

**IMPLEMENTATION OF THE MILLENNIUM
CHALLENGE ACT**

HEARING
BEFORE THE
**COMMITTEE ON
INTERNATIONAL RELATIONS**
HOUSE OF REPRESENTATIVES
ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

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IMPLEMENTATION OF THE MILLENNIUM CHALLENGE ACT

WEDNESDAY, MAY 19, 2004

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Committee met, pursuant to call, at 10:33 a.m. in Room 2172, Rayburn House Office Building, Hon. Henry J. Hyde (Chairman of the Committee) presiding.

Chairman HYDE. The Committee will come to order. Good morning, and welcome to today's hearing of the Committee on International Relations.

The purpose of today's hearing is to examine the Administration's implementation of the Millennium Challenge Act of 2004. We have with us today the new Chief Executive Officer of the Millennium Challenge Corporation, Mr. Paul Applegarth. Mr. Applegarth was confirmed on May 5, 2004, and is responsible for leading the Corporation, which was established by the Millennium Challenge Act.

In March 2002, President Bush announced his intention to create a new development assistance program called the Millennium Challenge Account. The President proposed that this program would be "above and beyond existing aid," with the new money placed in a separate fund, the Millennium Challenge Account, also referred to as the MCA.

MCA funds would be available on a competitive basis to a select number of "best-performing" countries that have demonstrated a commitment to sound development policies, and where U.S. support would have the best opportunity for achieving the intended results. These "best-performers" would be selected based on their records in three areas—ruling justly, investing in people, and pursuing sound economic policies.

The President's MCA proposal, which passed the House last June, was enacted into law in Division D of Public Law 108–199. The Millennium Challenge Account Initiative is the first serious attempt to address the fact that existing U.S. development assistance programs have consistently failed to meet their stated goals. Despite decades of economic aid, most recipients are poorer now than they were before first receiving development assistance.

Development assistance alone is not sufficient to stimulate economic growth and development. The main philosophical underpinning of the MCA is that the United States must be more selective in aid distribution if the assistance is to be effective and a positive contributor to development.

MCA assistance will reward only those recipients who willingly adopt good policies and institutions. Of the approximately 70 countries currently eligible for development assistance, only 16 countries have met the strict criteria stipulated by the Millennium Challenge Act for FY 2004.

At the funding level proposed by the President for FY 2005, this may mean a very high level of assistance for MCA-recipient countries. Traditional bilateral assistance programs will continue for countries who do not meet the cut. The President believes that this will create a competition among “cusp” countries which may accelerate reforms and the adoption of good policies.

I look forward to today’s hearing, and I now am pleased to yield to my friend and colleague, the distinguished Ranking Member from California, Mr. Lantos.

[The prepared statement of Mr. Hyde follows:]

PREPARED STATEMENT OF THE HONORABLE HENRY J. HYDE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS, AND CHAIRMAN, COMMITTEE ON INTERNATIONAL RELATIONS

Good morning, and welcome to today’s hearing of the Committee on International Relations.

The purpose of today’s hearing is to examine the Administration’s implementation of the Millennium Challenge Act of 2004. We have with us today the new Chief Executive Officer of the Millennium Challenge Corporation, Mr. Paul Applegarth. Mr. Applegarth was confirmed on May 5, 2004, and is responsible for leading the Corporation, which was established by the Millennium Challenge Act.

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I look forward to today’s hearing, and I now recognize my friend and colleague, the distinguished Ranking Member from California, Tom Lantos.

Mr. LANTOS. Thank you very much, Mr. Chairman.

Mr. Chairman, less than 2 weeks ago the Millennium Challenge Corporation made an announcement that will dramatically affect the economic and political future of 16 nations around the globe.

These lucky 16 made the first cut of countries eligible to receive Millennium funds.

I was largely pleased with the list of nations that cleared this first bar, and I have no doubt that the Millennium program will help these countries better provide for their own people and embrace freedom. I hope that the countries that made this cut because of very recent economic and political progress will sustain that progress as the program goes forward.

Now that the first round of nations has been announced, the real difficult work begins for us all. The United States must now negotiate complex agreements with the 16 nations on how Millennium funds will be spent.

While we share a common objective with these countries to help promote sound economic and political development, there will undoubtedly be major differences in the means to achieve these worthy objectives. We in Congress must also step up our oversight of the Millennium Challenge Corporation to ensure that the Millennium initiative is an unqualified success and that the strong bipartisan political consensus in support of this initiative does not fade away.

Mr. Chairman, I would like to make four recommendations to Mr. Applegarth, whom I welcome here this morning, that will help to ensure the continuation of solid congressional support for the Millennium program.

First, the upcoming negotiations with respect to the 16 recipient countries. We in the United States must focus on transparency and accountability. Congress granted the Executive Branch unprecedented flexibility in the expenditure of Millennium funds to increase the effectiveness of the program, but it would only take one horror story of Millennium funds being used to line a high official's pockets or being wasted on white elephants for the whole program to be immediately tarnished.

I do not need to suggest parenthetically that the heroic, humane, extraordinary efforts of thus far 200,000 of our military personnel at the moment is being overshadowed by the misguided and inappropriate behavior of a handful. If this is true of a major military undertaking, Mr. Applegarth, you must be extremely careful to see to it that it will not destroy this new program. The dangers are there in every one of the 16 countries. Flexibility must go hand in hand with transparency and accountability.

Second, the Millennium Challenge Corporation must make serious efforts to expand the number of countries that will benefit from the Millennium initiative. The 16 countries that are currently eligible represent only about 3 percent of the world's poor population. Ninety-seven percent of the world's poor population will not benefit from this program in its early stage.

Mr. Chairman, Congress allocated up to 10 percent of Millennium funds to work with additional countries that just missed the eligibility bar. However, the Millennium Challenge Corporation has ignored this provision and allocated only 4 percent for these threshold countries. I believe this was a mistake.

These arbitrary criteria in any selection process need to be implemented in an intelligent and flexible fashion. At university admissions offices, students may miss the admissions criteria for 1 per-

centage point, yet with proof to be a more promising student than some who barely made it.

I think it would have been much wiser for Mr. Applegarth and his colleagues to use the 10 percent that we provided in our legislation rather than cut it back to 4 percent. I think it was a mistake, and I would like to find out why the leadership has chosen not to take full advantage of the flexibility we provided. I think legislation in this instance was far more intelligent and flexible than implementation.

I strongly encourage the Administration to announce immediately those countries that could benefit from the threshold program and to devote the financial resources necessary to make the program work. I will also soon introduce legislation to reauthorize this threshold program, which unfortunately expires this year.

My third point, Mr. Chairman, is that the Millennium Challenge Corporation must work hand in glove with the Agency for International Development both now and in coming years. Both institutions must play a critical role in negotiating the implementation agreements with the 16 Millennium countries and in helping the next round of eligible countries get ready for the Millennium program. We must ensure that a successful Millennium initiative does not mean the eventual demise of USAID.

Finally, Mr. Chairman, the Administration must live up to its pledge that the Millennium program will not be funded at the expense of traditional development aid. While the President's budget request contained a 92 percent increase for the Millennium program, it slashed core development accounts by more than 14 percent. I strongly encourage the Administration to reevaluate this policy and to reverse the downward trajectory for funding traditional development accounts.

Mr. Chairman, with the selection of Mr. Applegarth to lead the Millennium Challenge Corporation and the announcement of the first cut of eligible countries, the Millennium program is off to a good start, but it will take all of our continued involvement and oversight to ensure that the Millennium Challenge Account ultimately lives up to all our hopes and our expectations.

Thank you, Mr. Chairman, for calling today's important hearing.

Chairman HYDE. Thank you, Mr. Lantos.

If there are any further opening statements, without objection they will be made a part of the record at this point in the record.

I would like to welcome Paul Applegarth. Prior to becoming the Chief Executive Officer of the Millennium Challenge Corporation, he was Managing Director at Emerging Markets Partnership. He also recently completed service as the initial chief operating officer of the Emerging Africa Infrastructure Fund and is founding managing director of Emerging Africa Advisers, the Principal Adviser to the fund.

Mr. Applegarth previously served as the Chief Financial Officer of United Way of America, Senior Vice President for International Markets at American Express and held several positions at the World Bank. He is a graduate of Yale University and Harvard Law School and holds an MBA with high distinction from Harvard Business School.

We welcome you, Mr. Applegarth. We are honored to have you appear before us today. Please proceed with a summary, 5 minutes give or take liberally construed. Your full statement will be made a part of the record.

Mr. Applegarth?

STATEMENT OF THE HONORABLE PAUL APPEGARTH, CHIEF EXECUTIVE OFFICER, MILLENNIUM CHALLENGE CORPORATION

Mr. APPEGARTH. Thank you, Mr. Chairman. It is a pleasure to be here today to appear before you and Members of the Committee. I am pleased to be here as the very recently confirmed Chief Executive Officer of the Millennium Challenge Corporation.

Since this is my first time before you, let me say that I do look forward to meeting and working closely with you not only in these forums, but hopefully individually going forward.

Chairman HYDE. Could you bring your microphone a little closer to you?

That is good. Thank you.

Mr. APPEGARTH. I understand and I have been advised about the value and contribution of this Committee in particular to the creation of MCC. Many of the ideas and concepts presented by you and your colleagues are now a part of its philosophy and operating design, and I take particular note both of your opening remarks and some of the comments of Congressman Lantos, and I hope to address those both now and in the Q&A later.

A venture potentially as far reaching and as innovative as MCC can only be successful through bipartisan backing and the kind of backing it has gotten in this Committee. It is one of my personal objectives as CEO to preserve and strengthen the spirit of bipartisanship which created the MCC.

I am pleased to report that the MCC has had a fast, productive start up. It has been 4 months since it was established. In that time, it has truly been starting up, but it has met the legislative schedule for selecting eligible countries and has implemented a major communication and outreach effort to all of our key constituencies.

As you mentioned, we completed a major milestone on May 6 when the Board of Directors selected 16 countries as being eligible for the first funding. These countries were selected based on the criteria and methodology submitted to Congress on March 2.

In considering the countries and the criteria, we welcomed a wide array of public input on the criteria and methodology. Public comment is not only a mandated part of the Corporation's procedures, but such dialogue is also a part of our core philosophy and key to our future success.

I think my written testimony mentions in detail the number of outreach meetings we have had with the public, with NGOs, with other donors and so on. I will not go into them here, but I will tell you that we are committed to ensuring a continuing process of input. In many ways, MCC is as much about the message as it is about money. We value the input of everyone—the Committee Members and others—in terms of what we are trying to do.

The 16 countries that have been selected have responded enthusiastically. This weekend, five MCC teams, including me, will depart for initial visits to all 16 countries. During these visits, we will meet not only with government officials, but also with civic and private sector leaders, opinion leaders, members of the public and other donors.

