

**Testimony of Ambassador John Danilovich,
CEO, Millennium Challenge Corporation, before
the House Appropriations Subcommittee on Foreign Operations,
Export Financing and Related Programs
Washington DC
March 29, 2006**

Thank you, Chairman Kolbe, Ranking Member Lowey, and Members of the Subcommittee. It is a privilege to appear before you, five months after I have assumed the role of CEO of the Millennium Challenge Corporation, to review our budgetary needs for Fiscal Year 2007.

With nearly half of the world's population living on less than \$2 a day, it is clear that the right solutions to stem the scourge of global poverty remain elusive. Two years ago, President Bush and Congress established MCC to tackle this pervasive problem in a *new* way. MCC has one vital mission: to reduce poverty through sustainable economic growth in developing countries that govern justly, invest in their people, and encourage economic freedom. MCC seeks to empower countries to improve governance, build human capacity, and create institutions that will have a transformational impact on the positive long term growth of these countries.

As we do our work, we are guided by three core principles:

- First, our partner countries must adopt and adhere to policies that promote growth, reduce poverty and make assistance more effective. If they don't, we say "no." If they stop, we say "no more."
- Second, we work through partnership, not paternalism. Countries must identify their barriers to poverty reduction and economic growth and then develop proposals to address their problems through a broad consultative process. Chairman Kolbe and Congressman Rehberg, I understand that you were able to observe country ownership in action during your recent trip to Benin, when you met with women and farmers who voiced their ideas on how to solve their problems.
- Finally, from the outset, we insist that each country outline what they believe our *joint* efforts should achieve. We integrate monitoring and evaluation plans into our efforts because we believe aid invested by the American taxpayer should yield results – and that if it does not yield results it should be turned off. Thus, MCC ties assistance provided to measurements of pre-determined program results.

In order to maximize our leverage with MCC funding, we continue to coordinate with other agencies both on the ground and here in Washington – by holding frequent country briefings for relevant working level State and AID officers. I have also met

with World Bank President Wolfowitz, IMF Managing Director Rato, and UNDP Administrator Dervis, and have hosted delegations from the UK and Germany, and have spoken to the Development Counselors of the European Union.

The promise of MCC assistance, coupled with the competitive process for qualifying for that assistance, is proving to be a major incentive for policy reform and is having an impact on the speed with which these reforms are enacted. We call this the “MCC Effect.” Countries are responding to MCC’s incentive in different ways. For example:

- Less than a month before the FY06 MCA selection process, El Salvador’s President Antonio Saca approved an executive decree to ensure integrity in the public service and control corruption. It established a code of ethics for public employees and created a Public Service Ethics Commission that will develop and carry out policies to foster integrity, impartiality, and honesty on the part of public officials. The government also provided MCC with an extensive list of other adopted and planned reforms related to the MCA selection criteria;
- Twenty-four candidate countries have cited the MCA as their primary motivation for adopting business start-up reforms; and
- According to the managers of the Doing Business project at the International Finance Corporation (IFC)—a private sector arm of the World Bank – 80% of the reform they have observed on their “Days to Start a Business” indicator is directly attributable to the incentive effect of the MCA.

In short, we are seeing that countries are changing the way they do business in order to get into the MCC program, and they are continuing to make reforms to stay in. MCC is having a meaningful impact in countries even before we sign a Compact and even before one dollar has been spent on their proposed programs.

As more and more Compacts are signed and implementation is begun, we are seeing more clearly how the programs will directly impact the poor and leverage additional policy reforms to spur economic growth. Let me briefly mention something about each of the eight Compacts we have signed so far, totaling over \$1.5 billion. The Compacts:

- In Armenia, benefit 75% of Armenia’s 1 million plus rural population and is expected to increase annual incomes by \$36 million in 2010.
- In Benin, assist five million people, over half of Benin's population, and lift an estimated 250,000 of its citizens out of poverty by the year 2015.
- In Vanuatu, improve the lives of more than 65,000 of the rural poor and increase average per capita income by 15% within five years.
- In Georgia, impact nearly 1.5 million people and create 7,500 new jobs, particularly in rural regions.

- In Nicaragua, support those living in the Leon and Chinandega region by significantly increasing incomes of rural farmers and entrepreneurs.
- In Cape Verde, benefit over a quarter of the population and increase annual incomes by a total of 10 million dollars in 5 years.
- In Honduras, increase the incomes of thousands of farmers who will transition from corn and basic grains to higher-profit crops, such as squash and jalapeños, and road improvements will enable these farmers to reach regional and international markets;
- And in Madagascar, transform the lives of the poorest farmers by focusing on property rights, the financial sector, and agricultural business investment to raise annual household incomes.

