

Statement for the Record by Millennium Challenge Corporation Deputy CEO Rodney Bent Before the House Committee on Foreign Affairs, Subcommittee on Africa and Global Health

June 28, 2007; 2:00 p.m.

Introduction

Chairman Payne, Ranking Member Smith, Members of the Subcommittee, thank you for your interest in the Millennium Challenge Corporation's work in Africa, where we participate in an extensive portfolio of development activities.

The MCC Model

The Millennium Challenge Corporation awards grants—not loans—to some of the world's poorest countries, targeting their poor people, through a streamlined process that applies core principles essential to the effective and efficient use of development assistance in the fight against poverty. MCC does not work with all poor countries, just those ready to engage with us, who can use the money well.

→ **Selection Process:** *First, good policy performance matters.* For assistance to benefit the poor, it must be awarded to countries that rule justly, invest in the health and education of their people, and promote economic freedom. Objective indicators of policy performance determine which countries qualify for MCC assistance.

→ **Compact Development Process:** *Second, country ownership is required.* MCC expects countries to command and lead their development process, from designing a proposal for funding based on a continuing consultative process with all segments of their civil society to building the capacity to implement it.

→ **Implementation Process:** *Third, tangible results make poverty reduction and economic growth sustainable and transformative.* Progress benchmarks as well as monitoring and evaluation are built in from the start to ensure accountability and outcomes along the way.

Secretary of State Condoleezza Rice refers to MCC as “*one of our most important tools in changing the conversation about how development takes place, that there is responsibility on behalf of donor countries but there is also responsibility on behalf of those who would receive our aid.*” This new vocabulary of mutual responsibility and accountability creates a partnership of equals. It is no longer donor and recipient countries interacting, but, rather, co-partners in development charting a course together toward results.

The MCC model expects much out of its partners, and those African countries that have stepped up are reaping the benefits, not only of receiving a large financial grant from MCC but also of taking charge of their own development. The leadership, dedication,

and professionalism of Africans *themselves* are getting the job done and delivering results.

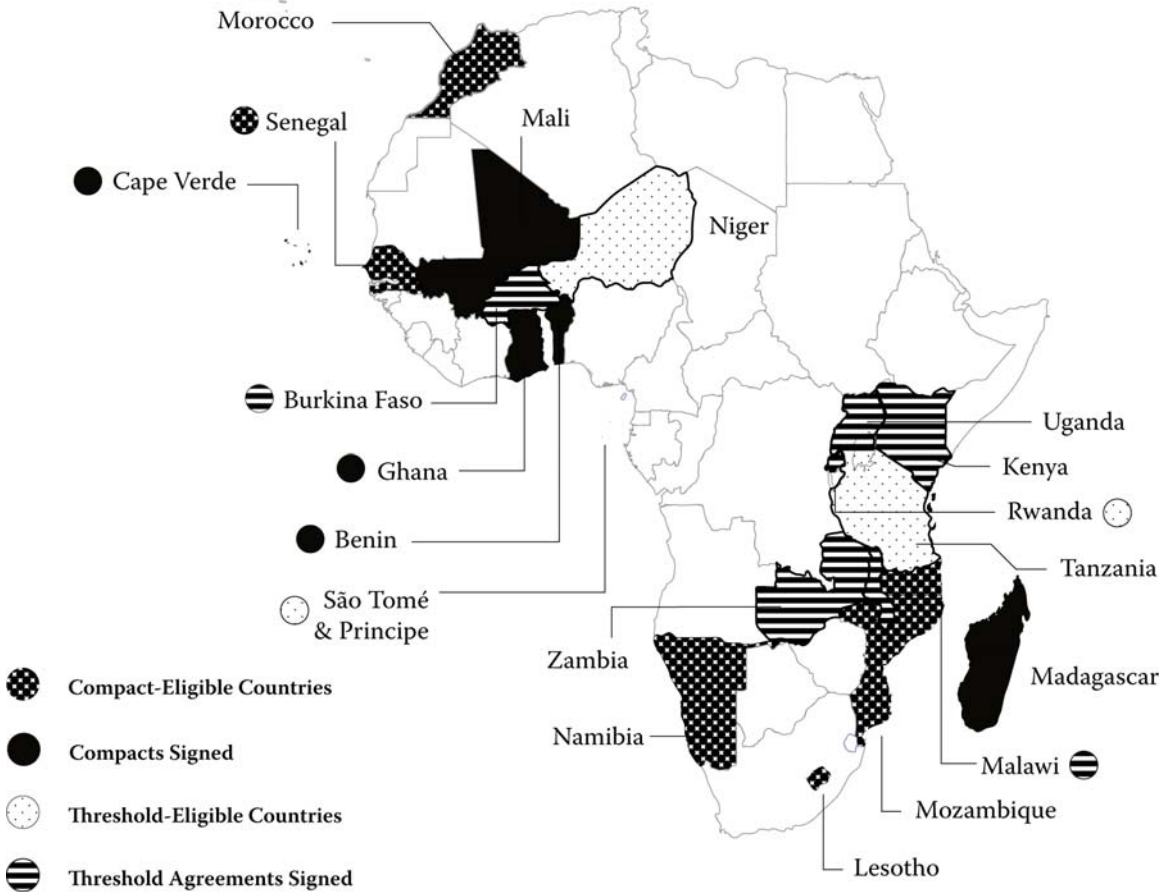
Overview of MCC-Africa Funding Statistics

The partnerships between MCC and African countries exemplify the new vocabulary of responsibility in development.

From pineapple farmers in Ghana seeking to increase their crop production, to anticorruption programs in Kenya and Zambia, to road rehabilitation projects in Cape Verde, to educating girls in Burkina Faso, to investing in the Bamako airport in Mali to increase its capacity for trade, MCC is partnering with African countries to fight poverty and stimulate sustainable economic growth and development. Africa, as a whole, is the largest recipient of MCC's development assistance, both in the number of agreements we have signed and in the amount of aid we have awarded.

MCC awards grants in Africa in two distinct and separate ways: through compacts and through threshold programs. Compacts are multiyear agreements to fund programs aimed at reducing poverty and stimulating growth. Threshold programs are designed to assist countries address specific policy weaknesses to push them over the "threshold" to compact eligibility. Compacts are typically five years in length; threshold programs last for two years. Of the 40 total countries currently eligible for compacts and/or threshold agreements, 19 are in Africa.

