



CENTER FOR GLOBAL DEVELOPMENT

Presents

***Which Countries Will the MCC Choose
for Fiscal Year 2009***

December 2, 2008

2:00pm—4:00pm

**Hilton Washington Embassy Row
Ambassador Room
2015 Massachusetts Avenue, N.W.
Washington, DC**

Steve Radelet: Good afternoon. I'm Steve Radelet, I'm a Senior Fellow at the Center For Global Development. Want to welcome everybody here today for this event to discuss the selections or the selection process for the MCC for next year. Not wanting to be rude to the speaker I am turning off my cell phone.

So thanks for everybody for coming. Before I start or the first thing I want to do actually is something I usually do at the end, which is to thank everybody who is involved in putting this event on. But the problem with me is that because I wait until the end to thank all the people that actually put this event together, I usually forget. So fully anticipating the fact that I will be boneheaded enough to forget at the end, I want to start by thanking the folks at CGD that work so hard on the MCC, Heather Haines, who just walked out of the room, who organizes all of CGD events and does so with terrific professionalism. Amy Crone, Sarah Jane Staats, Paulo Abarcar who is out front, Rebecca Schutte and the whole team at CGD who have actually done a lot of work to put this event together.

So thanks for coming, next Thursday, December 11, the MCC board will meet to decide countries that are eligible for negotiating MCC compacts for next year and for threshold eligibility. They meet at an interesting time. For half of the board, five of the nine board members, this will be their last meeting. The five government officials that are members of the board will no longer be members of the government when the board next meets again sometime in the spring. The other four members of the board will remain. This is the end of the first phase, if you will, of the MCC, because it's the end of the administration. So it's an interesting time and a challenging time, obviously because of the turnover in the administration. Also, of course, because of the financial crisis and the implications for the budget. The MCC has already had some challenges with its budget in the last few years and I think those challenges are going to probably be even bigger in the time to come.

It's also interesting because the discussions about the MCC take place in the context of broader discussions about future directions of foreign assistance in the United States and how to modernize and reform our foreign assistance programs more broadly than the MCC. And all of these issues and others I think are in the back of the mind of the members of the board is that they meet next week.

So in that context we have looked at some of the numbers and want to present to you today the data, but also our interpretations of the data and our predictions as to what we think with the MCC board will do. And I want to highlight that for a minute. Those are just predictions, these are just our opinions for what they're worth, they can relieve them. They are obviously not for what the board absolutely do, but we think based on our information we have an idea of what they may do.

This is based, as part of our work that's been going on now for several years in a program called the MCA monitor that many of you are familiar with that's on our website through

which we track on a very regular basis, all of our activities of the MCC. We have documents up there, press releases, newspaper clippings, a very active blog and several other things to keep people informed what's going on with the MCC. So as part of that, we keep a pretty close eye on what's going on in the MCC and we base our ideas on that background.

Just kind of as an overview, I think some of the big issues that are in the background for the MCC this year are number one in the budget situation. Many of you know that the budget has never been as much as they had hoped at the beginning. And in the last year there have been some movements up in the hill to slash that budget. It has been restored back to its current level. The last few years it has been between \$1.5 and \$1.8 billion and that is where it remains at the moment. But we all know that the budget situation going forward is going to be difficult. And with more countries becoming eligible in a tight budget situation the MCC is in a tough place. So that is one key issue.

Second, we have got a new administration coming in. And this is very much in the back of the mind of some of the members of the board and some of the staff at the MCC, what should they be doing in terms of selecting countries in December of 2008 when they won't be around, at least the political appointees won't be around to actually negotiate compacts and implement programs. How cautious should they be, or how aggressive should they be in selecting countries that a new administration may have to deal with. That is not an issue for most countries but for a few countries on the margin for a few countries where they may be some political sensitivities that's an issue that's in the back of their mind how the new administration, how the fact that there is a new administration might impact selection.

The third issue that's on their mind is the fact that there is a lot of MCC eligible countries that are failing to pass the indicators and how they are dealing with that. Once countries are eligible some of them have compacts in place where they negotiated and are failing the indicators. Now to some extent that is just due to noise in the data. Anybody who works with data at this level knows that from one year to the next there are fluctuations in the data and to some extent if that's the story you shouldn't worry about it too much. But sometimes that fluctuations in the data is actually the downward trend. And if the judgment is that there actually are systematic declines in some of these indicators than that might call for a different course of action. And

this issue about re-selecting or de-selecting failing countries is all the more pointed in the context of this tight budget that we have. So I think that's a third big issue that's in the back of their mind. This year there is several countries that are of particular interest. And we will talk about each of these. Indonesia, Zambia, Bolivia, Nicaragua, Armenia and others for a variety of different reasons I think are the real key countries of focus this year. There are a lot of other countries obviously out there but these are the ones, and there are a couple of others where there has been a lot of discussion we will talk about why these are the case. Basically for Indonesia and Zambia they qualify, they passed the indicators for the first time so there is a question about whether the MCC will want to expand this list of eligible countries to include those. Bolivia, Nicaragua, Armenia are all

three countries that are eligible and have compacts but yet there are political issues in place that may suggest that the MCC does not pick them going forward.

And then, the final big issue as I've already mentioned and I will talk about it at the end is how to talk about the MCC in the context and the discussions about (inaudible) reform, assistance reform and where the MCC might be headed for a new administration. And we will talk a lot about that today but that is very much in the background.

I think everyone in this room, probably, by the fact that you are here knows something about the MCC indicators but I will mention them just briefly. I think as all of you know there are 17 selection indicators in three broad categories. **** there are six indicators. The investing in people category there are five and the economic freedom category there are six. And the way that the country passes the indicators is that for each of these indicators the MCC calculates the median score for the relevant country group, two country groups. There is the low income country group, the LICs and there is the lower middle income country group, the LMICs. And for each of those separately they calculate the median score for all the low income countries for each of those indicators and if a country scores above the median on that indicator, it passes that indicator, just have to score above the median in your country group to pass.

If you are exactly at the median, according to their rules, you don't pass that indicator. So you have to be above the median. Now to pass the indicators as a whole you need to pass half the indicators in each of the three categories. So you need to pass three of the six, we will adjust the indicators, three of five, investing in people and three of six economic freedom (inaudible).

So that's the basic routine I think everybody here is familiar with that but that is how they go about it.

Just to look backwards, before we look forward. This is the list for low income countries – I am going to talk about low income countries now for a little while. And then I will turn, in a few minutes, to the lower middle income countries. If you want more detail, by the way, on any one of these countries. I'm sure you picked up our paper which is in the back of the room. And in the back you will find these **** tables that have all of the indicators for all of the countries on every single one condensed into very tiny print, if you brought your magnifying glass you can probably see it.

So if you have a particular country that you are interested in and seeing what their scores are you can look in the back here and take a look while we are going along. This is a look at the list of low income countries that were selected as eligible a year ago. So they are the currently eligible set of countries. And there are 19. And we indicate here on the list which one of these has a compact in place, which one of these are also threshold programs, threshold countries. In this case that's countries that were at one point selected to be part of the threshold program and then last year took the next step to actually be fully eligible for compact. And we note with the asterisk, six countries that were selected last year despite the fact that they failed the indicators.

