

Testimony

**House Committee on Foreign Affairs
“Review of the FY 2017 Foreign Assistance Budget:
Aligning Interests, Ensuring Effectiveness and Transparency”**

**Statement by
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March 15, 2016

Thank you, Chairman Royce, Ranking Member Engel and members of the Committee. I am delighted to be here today with my good friend and fellow MCC Board Member, Gayle Smith, and I look forward to discussing MCC's fiscal year (FY) 2017 budget request.

It has been over a decade since MCC was founded as a bold experiment, and in that time the model has proven to be one of the most effective ways to transform lives and create opportunity around the world. MCC's support for the best-governed poor countries has been a critical tool for promoting U.S. democratic values. And it has laid the groundwork for sustained and widely-shared economic growth that lifts people out of poverty.

As MCC enters its second decade, we are ready to build on this legacy. In FY 2017, we are requesting \$1.0 billion to partner with impoverished countries and promote economic growth around the world. With your support, MCC will be able to deepen its impact fighting poverty, leverage additional financing for development, and drive innovation across the U.S. government and the international development community.

In today's complex global climate, smart and effective development aid is essential to ensuring long-lasting peace and shared prosperity. Economic growth, widely shared, can replace despair with hope and give people the opportunity to achieve their full potential. And it can help build markets abroad that will create jobs and expand businesses across the United States.

The world has made significant progress fighting poverty, in large part thanks to the commitment of the U.S. government. Over the last two and a half decades, extreme poverty around the world has decreased by nearly two thirds.

Still, too many communities and nations are stuck in poverty and absent from the global economy. The lack of infrastructure like roads, bridges, power, and ports remains a major hurdle to economic growth. And governments still fail to provide basic services necessary for a productive workforce or create the environment to attract private investment. Too often, the private sector is unwilling to invest because of poor governance and rampant corruption.

To address these root causes of poverty, MCC has invested roughly \$11 billion into compacts with 26 countries, focusing heavily on infrastructure—power, roads, ports, and bridges—that connects people to jobs, markets and opportunities.

The funds requested in MCC's FY 2017 budget will continue to help close the infrastructure gap and promote the reforms that will attract private investment and unleash sustainable economic growth.

MCC drives growth in three interrelated ways. First, MCC achieves some of its most dramatic results without spending a dollar of taxpayer resources. MCC's stringent eligibility criteria and its global credibility have created a powerful incentive for reform,

dubbed “the MCC Effect.” Countries are changing their laws in order to improve their performance on MCC's annual scorecards and qualify for MCC assistance.

Moreover, the incentive effect does not end once a country is selected as a partner. MCC continues to monitor governance performance throughout the partnership while using its hard-earned credibility to push for major policy and sectoral reforms that complement and sustain the project investments. Together, these reforms and investments help to crowd in private sector investment and create opportunities for more growth.

Second, MCC's projects—in and of themselves—are designed to reduce poverty through economic growth. In little over a decade, MCC investments already have had a lasting impact on countries, communities, and individuals around the world.

These investments—informed by rigorous analysis identifying the most binding constraints to economic growth—are connecting some of the world’s poorest people to jobs, markets, and business opportunities. MCC funds projects that advance economic growth by providing families with clean water, communities with electricity and roads, farmers with protections for their land, and students with schools that teach the skills they need in the workforce. These projects improve quality of life and empower people to become more self-sufficient, so that they can improve their own lives.

MCC's recent compacts have largely focused on the power sector in particular. Economic analysis has shown that electricity is key to empowering the poor and fueling the engine of economic growth, but today more than 1 billion people lack access. MCC’s partner countries have consistently identified power investments as the building blocks for sustainable economic development, and the lack of access has been identified as a binding constraint to economic growth in six of the last seven African countries that have signed compacts with MCC. This data-driven approach has led MCC to invest \$1.3 billion in power across Africa, making it a leading partner for Power Africa in fulfilling the goals of the recently passed Electrify Africa legislation.