Exhibit 1: Map of Programs in Africa



Statistics on Compacts

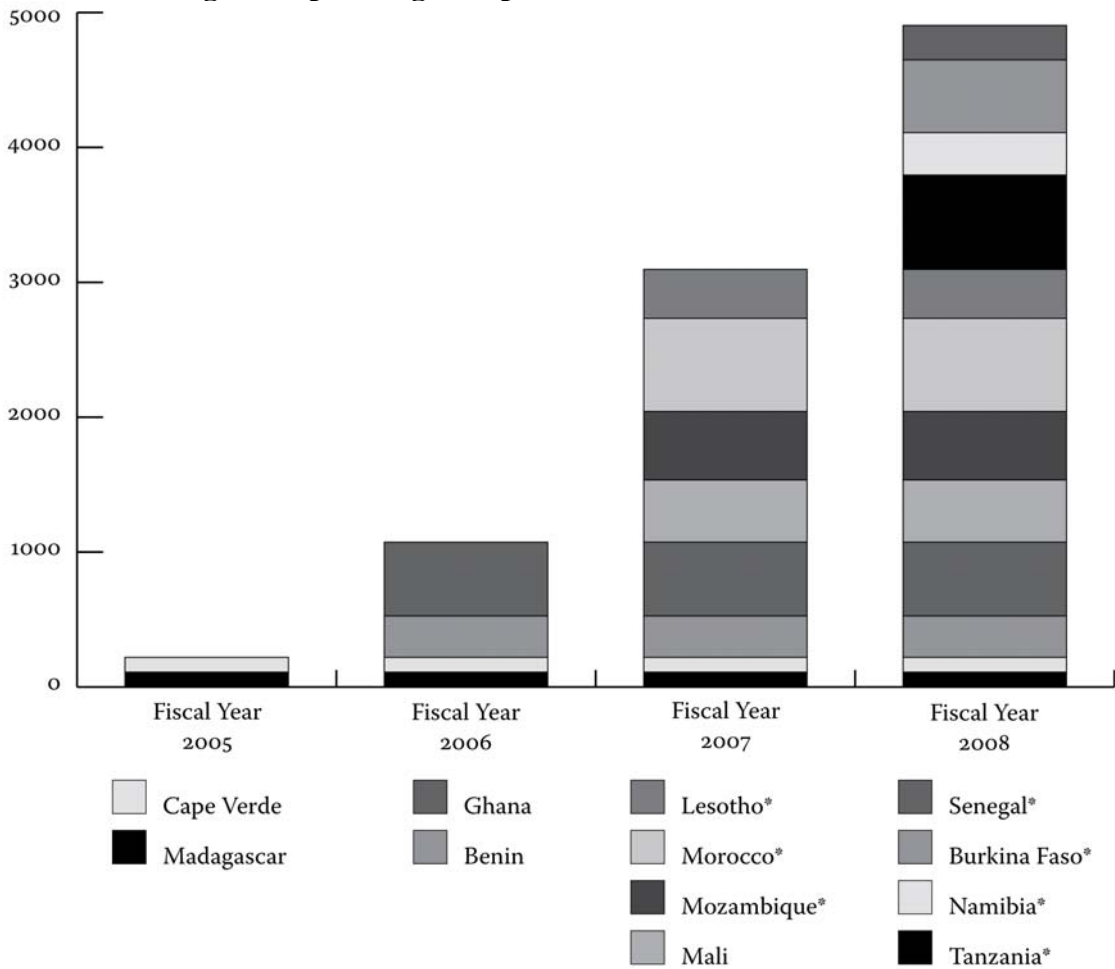
MCC is making tremendous progress in signing and funding compacts in Africa. To date, we have provided a total of \$3 billion in compacts to 11 partner countries. Of these 11 compacts, 5 are with the African countries of Benin, Cape Verde, Ghana, Madagascar, and Mali. These 5 compacts alone total over \$1.5 billion, meaning that half of what we have awarded so far benefits Africa. Compacts with our African partners range in size from \$110 million in our very first to our largest so far at \$547 million, and are at various stages of implementation. These compacts have entered into force, with the exception of the Mali compact, and disbursements are underway.

Compact funds in Africa are being invested in the projects identified by Africans themselves as essential for overcoming their specific constraints to poverty reduction and economic growth. It is no surprise, therefore, that many civil society groups in Africa support MCC investments, as they reflect African priorities and not donor preferences. MCC investments are being made in education and community development as well as infrastructure improvements. Such improvements—in roads, ports, an airport, water and sanitation, and electricity grids, for instance—help not only to increase the incomes of the African poor but also to improve their access to healthcare and education. Grant financing for infrastructure projects is very unusual, and this may explain, in part, the large number of proposals we receive for such projects. Moreover, MCC investments in

capacity building and policy reforms ensure that development is sustainable and transformative.

In addition to this strong record on Africa already established by MCC, we anticipate an even stronger push to fight poverty in Africa in the coming months, starting with the signing of compacts with Mozambique and Lesotho in July, pending congressional notification. With sufficient funding, we are in a position to soon sign compacts with Burkina Faso, Morocco, Namibia, and Tanzania. With these six compacts, we anticipate bringing another \$3 billion to help the poor in Africa.

Exhibit 2: Existing and Upcoming Compacts in Africa



* Compact values are estimated pending due diligence, Congressional notification, and MCC Board approval.

Statistics on Threshold Programs

In addition, MCC has awarded a total of \$310 million in threshold programs to 13 other countries. Six of these 13 threshold agreements are with the African countries of Burkina Faso, Kenya, Malawi, Tanzania, Uganda, and Zambia, totaling \$91 million. MCC’s newest threshold-eligible countries are Niger and Rwanda, although neither has yet signed a threshold agreement.

