



CENTER FOR GLOBAL DEVELOPMENT

**"ASSESSING NICARAGUA'S MILLENNIUM
CHALLENGE ACCOUNT COMPACT"**

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PROCEEDINGS

MR. RADELET: I'm Steve Radelet. I'm the Senior Fellow at the Center for Global Development. We're delighted to have everybody here this afternoon on a hot, hot day. Hope that you didn't get too sweaty and hot on the way over.

We thought we'd make it feel a little bit like Managua, I guess, on the way over here--
[Laughter.]

MR. RADELET: --so everybody could feel in the mood.

As everyone here knows, the board of the Millennium Challenge Corporation has approved a five-year, \$175 million compact with the government of Nicaragua on a program that combines some infrastructure on transportation, some rural business development and some property rights issues. The compact itself has not been made public. It is now in a congressional review period. And sometime in the next few weeks, the compact will actually be signed. And hopefully we'll find out what exactly the planned dates are there.

So this is a compact that is in its very advanced stages, not quite maybe the final touches on it. But one of the important ones. As you know, there are four compacts now in process, and a fifth one underway with the Millennium Challenge Corporation.

And so as one of the first compacts, this is quite important in its own right for what happens in Nicaragua, obviously, but also in terms of how it helps set the stage for how this important initiative will work.

We're delighted to have four speakers here, all of who know much more about it than I do, who can tell us about the compact and try to put it in perspective of broader issues of development in Nicaragua.

Four speakers: Salvador Stadthagen is the ambassador from Nicaragua to the United States. As you know, Jim Vermillion is the Managing Director for Latin America at the MCC. We have Manuel Agosin who is a chief economist at the Inter-American Development Bank. And **Manuel Orozco** who is a citizen of Nicaragua from the Inter-American Dialogue.

I will give them more complete introductions as they take their turn, but we will have each of them speak for eight to ten minutes or so. And hopefully, then, that will leave lots of time for **questions** and some discussions on this compact.

So let me start with Ambassador Stadthagen. He has been here in Washington for about 18 months. He has been in lots of embassies around the world. He was charge-d'affaires in Japan. He was ambassador to the Republic China in Taiwan and many other posts around the world. We just discovered that he was at the Kennedy School three years ago, which is where I did my graduate work and also taught at the Kennedy School. So we have that as a connection as well.

He's had a variety of different positions within the government. And before being in the government, he was the official liaison between the Nicaraguan resistance and the U.S. State Department. So he's well versed in issues around foreign aid, more generally, the effect of foreign assistance when it can work, when it cannot work. And we're very anxious to hear his views on both the content of this program and how it fits into Nicaragua's broader development strategy.

So please welcome Ambassador Stadthagen.

[Applause.]

MR. STADTHAGEN: Thank you, Steven. **Steven Radelet**, Senior Fellow, CGD, Mr. **James Vermillion**, Managing Director, Latin America, MCC, Mr. Manuel Agosin, from the IDB and my countryman, **Manuel Orozco**--the Manuels have the majority on this panel--from Inter-American Dialogue, distinguished ladies and gentlemen.

First, let me thank the Center for Global Development for holding this panel and for inviting the country to express its views, something until recently not very common in the world of development assistance.

After so much failure, it was time some things finally changed. Principally, it is essential that our mentality, both as recipient countries and as donor countries, also change. The Millennium Challenge account embodies some of those necessary changes that seem to be so obvious but continue to be elusive to the frustration of so many million, perhaps billions, of the world's poor.

Nicaragua has been a pilot country for so many projects, different approaches and adventures, from first stated third (ph) ways, to liberation (ph) theology heralding wild oppression was rampant. Our country has had its share of being experimented upon.

Ladies and gentlemen, a few years ago, from the position of secretive cooperation of my country, I started to notice how frustrated donor countries were and how much they wanted to change their policies, but how difficult it was to announce to their bureaucratic entrenched way of doing things.

Also, I notice how our own mentality as a recipient country was conducive to fuel the donor countries' worst habits.

We have a saying in Spanish that sounds those traits. [Speaks in Spanish] that would translate somewhat "If they give you a horse as a present, you are not to check his tooth."

For a moment, let's forget the past and focus on our MCA compact, approved by the MCC board last June 13th.

Nicaragua is a country that has in the past, and continues to be a recipient of substantial amounts of foreign assistance. And we need it. When we were presented with the possibility of that Millennium Challenge Account, it was obvious that Nicaragua fared well in almost all of the indicators of the main selections criteria--ruling justly, investing in its own people and economic freedom.

Lesson number one learned was to look more closely at those indicators and compare ourselves with other countries, something that I must admit I did not recall doing to a great extent in my previous government experiences.

The selection as an eligible country was a moral boost for an embattled government, the government of President [inaudible]. They had decided to present a frontal assault on the political culture of corruption and had there to confront the party boss, Admiral [inaudible], a corrupt [inaudible] named by [inaudible] International as one of the most corrupt in the last--10 most corrupt leaders in the last 25 years.

Admiral Augusto Gorman (ph) had decided to walk the difficult path of fiscal discipline, of economic freedom, and has given to battle the corrupt branches of power in institutions. Given the challenge of coming up with our own idea of a compact, given free hand to explore a program that would identify some of our bottle necks to irrelevant, have had an impact and doing

consultation of our own population and also served as a catalyst and as an example to replicating in other regions of the country, we, Nicaragua had to think very hard.

A process of consultation at the national, regional and municipal levels was started, building on our government's poverty reduction strategy, which was later reflected in our national development plan, which calls for further strengthening local development and participation.

Our technical team held numerous meetings with leaders in the political, private and NGO sectors. The amount involved in the MCA, although important, are not enough to have a nationwide program. The first thing was to identify a region with the most potential for rapid turnaround that in turn would serve as a catalyzer for development of the rest of the country.

Leon (ph) and Chinindega (ph), departments of our Pacific Northwest, came into focus after a lot of discussions as it has great potential for economic growth, yet desperate extreme poverty.

Since World Bank status in 1953, the Northwestern volcanic top soils, fertile lands of the departments of Chinindega (ph) and Leon (ph) were identified as the most promising ones. In fact, many infrastructure projects, including the development of the Port of Corinto, which is one of the best in the Pacific of Central America, if not the best, ensued.

The area actually developed rapidly in the '60 and '80s, particularly due to the cotton boom. During those decades, Nicaragua was known of the granary of Central America. A lot of the grains coming from that area. But it became very impoverished after cotton bust and the disastrous Sandanista policies of the '80s.

With the main port and existing roads, its proximity to the excellent markets of El Salvador, which has become a huge market for Nicaragua--import and export--and so people may not have kept track of how important the this trade between Nicaragua and El Salvador is. We are complimentary countries. They have a lot of population, a small amount of land--they don't have enough land for cattle. We have a little population and a big country. So there is a lot of complementarities between the trade of our two countries.

Consultation--and of course Honduras. It was chosen as the perfect place for the MCA. Consultation was taken to the Leon (ph) and Chinindega (ph) local, the urban councils, and were more than 100 civic, society, private sector, local and government organizations provided guidance to identify bottlenecks and prioritized the components of our compact proposal.

A well-known and obvious bottleneck for the development in Nicaragua, not only in the Chinindega (ph) area, but in all Nicaragua, is the issue of property rights. Development is impossible without further tackling this problem.

Twenty-six million dollars of our MCA will improve the property registration capacity, help resolve disputes, define boundaries, et cetera. As a result, 43,000 land personal titles will be made more secure, improving access to credit, in particular. Special attention will be put on land titles to women. It will help lower the cost of doing business in the region.

This [inaudible] will build upon projects presently supported by the World Bank.

Our government has placed a special emphasis on development of road (ph) infrastructure around the country. As a matter of fact, the government of President Bolanos has done, Bolanos has done twice the amount of roads that the two previous governments did.

