CENTER FOR GLOBAL DEVELOPMENT

MCC AND AID EFFECTIVENESS:
USING ECONOMIC RATES OF RETURN
TO GUIDE DEVELOPMENT ASSISTANCE

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SHEILA HERRLING: Thank you all for coming. I think we're going to get started, if you guys can take your seats. I am Sheila Herrling. I am with the Center for Global Development. And I run what we call the Millennium Challenge Account monitor. It provides policy analysis, research, and a lot of outreach over the effectiveness of the MCA. And for the most part, we are a big supporter, sometimes a constructive critic, but always, always, always in support of the success of the MCA.

It continues to be, in my own mind, the greatest experiment we've had in U.S. foreign assistance since the Marshall Plan. It brings together a lot of the lessons that we've learned over the past 50 years in development effectiveness that countries should be owning and driving and designing and implementing their programs; that it is very mission-focused, particularly on one mission, which is economic growth; and it is results-based so that we care most about delivering results on the ground.

And it is that last part, the results-based, which sort of forms the frame for the event we're having here today. And I'm really quite amazed and impressed with the turnout here today. It can be either a sign that wow, people are excited about the MCC. Or it can be a sign that we are really a bunch of dorks. (Laughter.) I mean, here looking at economic rates of return with 100 people, and having to close down our reservation list – it's really terrific.

We're really excited to help the MCC launch a very innovative web feature in the spirit of transparency and accountability on the economic rate of returns. Not only is it a signal of their commitment to transparency, but it's just fun. I mean, you get onto this website and you can see what is an ERR, how does the MCC use the economic rate of return to make its decisions? And you can actually get in and play in the ERR and raise the costs or increase or decrease the time it's going to take to do the project and see what happens to the rate of return.

Let me just lay out a little bit of how the program is going to work today. Franck Weibe who is the chief economist of the Millennium Challenge Corporation is going to start off. He's going to walk you through what is the ERR, sort of an ERR primer and how the MCC uses it. And then, he's going to walk us through the interactive web feature and show you what I was just talking about, how it works, what's up there. There are six countries' ERRs up there right now. I encourage you after you leave here to get on there and have fun with it. Franck will walk us through that.

Following Franck's presentation, we're going to have a panel discussion with experts from the World Bank and also from Bread for the World and have a discussion about the pros and cons of ERRs, what other diagnostics are out there to base your funding decisions on and to measure impact, beneficiary analysis, poverty and social impact assessment, and how they hook up with the ERR, and what weights should be given to ERRs versus other aspects in the decision-making process.

So without further ado, let me bring up Franck Wiebe. He is the chief economist at the Millennium Challenge Account. He has led this effort on the ERR. It's been a very consultative process, which many of us have welcomed. And we look forward to hearing from you.

(Applause.)

FRANCK WIEBE: Thank you for that kind introduction, Sheila. It's a real pleasure to be here. When I joined MCC about two years ago, I think within days – it felt like within hours – I had an invitation to speak at a CGD event. And I felt like, this is going to be an exciting job. On a weekly basis, I'll be back and talking with my colleagues outside of MCC and about interesting development work. Now, it's been two years, Sheila. Was it something I said? I don't know. But it's a pleasure to be here and thank you for hosing this event and giving me a chance to return here.

Also, I have to express appreciation to everybody for joining us. When CGD came back to us and said, the event is already closed; there's been an oversubscription to the initial venue; I said, really, to hear an economist talk about cost-benefit analysis? And then, when I heard Sheila talk about the fun of playing with ERRs, I realized that, yes, we are dorks. (Laughter.) This is in fact a fun crowd to be talking with. But it's also nice to be in a group of such like-minded professionals.

As Sheila said, I'm going to be talking about MCC's use of cost-benefit analysis and how we use that to talk about aid effectiveness. I want to start off by having kind of a caveat or something that may be a spoiler in the sense that when I use the term aid effectiveness, I'm not going to be referring specifically to the technical terminology that people use in the context of multilateral aid agencies. People here may be familiar with the Paris declaration on aid effectiveness and all of the principles. The MCC subscribes to those as well.

But when I talk about aid effectiveness, I'm a much more literal-minded person. And what I'm talking about is really, is aid having the results that we thought that it would have? How do we think about what the impact is of aid and how we use economic rates of return to measure that.

Now, let me quickly go through the outline of my comments today. And this is one of those presentations where, as Sheila said, I'm going to get to the interactive web feature; and that's really where the excitement is. But in order to get there, in order to have what I think is going to be a really fruitful discussion about that new initiative online, it's necessary for me to step back and to give a little bit of background. And in fact, I'm going to step back twice and give two pieces of background.

I'm going to first of all talk for a few minutes about MCC's approach to aid effectiveness and then talk about our framework for cost-benefit analysis. So in some sense, the first few minutes will be about why we do cost-benefit analysis, the second few minutes will be how we do it, and then the last issue will be the demonstration of the analysis. And what you will find is that my definition of a few minutes may not be exactly the same as your definition of a few minutes. But I promise to go through as expeditiously as I can.

Let me start off by talking about MCC's model to foreign assistance. I think that most people here will be familiar that MCC was established four years ago. And it was really established to do aid in a different way. And different doesn't necessarily mean better; it simply means to try a different model from what had been seen traditionally in the development community.

Now, the difference is not just based on a few people's opinion. In fact, the difference was based on what was seen, what was emerging at the time as kind of conventional wisdom on how aid effectiveness works. And in fact, I was just on a panel a few months ago where a colleague from the World Bank spoke. And we were talking about aid effectiveness. And he insisted on going first. And I was happy to let him go first because it worked out perfectly. He laid out exactly kind of what the problems are in aid effectiveness and how aid ought to work. And I stood up and said, that's fantastic because that's exactly how MCC was set up to work. In fact, on all of these principles, MCC used that knowledge about what was working in aid and what was not and tried to create an agency that did things a little bit differently.

Let me focus just on a few of those issues in terms of how to do aid a little bit differently. And what we find is, MCC is not unique. This is, in fact, where the foreign assistance community is going. The first fundamental principle of aid effectiveness is that good governance matters. MCC uses a set of indicators, 17 indicators, through which countries qualify, become eligible for aid through MCC. The basis being that aid is really most effective in countries that are already governing themselves well. That is, the amount of impact that you get for dollars spent through aid is going to be higher in countries where countries are governed well.

The second fundamental principle – country ownership matters – this is clear, the idea that countries themselves need to be in the driver seat of the development process. They need to be establishing their priorities. And of course, in the MCC's model, partners develop their proposal, the aid is untied, and country systems are used.

The third fundamental is this idea of reducing poverty through growth. And this is something which, again, I think is now generally accepted, that economic growth is a requirement to have sustained poverty alleviation. If you look at countries that are growing more rapidly, you see poverty alleviation accelerate as well. Countries that grow more slowly or become stagnant experience very little poverty alleviation or any poverty alleviation at all.

Again, while this is generally accepted, I think it's useful to go back into the development assistance literature and realize that this is a return to some fundamentals in a sense because I think certainly in the '80s and '90s, there was more of a broadening in terms of what we were talking about in terms of aid and development.

The last issue, and this is the one that Sheila rightly pointed out – and that is the idea that results matter. For MCC, this is an important thing. I'm going to talk about how we focus on this in our model. I think it's important to note that any one of these bullets here could generate a crowd probably this large in a sustained conversation. And in fact, I know that CGD has hosted on a number of these things. But today, we're going to focus on this final bulletin that is that results matter, and how to measure results and how to enhance aid effectiveness.

I'd like to just take a minute to talk about MCC's cold chain of aid effectiveness. And every time I do this, I realize, maybe I'm even the bigger dork in the crowd because the term cold chain means something. The cold chain is a term of art in the public health field. It refers to the delivery of vaccines to people who are out in outlying areas. Vaccines require being kept cold in order to be valid. That is, if you ever break the cold chain, that means the vaccines, you can deliver them out to the villages; but they will be totally ineffective. Well, aid effectiveness has a similar kind of cold chain that you have to go through each of the steps in order to get aid effectiveness at the end. And that's what we're talking about.

In MCC's model, there are going to be four steps that I'm going to talk about. The first is our use of constraints analysis, which is essentially an adaptation of the growth-diagnostic literature coming from Hausmann, Rodrik, and Velasco, and others as well. It's an exercise that we ask countries to do to identify their primary impediments to growth.

The second step is our use of cost-benefit analysis. And here we talked about ERRs. And we think of ERRs as a pre-investment estimate of what the expected impact is going to be. The MCC ERRs look particularly at increases in income or value-added, and that's essential. Often, I find that when MCC talks about ERRs, people think, well, but you're just looking at growth.

And I think that there may be a misunderstanding there because when MCC talks about growth, when we evaluate proposals to us, we measure growth in terms of household incomes raised and increases in profits to domestic firms. In other words, we talk about growth as economists in macroeconomic terms. The way we measure it is specifically in microeconomic terms. That is, the additional income at the disposal of households within these countries.

The third step in our cold chain is monitoring and evaluation, and that's simply in the implementation process, making sure that projects are being implemented and making sure that they go according to design. That's done through the use of baseline surveys and measuring implementation against expectations.

Then, the fourth step is rigorous impact evaluations, which we contract out to independent researchers to make sure that where there are projects where we have specific questions about that we're going to make sure that a substantial amount of resources are invested in them so that we can actually tell at the end of the day whether our investments made the impact that we thought they would make.

Now, I have to take a step back and say, my experience here in the last couple of years has been that especially the first and the fourth step in this process have gotten a lot of attention. That is, the new literature on growth diagnostics is increasingly accepted as a useful tool, and also, the use of randomized experimental designs is something which is very exciting. It's at the cutting edge of aid effectiveness.

