Testimony of Patrick C. Fine to the Senate Foreign Relations Committee Subcommittee on African Affairs

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Good morning, Chairman Coons, Ranking Member Isakson, and all the members of the Subcommittee. I am pleased to be here to discuss the unique mission of the Millennium Challenge Corporation and our distinctive approach to development in Africa. If there are no objections, I will summarize my remarks and submit my full statement for the record.

Today's hearing comes at a time when much is at stake on the continent of Africa.

Africa is home to more impoverished countries than any other continent. Appropriately, nearly 60 percent of MCC's partner countries are in Africa—where 70 percent of our funds are dedicated. Although countries in conflict like Cote d'Ivoire grab the headlines, I have witnessed remarkable progress in the over thirty years that I have been living and working in Africa, and I've seen the vital role that U.S. assistance has played in increasing access to education, combating disease, and promoting market economies.

President Obama has laid out a clear vision for development that articulates the strategic, economic and moral imperatives that make development vital to U.S. national security. The President's Global Development Policy recognizes that protecting our interests and advancing our ideals requires economic and diplomatic tools such as the MCC, USAID and PEPFAR.

We take collaboration seriously. We co-lead the Partnership for Growth, along with State and USAID, and work with other U.S. Government agencies in the countries where we operate to ensure our programs are coherent and mutually reinforcing.

The MCC is a specialized tool that works with poor but well-governed countries in Africa and around the world. Our programs build capacity and strengthen relationships with Africa's emerging economies. From Morocco, where private small holders are expanding olive production; to Mozambique, where thousands of people will gain access to clean water for drinking and agriculture; through the MCC, U.S. assistance is improving lives.

As you know, MCC only works with countries selected using credible, publicly available, third-party indicators related to ruling justly, investing in people and economic freedom. This creates an amazingly powerful set of incentives for good policy performance. We have seen these incentives cause governments to undertake reforms both to become eligible for MCC assistance—in other words, before we put *any* money on the table—and to retain programs already underway.

A model with a singular focus—poverty reduction through economic growth, by which we mean raising incomes—makes the MCC distinct from other aid programs and has served us well. By focusing on economic growth, MCC helps entrepreneurs and small businesspeople create new sources of wealth for themselves, their communities and their nations. Increased prosperity creates new markets and strong allies for America. I saw an example of this two weeks ago when I visited a chicken hatchery financed by the MCC in Georgia. Not only did this enterprise create 45 jobs and reduce Georgia's reliance on importing eggs from Russia, but when we went to the building where tons of chicken food are mixed, we saw that the soybeans were imported from the United States. And in Tanzania, MCC is financing expansion of the electrical grid, one of the basic prerequisites for modern business expansion. A U.S. consortium led by Symbion Power and Pike Energy competed and won over $100 million in contracts for this work. And, of course, investing in the hope, prosperity and security of others is both an investment in our own future and a representation of America leading with its values.

How we execute our model also matters. Selectivity and rigor continue at this level. We only invest in areas that are binding constraints to growth and we only invest in programs that deliver an economic return. MCC is not your business-as-usual aid program. It is a program that quite deliberately treats aid as a business. And it's good for U.S. business. MCC financing and diligent oversight ensures that U.S. companies can compete for foreign contracts with the confidence that the procurement will be free of corruption, will be professionally administered, and if they win, that they will be paid on time. Once a contract is awarded, we are uncompromising in our enforcement of measures to prevent, detect and punish fraud and corruption. After a procurement was cancelled in Lesotho last month due to suspicions the technical evaluation had been tainted, the Lesotho Times, an independent local newspaper, ran the headline, "MCA Ensures Transparency." That is our reputation and our partners understand it.

President Obama requested $1.125 billion for MCC for Fiscal Year 2012. By supporting funding for MCC, Congress will reaffirm America's commitment to investing in countries that are committed to their own development. The American people will be making investments that will yield dividends for years to come, in the form of new export opportunities, more capable regional security partners, and reduced poverty. Look at MCC's track record in terms of results that benefit the poor, and in terms of the incentives for good policy performance that create the business environment to allow countries to increasingly finance their own development, and you'll see this taxpayer money is well spent.

America's Interest in African Development

Today's hearing comes at a time when much is at stake on the continent of Africa.