Our MCA--actually, I believe I'm right, the last three previous governments--our MCA will provide \$92 million to improve main roads and secondary roads to link rural producers with

the main roads in Leon (ph) and Chinindega (ph). Our road grade will connect with the roads that are going to be built by our neighbor country, Honduras, with its own MCA.

As you know, Honduras is going [inaudible] this corridor linking to Port Cortez. And if we link with that corridor, we're going to have a lot of synergy there.

And Port Cortez is actually the main port for our exports. We don't have an Atlantic port. So it's very well thought that our grade that we're going to perfect with MCA account money will also link with the Honduran project.

Also, \$33 million are going to be invested in rural development, helping the rural poor produce higher profit agriculture, through business advice, improving water supply, causing increasing earnings and needed new jobs.

An important part of the MCC paradigm is that it's very important to Nicaragua, is that MCC funds are in addition to USAID development funds, not instead of them. In other words, that MCC funds are a reward for a good performance, not a bait and switch where the MCC funds are given while then sometimes the USAID funds are subtracted.

And in this regard, we are concerned about the following language in the report of the House of Representatives, which I will read. And basically, it says, "In Fiscal Year 2006, USAID will [inaudible] excess flexibility in allocating this higher level of resources among Central American Counsel's Office countries, recognizing that some countries are receiving Millennium Challenge Cooperation resources."

So I'm talking in front of an important part of the development community and want you to be aware of this report.

If this--are not going to be additional funds, we have to be aware.

We trust that in spite of this worrisome language, in the end the MCC will have this fundamental principle of the MCC concept, that MCC funds are in addition, but not instead of other U.S. development assistance.

We cannot look at our compact independent of other important developments. We hope that CAFTA is soon a reality. Otherwise, we are looking at a tragedy in Central America. And I hope that you all support us during this crucial time leading to certification by the U.S. Congress.

This investment will help us better utilize the opportunity that CAFTA will open. Beyond the important amount, accession to the MCC funds mean for us a seal of approval, which has been an important message to investors, both national, regional. You'd be surprised how much regional investment there is, you know, investment from Guatemala, El Salvador and Costa Rica--very, very important. An extra region of course, especially the U.S.

Within our present political situation, the plural (ph) of our MCA compact is stressing the fact that our fight against corruption was an important criteria for approval, has been very important.

Last week, on June 16, there was a historical mark of our 50,000 people marching against the Ortega-Aleman pact and against corruption. People in wheelchairs, people young and old came out to express their will of liberating from the shackles of the two corrupt caldeos, (ph) Aleman and Ortega want to place on the Nicaraguan people.

After that march, our people feel empowered of choosing their own destiny, that no petty tyrant or a duet of them will take away from us. We have confidence that through the will of our people in some years we will look back and identify these as defining moments when our ills

became evident and when we truly took in our hands saving our democracy. That has cost so much to us, that our democracy has cost so much to us. We will look back at the time when we started to take our democracy to another plateau, where the decent members of our society, who are an absolute majority, will truly rule.

We thank for the support of the international community for their help in these struggles for decency and also the Millennium Challenge Account and cooperation for contributing to the empowerment of our people, thus truly helping us help ourselves.

I could not close without thanking Joseph Millen, (ph) former director of USAID. We met when I was deputy minister of foreign affairs in Nicaragua. His knowledge and commitment to our country has proved to be extremely valuable in the process of navigating these waters. Because they're new for everybody, for MCC and also for Nicaragua.

Thanks also to Matt Bowen (ph), who is here present, of the MCA and all of the other dedicated officers of MCC.

And thank you all for being here today.

Thank you.

[Applause.]

MR. RADELET: Thank you very much, Mr. Ambassador.

We appreciate the comments. I was struck by the linkages to Honduras and also to CAFTA. And I think that is an important lesson for how we need to think about these things as part of not just a foreign aid package in and of itself, but to think more broadly about how this links not only to the national economy but to the regional economy and the some other trade issues and other kinds of things that are built in. And maybe that's an issue we can pick up on a little bit more.

Our next speaker, Jim Vermillion, is the Managing Director for Latin America for the MCC, and is quite knowledgeable about Nicaragua. The MCC plucked him from Nicaragua where he was the head of the USAID office. He's been at the MCC for about six months. And before he was director of USAID in Nicaragua, he'd been for 20 years with the agency. He'd been in Tunisia, been in Haiti a couple of times, Cambodia, Nicaragua. So he's been around the world and seen development programs and projects from many different perspectives.

So he's worked hard on this program, knows it well and can place it in this broader perspective.

And it's our pleasure to have Jim with us today.

[Applause.]

MR. VERMILLION: I'm a little guy. I have to bring this down for me.

It's a pleasure to be here with so many friends in the development community. For me, joining the MCC a bold move, to resign from AID, not retire, and to go into something that was totally new. But this is a bold, new experiment that we're doing as Salvador said. We're trying to take an initiative from the Monterey Consensus, to put development in the hands of countries that are doing the right thing. And we want to try to help those countries help themselves to get rid of poverty through economic growth. And that's what the MCA is all about. And I'm very proud to be a part of that.

I have with me for **questions** and answers, Matt Bond (ph) who is our country director for Nicaragua and Anne Rothbaum (ph), who is our monitoring and evaluation expert, who put together that piece of the program along with our Nicaraguan team.

MR. RADELET: We hope you'll take **questions** too, not just pass them on.

MR. VERMILLION: Well, of course. But they know something.

That's why I wanted them here. I'm just the guy who kind of stands up here and does the talking points.

Nicaragua is a country that is very dear to my heart. And to see this program coming to fruition for me, is very important. It's important--a lot of people have asked me, how can you do a program in Nicaragua now? How does it meet the MCA criteria?

And let me just say, if you look at the data that were used for the selection, Nicaragua was not a country that was picked at board discretion. It was picked based on the data. When this administration came to office, it undertook dramatic changes. And the data showed, if you do a time series analysis.

And people say, well, what about what's happening in Nicaragua today? Well, what's happening in Nicaragua today is exactly a result of what this administration has done. They've made it hard for these people to steal. And these people don't like that. They want this administration out so they can get back to business as usual. And so I want to commend the Balanos administration for the great steps they've taken in putting together a program for the country that really is about making it a democratic country that answers to the people and fights poverty. And that's what this program is about.

This is a Nicaraguan program. It's not a MCC program. We are here to provide funding to help them implement a program that truly addresses poverty. It's a five year program, \$175 million. As Salvador said, it aims at the Northwest of the country, which is an area that used to be a rich area. And now when you go up on the Cuscuena (ph) Peninsula, up to the Gulf of Fonseca (ph) or you go up into the mountains on the border of Leon (ph) and Chinindega (ph), you see poverty that looks like what I saw for six years in Haiti. This is an area that's one of the poorest areas in the Western Hemisphere, but it's an area that used to be rich. It's an area that can turn around.

And what the government has said to us is, look, we want to do a program up in this area, because first, it has potential, but second we believe that this area can be a vehicle that turns the whole country around. It creates economic growth. It's on the border with Honduras and up by El Salvador. It does, as Salvador said, fit with economic integration in Central America, which is a priority for the Central American countries. Hopefully, CAFTA will pass. But whether or not CAFTA pass, this is a region that has to get out of producing corn and beans and rice and into producing things that offer a better quality of life for the citizens in the area.

The government has taken great stride in putting this program together to make sure that the benefits accrue to women in the region, and they've specifically targeted this, and also that it's a program that doesn't just help the few rich families get richer, that really will have impact on poverty in the region.

And so, we feel this is a model program for what the MCC should be funding. So that's why we're moving forward with Nicaragua right now.

As Steve said, there are three components to this project. One is property regularization. The second is transportation and the third is rural business.