But what I want to do today is to draw attention back to an old tool, cost-benefit analysis, and why it's such an essential part of aid effectiveness. When I talk about old tool, I still have on my shelf, a copy of Little-Mirrlees that I bought back in the early '80s. And it was old, used then. And the techniques that we use are not fundamentally different from those that were developed, or that I studied 25 years ago – I was about 10 at the time – (laughter) – and that were written, let's say, 45 years ago.

In fact, what I'm going to suggest is that aid effectiveness requires this kind of an ex ante assessment of what the impact is going to be in order to have an ex-post assessment of did you achieve it or not. And I'm going to suggest that without this, it makes it very difficult to talk about aid effectiveness. That is, we all talk about aid effectiveness; but as long as we use the terms meaning different things, it's going to be difficult for us to have a similar kind of conversation. We're going to be able to talk about the same thing.

Now, I need to take another minute just to talk about MCC's program portfolio and how we get there because when I talk about our use of economic rates of return – and you can tell that for me this is important; it's interesting; it's fun – sometimes people get the impression that that means Franck and his economists are making all of the decisions at MCC. And some might say, wouldn't that be a great world? (Laughter.) But in fact, the world doesn't work that way, nor should it work that way. In fact, the agency and other foreign assistance agencies obviously take many other things into account.

The first thing is something, which I mentioned. And that is that the proposals come from the countries. And often, when I hear observers talk about MCC's use of economics and that it drives the process, I say, no, it doesn't drive the process; it helps inform the process. What drives the process is countries' priorities based on growth. It is true that we ask countries to focus their proposals on growth, but on their own priorities for growth. And that's essential; that's an essential starting point.

The second thing is that when we review our proposals, it's not simply whether the projects are going to generate adequate returns. There are many other things that we look at, including their impact on gender, the impact on the environment, and the use of transparent procurement rules that help make sure that the money will be spent in the way that it was designed.

Each project is also analyzed – and this is the ERR part – where the projects are then analyzed to see what are the impacts on local – the projects, what is the impact on local incomes. And finally, it's important to note that just as the earlier points indicate, high ERR projects might be rejected because they don't conform to other criteria. It's also possible the projects with low ERRs might be funded as well based on other rationale.

The last thing I'm going to talk about is the role of ERRs in aid effectiveness. And we've talked about this a little bit. The reason this is important is because we're talking about investments and you need to have a tool that tells you whether investments are appropriate or not. The private sector has a very easy way. They simply look at profitability. Cost-benefit analysis is a way that the public sector can look at their funds and decide whether those investments make sense or not.

What's interesting is that MCC's focus on economic growth, which Sheila highlighted in her initial comments, allows us to have a bottom-line measurement in the same way that the private sector looks at profitability. ERRs – and I'm going to be talking about ERRs; I'm not going to come back to this – but ERRs are essentially a number and that will be a percentage term, which reflects the interest rate at which the project has zero positive returns. That is that when you have a high interest rate, that suggests that the returns are so high that even if there are alternatives, even if there are other alternatives for use of the money, that's a good use.

In other words, when you have a low ERR, what that means is that the returns are very low. At the bottom line though, in analysis, economic growth is measured by gains in household incomes and value-added. I keep returning to that because that's essential to understanding how we use ERRs.

So this is why we do the work at MCC; now let me take a few minutes to describe how we do our cost-benefit analysis. I'm going to apologize for those of you who already have a lot of background in cost-benefit analysis. This is probably going to be boring for you, largely going to be old. I'll also apologize to those of you who don't have cost-benefit analysis. It may be boring to you as well. (Laughter.)

Let me start off with just a simple example of what a spreadsheet might look like. And even while this is a very simple version, in fact, the things that you will find on our website look like this but in a much more complicated fashion. What they will have is they will have rows of data, which show what the costs of the project are. Essentially, in this case, I'm going to talk about $100 million investment project, 20 million (dollars) spent each year for five years. If this were an MCC project, what that would mean was that only MCC funds were used. In some projects, governments put in counterpart funds as well, and so the amount might actually be bigger than the MCC investment.

The next line is the benefit string. In this case, in this example, we have an even flow of $5 million a year for 20 years. And the net benefits then are simply the benefits minus the costs. And in this flow, what you see is that in the first five years, there's a negative net flow. But after 15 more years of positive flows, in the end – and I've created this to be just illustrative – we have an example where we have total costs equal to total benefits, $100 million each. What that means for an ERR is that the ERR is zero because only if there is no interest rate, only if a dollar spent in year 20 is worth a dollar spent in year one is this project financially viable. If anybody thinks that that's a good project, I would be willing to make a financial transaction with you at the end of this seminar. (Laughter.) But that gives you an example.

Now, I'm going to show you what this means visually or graphically, I guess, is the right way to describe it. This what a zero percent ERR looks like where the area under the line is the same as the area above the line. This is simply a graphic illustration of the same thing. Now, this is what is exciting. A zero-return project is the green line. For a 10-percent-return project, you get the benefits of both the green and the light blue. And that is 190. What that means is, if you discount the total benefits of 190 by 10 percent a year, they end up being equal to the weight below. If you have a 20 percent ERR project, that is all of the light blue and the green above the line, which without discounting, is 340.

Now, I should make it clear that this is simply an example that I've constructed based on even-benefit flows. Every project will look different. And so, these ratios are not going to be exact. But it gives you a sense of the difference between a high-return project and the benefits. And remember, the benefits that I am talking about are income increases to poor households and to households in the country – households more broadly – and the costs being, in this case, the costs of the project.

So let me then just take one more slide and talk about the links between ERRs and poverty. It's clear that the previous slide that I had, that this is not a full story about the link between growth and poverty because it talks about total benefits and total costs but doesn't talk about the distribution. And the bottom line is that the effect on poverty is determined by two things. One is the total benefits that are being generated. And the second issue – and that is the distribution of benefits across households within the country.

The first point that I would make is that high ERRs, as the previous graphic illustrated, means more total benefits for society. And in fact, the relationship is not as small as the percentage figures would indicate. Often, when I talk to people about ERRs, it makes people say, well, but you don't really care just about ERRs, 10 percent versus 12 percent. The bottom line is, small differences in an ERR reflect small differences in the total benefits. Large differences – and by large, I mean, 5, 6, 7 percentage-point differences – means a lot in terms of the total benefits shared by society.

Now, while ERRs are silent on distribution, I can't help but note a couple of caveats to that statement. First of all, countries target poverty in their proposals. That is, they are coming to us with proposals that are focused on growth and poverty. And so, already, usually the distribution is in fact positive and focused on the poor. And if that is the case, then obviously a program with the same distribution – pro-poor distribution – will deliver more benefits if it has a higher ERR to the poor.

The second issue – and I think this is clear – this is something which sometimes is not easily visible to outside observers – and this is that MCC undergoes an extensive due diligence process of its projects during which we look at the projects. A project that did not – that was not structured in a way that would deliver significant benefits to the poor would unlikely ever get to the finish line. Countries know that. A project – if we think about an example – if countries were to propose a project that focused on resource extraction in which there would be very few jobs and all profits could be diverted to a Swiss bank account, it's unlikely that even if that generated a high ERR, that that would be in any way found acceptable to MCC. And in fact, it would probably not even get through early stages.

The third point I want to make is that we are at this time investing more effort in trying to develop tools that will help make it more explicit what the impact on the poor is.

The last point I want to make is that ERRs are essentially neutral on sectors. Often in conversations I have, people seem to think that infrastructure projects are going to be easy to pass on the ERR basis, and social sectors not so much. In fact, our experience now through 15 total compacts – and we have another couple in the pipeline – have shown us that in fact, ERRs can be very high on social sectors like education, healthcare, and water, and they can be very low on infrastructure like roads, bridges, ports, things like that.

The bottom line is, is it a problem in your economy and is the program designed appropriately given what the problem is? If both of those things are true, the projects are likely to show high returns. And that is true whether it's a water project or whether it's a road project. The bottom line is that ERRs provide a single snapshot, a single indicator, which is very useful for predicting aid effectiveness. So this is how we do it.

Now what I'd like to do is turn to what I brought you here for, and that is our dissemination event and MCC's open-access ERRs. There are two reasons why we're undertaking this initiative. The first is that we like to practice what we preach. MCC talks a lot to our country partners. We talk a lot in public about the importance of good-governance practices. And transparency is one of those. We wanted to make sure that our own practices reflect the things that we are talking to other countries about.

This initiative, which puts our economic analysis on the website, is explicitly intended as a transparency exercise. We want to encourage people to look at the work we do, to review our rationale, and to start a conversation about it.

The second objective is something that is very important as well. And that is we are trying to use this gateway as an opportunity to generate new technical conversations with people who are interested in this work. MCC is a small organization. We have a small number of staff. We work on a large number of countries. We believe that our economic rate-of-return analysis will withstand scrutiny.

At the same time, we're eager to have people look at our analysis and tell us what kind of information we may have missed, give us new insights into how the models might work. We're looking for this to be an opportunity to develop professional conversations more broadly.

So the conversation – what I'm going to be showing you – can be found at our public website. You can also Google MCC and ERRs and it will you directly to this page below, which is, of course, not our homepage, but in fact will take you to the homepage of our economic work. And when you do that, this is what you find.

The first thing to note is that it will tell you which countries are currently available. And as Sheila said, we already have six countries posted. It will also give you a bit of an overview of the economic analysis. Now, I should tell you that everybody who came here, I hope, got the blue folder. And you'll find some of this information already there. I hope that when you read that, it will not sate you appetite but in fact peak your interest. And we'll want you to go and get more.

Also on this homepage is a little bit of a brief introduction to calculating ERR, much of the information that I just gave you. There will also be a brief description of the spreadsheet data. Of course, my favorite part on this page is, as you might guess, is this link down here, office of the chief economist. There was some brilliant person in the agency once actually suggested I put my name on there. And while I like that kind of attention, I think that we probably hit the right middle ground by saying, contact us at the office of the chief economist. And we're serious about that.

