

Millennium Challenge Corporation

# Testimony of CEO Ambassador John Danilovich

Before the U.S. House Appropriations  
Subcommittee On State and Foreign Operations  
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REDUCING POVERTY THROUGH GROWTH



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Thank you, Chairwoman Lowey, Ranking Member Wolf, and other distinguished members of the Subcommittee for the opportunity to discuss President Bush's Fiscal Year 2009 Budget Request for the Millennium Challenge Corporation.

I would also like to thank you for the continued support of the MCC. The funds you have provided us to date are already:

- sparking entrepreneurship,
- empowering women,
- allowing children to attend school,
- securing property rights,
- creating development opportunities and jobs,
- increasing market access,
- improving infrastructure – such as seaports, bridges, airports, roads, storage facilities, and irrigation canals,
- opening health clinics and containing the spread of HIV/AIDS and other diseases,
- increasing farmer incomes through better agriculture techniques and programs,
- strengthening financial services and access to credit, and
- improving access to water and sanitation services.

Fully funding MCC at the President's requested level of \$2.225 billion will allow us to continue our efforts and consolidate early successes to reduce poverty in those developing countries committed to good governance, investing in their people, and economic freedom.

Last month, MCC celebrated its 4<sup>th</sup> anniversary here on Capitol Hill, and we were honored to have you, Madam Chairwoman, Congressman Knollenberg, and others from Congress as well as ambassadors and representatives from MCC partner countries and from countries hoping to become MCC eligible, along with friends from the international development community with us for the occasion. We can all take great pride for what MCC has achieved in four short years.

MCC has accomplished an astonishing amount since 2004. What started as a great concept has become a great reality. What was once a group of eight people in borrowed offices is now a first-rate organization, rated one of the best small agencies in the federal government for which to work in 2007, with an impressive portfolio of partner

countries. We are not only one of the newest, but with approximately 300 full-time staff we are definitely one of the smallest U.S. government agencies. And yet, with \$5.5 billion committed in 16 compacts worldwide, we are moving forward with appropriate speed and quality.

We have met our start-up challenges. We have mastered the demands of developing and signing compacts. We have executed a new model of development assistance that motivates policy reform and started a new conversation with the world's poorest countries about assistance based on mutual respect, teamwork, and results.

And, in four years, we have become an important component of American engagement around the world, building true partnerships to reduce poverty and sustain economic growth. This was illustrated by a recent Gallup survey that revealed MCC, in comparison to other donors, provides more oversight, more help toward sustainability, and does a better job of building capacity. This is what we mean by partnership, and it is a critical component of the positive public diplomacy that MCC represents for America and on behalf of Americans.

I fully realize, however, that despite the great successes we have had with building partnerships and developing compacts, our work going forward will be defined by how effectively and fully we help our partner countries tackle implementation. This is why, since we last met, I have reorganized the agency to ensure we see progress on the ground as quickly as possible.

I am happy to report that through this reorganization, as well as ongoing efforts to build capacity in partner countries, MCC is better positioned today to enhance the speed of implementation and deliver even more results.

To increase incentives for good policy performance and good implementation practices by our partner countries, we will be seeking, this year, congressional authorization for concurrent compacts to augment the compacts in implementation. Concurrent compacts would intensify competition among current compact countries as they seek a second compact based on their performance on the indicators and their progress toward successful implementation of their current compacts. It would also allow partner countries to take advantage of the new capacities developed by their participation in the MCC program. The MCC effect of providing incentives for reform and performance would extend to countries in the midst of implementation and substantially motivate them to push even harder in their own policy reform and development efforts. The ability to enter into concurrent compacts will also enable MCC to focus its future resources in those partner countries with the greatest likelihood of substantial and sustained impact in reducing poverty through economic growth.

As a strategic, "soft power" asset in America's foreign policy toolbox, MCC is an important complement to other economic and political tools that support a more prosperous and secure world. In a report issued November 2007, the *CSIS Smart Power Commission* cites MCC as addressing concerns about corrupt governance in developing nations. The report notes that MCC has "created incentives by which continued aid is tied to good performance."

This Subcommittee recently examined recommendations from the HELP Commission, which was charged with building a consensus on the most effective methods of development assistance. Their report made recommendations that mirrored the foundational principles and practices of the Millennium Challenge approach, including an

emphasis on democratic principles, focus on good governance, ensuring country-led development, and promoting economic growth.

MCC is the only donor, for instance, that currently ties eligibility for assistance to performance on a transparent and public *Control of Corruption* indicator. This creates a powerful incentive for countries to adopt tough anticorruption laws, strengthen oversight institutions, open up the public policymaking process to greater scrutiny, and increase corruption-related investigations and prosecutions.

Furthermore, in keeping with MCC's gender policy, women, alongside men, must be, *and are*, involved throughout every stage of MCC's assistance, including country selection, compact development and implementation, and program monitoring and evaluation.

The President's requested level of funding will support these policy incentives, a handful of new compacts in 2009, and the priorities I have set for this agency in the coming year, including a focus on:

- Progress on the ground;
- Partner country empowerment;
- Private sector engagement; and
- Tangible results.

