in San Francisco — and in numerous cities throughout the country to meet with diasporate, to meet with various congressional leaders and various congressional districts and organizations and NGOs and business entities throughout the country.

And the more they hear about foreign aid with accountability, foreign aid with responsibility for accepting their taxpayers' dollars, the more they like it. And they want to know more about it and they're impressed by it. And they often ask the question, “Well, why haven't we heard more about this?” Well, that's why we're out there talking to the people in Indianapolis and Detroit and Los Angeles. To get the good news out about what this concept of foreign aid with accountability is all about.

And it's not just in the United States that the MCC concept or responsibility is gaining credence in the U.K. with DFID, with their assistance organization in France with AFD, with the Danes — with a number of non-governmental organizations. With AGRA, the Alliance for a Green Revolution in Africa. In the private sector with Microsoft and General Electric, where we've made initial attempts to engage the private sector in our foreign aid with accountability aspects — in our coordination aspects. The MCC model is in fact gaining greater credibility.

And since 9/11, and also always bearing in mind the tremendous efforts that the United States of America has made for decades with regards to humanitarian assistance throughout the world. I think one of the earliest cases which came to mind is when Hubert

Hoover wasn't President, but in fact assisted the Bolsheviks after the Russian revolution, when the Russians were starving. With that instance and on and on for decade after decade after decade, and of course, the Marshall Plan and USAID and now MCC — all of these things have always been a great expression of American generosity, of American compassion and of American humanitarian assistance to their fellow human beings.

In our 21st century, since 9/11, increasingly so I think it's apparent to everybody that a world that is ripe for terrorism, that is ripe for insecurity can be certainly helped by the reduction of poverty and sustainable economic growth. And if we help those countries that are vulnerable to their own national insecurity, in building up their systems, in building up their institutions, in building up their democracies, in helping prosperity in their country — in helping their citizens and their regions in which they are living, it's not only better for them, but it's better for own national security here in the United States. It's part of creating a better world.

So, I think the constituency for this is in fact, at least, psychologically and philosophically and intellectually growing. There's no question getting back to the foundation of the reality that we now face with regards to money is that the money's not going to be there in 2009 and 2010 — with a continuing resolution with our 2010 budget. And that will have an impact, not only on the MCC, but on USAID and on PEPFAR and on all the development agencies throughout the world. That's a reality we have to live with.

But I don't think any of us are pulling back, certainly not the President-elect and certainly not the Secretary designate with regards to foreign assistance and with regards to the MCC. So, yes we are in a difficult position. Maybe we're always between a rock in a hard place in life in general. I don't know. But certainly at the moment we have a difficult situation ...

Steve Radelet: A big rock.

John Danilovich: It's a big rock, yes ...

Steve Radelet: At the moment, good. Okay, thank you. Let's open up to you for questions. Please raise your hand and Heather will come by with the microphone. A couple of ground rules, no

speeches. Only John and I can blather on and on and on uninterrupted. So, keep it short. A focused question would be very useful. Please state your name and your affiliation and your question.

Audience member: Gerald Hyman at Center for Strategic International Studies. I wonder if I could ask you a question about criteria? Especially, since you're talking about responsibility and accountability. Number one, on the contact criteria they are average in the three primary criteria. You have to be above average, sort of a like "woe begone" kind of standard.

John Danilovich: Above the median.

Gerald Hyman: Above the median. Which was not quite the same thing as the original announcement that these would be countries of excellence and outstanding performers that needed some help. Second, on the backside, what about countries that have compacts and slide backwards? So, that they wouldn't be eligible for compacts, if they were to come up now. I wonder if you could give some advice to the next CEO about those two questions?

John Danilovich: I think it's important to bear in mind with great respect for all of the countries in which we are — in which the MCC's engaged, that they are struggling to do their best with an historical legacy that is somewhat impeding. We have countries that are ex-Soviet. We have countries that are ex-Colonial. We have countries that are ex-civil strife that don't have the benefit of a cushion of democracy. That don't have the benefit of an institutional structure, whether it be judicial or economic — fiscal — whatever it may be, educational. They simply have not had the economic ability to move forward to establish the credibility of a government — of a good government.

We are assisting them to do that. They are on the pathway of doing so. They are making the attempts. They are making the efforts. They are rising to the challenge. They have in all cases, in our countries, they have made legislative regulatory constitutional reforms to meet our indicators – to be above the median on their performance. We're not talking about excellence. We're talking about trying to improve. We're talking about trying to be better. We're trying to talk about creating a better government.