This is clearly meant to be an interactive feature and we're looking for people to write to us with their questions and their comments. Also on this homepage is a little bit more information as to how we use these ERRs in our investment decision process, in our due diligence process and in the proposal development process because, while we do our assessment of the projects, we ask countries to start the process out by doing their own economic analysis.

Let me make a few more comments before going into the spreadsheets that are online. First of all, what we're going to post here – what's already posted – is the information that was available for us and the analysis that was available at the time of the investment decision. What we have found is that as in any kind of analysis, additional information is an ongoing process. We felt that it was important to put up the information that we had at the time of the investment decision so that people could understand how that decision was made.

We are finding that in some countries we are reviewing projects. In some cases, the projects are actually changed in scope and in scale. And when that is done, we may go back and revise our models, if we have the information available. And we may be able to post that information online too. The third point – uh-oh – the third point is that we're also – as I mentioned, we're in the process of enhancing our beneficiary analysis. And we intend to put that online as well.

So back to our gateway page, this is what we have on the front page. And if you select the country – and I'm just going to randomly choose Ghana – it takes us to the Ghana gateway page. And of course, each page, each country will have this kind of a homepage, which lists some of the background information again, as well as on the right – on your right, on my left – a list of the actual projects and the spreadsheets that are there.

Now, if you click on one – and I'm going to click on the water and sanitation – the next page you get is this. And what this means for those of you who aren't heavy users of the Internet – what this means is that you can either use the information online or you can download the spreadsheets. This was an important feature for MCC. We wanted it to be – we wanted people who were interested to be able to download the spreadsheets onto their computer and use them at their own convenience. And so, you can either use them or you can click and use it online.

If we go online – either way, we'd come to this kind of a page, which talks about – and this is the project that I clicked on. This is a water and sanitation project. And the water and sanitation project gives a summary and it lists the components, which in this case includes a number of different activities or holes, small town pipe systems and community sanitary facilities. I could tell you a lot about bore holes. Turns out, the name is pretty self-explanatory.

Still on this homepage, you also get an initial indication of the economic rationale. And so, what we tried to do was give a very brief explanation of why this project was expected to raise people's incomes. In this particular project, there were three different benefit streams. One has to do with time savings – that is, delivering water to households saves people time from what they would otherwise use in terms of collecting water; a second benefit being health – waterborne diseases being reduced through the project; and the third being new income-generating opportunities. And that's all described here.

It was important for us that we had some explanation before people got to the spreadsheets, but I know that that's what people are eager to do. So the next page is a user's guide which is, again, meant to tell – this is in some sense a table-of-contents page.

Again, it tells you what the date was and that this was used for the investment memo. One of the things we wanted to highlight is to make sure that people understand that this is not meant to reflect real-time data of projects, but, rather, the information that was available at the time of the investment decision. Again, the benefits streams that I just mentioned.

And then – well, let me go back. You'll note that here the ERR – I have spoken a long time without referring – here the ERR is 20.5 percent over 20 years. Do you remember my graphic before? That's a lot of benefits over a 20-year time horizon. Then the spreadsheets are listed here and these are the same as the tabs on the bottom. The nice thing is that you can then click from there and go to specific sheets that you're interested in.

This is what Sheila talked about and this is probably one of the most exciting things for people who are not really going to spend a lot of time going through reams and reams of data. This is a page that is our ER and sensitivity analysis, which gives an interactive feature that we sometimes refer to as our mortgage calculator. It gives you an opportunity to go in and change numbers and see what the effect is. So if you look at this project, you see summary cost and summary benefits. And here is our ERR of 20.5 percent.

You also see some specific indicators. These are variables that are important to the determination of those ERRs. We also give you the plausible range. And what this means is those are the values that the MCC economists, working with their local counterparts, felt were the reasonable range of what those variables might be. Also on this page – scroll down – this is the actual project's specific graphic that's similar to the one that I showed you earlier for my example. And here is the distribution of what the ERR is. We report the 20.5 percent, but, in fact, our analysis showed that it could range anywhere from 12 percent to 33 percent.

Now, going back to this mortgage-calculator feature, in his case, what you can do is input – I'm going to guess. I'm going to be skeptical or be a bit of a pessimist. What would be the project be if, instead of the benefits that I had estimated, only half of the benefits realized. Sometimes people are skeptical that donors overstate what the impact is going to be. What happens if MCC overstated by five – 100 percent, doubled. It's only half.

Well, you can see what the effect is on the ERRs. Even with benefits only half as high as were generated, the economic rate of return of this project is 14.9 percent. If you're surprised by why that would be such a small change in the ERR, remember, again, the difference between a 20-percent-return project and a 10-percent-return project. High-return projects generate lots of benefits and so, even if you reduce them by half, you still have what's a viable project.

Now, if I come in and change some of the other features here – I'm going to have to look at my notes to see what exactly I did – I think that I reduced the number of households – business from 5 to 0 percent. You can see that the economic rate of return goes down to zero. No, it goes down to 7.7 percent.

MR.   : (Off mike.)

MR. WIEBE: That's the low end of all of them. Thank you. That's exactly right. Each one of these features were set at the very low, the very lowest end. Thanks, Steve.

So what do we have up now? As I mentioned, we have six countries posted now and, on this, you'll find a variety of projects. So there's something there for everybody. If you like to, you know, if you're particularly interested in agriculture – and I see some people here who are – you know, there are already projects listed up. Already, they are different infrastructure, education programs, and, as I showed you for the Ghana example, water, there's also land and finance. Already in this set of six countries, there's – most sectors that MCC is involved in that you'll find something.

We already will be setting as a date for our next launch May 23rd, for three more countries. Late June will have the next tranche out, and our last group out will be in August. And something that occurred to me last night, inspiration – if you're interested in being notified, send an email to the office of the chief economist and we will send you a notice when the new ERRs are posted. I know you'll be eagerly awaiting that.

Let me just close by saying that posting these six web – these six pages is just the beginning. We're going to be, as I said, not only unveiling more, but we hope that this initiative is something that people will find useful and will lead to conversations about how MCC does its work, what our analytical framework is, and what our program content is.

As I mentioned earlier, we're extremely serious about establishing a dialogue, using this as a basis for a dialogue with interested parties. I spoke yesterday with a former professor of mine who teaches cost-benefit analysis. And I've been encouraging him to use our online resources in his classes, get his grad students working on these, and having them let us know what they find as they work through our spreadsheets.

But let me conclude by saying, please, visit us – not physically – (laughter) – but visit our website and let us hear from you. Really, we're excited about this initiative, as excited as we can be about cost-benefit analysis. We hope that you will, too, but please respond and let's start a dialogue on this. So thank you very much.

(Applause.)

MS. HERRLING: Thank you very much, Franck. You actually, I think, give dorks a very good name. (Laughter.) In the spirit of starting this conversation on the ERRs and getting feedback from the community, we're going to transition to our panel discussion now.

And let me welcome, first, Manuela Ferro from the World Bank. Manuela, why don't you come on up? Manuela is the manager of country economics in the operations policy vice presidency of the World Bank. She is responsible for country-assistance strategies and a lot of the budget-support lending done by the World Bank. She has great experience in poverty and social-impact assessments and thank you very much, Manuela, for joining us today. She also happens to have gone to school with Franck, which they did not know before we asked her.

Asma Lateef, come join us. Asma is the director of the Bread for the World Institute. Bread for the World is a Christian-based NGO focused on fighting hunger and poverty both here in the U.S. and abroad. Asma runs the World Institute, providing analysis and research on hunger. Thank you so much for joining us. Asma is no stranger to the MCA. In a former position at Bread, she co-chaired the interaction working group on the Millennium Challenge Account and so she is well versed in issues of the MCC.

And last, but not least, Steve Radelet will be moderating our panel discussion today. Steve is a senior fellow at CGD. I'm sure you all know him well. He runs our aid-effectiveness research program at the center, was there at the beginning of the MCC, played a key role in shaping that program and continues to play a big role at the center providing analysis and research. So, Steve, take it away.

STEVE RADELET: And we won the intramural graduate-league basketball championship, I will have you know. (Laughter.) We were blessed to have two guys on the team who could actually play –

MR. WIEBE: Neither of us.

MR. RADELET: Neither of us. (Laughter.) Let me start with just a quick comment and then get into some of the questions. My comment is actually to congratulate the MCC on really being at the forefront of transparency on this set of issues. You may not agree with the technique and all of its details, you may have comments, you may have criticisms. But I don't know of any other organization – with perhaps the exception of the Global Fund to Fight AIDS, TB, and Malaria – that is doing anything like this in terms of being transparent about what they're doing, how they're making their decisions on the benefits and costs associated with projects and making that completely open to the public.

It's a big risk to do that. We're having this discussion because of the fact that they're willing to take that risk and have this debate and take the criticism and change what they're doing. You can't have this discussion at USAID because they don't have a technique to do this. And you can't, at the World Bank, the World Bank has their techniques, but they're not as public and transparent about this. So I just want to congratulate them for having a technique and making it public and being open to have the discussion and being willing to take the risks of having this open debate. That's my big takeaway from this, is to put this on the Net is actually a big deal.

But let me start, actually, by turning to Manuela. There's a long history of project appraisal. The World Bank was, in many ways, in the forefront of using project appraisal and economic rates of return, as Franck mentioned, several decades ago, but has deemphasized the use of ERRs in project appraisal over the years. So let me turn to

Manuela and ask her why that is and what – how the World Bank is using this technique these days.

MANUELA FERRO: Thank you, Steve. It is – you're absolutely correct that the Bank, in fact, used to use the economic rate of return as its key criteria for approval of projects. That happened when the Bank's business was really to finance infrastructure projects, some of them very large, in all of our member countries. And we have to sort of go back to, actually, the '60s and the '70s to see really the majority of Bank operations relying almost exclusive on economic rates of returns for approval.