MCC must have sufficient funding to sign compacts with countries that have undertaken the difficult reforms necessary to attain eligibility status and that have invested the resources and effort in developing sound compact proposals.

President Bush's Fiscal Year 2009 Budget Request recommends **\$2.225** billion for the Millennium Challenge Corporation. This request reaffirms his continued commitment to promoting sustainable economic growth in the developing world and represents a substantial increase—\$680 million, or 46%—above the Fiscal Year 2008 enacted level.

### **Details on the FY09 Funding Request:**

- **Roughly \$2 billion of the request is budgeted to fund new compacts**, including our own due diligence and assistance to countries for compact development. With no carryover funds available from previous years, this is the amount necessary to complete only compacts with those countries most likely to be ready for compact signing. While it is still too early to determine exactly how many or which countries will sign compacts in 2009, we have seven, possibly eight, countries eligible for compact funds.

In addition to **Malawi**, which was made eligible just this past December, other countries currently in various stages in the compact development pipeline include:

- Moldova,
- Jordan,
- Senegal,
- Timor-Leste,
- Bolivia, and
- Ukraine.

MCC's Board of Directors will also consider the possibility of including the Philippines in March.

MCC is a competition for funds, however, and not all these countries will get compacts in 2009; but, with support from Congress, I feel strongly that countries with the greatest commitment to championing their own development through good proposals and compliance with MCC's 17 good government indicators should be able to enter into compacts.

Because of the accelerated pace of MCC's work during the past two years, all funds from prior years' appropriations will have been committed to compacts and threshold programs. This means that the level of activity and accomplishment for MCC in 2009 will be determined solely by the 2009 appropriation.

- **\$150 million is for funding the threshold program** to assist countries that seek to improve their policy performance on specific MCC selection indicators. Threshold programs typically are implemented in partnership with the U.S. Agency for International Development.
- **\$105 million will fund administrative and auditing expenses**, a 4 percent decrease from last year's request. As an organization, MCC has made significant strides toward operating more efficiently and effectively in order to manage the important implementation work ahead, employing a highly qualified staff at our Washington headquarters, with a small presence in partner countries worldwide. Of this, **\$5 million** is reserved for USAID Inspector General's audit expenses for financial reviews and performance audits of MCC and the MCA country entities. MCC continues to adopt internal processes and operating procedures to make the best use of U.S. taxpayer money and to deliver tangible results in the lives of the poor benefiting from MCC investments. MCC's administrative expenses cover both direct and indirect expenses required to assess compact proposals and oversee compact implementation. Direct expenses include: salaries and benefits of MCC staff who are directly engaged with partner countries, overseas operation expenses, travel costs, and *MCC University* and other training conferences for participants from



MCC partner countries. Indirect expenses include such items as: salaries and benefits for support staff, training costs, including language, procurement, and transaction team training, contracted services for financial management, travel, contract management, and security, rent, information technology services, and human resources. Cost increases in FY 2009 over FY 2008 are reflective of MCC's growing portfolio of signed compacts and the costs associated with staffing and supporting a small presence in each country. At the same time, MCC has found significant savings in other areas, including travel and contracted services, compared to 2007 levels

## Update: Selection

The Millennium Challenge Corporation combats poverty through more than just grants. Our model motivates policy reforms; fights corruption; builds country and institutional capacity; engages and empowers women in development; and paves the way for greater private enterprise and trade.

MCC uses 17 eligibility indicators to measure a prospective partner's commitment to good governance, investing in health and education, and economic freedom. Then, countries themselves are responsible for identifying and prioritizing their own barriers to poverty reduction and economic growth through consultation with all segments of their society.

Such engagement supports a culture of democratic practices and transparency as well as ownership of the development process. Enabling countries to lead the process of development—country ownership—is difficult in light of capacity constraints, but we believe it is absolutely necessary for a country to achieve sustainable results.

Eligible countries are working hard to create quality compacts based on their own solutions to their own problems. Full funding will allow MCC to provide the most dedicated countries the resources they need to reduce poverty through economic growth.

## Update: Compacts

**MCC presently has a portfolio of 16 signed compacts totaling \$5.5 billion.** Implementation is underway in these countries, early results are emerging, and the success of our programs is evident. We anticipate compact signings with **Burkina Faso** and **Namibia** in the summer of 2008, pending approvals from our Board of Directors. Once these two compacts are signed, MCC will have 18 compacts totaling well over \$6 billion.

MCC was designed to foster competition among countries for eligibility. Before the start of FY09, MCC will commit all prior year appropriations and all new appropriations provided in FY08. As a result, for the first time MCC will have less money in reserve for funding compacts than we have countries preparing compact proposals. Countries may face the risk of delayed funding after committing substantial time and resources to developing compacts in good faith. Our incentive-based model requires predictability in resource flows.