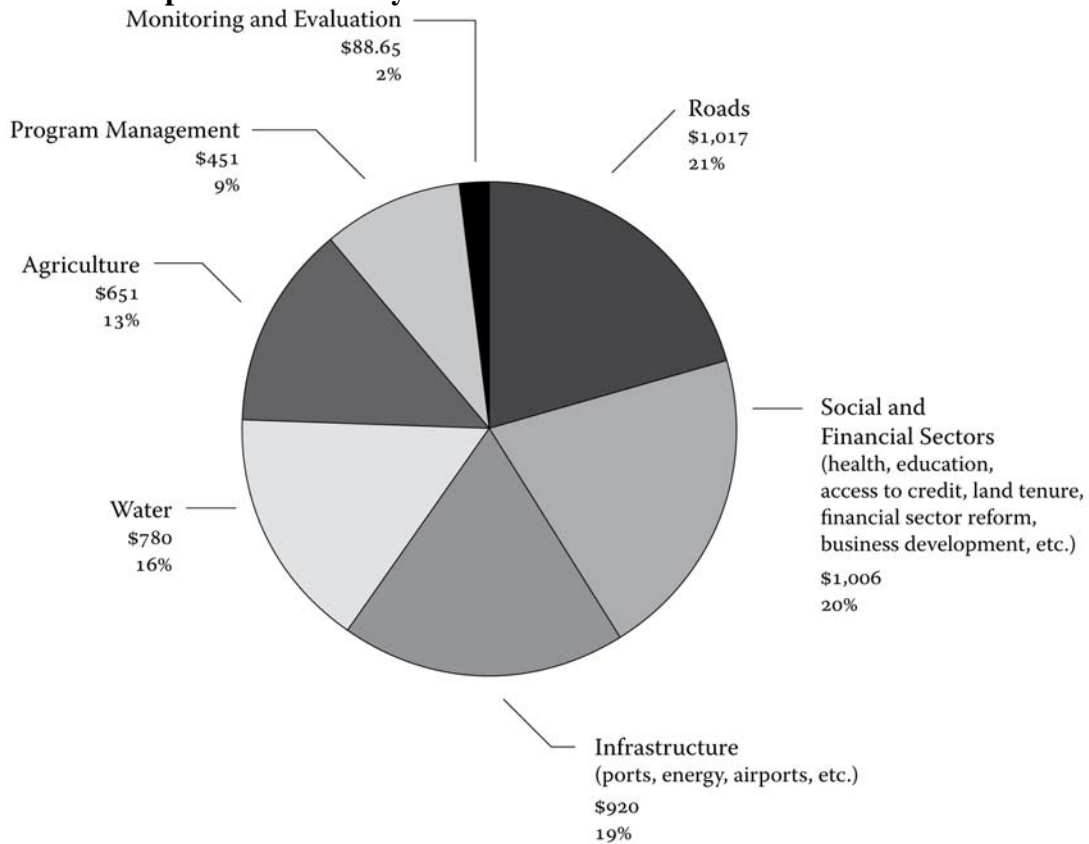
Burkina Faso and Tanzania not only are completing a threshold program but now also qualify for compact funding. MCC requires continued performance on and successful implementation of their threshold programs while they work on developing their respective compacts. Performance on the threshold program will be a key determinant for the MCC board of directors when it considers whether to approve a future compact.

MCC grants support development in Africa. Allow me to illustrate how by describing in detail our work in three areas: compacts, threshold agreements, and the *MCC Effect*.

Compacts in Africa

As the Members of this Subcommittee well know, Africa has its full share of problems in the fight against poverty. MCC compacts are addressing some of them in key sectors. For example, when it comes to roads in Africa, there are less than 4 kilometers available for every 1,000 people. MCC compact investments are refurbishing or upgrading about 400 kilometers of roads, benefiting well over one million Africans in our five partner countries. As a whole, MCC compacts are making investments not only in roads but also in other infrastructure, water and sanitation, agriculture, and social and financial sectors.

Exhibit 3: Compacts in Africa by Sector*



* Compact values are estimated pending due diligence, Congressional notification, and MCC Board approval.

The five current MCC compacts with African partner countries take tailored approaches to the common goal of poverty reduction through economic growth. MCC investments are spurring private sector activities; securing land tenure; increasing financial services; refurbishing roads, ports, and an airport; improving agricultural productivity and

agribusiness operations; aiding small farmers; and promoting rural development by expanding access to education, water, sanitation, and electricity. In every instance, our compacts will increase the incomes of those benefiting from our programs.

Exhibit 4: Projected Income Increase per Beneficiary (Net Present Value)

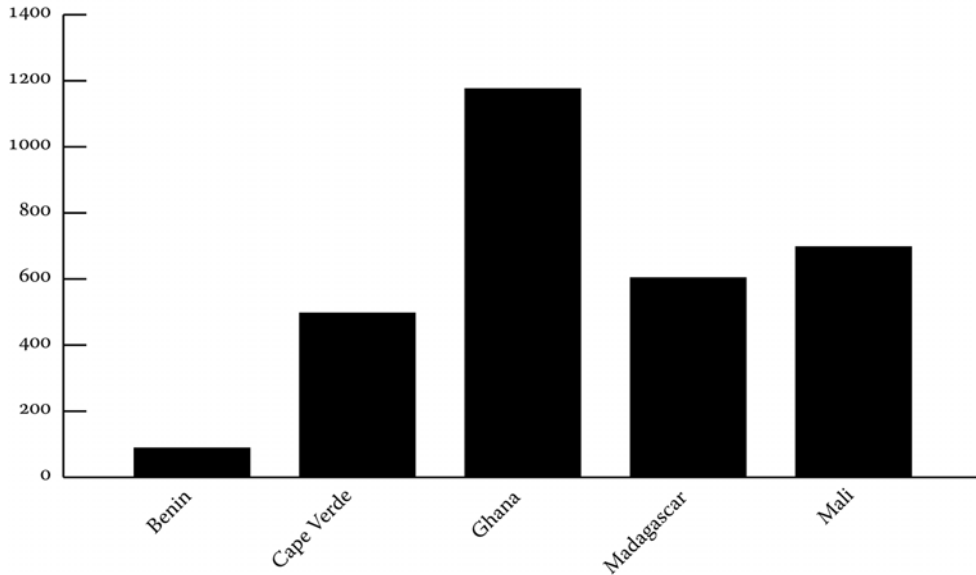
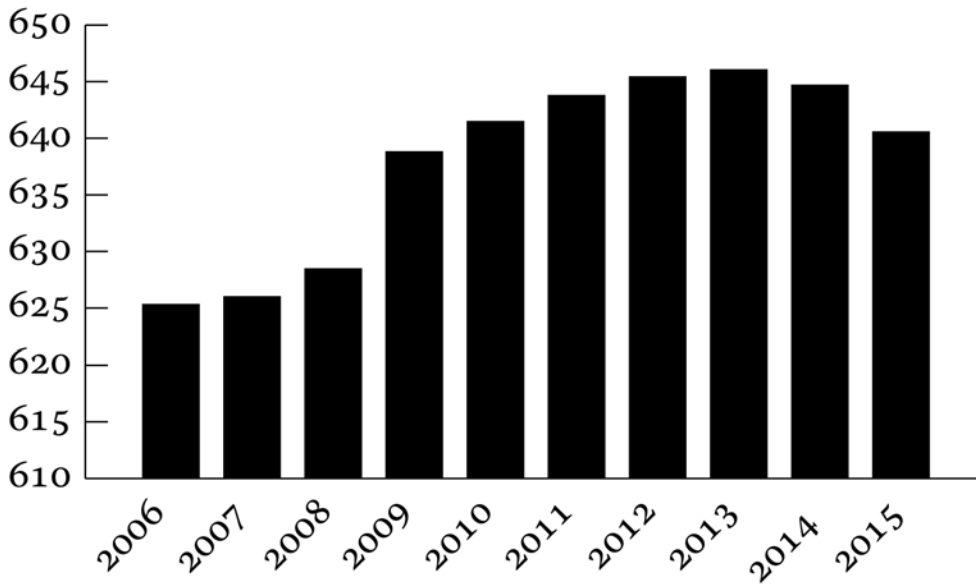