We had a wonderful situation recently, two weeks ago, when in Ghana they had an election after eight years of one party rule where the opposition won. The opposition won by half a percentage point. And there was a peaceful transition into a new government, into an opposition government. This is the type of thing we like to see. We like good elections. We encourage political rights, civil liberties. Some of our countries don't have perfect elections, but we are trying to encourage that process. Some of our countries don't educated women, but we are insisting that they do so. Some of them don't have an educational program for young boys and girls, but we're encouraging them to do that. Some of them don't have a properly established recourse to the rule of law and justice, et cetera. But we are encouraging them to do that.

It's a matter of everyday and every way we're getting better and better. Step by step we're trying to improve these situations. It is true, as you've said that countries after initially qualifying and signing a compact and meeting the criteria, some of our countries have slipped on their performance. And were they to be assessed today they would not qualify for an MCC grant. But it's a matter of, perhaps, two steps forward, one step back. Let's try and keep having the two steps forward. Even if there is in the challenges that these countries face, one step back. We are assisting these countries in doing so. We want them to improve.

We have a PIP program, Policy Improvement Program, that we enter into immediately with a country. We engage with them where we see the indicator weaknesses. We encourage them to meet with the indicator agencies to discuss and to understand. Because many of them don't understand why they're failing — what they need to do — what has to be done? — to meet with the indicator agencies to improve their performance and they do. They engage. They want to be part of the program. Somebody said, “Well, it really isn't about the money.” Of course it's about the money. They want the money and they should want the money. And to get the money from the MCC programs they need to incentivize and continue the reforms that we required in the initial stages to become eligible for the MCC. That process has to continue. That's the MCC effect. That's what we want to see continue to happen. It's not just, “Well, I did it right once. I scored the basket. That's it, I won.” You have to keep making the basket. You have to keep improving. You have to keep performing.

We allow a little bit of leeway, as you must in the natural progression of things over a certain period of time. Ultimately, if they want another compact they have to pass again. If they fail egregiously, then they're out of the program. We've had a situation where we took a decision at our December board meeting to — a very unfortunate situation in Nicaragua, where we have an outstanding program which is achieving tremendous results — particularly in the agricultural field. We had a situation where we took the decision to cease further funding, unless there were some remediation that took place with regards to the November political elections. We're hoping we don't have to abandon that program.

But if we have to in a country, if there's a Coupe d'etat, if there's an assassination, if there's a suspension of Parliament — I think the MCC should expel a country immediately. That's what gives us our credibility — our ability to say, “no” to a country, if the transgressions become too great to be acceptable.

Steve Radelet: I'm going to just add a little bit to that. The fact that what a country needs to do is surpass the median, does not mean the countries — that you know all you have to do is be above the median on everything in aggregate. In fact, the way that the criteria work by being above the median on half of the criteria in half of the groups, is in effect the top quartile of countries and only the top quartile actually pass the indicators' test. There are 26 countries, I believe, that have been selected now — that are eligible right now out of something like 110 give or take candidate countries from the lower income and lower middle income countries. So, it's only about a quarter.

So, it is not just in the top half. You actually have to be in the top quartile. That means you're good performance. Maybe that's excellent, maybe it isn't — depending on your definition. But you do have to at least be in the upper portion. Next question. Heather, yes.

Audience Member: Thank you. My name is Suzi Peel and I'm working with Resilience Networks. In the context of reform and transformation, could you compare in contrast with the instruments

such as IMF World Bank and their magnitude — their successes and failures? And how you would advise on that?

John Danilovich: I think the MCC criteria of eligibility of signing, our selection process, our ongoing monitoring of their performance on the criteria on an annual basis — our policy improvement program, et cetera is something which is far more core to the MCC than it is in other agencies. The other agencies have certain demands and requirements. But for the MCC our country selection process — our good policy criteria is absolutely fundamental to what the MCC is all about. So, I would simply answer your question somewhat shortly by saying that the good policies that are required in the MCC are absolutely core to what we are all about. And what in a way set us apart from other organizations — the degree to which we consider this to be core to our actual process.

Steve Radelet: Good. Yes, way in the back.

Audience member: Hi, I'm Gary Merritt with the USAID Alumni Association. I'd like to ask — let me preface. I've been an ardent supporter of the MCC, but baffled from the beginning by the absence of population sensibility with respect to the theory of development that went into the — I attended reviews and so on early on in 2001, 2002 and so on. And I could never understand — baffled by the absence of population issues and criteria, if you will, of rapid population growth — have access to safe and effective methods of fertility regulation in the MCC theory of development, if you will.