Africa remains the world's poorest continent. Rising food prices have increased hardship for poor households and in some countries, such as Cote d'Ivoire, Zimbabwe and the Democratic Republic of the Congo, armed conflict, bad leadership and corruption deny millions of good, hardworking people the opportunity to build better lives.

Meanwhile, Africa also is presented with unprecedented opportunities. Bill Gates noted in a recent speech that half of American exports go to developing markets. As the population and economy of these countries grow, so will that number. Mr. Gates calls development "the smartest way our government spends money."

By investing in poor but well-governed countries in Africa and around the world, MCC is building capacity and strengthening relationships with these emerging economies. We must be mindful that we are not the only country with an interest in doing so. If we cut back on our development efforts, we will leave a vacuum in these nations that someone else will fill, ceding valuable opportunities to build trade relationships, create American jobs, and promote American interests.

MCC also is helping to make Americans safer and more secure by promoting stability and developing strong partners in key regions around the world. Defense Secretary Robert Gates has been one of the most persuasive advocates for financing development work. In recent remarks, Secretary Gates stated:

> *"…[I]n military planning, what we call phase zero is, how do you prevent conflict? How do you create conditions so we don't have to send soldiers? And the way you do that is through*

> *development. Development contributes to stability. It contributes to better governance. And if you are able to do those things and you're able to do them in a focused and sustainable way, then it may be unnecessary for you to send soldiers. …Development is a lot cheaper than sending soldiers."*

That is one reason why President Obama, like President Bush, has made development—together with defense and diplomacy—a critical pillar of our national security.

MCC's Work in Africa

MCC works with the world's best-governed poor countries, and through our highly competitive country selection process, a large portion of our investment portfolio has been dedicated to Africa.

Of the 22 MCC Compacts signed to date, 13 have been with African countries: Benin, Burkina Faso, Cape Verde, Ghana, Lesotho, Madagascar, Mali, Malawi, Mozambique, Morocco, Namibia, Senegal, and Tanzania. Of the 21 countries in MCC's Threshold Program, 12 have been in Africa: Burkina Faso, Guyana, Kenya, Liberia, Malawi, Mozambique, Niger, Rwanda, Sao Tome and Principe, Tanzania, Uganda and Zambia.

Sixty percent of our compact countries are located in Africa, and projects in those nations receive 70 percent of our funds.

Asking the Tough Questions in a Budget-Constrained Environment

President Obama has made MCC a key part of the U.S. Global Development Policy. When the President unveiled the new policy last year, he made clear that the United States is "changing the way we do business" in development. Laying out a set of principles and practices that are at the core of MCC's model, he called for all U.S. Government agencies to embrace a focus on results, selectivity, country ownership and transparency.

In his budget request for Fiscal Year 2012, President Obama requested $1.125 billion for MCC, signaling once again that the agency's distinctive model will continue to play an important role in the effort to cultivate opportunity and prosperity in poor countries around the world. President Obama's Fiscal Year 2012 budget request would enable MCC to sign compacts with Georgia and Ghana, as well as fully fund a compact with Indonesia.

MCC, like other U.S. government agencies, is operating in a constrained budget environment. MCC holds itself accountable to the American people to ensure that every taxpayer dollar generates the best possible return on investment. As good stewards of American taxpayer resources, every day we ask ourselves the tough, fundamental questions about the effectiveness and efficiency of our approach to development and our operations.

For example, MCC recently took action to prohibit state-owned enterprises from bidding on MCC contracts. MCC's original procurement guidelines included no guidance on this matter, and many—including some members of this committee—rightly expressed concern. MCC's aim is to ensure a level playing field for commercial firms that bid on MCC-funded contracts. Because state-owned enterprises have built-in advantages such as access to preferential credit terms, we took this step to ensure private companies—including American companies—get a fair opportunity to compete for MCC-funded contracts.

MCC's estimated budget requirements for proposed compacts are based on several factors, including policy performance on MCC's indicators, total population, population living below national poverty lines, absorptive capacity, and, specific to Africa in the case of Ghana, performance in previous compact implementation. Final compact amounts will be based on funding availability and on the scope of agreed-upon projects.