Stepping back a little bit, we are an institution that is owned by 100 and some countries. And, therefore, the decision process for individual operations is one that involves the whole board of executive directors representing all of the countries that own us. And so I'll come back to Steve's point on transparency because the fact that you're owned by 120 people does impose a lot of constraints and demands on transparency.

So what has happened is that, over time, the types of investment projects and financing that the Bank was asked to do in countries were often activities that had a very low rate of return in pure economic terms. And while I, as an economist, would like to see the criteria have a greater weight, the truth is that other objectives, in particular, objectives having to do with being a particular activity or project that a country client, aid recipient, really wanted started to matter more.

We also moved away from pure infrastructure projects into investing in lots of activities that may not have, in the short run, an economic rate of return that is high, but that are valued by the aid recipient. Others are actually very difficult to calculate economic rates of returns on. For example, if you look at judicial systems, if you look at budget systems, all of those things that make the governance indicators that MCC uses to screen countries – very important – the economic rates of return on a project like this would be very difficult to estimate and, of course, some economists would be able to come up with a number. But the meaning of that number would be relative.

And so, in many ways, what we've done is to actually move away from using purely ERRs to use a number of other criteria. Those criteria include things like the distributional impact, criteria having to do with geographical impact. Countries and governments may want to support development in a region where economic returns of almost all activities will be very low, but that the government of that country may consider that that's a very important area to develop.

And so there will be activities that would not pass the criteria of ERRs. Our board and our shareholders and these recipients and these aid recipients are very keen on having the Bank support them in all of the activities that they want to engage in. And the Bank had to make a choice between taking a broad measure of ownership and having that be the key criteria or focusing almost exclusively or giving a greater weight to economic returns of particular activities. And, right now, the balance is far more on the ownership side than on the economic returns.

If you talk to a large number of economists at the Bank, they will see that with dismay, but many others will think that it's actually more important to try to be engaged with all countries, not just the countries where we think the standard of say, ownership or of governance, is acceptable to us and being engaged in a wide variety of activities that may not be carried out purely for economic reasons.

An additional difference that we do have from MCC is that about a quarter of bank financing is for budget support operations. It's untied aid. It finances everything from recurrent costs of teachers' salaries to everything that the government does. This is something that we've committed to and it's part of the Paris Declaration that countries, especially countries that are very aid-dependent and very poor, often post-conflict countries, for example, depend very heavily on budget support that is untied. And so there is very little sense in actually doing economic rates of return for an activity like that. So that is a big difference on our side.

The other thing that we do is that, again, differently from MCC, we do a lot of joint financing with other donors that, again, may use different criteria for their project approval or activity approval. And that requires some flexibility from our side to take on board some of the criteria that they do use and that we would see differently.

And I think, finally, one of the big issues that we often think about is that having a variety of criteria inform the decision and writing them in all of our project documents. And, by the way, all of our project documents are public information, not just the ERR, the whole project document. Anybody can address the public information center of the Bank and get any information on any project that we've done. And that has been improved.

That project document will have information on the economic rate of return, if it has been calculated for that particular project, but also on the other criteria that our board considered in deciding whether to approve or not that operation. So, in a way, what we've tried to do is to inform both the aid recipient and the society at large on what are the criteria that we've used for that decision to approve. And, for example, our development policy lending or budget support operations, all operations, need to have a poverty and social impact analysis, sometimes done by the Bank, sometimes done by others, hopefully in-country. We try to use a lot of country capacity to actually do that poverty and social analysis. And that is reflected in our project documents.

So, in a way, it is a bit of a technical approach to project and program approval, but one of trying to provide an information base for our board of directors and for society at large to see what the criteria were that were used.

I would like to basically try to perhaps finish by saying that what we've seen at MCC, I think this is a very positive development. It's very possible because there's – there's a new sort of player in the aid world. MCC has sort of come in, has sort of shaken some of the foundations and the ways that all of us work in aid. And I think this is something that brings back economic analysis to project analysis in evaluation and that, in my view, is actually very positive. The fact that you use it and you give it more or less weight is a choice. But the fact that you actually use the rigor of this tool which may be old-fashioned, but is easily applicable actually adds something to the process. And so it should be welcomed. Thank you.

(Applause.)

MR. RADELET: Thank you, Manuela. Before we turn to Asma, I just wanted to ask one quick question to Manuela. You mentioned that sometimes the Bank, one of the reasons the Bank moved away from strict ERs is because of perceived externalities in projects where it's hard to measure. And you mentioned governance projects, judicial projects, for example. And you said that, you know, economists try to put numbers on that sometimes, but it's hard to believe.

When you choose a judicial project where you can't measure the rates of return over another project in agricultural, a road project where you can, are you not implying – are you actually not implicitly putting a number on that externality that you said you couldn't measure? I mean, you must have a sense that if the measurable parts of the judicial project have a five percent rate of return and you've got an alternative agricultural project with 12 percent rate of return of what you can measure, and you choose the judicial project, aren't you implying that there are other benefits that you are somehow coming to the conclusion that they are greater than 7 percent? So you are implying a number, right?

MS. FERRO: The difference is that we are not the ones who are choosing. Our country is really a country-based model. We go to the government and we ask the government what are the projects and activities they would like us to finance.
And so the choice is not made by us; it's made by them.

MR. RADELET: But everything is approved by the Bank board.

MS. FERRO: Yes, on the basis of the country demand. Country demand is what we portray in the country strategy. As you will see, the layout of all of the projects and activities that a country has asked us to be engaged in, that country strategy – and these are public documents, by the way, as well. And that choice, therefore, is public. Go to the board, we inform the board on what the country demand was and what activities we were asked to finance. So the tradeoffs are not made by us nor do I think they should be made by us. I think they should be made by the government and that's what that strategy reflects.

MR. RADELET: Okay. Asma, let's turn to you and see how Bread for the World thinks about the beneficiary analysis and this kind of calculation.

ASMA LATEEF: Thanks so much, Sheila and Steve for giving me the opportunity to make a couple of comments from Bread for the World's perspective.

We're hugely appreciative of CGD's work on the MCA and, by sharing information and analysis, you have definitely strengthened the development community's advocacy on the MCA.

Bread for the World is very supportive of the MCA. We see the MCA as embodying many of the lessons learned about good development assistance, many that both Sheila and Franck pointed out, particularly the centrality of country ownership and civil society participation in developing, implementing, and monitoring development projects and programs. And, therefore, we see its potential as an important tool in reducing poverty around the world.

We are a grassroots organization that mobilized our members in 2003 to lobby Congress to create an MCA that was about reducing poverty and increasing economic growth in the poorest countries. We have since lobbied for its funding and to improve its practice. So we have an interest in seeing the MCA succeed, as Sheila said, as well, and in improving the livelihoods of poor men, women, and children.

From the very beginning, the MCA has been very open – the MCC has been very open and receptive to input from the development community and we have seen the changes – we have seen changes to reflect our suggestions from compact guidelines to the agenda, policy, and environmental indicator. And this presentation, and the fact that the ERR methodology is up on the MCC website, is huge from a transparency perspective. And I think the MCC's efforts at transparency are to be commended.

I am just going to make some points that have already been made, but I just think they need to be reinforced. The compact guidelines make it clear that the MCC weighs more than just specifically – weighs more than just the ERR in making decisions about which projects to support. It mentions specifically the beneficiary analysis. And for someone who's interested in seeing how MCC projects will lead to a reduction in poverty, knowing who the intended beneficiaries are is key.

The ERRs that you have up on the website – and I have to admit, I looked at them on Friday, and so I think you had three up on Friday – do not provide the level of detail. There is no sense of the distributional aspect of the increased incomes that are projected in the ERRs. For me, for example, it was not clear in the Mongolia rail project whether the increased incomes would accrue to the poorer segments of the population.

So that raises, in my mind, that the concern that the MCC's use of the ERR is based on an assumption that raising overall GDP growth benefits poor people, this may be the case, but we'd like to know more of the details regarding the beneficiary impact. In our view, projects need to be designed to reach poor people. And without knowing who the intended beneficiaries are, it is difficult to assess the poverty-reduction impact of the project no matter how rigorous the ERR analysis is.

The ERR may help make the case that a project has internal integrity, that the benefits outweigh the costs, but I think that, on its own, it is not useful in assessing the social impacts of the project, i.e., whether the project will reduce poverty. By placing so much weight on the ERR – and I assume that the MCC does from the conversations I've been a part of over the years and just from the fact that it's up on the Web and we're here today talking about it – MCC risks making investments that may be good from a growth perspective, but may not help poor people.

The extent to which a project reduces poverty will depend on income distribution. And I think you mentioned that, Franck, in your presentation. And so where there's a highly skewed income distribution, MCC projects may not have the poverty impact unless specific actions are taken to address the reasons for that inequality. And it's not clear to me that those pieces are in that project.

Another issue that I'd like to draw attention to – and it's perhaps linked to the ERR and Manuela mentioned it in her presentation – has to do with the fact that MCC's investments to date have solely been in the form of project assistance. And one of the innovations, I think, behind the MCA, is the targeting of assistance to countries that are governed relatively well. Countries have to cross considerable hurdles in order to qualify for MCA assistance and MCC staff themselves have noted that the MCA eligibility criteria have created an incentive for governance reforms in other countries.

So it's somewhat surprising then that MCA funding is not used to do budget support or to strengthen some of the good governance and policy approaches that countries are taking. In order to build capacity and to strengthen institutions, donors are increasingly providing countries with budget support. Manuela just said that the Bank is doing a quarter of its assistance for budget support. So to what extent is MCC willing to consider these proposals for budget support and what are the constraints and is ERR a constraint to that?