Why was that? And is there any possibility of that factor being incorporated better into future ...

Steve Radelet: Gary do you mean in the selection criteria, or do you mean in the substance of the compacts?

Gary Merritt: I would say both, but particularly the criteria. The assistance for helping people of the countries formulate more effective development policies as criteria for the compact.

John Danilovich: You very correctly — or pointed out that you're a member of the USAID Alumni Association, which now after five years I think we can create an MCC Alumni Association. And I'd like to be the first member of it.

Steve Radelet: Maureen's beating you by a couple of ...

John Danilovich: Maureen's beating me — yes she is. You're right. Well, we can be founder members if you'd like. You know your questions a good one and it certainly has an impact on development and economic growth and poverty reduction. However, you know we — and again it comes back to the way the MCC formula works. The countries come to us with their proposals one way or another for poverty reduction, for economic growth. And they have not come to us with population questions and other matters which are related to that. Also bearing in mind there are certain U.S. legal requirements that either allow or prohibit us from getting involved in that.

But the fact of the matter is, the way our process has worked out, we don't go to them and say, "You have to take care of this, you have to take care of that." We rely upon them to come to us with their solutions for their problem. So, it's not something that we go out and engage a country with.

Steve Radelet: On the — if I can ...

John Danilovich: Yeah, sure Steve.

Steve Radelet: On the selection criteria issue, the challenge is to find a relatively small number of indicators — I mean you don't want 50 indicators — that capture broadly a country's commitment to good development policy, number one. Number two, that are actually measurable — that there are actually data out there. And number three, there was a leaning towards, I think for good reason, indicators of actual policy rather than outcomes. So, the focus has been on things that governments can actually control and that are measurable to the extent possible. And fertility rates is an outcome and it's not actually a policy directly. Although there are certainly policies that can be implemented that affect fertility rate. It isn't like an inflation rate, or a government budget deficit that can be automatically controlled as directly.

Now there's a balance on the number of criteria getting policy related criteria. And frankly, getting measurable policy instruments where there are data for 110 countries that are fairly consistently applied. And I'm actually not quite sure what

measures there would be that meet all of those criteria that would fully address the fertility — there may be some, but I don't know exactly what they would be. Yes, go ahead. And then we're going to move to the other side of the room.

Audience member: Claire Moran, from the U.K. Department for International Development. Just wanted to say I think you're right. We're definitely a big fan of MCC and we really appreciated the strong collaboration on the ground. My question is if you're really trying to place MCC at the center of U.S. development efforts in the future, and you're really looking to kind of maximize the transformative effect — do you think you should be considering compacts with sub-national entities and looking at a set of criteria? So, particularly kind of Indian states, Indonesia, Nigeria. Those kind of places. Thanks.

John Danilovich: If I understood your question correctly with regards to our engagement with a country, it is not with individual organizations within the country, but rather with our established Millennium Challenge account entity, which receives and disperses the money in country. We do not give individual grants to organizations either in capitals or in rural areas for specific projects. That all comes through the central distribution point, if I can put it that way. Is that what you were asking?

Steve Radelet: Well, I think specifically on local governments. Whether ...

John Danilovich: Right.

Steve Radelet: ... in a place like Indonesia, which is big and has provincial ...

John Danilovich: Sure. That question came up — has come up a couple of times, not only with regards to the countries you've mentioned. But for example, with regards to Brazil, where there may be certain regional areas which are certainly in need of significant grants and improvements with regards to poverty reduction. However, at this particular time as with concurrent regional and longer compacts, it may well be worthwhile, depending upon how a new authorization of the MCC is forthcoming from Congress — that would encourage us or provide us with the money to also do regional programs.

Which is something which is been in our mind as have other ideas. But we haven't had the — frankly the organizational strength yet to pursue those activities. It may well be something that can be looked into in the future.

Steve Radelet: Good, let's move over to this side right up here in the third row.

Audience member: Thank you sir. My name is **** I'm with the Armenian Reporter. You mentioned specifically that the MCC works based on country performance on policies and not politics. But given the very close association it has with U.S. foreign policy organs, and given such circumstances as the very sub par election scene in Georgia towards the end of 2007 and the horrible events that transpired after that — a recent war there. The fact that Nicaragua has recognized South **** and the independent republics, this disengagement with Nicaragua and an increased engagement with Georgia.

