Millennium Challenge Corporation

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Before the U.S. House Appropriations Subcommittee On State and Foreign Operations

May 2009

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Thank you, Chairwoman Lowey, Ranking Member Granger, and other members of the Subcommittee, for the opportunity to discuss President Obama's fiscal year 2010 budget request of $1.425 billion for the Millennium Challenge Corporation to provide focused U.S. assistance for global development and poverty elimination.

MCC's FY 2010 funding is primarily targeted for five-year Millennium Challenge Compacts with three countries: **Jordan,** to provide up to three million people with more water and better sanitation; **Malawi,** to benefit millions with reliable power and improved roads; and the **Philippines,** to fight corruption while increasing government revenues, improve access to markets, and empower local communities to develop and implement infrastructure projects that will benefit more than six million people.

About 1.4 billion people in the world live on less than $1.25 a day. By some estimates, the current financial crisis is likely to force another 90 million people into poverty during 2009. Although the situation is dire, it is not hopeless. We estimate that MCC's signed commitments of $6.4 billion will raise the incomes of about 22 million individuals in our partner countries by nearly $12 billion over the life of the investments. Addressing the global challenge of poverty through programs such as MCC compacts is a critical way to enhance America's standing and bolster the economic recovery of the United States.

The annual challenge facing your Subcommittee, Madam Chairman, is the allocation of scarce foreign assistance resources to the maximum benefit of the United States. The best investments this Subcommittee can make are those that will have on-going benefits without requiring recurring expenditures.

Key lessons from the experience of the MCC are:

★ Select good partners who share the same goals as the United States;

★ Use incentives, rather than sanctions or rhetoric, to change behavior;

★ Work with country partners to select and implement projects, and use world class standards to design those projects;

★ Be rigorous in using specific and measurable outputs and outcomes to evaluate the programs or projects intended for funding; and

★ Be transparent, candid, and up-front about the challenges.

At MCC, we have worked hard to apply all of those lessons. MCC partner countries—which are among the poorest in the world—nonetheless rank in the upper quartile of country policy performance. We also have worked hard to build strong and durable relationships with other agencies of the U.S. Government, most particularly USAID, as well as other donors, non-governmental organizations, and most importantly, our country partners.

We believe that the most compelling evidence on behalf of the MCC will be the number of beneficiaries and the degree to which they benefit from our investments. We strive to set standards for transparency. For example, the estimated economic rates of return for every MCC project are available on our website. Soon, a similar analysis of our beneficiaries will be on the website as well.

MCC's Plan for Fiscal Year 2010

The President's request for $1.425 billion from Congress to fund MCC in FY 2010 represents an increase of almost 63 percent in funding from the amount provided by Congress in FY 2009 and is planned as follows:

- ★ Roughly $1.2 billion will be directed towards new compacts with **Jordan, Malawi,** and the **Philippines**;
- ★ $40 million is budgeted for threshold programs;
- ★ $98 million is budgeted for administrative expenses;
- ★ $90 million is budgeted for compact development and due diligence costs; and
- ★ $5 million is budgeted for the Inspector General for audit expenses.

In addition to FY 2010 country partners, we plan to sign agreements with **Moldova** and **Senegal** using FY 2009 funds. We are in active discussions with **Zambia, Indonesia,** and **Colombia**, even though they not expected to be ready for signing a compact until FY 2011. In December 2009, MCC's Board of Directors will determine which new countries satisfy MCC's eligibility criteria and select countries for Millennium Challenge Account assistance in 2011.

If we get less than the President's request in FY 2010, we will either have to reduce or even possibly postpone compacts, which will have serious implications for **Zambia, Indonesia,** and **Colombia.** Moreover, current MCC countries such as Honduras could well be eligible in 2011 for a new compact. The cascading effect of underfunding is a reduction of America's contribution to fighting global poverty and MCC's effectiveness as a key element of America's "smart power" toolkit. Without funding at the President's requested level, MCC's well documented incentive effect that encourages countries toward policy reforms[1] will be in jeopardy, compacts large enough to achieve real transformational development will be constrained, and bilateral relations with these countries will suffer.

1 Primary source material documenting the various impacts of and reactions to the positive effect MCC is having on developing countries beyond its direct investments can be found at *http://www.mcc.gov/documents/mcc-102108-mcceffect.pdf*. To date, the most significant impact has been the incentive created for countries to adopt legal, policy, regulatory, and institutional reforms related to the MCC eligibility criteria. Eligibility for MCC funding can lead to international recognition and increased private-sector investment, which in turn has encouraged many countries to implement significant political, social, and economic reforms. In areas as diverse as women's rights, anti-corruption and governance, and business registration, countries are taking it upon themselves to re-evaluate their laws, policies, regulations, and ways of "doing business."

MCC Compacts in Development

For FY 2010 specifically, **Jordan, Malawi,** and the **Philippines** each have submitted investment proposals and MCC is in the midst of assessment and detailed preparations. These proposals cover a wide range of activities designed to stimulate growth, address direct and indirect costs of doing business, and reduce poverty.

In **Jordan,** MCC is considering investments to increase access to drinking water, improve waste water collection, treatment, and reuse for both agriculture and urban consumers, and reduce water losses in Zarqa, Jordan's second largest city. Nearly three in ten households in Zarqa consume less than the minimum amount of water considered essential for personal hygiene and food safety by the World Health Organization. Due to shortages of piped water, most households receive water only one or two times per week, and low-income families spend a larger share of their money on water supplied by private tanker trucks and other providers at higher prices. Jordan is classified as a lower middle income country by the World Bank and, as such, MCC assistance is capped (by statute) at 25 percent of that fiscal year's appropriation available for compacts.

In the **Philippines**, where 38 million people survive on less than $2 a day, MCC is evaluating investments to improve tax and customs collection and efficiency, improve rural and secondary roads, and empower local communities to develop and implement infrastructure projects that support economic development. This latter project is designed to reach upwards of 6.4 million people in some of the poorest municipalities in the poorest provinces of the country. Rural road rehabilitation yields high returns in the densely populated country by improving access to markets and services for up to one million people engaged in agriculture and micro-enterprises. Improvements in tax and customs administration create fiscal space for health and education expenditures—two areas that have suffered under fiscal austerity measures—while also reducing the opportunities for corruption.

In **Malawi**, where nearly 13 million people—a full 90 percent of the population—survive on less than $2 a day, MCC is currently reviewing project concepts to promote economic growth and reduce poverty by increasing the competitiveness of the country's agricultural and manufactured products. The proposed program is focused on investments in the power and transport sectors with the objectives of increasing access to reliable supplies of electricity and providing more efficient and affordable land transport services. Additionally, Malawi is requesting MCC's support to continue its efforts, begun under a Threshold Program, to reduce corruption and increase the transparency of public financial management.