Following these visits, we expect that many or all of the countries will submit Compact proposals. If the proposals are good, MCC will then negotiate and finalize Compacts with the countries. This will be a deliberative process which will require a country to clearly outline its priorities and their impact on economic growth.

Today I want to focus on some issues that concern the Committee: The principles that drive MCC, our intended methods of operation and accountability. I also want to touch on our relationship with other donors, in particular USAID.

Building on what has been learned in international development assistance, the MCC will take a new approach. My written testimony discusses MCC's principles in detail, but, to summarize, MCC emphasizes policy reform. It focuses exclusively on sustainable growth. Its relationship with emerging countries will be characterized by a spirit of partnership.

Partnered countries will incorporate the views of broad cross-sections of their societies as they determine their priorities. MCC will focus on results and establish outcome based standards for success up front. It will establish accountability as a key operating principle and will monitor progress on an ongoing basis.

MCC did not invent these ideas. Previous development assistance has included at least some of them. The fact that all of them are key structural components of MCC, together with the scale of MCC and the amount of its funding, make MCC different and I believe make it capable of making a real difference in the lives of millions.

Let me elaborate briefly on three of the core elements of the MCC approach. First, policy reform. Research has shown that development aid produces the best results when it is targeted to countries that have a good policy environment. Indeed, policy reform in recipient countries can have a much more positive impact for those countries than whatever MCC itself does. As you said in your opening remarks, Mr. Chairman, MCC could be a catalyst for development. It is not the cause of development, and that is the approach we are taking.

MCC's emphasis on policy reform is already paying off. Countries want to be part of MCC, and they are competing to qualify. We are already beginning to see evidence of policy changes in countries seeking to improve their performance on the MCC indicators. MCC's concepts are already having an impact even before the MCC has entered into a single Compact or disbursed a single dollar.

Secondly, partnership. The MCC represents a major change in the relationship between donor and recipient aimed at a true partnership. Instead of telling donor countries what we want them to do or what they get money for, we are going to ask the qualified nations what are your development priorities. The nations will own the programs from the start, and MCC will provide financial and implementation assistance to countries that are performing.

Third, accountability. I would echo Congressman Lantos' comments. Partner nations will be accountable for their performance. If a country's performance under a Compact begins to falter, MCC will attempt to find ways to support and assist it. However, if underperformance is chronic or if a country fails to live up to its commitments, MCC must be and is prepared to terminate funding and end the Compact.

MCC is approaching the 17 month period from now until the end of fiscal year 2005 as a single period for planning purposes. We only have 5 months left for this fiscal year, and we believe from an operating point of view we need to look at the 17 months as one period.

This planning period enables us to develop economic growth priorities with the countries, review country proposals and negotiate and sign Compacts in a manner that allows us to reach decisions with prudence, discipline and sound business judgment. There is going to be no rush to sign a group of Compacts by September 30.

This partnership requires the countries to be responsible for identifying their priorities and submitting proposals for assistance to MCC. We have posted proposal guidance for countries on our Web site and will share it directly with those countries when we visit them over the next 2 weeks.

Being selected by the board 2 weeks ago is no guarantee that a country will receive funding. We are at the beginning of a process, as Mr. Lantos said. MCC allocation and funding decisions are going to be driven by the quality of each country's proposal rather than by the number of eligible countries that submit proposals. MCC may not finalize Compacts with all the eligible countries if the programs proposed do not meet MCA standards.

To permit countries to qualify, adequately plan and efficiently implement their proposals, we plan to enter Compacts with multi-year programs fully funded up front. Since we do not know what the development priorities of the selected countries will be and thus costing out programs in advance will be virtually impossible, we can only make estimates for the Committee of the funding necessary to operate this program in the first 2 years.

To be an effective incentive, command the attention needed for breakthrough country proposals and to galvanize the political will essential for success, Compacts should be sized to make MCC among the largest providers of assistance to a country. In an analysis earlier this year, the GAO estimated that with a funding level of \$3.5 billion, i.e., the \$1 billion requested and approved this year and \$2.5 billion requested for next year, the MCC could fund 3-year Compacts in 8 to 13 countries.

MCC's own calculation based upon the actual countries selected, is consistent with the GAO analysis, although in practice MCC will likely engage in Compacts that are longer than 3 years, which would increase the funding needed for each Compact.

In addition to the countries selected for 2004, in only a few months MCC will select the countries for 2005. Completed Compacts from these countries must also be funded from next year's appropriation, as must any assistance provided to threshold countries.

For MCC to be fully successful, we must coordinate with other agencies in Washington and in the field. Therefore, we will work with our partner countries to identify the contributions of other donors. We are already in touch with much of the donor community.

In this regard, let me specifically mention USAID. USAID has been very helpful to us in our start up phase, and the spirit of cooperation is excellent. This is truly a good news story. MCC is now and will continue to take full advantage of USAID's experience and expertise. We will also work with USAID to establish a threshold program for countries that miss selection for eligibility in the fiscal year 2004 round.

This program will make MCC funding available for targeted programs in countries to improve their performance under the indicators. Mr. Lantos mentioned this in his opening remarks and had some questions about it. I will be happy to address those in Q&A.

I cannot conclude without returning to what I believe to be the first and foremost purpose of our efforts—helping the poorest people in the world. The average per capita income of the people in the 16 countries selected to be eligible is roughly \$470 a year. These countries face poverty levels that we can only imagine. These countries have demonstrated, however, they are working hard to make the reforms that will help give their people an opportunity to make a better life for themselves and for their children.

Congress can be assured that the MCC will exercise discipline in its operation and act as a fiduciary for U.S. taxpayers. By creating growth, hope and opportunity for people who are the most impoverished, MCC will save money that might be spent in the future on national security or short-term humanitarian needs.

MCC is a statement by the U.S. of its role in the world. It is a good investment for America, an investment in growth, an investment in security, an investment in demonstrating American values and leadership in the world. We are off to a fast start and are poised to move forward in pursuit of this vision.

Going forward, I particularly welcome the ideas and support of the Members of this Committee and of Congress and would be glad to answer any questions you have.

[The prepared statement of Mr. Applegarth follows:]

PREPARED STATEMENT OF THE HONORABLE PAUL APPLGARTH, CHIEF EXECUTIVE OFFICER, MILLENNIUM CHALLENGE CORPORATION

Mr. Chairman; Members of the Committee, I am pleased to appear before you as the newly confirmed Chief Executive Officer of the Millennium Challenge Corporation. You are to be commended for your leadership, vision and bipartisan support in creating the MCC. It is my personal objective to work closely with you and to strengthen that bipartisan coalition.

I am pleased to report that the Millennium Challenge Corporation has had a fast, productive start-up. In the four months since MCC was established, we have created an operational structure, met the legislated schedule for selecting eligible countries, and implemented a major communication and outreach effort to all key constituencies.

MCC completed a major milestone on May 6, 2004, when the Board of Directors selected 16 countries as eligible for funding from the Millennium Challenge Account (MCA). The eligible countries for FY 2004 are:

- Armenia
- Benin
- Bolivia
- Cape Verde

Georgia
 Ghana
 Honduras
 Lesotho
 Madagascar
 Mali
 Mongolia
 Mozambique
 Nicaragua
 Senegal
 Sri Lanka
 Vanuatu.

These countries were selected based on the criteria and methodology submitted to Congress on March 2. We welcomed a wide array of public input on the criteria and methodology. While public comment is a mandated part of the Corporation's procedures, such dialogue is also part of our core philosophy and key to our future success, and we are committed to a continuing process of input and response. Indeed, this initial outreach effort was followed by a number of public meetings and sessions for candidate countries.

The 16 chosen countries responded enthusiastically to the May 6th eligibility announcement. It is clear they want to be part of this unprecedented approach to international development assistance. This weekend, five MCC teams will depart for in-depth discussions and briefings in all 16 countries. We will seek dialogue, not only with government officials, but also with local civic and business leaders, members of the public and international donors. Following these and other discussions, the countries will submit program proposals. MCC will then negotiate and finalize Compacts with those countries that propose quality programs for sustainable growth that have a strong likelihood of success.

Today, I want to focus my testimony on four core issues that I believe are important to your Committee: the concepts that drive MCC; our operational procedures; budget priorities; and the role of accountability and partnership. I also will touch on our relationship with other donors, including USAID.

THE CONCEPTS THAT DRIVE THE MCC

Two years ago in Monterrey, Mexico, the President called for a new "Compact for global development" that would make greater contributions from developed nations to greater responsibility from developing nations. That's exactly what the United States is launching with the Millennium Challenge Corporation.

So, what are we, together, engaged in? First and foremost, this initiative is about helping the poorest people in the world. All of us who wake up every morning in good health, turn on the lights, are warm, can run a bath and eat a plentiful breakfast can easily forget that half the human race—more than three billion people—lives on less than \$2 a day. More than one billion people don't have safe water to drink. Two billion people have no electricity and another two billion people lack adequate sanitation. When we in Washington talk about mechanisms, plans, procedures and administrative processes, we must not forget that these people are living in crushing poverty and that assisting them to escape this poverty is what MCC is all about.

For several decades, many of us have worked to change the conditions in developing nations that I just described. Many programs, policies and institutions are making significant changes but some, unfortunately, are not succeeding as well as we would like. Building on what has been learned in international development assistance, the MCC will take a new approach, one that combines six major concepts in an unprecedented way:

- MCC emphasizes *policy reform*.
- It *focuses exclusively on sustainable growth*.
- Its relationship with emerging countries will be characterized by a *spirit of partnership*.
- MCC will require partner countries to *incorporate the views of broad elements of their societies* as they determine their priorities.
- It *focuses on results*, and establishes outcome-based standards for *success up front*.
- It establishes *accountability* as a key operating principle, and will *monitor progress* on an on-going basis.

Previous development assistance has involved these concepts with varying degrees of emphasis and success. The fact that *all* of them are key structural components of MCC makes MCC truly different—and, I believe, capable of making a real difference in the lives of millions.

Let me elaborate briefly on some of these core elements of MCC's approach. First, policy reform. Research has shown repeatedly that development aid produces the best results when it is targeted to countries that respect political and economic rights and freedoms, respect the rule of law, and pursue effective growth policies. Thus, MCC provides incentives for countries to adopt or maintain policies for governing wisely, investing in their own people and promoting economic freedom. Policy reforms in poor nations can provide opportunities for citizens to benefit from increased international trade and private capital inflows, from the growth of their domestic economics, and from greater economic and political freedom. These reforms, in turn, can have a much greater impact than whatever MCC itself achieves.

