

Testimony of Alicia Phillips Mandaville
Vice President, Policy and Evaluation, Millennium Challenge Corporation
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Introduction

Thank you, Chairwoman Bass, Ranking Member Smith, and members of the Subcommittee. I am pleased to participate in this hearing and share the Millennium Challenge Corporation's (MCC) approach to addressing and mitigating the root causes of conflict in Africa. I also want to thank you and your staff for your ongoing collaboration and support. MCC has always benefited from bipartisan backing. We deeply value this support and I welcome your continued counsel and engagement as we work to reduce poverty through economic growth. I am eager to discuss these issues today because MCC has a unique model that delivers development impact and, in the face of rising vulnerability, we are actively thinking about how MCC rises to meet the challenges of this time.

Global Challenges

Today's development landscape is afflicted by multiple challenges that are complex, overlapping, and have compounding effects. These include: a global pandemic that has set back economic growth and poverty reduction; long-standing conflicts; recent coups; and a steady drumbeat of natural disasters — all of which are simultaneously having enormous economic consequences. In Africa, democracy and human rights are being threatened. Among fragile states, fewer than one in five countries are on track to meet the basic needs envisioned through the Sustainable Development Goals (SDGs). Globally, more people live under authoritarian rule than in democracies for the first time in two decades.

Some responses to these challenges are immediate and visible, such as vaccines, humanitarian assistance, and food aid. Other solutions are longer-term and reinforce country's systems and safety-net programs that help to absorb emergencies and shocks to the complex challenges of the day. These solutions include policy and systems reforms, debt relief, water security, or capitalizing on a demographic dividend. These long-term challenges and transnational threats require cooperation and partnership building, so that countries have the technical and programmatic muscle memory in place when it is ultimately needed.

The United States must have a robust foreign assistance tool kit that responds to both the short and long-term challenges and reinforces country ownership and a network of partnerships with countries that share our democratic values. This is not only in the best interest of our global community, but it is also necessary for the United States.

MCC is a key agency in supporting the most fragile states. Our data-driven approach to economic growth and strengthening government capacities contributes to the stability and security of our partner countries by creating jobs and providing better services to citizens. MCC does not provide humanitarian or disaster relief, which are core competencies of USAID, alongside its long-term development work, nor does MCC work in countries with pervasive open conflict. Rather, MCC thrives as an independent government agency that has consistently taken a long-term approach to economic development and works with countries to catalyze private-sector investments by pairing modern infrastructure with policy and institutional reforms — all while staying true to our core principles.

Our successes are real (and through this testimony I will explain how). Since our founding in 2004, MCC has invested more than \$9 billion with 24 partner countries in Africa. Some of these countries are fragile and have nascent democracies, but from our investments in Niger or Mozambique to our work in Kenya or Malawi—MCC is playing a key role in strengthening countries, their economies, and ultimately millions of African people.

Applying the MCC Model to Fragile States

As you all know, fragile states suffer from a lack of institutional capacity and/or political legitimacy that increases the risks of instability and conflict. These states are often unable to provide basic security and services to significant portions of their populations, are emerging from conflict, or are prone to crisis. Recent trends suggest that MCC will continue to work in more vulnerable states over the medium-term

With the support of Congress, the President launched the Global Fragility Act, a new way of working in and with fragile states. Initial priority countries include several current MCC partners: Mozambique, Benin, Côte d'Ivoire, and Togo. The Strategy outlines a U.S. whole-of-government effort designed to foster and achieve better long-term outcomes for stability. This long-term view is consistent with MCC's approach to long-term economic development. MCC is actively involved in developing a government-wide work plan in coordination with the White House and we look forward to collaborating further as implementation of the strategy gets underway.

The MCC Model

MCC is a critical tool in U.S. efforts to work with fragile states. We believe countries that are committed to strengthening their democracies, even in the most nascent states, have the best chance of delivering development gains for their people and creating pathways out of poverty through economic growth.

When the Bush Administration created the Millennium Challenge Corporation in 2004, democracy was built into the agency's developmental approach. MCC is also part of how the U.S. supports partners with democratic values to deliver progress to citizens, including access to infrastructure, security, services, and basic public goods. This strengthens the effectiveness and legitimacy of the government and the relationship between a democratically accountable state and its citizens.