Now, if you look at the constraints, the constraint in property in this region is that most people don't have secure land ownership. It's very hard, if you want to think about putting in irrigation, or really working the land, to think about doing that with land that you don't know you're going to have tomorrow.

And what this program is going to do, and it's not going to take on those contentious cases that are always being talked about in the media. What it's going to do is it's going to unify the cadastral system and the registry, which are in two different places in the government, but them in one house. It's going to go on and it's going to look historically at what titles have been in the region. It's going to document that. In the cases where there aren't contested titles, which by the way, is most of the land in region, people will get a title. But they won't just have a piece of paper. There will be a system to back that piece of paper up so people will have secure land. They'll document what they've found on those contested cases, and for some contested cases, which are probably, oh, three-quarters of the cases, the issues really aren't about land that was given a way and the like. The issues are about people who got public lands but don't have a title, or people who inherited land, and within the family, there are disputes on where the borders are. And they will offer some arbitration for those who want it in those areas.

But we believe that 70 percent of the titles in this region will be regularized through this program. It's already being done by the World Bank in Chinindega (ph) and we're going to expand that into Leon (ph). And as an outcome, we expect to see that land values will go up, because the land will be secure. We expect to see more investment of these people into the land that they have. We expect to see less time for transactions for land deals, and we expect to see lower costs for transactions for land deals.

Those are real impacts, and they'll have a huge factor in economic results in the region.

In transportation, if you drive the roads in this region, it's hard to even use the word roads, honestly. We took a CODEL down to the region, and I guess I'd better not name Members of Congress, but one Member of the CODEL was very, very upset because she had to spend many hours riding in these horrible, horrible main roads. The fact is, if you produce crops and you put them in the back of a truck and take them down one of these roads, you've got juice at the end of the path. You don't, I mean, really, you lose much of your product before it gets to market. It takes a long time, and you lose product.

When I was the AID director, I did a road program in another part of the country, and we did it to work with the IDB, in fact, to show the ways we were doing in MITCH (ph) for labor intensive road construction. And a farmer said to me, you know, I have cows and I produce cheese. And the reason I produce cheese is because the only way I can get it to market is on the back of a mule. And I make the cheese and once every two weeks, I take this cheese out to market.

After the road went in, he was able to ship out his milk, fresh milk. And he made every single day more than he made in two weeks before shipping cheese out. That's why roads are important. We've got to help link the production base with the market base.

So on the transformation program, we expect to see lower transformation time and lower transportation costs. We expect to see a reduction in the gap between the farm gate prices and the

market prices. We expect the number of accidents on the roads to go down. And we expect road safety to go up.

We expect to see increased access of products to market, increased access of citizens in the region to health care and kids to school, because there just aren't that many secondary schools, for example, and for kids to be able to go to secondary school, there needs to be transportation.

So these are things we expect to see out of the transportation project.

The rural business project is essential in this region. As I said, people produce beans, corn and rice. We want to help these people through the government find other markets, diversify the kinds of things that they're producing, increase their incomes.

In fact, we expect incomes of the beneficiaries in this program to increase by more than five times what they are when the program starts. That's a big impact.

We expect an increase in the number of businesses in the region. We expect to see a diversification in the kinds of crops that are being produced in the region. We expect to see more jobs as a result. People are going to hire people on these farms and in the agri-businesses that are developed.

In the mountains, in the high lands, we're going to have a program that's going to help people get access to water, which is essential for agricultural production in the watershed programs we're doing. So we expect increased access to water in the water-scarce regions. And we expect to see increased investment in the region.

So what does this all add up to? This is an integrated approach that we expect within 10 years will increase the average income of everyone in those areas by 20 percent. That's a pretty big deal. We expect to see Nicaragua become more of the Central American market as a result.

We expect to see income in the region in those 10 years go up from \$20.9 million now to \$51.9 million 10 years down the road--across the whole region, not just the people who are direct beneficiaries of our program.

I guess my time is up, Steve. So I'm going to leave it for Qs and As.

I have a lot more I could say, but one thing I want to see just to expand on what Salvador said is, the consultative process being used in Nicaragua was a very important part of defining what this program is, but it doesn't stop there. This program is being designed in a way that it will be implemented with transparency and with continuing consultation with the local development councils, with NGOs in the region, with the government, with local governments, with other donors. We want this to be a model for how donor assistance should be implemented.

As I say, this is an experiment. We also need all of you to be looking at our programs and providing us your inputs. Because if development assistance from the United States is going to survive and grow, we have to show success.

In my former agency, since democracy came to Nicaragua, we invested \$1.7 billion. That's a lot of money for a country of five million people. One would like to think the impacts could have been better. We're hoping that this new model will make the impacts better.

Anyway, thank you. It's a pleasure to be with you today.

[Applause.]

MR. RADELET: Thank you, Jim.

I'm going to come back to you, Jim, and ask you a little bit about how you're going to monitor and evaluate this. You've got quite a list here of what I got was higher land prices,

higher income, lower transport costs, more businesses, more crop diversification, more jobs, greater access to water, increased investment.

MR. VERMILLION: I'll be glad to--

MR. RADELET: That's right. It's a good list. It's a long one, but just at a technical level, how you're going to measure and evaluate that stuff, I think, is a really important one. Because you're right, we need to be able to show some results. And that's a lot harder than it appears to be at first glance.

I'd like to invite Manuel Agosin. We're very pleased to have him with us. He's the Chief Economist in the Regional Operations Department at the Inter-American Development Bank, which covers Mexico, all of Central America, the Dominican Republic and Haiti.

He is a well-known professor. He's on leave from the University of Chili, where he's a full time professor in the Department of Economic, where he specializes in macro-economics and economic development.

He spent 23 years at the United Nations in several different capacities in organizations. So we've got him here who has seen things from the perspective of the United Nations, from the perspective of being an academic and researcher and looking at issues, seeing things on the ground and now with the Inter-American Development Bank.

So he's got a wealth of background and now can see from the perspective of Nicaragua, understands the regional context and also how these kinds of activities can fit into broader development strategies and what the Inter-American Development bank and other donors are doing.

And so it's my pleasure to introduce Manuel Agosin.

[Applause.]

MR. AGOSIN: Thank you.

Thank you very much, Steve. I'd like to thank the Center on Global Development for inviting me to this fascinating meeting. And I'm very pleased to be here.

I will start with my academic penchant, I would say. It just strikes me as not terribly believable to be able to pinpoint exactly how much incomes are going to go up due to this particular grant. I mean, I have never seen it done at the bank. I mean, we do a lot of lending to a lot of these countries. And we lent to Nicaragua approximately an envelope of \$90 million a year for a whole variety of programs, some of them quite similar to the ones that would be affected by, would be beneficiaries of the Millennium Development Challenge grant. And I've never seen any such calculations that income are going to up by a percent. And that land prices will rise five times or whatever it was. And all of those things, I'd like to see the figures, really.

I mean, to be an academic is to be skeptical. You like to see the evidence.

I mean, that said, I believe this is a very good thing. I mean, all of the priorities that have been indicated by Jim and by Ambassador Stadthagen are the correct priorities for Nicaragua. Nicaragua is a small, open economy. As the ambassador mentioned, it used to be the bread basket of Central America. It has huge agricultural potential. So programs aimed at trying to diversify agricultural production are all to the good. Infrastructure is certainly a problem. As Jim, mentioned, the problem of transportation and getting your products out to market is a very important one in that part of the world, not only in Nicaragua, but also in other countries in the region.

Property rights have been a mess in the past. We all know that. I mean, after the--I mean, property rights are a difficult topic anywhere in the developing world. They're particularly troublesome in Nicaragua, that has seen so many changes in regimes--Sandinista revolution, [inaudible] where properties changed hands without any legal verification.

