

**Testimony of
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Thank you, Chairman Royce, Ranking Member Engel and members of the Committee, for the opportunity to appear before you today.

In the fight against global poverty, the people of the United States through the Millennium Challenge Corporation (MCC) and our development partners in the U.S. Government are advancing prosperity, stability and American values around the world. To advance these goals, the President is requesting \$898,200,000 to fund MCC in fiscal year (FY) 2014.

MCC has one mission: reducing poverty through sustainable economic growth. Our partner countries are rigorously selected and have a track record of sound democratic and economic governance.

We are very selective about the investments we make; Americans deserve to see their tax dollars deliver a high rate of return and the greatest impact. That is why we work with our partner countries to prioritize their economic needs and develop and implement solutions that make a real and measurable difference.

We sign compacts with our partner countries that address key constraints to economic growth through targeted investments. These investments create new economic opportunities through, for example, improved transportation, strengthened land rights, reduced incidence of disease, or better learning environments, to give just a few examples.

Because of our commitment to country ownership, countries not only prioritize compact investments but also stand up local entities to implement the programs. We provide oversight and support to countries to make sure rigorous accounting and procurement standards are followed. We also carefully monitor and evaluate compact implementation, and we require programs be completed in five years, holding our partners and ourselves accountable for achieving high-quality results within a fixed timeframe and without additional U.S. resources.

Our work does not stop once the compact is complete; we ensure projects are handed over to local authorities, who are responsible for continuing operations and maintenance. We also measure the programs' actual effectiveness in increasing incomes for the poor to see what worked and what didn't, and we make our findings public.

These bipartisan principles define MCC's approach to development, and, Mr. Chairman, our approach is working.

MCC programs are creating opportunities in poor communities around the world. Transportation networks are stimulating trade and commerce with regional impact. Projects in land security, food security, energy security, and water security are helping connect the poor to economic growth and opportunity. MCC-inspired reforms are empowering women, strengthening property rights, advancing civil rights, and promoting democratic principles. And American businesses are seeing new opportunities to invest and profit.

Past and Current Operations

Since our creation in 2004, MCC has signed 26 compacts and funded 23 Threshold Programs, committing over \$9.6 billion to fighting poverty around the world. Nine of those compacts have been completed, including three (Benin, El Salvador and Ghana) during the past fiscal year. Based on the rigorous cost-benefit analyses that we perform before signing a compact, MCC estimates over that our past and current investments will benefit over 170 million people.

MCC currently has active compacts totaling more than \$6.2 billion in 15 countries: **Burkina Faso, Cape Verde, Indonesia, Jordan, Lesotho, Malawi, Moldova, Mongolia, Morocco, Mozambique, Tanzania, Namibia, Philippines, Senegal and Zambia**. Five of those compacts will end this year. We are in the process of developing compacts with **Benin, El Salvador, Georgia and Ghana**, plus five more newly selected countries. In addition, we currently operate smaller Threshold Programs in **Niger, Timor-Leste, Liberia** and have Threshold Programs under development in **Guatemala, Honduras, Nepal and Tunisia**. Threshold Programs help countries to become eligible for compact assistance through key policy and institutional reforms.

FY 2014 Priorities

In December 2012, MCC's Board selected five countries as eligible to develop a compact with FY2014 funds: **Liberia, Morocco, Niger, Sierra Leone, and Tanzania**.

These five countries, together home to over 100 million people, are some of the world's poorest, but each has taken concrete steps to improve governance and become eligible for MCC assistance. Together, they represent an extraordinary opportunity to reduce poverty and advance the interests of the United States. While our FY 2014 request will not allow us to fund compacts with all five countries, we are hopeful that future resources will allow us to take full advantage of that opportunity.

The request includes resources for the development of high-quality compact programs as well as rigorous oversight over those programs and agency administrative expenses necessary to ensure that MCC remains an effective and responsible steward of U.S. taxpayer dollars.

The request also funds two Threshold Programs to assist Guatemala and Nepal to implement key policy and institutional reforms that support economic growth.

The Selection Process and Incentives for Reform

MCC prioritizes policy reform. Countries are required to practice sound policies and build strong institutions to qualify for assistance. We rely on objective third-party data to determine whether a country is meeting our requirements for ruling justly, investing in its people and encouraging economic freedom. In order to be transparent, we publish this data in our annual scorecards.

Countries are taking notice by enacting reforms and improving their performance to become eligible for MCC assistance. We call this the “MCC Effect,” and we aren’t the only ones to observe it. A new survey conducted by the College of William and Mary asked government officials, civil society, and the private sector in developing countries to list which external assessments had the greatest influence on governments in their countries. The top response was MCC’s strict eligibility criteria – not bad for a young agency with just 300 staff and an annual budget of less than \$1 billion.