President Bush told me personally that providing incentives for policy reform to our partner nations is a critical aspect of our new approach. MCC provides incentives for countries to change their policies, reward those that do, and assist them in achieving their development goals.

Second, MCC will promote sustained economic growth. There are many legitimate purposes of development assistance, including disaster relief, food aid, and disease prevention. But over the years, the press of short-term needs has squeezed out attention on to long-term issues. Thus, MCC's focus would include investments in agriculture, education, private sector and financial systems development, legal and regulatory reform, and enabling infrastructure. *Our exclusive mission is to focus on the long-term challenge of assisting developing countries to escape their dependency status through self-sustaining economic growth.*

Partnership is a critical third piece. This is a major change in the relationship between donors and recipient nations. Millennium Challenge Corporation will ask qualified nations: what are *your* development priorities? This positive, empowering approach gives partner nations ownership for their programs from the start, and then provides the financing they need.

Let me add that this partnership spirit should extend beyond MCC's relationship with its partner countries. MCC has an extraordinary Board. USAID, the State and Treasury Departments, and the U.S. Trade Representative are each represented on MCC's Board. All greatly contribute to MCC's own expertise, experience, resources and country relationships. MCC's own staff is lean by design. We should and will take maximum advantage of what these partners, and others within the U.S. government, can contribute.

Fourth, to meet MCC criteria, each partner nations must *consult broadly* within its society to determine their priorities. This ensures the participation of non-governmental bodies, private businesses, and representatives of civil society, with all their skills, knowledge, interests and concerns.

Fifth, MCC will enter into Compacts with qualifying nations that *focus on outcomes*—that outline concrete objectives, benchmarks and responsibilities for meeting development goals.

And finally, partner nations are will be *accountable* for their performance. If a country's performance under a Compact begins to falter, MCC will attempt to find ways to support and assist it. However, if under-performance is chronic or if a country fails to live up to its commitments, MCC must be prepared to terminate funding and end a Compact.

OPERATIONAL PROCEDURES

As the first step in the partnership between the MCC and eligible countries, eligible countries will identify their priorities and the programs to achieve them, and submit proposals for assistance to the MCC. Proposal guidance is posted on our website (www.mcc.gov) and will also be shared directly with the 16 eligible countries.

The six core concepts that I described above—the core structural components of the MCC—will encourage partner countries to adopt and implement better policies, to develop institutions and build capacity to govern wisely, to invest in their own people and to promote economic freedom. At the same time, these core concepts also provide a clear opportunity for the USG to demonstrate international leadership in promoting economic growth that will help reduce poverty in many of the world's poorest countries. They articulate an international role for the United States that is a positive statement about our country and our values.

This year's 16 eligible countries—and others as well—are clearly eager to be partners and participants. Over the three months that the MCC has been in existence,

we have heard from many of them. Indeed, countries have already begun to discuss ways to improve their performance on the indicators.

In short, the incentives inherent in the MCC's core concepts are already at work, even before the MCC has entered into a Compact or disbursed a single dollar. This is the ultimate sign of the ability of this approach to catalyze positive change.

BUDGET PRIORITIES

The Compacts between the MCC and partner countries will establish multi-year programs that involve significant up-front commitments: by countries; which will commit to continued policies and actions that promote growth; by the MCC; which will commit to deliver a significant level of financial assistance. These commitments by the MCC and partner countries will permit the countries to achieve measurable objectives that lead to economic growth and poverty reduction.

MCC allocation and funding decisions will be driven by the quality of each country's proposal rather than by the number of eligible countries that submit proposals. MCC may not finalize Compacts with all eligible countries if the programs proposed do not meet MC standards. But where we can successfully negotiate a Compact, it is important that the MCC be able to provide substantial funding. Being among the largest providers of assistance in a country will allow the MCC to be an effective incentive, to command the attention needed for breakthrough country proposals, and to galvanize the political will essential to success.

In order to underscore this commitment, the MCC plans to fully fund multi-year Compacts at a magnitude that would make it either the largest or second largest donor on average in country. In an analysis earlier this year, the GAO estimated that, with a funding level of \$3.5 billion, the MCC could fully fund three-year Compacts in 8 to 13 countries. Our own calculations, based upon the actual countries selected, is consistent with the GAO analysis. However, in practice, the MCC will likely engage in a number of Compacts that are longer than three years, increasing the funding needed for each compact. In summary, a funding level of less than the requested \$2.5 billion for FY 2005 will reduce the number of Compacts that the MCC will be able to finalize. In addition, a reduction in funding will dampen the incentive effect and impair the MCC's ability to stimulate economic growth and poverty reduction.

Because MCC was legally established in January 2004 and per the MCC legislation the eligible countries were not determined until May 6, 2004, the MCC is approaching the remainder of FY 2004 plus FY 2005—a period of about 17 months—as a single period for planning purposes. Framing our work within this planning period will enable us to discuss development priorities with countries, review country proposals, and negotiate and sign Compacts in a manner that gives meaning to our concepts and allows us to reach decisions with prudence, discipline and sound business judgment.

This is important because, in addition to the FY-2004 eligible countries, in early FY 2005 the MCC will be determining countries eligible for FY 2005. As per the legislation, the pool of potential countries will be broadened somewhat for FY 2005. The result is that in the first quarter of FY 2005, following the steps laid out by the Millennium Challenge Act, we are likely to lengthen the list of countries that will be eligible to submit Compact proposals to the MCC, proposals that if approved would be funded from the \$3.5 billion. The threshold country program will also be funded during this period.

We are confident that the requested funding would put MCC in an optimal position to provide both international leadership in promoting economic growth in developing countries and needed incentives to the countries themselves to help them adopt the policies, build the institutions and make the investments that will lead to a better future for their citizens.

ACCOUNTABILITY AND PARTNERSHIP

I have emphasized the key concepts upon which the MCC has been established and upon which the MCC will provide assistance to countries through Compacts. Let me highlight one of these concepts that will be central to all stages of MCC's relationship with partner countries—from the review of proposals, to the negotiation of Compacts, to the oversight of implementation. That concept is accountability.

Accountability for results will be an integral part of every Compact funded by MCC. MCC will monitor systems and activities to ensure financial responsibility. It will review overall budget data to demonstrate that MCC resources, domestic resources and other development resources are used in a complementary manner. MCC will conduct audits of partner nation programs and monitor achievement of specific benchmarks. These evaluations will be made public.

MCC will actively coordinate with other agencies in Washington and in the field. We will also be coordinating our activities with other donors. It would defeat MCC's objectives if MCC funds displace the resources of other donors. Therefore, we will work with our partners to identify the contributions of other donors, and we are already in touch with much of the donor community to ensure that our resources are complementary.

Finally, there has been a lot of discussion about relations between MCC and USAID. First of all, I'm proud that I have the opportunity to sit on the same board with Andrew Natsios. He and his staff deserve a tremendous amount of credit for helping start up the MCC, and I look forward to taking continuing advantage of USAID's experience and expertise. Indeed, we expect USAID to be a key partner of MCC in many eligible countries.

One important shared initiative is the establishment of a "threshold" program for countries that just missed selection for eligibility in the FY 2004 round. The Board of Directors has reserved up to \$40 million for this program, which would make MCC funding available for targeted programs in these countries to improve their policy performance. The MCC and USAID intend to develop a joint strategy for the program. The MCC will update Congress on the details of the threshold program when it is developed.

I cannot conclude without returning to what I've called the first and foremost purpose of our enterprise: helping the poorest people in the world. Please note that the average per capital income for the 16 countries selected to be eligible is roughly \$470 per year. These countries face poverty levels that we can only imagine. These countries have demonstrated, however, that they are working hard to make the reforms that will help give their people an opportunity at a better life for themselves and for their children. They need and deserve our help.

The President and Congress, in approving the MCC, have invited developing countries—governments and their citizens—to participate in an expanding circle of development and offered a vision for reducing poverty through economic growth. It is a vision that demonstrates American leadership at its best. And it invites the best from our partner countries: a new commitment to policies, institutions and programs that are the building blocks for sustained economic growth.

The MCC is off to a fast start and is poised to move forward in pursuit of our shared vision.

Thank you for giving me the opportunity to appear before you today. I would be glad to answer any questions you have.

Chairman HYDE. Thank you, Mr. Applegarth.

Mr. Paul of Texas?

Mr. PAUL. Thank you, Mr. Chairman.

I notice in your bio that you have had a lot of experience in the private sector, the public sector and also in the public/private sector. Most people, when they talk about the private sector, refer to capitalism, and in the public sector usually if it is all public then we refer to it as socialism.

Philosophically I have concerns about this program, and it probably falls into the third category of a public/private type of a program. I think so often when the government gets involved in private affairs there is room for a lot of mischief.

I am mostly concerned philosophically about this whole program because of our intent to teach other people what the proper role of government ought to be and how to set up their affairs. We have been known on occasion to go to other countries, impose our will on them and actually teach them about the Internal Revenue Service and how to collect taxes, how to develop a central bank and how to print money and have a monopoly control of interest rates. We teach them about regulations, so this is not too reassuring.

Yesterday, *The Wall Street Journal* had a horrible article in the paper about a gentleman that is going to go to prison because he poured some sand on his land. I mean, it would be good if we could teach the world about private markets and private property, but I

see so many problems here. I do not know how we can be such an example. I worry about programs like this.

It is designed to help the poor, which is a good motivation. I believe we would spread the message of capitalism and we truly would help the poor, but when we do it through transfer payments we take billions from our people and transfer it to governments in other areas. Maybe it might help. It usually has not in the past. We are hoping this new approach will, but it really has not in the past. All we do is make more poor people here. We ignore the cost. There is always a cost. There is a cost here. It is not for free.

Unfortunately, the people who pay the price in this country for programs like this, now that we are running a \$700 billion deficit, are the people that are unknown, the people who lose their job, the people who have a high cost of living or lose their medical benefits. They suffer the consequence because of programs like this and because we glibly just say you know, this is a great idea to help the poor, but I cannot see where we are really going to change the fundamentals, and yet I know that is the intent.

There are two brief questions I have though. Could you assure me that no American corporation or bank will profit from this money taken from the American taxpayers through these programs?

Second, how can we really expect a market economy to evolve from this with this notion that we are merely working on a transfer payment? We are transferring payments and transferring funds from people in this country to another. How can we really expect that to help develop market economies elsewhere?

Mr. APPLGARTH. Thank you, Congressman. I think you have highlighted some of the concerns about past foreign assistance programs and some of the lessons learned from those programs.

There have been good things accomplished by some of the past programs, but there are also things that have not worked very well. We are trying to take advantage of that experience, and I think the people who created and conceived of MCC, which includes Members of this Committee, had that in mind when they established the principles underlying MCC.