So I mean, there are lots of conflicts over property. So I mean, this is a right, is a correct emphasis.

As I said, we in the bank do a lot of lending to Nicaragua, soft loans, 40-year periods. Rates of interest are around 2 percent with grace periods and the like.

And pretty much for the same sectors as [inaudible] mentioned and some others. There are lots of government projects. We do what we in the World Bank call sector loans, sector structural adjustment loans that is a balance of payments support against reforms, against particular reforms.

And I think that--I am sure that--I mean, one of the big tasks of our representative office, we have a representative office in every country in the region and a very active one in Nicaragua--one of the big tasks in Nicaragua, Honduras, all over the region is to coordinate with other donors.

Well, I am sure that these particular loan has been, or this particular grant has been discussed with our people on the ground.

Let me mention just very important program, the [inaudible] has been spearheaded by the bank, which is the to build infrastructure, partly to build infrastructure. It's a very broad plan. But a very important aspect of this plan is to connect the entire Central America through reasonable decent roads, which they don't have at the moment. Now this is very important.

It's very important to continue to build the Central American common market. I'm very pleased that there will be a link, better links, between Honduras and Nicaragua. This is very important.

We have calculated in a study that we did in the department, that if you could improve the Central American common market, you could get 30 percent more trade than you're getting right now. Okay, again, that's based on econometrics study. I won't bore you with the details, but this gives you an idea of the potential. And infrastructure is certainly part of that potential.

Institution building is part of that potential, like getting rid of all of these customs between countries inside of the region.

So I think this ties very, very nicely with what we are doing.

Again, I would like to repeat what the ambassador mentioned. I think it's not only a matter of building roads, giving a push to rural entrepreneurs or potential entrepreneurs, small producers, but also CAFTA. I think CAFTA is very important.

I mean, the two major aspects of the major policies in the agenda, CAFTA, the approval of CAFTA, very important for the Central American countries as a whole and the strengthening of the Central American common market to create a really unified common market. Within that framework, this particular grant could be seen as the Costa Ricans call "complimentary agenda." It is agenda to benefit from these trade opportunities that arise out of the agreement, out of CAFTA and out of a greater commitment and action to strengthen the Central American common market.

Thank you very much.

[Applause.]

MR. RADELET: Thank you very much.

I'm struck as I listen to the conversation about roads. I sometimes hear people saying, oh, well the Millennium Challenge Corporation shouldn't do roads because they're about poverty reduction and not about roads.

And this discussion reminds me of discussions that I heard when I lived in Indonesia for years, and Indonesia had a terrific record on poverty reduction. They did a lot of good things. And when I went out into the rural areas and asked people, especially the older people, what was the most important thing that turned around rural poverty? And the answer three-quarters of the time was when they built the road. Because it makes everything more--cheaper that you can buy. You can buy much more. So whatever income you have, you can get more food, more clothing, greater access. It's easier to get to health care facilities. So whatever it is that you want to consume or buy given your income, you can do a lot more. And you can generate a lot more income because you can, instead of selling cheese, you can sell milk, or you can have greater access to other income opportunities.

So this all makes a lot of sense at least at a broad economic point of view. And there's a lot of support for it economically.

Again, big **questions** about the costs and how you're going to measure results. But we'll get to that in a minute.

Our next speaker is **Manuel Orozco**, who comes to us from the Inter-American Dialogue, where he is the executive director of the Remittances and Rural Development Projects. A real expert on rural development, which is one of the key components here of this compact.

He's the chair of the Central America and Caribbean at the U.S. Foreign Service Institute, and he's also a researcher at the Institute of Study of International Migration at Georgetown University.

So, he's a citizen of Nicaragua, knows obviously the issues on the ground and has seen this as well from different perspectives.

So, we're very pleased that we can be here with us and to let his know his views on this compact, this process and how it fits in to broader issues in Nicaragua.

Manuel, thank you.

[Applause.]

MR. OROZCO: Just a minor correction. I'm a citizen of the United States but was born in Nicaragua.

MR. RADELET: Oh, sorry. My apologies.

MR. OROZCO: Proud U.S. citizen.

[Laughter.]

MR. OROZCO: I think, you know, you're the last one to say you can either say the final word or give a synthesis or just say, you know, I agree with what everybody has said.

[Laughter.]

MR. OROZCO: But I think in my perspective, the significance of this project in Nicaragua is threefold.

One is in development, per se. Two is issues relating to civic participation. And three is the implications on the current juncture, the political juncture in Nicaragua, which is a non-

negligible one and that it will have implications on the future of this program in Nicaragua, the Millennium Challenge Account for Nicaragua.

In the first place, as the ambassador said, this project what it does is compliment with current USAID. And in practical terms for at least in the next three years, there will be a complimentation to this aid. Currently, USAID to Nicaragua is 1 percent more or less of the country's GDP. The addition of an extra \$35 million a year to the country will add another 1 percent in foreign savings to the country, which is muchly needed.

But I think the relevance in development has to do also with the regional focus that it was placed in the Pacific region of Nicaragua, which is a region that as the previous speakers said, they really have an implication for productivity in the whole country. The Pacific region has historically been the most productive area not only in terms of the basic full staples but also in terms of cotton for exports. And at this point, I think Nicaragua will enter into an additional stage in which they could be able to invest more resources in that region, especially if transforation is improved, which is very fragile in the Pacific region. And Leon (ph) and Chinindega (ph) suffer dramatically in the past 30 years from crisis from wars, et cetera. And [inaudible] has been able to meet basic standards of transforation, but not just safe transforation, but commerce and transportation.

And then you also have that the investment on infrastructure itself is quite significant for this country. Then we have on the other side, outside of development, the implications for citizen participation. The fact that Nicaragua has participated in identification of development projects for the Millennium Challenge Account is very significant.

Nicaragua passed a law, citizen participation, before the Millennium Challenge Account was passed. And they created this local development council, which in turn became an important pillar of civil participation in the country. Traditionally, civic participation in the Nicaragua has been translated mostly either through political parties, through social movements and NGOs.

I think relating this local development councils that represent different kinds of organizations, including unions as well as trade movements, but also just [inaudible] and individuals interested in local development, including the local municipalities has been an important advance on democratization in Nicaragua.

And articulating that strategy into the MCA has been an important contribution to the country's political process.

And that brings you into the third issue, the current juncture. These local development councils in a away has posted themselves an independent entities that have tried to maintain a level of political participation regardless of the level of political polarization that has existed in the country.

The current juncture that Nicaragua is facing right now is one in which there is a significant level of political fragmentation and politization. The country has been basically kidnapped by two un-elected officials or individuals that have tied the hands of the current government.

The government is practically unable to do many things because the two calderas (ph) of the country are running politics. They control the judiciary, the electorate council, the legislature and the--

[End of Side A, begin Side B]

--political powers or disparate political powers.

The **question** that one remains to see is whether this is a movement that is going to grow stronger over time and is going to challenge the even more the powers that be, especially when the country is close an electoral process the next 17, 16 months--November 2006.

We don't know what the implications of this are going to be. We don't know what is going to happen if this situation in Nicaragua worsens and the Millennium Challenge Account then is stopped because an undesirable government takes over in Nicaragua. And you know what I'm talking about.

The implications are very severe. However, I think betting on to this local civil society organizations is an important contribution. And it's also, as Salvador said, it's a moderate boost to the government.

The country has gone under significant challenges right now. The U.S. government is a major ally of the current administration. And the Millennium Challenge Account, even though they assign Nicaragua or selected Nicaragua for objective reasons, it is a political statement to the current state of the country.

And I think it can resonate on to the population, on to these councils as to the extent to which civic participation can have an effective impact on developing and democratization outside of the prevailing political forces.

So I think in these things is an important significant development that may have positive implications for the next few years in Nicaragua.