Table Note: Benefits valued over following years: Mali (2007-2026), Cape Verde (2005-2024), Ghana (2007-2024) Madagascar (2005-2014), Benin (2006-2020), Mozambique (2008-2007); GDP per Capita valued at initial year

Let me share with you the specific goals and expected results from each compact.

Benin

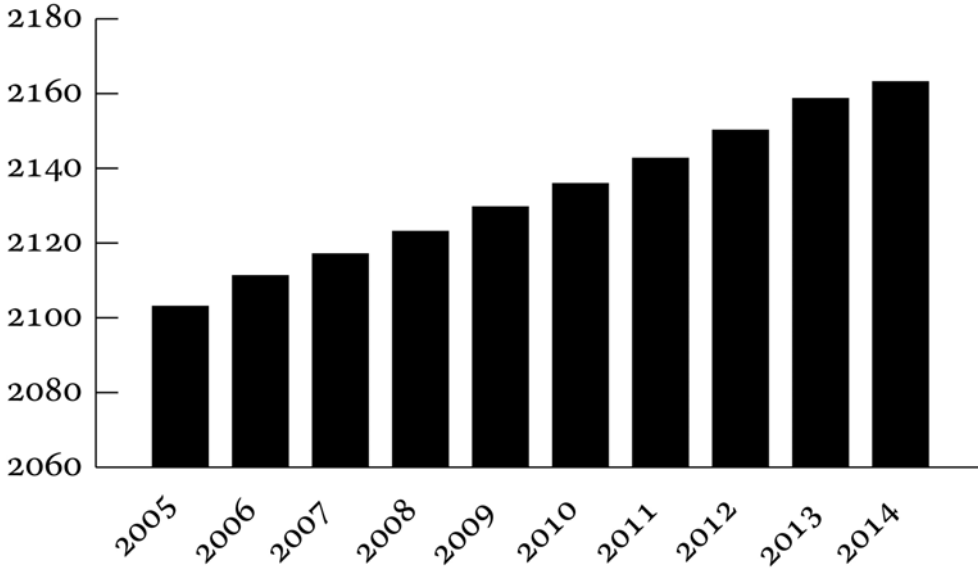
Exhibit 5: Benin: Increase in Income per Beneficiary



The compact with Benin, totaling approximately \$307 million, is intended to remove key constraints to economic growth and support improvements in physical and institutional infrastructures in four critical sectors, in order to increase investment and private sector activity. The compact's four main projects include improving access to land, access to financial services, access to justice, and access to markets. The Benin compact is expected to impact an estimated five million beneficiaries and lift 250,000 Beninese from poverty by the year 2015.

Cape Verde

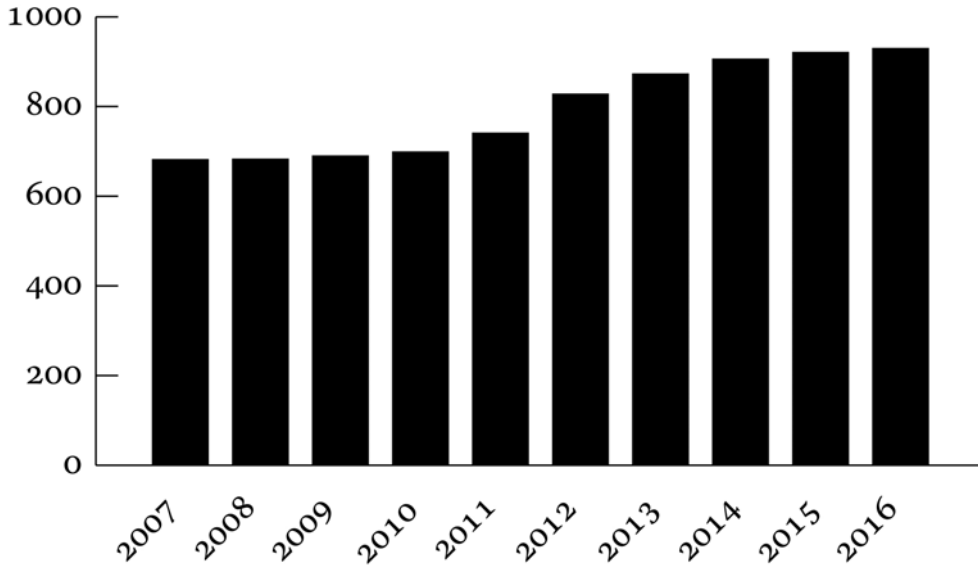
Exhibit 6: Cape Verde: Increase in Income per Beneficiary



The compact with Cape Verde, totaling \$110 million, supports the overall national development goal of transforming the economy from aid-dependency to sustainable, private-sector led growth. MCC funds are improving the country's investment climate and reforming the financial sector; improving infrastructure to support increased economic activity and provide access to markets, employment, and social services; increasing agricultural productivity and raising the income of the rural population as well as carrying out key policy reforms needed for sustained economic growth. At the completion of the Cape Verde compact, the program is expected to increase Cape Verde's annual income by at least \$10 million.

