



News from Congresswoman
Nita M. Lowey
Chairwoman, State and Foreign Operations Appropriations Subcommittee

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State and Foreign Operations Subcommittee Examines Budget and Record of Millennium Challenge Corporation

(WASHINGTON) – Chairwoman Nita Lowey (D-Westchester/Rockland) and the Appropriations State and Foreign Operations Subcommittee today analyzed President Bush’s Fiscal Year 2009 budget request for the Millennium Challenge Corporation and examined the agency’s record since its inception four years ago.

“Providing aid to those who are suffering around the world is our moral responsibility and generates goodwill that improves our national security,” said Lowey. “The Millennium Challenge Corporation could be an important component in this critical effort. However, we must be certain that this new method of distributing aid is successful in implementation, and that it is not diverting resources from traditional aid programs that are proven to be successful.”

Ambassador John Danilovich, Chief Executive officer of the Millennium Challenge Corporation, testified before the Subcommittee.

Lowey’s full opening statement follows:

Today, we welcome Ambassador John Danilovich, the Chief Executive Officer of the Millennium Challenge Corporation. We look forward to discussing the President’s Fiscal Year 2009 request for the Millennium Challenge Account. I want to congratulate you on signing the compact with Tanzania and on the attention the President’s trip brought to this program.

The President’s budget requests \$2.225 billion for the Millennium Challenge Corporation, an increase of 30 percent over the FY08 enacted level. While this is less than the amount that has been requested in the past two years, it is a substantial increase for a program that has been slow to implement and show impact on the ground. Furthermore, it is this Committee’s responsibility to look at the 150 account holistically, and the President’s budget represents tradeoffs and choices that advantage the Administration’s new initiatives over core humanitarian and development programs. And, it is left to Congress to make sure that support for these essential programs is not undermined.

As the MCC enters its fourth year of operation, it is an appropriate time to take stock of its achievements and challenges. I have always believed that the MCA holds tremendous promise and potential to bring about transformative change in the developing world. Indeed, since its inception, the MCC has signed 16 country compacts totaling \$5.5 billion and 15 threshold agreements totaling \$324.7 million. Through the course of today’s hearing, I hope to learn more about your efforts to translate its enormous potential into measurable results on the ground.

Last year, I questioned the slow pace of disbursements and the lack of progress on compact implementation. This summer, I saw firsthand in Ghana and Morocco the challenges facing compact implementation, including establishing mechanisms in recipient countries to manage and disburse

funds and coordinating the efforts of the host government with U.S. government entities and civil society. I am disappointed that many of my questions and concerns from a year ago remain unresolved today.

In FY 2005 and 2006, only \$61 million of the \$3 billion worth of signed compacts had been disbursed – or 26% of expected disbursements. In FY2007, the MCC disbursed \$137 million, more than twice as much as the previous year. But, when this figure is compared to MCC's own disbursement projections, you have only reached one fourth of your target. This simple statistic suggests that progress on compacts is slowing down rather than speeding up. I hope you will explain why the MCC has not achieved these implementation targets. I would also like to hear your assessment of what you will achieve in 2008. As we sign more multi-year compacts, I remain concerned that the emphasis is still not on implementing the compacts that have already been signed. What is the status of these compacts? Are any moving forward at the expected pace and on target to complete their planned programs within the five-year limitation?

In the past year, you reorganized the MCC to increase its focus on compact implementation and accountability. I understand that the new compact implementation unit's review of signed compacts found that external factors such as increased construction costs, increased gas prices, the dollar depreciation, and inaccurate estimates will significantly impact the ability to fully implement compacts. For example, although one compact outlines plans to support three projects building an irrigation system, expanding significant infrastructure, and supporting an industrial park, the current analysis demonstrates that only two of the projects can be completed within the five year compact timeline. Other compacts that include the building of roads will also be scaled back. In some cases, only half of the planned roads will be completed with the current compact resources. I hope to explore in the question and answer period why these issues were not anticipated when negotiating the compacts and how you are addressing these issues in new compacts.

Many argue that the MCC is a new and different mechanism that provides predictable and targeted resources for countries that demonstrate good governance and meet other indicators. Indeed, the MCC is another means of scaling up resources for a certain subset of countries. However, obligating billions of dollars for multi-year compacts that take years to start further opens the MCC to criticism that you are tying up precious resources that could be used to meet more urgent needs and support development programs that have more immediate impact on the ground. This is particularly the case in countries with both USAID bilateral development programs and MCC compacts. If MCC compacts were truly additional, one would expect that USAID programs would continue to fund programs to address health, education, agriculture and other sectors while the MCC would address more systemic concerns through its multi-year compacts. However, the reality is that USAID, strapped for resources, is often winding down its programs in countries when MCC compacts are signed despite the fact that their impact may not be felt for years. Unfortunately, this is the case in six MCC countries in the FY09 budget request, including Benin, Ghana, and Armenia. Current program implementation data shows that these programs are not yet demonstrating significant impact. Yet, these countries are losing health and development resources quickly, including a \$17 million reduction in Benin, a \$23 million reduction in Ghana, and a \$35 million reduction in Armenia. I would like to discuss this unintended consequence of putting MCC dollars into a country during the Q and A.

Ambassador Danilovich, I appreciate your testimony today and look forward to discussing the new initiatives you are undertaking to make the MCC a more effective and results-oriented development agency. Before we move to your testimony let me turn to Mr. Wolf, the Ranking Member, for his opening statement.

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