Now, that brings to bear a key point on the MCC selection process. These indicators that we looked at are the key factor in determining selection of countries but they are not the only factor, they are not the ultimate factor in selecting a country. The MCC board has discretion to either choose the countries that don't pass the indicators or to not select countries that do in fact pass the indicators. And every year they use that discretion. Overall, we think, I think, they've used it generally, fairly wisely. There are a few countries I think that have been questionable. But they are not slaves to the data. And in some cases they select countries that don't pass the indicators and they don't select countries that do pass the indicators. And we will talk a little bit about why that is.

But there are these six countries that were selected last year despite the fact that they were failing. Most of these countries as we will see, also passed the indicators this year. And that we suspect they will be chosen again, most of them, but not all of them. That's the current list.

We looked already at the six countries, you see the six countries last year that were selected despite the fact that they were failing. ****, Honduras, Madagascar, Mali, Mozambique and East Timor. Some of those, most of those have at some point in the past passed the indicators. Were selected when they actually passed the indicators and then last year or subsequent years slipped a little bit and didn't pass the indicators. So that's the story most of the time for the countries that are selected despite the fact that they fail. They passed sometime in the past and the MCC gives them a little bit of slack coming forward.

There are also these eight countries that passed the indicators last year and were not selected. In many of these countries this is not the first time, it has happened several years in a row. Basically, for the most part, these countries are not democracies. And the MCC has an implicit guideline that they have followed to not select countries that are not democracies. And if you go back to the indicators, the (inaudible) indicators if you look at that top row there are three indicators there that are generally associated as indicators of democracies by many outside analysts. The political rights indicator by Freedom House, the civil liberties indicator by Freedom House and the one way over here on the right, the voice and accountability index by World Bank Institute.

The other three (inaudible) indicators are important indicators **** but not necessarily democracy. Control of corruption, effectiveness, rule of law. But the political rights, civil liberties and voice and accountability are democracies and for the most part, the MCC without having to rule, has not selected countries that fail those three indicators. In other words, you can pass this selection process by passing the three indicators in the middle. Control of corruption, government effectiveness, rule of law. If you do that, you pass the test, but you are not a democracy. In most cases the MCC does not select those countries and that has been the case historically with most of the countries here. Egypt, Rwanda, ****, Uganda, Vietnam in particular. Butan has been in and out as well.

there countries here, Guyana and the Solomon Islands weren't chosen. The MCC also seems to have a little bit of a biased going by us against small countries. Having said this, but Guyana actually has passed all the indicators it is a democracy, but was not selected last year. And we think that there is a little bit of uneasiness at the MCC at picking too many small countries. They picked (inaudible) early on there is a compact with Vanuatu, a little bit of buzz that it was too much work for a small country and that they are a little less inclined to work in very small countries. So they did not choose Guyana last year even though they are a democracy and had passed the indicators. And the Solomon Islands also they did not choose. Sri Lanka, they did not choose because of the political conflict that continues to go on in Sri Lanka. Sri Lanka had been chosen in an earlier stage last year was not selected.

Okay. So that's last year. Here's this year, these are countries that passed the indicators, 19 countries. And we break them into four groups. Nine are currently eligible, seven passed last year, not selected, two passed for the first time and one regains its passing status. And we will talk a little bit about these 19 countries.

Nine countries passed that were eligible last year and they pass again. And most of these are not controversial countries with the exception of the first one, Bolivia, which I'll talk about in just a second. But Bolivia, ****, Ghana, Malawi, Moldova, Mongolia, Senegal and Tanzania, all passed last year, they pass again this year and for the most part not really controversial. We think they will be picked again.

Seven countries passed last year and they pass again this year. This is the list we just looked at we had eight last year because the Solomon Islands was on there, this year the Solomon's do not pass. So there are seven countries that pass this year, they also passed last year but they were not picked. So we think it's pretty likely that they won't be picked again. There are two countries that pass for the first time, Indonesia and Zambia. And we think both of those have very strong cases to be chosen. And we think this is actually, probably the most important change going ahead is that these two countries will likely be picked.

And then Honduras which has passed several years in a row had been selected. Last year it did not pass the indicators but it was selected anyways. This year it is back to passing the indicators. So last year there was just a little bit of an aberration so they are back in passing and so we think that they will be chosen as well rather non controversial.

The controversial ones here are first of all, Bolivia. Bolivia threw out the US Ambassador couple of months ago. My guess is that since they threw out the US ambassador we are probably not going to choose them. But, one never knows. I would be rather chocked if after they threw the US Ambassador out that we choose them as eligible again, but one never knows. If that happens, the selection or not selection in and of itself does not affect the ongoing process of a compact that is already in place. Selection only makes a country eligible for a new compact for money this year for a new compact. So if you already have a compact in place, you are rolling along you are not selected, it actually doesn't matter other than signaling purposes. And it can have an

important signaling purposes. But it actually does not, in and of itself, affect the ongoing process of compact an implementation. So we are pretty sure that as a strong signal they won't choose Bolivia this year.

The others, as I say, Indonesia, Zambia, we will talk about in a minute and in some ways are the more interesting. Here are the currently eligible countries that this year also fail to pass the indicators. And this is a little bit of a problem here for the MCC because there are six countries here that are eligible but this year they don't pass the indicators and that is creating a little bit of angst in the MCC. Some of them, this is several years in a row that they have not passed the indicators and it is becoming an issue for the MCC in terms of how patient they should be.

As I mentioned briefly the issue with the not passing is difficult to interpret. There are two different ways to interpret it. One is that the data are volatile and the country could pass and the next year it might not because the data vary from one year to the next and there is no deep indicator of change. And if that's the story then even if a country doesn't pass the indicators you might select them again, particular if they are doing well they got a compact they think all is well.

The other interpretation is that they fail the indicators and this is somehow an indication of actually a systemic decline in the eligibility criteria. That is more of a cause for worry. And in particular I think it becomes more of a cause of worry when the country fails several years in a row. That is beginning to tell you something. The MCC has no operational rules as to how they deal with this. Our review is that if a country fails the indicators test three years in a row, they shouldn't be picked anymore. We think that if the the MCC continues to select countries despite missing the indicators test three years in a row or more that that is going to begin to undermine the credibility of the entire system. So our view is that they should not select the country that has failed three years in a row. Whether that's their view, they'll find out next week. They certainly have no declared policy on this issue.

It hasn't really been a problem. The MCC has only been around for five years. So it hasn't really been an issue of having countries fail three years in a row. But it is becoming a problem now and I think a lot of people are asking questions.

So we think that of these six countries if the past is a prelude to the future that we think that they will choose these countries with one exception of Nicaragua which I will mention in a second. In our view, they shouldn't pick (inaudible) or Madagascar, or Mozambique because they have failed three years in a row. But we think that they will. So there is a difference between my view and my guess as to what they will actually do.