Ghana

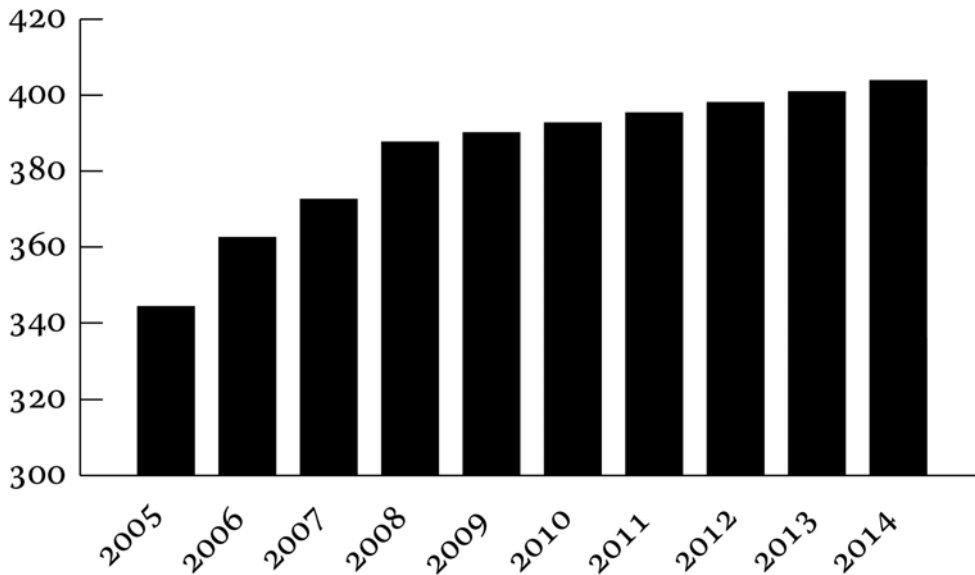
Exhibit 7: Ghana: Increase in Income per Beneficiary



The compact with Ghana, totaling \$547 million, reduces poverty through private sector-led agribusiness development. Interventions are intended to reduce poverty by increasing farmers' incomes and export earnings. Specifically, these investments are designed to increase the production and productivity of high-value cash and food staple crops in some of Ghana's poorest regions, and to enhance the competitiveness of Ghana's agricultural products in regional and international markets. The overall economic rate of return of the Ghana compact is estimated at 20 percent. The program is anticipated to help directly alleviate the poverty of over 230,000 Ghanaians and to enhance the livelihood and welfare of one million Ghanaians in total.

Madagascar

Exhibit 8: Madagascar: Increase in Income per Beneficiary

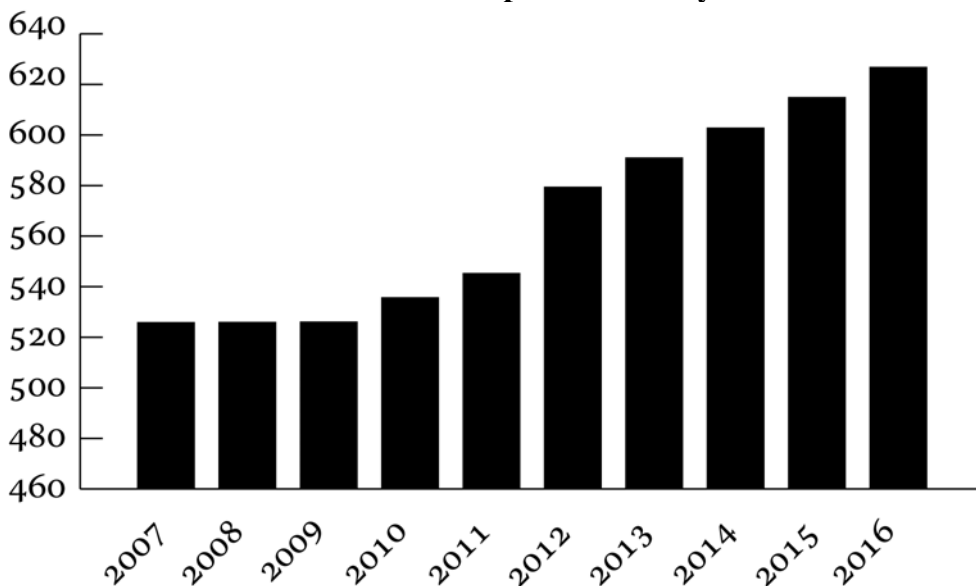


The compact with Madagascar, totaling \$110 million, supports a program designed to raise incomes by bringing the rural population from subsistence agriculture to a market economy. The program includes three projects that will work together to help rural Malagasy secure formal property rights to land, access credit and protect savings, and receive training in agricultural production, management, and marketing techniques. This integrated three-pronged approach will provide the rural population with the necessary conditions to use the land productively, to build profitable businesses, and help ensure environmental sustainability. The compact aims to secure property rights to approximately 250,000 hectares of land. This will benefit about 62,000 households, increase lending in the target areas by about \$30 million, and significantly increase the number of rural producers that adopt new technologies or engage in higher value production.

We can already point to success stories in Madagascar. Land titles are being awarded, particularly to women. Local farmers are receiving technical assistance from agricultural business centers and tapping into microcredit to expand their operations. Malagasy geranium farmers, for instance, are selling their crops for high-value oil used in soaps and perfumes.

Mali

Exhibit 9: Mali: Increase in Income per Beneficiary



The compact with Mali, totaling \$461 million, supports the development of key infrastructure and policy reform for productive sectors by addressing constraints to growth and capitalizing on two of the country's major assets, the Bamako-Sénou Airport, gateway for regional and international trade, and the Niger River delta, for irrigated agriculture. The compact will increase production and productivity of agriculture and small- and medium-sized enterprises as well as expand Mali's access to markets and trade. These objectives will be met through investments aimed at increasing farmers' incomes, enhancing agricultural supply chains, reducing transport costs, and creating a platform for industrial production. Through the compact, the standard of living of tens of thousands of Malians will improve. More than 40,000 Malian farmers and laborers as well as 100,000 school-aged children and their family members will have greater access to education, health services, and markets. More than 50,000 workers will have formal employment because of improved opportunities in manufacturing and trade.

Donor Coordination in Compacts

Some MCC-funded compact activities have grown out of successful USAID or other donor pilot projects, while numerous others have built upon, benefited from, or otherwise leveraged the contributions of our donor partners. Through such coordination, we ensure that our investments magnify development impacts and are cost-effective.

- In Benin, MCC worked with the European Union and the French development agency (*Agence Française de Développement*) to ensure proposed *Access to Justice* activities complemented and leveraged their investments in court infrastructure and procedural code development.

- Madagascar's *Land Tenure Project* benefits from technical assistance provided by the French, World Bank sector work, and pilot initiatives supported by the International Fund for Agricultural Development, the Food and Agriculture Organization, and the International Land Coalition.

Future Compacts

Looking ahead, the compacts we anticipate signing with other African countries include activities with significant human impact.