**Table 1: MCC Compact Partner Countries**

(in signing order)

<b>Country</b>	<b>Compact amount (in millions)</b>	<b>Signing Date</b>	<b>Entry into Force</b>
Madagascar	\$109.8	April 18, 2005	July 27, 2005
Honduras	\$215.0	June 13, 2005	September 29, 2005
Cape Verde	\$110.0	July 4, 2005	October 17, 2005
Nicaragua	\$175.1	July 14, 2005	May 26, 2006
Georgia	\$295.3	September 12, 2005	April 7, 2006
Benin	\$307.3	February 22, 2006	October 6, 2006
Vanuatu	\$65.7	March 2, 2006	April 28, 2006
Armenia	\$235.7	March 27, 2006	September 29, 2006
Ghana	\$547.0	August 1, 2006	February 16, 2007
Mali	\$460.8	November 13, 2006	September 17, 2007
El Salvador	\$461.0	November 29, 2006	September 20, 2007
Mozambique	\$506.9	July 13, 2007	<i>Projected for autumn 2008</i>
Lesotho	\$362.6	July 23, 2007	<i>Projected for autumn 2008</i>
Morocco	\$697.5	August 31, 2007	<i>Projected for autumn 2008</i>
Mongolia	\$285.0	October 22, 2007	<i>Projected for autumn 2008</i>
Tanzania	\$698.1	February 17, 2008	<i>Projected for autumn 2008</i>
Burkina Faso		<i>Projected 2008</i>	
Namibia		<i>Projected 2008</i>	
Moldova		<i>Possible 2009</i>	
Jordan		<i>Possible 2009</i>	
Malawi		<i>Possible 2009</i>	
Timor-Leste		<i>Possible 2009</i>	
Senegal		<i>Possible 2009</i>	
Bolivia		<i>Possible 2009</i>	
Ukraine		<i>Possible 2009</i>	

## Update: Threshold Program

MCC's Threshold programs are designed for countries that are close to passing and committed to improving their performance on MCC's eligibility criteria. These programs are typically implemented with our partners at USAID. The amount provided to a country under a threshold program depends upon how many countries are selected in the applicable fiscal year, which indicators need to be addressed, and which reforms must be implemented.

To date, MCC has signed two-year threshold agreements with 15 countries for a total of \$325 million. Additionally, we will sign threshold agreements with Peru, Niger, and Kyrgyzstan in the coming weeks, bringing total commitments to nearly \$400 million.

These relatively small threshold investments have led to notable successes. We have seen Burkina Faso, Tanzania, Jordan, Ukraine, Moldova, and Malawi "graduate" to compact eligibility. Scores on the "Control of Corruption" indicator have improved in Albania, Indonesia, Malawi, Paraguay, Tanzania, Uganda, and Zambia since they began implementing anticorruption programs funded by MCC. Financial and regulatory hurdles to starting businesses have also been lowered as a result of MCC's engagement in Albania, Paraguay, and Zambia. An ambitious immunization program funded by MCC currently underway in Indonesia has trained over 4,000 health professionals. Also, over 18,000 students have been recruited to attend 132 MCC-funded "girl friendly" schools in Burkina Faso.

Several threshold programs with countries that have not yet become eligible for a compact will successfully conclude in 2008. For threshold countries who have implemented their threshold program well and continue to pursue a policy reform agenda, but were not selected by MCC's Board of Directors as compact-eligible during the FY 2008 or FY 2009 selection processes. MCC may decide

**Table 2: MCC's Threshold Programs**

(in signing order)

<b>Country</b>	<b>Amount (in millions)</b>	<b>Signing Date</b>
Burkina Faso	\$12.9	July 22, 2005
Malawi	\$20.9	September 23, 2005
Albania	\$13.9	April 3, 2006
Tanzania	\$11.2	May 3, 2006
Paraguay	\$34.6	May 8, 2006
Zambia	\$22.7	May 22, 2006
Philippines	\$20.7	July 26, 2006
Jordan	\$25.0	October 17, 2006
Indonesia	\$55.0	November 17, 2006
Ukraine	\$45.0	December 4, 2006
Moldova	\$24.7	December 15, 2006
Kenya	\$12.7	March 23, 2007
Uganda	\$10.4	March 29, 2007
Guyana	\$6.7	August 23, 2007
São Tomé	\$8.7	November 9, 2007
Peru	\$35.6	Board Approved
Niger	\$23.1	Board Approved
Kyrgyz	\$16.0	Board Approved
Yemen	\$20.6	Board Approved
Rwanda		Eligible
Mauritania		Eligible
Albania II		Eligible
Paraguay II		Eligible
Zambia II		Eligible

to continue to engage with them through a second (Stage II) threshold program in order to sustain the momentum of policy reform.

## **Focus on the Future**

### *Progress on the Ground*

MCC's initial challenge was to identify eligible partner countries and then to develop strong transformative compacts. We have done that. Our challenge going forward is to ensure the efficient, effective implementation of those agreements.

Since we last met, I have reorganized the agency to deliver more progress on the ground with greater speed. This means giving our MCC Resident Country Directors more authority to make smart, commonsense decisions and providing best possible support to our partner countries as they implement their compacts. It means accelerating disbursements as more and more projects move from design to implementation. We will maintain aggressive oversight of MCC-funded activities on the ground. We will also carefully manage the various pressures that come from being in full-fledged implementation, such as external economic factors of dollar depreciation, increasing energy and transport prices, and a worldwide construction boom.