In Jordan, MCC has completed its assessment of project proposals and has programmed resources for detailed feasibility studies. Due diligence of the Philippines' proposals is nearly complete, and detailed design work will commence shortly. Malawi has submitted three project concepts that are currently under review. All three countries have made their proposals publicly available through the Internet. Early compact preparations take into account objectives and outputs, benefits and beneficiaries, creating a framework for the benchmarks that MCC and the country partner will create for the compact's term and beyond. The tables below illustrate some of the specific projects currently outlined in **Jordan,** the **Philippines**, and **Malawi**, as well as the estimated numbers of beneficiaries and outcomes.

Jordan

Proposed Project, Objective & Outputs	*Potential Benefits & Beneficiaries*
Jordan: Water Conservation in Zarqa Governorate ($91 million)*	
Objective: To reduce the quantity of non-revenue water, or water lost through the combination of physical leaks and administrative mismanagement, from 54 percent to 25 percent of the total water supplied. ***Outputs:*** (i) Enhanced operational and energy efficiency of local groundwater wells, (ii) reduced leaks in the transmission and distribution network, (iii) improved household water connections, and (iv) strengthened administration of the water network including the introduction of commercial principles and performance management contracts.	***Benefits:*** ★ 11% Economic Rate of Return** ★ *Water availability:* Up to 12 million cubic meters of water saved for use by some 90,000 urban households (or about 500,000 people), as well as businesses and industries. ★ *Cost savings:* Additional water may help poor households save 2-3 percent of their annual income ($215 -$250) by avoiding the need to buy expensive bottled water. ★ *Health benefits:* Additional water allows poor households to improve their basic sanitation levels; ★ *Improved service:* Steep reductions in the 10,000 leaks and supply interruptions reported each year, 80 percent at the household level. ★ *Energy conservation:* From more efficient pumps at supply wells, reduced pressure in the distribution network when retooled for gravity-fed delivery. ★ *Increased cost recovery* and improved management of infrastructure assets for water supply and delivery. ***Beneficiaries:*** ★ *Poor households:* Nearly a quarter of the population in Zarqa is below the national poverty line of $3.35 per day (compared to 13 percent on average nationwide). ★ *Low consumers:* Studies suggest that 3 in 10 households in Zarqa consume 75 liters per capita per day of water, less than the 100 liters considered the minimum for personal hygiene and food safety.
Jordan: Collection, Treatment and Reuse of Wastewater ($223 million)*	
Objective: To increase the quantity of high-quality treated wastewater available for use in agriculture, thereby freeing up limited freshwater supplies for use in populous urban areas. ***Outputs:*** (i) Expanded and reinforced wastewater collection system in Zarqa Governorate and (ii) increased wastewater treatment capacity at As-Samra Wastewater Treatment Plant under a build-operate-transfer (BOT) scheme with substantial private sector participation.	***Benefits:*** ★ 16% Economic Rate of Return** ★ *Improved service:* Expansion of sewer network to connect another 18 percent of the population of Zarqa, mostly in poor neighborhoods. ★ *Environmental protection:* Reduced over-flow from overloaded sewers into the severely polluted Zarqa River Basin. ★ *Water availability:* Exchange of treated wastewater will “free up” another 12 million cubic meters of fresh water for households, businesses and industries. Up to 100,000 households potentially will benefit from additional freed up water supplies and/or improved sewerage services. ***Beneficiaries:*** ★ *Broad reach:* Links in the water network mean that the benefits of additional water could be distributed across a region with a combined service population of more than 3 million people. ★ *Poor households:* To ensure that the poor benefit, the Government of Jordan will fund a study of water use among poor households.

Philippines

Proposed Project, Objective & Outputs	Potential Benefits & Beneficiaries
Philippines: Comprehensive and Integrated Delivery of Social Services ($250 million)*	
Objective: Increased incomes in rural areas through small-scale, community driven investment projects. Strengthened community participation in development and governance activities at the village and municipal level. ***Outputs:*** Participatory community development organizations and processes working effectively with local government to set priorities and implement investment projects; small-scale infrastructure and other public works.	***Benefits:*** ★ 16-20% Economic Rate of Return** ★ *Empowerment of communities:* Project provides participatory planning, implementation, and management of local development activities. ★ *Improvements to local governance:* Project approach embeds community participation, transparency, and social accountability within project activities to induce formal and informal institutions to become more socially inclusive, accountable and responsive. ★ *Poverty reduction through grants for community investment:* Project grant resources are geared to secure additional local resource mobilization, develop effective community ownership of investments, and induce behavior change required for long-term sustainability of such investments. ***Beneficiaries:*** ★ *Poor households:* Initial project scope aims to cover 31 percent of the poorest municipalities in the poorest 42 (out of 79) provinces of the Philippines, equivalent to more than 4,000 villages in 200 municipalities, or 6.4 million people, over five years.
Philippines: Secondary National Road Development Project ($187 million)*	
Objective: To increase incomes in rural areas by reducing vehicle operation/maintenance costs and travel time, and improving access to markets and social services. ***Outputs:*** Rehabilitated/improved secondary national roads in rural areas in selected provinces of Luzon and Visayas. Improved road safety measures.	***Benefits:*** ★ 15-25% Economic Rate of Return** ★ *Improved service:* Expansion of road network in selected provinces that will lead to improvements in farm incomes, productivity, and competitiveness by enhancing the effectiveness, adequacy, and efficiency of the sector's transport and logistical support system for both farm inputs and outputs. ★ *Environmental protection:* Reduced soil erosion; increased resilience to natural disasters. ***Beneficiaries:*** ★ *Broad reach:* Links in the road network will improve access for nearly 2 out of 3 people whose incomes depend upon agricultural employment, or nearly 1 million people. Poverty incidence is between 17 and 40 percent in targeted areas. ★ *Poor households:* To ensure that the poor benefit, the GRP will fund a study of road use among poor households, with the results to feed into the design of the other proposed projects.

Philippines

Proposed Project, Objective & Outputs	*Potential Benefits & Beneficiaries*
Philippines: Integrated Revenue Information System (IRIS) for Sustained Fiscal Governance Program ($147 million)*	
Objective: Increased revenue to create fiscal space for investments in the social and productive sectors, and reduced opportunities for corruption in the tax and customs administrations. ***Outputs:*** Improved collection and fairness of tax and customs regimes through targeted investments in capacity, processes, and technology.	***Benefits:*** ★ 13-20% Economic Rate of Return ★ *Improved access to information:* Improvements to capability will allow economic managers to conduct more effective fiscal policy analysis and monitoring, as well as evaluate the benefits and costs of various tax policy proposals. ★ *Expansion of the tax base:* Expansion of electronic linkages to other government regulatory agencies and local governments will allow validation of taxpayer declarations against third-party information to identify unregistered tax *payers.* ★ *Proxy information for enforcement and internal control:* Improved systems will produce data for assessment of taxpayer compliance and support enforcement work of taxpayers conducted by revenue enforcement agencies. ***Beneficiaries:*** ★ *Broad reach:* Higher revenues will enable the government to finance key infrastructure and services on a sustainable basis that will fuel further economic growth to overcome poverty. Potential gains of 0.3% of GDP per year will allow government to raise national outlays on health, education, and infrastructure by 2-3% annually, which would in turn increase real GDP growth by 0.5% per year.