And finally, I disagree somehow with Professor Agosin in the sense that I actually think that a 20 percent increase in income is actually quite low. The Pacific Region has an income below \$60 a month for the average Nicaraguan. Increasing by 20 percent is actually a very poor or relatively poor increase.

I do think that the country can get to the 20 percent with this boost. But the **question** is, how can you find multipliers in other parts of the economy that can increase even more the local productive base of the economy.

And I don't know how can we forecast that. But with that I'll stop here.

Thanks.

[Applause.]

MR. RADELET: Thank you very much for all of the speakers.

What we'd like to do now is have some **question** and answers and have a little bit of discussion.

I have two that I'm going to use my prerogative in the chair and ask. And then we'd open it up for **questions** from any of you to come to either of the microphones and ask any **question** that you might have.

My first **question** is about this issue of participation in the process, both of formulating the compact, but also implementing it and helping to monitor it.

And my **question** is less for you to describe exactly who was in and who was out. But more, your thinking on why it's important, what as a government you're looking for, and the tough issues of how you think about who you include and who you can't include. Because it's impossible to include every one.

We don't do it in our country. We like to think we do, but we don't. We don't make our decisions through a participatory approach on most things.

And it's difficult to do to determine who should be involved in the process, who we can't involve in the process. And what we're looking for in that process in terms of participation.

So I'd like to hear the ambassador's views, but also what the corporation thinks and the others as well in terms of how we think about this broader issue of the participatory approach and what it is we're looking to get out of it and how we know when we've got it, and how to make it work.

MR. STADTHAGEN: Well, the Millennium Challenge Account is \$175 million. You're definitely not going to solve all of the problems of Nicaragua. We are the recipients of \$400 or \$500 million a year in foreign aid. So to have a nationwide consultation, a referendum of national proportion was definitely not feasible or not called for.

But I believe the consultation at different national and local levels about where to prioritize this program was wide enough. I mean, everything pointed out that they--everybody, more or less--I mean the conventional wisdom and reading history, pointed out to that region as being the region with the most potential.

Of course, there were regions that were really angry because of that. The Atlantic coast communities wanted an investment in the Atlantic coast. And that is the most desperate, poor area of the country, where you have extreme, extreme poverty all over the Atlantic coast.

So, of course, we would have liked that this be a \$2 billion project that we can do nationwide. But we needed to focus. And the issue of local participation becomes easier when you regionalize the project, when we could focus on that particular area of the country. And you do have the local development councils. I think it became an obvious thing.

In the local development council, basically you have almost all walks of society, NGOs, et cetera.

So it becomes a very inclusive process of participation. I don't believe anybody is excluded. You know, most of the, a good percentage of the mayors of that area are involved, and they are from the Sandanista Party, and they were definitely included. And they're very active about it.

We had a luncheon with Chairman Kolbe from the Foreign Operations Committee, and we had next to us the mayor of one of the northern parts of the country. It's [inaudible] area, Sandanista. And he was asked, you know, by Chairman Kolbe, you know do people in your city know about what is happening, what MCC is? Yes, of course, he said. Before coming here I passed through the market place, and had someone come up to me and say, you know, you are going to going out and meet MCC people; make sure that this road will come to us, even though you would pay for it.

So that's the type of participation. So I think, you know, in those two departments, everybody knows about the MCC. And it's important to look at participation.

MR. RADELET: One of the last things you said that really resonates with me that the people don't mention, that one of the, I think, of this broader participatory approach is that people know what it's about and expect it. And now the word is out there's supposed to be a road there. And just as an accountability mechanism, that the public expects a road and knows there's going to be a road there, it puts the pressure on people to make things happen.

Jim?

MR. VERMILLION: Well, one thing we want, is we want people who should be the beneficiaries of this program to be able to have some say about what they perceive to be there needs. So, in that sense, we want to make sure that local producer's groups, local women's groups, and others, understand what's being proposed and have a chance to talk about if it seems reasonable or not.

We're very happy that DIFFID (ph), the British development organization is working in Nicaragua, and they have asked us if they could work with us in this region. They've been working a lot on participation, and reaching out to citizens. They've believe that the president's model in decentralization is the future for Nicaragua.

They've been doing this in Revis (ph) and we have--and the government--have agreed it's a great idea to get them engaged in getting citizen's groups in the Northwest involved actively, looking at not just what the plans is now--the plan is kind of fixed in these three areas.

But how does it best get implemented? How does the implementation take into account that different groups are going to be able to have some say in the way the program will go?

So we think that's very important. There's no perfect consultative process. In fact, we've put our guidance on the consultative process on our Website. And I have to tell you, it took a long time internally in the MCC to define what the consultative process guidelines should look like for countries.

But what we want is, is we want transparency. We want people to know that--and we don't want it to be the government's proposals; we want it to be the country's proposal. We want it to be a program that's robust to changes in the government. And this does require something that reaches out more broadly than what's been done in the past.

And as the ambassador said, the local development councils, really are composed of many, many of--this is not like a donor meeting where everybody is shaved and wearing deodorant and suits, you know.

[Laughter.]

You go to these meetings and you get quite a mix of people and with quite a lot of opinions. And it's a very healthy way to sit down with a group and talk about what a program is going to be like.

These are quite some organizations. I have to the tell you, 20 years with AID, I never was in meetings like we have with the local development councils and the others in this region.

It's a different approach.

MR. RADELET: Well, that says something. Great, thank you, Jim.

Manuel Agosin?

MR. AGOSIN: Well, I don't think that you can have a vote on what are you going to do with \$175 million. I suppose you need a strategy to begin with, and then how you implement that strategy and what you do with the money. And then you can bring in some consultative processes.

I mean, I remember talking to Mario Franco (ph), who at the time was the minister of the presidency. And he was sort of musing out loud. I mean, like, what should we do? I mean, should we attack poverty by supporting the poor where they are? Or should be attack poverty by

supporting the most promising regions and let people migrate to where they can make a better living?

And he was more for this last approach.

It would seem to me that's..I don't know much about this particular grant. I don't know much about the Millennium Challenge Account, but it seems to me that this grants fits in this sort of later, the second paradigm, in supporting regions with potential.

MR. RADELET: Good.

Mr. Orozco?

QUESTION: Maybe in Costa Rica now, right?

MR. AGOSIN: I guess so.

MR. RADELET: **Manuel Orozco**, how do you think about this participatory approach?

MR. OROZCO: I think I agree with Manuel. I think this is a convention of development, participatory methodology, that has been implemented in many other countries.

In El Salvador, the International [inaudible] Development uses it, and it's quite effective.

It's just one model, and in the case of Nicaragua with these local development councils, before you get to the local development councils, there was actually a national [inaudible] process to accomplish this, the National Planning Socio-Economic Council, that reviewed basically the whole issues that needed to be taken into account within the National Development Plan that the planners in the administration have.

While that was taking place, because before the Millennium Challenge Account was put forward for Nicaragua, there was already an idea as to what would be the areas where people should be investing.

When the MCA came into place, then it made more sense, from the goal and perspective--there's no **question** that the goal we had to implement and define and say, you know, we should pay attention to this area. But when the consultative groups play in the process in [inaudible], you basically had an interesting input here because you have small entrepreneurs, traders, producers and local individuals.

So the combination of that has some basic expertise about what do you need to make this go? What do you need in technical assistance to make it work?

And so in that sense, you know, the methodology has worked so far.

MR. RADELET: Great. Thank you.

Second **question** and then we'll take your **questions** from the field. But I wanted to get on this issue that several people raised and I pushed as well on Jim, on measuring the results. It's really--there's a big move in foreign aid more generally to measure results so that people can point people up on the Hill, and others, can get a better idea of what our aid dollars are being used for.