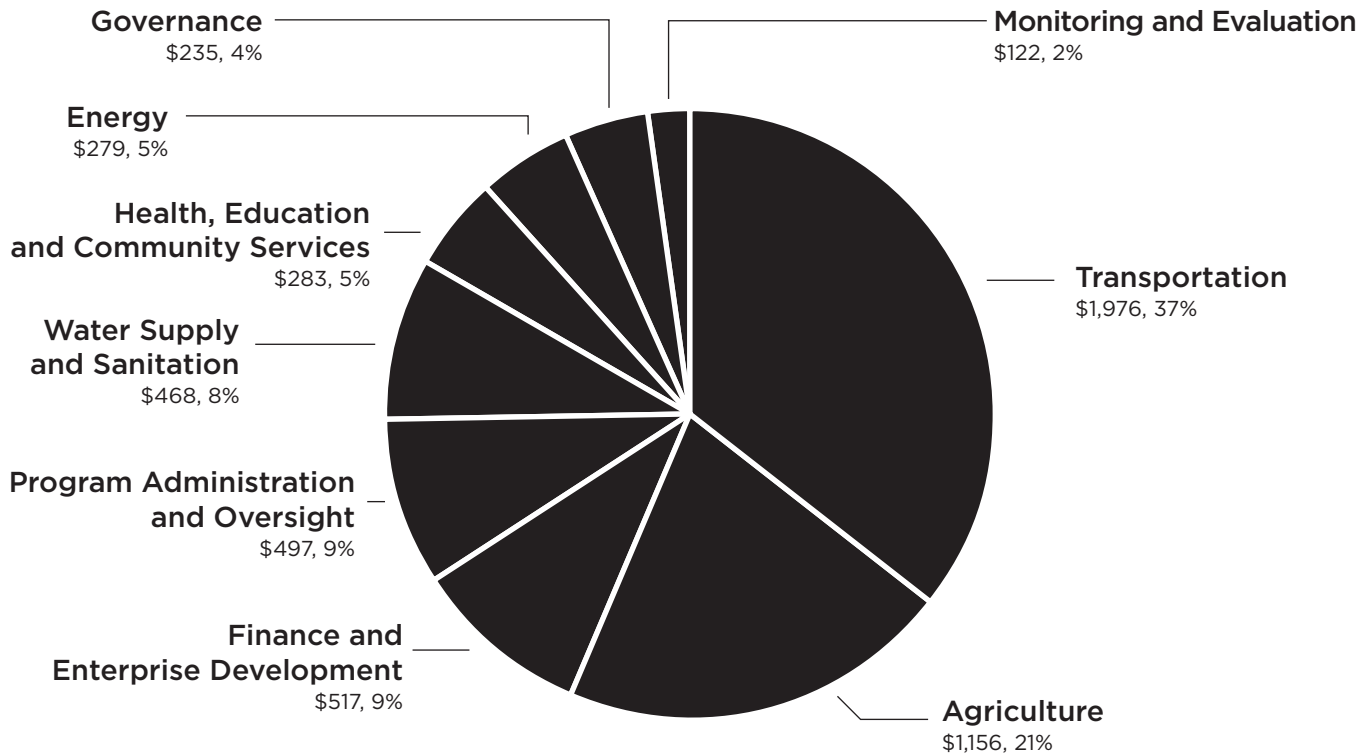
Solid implementation, increased disbursements, and ongoing quality compact development are now MCC's three primary focus areas. We are achieving these goals while maintaining MCC's core practices such as committing project funding upfront. Upfront funding commitments increase effectiveness and predictability of our aid, while decreasing fiscal volatility in the long run. MCC also continues to strengthen our fiscal accountability and ensure proper use of taxpayer dollars by disbursing money to partner countries only when they are ready to use it for implementation.

As of February 2008, MCC disbursed \$300 million for compact (\$180 million) and threshold (\$120 million) programs. By the end of Fiscal Year 2008, MCC expects to disburse a cumulative total of approximately \$630 million for compact (\$450 million) and threshold (\$180 million) programs. These disbursement rates reflect the natural progression of implementation as countries invest the time upfront to build their own implementation capacity, develop systems, conduct transparent procurements, and ensure quality in design of project activities. Furthermore, disbursement rates alone do not reflect the additional funds that are committed under contract but disbursed over a period of time. For example, by the end of FY 2008, MCC expects that compact country partners will have a cumulative total of \$1 billion under contract, reflecting the shift from startup to full implementation in multiple countries. This upward trend of disbursements and contract commitments is a result of our increased focus on implementation, the drive to improve country capacity to execute those projects, and the natural evolution of these projects.

A significant portion of MCC-funded projects focus on infrastructure which requires significant and critical upfront work before construction begins. Therefore, the timing of disbursements will always lag in the early stages of our programs and increase rapidly as our compacts naturally evolve. Similarly, contract commitments will exceed actual amounts disbursed due to industry standard payment lifecycles.