Malawi

Proposed Project, Objective & Outputs	*Potential Benefits & Beneficiaries*
Malawi: Energy Sector Rehabilitation, Expansion and Reform ($247 million*)	
Objective: Increased access to reliable and quality power for economic use. ***Outputs:*** Rehabilitated generation, transmission and distribution, distribution network extended to peri-urban & rural areas, improved service delivery, enabling environment for public private partnerships.	***Benefits:*** ★ 14-18% Economic Rate of Return** ★ *Expanded access to electric power:* Increased opportunities for income generating activities including agricultural, agro-processing, and manufacturing; reduced household reliance on wood fuels. Number of households and people expected to benefit from network expansion has not yet been calculated. ★ *Reliable energy supplies:* Increase network reliability for nearly 1 million people who currently have access to electricity, about seven percent of the population; reduced sales losses & equipment replacement costs; improved business environment. ★ *Services:* Improved delivery of social and business services. ***Beneficiaries:*** ★ Peri-urban and rural households ★ SME and micro-enterprises in urban and rural areas ★ Manufacturing plants ★ Farmers engaged in irrigated agriculture ★ Mining & tourism companies ★ Social services (schools, clinics, etc.)

Malawi	
Proposed Project, Objective & Outputs	*Potential Benefits & Beneficiaries*
Malawi: Transport Sector ($229 million*)	
Objective: Increased economic growth through more reliable, efficient and affordable transport options. ***Outputs:*** Rural roads improved to increase access to major trading centers and national and regional transport network; rail infrastructure and fleet rehabilitated to improve efficiency and reliability of transportation to Nacala port in Mozambique	***Benefits:*** ★ 22-36% Economic Rate of Return** ★ *Access:* Increased access to domestic, international & regional markets and social services for nearly 400,000 people living along the impact corridor of proposed roads, of which half live below the poverty line. ★ *Costs:* Reduced transportation costs; improved efficiency of transport corridors; improved environment for doing business. ***Beneficiaries:*** ★ Small holder farmers in areas with high agricultural potential ★ Importers and exporters ★ Manufacturing companies that export goods ★ Users of health clinics and schools
Governance and Fiscal Management Reform (TBD)	
Objective: Effective and efficient use of public resources in an accountable and transparent manner. ***Outputs:*** Improved public financial expenditure management, effectiveness of parliamentary oversight of the national budget and increased prevention of corruption.	***Benefits:*** ★ Increased investor confidence in Malawi ★ Reduced corruption and graft ★ Increased transparency of budget processes ★ Increased accountability of public servants and government budget to citizens ★ Improved checks and balance on government procedures ***Beneficiaries:*** ★ National level benefits from expenditure management improvements ★ Tax-payers ★ Domestic and foreign investors
*Cost estimates based on concept papers submitted April 2009 and subject to change as MCC completes the project screening process. **ERRs and beneficiary estimates are preliminary subject to further investigation by MCC.	

During FY 2010, MCC also will work on the development of country proposals with the three newly selected eligible countries, **Zambia, Indonesia,** and **Colombia,** for which compacts are anticipated in FY 2011. MCC has engaged with each of these countries and carried out extensive discussions with their diplomatic representatives in the United States. Initial MCC visits for the orientation and guidance of host country teams have been completed for Zambia and Indonesia, and the initial visit to Colombia is occurring this week.

During the initial visits to Zambia and Indonesia, MCC officials met with key government leaders, legislators, cabinet ministers, opposition party leaders, business leaders, civil society representatives, international donors and nongovernmental organizations, as well as local media/press. These visits provide in-depth information on MCC's exacting analytical and compact development requirements, as well as ensure that the government fully consults on the compact process with a broad cross-section of the public. MCC's early engagement efforts in these newly eligible countries are focused on providing support in establishing a highly qualified core team, initiating a diagnostic of economic growth (and identifying binding constraints to growth), and consulting broadly with the public on the kinds of investments that could be effective in reducing poverty.

Program Progress and Results

Currently, MCC has compact programs in 18 countries, and each program is different, reflecting the specific priorities identified by our partners.

Countries are using their Millennium Challenge grants to train farmers, register property rights, build roads and bridges to better access markets, immunize children, open schools, irrigate land, and install water and sanitation systems. MCC tends to funds three kinds of activities:

★ **National infrastructure,** such as major improvements at the national ports in Benin and Cape Verde and in the natural gas pipeline in Georgia. These investments totaling nearly $600 million are expected to generate nearly $1.8 billion in income gains to many people in these nations over the working lifetime of the infrastructure, generating higher incomes for more than 8.5 million people.[2]

★ **Regional infrastructure,** such as highways and secondary roads, water, sanitation, and power systems. MCC investments of $3.3 billion in this infrastructure are expected to generate $5.5 billion in additional income for the 10 million people living nearby, equivalent to approximately $550 per person.[3]

★ **Targeted investments** focus on household-level activities by enhancing improvements in agricultural productivity, financial market efficiency, health and education system improvements, and land governance. These targeted investments totaling $2.4 billion are expected to generate approximately $4.7 billion in additional income for 3.7 million program beneficiaries.[4] These beneficiaries are expected to experience income gains of nearly $1300 per capita, on average, over the life of the investment. Many of these investments are already improving the lives of beneficiaries in our partner countries. For example, more than 83,000 farmers

2 A recent World Bank assessment of infrastructure investments suggests that "Economic growth is positively affected by the volume of infrastructure stocks and the quality of infrastructure services…The payoffs are largest for telephone density, electricity-generating capacity, road network length, and road quality." Calderón, Cesar, *Infrastructure and Growth in Africa* Policy Research Working Paper 4914 April 2009 (Washington: World Bank)

3 Economic research suggests that poor households benefit more from investments in rural roads than wealthy ones: Khandker, Bakht, and Koolwal *"The Poverty Impact of Rural Roads: Evidence from Bangladesh"* 2009 Economic Development and Cultural Change (The University of Chicago) ; and Mu, Ren and van de Walle, Dominique *"Rural Roads and poor area development in Vietnam"* Policy Research Working Paper 4340 August 2007 (Washington: World Bank)

4 Estimates of costs and benefits described for the three types of investments reflect current program designs and price structures. When new information about prices and program implementation becomes available, program designs and the projected impacts may change.

have been trained in new production technologies, and many of these farmers have applied these techniques to raise their agricultural yields and grow their income.