MCC requests $912 million of the total Fiscal Year 2012 request for compact programs, divided between a second tranche of funding for Indonesia and subsequent compacts for Georgia (est. $100–150 million) and Ghana (est. $350–400 million). Because of its proposed size, the Indonesian compact would be funded over Fiscal Years 2011 and 2012, for a total compact range of $700–770 million.

After seven years of operations, MCC has committed $7.9 billion to reducing poverty in 22 countries, $4.2 billion of which has been contracted and $2.2 billion of which has been disbursed.

For this investment of $7.9 billion in taxpayer money, we expect to generate $12.3 billion in increased incomes for 172 million people over the coming years.

Two of the three countries selected as eligible for a second MCC compact are African countries, Cape Verde and Ghana. Ghana was selected as eligible for compact assistance in January 2011 by the MCC Board and has just begun the rigorous process of developing an MCC compact. It was selected because of its continued strong policy performance, status as an important emerging market, strategic importance both globally and regionally, and the successful implementation of its first compact.

The Republic of Ghana consistently performs well on MCC's indicator criteria and is generally viewed as one of Africa's most stable policy performers. Since 2004, Ghana has scored among the top low-income countries on the Control of Corruption indicator. In a region where constitutional transfers of power are often disputed, Ghana has a record of peaceful democratic elections and the transfer of power to opposition parties. In 2009, Ghana ranked better than almost two-thirds of all countries on Transparency International's Corruption Perceptions Index, and is preparing for transparent management of potential oil revenues.

MCC's Selective, Targeted Approach to Development Assistance

One of the most distinctive features of MCC is our broad-based, bipartisan support. The MCC approach to development—with our focus on economic growth, sustainability, country ownership, transparency and accountability—has been embraced by Democrats and Republicans in Congress; Presidents Obama and Bush; Secretaries Clinton, Rice and Powell; and leading voices from the right and the left, from the Heritage Foundation and the American Enterprise Institute to the Brookings Institution and the Center for American Progress.

Why has MCC won the support of policymakers and analysts across the political spectrum? Because of our innovative, reform-minded mission and business model. MCC's mission is to reduce poverty through economic growth in a select number of well-governed countries. MCC selects country partners carefully to ensure the highest returns on our investments and creates strong incentives to advance democratic, market-based principles.

Part of MCC's accountability model is the ability and willingness to say "no"—no to countries that do not meet MCC's high standards for eligibility, and no to proposed investments that do not have promising returns for economic growth and poverty reduction.

In determining eligibility for funding, MCC evaluates whether a country has created a policy environment for sustained economic growth through 17 independent, transparent policy indicators that measure a country's commitment to ruling justly, economic freedom, and investing in its own people. We believe that engaging with developing countries in a selective, targeted way is not only fiscally responsible in the short term, but also critical to poor countries interested in attracting private investment and ending their reliance on aid.

Good governance is critical for economic growth. We look for opportunities for reform in areas that will ensure the sustainability of our investments. These reforms have included changes to national policies, laws, regulations, and even the traditional ways of doing business by government institutions. For example, before investing in Lesotho, we worked with the government to change a law that treated adult women as minors, so that women could be full participants in the economy. In most cases, these reforms, and the domestic capacity that MCC's country-led programs build, not only help unlock the full potential of U.S. taxpayer dollars, but also help improve the broader conditions for continued growth and investment in our partner countries.

Signing up to work with MCC means a country is committing itself to tackle the tough policy reforms necessary to create an environment in which the private sector can thrive, citizens can hold their governments accountable, and U.S. taxpayers can see they are getting a good return on their investment. Our goal is to help poor countries rise out of poverty and achieve self-sufficiency, as well as to create stable trading and investment partners for the United States, which will strengthen the American economy and make our nation more secure.

MCC is Delivering Results

MCC's focus on economic growth, sustainability, country ownership, transparency, and accountability is working. All development partners, both donors and host countries, are interested in achieving results. What distinguishes MCC is our commitment to technically rigorous, systematic, and transparent methods of projecting, tracking, and evaluating the impact of our programs. MCC's results exist along a continuum—from policy changes countries make to become compact eligible ("the MCC Effect"), to interim outputs and outcomes as compacts mature, to our ultimate goal: income increases over the long term.