Again, for the countries, all three of those countries, they have compacts in place, not selecting them does not affect that compact. So it would be a signal to them not to undermine the compact. It does not mean that they would halt movement on the compact. IT is a signal that hey, we've missed three years in a row and you know, there is a problem here. It is the beginning of a signal that if ****, Madagascar, Mozambique a

year or two from now come back for a second compact I think the MCC would send them a signal that they you better pass the indicators. So, but that's our view on those.

Nicaragua fails this year, barely. It is the median country on corruption. And corruption, I did not say this in the beginning but corruption is the one indicator that the country must pass to be eligible. Nicaragua is not on the median which is not a passing score. But it is as close as you can be.

Now, normally and this happened about three months ago I would have said they are going to pick Nicaragua no problem. But as many of you may know there are some disputed municipal elections in Nicaragua as of last month there are lots of discussions going on between the US and Nicaragua. The US expressing its displeasure. And in fact, last week, the MCC announced that it was halting new contracts under Nicaragua's existing compact for the MCC. Just last week it announced that because of concerns about the municipal elections it was going to halt new contracts under the compact. So I now think as of last week that it is unlikely that they would select Nicaragua but we shall see.

Finally the Philippines. An interesting case. The Philippines had never been selected up until last year. And last year when the MCC board met last year they did something that they had never done before, they postponed a decision on one country, the Philippines. They explicitly said they are going to look more deeply at the Philippines. And the issue was around concerns about corruption. Last year the Philippines actually passed a corruption indicator but the board was not convinced so they postponed the decision in order to look more deeply at the indicators. They put it off and in March had another board meeting and they looked at the eligibility of one country and one country only, the Philippines. And in a special decision out of cycle they declared the Philippines eligible, that in their due diligence they thought that the corruption indicator was okay.

Few months go by, new set of data come out in corruption and now the Philippines actually fails the corruption indicator. So this is a little bit of a problem for the MCC. They just declared this country eligible back in March and now all of a sudden it fails the corruption indicator. What are they going to do? My guess is because they just picked them, in March, they are going to pick them again. I think it would be a little bit embarrassing for the MCC to have gone out of their way last year and selected this country to now turn around and say, oops, maybe we shouldn't have done that. So I think they will pick the Philippines even though they failed the corruption indicator.

So this just summarizes what we've already been through. We think they were already picked 17 countries. Those that are currently eligible. The ones with the asterisks to fail the indicators but we think that they will pick them anyway. (Inaudible), Ghana, ****, Madagascar, Malawi, Mali, Moldova, Mongolia, Mozambique, Nicaragua, Philippines, Senegal and Tanzania. Now, Nicaragua when we wrote our paper which you will see in the back it was actually before the MCC had announced that it was halting the new contracts in Nicaragua. So that's why Nicaragua is on my list. If I did this list today I would actually take Nicaragua off it. I don't think they would pick Nicaragua. But that

is just my guess based on last year. So I would certainly move Nicaragua to borderline. But when we did this a couple weeks ago we thought they would pick them.

Honduras, Indonesia and Zambia are ones where there will be more discussion and debate. Indonesia passes for the first time. There are concerns because it is such a big country what the budget implication should be. And there are some political sensitivities around Indonesia. So there are also some concerns should the MCC pick this country as they're leaving, as this administration is leaving and leave it to the next administration to pick up on Indonesia. I think it would be a big mistake for the MCC to not pick Indonesia and I think they will pick Indonesia. Indonesia is a big, important country both economically and politically to the United States. In the past when they have not passed the indicators we said they should not be picked, they do not deserve any extra slack but this year they clearly pass the indicators, they've improved on 11 out of the 17 indicators they have moved above the corruption indicator and all of the indications in Indonesia are for continued progress and even though it's a big country and therefore will require some big bucks. I think that they should pick Indonesia and I think that they will.

Zambia has received less attention. Zambia has been on the borderline of eligibility ever since the beginning of MCC. And it has never been picked. It was picked as a threshold country a couple of years ago. This year it passes 16 of the 17 indicators. So I don't know how they can't pick Zambia. The only reason they might not is because of budget concerns. So that's the overall story on the LICs going forward.

Let's switch now to the lower middle income category countries. This is much smaller set of countries in the lower middle income category. And looking back from last year, this slide looks back from who was selected last year there were six countries selected last year, Armenia, El Salvador, Jordan, Morocco, Bolivia, Ukraine. You will notice that five of the six have asterisks. Five of the six were selected despite the fact that they failed the indicators last year. This is even more of a problem for the lower middle income countries. The lower income countries just get five out of six that fail. Only Jordan is actually selected that actually passed the indicators last year.

There were three other countries that passed the indicators but were not chosen, Colombia, **** and Tunisia. Tunisia a non democracy, **** not chosen apparently because it is a small island. I think that's a shame I lived there for two years, I was a Peace Corp volunteer there and I would love to see them in. But, the MCC does not seem to be in the mood for picking small countries. And Colombia not chosen last year either for I think Colombia receives a lot of other US foreign assistance so it was not selected, I think rightly so, last year.

This year, six countries passed the indicators across the lower income countries. Jordan passed last year. Currently eligible, passed as the indicators. Colombia, Macedonia, Thailand and Tunisia all passed last year and are going to pass again this year but those four countries that passed last year, they weren't selected last year. So I'm pretty sure that the MCC will not select them last year either. And one country, **** passes for the first time. The reason it passes for the first time is actually up until last year US

government did not consider (inaudible) as an actual country so the data were not included. This is the first year that they are actually considered as a country. So they passed, not quite sure what they will do with *****.

There are a bunch of eligible lower middle income countries that fail the test, fail the indicators test. And this is a bit of a problem for the MCC. There are seven countries here that fail, some of them for the second year or third year in a row. Now, the LMICs that fail is a little bit of a complication here. Several of them were actually low income countries, passed the tests, and then their incomes grew. They became lower middle income countries where the standards for passing are actually higher and now they don't pass and you know under those circumstances the MCC has rightly cut them a little slack. The first time in their LMIC and has continued to choose those countries as eligible for several years in a row. This was the case with Cape Verde a few years. Although, after Cape Verde failed three years in a row as a lower middle income country they were not selected last year.

And that's the case with Georgia which last year passed as a lower income country. This year graduates to a lower middle income country status and does not pass the indicator. But given the recent political events in Georgia and given the fact that the MCC just augmented its compact I think it's a pretty safe bet that they will pick Georgia again.

Morocco had originally been a lower middle income country. Several years ago was moved up to lower income, Ukraine moved up as well. So several of these countries had been lower income countries and had moved up. I think this is a difficult set of issues for the MCC. And in general I think it's even more difficult because of the budget situation. My own personal view is that the MCC should not actually be picking lower middle income countries at all. If it was up to me, with a limited budget and with these issues around eligibility we have said from the very beginning of the MCC, five years ago that it should focus its resources on the poorest countries of the world, on the low income countries not the lower middle income countries. It would be nice if we had the money to fund programs at both levels, but we don't. We have limited budgets. In the lower middle income countries have other almost all of these have access to other resources. Either their own savings rates are much higher in lower income countries. Their budget savings or budget situations. Their tax revenues are typically much higher, their foreign investment flows are much higher and most of them have access to private capital markets that the low income markets do not. And so we have argued right from the beginning of the MCC that it should not actually be working lower middle income countries at all. If they weren't then they wouldn't have these kinds of problems of the fluctuations around the data in the lower middle income countries. But those are ones that were eligible last year that missed this year.