What kind of political message do you think this sends to the region? — to Russia in particular and do you think it is a part of the prerogative of the MCC? Shouldn't you be a bit more sensitive to such implications as it may have?

John Danilovich: Excellent question. I appreciate you asking it, because it's something which we need to be aware of. We are a long-term five year program, perhaps longer. And during that five year process there are many countries that have moved onto new and different governments. For example, you've mentioned Nicaragua. When the Millennium Challenge Corporation engaged with Nicaragua, it was under the presidential administration of President Enrique Bolanos. And we got off to a very good start there. The programs were doing well and it came to pass that his term of office was over and there was an election going on.

I was in Nicaragua just before the election and I was asked, as you might well imagine, regularly, “What are you going to do if Danny Ortega's elected President? And frankly the response was very easy from our point of view. As long as the government of a country, regardless of the personality or the person of the president, as long as the government of a country continues to perform well with regards to indicative performance — we will continue to be

engaged with that country. And that in fact was the case subsequent to President Ortega's election. That has not proven to be the case in recent times with regards to the November election in Nicaragua. And for that we are in the present state of the relationship that I have previously mentioned with regards to Georgia and the state of emergency there after the election. Or in fact, with regards to our meeting.

And you mentioned that you were associated with Armenia. These are countries that have excellent MCC programs, which are producing results. And you can be absolutely sure that we internally at our administrative operational level in Washington, as well as at the board level, as well as congressional level, are very much aware and very much concerned about certain actions that were taken in during, before, after, subsequent to the elections in these countries — subsequent to the invasion and to the present status of internal operations within those specific countries that you have mentioned.

We continue regularly, daily frankly, to monitor and evaluate trends and indications. Last night I met with the Open Society Institute, Mort Halperin's organization. And in fact sat next to my good friends from Georgia and Armenia, who I had met previously with members of Civil Society in Tbilisi and Yerevan. And we continued our discussion about their very serious concerns about the political state of affairs in their respective countries. We are about encouraging and incentivizing and hoping for ongoing steps in the right direction. This is always a challenge. We have made it very clear to the countries in which we are involved that we have concerns about certain trends that we see as being evident.

If those trends continue and if they approach an area — approach a magnitude that will prohibit us from further engagement, I would hope that we will certainly take action against further engagement. We warn a country. We advise them. We tell them. We let them know. They're very much aware of it, not only here in Washington through their ambassadors, but through their foreign ministers. And in some cases through their presidents that they are on our list of concerned countries. And that we very much want to see steps taken to improve the situation.

We are an improvement program. We're an incentivizing program. They know and they see and they have seen that the MCC will not

hesitate to say no to a country, if a situation deteriorates to such an extent that it becomes unacceptable.

Steve Radelet: In the front row here, if you can Heather.

Audience member: Mark Stuckart with the Overseas Private Investment Corporation. First, is to thank Center for Global Development for this terrific program and the whole series of programs that you put on. And also ambassador for your remarks and your great leadership at MCC. Could you just say a little bit more about the importance of economic growth — of having a country growing at 7 or 8 percent as opposed to 1 or 2 percent. And why this is so important to poverty reduction?

John Danilovich: It's a hand-in-hand situation. It's poverty reduction with economic growth. There's no point in temporarily reducing poverty in a specific village or town, or a proposal or a project if it isn't tied into a long-term economic process of growth. Growth is essential. Growth not only in and of our programs, but also from the government poverty reduction programs and also from the private sector. It's our hope at MCC that not only will our programs realize the hopes that we have with regards to our economic rates of returns, but that the governments will also see their parallel engagement with our programs. And that NGOs and that the private sector will specifically enter in with our programs to extrapolate that economic growth.

We have an outstanding team of economists at the MCC who work specifically on making sure that we have an accurate prediction, with regards to economic rates of return. And if they prove to be inaccurate we do something to address them. Either to reform the proposal and the project to make sure that we can get the highest rate of return over the longest period of time, so that that growth can be sustained longer. It's only with that longer growth — we were saying you know if the MCC – heaven forbid were to say 20 years from now proudly, “Well, we've been in this country for 20 years.”