We expect MCC's current investments to benefit roughly 40 million people in our partner countries in Africa—and we expect incomes in those countries to rise by over $8.7 billion over the life of those investments.

Even before these income gains are achieved, MCC and our country partners have tangible results to show. To date, MCC investments in new or improved irrigation and technical assistance have facilitated the adoption of new agricultural practices on 82,510 hectares of land. Our funded programs have trained over 150,000 farmers in techniques that help them produce higher-quality, higher-value crops. We have provided funding for $66 million in agricultural loans, and have financed assistance for over 3,800 private enterprises involved in agriculture-related business. We have supported construction of more than 890 kilometers of roads that link markets and encourage trade, and have another 2,400 kilometers under construction. These interventions aim to increase incomes though market-driven agriculture. MCC tracks these results closely because they are the drivers of the income gains we and our partners aim to achieve.

While these results are important indicators of success, they do not tell the whole story. We are pleased that our program outputs are on track, but we hold ourselves to a higher standard: are MCC investments increasing incomes? That is why we use independent third-party evaluators to track the results of MCC investments even after the compact ends. We are eagerly awaiting these results from our first compacts, but preliminary data from the field is promising.

MCC's Subsequent Compacts Will Focus on Constraints to Investments

Entering our eighth year, MCC is beginning a new phase of innovation and partnership. As first compacts strengthen the foundation for economic growth, subsequent compacts—new MCC investments with countries that have successfully concluded their first compacts—are expected to target constraints to private investment. MCC aims to help countries like Ghana, which was reselected as a candidate country for subsequent compacts, solidify an economic growth path that attracts private investment, reducing the need for aid.

MCC's engagement with partner countries is not open-ended. MCC carefully considers the appropriate nature and duration of each country partnership based on the country's policy and implementation performance, as well as the opportunities for an impact on growth and poverty reduction. A defining characteristic of MCC's model of aid effectiveness is selectivity, both in the countries we work with and the investments we make. MCC's business model emphasizes selectivity and our mandate to partner with countries where investments will have the greatest potential returns in terms of poverty reduction and economic growth, and where U.S. taxpayer resources can be used most efficiently and effectively.

While a single compact alone cannot address all binding constraints to a country's growth or transform an entire economy, a subsequent compact in a country that continues to perform well has the potential to help countries change their growth path away from aid dependence and toward greater reliance on private sector investment and internally generated revenue. For the poorest countries, even the ones with the right policies in place, it may take decades of sustained growth to lift citizens out of poverty. For low-income countries like Tanzania, where the annual per capita income is $500, economists estimate that it could take over 20 years to double per capita income even if the country sustains annual per capita growth of four percent (a historically high rate).

This does not mean, however, that MCC engagement should last anywhere near that long. On the contrary, MCC's role is targeted and selective, and only the best performers will be eligible for continued, limited engagement. MCC's Board is particularly discerning when determining eligibility for follow-on partnerships. In addition to good policy performance, countries must show meaningful progress toward achieving first compact results before being considered for a subsequent compact. Of the 10 countries that will successfully conclude first compacts by the end of 2012, MCC's Board has thus far only selected three as eligible for a subsequent compact. Cape Verde was selected in Fiscal Year 2010 and Georgia and Ghana in Fiscal Year 2011.

In our approach to subsequent compact design, MCC focuses increasingly on specific constraints to investment and private sector engagement; by removing such constraints, MCC helps to expand opportunities for U.S. businesses in emerging markets. This is in line with the President's Global Development Policy directive to foster the next generation of emerging markets by encouraging broad-based economic growth and democratic governance.

MCC supports this effort by reaching out to the private sector, by grounding our investment choices in a constraints analysis that identifies specific obstacles to private sector-led growth, by introducing financial instruments designed to enhance access to capital, and by promoting innovative project content in areas of potential growth, such as alternative energy, applied technology and financial inclusiveness.

The potential to leverage MCC funding with a direct impact on investment growth serves as one of the screens for evaluation of second compact programming, in addition to MCC's mandate to promote poverty reduction through economic growth. By helping these countries solidify the progress they have made and become better integrated in the global market system, the United States is opening new investment opportunities for American firms, as well.

MCC Believes Corruption Erodes Private Sector Growth

I would like to discuss another critical topic, which is how MCC deals with corruption in potential or current partner countries. Because corruption has the power to completely undermine private sector growth—as well as any investment MCC or other donors make in developing countries—we take this issue very seriously.

