

**Testimony of Sheila Herrling,
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House Appropriations Subcommittee on State and Foreign Operations
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Thank you, Chairwoman Granger, Ranking Member Lowey and members of the Subcommittee for the opportunity to discuss MCC's role in helping reduce poverty in Africa through economic growth, as well as our work to foster democracy and human rights, and create opportunities for trade and investment.

President Obama's fiscal year (FY) 2015 budget request for the Millennium Challenge Corporation (MCC) of \$1 billion, an 11 percent increase over FY 2014 funding levels, is currently slated for four African countries: Liberia, Morocco, Niger and Tanzania. Additionally, Ghana is in the final stages of developing a proposed compact.

The President's strong request for FY 15 reflects the agency's key role in advancing the Administration's development priorities, from open data to evidence-based programming to Power Africa. The Administration is also requesting an additional \$350 million for MCC as part of the proposed Opportunity, Growth and Security Initiative. These resources would further strengthen the agency's efforts to establish business-friendly environments in Africa where U.S. and other companies can compete and win.

I recognize the fiscal pressures the members of this subcommittee, in particular, face. Every account is under scrutiny, especially when there is a request for more money, and that is understandable. It is why MCC treats foreign assistance like a business, making decisions based on hard data and hard-nosed analysis. It is why we closely monitor results on the ground, and hold partner countries accountable. And it is why we share detailed information about our investments publicly. With the continued support of Congress, the agency will continue creating the conditions for a more secure and prosperous future at home and abroad.

Ten Years of Effectively Fighting Global Poverty

This year is the 10th anniversary of MCC's founding. I am especially grateful to share this milestone with this subcommittee and your colleagues, without whose support we would not be so successful. The bipartisan decision to launch MCC was a brave one, and no one knew whether the experiment would work. Was it possible to select partner countries based on solid, objective evidence of their commitment to good governance, economic freedom and investing in their people? Could you really run development like a business, using rigorous economic analysis to decide which investments in those countries would have the biggest impact – and then doing independent evaluations to find out if they really worked? And would poor countries truly be able to take ownership of these investments, and ensure the money was not wasted or diverted?

Ten years later, I am happy to report that the experiment has been a success, and that the trust you put in this new approach to aid effectiveness has paid off. Over the past decade, we have signed 27 compacts which are expected to benefit almost 174 million people worldwide. Of those 27

signed compacts, 15 have been signed with African countries, totaling close to \$6 billion. These partnerships span the continent and include Benin, Burkina Faso, Cabo Verde, Ghana, Lesotho, Madagascar, Malawi, Mali, Morocco, Mozambique, Namibia, Senegal, Tanzania and Zambia.

Thanks to your faith in MCC, in Africa alone, over **656,000** people now have improved access to clean water, over **188,000** farmers have been trained, and close to **268,000** households now have legal protections for their land. The numbers are impressive – and, as you know, we care a lot about numbers at MCC – but they don't begin to tell the whole story

Behind every number is a person who benefits from MCC's investment. These include the women in Burkina Faso, Mali and Mozambique whose names can now appear on land titles, paving the way for them to be economic agents of change. These are the patients at new health clinics in Lesotho and students at schools in Ghana. And these are families with better access to clean water for drinking or irrigation for citizens of Cabo Verde, Zambia, Mozambique, Mali, Senegal and Ghana. All of these meet the agency's strict requirements for only doing projects that promote economic growth.

And our investments have a valuable regional impact. The MCC-funded port expansion in Benin, for example, is a gateway for trade that benefits not only that country but also the land-locked neighbors of Burkina Faso, Mali and Niger. The roads we constructed in Tanzania are improving access to the major port of Mombasa in Kenya.

In all these ways and more, the American people, through MCC, have changed the lives of the poor – in Africa and around the world -- for the better.

Advancing American Values

Fighting poverty is MCC's central mission, but that singular focus is combined with a deep commitment to core values. Those values are reflected, above all, in our highly competitive selection process, where we evaluate potential partner countries based on third-party data indicating their commitment to such values as respect for democracy, the rule of law, equal rights, government transparency and economic freedom. By being selective, MCC has created a race to the top, with countries competing to perform best on our public scorecards. This phenomenon, dubbed the MCC Effect, has been documented by third party observers. According to one academic studyⁱ, development experts consistently rank MCC's scorecard as one of the most influential tools to incentivize policy reform – a remarkable achievement for a small agency that's just been around for a decade.

