Millennium Challenge Corporation
Chief Executive Officer Dana J. Hyde
Testimony before the Senate Foreign Relations Committee
"MCC: Lessons Learned after a Decade and Outlook for the Future"
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Thank you Chairman Corker, Ranking Member Cardin and members of the Senate Foreign Relations Committee for the opportunity to discuss the Millennium Challenge Corporation's (MCC) work to fight poverty, and the increased impact MCC can have through regional investments.

Just over a decade ago, the previous Administration and Congress worked together to create an agency with a singular focus: reducing poverty through economic growth. This new agency, built on the lessons of fifty years of development assistance, faced many questions and an uncertain future:

- Could the United States use an evidence-based approach to select relatively well-governed countries and effectively and transparently fight poverty?
- Could poor countries make data-driven investment decisions and implement large projects within five years and without corruption?
- Could an innovative agency with a singular mission serve to promote American values—open markets, democracy, and good governance—while helping to support security and stability in poor countries around the globe?

Over the past decade, each of these questions has been answered in the affirmative. What started as a grand experiment is today an established and respected tool of U.S. development and economic engagement around the globe. MCC has become a key driver of good governance standards in poor countries, while simultaneously rising through the ranks to be recognized as one of the most transparent development agencies in the world.

MCC's country-led and country-owned implementation model has successfully delivered hundreds of projects that are improving the lives of an estimated 175 million people around the world. In an increasingly globalized economy, these investments are a down payment on stability and market opportunities for American businesses. MCC's engagement with a partner often stands as the cornerstone of the U.S. economic relationship in that country—visible proof that U.S. economic assistance leads to tangible results—and helps to create a more attractive environment for private investment.

The MCC Model & Portfolio

Over the span of its first decade, MCC committed roughly $10 billion to programs, signing compacts with 25 countries. About 65 percent of the compact portfolio was invested in Africa, with the rest in Central America, Eastern Europe, the Middle East, and Asia.

Overall, approximately 70 percent of MCC's portfolio has been invested in infrastructure—power, roads, ports, and bridges—that connects people to jobs, markets and opportunities. With large-scale grants that average $350 million and a five-year time horizon, MCC is uniquely suited to tackle projects of this size and complexity. And while much of MCC's early infrastructure investments were focused on roads and transportation, the portfolio is increasingly invested in energy infrastructure; four of the last five compacts considered by MCC's Board—Ghana, Benin, Liberia and Tanzania—are aimed at helping create the conditions for private investment in energy in Africa.

MCC was founded on the principle of data-driven and evidence-based decision making, which permeates every aspect of our work. It starts with economists from MCC and an eligible country jointly conducting an upfront analysis to determine the country's binding constraints to economic growth. Based upon this analysis, concepts, sectors, and ultimately projects are identified and assessed for potential impact and cost effectiveness. MCC is looking to fund projects with at least a 10 percent economic rate of return (ERR) over a 20-year period. In fact, what we have seen—in a sampling of projects recently completed—is that the average ERR upon completion is actually over 16 percent.

Once a compact is shaped and signed, MCC monitors implementation progress, including through quarterly reviews. MCC tracks contracts signed and funds spent, outputs achieved, any outcomes that can be determined during the course of a project, and whether our partner countries are implementing the agreed-upon policy reforms. We disburse funds quarterly if the benchmarks are being met. We will withhold funds—and may even cut off assistance—if the conditions no longer meet MCC standards. In addition, MCC seeks an independent evaluation of every project, with gold standard performance and impact evaluations conducted by universities, researchers and other outside experts.

Finally, MCC's model is unique because of our size and footprint. MCC has just over 300 full-time employees, and our overseas presence is only about one or two Americans in each country. Despite being so lean, MCC is able to effectively and efficiently disburse about one billion dollars per year in grant investments because we require the host government to implement the compact—with strong MCC oversight and monitoring—through an independent entity the government creates, often called the Millennium Challenge Account (MCA).

A Focus on Measurable Results

A commitment to achieving and measuring results is at the core of MCC's model. MCC looks at results in the following three ways: (1) the reforms MCC incentivizes countries to make; (2) the outcomes and impact of the projects MCC funds; and (3) the ways in which MCC fosters self-sufficiency in partner countries.

First, MCC achieves some of its most dramatic results without spending a dime 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. Indeed, researchers at the College of William and Mary have carefully studied and documented this effect, finding that MCC's scorecard is one of the most influential external tools to incentivize policy reform.[1]

Cote d'Ivoire provides a striking example. For several years, a special team within the Prime Minister's office has worked across government ministries to address scorecard concerns ranging from health to women's empowerment to the business environment to corruption. In 2013, Cote d'Ivoire passed only 5 of 20 indicators

[1] Parks, Bradley C., and Zachary J. Rice. *Measuring the Policy Influence of the Millennium Challenge Corporation: A Survey-Based Approach*. The College of William and Mary, February 2013: http://www.wm.edu/offices/itpir/_documents/reform-incentives-report-mcc.pdf

on its MCC scorecard. Fast forward just three years and Cote d'Ivoire now passes 13 of 20 indicators—and is a candidate for selection for an MCC compact.