I have a couple of questions that I'll just take the liberty to throw out. From the guidelines, if I understood them correctly, the MCC requires a project's ERR to be about double the GDP growth rate. There doesn't seem to be a similar target set for poverty reduction. So my question is, are there poverty-reduction targets that need to be met for each project? And, if so, how are they determined?

Are you planning to make the beneficiary analysis for each compact also available on the website so that we can have a better understanding, a more fuller understanding, of how you're making your investment decisions?

And I think I read in one of Sheila's blog posts that MCC is having to restructure some of its portfolio as a result of the weaker dollar and rising costs. How does ERR factor into that? And how are you going to ensure that the poverty-reduction goals are still met? How do you decide which components to drop and how does the beneficiary analysis factor into those decisions?

MR. RADELET: Super. Thank you very much. We've got several questions on the table and let me – let's see if we can go through these one at a time. There's a set of issues here I think at the core of this about poverty and about distribution analysis that I want to get at first. There's I think a second set of issues around externalities or benefits that might be beyond economic growth that people are concerned about, whether it's institutional stuff, health, education, judicial kinds of things. And then Asma asked a question about budget support and the way that the MCC delivers its funds. And then we have a fourth question on the project restructuring and the risk surrounding the depreciation of the dollar.

Let's start with the poverty one. I think at the core of a lot of concerns about ERR is that its straight economic growth takes the dollar benefits, regardless of who it accrues to and counts that the same, whether it accrues to someone in poverty or whether it accrues to someone who's richer.

I have two questions. One, there is a technique where you can actually incorporate that into ERRs. You can say we will count a dollar that accrues to someone living below the poverty line more than we will count a dollar accruing to someone who's rich. Mathematically, that's not hard. There are two challenges with that and one is the data, whether you actually have the data of who the dollars are accruing to. And then, the second problem is if you do have that data, somebody has to make the subjective judgment of the dollar accruing to the poor is worth 20 percent or 30 percent more than a dollar accruing to the rich. We don't like to make that subjective judgment explicitly, but we almost always make it implicitly when we make these decisions because if we say we're just neutral, then you are making a decision that you're valuing the same. And that's a decision, you can't escape it.

So we make those decisions, whether we like them or not. So let me ask about that, and how the MCC does bring in to its consideration the poverty stuff. It's related to Asma's question about the poverty targets. Franck.

MR. WIEBE: Well, Steve, you've both highlighted the technique and you've also highlighted the problems. And, as I mentioned earlier in my presentation, we are in the process of trying to enhance our beneficiary analysis in a way that gets at exactly these issues that Asma and that you raised, Steve. The first issue really is data, and in many cases the projects that we have don't have adequate data that allow you to do that kind of analysis in highly rigorous ways. Then, the question is well, but if you can do it in a way that's less rigorous than that, is it still worth doing. The answer usually is yes, but it makes analysts very uncomfortable when they –

MR. RADELET: Just on the first question. The data that you want presumably would be household surveys, and the issue is that those are only done once every 10 years, they're hard and expensive to do, right?

MR. WIEBE: And it also has to do with then the assumptions about how much information you have about specific projects, and the description of the beneficiaries, the participants. That is often something which you can speculate on; to some extent, it's driven by the design of the projects.

But again, as an economist you know, Steve, you're building these models and they're based on parameters. And when you start with data that are three, five, 10 years old, data that are perhaps for the country but not for the region, or for the region but not for the particular town, and then you start imposing, you know, a very highly technical framework on it, you can do that and you can provide that information to decision makers, but you want to make sure you put so many caveats on it that you don't want to be held responsible if, in fact, it turns out that that's not the case. It doesn't mean that you can't do it, and when I talk about beneficiary analysis it's exactly that kind of analysis that we are trying to do a better job of. And we do intend to make that available when we have it ready for prime time, if you will.

But the truth of the matter is that in many cases, we bang up against this data availability, project design, and again, if you – you know, for the information to be really useful, you need to have that at the time of the investment decision. You need to know that information with fairly high reliability when you're deciding does a project make sense or not. That information often comes very late in the day; projects are being redesigned, countries are saying well, wait a minute, if that doesn't work let's try something else. And often, it's exactly that kind of information that is coming at the very, very end. It takes a real sense of discipline, if you will, to say but wait a minute, we're going to hold off for another month to get additional information that's going to be highly – well, not highly unreliable, but that is going to have a certain degree of unreliability built in because of the model, and when already we have some of that information already in a less rigorous fashion.

As I pointed out, often when we talk about beneficiary analysis, when people ask these questions, they come from the assumption that high-return projects are worse in distribution than low-return projects. In fact, there's no reason to think that. Often, we can have a good basis to understand what the distribution is of the participants in very early stages. If we were to see projects that didn't include the poor, we would have initial conversations with our country counterparts about that in the very early design stage.

My point being, when we're coming towards an investment decision we already have information about the project design, we're starting to get information about the economic returns, and we know, with some degree of certainty, what the distribution of benefits is going to be. To then wait longer for information that would be produced through this kind of technical analysis, like I said, it can be done but you have to understand what the constraints are. Going back retroactively and describing it is something we certainly can do, and we're intending to do that.

If I can take just a second, Asma, because I want to point to Asma's – the example she referred to is the Mongolia rail project. I'm guessing most of you in the audience haven't had the chance to go onto the website and play with that in the way Asma has. That's an interesting project because she's absolutely right, it's a project like that which is a core infrastructure project whose distribution, the incidence of benefits, is going to be highly dispersed throughout the economy; that is, it's going to raise total incomes and the incidence of those incomes is going to more or less reflect the current wealth distribution, income distribution, that we see in the economy. It might be a bit better than that, but that's kind of the growth and Dollar and Kraay literature that says if you grow, it's going to be shared throughout the economy.

Now, the question is, does that have an important impact on poverty. Well, if we make that assumption about distribution, then the other part of the equation is what's the benefit stream? Now, if we're a very low-return project you'd say well, wait a minute, that's generating very few benefits and it's distributed throughout the economy. And very few of those benefits are going to go to the poor. If it's a 10 percent return, we've got some benefits; if it's a 20 percent – that project has a 30 percent return.

Now, if you remember my graphic about the zero percent giving you $100 million of undiscounted benefits, 10 percent giving you 190, 20 percent – repeat with me, $340 million, right? A 30 percent is simply off the scale; I couldn't even draw it because it's over $1 billion of benefits for $100 million investment. The point being that when you have a very high return project, even when the distribution is very diffuse through the economy, the poor are going to get a lot – and, in fact, get a lot more than a low-return, highly targeted project.

Now, you have to be able to balance those things as you think through it, but you have to have also the faith in thinking that, like I said, first of all, we have analysts on this task to make sure we're not investing in what I would call perverse outcomes, which is high growth, bad distribution. You have to recognize high growth, good distribution is what we expect from the countries, and we have a reason to expect that not just theoretically, but from practice. That's what we're getting from countries, high return, good distribution.

And, like I said, we're on watch to make sure we don't get those perverse outcomes, which are possible, but we don't want them, they don't want them; that is, high-return projects with bad distribution.

MR. RADELET: Let me ask Asma. What would you like to see the MCC do to bring some of the poverty considerations more to bear? Do you have specific suggestions as to what –

MS. LATEEF: Well, as I was listening to Franck, a couple of things occurred to me. We have a list of threshold countries that are sort of in the pipeline. Could the MCC help those countries do some of this gathering of data and household surveys at that stage, knowing that they are eventually going to get to the stage when investment decision has to be made? And so you have a much more accurate picture at that stage than of the poverty impact, so that's one thing.

On the Mongolia project – and I looked at Cape Verde's water and sanitation, and others as well, not just the infrastructure project, and I had the same concerns on all of them. But how did the MCC look at what would be the barriers for poor people to actually use this rail project, to see if there's a direct – if their lives are going to be directly improved, or if this will just eventually improve their lives as the overall economy grows? And so I think there are ways, then, to look at how poor people particularly use services, use infrastructure, and what the impact is for them at that level.

MR. RADELET: Asma raises an interesting point about the threshold program, and it comes back to one of my pet things about the threshold program. What she's basically arguing for is using the threshold program as a way to prepare countries eventually for compacts. I've always thought that should be the focus of the threshold programs rather than getting countries to pass an indicator but actually getting them prepared to develop a good compact when the time comes.

But let me turn to Manuela, and ask about how the bank deals with this issue of looking at the poverty impacts of projects.

MS. FERRO: As part of a project preparation, both investment projects and in particular, development policy loans, budget support loans, there is a requirement that distributional impacts are analyzed.

In fact, I would argue that even though household surveys may be one, two, three, sometimes four years old, they still will provide a useful basis for some of this analysis to be done. And I was looking through the list of countries that MCC works with and many, in fact, have household surveys available. They will not always be perfect, and may not have the level of desegregation that would be necessary for a very localized investment project, but they exist.

This is actually the requirement of looking at the distributional and social impacts. They're just not distributional purely in income terms, but also social impact. They've become a requirement too, partly as a result of fresher – from external counterparts and people like Asma that have put that pressure on the Bank since the early '70s. And that, in a way, has been actually a pretty positive development. We do a lot of that work as part of project preparation but more importantly, we also provide that analytical capacity to governments as they think through investment opportunities that they would intend to finance through other means.

And here, to step back a little bit, a big part of the banks' services to countries is really not financial, is really in terms of knowledge products. And many of us who join the Bank, actually, got to know the bank through its analytical work, not through its lending. And therefore, what we tried to do on that side is actually to help strengthen capacity in country for analysis and economic returns, but also distributional analysis for public investment programs of countries. And we do that often under our budget support operations, but sometimes as part of our analytical relationship with governments and with think tanks in countries which are sometimes able to actually take on that task and that we think is actually better if it's done in-country than from external sources.

So it's become – to come back to you question it's become pretty deeply ingrained in project preparation and in particular, program preparation in the Bank, but not just as part of a financial assistance, also as part of our technical assistance to countries.