This is what we think they are going to do. We think that they will choose again, the seven countries that they selected last year no one knew, Armenia, El Salvador, Georgia, Jordan, Morocco, Namibia and Vanuatu. Two of those, Jordan and Vanuatu were selected last year in the lower income category, this year they graduate. We think they'll

be picked again. Again, if it was up to us we would not select these countries. But a dramatic turn of events at MCC will go ahead and pick them.

So that's where things stand with the lower middle income countries. Now, few words on the threshold program. Most of you are familiar with the threshold program but the MCC runs two types of programs one is the full compacts which are the large five year programs that the MCC runs but they also runs a threshold program which the money is actually administered by USA ID and these are typically two year programs, they are usually much smaller and the MCC has typically geared these programs towards helping a country come eligible. If it is missing on a couple of indicators, it has a program focused on those indicators whether that's corruption or immunization rates or whatever it might be. The threshold programs served that purpose.

So there are 21 countries that are currently eligible for the threshold program, 19 of them actually have approved programs. Seven of those countries are actually finishing programs this year, those two year programs, this year. That raises an issue which we will mention at the bottom what will you do if the country finishes its threshold program if it's not fully eligible for a compact. Do you give them a new threshold program? Do you drop them off? What do you do? So the MCC is beginning to have to deal with this issue for the first time. And I think there should be a blanket rule one way or another. In some cases it should stop. In other cases, perhaps in other threshold country program is called for.

The other key issue for the threshold program is to define more clearly how they choose countries and what the purpose of the program is. How they choose countries is very hard to say. It is very random. They choose some countries that actually miss the indicators by just a little bit. They've chosen other countries that are far away, they've chosen democracies, non democracies, it is very hard to actually decipher a pattern of who is chosen and which countries are chosen and which are not for the threshold program. We think that they should be much more clear about the eligibility criteria and why they choose some countries and not others. There is also a question about the purpose. The MCC maintains the purpose of the threshold program to help countries become eligible. I think that's a mistake. I think it's the wrong purpose for a threshold program. It should be up to the countries to do what is necessary to meet the indicators. The beauty of the MCC is that the starting point is countries make up the indicators and if you pass we will select you and if you don't, we won't.

But the threshold program now is actually part of the burden on the US government to help countries pass the indicators and I think that's actually a big mistake. If it was up to me I would rather see the MCC threshold programs focus on the small compact and actually getting countries ready for a full compact and do exactly, more or less, what a compact process does, it allows the countries to choose and it could be anything. It could be anything. It could be building a small road or an agricultural program it may or may not be related to an indicator but it should be a small compact which will get countries ready for a larger compact process so that when they actually do become eligible they can

quickly have a full compact. So I think there are some open debates here about the threshold program.

But putting those aside looking at countries there is some guess work here as to which countries are close to passing the indicators but don't that the MCC might pick. And we think there is only one and possibly two that fall into that category. The one that we think they may pick is Liberia. Now at this point I have to come clean, I actually am an advisor to the President of Liberia, so I actually wear two hats here and I am not exactly unbiased when it comes to Liberia. I am not going to say too much more about Liberia other than just the facts that they missed passing by two indicators, they have improved on every indicator all of the indicators since the end of the civil war in 2003. They have had dramatic improvements this year for example in corruption they went from the 20th percentile - I'm sorry, from the 40th percentile last year to the 80th percentile on doing business indicators they went from the fifth percentile I think to the 45th. Big improvements across the board. But they still missed by two indicators. Our sense is from what we have heard from some of the discussions is I think they are being seriously considered for a thresholds program. It is not clear because of the budget constraints whether the MCC will choose anybody else. But the only other country that looks sort of close that's not already a threshold country is the Dominican Republic. They actually missed passing by three indicators which is probably too far away so we don't think they will pick the Dominican Republic and probably won't pick Liberia.

Okay, now. Just to sum up. Finish where I started. A lot of countries here, a lot of detail. Sorry if I went way into the deep **** but that is what the country selection process is all about. I think there is a big issue here with the budget situation what they are going to do. I hope that they go ahead and select the countries that should be selected even though the budget is tight. **** get into a cycle where the MCC starts to not pick countries because they are worried that they won't have the budget and then congress is going to respond with a smaller budget which is going to lead them to choose fewer countries and we are going to get into a negative cycle.

And I think if we get into a situation where countries like Indonesia and Zambia and other countries do what they're supposed to do, pass the indicators and then are told, sorry we don't have the money, I think the credibility of the MCC is going to be on the line and start to deteriorate fairly quickly. There are a lot of countries out there that want to get into this game and they are told that if they pass the indicators they will be chosen. And if we start getting into a situation where they are told that for many years, they pass the indicators and they are not selected, the MCC incentive effect is going to go out the door.

So I think the MCC should continue to pick these countries and then go up to congress and argue the case. But our view is that they should not name any new lower middle income countries, remain fairly strict on democracy, I said earlier they have an implicit rule on democracies, I think it should be an explicit rule. I think the MCC should say well, I'm going to pick democracies. Make it very clear, I'm not quite sure why they

don't, but I would like it if they did. Just to make that transparent effectively that is what they have done with the exceptions and I think that should be a criteria.

On the issue of reselection of failing countries, if things are seriously off track they ought to stop a compact in process and they may be doing that with Nicaragua. We will see how that pans out. But if a country really begins to deteriorate on the indicators I think that there are cause for slippage, particularly if the compact is not going well. For countries, as we have mentioned if there are three strikes, three years in a row, if they do not pass they should not be selected. In most cases here, that is not going to stop a compact but we think it sends an important signal. And then there are a bunch of countries that are close. They are not on their third strike, they are on their second strike, two years in a row. Armenia, El Salvador, Mali, Mozambique, **** and Ukraine and we think that the MCC should make it very, very clear to these countries if they don't pass next year, that's the third year in a row, that they're out. And then, as I mentioned, to further define the threshold program.

Let me finish by taking a few minutes to talk about concerns and questions about the MCC in its future in the context of foreign assistance reform. I hear a lot of people ask, well what is going to happen with the MCC with the new administration? I don't know. But in discussions that I have had with people both in the outgoing administration and people that are fairly **** people up on capital hill and the senate and the house, fairly important people, I haven't **** anybody who is calling for the end of the MCC, not a single person.

On the other hand, I hear a lot of people say, well it's, too slow, it doesn't work as well as it should, we only have a limited budget, a lot of questions. So the support for the MCC is not deep, but it is quite broad. Lots of people like the idea, like the concept but there are a lot of people who are raising questions. I don't think there is any chance that the MCC is going to be phased out. And that's a good thing, it shouldn't be phased out even though it has had some challenges that it has faced.