**Chart 1: MCC Compacts Signed Through February 2008**

(In millions of U.S. dollars, total: \$5.5 billion)



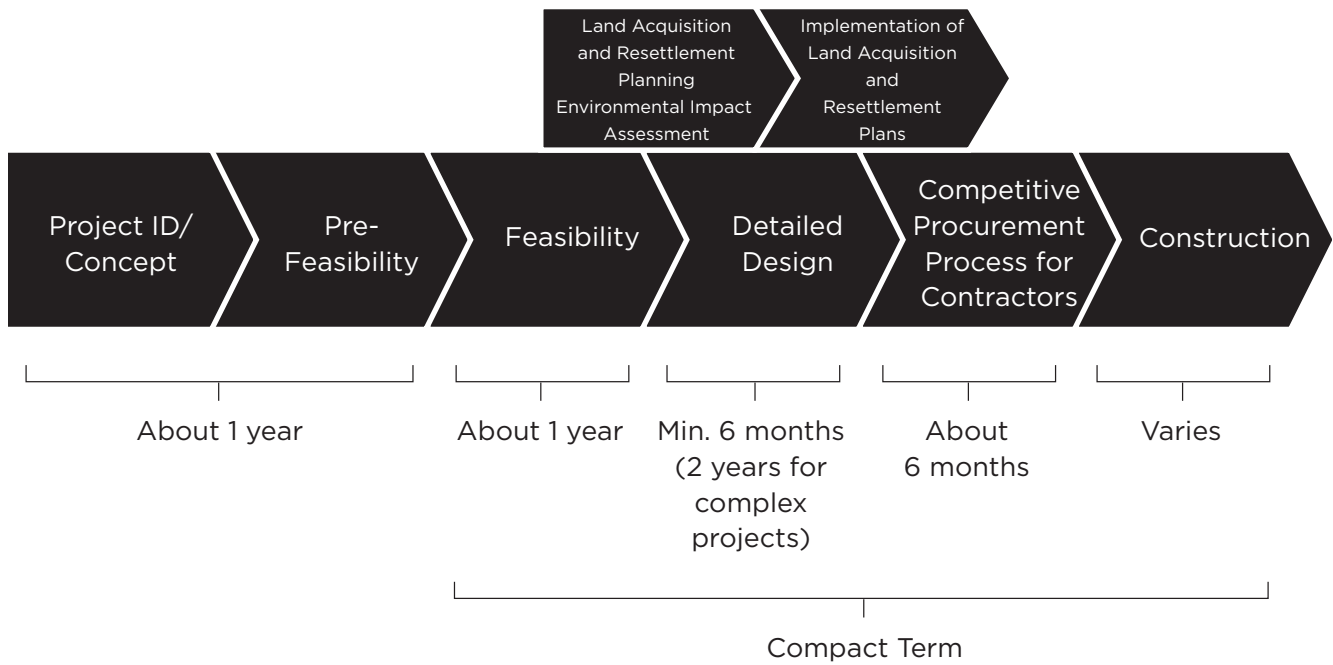
**Why Infrastructure?**

MCC invests in infrastructure because the poor, NGOs, and governments in partner countries have identified these improvements as a priority for poverty reduction. MCC’s commitment to country ownership means that MCC supports projects that partner countries prioritize only if these projects promote poverty reduction through economic growth. In many cases, MCC partners have identified their inadequate infrastructure as a major constraint to domestic growth, foreign investment, and job creation.

Improvements in rural roads, for example, lower transportation costs for farmers and provide improved access to jobs, health care, and education. Water and sanitation infrastructure reduce the incidence of disease and increase access to potable water. Reliable electricity makes it dramatically easier for the poor to start businesses and is a basic prerequisite for many foreign investments. Improvements in energy infrastructure frees up time and labor that the poor would otherwise use to search for fuel.

Because infrastructure project have an extended implementation lifecycle, significant progress and activities are often not as evident if disbursements alone are used to judge success.