These Compacts represent foreign aid with accountability; it is a mutual promise of accountability between the U.S. government and our partner nations. We promise to fund fully each Compact as long as the country lives up to its end of the bargain. Our partner country promises to implement the program according to certain performance benchmarks and policy reforms throughout the life of the Compact. In order to demonstrate the United States Government's commitment to fully funding a four or five year Compact, and to provide the financial certainty required to undertake complex, multi-year projects, we obligate all of the money for a Compact up front. In order to ensure adequate controls over the funding and incentivize performance, the money is then disbursed in tranches over the course of the Compact in accordance with progress on Compact implementation. Explicitly tying disbursements of money to the attainment of pre-determined performance benchmarks allows us to ensure that our assistance delivers results for the expected beneficiaries and the American taxpayer alike.

I intend Millennium Challenge to become the foreign aid program with clear, measurable objectives on the front end and an exit strategy at the back end. We will know that MCC has been successful in a partner country when we are no longer necessary. MCC's success depends on obtaining adequate funding to do the job, and I therefore implore Congress to meet the President's requested \$3 billion for fiscal year 2007. Let me take a few moments to explain why fully funding the President's request is critical to achieving our mission.

MCC has substantially accelerated its work and has helped countries put together larger, more transformative compacts. At the time of last year's budget request and justification, MCC was preparing to sign its first Compact and had yet to make its first grant. In less than 12 months, however, we have signed Compacts with Madagascar, Honduras, Cape Verde, Nicaragua, Georgia, Benin, Vanuatu, and Armenia, totaling over \$1.5 billion. We have also approved Threshold agreements with Malawi, Burkina Faso, Tanzania, Paraguay, and Albania worth a total of around \$100 million.

MCC hopes to finalize at least three more Compacts by the end of fiscal year 2006, as outlined in the charts beside me (attachment). These Compacts are likely to total an additional \$1.1 billion. Further, MCC plans to sign between nine and twelve new Compacts in fiscal year 2007, totaling over \$3 billion.

As we continue to work through the pipeline of countries, we anticipate that all currently available program funds from fiscal years 2004, 2005, and 2006 will be exhausted by the second quarter of fiscal year 2007. This would leave nine currently eligible MCC countries in the pipeline, plus any new countries that the Board of Directors selects in November for 2007, without any funds.

As you can see, at funding levels lower than \$3 billion for FY07, MCC will have to delay approval of Compacts that our partner countries are currently assembling for our review, thus, delaying implementation of programs designed to reduce poverty through economic growth. This scenario also makes it more difficult and awkward for MCC to engage and negotiate constructively with any newly eligible countries, who would have less assurance that the funds would be available when their proposals are complete and may therefore not develop proposals or pursue a Compact as aggressively as they otherwise might.

It would be truly unfortunate if these already selected countries, who today continue to undertake significant political, economic, and social policy reforms, and those countries striving to be selected, find that meeting the criteria for eligibility will not be rewarded due to a lack of resources on our part. Countries such as Bangladesh, where the finance minister, Saifur Rahman, when proposing a tough program targeting corruption, cited his country's exclusion from MCA eligibility specifically as an example of the heavy price his country was paying for being branded as a corrupt country. Or Indonesia, where the highly-regarded Corruption Eradication Commission, KPK, recently pointed out to MCC staff that they have prioritized the fight against judicial corruption in the hope of improving their country's performance on the two of the "Ruling Justly" indicators in hopes of being selected as eligible for MCC funding.

The compassion of the United States is reflected in its generosity towards our neighbors around the world. MCC embodies the generous spirit of the American people to help developing nations create effective programs to fight poverty and spur lasting economic growth. By lifting countries out of poverty and providing hope to the people of the world's poorest nations, MCC is encouraging more open societies and creating economic stability in developing nations, a key component to U.S. national security. In the words of President Bolaños of Nicaragua: "MCC will play a pivotal role within the context of democracy, freedom, national security and trade. This new kind of assistance makes it clear that there is a shared commitment in the task of reducing poverty and creating prosperity and we are committed to this."

MCC is already achieving results, and with our own significant organizational improvements -- and your continued support -- we expect to make even more progress in the years ahead. Secretary Rice called Millennium Challenge the “flagship program ... to change the way recipient countries think about their responsibilities as they receive our foreign assistance dollars.”

Full funding of the President’s budget request is critical to this progress. I ask the Subcommittee for its support of the President’s request, and I will be happy to answer your questions.

Thank you.