Progress on Compact Program Implementation

Like MCC, our partner countries are dedicated to promoting economic growth and poverty reduction, and are committed to measuring program success based on increased incomes and measured by our ERRs over a long time period.

In the short-term, however, we can track implementation milestones. For example, as of March 2009, MCC has over 900 kilometers of roads under construction; over 115,000 stakeholders have been reached through land and property rights activities; 39,000 hectares of rural land have been formalized; and financing for over $20 million in agricultural and rural loans has been made available.

As MCC's compact portfolio has matured, both MCC and MCA (the country-led entity responsible for implementing projects within the individual compacts) staff have incorporated lessons learned from early stages in order to make implementation increasingly efficient and effective in older compacts and to incorporate lessons learned in new compacts. Strong teams are in place in many compact countries further along in implementation, and these teams are able to anticipate and troubleshoot problems in their own countries and share that knowledge with other teams.

Compact Countries	Entry-Into-Force	Amount (in millions)
1. Madagascar	July 27, 2005	$109.8
2. Honduras	Sept 29, 2005	$215.0
3. Cape Verde	Oct 17, 2005	$110.0
4. Nicaragua	May 26, 2006	$175.1
5. Georgia	April 7, 2006	$295.3
Georgia Compact Amendment	Jan 30, 2009	$100.0
6. Benin	Oct 6, 2006	$307.3
7. Vanuatu	April 28, 2006	$65.7
8. Armenia	Sept 29, 2006	$235.7
9. Ghana	Feb 16, 2007	$547.0
10. Mali	Sept 17, 2007	$460.8
11. El Salvador	Sept 20, 2007	$461.0
12. Mozambique	Sept 22, 2008	$506.9
13. Lesotho	Sept 17, 2008	$362.6
14. Morocco	Sept 15, 2008	$697.5
15. Mongolia	Sept 17, 2008	$284.9
16. Tanzania	Sept 15, 2008	$698.1
17. Burkina Faso	*FY09 Q4 est.*	$480.9
18. Namibia	*FY09 Q4 est.*	$304.5
Total		**$6,418.10**

Because of the innovative nature of MCC's focus on country ownership, the agency continues to adapt and learn ways to enhance effectiveness. In some countries, the agency has dealt with issues such as project cost escalation and slower-than-expected program start-ups due to country capacity constraints or poor performance on the part of some procurement and fiscal agents, independent engineers, contractors, or implementing entities.

MCC aggressively manages these challenges and has developed a number of approaches, including streamlining our implementation procedures and working with MCA partners to establish key systems at the time compacts enter into force, thus enabling faster ramp-up of program activities, developing simplified operational tools and conducting MCA start-up capacity building. Additionally, MCC continues to refine our oversight role. Country ownership is a core MCC principle, but in practice the capacity of countries to manage these programs varies. MCC must manage the healthy tensions between country ownership, accountability, capacity building, and achieving results on a country-by-country basis.

A particular concern in MCC implementation revolves around unanticipated increases in total compact costs. Project cost escalations are due to increased input costs, tight global construction markets, unfavorable currency fluctuations, and revised technical specifications associated with the need for additional feasibility or design studies. Solutions have included re-scoping projects, reallocating across projects within a compact, and seeking parallel financing from other donors or the partner government.

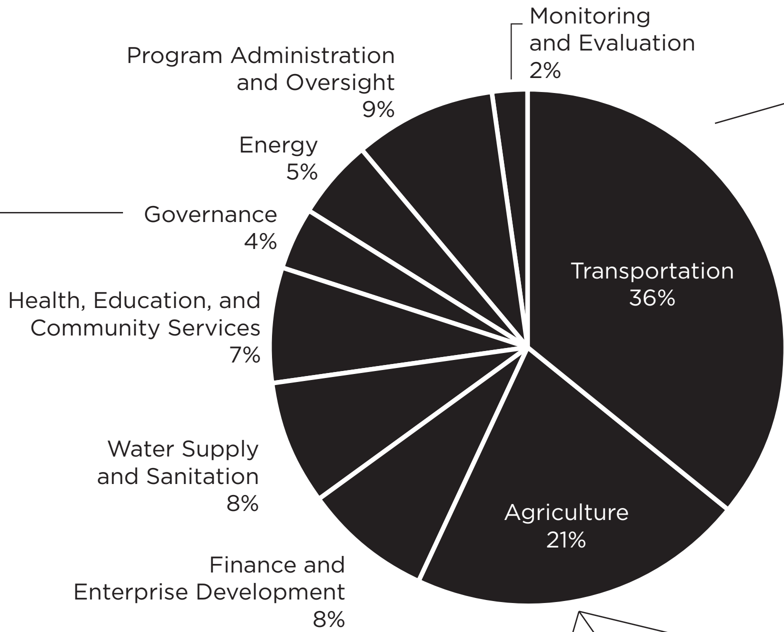
MCC has introduced a number of mechanisms for managing projects that face potential restructuring. These include quarterly portfolio reviews of all compacts; early identification of high risk projects and management strategies (including identification of responsibilities and timelines for key decisions and actions); MCC and MCA collaboration in development of restructuring plans; and approval of restructuring plans at the appropriate MCC level.

Depending on the nature and extent of the restructuring, these actions could involve MCC Board approval and congressional notification. Similarly, for any projects moving too slowly because of poor performance or insufficient political will to enact key reforms, MCC will work with MCA partners to set clear timelines, which, if not met, could lead to cancellation of portions of some projects, and ultimately, re-allocation or de-obligation of related project funds.

More fundamentally, large or complex infrastructure projects do not achieve full mobilization until international procurements are completed and contractors fully mobilized, and disbursements ramp up more rapidly in years 3-5 as a result. This progression is common and can be seen in MCC disbursements.

MCC Compact Program Results

Commitments by sector for Compact Countries, in millions of USD (as of March 31, 2009), total $6.4 billion



Roads

- $40.2 million, contracts for feasibility and/or design studies
- 44% disbursed, contracted feasibility and/or design studies
- 3,609 kilometers of roads under design
- $425 million, contracts for roads design and/or works
- 928 kilometers of road under works contracts
- 22% disbursed, road works contracts

In **transportation** projects, roads rehabilitation and construction aim to reduce transport costs, improve access to public transportation and basic services, and facilitate trade. In **agriculture** projects, roads aim to link producers to markets for their goods, and to inputs for their production. Roads in **irrigation** projects provide access to, from, and within irrigated areas.