But it's a very difficult challenge. First of all, to set what are realistic, reasonable targets. Second, to measure the baseline, actually just the measuring--and then both at the beginning and at the end. And then attribution.

Manuel Agosin said, how can you point, how can you connect what you do here to whatever the output is?

So there's a range of issues that are important, not only for the Millennium Challenge Corporation, but a lot of different agencies now that are wrestling with this.

Jim listed a lot of goals. Surprisingly, a large number of goals, I thought, for this project.

So, my **question** mostly to you, but others can chime in as well, is how are you thinking about that? How did you come up with these specific goals both in terms of substance? You've got water, transport costs, all kinds of things. And in terms of, I think you said, five times higher income for the people directly affected, and then 20 percent increase in income more broadly for the region.

How did you come up with those numbers?

MR. VERMILLION: Well, a lot of the projections came out of other projects that have been done that are similar in Central America and other places--

MR. RADELET: In terms of their goals or in terms of what they actually achieved?

MR. VERMILLION: No, in terms of the measures.

MR. RADELET: Right, but in terms of--

MR. VERMILLION: Targets for the measures.

MR. RADELET: But in terms of what other projects had actually achieved?

MR. VERMILLION: Yes. But we actually, for baseline and for looking at this over time, the first money that actually got spent by the Millennium Challenge Corporation was \$117,800 that we put forward to UNDP in Nicaragua because they're managing something called a Living Standard Survey in the country. And we negotiated with them to expand the **question** base in the area where we are so that we could have a good baseline and also real measures later to look at empirical measures in the region of where things are in terms of the variables that we're looking at.

We're also going to, as people come into the program, direct beneficiaries, gather data on them at the outset and over time so that we have that.

MR. RADELET: Okay.

MR. VERMILLION: And the projects and all came off of other studies that have been done.

MR. RADELET: Who will be looking at these measures over time and verifying their accuracy?

MR. VERMILLION: Those are two answers. First of all, there will be an organization, a foundation called MCA-Nicaragua, that will implement the program. They will have a monitoring and evaluation unit that will be responsible for the monitoring here.

But we have our monitoring and evaluation people here in the MCC. Our job is to be the fiduciary of U.S. tax money and to verify--trust, but verify, right. And we will be verifying regularly what we see in terms of program implementation and impact.

MR. RADELET: Good.

Manuel (ph), you had your hand up. While he does that, people, if you have **questions** that you want to ask, you can begin to line up here at one of the two microphones. And when they're finished with this, then we'll turn to the microphones.

MR. AGOSIN (?): I just think that it's extremely important to evaluate results. I think that's the tendency, the new trend in this kind of project support, lending for particular projects, is to embed in the loan, some kind of evaluation, objective evaluation formula or process.

And I think that's very important. We are doing it ourselves in big loans in Mexico, a big loan [inaudible] conditional income transfers and so forth. And I think with a scientific methods,

you can tell whether the beneficiaries really did an improvement that you think they would. And they did.

MR. RADELET: Good.

Do you want to add to that, Manuel or Mr. Ambassador?

Mr. Ambassador?

MR. STADTHAGEN: I wanted to make some comments reflecting on some past experiences. I mentioned I was secretary of corporation (ph) in Nicaragua in the year 2000. And at that time I remember the whole issue of development--the first level of consultation is the national government. But some aid agencies don't even take the first level first to really reach the first level that was in our national government. And in this sense you, of course, have seen a change in how development, I mean, donor countries are approaching the national government.

I, for example, participated in the first consultation, a consultation with the European Community's five-year plan. And I thought it was a wonderful, wonderful thing.

Then, of course, we have the yearly consultations with Denmark, with Germany, with other countries. I was never consulted by the U.S. government to tell you the truth, what the USA was doing. And it was not only when Jim came in, I remember I was--

[Laughter.]

MR. STADTHAGEN: -- was then in charge of corporation (ph) for the country. But even though we had a lot of discussions about a program, a USA program, I think there's a--there needs to be more consultation with the national government.

And I imagine the USA by now is following the trend of other countries and consulting with the national governments about what they are going to be given basically.

That's just an observation.

MR. RADELET: All right, great.

Let's turn to **questions** from the audience. I invite you to stand. Please state your name. Director your **question** if you can, if you wish, it would be better to one person or more. And we'll go through as many as we can.

QUESTION: Jim Michael, a consultant.

I am one who has long favored the local ownership and partnership model for development cooperation. So I want to begin by congratulating the government and people of Nicaragua for developing and designing this program, and congratulate MCC for letting them do it and coming together with them in this partnership model that uses available resources in a concentrated way with a reasonable prospect for accomplishing some very good things.

I wanted to raise, though, the **question**--I'm always thinking about the rule of law as Jim Vermillion knows--and the tension that exists between a well-designed program with a regional impact and a national political setting in which that program has to operate.

A big part of this is strengthening the property rights, the legal rights of people in the affected region. And that will depend in part upon whether or not the courts will enforce those rights.

And perhaps it's for the ambassador. I would really like to get a sense of whether this participatory process or other factors in the development of this program create a dynamic that makes it more likely that the judiciary, which is not part of this program, will be accepting of the

new registration law, and the implementation process that will be carried out under this project or how this political dynamic will work out.

Is this going to be something that will help bring the country together? Or is it something that will expose cleavages that will continue and interfere with the good results that are projected for the project? If that's not too complicated of a **question**.

MR. RADELET: Thanks, Jim.

Mr. Ambassador?

MR. STADTHAGEN: Well, we all know, and we don't make it a secret the politicization and corruption of the judiciary in Nicaragua. And it's a big, big hindrance for development in our country.

As a matter of fact, when Chairman Kolbe and the Foreign Operations Committee were in Nicaragua, there was a panel in which a former supreme court justice and perhaps the only decent supreme court justice that exists in our judiciary, they had a very open panel with them and explained the situation of the politicization and corruption of the judicial system.

And we hope of course that the encouragement that we are getting from not only the U.S. but the whole international community of changing things in Nicaragua, we are perhaps still in government because of three things I would say. The civil society supports us, that the free press in Nicaragua supports us and the international community supports us.

We would not have been able to survive the two caldeos (ph) if these three things were not in place. Because we do not have any of the institutions. We don't have any control over the judiciary. We don't have any control of the--the controller itself is like an attorney general, GAO sort of office.

It's also politicized and corrupt. And it's putting obstacles to our development. And the electoral council is another problem. We have a big problem with electoral councils.

So there's a lot of bottlenecks here, but the way we can advance in those issues is with the support of the international community, the international community continuing to give us some strength to be able to tackle those huge problems that we have. And it's been working this way.

Now I mentioned in my speech that there was an historical event last week, and that 50,000 march would equal a 2.5 million march on Washington, because we're only 5 million. And it happened in Managua. We were only expecting a maximum of 25,000 and 50,000. Some people say up to 100,000 because it's very difficult to measure. There were people leaving the march, and there were people coming in to the march.

So I'm stressing that historical thing that happened last week because I believe the civil society in Nicaragua, they are just tired of this politicization of the institutions. And we are going, and they are going--we are going to be solving the problem.

But the encouragement that we get from things like the MCC, from the U.S. government has been solely on our behalf because it's a right, moral thing to do.

And the international community, you know, we have very strong support from all international community.

The way the European Union has renounced the politicization of our institutions is outstanding. Normally it's not done in diplomacy. They came out in a statement last year saying that there was a problem of politicization and corruption of the supreme court, of the judicial system.

They came out and I think, Jim, when he was the director of USAID there, was extremely outspoken about that. And you know, as much as we can expose the situation, it has to be changed. It cannot continue to be like that forever and ever. It has to be changed.

And we are hopeful that there will be.

MR. RADELET: Good.

Manuel, did you want to comment on that at all or issues of rule of law?