If our program is still in a country 20 years from now, then I think we've been a failure. I don't think we can be enormously successful in five years. We can be successful, but maybe not enormously successful. I think if countries if they have performed well on their criteria and on their proposal implementation, they

should be entitled to a second compact, if they meet all the criteria. But if this goes on indefinitely, then I think there's a problem. They must realize that the time is now. The financial crisis actually put that — it puts that in a far greater definition than previously. We can't afford to squander time or effort or money in not achieving results — in not achieving economic growth. You've got to be disciplined. You've got to focus on it. You've got to make it happen. And if it doesn't happen then I don't think we should be continuing to fund programs, where we aren't able to achieve that economic growth rate from the bottom up in the countries that we're operating in.

Steve Radelet: John, if I can follow-up. How do you respond? The MCC sometimes gets criticized for not having enough of a focus on health and education ...

John Danilovich: Yes.

Steve Radelet: ... as part of a poverty reduction program from people who see health and education programs as central to poverty reduction and growth as secondary today. You've heard this ...

John Danilovich: Sure, sure.

Steve Radelet: So, how do you respond to that?

John Danilovich: You can't deny the importance of health and education. For goodness sake, if you don't have healthy educated people, you can't have an ongoing economy in any sense or form. And we do do health and education. But the fact of the matter is, the countries come to us with infrastructure programs, because they see that as core. Whether it's road or agricultural or irrigation programs, they see that as core to their economic development. And they find it difficult sometimes to find other donors, who will be able to give them the large amounts of money that are necessary for infrastructure programs. As opposed to the abundance of programs that do exist for education and health programs.

So, they come to us with big programs. They also come to us with wonderfully attractive and humanly inspiring programs with regards to health and education. But that's not normally on their priority list with regards to the MCC.

Steve Radelet: Good, thank you. Back over on this side. Yeah, go ahead, Heather. And we'll come way over into this corner over here next.

Audience member: Hi, Charles Uphaus with Bread for the World. For a pioneering organization in many ways, the MCC has opted for a very traditional approach to implementation. Namely, projects including setting up project implementation units in countries where you work, which goes counter to the whole approach of the Paris declarations, which the U.S. has subscribed. And I wondered if you have some thoughts as to whether this is, maybe in retrospect, the way we should have gone. Or thoughts going forward, as to whether you would encourage some more innovation and flexibility on the part of MCC and how it actually implements programs in countries?

John Danilovich: First, I'd like to thank Bread for the World and David Beckmann and so many of the NGOs, whether it's ICD or the USGLC or Interaction or OxFam or many of the others who have been so supportive of the MCC from the beginning. It's been a great help to us, when we have been criticized, that we've had their support on our ongoing efforts.

I think the implementation methods that we use actually are appropriate for the proposals and projects that we are engaged in. I think that using the MCA entity in country as the implementing agency, bearing in mind that they are composed by country nationals and not by the MCC. Getting back to the hand up, not hand out — foreign accountability responsibility approach is actually the way to go about implementing our programs. And to date in those programs that have come on stream in the natural harvest evolution of agricultural programs. Our agricultural are already proving themselves to be successful with the implementation methods that we have used. And we believe that will also be the case with our infrastructure program. So, I'm actually satisfied with the methods that we have used at the MCC.

Steve Radelet: Julie?

Julie Howard: Julie Howard and the Partnership to Cut Hunger and Poverty in Africa. Ambassador, you spoke about regional compacts and seeing that as an important area for MCC in the future. I wonder if you could talk a little bit more about why that is

important. And how you see those compacts and MCC's capacities needing to differ for regional compacts as opposed to country?
Thank you.

John Danilovich: Thank you. Thanks for asking that question. Primarily, because regional compacts are something which are near and dear to my heart. I think it's a natural acknowledgment of the synergy that exists with the geographic continuousness of certain countries. Georgia and Armenia for one are three countries still in Central America. There are a number of programs. And we already have that to a certain degree with regards to road connectivity in between the countries at the moment. Which is sort of happened in Central America, also in Georgia with some degree of intention.

But we didn't set out, for example, to connect to certain regions of Georgia and Armenia or certain areas of El Salvador, Nicaragua and Honduras. But it has happened. And that's certainly and absolutely logical natural progression of roads or agricultural projects, or certainly with regards to the energy field. Whether it be any form of energy. With regards to having a regional policy for energy, it's far more effective, far more efficient and far more economical to have an energy policy that covers a specific geographic region regardless of the political borders.

A project came up, for example, with our Central American countries, which struck me as being an absolute thing of beauty with regards to the Gulf of Fonseca. Which is on the pacific side, on the left hand side. All three countries are bordering the Gulf of Fonseca. It's always been an area of contention, of strife, of war in some cases. It's now very polluted. There's very little port economic commercial development in the area. The idea to create a gulf of tranquility like you have on the moon. For example, in the Gulf of Fonseca to eliminate the board of disputes, the civil strife with ...