The "MCC Effect" continues after selection, as we work with partner countries to reform policies, strengthen institutions and improve data quality so that our investments will succeed. And we continue to hold our partners accountable throughout the life of an investment – we will suspend or terminate a compact if a partner country does not live up to its commitment to sound political and economic governance.

Another value that MCC reinforces is respect for the rights of women. From selecting partners to developing and implementing projects to monitoring and evaluating their impact, MCC works to

remove gender and other social barriers that can limit who benefits from the economic growth our investments are designed to create. We believe that gender equality makes economic sense, and we hold our partner countries accountable for meeting key gender requirements. We even wait to disburse funds until partner countries meet our gender requirements. MCC's commitment to gender equality is an essential part of how we fight poverty and it has set a new standard in development.

One of MCC's founding values is transparency, and I am proud to report that MCC was ranked number one in the world last year on the Aid Transparency Index. By sharing information about our investments, we allow U.S. taxpayers to ensure that their dollars are being spent wisely, help businesses make sound investment decisions, allow other donors to find out which approaches are most successful, and empower citizens of our partner countries to hold their governments accountable.

Fighting Corruption

Corruption in any country is an unacceptable tax on economic growth, and an obstacle to the private sector investment needed to reduce poverty. Corruption hinders economic growth by increasing costs, lowering productivity, discouraging investment, and reducing confidence in public institutions. American businesses seeking out opportunities abroad want environments that are free from corruption and conducive to job creation. Policymakers – including this Subcommittee -- want to be sure that investments of U.S. tax dollars are not susceptible to corruption.

Fighting corruption has always been a cornerstone of MCC's approach to poverty reduction. MCC evaluates prospective partner countries based on how they perform on the agency's annual scorecards, comprising 20 third-party indicators. By requiring countries to pass the Control of Corruption indicator in order to pass our scorecard, we seek to ensure our partners share this commitment. We also work to combat corruption in our partner countries through our poverty-reduction programs, where appropriate. And we take stringent measures to prevent, detect, and respond to instances of possible corruption as our compacts are implemented. These measures have been adopted by some of our country partners in their own government procurement systems.

Our current measures to track and combat corruption are of the highest quality – and we are determined to keep them cutting edge. MCC staff are reaching out to other experts in the fields of measuring and monitoring corruption to see if, together, we can come up with new, improved ways of assessing countries' efforts to combat corruption.

We are not alone in recognizing the need for more specific, actionable measures to fight corruption and promote transparency and accountability. Earlier this month, along with Global Integrity – an organization dedicated to providing data and technology that links reformers working on open government, transparency, and accountability – and with the support of Omidyar Network and the Hewlett Foundation, MCC co-hosted a workshop with experts and data scientists. The workshop was part of MCC's ongoing efforts to ensure it uses the best governance data available to identify partner countries that share the agency's commitment to fighting corruption. The workshop marked a watershed moment for organizations intending to establish an alliance to improve the

collection and use of governance data—informally dubbed the “Governance Data Alliance.”

MCC shares with this subcommittee, a real and deep interest in improving the way the world measures corruption, and it is our goal, along with the members of the Governance Data Alliance, to ensure we are using the best governance data available to identify partner countries that share our commitment to fighting corruption. We look forward to engaging with you further as we do this.

The FY 2015 Request

MCC’s funding request for FY 2015 will allow us to achieve a more strategic and lasting impact on the economic development and public policies of countries that the United States will look to as its emerging economic, political, and security partners of the 21st century.

Power Africa

The request for funds would support the key role MCC is playing in the Administration’s Power Africa initiative. In three of the compacts in development in Africa – Ghana, Liberia and Tanzania – we have identified lack of access to affordable and reliable power as a binding constraint to growth. MCC projects will support physical assets and help to leverage financing from private investors and independent power producers. MCC may also invest in power sector governance and reform, as well as to reduce electricity distribution losses, improve reliability and access, and create an enabling environment for private investment in the sector. MCC has worked closely with private sector companies that plan to make substantial investments as a result of the policy reforms and projects contemplated under MCC’s compacts. In fact, General Electric has announced a potential \$1.5 billion, 1,000 megawatt investment in Ghana’s energy sector, and has credited MCC with paving the way for this opportunity.

In addition, the \$350 million requested for MCC as part of the Opportunity, Growth and Security Initiative will enable MCC to pursue additional investment opportunities in compacts in development with Ghana, Liberia and Tanzania, and to contribute even further to Power Africa.