In terms of your particular question, I am not sure I fully understand. I would hope that over time American corporations and banks do profit from this effort. If we are creating growth in these economies and these people are able to participate more fully in the international system, they are going to be growing. There should be opportunities for their people, their corporations, their companies and for U.S. companies and banks.

I think if there is not such opportunities either our corporations or banks are asleep at the switch or we have failed. They should have an opportunity to participate as we are opening these economies up.

Mr. PAUL. Excuse me. I am not talking about the long term. I am talking about the specific benefits from these direct appropriations to these companies or these countries.

I mean, are our American companies going to get contracts to go in and benefit directly from the taxpayers' money?

Mr. APPLGARTH. Our intention is to work in the spirit of partnership with the countries. The presumption here is one of partner-

ship with the countries, in establishing and identifying what their priorities are and what they are going to do.

There is no presumption that the country's government itself will be the implementing agency. We are going to agree on the priorities. We are going to agree on a method of implementation, but I would fully expect that specific projects will often be tenders or procurements within the country as part of the building of capacity in the country to upgrade economically.

We see development of those kinds of processes happening as a result of MCC efforts, and it will be free and open for anyone to compete. We are certainly not going to preclude U.S. corporations from bidding in the country for those projects. They will be open to everybody.

Chairman HYDE. The gentleman's time has expired.

Mr. Blumenauer?

Mr. BLUMENAUER. Thank you, Mr. Chairman.

Mr. Applegarth, I certainly like the philosophy here of rewarding transparency and accountability and trying to see what actually works. I appreciate your second element that talks about sustainability in terms of economic development, and I hope that that goes in a broader context dealing with what happens with the environment.

I, too, saw the article that Mr. Paul talked about dealing with a guy who repeatedly filled wetlands illegally. I hope that the work that you will be involved with overseas will be working very hard to avoid the expedience of reckless environment endangerment.

We are seeing that in some of the poorest countries, whether it is attacking endangered species or deforestation—both very dangerous policies in terms of agriculture—and I am hopeful that what we say is a stated commitment in this country to environmental quality that will carry forward.

I am going to submit three or four specific questions for the record because they are a little more detailed, and I do not want to put you on the spot. I also do not want to take up my time, Mr. Chairman, unduly, but it speaks to aspects here to guarantee that the work that you will be doing will be accessible to women in these countries.

I know you are aware that this has been articulated before the Appropriations Committee, as this proposal was hammered out. Being able to know that you are launching it forward, you are going out, to be able to respond in some detail, how you will make sure that the more than half of the population that often is dramatically underserved and most at risk is adequately accommodated with the plan?

I would like to go back to what I mentioned a moment ago for your reaction. We are reaching a point next year where we are told for the first time in human settlement history, half the people will be in cities. I know there is a lot of attention to rural areas, and it is appropriate, but the economic engines are likely to be found in urban settings and in areas of investment that deal with sound planning and water resources.

We just had a hearing 2 weeks ago in this Committee dealing with the potential of investment in that area. We are going to be going back and looking at it.

Could you elaborate for me in the 2 minutes that I have left what you are going to be doing environmentally to try to help urban development? Translate this philosophy of sustainability working with our NGO partners and these emerging governments.

Mr. APPLGARTH. First, Congressman, let me say that I also believe that growth has to be sustainable. I am quite familiar with the concept of "high grading" in an environment where you reap a very short-term profit, and you destroy the longer term. It does not work. It is not a good business principle. It is not a good development principle.

We will be looking in our due diligence process at the overall impact in the country. Since we do not know what sectors countries are going to propose as a priority, I cannot speak in detail about what we will do in terms of an environmental assessment or other assessments, but certainly in my work at EAIF and elsewhere where we had projects that clearly impacted the environment in some way we had a process of bringing in third parties to do an individual environmental and social assessment of what was going to happen.

It has worked well for me in the past. I would certainly commend it to MCC for us to look at. There are certain sectors where that is clearly a factor. In other cases it may or may not be relevant, but as a principle it is part of long-term sustainability and something we would be trying to do.

Mr. BLUMENAUER. And in terms of infrastructure investment, in terms of transportation, particularly water and sanitation, things that are very hard to put in a foreign bank account and have proven to have huge benefits economically, health saving, improving productivity, how do you see your programs being able to help some of the poorest of the poor have this fundamental infrastructure that is so necessary for a decent life?

Mr. APPLGARTH. I have spent the last 12 years of my career building infrastructure in emerging markets using private sector principles, taking almost a venture capital model to activities that traditionally have been the role of government. Governments were willing to let private capital come in and privatize some activities to deliver those basic services.

I think there are proven models for doing that. They are not dependent on only governments doing it or the U.S. Government doing it. If the countries in which we are working identify infrastructure as a priority, we would certainly talk about those principles and about how it will work, but there are proven models to do it. They deliver benefits to poor people and stimulate growth which is what MCC is about.

Chairman HYDE. The gentleman's time has expired.

Mr. Bereuter?

Mr. BEREUTER. Thank you, Mr. Chairman.

Mr. Applegarth, thank you for your testimony. I wish you well in your leadership taking on these challenges.

Mr. APPLGARTH. Thank you.

Mr. BEREUTER. Conceptually and in terms of my vote, I am very supportive of the Millennium Challenge Act and your efforts under it. I have watched the incentives work in eastern and central Europe, incentives from the European Union and from NATO, and I

think it has pushed them to make good steps forward in areas of reforms. I do not suggest we have that much influence, but I think it is a very good step.

I have a number of specific questions. There is one country on the list of accepted that strikes me as very much a contrary position to the United States and very much detrimental to regional security. I will just leave it at that. I believe that of the three areas that you use to judge the best performers, the criteria are probably statutory, I notice that whether or not the country is taking steps that are positive for regional security and consistent with U.S. policy or contrary to U.S. policy is absent. My question to you is are these statutory criteria, or are they possibly supplementable?

Secondly, I know a number of countries certainly are low income that would have been eligible in that respect—Albania, Bangladesh, Cambodia. Albania and Bangladesh I am told indirectly the problem was inadequate demonstration of commitment to deal with corruption. Perhaps you could make a comment about that. Cambodia's situation is so far from acceptable that it would be hard to know where to start there. Macedonia. Is it an income problem level there in the first year? What was the problem, if I may ask? I would like to see you move forward with the threshold countries and give them some encouragement in a very formal, consistent way.

Finally, I want to associate myself with Mr. Lantos' remarks in hoping that in fact the traditional development aid programs are not going to suffer because of the resources being devoted to the Millennium Challenge. I think that would be quite unfortunate.

I think I will let you respond to my questions at this point.

Mr. APPLGARTH. Let me address the particular countries. Is that what you would like me to focus the remaining time on?

Mr. BEREUTER. Also the threshold issue, what do you plan to do with threshold countries?

Mr. APPLGARTH. Okay.

Mr. BEREUTER. And the statutory question of whether or not those criteria you used to judge are statutory or if those are something the Corporation has chosen?

Mr. APPLGARTH. Let me start with the last one first. The criteria and method, the key principles are identified in the legislation in terms of investing in people, promoting economic freedom and governing wisely.

The 16 indicators were developed over the course of a year and a half or so. They were published and provided to Congress on March 2, I think. Those indicators are all prepared at an arm's length basis, or in most cases an arm's length basis, by independent parties.

The point was to take the politics out of individual decisions, and to put the criteria or countries and related information on the Web. We are using the MCC Web site as our primary communications tool.

A lot of people are interested in what we are doing. We are trying to keep it very clear and transparent. Each country's scores against those criteria are on the Web site. It is a very simple system. If they pass, it is green. If they fail, it is red.

Mr. BEREUTER. Mr. Applegarth, is it possible for a country in an adversarial position to the United States to qualify?

Mr. APPLGARTH. I am sorry? I did not hear you.

Mr. BEREUTER. Is it possible for a country in an adversarial position to the United States to qualify?

Mr. APPLGARTH. I guess it would depend on the issue, if the criteria are met. They are objective criteria, in line with the legislation that was passed. You would have to consider the particular issue. I am sure we have differences with many countries, even with our closest friends. "Adversarial" is a broad term.

The criteria is there. What the countries have to do to qualify is there. They are open. They have been available. They are open for comment. There was a serious, genuine effort to take those comments into account in considering country qualification.

Mr. BEREUTER. But I guess the answer is yes.

Mr. APPLGARTH. Well, to the extent that it is not prohibited under the Foreign Assistance Act. There were, I think, potentially 75 countries eligible this year under the first two criteria, which were per capita income and eligibility to borrow from the International Development Association.

There was a third criterion, though. It has to be legal for us to provide foreign assistance. If under the Foreign Assistance Act it is illegal, we are obviously not going to do it. There were 12 countries from the 75 that were knocked out for those reasons.

Chairman HYDE. The gentleman's time has expired.

Mr. Delahunt?

Mr. BEREUTER. Mr. Chairman, could I have answers to the specific questions about the countries? The gentleman did not get to those.

Mr. APPLGARTH. Yes. I will use some of my time.

Mr. BEREUTER. Let me ask unanimous consent for an additional minute.

Chairman HYDE. Without objection. So ordered.

Mr. BEREUTER. Thank you, Mr. Chairman.

Mr. APPLGARTH. I can talk about the individual countries, or I can give you background information.

Mr. BEREUTER. No. I would just like to know is it true that the problems with Albania and Bangladesh were insufficient attention to corruption issues?

Mr. APPLGARTH. I am speaking from memory here, so I would like to have the opportunity to correct this later if possible. As I recall, Bangladesh ranks at the bottom on the corruption scale.

Mr. BEREUTER. Okay.

Mr. APPLGARTH. That is a very important indicator for us. Corruption saps all the efforts of not only what we are trying to do, but the best people in these countries, what they are trying to do.

Mr. BEREUTER. I understand that, and I support you.

Mr. APPLGARTH. Okay.

Mr. BEREUTER. And Macedonia?

Mr. APPLGARTH. Macedonia I frankly do not recall.

Mr. BEREUTER. Perhaps you could get me an answer on that.

Mr. APPLGARTH. I think Albania does a pretty good job in a lot of the indicators. They failed the World Bank indicator on corruption, but on transparency, they actually passed marginally. They

fail on fiscal policy right now, but there are a number of steps they are taking.

To me, speaking personally, they would be a good candidate as a threshold country to try to help improve their performance on the indicators.

Mr. BEREUTER. Thank you. Thank you to my colleagues, and thank you, Mr. Chairman.

Chairman HYDE. Thank you.

Mr. Delahunt?

Mr. DELAHUNT. Thank you, Mr. Chairman.

I noticed that I think it said in the staff report, or maybe it was your testimony, Mr. Applegarth, that your teams are going out this weekend. Give us some timeframes as far as when you anticipate these trips will be concluded and when you will have plans in place for the 16 countries.