MR. RADELET: Let me ask you to just go a little bit further on that. So the Bank does the distributional analysis which, as I understand and have seen it before, says that the benefits will accrue to – it identifies who the benefits will accrue to within society. My question is how does the Bank then incorporate that into its decision whether to go with a project or not. Does it explicitly put a higher weight on a project if benefits accrue to the poor, or does it just leave it as saying here's the analysis, here's who they accrue to, and it's part of the input into that decision but not in an explicit quantitative way?

MS. FERRO: First, to clarify: The Bank doesn't need to do the analysis itself. The analysis of distributional impacts needs to exist, and there are oftentimes cases where the government itself has done the analysis, or where academics in-country have done the analysis, or it exists. So we are required to utilize that analysis and, in the absence of that analysis being done, we are required to actually do it ourselves.

Because the decision of approval of a project is ultimately made by our board, what we are required to do is actually give the board the information on what the distributional impacts are or are expected to be. The board receives a package of documentation and can actually ask additional questions to deepen the questions being asked or the issues being discussed. So we do not assign a weight at the technical level; we, in a way, ask the board to assign those weights. That's what actually happens.

MR. WIEBE: I just need to add a few words to make sure I give a balanced impression of how MCC thinks about beneficiary analysis. Sometimes, as chief economist, I emphasize so much the economic perspective that I don't give adequate representation of the institution.

We just had, in the last week, a series of investment committee meetings looking at a number of country programs at various stages. And I can tell you, in each of those meetings, investment committee members asked the question that you're asking, which is we have the ERRs; who benefits from this? It's a question that is at the front of people's minds when they look at projects, whether they are high-return or low-return projects. And when I say that we are looking to enhance our beneficiary analysis, what I mean is we are under instruction to be providing better information about this because it matters within MCC.

It matters to economists, too. As an economist, when I talk in ways that may sound dismissive, it's not because it's not important; it is because I fundamentally believe that high-return projects, on average, deliver much more benefits to the poor than low-return projects. Very low-return projects keep people poor; very low-return projects, almost regardless of distribution, don't do very much for the poor, by definition.

That said, distribution is an important thing. And like I said, within MCC we take that very seriously. I've been in a series of meetings where that question has been there every time. So when I focus on the ERRs are important because of what they tell you about total benefits and the likely impact on the poor, I shouldn't be giving the impression that we don't care about them. In fact, the institution cares deeply and, like I said, when I talk about us doing more about it, it's exactly because we recognize we need to have more formal information about that for ourselves and for others.

MR. RADELET: Let me ask one more question and then we'll turn to the audience. There's a lot of issues on the table, but I want to ask about the risk analysis in the ERRs around the changing exchange rates, changes in oil prices, those kinds of things. On the spreadsheet that you showed and what I've looked at, you've got very useful parameters in there, in terms of if your benefit stream on health impacts or whatever it is are higher or lower, and that's great. But there's a lot of risk around parameters that I didn't see on there: the exchange rate, oil prices, things that we now see can be quite important.

So two parts to the question: One is how do you bring that kind of risk analysis into the ex-ante evaluation, number one. And second, how are you now dealing with this problem that, because of the incredibly large swings in these major prices in the world economy, it's changing the analysis that might have been done two or three years ago?

MR. WIEBE: We actually incorporate that risk in a couple of ways. One is we make sure that our price estimates are accurate, and then we build in –

MR. RADELET: The day you make them.

MR. WIEBE: Well, the day we make them, that's right.

MR. RADELET: The minute you make them.

(Laughter.)

MR. WIEBE: But even that, sometimes, is a challenge.

And the second way is we build in adequate contingencies that reflect the vulnerability or the volatility, I should say, in the world markets of those prices. And so what you will find is that our ERRs that are being calculated today use much higher point estimates for prices than the models did a year ago. That doesn't mean they were wrong a year ago; I mean, now they were wrong, but then they were right. They're right now – you know, it's a fine point. But the point is, unless you knew that the prices were going to do what they did, you were estimating the prices the way we did. And if you did know that, you know, you probably shouldn't be here, you should be rich somewhere because you should have taken that –

MR. RADELET: Right, but you have a distribution of expected ERRs that are dependent on what you think about the benefits will be. Do you also do that in terms of what you – the range of the exchange rate? Do you do a best case, your best estimate, and then a worst case, best case if the exchange rate or oil price would –

MR. WIEBE: And like I said, there are two parts. The first is – well, the three then. The first is getting the prices right. The second has to do with getting contingency fees in. And our models have been expanded, if you will, to reflect the volatility in the market. We are, in most cases, estimating higher contingency fees as part of the cost structure contingency costs to reflect that volatility, and those are incorporated in the ERRs. So if we say the road's going to cost $100 million but with plus-or-minus 30, that ERR is calculated on the $130 million because we have to set aside $130 to have the confidence that we want that we can build the road. Then, in the ERR, the costs are also – there's parameters where the range of the sensitivity analysis can be done where there are ranges on that cost parameter as well. The crystal ball software allows you to incorporate that.

How do we deal with the problem? A couple of ways; one thing that we have found – I mean, first of all, we are in the process of reevaluating projects that are in implementation in a number of countries because of this, something we call a re-scoping exercise. And we've found that because we didn't have full knowledge of what the future prices would be, costs have gone up beyond what our expectations indicated. As a result, because we cannot top – add money into the compact, we have to have conversations with countries about what they are going to do with the money that we have obligated for them. Often, that has to do with looking at the scope of the program and seeing what can be done.

That process is something – and I think Asma asked this question as well – that process is something which is informed by recalculated ERRs. It's not driven by it, but it is informed by it. One of my colleagues, Steve Anderson, is one of the people who's been deeply involved in that. He's here; he can tell you more.

One thing that we have found – and this again goes back to the wonderful beauty of ERRs – is that high ERRs have a very high tolerance for changes in costs, just as they do in changes in prices, so you can double-cost. If you have a 20 percent ERR project; that is, that this project not only made sense at a 10 percent level, but you had 20 percent or in the rail project, to 30 percent and now, bam, prices double, that project investment still makes sense. If you do a low ERR project at 10 percent, or it's 5 percent, or it's zero or negative five, the returns go through the floor because the amount of benefits that you calculated were very small to begin with. Of course, the downside in what you lose is very small, but – and that was an inside economic joke – but the bottom line is high-return projects have much tolerance built in for either benefits being much less than you expected, or costs being much higher than you expected.

And so, in some cases, what we're finding is you can re-scope and re-balance the budget. What that means is not doing some things that you planned to do, but keeping the ERRs well above the hurdle rate. I know in one case in particular, we did this re-scoping exercise and found that what we had also is new information up on the benefits side; those also go up. Often, people think costs go up but benefits don't. I mean, prices overall go up, and so people sometimes think oh, well you've got doubling of prices on the cost side. Well, that's real but it's also partly a nominal effect.

MR. RADELET: Good. Let's turn to the audience because I'm conscious of time. I know Manuela has to leave in about 10 minutes, I think.

MS. FERRO: Fifteen.

MR. RADELET: About 15 minutes, so I'm conscious of that. So let's go around and you go ahead, Heather. Give the microphone to who you see. Please state your name, your affiliation, and please, no long remarks, just ask the question directly because we've got lots of hands. Thank you.

Q: My name is Del Fitchett, I'm an economist consultant. And I really hope I'm not revealing any dorkish tendencies when I want to congratulate Franck on putting MCC really in the operational cutting edge as far as the application of these techniques are concerned.

What I'm really sort of uncomfortable about – I joined the Bank about oh, some 20 years before Manuela, and you know, we lived through the results of Bob MacNamara's 1973 speech in the Kenya. For us, the discussion about weighting beneficiary returns was not an academic exercise. We had to worry about – (inaudible) – and all that nonsense. It wasn't a graduate seminar and I think we really missed a lot of the evolution. You know, you really should have mentioned the Economic Development Institute because we were out there – I started as a project economist and went to a job on the Bank the 24 years I was there. We did a lot of training and capacity building at the EDI in application of these techniques, in the countries by the people themselves. And one of my greatest joys was working with the people from the former Soviet Union, in setting up the capacities in those countries out in that part of the world.

But I think you've really missed a lot of the development of how the Bank applied and went through, suffered, the ideas and tried to make them operationally applicable in the way that I see that Franck now and the MCC is doing so well. Sorry – (off mike.)

MR. RADELET: Good. We'll take a couple questions, I think, before we answer.

Q: Hans Rothenbuhler, formerly with the World Bank. I'll be brief.

Two questions which, I think, illustrate the problem of putting too much emphasis on the ERR, which is a great tool at the risk of missing the social transformation aspect of development. First, a question to Steve: Do you know any OECD country, U.S., France, Germany, you name it, which does an ERR analysis when it considers investments in the judicial sector?

MR. RADELET: Nope.

Q: And should they do it?

MR. RADELET: Yep.

(Laughter.)

Q: And if they don't –

MR. RADELET: That doesn't mean it should be the only thing that should decide the projects, but they should certainly do it.

Q: And the second question to Franck: I think it's accepted wisdom that education of women is probably one, if not the, most powerful tools for long-term development success. Now, one of the major concerns, I think, has been recognized for that is lack of adequate pilot facilities in schools. Now, can you do a meaningful ERR analysis for school pilot project? Thank you.

MR. RADELET: Good. Let's answer those two questions and then I want to turn to Rodney, who's got a question, I think. Right? Were you raising your hand?

Q: Actually, no, just making a commentary because I chaired the MCC's investment committee.

MR. RADELET: All right. Let's answer those two questions and then we'll turn to Rodney.

MR. WIEBE: Are you going to answer? The first one was to you.

MR. RADELET: Well, you mean the one about the OECD?

MR. WIEBE: Yeah, and the judicial sector, yeah.