- The compact with **Lesotho** includes a major investment in that country's health care sector. Such an investment will extend productive life-years and mitigate the negative economic impacts of HIV/AIDS, poor maternal health, tuberculosis, and other diseases by rehabilitating health centers and antiretroviral therapy clinics, constructing a central laboratory and blood transfusion center, and expanding health training and medical waste management. MCC's coordination with the President's Emergency Plan for AIDS Relief in Lesotho will amplify the impact of anticipated health interventions.
- The **Mozambique** compact focuses on water and sanitation. Without this critical infrastructure, Mozambique suffers from one of the world's lowest levels of per-capita water consumption. Mozambican girls and women spend the bulk of their days fetching available water, rather than attending school or engaging in income-generating activities. This program will increase water supply and sanitation services, which will expand productivity and reduce water-borne diseases that are a leading cause of death in children under the age of five.
- Among the components of the **Morocco** compact, one will improve artisan production through increased skills training, technical assistance, continuing education, and apprenticeship programs particularly for girls and undereducated youth. Another component funds a series of pilot programs to support revenue generation programs for small-scale-fishing dependent women.

Examples of significant human impact in the compacts in development include:

- A compact with **Burkina Faso** is expected to include an education component that builds on initial work under its threshold program.
- The proposed compact with **Namibia** is likely to target improving the quality of secondary, vocational, and non-formal education and increasing workforce skills.
- A possible compact still under development with **Tanzania** includes both water and energy components.

Depending on the final outcome of MCC's appropriations, one or more of these countries will likely need to be pushed off until funding becomes available in future fiscal years.

This will not be a welcome message to countries with completed compact proposals in hand, after we have pressed them so hard to enact tough reforms and invest serious efforts into developing their compact proposals.

Intangible Impact of Compacts

Success at MCC is measured not just in terms of the projects we are funding through our compacts and their expected results, but also in terms of the “intangible impact” our funding is already delivering. Because of MCC investments in our African partner countries, policy reforms are taking root, transparency and accountability are on the rise, and institutional and leadership capacity are deepening. For instance, Simon Pierre Adovelande, who is the coordinator of the Millennium Challenge Account team in Benin, described how MCC has “raised great expectations” among the Beninese, who want to see results from their compact. Because of this expectation, he went on to discuss the major role MCC plays in raising a new generation of leadership in Benin, and building capacity in the people administering the program by demanding accountability, integrity, and responsibility that lead to those anticipated results. Consider also Ghana’s decision to host a forum this month in Accra of those African countries that are part of the MCC family in order to share peer-to-peer experiences and assist each other in the compact process. There is tremendous pride in owning the process, navigating through the particular challenges of compact development and implementation, and, in the end, celebrating successes as the fruits of their labors.

Challenges of Compact Implementation

While MCC can point to early compact results, the challenges of compact development and implementation cannot be overlooked. We identify four main challenges.

- First, it is challenging to develop world-class program proposals in a short time frame. The broad-based consultative process with all segments of the country, along with such technical elements as environmental, social, and gender assessments and implementation planning take time.
- Second, it is challenging for our partners to mobilize the capacity to develop their own proposals.
- Third, it is challenging to ramp up and staff in-country mechanisms, like the accountable entity and solid fiscal/procurement procedures, in order to responsibly manage compact funds.
- Fourth, it is challenging for the countries themselves to implement and continue to own their projects given the degree and extent of their existing capacity.

Addressing these challenges is what accounts for the slower than expected pace of disbursements. To expedite this, we are providing better guidance and capacity-building support to our partner countries up front, prior to compact approval. We are also working with them to develop detailed implementation schedules as part of the compact development process. In addition, we are asking our partner countries to staff up their accountable entities before entry into force and to prepare bidding documents for issuance immediately following entry into force for key Compact activities. We have a

fiduciary responsibility to American taxpayers to allocate MCC funding only as our partner countries are in a position to use our investments for stipulated development goals and are capable of delivering concrete, tangible impact on poor people.

Threshold Programs In Africa

In addition to compacts, six current MCC threshold agreements allow our African partner countries to improve their policy performance in the areas we measure to determine compact eligibility. MCC's threshold programs in Africa are primarily administered by USAID. Threshold assistance builds on and reinforces ongoing reform agendas in these countries. Such assistance primarily strengthens governance, especially efforts against corruption, but is also improving the business environment and supporting education for girls. Allow me to summarize each threshold program with our African partner countries.

Burkina Faso

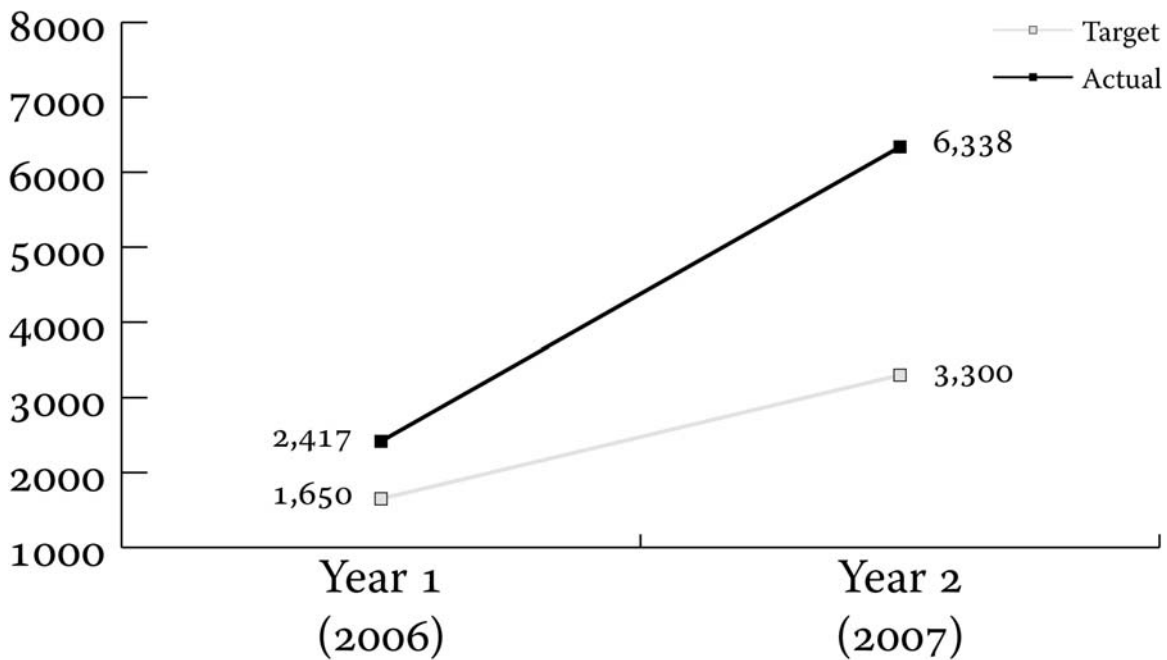
Burkina Faso's \$12.9 million threshold program seeks to improve performance on girls' primary education completion rates. Specific interventions include: the construction of "girl-friendly" schools, teacher training, providing take-home dry rations to girls who maintain a 90 percent school attendance rate, and providing literacy training for mothers.