Mr. APPLGARTH. We have no fixed deadlines. We basically think it is inconsistent with the whole idea of country ownership to say you have to do it by this and this date.

Mr. DELAHUNT. And I concur and I support that, but I am just looking for—

Mr. APPLGARTH. We are also not going to rush to throw money out the door.

Mr. DELAHUNT. Right.

Mr. APPLGARTH. Okay.

Mr. DELAHUNT. I am looking for a range more. This is not a trick question.

Mr. APPLGARTH. I understand. Realistically, we are breaking new ground here.

Mr. BEREUTER. Right.

Mr. APPLGARTH. There is a lot of learning taking place, not only in MCC, which is still starting up, but in the countries. They are not used to this concept that it is their initiative. They keep looking me in the eye and asking if we are serious.

If we get country initiative and we get civic participation, that will be important. Elites have determined a lot of the priorities and what happens in these countries. We are genuinely serious about civic participation.

Cutting to the chase, my best guess is if we get two or three Compacts concluded by the end of this fiscal year we should get very high marks. I think we will see more in the 1st quarter next year and then going on, assuming funding is available, through all the balance of next year, but that is our real planning horizon.

Mr. DELAHUNT. Yes. I think that sounds very realistic, and I would also encourage that approach, thoroughness rather than setting goals that are etched in stone that turn out to be raising expectations.

That is really the only question I have. I would make just an observation too in terms of following up on the question by Mr. Bereuter in terms of whether these nations, some of whom might have adversarial aspects of their bilateral relationship with the United States.

I was pleased to hear if it is legal, if it falls within existing statutes, then that ought not to be a consideration. Obviously this has to be done on an ad hoc basis. I understand that.

I would speculate that a way to influence some of these nations who have adversarial aspects of their policy vis-a-vis the United States would be to engage, and this, I would suggest, is constructive engagement so I was glad to hear your response. I think that is common sense.

Mr. APPLGARTH. Thank you, sir. There are certainly lots of other tools available in the United States in terms of working with other countries as friends. I think part of what MCC is about is to work with them on a growth basis, an economic development basis.

The reality is if they follow these criteria I think they are going to find themselves aligned with us and we aligned with them on many issues.

Mr. DELAHUNT. Exactly. Over time, rather than this simplistic black and white, "are you our friends or are you our adversaries," I think that is a very dangerous component of the equation in terms of what we should be doing because I think we have to recognize that if we are going to influence individual nations this is something that is brand new. It is I think an interesting concept. I support it, and I wish you luck.

I spent a lot of time in Latin America, and the corruption piece is where it is at, Mr. Applegarth.

Mr. APPLGARTH. I know.

Chairman HYDE. The gentleman's time has expired.

Mr. Green?

Mr. GREEN. Thank you, Mr. Chairman. Mr. Chairman and to our witness, as one of the original sponsors of this legislation, I am immensely proud of it, and in many ways I envy you because I think you will be involved in an endeavor that is terrifically important for this nation and for this world in so very many ways.

Obviously concerns have been expressed by some as to not allowing the MCA to crowd out other forms of foreign assistance. I understand that. That is an appropriate concern. On the other hand, I would hope that all nations one day would aspire to the Millennium Challenge Account and seek to receive their assistance through such sort of incentive based programs. I think it would have an enormously positive effect.

Just some general questions based upon your experience so far. Do you believe that nations around the world are aware of the Millennium Challenge Act and they are aware of the criteria? Is there a need for us to be more involved in the promotional aspect to this program?

Mr. APPLGARTH. We are seeing a lot of evidence that countries are aware of it and responding. We see a lot of reports from domestic press that in countries that failed to qualify, it was viewed as criticism of the government, questions were raised about why they failed.

In other cases we have seen leaders in these countries saying we have to do this and that to qualify and using the existence of MCC as a lever to get the kinds of changes which they believe in.

I mentioned some particular examples in my opening remarks. I think the President, when he welcomed the Ambassadors of the selected countries last week, mentioned some others, but we are seeing this broader impact and we are encouraging it. We are spending a lot of time on outreach and communication and believe that

at the end of the day what we are about is policy reform and promoting good leadership in developing countries. They need the tools to do that, so whatever we can do to support it we will.

Mr. GREEN. Great. One reason that I think this legislation proves so popular among Members is I think all of us have an understanding that in the long range generational battle against terrorism that we are involved in, it will not simply be enough to fight terrorism on a military level—to take out camps, to take out terrorists. I think there is the recognition that more will pop up where those came from.

Instead, we are looking for ways to sow seeds of hope and opportunity in areas that have been controlled for too long by despair. To that end, I noticed from the original list I guess my concern is whether or not this program will be of much value early on to some of those nations which are not terrorist nations, but nations which we perhaps view as being at risk for being taken over by despair.

What is your view on that, and how can the Millennium Challenge Act be utilized as a tool in that regard to try to make headway in that longer battle that we all face?

Mr. APPLGARTH. I am not sure which countries you are talking about, Congressman. The legislation sets forth what countries we can consider, and the combination of the per capita income test this year and IDA eligibility has probably deleted some of countries you are thinking of from that list.

Next year the IDA eligibility comes off, but the per capita income test still remains. That goes up in the 3rd year.

Mr. GREEN. Perhaps let me put it this way. Turning it back to the idea of marketing and promotion—

Mr. APPLGARTH. Right.

Mr. GREEN [continuing]. I would hope that as you engage in marketing promotion that we target in particular those countries that we might view as being at risk because of the control that despair has in those cultures.

Finally, with the brief time I have left, what are the greatest challenges you are facing right now? What is it that we can do to help you as you go forward?

Mr. APPLGARTH. If you are good at making travel arrangements and getting visas, we would really like some help right now as a start up. Trying to get 16 teams out in the field simultaneously is tough.

Realistically, I think continued focus about what we are about, staying true to the principles of MCC in terms of real partnership, of accountability, of policy reform, recognizing that there are other purposes that Members of the Committee may have that can perhaps be fulfilled through other programs. Keeping us true to our purpose is probably the best thing we can do and I welcome your ideas and thoughts and advice.

You have all spent a lot of time thinking about this and creating MCC, and your ideas are very important. This is a bipartisan effort, and we need to reflect the good ideas on both sides of the aisle. You all can help do that.

Anything you can do to make sure we get the \$2.5 billion next year is important because while the message and policy performance is what we are about, we need money to be credible. We cre-

ated certain expectations in this group of countries and other countries. The U.S. has to be there to stand up to what it says it is going to do.

Chairman HYDE. The gentleman's time has expired.

Ms. Lee?

Ms. LEE. Thank you, Mr. Chairman. Let me also congratulate you for taking this position on this very exciting challenge that you have.

I wanted to ask you a couple of questions, really I think basic questions with regard to the operation of the fund. First of all, while I am aware and understand that the majority of the money is not going to be contracted out to U.S. companies, I know that some of the funds will be. I wanted to find out what type of contract and opportunities are there for U.S. companies such as with auditing or reviews or evaluations, and also what is your plan?

We on a bipartisan basis included in the law a provision for the inclusion of minority, women-owned and small businesses, and I wanted to ask you what type of plan do you have to ensure the inclusion of those companies?

Mr. APPLGARTH. If I understand your question, I think the provisions you are talking about refer to women within the countries themselves.

Ms. LEE. No, no, no. There is a provision that we wrote into the legislation to ensure the inclusion, where there were contracting opportunities from the fund on the U.S. side, if there should be, that we wanted a plan and a review of how minority firms and small businesses and women's businesses—U.S. companies—would be part of this whole operation.

Mr. APPLGARTH. I think first and foremost, we are looking at procurement in the target countries. We want to make sure those opportunities are open to everybody. A lot of what we are about is capacity building in those countries.

Ms. LEE. Sure. We recognize that.

Mr. APPLGARTH. We believe that MCC, as a corporation, should be held to the standards that are set through Sarbanes-Oxley and other relevant statutes.

We should have a truly independent audit by an internationally recognized firm. We think that we ought to be fully subject to those kinds of reviews and disclosures. We would like to make sure that that happens as part of our process.

If you have other ideas or suggestions—

Ms. LEE. No. I am asking you will the fund be contracting any of your services out to U.S. companies? I understand that most of the money will be in country, but on the U.S. side do you have a contracting plan at all?

Mr. APPLGARTH. We have some procurement for our own operations here in this country. Obviously we are based here. Those are fully open to everyone, and they are subject to the Federal Acquisition Regulations (FAR). I think we are making a genuine effort to make sure that we are competing everything.

Ms. LEE. Okay. I understand competing, but I am talking about minority businesses and women-owned businesses and small businesses. There is open competition, which we all understand.

But then because of the historical reasons that we have minority business programs or small business or women-owned business programs, we wanted to make sure that the Millennium Challenge Account complied with those requirements also and had a plan to include them in.

Mr. APPLGARTH. Maybe I am still not understanding your question. We are trying to be fully compliant with all the requirements of U.S. law, but not only the letter of law, but the spirit of the law as well.

Ms. LEE. Okay. Tell me about the 8(a), for example. How are you utilizing the 8(a) program?

Mr. APPLGARTH. You will have to enlighten me as to the details of the 8(a) program. I must say, I am not familiar with the 8(a) program.

Ms. LEE. Okay. That is a program for minorities, and the socially and economically disadvantaged, which allows for the participation of such companies in Federal Government procurement.

So I was wondering. Do you have a plan to utilize those companies?

Mr. APPLGARTH. As we are developing our procurement plans, we are trying to be conscious of this. Again, very little of our money is going to be spent in the United States.

What is going to be spent is going to be for administrative things. We are trying to make sure we are minimizing the money spent on administration versus the money spent on the programs for the poor.

Ms. LEE. Okay. Maybe I will write you a letter and ask you to sort of break that down.

Mr. APPLGARTH. Yes. I would be happy to.

Ms. LEE. Okay. Let me ask you how the board is functioning. Is the board up and running? I know you still have several appointments to go, but is that hampering your operation? What is the timeframe for the final appointments? How are the decisions being made now by a partial board?

Mr. APPLGARTH. I think so far the board is working quite well. I think there has been very spirited discussion. I think with all due respect to the interim CEO, Al Larson, who did a tremendous job having two full-time other jobs, MCC was hampered a little bit by not having a full-time CEO. That is now cured.

We do face a deadline though. Under the legislation, there is a requirement that a quorum of the board include one of the public members that comes from a list submitted by Congress. The legislation gives Congress, the leadership in the House and the Senate, Republican and Democratic, the opportunity to submit lists of potential members for the board from which the President is asked to make nominations.