Many of you know that there is a broader discussion going on about ways forward to strengthen and modernize US foreign assistance. I coach a group called the Modernizing Foreign Assistance Network that is called for changes in the US foreign assistance that would affect the MCC. In particular, we have called for rewriting the foreign assistance act of 1961 which is not governing the MCC but governs USAID and for consolidating our foreign assistance agencies across the executive branch. We have over 20 different agencies, 20 more in the US government provide foreign assistance, it's a mess. The left hand doesn't know what the right hand are doing. State department, USAID treasury, the Agriculture Department, the MCC, the **** Program, the Trade and Development Authority, the African Development Foundation, the InterAmerica Development Foundation, the EPA and I've forgotten a bunch but the list goes on and on.

So there is a lot of discussion about consolidating the MCC into a larger development agency. In fact the democratic party platform calls for consolidating the development programs into a development agency. Some people are calling for a cabinet department,

I would love it if it happened, I don't think it will. But it might happen, if it did, it would be great. But consolidating programs together. As a first step towards that our group has called for if the new administration would name one person to simultaneously head USAID, the MCC and PATFAR in the new administration. We are not calling for those three things to be merged at the beginning, we are not calling for the MCC to be folded into the USAID, we are not calling for PATFAR to be folded into the USAID. What we are calling for is to have one various senior person who could be a cabinet level person at some point who is the head of all three agencies has other people under that person to run the three agencies and that this is the first step towards possible consolidation of these into a new strong development agency. Not into the USAID as it currently exists because it is a very weak organization that needs to be restaffed, reprofessionalized, new administration. But in a strong development agency which could be a rebuilt USAID or it could be something that looks like the MCC or it could be a cabinet department. Those are discussions that are yet to be had. But we are not calling for the MCC to be folded into it. But we are calling for first steps towards consolidation.

We think that in the long run that will help not only strengthen the MCC but will help strengthen US foreign assistance more broadly to make an effective for foreign policy going ahead for the United States.

Let me end right there. Lots of material. I'm happy to take any questions that you might have on the MCC. Some of the big challenges facing the MCC or specific countries. Go ahead Jim, give us your name and affiliation, set the stage for us.

Question: (Inaudible) Jointly written with **** on the MCC for bookings it is coming out next week, we hope. Anyway, my question is about governments. The five members of the board, or the majority of the board will have their last meeting next week. Do you think it would be wiser to have a larger number of private members and do you think the **** ought to be chairman of the board? Now your suggestion

Steve Radelet: **** of the board. Sorry, you said chairman of the board. I was just correcting you as chairman of the board both in the past and in the future. Sorry.

Question: And your idea of this one person being head of MCC, are you speaking of chairman of the board or the CEO?

Steve Radelet: I'm talking about CEO. Both good questions. I like the composition of the board. I know not everybody does, but I do. I like the nine members. I think it is a reasonably good size. And I like both public participation and private participation. Right now there are nine members of the board. Secretary of State Chairs, the other government members are the secretary of the treasury, secretary of commerce – let me start again, I'm sorry – State Treasury, US Trade Representative, the CEO of the MCC and who am I leaving out? USAID, thank you. So five government, I knew I was going to be in trouble as soon as I started that list.

So there are five government members of the board and four nongovernment members. Those four non government members are nominated by the senate majority leader, the minority leader, house majority leader, house minority leader, which provides all these a bipartisan flavor to the board. I like the board. It's chaired by the Secretary of State. That provides a strong connection to our major foreign policy person. The problem with a senior level board like that is that they are senior level and can meddle a little bit. It takes a lot of time for the MCC to prepare for these board meetings and to meet all of the issues that board members want to hear.

But the good side of it is that all of these agencies are quite involved and knowledgeable about what the MCC is doing. So it gives it a strong interagency flavor which I think is useful. So I would like to see that board structure go ahead at least until there is broader foreign assistance reform up the road. Actually, I like it so much that one model, which I think has some promise would be if all, not all, most foreign assistance programs are folded into one agency that it could have the legal standing and structure of the MCC with a board chaired by the secretary of state as a way that you could have a foreign assistance set of programs that are autonomous from state but have the guidance of the secretary of state as the chair of the board. So, I like the board.

Your second question was also on the board, which was would the secretary chair. Yea, I think the secretary is the right person to chair as opposed to **** the CEO or as opposed to? Oh, I think that secretary of state playing an important role makes sense in the context of this being an important tool of broader foreign policy and it provides a link to the State Department, without putting this program in the State Department and I think it's a good way to balance the objectives of recognizing that this is a foreign policy instrument in the United States on the one hand and then also recognizing that it needs some independence. That's where ****, other questions? Yes, sir.

Question: I have a question about the reselection, deselection process. You had mentioned in your paper that there was a clear downward trend in corruption in the Philippines, for example. And the sort of the out of I guess the unusual selection process for the Philippines and then kind of mentioned that it might be embarrassing for them not to select them again. I guess my question is wouldn't it be more embarrassing for them to kind of proceed having witnessed a downward trend but also it's their one hard and fast rule and whether or not that should be taken into account and how it should be.

Steve Radelet: Yes, it's an excellent question and this is where in what we are living is the predictions of what we will do and the debate is exactly along these two perspectives of here's a country that actually passed a couple of times and had not been selected, had been all these concerns about corruption even when they passed the indicators so they made their decision last year for better or for worse, we didn't like it, but they decided to go out of cycle but they decided to do that and in March they chose the country as being eligible. I wish that hadn't happened, but it did. Given that context our prediction that they will go ahead and pick the Philippines going forward, but it does raise the risk exactly as you point out that they can proceed and the corruption issue could get worse and they could end up looking rather foolish.

So my sense is that they would probably select the Philippines, give them huge cautions and warnings, perhaps slow down, the compact process is a long process. There is no way that a year from now we are going to have a compact up and running. They may, in fact, kind of bureaucratically slow it down a little bit and basically give the Philippines a year. And if a year from now they still have not improved, cut it off at that point. So they may do that, whether that is the right thing to do for a variety of perspectives, I'm not sure. From a bureaucratic point of view it might be kind of the best solution of what is admittedly a messy problem. So that is what I think they would do. Bruce?

Question: Bruce Bolnick, Nathan Associates. I have one big question and one small question. Big question is the budget. The Center was discussing a freeze on **** funding a little while ago. Are they going to have any new funding for compacts in the fiscal year and there is a queue of countries that have been in the process of developing compacts. What do you see is the budget situation for this year and next year.

And then my little question is Guyana. You seem to be endorsing the idea that small countries should not be selected because they are not worth the (inaudible). You sort of explained that it had not been selected for that reason and didn't make any editorial comment about it. I happen to have a vested interest in the Guyana program and I know that they're very, very strongly interested in the compact and there is a lot of political support for the threshold program and the support for the threshold program is partly because there are reforms that they want to undertake a lot of it is because they feel that they are eligible for the compact and by performing in the threshold program they feel that they have the right to be selected for the compact.