Recent examples of the MCC Effect include the efforts of the Government of Niger to establish a protected area the size of Indiana, which resulted in Niger passing MCC’s Natural Resource Protection indicator for the first time in FY 2013. Sierra Leone also passed the MCC scorecard in FY 2013 after several years of policy reform that included strengthening its anti-corruption agency, investing more in public health and reducing tariff rates. Also notable was Guatemala’s enactment of a law against illicit enrichment as part of its efforts to control corruption. In every region, developing countries continue to make significant reforms to qualify for MCC funding, and the relationships of these countries with the United States have been significantly strengthened because of MCC engagement.

While MCC is committed to prudently managing its budget resources in the current constrained environment, a certain minimum level of resources is required to incentivize and sustain such policy changes. MCC is an important tool to encourage policy reform and sustained good policy performance in developing countries. Congressional support of the President’s budget request is essential to ensure that the MCC Effect remains strong in FY 2014 and beyond.

Holding Countries Accountable

The incentives for reform do not end when countries qualify for assistance; we continue to monitor the policies of our partner countries throughout the compact period. And we will stop the flow of development dollars if countries break their compact by failing to respect human rights or democratic values. This holds our partners accountable and bolsters MCC’s principle of performance-based, selective engagement.

As demonstration of our commitment to good governance, to date we have partially or completely terminated programs in Mali, Armenia, Nicaragua, and Madagascar. In addition to punishing backsliding, we recognize countries that make course corrections. For

example, we reinstated Malawi's compact after the government redressed governance problems that had led to a temporary suspension of our program there. And, in recognition of a return to democratic rule after a constitutional referendum and free and fair local, parliamentary and presidential elections, Niger's suspended Threshold Program was reinstated and in December 2012, MCC's Board selected Niger as eligible to develop a compact proposal.

Promoting Gender Equality

MCC prioritizes gender equality and integration. In 2011, we introduced a new eligibility indicator that measures a country's commitment to gender equality in the economy. Once countries are eligible for our assistance, we work with them to assess and measure the gender and social impact of projects.

We start with analyses of social and gender constraints to poverty reduction; in FY 2012 these analyses were done for compacts under development in Benin, El Salvador and Ghana. MCC also requires that our partners employ staff with expertise in social and gender assessment from the beginning of compact development. In addition, all compacts must have an approved social and gender integration plan.

In 2006, MCC was the first donor to condition a major investment on gender equality. In Lesotho, we required the government to pass a law granting economic rights to married women, and for nearly five years that compact has worked to strengthen women's economic rights and participation. As the compact draws to a close, we have contributed to the sustainability of these efforts by continuing education and outreach efforts to further women's economic empowerment and assisting the Ministry of Gender in reforming its policy and institutional structures.

Partnering with the Private Sector

At the core of MCC's vision is the understanding that market-based economic growth led by private investment is critical to sustainable development. Working with the private sector is not an afterthought to how we do business. Rather, it guides our thinking right from the beginning of the compact planning process. Our compacts create sustained interaction and collaboration with the private sector during program design and implementation.

To attract private sector interest in our partner countries—and also promote homegrown entrepreneurship—we look for ways to include the private sector in decision-making as early as possible. Often, business is the first to recognize and understand the constraints to growth and investment. Early and frequent consultations with the private sector help MCC partner countries analyze these constraints, learn best practices and discuss financing opportunities.

The ultimate key to development effectiveness is linking private investments to our aid investments right from the start. MCC has helped facilitate a number of public-private partnerships, including an award-winning \$184 million build-operate-transfer deal for

Jordan's largest wastewater treatment plant, to assist that strategically important country in strengthening its water security.

Creating Opportunities for American Businesses

By fighting poverty overseas, MCC is also working to create opportunities for American businesses to tap into the trading partners of tomorrow in order to expand and profit.

MCC is a gateway to opportunity through procurements for our compact programs, which we make sure are competitive, fair and professionally administered. By creating a level playing field, we make sure American companies can get a fair deal. Proof of this is the fact that American companies are competing and winning more of our business than companies from any other country

Symbion Power of Washington, D.C. offers a great example of a company leveraging a procurement to gain a foothold in one of Africa's frontier markets. Symbion and its partners won more than \$110 million in MCC procurements to improve Tanzania's energy sector. Symbion has since expanded its business in Tanzania far beyond its initial contract under the MCC compact.

