

“The Millennium Challenge Corporation: A Progress Report”
Senate Foreign Relations Committee
Opening Statement
Chairman Richard G. Lugar
October 5, 2004

Today, the Senate Foreign Relations Committee meets to receive a progress report on the Millennium Challenge Corporation. We look forward to the testimony of our witness, Mr. Paul Applegarth, who is the Chief Executive Officer of the Millennium Challenge Corporation.

The MCC is charting an innovative course in development assistance. Our Committee has enthusiastically endorsed the concept of this new organization, which will provide assistance to developing countries that invest in their people, uphold political freedoms, fight corruption, maintain the rule of law, and pursue sound economic policies. We want to ensure that the MCC becomes an efficient and valuable tool of U.S. foreign policy. We want it to be a bold weapon in the battle against poverty, disease, corruption, disorder, and terrorism. We want the MCC to help lift deserving nations and provide incentives for meaningful reform in countries around the world.

The performance of the MCC during the next six to twelve months will determine whether it can fulfill this ambitious vision. During that period, the MCC will operate in a difficult political and budgetary environment. In recent years, Congress has demonstrated a parsimonious attitude towards the 150 Account, which funds foreign assistance, embassy operations, cultural and educational programs, contributions to international institutions, and many other aspects of our outreach to the world. It has significantly cut the President’s request for the 150 Account two years in a row.

This year, President Bush proposed a healthy 8 percent increase for the foreign affairs portion of the budget. The Senate Budget Committee cut the President’s request by a billion dollars. On the Senate floor, I offered an amendment to restore the cut, and that amendment succeeded. But the House Budget Committee cut the President’s request by \$4.6 billion. The resulting Budget conference settled on a compromise that would trim more than \$2 billion from President Bush’s request. Thus, Congress is doing the unthinkable – downsizing the President’s foreign policy budget request at a time of our greatest diplomatic crisis in decades. This is the equivalent of cutting the defense budget in time of war. Responsibility for this untimely action is bipartisan and bicameral.

By downsizing the President’s 150 Account requests, Congress has ignored the fact that foreign affairs spending has not yet recovered from extreme cuts implemented in the 1990s during the era of peace dividends. In constant dollars, the foreign affairs budget was cut in six consecutive years from 1992 to 1998. This slide occurred even as the United States sustained the added costs of establishing new missions in the fifteen emergent states of the former Soviet Union. In constant dollars, the cumulative effect was a 26 percent decrease in our foreign affairs programs. As a percentage of GDP, this

six-year slide represented a 38 percent cut in foreign affairs programs. By the end of the decade, these cuts had taken their toll. The General Accounting Office reported that staffing shortfalls, lack of adequate language skills, and security vulnerabilities plagued many of our diplomatic posts. Meanwhile, after decades of being the largest provider of economic aid to the world, the United States fell behind Japan throughout the period between 1993 and 2001, even though our gross domestic product is almost three times greater than Japan's and our international interests are more expansive.

In the year following the September 11 attacks, President Bush and Secretary Powell prevailed upon Congress to boost foreign affairs spending. We began the process of filling the budgetary hole that we had dug for ourselves in the 1990s. But Congress' reductions in the President's requests during the last two years have impeded this progress. As a percentage of gross domestic product, foreign affairs programs are still about 40 percent below their average levels of the 1980s.

Not every problem can be solved with more resources. But Congress must understand that we are in a race to secure our future. We are in a race to safeguard weapons and materials of mass destruction; to overcome anti-American opinion in dozens of nations around the globe; to gain cooperation in the war on terror; and to combat poverty, disease, and economic hopelessness. These are life and death issues on which the security and moral authority of our nation rest.

In the best case, Congress will reconsider and give the President and the Secretary of State what they need to fully restore U.S. diplomatic and foreign assistance capabilities. I will continue to argue for this outcome with like-minded colleagues on this Committee and elsewhere in Congress. But in the absence of enlightened 150 Account increases, the MCC will be competing for scarce funds with other deserving foreign policy programs.

In this competition, the MCC enjoys the advantage of being the President's initiative, but this sometimes can turn into a disadvantage. My hope is that the MCC will perform so well during the next year that members of Congress of both parties will embrace it enthusiastically as an inspired idea and an essential program. But for this to happen, the execution of the MCC concept must be extraordinary. Compacts must be concluded and money must be spent quickly, while ensuring that those dollars are distributed fairly, effectively, and without corruption.

This Committee has held multiple hearings on the loan practices of multi-lateral development banks and on reconstruction spending in Iraq, both of which have suffered from severe management flaws. In the case of the MDBs, loans have frequently been made with insufficient oversight, leading to corruption and waste. In the case of Iraq, critical reconstruction funding has been stalled by bureaucratic red tape, a cumbersome approval process, and an insufficient sense of urgency. The MCC must avoid both problems.

President Bush has pledged to seek \$5 billion for the MCC in its third year of operation, which will be 2006. This Committee authorized \$1 billion for 2004 and \$2

billion for 2005. I am hopeful that appropriators will find a way to increase funding for the MCC. I have written to the Bush Administration to urge that they act decisively on behalf of increasing funds for the MCC in this fiscal year. Mr. Applegarth, we look forward to a report on MCC expenditures so far.

The United States will be writing compacts with MCC countries after consulting with them on their ideas of how best to stimulate growth and eliminate poverty. This dialogue is a crucial component of the MCC concept. We look forward to an update on the compact development process. We are especially interested in knowing how the MCC is ensuring broad civil-society participation in the drafting of country proposals.

We also are eager to know your timetable for completing compacts. In the last eight months you have had to build an entire organization from the ground up, solidify the MCA's procedures, and develop criteria for selecting eligible countries. You have done a lot in a short period. However, we are anxious to see actual compacts signed. Do you anticipate that any compacts will be completed and any funding distributed by the end of the year? If not, when will the first compact be completed, and is there any way to accelerate the process while maintaining requisite standards of operation?

We are also interested in your thoughts about the threshold program, which is intended to provide targeted assistance to help near-miss nations qualify in the future. This joint venture with USAID is a critical component of the MCC mission. It was encouraging to hear Secretary Powell say during a recent hearing that many countries are coming to us asking what they have to do to get into this program. This enthusiasm may spur new efforts towards reform around the world. To this end, we need to maintain the right incentive structure for countries interested in becoming Millennium Challenge countries. The continued transparency of indicator policy, selection methodology, and compact development is critical to the overall success of the MCC.

The MCC holds great promise for both participating countries and the United States. It gives us a chance to invigorate our relationships with the developing world and help set them on a course of progress. We hope that the MCC, working closely with Congress, can realize the original vision of President Bush to dramatically expand our ability to spur economic development throughout the world.

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