Property Rights and Land Policy

- 13,870 personnel trained in land registration, surveying, conflict resolution, land use planning, land legislation, land management and/or new technologies
- 39,656 hectares formalized
- 115,311 landholders reached
- 7 legal and regulatory reforms adopted

MCC's PRLP investments are designed to contribute to poverty reduction and economic growth by establishing secure and efficient access to land and property rights. PRLP support of legal and regulatory reforms, clarification and formalization of land and property rights, capacity building of local institutions, and land-related outreach and education are aimed at reducing transaction costs, increasing tenure security and improving allocation of land. This, in turn, will result in increased transactions and investment in land and property and higher land productivity and value.

Agriculture

- 83,166 farmers trained
- 1,289 agribusinesses assisted
- 8,959 hectares under production with MCC support
- $20.01 million in agricultural and rural loans

MCC investments in agriculture aim to increase incomes by creating jobs in the agriculture sector; increasing farmers' capacity, productivity and access to markets; improving access to credit; and strengthening agribusiness.

Irrigation

- $28.2 million, contracts for feasibility and/or design studies
- 12% disbursed, contracted feasibility and/or design studies for canals, pipes, and other water conveyance systems
- $12.1 million, contracts for irrigation system construction
- 37% disbursed, irrigation system works contracts

MCC investments in irrigation include construction and rehabilitation of irrigation systems and watershed management systems. They aim to increase the income and productivity of agricultural producers.

Results data are preliminary as of March 31, 2009, and subject to adjustment.

Detail of Threshold Funding Request

MCC's budget request includes up to $40 million for the Threshold Program in FY2010 for countries that will be determined by the agency's Board of Directors in December 2009.

The Threshold Program is designed to assist countries that are on the "threshold," meaning they have not yet qualified for compact funding, but demonstrate significant commitment to improving their performance on the eligibility criteria for full compact funding. Threshold programs are two to three years in duration.

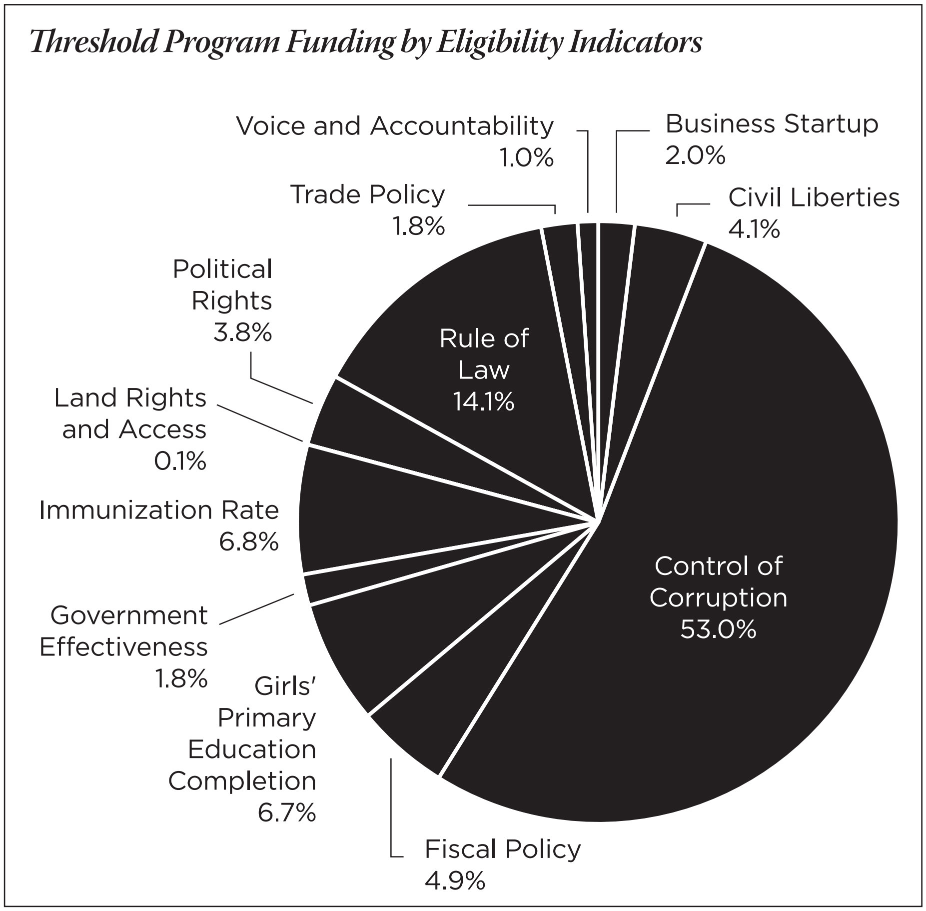
Threshold Countries	Signing Date	Expected Completion	Program Funds
Albania	4/3/2006	11/15/2008	$13,850,000
Albania Stage II	9/29/2008	2/28/2011	$15,731,000
Burkina Faso	7/22/2005	9/30/2008	$12,900,000
Guyana	8/23/2007	2/23/2010	$6,711,000
Indonesia	11/17/2006	5/31/2010	$55,000,000
Jordan	10/17/2006	8/29/2009	$25,000,000
Kenya	3/23/2007	9/30/2009	$12,723,000
Kyrgyz Republic	3/14/2008	6/30/2010	$15,994,000
Liberia	Eligible		
Malawi	9/23/2005	9/30/2008	$20,920,000
Moldova	12/14/2006	9/30/2009	$24,700,000
Niger	3/17/2008	9/30/2011	$23,066,914
Paraguay	5/8/2006	5/31/2009	$34,645,092
Paraguay Stage II	4/13/2009	10/31/2011	$30,300,000
Peru	6/9/2008	1/31/2011	$35,585,000
Philippines	7/26/2006	5/29/2009	$20,685,000
Rwanda	9/24/2008	12/31/2011	$24,730,000
Sao Tome & Principe	11/9/2007	1/31/2010	$7,362,426
Tanzania	5/3/2006	12/30/2008	$11,150,000
Timor-Leste	Eligible		
Uganda	3/29/2007	12/31/2009	$10,446,180
Ukraine	12/4/2006	9/30/2009	$44,970,000
Zambia	5/22/2006	2/28/2009	$22,735,000
Total			**$469,204,612**

To date, MCC has approved 21 threshold programs in 19 countries totaling nearly $470 million. MCC's Threshold Program has supported activities to help control corruption, strengthen rule of law, improve girls' primary education completion rates, and increase immunization rates.

