

Testimony of Jim Kolbe, Senate Foreign Relations Committee, 8 Dec. 2015

Chairman Corker, Ranking Member Cardin, and members of the Committee:

Thank you for the opportunity to testify today on the subject of the Millennium Challenge Corporation. This is an important and timely agency for your consideration, as the MCC recently passed its ten-year mark and is currently developing a new five-year strategic plan. I would like to commend MCC CEO Dana Hyde for her looking ahead and her commitment to keep the agency at the forefront of good development practice.

I am also delighted to be joined by my distinguished colleagues on this panel. I worked with Andrew Natsios when he ably served as administrator of the United States Agency for International Development under President Bush while I was chairman of the House Appropriations Subcommittee on Foreign Operations and Related Agencies, and more recently together as members of the Consensus for Development Reform, which aims to strengthen U.S. global leadership through reforming and improving our approach to global development. I've also had the pleasure of working with Nancy Birdsall in numerous capacities, including jointly serving on the Transatlantic Taskforce on Development at the German Marshall Fund, which produced a report examining key issues around the role of development assistance. Nancy remains a respected thought leader on development. While she recently announced she plans to step down from her leadership post at the Center for Global Development next year, I know she will continue to be an intellectual force and leading voice on the future of development.

MCC: In Ten Short Years, A Proven Model of Success

In 2004, while serving as chairman of the House Appropriations Foreign Operations Subcommittee, our subcommittee worked to pass--with strong bipartisan support, I might add--the legislation creating the Millennium Challenge Corporation. After the MCC came into being, our subcommittee provided the initial funding for its operations and ongoing appropriations in the years that followed. MCC represented a new approach to foreign assistance, with a radical departure from the way programs had been designed and countries designated for foreign aid assistance in the past. Not everyone in the executive branch or in the development community, nor even some of my colleagues on Capitol Hill, were confident of its success. It was designed with the singular mission of *reducing poverty through economic growth* in the world's poorest but relatively well-governed countries. Its objectives, governance, and authorities were clearly spelled out in legislation to accomplish

this overarching development purpose. The MCC's model of assistance is focused on four sound principles:

- 1) Selectivity in determining which countries to partner based on agreed-upon criteria—objectively measured and objectively applied;
- 2) A business-like approach to choosing investments using well designed analyses of constraints to economic growth;
- 3) A focus on country ownership through the consultation, development, and implementation processes of each compact; and
- 4) A rigorous commitment to transparency and accountability from beginning to end of a country compact.

First and foremost, MCC partners must earn their place in MCC's pipeline by sharing values that are common to democratic societies. They must demonstrate a commitment to *ruling justly, investing in their people, and supporting democratic rights*. By demonstrating this commitment—sometimes over multiple years and often only after undertaking significant and politically difficult reforms—countries are then able to work with MCC to address identified constraints to economic growth. Incentivizing reform in partner countries is a crucial policy aim of the MCC.

I've followed the MCC's work closely from its inception, and over its decade-long existence, the MCC has demonstrated that its model works. MCC has invested over \$10 billion in eligible partner countries and improved the lives of millions of people around the world. Eligibility for MCC's sizeable grants is determined by measuring a country's performance against independent, transparent, selection criteria. By working exclusively with those countries that demonstrate a commitment to good governance, the rule of law and economic freedom, MCC has had the multiplying effect of compelling low income countries – even those who don't currently partner with MCC – to reform institutions, change laws, and improve how they operate in order to try to qualify for MCC assistance.

And the effect is not just taking place overseas where we provide assistance. I have seen it impact our own U.S. government, where larger organizations, such as USAID, have incorporated many of MCC's core principles into their own business practices.

Responsiveness to country priorities, open and transparent practices, rigorous evaluations, and evidence-driven learning and decision-making are becoming the norm for development agencies here and abroad—no longer the exception.

However, as we peer over the horizon to the next ten years, I want to offer my own reflections on how the MCC can continue to stay on the cutting edge of development while remaining true to its original intent.

Accentuate MCC's Strengths and Stay True to Mission

First, there will always be a temptation by policy makers in the executive branch and here in Congress to allow new priorities to interfere with the MCC's core values. The MCC should not allow itself to succumb to other considerations, strategic or otherwise, that are inconsistent with, or run counter to, MCC's fundamental approach. Long-term development requires focus and discipline. Bringing the 800 million people in the world who remain in the shadow of the worst poverty is an end in itself with its own strategic purpose. It cannot, and should not, be an instrument of day-to-day diplomatic engagement or set aside in order to respond to the political crisis of the day.

What has made the MCC successful has been its unwavering commitment to the principles upon which it was founded: democracy, rule of law, good governance, and transparency. These are principles deeply imbedded in the American value system. But they are also principles which peoples of other countries strive to incorporate into their own governing process. A desire for democratic decision making, to have a government free of corruption, to be shielded by adherence to the rule of law--these are not exclusively American values.

In an effort to ensure public accountability, when the MCC was established it included in the founding legislation a private-sector component of the MCC's Board: four private-sector members appointed by the President of the United States with the advice and consent of the U.S. Senate. These members have worked in a bipartisan fashion in successive administrations to honor the MCC's mandate by maintaining the rightful focus on the MCC's development objectives, even when confronted with sometimes unrelated, policy priorities and emergencies. Even when foreign policy issues directly involve MCC partner countries, the Board has worked together to prioritize and uphold MCC's mission.