MCC also serves as a gateway to opportunity by creating an enabling environment for follow-on investment. We do this by using measures of inflation, fiscal policy, corruption, ease of starting a business, regulatory quality, and land rights, among other things, to determine if a country is ready for our help. We also create an enabling environment for the private sector by (1) working with partner countries on specific sector-level policy reforms that further open up opportunities for private investment and (2) investing in infrastructure, such as power, roads, airports, and seaports, to expand trade and commerce.

Measuring Results

We aim to deliver and track results throughout the entire lifecycle of our investments. From before investments begin to their completion and beyond, MCC's robust and comprehensive results framework measures, collects and reports on those results.

We start by tracking the significant policy reforms countries often undertake to qualify for, or comply with, MCC compacts. We then monitor and measure inputs, outputs, medium-term outcomes, and ultimately longer-term impacts.

▪ Inputs

MCC's primary input is financial support for investments that promote poverty reduction and economic growth. MCC and our partner countries use analyses of key constraints to growth, cost-benefits and beneficiaries to identify which investments will have the biggest impact on raising incomes and generating economic returns.

▪ Outputs

Once we have made an investment, MCC begins measuring results by tracking outputs that measure the goods or services produced by a program, such as kilometers of roads or irrigation canals built, or the number of farmers trained or land titles issued. MCC and our partner countries use rigorous monitoring and evaluation (M&E) plans to establish targets and track progress on these outputs. Transparently reporting on these outputs is key for accountability and for making mid-course corrections as needed.

In FY 2012, MCC completed 549 kilometers of roadway, bringing the total to 1,712 kilometers since 2004. In FY 2012, we also mapped 3.2 million rural hectares and formalized 1.2 million hectares, for a total of over 5.7 million mapped and almost 1.6 million formalized since 2004. MCC also constructed over 11,700 sanitation systems and built 379 educational facilities that supported more than 142,000 students through educational activities. That's in addition to the 451 schools built and 155,513 students helped in previous years.

▪ **Outcomes**

MCC measures the medium-term effects of a program, such as increased traffic volume on improved roads, new business investments, increased production of high value crops, increased access to electricity or clean water, or increased school attendance. MCC and partner countries use detailed monitoring and evaluation plans to track outcomes since they are the drivers of the increased income that we ultimately aim to achieve.

And we have many outcomes to share. Take, for example, the results framework in the three countries that have recently completed their five-year programs:

- In **Benin**, MCC sought to address constraints in the country's main seaport, the port of Cotonou, which is a key trading hub for neighboring countries and the driver of economic growth in Benin. The compact also tackled nationwide challenges such as insecure property rights, lack of access to capital and an inefficient judicial system.
 - MCC funded \$188 million of port improvements, including a new south wharf, a sand-stopping jetty, enhanced intra-port transport, and strengthened port administration security and customs measures. A 25-year port concession will ensure that the new wharf is adequately financed and professionally operated over time and brings another \$256 million of projected investment.
 - At the recent IMF-World Bank Spring Meeting, IFC and *Infrastructure Journal* recognized the south wharf concession at the Port of Cotonou as a "top 40 PPP" and with a "Bronze" award (among sub-Saharan African projects). The port earlier was awarded the gold prize of the International Association of Ports and Harbors Information Technology Award 2013 for systems modernization financed by the compact.
 - While the program faced challenges in improving land rights in urban areas, it was able to make significant progress in rural areas, securing 72,000 parcels and issuing 650 land certificates, a process which has continued post-compact. For example, Benin's Parliament passed an important land code supported by the compact in January of 2013.

- The Access to Financial Services Project strengthened supervision of microfinance institutions and provided cost-sharing grants to support microfinance and entrepreneurship.
 - The Access to Justice Project reformed court processes and a new code of administrative procedure, supported construction of five courts and training of judges and clerks and established a public legal information center and additional one-stop shops for business registration.
 - One impact evaluation and three performance evaluations are being done to understand the impact of these four projects.
- In **Ghana**, the \$547 million compact ended in February of 2012.
 - The most visible component of the compact was the rehabilitation of a 14-kilometer urban highway in downtown Accra that has reduced travel times from one hour to less than 20 minutes while almost doubling traffic volume on the primary artery linking the country's primary port, the international airport and the major agricultural regions.
 - The compact also sought to increase the productivity of high-value cash and food staple crops and enhance the competitiveness of Ghana's export base in horticultural and other traditional crops. Nearly 67,000 farmers were trained in commercial agriculture, over 5,700 rural land parcels were surveyed and nearly 1,500 of those were formally registered. Investments in post-harvest infrastructure have resulted in 10 packing facilities being installed.
 - In addition, more than 350 kilometers of feeder roads were completed in rural areas, linking them to markets and social service networks.
 - 134 rural banks across Ghana have been connected to the national payment system through a satellite-based wide area network.
 - 250 school blocks were rehabilitated, increasing enrollment by close to 10 percent.
 - 392 water points, including boreholes, pipe extensions and small-town water systems, were constructed to improve health, reduce the incidence of illness and loss of productivity due to unsafe drinking water and decrease the time and effort spent fetching water. The average distance a person has to walk to fetch potable water now has been cut in half from 1,190 meters to 522 meters.
 - In **El Salvador**, the \$461 million compact ended in September of 2012.
 - The largest of the compact's components, the Transportation Project, has helped unify El Salvador's Northern Zone with the rest of the country, enabling new economic opportunities for rural households, lowering transportation costs and decreasing travel times to markets. This east-west highway in the north stretches close to the borders with Guatemala in the west and Honduras to the east, and the improvements are anticipated to reduce travel time by 50 percent, from 12 hours to six hours.
 - Over 33,000 households benefited from a connection to the electricity network.
 - More than 7,000 households benefited from clean water and sanitation services.