In the first part of FY 2009, MCC signed one Threshold Program Agreement, partially funded with prior year funds. MCC will use up to $40 million more of FY 2009 funds for two Threshold Program grants with **Liberia** and **Timor-Leste,** if the budget allows. The average Threshold Program has been funded at approximately $25 million. In light of budget constraints for FY09, we anticipate smaller Threshold Programs than the average.

The Government of **Liberia** has identified three indicators as possible targets for threshold funding: Girls' Primary Education Completion Rate, Land Rights and Access, and Trade Policy, and anticipates submitting a proposal in which the bulk of any threshold funding would be concentrated on land rights access.

The government of **Timor-Leste** has identified girls' primary education completion rates, reducing corruption, and immunization as possible targets for threshold funding.



Program development is still at a very early stage for both countries and funding priorities could change as the program proposals are reviewed.

We are in the process of reviewing how to best focus the Threshold Program in the future. The review will determine how the program can best meet its congressional objective and fit into the U.S. development assistance portfolio. MCC is looking at what the program has achieved to date, the extent to which the original purpose of the program is still an institutional priority, and what modifications, if any, should be made to the program.

The review also will address whether there are redundancies with what other agencies do, whether the program should be moved to another U.S. Government agency, and the desirability of funding Stage II programs. MCC has reached out to external stakeholders in the review process, including Congress. We may seek further clarification of the original authorization language addressing the Threshold Program.

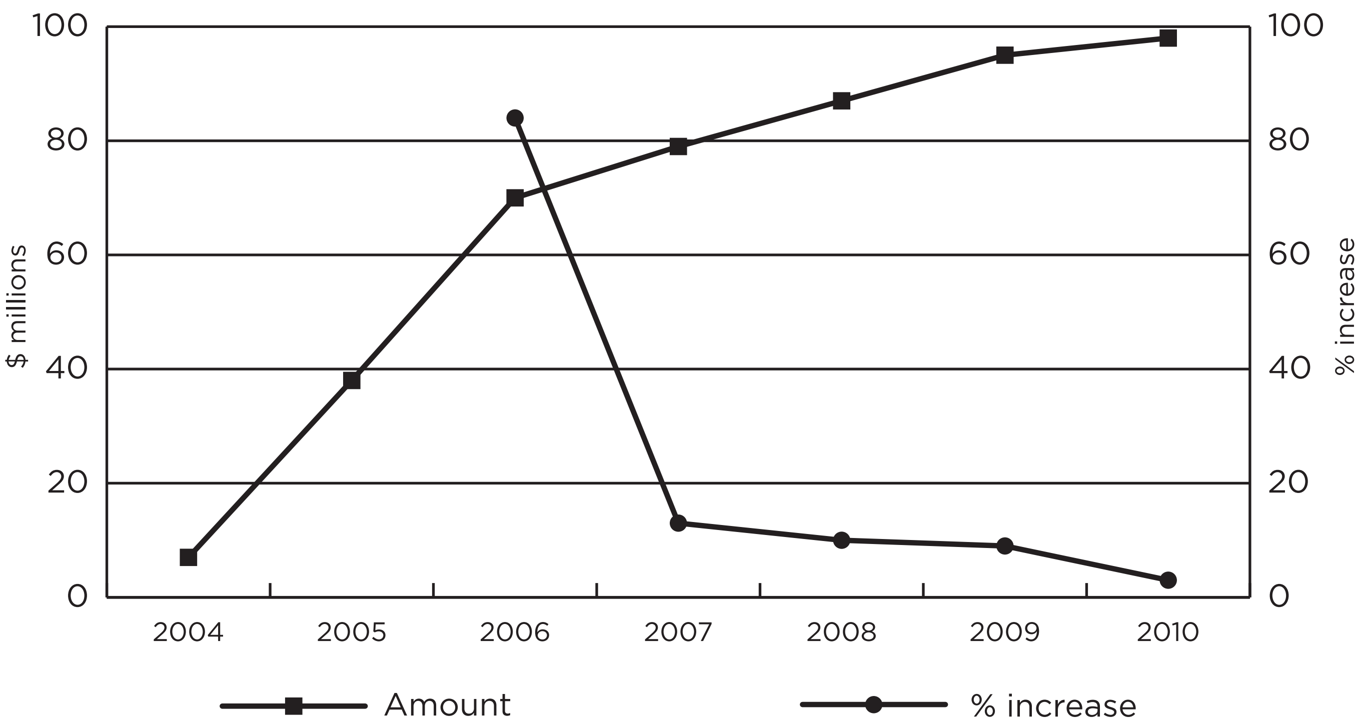
Administrative Budget Request

For FY 2010, MCC is requesting an administrative limitation of $97 million. In addition, MCC will use up to $1 million of carryover under the FY 2009 administrative limitation and/or recoveries of prior year obligations, for a total administrative expenses budget of $98 million, an increase of $3 million or three percent above the FY 2009 level.

Since its creation in 2004, MCC has put into place the structural components of a mature agency: a high-performing staff, a financial management system, dependable information technology, and fully competitive procurement and hiring practices. In the process, MCC has shifted from a start-up mode of rapid expansion to a focus on compliance, effectiveness, and efficiency.

The chart below shows the result of this effort—the modest three percent increase in administrative expenses for FY 2010 compares to 85 percent between the first two full years of MCC operations, FY 2005 and FY 2006.