MR. OROZCO: You know, you can't predict what will happen, but I think in general, you have several layers of conflict within the judiciary and the civil courts.

With regards to this problem, I don't see much conflict coming in because what you're trying to do here is standardizing and streamlining a registry process of existing ownership, property, ownership.

Whenever there is a dispute, the situation will be more minimal.

You also see that we think the chaos and politicization that exists, the [inaudible] and this level of this particular solution, I don't see that there will be major conflict.

To me the implication is more over the long term, the impact that it can have on creating a demonstrating effect on the higher echelons in the judiciary and the justice system, where they will understand that you cannot politicize every single part of the courts.

MR. RADELET: Good. Thank you.

Yes, sir, in the back.

QUESTION: Hi, good afternoon. My name Patrick Elliot.

My **question** is regarding the local development councils. And those have been very useful obviously, in setting the agenda for how the MCC will be first of all developed, which it already has, and also how it will be implemented.

My **question**, is what is your assessment of those LDCs and how are they going to be used in the future even in the regions that haven't been picked for major funding from the MCC? How will they be used in order to create a more participatory democratic process beyond simply the MCC in a more short term vision? How are they going to be used in the long term, and those maybe are going to be institutionalized by the country, or they will be maintained as ad hoc committees?

Thank you.

MR. RADELET: Mr. Ambassador, Jim?

QUESTION: I'm sorry, those could be Mr. Ambassador or **Mr. Orozco**.

MR. VERMILLION: We were at a meeting with the ministers, was it last week, with the local development councils nationwide.

The president has mandated that all ministries have to listen to local development councils in setting their priorities.

This is not an MCA thing. This is Nicaragua. And it's very interesting to watch some of the ministers squirm when they have their programs and they hear that their programs aren't the priorities in the localities.

MR. RADELET: How long have the councils been in existence?

MR. VERMILLION: Years, I would say. It was part of the national development plan.

MR. RADELET: Yes.

MR. STADTHAGEN: They were consulted for the national development. There was a number of consultative meetings taking place for the PSB (ph) and then for the national development plan.

So I think it was gradual. And as a matter of fact, I was not in Nicaragua during period. I'm not that familiar with the intricacies. Jim, you participated in some of the meetings. I haven't, unfortunately. I have not participated in one of those meetings.

MR. VERMILLION: They're quite interesting.

[Laughter.]

MR. STADTHAGEN: They must be. You know that I would love to do so.

But I did participate, for example. Our president has gone down to the city levels and making presentations. I did accompany him on a couple of occasions. Presenting to the local people in the cities, the economic picture of the country, a presentation that was made to make them understand what the economic history of Nicaragua was, where the bottlenecks were.

And he was very patient. And he does that constantly. We used to do that constantly. We would go down to the cities and do it, and people sometimes like that to go to his presentations.

He has done it also with Nicaraguans here in the states. We have gone around with him to see the communities in San Francisco, in Los Angeles, in Florida of course. And he makes a similar presentation. And it's very enlightening for everybody in Nicaragua the way he does.

MR. RADELET: Thank you.

Yes, in the back.

QUESTION: Hi, I'm Nora O'Connell and I'm with the Women's Edge Coalition. And I want to share the earlier person's congratulations to both the Nicaraguan government as well as the MCC team for the immanent signing of the compact.

That's very existing. I think we're all happy to see where you are all at.

I have two **questions**. One has to do with the role of women. I was very excited to hear that there will be an emphasize on targeting women in the compact, because we know that when development efforts reach women, that we do better in reaching our overall development goals in terms of how it benefits children, how it benefits overall household income.

My **question** is, what are some of the specific barriers that you anticipate that your implementation design will have to address in terms of how the programs actually benefit women, is my first **question**?

And my second **question** is in terms of monitoring and evaluation, are you defining poverty reduction specifically in terms of income? Or will you also be looking at other aspects of poverty, such as health and education? And if you don't see changes in those other aspects of poverty, how will the MCC compact address that?

Thank you.

MR. RADELET: Great. Jim, do want to take a [inaudible] at that?

MR. VERMILLION: Well, in the targeting, first of all, the land titling, Nicaragua has been very forward in ensuring that women have legal status on titles that are issued. And this has been very important. And indeed, there's a preference towards women in the titling. So we make sure they have access.

In the rural business, this is one where in the implementation, in the consultative process with women's groups, and especially the DIFFID (ph) work, we're reaching out to women's groups to ensure that we are going to have beneficiaries that are women-headed households, women-headed agri-businesses, and women-headed farms.

And so this is something that we'll--we won't have a target number. But we will absolutely ensure that our process reaches out to make sure that women's groups are involved.

On the measurement of poverty alleviation, our legislation requires us to look at economic returns. And that really is the key thing that we're looking at, although our Nicaraguan counterparts, I know, are interested in these other areas because they're not interested in just the MCA program. They're interested in the development of the region.

And so, it's something they're going to be tracking.

MR. RADELET: I think it's an excellent **question**, and it makes a lot of sense to me to perhaps think about going a little beyond the legislation and look at literacy rates or health or other kinds of development impacts as measures of a broader poverty--

MR. VERMILLION: They're important, but there's the attribution **question** [inaudible] if you're not doing literacy, how can you--

MR. RADELET: Fair enough. But at least to get sort of before and after and maybe not make statements of attribution, but to at least report those--

MR. VERMILLION: And if we don't see changes in health status and--

MR. RADELET: Exactly.

MR. VERMILLION: -- and education status, and the like, then we failed in [inaudible].

MR. RADELET: Right, right. Or if you see rises in income but falls in health, it's not clear what it means and what you can attribute to it, but to at least record that information.

But since you've got the living survey, I mean presumably, I mean a lot of that information is there.

MR. VERMILLION: Yes, it's there--

MR. STADTHAGEN: And you can also [inaudible].

MR. VERMILLION: Our targets, honestly, I believe, are very conservative targets. I expect that we're going to see an impact that's significantly greater than what we're targeting. But we've targeted based on what we realistically expect at a minimum to see.

MR. RADELET: Right. Well, I would expect if you've got roads going and part of your target is access to water, then it makes sense that you ought to be seeing changes in infant mortality at some point down the line.

MR. VERMILLION: Yes.

MR. RADELET: And people have greater access to health facilities--

MR. VERMILLION: Anne (ph) is our expert here.

MR. RADELET: -- and that sort of thing. So it might be interesting to expand it at least to record those things before and after and see what's there.

Yes, sir, in the back.

QUESTION: My Neil Lavine (ph). I'm with the Office of Democracy and Governance at USAID.

Again, I want to add my congratulations both to the governing people of Nicaragua and to the MCC, both for the ambition and for the focus of the program.

The two **questions** I have, one for the ambassador and for Jim Vermillion. Just given the comments on the institutional situation where the traditional oversight mechanism in country, national assembly, courts, the controller, they are politicized, corrupt as you mentioned in the case of the controller general's office, what if any special arrangements are going to be made in terms of oversight and accountability of the MCA funds to make sure they go for their intended uses?

And then secondly for the Manuels, the target of resolution of property I think, anyone who looks at Nicaragua, thinks that's a sensible thing to do and could unlock the potential. But my **question** is whether that alone does internal capital and both the infrastructure to deliver and market capital within that country exist so that the fruits of having the property cases resolved really does in turn then activate that region? Given the transportation will be helped, but capital, access to capital, is that being addressed adequately?

MR. RADELET: Yes.

MR. STADTHAGEN: Beginning at the end part of your **question**, I think access to capital is rapidly growing in Nicaragua. I believe there is a number of lines of credits that are opening up. You know, Central America Development Bank, it's opening up very interesting lines of credit. It's [inaudible] lines of credit. And of course local banks. We don't have development banks because of the failure of the development banks. But not first floor (ph) at least. You know, we have five [inaudible] lending institutions.