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 and create growth. In little over a decade, MCC has already had a lasting impact on countries, communities, and individuals around the world. From a road in the Philippines strong enough to withstand Typhoon Haiyan and facilitate rescue efforts to a port expansion in Benin that resulted in a 75 percent increase in cargo, MCC has shown a country-driven model of development can work, and work well. As a result of MCC's work:

- Millions of people will travel over more than 2,850 kilometers of roads, connecting businesses to markets and fueling domestic and international trade;
- Millions more will be able to light their homes and start new businesses thanks to 4,400 kilometers of new energy transmission lines and the sector reforms that MCC has required to promote private investment
- 300,000 households have legal rights to their lands, empowering women as heads of households, increasing individual access to credit, and reducing land-related conflicts;
- 680,000 people have access to clean water, unleashing economic growth potential by, among other things, improving health and life expectancy; and
- 215,000 students have access to schools, including girls in Burkina Faso whose improved math and French test scores will mean greater opportunities to enter and be successful in the labor market.

Finally, MCC's compacts leave behind more than the sum of their individual projects. MCC's focus is not just on building infrastructure, but on building expertise and know-how.

This is evident in Honduras, which has adopted standards of transparency and accountability put in place by MCC to implement additional projects even after MCC's compact had closed. In Cabo Verde, the Government passed a new law on public procurement based on MCC's procurement guidelines. And in Senegal, MCC worked to improve local land governance through a blend of traditional and modern land practices, an approach now being widely adopted by the Government of Senegal.

Through MCC's unique country-led approach, countries learn successful project implementation, accountable fiscal stewardship, and transparent procurement processes that outlast the lifetime of a compact. When combined, MCC's abilities to incentivize reforms, drive results, and build self-sufficiency enable the agency to punch above its weight and deliver outsized impact.

Leveraging the Private Sector

In today's development landscape, traditional aid dynamics are changing. The private sector plays an increasingly vital role in delivering public goods. In sub-Saharan Africa, Official Development Assistance (ODA) comprised 62 percent of external flows in 1990; by 2012, ODA was just 22 percent of external flows to Africa.[2] Total foreign investment to sub-Saharan Africa rose from just $1.7 billion in 1990 to a record high of $42.2 billion last year. These resources are more critical than ever in addressing development needs.

This is why everything about MCC's model and approach—from selecting countries to developing compacts, from fighting corruption to measuring results—is oriented around creating the right circumstances for businesses to invest. Simply stated, catalyzing the private sector for development is foundational to MCC's work and helps ensure the long-term sustainability of our investments.

As part of this commitment, MCC is increasingly adopting innovative approaches to specifically integrate the private sector into our compacts. MCC helps countries design and implement public-private partnerships; utilizes creative grant facilities

[2] Sy, Amadou. *Private Capital Flows, Official Development Assistance, And Remittances to Africa: Who Gets What?* The Brookings Institution, May 2015: http://www.brookings.edu/research/papers/2015/05/private-capital-flows-sy-rakotondrazaka

to draw out innovation from the private sector; provides viability gap financing to allow projects to reach successful financial close; and targets policy reforms that open up private sector market opportunities. The agency is also bolstering efforts to engage American companies on business opportunities through investment summits here in the United States and trade missions abroad.

These practices enable MCC to leverage America's investments and multiply its impact. To illustrate, 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.

For instance, I was recently in Jordan to inaugurate the expansion of the As-Samra Wastewater Treatment Plant. Building on USAID's previous work, MCC utilized a public-private partnership to support upgrades to the country's wastewater network system, mobilizing an additional $110 million in private financing. As-Samra will address 70 percent of Jordan's wastewater treatment needs, and thanks to private sector investments in cutting-edge efficient and environmentally sound engineering designs, the plant will self-produce more than 75 percent of the energy required for its operations through clean biogas and hydropower. The deal's financing structure, a build-operate-transfer agreement, provides for high quality operation and maintenance by the private sector operator for the next 22 years, further ensuring the sustainability of the US taxpayers' investment. The facility, combined with MCC's other projects in Jordan, is expected to benefit approximately 3 million people.

Shifting to Ghana, MCC's $500 million investment focuses on turning around the country's main utility by funding the public infrastructure and sectoral reforms that are necessary to make private sector-financed power generation projects financially viable. As a result of the compact's reforms and investments, over $4 billion in private investments in the Ghanaian power sector is expected in coming years, including $1 billion from General Electric.

Furthermore, MCC invested almost $190 million to double the capacity of Benin's national port, which contributes nearly two-thirds of tax revenue and impacts one-quarter of the nation's GDP. Through a global competition, Benin selected a private investor and operator, which invested an additional $256 million in customized improvements, bringing greater volumes, efficiencies and revenues, and winning a top global prize as an innovative private-public partnership.