We have an exemption from having one of those members on the board that lasts for 135 days, but that exemption expires in early June, and we will not be able to hold a board meeting, because of the absence of a quorum, after early June unless at least one of those members has been nominated and confirmed.

Chairman HYDE. Mr. Royce of California?

Mr. ROYCE. Thank you, Mr. Chairman.

Mr. Applegarth, I commend your statement that aid can be a catalyst, not a cause of development. It is important that you comprehend that.

This initiative is a very worthy initiative. The idea of investing in countries based on their commitment to reform and commitment to development is long overdue. The Administration deserves credit for the initiative. The Chairman of this Committee and the Ranking Member do as well.

You selected a fairly limited number of countries to start, 16 countries of the approximately 70 countries currently eligible for development assistance. That was right. This is a new program; it is always easier to add a country than to drop one.

The African trade bill that we passed, AGOA, has been very successful over the last few years, producing the investment of hundreds of millions of dollars in Africa, and the creation of hundreds of thousands of desperately needed jobs. It is the best anti-poverty program that I am aware of for Africa.

The Millennium Challenge Account concept is focused on trade and investment capacity building assistance, which is good. Some African countries could put this aid to good use to take better advantage of AGOA and better advantage of AGOA's market access. How might MCA aid complement AGOA to help Africa move beyond its very small share of world trade?

Yesterday we met with Bono. He indicated how many new jobs would be created in Africa, and how many people would be lifted out of poverty if we could increase, by 1 percent, their share of world trade. Could you comment on that vision?

Mr. APPLGARTH. I will try to, Congressman. I think first, 8 of the 16 countries selected are African. Sixty-three percent of the population of the initial group of MCA countries is African. I think this pleasantly surprised a number of commentators as well. I think we have created an opportunity for African countries to benefit from this program.

At the end of the day, to the extent they do it in conjunction with the opportunity of AGOA, for example, is really up to them. We are not going to tell them to align their programs with AGOA, but we fully expect, given that these are countries that are looking for ways to grow, they will take the opportunity from AGOA, and I think you will see some coordination between what we are trying to do and the opportunity that you have created with AGOA.

Mr. ROYCE. You mentioned that these 16 qualified countries reacted well. That would indicate that this MCA is acting as an incentive.

In AGOA, we have incentives to stay in the program. For example, Eritrea was dropped as a result of their conduct. Have you had any interesting reactions from excluded countries which indicate leverage for reform?

Mr. APPLGARTH. Yes, we have. We had a number of questions and comments about it. It is a very easy answer in many ways because the board tried to adhere very much to the criteria. The criteria are out there publicly available.

The first place to go look is at your scores on the Web site. If you want to improve your chances to qualify, you need to improve your scores under the criteria, particularly the countries which I

think will be threshold countries. We are in a position to try and help them do that.

I would like to come back to Congressman Lantos' question at some point, but yes, we are seeing good policy changes. In several countries which did not pass, there have been headlines in newspapers asking why not? It is the kind of thing that you want to see happening.

Mr. ROYCE. My last question. Monitoring and evaluation of countries will be done by MCC or third party contractors. Were third party contractors involved in the initial assessment of countries? What do they bring to the process that MCC cannot? Why is it important to include them in that process?

Mr. APPLGARTH. I think third parties were involved in the initial assessments to the extent that the rankings, the indicators, were all done or in most cases done by third parties.

You cannot call the World Bank a "third party contractor" or Heritage or Freedom House, but those rankings were all done independently. They are not getting paid by us to do it. That is part of the independent evaluation process we are trying to establish here.

There is supplemental data given to the board. There may have been, for example, material from the State Department *Human Rights Report*, which is publicly available. There may have been "third party participation," in that sense so I cannot say there was not some indirect participation, but directly there was not. We see possible use of third party contractors going forward potentially helping us in due diligence.

Mr. ROYCE. Thank you very much, Mr. Applegarth.

Mr. BEREUTER [presiding]. I thank the gentleman.

The gentleman from New Jersey, Mr. Payne, is recognized.

Mr. PAYNE. Thank you very much. I am glad to see the program starting to move forward.

What is the amount that will be allocated with these first 16 countries? About \$1 billion? What is the amount that will be expended?

Mr. APPLGARTH. The first year just short of \$1 billion. One billion dollars was appropriated subject to the budget wide haircut, but we are basically at \$1 billion for this year, and we have asked for \$2.5 billion going up to \$5 billion per year starting in fiscal year 2006. That is what the President has announced as his goal when he announced the program.

Mr. PAYNE. So each year you will be bringing in some additional countries, right?

Mr. APPLGARTH. That is the intention, yes. The eligibility list expands each of the first 3 years.

Mr. PAYNE. Then after the 3 years are over, I would assume that there would be a request for continued appropriations?

Mr. APPLGARTH. We would hope, assuming we are successful. Certainly, yes.

Mr. PAYNE. On this question of ruling justly, when I first heard that, it seemed to be relatively subjective, but I do see that you are evaluating civil liberties, regulatory quality, rule of law.

Do you get any gender issues in that: Women in business, property rights for women, or girl to boy ratios in primary schools? Does

that get into the ruling justly, and is ruling justly really objective or the problem of subjectivity might come in?

Somebody might feel this is not ruling justly because, in my opinion, to rule justly you do not hit kids' hands with a ruler as they used to do in some schools. How is that ruling justly worked out?

Mr. APPLGARTH. I should say, first of all, the whole principle here has been to establish 16 indicators, objective indicators done by third parties.

Mr. PAYNE. Right.

Mr. APPLGARTH. If you take subjectivity out, at least our subjectivity out of it, that has been the real intention. That is one of the fundamental principles of what MCC is about.

All of the indicators could use improvement. This is the first time around. We think that MCC's creation is going to help because there is now an important new incentive. The fact that we are using indicators is important to the groups who put those indicators together.

There are some pretty good indicators available, but they only cover a few of our countries. To have a legitimate ranking, we need to have broader coverage. If we get broader coverage, that helps. The intention is to have the indicators publicly available so people can understand them. We tried to follow that principle.

There are several goals or measures in the criteria or in the legislation, including impact on women, role of the private sector, labor and so on. As we look at the indicators, we think those are reflected in many of the subcomponents of the indicators.

There are two where we do not feel they are fully and adequately covered. One is on the environment because there are very few good environmental indicators that apply across all countries. The other is on disability.

We look at the criteria again in July as part of the next year's process. We expect over time to have these indicators improved and developed to address even more clearly what your objectives are and what the objectives of the program are.

Mr. PAYNE. Okay. There are some countries, for example—not many, but I know one or two like Namibia, for example. Namibia I do not think qualifies in income. It might be a little bit above.

As you probably know, in Namibia the income of the White minority is high because of the former apartheid government, in some instances I understand that in 2 weeks a well-off White family makes as much as a rural Black family makes in the entire year.

Now, is there any way to desegregate and extrapolate that out somehow where it is a small number, but it really totally skews the whole per capita income? I have a particular interest. Maybe you will find the same thing, of course, in South Africa, although generally their income level is higher than most of the other countries. Once again, you will find that skewed part.

Is there any way at least with Namibia to deal with that issue, or has that come up?

Mr. APPLGARTH. It has not come up in the context of Namibia because it does, as you mentioned, exceed the per capita income test.

In terms of our assessments, we are guided by the legislation. The tests are on a per capita level at the country level. Realisti-

cally, at probably this stage of our existence that is probably the only way we can operate.

You are certainly right that income distribution is an issue in many of these countries. I suspect if Namibia was on the list for income reasons, for the reasons you mentioned, it might well fail on the investing in people indicators because as you describe it it does not reflect that available resources are going to the populations that need them.

Again, how the countries use the resources that they do have is an important part of the "investment in people" criteria.

Mr. BEREUTER. The gentleman's time has expired.

The gentleman from California, Mr. Rohrabacher, is recognized.

Mr. ROHRABACHER. Thank you very much, Mr. Chairman.

Mr. Applegarth, there are a number of Americans whose businesses and property were confiscated by Ethiopia's former communist government. One of those who have a claim against the Ethiopian Government is the Berhane family, which is a respected family in Orange County, California, and they are constituents of mine.

Unfortunately, the current Government of Ethiopia has made itself an accomplice to the theft of the Berhane family's property by refusing to give it back or to offer a fair settlement. The Berhane family's property has not been returned, which could end it. They have been offered some sort of compensation.

OPEC has looked into this claim and determined the Berhane family has a just claim. In fact, OPEC has suspended all operations in Ethiopia until that claim and other claims of American citizens are dealt with.

My question to you is that in countries where a government agency has made this type of determination and is now not doing business because of this type of decision by the government, will they be eligible for MCA assistance?

Mr. APPLGARTH. Congressman, as you know, Ethiopia is not one of the 16 selected countries.

Mr. ROHRABACHER. Correct.

Mr. APPLGARTH. Presumably that is related to some of the reasons you have given. We would think that included in good governance measures is a trusted independent judiciary, and I would think the pattern of behavior you have described would indicate a country that would fail the criteria and, therefore, would not qualify.

Mr. ROHRABACHER. Okay, because I would think that Ethiopia and other governments that have Americans with just claims and their property has been taken away and stolen perhaps by a former regime, as had happened in Ethiopia, they need to treat Americans fairly.

For this particular family in my constituency, this is their whole life. I mean, they are not wealthy people. If our government does not watch out for them, nobody is going to. I would hope that we take that into consideration. I know OPEC has, and I am very pleased that our government is considering the rights of the American people as well and trying to push governments that have done wrong things in the right direction.

Number two, Ethiopia is not on the list, but I understand that Senegal is. One of the problems with Senegal is copyright law, and coming from California copyright law is really important to us. Intellectual property is really an important thing. Apparently Senegal has a very corrupt copyright agency.

Until Senegal creates a conducive environment for the private sector by living up to copyright enforcement, it would seem to me that that is another area that we should be concerned about. How does that fit in?

Mr. APLEGARTH. I think you have really hit upon one of the key principles of MCC, which is encouraging policy reform.

We are going to Ethiopia. If Ethiopia wants to qualify for MCC, it cannot have a rule of law under which it operates in the way you are describing. The whole point of MCC is to encourage countries to make the changes that will encourage domestic investment and foreign investment, and open up their economies. That is exactly what we are about.

In terms of the specific Senegalese copyright law, I will defer to greater expertise. Clearly, the whole concept of promoting economic freedom, of property rights and ownership is inherent in a lot of what our criteria aim toward.

Mr. ROHRABACHER. Right. Anything we can do for our country, if they are themselves engaged in practices that show that they do not respect property rights like in Ethiopia, people are not going to invest there anyway in the long run no matter what we do.