MCC Administrative Expenses



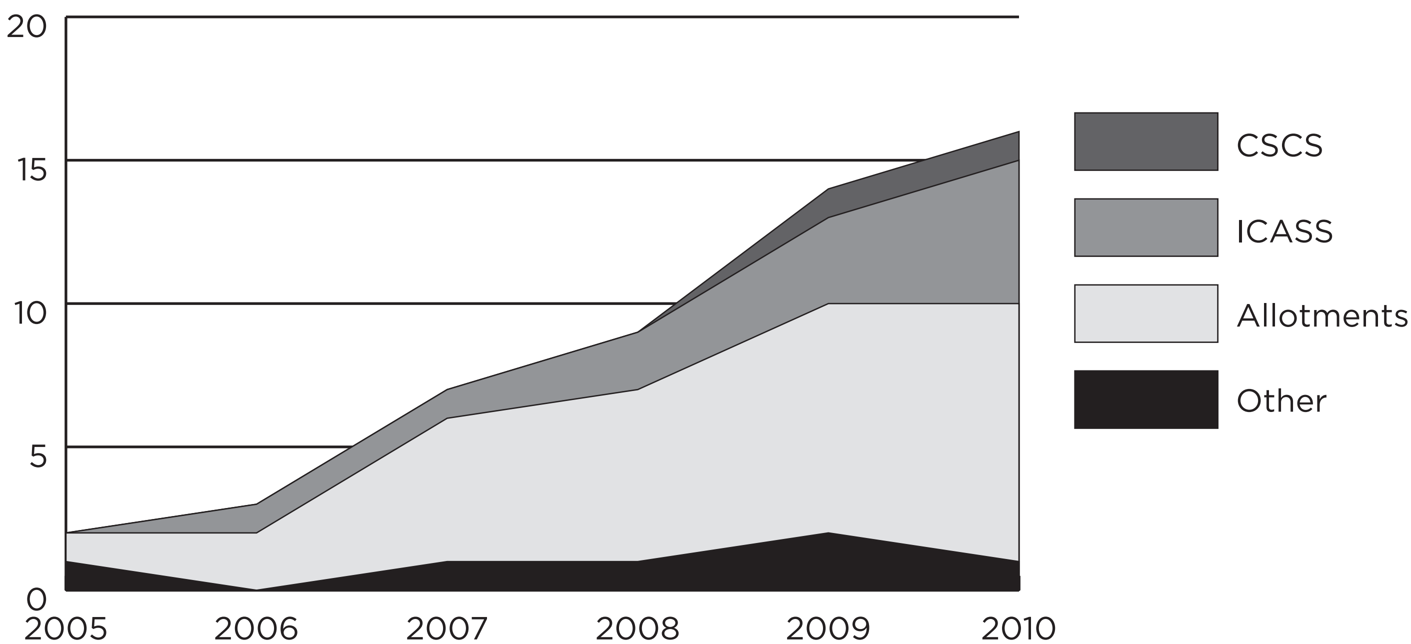
The majority of MCC's administrative expenses directly support compact implementation and development. Forty-five percent of the FY 2010 administrative expense request is for salaries and benefits, overseas expenses, travel, and other direct costs of compact implementation, while another 10 percent is for the direct costs of compact development.

A significant percentage of MCC staff are technical experts who help MCC ensure that its programs are well designed, responsibly implemented, and objectively evaluated, including: twenty-four economists and experts in monitoring and evaluation; twenty-seven engineers and infrastructure experts; twenty-five technical experts in agriculture, land rights, financial sector development, health and education; nineteen environment and social assessment experts; and twenty-one experts overseeing compact finance and procurement activities.

While MCC has worked to control administrative costs, two cost drivers will continue to put upward pressure on MCC's administrative expense budget—overseas support costs and total staffing.

MCC's overseas support costs, for example, have almost doubled since 2007, and will increase another $3 million in 2010, accounting for the entire requested increase in administrative expenses. While MCC maintains a very small support footprint of only two American direct-hire staff in each compact country, the costs of maintaining this staff is increasing at a rapid rate, of which the fastest growing portions are International Cooperative Administrative Support Service (ICASS) and Capital Security Cost Sharing (CSCS) costs at the U.S. Embassies.

MCC Overseas Office Support Costs



MCC's Authorization

We also would like to work with this committee, as well as your colleagues on the authorizing committee, to address some fundamental issues with the way MCC is allowed to structure compacts. MCC's authorizing legislation currently restricts the agency to a single compact with each partner country at one time. Allowing MCC to enter into multiple, or concurrent, compacts, would improve our ability to manage the compact pipeline with greater predictability, serve as an added incentive for ongoing policy reforms in partner countries, and help address MCC's unobligated balances.

The MCC approach requires committing long-term funding upfront, in contrast to other aid programs that spend their appropriated funds each year. This approach unfortunately makes it appear that MCC has large balances even though the funds are, in fact, already in use to reduce poverty. The policy of upfront funding lowers costs and increases America's credibility, but the practice makes MCC's accounts vulnerable to being used as an offset for amendments proposed by Members for other purposes. Having the authority to enter into concurrent compacts is one way to ease that pressure.

The upfront obligation of all spending over the duration of the compact is consistent with lessons in aid effectiveness, because it allows partner countries to plan and manage development strategies and budgets in a sustained way. It also allows MCC to make large investments in long term infrastructure projects without suffering the cost premiums associated with uncertain project funding. This practice, however, means that MCC must hold large obligated but undisbursed balances. Concurrent compact authority would allow MCC to sign smaller compacts, implement them more efficiently and thereby reach disbursement targets more quickly.

Furthermore, with concurrent compacts, the agency could move forward with projects that are investment-ready, instead of having to put several projects at various stages of readiness into a single compact or delaying compact signing for a promising but less-developed project. Concurrent compacts will allow for smaller, staggered agreements and more certainty in the budget process; speed implementation; improve project management by allowing countries to focus on managing fewer projects at a time; build management capacity with early projects; ease the current burden of managing large, complex compact programs; and foster innovation by allowing the agency to pursue more innovative approaches that may normally slow down the compact development process.

Another critical change would allow MCC to structure compacts so that, on occasion, individual projects can exceed the five-year rule for a short period. Having finite time frames for MCC compacts is an important best practice for effective foreign assistance, but often innovative projects cannot fit into five years or, in some cases, projects may encounter delays and need to be extended, particularly with MCC's emphasis on recipient-led implementation and the very difficult operating contexts in some countries. We would be pleased to work more closely with you on these and other legislative adjustments that would, to paraphrase Secretary Clinton's words, make MCC even more effective.

MCC's Role in Foreign Aid Reform

The resources provided by Congress do more than just fund programs that fight poverty. With the establishment and continued support of MCC, Congress has created an incubator for innovation to inform debate on the future of foreign aid. The dollars you provide allow us to test principles of foreign aid reform, create policy environments that foster better governed countries, and with them a more stable world, and help address the critical food shortages that plague the developing world. MCC does this in a number of ways:

Fighting Corruption

Good governance is a keystone of poverty reduction and a primary element of that is a commitment to fighting corruption. Systemic fraud and corruption in any country diminishes the benefits of any assistance program and impedes economic growth and poverty reduction.[5] Our commitment to fighting corruption is second to none in the donor community and it centers on a multi-pronged strategy. Of the 17 indicators that MCC uses to determine with which countries to invest, the "Control of Corruption" criteria is weighed most heavily. Secondly, we invest heavily, $250 million to date, in programs designed to strengthen anticorruption laws and procedures in our partner countries. And we screen all personnel in important positions in partner country MCAs to ensure they do not present risks of corruption to the agency. This year, MCC has also worked to strengthen our internal and external procedures so we have a comprehensive and consistent policy on preventing, detecting, and remediating incidents of fraud and corruption in our programs.

The policy enshrines key principles on fighting fraud and corruption, and MCC's leadership within the development assistance community on this issue was recognized by Transparency International who was consulted during the drafting process. Nancy Boswell, President of Transparency International, said recently that she "welcomed the MCC's leadership in the development assistance community in making a commitment to anti-corruption an explicit requirement to qualify for assistance."