*Chart 2: Infrastructure Project Lifecycle*



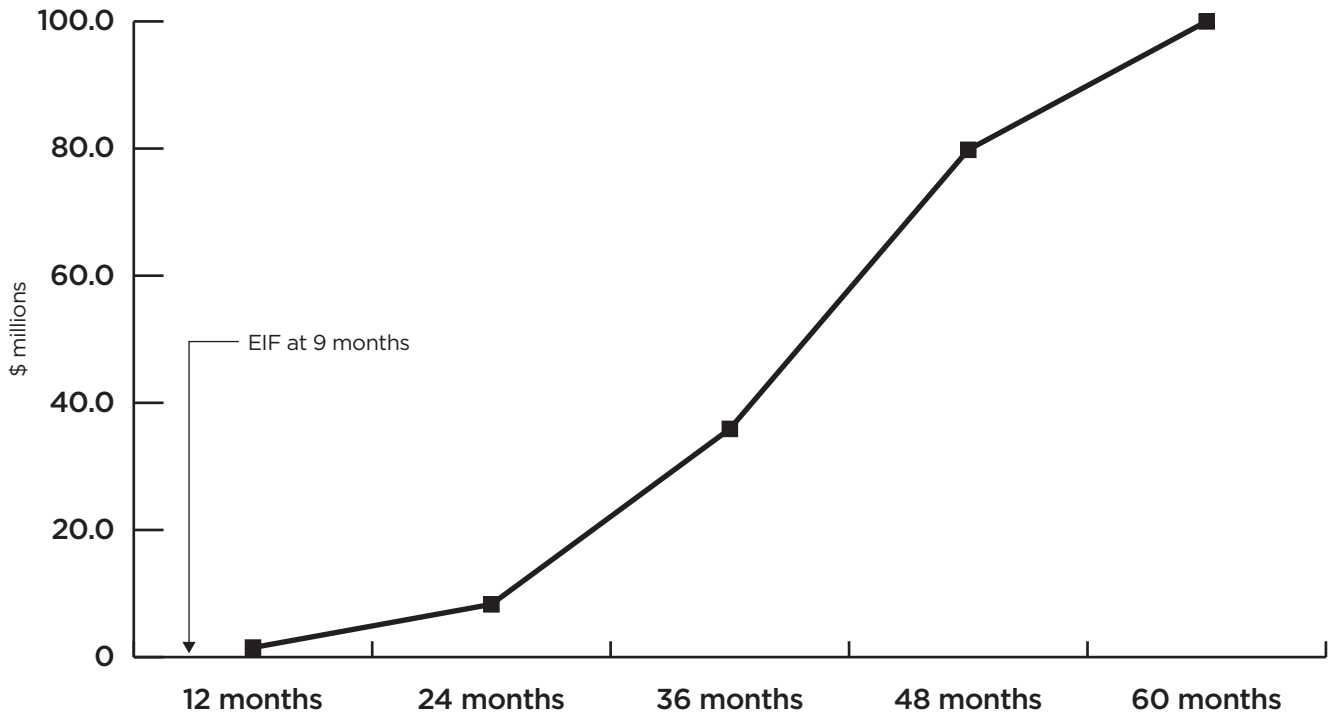
I recently returned from a trip to El Salvador. This compact, which entered into force five months ago, is a good example of a country in the early phases of implementation. The Salvadorans who are implementing this program are creating the structures that will enable the compact’s roads, water, rural business development, education, and rural electricity programs work effectively over the next five years. They are working with a firm to manage procurements efficiently and transparently.

With these structures now in place, over the next six months they will be advertising for future purchases of goods, works, and services worth \$150 million that will make these MCC projects a reality. El Salvador’s MCA team is putting out notices (locally and internationally) for the very best experts who can design and carry out these projects. As is required with any solid business plan, they are mapping out – in a detailed and professional way – the sequence of events that will maximize our investment.

Generally, the first two years of infrastructure projects are used to conduct feasibility studies, including environmental assessments, and to prepare final engineering designs. As part of this, project managers conduct consultations, complete resettlement and land acquisition plans, and assess and plan to mitigate environmental impacts. Results of studies for feasibility and design often mean adjustments to maximize the effectiveness and reduce risks in the projects. In addition, a competitive procurement process is required to ensure fair and reasonable prices and high quality work.

All of these essential steps must occur prior to the start of construction, but do not require large expenditures. The rate of spending ramps up once construction begins, which can be seen, for instance, when charting out disbursement projections for a typical infrastructure project.

*Chart 3: Infrastructure Disbursement Curve (\$100 million)*



MCC complies with international standards and procedures for infrastructure investments, which attracts competitive international bidders and ensures market- reasonable pricing, but requires funding commitments up front.

We are all aware of the adverse effect domestic and global economic pressures are having on infrastructure and development projects in our own country and throughout the world. Increases in energy and transport costs, dollar depreciation, and a worldwide construction boom all contribute to those pressures and add even more stress on limited MCC resources.

For example, between January 2006 and December 2007, according to the International Monetary Fund, the unweighted average value of currencies of international construction bidders appreciated by almost 15 percent relative to the US dollar, and oil prices have increased by approximately 72 percent.

Re-estimation is common in the project cycle as project managers refine designs based on technical studies, design upgrades, and enhanced environmental mitigation measures. These factors, combined with fluctuating currency exchange rates,

*Table 3: External Pressures on Costs*

Cost Categories	Change in Costs, January 2005 to July 2007
Crude Oil Price Index	72 %
Steel Price Index	11.26 %
Paving Mixtures Price Index	28 %
Cement Price Index	9%
Bidder Country Exchange Rates	15 %
Partner Country Exchange Rates	6 %

mean that countries partnering with Millennium Challenge are facing higher costs than initially projected for some infrastructure projects.

We are not financially liable, however, for any increased costs of the projects as our obligation is the fixed amount of financing specified in each compact. Nonetheless, we are working with partner countries to meet these challenges. Possible options include revising the project scope, increasing the amount of partner country contribution, or cost sharing by bringing other donors into a given project.

In future compacts, if our partners choose to invest in relatively complex infrastructure projects, we will work with them to increase the level of feasibility, design, and assessment work prior to compact signature. This will reduce the variance of subsequent re-estimations and also speed disbursements once entry-into-force has been reached.

### *Partner Country Empowerment*

For our model, successful implementation requires that partner countries, not MCC, lead their development process, navigating through the particular challenges of compact development and implementation and, in the end, celebrating their successes.