In Senegal, I would hope that as we move into this new age where property rights are not just pieces of property or businesses confiscated, but also intellectual property, that Senegal understands that they have to make sure they protect people's intellectual property as well.

Thank you very much, and good luck.

Mr. APLEGARTH. Thank you.

Chairman HYDE [presiding]. The gentlelady from California, Ms. Watson.

Ms. WATSON. Thank you, Mr. Chairman, and I also want to give you my congratulations for taking over this awesome task.

My concern is about the countries that fall just below the median and negotiating contracts with them. Can that occur? You can speak. I am going to throw some things out, and you can answer cumulatively. What I would like to know is if at any point in time that they feel they have met the criteria, can they come back for negotiating the Compact?

I am impressed by the movements that these countries such as Bolivia and Georgia and Mozambique have made on their own and that they have a chance to come back and resubmit. You can speak to that.

My other interest is what happens to USAID? In terms of MCA and MCC, MCC MCA, will you have facilities right where USAID, in the countries where they have been for many years? What is the relationship between the two? Is there a tremendous duplication with the same dollars? USAID, U.S. dollars. MCC MCA, U.S. dollars. Will there be competition?

We are all about development and health care, governance, et cetera. Can you explain how you see the difference between the

two? I have familiarity with USAID, and I had some concerns about the countries that I have visited and am familiar with. They have a high overhead. How will the MCA differ from the way USAID has performed in the past?

If you can just give us a general statement? You probably do not know all the specifics, but do the best you can, please.

Mr. APPLGARTH. Thank you for your inference that I do not know the specifics, Congresswoman.

First, I think the threshold country program, which we have not talked very much about, does offer a ready opportunity to help countries improve their policy performance. I think we, together with USAID, are working closely on this and are looking at the countries that just missed being selected. We hope to identify a group of those countries within the next 30 days.

The timing will be affected a little bit by our travel, but it is our target at least to have an initial list out there soon, so that we can tell that group of countries why they missed. We will offer ideas on how to improve their policy performance, and will work with them to try to do that.

Ms. WATSON. Would you yield for a moment?

Mr. APPLGARTH. It is your 5 minutes, ma'am.

Ms. WATSON. Yes. Will you have the staff to be able to track their proposals to you so that negotiations can be based on real progress?

Mr. APPLGARTH. This is one case where we will rely a lot on USAID staff because our staff are dedicated very much to MCC Compacts. We do have somebody within MCC dedicated to working with USAID. I will come back to that relationship in a moment. That is a positive relationship, notwithstanding all the fears that were expressed in the past about how it was going to work.

The board will select countries for 2005 in about 4 or 5 months. Because of the shortened schedule this year, we expect to be picking 2005 countries in the 4th quarter of this year.

I do not know whether any of the threshold countries would qualify or not. Ideally they should. I think we will be working with countries where the changes can be implemented fairly quickly. We would like to see that. There is another list for 2006.

For a country to have the opportunity to submit a Compact proposal, it has to be identified by the board as MCC eligible. They cannot simply submit a Compact proposal. The policy changes should be reflected in the data and in the information that is coming to the board for consideration.

The board is certainly tracking the countries that are close, to see how they are doing and wants to encourage these kind of changes and so we would want to try to reward them.

As I mentioned earlier, we are working closely with USAID. USAID has more people and experience than MCC has, and we would be crazy not to take advantage of it.

They do not operate in all of our countries. There are not USAID missions in at least a couple of the first group of MCC countries. There we will be going alone. I think otherwise we will be attempting to both cooperate with USAID and with other donors. This is not simply a U.S. effort.

We are not going in and replacing somebody else's program, that is not what we are about. We are intended to be additional and an incentive. Our partner countries would recognize that it is giving with one hand and taking with the other, if that were the case. What kind of incentive is that? What kind of reward is that?

Chairman HYDE. Mr. Weller? Mr. Weller?

Mr. APPLGARTH. Excuse me, Mr. Chairman.

Mr. WELLER. Thank you, Mr. Chairman, Mr. Applegarth.

Chairman HYDE. We expect a vote soon, and I want to get everybody in.

Mr. APPLGARTH. That is fine. I am still learning the clocks and what to watch for.

Mr. WELLER. Thank you, Mr. Chairman.

Mr. Applegarth, thank you for the opportunity to have you with us today. I appreciate your testimony. I also congratulate you on your responsibilities.

I, like my colleagues here on this Committee, applaud this initiative of President Bush and the bipartisan leadership of our Committee and working together in a partnership and am particularly pleased that with the announcement of 16 countries that are now eligible for MCA status, three of these are located in our own hemisphere.

The inclusion of Bolivia, Honduras, Nicaragua—these countries have a new and important opportunity to continue their partnership with us, the United States, and I would note that they have taken a leadership role with their commitment in regard to economic and political reform, and we want to work with them with the MCA process.

I would note in the documents and the report that you have shared with us that Nicaragua and Honduras have performed in comparison with other countries about the median in the key areas of ruling justly, investing in people and pursuing sound economic policies, including performing above the median on corruption. For that, I congratulate Nicaragua and Honduras on their performance.

I would also note that Bolivia was right on the median on the corruption factor and is above the media on other indicators. However, the score did not reflect changes instituted by President Mesa since he assumed power in October 2003, including the creation of a cabinet level position to coordinate anti-corruption efforts and an office to investigate police corruption.

Currently we are working with Bolivia, as you know, in preparation for them hopefully joining with the United States, Peru, Ecuador, and Colombia, in the Andean Free Trade Agreement that we will begin negotiations on later this week and in light of this new MCA opportunity, which coincides with this trade opportunity.

Could you discuss how the Millennium Challenge, the MCA, will provide development assistance that might be helpful to help bring Bolivia into the FTA or TLC discussions that begin this week?

Mr. APPLGARTH. First, we are making our initial visit to Bolivia. I think the trip is scheduled for the end of next week.

What we will do in Bolivia is going to be first and foremost driven by what Bolivia wants to do, their priorities. If they are actively involved in the dialogue you are talking about, I would not be sur-

prised to hear that whatever they propose relates to that, but I think we will have to wait and see.

We are very conscious not to give in any way a signal to these countries that this is what we want them to do, and we try to adhere to that because we think it is part of the core philosophy of what MCC is about.

Mr. WELLER. What is the time table on these meetings with Bolivian leadership?

Mr. APPLGARTH. I believe most of our teams leave over the weekend, and I believe they will be visiting Bolivia—I am not going on the Latin America trip. I believe they are going the end of next week to Bolivia.

That particular team is actually dividing because there is a civic meeting that it wants to participate in. It is actually splitting its trip, and it may be a couple weeks from now, but I could certainly give you the exact dates after the hearing if you would like.

Mr. WELLER. Sure. I would appreciate it if you could keep us abreast and give us a report on the progress of those discussions.

Regarding Nicaragua and Honduras, what do you see as the focus of the MCA and working with Honduras and Nicaragua?

Mr. APPLGARTH. In terms of the civic sectors, again we will wait to hear from them first. We know both countries are very aware of MCA. We have seen some action by the governments to improve their performance under the indicators in terms of housing reform, clearly some strong actions in the corruption area in at least one of those two cases, and we expect them in some ways to be further along in terms of their Compact proposal process than some of the other countries, but at this point the ball really does pass to them.

Mr. WELLER. Mr. Applegarth, I know our time is limited, and out of courtesy to my colleagues when we have a vote I will conclude my questioning, but I would ask in the cases of Bolivia, Honduras, and Nicaragua, I would be very interested in being kept informed on the process and the progress that you make in these discussions.

Mr. APPLGARTH. I would be happy to.

Mr. WELLER. We certainly stand ready to assist you.

Mr. APPLGARTH. Great. Thank you.

Mr. WELLER. Thank you.

Chairman HYDE. Mr. Meeks?

Mr. MEEKS. Thank you. Thank you, Mr. Chairman.

Good day, Mr. Applegarth. You know, I think this is great. Congratulations to you first and foremost.

Mr. APPLGARTH. Thank you.

Mr. MEEKS. I am one who believes the cost of well is so much smaller today than it was say 50 years that we really have to outreach to other places, and when we do that we have to be sure that we understand them and their cultures, as well as that they begin to understand us, and we begin to develop some foreign aid policy based upon the whole global atmosphere of which we are currently dealing with.

That being the case, and making sure that we are able to establish these global ties that are based upon mutual respect and understanding and helping countries develop and strengthen their

governing institutions, I have a few questions I will throw out and just try to get back.

I would like to know, for example, whether or not the MCC will become an integral part of the Administration's foreign policy and foreign policy decisions and how we make a move, whether that is going to be very important. To me that is important, particularly given our actions in Iraq and Haiti.

How will the MCC fit with the overall foreign policy? Will the MCC be a model for our future development of aid, of foreign aid? Is this something that we will be looking at to expand? Is it going to be a model that we can look upon?

What happens, given that whole complex? What happens to countries like Kenya who have been crucial to us in our overall foreign policy and our fight against terrorism who have done well politically and economically, but fail to meet other criteria for selection? What happens to a country like that, given the whole context of our foreign policy?

Will we now be given a choice when we talk about appropriations of funds to either MCC or USAID? Will USAID funding begin to start to fade as we begin to include more countries into the MCA?

What will happen? Is there any consideration given to countries that are failed states or on their way to being a failed state such as the Somalias of the world? Or to some countries that may be part of the criteria, but all of the countries around them are failing states, which thereby will have an effect on the countries that are trying to move forward? I do not know what, if any, considerations you have given to those.

In the time that we have left, if you could just try to elaborate some?

Mr. APPLGARTH. Let me see what I can do. If I now understand the clock system, I have 2 minutes and 7 seconds to respond to all of that.

Development became the third D of the national security strategy. Traditionally defense and diplomacy have been the two Ds. President Bush added development at the beginning of his term as the third D. I personally think it was the right thing to do. It recognizes that at the end of the day our overall international security is also dependent upon the success of other countries around the world.

In terms of coordination with foreign policy and how we fit into it, the Secretary of State is the Chairman of the Board. We operate within the overall context of U.S. foreign policy. We are the exclusively growth oriented piece of that.

In the context of other programs, we have talked some already about the role of USAID and what we are trying to do to cooperate with them. We hope MCC can become a model for development. In adopting these principles, we are trying to operationalize them and to operationalize any lessons learned.

If we are successful, I think we can become a model not only for USAID and some of its operations—I think Administrator Natsios certainly would applaud that—but also for the World Bank, for other donors, and for the IFIs and DFIs more generally.

Everybody is looking at us. I think most wish us well. They certainly want to see if there are lessons to be learned from what we

are doing. By being deliberately slim and operationally focused, we can move more agilely than some of the other institutions. Therefore, if we can through our successes become a model I think that is part of our mission.