Second, the MCC model has always been built on the idea of partnership, with developing countries setting the course for MCC engagement by identifying their own objectives and designing and implementing their own program. In fact, the legislation creating the MCC was deliberately designed to contain no earmarks for specific sectors or purposes, thus giving countries the political and policy flexibility to determine their own priorities. Over time, MCC has integrated a number of requisite steps to foster inclusiveness and accountability, including constraints-to-growth analysis, broad local consultation, economic rate of return assessments, and monitoring and evaluation plans. Facilitating a process for governments and communities to lead their development and be accountable for results should guide U.S. assistance policy. I am confident that with the passage of time we will find that one of the long term benefits of the MCC will prove to be its ability to strengthen the citizen-state compact so that governments are more responsive to the needs of the people our assistance is intended to help.

Third, the MCC has been a pioneer on transparency, publishing data elements from the start of a compact through to its completion. The MCC expects to soon add sub-national location data and disaggregated results data. For its efforts, MCC has consistently ranked as one of the most transparent donor agencies in the world by the organization, “Publish What You Fund.” This dogged adherence to openness ensures accountability to both U.S. taxpayers and citizens of partner countries.

MCC’s Road Ahead: Building on a Sound Approach

I applaud the MCC’s interest in concurrent compact authority which would enable it to undertake regional investments in an effective and efficient manner. Concurrent compacts would allow the MCC authority to break up implementation of compact components between fiscal years. This would allow more time for compact development and due diligence, which in turn could yield more effective results. Such authority would provide more flexibility to the existing five-year model employed by MCC, as compact completion could extend beyond five years on compacts approved by Congress for concurrent funding. Enactment of concurrent compact authority would also allow MCC to accelerate compact development and implementation, while ensuring adequate time for the more detailed, technical project development needed for complex projects.

In addition, the law that established the MCC explicitly provides the authority for the agency to negotiate co-investment agreements with the private sector. Public-private partnerships will be necessary for the MCC to achieve its mission in an era of limited government resources. When the MCC was proposed by President George W. Bush in 2003, the stated goal was for the MCC to provide \$5 billion in assistance per year. Yet, ten years later, its annual budget is slightly less than \$1 billion. The only practical way for the MCC to achieve transformational growth and poverty eradication is to leverage private sector investment alongside MCC compacts. Therefore, the MCC must incorporate the private sector from the beginning of compact development process to effectively utilize private resources alongside compact investments. The MCC must also be vigilant to ensure that its compact investments are designed to catalyze but never to replace or crowd out private-sector investment.

More Work Needed: Corruption and Income Categories

MCC’s Control of Corruption Indicator must be strengthened, allowing for greater distinction between those countries that are meeting the criteria and those that are not. Good governance does not equate to lack of corruption. Better data is needed for the

corruption index so that the MCC can make discreet and realistic distinctions between countries that are really tackling corruption and those that are not. Without this we cannot prevent misuse of U.S. taxpayer dollars nor assure projects are actually helping those for whom they are designed.

The MCC should also take a closer look at the Low Income Country (LIC) and Lower Middle Income Country (LMIC) categories to ensure we are targeting the right set of countries with our assistance. MCC legislation requires that only 25 percent of MCC funds may be used for LMICs, and the MCC continues to use gross national income per capita as measured by the World Bank as the metric for determining income groups. But the world has changed since MCC first started to work. Nearly two billion people have been lifted from deep poverty, so the pool of countries at the economic bottom is—thankfully—shrinking. Congress needs to examine whether the 25 percent cap on funds for LMICs is appropriate in today’s world and whether the World Bank’s GNI measure is the most effective.

The MCC Long View: Continue to Innovate by Taking Smart Risks

Development is an inherently difficult, protracted, and risky business. The legislation my subcommittee helped to enact provided clear objectives, principles, and parameters, while giving MCC and its partners the flexibility to test new ideas and approaches in program areas, methods, and implementing structures. This kind of innovation is necessary to keep MCC at the forefront of development, but more importantly, for U.S. development efforts to be transformational and actually lead to sustainable outcomes.

I believe the MCC has at times shied away from experimentation due to the political risks associated with innovating. Oversight understandably tends to focus predominantly on where public funds are spent and whether they are being used properly. Assessing success or failure, however, should also take into account whether program objectives are achieved—or could be achieved more efficiently--while at the same time putting in place mechanisms for sufficient fiduciary responsibility.

One example would be to look more deeply into how we apply development assistance to increase the competence and accountability of partner countries’ own systems and institutions. This is the only long term pathway to sustainability, especially when, and after, assistance ends. A desire on the part of the U.S. Government to use capable country systems would provide a persuasive incentive for partners to improve and optimize their public financial management apparatus. This is the type of innovation the MCC and other U.S. agencies must explore more seriously if we are to reap better development rewards.

In conclusion, the MCC has shown itself to be a game changer in how we look at development assistance, engage partner countries, and achieve meaningful development outcomes that are measurable and clear. After ten years, it is only appropriate for the MCC, and for Congress, to review the agency's track record and seek ways to strengthen the model so that it might do even more. In a time when limited fiscal resources can be devoted to development assistance, the American taxpayer will rightly insist that they be spent wisely and efficiently. Given the unique attributes of the MCC, and its performance-driven mission, I have no doubt it will remain up to this challenge.

Thank you, and I look forward to answering any questions you may have.