MR. RADELET: Well, I think both of the questions raise the issue about externalities, is really the issue that both, in different ways, put on the table. When you've got an economic stream of benefits that are measurable, you've got non-economic benefits that are harder to measure. And I think that's – we talked about the poverty issue, but the other issue which we didn't talk about so much is the externality. So I think it's for you, so how do you think about those – what externalities you bring on board and when there are externalities that you can't directly measure, how does that affect the decision-making?

MR. WIEBE: Yeah, and I don't know if everybody heard Steve's offhand response to your first question; he said yes and yes. You know, you should do an ERR on those judicial sector investments, and I would agree. It doesn't mean that you necessarily say you shouldn't do those projects. What we have found is just the exercise of formalizing your assessment of why you're doing a project, and being forced to say what you think will be the result of it and what the impact downstream is going to be. You can say that on a judicial program. I mean, maybe not all of them, but certainly in many of them you can talk about why you're doing a project and what you think will be the result of it.

Again, whether you can necessarily put a financial return on that or not is another question. But if we're talking about aid effectiveness, I think part of the issue is whether donors are doing things without being explicit enough about what they hope to get at the end of the day, what they hope to see as a result of it. And I think that that formal approach can be done on social sector investments as well.

I guess I would also say remember, MCC isn't the only game in town. MCC was designed to do one specific thing, and one reason I love the model is it allows us to say are we effective at doing that. It doesn't mean that everybody has to do it exactly the way that we're doing it.

In terms of the education, I would say first of all, you know, the example you gave about schools, girls' education and toilets describes our project in Burkina Faso. So the first thing is, you know, not only can you do that but MCC is funding that project right now. And the second thing is, yes you can do an ERR on that. You can say, well, wait a minute; if it truly is a binding concern, if truly it is limiting people's economic activity, you can try to figure out what the effect will be by relaxing that constraint. Getting girls out of the house and getting them into school opens up new opportunities for them. What do they do differently with education that they didn't do without it? Those are things that you can model and you can say, wait a minute, but there's an intrinsic value to education that you're not counting. Well, that seems fine; this goes to Steve's point about well, I got a 7 percent ERR, now do I still want to do it or not. It allows you to say is that intrinsic value worth enough that I can go ahead and do it anyway.

But by measuring what I think is going to be as a result of that education, again, it formalizes how many girls I'm going to put through the system, it tells me how much I'm going to pay for each girl, it's going to tell me what I think the girls will do when they come out that's different than what they do now. It's an incredibly useful tool that people too often dismiss as hard to do, speculative, and yet, it's exactly by not doing it that donors can do anything they want, right.

You know, so it's not the end of the decision process, it's a formal way, as a decision maker, where they say well, wait a minute. Well, wait a minute. You have told me this is what you expect. Are those parameters reasonable? Can you really get 10,000 girls through the school? Can you really get teachers to those schools? Can you really do these things? And having toilets may, in fact, be the last piece. And it determines whether you will get the girls to the school or not.

MR. RADELET: In the absence of this, I think Franck touches on an important point. Projects are often decided, certainly within the U.S. government, by who lobbies the most, rather than any sort of analysis, even if it may be imperfect analysis. Manuela, do you want to comment on that issue on externality?

MS. FERRO: I think the question is about the credibility of the analysis. It is always a good idea to have a basis and as solid basis as you can to make choices and to inform those choices. There are times when the assumptions you have to make to come up with an economic rate of return are so heroic that you start having more disclaimers than analysis. And that is something that I think we have confronted many times. And I think Franck and MCC will, too, because there will be many times when that will happen. There are other times when – girls' education, for example.

We recently financed a program on girls' education in Pakistan. What did they do when they finished the school? They go back home. And so your returns will be so indirect, you will think that sure, their kids will be better educated. Their nutritional status will be higher. The household will function more efficiently. But trying to formalize that in a way that you know, you will make so many assumptions. You make even assumptions about whether female labor force participation will increase knowing perfectly well it is increasing very, very slowly. You see the boundaries of the tool many times, especially when you try to do activities that are not infrastructure, that are not SME financing that go a little bit outside of the things that we used to do, and that MCC still does a lot of.

Having said that, I am putting back my hat of an economist, I think this is a very valuable tool. I think I would like to see it used more in the Bank. My former colleague from EDI, which is now called World Bank Institute that did a lot of training on cost-benefit analysis in countries, is right. This is an important tool that I think perhaps lost a little bit of emphasis in the Bank and could benefit from more. But I think we have to be realistic that for many of the activities we finance in countries, the economic returns will be very difficult to measure. And therefore, you need a great dose of humility about how much they will be able to tell you knowing how these things are put together. You can always come up with a number, but what the number has behind it is just as important.

MR. WIEBE: Just I had one point I want –

MR. RADELET: Yes. Just quickly and then I wanted to see if Asma wants to comment on this –

MR. WIEBE: Okay. That is fine.

The point I wanted to make is Manuela's comment on education in Pakistan is really revealing. I would encourage people to go to the CGD website and look at the evaluation done by your boss, Nancy Birdsall, on World Bank funding in Pakistan and why it has been so ineffective in lowering poverty. It is an amazing critique in the sense of the focus on basic needs in the context of all of the problems going on in Pakistan. And it raises the question – nobody wants to be put in the position of saying we should not invest in girls' education. On the other hand, what it says is if you do that in a context that is as distorted as Pakistan's, you are going to have essentially no effect on society. And in some sense, doing the ERR on that and finding that you can educate the girls and they go back home. Again, that doesn't mean you don't educate them. But then you can't be surprised when you find that that project doesn't have a transformative effect on society.

RODNEY BENT: Steve, can I make –

MR. RADELET: So yeah, Rodney Bent, who is number two at the MCC, deputy CEO?

MR. BENT: Deputy CEO.

MR. RADELET: Deputy CEO and also head of the Investment Committee.

MR. BENT: Three quick points. One is on the ERRs themselves, what came through a little bit is sort of the large range of uncertainties. And that is really what we have been grappling with. Franck pointed out that in the early years, you know quite clearly when costs change. You don't really know what happens to benefit streams. So point one. Point two is that we absolutely do spend a huge amount of time looking at the beneficiary analysis. I want to make it a counterpart to what we are doing with the ERRs because it seems to me that is the question that people want to know. You are helping poor people. How many and where are they? That is a little more difficult because you can make some of the hypothetical leaps with ERRs that you don't want to make with beneficiary analysis.

Finally, I guess the question is – and this is really for Asma and maybe others is we would like to know what others are doing so that we can find good templates that are satisfying that really get to where we are. One reason that I very much like the mortgage analogy is that there is a huge range of uncertainty. Four years ago, oil was probably $28 a barrel. I don't know anybody who would have said yes, we all expect it to go to $118. There are going to be uncertainties in everything we do. So we are always obviously making judgment, sometimes subjective, hopefully informed. But that is the nature of the beast.

MR. RADELET: I'm sorry. Sorry for that quick delay. Let's go over here to this gentleman over here on my left.

Q: I'm Bob Armstrong, consulting with the World Bank, retired from the Bank. A few very quick questions. You mentioned that your cut-off rate is 10 to 15 percent. I wonder to what extent that varies by country, by sector. How did you choose that range and how do you apply it? No mention was made of shadow pricing. I think I saw somewhere in your literature that you do apply it. And I would be interested in your saying something about the approach to that. And the last question has to do with where in the project cycle the emphasis is put. In my experience, what is really critical is to do a quick and dirty upstream pre-feasibility stage analysis that will get bad projects out of the public-investment program. The further along they go, the more constituencies get built up. White elephants get justified even by ERR. So one question I would have is what is your approach to applying ERR at different stages of the project cycle? And what proportion of your projects have been rejected because they didn't meet the 10 to 15 percent test? Thank you.

MR. RADELET: A lot of recovering World Bankers here – (laughter). One other question here.

Q: Excellent panel, thank you very much, very informative. I'm Peter Delp with USAID. A question – you asked, Franck, and I think Rodney and Steve said – doesn't the World Bank go back after a project and do a post-facto ERR? And don't you compare that with what you projected at the beginning? And isn't that a great test there of all your assumptions, the model, the force fit of the real world to whatever your model can handle? Could you tell us about that – (off mike).

MS. FERRO: I think the question on the when to do the ERR is for Franck. Now, we have a very independent and independent-minded, independent evaluation group that like the CBO or the GAO report directly to our board, not to our management. This independent evaluation group actually looks at each project that the Bank does and looks at whether the project development objectives have been attained, if they have attained, why they have not been attained. As part of that, they do try to see whether our projections, which sounded fine the day we made them, did not materialize. And we all know what projections are. They are there to be broken.

But they also look at other issues. There are oftentimes a project sounds good on paper. But the institutions required to implement it are not in place. And many of us in our eagerness to finance development do not see the importance of local capacity to actually get a project implemented, a role built and maintained, a school built and then have a teacher inside. All of those things that are actually key to development effectiveness and that are less grandiose than an approval of a project, but that are actually the ones that deliver results on the ground. So these are the kinds of things that this independent evaluation group does. And then they report directly to our board. And those are public as well.

MR. WIEBE: Bob, let me respond to your questions. The 10- to 15-percent range, it is country specific. We have a formula, and the formula is based on the country-specific growth rate with a floor at 10 percent and a ceiling at around 15 percent. The idea being that countries that are growing faster have opportunities that raise the opportunity cost of capital in those countries. We do incorporate shadow prices where it fits into our model. And so for example, if you have jobs that are being created, we may look at the shadow wage to figure out what share of the new jobs is appropriately considered part of the benefit stream. But ultimately, in many cases, we have to use the market prices because what we are looking at is the real effect of the projects in terms of generating incomes based on the prevailing markets and the prices in the economy.

I like the way you talked about – I'm sorry, yes.