Steve Radelet: To admit economic activity.

John Danilovich: Absolutely, right. At least for the time being. To create a gulf of tranquility, I think would be a tremendous message with regards to what an MCC program and a national U.S. government program can do with regards to peace and security and economic development. And I regret that I wasn't able to do that in

my period of time. I mean because it's something which to me seems obvious.

Steve Radelet: I think this is going to be tough for the MCC. I'm a big fan of regional approaches in general. And I think they're underplayed in I think regional infrastructure projects make a lot of sense. I think it's going to be tough for it to work in an MCC context. Because I think there's a — it may put at risk the country selection process — the individual country selection process. And I think we've seen that a little bit with the situation in Nicaragua, El Salvador. It's a perfectly sensible place for a regional agreement ...

John Danilovich: But if that had been in place, maybe you wouldn't have the problem in Nicaragua.

Steve Radelet: It's possible. It's possible.

John Danilovich: So, there's a way to creatively make that happen.

Steve Radelet: It may be, but what if it does rely on having continuous countries be simultaneously eligible? And if that happens terrific, but it's not always — it puts countries together in a basket. Which might put at risk the individual country selection process. So, I think it's going to be tough to make that happen in the future. But that's just my view. Yes, sir? Heather.

Steve Radelet: Speak loudly if you can.

Audience member: Peter Thormann another USAID alumnus. This relates back to Steve's earlier question about what to tell the American people? I always viewed the MCC as a program that would graduate countries from development assistance. I was really struck in your comments about your talking — one of the toughest pieces of business in the development business is when to get out of the country. People struggle with that all the time. And I'm wondering whether you have a policy and if you do have a policy. Because people I think would love to hear that you've graduated 10 countries out of the 26 or however many you work with. What's your policy? Do you have a policy? And if so, what is it on graduation from MCC?

John Danilovich: Yes, that's a wonderful question. And I would like to be around at some point to know when we do graduate a country.

It will happen. I'm sure it will happen. We've only just started. The beginning has been good regardless of the toughness and the challenges and the bumpiness and all that sort of stuff. We're now in a very good place. I'm very optimistic about MCC's place in the new administration, whatever that may eventually turn out to be in the next year, or 18 months or so. As reform is more specifically addressed.

The graduation of a country out of the MCC I think will be a great day. A great day for that country. Because the success that they will have achieved, not only with regards to their own government institutional liability, but with regards to the success of their programs. I think will be an enormous achievement for these countries and I can see it. I mean there are a couple of countries that I would have in mind that I think have the possibility of doing that. Not in the first five years, but maybe in the second five years. Some of our countries have great leaders and great potential and a great future. And I think the MCC plays a very significant part in that future. And a greatly significant responsibility for that future.

And I think that will happen. There will be — do we have a policy for it now? Not yet. We haven't quite gotten there yet. But I think certainly there will be that when the time comes.

Steve Radelet: We have time for one more question. Right here in the front.

Audience member: Joe **** from **** Foundation. Do you intend to sign more agreements with small national development agencies? I'm interested particularly in Sweden and Norway. And what are the benefits and challenges?

John Danilovich: Yes, you know the agreements that we have with DFID and the U.K., also with AFD in France with the Danes. And I think it only stands to reason that all of us understand. All of us in the development world realize that by focusing and concentrating and having greater discipline in our efforts we can achieve more. We can be more effective. We can make better use of the money we have. Certainly in all of the areas we're working with DFID, we're working AFD and **** Africa and with the British in their former colonies — in AGRA, in the agricultural programs that we're doing in Africa with them.

All of this is already benefiting both of our organizations. And more importantly, it's benefiting the people who we're trying to assist. So, yes the more agreements — real agreements that we can have with development agencies, the greater international coherency there is on all this. Let alone our own national American U.S. coherency.

John Danilovich: The greater there is of bringing together a synergy, a confluence of efforts — the better off the beneficiaries are going to be.

Steve Radelet: Let me thank our colleagues — my colleagues at CGD for putting on this great event. Particularly, Heather Haines and Rebecca Schutte and Sheila Herrling and Molly Kinder and everyone else at CGD. But let me — please join me in particular in thanking John Danilovich for being with us, and for his three years of great service to the MCC.

John Danilovich: Thanks, Steve. Thank you. Thanks, Steve. Thanks a million. Thank you.

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