MCC's model is a counterweight to other development actors, and we have a proven record of effectiveness in building out infrastructure in fragile states. The MCC Model encourages country partners to double down on good governance, democratic rights, and anti-corruption as a prerequisite to investments. Once selected, MCC responds to countries' real needs with grant financing.

MCC programs build local human capital, ensure that investments meet technical, environmental, and social standards, and provide a foundation for sustainability by improving how institutions work. With a focus on inclusive growth, we ensure that the needs of the poor, women, youth, and other marginalized groups are incorporated into the assessment, selection, design, and implementation of MCC programs. In doing so, MCC programs work to foster growth that is inclusive, lasting, and contributes to peace and stability.

Incentivizing and Supporting Democratic Governance

We understand that for democracies to survive, they must deliver. MCC helps countries deliver a democratic dividend. We create these dividends in two ways: 1) MCC's selectivity promotes democratic governance; and 2) MCC works with democratic nations to help them deliver public goods and basic services for their people.

MCC only partners with countries that hold democratic values. A positive externality associated with this is the '*MCC effect*.' Several countries have carried out reforms with the specific goal of improving their MCC scorecard performance so they can become eligible for MCC grant programs. For example, post-conflict Cote d'Ivoire went from passing five out of 20 indicators on the MCC scorecard in FY 2012 to ten in FY 2015, and then 14 in FY 2019. This impressive progress was led in large part by a dedicated committee created by President Ouattara in 2011 and chaired by the Prime Minister. The committee was focused solely on becoming eligible for MCC assistance. One key area of reform was gender in the economy. The government passed a revised family code, which removed discriminatory measures that prevented women from obtaining passports, choosing jobs freely, and from being the head of household in the same way as a married man. Because of these reforms, millions of women in Cote d'Ivoire gained the right to basic economic participation.

A difficult part of our work is when we have to suspend or terminate countries due to democratic backsliding, or a coup. We know that corruption fundamentally undermines economic growth, and that authoritarian development approaches can worsen corruption if left unchecked. This is why MCC directly addresses corruption in MCC programs when choosing partner countries, and when developing and implementing programs. MCC addresses corruption through at least three channels. First, the Control of Corruption indicator on MCC's Scorecard is a "hard hurdle" to MCC eligibility. Second, MCC actively seeks to prevent fraud through its Anti-Fraud and Corruption (AFC) Policy. The AFC Policy spells out how fraud and corruption should be mitigated, and requires strong controls, oversight, and mandatory training for MCC and MCA staff. We also work with our partners to produce corruption risk assessments for implementing additional safeguards. Finally, in addition to rigorous anti-fraud policies and a corruption-resilient selection process, MCC has incorporated anti-corruption as a central component of multiple MCC threshold programs and compacts.

MCC has ended approximately 25% of the compact programs it has pursued over democratic rights concerns, demonstrating a disciplined approach that is difficult but essential to maintaining our credibility and leverage. But supporting democracy and accountable governance is about more than walking away. We understand that for democracies to survive, they must deliver progress to their citizens - including access to infrastructure, social services, security, and basic public goods. Fewer and fewer countries have the fiscal space needed to make the medium-term investments that support both their people and a long-term economic strategy. MCC brings significant grant financing and can support riskier projects that the private sector typically does not, like basic public services. Investments into clean water, access to electricity, and farm-to-market transportation are being squeezed out of national budgets or borrowing plans by a series of back-to-back global economic challenges.

In Zambia, MCC partnered with the government to provide \$332 million in investments for critical water, sanitation, and drainage resources in the capital of Lusaka. With the national and municipal governments in the lead, those investments are expected to bring benefits to over 1.2 million Zambians. In recognition of the exceptional partnership and dedication to democratic principles, MCC is actively working with the government of Zambia to develop subsequent investment.