Now one small nuance there is that the impression that I got for Guyana is that they failed so badly for one indicator, which is the fiscal balance indicator. They were in the bottom 25%, and I believe I've heard that if you are in the bottom quartile in any single indicator that is another one of these hidden criterias that **** so I just wanted you to comment a bit more on Guyana please.

Steve Radelet: I'm happy to do it. Budget. They weren't zeroed out but the fiscal 08 budget for the fiscal year ending last September was \$1.54 billion dollars. In the negotiations for the 09 budget the senate marked down the request to \$254 million so there was a big markdown by the senate. That set off a big debate as to whether or not that was a good idea. The message from the hill was we love the MCC, we think it's great. We think it should focus on making progress for the countries that have existing compacts rather than spending time negotiating new compacts. That was their argument. I don't find it a convincing argument because I think it will undermine, in the long run, the MCC but that was the argument.

So that set off what would be a debate about the 09 budget. In the event the 09 budget was never passed. We are operating under a continuing resolution of the 08 budget. So the issue was never resolved one way or the other it's been dropped. And so the MCC was given a six month budget with its 08 amount, \$1.54 billion given for six months, so

half of that, and is operating like any other federal agency on a six month budget of last year's appropriated amounts. How that will play out going forward, who knows. That's a question about how the whole budget is going to play out. And, of course, the President Elect Obama's administration are going to be facing that within a very short few weeks of the time of the inauguration They are going to be dealing with both the 09 budget and having to present a budget for the fiscal year that at that point would be one third over.

Then, at the same time, or a couple of weeks later they will be presenting to Congress their budget request for the 010 budget. So within a few weeks of the inauguration we will know a lot more about the budget outlay. Within that 09 budget is going to be negotiated between the end of January and presumably the end of March which is when the continuing resolution ends. What's going to happen? I have no idea. I have no idea. I would think that the administration, I don't know what they are going to do. I would think that they would no push for big changes right off the bat on the MCC how that's received up on the senate, I don't know.

The specific question on Guyana, we agree. And actually in the paper we say that we think they should be chosen but we think that the MCC will not choose them. I do not like the small country exclusion. It is not an actually policy I should hiss in the hat again, they haven't said publicly that they don't like small countries but that is the sense that we get. I think it's a mistake. I think small or large if a country makes, for the same reasons that I would not exclude Indonesia just because it's a large country I would not exclude Guyana because it's small. The only two large countries that I probably would exclude are the two really large countries, China and India. Otherwise I don't think there should be exclusions on that basis. Guyana passes, they pass strongly, they pass well and I think they should be chosen. I don't think they (inaudible).

So, other questions? Anything else? That's it? Yes.

Question: I am Steve McInerney with Project on Middle East Democracy. I wanted to ask a little bit more about you recommended that this implicit requirement, passing the democracy indicators become explicit. And ask about how likely you think that is to happen. A number of people have called for that Freedom House is consistently called for that. Just from your conversations or feel of **** how likely is that.

I also wanted to ask, you mentioned a couple of times that there is this implicit exploitation of passing the democracy requirement. To a degree an exception to that seems to be the Arab countries. Morocco and Jordan both have received compacts **** threshold agreement none of them have passed the democracy indicators. Could you comment a little bit why you think that is the case?

Steve Radelet: So those are the only exceptions. So if you go back and go way back to the beginning here, it's the six indicators. And again, the democracy indicators are the two on the left and the one on the right. They have most of the time, stuck with the rule that if a country fails those three indicators, even if they pass the other three indicators they won't pick them. And you can see it pretty clearly on this list from last

year and you can see it every year before that. I don't know why they haven't declared that more forcefully. It was very deliberate as far as I understand it to have three democracy indicators in there. They very much wanted to put a strong weight on democracy. They could have chosen any, a long list of governance indicators that were not necessarily democracy.

So they actually set it up so that it would not be a little bit hard to pass the indicators if you were not a democracy. So I've never quite understood, especially with the current administration, why they didn't just stand up and say it. And we have thought all along that they should. But they haven't and they are not going to change that right now. What the new administration does on this count, I'm not sure. I think they should, I think for what the United States stands for, for what is seen in many ways as its premiere foreign assistance program as a selective program, I think it makes absolute sense to stand up and say we are going to chose democracies for these programs by and large.

Now, if they did that, as with any of the indicators, you know you don't want the numbers to tie you down too tightly. But I would go ahead with that rule. They have made a couple of exceptions to that rule. Jordan and Morocco being the key ones. Yemen is a threshold country. I wouldn't select – if it is important for the United States to provide foreign assistance to those countries as it clearly is, we have other vehicles to do that. The economic support fund, the USAID, the state department are other kinds of vehicles to do that and of course, Jordan is one of the US' largest recipient of assistance, and it very well should be. I have absolutely strongly endorse the United States providing significant foreign assistance to Jordan provided its key role in a lot of very important foreign policy issues. But this shouldn't be a vehicle because I think that undermines the selection process. But, what the new administration will do on that. I don't know. We will have to see.

Yes, we have three all of a sudden.

Question: (Inaudible) independent consultant. Has the MCC every considered doing what AID used to do, making sector loans instead of project loans whereas, for instance in a sector loan you take the education sector, negotiate with the education ministry as to a program increase in budgets, building schools and improving teacher training and then shove the money into the budget on an occasional basis **** depending on progress. As opposed to say a road. A road gets build\|t and if the assets are distributed very poorly as they are in most of Latin America and Central America, that doesn't do anything to really enhance the poorest elements.

Steve Radelet: The answer is that there has been some quiet consideration of these kinds of options. But so far they have stayed pretty far away from it. You said project loan, these are all grants rather than loans.

They have talked about either sectoral support or broad budget support. And it could be for a sector program or you could even think of a project based activity with budget support. That is we can **** this road but instead of setting up a project management

unit or an accountable entity, a special accounting unit for that road, we put the money through the budget. They are still responsible for building the road. So it could still be a project activity, a definable project but through the budget. So they have talked about, a little bit, of various options for putting money through the budget for a variety of purposes and so far they have stayed away from it. I wish that they would experiment with that.

Exactly, there are speed reasons, there are all kinds of reasons to do it that way. The concern, of course, is financial oversight of the money. And that's, you know, that is not a trivial concern at all. And you know that in many countries they don't have the fiduciary oversight and the fiscal systems in place to watch the money. But the response is that they take the very cautious route as all US programs do which is to stay away from doing this in any country at all. We do it in a few countries, actually we have done it in Afghanistan and a few other countries.

We don't, as a rule, provide budget funding whether it is USAID or the MCC or **** for anybody else. So they have taken the very cautious approach of saying since many countries don't have the fiduciary oversight we will assume that none of them do. And that's a bad approach. I would very much like the MCC to have some indicators, not for selection, but for this selection, put some sub indicators on fiduciary oversight and the strength of fiscal systems and financial management which the IMF produces and the World Bank produces. And that within the countries that are selected to identify through the four countries that have the strongest financial systems and fiduciary and provide the money through the budget.