The importance of girls' education should not be underestimated. In Africa, fewer than 60 percent of girls complete primary school. In most other regions of the world – Asia, Latin America, the Middle East, Eastern Europe, etc. – between 90 percent and 95 percent of girls complete primary school. Research shows that investments in female education yield extremely high returns. Even one extra year of girls' education can:

- increase wages by as much as 20 percent;
- reduce infant mortality by as much as 10 percent;
- reduce fertility by as much as 10 percent;
- and increase the likelihood that one's children will attend school by as much as 6 percent.

And we're seeing good results so far, with girls' enrollment in MCC-funded schools during year two of the program at nearly double the program's projection.

Exhibit 10: Burkina Faso Threshold Program Supporting Girls' Education



Tanzania

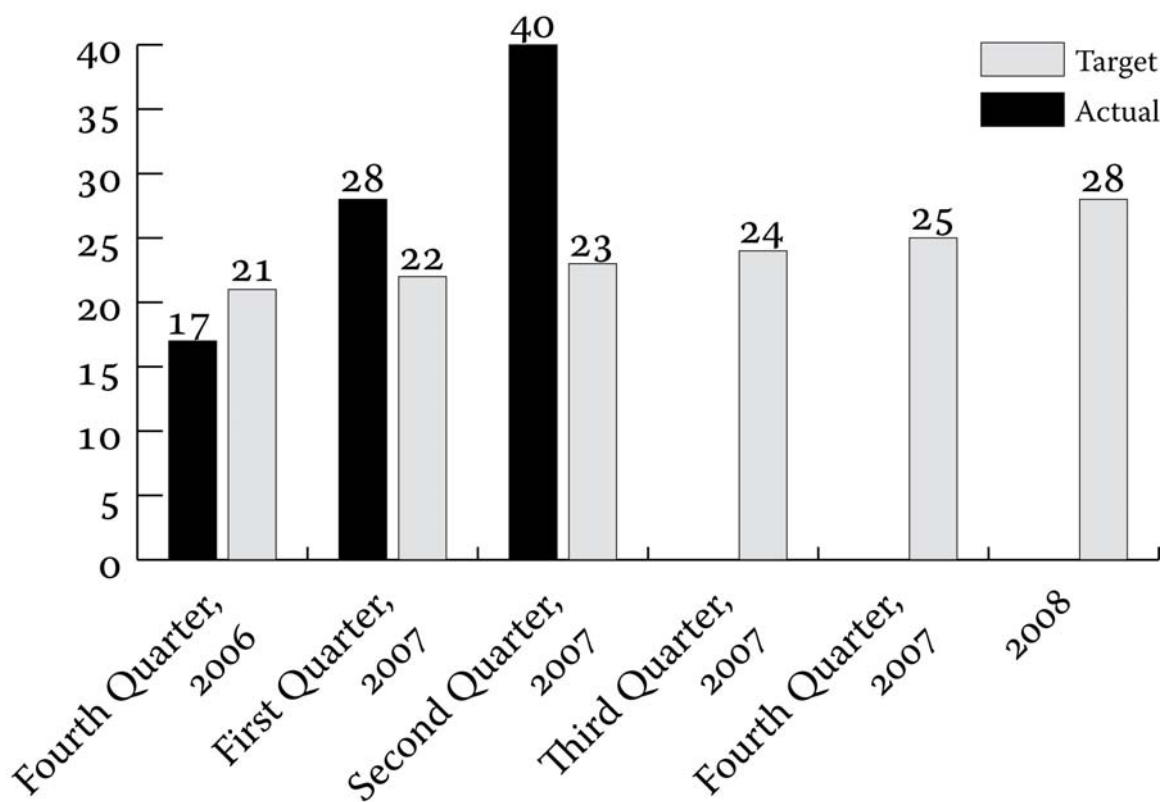
The \$11.1 million Tanzania threshold program is focused on four specific anticorruption initiatives that include: building the nongovernmental sector's monitoring capacity; strengthening the rule of law for good governance; establishing a financial intelligence unit; and curbing corruption in public procurement.

Reducing corruption is an explicit goal of five of MCC's six African threshold programs. Corruption is identified by the World Bank as among the greatest obstacles to economic and social development. The African Union estimates that 25 percent of Africa's GDP is lost to corruption, and according to survey evidence, Africans pay between 10 percent and 20 percent of their annual income in bribes. These bribes range anywhere from \$5 to \$100, but for the poorest of the poor, even the smallest of bribes (\$5-\$10) can be the difference between receiving or not receiving access to essential services, like electricity and water.

Research shows that corruption is not a crime of passion; it's a crime of calculation. People tend to engage in corruption when the risks are low, the penalties are mild, and the rewards are significant. Therefore, a central goal of many of our threshold programs is to change the risk-reward calculus of corruption by creating an effective deterrent. Deterrence requires sending a signal that the existing culture of impunity will no longer be tolerated.

The Tanzania threshold program is providing critical training to law enforcement and the judiciary to strengthen the fight against corruption. In year one of the program, with MCC assistance, Tanzania has doubled the number of anticorruption investigations brought to court.

Exhibit 11: Tanzania Threshold Program Anti-Corruption Investigations Brought to Court*: Target vs. Actual



* Defined as “Number of investigations conducted by the Prevention of Corruption Bureau which result directly in the case being brought to court.” This is a time-sample indicator and is not cumulative.