Transparency & Accountability

MCC is clear about what the agency aims to achieve and holds itself accountable for reaching its goals. MCC tracks and measures results meticulously and transparently to ensure that its programs are effective and efficient, thus maximizing valuable taxpayer resources. MCC holds itself accountable, as it does its partner countries, and will continue to learn, share, and adapt based on the results it measures.

The data we track provides valuable insights into what is working and what is not, including instances where MCC programs met or exceeded output targets but the subsequent evaluations did not find attributable impact on incomes. In addition to the internal learning this data provides, MCC also contributes to the wider body of knowledge on many of the assumptions underpinning methods of delivering foreign assistance.

Building on a legacy of transparency, and the advice of this Committee, MCC is producing "after action reports" for completed compacts to make the collected data more comprehensive and accessible. I look forward to continuing our work with you to find ways to better capture and share MCC's robust data, monitoring and evaluation systems. This Committee has recently shown its support for the increased use of metrics, monitoring and evaluation, and transparency that are the hallmarks of MCC by approving the Foreign Aid Transparency and Accountability Act, which supports high standards of data transparency and accountability.

Growth, Trade & Regional Integration

In today's global economy, growth is more dependent than ever on trade and regional integration. Regional integration has been a proven accelerator of growth and poverty reduction in places like East Asia. Poor countries grow faster, create more jobs, and attract more investment when they are part of dynamic regional markets.

As a development agency solely committed to fighting poverty through economic growth, MCC risks leaving development impact and investment returns on the table if it solely focuses on engagements that stop at the border. Investing in the context of larger markets will allow MCC to capture greater economies of scale and raise returns in relation to costs.

MCC is well positioned to invest regionally for the benefit of poor countries, in Africa, South Asia, and Central America. MCC has the technical capacity and a successful track record of delivering large, complex infrastructure projects, and can deploy that capacity for cross-border investments. Just as important, MCC has experience incentivizing and supporting difficult policy and institutional reforms. That work can and should now be extended to a multi-country context. Bringing together both the hardware and the software of regional integration will be essential to make dynamic regional markets work.

The challenges of multi-country investments should not be underestimated. But MCC has already begun devising solutions to those new challenges. Given the potential rewards, the risks of inaction are also significant. By making coordinated regional investments across multiple eligible countries, MCC can help countries work together to build and grow regional markets; expand and link regional power, transport, and water networks to reduce costs and improve service; capture more benefits through economies of scale; facilitate increased trade and investment; and help generate new business and market opportunities for U.S. and other companies. Regional investments can help translate the frontier markets of today into tomorrow's emerging market partners of the U.S.

That is why MCC is seeking to work regionally with partners when the economic analysis calls for it, consistent with the foundational principle of country-led accountability. Additionally, allowing for regional MCC investments would be a significant tool for the U.S. to increase trade capacity and improve the uptake of AGOA preferences for eligible countries.[3] This is one of the reasons the House Foreign Affairs Committee has approved language to facilitate MCC's regional work in bipartisan legislation, H.R. 2845, the AGOA Enhancement Act of 2015. I am deeply grateful to Sens. Cardin, Flake, Coons, and Isakson for championing Senate legislation, S. 1605, that would also give MCC this authority.

[3] Government Accountability Office. *African Growth and Opportunity Act: USAID Could Enhance Utilization by Working with More Countries to Develop Export Strategies* January 2015: http://www.gao.gov/products/GAO-15-218

As you have noted in the Global Gateways Trade Capacity Act, Mr. Chairman, stable trading relationships promote security and prosperity, and can foster the expansion of open markets and democracy. Aid to developing countries for trade capacity building can have other positive side effects such as promoting best practices, encouraging good governance, combating corruption, and reforming legal regimes.

By giving MCC the authority it needs to make regional investments, this Committee can take a critical step toward reducing global poverty.

Conclusion

The development community faces many questions and challenges as the face of global poverty changes. Among other things, MCC, with your support, needs to think hard about how best to measure poverty in potential partner countries.

But we also know that, in the interwoven world of the 21st century, investment in effective development, alongside defense and diplomacy, promotes shared security and shared prosperity.

I want to echo your statement earlier this year, Mr. Chairman, when you said that "with limited aid [dollars] available, it is our responsibility to ensure American resources are used in the most effective manner possible."

I am proud to lead an agency built on the pillars of effective development. And I believe that MCC is uniquely positioned to contribute in the current global context and in the current budget climate. 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. More than half of MCC's current partners have more than half of their population living on less than $2 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 help sustain and scale progress.

MCC also has a critical role as a soft power tool that advances U.S. values and builds a more secure and prosperous future. 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—and its investments help channel U.S. assistance to the best governed poor countries. MCC helps drive U.S. efforts to promote American values and the market democracy model. And 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 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.

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