As a result of MCC's work in power and other sectors:

- Millions more will be able to light their homes and start new businesses thanks to nearly 4,400 kilometers of new power lines and the reforms that MCC has required to promote private investment in the energy sector;
- Millions of people will travel more than 2,850 kilometers of roads—the distance between LA and Chicago—which connect businesses to markets and fuel domestic and international trade;
- 300,000 household, businesses, and community organizations such as churches and hospitals have legal rights to their land, empowering women as heads of households, increasing individual access to credit, and reducing land-related conflicts;

- 700,000 people have access to clean water, unlocking economic growth potential by, among other things, improving health and life expectancy; and
- 215,000 students have access to schools and training, leading to greater opportunities to enter and be successful in the labor market.

Finally, MCC's compacts and threshold programs leave behind more than the sum of their individual projects. MCC's focus is not only on building infrastructure, but also on building expertise and know-how that endure long after MCC's investment comes to a close. Through MCC's unique country-led approach, countries learn effective project implementation, accountable fiscal stewardship, and transparent procurement processes that outlast the lifetime of a program. As a relatively small agency, MCC's unique ability to incentivize reforms, develop vital new infrastructure, and build self-sufficiency thus enable the agency to punch far above its weight and deliver outsized impact.

Without sufficient funding, MCC will have less leverage to promote reforms or make the large investments needed to empower individuals and drive change. Fully funding the President's \$1 billion request for MCC will provide it with the resources it needs to embed the United States more deeply in the fight against poverty in the economically dynamic and geopolitically important regions of Asia and Africa.

Specifically, FY 2017 funding will directly support compacts with Lesotho, Nepal, and the Philippines and threshold programs with Sri Lanka and Togo. MCC's investments in each of these countries will bolster the gains in democratic governance and economic freedom that each has made and will leverage untapped private resources.

The request does not include funding for other countries selected as compact eligible in December 2015, namely Côte d'Ivoire, Kosovo, and Senegal, which will need to rely on funds appropriated in FY 2018. However, failing to fully fund the FY 2017 request will put additional pressure on the funding available for these countries.

Consider how FY 2017 funding will impact three country programs in particular.

Nepal is one of the poorest countries in Asia. It continues to face extensive development needs, especially in the aftermath of the devastating earthquakes in 2015, which killed more than 8,000 people and left hundreds of thousands homeless. Given the country's weak foreign direct investment flows, chronic underinvestment in critical growth sectors such as energy and transport, and nascent public infrastructure, MCC's investments in Nepal will come at a critical time. The energy and transport sectors, which were identified as binding constraints to economic growth, have compact needs upwards of \$800 million given the extensive requirements identified by the Government of Nepal. Through the compact development process, MCC has identified select high-return projects, achievable within the five-year term of a compact, which address the accumulated need for seismic-resilient investments in capital-intensive sectors. To support these projects, MCC is requesting

about \$300 million for a Nepal compact. As always, MCC will take other donor assistance into account when making final compact investment decisions, and will coordinate with other donors where appropriate. But without full funding of the budget request, MCC may be unable to support the most vital capital-intensive infrastructure needs that would promote sustainable growth in Nepal.

With a population of 99 million, the Philippines is a strategic partner in an economically and geopolitically important region. Despite its economic progress, the Philippines remains an economy with persistent poverty across many of its more than 2,000 populated islands. The Government of the Philippines and MCC are conducting joint economic analysis to identify areas of investment with sufficient economic rates of return. The analysis identified land rights, governance, transportation, and energy as leading constraints to growth. Given the extensive infrastructure gaps in the Philippines and pressing poverty needs across a large archipelago, MCC's estimate of \$430 million in this budget request is modest and may be reassessed as MCC proceeds through the project selection process with the Government of the Philippines.

MCC is also beginning a new partnership with Côte d'Ivoire, a country that has made an impressive transition from crisis to relative stability in recent years. Cote d'Ivoire also serves as a prime example of MCC's ability to incentivize reforms. Several years ago, they set out to pass the MCC scorecard. At the time, they were failing 15 of the 20 indicators, including control of corruption. They established a special team within the Prime Minister's office that changed laws—including providing more rights for women—and tightened controls on corruption. If you were in Abidjan in 2013, you would have seen billboards across the city with warnings to officials and citizens about the consequences of corrupt practices. These efforts paid off. In 2016, Côte d'Ivoire passes 13 of 20 indicators and was selected to develop a compact.

Despite robust economic growth, Côte d'Ivoire continues to face high rates of poverty, with more than a quarter of its population remaining in extreme poverty. Falling commodity prices put the agricultural-based economy at risk. MCC is committed to helping the country fight poverty and increase trade with its neighbors. With full funding to support our FY 2017 countries, MCC will be in a stronger position to maximize its impact in Côte d'Ivoire.