Yea, there are some exceptions. As a rule we don't do it. But we do do it in some cases and we tend to do it actually for our political allies rather than countries that necessarily have the strong fiduciary systems. I would like in this program to look at the countries with strong fiduciary systems and if you have the strongest ones give the money to the budget. That would create a greater incentive for those countries to strengthen those systems, to take the money onboard. Whether it's for a road or for a program. You know, roads actually make a lot of sense in a lot of context. I think we should remain very much but the country should decide what it wants. This country should have **** driver's seat to decide what they want to do. Whether that's a road, whether that's an education program, let them decide then we can use the vehicle of the budget as a pilot in a few countries to begin with and expand from there. I would love to see them do it. But so far, they are not interested.

Yes, behind you.

Question: My name is Tony Dogget. I am just rejoining **** after five years during which time MCC really took off. And I'm actually in the office that leases all the threshold programs. I'm just getting my mind wrapped around the whole selection criteria and all of this is (inaudible) it is a very elegant system. But I'm also told that...

I'm also told that the pipeline is huge on the compacts and I'm wondering if you could just highlight some of the main reasons why there is so much support for this model given the absence of a long track record and achievements.

Steve Radelet: I'm sorry, say the last question again.

Question: I'm asking – I would like you to highlight some of the main reasons explaining why there is such a depth of support for this model given the shortage of actual achievements that I have been able to perceive so far.

Steve Radelet: Right. Here's the list of countries eligible in the current year from last year. And you can see which ones have compacts and which ones don't. And the ones that don't give you some idea of the pipeline. I'm not sure it's huge but there are several countries in Bolivia that I think is going to get knocked off. The Philippines remained eligible a few months ago. Senegal has been at it for a while. There are several that are on the way. But many of these countries already have compacts. There are a few others from the lower middle income.

The attraction I think comes rightly from several things. First of all the idea that countries have to perform to actually become eligible. That is it is a selective program and that countries have to have some level of good governance of investments and health and education to even qualify. That is a very opinion prospect to many people and I think it's a good one. Second the idea that those countries, given the fact that they have demonstrated some capacity and capability are given the responsibility to actually select what the program is going to be used for. Which is, as you know, not the way we often do it because how we allocate our money is usually **** earmarks up on capital hill. And to me this is a huge strength of the program to say you guys decide.

Now then we also throw them the ball and say write up a proposal. This takes time. But this is at the core of beginning country ownership. And if we are serious about developing capacity and country ownership we have to have some patience. Because it does take time to develop the skills to write in depth proposals and to think through all of the issues of you can do it this way, you can do it that way, how to set up the project or program. So to some extent the fact that this has taken some time is understandable. Having said that, however, I also think the MCC has made some mistakes that has slowed down the process. In particular they've got a lot of bureaucratic rules that make the compact **** more difficult than it should be. The fact that each country is allowed to do any one compact at a time is a huge mistake because if you only do one compact and its for five years all of the incentives are to build a huge compact with a bunch of different things going on at once and these things get dragged down by their own weight.

But to get to the core of the question why should it continue to get this support that is still based largely on promise. But it has shown a strong incentive effect. Countries want to get into this program. And that has value and that is a result that has already been achieved in a sense that it creates the incentives for the kind of good performance that we like to see. And that, I think, has a lot o value. Giving countries the right and

responsibility to choose their own priorities I think is a step forward.

So I think the way forward is not to stop it yet, at all. But to figure out how it can move from this promise to actually implementing compacts much more quickly. And I think there are steps that they can take in terms of the bureaucratic hurdles to get through a compact of moving away from one compact every five years to one compact a year. They can be five years in duration but you can have successive compacts to change in the threshold program. You can do several things I think to speed the process so that we see results more quickly.

Yes, sir?

Question: Hi, Sean Hall, also with USAID. Just curious, on the threshold programs as we know probably most people here know, USAID actually implements the threshold programs. Earlier this year the MCC signed a contract with a firm to conduct impact evaluations of threshold programs that are coming to an end. And I think a lot of us today are eager to see the results of those I think they just signed a contract recently.

Do you think that the event is a workable model for USAID to be the implementing agency for threshold programs. Do you have any other thoughts on what is a better model or do you see any changes within the administration on how that's handled?

Steve Radelet: I love USAID, some of my best friends work at USAID and I don't think it should be implementing threshold programs. I think that was a mistake. It was partly due to the politics around the introduction of the MCC and you know some bad blood, frankly that was there for a while that seems to have receded.

But two answers to that. In the current structure of the MCC being separate from the USAID I don't think there is any reason for the USAID to be implementing threshold programs I think it adds to the complexity.

Relating to that, as I mentioned before I don't think threshold programs should be aimed at indicators. I would prefer that the MCC implement threshold programs and that a threshold program looks like a mini compact. A small, \$20 million, \$30 million, you know, \$40 million project a road, a 20 mile stretch of road or some school buildings or refurbishing a health clinic or whatever it is that may or may not have anything to do with indicators. If they want to, if they want to go after their immunization program, terrific. As **** did with its compact threshold program that just ended. That's terrific. But, I think it should be based on the same principles as a compact and begin to set up, as part of the threshold program begin to set up the systems that you will eventually need for a compact. So at that point when they actually finish a compact, I'm sorry, when they finish a threshold program they have started the processes that will be needed to move on to a full compact. So I would rather if it was done in house and was seen as a step toward a full compact rather than a completely different kind of program by a different agency.

Now, if at some point in the future we get some consolidation from **** programs this will become less of an issue. I don't think that MCC should ever be fully merged into what USAID is doing now. If we did bring the programs together into one agency I would have the MCC4, kind of a stand alone entity under that big agency as I would have PATFAR as kind of a stand alone because they have their own unique characteristics and I think it will help if they come under the umbrella of overall leadership coordinate across these programs.

Yes, over here.

Question: Clara Brillembourg. Along the lines of a threshold program anew. Given the lack of an objective standard or objective trends as to which countries will be selected as eligible for the threshold program and also your suggestions for further improvement. What are your observations on the various reasons or reasoning that's been used to select the countries that have been selected as eligible?

Steve Radelet: Well most of the time they have selected countries that have missed eligibility by one or sometimes two indicators. But sometimes it has been countries that have been missed by three indicators. Last year they picked Mauritania which missed by three indicators and was promptly followed by a military coup in Mauritania, but we won't go there.

But you know, I wouldn't say that it absolutely has to be one indicator that's it, or two indicators that's it. But I think they should get closer to that. And saying maybe that is two indicators but we can have some discretion. So I think we just need to go back and we can look at it more concretely. Most of the time it has been countries that have passed enough indicators except one and more often than not it has been about the corruption indicator. If there is a typical threshold country it is a country that has met all of the criteria for passing except that it has failed on the corruption indicator.