MCC's approach to fighting corruption begins before we even select a country for eligibility. MCC's corruption indicator is a key part of country eligibility decisions. In fact, it is the only "hard hurdle" in the eligibility system. Our scrutiny does not stop after selection. Corruption is closely monitored as a country develops a compact and proceeds into compact implementation. MCC has a publicly available anti-fraud and corruption policy that outlines precautions that we take and describes ways of responding to any instances of corruption in a compact program. We are currently training our local Millennium Challenge Account accountable entities on how to apply this policy and develop risk assessments for their own work.

In addition to protecting against corruption in our compacts, and assessing individual cases of corruption, MCC assesses broader patterns of government actions that undermine institutions of accountability: courts, anti-corruption commissions, auditors and the media. Governmental actions that undermine these institutions of accountability make individual instances of corruption more likely, enable corruption to flourish, and cultivate a culture of impunity. By emphasizing the institutional response, MCC incentivizes governments to take greater responsibility for rooting out corruption.

For example, MCC and several other donors made clear to the Government of Senegal that recent changes to their procurement code and the regulatory entity responsible for its oversight, in part due to legitimate national security concerns, were an accountability concern to us. In response, the government entered into discussions with donors, including MCC specifically, to address our concerns as they further revised the procurement code. Consequently, they have taken steps to amend the objectionable changes—including a January 2011 decree and a more recent draft decree under consideration by the Government of Senegal and various stakeholders. MCC is studying these amendments.

Working with some of the poorest countries in the world means working with countries that struggle with policy performance including corruption. MCC's challenge is to find the right way to pursue poverty reduction while staying true to our model of selectivity and accountability, and this is particularly true in the case of corruption.

MCC's Proposed Legislative Changes Would Strengthen an Already Strong Model

We hope to work with members of this Subcommittee again this year on passage of a package of legislative changes to MCC's current authorities, including allowing for concurrent compact authority and longer compacts in certain circumstances.

The proposed changes are based on lessons learned since MCC's creation in 2004 and will provide the flexibility needed to maximize the impact of MCC programs through more innovative approaches to development assistance.

Concurrent compact authority would allow MCC to sign separate compacts with a country based on the specific timing requirements of individual projects rather than as part of a package driven on a single timeline. Concurrent compacts would improve MCC's ability to manage our compact pipeline with greater predictability and serve as an added incentive for policy reforms in partner countries.

With concurrent compacts, the agency could move forward with projects that are investment-ready, instead of putting several projects at various stages of readiness into a single compact or delaying compact signing for a promising but less-developed project. As part of a larger, cohesive framework, concurrent compacts will allow for smaller, staggered agreements; speed implementation; improve project management by allowing countries to focus on managing fewer projects at a time; build management capacity with early projects; ease the current burden of managing large, complex compact programs; and foster innovation by allowing MCC to pursue new approaches and partnerships that could otherwise slow down the compact development process.

Additionally, while having definite time frames for MCC compacts is an important best practice for effective foreign assistance, in some cases projects face implementation challenges that mean they cannot be completed within the mandated five-year period, particularly given MCC's emphasis on country-led implementation and MCC's high accountability standards. In these cases, MCC's options for responding to implementation challenges are limited by the five year time frame. Allowing MCC, in exceptional circumstances, to extend the duration of our five-year compact period for up to two additional years would allow MCC and our partner countries to pursue a fuller set of options for managing challenges and achieving compact objectives.

MCC also has sought legislative changes aimed at ensuring that changes in countries' income categories do not necessarily prevent the agency from working with the best policy performing countries that also have populations living in extreme poverty. Each year, countries abruptly graduate from one income category to another with no transition period. Sudden shifts in income category, due in part to changes in exchange rates, pose serious issues for MCC. This impacts whether they can be candidates for MCC assistance at all, and changes both the policy performance standards against which they are measured and the levels of funding they can receive.

Conclusion

With that, Chairman Coons, I would like to again state my appreciation for your continued support of results-based foreign assistance, and we look forward to continuing our strong working relationship with you, Senator Isakson, and other members of the subcommittee.

I would be happy to answer any questions that you may have.