Africa is a vibrant and dynamic continent. MCC works hand in hand with a wide range of African partners to put action behind the understanding that economic growth cannot reach its full potential as long as conflicts persist, corruption hinders economic growth, government mismanagement squanders natural resources and creates unsustainable debt, and food insecurity heightens the risk of famine and malnutrition for vulnerable households. MCC will look to support the continent's commitment to

democracy and economic development by simultaneously addressing these challenges and reaffirming that democracy delivers tangible benefits for its people. Two thirds of MCC's programs are in Africa.

Increasing attention to gender and inclusion

We know that exclusion and inequality are drivers of conflict that constrain economic growth. Structural exclusion refers to the persistent—and often systemic and institutionalized—barriers to economic, social, and political opportunities that certain groups face in society. MCC recognizes that structural exclusion is a persistent development challenge, particularly in fragile states suffering from a lack of legitimacy. MCC was an early mover in addressing gender-based inequalities in its programming. Building on MCC's Gender Policy, first adopted in 2006, the agency has made significant efforts over the past 16 years integrating gender into its analytical approaches, program design, and implementation.

MCC has increased efforts to design projects that expand access for low-income and marginalized groups, such as women. These efforts involve participatory procedures to accommodate community voices. We are also focusing on last mile access, or depending on your vantage point, the FIRST mile, and targeting investments in neglected regions of partner countries, while systematizing methods for understanding how different groups will benefit from our investments.

To operationalize the policy, the agency has devoted increased resources, staffing, and leadership support, along with applying innovative social and gender operational requirements to all programs. This has resulted in country programs that address gender inequality in education, agriculture, health, and land; and improve women's ability to benefit from, and access, economic opportunities in non-traditional sectors like energy and transportation. More recently, MCC has supported a growing number of programs that specifically focus on women's economic security and empowerment. Building on this foundation, MCC aims to significantly deepen its commitment to inclusion and gender through our new Inclusion and Gender Strategy. MCC will continue to refine its data-driven model to ensure that the needs of marginalized groups are incorporated into every stage of MCC programs.

Looking to the future of MCC

Over its short history, the agency has invested grant capital roughly totaling \$15 billion in nearly 50 countries that are committed to governing democratically. Investments in sectors like energy, transport, water infrastructure, education, and supporting reforms have led to significant development impacts. From the millions of Malawians with more reliable electricity, to the hundreds of thousands of Filipinos who can count on their island's national highway system after a typhoon, MCC investments are expected to benefit nearly 215 million people around the world. We currently have a significant pipeline of programs and are actively deploying over \$7 billion in resources across nearly two dozen countries. MCC is proud of this record of development impact — it is an enormous contribution at the intersection of good governance and economic growth. But we can do more.

As MCC approaches its 20th anniversary in early 2024, we plan to use the milestone as an opportunity to reflect and set a path forward. MCC@20 is a vision for the agency's next 20 years, which celebrates and builds on the programs, impact and learning MCC has already demonstrated. As an evidence-based agency, our future will recognize and build on what we have learned: MCC is already good at identifying democratically governed countries and making effective economic investments in them. To meet the global needs of today, and tomorrow, we need to maintain the same selectivity, while tailoring our investment tools to support and sustain those democracies. That means working in a broader range of countries and looking for new ways to create a tangible democratic dividend for our partner countries.

To consider how MCC will implement this approach, it is useful to think about the where, the how, and the what. First, we have heard from a broad range of stakeholders, including Congress. They want us to do more, in more places. After significant deliberation, we are seeking to expand the set of countries that we can consider for our programs. By expanding this pool from about 81 countries to the poorest 125 countries, MCC will acknowledge the range of vulnerabilities countries face on their development paths. Expanding our pool would allow five additional Sub-Saharan African nations to be considered. Second, by applying lessons learned from our 18 years of experience, we are working to improve the efficiency, speed, and impact of our operations.

MCC programs will continue to work with a diverse array of countries, including those from fragile states, to foster growth that is inclusive, lasting, and contributes to peace and stability. Through their support for MCC, the American people are helping to create the building blocks for stronger economies and societies around the world. This means better governance, less poverty, and more economic opportunity—vital elements of peace and stability in their countries and in ours. As we move ahead, we look forward to working with Congress to discuss MCC's model and results, and how we can grow our successful model in a world that is facing growing poverty and fragility.

Thank you very much for your time and attention. I look forward to answering your questions.