Now that has led most of the threshold programs to be focused on anti corruption programs to try to address that issue. I'm just, I don't think that we as the US government are particularly successful in anti corruption programs. That's just my sense. I'm not sure many of them at all have worked. Sometimes they have been very successful. Bruce is giving me quite a look at the moment. Others have been less successful. I don't think that we're always all that good about anticorruption program. That's a side bar. But I think that they should be more consistent at least in saying what the starting point is and then going from there.

So this year if you look at the back at our chart in the back we list in our very fine print not only the countries that pass the indicators when we have separate groupings for countries that pass except for corruption or that miss by one hurdle or that equal the media on one hurdle to give you an idea of who's close. That is where the threshold action would be those groups or ones that miss by two indicators. But most of those countries now that miss by one indicator are already either compact eligible countries or threshold countries. So that's why the list, actually the new list is pretty small. Liberia in

this case misses by two indicators but I think by **** that it is two and by all other indicators the progress is in the right direction it would help.

So I would make rules about the number of indicators they have missed by probably two and the direction of progress. I would want something in the rules that they are improving because the direction of change is quite important and (inaudible).

Yes, sir.

Question: I had a question about the duration (inaudible) selection. But it's a five year fixed duration. There is two situations. One is where there is a very economically viable project that simply takes longer than five years to do. The other issue is current compacts that simply take longer to implement than the five year time span. What's the current discussion or consensus on how those situations will be handled?

Steve Radelet: There is a lot of discussion and not a lot of consensus. And partly because it's an issue they haven't had to deal with yet because of the calendar, been in existence long enough to do it that although they are coming up to it. The first compact that the MCC signed for Madagascar was actually four years. Every other one since then has been five. But they are coming up to the end of that four year period with Madagascar. So they are facing this very soon.

You point out two different kinds of problems. I think both of them call for some flexibility in the duration. In the beginning of the five year cycle I think there is good reasons for not planning on a seven year, eight year, 10 year horizon. It is just kind of very long and can introduce the idea, we have time, I can put things off. But I think you need to have a system that after the third year or the fourth year there is an evaluation that looks exactly at these issues. My sense is that if a country is on track that the compact is you know, more or less on track that the five year ending point should not be imposed. Especially if they are already in budget and it's just a matter of shifting the money over time as opposed to being over budget, over budget obviously always adds a complication.

But if a country is on track, if a compact may be slow but is moving in the right direction then I think you just need a mechanism so that that five year time frame can be extended. And that is especially the case in your second case which was because of their administrative problems that get it started. Now sometimes those administrative problems are the MCCs responsibility. Sometimes they are the country's responsibility and you need to work those out. But if by the time you get to your three we hope that they're on track then the five year thing should not be binding. Now at the same time if you get out to your three and look this is not happening, it is off track it's not being implemented, it's really, okay then put this as a performance based program. And at some point you got to stop countries if they are not performing. So far the MCC has not stopped countries for non performance that way. Again, we are still early days or early years for the MCC.

So my answer is that at the three year point or the four year point, somewhere at that timeframe there ought to be an evaluation that comes and looks at these issues and if in your wise discretion and in many cases you extend the five year legal timeframe. In other cases it's really bad performance.

Yes, in the back.

Question: Yea, I'm Camille Jackson, I'm with the State African Affairs Bureau and an MCC watcher for the bureau. I cover the **** and a few other things. My question is, just from a broad perspective, you mention a little bit of a value of the performance based assistance and how the US government doesn't provide budget support whereas some other G8 and some **** countries do. And I was wondering from your perspective how does the MCC model and the MCC effect has affected the dialogue among OACD countries and other G8 countries in terms of how they are going to do or will do foreign aid assistance in the future considering we're up against that 2010 deadline and doubling all the aid and a few other things. So I was curious if you have got any sort of buzz with in particular countries.

Steve Radelet: There is a lot of buzz there is a lot of interest in Europe and other donors, particular European donors in this model. As a matter of fact just an hour ago, two hours ago, I met with Richard Manning who until recently was the head of the development assistance program at the OACD which kind of, you know, is the center piece of a lot of dialogue between the donors. And we talked quite extensively about the MCC because he is still quite interested in this. And I've seen this in many meetings with people and **** they are quite fascinated by this idea. They quickly get to this issue about budget support and would like to see this. But the idea of having a special program for countries that meet certain criteria I think they are fascinated with. No one else yet has moved in that direction and I think that's partly that the MCC itself has not achieved everything that it thought that it would at this point. That the MCC does at some point begin to achieve these kind of results I think that you will see more countries model after it.

Because the recipient countries, it is clear that they are responding to the indicators. That may change if we start not selecting countries that pass and start cutting the budget. But for the moment they are responding to the indicators and I think there are two reasons they are not responding. One, there is a lot of money that is being promised. But the second is the idea that they get to choose what this is about. And for a lot of countries that I've talked with, that's really central that they are just really thrilled with the idea that they might be able to say, here's where we think the gap is in our funding and here's the activity that we would like to finance. And most other donors just don't give them that flexibility.

So there may be pieces of it like that that other donors may take on. But they are quite fascinated, want to know what's going on. But so far, nobody has followed the example per se.

Okay, last question. I'm sorry, can you introduce yourself.

Question: My name is Cynthia Walker. You began your remarks speaking about the study that you're doing on the perhaps, amendments to the foreign aid policies of the United States. I'd be interested to know what your thoughts are, and this is really just dealing with the last point on the relationship between bilateral aid from the United States and multilateral aid from the United States. And how organizations such as MCC, USA Idea, etc., could be improved, linked, and have a lack of overlap of the same work being done by two or three organizations.

Steve Radelet: For those interested in this broader debate about possible changes to US foreign assistance, we have separate from CGD website, there's a website for a group called the Modernizing Foreign Assistance Network and if you just Google Modernizing Foreign Assistance Network, you'll find it and you'll find some very short documents on some proposals for what we have in mind. If there was a consolidation of agencies bringing together what is now US AID, the MCC, and others, there is a lot of discussion about also bringing into that, US policies towards the multilateral development ****, one aspect. It's not the only aspect of multilateral engagement, but it's a big aspect which is now handed by Treasury. Most people are in favor of bringing that in so that you would have closer dialogue and much stronger relationship between what we're doing bilaterally and what we are suggesting to the multilaterals, whether it be the World Bank, the African Development bank, the Asian Development Bank, or others. So, that's one step forward.

The other way to think more creatively about multilateralism is for US AID and MCC in their own bilateral programs, to be hooked much better with that other countries are doing on the ground. Whether those are bilateral, other countries bilateral programs or multilateral programs, and we tend to still operate a little bit away from some of the others and that's partly because of issues around budget support and other kinds of things. I hope that if we are able to move towards more flexibility in our systems and provide different types of support, whether its MCC support or budget support or other things going forward, that that paves the way for us to be much more closely linked in in a particular country with what others are doing.

So we don't do that very well, right now, but that's partly the result of us having programs in twenty different agencies and one of them, our multilateral arm is quite separate from the rest. So, hopefully with this discussion of modernizing and consolidation, that would bring those things closer together, but we'll have to see how the debate goes.

Good. Okay, thank you very much.