In terms of threshold countries, and potentially Kenya I think is one, we are intending to try to work to help those countries. The board reserved, as you know at the last meeting, \$40 million, but the thinking there was not—it was aware of the 10 percent threshold potential. It did not say this is the only amount we are going to do. This is early days.

If the threshold program is working well and there are good proposals, the board certainly would consider increasing at this stage. It just felt that rather than immediately take away \$100 million from MCC programs that are focused on countries that have already demonstrated policy reforms in their proposals, it wanted to just assess the situation with the idea they can go forward. Certainly those kind of countries will be a key part of what we are trying to do.

Chairman HYDE. Mr. Pitts?

Mr. PITTS. Thank you, Mr. Chairman.

Mr. Applegarth, thank you for coming. In looking at your list of 16 countries eligible for fiscal year 2004 MCA funding, it appears that there are no Muslim countries on this eligibility list.

What was the eligibility criteria? You talk about areas of the world where we need to win hearts and minds. What were the major factors that may have prevented Muslim countries from making this eligibility list?

Mr. APPLGARTH. Yes, Congressman. The first criterion was the overall legislative criterion. The per capita income of \$414 per capita was the ceiling. A number of Muslim countries, the majority of them, exceed that level and, therefore, were not eligible to be considered.

There are a few, and some of the countries we selected do have significant Muslim populations, but would not qualify I think by your definition as a Muslim country. Some of the others, the few that do qualify, they do not pass the criteria of corruption, rule of law, those kind of things.

We would like to see more qualify. I think as the income test goes up we will see more eligible to compete. Whether they qualify or not is at the end of the day up to those governments.

Mr. PITTS. You mentioned the income test. I notice, for instance, Vanuatu has a per capita income of over \$1,000, but they qualify. What is our national interest in Vanuatu?

Mr. APPLGARTH. The per capita income test is \$1,415.

Mr. PITTS. I thought you said \$400.

Mr. APPLGARTH. They fell under the ceiling, and under the criteria they perform well. They pass all the criteria.

Again, we think it is in our national interest to reward good policies around the world and reward countries who are taking leadership positions to promote economic freedom, to promote good governance.

The neighbors of Vanuatu presumably are aware of what is happening next door or across the border. In rewarding these coun-

tries' leaders for adopting good policy, we hope to see follow-on effects in other countries.

Mr. PITTS. Okay. How will your criteria specifically measure a country's commitment or progress toward clearly defined and enforced property rights? Under the category of ruling justly, the indicators the board has chosen to evaluate are civil liberties, regulatory quality, and rule of law.

These are important concerns, but do they really matter if property rights and the institutions that define, protect and enforce property rights are not clearly in place?

Mr. APPLGARTH. These are, if you would like, top line indicators. They are composed frequently of subindicators. Several of them include references to treatment of property rights and other rights.

I cannot give you the specifics right off the top of my head, but we can certainly, if you would like to pursue this, discuss it further after the hearing.

Mr. PITTS. Are you aware that there are excellent indices out there that are available to measure property rights within most developing countries? I think the Heritage Foundation and *The Wall Street Journal*, for instance, have done these.

Mr. APPLGARTH. We are aware. In fact, we are using at least the Heritage Foundation indicators now. We are constantly trying to evaluate and improve the indicators we are using.

In putting them out for comment as we have, we solicit and welcome opinions as to what might better measure the objectives set out under the legislation.

Mr. PITTS. Would you be willing to consider placing property rights in the non-negotiable category with corruption, for instance?

Mr. APPLGARTH. I think we do not want to detract from the importance of corruption would be the best way to answer. All of these criteria are important, and each of the indicators are important. We tried to strike an overall balance and say the countries have to be above the median on at least half the indicators in each category.

If they are falling substantially below on indicators where they pass a particular category, the government has to be taking steps to improve the performance substantially. Our approach is to try to strike an overall balance in terms of the indicators.

Mr. PITTS. My time is up. Thank you.

Chairman HYDE. We have reached the end of our hearing. Mr. Applegarth, it has been a pleasure. It has been instructive, your testimony. If we have further questions, we will write you. Meanwhile, we send you on your way with every good wish.

Mr. APPLGARTH. Thank you very much, Mr. Chairman.

Chairman HYDE. Thank you.

[Whereupon, at 12:12 p.m. the Committee was adjourned.]

A P P E N D I X

MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE RON PAUL, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF TEXAS

Mr. PAUL: Mr. Chairman, though the ill-conceived Millennium Challenge Act has already become law and therefore we are only talking about its implementation today, it is nevertheless important to again address some very fundamental problems with this new foreign aid program.

I believe that the Millennium Challenge Account (MCA) may be one of the worst foreign policy blunders yet—and among the most costly. It is advertised as a whole new kind of foreign aid—apparently an honest admission that the old system of foreign aid does not work. But rather than get rid of the old, bad system of foreign aid in favor of this “new and improved” system, we are keeping both systems and thereby doubling our foreign aid. I guess it is easy to be generous with other people’s money. In reality, this “new and improved” method of sending US taxpayer dollars overseas will likely work no better than the old system, and may in fact do more damage to the countries that it purports to help.

The MCA budget request for fiscal year 2005 is \$2.5 billion. We have been told that somewhere between 12 and 16 countries have met the following criteria for inclusion in the program: “ruling justly, investing in people, and pursuing sound economic policies.”

It is a good idea to pay close attention to these criteria, as they tell the real tale of this new program. First, what does “investing in people” mean? It is probably safe to assume that “investing in people” does not mean keeping taxes low and government interference to a minimum so that individuals can create wealth through private economic activity. So, in short, this program will reward socialist-style governance.

In fact, this program will do much more harm than good.

MCA will hurt recipient country economies. Sending US aid money into countries that are pursuing sound economic policies will not help these economies. On the contrary, an external infusion of money to governments meeting the economic criteria will actually obscure areas where an economy is inefficient and unproductive. This assistance will slow down necessary reform by providing a hidden subsidy to unproductive sectors of the economy. We thus do no favors for the recipient country in the long term with this harmful approach.

MCA is a waste of taxpayer money. Countries that pursue sound economic policies will find that international financial markets provide many times the investment capital necessary for economic growth. MCA funds will not even be a drop in the bucket compared to what private capital can bring to bear in an economy with promise and potential. And this capital will be invested according to sound investment strategies—designed to make a profit—rather than allocated according to the whim of government bureaucrats.

MCA is corporate welfare for politically-connected US firms. These companies will directly benefit from this purported aid to foreign countries, as the money collected from US taxpayers can under the program be transferred directly to US companies to complete programs in the recipient countries. As bad as it is for US tax dollars to be sent overseas to help poor countries, what is worse is for it to be sent abroad to help rich and politically-connected US and multi-national companies.

MCA encourages socialism and statism. Because it is entirely geared toward foreign governments, it will force economically devastating “public-private partnerships” in developing nations: if the private sector is to see any of the money it will have to be in partnership with government. There should be no doubt that these foreign governments will place additional requirements on the private firms in order

to qualify for funding. Who knows how much of this money will be wasted on those companies with the best political connections to the foreign governments in power. The MCA invites political corruption by creating a slush fund at the control of foreign governments.

MCA encourages a socialist approach to health care in recipient countries. In rewarding a top-down government-controlled approach to health care, the program ignores the fact that this model has failed miserably wherever it has been applied. Ask anyone in the former communist countries how they liked their government healthcare system.

Finally, MCA is another tool to meddle in the internal affairs of sovereign nations. Already we see that one of the countries slated to receive funds is the Republic of Georgia, where former cronies of dictator Eduard Shevardnadze staged a coup against him last year and have since then conducted massive purges of the media and state institutions, have jailed thousands in phony “anti-corruption” campaigns, and have even adopted their own political party flag as the new flag of the country. The current government in Georgia does not deserve a dime of aid from the United States.

Though the Millennium Challenge Account is advertised as a brand new approach to foreign aid—foreign aid that really works—it is in fact expensive and counter-productive, and will be very unlikely to affect real change in the countries it purports to help. The wisest approach to international economic development is for the United States to lead by example, to re-embrace the kind of economic policies that led us to become wealthy in the first place. This means less government, less taxation, no foreign meddling. Demonstrating the effectiveness of limited government in creating wealth would be the greatest gift we could send overseas.

PREPARED STATEMENT OF THE HONORABLE ROBERT WEXLER, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF FLORIDA

Mr. Chairman:

As you know, the Millennium Challenge Account (MCA) was created in March 2002 by President Bush during his speech at the Inter-American Development Bank. This account was created to form a “new compact for global development, defined by new accountability for both rich and poor nations alike. Greater contributions from developed nations must be linked to greater responsibility from developing nations.” To implement the MCA, President Bush also created the Millennium Challenge Corporation (MCC), which is a government corporation supervised by a Board of Directors composed of Cabinet level officials and the Secretary of State acting as the Board’s Chairman.

As stated above, the two core principles of the MCA are development effectiveness and accountability. However, I am particularly interested in how the MCC will build on the lessons we have learned about women and development effectiveness as well as holding countries accountable for putting them into practice.

Mr. Chairman, it has become a well-known lesson learned that when development investments reach women, they go the farthest because they use their increased access to resources to benefit their families and communities. However, women face different barriers to poverty reduction than men. Unless development interventions take that into account, they will not be effective whether addressing education or trade policy.

In the 2004 Omnibus Appropriations bill, Congress explicitly called upon the MCC to require that MCA countries identify intended project beneficiaries by sex, age and income. The goal of this was to encourage countries to perform serious gender analysis when designing projects. Given the MCA’s commitment to development effectiveness, I was surprised to see that this provision of the legislation did not clearly address gender and that there was only a brief mention of it in the sample proposal.

Therefore, I would like to suggest that specific steps be taken to ensure that candidate countries be urged to analyze how their proposed interventions impact women as well as men. Also, in regards to the benchmarks that will be used to hold countries accountable for how they spend MCA funds, I suggest that countries be required to collect sex-disaggregated data to monitor how programs are reaching women as well as men and to encourage and support countries in building the capacity to collect this data.

Mr. Chairman, the 2004 Omnibus Appropriations bill builds on the development best practices of local ownership by requiring the MCC to ensure that eligible countries consult with both women and men living in urban and rural areas as they develop their project proposals. We included this provision because women are often the ones most impacted by poverty and development issues, yet they are also often

left out of discussions on the solutions. Often those best equipped to collect and represent this information are local women's civil society groups, because they have established relationships with the women and, therefore, have the potential to be an invaluable resource to MCA countries and the MCC.

Given the short timeline that the MCC is using to move ahead on developing new compacts, we must ensure that women's civil society is adequately tapped in developing the priorities for countries.

Thank you for your consideration on this most important issue.