MR. RADELET: Manuela has to leave us at this point, so let's just if you'll join me in a round of applause for her contributions today. Thank you very much.

(Applause.)

MR. WIEBE: On the last question, we are in the project cycle, I liked the way you described that. We find, too, that it is important to do the quick and dirty early on to help inform that process because we also find that the more money and the more time that is invested in figuring out whether a project makes sense or not, the harder it is then to say that it is not and to set aside country ownership and to set aside country ownership and set aside all of the effort that's been invested and the vested interest. And so we do that as well as throughout the process.

I think that, in some sense, even our final ERRs might be properly considered, not quick and dirty, that sounds too pejorative, but the bottom line is, we have a timeline during which we need to get that information to our decision-makers. As I mentioned, we get more and more information as the process goes. We can't want for complete information. So we get the quick-and-dirty early on when proposals are first submitted. We do it as an ongoing process, updating during the due diligence, and trying to inform the country and the transaction team.

I don't know what proportion of the projects that were proposed were rejected. Like I said, it goes through – it goes so much through a process where projects at the initial proposal stage might be rejected for a variety of reasons including, we can't do them in the five-year time horizon that we have or including that the environmental impact is likely to be so severe so that we shouldn't do it. And so the – you know, the answer to that question is unclear. There's a lot of work that goes between the initial interaction with countries and the proposals that are finally approved.

The economic analysis is one part of that process and, you know, the bottom line is, it's rare where you'd say purely on the basis of an economic return that this project either makes it or doesn't make it because it's so much a piece of a broader engagement with the country, that incorporates the country-ownership issues that Manuela talked about, includes the beneficiary analysis, includes environment, and all of those other things.

And so, you know, I'm not trying to be evasive but the bottom line is, you know, what we want to avoid is saying, you know, at the end of the day, a number is the reason why you can or can't have that project. We ought to know that from the quick-and-dirty analysis early on if things are really at risk.

Did you want to add something, Asma?

MS. LATEEF: Actually just a quick question for Franck. When you look at a country and all of the different projects that you are funding, do you do an overall ERR looking at all of those projects and the collective impact?

MR. WIEBE: The entire portfolio?

MS. LATEEF: Yeah.

MR. WIEBE: You know, that's an interesting question and it's one that we were asked by the GAO recently in a conversation. And we do a compact-level ERR. It's really – it's more informative than it is decisional in nature. When the investment committee is looking at projects, the decisions are made – you know, there are times where you can see the program as a whole, but, also, the projects themselves are often quite separable. Do you want to do this road or – they're intended to be a package, but, at the same time, often one can say that this particular element makes sense or doesn't make sense. Where they are integrated, where there are two or three different elements that are integral pieces of one part, when we do that, we would do only one ER for that whole project. That would be a project or a sub-activity.

But the direct answer is, at the end of the day, we would also do a compact-level ERR, which would be weighted by the different projects and their respective ERRs. But, like I say, you know, by that point, the really relevant information would be at the project level and so it would merely be a descriptive statistic more than anything else.

MR. RADELET: Let me ask. Is there anybody here from the International Housing Coalition? Nobody? Because they wrote a paper, a report: "Urban Investments and Rates of Return: Accessing MCC's Approach to Project Evaluation." Nobody here? I'm surprised.

MR. WIEBE: I'm familiar with it.

MR. RADELET: So am I, but I just expected there would be someone here. Let's have a couple more questions before we wrap up.

Q: Thank you and I echo the congratulations for the panel and for the sponsors and for the MCC's transparency. I'm Jim Michel. I'm a consultant mainly right now working on judicial projects including the new current trend threshold program. But I wanted to get back to this question of the risks and contingencies and what you do later on in the project cycle. You're looking at a tool of cost-benefit analysis and economic rate-of-return estimates as a tool for informing decisions about approval of compacts and projects within compact.

Two years, three years later, in the course of project implementation, you know, things can look different. And, in particular, I'd like to know, what is the MCC's view about looking at the assumptions that were made about the country's governance, social policies, and economic policies that caused it to be eligible for that compact in the first place? Do you go back and look at those things and ever look at a new estimate of rate of return in light of a country falling into corruption or other failures of governance or irresponsible economic policies or backsliding on economic – on social policies that would have caused you to have a different rate-of-return estimate at the time that you approved this in the first place.

In other words, I know it's burdensome to try to put too much on this one tool, but can you ever use in later in the project cycle in that way to help provide incentives for countries to stay on the course that we all think is conducive to development of good governance and sound economic and social policies?

MR. RADELET: Good. Thank you, Jim. So the gentleman in the center aisle here –

Q: Hi. I'm Dan Martin, Conservation International and Obama campaign. And I'm not an economist. So I – (chuckles) – find the notion that our cost estimates were right when we made them is a meaningful statement. (Chuckles.) If they are projections and they were right when you made them and they don't hold, that's not something that a chemist could get away with. You've got to be predicting successfully to be scientific.

Anyways, my question, though, really comes first to say, I think the fact that MCC is setting these standards for the recipients of American foreign aid is wonderful and much overdue because good governance, this funny word that often really ought to mean government, is so important. I wonder if you put up in the sense of your transparency the way MCC evaluates the governance of the countries that are in the process? When you see here on your threshold projects – anti-corruption efforts is in also every one of them suggesting that that's the index that they failed to meet. And I wonder if you're putting that standard up on your website so everybody can see how you're judging these sovereign states who are the best rackets in town.

MR. WIEBE: Thank you, Dan, for that question. Let me address that question because Jim also talked a little bit about the eligibility criteria and how that's involved. Jim, in response to your question, we expect countries to remain eligible throughout their five-year compact. And so they are evaluated on an annual basis. And so where backsliding occurs, we have a formal process of dealing with countries in terms of how their performance is.

Typically, that performance on those indicators is not going to be directly specific to projects. If it were – for example, if there were corruption in a ministry where we would a project – that would be something that we would be aware of and would take seriously.

Dan, in response to your question, I encourage you to go to the website because we have the information about eligibility, about performance, for every country that we work with and I believe every country we don't work with. What's interesting about MCC is that that information is not our own; it's in fact information we use from independent sources.

In fact, there are clever people who can use the information in the public domain and do the same kind of assessment of those countries before MCC even reveals its own assessments. And so that information is in the public domain. It's information that countries are not always happy with and often will come and say, well, wait a minute; on what basis do you say we are not eligible because of corruption, whatever. That information is not processed by MCC, that's something that's in the public domain from respected, credible, independent parties. And it's an important element of the MCC model, I would say. The fact that they go into threshold programs is based on our recognition that these are things that they are working on, that they not only need to get better at but in fact are interested in getting better at.

And the threshold program is something that allows them to do that, and that then is measured – the successful completion of a threshold program doesn't make you eligible. You still have to improve on those indicators to be eligible for the program. So as we work with the threshold countries, these are countries that are already eagerly addressing the problems in their environment that we are working with to help them become eligible.

So I think – you know, I think that you are absolutely right. The standards for governance, that's a critical, critical element, it's – again, one of the criticisms that we sometimes hear is well, but you're excluding the countries that need the help the most, those are the ones that don't pass the governance criteria. And I would say to that, you know, MCC is not the only aid agency. Those countries often do need work, but the work that MCC does, our model, is not best suited to dealing with those, with those issues.

Now, back to Jim, your question. The way that we go back – you're absolutely right, we use ERRs as a tool for decision-making. As we go into implementation, as the information is revealed, we – as I mentioned earlier, there are times where projects have to be re-scoped. And in those cases, information on performance, how the projects are doing, how cost structures have affected different kinds of projects is incorporated into that information – into that decision process. We've had countries where they have had to decide amongst projects and say we can't do them all, which one will we do. And the good news is when we've had that conversation, our country partners are themselves eager to use the money as well as they can. And economic rates of return are not the only indicator but again, they often weight that as an important piece of information.

And then, let me just go back on the issue of information. You know, you're absolutely right, saying we were right then, we're not now. That's a little bit too offhanded. I mean, I don't mean to suggest that it's an easy way out. But the truth is that this information is often uncertain going forward. And to say we don't know the future should not lead people to say let's not do this type of analysis.

And that's too often – you know, when I talk to people about economic analysis they say, oh, it's so speculative, you're guessing on this, you're guessing on that. And often, what that information leads them to is to say let's not do this because it is so speculative. I just wholeheartedly reject that outcome. Instead, let's do the best job we can. Let's figure out where we think the costs are going to go; let's make estimates on those. Let's get professional judgment. I mean, it's not just guesses, it's professional judgment. And let's figure out does it still make sense. MCC goes through this process with every project, saying does this project make sense. I think that's an incredible standard. I think it's an important part of our model.

MR. RADELET: Asma?

MS. LATEEF: On the issue of the model, the particular model that the MCC uses, I think it's okay to say that there are certain projects or programs that the MCC wouldn't fund, as long that funding exists for countries elsewhere in the U.S. aid program. And so, I mean, there's been a sense that MCC funding has come at the cost of other programs within AID. And so are countries actually having access to the assistance they need to do this whole array of programs and projects that they need from the U.S.? So that's just one point.

I think one of the terrific things about the MCC is that the eligibility criteria is publicly available, that the investment – that the selection process is so transparent and open. So I really welcome the point at which you put the beneficiary – (chuckles) – analysis, and the full set of tools you use to make your decisions so that we get a good sense of how that whole process works. I think the ERR is a terrific step in that direction, and I look forward to that ongoing discussion.

MR. RADELET: Great. We are beyond our two-hour time, and I want to be conscious of that for our speakers. And I just want to thank them and you for your great questions, and for the discussion, and for everybody staying with us for the full two hours but particularly to thank Franck and Manuela and Asma for their contributions today. Thank you very much.

(Applause.)

Let me also thank my friends at CGD, Sheila Herrling and Amy Crone and Heather Haines and the rest of the crew at CGD for putting together this great event.

(END)