But I think there's more and more capital available, definitely, in the country. That's my impression. And I believe tightening will help substantially.

I don't know if you want to tackle--

MR. RADELET: Either of them. Manuel Agosin or **Manuel Orozco** about the property rights, its broader connections?

MR. AGOSIN: Well, you know, access to capital it always a problem everywhere.

I mean, that's one of the manifestations of underdevelopment is that capital markets don't work.

That being said, Nicaragua is a case of pretty successful micro-credit. Micro-credit is growing rapidly in Nicaragua. It started with the NGOs, and so forth, and it has been growing and becoming much more institutionalized.

That's something that you're seeing not only in Nicaragua, also in other Central American countries. But I think that's one of the positive developments of the last 10, 15 years is the proliferation of micro-credit that is of institutions that lend little amounts of money without collateral.

These institutions have a very good record of recovering their loans. And their non-performing loans are a very small percentage of the total portfolio. So I think Nicaragua is a good case of this approach working.

It should be, of course, deepened and expanded.

MR. STADTHAGEN: As a matter of fact, maybe you know about this, a new bank has been incorporated, has been approved by the superintendency of banking institutions as of a couple of days ago. And it actually is a micro lender that has incorporated as a regular bank.

So I believe that they have about \$50 million there. They're not small. I think micro-credit is quite extensive.

MR. OROZCO: I think access to capital, in my opinion, it will be a challenge. There are at least 10 micro financing institutions in Nicaragua with widespread operations. They serve from 20,000 to 120,000 people. One of the largest is FDL, the Fund of [inaudible], which has operations in the Pacific.

They focus predominantly on agricultural production. And the **question** is whether you have a strategy that ties in the land titling with credit access if credit access is needed.

And I don't know if that comes with the plan with MCA.

MR. VERMILLION: I would say one of the issues in Nicaragua is too much access to capital. The banks give anybody who wants one a credit card. The interest rate is 20 percent a month, minimum, a month. Yes, it compounds monthly. And this is--people are in debt to their eyeballs in Nicaragua right now. It's one of the biggest problems facing the country.

The issue, and we hope to do this in our business program, is to work with people, to manage their cash flow.

Yes, having land title can give you collateral. But we don't want people to borrow and have their land foreclosed. We want people to manage their cash flow and their money, and that's more of our focus. And then lending capital, we never said lending capital is one of our results because people are borrowing too easily right now in Nicaragua. And it's a huge problem.

MR. RADELET: Jim, did you want to briefly touch on the other **question** on oversight and management and accountability?

MR. VERMILLION: The government of Nicaragua has decided to establish a foundation. On that foundation, there will be a board, four people from the government--no, five people from the government--four from the government, and three from non-government entities that will provide oversight to the program.

The government has already undertaken an internationally competitive procurement to put in place an international firm that will handle all procurement under the program and also will be the fiscal agent handling all of the funds.

So the money won't go into situations where it's compromised. There will be oversight of all of the procurement. And most importantly, the United States taxpayer won't have its money subject to a constitutional drain where 6 percent of all money going into the national budget goes to corrupt professors of universities of 10 universities where there are 40,000 students--

MR. RADELET: Not the University of Chili--

[Laughter.]

MR. VERMILLION: Forty-thousand students when there are 250,000, 300,000 primary school students who get no funding for their education, for money that's not accounted for, not audited in any way, and 4 percent of the money goes to the most corrupt judicial system in Central America and maybe the most corrupt system in the Western Hemisphere.

So we're protecting the taxpayer from that massive theft.

MR. RADELET: Well, there we go.

MR. STADTHAGEN: Yes, it is a great problem, and I'm sure everyone will agree, in Nicaragua.

I was present in a speech that our president gave to 60 deans of universities in Nicaragua. And I was next to the dean of one of the national universities. And he became red as a tomato as our president express this.

They really are short changing the Nicaraguan people. And they would not allow auditing into the state university system until up to, I think to 1990, some sort of auditing. I don't know if there's full auditing, but in '95, do you recall, Manuel? I don't know, but very late in the game.

So they really are receiving 6 percent of the budget of the country, including donations and not accounting very well for them.

MR. VERMILLION: And they control the scholarships. They use this to get people in the streets to demonstrate against programs that they don't like. And if a student stands up and opposes this in the university, there are attacked with baseball bats. This is a terrible situation.

MR. STADTHAGEN: This 6 percent has created hooligans, you know. Professional deans are student in the universitas that get grants to continue in the system, and they go on studying for 10 years.

So you see a lot of these student demonstrations are people of 39, 40 years of age and they're students.

So, I think, they're shortchanging the Nicaraguan people and some donors, too.

MR. RADELET: We've touched on a hot topic there.

[Laughter.]

MR. RADELET: We have three more speakers. Let's ask those three **questions** all in a row. Or one of them sat down, I guess. We're down to two.

Two more speakers. Why don't you both ask your **questions** as directly as you can. And we'll have the folks answer those and wrap up at that point.

QUESTION: My name is Michael McNulty (ph). I'm currently working for [inaudible] in their Latin America Division and actually was a former Peace Corps volunteer in Nicaragua. So I lived there almost three years.

So I'm very happy to see this happening.

My main **question** is actually, are there expectations and metrics tied to those expectations for impacts in secondary, highly productive areas, for example, Garoso (ph) and also in Reves (ph)?

MR. RADELET: Why don't we answer that one very quickly and then we'll go with you. Do you want to go ahead and answer that since it was a fairly specific one?

MR. VERMILLION: For our program, it's really just in this region. I mean, this is only part of what the government is doing. And they do have plans. I mean, this household survey that they're doing is not just in this region. It's nationwide.

So I think they will be looking at these things. But it would be very hard to attribute direct results of this program to impacts in Reves (ph) or other areas.

QUESTION: Assuming that it [inaudible]?

MR. VERMILLION: Yes.

MR. RADELET: Last **question**.

QUESTION: My name is Benalt Zadicki (ph). I work at the Center for Global Development.

And this is sort of in response to the pandora's box that Steve opened up with his first **question** on participation.

From what I understand, the MCC is not--and this is directed to Jim--from what I understand, the MCC is not explicitly committed in its legislation to dealing only with national

government. But that is the general practice. My **question** is in the context of, in light of other innovative aid programs also existing like that for the Global Fund, where they deal with different kinds of principle recipients to whom they disperse their funds.

And there is, you know, country coordination system in place. And where in fact [inaudible] evidence may even show that civil society recipients may have outperformed government when they receive there money.

Is this a direction that the MCC ever plans to pursue in the future, or is it always going to be national governments that will be your target recipients?

MR. VERMILLION: I can't give you a direct answer to that. We're a new organization. We have now approved four compacts. This is something that obviously we're looking at. The legislation does permit grants to NGOs and other private sector organizations.

But at this point, there are none that are on the table and designed that way. Although, this is a foundation, and there was a **question** in Nicaragua which just was resolved with the prescient last week on whether the foundation would be predominantly government or predominantly non-government.

MR. RADELET: That's a good **question**. It raises the broader option of something that I'd like to see. I'm a little worried about the MCC being locked into one compact per country that could stretch over four or five years even if there are amendments. And I would love to see it move towards one compact per country per year that might be separate, but all integrated into a broader development strategy that might bring in other regions or that might bring in health or education that could do those kinds of things and bring in the broader perspectives and have in some of those other ones, if you've got more than one compact, you could have more than one recipient depending on the specific topic, subject matter.

But that's a bigger issue.

Well, let me thank each of you for coming. This has been a very interesting discussion. I think we've touched on a lot of topics.

And we thank the audience for coming and sticking with us and for your participation as well.

[Applause.]

MR. RADELET: Thank you very much.

[END OF TAPED RECORDING.]