Contributing to Global Food Security

Investing in food security has become a key U.S. Government policy priority, and MCC is one of America's most important tools to meet this commitment. More than $3.2 billion of MCC's total worldwide commitment of $6.8 billion supports sustainable, market-based solutions to food security.

Through a diverse portfolio of investments, MCC provides support to all aspects of the food production and distribution system, as well as to other aspects of rural economic growth. This includes transferring agricultural technology, securing land rights and access to rural finance, increasing access to sufficient and safe water, and building rural roads and other farm-to-market infrastructure, such as dry and cold storage facilities. These investments help

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5 Gupta, Sanjeev, Hamid R. Davoodi, and Rosa Alonso-Terme. 2002. Does Corruption Affect Income Inequality and Poverty? *Economics of Governance* 3: 23-45. Gupta, Sanjeev, Hamid R. Davoodi, and Erwin R. Tiongson. 2001. "Corruption and the Provision of Health Care and Education Services," in *The Political Economy of Corruption*, edited by Arvind K. Jain. London: Routledge. Mauro, P. 1998. Corruption and the Composition of Government Expenditure. *Journal of Public Economics* 69: 263–279. Rajkumar, A.S. and V. Swaroop. 2002: Public Spending and Outcomes: Does. Governance Matter? World Bank Policy Research Working Paper 2840. Anderson, James, Daniel Kaufmann, Francesca Recanatini. 2003. Service Delivery, Poverty and Corruption—Common Threads from Diagnostic Surveys. Background paper for *2004 World Development Report*. Washington DC: World Bank. Olken, Benjamin. 2006. Corruption and the Costs of Redistribution: Micro Evidence from Indonesia. *Journal of Public Economics* 90 (4-5): 853-870.

farmers and rural businesses access productive inputs, such as seeds, water, and fertilizers, overcome bottlenecks that hinder their ability to get produce from farm to market, and engage in higher-value production to generate rural income growth. Program activities are tailored to country needs and the political and institutional reforms they have identified, elements that are critical for the success of any strategy.

Promoting Aid Effectiveness

MCC adheres to a number of principles considered central to improving "aid effectiveness." Countries take the lead in developing and implementing compacts to ensure motivated ownership; MCC assistance is untied; and MCC's full upfront funding for compacts ensures predictability needed by the country and its business partners. Finally, MCC compacts are designed to complement other donor activity and the private sector, to eliminate program replication and to leverage potential non-governmental investments.

Accountability is a critical component of aid effectiveness. To manage for results, MCC partners use economic rates of return, beneficiary analysis and broad consultation to determine programs and to implement according to detailed monitoring and evaluation plans. Both MCC and its partners are held accountable by rigorous independent evaluation.

Meeting the Millennium Development Goals

Reducing poverty through growth is MCC's core mission, and economic growth is essential if we are to cut in half the proportion of people with income under $1.25 per day by 2015. MCC helps countries meet the MDGs in other ways as well. By including several of the MDGs in our eligibility indicators, MCC provides an incentive for countries to raise girls' completion rates from primary school and immunization rates, to improve environmental sustainability, and to reduce child mortality.

Additionally, MCC investments focus on increasing incomes in our partner countries, thereby helping to address the MDG focused on reducing global poverty. A number of our agriculture investments are expected to raise yields for staple crops, reducing the suffering that many Ghanaians and Malians experience due to hunger. Educational investments in Burkina Faso, Niger, and other countries will help ensure that many children, boys and girls alike, will be able to complete a full course of primary schooling. MCC projects in Lesotho, Tanzania and El Salvador are aimed at reducing the incidence of water-borne diseases and other illnesses, thereby reducing child mortality rates and the number of days of school and work missed as a result of these diseases. MCC's support of immunizations in Indonesia and Peru is also expected to aid in reaching the MDG on child mortality, while funding for rehabilitation of health clinics in Lesotho will help meet the MDG on maternal mortality rates. Finally, MCC's investments in extending water connections to households in Tanzania, Mozambique and other countries will help these nations meet the MDG of reducing the proportion of people who are unable to reach or afford safe drinking water.

Insisting on Country-Led Development

Country-led development, or country ownership, has been broadly embraced by the international donor community as a critical element of smart development aid.[6] MCC has spent the past five years working to develop and institutionalize internal processes that can help shift country ownership from a guiding principle to a practical approach. For MCC, country-led development had three inseparable parts: country governments set their compact priorities; countries implement their compacts; and countries are accountable to their own citizens.

Coordinating with Other Donors

Another component of making aid effective is a systematic review of existing aid programs and collaboration with other U.S. Government, bilateral, and multilateral donors. MCC works closely with other U.S. Government entities, and hand-in-hand with USAID, which oversees implementation in almost all of MCC's Threshold Programs, and works closely with MCC in compact countries. Other collaborators include the UNDP and the World Bank. MCC has reached several memoranda of understanding, including with the Alliance for a Green Revolution in Africa (AGRA), the UK's Department for International Development, the Ministry of Foreign Affairs of Denmark, the UN World Food Program, and the French Development Agency to increase on-the-ground cooperation and augment MCC capacity in specific technical areas.

Engaging the Private-Sector

MCC recognizes that its compacts can serve as catalysts for private sector investment that increases the sustainability of its projects and leverages MCC resources. As compacts are developed, MCC obtains expert advice from local and international private sector participants for its projects. Throughout compact implementation, MCC identifies opportunities for collaborative "double bottom line" investments that are both commercially viable for the private sector and improve a country's standard of living. MCC organizes investment and procurement forums for the business community in conjunction with each compact signing and on an ongoing basis.

Conclusion

The MCC model is not for all countries. MCC exists alongside other agencies such as USAID and the Department of State to create the overall framework for United States' foreign assistance. These agencies are valuable partners in executing and implementing MCC compacts in Washington and in the field. I would like to take a moment to thank them, along with you, Madam Chairwoman, and members of the Committee for your support.

As Secretary Clinton, the chair of MCC's Board of Directors, stated when she appeared before you last month, "Millennium Challenge grants are a very important part of our foreign policy. It is a new approach, and it's an

6 World Bank, 1999, *High Impact Adjustment Lending (HIAL): Initial Evaluation,* Operations Evaluation Department, report No. 19797 (Washington: World Bank)

approach that we think deserves support. We have to make sure that, just like anything else, it's part of our overall review of foreign aid, how it's working, how it can be better. But I think its had a positive effect in a number of settings where it's encouraged people to make changes that we wanted them to make. So we're going to be looking closely at how we make it even better." I know I speak for everyone at MCC in saying that we look forward to working with you and this Committee to do just that.

Thank you again, Chairwoman Lowey. I am pleased to answer any questions you may have on the President's fiscal year 2010 request or MCC in general.