Ghana's public sector reform minister described this when he said, "Unlike other traditional development assistance programs where the donor proposes how funds are used, countries selected under the Millennium Challenge Account propose programs to receive funding. Thus, the MCA is designed to allow developing countries to take ownership and responsibility for funds provided by the Millennium Challenge Corporation."

One of the obstacles to development in Ghana, as identified by the Ghanaians, has been the lack of adequately trained procurement specialists. MCC is funding a procurement capacity-building initiative designed to strengthen the effectiveness of various procurement entities to help Ghana help itself by overcoming this particular barrier to its own development.

We will remain focused on capacity building so that development can be sustained long after our period of investment ends. As part of this, the process required by MCC calls on local institutions to play their democratically prescribed roles, a step we believe strengthens domestic democratic transitions and deepens democracy over time.

By insisting partner countries design and implement their own development plans, MCC is strengthening institutions and jumpstarting critical thinking about the policies necessary to ensure sustainability. Country ownership reinforces good policies.

### *Private Sector Engagement*

MCC programs are based on the broadly-accepted premise that foreign assistance alone cannot end poverty and that MCC compacts should strengthen the local foundations for self-sustaining economic growth. Consequently, MCC encourages partner countries to use these resources in ways that will catalyze private sector-led investment



over the long-term. The private sector brings the jobs, technology, and training necessary to drive job creation and economic growth.

Even beyond compact investments, MCC plays a unique role within the U.S. government to foster and help international investment and help scale up viable private sector activity. We do this by coordinating efforts with other U.S. government agencies and international programs to maximize private sector incentives for investment in MCC economies.

Moreover, we are integrating private sector activities into MCC compacts and stimulating follow-on investments in MCC countries. We are addressing critical constraints to private sector development, such as inadequate infrastructure, by investing in partner countries' infrastructure priorities.

### *Focus on Results*

Encouraging the private sector and ensuring effective implementation of projects requires a focus on results and accountability. We are committed to demonstrating that the programs we fund and initiatives we support are improving the lives of people in our partner countries. It is through transparency and use of strict benchmarks, both for us as an agency and our partners implementing the programs, that MCC is able to measure success.

Compacts are subject to pre-investment cost-benefit analysis to determine whether the expected increases in household incomes justify the significant investments of U.S. taxpayer money, and before implementation begins we put in place a monitoring and evaluation workplan.

This focus on results is an information-intensive effort, and MCC has made significant strides towards putting in place the structures and systems to manage the data we need.

Upgrades currently underway to MCC's knowledge management and information technology capabilities will provide MCC management, Congress, and stakeholders with even greater access to the data needed to track progress and accurately report results.

We are investing in a business intelligence system (BIDS) that includes both analytical and reporting tools. It includes budgeting and planning tools to enable our managers to manage risk across the MCC portfolio, and it includes a range of management tools for the field to bring consistency to measurement indicators and reports that demonstrate quantitative results. These tools allow us to achieve two goals simultaneously—leaner management and a more robust reporting of results.

Early returns on implementation—as of the end of FY 2007—are promising and we can already point to results on the ground.

- **In Georgia**, the first round of emergency repairs to the *North-South Gas Pipeline* have been completed, improving the long-term security and diversification of the country's natural gas supply, and providing Georgian citizens and businesses with more reliable electricity and heating. In addition, grants totaling

\$1.1 million to 34 new or expanding agribusinesses are helping them improve technologies and access markets. These agribusinesses will employ about 400 people and do business with 22,000 customers and suppliers.

- **In Nicaragua**, thousands of farmers and rural entrepreneurs have benefited from technical assistance and business development services. Approximately 1,500 new jobs have been created through investment promotion efforts in the first year alone, and designs are nearly complete for 364 kilometers of roads.

**In Madagascar**, more than 876,000 documents have been inventoried to enable better land use, and the agricultural project is providing technical assistance to over 7,500 farmers.

- **In Armenia**, more than 2,450 participants, of which almost a quarter are women, have been trained in on-farm water management to increase production.
- **In Burkina Faso**, the threshold program has made 132 new “girl-friendly” schools possible.
- **In Malawi**, threshold assistance supports ongoing anticorruption efforts, expands the work of civil society groups, and strengthens independent media coverage, including training 45 journalists in investigative journalism. These efforts helped Malawi improve its performance on the *control of corruption* indicator—from the 40<sup>th</sup> percentile in fiscal year 2005 to the 54<sup>th</sup> percentile in fiscal year 2008— and led to Malawi being selected as compact-eligible for FY08.
- **In Jordan**, the threshold program is helping the government expand citizen participation, including the participation of women, in local elections and local government. Under a new law, 20 percent of municipal council seats are reserved for women. In the last election, female candidates exceeded this quota and won 238 seats.

These direct results of MCC investments complement the reforms countries are undertaking to improve political, economic, and social policies.

- **Madagascar** reduced the minimum capital requirement for new businesses by 80 percent, resulting in a 26 percent increase in new business registrations.
- **Benin** initiated sweeping reforms against corruption throughout several government ministries.
- **Lesotho** changed its laws so women, who were considered legal minors, can now have access to credit, participate fully in business, and fully engage in economic activities as independent individuals without requiring a man’s signature.