FY 2015 Compact Assistance Breakdown

For FY 2015, MCC would use \$766 million of our \$1 billion request for compact assistance to Liberia, Morocco, Niger, and Tanzania. All four countries are currently developing compact proposals for approval by MCC’s Board of Directors.

These countries, home to nearly 100 million people combined, are among the world’s poorest, but each has taken significant steps to improve governance and achieve eligibility for MCC compact assistance. The increase in funding will support significant compact investments in these countries to unlock key constraints to economic growth, incentivize policy and institutional reforms necessary for private investment, and improve the well-being of some of the world’s poorest people.

Liberia is still in the early stages of compact development but initial analyses point to access to electricity and road infrastructure as binding constraints to economic growth. Liberia has the least dense road network of any country in West Africa and very high road transport costs relative to neighboring countries. Lack of access to markets hinders economic activity, connection to social services and development of the agriculture sector.

Morocco has completed preliminary consultations with the private sector and civil society and is preparing concept proposals to address identified constraints to growth. Morocco hopes to address education quality issues that currently mean more than 70 percent of students do not meet basic learning requirements, as well as significant gender and urban/rural gaps. Morocco also lacks land policy and systems in both rural and urban areas to support industrial growth and more productive agriculture.

Niger's economic analysis has shown that access to water resources for agriculture and livestock, as well as regulatory and institutional barriers to cross-border trade, are all constraints to growth there. In 2011, Niger was the first country to demonstrate that with sufficient political will countries can restore their MCC eligibility following suspension. Countries must uphold their commitment to good governance throughout our partnership and if a country demonstrates a pattern of actions inconsistent with MCC's eligibility criteria, assistance may be suspended or terminated, as it was with Niger in 2009. By holding partners accountable, MCC encourages countries to make the right decisions.

Tanzania's economic analysis has highlighted constraints to growth from the lack of reliable electricity and the limited network of market access roads. Tanzania, therefore, is exploring a compact that will improve the technical, commercial and operational viability of the public power utilities, expand access to electricity, and improve segments of their road network that will help unleash the economic potential of key agricultural regions.

Ghana, which will be funded by prior year funds, has identified the power sector as the main focus of compact development. The government has submitted project proposals, focused on power sector investment, governance, institutional and regulatory reform, reducing electricity distribution losses, improving reliability and access, and creating an enabling environment for private investment in the sector. The prospective compact in Ghana may also present some of the best opportunities for innovation in financing structures such as cash-on-delivery aid or performance-based aid mechanisms.

Additionally, in December 2013, the Board selected **Lesotho** as eligible to develop a proposal for a second compact. Lesotho successfully completed a five-year, \$363 million MCC compact in September 2013, which helped expand water supply for household and industrial use, strengthened the country's health care system and removed barriers to foreign and local private sector investment. MCC also supported the passage of landmark legislation in Lesotho that ended the second-class status of married women and granted spouses equal rights.

Conclusion

Madam Chairwoman and members of the Committee, let me end today by quoting President Obama. Speaking in Tanzania last year, the President said something with which I believe we can all agree:

“...the purpose of development should be to build capacity and to help other countries actually to stand on their own feet -- whether it’s in agriculture, in health systems, in electricity. Instead of perpetual aid, development has to fuel investment and economic growth so that assistance is no longer necessary, so some of the more successful countries in Africa can start being donors instead of recipients of assistance.”

Through our investments, and through our focus on accountability, MCC is helping countries to stand on their own feet.

By adopting international standards for financial management, procurement, and social and environmental safeguards, MCC partners are ensuring that the work we do has lasting value, long after our investments end. Our partners have taken and tailored the MCC model to manage their national development strategies, strengthen their operations and sustain their own results. We can see this in countries such as Honduras, which has kept the MCA-Honduras—the local organization that implemented the compact—in place after our compact ended in order to coordinate other donor activity in the country. And we see it in Mongolia, which is adopting not only MCC’s economic rates of return analyses to develop new projects, but also MCC’s open procurements process when implementing those projects, as well as MCC’s guidelines for gender integration, environmental and social assessment and rigorous project monitoring and evaluation. After ten years, our work may be far from done, but we have accomplished a lot.

I would like to again thank you and your colleagues for your strong support of the agency and our mission over the past ten years, and in years to come.

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ⁱ 1 Parks, B. and Rice, Z. 2013. Measuring the Policy Influence of the Millennium Challenge Corporation: A Survey-Based Approach. The Institute of Theory and Practice of International Relations: The College of William and Mary.