This Committee's support ensures MCC maintains its strong footing. What was a scrappy start-up is now an established and respected tool of U.S. international development. But as an institution committed to innovative development solutions, we believe that MCC must continue to evolve to strengthen and deepen its impact. Last month, MCC released a strategy that underscores key strengths and priorities that will guide its fight against poverty in the years ahead. The strategy seeks to achieve greater leverage and results, partner consistently and catalytically with the private sector and other development actors, and continue to drive innovations in development effectiveness across the development community.

To broaden and deepen its impact, MCC will double down on strategies that work and pursue innovations to promote widely shared, inclusive growth. This focus includes improving efforts to achieve systemic and sustainable change and ensuring that the agency's work is reaching those who need it most.

One essential way to expand MCC's impact is through regional investments. Economies do not work in isolation and poor countries can grow faster, create more jobs, and attract more investment when they are part of a dynamic regional market. Enhanced regional integration can connect countries to export opportunities and provide the ability to import factors needed for their own economic activity, such as power or water. The World Bank estimates that regionally integrated infrastructure could double sub-Saharan Africa's share of global trade.

After more than 10 years of successfully delivering large, complex infrastructure projects, coupled with supporting difficult policy reforms, MCC is well-positioned to support the hard and soft infrastructure that will accelerate regional integration. By making coordinated investments across multiple countries to expand existing infrastructure, MCC could help partners work together to build and grow regional markets, facilitate trade, and capture more impact through economies of scale. In West Africa, for example, MCC could finance the development of electricity or transport infrastructure to facilitate regional trade. Additionally, allowing for regional MCC investments would be a significant tool for the U.S. to increase trade capacity and improve the uptake of the African Growth and Opportunity Act (AGOA) preferences for eligible countries.

The President's request asks Congress to provide MCC with the authority to make regionally-focused investments. You, Mr. Chairman, as well as Mr. Engel, Ms. Bass and others, have been champions of this authority, and I am grateful to this Committee for approving language that would authorize MCC's regional work in bipartisan legislation, H.R. 2845, the AGOA Enhancement Act of 2015.

As part of MCC's vision for the future, the agency is also focusing on leveraging both public and private partners for development. In today's development landscape, traditional aid dynamics are changing, and the private sector plays an increasingly vital role in delivering public goods. MCC will focus on policy reforms and solutions that reduce risks and create opportunities for businesses, and will identify and deploy new ways to draw the private sector into its projects to scale up its investments. Already, in three recent compacts—Benin, Ghana, and Jordan—MCC's total investment of \$1.1 billion is helping to mobilize nearly \$5 billion in private investment.

Finally, looking forward, MCC can and will drive innovation across the U.S. government and the development community. MCC has a world-class staff, and it can continue to lead by example and drive best practices in the global effort to lift people out of poverty. MCC's

commitment to evaluating its projects and sharing lessons learned, as well as its unique ability to scale up innovative approaches, will support MCC's role as a knowledge leader.

I am proud to lead an agency built on the pillars of effective development. In this constrained budget environment, you can be assured that MCC's catalytic investments yield results in their own right while supporting the policies and good governance that will allow developing countries to reduce poverty by growing their own economies.

The challenge is great. Most of MCC's current partners have more than a third of their population living on less than \$3.10 a day. These are among the poorest countries in the world, and MCC works with them because they pass a high bar for their commitment to sound economic and social policies that will reduce poverty among their own citizens. MCC incentivizes this commitment through our competitive standards. We accelerate this commitment through high-value investments in economic growth. And we seek to embed in our partner countries a culture of accountability, transparency, and responsible stewardship that helps sustain and scale progress.

MCC is also driving the effort to turn the frontier markets of today into the emerging market partners of tomorrow. Eleven of America's 15 top trading partners once received development or security assistance. Today, MCC is the single most important bilateral channel for U.S. aid in support of economic growth—the strongest driver of sustained poverty reduction. MCC is creating new opportunities for the private sector, including U.S. businesses, to invest and grow.

Through their support for MCC, the American people are helping to create the building blocks of growing economies and stronger 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.

Thank you very much for your time and attention.