Good policies like these are not only the right thing for countries to do but also help create conditions attractive to the private sector, the true engine of economic growth.

### One Success Story

Let me use one recent trip to review implementation to illustrate MCC's programs and results. The scene in the plaza of Nicaragua's northern Chinandega region one day last month was truly remarkable. Thousands of people packed the town square to celebrate the positive cooperation that takes place when two countries work together to fight poverty. There, along with the directors of MCA-Nicaragua, local mayors, and government ministers and Nicaraguan President Daniel Ortega, we presented land titles to over 700 Nicaraguan families. These households now have clean land titles, can access much-needed credit, and benefit from the independence, empowerment, and security that comes with property ownership.

Property rights are a key element to reducing poverty, especially in regions that depend on agriculture for their economic livelihood. I am proud that MCC, working with the people of Nicaragua, local NGOs, donor organizations, and the private sector, have already helped provide legal and secure land titles to nearly a thousand people in this country, and in other countries where we are implementing compacts. Thousands more titles will be distributed this year alone.

I also took the opportunity to join local mayors and Nicaraguan government officials to formally launch the rehabilitation of the Villanueva-Guasaule road that connects Nicaragua with neighboring Honduras. This 17-kilometer stretch of the Pan-American Highway network has long been neglected and its poor state has impeded access to markets, basic social services, and the untapped economic potential of international commerce. By rehabilitating this important artery, Nicaraguans and other Central Americans will be able to take full advantage of free trade by getting their goods to market in an efficient and cost-effective manner. Increased exports will mean increased income for Nicaraguans, and these roads are a critical part of that effort.

In the city of Chinandega, we toured an agricultural fair where local farmers talked to us about how improved roads, irrigation systems, and innovative methods for commercializing their products are increasing their crop yields and incomes. It is always reassuring to hear—repeatedly—“thank you, USA” from grateful beneficiaries. What was even more rewarding, however, was to hear of their big plans for expansion. These farmers want to pull themselves out of poverty, and they are doing it with the help of MCC. They prove the old adage that “there is no such thing as a small entrepreneur, but rather an entrepreneur with a small business.” MCC is helping these rural entrepreneurs take full advantage of their resources and talents to work in a smarter, more profitable, and environmentally friendly way for Nicaragua's future.

These are the results that MCC is achieving in places such as Nicaragua. We are helping people help themselves. We are facilitating a dialogue between rural populations and their local leaders. We are collaborating in a constructive way with governments despite political differences. I impressed upon President Ortega the need for our two countries to move forward into the 21<sup>st</sup> century united to fight a common enemy: poverty. President Ortega

ended his speech that evening in the plaza of Chinandega thanking the United States government and American people, proclaiming “Viva los Estados Unidos!” This was a heretofore unexpressed and somewhat startling declaration by President Ortega, inspired by the acknowledged tangible results already achieved by MCC.

As taxpayers, we should expect and be proud of such results from MCC programs. These are the results of the careful investment of taxpayer funds. Stability in this region is a tangible benefit for the people of the U.S., and I am proud that MCC is leading this effort in the Western Hemisphere and around the world.

## **Moving Forward, Together**

MCC is an innovative, creative, and dynamic example of America’s “smart power,” rooted in accountability and country ownership. It is a performance-based, results-oriented model of American diplomacy and development assistance. It is demanding of its partner countries, but American taxpayers should not hesitate to be demanding when providing generous grants to developing countries seeking to pull themselves out of poverty, sustain their economic growth, and provide their citizens with good government.

MCC exists not only to reduce poverty through economic growth, but also to incentivize governments to create and maintain good policies that will sustain those efforts through ongoing political, economic, and social reforms.

Our priorities going forward -- focusing progress on the ground through implementation, empowering our partner countries, and insisting on tangible results -- will be MCC’s legacy. We share this legacy with you, Madam Chairwoman, and members of your committee, along with Congress and the American people whose collective generosity and compassion define America’s place in the world.

With full funding, MCC will be able to develop compacts with new countries working hard to partner with us.

It is only with your continued support will we be able to further incentivize good government. Working together, we can continue our work to motivate policy reforms, fight corruption, help countries strengthen their critical institutions, engage women, and pave the way for greater private enterprise.

And so today, on behalf of countries worldwide who embrace the innovative MCC model for development assistance, on behalf of the dedicated and diverse members of MCC’s staff who are administering MCC’s approach to “aid with accountability,” and, most important, on behalf of beneficiaries throughout the world who are replacing poverty with sustained economic growth, I ask for your continued support of the Millennium Challenge Corporation and funding the agency at the President’s request of \$2.225 billion for Fiscal Year 2009.

Chairwoman Lowey, Ranking Member Wolf, members of this Subcommittee, I want to thank you for the strong working relationship all of us at MCC have had with you and your staffs over the past few years. It is this positive and constructive engagement that has made this results-oriented, performance-based model of development assistance a success. We look forward to working with you to achieve the President’s request for MCC, and I welcome your questions this morning. Thank you.





**MILLENNIUM  
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