- New educational opportunities were afforded through the construction, rehabilitation and/or equipping of 22 educational facilities, with 30,632 students participating in MCC-supported educational activities.
- The compact assisted about 17,500 producers by providing training, seeds, equipment, and technical assistance; supported work to improve 25,400 hectares under production on which producers have planted short-season vegetables and fruits and improved pasture lands; and granted 44 loans to small- and medium-sized businesses in the Northern Zone to develop new projects in agriculture, tourism and handicrafts, amounting to more than \$7.5 million.
- Based on the preliminary findings of an independent impact evaluation, within one year of receiving assistance, dairy farmers increased their annual productive income by an estimated \$1,850 on average compared to those who did not receive assistance.

▪ **Impacts**

The ultimate result MCC is committed to producing—and being able to attribute to our investments—is increased incomes among poor people in developing countries. We want to know if incomes went up because of our investment, what worked best to increase incomes and if the increases were achieved in a cost-effective way.

Where the potential to learn is greatest, MCC uses impact evaluations to answer these questions, often comparing results from the people who participated in MCC-funded programs to those who did not. This indicates whether gains were the direct result of MCC's investment. Independent firms conduct the evaluations to ensure objectivity, and results are made public to help foster accountability and learning. MCC also uses performance evaluations to answer qualitative questions, like how a project is being implemented and whether expected results are occurring.

Last year, MCC completed and released our first set of independent impact evaluations, which used rigorous statistical methods to measure changes in project participants' farm and household incomes in five countries. According to a World Bank study, there were only three impact evaluations using rigorous experimental designs in farmer training anywhere in the world between 2000 and 2009. MCC has now done five, and more are on the way.

In El Salvador, the evaluators found that dairy farmers doubled their farm incomes. In Ghana, northern region farmers' annual crop income increased significantly relative to the control group, over and above any impacts recorded in the other zones. And in Nicaragua, project participants' farm incomes went up 15 to 30 percent after two to three years of project support.

Learning and Sharing Lessons on Effective Development

MCC is committed to evidence-based development by honestly testing assumptions, adding to a stock of evidence about what does and does not work, contributing to new thinking about monitoring and evaluation, and sharing findings and data from our independent

evaluations. Even when the findings are not all positive, this helps us improve the design and evaluation of future projects as we continue to learn and hold ourselves and our partners accountable. And it helps our partners in the development community maximize their effectiveness.

By releasing the recent evaluations, MCC demonstrated its commitment to transparency, accountability and sharing lessons. The evaluations underscored the need to test assumptions about commonly used approaches. Take, for example, the case of starter kits. Starter kits are packages of seeds, fertilizers, and/or equipment designed to complement farmer training. Starter kits have been a favorite for donors and country partners for years, and are still very common. In fact, we have used them in a number of our farmer training projects as well. However, there is limited evidence available on whether or not provision of starter kits actually drives behavior change, and exactly what should be included in starter kit packages.

The evaluations of farmer training programs in Ghana and El Salvador suggest that the starter kits do not always drive behavior change in farmers the way we expect. We want to understand why, as does the broader development community. Rigorous evaluations are central to this kind of learning, and improving our practice.

To summarize, MCC is a small agency with big impact. In the words of former Secretary of State and MCC Board Chair Hillary Rodham Clinton:

MCC's model showcases some of our best thinking about how to do development for the 21st century, and has helped to set the stage for the Administration's approach for development, because at a time when we must look for the way to maximize the impact of every dollar that we spend on development, we often turn to MCC for information and inspiration.

Working with the State Department, USAID and our other development partners, MCC is combatting poverty, creating incentives for good policy performance, working to open up business, investment and trade opportunities for American companies, measuring results, advancing learning, and improving accountability.