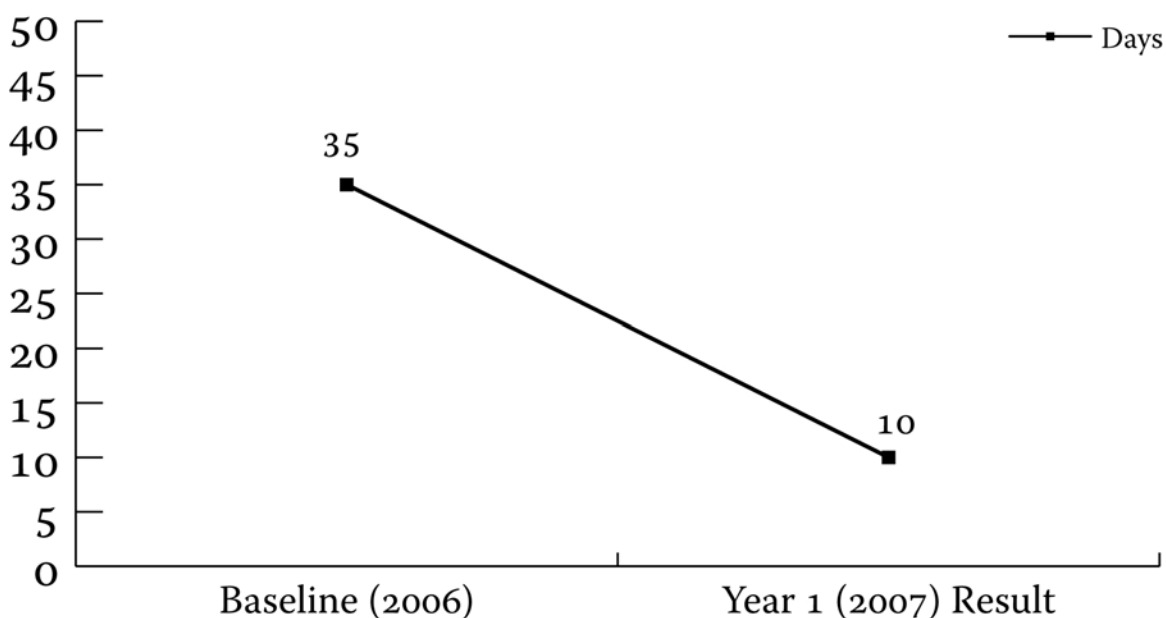
Zambia

The \$24.3 million Zambia threshold program focuses on reducing corruption and improving government effectiveness. The program is funding three components aimed at reducing corruption within the public sector, strengthening border management of trade and streamlining business registration procedures.

The benefits of easing business registration are extremely significant. For example, last year, when the Government of Madagascar reduced the minimum capital requirement for new businesses by 80 percent, there was a 26 percent increase in the rate of new business registrations. This simple administrative reform, which was motivated in part by the Government of Madagascar’s desire to remain MCA-eligible, has brought hundreds of firms into the formal economy where they can access credit and grow to their full potential.

The threshold program in Zambia helped reduce the number of days required to start a business from 35 to 10.

Exhibit 12: Zambia Threshold Program Number of Days to Register a Business



Malawi

Malawi is implementing fifteen specific interventions over the two-year period of its \$20.9 million threshold program aimed at preventing corruption, enhancing oversight functions, and building enforcement and deterrence capacity. The interventions intend to create more effective legislative and judicial branches of government, provide support for lead anticorruption agencies, strengthen independent media coverage, and expand and intensify the work of civil society organizations.

A key objective of the Malawi threshold program is to build the capacity of Malawi's National Assembly to perform its oversight function. With threshold program support, all thirteen committees in the National Assembly were recently able to meet, which is a first in Malawi's history.

In March of this year, MCC signed threshold agreements with Kenya and Uganda.

Kenya

Kenya's \$12.7 million threshold program aims to reduce opportunities for corruption in public governance. Specifically, the program will target corruption in public procurement and the delivery of health care.

Uganda

In Uganda, the \$10.4 million threshold program intends to reduce corruption by improving public procurement and financial management practices, strengthening the

role of civil society, and building capacity to facilitate more effective follow-up of reported corrupt acts.

MCC Effect in Africa

While MCC investments in Africa through compacts and threshold agreements are beginning to bear fruit, we are also seeing significant reforms unfold *even before* we invest one U.S. tax dollar. Although MCC has only been in operation for three years, two independent studies by Harvard University and the Heritage Foundation, respectively, have found empirical evidence of a positive MCC effect on the reform efforts of developing countries. We can cite several examples of how the hope of securing MCC funding creates a powerful, motivating incentive for some countries to enact difficult reforms not just to meet our eligibility criteria but also to do what is best for their citizens.

- In Lesotho, the parliament enacted a law to confer equal legal status on married women so as to engage them fully in the economic life of the country. In keeping with our gender policy, MCC welcomes this groundbreaking policy reform as critical to the success of Lesotho's compact. A bipartisan resolution in the U.S. Senate recognized this tremendous achievement, applauding Lesotho as well as MCC's role in leveraging policy change for women's equality.
- Cameroon has expressed a strong interest in becoming MCC-eligible and unveiled an MCC-Cameroon website to document steps taken to comply with our eligibility criteria. These actions include removing 3,000 "ghost workers" from the government's payroll, referring 500 civil servants to a disciplinary council on fraud charges, and working to lift the secrecy surrounding the country's oil revenues.
- Liberian President Ellen Johnson-Sirleaf has also expressed great interest in adopting the reforms necessary to be selected to participate in MCC. Her administration is off to a strong start, rooting out corruption in the finance ministry, requiring senior government appointees to declare their financial assets, canceling all timber export contracts, and reviewing port handling concessions.
- In Djibouti, an interministerial committee has been established to devise reform strategies that address MCC selection criteria.

Conclusion

Through specific compact and threshold projects, and through policy reforms that are vital to sustainability, the Millennium Challenge Corporation is helping Africa help itself. MCC does not tell our African partners what they need; rather, our African partners tell us. They own the development process; they identify their priorities in the fight against poverty; they take on the challenging work of implementation; they are responsible for delivering tangible results to their citizens; and, they celebrate their emerging successes as the result of their labors, not MCC's efforts. Such profound responsibility holds African governments accountable not just to their own people but also to American

taxpayers. It allows MCC to invest in partner countries committed to the tough choices necessary to invest in themselves and to make the promise of poverty reduction through sustainable economic growth a transformative reality for the poor.

Thank you for your attention, Chairman Payne, Ranking Member Smith, and Members of the Subcommittee, and for convening this hearing and allowing us the important opportunity to discuss the Millennium Challenge Corporation's partnerships in Africa. I look forward to answering your questions.

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Exhibit 2: Existing and Upcoming Compacts in Africa

Exhibit 3: Compacts in Africa by Sector

Exhibit 4: Projected Income Increase per Beneficiary (Net Present Value)

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Exhibit 6: Cape Verde: Increase in Income per Beneficiary

Exhibit 7: Ghana: Increase in Income per Beneficiary

Exhibit 8: Madagascar: Increase in Income per Beneficiary

Exhibit 9: Mali: Increase in Income per Beneficiary

Exhibit 10: Burkina Faso Threshold Program

Exhibit 11: Tanzania Threshold Program

Exhibit 12: Zambia Threshold Program